

## MORNING MOCHA

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Concerns around possible trade war escalated as US president Donald Trump warned of possible tariff imposition of 25% on steel and aluminium imports. In retaliatory move, German Chancellor also warned of additional tariffs on US goods. Furthermore, China's tariff imposition will also come in to place this week. These tariff wars are expected to have inflationary impact and could possibly limit the easing cycle given the strong payrolls report. Markets will closely track testimony of Fed chair scheduled this week. As per the University of Michigan survey, the consumer sentiment index moderated to a 7-month low while the inflation expectation surged given the impact of the tariff war. Separately, China's CPI accelerated to a 5-month high to 0.5% in Jan'25 from 0.1% in Dec'24. On the other hand, China's PPI remained in the deflation zone, declining by 2.3% in Jan'25 (-2.3% in Dec'24).

- Barring Hang Seng and Shanghai Comp, other global indices closed lower. Investors monitored rate decision by global central banks and concerns of global tariff war. Sensex too ended in red with losses in oil and gas and capital good stocks. It is trading lower today while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	06-02-2025	07-02-2025	Change, %
Dow Jones	44,748	44,303	(1.0)
S & P 500	6,084	6,026	(0.9)
FTSE	8,727	8,701	(0.3)
Nikkei	39,067	38,787	(0.7)
Hang Seng	20,892	21,134	1.2
Shanghai Comp	3,271	3,304	1.0
Sensex	78,058	77,860	(0.3)
Nifty	23,603	23,560	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except JPY (flat) and INR (higher), other global currencies depreciated as investors monitored US President's comments on tariffs. DXY rose by 0.3%. EUR and GBP fell the most. INR appreciated, supported by rise in yield. However, it is trading at an all-time low today, in line with other Asian currencies.

**Fig 2 – Currencies**

	06-02-2025	07-02-2025	Change, %
EUR/USD (1 EUR / USD)	1.0383	1.0328	(0.5)
GBP/USD (1 GBP / USD)	1.2435	1.2402	(0.3)
USD/JPY (JPY / 1 USD)	151.41	151.41	0
USD/INR (INR / 1 USD)	87.58	87.43	0.2
USD/CNY (CNY / 1 USD)	7.2852	7.2947	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose the most by 6bps, following rise in wages and inflation expectations. In addition, threat of tariff on US imports has also raised fears of inflationary pressures. Weakness in industrial activity in Germany kept yields lower. India's 10Y yield rose by 5bps, tracking RBI's policy announcements. It is trading further higher today at 6.72%, tracking global cues.

**Fig 3 – Bond 10Y yield**

	06-02-2025	07-02-2025	Change, bps
US	4.43	4.49	6
UK	4.49	4.48	(1)
Germany	2.38	2.37	(1)
Japan	1.28	1.30	3
China	1.60	1.61	0
India	6.66	6.70	5

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	06-02-2025	07-02-2025	Change, bps
Tbill-91 days	6.46	6.40	(6)
Tbill-182 days	6.52	6.52	0
Tbill-364 days	6.55	6.52	(3)
G-Sec 2Y	6.58	6.59	2
India OIS-2M	6.54	6.50	(4)
India OIS-9M	6.32	6.34	2
SONIA int rate benchmark	4.70	4.45	(25)
US SOFR	4.33	4.36	3

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	06-02-2025	07-02-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	(0.7)	(1.1)	(0.4)
Reverse Repo	0	0	0
Repo	1.6	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	05-02-2025	06-02-2025	change (US\$ mn/Rs cr)
FII (US\$ mn)	(17.5)	(122.0)	(104.5)
Debt	114.1	288.5	174.4
Equity	(131.6)	(410.5)	(278.9)
Mutual funds (Rs cr)	(2,393.8)	(4,823.6)	(2,429.8)
Debt	(3,901.5)	(2,693.4)	1,208.1
Equity	1,507.8	(2,130.2)	(3,637.9)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 03 Feb and 04 Feb 2025

- Oil prices rose, as US steps up pressure on Iran and announced new sanctions.

**Fig 7 – Commodities**

	06-02-2025	07-02-2025	Change, %
Brent crude (US\$/bbl)	74.3	74.7	0.5
Gold (US\$/ Troy Ounce)	2,856.3	2,861.1	0.2
Copper (US\$/ MT)	9,155.4	9,287.6	1.4
Zinc (US\$/MT)	2,769.0	2,792.0	0.8
Aluminium (US\$/MT)	2,619.0	2,628.0	0.3

Source: Bloomberg, Bank of Baroda Research



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