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17 August 2023

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Uncertainty around slower pace of recovery in China's and fear of Fed keeping rate hike on the table longer than anticipated kept the global indices on the edge. Fed minutes had a hawkish tone as it highlighted about the 'upside risks' to inflation pushing towards more rate hikes. Notably, markets have priced in 86% chance of no rate change in Sep'23 with chance of rate hike possible in Nov'23 and possibly even in Dec'23 meet. Fed also stated that it no longer sees the recession risk in CY23, though growth will be subdued in CY24. In China, series of data raised fears of patchy recovery post pandemic which is expected to be weighed down further by deepening property crisis.

- Global indices closed lower. Market assessed Fed minutes where tones of officials were slightly restrictive as inflationary concerns still linger. Apart from this, better macro prints in the US also raised some cautionary call on demand pull inflationary pressure. Hang Seng dropped the most. Asian markets are trading mixed and Sensex has opened lower in the truncated trading week.

Fig 1 – Stock markets

| | 15-08-2023 | 16-08-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 34,946 | 34,766 | (0.5) |
| S & P 500 | 4,438 | 4,404 | (0.8) |
| FTSE | 7,390 | 7,357 | (0.4) |
| Nikkei | 32,239 | 31,767 | (1.5) |
| Hang Seng | 18,581 | 18,329 | (1.4) |
| Shanghai Comp | 3,176 | 3,150 | (0.8) |
| Sensex | 65,402 | 65,539 | 0.2 |
| Nifty | 19,435 | 19,465 | 0.2 |

Source: Bloomberg, Bank of Baroda Research, Note: Equity market was closed on 15.8.2023

- Barring GBP, other global currencies ended lower. DXY firmed up by 0.2%. Yen continued to weaken further as investors anticipated the likelihood of a possible intervention by the officials. Yuan dropped by 0.1% amidst fears of slowdown in China's economy. INR is trading weaker today in line with other Asian currencies amidst concerns around China.

Fig 2 – Currencies

| | 15-08-2023 | 16-08-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0905 | 1.0879 | (0.2) |
| GBP/USD (1 GBP / USD) | 1.2705 | 1.2732 | 0.2 |
| USD/JPY (JPY / 1 USD) | 145.57 | 146.35 | (0.5) |
| USD/INR (INR / 1 USD) | 82.84 | 82.96 | (0.1) |
| USD/CNY (CNY / 1 USD) | 7.2884 | 7.2985 | (0.1) |

Source: Bloomberg, Bank of Baroda Research Note: INR was closed on 15th and 16th Aug 2023

- Global yields closed mixed. UK's 10Y yield firmed up the most by 6bps despite inflation showing some signs of softening in the region. US 10Y yield rose by



4bps tracking Fed minutes. China's 10Y yield fell a tad by 1bps as macro prints remained weaker. India's 10Y yield is trading higher at 7.25% today as headline CPI overshoot market expectations to a considerable degree.

Fig 3 – Bond 10Y yield

| | 15-08-2023 | 16-08-2023 | change in bps |
|---------|------------|------------|---------------|
| US | 4.21 | 4.25 | 4 |
| UK | 4.59 | 4.65 | 6 |
| Germany | 2.67 | 2.65 | (2) |
| Japan | 0.63 | 0.63 | 0 |
| China | 2.58 | 2.57 | (1) |
| India | 7.20 | 7.21 | 0 |

Source: Bloomberg, Bank of Baroda Research, Note: Indian market was closed on 15th and 16th Aug 2023

Fig 4 – Short term rates

| | 15-08-2023 | 16-08-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.76 | 6.78 | 2 |
| Tbill-182 days | 6.92 | 6.93 | 1 |
| Tbill-364 days | 6.94 | 6.93 | (1) |
| G-Sec 2Y | 7.10 | 7.14 | 4 |
| India OIS-2M | 6.70 | 6.70 | 0 |
| India OIS-9M | 6.92 | 6.92 | 0 |
| SONIA int rate benchmark | 5.18 | 5.18 | 0 |
| US SOFR | 5.30 | 5.30 | 0 |

Source: Bloomberg, Bank of Baroda Research, Note: Indian market was closed on 15th and 16th Aug 2023

Fig 5 – Liquidity

| Rs tn | 13-08-2023 | 14-08-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (1.2) | (0.2) | 1 |
| Reverse repo | 0.3 | 0.3 | 0 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 10-08-2023 | 11-08-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 278.6 | (153.7) | (432.3) |
| Debt | 31.3 | 152.4 | 121.2 |
| Equity | 247.3 | (306.2) | (553.5) |
| Mutual funds (Rs cr) | 1,001.9 | 563.4 | (438.5) |
| Debt | 291.1 | 75.9 | (215.2) |
| Equity | 710.8 | 487.5 | (223.3) |

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 2nd and 3rd Aug

- Oil prices fell by 1.7% as demand concerns in China still weighed on sentiments.

Fig 7 – Commodities

| | 15-08-2023 | 16-08-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 84.9 | 83.5 | (1.7) |
| Gold (US\$/ Troy Ounce) | 1,902.0 | 1,891.8 | (0.5) |
| Copper (US\$/ MT) | 8,143.5 | 8,115.3 | (0.3) |
| Zinc (US\$/MT) | 2,320.0 | 2,279.3 | (1.8) |
| Aluminium (US\$/MT) | 2,142.5 | 2,143.0 | 0 |

Source: Bloomberg, Bank of Baroda Research



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