

MORNING MOCHA

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ECONOMIST

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Following comments from the Fed Chair, several Fed officials expressed the need for higher rates. While New York Fed President suggested that a range of 5%-5.25%, Minneapolis Fed President pegged the terminal Fed fund rate at above 5.4%. Fed Governors Lisa Cook and Christopher Waller also noted that more rate hikes will be needed to keep inflation in check. Similar comments were also echoed by two key ECB members, signalling more rate hikes may be forthcoming. In India, RBI delivered a 25bps rate hike as expected, but kept the stance unchanged, keeping room open for more rate hike based on the evolving inflation picture.

- Except UK and India (higher), stock indices elsewhere closed lower. Markets are looking for direction on trajectory of Fed fund rate. Another Fed official (New York Fed President) spoke of a policy rate between 5-5.25% and his comments remained broadly hawkish. S&P 500 fell the most, followed by Dow. FTSE, on the other hand, rose by 0.3% as fears of recession have eased in UK. Sensex rose by 0.6%, supported by gains in technology and metal stocks. However, it is trading lower today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	07-02-2023	08-02-2023	% change
Dow Jones	34,157	33,949	(0.6)
S & P 500	4,164	4,118	(1.1)
FTSE	7,865	7,885	0.3
Nikkei	27,685	27,606	(0.3)
Hang Seng	21,299	21,284	(0.1)
Shanghai Comp	3,248	3,232	(0.5)
Sensex	60,286	60,664	0.6
Nifty	17,722	17,872	0.8

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed against the dollar. DXY ended flat as investors assessed Fed's future rate path after hawkish comments from several Fed officials. EUR depreciated by 0.1% even as two key ECB members stressed on the need for more rate hikes. On the other hand, INR appreciated by 0.3% supported by gains in domestic equities. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	07-02-2023	08-02-2023	% change
EUR/USD (1 EUR / USD)	1.0726	1.0712	(0.1)
GBP/USD (1 GBP / USD)	1.2048	1.2072	0.2
USD/JPY (JPY / 1 USD)	131.07	131.40	(0.3)
USD/INR (INR / 1 USD)	82.70	82.49	0.3
USD/CNY (CNY / 1 USD)	6.7846	6.7921	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. Varied signals on future trajectory of Fed fund rate kept investors cautious. US 10Y yield fell the most by 6bps. UK, Japan and China's 10Y yield remained stable in absence of any fresh cues. India's 10Y yield rose by 3bps (7.34%), as inflation forecast for FY24 remained above 4% for all quarters. It is trading at 7.35% today.

Fig 3 – Bond 10Y yield

	07-02-2023	08-02-2023	change in bps
US	3.67	3.61	(6)
UK	3.32	3.31	0
Germany	2.35	2.36	1
Japan	0.50	0.50	0
China	2.90	2.90	0
India	7.31	7.34	3

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	07-02-2023	08-02-2023	change in bps
Tbill-91 days	6.56	6.65	9
Tbill-182 days	6.90	6.98	8
Tbill-364 days	6.92	7.03	11
G-Sec 2Y	6.94	7.02	8
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	07-02-2023	08-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.4)	0.1	0.5
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	06-02-2023	07-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(174.3)	(366.5)	(192.2)
Debt	(48.3)	(99.6)	(51.3)
Equity	(126.0)	(266.9)	(140.9)
Mutual funds (Rs cr)	2,946.4	857.4	(2,089.0)
Debt	1,748.4	(343.1)	(2,091.5)
Equity	1,198.0	1,200.5	2.5

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 3 Feb 2023 and 6 Feb 2023

- Global oil prices rose by 1.7% amidst supply disruptions due to earthquake in Turkey. Hopes of demand revival from China also buoyed prices.

Fig 7 – Commodities

	07-02-2023	08-02-2023	% change
Brent crude (US\$/bbl)	83.7	85.1	1.7
Gold (US\$/ Troy Ounce)	1,873.1	1,875.5	0.1
Copper (US\$/ MT)	8,893.0	8,863.8	(0.3)
Zinc (US\$/MT)	3,169.8	3,167.0	(0.1)
Aluminium (US\$/MT)	2,524.5	2,481.0	(1.7)

Source: Bloomberg, Bank of Baroda Research



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