

## MORNING MOCHA

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ECONOMIST  
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US inflation declined by 0.1% in Dec'22 (est. 0%) from +0.1% in Nov'22 (MoM). This marked the first decline in CPI since May'20. This has raised the possibility that the Fed may be nearing the end of the rate-hike cycle with a 25bps rate hike in Feb'22, and terminal rate peaking just below 5%. Investors have also increased bets of rate cut in the late 2023. In India as well, CPI inflation eased further, even though core inflation remained sticky. This suggests that RBI will hike rates by another 25bps before taking a pause. Bank of Korea raised policy rates by 25bps and signalled an end to its rate hike cycle. Elsewhere, news reports suggest that the BoJ may review its ultra-dovish monetary policy which buoyed JPY. Separate data showed that China's exports and imports dipped sharply in Dec'22.

- Barring India (lower), other equity indices closed higher. Markets got comfort from US CPI report. Reaction of Fed officials were mixed, while Richmond Fed President spoke of steering more deliberately, St Louis Fed President spoke of above 5% terminal rate. FTSE rose the most, followed by Dow Jones. Sensex fell by 0.2%. It is trading further lower today, while other Asian stocks are trading mixed, tracking muted trade data from China.

**Fig 1 – Stock markets**

	11-01-2023	12-01-2023	% change
Dow Jones	33,973	34,190	0.6
S & P 500	3,970	3,983	0.3
FTSE	7,725	7,794	0.9
Nikkei	26,446	26,450	0
Hang Seng	21,436	21,514	0.4
Shanghai Comp	3,162	3,163	0.1
Sensex	60,106	59,958	(0.2)
Nifty	17,896	17,858	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except INR (flat), other global currencies strengthened. A weaker than expected inflation report from US drove DXY to a ~7-month low. JPY gained the most by 2.5% as reports suggest that the BoJ may rethink its ultra-dovish monetary policy. EUR too edged up by 0.9% as ECB is likely to remain hawkish. INR is trading further stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

	11-01-2023	12-01-2023	% change
EUR/USD (1 EUR / USD)	1.0757	1.0853	0.9
GBP/USD (1 GBP / USD)	1.2146	1.2210	0.5
USD/JPY (JPY / 1 USD)	132.45	129.25	2.5
USD/INR (INR / 1 USD)	81.58	81.55	0
USD/CNY (CNY / 1 USD)	6.7650	6.7295	0.5

Source: Bloomberg, Bank of Baroda Research



- Except Japan (higher) and China (stable), global 10Y yields closed lower. Markets tracked softening of US CPI. US 10Y yield fell the most (10bps), followed by UK (7bps). Notably in Japan, 10Y yield crossed its ceiling of 0.5%, prompting BoJ to conduct unscheduled bond buying. India's 10Y yield fell by 1bps (7.29%). It is trading a tad lower at 7.28% today, supported by moderation in CPI data.

**Fig 3 – Bond 10Y yield**

	11-01-2023	12-01-2023	change in bps
US	3.54	3.44	(10)
UK	3.41	3.33	(7)
Germany	2.20	2.16	(5)
Japan	0.51	0.51	1
China	2.87	2.88	0
India	7.29	7.29	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	11-01-2023	12-01-2023	change in bps
Tbill-91 days	6.37	6.38	1
Tbill-182 days	6.76	6.70	(6)
Tbill-364 days	6.88	6.86	(2)
G-Sec 2Y	6.87	6.88	1
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.31	4.30	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	11-01-2023	12-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(1.1)	(0.2)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	10-01-2023	11-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(205.7)	(423.8)	(218.2)
Debt	16.4	(7.1)	(23.5)
Equity	(222.0)	(416.8)	(194.7)
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 1.6% supported by a weaker dollar and improved demand outlook.

**Fig 7 – Commodities**

	11-01-2023	12-01-2023	% change
Brent crude (US\$/bbl)	82.7	84.0	1.6
Gold (US\$/ Troy Ounce)	1,875.7	1,897.1	1.1
Copper (US\$/ MT)	9,107.5	9,169.1	0.7
Zinc (US\$/MT)	3,226.3	3,257.0	1.0
Aluminium (US\$/MT)	2,510.0	2,548.5	1.5

Source: Bloomberg, Bank of Baroda Research



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