

## MORNING MOCHA

10 January 2023

ECONOMIST

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Increased expectations of a softer stance from the Fed drove global markets. Markets are now expecting the Fed rate to peak below 5%, along with expectations of a rate-cut in the latter part of the year. This drove dollar lower. Investor sentiment was also buoyed as China reopened its international borders after 3 years. As a result, equities edged up. Elsewhere in Europe, Germany's industrial production rose more than expected by 0.2% in Nov'22 (MoM), versus est. 0.1% increase. Eurozone's unemployment rate unchanged at a record low of 6.5% in Nov'22. US CPI data due later in the week, will determine the Fed rate path. Fed officials also stated that the monetary policy will be contingent on the evolving inflation trajectory.

- Global indices ended mixed. Markets in the US closed lower amidst mixed commentaries from central bank officials. While San Francisco Federal Reserve President said a 50/25bps hike might be a possibility, Atlanta Fed President spoke of a 25bps rate hike. Asian markets got comfort with China's reopening of borders with Hong Kong. Sensex ended in green led by tech and power stocks. However, it is trading lower today while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	06-01-2023	09-01-2023	% change
Dow Jones	33,631	33,518	(0.3)
S & P 500	3,895	3,892	(0.1)
FTSE	7,699	7,725	0.3
Nikkei	25,821	25,974	0.6
Hang Seng	20,992	21,388	1.9
Shanghai Comp	3,158	3,176	0.6
Sensex	59,900	60,747	1.4
Nifty	17,859	18,101	1.4

Source: Bloomberg, Bank of Baroda Research | Note: Markets in Japan were closed on 9 Jan 2023

- Global currencies strengthened against the dollar. DXY fell by 0.8% to a more than 6-month low amidst increasing bet of a softer stance from the Fed. EUR gained by 0.8% as Germany's industrial production rose more than expected in Nov'22. CNY also gained 0.8% amidst optimism over border reopening. INR appreciated by 0.4%, following global cues. It is trading further stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

	06-01-2023	09-01-2023	% change
EUR/USD (1 EUR / USD)	1.0644	1.0730	0.8
GBP/USD (1 GBP / USD)	1.2093	1.2184	0.8
USD/JPY (JPY / 1 USD)	132.08	131.88	0.2
USD/INR (INR / 1 USD)	82.73	82.36	0.4
USD/CNY (CNY / 1 USD)	6.8280	6.7719	0.8

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. In the US, 10Y yield fell by 3bps as New York Federal Reserve Survey of consumer expectations showed that near term inflation expectations are falling. Germany's 10Y yield inched up by 2bps following upbeat industrial production data. India's yield fell by 3bps (7.34%), tracking US 10Y yield. It is trading a tad lower at 7.33% today.

**Fig 3 – Bond 10Y yield**

	06-01-2023	09-01-2023	change in bps
US	3.56	3.53	(3)
UK	3.47	3.53	5
Germany	2.21	2.23	2
Japan	0.51	0.51	0
China	2.84	2.84	1
India	7.37	7.34	(3)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	06-01-2023	09-01-2023	change in bps
Tbill-91 days	6.35	6.34	(1)
Tbill-182 days	6.75	6.75	0
Tbill-364 days	6.89	6.88	(1)
G-Sec 2Y	6.95	6.92	(2)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.31	4.31	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	06-01-2023	09-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(0.7)	(0.1)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	05-01-2023	06-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(161.2)	(339.7)	(178.4)
Debt	(9.3)	(15.8)	(6.5)
Equity	(151.9)	(323.8)	(171.9)
Mutual funds (Rs cr)	(124.3)	855.5	979.8
Debt	(196.7)	326.5	523.3
Equity	72.4	529.0	456.6

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data is of 2 Jan 2023 and 5 Jan 2023

- Global oil prices rose by 1.4% amidst an improving demand outlook, as China reopened its borders.

**Fig 7 – Commodities**

	06-01-2023	09-01-2023	% change
Brent crude (US\$/bbl)	78.6	79.7	1.4
Gold (US\$/ Troy Ounce)	1,865.7	1,871.8	0.3
Copper (US\$/ MT)	8,569.9	8,833.0	3.1
Zinc (US\$/MT)	3,041.8	3,223.3	6.0
Aluminium (US\$/MT)	2,295.5	2,438.5	6.2

Source: Bloomberg, Bank of Baroda Research



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