

MORNING MOCHA

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ECONOMIST
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Latest US data shows that labour market continues to remain tight with initial jobless claims for the week ending 11 Feb 2023, falling by 1k to 194k. Further, US PPI rose by 6% (YoY) in Jan'23 versus est.: 5.6% and 6.2% in Dec'22. While this does not impact Fed's policy decision directly, but it may add pressure on input costs which may then be passed onto the consumers, thus slowing the efforts made by Fed to cool down retail inflation. Overall strength in the US economy (robust retail sales) has increased the likelihood of 2 more rates hikes this year. Housing sector in the US is likely to continue to suffer from elevated rates (single family housing starts fell to 1.3mn units in Jan'23 versus est.: 1.35mn and down from 1.38mn in Dec'22).

- Global indices closed mixed. While markets in US and China fell, Nikkei and Hang Seng gained the most. Investors reacted to latest US macro data (retail sales, jobless claims, PPI) pointing towards elevated policy rates in the near term as well. In Europe, better than expected earnings results helped banking stocks lift the markets. Sensex rose by 0.1%, led by realty, metals and cap good stocks. However, it is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	15-02-2023	16-02-2023	% change
Dow Jones	34,128	33,697	(1.3)
S & P 500	4,148	4,090	(1.4)
FTSE	7,998	8,013	0.2
Nikkei	27,502	27,696	0.7
Hang Seng	20,812	20,988	0.8
Shanghai Comp	3,280	3,249	(1.0)
Sensex	61,275	61,320	0.1
Nifty	18,016	18,036	0.1

Source: Bloomberg, Bank of Baroda Research

- While Asian currencies ended higher/flat against the dollar, EUR and GBP depreciated. DXY fell by 0.1%, despite increase in US yields. GBP fell, as faster than expected decline in UK's inflation has increased chances of lower rate hikes by BoE. INR rose by 0.1%, supported by lower than expected trade deficit print and dip in oil prices. However, it is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	15-02-2023	16-02-2023	% change
EUR/USD (1 EUR / USD)	1.0689	1.0674	(0.1)
GBP/USD (1 GBP / USD)	1.2030	1.1993	(0.3)
USD/JPY (JPY / 1 USD)	134.16	133.94	0.2
USD/INR (INR / 1 USD)	82.80	82.72	0.1
USD/CNY (CNY / 1 USD)	6.8550	6.8575	0

Source: Bloomberg, Bank of Baroda Research



- Except US and UK (higher), other global yields closed flat/lower. US 10Y yield rose the most by 6bps as labour market conditions remain tight, and retail sales data shows resilience in consumer demand. It is now widely expected that Fed will continue to hike rates in the coming months as well. India's 10Y yield fell by 3bps, as oil prices fell. However, tracking global cues, it is trading higher at 7.36% today.

Fig 3 – Bond 10Y yield

	15-02-2023	16-02-2023	change in bps
US	3.80	3.86	6
UK	3.49	3.50	1
Germany	2.48	2.48	0
Japan	0.51	0.51	0
China	2.89	2.89	0
India	7.35	7.32	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	15-02-2023	16-02-2023	change in bps
Tbill-91 days	6.72	6.74	2
Tbill-182 days	7.10	7.08	(2)
Tbill-364 days	7.14	7.14	0
G-Sec 2Y	7.17	7.16	(1)
SONIA int rate benchmark	3.93	3.93	0
US SOFR	4.55	4.55	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	15-02-2023	16-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.2	0.1	(0.1)
Reverse repo	0	0	0
Repo	0.5	0.5	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	14-02-2023	15-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	134.7	56.2	(78.5)
Debt	(63.9)	(36.9)	27.0
Equity	198.6	93.0	(105.5)
Mutual funds (Rs cr)	(235.0)	(21.3)	213.7
Debt	(352.2)	(68.8)	283.5
Equity	117.3	47.5	(69.8)

Source: Bloomberg, Bank of Baroda Research

- Global oil prices fell by 0.3%, as worries over increased probability of US Fed rate hikes could dampen demand outlook.

Fig 7 – Commodities

	15-02-2023	16-02-2023	% change
Brent crude (US\$/bbl)	85.4	85.1	(0.3)
Gold (US\$/ Troy Ounce)	1,836.0	1,836.4	0
Copper (US\$/ MT)	8,826.8	8,991.5	1.9
Zinc (US\$/MT)	3,037.0	3,030.8	(0.2)
Aluminium (US\$/MT)	2,384.5	2,394.0	0.4

Source: Bloomberg, Bank of Baroda Research



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