

MORNING MOCHA

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A perceptible slowdown in US labour market spooked global investors and bolstered the case for the start of an aggressive policy easing cycle by the Fed. US non-farm payrolls eased to 114,000 in Jul'24 (est. 178,000). Unemployment rate inched up to 4.3% from 4.1%, the highest level since Sep'21. Wage growth eased to 0.2% from 0.3% in Jun'24 (MoM). The weak macro data has raised fears of a US recession leading to a sharp sell-off in global markets. Investors also rejigged expectations of the future course of Fed policy. While a Sep'24 rate cut has largely been priced in, there is a growing belief that the quantum could be higher at 50bps. Further, majority of market participants now see the Fed fund rate at 4.25-4.75% by Dec end, implying at least 3 rate cuts this year. This weighed on the dollar. In India, South-West monsoon is 4% above LPA which has helped Kharif sowing. RBI's policy decision will be the key driver for markets.

- Global equity indices closed lower, as weak US data has led to fears of a recession in the US. Apart from this, other factors driving equity flows ranged from tensions in the Middle East, weak macro data in China and volatility in commodity prices. Asian stocks fell the most. Sensex fell by 1.1%. It is trading further lower today, in line with other Asian indices.

Fig 1 – Stock markets

	01-08-2024	02-08-2024	Change, %
Dow Jones	40,348	39,737	(1.5)
S & P 500	5,447	5,347	(1.8)
FTSE	8,283	8,175	(1.3)
Nikkei	38,126	35,910	(5.8)
Hang Seng	17,305	16,946	(2.1)
Shanghai Comp	2,932	2,905	(0.9)
Sensex	81,868	80,982	(1.1)
Nifty	25,011	24,718	(1.2)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended stronger against the dollar. DXY declined by 1.2% after US jobs report. JPY appreciated by 1.9%. INR depreciated to a fresh record-low of 83.75/\$, despite lower oil prices. It is trading further weaker today, while other Asian currencies are trading mostly stronger.

Fig 2 – Currencies

	01-08-2024	02-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.0791	1.0911	1.1
GBP/USD (1 GBP / USD)	1.2739	1.2801	0.5
USD/JPY (JPY / 1 USD)	149.36	146.53	1.9
USD/INR (INR / 1 USD)	83.72	83.75	0
USD/CNY (CNY / 1 USD)	7.2450	7.1722	1.0

Source: Bloomberg, Bank of Baroda



- Global yields closed lower. US 10Y yield fell the most as reports suggested money market traders are pricing increased quantum of rate cuts by the Fed. Similar impact was felt in yields of other AEs which showed a softening bias. India's 10Y yield fell by 2bps, monitoring auction results. It is trading further lower at a ~28-month low of 6.86% today.

Fig 3 – Bond 10Y yield

	01-08-2024	02-08-2024	Change, bps
US	3.98	3.79	(19)
UK	3.88	3.83	(5)
Germany	2.24	2.17	(7)
Japan	1.04	0.95	(9)
China	2.13	2.12	0
India	6.92	6.89	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	01-08-2024	02-08-2024	change in bps
Tbill-91 days	6.63	6.61	(2)
Tbill-182 days	6.76	6.74	(2)
Tbill-364 days	6.77	6.76	(1)
G-Sec 2Y	6.77	6.79	3
India OIS-2M	6.61	6.61	0
India OIS-9M	6.65	6.63	(2)
SONIA int rate benchmark	5.20	4.95	(25)
US SOFR	5.38	5.35	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	01-08-2024	02-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.0)	(2.6)	(0.6)
Reverse Repo	1.0	0.2	(0.8)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	31-07-2024	01-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(136.9)	449.0	585.9
Debt	203.9	230.9	27.0
Equity	(340.8)	218.1	558.9
Mutual funds (Rs cr)	4,446.9	837.3	(3,609.6)
Debt	195.1	(1,269.9)	(1,465.0)
Equity	4,251.8	2,107.2	(2,144.6)

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 30 Jul and 31 Jul 2024

- Oil prices fell to an 8-month low on expectations of weak US demand.

Fig 7 – Commodities

	01-08-2024	02-08-2024	% change
Brent crude (US\$/bbl)	79.5	76.8	(3.4)
Gold (US\$/ Troy Ounce)	2,446.3	2,443.2	(0.1)
Copper (US\$/ MT)	8,923.9	8,933.9	0.1
Zinc (US\$/MT)	2,648.1	2,597.5	(1.9)
Aluminium (US\$/MT)	2,296.0	2,263.5	(1.4)

Source: Bloomberg, Bank of Baroda Research



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