

MORNING MOCHA

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Economic activity in advanced economies signalled a significant moderation, led by a drop in momentum in the services sector. Flash composite PMI in US fell to 50.4 in Aug'23 (6-month low) from 52 in Jul'23. In Eurozone, flash composite PMI dropped to a 33-month low at 47 in Aug'23 from 48.6 in Jul'23. Even in UK, the composite PMI fell to 47.9-a 31-month low. With growth faltering, markets now await comments from major central banks at Jackson Hole. Expectations of rate hikes by Fed have diminished after the softer than expected PMI data, which pushed DXY and US10Y lower. Elsewhere, Bank of Korea kept its policy rates steady for the fifth straight time at 3.5% as both inflation and growth weakens. Growth and inflation projections for CY23 were kept unchanged.

- Except Shanghai Comp (lower), other global stocks closed higher. This was on the back of expectation of a pause in Fed rate following recent softening of US PMI. Even in Germany and UK, manufacturing and services PMI moderated. S&P 500 rose the most, followed by FTSE. Sensex rose by 0.3% led by banking stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	22-08-2023	23-08-2023	% change
Dow Jones	34,289	34,473	0.5
S & P 500	4,388	4,436	1.1
FTSE	7,271	7,321	0.7
Nikkei	31,857	32,010	0.5
Hang Seng	17,791	17,846	0.3
Shanghai Comp	3,120	3,078	(1.3)
Sensex	65,220	65,433	0.3
Nifty	19,396	19,444	0.2

Source: Bloomberg, Bank of Baroda Research

- Except GBP (flat), other global currencies rose against dollar. DXY fell by 0.1%. JPY and INR gained the most. Weaker than expected macro prints (continued contraction in global services PMIs), dampened expectations of more rate hikes by Fed. INR rose by 0.3%, as oil prices fell. It is trading even higher today in line with other Asian currencies.

Fig 2 – Currencies

	22-08-2023	23-08-2023	% change
EUR/USD (1 EUR / USD)	1.0846	1.0863	0.2
GBP/USD (1 GBP / USD)	1.2732	1.2727	0
USD/JPY (JPY / 1 USD)	145.89	144.84	0.7
USD/INR (INR / 1 USD)	82.93	82.68	0.3
USD/CNY (CNY / 1 USD)	7.2940	7.2785	0.2

Source: Bloomberg, Bank of Baroda Research



- Barring Japan (tad higher by 1bps), global yields fell sharply. UK's 10Y yield fell the most by 18bps followed by US and Germany's (-13bps each). The increased appetite for sovereign securities was post the release of PMI data of major economies, which pointed some degree of slowdown in economic activity. India's 10Y yield also fell by 3bps. It is trading at 7.18% today.

Fig 3 – Bond 10Y yield

	22-08-2023	23-08-2023	change in bps
US	4.32	4.19	(13)
UK	4.65	4.47	(18)
Germany	2.65	2.52	(13)
Japan	0.67	0.67	1
China	2.55	2.55	0
India	7.22	7.19	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	22-08-2023	23-08-2023	change in bps
Tbill-91 days	6.80	6.85	5
Tbill-182 days	6.99	7.03	4
Tbill-364 days	7.01	7.05	4
G-Sec 2Y	7.12	7.13	1
India OIS-2M	6.77	6.77	0
India OIS-9M	6.97	6.96	(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	22-08-2023	23-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.2	0.2	0
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	21-08-2023	22-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	114.3	(270.6)	(384.9)
Debt	268.0	(257.5)	(525.5)
Equity	(153.7)	(13.1)	140.6
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 1% as demand outlook further weakened.

Fig 7 – Commodities

	22-08-2023	23-08-2023	% change
Brent crude (US\$/bbl)	84.0	83.2	(1.0)
Gold (US\$/ Troy Ounce)	1,897.5	1,915.5	0.9
Copper (US\$/ MT)	8,330.7	8,424.3	1.1
Zinc (US\$/MT)	2,314.5	2,351.3	1.6
Aluminium (US\$/MT)	2,177.0	2,179.5	0.1

Source: Bloomberg, Bank of Baroda Research



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