

MORNING MOCHA

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ECONOMIST
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Fed in the minutes reiterated more rate hikes are in the offing as it continues to remain data dependent. They also noted the economy might 'avoid downturn most likely' and they see odds improving of soft landing. According to recently released macro data, there have been fears of economic slowdown, with new orders from US rising at much slower pace. Additionally, China's services activity also disappointed. Focus will now shift towards US jobs report, offering more clarity on labour market. News of China possibly restricting exports on chips, widely used in semiconductor industry added to geo-political tensions between US and China.

- Global indices largely ended lower. Investors monitored Fed minutes which highlighted they will continue with rate hike, albeit at a much slower pace. Asian indices ended lower with China's services activity (private) expanded at the slowest pace in over 5-months. Sensex too ended in red, led by subdued global cues and losses in banking stocks. However, it is trading higher today, while other Asian stocks are trading lower.

Fig 1 – Stock markets

	04-07-2023	05-07-2023	% change
Dow Jones	34,418	34,289	(0.4)
S & P 500	4,456	4,447	(0.2)
FTSE	7,520	7,442	(1.0)
Nikkei	33,423	33,339	(0.3)
Hang Seng	19,416	19,110	(1.6)
Shanghai Comp	3,245	3,223	(0.7)
Sensex	65,479	65,446	(0.1)
Nifty	19,389	19,399	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

- Major global currencies closed lower. DXY rose by 0.3%, as Fed minutes suggest that more rate hikes are in the offing. 16 out of 18 FOMC members are of the view that at least 1 more hike is necessary and 12 are of the view 2 or more hikes might be needed. INR fell by 0.2%, as oil prices continued to inch up. It is trading further weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	04-07-2023	05-07-2023	% change
EUR/USD (1 EUR / USD)	1.0879	1.0854	(0.2)
GBP/USD (1 GBP / USD)	1.2713	1.2704	(0.1)
USD/JPY (JPY / 1 USD)	144.47	144.66	(0.1)
USD/INR (INR / 1 USD)	82.02	82.22	(0.2)
USD/CNY (CNY / 1 USD)	7.2162	7.2505	(0.5)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

- Except India and China (lower), other global yields closed higher. US and UK 10Y yields rose the most (+8bps each). Fed's intent to maintain a tight vigil on



inflation and its resolve to increase rates to cool down the economy, pushed yields up. India's 10Y was down by 1bps to 7.11%. However, following global cues, it is trading higher today at 7.13%.

Fig 3 – Bond 10Y yield

	04-07-2023	05-07-2023	change in bps
US	3.85	3.93	8
UK	4.42	4.49	8
Germany	2.45	2.48	3
Japan	0.39	0.39	1
China	2.65	2.64	(1)
India	7.12	7.11	(1)

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India | Note: Markets in US were closed on 4 Jul 2023

Fig 4 – Short term rates

	04-07-2023	05-07-2023	change in bps
Tbill-91 days	6.68	6.73	5
Tbill-182 days	6.80	6.81	1
Tbill-364 days	6.82	6.82	0
G-Sec 2Y	7.04	7.03	(1)
India OIS-2M	6.60	6.60	0
India OIS-9M	6.74	6.74	0
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.09	5.06	(3)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

Fig 5 – Liquidity

Rs tn	04-07-2023	05-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.3)	(2.4)	(0.1)
Reverse repo	0.8	0.8	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	03-07-2023	04-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	246.2	313.5	67.3
Debt	(53.8)	6.6	60.5
Equity	300.1	306.9	6.8
Mutual funds (Rs cr)	(1,948.4)	5,322.2	7,270.6
Debt	(3,395.6)	4,673.3	8,068.9
Equity	1,447.3	649.0	(798.3)

Source: Bloomberg, Bank of Baroda Research | | Mutual funds data as of 30 Jun and 3 Jul 2023

- Crude prices rose further by 0.5%, supported by extension of voluntary production cuts by OPEC+ members, and awaiting data on US crude stockpiles.

Fig 7 – Commodities

	04-07-2023	05-07-2023	% change
Brent crude (US\$/bbl)	76.3	76.7	0.5
Gold (US\$/ Troy Ounce)	1,925.5	1,915.3	(0.5)
Copper (US\$/ MT)	8,346.0	8,304.0	(0.5)
Zinc (US\$/MT)	2,403.0	2,351.0	(2.2)
Aluminium (US\$/MT)	2,167.5	2,142.5	(1.2)

Source: Bloomberg, Bank of Baroda Research



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