

## MORNING MOCHA

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ECONOMIST  
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Global central banks are expected to remain data dependent as they continue to battle elevated inflation. Recently released data including the PCE (4.6% versus 4.7%) report concluded that inflation has cooled off in May more than expected pointing to the desired results of the Fed's rate hike cycle. According to the CME FedWatch tool, markets are now anticipating 84% likelihood of 25bps rate hike by Fed in the upcoming Jul'23 meet. Global indices ended in green, while Dollar softened as Fed is expected to become less aggressive on rate hike. Crude prices settled higher despite some concerns over dampening demand.

- Barring Nikkei and Hang Seng, other global indices closed higher. Strong economic data from the US (GDP) along with US banks passing Fed's annual stress test, lifted investor sentiments. Europe's stock indices edged up after Eurozone's inflation came in lower than anticipated. Sensex too surged, led by gains in IT and auto stocks. It is trading higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	29-06-2023	30-06-2023	% change
Dow Jones	34,122	34,408	0.8
S & P 500	4,396	4,450	1.2
FTSE	7,472	7,532	0.8
Nikkei	33,234	33,189	(0.1)
Hang Seng	18,934	18,916	(0.1)
Shanghai Comp	3,182	3,202	0.6
Sensex	63,915	64,719	1.3
Nifty	18,972	19,189	1.1

Source: Bloomberg, Bank of Baroda Research | Note: Markets in India were closed on 29 Jun 2023

- Apart from INR (flat) and CNY (lower), other major currencies ended higher against the dollar. DXY fell by 0.4% as moderation in PCE index has renewed hopes of less aggressive monetary policy stance of Fed. GBP gained the most supported by rise in yield. INR ended flat. However, it is trading higher today, in line with other Asian currencies.

**Fig 2 – Currencies**

	29-06-2023	30-06-2023	% change
EUR/USD (1 EUR / USD)	1.0865	1.0909	0.4
GBP/USD (1 GBP / USD)	1.2613	1.2703	0.7
USD/JPY (JPY / 1 USD)	144.76	144.31	0.3
USD/INR (INR / 1 USD)	82.06	82.04	0
USD/CNY (CNY / 1 USD)	7.2475	7.2537	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in India were closed on 29 Jun 2023

- Global yields closed mixed. Weaker than expected core PCE print for May'23 has reignited hopes of Fed ending the rate hike cycle after its Jul'23 policy



meeting. Yields in UK inched up as market participants are pricing in 70% chance that BoE's policy rate will push up to 6.25% by the year end. India's 10Y yield rose sharply by 6bps (to highest since Apr-end), owing to concerns over demand and supply of papers in Q2, as was also visible in the results of weekly auction by RBI. It is trading a tad lower at 7.11% today.

**Fig 3 – Bond 10Y yield**

	29-06-2023	30-06-2023	change in bps
US	3.84	3.84	0
UK	4.38	4.39	1
Germany	2.42	2.39	(2)
Japan	0.39	0.40	1
China	2.66	2.64	(2)
India	7.06	7.12	6

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India | Note: Markets in India were closed on 29 Jun 2023

**Fig 4 – Short term rates**

	29-06-2023	30-06-2023	change in bps
Tbill-91 days	6.73	6.71	(2)
Tbill-182 days	6.86	6.82	(4)
Tbill-364 days	6.86	6.87	1
G-Sec 2Y	6.99	7.02	3
India OIS-2M	6.61	6.63	2
India OIS-9M	6.68	6.74	6
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.06	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	29-06-2023	30-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.3)	(1.3)	(1.0)
Reverse repo	0.2	0	(0.2)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	27-06-2023	28-06-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(3.0)	3,247.4	3,250.5
Debt	(226.4)	1,442.4	1,668.7
Equity	223.4	1,805.1	1,581.7
Mutual funds (Rs cr)	596.2	(817.9)	(1,414.0)
Debt	683.3	(1,359.9)	(2,043.3)
Equity	(87.2)	542.1	629.3

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 23 Jun and 26 Jun 2023

- Crude prices rose by 0.8% supported by signs of US economy strengthening.

**Fig 7 – Commodities**

	29-06-2023	30-06-2023	% change
Brent crude (US\$/bbl)	74.3	74.9	0.8
Gold (US\$/ Troy Ounce)	1,908.2	1,919.4	0.6
Copper (US\$/ MT)	8,177.0	8,322.1	1.8
Zinc (US\$/MT)	2,336.0	2,382.3	2.0
Aluminium (US\$/MT)	2,160.0	2,151.5	(0.4)

Source: Bloomberg, Bank of Baroda Research



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