

MORNING MOCHA

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ECONOMIST
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UK's retail inflation print for Jun'23 came in lower than expected (8.2%) at 7.9%, down from 8.7% in May'23. Core inflation also eased, but remains elevated at 6.9% (7.1% in May'23). Dip in fuel prices helped bring headline number down. This has increased hopes of BoE hiking rates less aggressively, and there are less chances of policy rate crossing 6% mark (currently at 5%). In US, single-family housing starts fell by 7% in Jun'23, following 18.7% jump in May'23 and multi-family starts were down by 11.6%. In case of building permits (proxy for future construction activity), they rose for single-family homes but declined for multi-family homes. China has kept its lending rates unchanged, despite current weakness in economy.

- Barring Hang Seng (lower) and Shanghai Comp (flat), other global indices ended higher. Stocks in the UK rallied after inflation cooled off, thus easing pressure on BoE. US stocks continued to advance, supported by earnings report. Sensex too ended in green with gains in power and consumer durable stocks. It is trading lower today while other Asian indices are trading mixed.

Fig 1 – Stock markets

	18-07-2023	19-07-2023	% change
Dow Jones	34,952	35,061	0.3
S & P 500	4,555	4,566	0.2
FTSE	7,454	7,588	1.8
Nikkei	32,494	32,896	1.2
Hang Seng	19,016	18,952	(0.3)
Shanghai Comp	3,198	3,199	0
Sensex	66,795	67,097	0.5
Nifty	19,749	19,833	0.4

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended lower. Dollar index climbed up by 0.3%. Pound slid after UK's inflation eased and is expected to challenge BoE's hawkish stance. CNY fell by 0.5%, but some pressure is expected to be mitigated with the announcement of relaxing cross-border financing rule. INR depreciated by 0.1% and is trading stronger today. Asian currencies are trading mixed.

Fig 2 – Currencies

	18-07-2023	19-07-2023	% change
EUR/USD (1 EUR / USD)	1.1229	1.1201	(0.2)
GBP/USD (1 GBP / USD)	1.3036	1.2940	(0.7)
USD/JPY (JPY / 1 USD)	138.83	139.65	(0.6)
USD/INR (INR / 1 USD)	82.03	82.10	(0.1)
USD/CNY (CNY / 1 USD)	7.1864	7.2232	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Global yields ended mixed, with 10Y yields in UK (-12bps) and US (-4bps) falling the most, while it picked up in Germany (+5bps). Lower than expected



inflation in UK, reduced the possibility of BoE's peak policy rate cross 6% mark. Weak housing start data from the US also dampened possibility of aggressive rate stance by Fed. In Eurozone, sticky core inflation still remains a concern. India's 10Y rose by 2bps. It is trading flat today at 7.08%.

Fig 3 – Bond 10Y yield

	18-07-2023	19-07-2023	change in bps
US	3.79	3.75	(4)
UK	4.33	4.22	(12)
Germany	2.39	2.44	5
Japan	0.48	0.47	(1)
China	2.63	2.63	0
India	7.06	7.08	2

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

Fig 4 – Short term rates

	18-07-2023	19-07-2023	change in bps
Tbill-91 days	6.70	6.70	0
Tbill-182 days	6.83	6.85	2
Tbill-364 days	6.85	6.87	2
G-Sec 2Y	6.99	6.98	(1)
India OIS-2M	6.58	6.60	2
India OIS-9M	6.73	6.75	2
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.06	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-07-2023	19-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.3)	(1.1)	0.2
Reverse repo	0.6	0.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-07-2023	18-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	85.3	361.5	276.3
Debt	23.8	53.5	29.7
Equity	61.4	308.1	246.6
Mutual funds (Rs cr)	431.5	497.9	66.3
Debt	(326.1)	434.8	760.8
Equity	757.6	63.1	(694.5)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 12 Jul and 13 Jul 2023

- Crude prices fell by 0.2%, as US\$ strengthened and slowdown in global economy dampened hopes of improved demand.

Fig 7 – Commodities

	18-07-2023	19-07-2023	% change
Brent crude (US\$/bbl)	79.6	79.5	(0.2)
Gold (US\$/ Troy Ounce)	1,978.7	1,976.6	(0.1)
Copper (US\$/ MT)	8,445.0	8,401.8	(0.5)
Zinc (US\$/MT)	2,377.3	2,344.5	(1.4)
Aluminium (US\$/MT)	2,203.5	2,190.5	(0.6)

Source: Bloomberg, Bank of Baroda Research



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