

MORNING MOCHA

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ECONOMIST
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Macro data in the US pointed to slowdown in the economy. PPI data fell far more than anticipated (-0.5% from +0.2% in Nov'22 on MoM). Industrial production fell at the sharpest pace in 15-months (-0.7% from -0.6% in Nov'22). Adding to further woes was drop in US retail sales by 1.1% against expectation of -0.8%. Despite that Fed officials (Cleveland and St Louis Fed President) stated the need to continue with rate hike to combat inflation. They see the terminal rate settling above 5%.

- Global indices ended mixed as investors monitored slew of data releases. UK CPI eased for the 2nd month in a row (10.5% in Dec against 10.7% in Nov'22). Disappointing data of US retail sales dragged down Dow Jones which fell by 1.8%. On the other hand, Nikkei jumped by 2.5% as BoJ continued with its ultra-low rates and made no new announcement. Sensex also ended in green led by gains in power, capital goods and IT stocks. However, it is trading lower today ahead of the F&O expiry day; while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	17-01-2023	18-01-2023	% change
Dow Jones	33,911	33,297	(1.8)
S & P 500	3,991	3,929	(1.6)
FTSE	7,851	7,831	(0.3)
Nikkei	26,139	26,791	2.5
Hang Seng	21,578	21,674	0.4
Shanghai Comp	3,224	3,224	0
Sensex	60,656	61,046	0.6
Nifty	18,053	18,165	0.6

Source: Bloomberg, Bank of Baroda Research

- Except JPY (lower) and EUR (flat), other global currencies ended higher. DXY was broadly unchanged after US retail sales slumped in Dec'22. Fed officials reiterated the need for higher rates. JPY fell by 0.6% after BoJ defied market expectation of a change in its ultra-dovish policy. INR appreciated by 0.4%. It is trading stronger today as well, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	17-01-2023	18-01-2023	% change
EUR/USD (1 EUR / USD)	1.0788	1.0792	0
GBP/USD (1 GBP / USD)	1.2286	1.2346	0.5
USD/JPY (JPY / 1 USD)	128.12	128.88	(0.6)
USD/INR (INR / 1 USD)	81.77	81.44	0.4
USD/CNY (CNY / 1 USD)	6.7719	6.754	0.3

Source: Bloomberg, Bank of Baroda Research

- Except UK (stable) and China (tad higher), global 10Y yields closed lower. US 10Y yield fell by 18bps as all major macro prints such as retail sales, industrial production and producer price inflation showed slowdown. Even Japan's 10Y



yield fell by 10bps as BoJ went against market expectation of exiting from ultra-loose policy. India's 10Y yield fell by 1bps. It is trading lower at 7.29% today.

Fig 3 – Bond 10Y yield

	17-01-2023	18-01-2023	change in bps
US	3.55	3.37	(18)
UK	3.32	3.32	0
Germany	2.09	2.02	(7)
Japan	0.52	0.42	(10)
China	2.91	2.96	1
India	7.33	7.32	(1)

Source: Bloomberg, Bank of Baroda Research

- Cut off yields for Tbill rose across the board (91, 182 and 364-days:+3, +4 and +1bps respectively).

Fig 4 – Short term rates

	16-01-2023	17-01-2023	change in bps
Tbill-91 days	6.35	6.48	13
Tbill-182 days	6.76	6.77	1
Tbill-364 days	6.87	6.87	0
G-Sec 2Y	6.88	6.92	3
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research Note: US markets were closed on 16.01.2023

Fig 5 – Liquidity

Rs tn	17-01-2023	18-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.5)	(0.7)	(0.2)
Reverse repo	0.5	0.5	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-01-2023	17-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	243.3	183.5	(59.8)
Debt	50.3	17.4	(33.0)
Equity	193.0	166.2	(26.9)
Mutual funds (Rs cr)	840.5	855.5	15.0
Debt	640.0	326.5	(313.5)
Equity	200.5	529.0	328.5

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data is of 4 Jan 2023 and 5 Jan 2023

- Global oil prices fell by 1.1% to US\$ 85/bbl amidst slowdown fears in the US.

Fig 7 – Commodities

	17-01-2023	18-01-2023	% change
Brent crude (US\$/bbl)	85.9	85.0	(1.1)
Gold (US\$/ Troy Ounce)	1,908.7	1,907.0	(0.1)
Copper (US\$/ MT)	9,088.2	9,283.0	2.1
Zinc (US\$/MT)	3,323.5	3,312.8	(0.3)
Aluminium (US\$/MT)	2,621.0	2,618.5	(0.1)

Source: Bloomberg, Bank of Baroda Research, Note: Prices for Copper, Zinc and Aluminium as of 16, 17th Jan 2023



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