

MORNING MOCHA

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CPI inflation in China accelerated to 1.8% in Dec'22 (est. 1.8%) from 1.6% in Nov'22, led by higher food prices. Deflation in PPI also eased from -1.3% in Nov'22 to -0.7% in Dec'22, led by declining energy prices. With China easing most Covid-19 related restrictions, inflation is expected to accelerate in Q1CY23. On the other hand, US CPI due today is expected to moderate to 6.5% in Dec'22 from 7.1%. Core CPI is also expected to soften. Investors hence expect Fed to slow down the pace of rate hike to 25bps in Feb'22 versus 50bps in the last policy. Even in India, CPI inflation is expected to ease to 5.7% (our estimate) from 5.9% in Nov'22.

- Except Shanghai Comp and Nifty (lower), other equity indices closed higher. Markets are awaiting US CPI data which is expected to moderate (est.: 6.5% against 7.1% earlier). On policy front, President of Federal Reserve Bank of Boston spoke of a 25bps rate hike in the coming policy. ECB policymakers also assured of not de-anchoring of inflation expectations. Sensex closed flat. It is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	10-01-2023	11-01-2023	% change
Dow Jones	33,704	33,973	0.8
S & P 500	3,919	3,970	1.3
FTSE	7,694	7,725	0.4
Nikkei	26,176	26,446	1.0
Hang Seng	21,331	21,436	0.5
Shanghai Comp	3,170	3,162	(0.2)
Sensex	60,115	60,106	0
Nifty	17,914	17,896	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY remained in a tight-range as investors await US CPI report due later in the day. EUR edged up by 0.2% supported by hawkish comments from ECB officials. CNY appreciated amidst optimism over reopening. INR appreciated by 0.3% despite higher oil prices. It is trading a tad weaker today, while other Asian currencies are trading stronger.

Fig 2 – Currencies

	10-01-2023	11-01-2023	% change
EUR/USD (1 EUR / USD)	1.0733	1.0757	0.2
GBP/USD (1 GBP / USD)	1.2154	1.2146	(0.1)
USD/JPY (JPY / 1 USD)	132.26	132.45	(0.1)
USD/INR (INR / 1 USD)	81.79	81.58	0.3
USD/CNY (CNY / 1 USD)	6.7795	6.7650	0.2

Source: Bloomberg, Bank of Baroda Research

- Except Japan and China (stable), global 10Y yields closed lower. Appetite for sovereign securities emerged due to a risk-off sentiment as World Bank flagged



risks of recession. Expectations of softer CPI print in the US also impacted sentiments. UK's 10Y yield fell the most, followed by Germany. India's 10Y yield fell by 2bps (7.29%). It is trading at 7.3% today, ahead of CPI and IIP data.

Fig 3 – Bond 10Y yield

	10-01-2023	11-01-2023	change in bps
US	3.62	3.54	(8)
UK	3.56	3.41	(15)
Germany	2.31	2.20	(10)
Japan	0.51	0.51	0
China	2.87	2.87	0
India	7.31	7.29	(2)

Source: Bloomberg, Bank of Baroda Research

- In the recent Rs 300bn auction of TBill, cut-off yield for 182-days paper remained flat, for 91-days it rose by 3bps and for 364-days, it fell by 3bps.

Fig 4 – Short term rates

	10-01-2023	11-01-2023	change in bps
Tbill-91 days	6.31	6.37	6
Tbill-182 days	6.75	6.76	1
Tbill-364 days	6.87	6.88	1
G-Sec 2Y	6.88	6.87	(1)
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	10-01-2023	11-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(0.9)	(0.1)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	09-01-2023	10-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	68.2	(205.7)	(273.8)
Debt	61.2	16.4	(44.8)
Equity	7.0	(222.0)	(229.0)
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 edged up further by 3.2% on the back of an improvement in demand outlook amidst reopening in China.

Fig 7 – Commodities

	10-01-2023	11-01-2023	% change
Brent crude (US\$/bbl)	80.1	82.7	3.2
Gold (US\$/ Troy Ounce)	1,877.0	1,875.7	(0.1)
Copper (US\$/ MT)	8,890.5	9,107.5	2.4
Zinc (US\$/MT)	3,174.1	3,226.3	1.6
Aluminium (US\$/MT)	2,463.5	2,510.0	1.9

Source: Bloomberg, Bank of Baroda Research



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