

## MORNING MOCHA

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ECONOMIST  
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Fed minutes had a marginally hawkish tone, reaffirming the risk of inflation as a 'key factor' and pointed that more hikes are warranted to control it. On domestic front, RBI in its minutes highlighted it is too early to hit pause. Two considerations were suggested to taper the pace of rate hike 1) Time to be given to past policy actions to work. 2) premature to pause or have to catch up later. It was noted the stance will 'remain disinflationary' until inflation reaches its target. Separately, BoK has kept rates on hold (at 3.5%) a first since the rate hike cycle began. Germany's CPI edged up to 8.7% in Jan'23 against 8.6% in line with expectation.

- Global indices ended lower. Investors monitored Fed's minutes that offered some guidance on rate trajectory. Minutes also confirmed that higher interest rate regime will force the economy to slow down considerably. Amongst other indices, Sensex has the worst fall on the back of weak global cues. It was dragged down further by losses in power and real estate stocks. It is trading lower today while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	21-02-2023	22-02-2023	% change
Dow Jones	33,130	33,045	(0.3)
S & P 500	3,997	3,991	(0.2)
FTSE	7,978	7,931	(0.6)
Nikkei	27,473	27,104	(1.3)
Hang Seng	20,529	20,424	(0.5)
Shanghai Comp	3,307	3,291	(0.5)
Sensex	60,673	59,745	(1.5)
Nifty	17,827	17,554	(1.5)

Source: Bloomberg, Bank of Baroda Research

- Barring JPY (higher), other major currencies fell against the dollar. DXY rose by 0.4%, following the released Fed minutes, which indicate that members agree to keep rates elevated for the time being and certain members also believe that risks to recession also remain heightened. INR fell by 0.1%. However, it is trading higher today, in line with other Asian currencies.

**Fig 2 – Currencies**

	21-02-2023	22-02-2023	% change
EUR/USD (1 EUR / USD)	1.0648	1.0605	(0.4)
GBP/USD (1 GBP / USD)	1.2112	1.2046	(0.5)
USD/JPY (JPY / 1 USD)	135.01	134.84	0.1
USD/INR (INR / 1 USD)	82.80	82.86	(0.1)
USD/CNY (CNY / 1 USD)	6.8795	6.8929	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except Japan, China (flat) and India (higher), global 10Y yields closed lower. Yields in US fell the most, followed by UK and Germany. Market participants



seem to have priced in news of prolonged rate hikes by Fed, which was also reaffirmed in the minutes of its Feb'23 meeting. Some members even cautioned that risks to recession remain high. Slight dip in Germany's Ifo current condition index also points towards expected weakens in growth. India's 10Y yield rose by 4bps and is trading marginally higher at 7.41% today.

**Fig 3 – Bond 10Y yield**

	21-02-2023	22-02-2023	change in bps
US	3.95	3.92	(4)
UK	3.61	3.60	(1)
Germany	2.53	2.52	(1)
Japan	0.51	0.51	0
China	2.92	2.92	0
India	7.36	7.40	4

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	21-02-2023	22-02-2023	change in bps
Tbill-91 days	6.78	6.83	5
Tbill-182 days	7.10	7.16	6
Tbill-364 days	7.20	7.23	3
G-Sec 2Y	7.21	7.25	4
SONIA int rate benchmark	3.93	3.93	0
US SOFR	4.55	4.55	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	21-02-2023	21-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.7	0.5	(0.2)
Reverse repo	0	0	0
Repo	0.5	0.5	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	20-02-2023	21-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	38.0	37.4	(0.6)
Debt	(18.9)	(86.9)	(68.0)
Equity	56.9	124.3	67.5
Mutual funds (Rs cr)	(235.0)	(21.3)	213.7
Debt	(352.2)	(68.8)	283.5
Equity	117.3	47.5	(69.8)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 14 Feb 2023 and 15 Feb 2023

- Global oil prices dropped by 3% to US\$ 80.6/bbl, as concerns re-emerged over demand outlook along with risk of higher inflation.

**Fig 7 – Commodities**

	21-02-2023	22-02-2023	% change
Brent crude (US\$/bbl)	83.1	80.6	(3.0)
Gold (US\$/ Troy Ounce)	1,835.1	1,825.4	(0.5)
Copper (US\$/ MT)	9,183.5	9,103.0	(0.9)
Zinc (US\$/MT)	3,171.5	3,088.8	(2.6)
Aluminium (US\$/MT)	2,467.5	2,418.0	(2.0)

Source: Bloomberg, Bank of Baroda Research



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