

MORNING MOCHA

29 July 2024

ECONOMIST

Jahnvi Prabhakar

Prospects of a rate cut by Fed were further lifted given the recent PCE print, Fed's preferred gauge to monitor inflation. It moderated to 2.5% in Jun'24 (in line with expectation) against a 2.6% increase in May'24. Prices of furnishing, durable household equipment along with gasoline and other energy goods dropped in Jun'24. Core inflation remained steady at 2.6%. This comes ahead of the Fed meeting scheduled later this week, where status quo is expected and easing cycle will possibly start in Sep'24 (90% chance of a cut). Post the inflation data, US treasury yields dropped. In the coming week, investors will closely monitor inflation data from Australia, Europe, China's PMI and policy decision by Fed, BoJ and BoE. Additionally, US jobs report and GDP report from Eurozone will also be awaited.

- Barring Nikkei, other major global indices ended higher. US stocks ended in green supported by stronger than expected GDP print and greater likelihood of rate cuts by Fed. Amongst other indices, Nifty was the biggest gainer, followed by Dow Jones. The gains in domestic market were led by metal, technology and auto stocks. It is trading higher today (scaling to an all-time high), in line with other Asian indices.

Fig 1 – Stock markets

	25-07-2024	26-07-2024	Change, %
Dow Jones	39,935	40,589	1.6
S & P 500	5,399	5,459	1.1
FTSE	8,186	8,286	1.2
Nikkei	37,870	37,667	(0.5)
Hang Seng	17,005	17,021	0.1
Shanghai Comp	2,887	2,891	0.1
Sensex	80,040	81,333	1.6
Nifty	24,406	24,835	1.8

Source: Bloomberg, Bank of Baroda Research

- Except INR and CNY (flat), other global currencies closed higher against the dollar. DXY ended flat as Fed is expected to lower rates starting Sep'24. GBP was up as investors are split between BoE cutting rates this week or in Sep'24. JPY is being supported by hopes of rate hike by BoJ. INR ended flat, but is trading slightly stronger today, while other Asian currencies are trading lower.

Fig 2 – Currencies

	25-07-2024	26-07-2024	Change, %
EUR/USD (1 EUR / USD)	1.0846	1.0856	0.1
GBP/USD (1 GBP / USD)	1.2851	1.2867	0.1
USD/JPY (JPY / 1 USD)	153.94	153.76	0.1
USD/INR (INR / 1 USD)	83.71	83.73	0
USD/CNY (CNY / 1 USD)	7.2469	7.2505	0

Source: Bloomberg, Bank of Baroda



- Barring Japan (higher), other global 10Y yields closed lower. Yields in US and UK fell the most, as PCE price index moved in line with expectations and made further case for Fed cutting rates 2-3 times this year. Japan's 10Y yield inched up, in anticipation of BoJ hiking rates this week. India's 10Y yield was down by 1bps, as oil prices fell. It is trading even lower today, following global cues.

Fig 3 – Bond 10Y yield

	25-07-2024	26-07-2024	Change, bps
US	4.24	4.19	(5)
UK	4.13	4.10	(3)
Germany	2.42	2.41	(1)
Japan	1.06	1.07	1
China	2.21	2.19	(2)
India	6.95	6.94	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	25-07-2024	26-07-2024	change in bps
Tbill-91 days	6.73	6.60	(13)
Tbill-182 days	6.79	6.77	(2)
Tbill-364 days	6.80	6.78	(2)
G-Sec 2Y	6.83	6.76	(7)
India OIS-2M	6.63	6.63	0
India OIS-9M	6.68	6.69	1
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.34	5.35	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	25-07-2024	26-07-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(1.5)	(0.6)
Reverse Repo	0.1	0	(0.1)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	24-07-2024	25-07-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(397.2)	(98.3)	298.8
Debt	22.0	164.2	142.3
Equity	(419.1)	(262.6)	156.6
Mutual funds (Rs cr)	(2,252.3)	602.4	2,854.7
Debt	(1,319.1)	60.4	1,379.5
Equity	(933.1)	542.1	1,475.2

Source: Bloomberg, Bank of Baroda Research, Note: MF data as of 22nd and 23rd Jul

- Oil prices fell, driven by weak demand outlook in China (drop in fuel imports).

Fig 7 – Commodities

	25-07-2024	26-07-2024	% change
Brent crude (US\$/bbl)	82.4	81.1	(1.5)
Gold (US\$/ Troy Ounce)	2,364.6	2,387.2	1.0
Copper (US\$/ MT)	9,003.5	8,995.5	(0.1)
Zinc (US\$/MT)	2,625.9	2,616.9	(0.3)
Aluminium (US\$/MT)	2,270.5	2,289.0	0.8

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com