

**MORNING MOCHA**

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ECONOMIST

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In line with expectations, ECB has cut benchmark rates (for 8th time) by 25bps bringing key rates to 2%. The decision was based upon the assessment of inflation outlook and 'strength of monetary policy transmission'. It has also revised inflation projection downwards to 2% for CY25 from 2.3% previously. The central bank noted the revised projection takes into account lower energy prices and stronger Euro. Investors turned optimistic following the call between US and China on possible tariff negotiations. Signalling further softness in the labour market, US jobless claims rose by 8k to 247k, much more than anticipated (235k). The focus will now shift to jobs report. Separately, in a surprise move PBOC added US\$ 139bn of 3-month funds to the market in order to cover seasonal cash crunch situation ahead.

- Except US indices and Nikkei, other global stocks ended higher. Hang Seng surged amidst signals of recovery in services sector (Caixin PMI). Nikkei dropped as automakers halted production due to parts shortage amidst rare-earth export restrictions by China. Sensex edged higher with gains in real estate stocks. However, it is trading lower today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	04-06-2025	05-06-2025	Change, %
Dow Jones	42,428	42,320	(0.3)
S & P 500	5,971	5,939	(0.5)
FTSE	8,801	8,811	0.1
Nikkei	37,747	37,554	(0.5)
Hang Seng	23,654	23,907	1.1
Shanghai Comp	3,376	3,384	0.2
Sensex	80,998	81,442	0.5
Nifty	24,620	24,751	0.5

Source: Bloomberg, Bank of Baroda Research

- Apart from JPY and CNY, other global currencies appreciated against the dollar. DXY closed at unchanged levels. Gains from hopes of positive outcome of trade deal between US and China were offset by weaker labour market data. Yen declined as treasury yields fell. INR rose by 0.1%, and is trading flat today, ahead of RBI's decision. Other Asian currencies are trading lower.

**Fig 2 – Currencies**

	04-06-2025	05-06-2025	Change, %
EUR/USD (1 EUR / USD)	1.1417	1.1445	0.2
GBP/USD (1 GBP / USD)	1.3554	1.3570	0.1
USD/JPY (JPY / 1 USD)	142.77	143.53	(0.5)
USD/INR (INR / 1 USD)	85.91	85.80	0.1
USD/CNY (CNY / 1 USD)	7.1780	7.1777	0
DXY Index	98.79	98.74	0

Source: Bloomberg, Bank of Baroda Research



- 10Y yields in US and Europe closed higher, while they ended lower/flat elsewhere. In the US, movement was driven by hopes of positive outcome in case of US-China trade deal. In Europe, investors believe ECB will pause in its Jul'25 meeting. India's 10Y yield inched down a tad, and is trading flat today. The new benchmark security is also trading steady at 6.20% today.

**Fig 3 – Bond 10Y yield**

	04-06-2025	05-06-2025	Change, bps
US	4.36	4.39	4
UK	4.61	4.62	1
Germany	2.53	2.58	5
Japan	1.51	1.47	(4)
China	1.70	1.70	0
India	6.26	6.25	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	04-06-2025	05-06-2025	Change, bps
Tbill-91 days	5.58	5.55	(3)
Tbill-182 days	5.59	5.55	(4)
Tbill-364 days	5.58	5.52	(6)
G-Sec 2Y	5.70	5.68	(1)
India OIS-2M	5.65	5.63	(2)
India OIS-9M	5.55	5.54	(1)
SONIA int rate benchmark	4.21	4.21	0
US SOFR	4.32	4.28	(4)

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	04-06-2025	05-06-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	2.9	3.0	0.1
Reverse Repo	0	0	0
Repo*	0	0	0

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

**Fig 6 – Capital market flows**

	03-05-2025	04-06-2025	change (US\$ mn/Rs cr)
FII (US\$ mn)	(747.7)	(29.9)	717.8
Debt	(362.1)	(216.6)	145.5
Equity	(385.6)	186.8	572.3
Mutual funds (Rs cr)	2,266.8	7,749.5	5,482.7
Debt	(1,463.2)	3,471.2	4,934.4
Equity	3,730.0	4,278.3	548.4

Source: Bloomberg, Bank of Baroda Research | Note: Mutual Fund data as of 2 Jun and 3 Jun 2025

- Oil prices inched up, tracking trade talks between US and China.

**Fig 7 – Commodities**

	04-06-2025	05-06-2025	Change, %
Brent crude (US\$/bbl)	64.9	65.3	0.7
Gold (US\$/ Troy Ounce)	3372.7	3352.7	(0.6)
Copper (US\$/ MT)	9670.0	9832.7	1.7
Zinc (US\$/MT)	2672.2	2650.5	(0.8)
Aluminium (US\$/MT)	2483.0	2478.0	(0.2)

Source: Bloomberg, Bank of Baroda Research



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