

MORNING MOCHA

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Aditi Gupta

Minutes of the Fed's Jan'24 meeting revealed that MPC members remained concerned about cutting rates too soon, even though it was acknowledged that policy rate has possibly peaked. It was noted that while economic activity has been growing solidly, the outlook remained uncertain and upside risks to inflation remain. This reinforced views of a 'higher for longer' narrative. Market expectations of Fed rate cuts in 2024 have now been revised to less than 100bps versus 150bps expected at the start of the year. Japan's flash PMI signalled weakening momentum as both services and manufacturing PMI slipped. On the other hand, composite PMI in Australia rose to a 10-month high, led by a sharp pickup in services activity, even as manufacturing activity shrank. Separately, Bank of Korea kept its policy rate steady at 3.5%, while also maintaining its growth and inflation forecasts.

- Global stocks ended mixed tracking corporate earnings and minutes of Fed policy. Stocks in US inched up as investors have dialled back expectations of rate cut. Fed minutes also reaffirmed the same. Nikkei showed slight moderation, to close below its record closing of 1989. This was on account of a weaker yen. Sensex closed lower, led by losses in power and capital goods stocks. It is trading further lower today, while Asian stocks are trading higher.

Fig 1 – Stock markets

	20-02-2024	21-02-2024	% change
Dow Jones	38,564	38,612	0.1
S & P 500	4,976	4,982	0.1
FTSE	7,719	7,663	(0.7)
Nikkei	38,364	38,262	(0.3)
Hang Seng	16,248	16,503	1.6
Shanghai Comp	2,923	2,951	1.0
Sensex	73,057	72,623	(0.6)
Nifty	22,197	22,055	(0.6)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY fell by 0.1%, as investors assessed Fed minutes. EUR rose by 0.1% as Eurozone's consumer sentiment index rose in Feb'24. On the other hand, JPY continued to depreciate. INR closed flat. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	20-02-2024	21-02-2024	% change
EUR/USD (1 EUR / USD)	1.0808	1.0819	0.1
GBP/USD (1 GBP / USD)	1.2623	1.2638	0.1
USD/JPY (JPY / 1 USD)	150.01	150.30	(0.2)
USD/INR (INR / 1 USD)	82.97	82.97	0
USD/CNY (CNY / 1 USD)	7.1925	7.1912	0

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. Yields in US, UK and Germany inched up as Fed minutes indicated a delayed start to the rate cut cycle. Even Fed officials (Thomas Barkin and Michelle Bowman) highlighted inflationary risks. Further, UK's public sector borrowing data and ECB official's comments also impacted yields. India's 10Y yield fell by 1bps, and is trading at the same level today.

Fig 3 – Bond 10Y yield

	20-02-2024	21-02-2024	change in bps
US	4.28	4.32	4
UK	4.04	4.10	6
Germany	2.37	2.45	8
Japan	0.73	0.73	(1)
China	2.42	2.42	0
India	7.06	7.05	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	20-02-2024	21-02-2024	change in bps
Tbill-91 days	7.02	7.01	(1)
Tbill-182 days	7.15	7.17	2
Tbill-364 days	7.10	7.13	3
G-Sec 2Y	7.03	7.02	(1)
India OIS-2M	6.77	6.77	0
India OIS-9M	6.72	6.72	0
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	20-02-2024	21-02-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.9	2.5	0.6
Reverse Repo	0	0	0
Repo	2.5	3.0	0.5

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-02-2024	20-02-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	43.8	580.0	536.2
Debt	23.0	221.6	198.6
Equity	20.8	358.4	337.6
Mutual funds (Rs cr)	2,399.0	713.1	(1,685.9)
Debt	1,449.0	(37.9)	(1,486.9)
Equity	950.0	751.0	(199.0)

Source: Bloomberg, Bank of Baroda Research

- Oil prices rose tracking developments in the Middle-East.

Fig 7 – Commodities

	20-02-2024	21-02-2024	% change
Brent crude (US\$/bbl)	82.3	83.0	0.8
Gold (US\$/ Troy Ounce)	2,024.4	2,026.0	0.1
Copper (US\$/ MT)	8,424.0	8,456.5	0.4
Zinc (US\$/MT)	2,336.8	2,352.0	0.7
Aluminium (US\$/MT)	2,193.5	2,219.5	1.2

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com