

MORNING MOCHA

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ECONOMIST
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US PCE inflation came in at 0.3% in Apr'24 (MoM), unchanged from Mar'24. Core inflation eased to 0.2% from 0.3%. Goods inflation inched up (0.2% from 0.1%), while services inflation came down (0.3% from 0.4%). Further, consumer spending, adjusted for inflation, fell by (-) 0.1% in Apr'24, following 0.4% increase in Mar'24. Spending on goods fell by (-) 0.4%, while that on services moderated to 0.1%. These data points indicate that Fed is likely to maintain status quo in the next policy meeting, but may cut rates towards the end of this year. Separately, in Europe, higher than expected inflation print for May'24 (2.6% versus est.: 2.5% and 2.4% in Apr'24), is unlikely to dent hopes of a rate cut by ECB this week. However, after this, analysts expect a pause in Jul'24. Domestically, revised GDP data shows that growth settled at 8.2% (7.6% earlier estimate) in FY24, up from 7% in FY23.

- Barring Hang Seng and Shanghai Comp, other global indices ended higher. Investors monitored global developments and economic data from across the globe, including US PCE, and inflation in Europe, ahead of the ECB policy. Sensex ended in green led by gains in real estate and power stocks. It is trading higher today ahead of the elections result. Asian stocks are also trading higher.

Fig 1 – Stock markets

	30-05-2024	31-05-2024	Change, %
Dow Jones	38,111	38,686	1.5
S & P 500	5,235	5,278	0.8
FTSE	8,231	8,275	0.5
Nikkei	38,054	38,488	1.1
Hang Seng	18,230	18,080	(0.8)
Shanghai Comp	3,092	3,087	(0.2)
Sensex	73,886	73,961	0.1
Nifty	22,489	22,531	0.2

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. The dollar remained steady after PCE data weighed on investor sentiments. There is a likelihood of at least one rate cut this year, possibly in Sep'24. INR depreciated despite lower oil prices. However, it is trading stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	30-05-2024	31-05-2024	Change, %
EUR/USD (1 EUR / USD)	1.0832	1.0848	0.1
GBP/USD (1 GBP / USD)	1.2732	1.2742	0.1
USD/JPY (JPY / 1 USD)	156.82	157.31	(0.3)
USD/INR (INR / 1 USD)	83.32	83.47	(0.2)
USD/CNY (CNY / 1 USD)	7.2327	7.2418	(0.1)

Source: Bloomberg, Bank of Baroda



- Global yields closed mixed. US 10Y yield fell the most by 5bps, as PCE inflation data came in line with expectations, and consumer spending is beginning to ease. As a result, hopes of a rate cut by Fed this year, still remain. Following global cues, and dip in oil prices, India's 10Y yield also declined by 2bps. It is trading further lower today at 6.94%.

Fig 3 – Bond 10Y yield

	30-05-2024	31-05-2024	Change, bps
US	4.55	4.50	(5)
UK	4.35	4.32	(3)
Germany	2.65	2.66	1
Japan	1.06	1.07	1
China	2.31	2.32	1
India	7.00	6.98	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	30-05-2024	31-05-2024	change in bps
Tbill-91 days	6.86	6.89	3
Tbill-182 days	7.00	7.00	0
Tbill-364 days	7.02	7.02	0
G-Sec 2Y	7.02	7.02	0
India OIS-2M	6.71	6.73	1
India OIS-9M	6.80	6.82	2
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.33	5.33	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	30-05-2024	31-05-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.0	0	(1.0)
Reverse Repo	0	0	0
Repo	2.0	0.5	(1.5)

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	29-05-2024	30-05-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(345.0)	34.7	379.6
Debt	172.4	169.2	(3.3)
Equity	(517.4)	(134.5)	382.9
Mutual funds (Rs cr)	1,481.5	5,881.7	4,400.2
Debt	(1,776.2)	356.7	2,132.9
Equity	3,257.7	5,525.0	2,267.3

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 28 May and 29 May 2024

- Oil prices fell, amidst news of weak demand in the US and increased stockpiles.

Fig 7 – Commodities

	30-05-2024	31-05-2024	% change
Brent crude (US\$/bbl)	81.9	81.6	(0.3)
Gold (US\$/ Troy Ounce)	2,343.1	2,327.3	(0.7)
Copper (US\$/ MT)	10,007.1	9,913.4	(0.9)
Zinc (US\$/MT)	3,013.0	2,914.5	(3.3)
Aluminium (US\$/MT)	2,703.5	2,652.5	(1.9)

Source: Bloomberg, Bank of Baroda Research



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