

MORNING MOCHA

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ECONOMIST
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In line with market expectations, ECB decided to lower its key policy rates (1st since Sep'19) by 25bps (main refinancing rate at 4.25% now). This was driven by weaker price pressures and decline inflation expectations. However, as the pace of inflation coming down is slowing, and rate differential between EUR and USD will add pressure to the Euro and thus hurt inflation prospects, analysts do not believe that ECB will be on a rate cut spree. Now all eyes are on Fed and BoE. Initial jobless claims in the US rose by 8k to 229k in the week ending 1 Jun. 4-week average of the continuing claims remained broadly unchanged at 1.79mn. Markets await the release of non-farm payroll data for more guidance. Domestically, RBI will announce its policy decision today, and is expected to keep rates on hold.

- Barring S&P 500 (flat) and Shanghai Comp (lower), other global indices ended higher. Investors monitored the inching up of weekly jobless claims in the US. European stocks registered gains after ECB reduced rates in line with expectations. Sensex surged further with all the sectors ending in green. It is trading higher today, while other Asian indices are trading mixed.

Fig 1 – Stock markets

	5-06-2024	6-06-2024	Change, %
Dow Jones	38,807	38,886	0.2
S & P 500	5,354	5,353	0
FTSE	8,247	8,285	0.5
Nikkei	38,490	38,704	0.6
Hang Seng	18,425	18,477	0.3
Shanghai Comp	3,065	3,049	(0.5)
Sensex	74,382	75,075	0.9
Nifty	22,620	22,821	0.9

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY retreated by 0.2% ahead of the US jobs report, which will provide guidance towards interest rate outlook. EUR gained, after ECB cut rates. INR depreciated amidst higher oil prices. It is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	5-06-2024	6-06-2024	Change, %
EUR/USD (1 EUR / USD)	1.0869	1.0890	0.2
GBP/USD (1 GBP / USD)	1.2787	1.2791	0
USD/JPY (JPY / 1 USD)	156.11	155.61	0.3
USD/INR (INR / 1 USD)	83.38	83.48	(0.1)
USD/CNY (CNY / 1 USD)	7.2477	7.2450	0

Source: Bloomberg, Bank of Baroda

- Global yields closed mixed. While 10Y yield in US and Germany rose, they fell in Japan, UK and India. Markets await the release of US non-farm payroll data.



Germany's yield rose by 4bps as analysts do not expect ECB to be on a rate cut spree, following yesterday's 25bps cut announced by the central bank. India's 10Y yield fell by 2bps, however, it is trading a tad higher today at 7.02%.

Fig 3 – Bond 10Y yield

	5-06-2024	6-06-2024	Change, bps
US	4.28	4.29	1
UK	4.18	4.17	(1)
Germany	2.51	2.55	4
Japan	1.02	0.96	(5)
China	2.31	2.31	0
India	7.03	7.01	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	5-06-2024	6-06-2024	change in bps
Tbill-91 days	6.85	6.85	0
Tbill-182 days	7.01	6.99	(2)
Tbill-364 days	7.02	7.01	(1)
G-Sec 2Y	7.05	7.02	(3)
India OIS-2M	6.71	6.69	(2)
India OIS-9M	6.79	6.76	(3)
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	5-06-2024	6-06-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.3)	(0.5)	(0.2)
Reverse Repo	0	0	0
Repo	0.9	0.9	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	4-06-2024	5-06-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	(1,363.0)	(504.1)	859.0
Debt	103.3	72.1	(31.2)
Equity	(1,466.3)	(576.1)	890.2
Mutual funds (Rs cr)	3,080.4	(6,440.4)	(9,520.8)
Debt	(287.3)	(166.2)	121.2
Equity	3,367.7	(6,274.3)	(9,642.0)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 3 Jun and 4 Jun 2024

- Oil prices jumped, as Russia and Saudi Arabia reassured markets of supply cuts in case it is necessary.

Fig 7 – Commodities

	5-06-2024	6-06-2024	% change
Brent crude (US\$/bbl)	78.4	79.9	1.9
Gold (US\$/ Troy Ounce)	2,355.3	2,376.1	0.9
Copper (US\$/ MT)	9,806.3	10,036.5	2.3
Zinc (US\$/MT)	2,802.9	2,852.1	1.8
Aluminium (US\$/MT)	2,622.0	2,647.5	1.0

Source: Bloomberg, Bank of Baroda Research



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