

MORNING MOCHA

07 February 2023

ECONOMIST
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Following the stellar US jobs report, market expectations of Fed rate path have seen a marked shift. Investors now expect a peak terminal rate above 5%, with two 25bps rate hikes expected in the next two meetings. In response, equity markets worldwide saw a sharp selloff and currencies depreciated. Against this backdrop, Fed Chair's speech due later in the day, is keenly awaited. Geo-political tensions between US and China also kept investors jittery. Reserve Bank of Australia increased policy rates by another 25bps as inflation continues to remain very high and also hinted at more rate hikes. In UK, BoE's Catherine Mann also advocated for more rate hikes.

- Except Nikkei (higher), global indices closed lower. Investors remained cautious ahead of Powell's speech to get cues on direction of future Fed fund rate. Atlanta Fed President also spoke of possibility to raise rates more than previously anticipated, to rein in inflation. Hang Seng dropped the most, followed by Shanghai Comp and FTSE. Sensex fell by 0.6% dragged down by metal and power stocks. It is trading weaker today, while other Asian stocks are trading higher.

Fig 1 – Stock markets

| | 03-02-2023 | 06-02-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 33,926 | 33,891 | (0.1) |
| S & P 500 | 4,136 | 4,111 | (0.6) |
| FTSE | 7,902 | 7,837 | (0.8) |
| Nikkei | 27,509 | 27,694 | 0.7 |
| Hang Seng | 21,660 | 21,222 | (2.0) |
| Shanghai Comp | 3,263 | 3,239 | (0.8) |
| Sensex | 60,842 | 60,507 | (0.6) |
| Nifty | 17,854 | 17,765 | (0.5) |

Source: Bloomberg, Bank of Baroda Research

- Except CNY (flat), other global currencies ended weaker against the dollar. DXY consolidated its gains, rising by another 0.6% amidst expectations of a higher terminal Fed rate. EUR depreciated by 0.6% even as Germany's industrial orders surprised positively. JPY and INR depreciated the most by 1.1% each. INR is trading a tad stronger today, in line with other Asian currencies.

Fig 2 – Currencies

| | 03-02-2023 | 06-02-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0795 | 1.0726 | (0.6) |
| GBP/USD (1 GBP / USD) | 1.2056 | 1.2019 | (0.3) |
| USD/JPY (JPY / 1 USD) | 131.19 | 132.66 | (1.1) |
| USD/INR (INR / 1 USD) | 81.84 | 82.74 | (1.1) |
| USD/CNY (CNY / 1 USD) | 6.7980 | 6.7964 | 0 |

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed higher. UK's 10Y yield rose the most by 19bps following comments from BoE's official about more rate increases to control inflation. Even US 10Y yield firmed up by 12bps, as tighter labour market data raised possibility of a higher terminal fund rate. India's 10Y yield rose by 4bps (7.32%) ahead of RBI policy. It is trading at 7.31% today.

Fig 3 – Bond 10Y yield

| | 03-02-2023 | 06-02-2023 | change in bps |
|---------|------------|------------|---------------|
| US | 3.52 | 3.64 | 12 |
| UK | 3.06 | 3.24 | 19 |
| Germany | 2.19 | 2.30 | 10 |
| Japan | 0.50 | 0.51 | 1 |
| China | 2.90 | 2.91 | 1 |
| India | 7.28 | 7.32 | 4 |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 03-02-2023 | 06-02-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.55 | 6.55 | 0 |
| Tbill-182 days | 6.89 | 6.83 | (6) |
| Tbill-364 days | 6.92 | 6.91 | (1) |
| G-Sec 2Y | 6.88 | 6.93 | 6 |
| SONIA int rate benchmark | 3.93 | 3.93 | 0 |
| US SOFR | 4.56 | 4.55 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 03-02-2023 | 06-02-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.4) | (0.4) | 0 |
| Reverse repo | 0.4 | 0.4 | 0 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 02-02-2023 | 03-02-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | (325.8) | 16.1 | 341.9 |
| Debt | 118.1 | 46.5 | (71.6) |
| Equity | (443.9) | (30.4) | 413.5 |
| Mutual funds (Rs cr) | 2,446.6 | 1,729.9 | (716.7) |
| Debt | (2,166.5) | (2,908.2) | (741.7) |
| Equity | 4,613.1 | 4,638.1 | 25.0 |

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 27 Jan 2023 and 30 Jan 2023

- International oil prices edged up by 1.3% after IEA stated that oil demand is likely to rise to record high in 2023 amidst increased demand from China.

Fig 7 – Commodities

| | 03-02-2023 | 06-02-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 79.9 | 81.0 | 1.3 |
| Gold (US\$/ Troy Ounce) | 1,865.0 | 1,867.5 | 0.1 |
| Copper (US\$/ MT) | 8,951.3 | 8,838.0 | (1.3) |
| Zinc (US\$/MT) | 3,269.5 | 3,164.0 | (3.2) |
| Aluminium (US\$/MT) | 2,569.5 | 2,533.5 | (1.4) |

Source: Bloomberg, Bank of Baroda Research



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