

## MORNING MOCHA

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ECONOMIST  
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Tight monetary conditions across globe are beginning to shows its impact on real economy. JP Morgan global manufacturing PMI fell to its lowest in 30 months in Dec'22 (48.6 versus 48.8 in Nov'22), with activity faltering in US, Euro Area, China and Japan. In case of US the deterioration was the fastest since May'20. When compared with pre-pandemic period, global and US manufacturing PMI readings are the weakest since 2009. Separately, Germany's CPI came lower (8.6%) than expected (9%) in Dec'22, dropping from 10% in Nov'22. Going ahead, investors will look for cues from Fed minutes, to gauge central bank rate hike trajectory.

- Barring Dow Jones (flat) and S&P 500 (lower), other global indices ended higher. Investors remain watchful ahead of the Fed minutes and speeches by Fed officials providing guidance on future rate hike. Lower inflation reading in Germany offered support. Sensex gained by 0.2% led by consumer durables and banking stocks. It opened weaker today while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	2-1-2023	3-1-2023	% change
Dow Jones	33,147	33,136	0)
S & P 500	3,840	3,824	(0.4)
FTSE	7,452	7,554	1.4
Nikkei	26,094	26,095	0
Hang Seng	19,781	20,145	1.8
Shanghai Comp	3,089	3,117	0.9
Sensex	61,168	61,294	0.2
Nifty	18,197	18,233	0.2

Source: Bloomberg, Bank of Baroda Research| Note: Apart from India, markets were closed elsewhere on 2.1.2023; Nikkei remains closed on 3.1.23

- Global currencies ended lower against the dollar. DXY gained by 1% as the focus turned towards US ISM PMI and also on gauging the future interest rate path. Euro slid by 1.1% after cool-off in Germany's inflation (8.6% from 10%) owing to government measures to protect consumers from high energy bills. INR depreciated by 0.2% led by lower oil prices. It is trading stronger today while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

	2-1-2023	3-1-2023	% change
EUR/USD (1 EUR / USD)	1.0667	1.0548	(1.1)
GBP/USD (1 GBP / USD)	1.2046	1.1968	(0.6)
USD/JPY (JPY / 1 USD)	130.80	131.02	(0.2)
USD/INR (INR / 1 USD)	82.75	82.89	(0.2)
USD/CNY (CNY / 1 USD)	6.8986	6.9150	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Bond yields (10Y) fell across countries. Most significant decline was visible in Germany (-18bps) and US (-14bps). Deteriorating manufacturing PMIs have raised concerns over the impact of central bank rate hikes on economic growth. IMF's warning of a global recession also impacted investor sentiments. India's 10Y yield fell by 1bps to 7.32%, as oil prices declined. It is trading flat today.

**Fig 3 – Bond 10Y yield**

	2-1-2023	3-1-2023	change in bps
US	3.87	3.74	(14)
UK	3.67	3.65	(2)
Germany	2.57	2.39	(18)
Japan	0.42	0.42	0
China	2.84	2.83	(1)
India	7.33	7.32	(1)

Source: Bloomberg, Bank of Baroda Research | Note: Apart from India, markets were closed elsewhere on 2.1.2023; Japan remains closed on 3.1.23

**Fig 4 – Short term rates**

	2-1-2023	3-1-2023	change in bps
Tbill-91 days	6.28	6.35	7
Tbill-182 days	6.68	6.64	(4)
Tbill-364 days	6.88	6.88	0
G-Sec 2Y	6.94	6.93	(1)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research | Note: Apart from India, markets were closed elsewhere on 2.1.2023

**Fig 5 – Liquidity**

Rs tn	2-1-2023	3-1-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.7)	(1.3)	(0.6)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	30-12-2022	2-1-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(416.9)	200.4	617.3
Debt	13.2	(0.7)	(13.8)
Equity	(430.0)	201.1	631.1
Mutual funds (Rs cr)	(2,297.6)	585.2	2,882.8
Debt	(471.8)	(462.9)	8.9
Equity	(1,825.8)	1,048.1	2,873.9

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 29 Dec 2022 and 30 Dec 2022

- Crude oil prices fell sharply as IMF warned of a recession in CY23. Demand prospects are expected to remain dim till China's reopening shows substantial impact.

**Fig 7 – Commodities**

	2-1-2023	3-1-2023	% change
Brent crude (US\$/bbl)	85.9	82.1	(4.4)
Gold (US\$/ Troy Ounce)	1,824.0	1,839.5	0.8
Copper (US\$/ MT)	8,364.8	8,307.0	(0.7)
Zinc (US\$/MT)	3,003.3	3,023.8	0.7
Aluminium (US\$/MT)	2,378.0	2,311.0	(2.8)

Source: Bloomberg, Bank of Baroda Research | Note: Apart from Brent, other commodity markets were closed on 2.1.2023



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