

MORNING MOCHA

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ECONOMIST
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Adding to further woes, China's inflation data softened considerably in Jul'23. CPI fell by 0.3% on YoY basis, sharpest drop since Feb'21. Even factory prices fell at a much sharper pace by 4.4%; registering 10th consecutive month of decline. Notably, for the first time since Nov'20, both CPI and PPI entered into deflation at the same time. Elsewhere, in UK, BRC sales index picked up at a less than sharper pace in Jul'23, signalling some softening in demand. The final estimate of Germany shows 0.3% sequential increase in CPI, remaining in line with expectations. Elsewhere, Fed officials gave mixed signals. While Philadelphia Fed President spoke of a pause in CY23 and then a rate cut next year, Atlanta Fed President remained hawkish. On domestic front, markets will closely monitor RBI's policy for any future guidance.

- Barring Nikkei (higher), other global stocks ended lower. Investor sentiments were impacted by Moody's rating downgrade of several US banks and dismal trade data from China. Stocks in Hong Kong fell the most by 1.8%. Markets now await US inflation report due later this week. In India, Sensex fell by 0.2% as inflation concerns weighed. Maximum decline was recorded in metal and power stocks. It is trading further lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	07-08-2023	08-08-2023	% change
Dow Jones	35,473	35,314	(0.4)
S & P 500	4,518	4,499	(0.4)
FTSE	7,554	7,527	(0.4)
Nikkei	32,255	32,377	0.4
Hang Seng	19,538	19,184	(1.8)
Shanghai Comp	3,269	3,261	(0.3)
Sensex	65,953	65,847	(0.2)
Nifty	19,597	19,571	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Global currencies fell against a resurgent dollar. DXY rose by 0.5% amidst a global risk-off sentiment. JPY depreciated by 0.6%, amidst weak macro data. CNY too fell as China's trade data disappointed. A precipitous moderation in UK's retail sales weighed on GBP. INR ended weaker as oil prices climbed up again. However, it is trading stronger today, in line with its Asian peers.

Fig 2 – Currencies

	07-08-2023	08-08-2023	% change
EUR/USD (1 EUR / USD)	1.1002	1.0956	(0.4)
GBP/USD (1 GBP / USD)	1.2784	1.2748	(0.3)
USD/JPY (JPY / 1 USD)	142.50	143.38	(0.6)
USD/INR (INR / 1 USD)	82.75	82.83	(0.1)
USD/CNY (CNY / 1 USD)	7.1931	7.2186	(0.4)

Source: Bloomberg, Bank of Baroda Research



- Barring China (stable), global 10Y yields closed lower. Softening activity in China raised concerns about outlook of global growth, thus increasing demand for sovereign securities. Germany's 10Y yield fell the most by 13bps followed by UK (-8bps) and US (-7bps). Thus India's 10Y yield fell by 4bps. It is trading at the same level today.

Fig 3 – Bond 10Y yield

	07-08-2023	08-08-2023	change in bps
US	4.09	4.02	(7)
UK	4.46	4.39	(8)
Germany	2.60	2.47	(13)
Japan	0.63	0.61	(2)
China	2.65	2.65	0
India	7.20	7.16	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	07-08-2023	08-08-2023	change in bps
Tbill-91 days	6.72	6.76	4
Tbill-182 days	6.88	6.84	(4)
Tbill-364 days	6.93	6.92	(1)
G-Sec 2Y	7.08	7.06	(1)
India OIS-2M	6.64	6.64	0
India OIS-9M	6.87	6.85	(2)
SONIA int rate benchmark	5.18	5.18	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	07-08-2023	08-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.5)	(1.9)	0.6
Reverse repo	0.9	0.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	04-08-2023	07-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	43.0	265.2	222.2
Debt	34.9	(7.0)	(41.9)
Equity	8.0	272.2	264.1
Mutual funds (Rs cr)	1,001.9	563.4	(438.5)
Debt	291.1	75.9	(215.2)
Equity	710.8	487.5	(223.3)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 2nd and 3rd Aug

- Oil prices rose as EIA upgraded US growth forecast for CY23.

Fig 7 – Commodities

	07-08-2023	08-08-2023	% change
Brent crude (US\$/bbl)	85.3	86.2	1.0
Gold (US\$/ Troy Ounce)	1,936.6	1,925.2	(0.6)
Copper (US\$/ MT)	8,436.1	8,303.0	(1.6)
Zinc (US\$/MT)	2,510.0	2,486.3	(0.9)
Aluminium (US\$/MT)	2,230.0	2,200.5	(1.3)

Source: Bloomberg, Bank of Baroda Research



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