MORNING MOCHA

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ECONOMIST
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Fed officials again gave conflicting signals on future direction of rates. Atlanta Fed President hinted at favourable conditions for lowering rates by the end of the year. Fed vice Chair however signalled caution on the back of US economy's solid footing. Fed Governor was also of the same tone and pointed out that several good inflation numbers are needed to begin the rate cut cycle. Thus, even if one rate cut translates this year, the rate cut journey by Fed is likely to be a slow one. Elsewhere in Germany, PPI inched down. ECB President indicated rate cut in Jun'24. In Japan, trade deficit widened as exports grew at a slower pace (8.3%, YoY in Apr'24 compared to 7.3% in Mar'24) and imports picked up (8.3% compared to -5.1%). On domestic front, RBI's report on state of the economy has remained bullish on growth and pointed to cautious approach about policy based on evolution of inflation.

- Global stocks ended mixed. US indices rose, led by gains in tech stocks. S&P 500 rose the most by 0.3% to a record high. Markets in Asia were mostly lower. Hang Seng led the losses declining by 2.1%, amidst a decline in basic materials and industrial stocks. Sensex declined by 0.1%, dragged down by technology shares. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	20-05-2024	21-05-2024	Change, %
Dow Jones	39,807	39,873	0.2
S & P 500	5,308	5,321	0.3
FTSE	8,424	8,416	(0.1)
Nikkei	39,070	38,947	(0.3)
Hang Seng	19,636	19,221	(2.1)
Shanghai Comp	3,171	3,158	(0.4)
Sensex	74,006	73,953	(0.1)
Nifty	22,502	22,529	0.1

Source: Bloomberg, Bank of Baroda Research

- Global currencies traded in narrow ranges amidst lack of fresh drivers. DXY rose by 0.1% as Fed officials advocated the need for patience before cutting rates. On the other hand, EUR was marginally weaker as ECB President hinted at the possibility of a rate cut in Jun'24. INR appreciated marginally. It is trading further stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	20-05-2024	21-05-2024	Change, %
EUR/USD (1 EUR / USD)	1.0857	1.0854	0
GBP/USD (1 GBP / USD)	1.2706	1.2709	0
USD/JPY (JPY / 1 USD)	156.26	156.17	0.1
USD/INR (INR / 1 USD)	83.33	83.31	0
USD/CNY (CNY / 1 USD)	7.2354	7.2376	0

Source: Bloomberg, Bank of Baroda

- Global yields closed lower ahead of release of Fed minutes. Investors closely monitored comments from several Fed officials. The inflation expectation index of US is due to be released this week. UK's 10Y yield fell the most as CPI is expected to moderate in Apr'24. US and Germany's 10Y yield also edged down. India's 10Y yield fell a tad. It is trading at 7.07% today.

Fig 3 – Bond 10Y yield

	20-05-2024	21-05-2024	Change, bps
US	4.44	4.41	(3)
UK	4.17	4.13	(4)
Germany	2.53	2.50	(3)
Japan	0.98	0.98	0
China	2.31	2.31	0
India	7.09	7.08	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	17-05-2024	21-05-2024	change in bps
Tbill-91 days	6.95	6.86	(9)
Tbill-182 days	7.05	6.97	(8)
Tbill-364 days	7.05	7.00	(5)
G-Sec 2Y	7.05	7.03	(2)
India OIS-2M	6.73	6.72	(1)
India OIS-9M	6.78	6.76	(2)
SONIA int rate benchmark	5.20	5.20	-
US SOFR	5.31	5.31	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	20-05-2024	21-05-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.5	2.5	1.0
Reverse Repo	0	0	0
Repo	1.3	1.3	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-05-2024	17-05-2024	change (US$ mn/Rs cr)
FII (US$ mn)	35.2	368.8	333.6
Debt	109.7	107.6	(2.2)
Equity	(74.5)	261.2	335.8
Mutual funds (Rs cr)	530.0	(387.7)	(917.8)
Debt	(2,293.6)	(466.2)	1,827.5
Equity	2,823.7	78.5	(2,745.2)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 15 May and 16 May 2024

- Oil prices declined further on demand concerns due to higher US rates.

Fig 7 – Commodities

	20-05-2024	21-05-2024	% change
Brent crude (US$/bbl)	83.7	82.9	(1.0)
Gold (US$/ Troy Ounce)	2,425.3	2,421.1	(0.2)
Copper (US$/ MT)	10,800.8	10,742.0	(0.5)
Zinc (US$/MT)	3,065.9	3,085.9	0.7
Aluminium (US$/MT)	2,630.0	2,725.5	3.6

Source: Bloomberg, Bank of Baroda Research

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