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US nonfarm payrolls increased by 223,000 in Dec'22, slowing from 256,000 additions in Nov'22. This also marked the smallest pace of increase in 2 years. While unemployment rate dipped to 3.5%, wage growth slowed down. Other macro indicators were dismal. US ISM non-manufacturing PMI slipped into the contraction (49.6 in Dec'22 versus 56.5) for the first time since May'20. US factory orders also declined by 1.8% in Nov'22 (est. -0.8%), from an increase of 0.4% in Oct'22. Investors now expect the Fed to soften its stance, as the economy loses steam. Equity markets edged up, while dollar weakened. In the Eurozone, while headline inflation moderated to 9.2% in Dec'22 from 10.1%, core inflation accelerated. In this week, inflation numbers from China, US, Japan and India will be keenly observed.

- Global indices ended mixed. Markets in US and UK rose the most as investors reacted to cooling inflationary pressures in the US (moderation in average hourly wage growth) and Eurozone. Shanghai Comp cheered PBOC's move to support property sector. Sensex ended in red, dragged by tech and metal stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	05-01-2023	06-01-2023	% change
Dow Jones	32,930	33,631	2.1
S & P 500	3,808	3,895	2.3
FTSE	7,633	7,699	0.9
Nikkei	25,821	25,974	0.6
Hang Seng	21,052	20,992	(0.3)
Shanghai Comp	3,155	3,158	0.1
Sensex	60,353	59,900	(0.8)
Nifty	17,992	17,859	(0.7)

Source: Bloomberg, Bank of Baroda Research

- Barring INR, other global currencies edged up against the dollar. DXY fell by 1.1% as US ISM non-manufacturing PMI dropped sharply in Dec'22. A sharper than expected fall in US factory orders also impacted investor sentiments. GBP gained the most by 1.6%, followed by EUR (1.2%). INR depreciated by 0.2% amidst weakness in domestic equity markets. It is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	05-01-2023	06-01-2023	% change
EUR/USD (1 EUR / USD)	1.0522	1.0644	1.2
GBP/USD (1 GBP / USD)	1.1908	1.2093	1.6
USD/JPY (JPY / 1 USD)	133.41	132.08	1.0
USD/INR (INR / 1 USD)	82.55	82.73	(0.2)
USD/CNY (CNY / 1 USD)	6.8804	6.8280	0.8

Source: Bloomberg, Bank of Baroda Research



- While 10Y bond yields in Asia ended higher (Japan, India), yields in US and Europe closed lower. Weaker than estimated increase in average hourly wages in the US in Dec'22, indicates that inflationary pressures may be cooling down. Further dip in US ISM services PMI also shows that rate hikes are hurting real economy. India's yield was up by 5bps, following weekly RBI auction. It is trading lower at 7.33% today, following global cues and GDP data.

Fig 3 – Bond 10Y yield

	05-01-2023	06-01-2023	change in bps
US	3.72	3.56	(16)
UK	3.55	3.47	(8)
Germany	2.32	2.21	(11)
Japan	0.43	0.51	7
China	2.84	2.84	0
India	7.33	7.37	5

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	05-01-2023	06-01-2023	change in bps
Tbill-91 days	6.32	6.35	3
Tbill-182 days	6.76	6.75	(1)
Tbill-364 days	6.91	6.89	(2)
G-Sec 2Y	6.94	6.95	1
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.31	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	05-01-2023	06-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.5)	(0.6)	0.9
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	04-01-2023	05-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(349.1)	(161.2)	187.9
Debt	(52.3)	(9.3)	43.0
Equity	(296.9)	(151.9)	144.9
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

- Global commodity prices broadly edged up as investors pared back expectations of hawkish Fed. Oil prices however, declined marginally by 0.2%.

Fig 7 – Commodities

	05-01-2023	06-01-2023	% change
Brent crude (US\$/bbl)	78.7	78.6	(0.2)
Gold (US\$/ Troy Ounce)	1,832.9	1,865.7	1.8
Copper (US\$/ MT)	8,361.5	8,569.9	2.5
Zinc (US\$/MT)	3,028.3	3,041.8	0.4
Aluminium (US\$/MT)	2,255.5	2,295.5	1.8

Source: Bloomberg, Bank of Baroda Research



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