

MORNING MOCHA

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 ECONOMIST
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Fed delivered an outsized rate cut of 50bps. The rationale was to prevent the economy from a downturn. Fed's projections have been dovish. It estimated terminal Fed rate for CY24 at 4.4% and 3.4% for CY25, with gradual convergence to 2.9%. Unemployment rate projections have been revised higher for CY24 by 40bps, growth a tad lower by 10bps at 2%, Core PCE lower by 20bps. This would shape movement of major market variables, going ahead. Dollar is expected to soften. US 10Y yield would also witness buying momentum. Other asset class such as Gold would also nudge higher supported by weaker dollar. Oil prices would be more contingent on weaker demand from China and the supply side tinkering. Reverberation of lower policy rates will also be felt in major AEs and EMs. In a separate news, Hong Kong Monetary authority also lowered its base interest rate, post Fed decision. On domestic front, the southward bound of 10Y yield will persist.

- Global indices ended mixed ahead of the frontloading of the Fed rate cut, bringing the interest rate to 4.75%-5% mark. This was largely priced in by the investors. Amongst other indices, FTSE dropped the most followed by S&P 500. Sensex ended in red and was dragged down by losses in IT and oil & gas stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	17-09-2024	18-09-2024	Change, %
Dow Jones	41,606	41,503	(0.2)
S & P 500	5,635	5,618	(0.3)
FTSE	8,310	8,254	(0.7)
Nikkei	36,203	36,380	0.5
Hang Seng	17,422	17,660	1.4
Shanghai Comp	2,704	2,717	0.5
Sensex	83,080	82,948	(0.2)
Nifty	25,419	25,378	(0.2)

Source: Bloomberg, Bank of Baroda Research, Note: Markets in Hong Kong were closed on 18 Sep 2024

- Barring EUR, other global currencies ended higher. DXY retreated by 0.3% as Fed began its easing cycle for the 1st time in over 4 years. GBP rose by 0.4% after UK's core inflation climbed up. INR appreciated by 0.1% amidst lower oil prices. It is trading stronger today while Asian currencies are trading mixed.

Fig 2 – Currencies

	17-09-2024	18-09-2024	Change, %
EUR/USD (1 EUR / USD)	1.1114	1.1119	0
GBP/USD (1 GBP / USD)	1.3161	1.3214	0.4
USD/JPY (JPY / 1 USD)	142.41	142.29	0.1
USD/INR (INR / 1 USD)	83.89	83.76	0.1
USD/CNY (CNY / 1 USD)	7.0972	7.0769	0.3

Source: Bloomberg, Bank of Baroda, Note: Markets in India were closed on 18 Sep 2024



- Global yields closed mixed. US 10Y yield rose by 6bps due to rebalancing of portfolio in the volatile trading data, in a run up to Fed decision. UK's 10Y yield has risen the most by 8bps as inflation data remained stickier, with likely impact on upcoming BoE decision. India's 10Y yield closed flat. It is trading at 6.77%.

Fig 3 – Bond 10Y yield

	17-09-2024	18-09-2024	Change, bps
US	3.65	3.70	6
UK	3.77	3.85	8
Germany	2.14	2.19	5
Japan	0.83	0.83	0
China	2.07	2.04	(3)
India	6.78	6.78	0

Source: Bloomberg, Bank of Baroda Research , Note: Markets in India were closed on 18 Sep 2024

Fig 4 – Short term rates

	17-09-2024	18-09-2024	change in bps
Tbill-91 days	6.59	6.59	0
Tbill-182 days	6.62	6.62	0
Tbill-364 days	6.55	6.55	0
G-Sec 2Y	6.69	6.69	0
India OIS-2M	6.62	6.61	(1)
India OIS-9M	6.43	6.45	2
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.38	5.38	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-09-2024	17-09-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.2)	0	0.2
Reverse Repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	12-09-2024	13-09-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	877.8	373.4	(504.4)
Debt	(71.4)	10.3	81.7
Equity	949.2	363.0	(586.2)
Mutual funds (Rs cr)	(1,883.0)	(4,119.6)	(2,236.5)
Debt	(1,953.5)	(3,869.5)	(1,916.0)
Equity	70.5	(250.1)	(320.6)

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 10th and 11th Sep 2024

- Oil prices fell amidst weak demand from China.

Fig 7 – Commodities

	17-09-2024	18-09-2024	% change
Brent crude (US\$/bbl)	73.7	73.7	(0.1)
Gold (US\$/ Troy Ounce)	2,569.5	2,558.9	(0.4)
Copper (US\$/ MT)	9,237.6	9,266.1	0.3
Zinc (US\$/MT)	2,895.5	2,855.2	(1.4)
Aluminium (US\$/MT)	2,524.0	2,536.5	0.5

Source: Bloomberg, Bank of Baroda Research



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