

## MORNING MOCHA

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ECONOMIST  
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Fed Chairman highlighted that future policy decisions will be on a “meeting to meeting” basis. Impact of lagged transmission of previous rate hikes and the effect of banking stress on credit will be key. The remarks were perceived as dovish by the markets and as a result, the probability of a rate hike in Jun’23 diminished post the remarks. Also supporting this, talks over US debt ceiling paused, raising worries of a possible default which will further dent economic prospects. Elsewhere, UK’s GfK consumer confidence index showed marked improvement. In Japan, core CPI accelerated further to 3.4% in Apr’23 from 3.1% in Mar’23. In India, RBI’s more than expected surplus transfer of Rs 87,416 should comfort domestic yields.

- Global indices closed mixed. Investors tracked Fed Chair’s comments, hinting at a pause to judge the impact of lagged transmission. Apart from this, uneven recovery in China and US debt ceiling talks, also impacted sentiments. Hang Seng fell the most by 1.4%, while Nikkei rose by 0.8%. Sensex rose by 0.5%, led by technology stocks. It is trading higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	18-05-2023	19-05-2023	% change
Dow Jones	33,536	33,427	(0.3)
S & P 500	4,198	4,192	(0.1)
FTSE	7,742	7,757	0.2
Nikkei	30,574	30,808	0.8
Hang Seng	19,727	19,451	(1.4)
Shanghai Comp	3,297	3,284	(0.4)
Sensex	61,432	61,730	0.5
Nifty	18,130	18,203	0.4

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended stronger. DXY fell by 0.3% as the Fed Chair hinted at a pause in Jun’23 policy meet. Asian currencies such as JPY and CNY, gained the most. However, INR continued to depreciate. It is trading weaker today, while other Asian currencies are trading mostly stronger.

**Fig 2 – Currencies**

	18-05-2023	19-05-2023	% change
EUR/USD (1 EUR / USD)	1.0770	1.0805	0.3
GBP/USD (1 GBP / USD)	1.2409	1.2445	0.3
USD/JPY (JPY / 1 USD)	138.71	137.98	0.5
USD/INR (INR / 1 USD)	82.59	82.67	(0.1)
USD/CNY (CNY / 1 USD)	7.0375	7.0120	0.4

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. UK’s 10Y yield rose by 4bps as GfK consumer confidence index showed improvement in May’23. Germany’s 10Y yield fell by



2bps as PPI moderated on YoY basis. India's 10Y yield rose by 2bps, eyeing auction results. It is trading at 6.98% today, following RBI's decision to transfer a surplus of Rs 87,416 crore to the government.

**Fig 3 – Bond 10Y yield**

	18-05-2023	19-05-2023	change in bps
US	3.65	3.67	3
UK	3.96	4.00	4
Germany	2.45	2.43	(2)
Japan	0.38	0.40	2
China	2.72	2.72	0
India	6.99	7.01	2

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

**Fig 4 – Short term rates**

	18-05-2023	19-05-2023	change in bps
Tbill-91 days	6.80	6.75	(5)
Tbill-182 days	6.94	6.91	(3)
Tbill-364 days	6.93	6.90	(3)
G-Sec 2Y	6.85	6.83	(2)
India OIS-2M	6.60	6.57	(3)
India OIS-9M	6.57	6.57	0
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.05	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	18-05-2023	19-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(0.5)	0.4
Reverse repo	0.1	0	(0.1)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	17-05-2023	18-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	280.4	198.2	(82.2)
Debt	182.5	(20.6)	(203.2)
Equity	97.8	218.8	121.0
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

- Crude prices fell by 0.4% amidst increasing risks of a default as US debt ceiling talks stalled.

**Fig 7 – Commodities**

	18-05-2023	19-05-2023	% change
Brent crude (US\$/bbl)	75.9	75.6	(0.4)
Gold (US\$/ Troy Ounce)	1,957.6	1,977.8	1.0
Copper (US\$/ MT)	8,128.5	8,201.0	0.9
Zinc (US\$/MT)	2,450.0	2,476.5	1.1
Aluminium (US\$/MT)	2,283.5	2,283.5	0

Source: Bloomberg, Bank of Baroda Research



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