

MORNING MOCHA

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ECONOMIST

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Equity market edged up while there was broad sell off in the bond and currency market. Investors are still looking for direction with regard to quantum of Fed rate hike amidst weaker macros in the US and tighter labour market conditions. We expect 25bps rate hike in the next two meetings and a terminal rate of 5% or above 5% may be feasible. Flash manufacturing PMI print in Japan and Australia still remained in contraction (below the 50 mark at 48.9 and 49.8 respectively in Jan'23). Australia's NAB data also showed deteriorating business conditions amidst worsening trading conditions, profitability and unfavourable macro environment. On domestic front some pressure on 10Y yield cannot be ruled out as majority of the market participants are expecting a gross borrowing of above Rs 16 lakh crore.

- Global indices ended higher. Dow Jones gained by 0.8% led by surging technology stocks as investor monitored earnings heavy week. Investors have also priced slower pace of rate hike with the likelihood of 25bps rate hike in the upcoming policy meet. Nikkei gained the most. Sensex (0.5%) too ended in green led by gains in banking and IT stocks. It is trading higher today in line with other Asian indices.

Fig 1 – Stock markets

	20-01-2023	23-01-2023	% change
Dow Jones	33,375	33,630	0.8
S & P 500	3,973	4,020	1.2
FTSE	7,771	7,785	0.2
Nikkei	26,554	26,906	1.3
Hang Seng	21,651	22,045	1.8
Shanghai Comp	3,240	3,265	0.8
Sensex	60,622	60,942	0.5
Nifty	18,028	18,119	0.5

Source: Bloomberg, Bank of Baroda Research | Note: Hang Seng and Shanghai Comp were closed for Lunar New Year

- Barring EUR (higher), other global currencies ended lower against the dollar. Risks of global growth slowdown still remain with US economic indicators posting weaker than anticipated data last week. Flash manufacturing PMIs of Japan and Australia are also showing weakness in activity. INR depreciated by 0.1%. It opened further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	20-01-2023	23-01-2023	% change
EUR/USD (1 EUR / USD)	1.0856	1.0872	0.1
GBP/USD (1 GBP / USD)	1.2397	1.2379	(0.1)
USD/JPY (JPY / 1 USD)	129.60	130.67	(0.8)
USD/INR (INR / 1 USD)	81.13	81.39	(0.3)
USD/CNY (CNY / 1 USD)	6.7755	6.7845	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in China was closed for Lunar New Year



- Except UK (lower), global 10Y yields broadly closed higher. Market is looking for direction in global yields amidst weak macros in the US and tighter labour market conditions. Expectation is of two rate hike of 25bps each before reaching a terminal rate of 5% or above 5%. India's 10Y yield closed flat at 7.35%. It is trading at 7.36% today.

Fig 3 – Bond 10Y yield

	20-01-2023	23-01-2023	change in bps
US	3.48	3.51	3
UK	3.38	3.36	(2)
Germany	2.18	2.21	3
Japan	0.39	0.39	1
China	2.91	2.93	1
India	7.35	7.35	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in China was closed for Lunar New Year

Fig 4 – Short term rates

	20-01-2023	23-01-2023	change in bps
Tbill-91 days	6.42	6.42	0
Tbill-182 days	6.75	6.80	5
Tbill-364 days	6.88	6.88	0
G-Sec 2Y	6.85	6.84	(1)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.31	4.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	20-01-2023	23-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.1	0	(0.1)
Reverse repo	0.5	0.5	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	19-01-2023	20-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	117.8	(159.5)	(277.3)
Debt	45.6	42.5	(3.0)
Equity	72.3	(202.0)	(274.3)
Mutual funds (Rs cr)	840.5	855.5	15.0
Debt	640.0	326.5	(313.5)
Equity	200.5	529.0	328.5

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data is of 4 Jan 2023 and 5 Jan 2023

- Global oil prices rose by 0.6% (US\$ 88/bbl) despite rise in US inventory.

Fig 7 – Commodities

	20-01-2023	23-01-2023	% change
Brent crude (US\$/bbl)	87.6	88.2	0.6
Gold (US\$/ Troy Ounce)	1,926.1	1,931.0	0.3
Copper (US\$/ MT)	9,307.8	9,330.8	0.2
Zinc (US\$/MT)	3,435.5	3,439.8	0.1
Aluminium (US\$/MT)	2,610.5	2,636.5	1.0

Source: Bloomberg, Bank of Baroda Research



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