

MORNING MOCHA

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After a turbulent week, a degree of calm returned to the global markets as investors await commentary from major central banks at the Jackson Hole Symposium. With growth indicators in US suggesting a resilient economy, expectations of “higher for longer” rates by Fed have increased. Stress returned in China’s battered property sector, despite stimulus measures by government and PBOC. Most recently, PBOC cut the 1Y loan prime rate (LPR) by 10bps to 3.45%. Retail sales volume in UK fell by 1.2% in Jul’23 (est. -0.6%), indicating a drag on consumer spending amidst elevated inflation. In India, monsoon rains have turned elusive with a deficit of 7% below LPA (upto 20 Aug). While overall kharif sowing is 0.1% higher than last year, sowing of pulses and oilseeds is lower and remains a cause of concern.

- Except US (higher), global indices ended lower amidst expectations of tighter financial conditions. Recent estimates by Bloomberg suggest that US is likely to have a soft landing, with higher likelihood of dodging a recession. This pushed US stocks higher. Asian stocks continued to falter amidst woes in China’s real estate sector. Sensex fell by 0.3% dragged by technology and metal stocks. However, it is trading higher today while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	17-08-2023	18-08-2023	% change
Dow Jones	34,475	34,501	0.1
S & P 500	4,370	4,370	0
FTSE	7,310	7,262	(0.7)
Nikkei	31,626	31,451	(0.6)
Hang Seng	18,327	17,951	(2.1)
Shanghai Comp	3,164	3,132	(1.0)
Sensex	65,151	64,949	(0.3)
Nifty	19,365	19,310	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. After rising to a near 2-month high, DXY pulled back and ended 0.2% lower. For the week, it is still up by 0.5% amidst bets of higher for longer US rates. GBP fell as UK’s retail sales disappointed. INR appreciated by 0.1%, from a record low. It is trading stronger today, while other Asian currencies are mostly weaker.

Fig 2 – Currencies

	17-08-2023	18-08-2023	% change
EUR/USD (1 EUR / USD)	1.0872	1.0873	0
GBP/USD (1 GBP / USD)	1.2747	1.2734	(0.1)
USD/JPY (JPY / 1 USD)	145.84	145.39	0.3
USD/INR (INR / 1 USD)	83.15	83.11	0.1
USD/CNY (CNY / 1 USD)	7.2866	7.2845	0

Source: Bloomberg, Bank of Baroda Research



- Global yields closed lower as some respite was seen from the recent rout. Germany's 10Y yield fell the most by 9bps as ECB official (Philip R. Lane) spoke of not driving demand 'deeply negative'. UK's 10Y yield fell by 7bps as core retail sales data showed considerable degree of softening. India's 10Y yield fell by 3bps in line with global cues. It is trading at 7.23% today.

Fig 3 – Bond 10Y yield

	17-08-2023	18-08-2023	change in bps
US	4.27	4.25	(2)
UK	4.75	4.68	(7)
Germany	2.71	2.62	(9)
Japan	0.65	0.64	(1)
China	2.57	2.56	(1)
India	7.25	7.22	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	17-08-2023	18-08-2023	change in bps
Tbill-91 days	6.85	6.83	(2)
Tbill-182 days	7.00	7.01	1
Tbill-364 days	7.05	7.03	(2)
G-Sec 2Y	7.19	7.17	(2)
India OIS-2M	6.78	6.78	0
India OIS-9M	6.92	6.97	5
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	17-08-2023	18-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(0.4)	0.6
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-08-2023	14-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(153.7)	1,084.2	1,238.0
Debt	152.4	42.3	(110.2)
Equity	(306.2)	1,042.0	1,348.2
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 rose supported by hopes surrounding more stimulus in China.

Fig 7 – Commodities

	17-08-2023	18-08-2023	% change
Brent crude (US\$/bbl)	84.1	84.8	0.8
Gold (US\$/ Troy Ounce)	1,889.4	1,889.3	0
Copper (US\$/ MT)	8,200.9	8,213.8	0.2
Zinc (US\$/MT)	2,285.5	2,287.0	0.1
Aluminium (US\$/MT)	2,145.5	2,137.0	(0.4)

Source: Bloomberg, Bank of Baroda Research



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