

MORNING MOCHA

02 January 2023

ECONOMIST
Sonal Badhan

China's official PMIs indicate that both manufacturing (47.8 in Dec'22 versus est.: 47 and 48 in Nov'22) and non-manufacturing (41.6 in Dec'22 versus est.: 45 and 46.7 in Nov'22) activity contracted much more than expected in Dec'22. Surge in Covid-19 cases and related restrictions were the key drivers. In the current year, investors will watch for signals showing the impact of rate hikes on respective economies, and spillover from slowdown in China. Another key question will be at what rates major central banks will peak their policy rates. To gauge the same, analysts await flash global PMIs, China's trade data, Eurozone CPI and Germany factory order data, due this week.

- Global indices ended mixed. For the New Year, investors are expected to track Fed's next move with respect to rate hike and remain watchful on growing signs of weakness in China's economy. Dow Jones had declined by 8.8% in CY22 compared with an increase of 18.7% in CY21. Sensex on the other hand, edged up by 4.4% in CY22 (22% in CY21). Banking and power stocks fell the most on the last trading day. It is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	29-12-2022	30-12-2022	% change
Dow Jones	33,221	33,147	(0.2)
S & P 500	3,849	3,840	(0.3)
FTSE	7,513	7,452	(0.8)
Nikkei	26,094	26,095	0
Hang Seng	19,741	19,781	0.2
Shanghai Comp	3,074	3,089	0.5
Sensex	61,134	60,841	(0.5)
Nifty	18,191	18,105	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Global currencies edged up against the dollar. DXY retreated by 0.3% as investors monitored US jobless claims. JPY (1.5%) gained the most followed by EUR (0.4%) and GBP (0.2%). INR appreciated, despite oil prices edging higher. However, it is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	29-12-2022	30-12-2022	% change
EUR/USD (1 EUR / USD)	1.0661	1.0705	0.4
GBP/USD (1 GBP / USD)	1.2055	1.2083	0.2
USD/JPY (JPY / 1 USD)	133.03	131.12	1.5
USD/INR (INR / 1 USD)	82.81	82.74	0.1
USD/CNY (CNY / 1 USD)	6.9643	6.8986	1.0

Source: Bloomberg, Bank of Baroda Research

- Except Japan and China (lower), 10Y yields elsewhere closed higher. Germany's 10Y yield rose the most (+13bps), followed by the US (+6bps).



Improvement in Chicago business activity index indicates that Fed may continue to keep rates elevated for a longer period. In addition, investors are also eyeing Covid-19 related travel restrictions announced by US and European economies. Following global cues, India's 10Y yield too moved up by 2bps to 7.33% and is trading further higher at 7.35% today.

Fig 3 – Bond 10Y yield

	29-12-2022	30-12-2022	change in bps
US	3.81	3.87	6
UK	3.66	3.67	1
Germany	2.44	2.57	13
Japan	0.46	0.42	(4)
China	2.85	2.84	(1)
India	7.31	7.33	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	29-12-2022	30-12-2022	change in bps
Tbill-91 days	6.29	6.26	(3)
Tbill-182 days	6.70	6.69	(1)
Tbill-364 days	6.87	6.87	0
G-Sec 2Y	6.96	6.96	0
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	29-12-2022	30-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	(0.1)	(0.1)
Reverse repo	0.1	0	(0.1)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	28-12-2022	29-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	93.4	4.6	(88.7)
Debt	144.9	(52.0)	(196.9)
Equity	(51.6)	56.6	108.2
Mutual funds (Rs cr)	1,903.3	650.0	(1,253.4)
Debt	690.8	313.9	(376.9)
Equity	1,212.5	336.1	(876.5)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 21 Dec 2022 and 22 Dec 2022

- Crude oil prices rose by 4.4% to US\$ 86/bbl on the back of tighter supplies. Gold prices inched up further.

Fig 7 – Commodities

	29-12-2022	30-12-2022	% change
Brent crude (US\$/bbl)	82.3	85.9	4.4
Gold (US\$/ Troy Ounce)	1,814.9	1,824.0	0.5
Copper (US\$/ MT)	8,409.5	8,364.8	(0.5)
Zinc (US\$/MT)	3,012.8	3,003.3	(0.3)
Aluminium (US\$/MT)	2,405.0	2,378.0	(1.1)

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com