

MORNING MOCHA

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ECONOMIST
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US ISM manufacturing index slipped to 48.7 (est.: 49.6) in May'24 from 49.2 in Apr'24, on account of contraction in new orders and production. Employment and new export orders improved. Further, government data shows that construction spending fell by (-) 0.1% in Apr'24 (est.: +0.2%), following (-) 0.2% decline in Mar'24. Both private construction (mainly commercial) public construction spending was down. These data points have revived hopes of rate cut by Fed in Sep'24 (CME FedWatchTool reflects 51% probability of 25bps cut). Separately, in Eurozone and Australia, manufacturing activity continued to contract, albeit at a softer pace, signalling some stabilization in conditions. In UK, activity rebounded in May'24. Domestically, results of general elections are awaited today.

- Global indices ended mixed. Dow Jones ended lower as investors monitored softer US manufacturing data. FSTE too ended in red with the focus shifting towards the ECB's policy decision. Sensex surged to a record high led by strong GDP print and the exit poll trends. However, Sensex is trading lower today in line with other Asian indices.

Fig 1 – Stock markets

	31-05-2024	3-06-2024	Change, %
Dow Jones	38,686	38,571	(0.3)
S & P 500	5,278	5,283	0.1
FTSE	8,275	8,263	(0.2)
Nikkei	38,488	38,923	1.1
Hang Seng	18,080	18,403	1.8
Shanghai Comp	3,087	3,078	(0.3)
Sensex	73,961	76,469	3.4
Nifty	22,531	23,264	3.3

Source: Bloomberg, Bank of Baroda Research

- Barring CNY (flat), other global currencies ended lower against the dollar. The greenback retreated amidst subdued data print (slowdown in US manufacturing for 2nd straight month) and this raised hopes of a possible rate cut. JBY and EUR strengthened. INR appreciated after oil prices slipped. However, it is trading weaker today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	31-05-2024	3-06-2024	Change, %
EUR/USD (1 EUR / USD)	1.0848	1.0904	0.5
GBP/USD (1 GBP / USD)	1.2742	1.2808	0.5
USD/JPY (JPY / 1 USD)	157.31	156.08	0.8
USD/INR (INR / 1 USD)	83.47	83.15	0.4
USD/CNY (CNY / 1 USD)	7.2418	7.2420	0

Source: Bloomberg, Bank of Baroda



- Except Japan (flat), global yields closed sharply lower. US 10Y yield fell the most (-11bps), followed by UK and Germany. Weaker than expected manufacturing survey data has revived hopes of a Fed rate cut in Sep'24. Following a steep decline in oil prices, India's 10Y yield also fell by 4bps. However, it is trading higher today at 7.02%, ahead of general election results.

Fig 3 – Bond 10Y yield

	31-05-2024	3-06-2024	Change, bps
US	4.50	4.39	(11)
UK	4.32	4.22	(10)
Germany	2.66	2.58	(8)
Japan	1.07	1.07	0
China	2.32	2.31	(1)
India	6.98	6.94	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	31-05-2024	3-06-2024	change in bps
Tbill-91 days	6.89	6.88	(1)
Tbill-182 days	7.00	6.99	(1)
Tbill-364 days	7.02	7.00	(2)
G-Sec 2Y	7.02	7.01	(1)
India OIS-2M	6.73	6.71	(1)
India OIS-9M	6.82	6.80	(2)
SONIA int rate benchmark	5.20	5.20	0
US SOFR	5.33	5.34	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-05-2024	3-06-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	0.3	0.3
Reverse Repo	0	0	0
Repo	0.5	0.5	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-05-2024	31-05-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	34.7	182.0	147.3
Debt	169.2	(79.4)	(248.6)
Equity	(134.5)	261.4	395.9
Mutual funds (Rs cr)	5,881.7	(2,964.0)	(8,845.8)
Debt	356.7	(2,705.7)	(3,062.4)
Equity	5,525.0	(258.3)	(5,783.3)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 29 May and 30 May 2024

- Oil prices fell sharply over fears of excess supply from Oct'24 onwards.

Fig 7 – Commodities

	31-05-2024	3-06-2024	% change
Brent crude (US\$/bbl)	81.6	78.4	(4.0)
Gold (US\$/ Troy Ounce)	2,327.3	2,350.8	1.0
Copper (US\$/ MT)	9,913.4	10,017.0	1.0
Zinc (US\$/MT)	2,914.5	2,887.2	(0.9)
Aluminium (US\$/MT)	2,652.5	2,661.5	0.3

Source: Bloomberg, Bank of Baroda Research



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