

**MORNING MOCHA**

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**ECONOMIST**  
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Investors remain wary of the fiscal health of the US government, as Trump administration plans to pass the new tax bill this week. The revised version of the bill includes: increasing state and local tax deduction limit to US\$ 40,000, with 1% increase each year; cuts to Medicaid; end of tax breaks for clean energy projects; and reimbursement to states for border security expenses. This led to sell-off in the US treasury market. Separately in the UK, inflation surprised on the upside in Apr'25 (3.5% versus 2.6% in Mar'25 and est.: 3.3%). This was due to higher inflation for household services, transportation and recreation. In Asia-Pacific, Japan's manufacturing activity (Markit PMI) contracted further in May'25, while in Australia it held ground. Services sector registered a slowdown in both economies.

- US stocks moderated as anticipation over tax cut raised concerns on burgeoning fiscal deficit. Nikkei moderated on account of stronger Yen. Hang Seng and Shanghai Comp maintained momentum supported by monetary stimulus in China. Sensex inched up led by capital goods and real estate stocks. It is trading lower today, while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	20-05-2025	21-05-2025	Change, %
Dow Jones	42,677	41,860	(1.9)
S & P 500	5,940	5,845	(1.6)
FTSE	8,781	8,786	0.1
Nikkei	37,529	37,299	(0.6)
Hang Seng	23,681	23,828	0.6
Shanghai Comp	3,380	3,388	0.2
Sensex	81,186	81,597	0.5
Nifty	24,684	24,813	0.5

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended higher. DXY fell (-0.6%) for the 3<sup>rd</sup> consecutive time this week, as investors sound concerns regarding the fiscal health of the US government. Safe-haven demand fuelled the rise in Yen. INR was flat, balancing pressure from rising US treasury yield and fall in oil prices. However, it is trading stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

	20-05-2025	21-05-2025	Change, %
EUR/USD (1 EUR / USD)	1.1283	1.1331	0.4
GBP/USD (1 GBP / USD)	1.3393	1.3420	0.2
USD/JPY (JPY / 1 USD)	144.51	143.68	0.6
USD/INR (INR / 1 USD)	85.64	85.64	0
USD/CNY (CNY / 1 USD)	7.2170	7.2015	0.2
DXY Index	100.12	99.56	(0.6)

Source: Bloomberg, Bank of Baroda Research



- Global yields firmed up extensively led by the US. Its 10Y yield rose at the sharpest pace by 11bps as expectation of tax cut and likely impact on fiscal position, led to higher sell off. For UK, sticky inflation data was an added macro factor. India's 10Y yield fell by 2bps. It is trading steady at 6.25% today, while the new benchmark security is at 6.20%.

**Fig 3 – Bond 10Y yield**

	20-05-2025	21-05-2025	Change, bps
US	4.49	4.60	11
UK	4.70	4.76	5
Germany	2.61	2.65	4
Japan	1.51	1.53	2
China	1.67	1.68	1
India	6.27	6.25	(2)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	20-05-2025	21-05-2025	Change, bps
Tbill-91 days	5.67	5.70	3
Tbill-182 days	5.74	5.70	(4)
Tbill-364 days	5.80	5.71	(9)
G-Sec 2Y	5.80	5.75	(5)
India OIS-2M	5.73	5.70	(3)
India OIS-9M	5.61	5.58	(3)
SONIA int rate benchmark	4.21	4.21	0
US SOFR	4.29	4.27	(2)

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	20-05-2025	21-05-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	1.9	1.3	(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**

	19-05-2025	20-05-2025	change (US\$ mn/Rs cr)
FII (US\$ mn)	10.1	(1,180.2)	(1,190.3)
Debt	(99.6)	(5.1)	94.4
Equity	109.7	(1,175.0)	(1,284.7)
Mutual funds (Rs cr)	(2,798.3)	(7,463.0)	(4,664.7)
Debt	(7,065.1)	(7,025.3)	39.8
Equity	4,266.8	(437.7)	(4,704.5)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 16 May and 19 May 2025

- Oil prices dipped further, tracking news of higher than expected US inventories.

**Fig 7 – Commodities**

	20-05-2025	21-05-2025	Change, %
Brent crude (US\$/bbl)	65.4	64.9	(0.7)
Gold (US\$/ Troy Ounce)	3290.1	3315.0	0.8
Copper (US\$/ MT)	9522.7	9547.5	0.3
Zinc (US\$/MT)	2680.7	2664.1	(0.6)
Aluminium (US\$/MT)	2471.5	2471.5	0

Source: Bloomberg, Bank of Baroda Research



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