

MORNING MOCHA

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US PCE moderated to 0.1% from 0.2% in Jul'24 (MoM), suggesting a further dip in underlying price pressures. Consumer spending decelerated to 0.2%, after increasing by 0.5% in Jul'24, but remained on a strong footing. The data vindicates the Fed's assertion of a soft landing and opens room for more rate cuts. In Japan, the incoming Prime Minister is widely believed to be antagonistic to the BoJ's long-standing ultra-dovish monetary policy. This comes on heels of data showing a drop in Japan's industrial production (-3.3% vs. -0.5% est.), even as retail sales posted a robust growth (0.8% vs. 0.3% est.) on a MoM basis. Separately, China's official PMIs painted a grim picture of the economy. Non-manufacturing PMI dropped sharply to 50.3 in Sep'24 from 51.6. On the other hand, manufacturing PMI remained in the contraction zone for the 5th straight month at 49.8, edging up from 49.1 in Aug'24.

- Barring S&P 500, global markets ended higher. Easing liquidity conditions amid positive inflation data in the US and stimulus measures in China, boosted equity indices. Asian stocks rose the most. However, some downside movement in Nikkei is expected on the back of the elections results and the surge in yen. Sensex moderated, led by real estate and banking stocks. It is further trading lower today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

| | 26-09-2024 | 27-09-2024 | Change, % |
|---------------|------------|------------|-----------|
| Dow Jones | 42,175 | 42,313 | 0.3 |
| S & P 500 | 5,745 | 5,738 | (0.1) |
| FTSE | 8,285 | 8,321 | 0.4 |
| Nikkei | 38,926 | 39,830 | 2.3 |
| Hang Seng | 19,925 | 20,632 | 3.6 |
| Shanghai Comp | 3,001 | 3,088 | 2.9 |
| Sensex | 85,836 | 85,572 | (0.3) |
| Nifty | 26,216 | 26,179 | (0.1) |

Source: Bloomberg, Bank of Baroda Research

- Except JPY, other global currencies broadly depreciated. DXY was lower on anticipation of further rate cuts. JPY rose by 1.8% on expectations of higher rates after the election of the new Prime Minister. INR depreciated by 0.1%. It is trading further weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

| | 26-09-2024 | 27-09-2024 | Change, % |
|-----------------------|------------|------------|-----------|
| EUR/USD (1 EUR / USD) | 1.1177 | 1.1162 | (0.1) |
| GBP/USD (1 GBP / USD) | 1.3415 | 1.3374 | (0.3) |
| USD/JPY (JPY / 1 USD) | 144.81 | 142.21 | 1.8 |
| USD/INR (INR / 1 USD) | 83.64 | 83.70 | (0.1) |
| USD/CNY (CNY / 1 USD) | 7.0111 | 7.0111 | 0 |

Source: Bloomberg, Bank of Baroda



- US 10Y yield fell the most as core PCE data highlighted further softening in inflation, supporting further Fed cuts. The impact was felt in 10Y yields of Germany and UK as well. This was further supported by macro data (sticky unemployment rate in Germany and modest growth in retail sales in UK). India's 10Y yield witnessed some correction and is trading at 6.75% today.

Fig 3 – Bond 10Y yield

| | 26-09-2024 | 27-09-2024 | Change, bps |
|---------|------------|------------|-------------|
| US | 3.80 | 3.75 | (5) |
| UK | 4.01 | 3.98 | (3) |
| Germany | 2.18 | 2.13 | (5) |
| Japan | 0.83 | 0.85 | 2 |
| China | 2.08 | 2.18 | 10 |
| India | 6.72 | 6.76 | 4 |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 26-09-2024 | 27-09-2024 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.48 | 6.50 | 2 |
| Tbill-182 days | 6.57 | 6.55 | (2) |
| Tbill-364 days | 6.55 | 6.56 | 1 |
| G-Sec 2Y | 6.68 | 6.65 | (2) |
| India OIS-2M | 6.60 | 6.60 | 0 |
| India OIS-9M | 6.42 | 6.44 | 1 |
| SONIA int rate benchmark | 4.95 | 4.95 | 0 |
| US SOFR | 4.84 | 4.83 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 26-09-2024 | 27-09-2024 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.4) | (0.8) | (0.4) |
| Reverse Repo | 0 | 0 | 0 |
| Repo | 0.3 | 0.2 | (0.1) |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 25-09-2024 | 26-09-2024 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | (71.8) | 1,041.4 | 1,113.1 |
| Debt | 4.4 | 21.3 | 16.9 |
| Equity | (76.2) | 1,020.0 | 1,096.2 |
| Mutual funds (Rs cr) | 4,068.6 | 2,400.1 | (1,668.4) |
| Debt | (198.5) | 179.9 | 378.4 |
| Equity | 4,267.1 | 2,220.3 | (2,046.8) |

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 24 Sep and 25 Sep 2024

- Oil prices inched up amidst supply side disruptions from Middle East conflict.

Fig 7 – Commodities

| | 26-09-2024 | 27-09-2024 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 71.6 | 72.0 | 0.5 |
| Gold (US\$/ Troy Ounce) | 2,672.4 | 2,658.2 | (0.5) |
| Copper (US\$/ MT) | 9,944.8 | 9,846.5 | (1.0) |
| Zinc (US\$/MT) | 3,061.2 | 3,051.9 | (0.3) |
| Aluminium (US\$/MT) | 2,611.5 | 2,646.5 | 1.3 |

Source: Bloomberg, Bank of Baroda Research



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