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Comments from Fed officials have raised the possibility of higher US rates. FOMC members including Minneapolis Fed President and St. Louis Fed President batted for more rate hikes, with the former suggesting rate to go “north of 6%”. On the other hand, San Francisco Fed President suggested that the Jun’23 policy decision would be based on incoming data. While markets assess the future direction of rates, US debt ceiling talks also remain in focus. Elsewhere, PBOC kept its 1Y and 5Y LPR unchanged. In Japan, flash manufacturing PMI rose to 50.8 in May’23, entering the expansionary zone for the first time in 7-months (49.5 in Apr’23). Services PMI too improved to 56.3 from 55.4 in Apr’23.

- Except US, global indices ended higher. Investors monitored the debt talks which ended without a deal. Apart from this, elections in Greece and US President hinting at improving relations with Beijing supported market sentiments. Hang Seng rose the most, supported by tech stocks. Sensex rose by 0.4%, led by tech and oil and gas stocks. It is trading further higher today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	19-05-2023	22-05-2023	% change
Dow Jones	33,427	33,287	(0.4)
S & P 500	4,192	4,193	0
FTSE	7,757	7,771	0.2
Nikkei	30,808	31,087	0.9
Hang Seng	19,451	19,678	1.2
Shanghai Comp	3,284	3,296	0.4
Sensex	61,730	61,964	0.4
Nifty	18,203	18,314	0.6

Source: Bloomberg, Bank of Baroda Research

- Except EUR, other global currencies declined. Investors assessed Fed’s future rate trajectory amidst comments from Fed officials. Debt ceiling talks also kept investors on edge. CNY depreciated despite PBOC’s comments to curb fluctuation in the exchange rate. INR depreciated to a near 3 month low. It is trading flat today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	19-05-2023	22-05-2023	% change
EUR/USD (1 EUR / USD)	1.0805	1.0813	0.1
GBP/USD (1 GBP / USD)	1.2445	1.2437	(0.1)
USD/JPY (JPY / 1 USD)	137.98	138.60	(0.4)
USD/INR (INR / 1 USD)	82.67	82.83	(0.2)
USD/CNY (CNY / 1 USD)	7.0120	7.0320	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. UK's 10Y yield rose the most by 7bps as house prices firmed up signalling improving demand. Even US 10Y yield rose by 4bps amidst hawkish comments from two Fed officials (St Louis and Minneapolis Fed President). India's 10Y yield fell by 2bps as the decision to withdraw Rs 2,000 notes is expected to gradually boost liquidity. It is trading at 7% today.

Fig 3 – Bond 10Y yield

	19-05-2023	22-05-2023	change in bps
US	3.67	3.71	4
UK	4.00	4.06	7
Germany	2.43	2.46	3
Japan	0.40	0.39	(1)
China	2.72	2.71	(1)
India	7.01	6.99	(2)

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

Fig 4 – Short term rates

	19-05-2023	22-05-2023	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	19-05-2023	22-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.5)	(0.5)	0
Reverse repo	0	0.5	0.5
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	18-05-2023	19-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	198.2	54.1	(144.1)
Debt	(20.6)	(36.9)	(16.3)
Equity	218.8	91.0	(127.8)
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

- Global oil prices inched up amidst expectation of a demand recovery in H2.

Fig 7 – Commodities

	19-05-2023	22-05-2023	% change
Brent crude (US\$/bbl)	75.6	76.0	0.5
Gold (US\$/ Troy Ounce)	1,977.8	1,971.9	(0.3)
Copper (US\$/ MT)	8,201.0	8,061.5	(1.7)
Zinc (US\$/MT)	2,476.5	2,426.0	(2.0)
Aluminium (US\$/MT)	2,283.5	2,263.5	(0.9)

Source: Bloomberg, Bank of Baroda Research



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