

## MORNING MOCHA

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Slew of macro indicators in the US increased the probability of higher Fed rate in the near term. Core PCE deflator on MoM basis, rose by 0.6% in Jan'23 against est.: 0.4%. Adding to this, has been the upshot of personal spending by 1.8% on MoM basis against est.: 1.4% in Jan'23. University of Michigan inflation expectation also remained elevated. Even the new home sales data pointed to revival with 7.2% MoM increase against est.: 0.7% increase, in Feb'23. Money market is now pricing for a peak in Fed rate to happen at around 5.4% in Jul'23. Cleveland Fed President also pointed towards an above 5% Fed rate, in her recent speech. Thus global equity, currency and bond markets kept re-pricing their positions.

- Except Japan, stock markets elsewhere declined as investors brace for even more rate hikes by global central banks. A hotter than expected US inflation report has increased the possibility of the Fed rate peaking around 5.4%. Hang Seng fell the most by 1.7% led by steep losses in technology stocks. Sensex declined by 0.2% dragged down by metal and auto stocks. It is trading further lower today in line with other Asian stocks.

**Fig 1 – Stock markets**

	23-02-2023	24-02-2023	% change
Dow Jones	33,154	32,817	(1.0)
S & P 500	4,012	3,970	(1.1)
FTSE	7,908	7,879	(0.4)
Nikkei	27,104	27,453	1.3
Hang Seng	20,351	20,010	(1.7)
Shanghai Comp	3,287	3,267	(0.6)
Sensex	59,606	59,464	(0.2)
Nifty	17,511	17,466	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Global currencies broadly closed weaker. DXY rose by 0.6% as higher than expected increase in US core PCE have strengthened the case for more rate hikes. On the other hand, JPY fell sharply as Japan's inflation continued to inch up, even as BoJ maintained its ultra-dovish stance. EUR also fell by 0.6% as Germany's GDP growth declined more than expected in Q4CY22. INR is trading weaker today, in line with other Asian currencies.

**Fig 2 – Currencies**

	23-02-2023	24-02-2023	% change
EUR/USD (1 EUR / USD)	1.0596	1.0548	(0.5)
GBP/USD (1 GBP / USD)	1.2013	1.1944	(0.6)
USD/JPY (JPY / 1 USD)	134.70	136.48	(1.3)
USD/INR (INR / 1 USD)	82.74	82.75	0
USD/CNY (CNY / 1 USD)	6.9081	6.9601	(0.7)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (stable) and China (lower), other global yields closed higher. US and UK's 10Y yield rose the most by 7bps each. This was followed by buoyant macro data and tighter labour market conditions in the US. Even stickiness in Eurozone's core CPI data (5.3%) raised probability of faster pace of rate hike by ECB. China's 10Y yield closed a tad lower by 1bps supported by the dovish tone reflected in its monetary policy report. India's 10Y yield rose by 3bps (7.42%), tracking auction results. It is trading higher at 7.45% today.

**Fig 3 – Bond 10Y yield**

	23-02-2023	24-02-2023	change in bps
US	3.88	3.94	7
UK	3.59	3.66	7
Germany	2.48	2.54	6
Japan	0.51	0.50	0
China	2.93	2.92	(1)
India	7.39	7.42	3

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	23-02-2023	24-02-2023	change in bps
Tbill-91 days	6.87	6.88	1
Tbill-182 days	7.16	7.16	0
Tbill-364 days	7.22	7.26	4
G-Sec 2Y	7.22	7.25	3
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	23-02-2023	24-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.3	0.2	(0.1)
Reverse repo	0	0	0
Repo	0.5	0	0.5

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	22-02-2023	23-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	78.4	(107.7)	(186.1)
Debt	85.9	13.0	(72.8)
Equity	(7.5)	(120.7)	(113.3)
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 rose by 1.2%, buoyed by better demand conditions in the US.

**Fig 7 – Commodities**

	23-02-2023	24-02-2023	% change
Brent crude (US\$/bbl)	82.2	83.2	1.2
Gold (US\$/ Troy Ounce)	1,822.3	1,811.0	(0.6)
Copper (US\$/ MT)	8,885.0	8,689.0	(2.2)
Zinc (US\$/MT)	3,059.8	2,988.3	(2.3)
Aluminium (US\$/MT)	2,396.0	2,335.5	(2.5)

Source: Bloomberg, Bank of Baroda Research



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