

MORNING MOCHA

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ECONOMIST
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US non-farm payroll additions were better than expected with 199k in Nov'23 (est.: 185k). Unemployment rate also moderated to 3.7% (est.: 3.9%). Average hourly earnings on MoM basis remained sticky at 0.4% compared to 0.2% seen in Oct'23. All these have again raised concerns of a tighter labour market than expected. This was reflected in traders' sentiment of paring down rate cut expectations. CME Fed watch tool data which was pricing in a 25bps rate cut in Mar'24 with 55% probability last week, is now attaching a probability of 42% to the outcome. We still sense some bit of cautiousness in the upcoming Fed policy. Elsewhere, muted CPI and PPI print in China raised expectation of fiscal stimulus to support the economy. On domestic front, all eyes will be on the upcoming CPI and IIP data prints.

- Barring Japan and Hong Kong, stocks elsewhere edged up. FTSE rose the most, led by gains in energy stocks as oil prices recovered. US indices ended higher supported by better than expected macro data (jobs report and University of Michigan's consumer sentiment index). Sensex rose by 0.4%, to a fresh record high. Technology and banking stocks rose the most. It is trading even higher today, while other Asian stocks are mostly trading lower.

Fig 1 – Stock markets

	7-12-2023	8-12-2023	% change
Dow Jones	36,117	36,248	0.4
S & P 500	4,586	4,604	0.4
FTSE	7,514	7,554	0.5
Nikkei	32,858	32,308	(1.7)
Hang Seng	16,346	16,334	(0.1)
Shanghai Comp	2,966	2,970	0.1
Sensex	69,522	69,826	0.4
Nifty	20,901	20,969	0.3

Source: Bloomberg, Bank of Baroda Research

- Global currencies fell against the dollar. DXY was up by 0.5% as a stronger than expected US jobs report pushed back expectations of rate cuts by Fed. EUR fell by 0.3%, as Germany's inflation eased in Nov'23, ruling out further rate hikes. INR depreciated a tad, and inched closer to its record low. It is trading stronger today, while other Asian currencies are trading weaker.

Fig 2 – Currencies

	7-12-2023	8-12-2023	% change
EUR/USD (1 EUR / USD)	1.0794	1.0763	(0.3)
GBP/USD (1 GBP / USD)	1.2594	1.2549	(0.4)
USD/JPY (JPY / 1 USD)	144.13	144.95	(0.6)
USD/INR (INR / 1 USD)	83.36	83.39	0
USD/CNY (CNY / 1 USD)	7.1486	7.1702	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Global yields broadly closed higher. US 10Y yield has risen by 8bps following tighter than expected labour market data. Even a softening inflation print in Germany could not check the rise in its yield, which moved in tandem with US 10Y yield. India's 10Y yield rose by 3bps, tracking lower than expected cut off price. It is trading at 7.28% today.

Fig 3 – Bond 10Y yield

	7-12-2023	8-12-2023	change in bps
US	4.15	4.23	8
UK	3.97	4.04	7
Germany	2.19	2.28	9
Japan	0.76	0.77	1
China	2.69	2.69	0
India	7.24	7.27	3

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	7-12-2023	8-12-2023	change in bps
Tbill-91 days	6.95	6.94	(1)
Tbill-182 days	7.15	7.14	(1)
Tbill-364 days	7.15	7.13	(2)
G-Sec 2Y	7.22	7.22	0
India OIS-2M	6.83	6.85	2
India OIS-9M	6.84	6.85	1
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.32	5.32	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	7-12-2023	8-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.2	0.1	(0.1)
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	6-12-2023	7-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(119.4)	68.1	187.5
Debt	(143.4)	122.6	265.9
Equity	24.0	(54.4)	(78.5)
Mutual funds (Rs cr)	302.1	(535.9)	(838.1)
Debt	302.7	(1,813.9)	(2,116.6)
Equity	(0.6)	1,278.0	1,278.6

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 5 Dec and 6 Dec 2023

- Oil prices rose, led by demand optimism amidst a resilient US labour market.

Fig 7 – Commodities

	7-12-2023	8-12-2023	% change
Brent crude (US\$/bbl)	74.1	75.8	2.4
Gold (US\$/ Troy Ounce)	2,028.5	2,004.7	(1.2)
Copper (US\$/ MT)	8,258.0	8,366.3	1.3
Zinc (US\$/MT)	2,391.5	2,383.8	(0.3)
Aluminium (US\$/MT)	2,132.5	2,134.0	0.1

Source: Bloomberg, Bank of Baroda Research



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