

MORNING MOCHA

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ECONOMIST
Sonal Badhan

US housing data indicates that real estate sector is showing some signs of improvement. While single-family (major contributor) housing starts rose by 1.6% (MoM) in line with market's expectation of 1.4mn units, single-family permits were up by 3.1%. Overall housing starts rose by 2.2%. What also weighed on investor sentiments were hawkish comments by some Fed officials, signalling that rate cuts might be far and rates may have to remain elevated for long to bring inflation substantially down. In Asia, positive news came from Japan, as its Q1CY23 GDP growth came in at 1.6%, up from est.: 0.7% and (-) 0.1% decline in Q4CY22. Major support came from increase in private consumption (0.6% versus est.: 0.4%), and capex (0.9% versus est.: 0.4%). Oil prices got support from hopes of easing deadlock over US debt ceiling.

- Global indices ended mixed. Investors continued to monitor developments around US debt ceiling. Gains in regional banks' stocks pushed US indices higher. Nikkei zoomed past 30,000 mark for 1st time in over 20-months, boosted by strong Q1GDP data. Sensex slipped (0.6%) led by sharp losses in real estate and metal stocks. However, it is trading higher today in line with Asian stocks.

Fig 1 – Stock markets

| | 16-05-2023 | 17-05-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 33,012 | 33,421 | 1.2 |
| S & P 500 | 4,110 | 4,159 | 1.2 |
| FTSE | 7,751 | 7,723 | (0.4) |
| Nikkei | 29,843 | 30,094 | 0.8 |
| Hang Seng | 19,978 | 19,561 | (2.1) |
| Shanghai Comp | 3,291 | 3,284 | (0.2) |
| Sensex | 61,932 | 61,561 | (0.6) |
| Nifty | 18,287 | 18,182 | (0.6) |

Source: Bloomberg, Bank of Baroda Research

- Barring GBP (flat), other global currencies ended lower. Optimism around US debt ceiling pushed DXY higher (0.3%). Despite upbeat Q1GDP data, JPY slipped. CNY weakened as early signs of recovery post Covid-19 began to fade. INR depreciated by 0.2% amidst rise in oil prices. It is trading stronger today while other Asian currencies are trading mixed.

Fig 2 – Currencies

| | 16-05-2023 | 17-05-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0862 | 1.0840 | (0.2) |
| GBP/USD (1 GBP / USD) | 1.2488 | 1.2487 | 0 |
| USD/JPY (JPY / 1 USD) | 136.39 | 137.68 | (0.9) |
| USD/INR (INR / 1 USD) | 82.22 | 82.39 | (0.2) |
| USD/CNY (CNY / 1 USD) | 6.9773 | 6.9965 | (0.3) |

Source: Bloomberg, Bank of Baroda Research



- Global yields ended mixed. 10Y yields in US (3bps) and UK (2bps) rose the most, while they fell in Germany and Japan. Hawkish comments from some Fed officials stating that its premature to discuss rate cuts/further rate hikes, pushed yields up. India's 10Y ended flat ahead of the weekly auction and awaiting RBI's dividend announcement. It is trading flat even today.

Fig 3 – Bond 10Y yield

| | 16-05-2023 | 17-05-2023 | change in bps |
|---------|------------|------------|---------------|
| US | 3.53 | 3.56 | 3 |
| UK | 3.82 | 3.84 | 2 |
| Germany | 2.35 | 2.34 | (2) |
| Japan | 0.40 | 0.37 | (3) |
| China | 2.71 | 2.72 | 1 |
| India | 6.96 | 6.97 | 0 |

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

Fig 4 – Short term rates

| | 16-05-2023 | 17-05-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.86 | 6.84 | (2) |
| Tbill-182 days | 6.95 | 6.94 | (1) |
| Tbill-364 days | 6.97 | 6.95 | (2) |
| G-Sec 2Y | 6.88 | 6.84 | (4) |
| India OIS-2M | 6.62 | 6.61 | (1) |
| India OIS-9M | 6.56 | 6.55 | (1) |
| SONIA int rate benchmark | 4.43 | 4.43 | 0 |
| US SOFR | 5.06 | 5.05 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 16-05-2023 | 17-05-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.6) | (0.8) | (0.2) |
| Reverse repo | 0.1 | 0.1 | 0 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 15-05-2023 | 16-05-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 185.3 | 349.8 | 164.5 |
| Debt | (43.2) | 141.3 | 184.4 |
| Equity | 228.5 | 208.6 | (19.9) |
| Mutual funds (Rs cr) | (147.1) | (1,645.4) | (1,498.3) |
| Debt | (771.1) | (1,032.6) | (261.4) |
| Equity | 624.0 | (612.8) | (1,236.9) |

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 11 May 2023 and 12 May 2023

- Growing hopes around US debt ceiling pushed crude oil prices higher (2.7%).

Fig 7 – Commodities

| | 16-05-2023 | 17-05-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 74.9 | 77.0 | 2.7 |
| Gold (US\$/ Troy Ounce) | 1,989.2 | 1,981.8 | (0.4) |
| Copper (US\$/ MT) | 8,074.2 | 8,262.8 | 2.3 |
| Zinc (US\$/MT) | 2,479.5 | 2,518.8 | 1.6 |
| Aluminium (US\$/MT) | 2,259.5 | 2,296.5 | 1.6 |

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