

MORNING MOCHA

10 January 2023

ECONOMIST

Aditi Gupta

Increased expectations of a softer stance from the Fed drove global markets. Markets are now expecting the Fed rate to peak below 5%, along with expectations of a rate-cut in the latter part of the year. This drove dollar lower. Investor sentiment was also buoyed as China reopened its international borders after 3 years. As a result, equities edged up. Elsewhere in Europe, Germany's industrial production rose more than expected by 0.2% in Nov'22 (MoM), versus est. 0.1% increase. Eurozone's unemployment rate unchanged at a record low of 6.5% in Nov'22. US CPI data due later in the week, will determine the Fed rate path. Fed officials also stated that the monetary policy will be contingent on the evolving inflation trajectory.

- Global indices ended mixed. Markets in the US closed lower amidst mixed commentaries from central bank officials. While San Francisco Federal Reserve President said a 50/25bps hike might be a possibility, Atlanta Fed President spoke of a 25bps rate hike. Asian markets got comfort with China's reopening of borders with Hong Kong. Sensex ended in green led by tech and power stocks. However, it is trading lower today while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	06-01-2023	09-01-2023	% change
Dow Jones	33,631	33,518	(0.3)
S & P 500	3,895	3,892	(0.1)
FTSE	7,699	7,725	0.3
Nikkei	25,821	25,974	0.6
Hang Seng	20,992	21,388	1.9
Shanghai Comp	3,158	3,176	0.6
Sensex	59,900	60,747	1.4
Nifty	17,859	18,101	1.4

Source: Bloomberg, Bank of Baroda Research | Note: Markets in Japan were closed on 9 Jan 2023

- Global currencies strengthened against the dollar. DXY fell by 0.8% to a more than 6-month low amidst increasing bet of a softer stance from the Fed. EUR gained by 0.8% as Germany's industrial production rose more than expected in Nov'22. CNY also gained 0.8% amidst optimism over border reopening. INR appreciated by 0.4%, following global cues. It is trading further stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	06-01-2023	09-01-2023	% change
EUR/USD (1 EUR / USD)	1.0644	1.0730	0.8
GBP/USD (1 GBP / USD)	1.2093	1.2184	0.8
USD/JPY (JPY / 1 USD)	132.08	131.88	0.2
USD/INR (INR / 1 USD)	82.73	82.36	0.4
USD/CNY (CNY / 1 USD)	6.8280	6.7719	0.8

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. In the US, 10Y yield fell by 3bps as New York Federal Reserve Survey of consumer expectations showed that near term inflation expectations are falling. Germany's 10Y yield inched up by 2bps following upbeat industrial production data. India's yield fell by 3bps (7.34%), tracking US 10Y yield. It is trading a tad lower at 7.33% today.

Fig 3 – Bond 10Y yield

	06-01-2023	09-01-2023	change in bps
US	3.56	3.53	(3)
UK	3.47	3.53	5
Germany	2.21	2.23	2
Japan	0.51	0.51	0
China	2.84	2.84	1
India	7.37	7.34	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	06-01-2023	09-01-2023	change in bps
Tbill-91 days	6.35	6.34	(1)
Tbill-182 days	6.75	6.75	0
Tbill-364 days	6.89	6.88	(1)
G-Sec 2Y	6.95	6.92	(2)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.31	4.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	06-01-2023	09-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(0.7)	(0.1)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	05-01-2023	06-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(161.2)	(339.7)	(178.4)
Debt	(9.3)	(15.8)	(6.5)
Equity	(151.9)	(323.8)	(171.9)
Mutual funds (Rs cr)	(124.3)	855.5	979.8
Debt	(196.7)	326.5	523.3
Equity	72.4	529.0	456.6

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data is of 2 Jan 2023 and 5 Jan 2023

- Global oil prices rose by 1.4% amidst an improving demand outlook, as China reopened its borders.

Fig 7 – Commodities

	06-01-2023	09-01-2023	% change
Brent crude (US\$/bbl)	78.6	79.7	1.4
Gold (US\$/ Troy Ounce)	1,865.7	1,871.8	0.3
Copper (US\$/ MT)	8,569.9	8,833.0	3.1
Zinc (US\$/MT)	3,041.8	3,223.3	6.0
Aluminium (US\$/MT)	2,295.5	2,438.5	6.2

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

+91 22 6698 5143

chief.economist@bankofbaroda.com