

MORNING MOCHA

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Withering the dual storm of restrictive monetary policy and inflation, US retail sales data climbed higher than expected and signalled strength in the economy. The pick-up (0.6% from 0.5% in Nov'23) was boosted by higher motor vehicle and online purchases. This reports further underscores the probability of rate cut with investors pricing in a 53.8% chance of cut in Mar'24 from 63.1% earlier. Hawkish commentary by ECB officials also lowered the expectations of easing of global rates. Soft economic data from China which pointed towards patchy recovery also weighed on investor sentiments. Separately, UK's inflation came in higher than expected at 4% (3.9% in Nov'23) led by higher prices of alcohol and tobacco, which in turn has dented rate cut expectations from BoE.

- Global indices ended lower as investors pared back on the rate cut expectations and monitored economic outlook for China. Better than expected retail sales print in US also eroded bets of rate cut in Mar'24. Led by subdued global cues, Sensex too dropped registering the sharpest fall in over 19-months with deep losses in banking and metal stocks. It is trading further lower today in line with other Asian stocks.

Fig 1 – Stock markets

	16-01-2024	17-01-2024	% change
Dow Jones	37,361	37,267	(0.3)
S & P 500	4,766	4,739	(0.6)
FTSE	7,558	7,446	(1.5)
Nikkei	35,619	35,478	(0.4)
Hang Seng	15,866	15,277	(3.7)
Shanghai Comp	2,894	2,834	(2.1)
Sensex	73,129	71,501	(2.2)
Nifty	22,032	21,572	(2.1)

Source: Bloomberg, Bank of Baroda Research

- Asian currencies ended lower, while GBP and EUR gained. DXY was up by 0.1%, supported by rising US treasury yields and better than expected macro data. JPY fell the most (-0.7%), owing to widening US-Japan interest rate differential. INR was down by 0.1%, even as oil prices fell. It is trading broadly steady today, while other Asian currencies are trading higher.

Fig 2 – Currencies

	16-01-2024	17-01-2024	% change
EUR/USD (1 EUR / USD)	1.0875	1.0883	0.1
GBP/USD (1 GBP / USD)	1.2637	1.2676	0.3
USD/JPY (JPY / 1 USD)	147.19	148.16	(0.7)
USD/INR (INR / 1 USD)	83.08	83.14	(0.1)
USD/CNY (CNY / 1 USD)	7.1877	7.1963	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except China, other global yields closed higher. UK's 10Y yield rose the most. Higher than expected CPI print in the UK has revived concerns around timing of BoE's rate cuts. ECB chief's warning that inflation may again intensify and healthier than expected macro data from the US, also played on investor sentiments. India's 10Y yield rose by 2bps, and is trading flat today.

Fig 3 – Bond 10Y yield

	16-01-2024	17-01-2024	change in bps
US	4.06	4.10	4
UK	3.80	3.99	19
Germany	2.26	2.32	6
Japan	0.60	0.62	2
China	2.53	2.51	(2)
India	7.15	7.17	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	16-01-2024	17-01-2024	change in bps
Tbill-91 days	6.93	6.96	3
Tbill-182 days	7.07	7.16	9
Tbill-364 days	7.11	7.15	4
G-Sec 2Y	7.00	7.03	3
India OIS-2M	6.77	6.77	0
India OIS-9M	6.65	6.66	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	16-01-2024	17-01-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.9	2.1	0.2
Reverse repo	0	0	0
Repo	1.8	1.8	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-01-2024	16-01-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	320.9	427.5	106.6
Debt	77.7	285.1	207.4
Equity	243.2	142.4	(100.8)
Mutual funds (Rs cr)	991.7	(3,935.0)	(4,926.7)
Debt	(900.0)	(3,335.0)	(2,435.0)
Equity	1,891.7	(600.1)	(2,491.8)

Source: Bloomberg, Bank of Baroda Research Note: Mutual fund data as of 12 Jan 2024 and 15 Jan 2024

- Oil prices fell, strained by stronger US\$ and weak macro data from China.

Fig 7 – Commodities

	16-01-2024	17-01-2024	% change
Brent crude (US\$/bbl)	78.3	77.9	(0.5)
Gold (US\$/ Troy Ounce)	2,028.4	2,006.3	(1.1)
Copper (US\$/ MT)	8,268.0	8,174.3	(1.1)
Zinc (US\$/MT)	2,527.5	2,448.3	(3.1)
Aluminium (US\$/MT)	2,214.0	2,178.0	(1.6)

Source: Bloomberg, Bank of Baroda Research



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