

MORNING MOCHA

04 August 2023

ECONOMIST
Jahnvi Prabhakar

In line with expectation, BoE with 6-3 votes favoured to raise rates by 25bps to 5.25% (15-year high) and noted the borrowing cost will remain high for as long as it takes to return inflation to the 2% target level. Separately, RBA has trimmed its growth outlook for CY23 (1% from 1.25% earlier) though it sees inflation 'moving in the right direction'. On the domestic front, India's services PMI jumped to 13-year high of 62.3 in Jul'23 from 58.5 in Jun'23 on the back of robust demand. Despite the elevated inflationary pressure, strong demand conditions boosted new orders. Overall composite PMI inched up to 61.9 from 59.4 in Jun'23.

- Barring Shanghai Comp, other global indices ended lower amidst the news of US rating downgrade. Investors monitored economic data (private payroll, US services PMI) with eyes on corporate earnings. S&P 500 continued to decline with at least 8 out of 11 sectors registering losses. Dragged down by health tech and utility stocks, Nikkei was down by 1.7%. Sensex too ended in red. However, it is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	2-08-2023	3-08-2023	% change
Dow Jones	35,283	35,216	(0.2)
S & P 500	4,513	4,502	(0.3)
FTSE	7,562	7,529	(0.4)
Nikkei	32,708	32,159	(1.7)
Hang Seng	19,517	19,421	(0.5)
Shanghai Comp	3,262	3,280	0.6
Sensex	65,783	65,241	(0.8)
Nifty	19,527	19,382	(0.7)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. Dollar index ended flat. JPY, CNY and EUR rose, while GBP closed flat. US\$ struggled as investors await payroll data. BoE raised rates in line with expectations and slower pace of tightening is expected in the coming months. INR fell by 0.2%, led by more FPI outflows. It is trading even lower today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	2-08-2023	3-08-2023	% change
EUR/USD (1 EUR / USD)	1.0938	1.0949	0.1
GBP/USD (1 GBP / USD)	1.2711	1.2709	0
USD/JPY (JPY / 1 USD)	143.32	142.58	0.5
USD/INR (INR / 1 USD)	82.59	82.73	(0.2)
USD/CNY (CNY / 1 USD)	7.1916	7.1697	0.3

Source: Bloomberg, Bank of Baroda Research

- Except China (flat), other global yields closed higher. 10Y yields in the US (+10bps), UK and Germany (+7bps each) rose the most. In the US, increased



probability of a soft landing, Fitch downgrade, and expectation around non-farm payroll is impacting yields. India's 10Y rose by 4bps, as oil prices increased and hover around US\$ 85/bbl. However, it is trading flat today.

Fig 3 – Bond 10Y yield

	2-08-2023	3-08-2023	change in bps
US	4.08	4.18	10
UK	4.40	4.47	7
Germany	2.54	2.61	7
Japan	0.63	0.65	3
China	2.66	2.66	0
India	7.15	7.20	4

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	2-08-2023	3-08-2023	change in bps
Tbill-91 days	6.71	6.71	0
Tbill-182 days	6.86	6.88	2
Tbill-364 days	6.91	6.92	1
G-Sec 2Y	7.05	7.07	2
India OIS-2M	6.62	6.64	2
India OIS-9M	6.80	6.84	4
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.31	5.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	2-08-2023	3-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.5)	(2.8)	(0.3)
Reverse repo	0.9	0.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	1-08-2023	2-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	130.1	(180.1)	(310.2)
Debt	126.9	1.8	(125.1)
Equity	3.1	(182.0)	(185.1)
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 rose by 2.3% as both Saudi Arabia (production cuts in Sep'23 as well) and Russia (cut in oil exports) announced measures to tighten global oil supply.

Fig 7 – Commodities

	2-08-2023	3-08-2023	% change
Brent crude (US\$/bbl)	83.2	85.1	2.3
Gold (US\$/ Troy Ounce)	1,934.5	1,934.1	0
Copper (US\$/ MT)	8,469.2	8,570.5	1.2
Zinc (US\$/MT)	2,479.5	2,489.3	0.4
Aluminium (US\$/MT)	2,209.0	2,230.0	1.0

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