

MORNING MOCHA

12 September 2023

ECONOMIST
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Investors have turned their focus towards the upcoming release of US CPI print which might offer guidance over the course of Fed's restrictive policy. Additionally, investors will also be monitoring ECB's rate decision. There is a 40% chance of a 25bps rate hike. European Commission has trimmed the growth forecast down to 0.8% (from 1%) for CY23 and to 1.4% (from 1.7%) for CY24. It has also lowered CPI projections (6.5% from 6.7%). Separately, in Japan, BoJ's governor signalled about a possible shift away from the negative interest rate policy before the end of the year. The comments triggered currency and benchmark yields to close higher.

- Barring Nikkei and Hang Seng, other global indices started the week on a positive note as investors awaited the release of the key macroeconomic data. S&P500 climbed up by 0.7% supported by a strong rally in tech stocks. Sensex rose by 0.8% with Nifty inching away from an all-time high surrounded by optimism around G20 developments and aided by FII flows. Power and auto stocks gained the most. It is trading further higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	8-09-2023	11-09-2023	% change
Dow Jones	34,577	34,664	0.3
S & P 500	4,457	4,487	0.7
FTSE	7,478	7,497	0.2
Nikkei	32,607	32,468	(0.4)
Hang Seng	18,202	18,096	(0.6)
Shanghai Comp	3,117	3,143	0.8
Sensex	66,599	67,127	0.8
Nifty	19,820	19,996	0.9

Source: Bloomberg, Bank of Baroda Research Note: Hong Market was shut on 8.9.23

- Except INR (lower), other global currencies ended higher. DXY fell by 0.5% as investors await US CPI data. Apart from this, ECB is also expected to announce its decision this week (40% chance of 25bps hike). JPY made significant gains as policymakers hint at moving away from ultra-loose monetary policy. INR was down by 0.1%. However, it is trading a tad higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	8-09-2023	11-09-2023	% change
EUR/USD (1 EUR / USD)	1.0700	1.0750	0.5
GBP/USD (1 GBP / USD)	1.2468	1.2509	0.3
USD/JPY (JPY / 1 USD)	147.83	146.59	0.8
USD/INR (INR / 1 USD)	82.95	83.03	(0.1)
USD/CNY (CNY / 1 USD)	7.3439	7.2891	0.8

Source: Bloomberg, Bank of Baroda Research



- Barring China, other global yields closed higher. 10Y yields in UK and Japan rose the most (+5bps). UK Chancellor's remarks regarding sticker than expected inflation and limited fiscal space to combat it, spooked investors. Japan's 10Y continues to gain, following remarks of BoJ Governor. India's 10Y yield also inched up by 4bps. However, it is trading lower today at 7.23%.

Fig 3 – Bond 10Y yield

	8-09-2023	11-09-2023	change in bps
US	4.26	4.29	2
UK	4.42	4.47	5
Germany	2.61	2.64	3
Japan	0.66	0.71	5
China	2.67	2.66	(1)
India	7.21	7.25	4

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	8-09-2023	11-09-2023	change in bps
Tbill-91 days	6.85	6.82	(3)
Tbill-182 days	7.00	6.99	(1)
Tbill-364 days	6.98	6.98	0
G-Sec 2Y	7.12	7.13	1
India OIS-2M	6.79	6.81	2
India OIS-9M	7.01	7.04	3
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	8-09-2023	11-09-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(0.4)	0.4
Reverse repo	0	0.2	0.2
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	7-09-2023	8-09-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(37.4)	(10.9)	26.6
Debt	49.0	0.8	(48.2)
Equity	(86.5)	(11.7)	74.8
Mutual funds (Rs cr)	60.9	410.1	349.3
Debt	(900.6)	(31.0)	869.6
Equity	961.4	441.1	(520.3)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 22nd and 23rd Aug

- Oil prices closed flat, as investors await US crude oil inventory and CPI data.

Fig 7 – Commodities

	8-09-2023	11-09-2023	% change
Brent crude (US\$/bbl)	90.7	90.6	0
Gold (US\$/ Troy Ounce)	1,919.1	1,922.3	0.2
Copper (US\$/ MT)	8,229.0	8,375.5	1.8
Zinc (US\$/MT)	2,420.9	2,485.0	2.6
Aluminium (US\$/MT)	2,183.5	2,205.5	1.0

Source: Bloomberg, Bank of Baroda Research



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