

MORNING MOCHA

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The sell-off in global markets continued as investors assessed the possible impact of a US recession. Stocks worldwide witnessed steep declines, while commodity prices also inched down. However, a Fed officials including San Francisco Fed President and Chicago Fed President played down the possibility of the US economy slipping into a recession. This was reinforced by macro data signalling an uptick in US services activity. US ISM services index returned to the expansionary zone at 51.4 in Jul'24 from 48.8 last month. There was a similar rebound in services activity in Japan (53.7 vs. 49.4). Services PMI in China (52.1 vs. 51.2) and UK (52.5 vs. 52.1) also picked up. In the Eurozone however, services PMI declined for the 3rd straight month to 51.9. On the domestic front, India's services PMI was broadly steady at 60.3 in Jul'24 from 60.5 in Jun'24, amid continued momentum in new export orders.

- Global indices ended lower, led by a sharp free fall in Nikkei. Unwinding of the carry trade contributed to the steep fall in Nikkei, which dropped to its lowest since Jan'24. Volatility in global currencies on the back of weak demand outlook in US and China, coupled with policy divergence, dampened investor sentiments. Sensex fell by 2.7%, tracking global cues. It is however trading higher today, in line with Asian stocks.

Fig 1 – Stock markets

	02-08-2024	05-08-2024	Change, %
Dow Jones	39,737	38,703	(2.6)
S & P 500	5,347	5,186	(3.0)
FTSE	8,175	8,008	(2.0)
Nikkei	35,910	31,458	(12.4)
Hang Seng	16,946	16,698	(1.5)
Shanghai Comp	2,905	2,861	(1.5)
Sensex	80,982	78,759	(2.7)
Nifty	24,718	24,056	(2.7)

Source: Bloomberg, Bank of Baroda Research

- Except INR and GBP, other global currencies appreciated. DXY fell by 0.5% despite a rebound in US services sector activity. JPY appreciated by 1.6%. INR closed at a fresh record low amid heavy losses in domestic equities. It is trading further weaker today, while other Asian currencies are trading mostly stronger.

Fig 2 – Currencies

	02-08-2024	05-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.0911	1.0952	0.4
GBP/USD (1 GBP / USD)	1.2801	1.2776	(0.2)
USD/JPY (JPY / 1 USD)	146.53	144.18	1.6
USD/INR (INR / 1 USD)	83.75	83.84	(0.1)
USD/CNY (CNY / 1 USD)	7.1722	7.1396	0.5

Source: Bloomberg, Bank of Baroda



- US 10Y yield closed flat tracking comments of Fed officials who reiterated the need of not allowing labour market to cool off substantially. Thus, signalling easing monetary policy conditions. Japan's 10Y yield fell at the sharpest pace by 16bps amidst asset allocation readjustment. India's 10Y yield maintained its downward momentum supported by anticipation of softening of global yields.

Fig 3 – Bond 10Y yield

	02-08-2024	05-08-2024	Change, bps
US	3.79	3.79	0
UK	3.83	3.87	4
Germany	2.17	2.19	2
Japan	0.95	0.79	(16)
China	2.12	2.15	2
India	6.89	6.86	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	02-08-2024	05-08-2024	change in bps
Tbill-91 days	6.61	6.62	1
Tbill-182 days	6.74	6.72	(2)
Tbill-364 days	6.76	6.74	(2)
G-Sec 2Y	6.79	6.75	(5)
India OIS-2M	6.61	6.54	(7)
India OIS-9M	6.63	6.53	(10)
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.35	5.35	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	03-08-2024	05-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.6)	(2.9)	(0.3)
Reverse Repo	0.2	0.8	0.6
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	01-02-2024	02-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	449.0	(171.7)	(620.7)
Debt	230.9	230.4	(0.5)
Equity	218.1	(402.1)	(620.3)
Mutual funds (Rs cr)	837.3	(2,991.8)	(3,829.1)
Debt	(1,269.9)	(2,943.3)	(1,673.4)
Equity	2,107.2	(48.5)	(2,155.7)

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 31 Jul and 01 Aug 2024

- Global commodity prices declined amid muted demand outlook.

Fig 7 – Commodities

	02-08-2024	05-08-2024	% change
Brent crude (US\$/bbl)	76.8	76.3	(0.7)
Gold (US\$/ Troy Ounce)	2,443.2	2,410.8	(1.3)
Copper (US\$/ MT)	8,933.9	8,765.3	(1.9)
Zinc (US\$/MT)	2,597.5	2,576.7	(0.8)
Aluminium (US\$/MT)	2,263.5	2,250.0	(0.6)

Source: Bloomberg, Bank of Baroda Research



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