

MORNING MOCHA

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ECONOMIST
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US consumer spending increased at a robust pace of 0.5% in Jul'24, from 0.3% in Jun'24. PCE price index rose by 0.2% (MoM), matching the increase in Jun'24. Core PCE index too rose at an unchanged pace of 0.2%. University of Michigan's consumer sentiment index edged up to 67.9, snapping a 4-month slide, with a decline in consumers' 1Y inflation expectations. With the economy holding ground and inflation subsiding, expectations for a 50bps rate cut in Sep'24 have subsided. Separately, inflation in the Eurozone eased to a near 3-year low of 2.2% in Aug'24, strengthening the case for further rate cuts by ECB. In China, manufacturing PMI slumped to a 6-month low of 49.1 in Aug'24, led by a decline in factory gate prices and new orders. However, non-manufacturing PMI edged up marginally to 50.3 versus 50.2 in Jul'24. In India, GDP growth in Q1FY25 was at 6.7%. Core sector growth picked up to 6.1% in Jul'24 from 5.1%.

- Global indices rallied. Positive macro data prints in the US (softening core PCE and moderating 1Y inflation expectations), solidified bets of future rate cuts by the Fed. Hang Seng rose the most, followed by US stocks. Sensex inched up driven by real estate and technology stocks. It is trading further higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	29-08-2024	30-08-2024	Change, %
Dow Jones	41,335	41,563	0.6
S & P 500	5,592	5,648	1.0
FTSE	8,380	8,377	0
Nikkei	38,363	38,648	0.7
Hang Seng	17,786	17,989	1.1
Shanghai Comp	2,823	2,842	0.7
Sensex	82,135	82,366	0.3
Nifty	25,152	25,236	0.3

Source: Bloomberg, Bank of Baroda Research

- Except INR and CNY, other global currencies depreciated. DXY gained as US data boosted the case for a smaller rate cut in Sep'24. JPY depreciated sharply even as high inflation rate in the region suggested more rate hikes. INR closed flat. It is trading stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	29-08-2024	30-08-2024	Change, %
EUR/USD (1 EUR / USD)	1.1077	1.1048	(0.3)
GBP/USD (1 GBP / USD)	1.3168	1.3127	(0.3)
USD/JPY (JPY / 1 USD)	144.99	146.17	(0.8)
USD/INR (INR / 1 USD)	83.87	83.87	0
USD/CNY (CNY / 1 USD)	7.0970	7.0913	0.1

Source: Bloomberg, Bank of Baroda



- US 10Y yield inched up as investors have already priced in rate cut by the Fed. Focus is now on the quantum of rate cut. Germany's 10Y yield rose by 2bps as unemployment rate inched up. UK, Japan, China and India's yield closed stable, awaiting fresh cues. India's 10Y yield is trading marginally higher at 6.87%.

Fig 3 – Bond 10Y yield

	29-08-2024	30-08-2024	Change, bps
US	3.86	3.90	4
UK	4.02	4.02	0
Germany	2.27	2.30	2
Japan	0.90	0.90	0
China	2.17	2.18	0
India	6.86	6.86	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	29-08-2024	30-08-2024	change in bps
Tbill-91 days	6.62	6.66	4
Tbill-182 days	6.69	6.71	2
Tbill-364 days	6.70	6.72	2
G-Sec 2Y	6.76	6.76	0
India OIS-2M	6.60	6.60	0
India OIS-9M	6.53	6.53	(1)
SONIA int rate benchmark	4.95	4.95	0
US SOFR	5.35	5.33	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	29-08-2024	30-08-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(1.2)	(0.2)
Reverse Repo	0.6	0.2	(0.4)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	28-08-2024	29-08-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	655.3	182.6	(472.7)
Debt	84.1	247.9	163.7
Equity	571.2	(65.3)	(636.4)
Mutual funds (Rs cr)	(1,361.1)	(1,586.7)	(225.6)
Debt	(1,627.2)	(2,380.5)	(753.4)
Equity	266.1	793.8	527.8

Source: Bloomberg, Bank of Baroda Research | Note: Data for Mutual Funds as of 27 Aug and 28 Aug 2024

- Oil prices moderated amidst easing supply concerns.

Fig 7 – Commodities

	29-08-2024	30-08-2024	% change
Brent crude (US\$/bbl)	79.9	78.8	(1.4)
Gold (US\$/ Troy Ounce)	2,521.4	2,503.4	(0.7)
Copper (US\$/ MT)	9,125.6	9,118.1	(0.1)
Zinc (US\$/MT)	2,828.2	2,846.7	0.7
Aluminium (US\$/MT)	2,457.5	2,447.0	(0.4)

Source: Bloomberg, Bank of Baroda Research



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