

MORNING MOCHA

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ECONOMIST
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Showing the impact of tight monetary policy conditions, industrial production in the US stagnated in Feb'23 (0%), coming below estimated 0.2% increase and down from 0.3% in Jan'23. University of Michigan's Mar'23 consumer sentiment index also fell to 63.4 (est.: 67) from 67 in Feb'23. Markets now await Fed's rate decision due this week (est.: +25bps hike). With banking stocks under pressure, equity indices fell in US and UK and investors chased sovereign bonds, leading to decline in yields. In Asia, China announced surprise RRR cut (-25bps) in an effort to boost liquidity. This is the 5th cut in the cycle and follows previous cuts in Apr'22 and Dec'22, and was taken in the wake of uneven recovery. Analysts expect limited effects of the decision.

- Barring markets in US and UK (lower), other global indices ended higher. Despite pledges of liquidity support for Credit Suisse and First Republic Bank, depositors' confidence is still considered to be fragile. Investors also await Fed rate decision and are evaluating the impact of continuous policy tightening. Domestic markets ended in green, led by realty, metal and banking stocks. However, it is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	16-03-2023	17-03-2023	% change
Dow Jones	32,247	31,862	(1.2)
S & P 500	3,960	3,917	(1.1)
FTSE	7,410	7,335	(1.0)
Nikkei	27,011	27,334	1.2
Hang Seng	19,204	19,519	1.6
Shanghai Comp	3,227	3,251	0.7
Sensex	57,635	57,990	0.6
Nifty	16,986	17,100	0.7

Source: Bloomberg, Bank of Baroda Research

- Global currencies rose against the dollar. DXY fell by 0.7% as investors dialled back expectations of aggressive rate hikes by Fed, with some even pricing in a rate cut this year. JPY gained the most by 1.4% on safe-haven demand. INR appreciated by 0.2% as oil prices dipped. It is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	16-03-2023	17-03-2023	% change
EUR/USD (1 EUR / USD)	1.0610	1.0670	0.6
GBP/USD (1 GBP / USD)	1.2109	1.2173	0.5
USD/JPY (JPY / 1 USD)	133.74	131.85	1.4
USD/INR (INR / 1 USD)	82.74	82.55	0.2
USD/CNY (CNY / 1 USD)	6.8980	6.8867	0.2

Source: Bloomberg, Bank of Baroda Research



- Except India and China (flat), other global yields fell. 10Y yields in US, UK and Germany plunged sharply as investor sentiment remained downbeat amidst ongoing banking crisis in US and Europe. Investors now await the US Fed policy announcement scheduled this week. Despite lower oil prices, India's 10Y yield closed unchanged at 7.34%. Following global cues, it is trading lower at 7.32% today.

Fig 3 – Bond 10Y yield

	16-03-2023	17-03-2023	change in bps
US	3.58	3.43	(15)
UK	3.43	3.28	(14)
Germany	2.29	2.11	(18)
Japan	0.32	0.29	(3)
China	2.87	2.87	0
India	7.34	7.34	0

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India

Fig 4 – Short term rates

	16-03-2023	17-03-2023	change in bps
Tbill-91 days	6.76	6.75	(1)
Tbill-182 days	7.23	7.23	0
Tbill-364 days	7.25	7.21	(4)
G-Sec 2Y	7.19	7.22	3
SONIA int rate benchmark	3.93	3.93	0
US SOFR	4.58	4.57	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-03-2023	17-03-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.1	1.2	0.1
Reverse repo	0	0	0
Repo	0.8	0.8	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-03-2023	16-03-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(136.4)	14.8	151.2
Debt	14.7	(5.4)	(20.1)
Equity	(151.1)	20.2	171.3
Mutual funds (Rs cr)	1,029.5	203.1	(826.4)
Debt	1,105.4	(148.5)	(1,253.8)
Equity	(75.9)	351.6	427.5

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 9 Mar 2023 and 10 Mar 2023

- Global oil prices fell by 2.3%, owing to concerns of weakness in financial sector. Gold (+3.6%) proved to be a preferred choice over oil in terms of safe haven.

Fig 7 – Commodities

	16-03-2023	17-03-2023	% change
Brent crude (US\$/bbl)	74.7	73.0	(2.3)
Gold (US\$/ Troy Ounce)	1,919.5	1,989.3	3.6
Copper (US\$/ MT)	8,508.8	8,573.3	0.8
Zinc (US\$/MT)	2,871.0	2,931.0	2.1
Aluminium (US\$/MT)	2,267.5	2,274.0	0.3

Source: Bloomberg, Bank of Baroda Research



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