

MORNING MOCHA

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ECONOMIST

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Investors factored in a higher possibility of a pause on rate hike front by Fed (76% for pause) in the upcoming Fed meet given the early signs of labour market cooling off. Markets will await the unemployment report scheduled later today. US 10Y yields tumbled after subdued data print (Manufacturing PMI contracted and new Jobless claims rose). On the other hand, ECB reiterated the policy tightening continues to remain a necessary tool amidst elevated inflation. Dollar retreated, while crude prices jumped awaiting the OPEC+ meet. Separately, India's manufacturing PMI expanded at its fastest pace in May'23 (58.7 from 57.2 in Apr'23).

- Global indices ended mixed. US and European indices ended higher on the back of progress made in US debt deal and on dimming hopes of another rate hike by Fed. On the other hand, Hang Seng slipped lower. Sensex too ended in red. With sharp losses in metal and banking stocks. Though, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	31-05-2023	1-06-2023	% change
Dow Jones	32,908	33,062	0.5
S & P 500	4,180	4,221	1.0
FTSE	7,446	7,490	0.6
Nikkei	30,888	31,148	0.8
Hang Seng	18,234	18,217	(0.1)
Shanghai Comp	3,205	3,205	0
Sensex	62,622	62,429	(0.3)
Nifty	18,534	18,488	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed higher, with EUR and GBP (+0.7% each) gaining the most against the dollar. DXY fell by 0.7%, as chances of rate hike by Fed in Jun'23 ebbed, and risk sentiment improved. INR too appreciated by 0.4%, even as oil prices inched up. It is trading further higher today, in line with other Asian currencies.

Fig 2 – Currencies

	31-05-2023	1-06-2023	% change
EUR/USD (1 EUR / USD)	1.0689	1.0762	0.7
GBP/USD (1 GBP / USD)	1.2441	1.2526	0.7
USD/JPY (JPY / 1 USD)	139.34	138.80	0.4
USD/INR (INR / 1 USD)	82.73	82.41	0.4
USD/CNY (CNY / 1 USD)	7.1085	7.0976	0.2

Source: Bloomberg, Bank of Baroda Research

- Barring China (flat), other global yields ended lower. 10Y yields in UK, US and Germany fell the most. Weaker than expected manufacturing PMI, along with slight increase in jobless claims have raised hopes of Fed skipping rate hike in



Jun'23. Following global cues, and expecting a pause from RBI as well, India's 10Y yield fell by 1bps to 6.98%. It is trading even lower today at 6.97%.

Fig 3 – Bond 10Y yield

	31-05-2023	1-06-2023	change in bps
US	3.64	3.60	(5)
UK	4.18	4.12	(7)
Germany	2.28	2.25	(3)
Japan	0.44	0.42	(1)
China	2.71	2.70	0
India	6.99	6.98	(1)

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India

Fig 4 – Short term rates

	31-05-2023	1-06-2023	change in bps
Tbill-91 days	6.76	6.74	(2)
Tbill-182 days	6.88	6.85	(3)
Tbill-364 days	6.88	6.87	(1)
G-Sec 2Y	6.84	6.84	0
India OIS-2M	6.54	6.54	0
India OIS-9M	6.58	6.58	0
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.06	5.08	2

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-05-2023	1-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.8)	(2.4)	(0.6)
Reverse repo	0.5	0.5	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-05-2023	31-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	373.5	451.5	78.0
Debt	78.4	(12.6)	(91.0)
Equity	295.1	464.2	169.1
Mutual funds (Rs cr)	447.1	(283.2)	(730.3)
Debt	(627.2)	(386.6)	240.5
Equity	1,074.2	103.4	(970.8)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 29 and 30 May 2023

- Global oil prices rose by 2.2% to ~ US\$ 74/bbl, supported by advancement made on US debt ceiling deal and also ahead of OPEC+ meeting this Sunday.

Fig 7 – Commodities

	31-05-2023	1-06-2023	% change
Brent crude (US\$/bbl)	72.7	74.3	2.2
Gold (US\$/ Troy Ounce)	1,962.7	1,977.6	0.8
Copper (US\$/ MT)	8,070.0	8,240.0	2.1
Zinc (US\$/MT)	2,229.8	2,250.3	0.9
Aluminium (US\$/MT)	2,246.0	2,282.5	1.6

Source: Bloomberg, Bank of Baroda Research



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