

MORNING MOCHA

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In line with market expectations, US Fed reduced policy rates by 25bps to 4.25-4.5%, bringing the cumulative cuts since Sep'24 to 100bps. However, more hawkish projections for next year spooked the markets. The dot plot indicates only 2 rate cuts in CY25. In the near-term, Fed expects GDP to have performed better than expected in CY24 (2.5% versus 2% estimated in Sep'24) and inflation will remain sticky (2.4% versus 2.3%). Next year as well, growth is expected to be higher (2.1% versus 2%), but worryingly, more significant jump is projected in inflation (2.5% versus 2.1%). In Asia, BoJ kept its policy rate unchanged (est.: 25bps hike), with a split 8-1 vote. Market expectations were split between a rate hike and pause. Uncertainty around price trajectory and global policy developments (President-elect Trump takes charge next month), led to this decision. Japan's CPI has remained above BoJ's target (2%) for 30 consecutive months so far, however, pressures appear to be easing now.

- Global indices ended mixed. Stocks in US witnessed a sharp sell-off as the Fed dot plot indicated only two rate cuts in 2025 with Fed Chair emphasising the need to be vigilant on inflation. Sensex ended lower led by losses in power and metal stocks. It is trading further lower today, in line with other Asian indices following weak global cues.

Fig 1 – Stock markets

	17-12-2024	18-12-2024	Change, %
Dow Jones	43,450	42,327	(2.6)
S & P 500	6,051	5,872	(2.9)
FTSE	8,195	8,199	0
Nikkei	39,365	39,082	(0.7)
Hang Seng	19,700	19,865	0.8
Shanghai Comp	3,361	3,382	0.6
Sensex	80,684	80,182	(0.6)
Nifty	24,336	24,199	(0.6)

Source: Bloomberg, Bank of Baroda Research

- The dollar rose sharply as Fed's projection indicated fewer rate cuts in 2025. EUR declined by over 1% as ECB is likely to cut rates more aggressively. JPY also fell by 0.9%. INR depreciated and is trading at a fresh record low of 85.07/\$ today. Asian currencies are also weaker.

Fig 2 – Currencies

	17-12-2024	18-12-2024	Change, %
EUR/USD (1 EUR / USD)	1.0491	1.0353	(1.3)
GBP/USD (1 GBP / USD)	1.2710	1.2574	(1.1)
USD/JPY (JPY / 1 USD)	153.46	154.80	(0.9)
USD/INR (INR / 1 USD)	84.90	84.96	(0.1)
USD/CNY (CNY / 1 USD)	7.2842	7.2857	0

Source: Bloomberg, Bank of Baroda



- Except Japan and India, other global 10Y yields closed higher. US 10Y yield jumped the most by 12bps, as Fed's dot plot indicates only 2 rate cuts next year. Upward revision to growth and inflation also impacted investor sentiments. India's 10Y yield fell by 2bps. However, tracking global cues, and rise in oil prices, it is trading higher at 6.78% today.

Fig 3 – Bond 10Y yield

	17-12-2024	18-12-2024	Change, bps
US	4.40	4.51	12
UK	4.52	4.56	3
Germany	2.23	2.25	2
Japan	1.08	1.08	0
China	1.73	1.77	4
India	6.76	6.75	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	17-12-2024	18-12-2024	change in bps
Tbill-91 days	6.44	6.45	1
Tbill-182 days	6.59	6.63	4
Tbill-364 days	6.55	6.62	7
G-Sec 2Y	6.69	6.68	(2)
India OIS-2M	6.65	6.64	(1)
India OIS-9M	6.50	6.49	(1)
SONIA int rate benchmark	4.70	4.70	0
US SOFR	4.65	4.62	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	17-12-2024	18-12-2024	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.4	1.5	0.1
Reverse Repo	0	0	0
Repo	1.5	2.0	0.5

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-12-2024	17-12-2024	change (US\$ mn/Rs cr)
FII (US\$ mn)	224.8	(401.2)	(626.0)
Debt	202.5	(120.1)	(322.6)
Equity	22.3	(281.0)	(303.3)
Mutual funds (Rs cr)	712.9	(6,355.2)	(7,068.1)
Debt	(1,932.7)	(6,301.8)	(4,369.2)
Equity	2,645.6	(53.4)	(2,699.0)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 12 Dec and 13 Dec 2024

- Oil prices rose a tad, as US crude inventories declined, and Fed cut rates.

Fig 7 – Commodities

	17-12-2024	18-12-2024	% change
Brent crude (US\$/bbl)	73.2	73.4	0.3
Gold (US\$/ Troy Ounce)	2,646.8	2,585.4	(2.3)
Copper (US\$/ MT)	8,869.0	8,909.5	0.5
Zinc (US\$/MT)	3,008.6	2,968.5	(1.3)
Aluminium (US\$/MT)	2,542.5	2,528.5	(0.6)

Source: Bloomberg, Bank of Baroda Research



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