

## MORNING MOCHA

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ECONOMIST

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A firmer dollar weighed on currency and equity markets globally. This is albeit a stronger case of rate cut expectations in the market (CME Fed watch tool pricing in a 94% probability for Sep'24 cut). Fed Governor (Chris Waller) also spoke of ideal scenarios (soft landing and softening core PCE deflator) for the beginning of an easing cycle. A shift in US political landscape with the current US President ending his re-election bid, will impart some degree of uncertainty to the rate outlook. Elsewhere, in UK, faster pace of public sector borrowing and piling up of debt impinged on its yield. ECB Chief on the other hand, spoke of Sep move being 'wide open' leading to speculation of data dependent approach by ECB in the near term. On domestic front, progress of southwest monsoon has been 2.4% below LPA, compared with 2% above LPA last year. Separately, People's Bank of China lowered its 1 and 5Y LPR by 10bps to 3.35% and 3.85%, surprising markets.

- Except China, stocks elsewhere declined. A global IT outage, simmering US-China trade conflict, political uncertainty in the US, and a downbeat growth outlook in China, weighed on investor sentiments. Hang Seng declined the most, followed by US stocks. Sensex too fell by 0.9%, led by losses in oil and gas and power stocks. It is trading lower today, in line with other Asian indices.

**Fig 1 – Stock markets**

	18-07-2024	19-07-2024	Change, %
Dow Jones	40,665	40,288	(0.9)
S & P 500	5,545	5,505	(0.7)
FTSE	8,205	8,156	(0.6)
Nikkei	40,126	40,064	(0.2)
Hang Seng	17,778	17,418	(2.0)
Shanghai Comp	2,977	2,982	0.2
Sensex	81,343	80,605	(0.9)
Nifty	24,801	24,531	(1.1)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended weaker. DXY rose further even as a Fed rate cut is imminent in Sep'24. GBP fell by 0.2%, led by weakness in UK's retail sales. INR ended at its record low, amid higher dollar demand. It is trading at similar levels today, while other Asian currencies are trading mostly weaker.

**Fig 2 – Currencies**

	18-07-2024	19-07-2024	Change, %
EUR/USD (1 EUR / USD)	1.0897	1.0882	(0.1)
GBP/USD (1 GBP / USD)	1.2944	1.2914	(0.2)
USD/JPY (JPY / 1 USD)	157.37	157.48	(0.1)
USD/INR (INR / 1 USD)	83.66	83.66	0
USD/CNY (CNY / 1 USD)	7.2621	7.2699	(0.1)

Source: Bloomberg, Bank of Baroda



- UK's 10Y yield rose the most as UK's government debt reached its highest level since 1962. 10Y yields in US and Germany also firmed up. Germany's 10Y yield exhibited some stickiness as ECB Chief's comments led to speculation of a laggard in Sep'24 cut. India's 10Y yield closed stable. However, it is opened higher at 6.98% today.

**Fig 3 – Bond 10Y yield**

	18-07-2024	19-07-2024	Change, bps
US	4.20	4.24	4
UK	4.06	4.12	6
Germany	2.43	2.47	4
Japan	1.04	1.04	0
China	2.27	2.26	(1)
India	6.97	6.96	0

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	18-07-2024	19-07-2024	change in bps
Tbill-91 days	6.73	6.72	(1)
Tbill-182 days	6.84	6.84	0
Tbill-364 days	6.86	6.85	(1)
G-Sec 2Y	6.90	6.89	(1)
India OIS-2M	6.63	6.63	0
India OIS-9M	6.70	6.71	1
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.35	5.34	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	18-07-2024	19-07-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.0)	0.4
Reverse Repo	0.7	0.1	(0.6)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	16-07-2024	18-07-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	351.5	954.7	603.1
Debt	152.8	350.5	197.7
Equity	198.7	604.1	405.4
Mutual funds (Rs cr)	(1,837.0)	(2,395.7)	(558.8)
Debt	(1,688.0)	(496.6)	1,191.4
Equity	(149.0)	(1,899.1)	(1,750.1)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 15 Jul and 18 Jul 2024

- Oil prices declined amidst demand concerns led by weaker growth in China.

**Fig 7 – Commodities**

	18-07-2024	19-07-2024	% change
Brent crude (US\$/bbl)	85.1	82.6	(2.9)
Gold (US\$/ Troy Ounce)	2,445.1	2,400.8	(1.8)
Copper (US\$/ MT)	9,254.9	9,179.3	(0.8)
Zinc (US\$/MT)	2,748.8	2,716.7	(1.2)
Aluminium (US\$/MT)	2,385.0	2,351.5	(1.4)

Source: Bloomberg, Bank of Baroda Research



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