

MORNING MOCHA

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Markets were surprised yesterday as RBA raised its key policy by 25bps (est.: pause) to 11-year high of 4.1%, and further indicated that more tightening might be needed to bring inflation down to targeted levels. Meanwhile, Australia's GDP growth slowed to 1.5-year low of 0.2% (QoQ) in Q1CY23 versus est.: 0.3% and 0.5% in Q4CY22. Tight financial conditions globally are impacting overall demand which is being reflected in China's more than expected (-0.4%) decline in exports in May'23 (-7.5%) following 8.5% increase in Apr'23. Imports declined less sharply (-4.5% versus est.: -8% and -7.9% in Apr'23). Fears of muted global demand also impacted oil prices. Investors now await decisions from other major central banks for guidance.

- Global indices closed mixed. S&P rose modestly to its highest level in CYTD23, and Nikkei was up at its 33-year high, while Shanghai Comp registered a steep decline. In Japan, fast retailing and housing stocks lifted the markets. Investors also await Fed's rate decision due next week. Sensex ended flat as gains in realty and auto were outweighed losses in tech and metal stocks. It is trading further higher today, while other Asian stocks are trading lower.

Fig 1 – Stock markets

	5-06-2023	6-06-2023	% change
Dow Jones	33,563	33,573	0
S & P 500	4,274	4,284	0.2
FTSE	7,600	7,628	0.4
Nikkei	32,217	32,507	0.9
Hang Seng	19,109	19,099	0
Shanghai Comp	3,232	3,195	(1.1)
Sensex	62,787	62,793	0
Nifty	18,594	18,599	0

Source: Bloomberg, Bank of Baroda Research

- Except JPY (flat) and INR (higher), other global currencies fell against the dollar. DXY was up by 0.1% as investors reassess their bets on Fed rate hike (Jul'23 if not Jun'23). INR rose by 0.1%, as oil prices fell. It is trading further higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	5-06-2023	6-06-2023	% change
EUR/USD (1 EUR / USD)	1.0713	1.0693	(0.2)
GBP/USD (1 GBP / USD)	1.2438	1.2424	(0.1)
USD/JPY (JPY / 1 USD)	139.58	139.63	0
USD/INR (INR / 1 USD)	82.68	82.61	0.1
USD/CNY (CNY / 1 USD)	7.1023	7.1176	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Barring UK (flat), other global yields closed lower. 10Y yields in US and India (-2bps each) fell the most. Investors are now betting on a pause by Fed in Jun'23



and a hike in Jul'23. Following global cues, decline in oil prices, and awaiting MPC's decision due tomorrow, India's 10Y yield too declined. It is trading flat today.

Fig 3 – Bond 10Y yield

	5-06-2023	6-06-2023	change in bps
US	3.68	3.66	(2)
UK	4.21	4.21	0
Germany	2.38	2.37	(1)
Japan	0.43	0.43	(1)
China	2.72	2.71	(1)
India	7.00	6.98	(2)

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India

Fig 4 – Short term rates

	5-06-2023	6-06-2023	change in bps
Tbill-91 days	6.70	6.72	2
Tbill-182 days	6.83	6.83	0
Tbill-364 days	6.86	6.85	(1)
G-Sec 2Y	6.83	6.83	0
India OIS-2M	6.54	6.55	1
India OIS-9M	6.60	6.59	(1)
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.07	5.06	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	5-06-2023	6-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.3)	(2.1)	0.2
Reverse repo	0.5	1.2	0.7
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	2-06-2023	5-06-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	117.0	(6.4)	(123.4)
Debt	38.9	55.7	16.8
Equity	78.1	(62.1)	(140.2)
Mutual funds (Rs cr)	(283.2)	68.5	351.7
Debt	(386.6)	58.5	445.1
Equity	103.4	10.0	(93.5)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 30 and 31 May 2023

- Global oil prices fell by 0.5% to US\$ 76.3/bbl, as supply side fears were outweighed by concerns over muted global demand.

Fig 7 – Commodities

	5-06-2023	6-06-2023	% change
Brent crude (US\$/bbl)	76.7	76.3	(0.5)
Gold (US\$/ Troy Ounce)	1,961.9	1,963.5	0.1
Copper (US\$/ MT)	8,331.0	8,334.0	0
Zinc (US\$/MT)	2,280.5	2,322.5	1.8
Aluminium (US\$/MT)	2,244.0	2,210.0	(1.5)

Source: Bloomberg, Bank of Baroda Research



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