

MORNING MOCHA

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ECONOMIST
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Investors wagered that US interest rates have peaked, this was supported by recent dovish commentary of Fed officials. Fed minutes also highlighted the same. It was noted there is heightened uncertainty around economic outlook and there are host of factors that could impact the inflation. Fed remains attentive towards any inflation risk. According to the CME Fed watch tool, rates are already at its peak, with only 9% chance of a hike seen in Nov'23 meet. Investors will closely monitor the release of US CPI data, given the PPI data came in higher than anticipated. On domestic front, India's inflation and industrial growth is also awaited.

- Barring FTSE, other global indices ended higher. Investors monitored the cautious/dovish tone in Fed minutes which signalled that interest rates might be kept steady in the coming months. CPI data is expected to offer further guidance. Amidst strong cues, Sensex continued to advance for a second day in a row led by strong gains in auto and real estate stocks. It is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	10-10-2023	11-10-2023	% change
Dow Jones	33,739	33,805	0.2
S & P 500	4,358	4,377	0.4
FTSE	7,628	7,620	(0.1)
Nikkei	31,747	31,937	0.6
Hang Seng	17,665	17,893	1.3
Shanghai Comp	3,075	3,079	0.1
Sensex	66,079	66,473	0.6
Nifty	19,690	19,811	0.6

Source: Bloomberg, Bank of Baroda Research

- Barring JPY and CNY (lower), other global currencies closed higher against the dollar. GBP gained the most. DXY ended flat, owing to dip in US treasury yields and more dovish stance of Fed officials. INR was up by 0.1%, supported by drop in oil prices and improvement in risk appetite. It is trading further higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	10-10-2023	11-10-2023	% change
EUR/USD (1 EUR / USD)	1.0605	1.0620	0.1
GBP/USD (1 GBP / USD)	1.2287	1.2313	0.2
USD/JPY (JPY / 1 USD)	148.71	149.17	(0.3)
USD/INR (INR / 1 USD)	83.25	83.19	0.1
USD/CNY (CNY / 1 USD)	7.2940	7.3007	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Except China (higher), other global yields fell. 10Y yields in UK and US fell sharply. Investors are now more confident of Fed's end of rate hike cycle,



following the release of Fed's minutes. India's 10Y yield also fell by 4bps, as oil prices eased further. However, it is again trading higher at 7.35% today.

Fig 3 – Bond 10Y yield

	10-10-2023	11-10-2023	change in bps
US	4.65	4.56	(9)
UK	4.43	4.33	(10)
Germany	2.78	2.72	(6)
Japan	0.78	0.77	(1)
China	2.69	2.70	1
India	7.35	7.31	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	10-10-2023	11-10-2023	change in bps
Tbill-91 days	6.84	6.87	3
Tbill-182 days	7.06	7.10	4
Tbill-364 days	7.10	7.12	2
G-Sec 2Y	7.23	7.24	1
India OIS-2M	6.82	6.82	0
India OIS-9M	6.99	6.97	(2)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	10-10-2023	11-10-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.4	0.5	0.1
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	09-10-2023	10-10-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	34.4	(47.1)	(81.4)
Debt	(58.5)	61.6	120.0
Equity	92.8	(108.6)	(201.4)
Mutual funds (Rs cr)	(1,360.3)	1,515.6	2,875.9
Debt	(2,204.5)	(750.3)	1,454.2
Equity	844.2	2,265.9	1,421.7

Source: Bloomberg, Bank of Baroda Research Note: Mutual fund data as of 6th and 9th Oct 2023

- Oil prices fell by 2.1%, after Saudi Arabia reiterated its support to maintain undisrupted supply of oil.

Fig 7 – Commodities

	10-10-2023	11-10-2023	% change
Brent crude (US\$/bbl)	87.7	85.8	(2.1)
Gold (US\$/ Troy Ounce)	1,860.4	1,874.4	0.8
Copper (US\$/ MT)	7,945.0	7,946.5	0.0
Zinc (US\$/MT)	2,442.8	2,448.5	0.2
Aluminium (US\$/MT)	2,212.5	2,214.0	0.1

Source: Bloomberg, Bank of Baroda Research



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