

MORNING MOCHA

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ECONOMIST
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Following 10bps cut in 1Y Medium-term Lending Facility (MLF) by PBOC last week, now 1Y and 5Y Loan Prime Rate (LPR) have also been reduced by 10bps (est.: 15bps cut). These decisions have been taken to spur weakening economic momentum and statements by policymakers reflect that more stimulus measures may be announced soon. Markets are expecting RRR cut to boost credit growth. On the other hand in Australia, RBA's minutes show that policymakers are concerned about stubborn core inflation and rising pressure in wage and housing inflation. This week, BoE' rate decision and Fed Chair Powell's testimony will shed more light on future trajectory of rates.

- Global indices, except US (closed), were off to a slow start, with Nikkei and FTSE falling the most. In UK, chemicals and constructions stocks dragged the index down. Investors await Fed Chair testimony and rate decision by BoE this week. In India, Sensex fell by 0.3% led by power, realty and banking stocks. It is trading further lower today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	16-06-2023	19-06-2023	% change
Dow Jones	34,408	34,299	(0.3)
S & P 500	4,426	4,410	(0.4)
FTSE	7,643	7,588	(0.7)
Nikkei	33,706	33,370	(1.0)
Hang Seng	20,040	19,913	(0.6)
Shanghai Comp	3,273	3,256	(0.5)
Sensex	63,385	63,168	(0.3)
Nifty	18,826	18,755	(0.4)

Source: Bloomberg, Bank of Baroda Research | Note: markets in US were closed on 19 Jun 2023

- Barring INR (flat), other global currencies closed lower. CNY and GBP fell the most. Investors in UK are expecting hawkish policy tone by BoE and a 25bps hike this week. Yen slipped further by 0.2% owing to BoJ's divergent monetary policy stance. DXY inched up by 0.3%. INR closed flat, even as oil prices inched up. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	16-06-2023	19-06-2023	% change
EUR/USD (1 EUR / USD)	1.0937	1.0921	(0.1)
GBP/USD (1 GBP / USD)	1.2817	1.2792	(0.2)
USD/JPY (JPY / 1 USD)	141.82	141.98	(0.1)
USD/INR (INR / 1 USD)	81.94	81.94	0
USD/CNY (CNY / 1 USD)	7.1269	7.1634	(0.5)

Source: Bloomberg, Bank of Baroda Research | Note: markets in US were closed on 19 Jun 2023

- Except Japan (lower), other global yields inched up. 10Y yield in UK (+8bps) and Germany (+4bps) rose the most as central banks in Europe continue to



remain hawkish. BoE is expected to hike rates this month and 1-2 more rate hikes are pegged for this year. Fed Chair Powell's testimony is also awaited to gauge Fed's rate trajectory. Following global cues and increase in oil prices, India's 10Y yield was up by 2bps to 7.06%. It is trading broadly stable today.

Fig 3 – Bond 10Y yield

	16-06-2023	19-06-2023	change in bps
US	3.72	3.76	4
UK	4.41	4.49	8
Germany	2.47	2.52	4
Japan	0.41	0.40	(1)
China	2.68	2.70	2
India	7.04	7.06	2

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India | Note: markets in US were closed on 19 Jun 2023

Fig 4 – Short term rates

	16-06-2023	19-06-2023	change in bps
Tbill-91 days	6.75	6.76	1
Tbill-182 days	6.89	6.87	(2)
Tbill-364 days	6.89	6.88	(1)
G-Sec 2Y	6.96	6.97	1
India OIS-2M	6.62	6.61	(1)
India OIS-9M	6.65	6.66	1
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.06	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-06-2023	19-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(0.2)	0.7
Reverse repo	0	0.2	0.2
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-06-2023	16-06-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	348.0	156.0	(192.0)
Debt	(51.3)	133.8	185.2
Equity	399.3	22.1	(377.2)
Mutual funds (Rs cr)	1,733.0	(387.7)	(2,120.7)
Debt	1,742.7	121.2	(1,621.5)
Equity	(9.7)	(508.9)	(499.2)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 13th and 14th Jun 2023

- Oil prices rose by 1.2% as China's PBOC initiated more monetary policy stimulus.

Fig 7 – Commodities

	16-06-2023	19-06-2023	% change
Brent crude (US\$/bbl)	75.7	76.6	1.2
Gold (US\$/ Troy Ounce)	1,958.0	1,958.0	0
Copper (US\$/ MT)	8,556.0	8,555.0	0
Zinc (US\$/MT)	2,480.5	2,477.3	(0.1)
Aluminium (US\$/MT)	2,249.5	2,271.0	1.0

Source: Bloomberg, Bank of Baroda Research



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