

## MORNING MOCHA

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ECONOMIST  
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In line with expectations, Fed raised its policy rates by 25bps to 5.25%-5.50%-a 22 year high. Fed Chair left room open for further rate hikes and reiterated that the decision will be contingent on incoming data. However, rate cuts in CY23 were ruled out. High inflation, particularly on the services side, as well as tight labour market remain key risks for the Fed. Hopes of a 'soft landing' remain intact, with the economy showing strength. Separately, US new home sales declined for the first time in 3-months by 2.5% to 697,000 (est. 725,000) from 715,000 in May'23. Industrial profits in China declined at a slower pace of 16.8% in Jan-Jun'23, compared with 18.8% in Jan-May'23. Industrial profits have continued to decline in double-digits amidst a sharp moderation in domestic demand.

- Global markets ended mixed. Stocks in US traded in narrow range tracking Fed's policy decision and mixed earnings report from major companies. FTSE fell by 0.2% led by losses in mining stocks. Stocks in China and Hong Kong fell by 0.3% and 0.4% respectively. Sensex rose by 0.5% supported by gains in capital goods and real estate stocks. It is trading further higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	25-07-2023	26-07-2023	% change
Dow Jones	35,438	35,520	0.2
S & P 500	4,567	4,567	0
FTSE	7,692	7,677	(0.2)
Nikkei	32,683	32,668	0
Hang Seng	19,434	19,365	(0.4)
Shanghai Comp	3,232	3,223	(0.3)
Sensex	66,356	66,707	0.5
Nifty	19,681	19,778	0.5

Source: Bloomberg, Bank of Baroda Research

- Except INR and CNY (lower), other global currencies advanced against the dollar. DXY fell by 0.5% as investors expect a pause in Fed's rate hike cycle. JPY strengthened by 0.5% ahead of BoJ's policy meet. INR depreciated by 0.1%. However, it is trading stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

	25-07-2023	26-07-2023	% change
EUR/USD (1 EUR / USD)	1.1055	1.1086	0.3
GBP/USD (1 GBP / USD)	1.2902	1.2941	0.3
USD/JPY (JPY / 1 USD)	140.90	140.24	0.5
USD/INR (INR / 1 USD)	81.87	82.00	(0.1)
USD/CNY (CNY / 1 USD)	7.1363	7.1431	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except UK and Germany (higher), other global yields dipped. US 10Y yield fell by 2bps as traders weighed comments from Fed Chair and assessed the future rate trajectory. Germany's 10Y yield rose by 6bps ahead of ECB's policy decision. India's 10Y yield fell by 1bps supported by a drop in oil prices. It is trading further lower at 7.09% today.

**Fig 3 – Bond 10Y yield**

	25-07-2023	26-07-2023	change in bps
US	3.88	3.87	(2)
UK	4.27	4.28	1
Germany	2.43	2.49	6
Japan	0.47	0.46	(1)
China	2.67	2.65	(3)
India	7.10	7.10	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	25-07-2023	26-07-2023	change in bps
Tbill-91 days	6.70	6.71	1
Tbill-182 days	6.80	6.86	6
Tbill-364 days	6.86	6.88	2
G-Sec 2Y	7.03	7.00	(3)
India OIS-2M	6.61	6.61	0
India OIS-9M	6.80	6.79	0
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	25-07-2023	26-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.4)	0
Reverse repo	0.6	0.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	24-07-2023	25-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	48.1	353.7	305.7
Debt	20.0	4.8	(15.2)
Equity	28.1	349.0	320.8
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 2023 and 13 Jul 2023

- Oil prices fell by 0.9% as US crude inventories fell less than expected.

**Fig 7 – Commodities**

	25-07-2023	26-07-2023	% change
Brent crude (US\$/bbl)	83.6	82.9	(0.9)
Gold (US\$/ Troy Ounce)	1,965.0	1,972.1	0.4
Copper (US\$/ MT)	8,641.3	8,577.3	(0.7)
Zinc (US\$/MT)	2,479.5	2,464.1	(0.6)
Aluminium (US\$/MT)	2,240.0	2,213.0	(1.2)

Source: Bloomberg, Bank of Baroda Research



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