

RESEARCH
BOB ECONOMICS RESEARCH | BONDS WRAP

Fortnightly review

BOB ECONOMICS RESEARCH | CURRENCY UPDATE

Fortnightly forex review

Daily macro indicators

Indicator	28-Jun	1-Jul	Chg (%)
US 10Y yield (%)	4.40	4.46	7bps
India 10Y yield (%)	7.01	7.01	0bps
USD/INR	83.39	83.45	(0.1)
Brent Crude (US\$/bbl)	86.4	86.6	0.2
Dow	39,119	39,170	0.1
Hang Seng	17,716	17,719	0.0
Sensex	79,033	79,476	0.6
India FII (US\$ mn)	27-Jun	28-Jun	Chg (\$ mn)
FII-D	113.3	264.5	151.2
FII-E	929.2	186.1	(743.1)

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: BONDS WRAP

Global yields continued their downward trajectory. US 10Y yield declined as renewed bets of rate cut by Fed resurfaced. This was attributable to softer PCE price index which came in line with expectations. With the cooling off price pressure, the rate cut is expected by the market to begin as early as Sep'24. ECB on the other hand, has already begun the rate cut cycle and is expected to trim rates further as they deem it reasonable which could bring the borrowing cost lower. On the domestic front, India's 10Y yield inched up. Going forward, it is expected to trade in the range of 6.95%-7.05% in Jun'24, with risk evenly balanced. The inclusion in the global bond yield index and the expectation of fiscally prudent Budget remains a key positive for the government bonds.

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INDIA ECONOMICS: CURRENCY UPDATE

INR appreciated marginally in Jun'24, after touching a fresh record-low during the month. In H1 2024, INR has depreciated by 0.2%, even as the dollar strengthened by over 4.5%. RBI's effective management as well as India's strong macro fundamentals have underlined the strength in the domestic currency. The trajectory of INR will be determined by the movement in dollar. While US inflation and growth is showing signs of a moderation, the possibility of monetary easing will face hurdles due to the evolving political landscape in the country.

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BONDS WRAP

02 July 2024

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Jahnvi Prabhakar
Economist

Movement in global yields in Jun'24:

- There was significant variation in movement in global yields in Jun'24 within advanced economies. While 10Y yield in Indonesia inched up, yields in US, UK, China and Germany eased.

Table 1. 10Y yield movement globally

Countries	10Y sovereign yield, 31 May 2024	10Y sovereign yield, 28 June 2024	Change in bps (MoM)
Indonesia	6.96	7.07	11
India	7.00	7.01	1.2
Japan	1.06	1.06	-0.7
China	2.31	2.21	-9.6
US	4.55	4.40	-14.9
Germany	2.65	2.50	-15.2
Singapore	3.36	3.20	-16.3
UK	4.35	4.17	-17.5
Korea	3.56	3.26	-30.2

Source: Bloomberg, Bank of Baroda Research

- US 10Y yields ended Jun'24 lower by 15bps. US PCE price index, which is Fed's preferred gauge of tracking inflation, remained steady on a monthly basis, while the core PCE (excluding food and energy) moderated down to 0.1% from 0.3% in Apr'24. The moderation in PCE was attributed to lower prices of both goods (0.4%-biggest fall since Nov'23) and energy prices (2.1%). Additionally, consumer spending inched up by 0.2% (0.1% in Apr'24) while personal income was up by 0.5% from 0.3% in Apr'24. On an annual basis, both headline and core inflation eased to 2.6% (2.7% and 2.8% in Apr'24) in May'24.



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Aditi Gupta
Economist

As of now, a rate cut is priced in for Sep'24, however, the path forward will be contingent on the election results in Nov'24. Till then, we can expect some volatility in the global markets and DXY. This will also have an impact on INR. On the positive side, domestic conditions have remained more or less the same for INR and suggest an appreciating bias for the currency. We expect INR to trade in the range of 83.25-83.75/\$.

Movement in global currencies in Jun'24

Global currencies mostly depreciated against the dollar. DXY rose by 1.1% higher as investors assessed macro data. Inflation in the US as measured by the core PCE index moderated. Growth indicators pointed a slowing momentum with a further decline in manufacturing PMI. While the data reinforces view of a Sep'24 rate cut, FOMC officials have continued to downplay the much-awaited pivot in the Fed's rate path. Fed's latest projections suggest the likelihood of a single rate cut in 2024 compared with expectations of 3 rate cuts at the start of the year. Political uncertainty also played a part after the first US presidential debate. Even in the UK and France, political uncertainty weighed on investor sentiments. On the other hand, JPY depreciated to a 38-year low as policy divergence with the US is expected to continue in the near-term. Rising US treasury yields also exacerbated the interest rate differential between the two nations. In China, macro data continued to point towards an uneven recovery, which also weighed on its treasury yields and interest rate differential.

Performance of rupee

INR appreciated by 0.1% in Jun'24 even as it touched a record-low of 83.65/\$ during the month. Stable oil prices and resumption in FPI inflows towards the latter part of the month supported the INR, even as DXY rose. The trading range for the month was 83.15-83.65/\$ or 50bps which higher than 43bps last month. The average daily annualized volatility in INR also increased to 2.9% in Jun'24 after remaining at a historical low in the last few months.



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