

MORNING MOCHA

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ECONOMIST
Dipanwita Mazumdar

Fed officials reflected divergent tone about course of Fed rate. While Fed Governor Philip Jefferson hinted that economy is slowing down in an orderly fashion and comfort is there in terms of inflation; New York Fed President said that it's too soon to say that Fed is done with rate hikes. He even hinted at additional policy firming if required. CME Fed Watch tool is pricing in 78.8% probability of pause and remaining probability of a 25bps hike. Elsewhere, ECB's Executive Board Member hinted at more action to bring down inflation to the targeted level. BoJ Governor said that it will end its yield curve control policy and would also start shrinking its balance sheet contingent on the inflation outlook. Markets will be cautious awaiting US CPI data (est.: +0.4%, MoM; 5%, YoY) and the deadlock over US\$ 31.4tn US debt limit. On domestic front, CPI (BoB est.: 4.6%) and IIP print (BoB est.: 3.5%) will be watched.

- Barring India and Japan, stock markets elsewhere ended in red. Investors remained cautious ahead of US CPI report. Developments around US debt ceiling talks also kept market sentiments on edge. Hang Seng and Shanghai Comp slid after mixed trade data from China. Nikkei gained amidst upbeat earnings results. Sensex is trading lower today, in line with its Asian peers.

Fig 1 – Stock markets

	08-05-2023	09-05-2023	% change
Dow Jones	33,619	33,562	(0.2)
S & P 500	4,138	4,119	(0.5)
FTSE	7,778	7,764	(0.2)
Nikkei	28,950	29,243	1.0
Hang Seng	20,297	19,868	(2.1)
Shanghai Comp	3,395	3,358	(1.1)
Sensex	61,764	61,761	(0.0)
Nifty	18,264	18,266	0.0

Source: Bloomberg, Bank of Baroda Research

- Except GBP (flat), other global currencies declined against the dollar. DXY rose by another 0.2% as investors await US CPI data. EUR depreciated the most by 0.4%. INR too fell by 0.3% as oil prices continued to edge up. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	08-05-2023	09-05-2023	% change
EUR/USD (1 EUR / USD)	1.1004	1.0962	(0.4)
GBP/USD (1 GBP / USD)	1.2618	1.2621	0.0
USD/JPY (JPY / 1 USD)	135.10	135.23	(0.1)
USD/INR (INR / 1 USD)	81.80	82.05	(0.3)
USD/CNY (CNY / 1 USD)	6.9142	6.9204	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. UK's 10Y yield firmed up the most by 7bps as sales data pointed buoyant demand conditions, signalling heated inflation. China's 10Y yield closed a tad lower by 1bps ahead of CPI and PPI data (CPI: +0.3%, PPI: -3.3%, YoY). India's 10Y yield also fell by 1bps (7.04%). It is trading at 7.05%.

Fig 3 – Bond 10Y yield

	08-05-2023	09-05-2023	change in bps
US	3.51	3.52	1
UK	3.78	3.86	7
Germany	2.32	2.35	3
Japan	0.42	0.43	1
China	2.75	2.74	(1)
India	7.05	7.04	(1)

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India

Fig 4 – Short term rates

	08-05-2023	09-05-2023	change in bps
Tbill-91 days	6.87	6.91	4
Tbill-182 days	6.98	6.99	1
Tbill-364 days	7.00	7.01	1
G-Sec 2Y	6.86	6.89	3
India OIS-2M	6.65	6.67	2
India OIS-9M	6.64	6.65	1
SONIA int rate benchmark	4.18	4.18	(0)
US SOFR	5.06	5.06	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	08-05-2023	09-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.2)	(0.3)	(0.1)
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	04-05-2023	08-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	565.7	493.9	(71.9)
Debt	94.4	107.1	12.7
Equity	471.4	386.8	(84.6)
Mutual funds (Rs cr)	(9,588.8)	160.9	9,749.7
Debt	(4,135.2)	203.0	4,338.1
Equity	(5,453.7)	(42.1)	5,411.6

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 27 Apr 2023 and 28 Apr 2023

- Crude oil prices rose further as US government announced plans to purchase oil to replenish its Strategic Petroleum Reserves (SPR).

Fig 7 – Commodities

	08-05-2023	09-05-2023	% change
Brent crude (US\$/bbl)	77.0	77.4	0.6
Gold (US\$/ Troy Ounce)	2,021.2	2,034.6	0.7
Copper (US\$/ MT)	8,560.3	8,562.3	0.0
Zinc (US\$/MT)	2,679.3	2,664.3	(0.6)
Aluminium (US\$/MT)	2,318.5	2,320.0	0.1

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com