

MORNING MOCHA

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ECONOMIST
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Investors braced for the release of the CPI print and offer clarity on how long will Fed continue to tighten the policy rates. Separately, in Japan, corporate confidence took a beating for both manufacturers (4 vs 12) and non-manufacturers (23 vs 32). This was largely on account of higher cost of raw materials, subdued domestic and global demand. In South Korea, the unemployment rate dropped to 2%, its lowest level since Jun'99. On the domestic front, CPI inflation cooled off in Aug'23 (6.9% from 7.4% in Jul'23) led by easing in food prices. Government's supply side measure came into play to a certain extent. Industrial growth data surprised positively as growth climbed up to 5.7% in Jul'23 led by mining and electricity sector.

- Global indices ended mixed. US indices ended in red and were dragged down by losses in tech sector. FTSE rose by 0.4% amidst news of UK jobs reports tilting towards dovish side and unemployment coming in line with expectations. Sensex too closed higher led by gains in IT sector. Positive macroeconomic news (inflation cooled off and higher industrial growth) is expected to support the markets. It is trading higher today, while Asian stocks are trading lower.

Fig 1 – Stock markets

	11-09-2023	12-09-2023	% change
Dow Jones	34,664	34,646	(0.1)
S & P 500	4,487	4,462	(0.6)
FTSE	7,497	7,528	0.4
Nikkei	32,468	32,776	1.0
Hang Seng	18,096	18,026	(0.4)
Shanghai Comp	3,143	3,137	(0.2)
Sensex	67,127	67,221	0.1
Nifty	19,996	19,993	0

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. JPY (-0.3%) and GBP (-0.2%) fell most against the dollar. DXY regained ground and rose by 0.1%, as investors turn jittery ahead of US CPI print. A higher than expected print can raise probability of Fed rate hike, thus reviving dollar demand. INR was up by 0.1%. However, it is trading lower today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	11-09-2023	12-09-2023	% change
EUR/USD (1 EUR / USD)	1.0750	1.0754	0
GBP/USD (1 GBP / USD)	1.2509	1.2490	(0.2)
USD/JPY (JPY / 1 USD)	146.59	147.08	(0.3)
USD/INR (INR / 1 USD)	83.03	82.92	0.1
USD/CNY (CNY / 1 USD)	7.2891	7.2923	0

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. While 10Y yields in Germany, Japan and China ended flat, it closed lower elsewhere. 10Y yield in UK fell the most (-6bps). BoE's aggressive sale of bonds (even at losses) is raising concerns amongst investors. Following global cues, India's 10Y yield also fell by 2bps, and is trading further lower today at 7.21%.

Fig 3 – Bond 10Y yield

	11-09-2023	12-09-2023	change in bps
US	4.29	4.28	(1)
UK	4.47	4.42	(6)
Germany	2.64	2.64	0
Japan	0.71	0.71	0
China	2.66	2.66	0
India	7.25	7.23	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	11-09-2023	12-09-2023	change in bps
Tbill-91 days	6.82	6.85	3
Tbill-182 days	6.99	7.03	4
Tbill-364 days	6.98	7.00	2
G-Sec 2Y	7.12	7.13	1
India OIS-2M	6.81	6.81	0
India OIS-9M	7.04	7.03	(1)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	11-09-2023	12-09-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.4)	(0.3)	0.1
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	8-09-2023	11-09-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(10.9)	98.9	109.7
Debt	0.8	(78.1)	(78.9)
Equity	(11.7)	177.0	188.6
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 rose to highest since mid-Nov'22, led by supply-side concerns.

Fig 7 – Commodities

	11-09-2023	12-09-2023	% change
Brent crude (US\$/bbl)	90.6	92.1	1.6
Gold (US\$/ Troy Ounce)	1,922.3	1,913.7	(0.4)
Copper (US\$/ MT)	8,375.5	8,367.5	(0.1)
Zinc (US\$/MT)	2,485.0	2,450.0	(1.4)
Aluminium (US\$/MT)	2,205.5	2,196.5	(0.4)

Source: Bloomberg, Bank of Baroda Research



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