

## MORNING MOCHA

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ECONOMIST  
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US Fed minutes indicate that all members agree to ease the pace of rate hikes in CY23, as rapid tightening of monetary policy is showing visible impact on economic growth. Members also acknowledged that while inflation has come down, policy makers will continue to stand on guard until it falls within the targeted 2% range. US ISM manufacturing PMI has contracted for the 2<sup>nd</sup> consecutive month in Dec'22 (48.4) from Nov'22 (49.0), falling to its lowest level since May'20. Although, price pressures have seen declining. Services activity in China, Australia and France too continues to weaken in Dec'22. Activity in Germany has recorded some improvement. Crude prices also remain under pressure, noting weak global demand.

- Barring Sensex and Nikkei, other global indices ended higher. Investors monitored Fed minutes with members reaffirming their resolve to lower inflation. They also cautioned of 'unwarranted' loosening of financial conditions. Further, moderation in inflation in Euro area also boosted investor sentiments. Sensex (1%) ended in red and was dragged down by sharp losses in metal and real estate stocks. However, it is trading higher today in line with other Asian stocks.

**Fig 1 – Stock markets**

	3-1-2023	4-1-2023	% change
Dow Jones	33,136	33,270	0.4
S & P 500	3,824	3,853	0.8
FTSE	7,554	7,585	0.4
Nikkei	26,095	25,717	(1.4)
Hang Seng	20,145	20,793	3.2
Shanghai Comp	3,117	3,124	0.2
Sensex	61,294	60,657	(1.0)
Nifty	18,233	18,043	(1.0)

Source: Bloomberg, Bank of Baroda Research| Note: Nikkei remained closed until 3.1.2023

- Except JPY, other currencies edged higher against the dollar. DXY retreated by 0.3% ahead of the US jobs report. GBP rose by 0.7% followed by Euro (0.5%). Lower inflation reading from France and Germany have also eased pressure on ECB. INR appreciated by 0.1% as oil prices tumbled by 5.2% over weaker demand outlook. It is trading stronger today while other currencies are trading mixed.

**Fig 2 – Currencies**

	3-1-2023	4-1-2023	% change
EUR/USD (1 EUR / USD)	1.0548	1.0604	0.5
GBP/USD (1 GBP / USD)	1.1968	1.2055	0.7
USD/JPY (JPY / 1 USD)	131.02	132.63	(1.2)
USD/INR (INR / 1 USD)	82.89	82.81	0.1
USD/CNY (CNY / 1 USD)	6.9150	6.8973	0.3

Source: Bloomberg, Bank of Baroda Research



- Except Japan (higher) and India (flat), bond yields (10Y) fell further elsewhere. UK (-16bps), Germany (-12bps), and US (-6bps) 10Y yields fell the most. Yields reacted to dip in inflation in Europe (France & Germany) and US Fed minutes. US manufacturing ISM also fell, resurfacing fears of economic slowdown. India's 10Y yield ended flat and is trading at similar levels even today.

**Fig 3 – Bond 10Y yield**

	3-1-2023	4-1-2023	change in bps
US	3.74	3.68	(6)
UK	3.65	3.49	(16)
Germany	2.39	2.27	(12)
Japan	0.42	0.47	4
China	2.83	2.82	(1)
India	7.32	7.32	0

Source: Bloomberg, Bank of Baroda Research | Note: Japan remained closed until 3.1.2023

**Fig 4 – Short term rates**

	3-1-2023	4-1-2023	change in bps
Tbill-91 days	6.35	6.35	0
Tbill-182 days	6.64	6.76	12
Tbill-364 days	6.88	6.90	2
G-Sec 2Y	6.93	6.93	0
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	3-1-2023	4-1-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.3)	(1.4)	(0.1)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	2-1-2023	3-1-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	200.4	(131.6)	(332.0)
Debt	(0.7)	(100.6)	(100.0)
Equity	201.1	(31.0)	(232.0)
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 have fallen below the US\$ 80/bbl mark as weak US ISM manufacturing, and services PMI in China, Australia, France, dampened the demand prospects.

**Fig 7 – Commodities**

	3-1-2023	4-1-2023	% change
Brent crude (US\$/bbl)	82.1	77.8	(5.2)
Gold (US\$/ Troy Ounce)	1,839.5	1,854.6	0.8
Copper (US\$/ MT)	8,307.0	8,236.0	(0.9)
Zinc (US\$/MT)	3,023.8	3,019.3	(0.1)
Aluminium (US\$/MT)	2,311.0	2,266.5	(1.9)

Source: Bloomberg, Bank of Baroda Research



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