

MORNING MOCHA

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ECONOMIST

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Concerns around weakness in global economy resurfaced and impacted the market indices, with US treasury yields dropping below the 4% mark. In the US, disappointing manufacturing activity and softening of labor market (rise in jobless claims) stoked fears of slowdown. In a vote of 5-4, BoE reduced rates by 25bps to 5% for the first time in over 4-years. Governor Bailey noted that decision on rates will be based on 'meeting to meeting'. Recently, Fed had kept the benchmark rate unchanged at 5.25-5% but hinted at the possibility of a rate cut as early as Sep'24. On domestic front, headline manufacturing PMI in India moderated marginally to 58.1 in Jul'24 from 58.3 in Jun'24. Despite a marginal dip in new orders and output, the overall performance of the sector has been above the long-run average signalling strength in the sector.

- Barring Indian market, other global indices ended lower. US indices ended in red after data raised concerns of slowdown (Manufacturing PMI and weekly jobless claims). Nikkei dropped the most led by losses in communication and services sectors. Sensex and Nifty ended at record high supported by gains in power stocks. However, it is trading lower today in line with other Asian indices.

Fig 1 – Stock markets

	31-07-2024	1-08-2024	Change, %
Dow Jones	40,843	40,348	(1.2)
S & P 500	5,522	5,447	(1.4)
FTSE	8,368	8,283	(1.0)
Nikkei	39,102	38,126	(2.5)
Hang Seng	17,345	17,305	(0.2)
Shanghai Comp	2,939	2,932	(0.2)
Sensex	81,741	81,868	0.2
Nifty	24,951	25,011	0.2

Source: Bloomberg, Bank of Baroda Research

- Except JPY and INR, other global currencies ended weaker against the dollar. DXY strengthened awaiting payrolls report. JPY surged by 0.4% as the interest rate differential between US and Japan is expected to narrow in coming days. INR ended steady and is trading near its historic record-low today, due to strong dollar demand. Other Asian currencies are trading mixed.

Fig 2 – Currencies

	31-07-2024	1-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.0826	1.0791	(0.3)
GBP/USD (1 GBP / USD)	1.2856	1.2739	(0.9)
USD/JPY (JPY / 1 USD)	149.98	149.36	0.4
USD/INR (INR / 1 USD)	83.73	83.73	0
USD/CNY (CNY / 1 USD)	7.2267	7.2450	(0.3)

Source: Bloomberg, Bank of Baroda



- Global 10Y yields continued to register steep declines. Yield in UK fell the most (-9bps), as BoE delivered its first rate cut since Mar'20 (-25bps). Yield in Germany also eased on account of continuously weakening economic scenario. Dovish FOMC statement helped cool US 10Y yield. Following global cues, India's 10Y yield also fell, by 1bps. It is trading flat today at 6.91%.

Fig 3 – Bond 10Y yield

	31-07-2024	1-08-2024	Change, bps
US	4.03	3.99	(4)
UK	3.97	3.88	(9)
Germany	2.30	2.25	(5)
Japan	1.06	1.04	(2)
China	2.15	2.11	(3)
India	6.93	6.92	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	30-07-2024	31-07-2024	change in bps
Tbill-91 days	6.62	6.61	(1)
Tbill-182 days	6.78	6.77	(1)
Tbill-364 days	6.79	6.78	(1)
G-Sec 2Y	6.82	6.80	(2)
India OIS-2M	6.62	6.63	0
India OIS-9M	6.67	6.68	1
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.35	5.33	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-07-2024	1-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.6)	(2.0)	(0.4)
Reverse Repo	0.9	1.0	0.1
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-07-2024	1-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(174.0)	(160.7)	13.3
Debt	168.3	203.9	35.6
Equity	(342.3)	(340.8)	1.5
Mutual funds (Rs cr)	816.6	3,321.9	2,505.2
Debt	(2,184.4)	295.1	2,479.5
Equity	3,001.0	3,026.8	25.8

Source: Bloomberg, Bank of Baroda Research, Note: MF data as of 25th and 26th Jul

- Oil prices fell on demand concerns, tracking weak global manufacturing data.

Fig 7 – Commodities

	31-07-2024	1-08-2024	% change
Brent crude (US\$/bbl)	80.7	79.5	(1.5)
Gold (US\$/ Troy Ounce)	2,447.6	2,450.6	0.1
Copper (US\$/ MT)	9,102.3	9,052.5	(0.5)
Zinc (US\$/MT)	2,615.6	2,707.0	3.5
Aluminium (US\$/MT)	2,290.5	2,296.0	0.2

Source: Bloomberg, Bank of Baroda Research



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