

MORNING MOCHA

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Delayed start to the rate cut cycle by major central banks led to rally in global stocks buoyed by risk on sentiments. Yields continued to paint a volatile picture. In the US, a weaker ISM manufacturing print has led to fall in 10Y yield. Even for other economies, yields traded in a narrow range monitoring comments of major central bank officials. Amongst other major macro releases were University of Michigan's inflation expectations index, which still showed some stickiness in inflation. In the Euro area, inflation print especially the core inflation data provided some discomfort. In UK, house price index firmed up in Feb'24, while PMI reading still trailed below the 50 mark. On domestic front, PMI data rose to its 5 month high supported by both domestic and external demand. Even inflationary pressures moderated.

- Global stocks rallied amidst expectations of lower policy rates. Weak manufacturing PMI in US has reignited the debate on timing of Fed rate cuts. Even in Eurozone and Asia, manufacturing PMIs painted a sombre picture. Amongst major indices, Nikkei surged the most to close at a record-high. Robust GDP numbers, pushed Sensex to an all-time high. It is trading further higher today in line with other Asian stocks.

Fig 1 – Stock markets

| | 29-02-2024 | 01-03-2024 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 38,996 | 39,087 | 0.2 |
| S & P 500 | 5,096 | 5,137 | 0.8 |
| FTSE | 7,630 | 7,683 | 0.7 |
| Nikkei | 39,166 | 39,911 | 1.9 |
| Hang Seng | 16,511 | 16,589 | 0.5 |
| Shanghai Comp | 3,015 | 3,027 | 0.4 |
| Sensex | 72,500 | 73,745 | 1.7 |
| Nifty | 21,983 | 22,339 | 1.6 |

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY fell by 0.3% as US ISM manufacturing PMI slipped further in the contractionary zone in Feb'24. EUR gained as inflation in Eurozone was higher than expected led by elevated core. GBP too gained as UK's manufacturing PMI showed improvement. INR closed flat. It is trading weaker today, while Asian currencies are trading stronger.

Fig 2 – Currencies

| | 29-02-2024 | 01-03-2024 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0805 | 1.0837 | 0.3 |
| GBP/USD (1 GBP / USD) | 1.2625 | 1.2655 | 0.2 |
| USD/JPY (JPY / 1 USD) | 149.98 | 150.12 | (0.1) |
| USD/INR (INR / 1 USD) | 82.91 | 82.91 | 0 |
| USD/CNY (CNY / 1 USD) | 7.1886 | 7.1968 | (0.1) |

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield fell by 7bps as ISM manufacturing data softened. Germany's 10Y yield closed stable as member of the Governing Council of ECB hinted at a more cautious approach before embarking on rate cut cycle. China's 10Y yield rose by 3bps supported by better macro data. India's 10Y yield fell by 2bps. It is trading at 7.05% today.

Fig 3 – Bond 10Y yield

| | 29-02-2024 | 01-03-2024 | change in bps |
|---------|------------|------------|---------------|
| US | 4.25 | 4.18 | (7) |
| UK | 4.12 | 4.11 | (1) |
| Germany | 2.41 | 2.41 | 0 |
| Japan | 0.71 | 0.72 | 1 |
| China | 2.35 | 2.38 | 3 |
| India | 7.08 | 7.06 | (2) |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 29-02-2024 | 01-03-2024 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.86 | 6.88 | 2 |
| Tbill-182 days | 7.14 | 7.14 | - |
| Tbill-364 days | 7.11 | 7.08 | (3) |
| G-Sec 2Y | 7.01 | 7.01 | 0 |
| India OIS-2M | 6.78 | 6.78 | - |
| India OIS-9M | 6.74 | 6.75 | 1 |
| SONIA int rate benchmark | 5.19 | 5.19 | 0 |
| US SOFR | 5.31 | 5.32 | 1 |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 29-02-2024 | 01-03-2024 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | 0.9 | 0.4 | (0.5) |
| Reverse Repo | 0 | 0 | 0 |
| Repo | 1.0 | 1.0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 28-02-2024 | 29-02-2024 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | (65.7) | 490.5 | 556.2 |
| Debt | 101.8 | (16.1) | (117.9) |
| Equity | (167.5) | 506.6 | 674.1 |
| Mutual funds (Rs cr) | 339.5 | (2,542.6) | (2,882.1) |
| Debt | (1,347.2) | (4,025.2) | (2,678.0) |
| Equity | 1,686.7 | 1,482.6 | (204.1) |

Source: Bloomberg, Bank of Baroda Research, Note: Mutual funds data as of 28th and 27th Feb 2024

- Oil prices moderated as fear of weaker demand conditions reigned in.

Fig 7 – Commodities

| | 29-02-2024 | 01-03-2024 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 83.6 | 83.6 | (0.1) |
| Gold (US\$/ Troy Ounce) | 2,044.3 | 2,082.9 | 1.9 |
| Copper (US\$/ MT) | 8,401.5 | 8,416.0 | 0.2 |
| Zinc (US\$/MT) | 2,381.8 | 2,372.5 | (0.4) |
| Aluminium (US\$/MT) | 2,228.0 | 2,245.0 | 0.8 |

Source: Bloomberg, Bank of Baroda Research



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