

MORNING MOCHA

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ECONOMIST
Jahnvi Prabhakar

Global markets reacted sharply to the news of Fitch downgrading US sovereign debt. On the other hand, analysts were of the view that the downgrade news is not expected to have any long term impact on the financial markets. US Treasury Secretary called the rating downgrade 'entirely unwarranted'. Gold prices retreated following the news of hotter than expected US private payrolls data, signalling increased likelihood of more monetary tightening by Fed. Investors will closely track China's private service PMI, US non-farm payroll and rate decision by BoE.

- Global indices saw a broad sell off following the rating downgrade citing the likelihood of fiscal deterioration in the next 3-years. Amongst benchmark indices Hang Seng dropped (2.5%) the most followed by Nikkei (2.3%). S&P slid by 1.4% and was dragged down by tech sector which was worst performing against other sectors. Following global cues, Sensex too ended in red. Sharp losses were seen in power, metal and capital good stocks. It is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	1-08-2023	2-08-2023	% change
Dow Jones	35,631	35,283	(1.0)
S & P 500	4,577	4,513	(1.4)
FTSE	7,666	7,562	(1.4)
Nikkei	33,477	32,708	(2.3)
Hang Seng	20,011	19,517	(2.5)
Shanghai Comp	3,291	3,262	(0.9)
Sensex	66,459	65,783	(1.0)
Nifty	19,734	19,527	(1.0)

Source: Bloomberg, Bank of Baroda Research

- Barring JPY (flat), other global currencies ended lower. Dollar index rose by 0.3% as US' economic strength (private payrolls) outweighed fiscal concerns (Fitch downgrade). GBP fell the most awaiting BoE's decision due today. INR was down by 0.4%, owing to FPI outflows in the equity market. It is trading further lower today in line with other Asian currencies.

Fig 2 – Currencies

	1-08-2023	2-08-2023	% change
EUR/USD (1 EUR / USD)	1.0984	1.0938	(0.4)
GBP/USD (1 GBP / USD)	1.2777	1.2711	(0.5)
USD/JPY (JPY / 1 USD)	143.34	143.32	0
USD/INR (INR / 1 USD)	82.26	82.59	(0.4)
USD/CNY (CNY / 1 USD)	7.1777	7.1916	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. 10Y yield in the US rose by 5bps as higher than expected ADP payroll data raised probability of rates remaining elevated for



long. On the other hand, yield in UK was flat, while in Germany it fell by 2bps. India's 10Y fell by 1bps, as oil prices declined. However, it is trading higher today at 7.18%, following global cues.

Fig 3 – Bond 10Y yield

	1-08-2023	2-08-2023	change in bps
US	4.02	4.08	5
UK	4.40	4.40	0
Germany	2.56	2.54	(2)
Japan	0.61	0.63	2
China	2.67	2.66	(1)
India	7.16	7.15	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	1-08-2023	2-08-2023	change in bps
Tbill-91 days	6.70	6.71	1
Tbill-182 days	6.83	6.86	3
Tbill-364 days	6.88	6.91	3
G-Sec 2Y	7.04	7.05	1
India OIS-2M	6.62	6.62	0
India OIS-9M	6.82	6.80	(2)
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	1-08-2023	2-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(2.5)	(1.1)
Reverse repo	0.9	0.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	31-07-2023	1-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(62.8)	130.1	192.9
Debt	31.3	126.9	95.6
Equity	(94.1)	3.1	97.3
Mutual funds (Rs cr)	497.9	(423.1)	(921.0)
Debt	434.8	116.1	(318.7)
Equity	63.1	(539.2)	(602.3)

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

- Oil prices continued to slip, was down by 2% amidst a risk off investor sentiment post the rating downgrade.

Fig 7 – Commodities

	1-08-2023	2-08-2023	% change
Brent crude (US\$/bbl)	84.9	83.2	(2.0)
Gold (US\$/ Troy Ounce)	1,944.3	1,934.5	(0.5)
Copper (US\$/ MT)	8,594.3	8,469.2	(1.5)
Zinc (US\$/MT)	2,567.3	2,479.5	(3.4)
Aluminium (US\$/MT)	2,255.5	2,209.0	(2.1)

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