

MORNING MOCHA

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ECONOMIST
Jahnvi Prabhakar

Surrounded by optimism around US debt ceiling pushed global indices higher. Hotter than expected PCE (4.4% vs 4.2%) and uptick in consumer spending in Apr'23 has raised bets of Fed continuing with the rate hike cycle for far much longer than was initially anticipated. As per the CME FedWatch tool, there is now a 60% chance of rate hike in Jun'23 up from 40% previously. Turkish Lira dropped to record low after the Presidential election results. On the domestic front, in the coming week, all eyes will be on the upcoming GDP annual data, fiscal data and core output to drive the market.

- Most global indices closed higher, with markets in US and India gaining the most. Developments around US debt ceiling deal and better than expected results of tech company supported the rally on Wall Street. FTSE also gained momentum as companies reported improvement in retail sales volumes. Sensex rose by 1%, driven by realty, tech and consumer durable stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	25-05-2023	26-05-2023	% change
Dow Jones	32,765	33,093	1.0
S & P 500	4,151	4,205	1.3
FTSE	7,571	7,627	0.7
Nikkei	30,801	30,916	0.4
Hang Seng	19,116	18,747	(1.9)
Shanghai Comp	3,201	3,213	0.4
Sensex	61,873	62,502	1.0
Nifty	18,321	18,499	1.0

Source: Bloomberg, Bank of Baroda Research

- Except EUR (flat) and JPY (lower), other global currencies ended higher against the dollar. DXY ended flat as boost from deal around US debt ceiling was outweighed by fears of longer than anticipated elevated rates in the US. INR appreciated by 0.2% and is trading further stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	25-05-2023	26-05-2023	% change
EUR/USD (1 EUR / USD)	1.0725	1.0723	0
GBP/USD (1 GBP / USD)	1.2321	1.2344	0.2
USD/JPY (JPY / 1 USD)	140.06	140.60	(0.4)
USD/INR (INR / 1 USD)	82.74	82.57	0.2
USD/CNY (CNY / 1 USD)	7.0792	7.0640	0.2

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. 10Y yields in UK and US fell the most. Hopes of finalising agreement on debt ceiling helped ease pressure on yields. However,



US 2Y yield inched up as PCE inflation index for Apr'23, came in stronger than expected. India's 10Y yield remained flat, and is trading a tad lower at 7% today.

Fig 3 – Bond 10Y yield

	25-05-2023	26-05-2023	change in bps
US	3.82	3.80	(2)
UK	4.37	4.33	(4)
Germany	2.52	2.54	2
Japan	0.43	0.42	(1)
China	2.71	2.72	1
India	7.01	7.01	0

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

Fig 4 – Short term rates

	25-05-2023	26-05-2023	change in bps
Tbill-91 days	6.74	6.73	(1)
Tbill-182 days	6.85	6.87	2
Tbill-364 days	6.88	6.89	1
G-Sec 2Y	6.85	6.83	(2)
India OIS-2M	6.55	6.54	(1)
India OIS-9M	6.57	6.57	0
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	25-05-2023	26-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(1.0)	(0.2)
Reverse repo	0.5	0.5	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	24-05-2023	25-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	215.6	442.1	226.6
Debt	34.5	138.6	104.1
Equity	181.1	303.5	122.5
Mutual funds (Rs cr)	733.2	(316.2)	(1,049.4)
Debt	415.5	(824.7)	(1,240.2)
Equity	317.7	508.5	190.8

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 23 and 24 May 2023

- Global oil prices rose by 0.9% as positive sentiment around US debt ceiling deal helped uplift investor sentiments.

Fig 7 – Commodities

	25-05-2023	26-05-2023	% change
Brent crude (US\$/bbl)	76.3	77.0	0.9
Gold (US\$/ Troy Ounce)	1,941.4	1,946.5	0.3
Copper (US\$/ MT)	7,914.8	8,106.0	2.4
Zinc (US\$/MT)	2,259.0	2,329.3	3.1
Aluminium (US\$/MT)	2,231.0	2,237.5	0.3

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