

MORNING MOCHA

14 December 2023

ECONOMIST
 Dipanwita Mazumdar

US Fed unanimously decided to keep policy rate unchanged, as anticipated, while striking a dovish tone. FOMC projections revealed that 75bps rate cut is pencilled in next year. This is higher than its Sep'23 projection of 50bps rate cut. Most importantly, policymakers have not priced in any further rate hike in their projection document, a first event since Mar'21. Thus, the dovish policy has led to market rally. Dow Jones rose to its record high and S&P rose to its highest in two years. US 10Y yield made a sharp correction. Elsewhere, in major macro releases, UK's monthly GDP contracted more than estimated by 0.3% and its industrial production fell sharply by 0.8%. Japan's core machinery orders remained firm. On domestic front, impact of a likely pivot in global monetary policy will be closely watched.

- Barring Hong Kong and China, stocks elsewhere ended in green. Investors cheered the much awaited "Fed pivot". Stocks in US surged the most, with Dow Jones closing at a record-high. Shanghai Comp fell by 1.2%, amidst lingering growth concerns. Credit growth in China rose less than expected in Nov'23. In India, Sensex ended marginally flat. However, it is trading higher today, in line with other Asian markets.

Fig 1 – Stock markets

	12-12-2023	13-12-2023	% change
Dow Jones	36,578	37,090	1.4
S & P 500	4,644	4,707	1.4
FTSE	7,543	7,548	0.1
Nikkei	32,844	32,926	0.3
Hang Seng	16,375	16,229	(0.9)
Shanghai Comp	3,003	2,969	(1.2)
Sensex	69,551	69,585	0
Nifty	20,906	20,926	0.1

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies gained against the dollar. DXY fell sharply as Fed indicated lower rates in 2024. JPY gained the most by 1.8%. Gains in GBP were muted amidst a contraction in GDP in Oct'23. INR remained under pressure and fell to a new record-low, as oil prices increased. However it is trading stronger today in line with other Asian currencies.

Fig 2 – Currencies

	12-12-2023	13-12-2023	% change
EUR/USD (1 EUR / USD)	1.0794	1.0874	0.7
GBP/USD (1 GBP / USD)	1.2563	1.2618	0.4
USD/JPY (JPY / 1 USD)	145.45	142.89	1.8
USD/INR (INR / 1 USD)	83.39	83.40	0
USD/CNY (CNY / 1 USD)	7.1772	7.1708	0.1

Source: Bloomberg, Bank of Baroda Research



- Global yields closed lower. US 10Y yield fell at its sharpest pace by 18bps (lowest since Aug'23) mirroring Fed's dovish policy. The expectation of an easing financial conditions going ahead, was also reflected in yields of UK and Germany, which also fell considerably. India's 10Y fell a tad by 1bps. It is trading lower at 7.21% today.

Fig 3 – Bond 10Y yield

	12-12-2023	13-12-2023	change in bps
US	4.20	4.02	(18)
UK	3.97	3.83	(14)
Germany	2.23	2.17	(5)
Japan	0.72	0.69	(3)
China	2.66	2.65	(1)
India	7.27	7.26	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-12-2023	13-12-2023	change in bps
Tbill-91 days	6.98	6.97	(1)
Tbill-182 days	7.15	7.18	3
Tbill-364 days	7.16	7.18	2
G-Sec 2Y	7.21	7.19	(2)
India OIS-2M	6.86	6.86	0
India OIS-9M	6.87	6.84	(3)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.32	5.31	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-12-2023	13-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.3	0.4	0.1
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-12-2023	12-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	143.6	385.0	241.3
Debt	39.1	74.6	35.5
Equity	104.6	310.4	205.8
Mutual funds (Rs cr)	2,907.5	1,824.5	(1,083.0)
Debt	1,654.9	1,251.4	(403.6)
Equity	1,252.6	573.2	(679.4)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 7 Dec and 8 Dec 2023

- Oil prices rose amidst optimism that lower Fed rates are likely to spur demand.

Fig 7 – Commodities

	12-12-2023	13-12-2023	% change
Brent crude (US\$/bbl)	73.2	74.3	1.4
Gold (US\$/ Troy Ounce)	1,979.5	2,027.7	2.4
Copper (US\$/ MT)	8,259.8	8,237.4	(0.3)
Zinc (US\$/MT)	2,425.0	2,423.3	(0.1)
Aluminium (US\$/MT)	2,121.0	2,140.0	0.9

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com