

MORNING MOCHA

08 June 2023

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Central Bank of Canada surprised the markets by hiking its key policy rate by 25bps to 4.75%, thus taking it to 22-year high. The bank had been on hold since Jan'23, however, in view of stubbornly elevated inflation, it decided to hike again. RBA had also made a similar move. Investors are now jittery that even other major central banks may also follow the suit and a pause may not imply end of the rate hike cycle. Markets are now factoring in a probable rate hike by Fed in Jul'23, following a pause in Jun'23. Elsewhere in Asia, Japan's Q1CY23 GDP was revised sharply up to 2.7% (est.: 1.9% and 1.6% as per first estimates), led by upward revision in private non-residential investment, private demand and domestic demand.

- Apart from S&P, Nikkei (lower), and FTSE (flat), other global indices closed higher. S&P fell as mega-cap stocks (Microsoft, Google) underperformed. FTSE ended flat owing to fears around inflation and central bank action. Sensex rose by 0.6%, led by cap goods, metals and realty stocks. It is trading further higher today, while other Asian stocks are trading lower.

Fig 1 – Stock markets

	6-06-2023	7-06-2023	% change
Dow Jones	33,573	33,665	0.3
S & P 500	4,284	4,268	(0.4)
FTSE	7,628	7,624	0
Nikkei	32,507	31,914	(1.8)
Hang Seng	19,099	19,252	0.8
Shanghai Comp	3,195	3,198	0.1
Sensex	62,793	63,143	0.6
Nifty	18,599	18,726	0.7

Source: Bloomberg, Bank of Baroda Research

- Except JPY and CNY (lower), other global currencies ended higher against the dollar. DXY ended flat as investors await US CPI print for May'23 and Fed's rate decision. JPY is trading higher today after Japan's Q1 GDP was revised sharply upwards. INR rose by 0.1%. However, it is trading a tad lower today, in line with other Asian currencies.

Fig 2 – Currencies

	6-06-2023	7-06-2023	% change
EUR/USD (1 EUR / USD)	1.0693	1.0699	0.1
GBP/USD (1 GBP / USD)	1.2424	1.2438	0.1
USD/JPY (JPY / 1 USD)	139.63	140.13	(0.4)
USD/INR (INR / 1 USD)	82.61	82.55	0.1
USD/CNY (CNY / 1 USD)	7.1176	7.1350	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Sovereign yields in developed markets jumped sharply, with US (+14bps) and Germany (+8bps) leading the way. After RBA, Bank of Canada also surprised



markets with a rate hike, leading to concerns that other major central banks may also do the same. India's 10Y ended flat awaiting RBI's decision. However, following global cues, it is trading a tad higher at 7% today.

Fig 3 – Bond 10Y yield

	6-06-2023	7-06-2023	change in bps
US	3.66	3.80	14
UK	4.21	4.25	4
Germany	2.37	2.46	8
Japan	0.43	0.43	0
China	2.71	2.71	(1)
India	6.98	6.98	0

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

Fig 4 – Short term rates

	6-06-2023	7-06-2023	change in bps
Tbill-91 days	6.72	6.74	2
Tbill-182 days	6.83	6.85	2
Tbill-364 days	6.85	6.85	0
G-Sec 2Y	6.83	6.85	1
India OIS-2M	6.55	6.54	(1)
India OIS-9M	6.59	6.62	3
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.06	5.05	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	6-06-2023	7-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.1)	(2.2)	(0.1)
Reverse repo	1.2	1.2	0
Repo	0	0.3	0.3

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	5-06-2023	6-06-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(6.4)	136.0	142.5
Debt	55.7	1.5	(54.1)
Equity	(62.1)	134.5	196.6
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 rose by 0.9%, as EIA data showed that US crude stockpiles fell last week by 451k barrels versus est.: 1mn barrel increase.

Fig 7 – Commodities

	6-06-2023	7-06-2023	% change
Brent crude (US\$/bbl)	76.3	77.0	0.9
Gold (US\$/ Troy Ounce)	1,963.5	1,940.0	(1.2)
Copper (US\$/ MT)	8,334.0	8,292.1	(0.5)
Zinc (US\$/MT)	2,322.5	2,399.1	3.3
Aluminium (US\$/MT)	2,210.0	2,219.0	0.4

Source: Bloomberg, Bank of Baroda Research



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