

MORNING MOCHA

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With many global markets still closed, trading volumes remained thin. In US, expectations of an imminent Fed pivot have led to a rally in stocks. On the other hand, DXY trailed near a 5-month low. After surging by 3.3% last week, global oil prices rose by another 2.5% yesterday, amidst fresh attacks in Red Sea region. In India, CAD moderated to 1% of GDP in Q2FY24 from 1.1% of GDP in Q1. This was led by higher net services receipts and remittances, even as merchandise deficit was higher. Separately, pressure on liquidity continued with deficit trailing at Rs 2.7lakh crore. As a result, overnight rate also inched up, with call rate at 6.81%. This is attributable to transient factors such as month-end GST outgo and advance tax payments, which would gradually smoothen out.

- Equity markets traded in narrow ranges. Expectations of easing financial conditions in the US boosted S&P 500 which rose to its record high. CME Fed Watch tool is attaching a 71% probability for a rate cut beginning Mar'24 and reports have priced in cumulative cut of ~ 150bps next year. Nikkei also firmed up as BoJ minutes reflected some dovishness. Sensex rose by 0.3%, led by oil and gas stocks. It is trading higher today in line with Asian stocks.

Fig 1 – Stock markets

	22-12-2023	26-12-2023	% change
Dow Jones	37,386	37,545	0.4
S & P 500	4,755	4,775	0.4
FTSE	7,695	7,698	0
Nikkei	33,169	33,306	0.4
Hang Seng	16,621	16,340	(1.7)
Shanghai Comp	2,915	2,899	(0.5)
Sensex	71,107	71,337	0.3
Nifty	21,349	21,441	0.4

Source: Bloomberg, Bank of Baroda Research | Note: Markets in UK and Hong Kong remained closed on 26 Dec 2023

- Global currencies ended mixed against the dollar. DXY slid further by 0.2%, amidst strengthening expectations of rate cut by Fed in Mar'24. On the other hand, EUR rose by 0.3% as ECB hinted at keeping rates elevated for longer. INR depreciated by 0.1%, tracking higher oil prices. It is trading further weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	22-12-2023	26-12-2023	% change
EUR/USD (1 EUR / USD)	1.1014	1.1042	0.3
GBP/USD (1 GBP / USD)	1.2701	1.2725	0.2
USD/JPY (JPY / 1 USD)	142.41	142.40	0
USD/INR (INR / 1 USD)	83.15	83.19	(0.1)
USD/CNY (CNY / 1 USD)	7.1357	7.1427	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in UK remained closed on 26 Dec 2023



- Markets in UK and Germany were closed for a public holiday. US 10Y yield closed flat in absence of fresh cues. Markets have already priced in a pivot in the Fed rate cycle. China's 10Y yield fell by 4bps ahead of major macro releases, which would provide cues for policy support. India's 10Y closed stable at 7.18%. It is trading a tad higher at 7.19% today.

Fig 3 – Bond 10Y yield

	22-12-2023	26-12-2023	change in bps
US	3.90	3.90	0
UK	3.53	3.51	(2)
Germany	1.96	1.98	2
Japan	0.63	0.64	1
China	2.62	2.58	(4)
India	7.19	7.18	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in UK and Germany remained closed on 26 Dec 2023

Fig 4 – Short term rates

	22-12-2023	26-12-2023	change in bps
Tbill-91 days	6.95	6.96	1
Tbill-182 days	7.09	7.08	(1)
Tbill-364 days	7.10	7.10	0
G-Sec 2Y	7.06	7.08	2
India OIS-2M	6.77	6.78	1
India OIS-9M	6.67	6.67	0
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	25-12-2023	26-12-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	2.7	2.7	0
Reverse repo	0	0	0
Repo	1.8	1.8	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	21-12-2023	22-12-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(103.0)	199.9	302.9
Debt	54.4	269.1	214.6
Equity	(157.5)	(69.2)	88.3
Mutual funds (Rs cr)	2,082.3	525.0	(1,557.3)
Debt	(1,690.6)	(1,522.3)	168.3
Equity	3,772.8	2,047.3	(1,725.6)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 20 Dec 2023 and 21 Dec 2023

- Oil prices rose as tensions in the Red Sea area reignited supply side concerns.

Fig 7 – Commodities

	22-12-2023	26-12-2023	% change
Brent crude (US\$/bbl)	79.1	81.1	2.5
Gold (US\$/ Troy Ounce)	2,053.1	2,067.8	0.7
Copper (US\$/ MT)	8,508.5	8,483.5	(0.3)
Zinc (US\$/MT)	2,535.0	2,588.3	2.1
Aluminium (US\$/MT)	2,244.0	2,326.0	3.7

Source: Bloomberg, Bank of Baroda Research



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