

MORNING MOCHA

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ECONOMIST
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Even as hopes of a prolonged pause by Fed have increased, some members still remain hawkish. Fed Governor Christopher Waller suggested that he still holds a cautious view over inflation and favours more rate hikes this year. Recently published University of Michigan consumer sentiment index for Jul'23 (72.6 versus est.: 65.5 and 64.4 in Jun'23) provided support to his views. Also, inflation expectations for next one year inched up a tad from 3.3% to 3.4% (est.:3.1%). Separately, in China, GDP growth in Q2 (6.3% versus est.: 7.1% and 4.5% in Q1) came in lower than expected. In Jun'23, industrial production surprisingly accelerated (4.4% versus 3.5%), while retail sales and FAI growth moderated.

- Most global indices ended higher on the back of the softer than expected inflation print from the US. Both Dow Jones and Hang Seng rose by 0.3% ahead of the release of the earnings report in US. A lot of these gains have emerged from technology stocks with soaring valuations. Sensex rose, led by gains in IT and metal stocks. It is trading further higher today, while other Asian stocks fell.

Fig 1 – Stock markets

	13-07-2023	14-07-2023	% change
Dow Jones	34,395	34,509	0.3
S & P 500	4,510	4,505	(0.1)
FTSE	7,440	7,435	(0.1)
Nikkei	32,419	32,391	(0.1)
Hang Seng	19,351	19,414	0.3
Shanghai Comp	3,236	3,238	0
Sensex	65,559	66,061	0.8
Nifty	19,414	19,565	0.8

Source: Bloomberg, Bank of Baroda Research

- Barring EUR (flat) and CNY (higher), other global currencies ended lower. DXY index after falling for the last couple of days, corrected and firmed up (0.1%). Fed is expected (95% chance) to hike rates by 25 bps in the next meet. Fed Governor, Waller also reiterated more hikes are expected this year. INR fell by 0.1%. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	13-07-2023	14-07-2023	% change
EUR/USD (1 EUR / USD)	1.1226	1.1228	0
GBP/USD (1 GBP / USD)	1.3136	1.3093	(0.3)
USD/JPY (JPY / 1 USD)	138.05	138.80	(0.5)
USD/INR (INR / 1 USD)	82.07	82.17	(0.1)
USD/CNY (CNY / 1 USD)	7.1493	7.1420	0.1

Source: Bloomberg, Bank of Baroda Research

- Except China (flat), other global yields closed higher. 10Y yields in US (+7bps) and Germany (+3bps) rose the most. Comments by Fed Governor Waller



favouring rate hikes and remaining cautious on inflation, and surprise jump in University Michigan consumer sentiment index, impacted investor sentiments. India's 10Y rose by 2bps following global cues. It is trading broadly flat today at 7.10%.

Fig 3 – Bond 10Y yield

	13-07-2023	14-07-2023	change in bps
US	3.76	3.83	7
UK	4.42	4.44	2
Germany	2.49	2.51	3
Japan	0.48	0.48	1
China	2.65	2.65	0
India	7.08	7.09	2

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

Fig 4 – Short term rates

	13-07-2023	14-07-2023	change in bps
Tbill-91 days	6.71	6.71	0
Tbill-182 days	6.84	6.84	0
Tbill-364 days	6.86	6.86	0
G-Sec 2Y	7.00	7.02	1
India OIS-2M	6.59	6.60	1
India OIS-9M	6.75	6.76	1
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.05	5.06	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	13-07-2023	14-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.1)	(1.8)	0.3
Reverse repo	0.5	0	(0.5)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	12-07-2023	13-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(89.0)	693.2	782.3
Debt	(48.5)	5.1	53.6
Equity	(40.6)	688.1	728.7
Mutual funds (Rs cr)	2,907.4	(55.5)	(2,962.9)
Debt	1,804.0	(416.8)	(2,220.9)
Equity	1,103.4	361.3	(742.1)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 10 Jul and 11 Jul 2023

- Crude prices declined by 1.8%, as stronger USD made it more expensive for investors to hold onto oil.

Fig 7 – Commodities

	13-07-2023	14-07-2023	% change
Brent crude (US\$/bbl)	81.4	79.9	(1.8)
Gold (US\$/ Troy Ounce)	1,960.5	1,955.2	(0.3)
Copper (US\$/ MT)	8,687.0	8,661.8	(0.3)
Zinc (US\$/MT)	2,460.3	2,418.8	(1.7)
Aluminium (US\$/MT)	2,278.0	2,276.5	(0.1)

Source: Bloomberg, Bank of Baroda Research



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