

MORNING MOCHA

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ECONOMIST

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US CPI data remained comforting. On YoY basis, it rose less than expected by 3.2% (est.: 3.3%) and compared to 3% in Jun'23. The sequential pickup was as expected by 0.2%. Core rose by 4.7% (YoY) and sequentially by 0.2% (on expected lines). CME Fed Watch tool is only pricing in a 10% probability for a rate hike in Sep. However, San Francisco Fed President remained slightly uncertain of trajectory of inflation. Elsewhere, Reserve Bank of Australia's Governor said that monetary policy has now entered a 'recalibration phase', where minor adjustments are required in line with evolving data. On domestic front, RBI's undertone was hawkish and even a rate hike could not be ruled out. The surprise move was asking banks to hold incremental CRR, where some friction in short end yields may be visible.

- Global indices closed mixed. Cooler than expected inflation in the US and corporate earnings results of European companies supported gains made by Dow Jones and FTSE. Nikkei ended higher, led by manufacturing, transport, railways & bus sector stocks. Sensex ended in red, dragged by banking (following RBI announcement) and capital good stocks. It is trading further lower today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	09-08-2023	10-08-2023	% change
Dow Jones	35,123	35,176	0.2
S & P 500	4,468	4,469	0
FTSE	7,587	7,619	0.4
Nikkei	32,204	32,474	0.8
Hang Seng	19,246	19,248	0
Shanghai Comp	3,244	3,255	0.3
Sensex	65,996	65,688	(0.5)
Nifty	19,633	19,543	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Except EUR and INR (higher), other global currencies fell against US\$. DXY ended flat. JPY and GBP fell the most. Easing labour market and softening inflation has raised concerns over impending soft landing for the US economy. Latest possibility of Fed rate cut is priced in for Mar'24. INR rose by 0.1%, as oil prices fell. However, it is trading lower today in line with other Asian currencies.

Fig 2 – Currencies

	09-08-2023	10-08-2023	% change
EUR/USD (1 EUR / USD)	1.0974	1.0981	0.1
GBP/USD (1 GBP / USD)	1.2719	1.2676	(0.3)
USD/JPY (JPY / 1 USD)	143.73	144.75	(0.7)
USD/INR (INR / 1 USD)	82.82	82.72	0.1
USD/CNY (CNY / 1 USD)	7.2107	7.2188	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. US 10Y yield rose by 10bps following hawkish comments from Fed official. UK, Japan and China's 10Y yield closed flat, in absence of fresh cues. India's 10Y yield fell by 2bps as markets have already priced in hawkish pause by RBI. It is trading higher at 7.19% today.

Fig 3 – Bond 10Y yield

	09-08-2023	10-08-2023	change in bps
US	4.01	4.11	10
UK	4.37	4.36	0
Germany	2.50	2.53	3
Japan	0.58	0.58	0
China	2.66	2.66	0
India	7.17	7.15	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	08-08-2023	09-08-2023	change in bps
Tbill-91 days	6.76	6.74	(2)
Tbill-182 days	6.84	6.90	6
Tbill-364 days	6.92	6.95	3
G-Sec 2Y	7.06	7.09	3
India OIS-2M	6.64	6.65	1
India OIS-9M	6.85	6.86	1
SONIA int rate benchmark	5.18	5.18	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	08-08-2023	09-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.1)	(2.6)	(0.5)
Reverse repo	0.9	0.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	08-08-2023	09-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(3.8)	264.2	268.1
Debt	3.2	143.9	140.6
Equity	(7.1)	120.4	127.4
Mutual funds (Rs cr)	1,001.9	563.4	(438.5)
Debt	291.1	75.9	(215.2)
Equity	710.8	487.5	(223.3)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 2nd and 3rd Aug

- Oil prices fell by 1.3% as demand concerns from China (as it entered deflation and PPI also continues to decline) linger.

Fig 7 – Commodities

	09-08-2023	10-08-2023	% change
Brent crude (US\$/bbl)	87.6	86.4	(1.3)
Gold (US\$/ Troy Ounce)	1,914.5	1,912.5	(0.1)
Copper (US\$/ MT)	8,363.3	8,348.7	(0.2)
Zinc (US\$/MT)	2,516.0	2,484.5	(1.3)
Aluminium (US\$/MT)	2,195.0	2,204.0	0.4

Source: Bloomberg, Bank of Baroda Research



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