

MORNING MOCHA

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ECONOMIST

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In one of the most anticipated speech by Fed chair, there has been clarity on the imminent rate cuts as he stated 'the time has come'. The uncertainty now remains on the quantum of cuts, with the possibility of 3-consecutive 25bps cuts in the upcoming 3 meetings. Separately, PBoC has kept the medium term lending rate unchanged at 2.3% (1-year). The bank has also decided to inject additional liquidity. On the domestic front, Cabinet approved the UPS (Unified Pension Scheme) which is expected to benefit over 23 lakh central government employees. The scheme will provide the subscribers with assured pension, benefit of inflation indexation and family pension. Markets will closely track US PCE, GDP (Q2CY24), durable goods order, pending home sales data, along with flash inflation reading for EU and India's GDP data for Q1FY25.

- Barring Hang Seng (lower) and Sensex (flat), other global indices ended higher. The dovish signal of lower rates boosted the US indices. Surge in new home sales data also supported the market. Nikkei advanced by 0.4% led by gains in pharma stocks. Sensex is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	22-08-2024	23-08-2024	Change, %
Dow Jones	40,713	41,175	1.1
S & P 500	5,571	5,635	1.1
FTSE	8,288	8,328	0.5
Nikkei	38,211	38,364	0.4
Hang Seng	17,641	17,612	(0.2)
Shanghai Comp	2,849	2,854	0.2
Sensex	81,053	81,086	0
Nifty	24,812	24,823	0

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended higher against the US\$. DXY fell steeply by (-) 0.8%, tracking comments of Fed Chair Powell. JPY and GBP gained the most. JPY was supported by continued divergence in BoJ and Fed's policy stances. BoJ Governor Ueda remains hawkish. INR ended stronger, and is trading steeply higher even today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	22-08-2024	23-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.1112	1.1192	0.7
GBP/USD (1 GBP / USD)	1.3091	1.3214	0.9
USD/JPY (JPY / 1 USD)	146.29	144.37	1.3
USD/INR (INR / 1 USD)	83.95	83.90	0.1
USD/CNY (CNY / 1 USD)	7.1470	7.1209	0.4

Source: Bloomberg, Bank of Baroda



- Barring Asian economies, other global 10Y yields declined. Yield in US and UK fell the most. Fed Chair Powell's comments stating that the central bank is ready to cut rates, helped ease yields. Bets have also increased for a 50bps cut in Sep'24. India's 10Y yield rose by 1bps, following the release of RBI minutes. However, following global cues, it is trading slightly lower today at 6.85%.

Fig 3 – Bond 10Y yield

	22-08-2024	23-08-2024	Change, bps
US	3.85	3.80	(5)
UK	3.96	3.91	(5)
Germany	2.24	2.23	(2)
Japan	0.88	0.90	2
China	2.16	2.16	0
India	6.85	6.86	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	22-08-2024	23-08-2024	change in bps
Tbill-91 days	6.62	6.62	0
Tbill-182 days	6.71	6.71	0
Tbill-364 days	6.71	6.71	0
G-Sec 2Y	6.75	6.77	2
India OIS-2M	6.60	6.59	(1)
India OIS-9M	6.54	6.56	1
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	22-08-2024	23-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(1.0)	0
Reverse Repo	0.4	0	(0.4)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	21-08-2024	22-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(3.3)	(1.7)	1.7
Debt	48.0	(222.3)	(270.3)
Equity	(51.3)	220.6	271.9
Mutual funds (Rs cr)	190.4	(559.5)	(749.8)
Debt	(1,305.0)	(3,235.0)	(1,929.9)
Equity	1,495.4	2,675.5	1,180.1

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 19 Aug and 20 Aug 2024

- Oil prices rose, due to escalated geo-political tensions in the Middle East.

Fig 7 – Commodities

	22-08-2024	23-08-2024	% change
Brent crude (US\$/bbl)	77.2	79.0	2.3
Gold (US\$/ Troy Ounce)	2,484.8	2,512.6	1.1
Copper (US\$/ MT)	9,010.3	9,173.4	1.8
Zinc (US\$/MT)	2,817.4	2,868.0	1.8
Aluminium (US\$/MT)	2,480.0	2,542.0	2.5

Source: Bloomberg, Bank of Baroda Research



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