

MORNING MOCHA

20 May 2025

ECONOMIST
Sonal Badhan

Moody's has downgraded US sovereign credit rating by one notch from its highest level of 'Aaa' to 'Aa1', and changed its outlook to "stable" from "negative". This decision was taken keeping in mind growing debt burden of the government and expanding fiscal deficit. Owing to continuously rising spending and flat revenue growth, primary deficit is set to rise by US\$ 4tn in the next 10 years. Moody's is the last of the 3 big rating agencies to downgrade US rating, following S&P's downgrade in Aug'11 and Fitch's downgrade in Aug'23. Separately in China, PBOC reduced its Loan Prime Rates (LPR) by 10bps—a first since Oct'24. The 1Y LPR has been brought down to 3% (3.1% earlier) and 5Y LPR to 3.5% (3.6%). This has been possible in the wake of easing trade tensions between US and China and stronger Yuan. As a result, lenders have also reduced deposit rates by 25bps.

- Global indices closed mixed. US stocks closed higher amidst rising optimism over waning trade tensions. Asian stocks remained watchful eyeing China's mixed macro data and ongoing trade negotiations between US-Japan and US-India. Nikkei fell the most. Sensex also moderated led by technology stocks. It is trading lower today, while other Asian stocks are trading higher.

Fig 1 – Stock markets

	16-05-2025	19-05-2025	Change, %
Dow Jones	42,655	42,792	0.3
S & P 500	5,958	5,964	0.1
FTSE	8,685	8,699	0.2
Nikkei	37,754	37,499	(0.7)
Hang Seng	23,345	23,333	(0.1)
Shanghai Comp	3,367	3,368	0
Sensex	82,331	82,059	(0.3)
Nifty	25,020	24,945	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Except CNY, other global currencies ended higher. DXY fell by 0.7% following downgrade of US credit rating. Dip in US treasury yields also added to the pressure. EUR and GBP gained the most. INR too rose by 0.1%, tracking global cues. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	16-05-2025	19-05-2025	Change, %
EUR/USD (1 EUR / USD)	1.1163	1.1240	0.7
GBP/USD (1 GBP / USD)	1.3283	1.3361	0.6
USD/JPY (JPY / 1 USD)	145.70	144.86	0.6
USD/INR (INR / 1 USD)	85.52	85.40	0.1
USD/CNY (CNY / 1 USD)	7.2136	7.2138	0
DXY Index	101.09	100.43	(0.7)

Source: Bloomberg, Bank of Baroda Research



- US 10Y yield softened as sentiments were impacted by Moody's downgrade of country's credit rating. Elsewhere, Fed officials remained cautious on outlook of rates which largely capped its yield. Japan's 10Y yield inched up amidst reports of BoJ mulling the pace of bond purchase. India's 10Y yield rose by 2bps. It is trading lower at 6.27% today, while the new benchmark security is at 6.23%.

Fig 3 – Bond 10Y yield

	16-05-2025	19-05-2025	Change, bps
US	4.48	4.45	(3)
UK	4.65	4.66	1
Germany	2.59	2.59	0
Japan	1.46	1.49	3
China	1.68	1.66	(2)
India	6.27	6.29	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	16-05-2025	19-05-2025	Change, bps
Tbill-91 days	5.77	5.76	(1)
Tbill-182 days	5.77	5.75	(2)
Tbill-364 days	5.77	5.81	4
G-Sec 2Y	5.88	5.83	(5)
India OIS-2M	5.77	5.75	(2)
India OIS-9M	5.63	5.65	2
SONIA int rate benchmark	4.21	4.21	0
US SOFR	4.31	4.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-05-2025	19-05-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	2.5	1.9	(0.6)
Reverse Repo	0	0	0
Repo*	0.3	0.3	0

Source: RBI, Bank of Baroda Research, *Includes LTRO

Fig 6 – Capital market flows

	15-05-2025	16-05-2025	change (US\$ mn/Rs cr)
FII (US\$ mn)	577.9	792.0	214.1
Debt	(93.6)	(82.6)	11.0
Equity	671.4	874.6	203.2
Mutual funds (Rs cr)	(4,762.9)	(8,142.7)	(3,379.7)
Debt	(4,227.5)	(6,905.3)	(2,677.8)
Equity	(535.4)	(1,237.3)	(701.9)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 14 May and 15 May 2025

- Oil prices rose a tad, tracking uncertainty around US-Iran talks.

Fig 7 – Commodities

	16-05-2025	19-05-2025	Change, %
Brent crude (US\$/bbl)	65.4	65.5	0.2
Gold (US\$/ Troy Ounce)	3203.7	3229.6	0.8
Copper (US\$/ MT)	9479.0	9539.0	0.6
Zinc (US\$/MT)	2670.6	2644.7	(1.0)
Aluminium (US\$/MT)	2481.5	2450.0	(1.3)

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com