

MORNING MOCHA

22 May 2023

ECONOMIST
Aditi Gupta

Fed Chairman highlighted that future policy decisions will be on a “meeting to meeting” basis. Impact of lagged transmission of previous rate hikes and the effect of banking stress on credit will be key. The remarks were perceived as dovish by the markets and as a result, the probability of a rate hike in Jun’23 diminished post the remarks. Also supporting this, talks over US debt ceiling paused, raising worries of a possible default which will further dent economic prospects. Elsewhere, UK’s GfK consumer confidence index showed marked improvement. In Japan, core CPI accelerated further to 3.4% in Apr’23 from 3.1% in Mar’23. In India, RBI’s more than expected surplus transfer of Rs 87,416 should comfort domestic yields.

- Global indices closed mixed. Investors tracked Fed Chair’s comments, hinting at a pause to judge the impact of lagged transmission. Apart from this, uneven recovery in China and US debt ceiling talks, also impacted sentiments. Hang Seng fell the most by 1.4%, while Nikkei rose by 0.8%. Sensex rose by 0.5%, led by technology stocks. It is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	18-05-2023	19-05-2023	% change
Dow Jones	33,536	33,427	(0.3)
S & P 500	4,198	4,192	(0.1)
FTSE	7,742	7,757	0.2
Nikkei	30,574	30,808	0.8
Hang Seng	19,727	19,451	(1.4)
Shanghai Comp	3,297	3,284	(0.4)
Sensex	61,432	61,730	0.5
Nifty	18,130	18,203	0.4

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended stronger. DXY fell by 0.3% as the Fed Chair hinted at a pause in Jun’23 policy meet. Asian currencies such as JPY and CNY, gained the most. However, INR continued to depreciate. It is trading weaker today, while other Asian currencies are trading mostly stronger.

Fig 2 – Currencies

	18-05-2023	19-05-2023	% change
EUR/USD (1 EUR / USD)	1.0770	1.0805	0.3
GBP/USD (1 GBP / USD)	1.2409	1.2445	0.3
USD/JPY (JPY / 1 USD)	138.71	137.98	0.5
USD/INR (INR / 1 USD)	82.59	82.67	(0.1)
USD/CNY (CNY / 1 USD)	7.0375	7.0120	0.4

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. UK’s 10Y yield rose by 4bps as GfK consumer confidence index showed improvement in May’23. Germany’s 10Y yield fell by



2bps as PPI moderated on YoY basis. India's 10Y yield rose by 2bps, eyeing auction results. It is trading at 6.98% today, following RBI's decision to transfer a surplus of Rs 87,416 crore to the government.

Fig 3 – Bond 10Y yield

	18-05-2023	19-05-2023	change in bps
US	3.65	3.67	3
UK	3.96	4.00	4
Germany	2.45	2.43	(2)
Japan	0.38	0.40	2
China	2.72	2.72	0
India	6.99	7.01	2

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

Fig 4 – Short term rates

	18-05-2023	19-05-2023	change in bps
Tbill-91 days	6.80	6.75	(5)
Tbill-182 days	6.94	6.91	(3)
Tbill-364 days	6.93	6.90	(3)
G-Sec 2Y	6.85	6.83	(2)
India OIS-2M	6.60	6.57	(3)
India OIS-9M	6.57	6.57	0
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.05	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-05-2023	19-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(0.5)	0.4
Reverse repo	0.1	0	(0.1)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-05-2023	18-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	280.4	198.2	(82.2)
Debt	182.5	(20.6)	(203.2)
Equity	97.8	218.8	121.0
Mutual funds (Rs cr)	(147.1)	(1,645.4)	(1,498.3)
Debt	(771.1)	(1,032.6)	(261.4)
Equity	624.0	(612.8)	(1,236.9)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 11 May 2023 and 12 May 2023

- Crude prices fell by 0.4% amidst increasing risks of a default as US debt ceiling talks stalled.

Fig 7 – Commodities

	18-05-2023	19-05-2023	% change
Brent crude (US\$/bbl)	75.9	75.6	(0.4)
Gold (US\$/ Troy Ounce)	1,957.6	1,977.8	1.0
Copper (US\$/ MT)	8,128.5	8,201.0	0.9
Zinc (US\$/MT)	2,450.0	2,476.5	1.1
Aluminium (US\$/MT)	2,283.5	2,283.5	0

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

|