

MORNING MOCHA

22 August 2023

ECONOMIST
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Expectations of US rates remaining higher for longer have increased, leading to a further sell-off in global bonds. US 10Y yield rose to a ~16-year high at 4.34%. Investors are awaiting comments from the Fed Chair at the end of the week. However, a resilient economy amidst still elevated inflation suggest that rates will have to stay high for some time. Markets also remain on edge tracking developments in China, as the country grapples with a precipitous growth slowdown and a property crisis. Stimulus measures so far have done little to lift market sentiments. In Germany, PPI inflation declined by 6% in Jul'23 (est. -5.1%), led by lower energy prices. This was the first drop in PPI since Nov'20, suggesting that inflationary pressures may be abating. In India, liquidity slipped into deficit for the first time in FY24, amidst implementation of RBI's incremental-CRR.

- Global indices closed mixed. Markets are awaiting Fed Chair's speech for cues on future trajectory of policy rate. Further, sell-off in the US bond market dampened sentiments in the equity segment as well. Asian stocks fell the most as concerns mount over slowdown in China. S&P 500 inched up, supported by a tech rally. Sensex rose by 0.4%, led by power and capital goods stocks. It is trading further higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	18-08-2023	21-08-2023	% change
Dow Jones	34,501	34,464	(0.1)
S & P 500	4,370	4,400	0.7
FTSE	7,262	7,258	(0.1)
Nikkei	31,451	31,566	0.4
Hang Seng	17,951	17,623	(1.8)
Shanghai Comp	3,132	3,093	(1.2)
Sensex	64,949	65,216	0.4
Nifty	19,310	19,394	0.4

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY fell 0.1% as investors await comments from Fed Chair. EUR and GBP were both 0.2% higher. On the other hand, JPY depreciated by 0.6% fuelling further expectations of intervention. INR and CNY ended flat. INR along with other Asian currencies is trading stronger today.

Fig 2 – Currencies

	18-08-2023	21-08-2023	% change
EUR/USD (1 EUR / USD)	1.0873	1.0896	0.2
GBP/USD (1 GBP / USD)	1.2734	1.2756	0.2
USD/JPY (JPY / 1 USD)	145.39	146.22	(0.6)
USD/INR (INR / 1 USD)	83.11	83.11	0
USD/CNY (CNY / 1 USD)	7.2845	7.2832	0

Source: Bloomberg, Bank of Baroda Research



- Barring China (lower), global yields closed higher. US 10Y yield rose to its highest since Nov'07. Market is anticipating hawkish tone in Fed Chair's upcoming speech. Even Germany's 10Y yield inched up by 8bps despite some moderation in factory prices. China's 10Y yield fell by 2bps amidst policy support. India's 10Y yield closed flat. It is trading higher at 7.24% today.

Fig 3 – Bond 10Y yield

	18-08-2023	21-08-2023	change in bps
US	4.25	4.34	8
UK	4.68	4.73	5
Germany	2.62	2.70	8
Japan	0.64	0.65	1
China	2.56	2.54	(2)
India	7.22	7.22	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	18-08-2023	21-08-2023	change in bps
Tbill-91 days	6.83	6.81	(2)
Tbill-182 days	7.01	7.01	0
Tbill-364 days	7.03	7.03	0
G-Sec 2Y	7.17	7.13	(3)
India OIS-2M	6.78	6.78	0
India OIS-9M	6.97	6.98	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	18-08-2023	21-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.4)	0.2	0.6
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-08-2023	18-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(97.8)	236.1	333.9
Debt	21.0	166.9	146.0
Equity	(118.7)	69.2	187.9
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 0.4% as lower growth concerns in China loom.

Fig 7 – Commodities

	18-08-2023	21-08-2023	% change
Brent crude (US\$/bbl)	84.8	84.5	(0.4)
Gold (US\$/ Troy Ounce)	1,889.3	1,894.9	0.3
Copper (US\$/ MT)	8,213.8	8,239.0	0.3
Zinc (US\$/MT)	2,287.0	2,295.8	0.4
Aluminium (US\$/MT)	2,137.0	2,144.0	0.3

Source: Bloomberg, Bank of Baroda Research



