

MORNING MOCHA

16 February 2023

ECONOMIST

Aditi Gupta

US retail sales increased by 3% in Jan'23 (est. 1.9%) compared with a decline of 1.1% in Dec'22. Manufacturing production also rose by 1% (est. 0.8%) after declining by 0.8% in Dec'22 (MoM). This coupled with the CPI report released earlier, has raised the possibility of higher terminal Fed fund rate. On the other hand, inflation in UK eased to 10.1% in Jan'23 (est. 10.3%) from 11.1% in Dec'22. More importantly, core inflation eased to 5.8% from 6.3%. This has raised the possibility that the BoE may opt for smaller rate hikes going forward. Separately, Japan's trade deficit hit a record high in Jan'23, amidst a sharp slowdown in exports.

Unemployment rate in Australia edged up to 3.7%, even as RBA Chief reiterated the need for more rate hikes. In India, trade deficit narrowed sharply amidst a decline in both exports and imports.

- Global indices closed mixed. Investors remained cautious tracking better than expected US retail sales, moderation in UK CPI and ahead of Asian Central Banks' (Indonesia and Philippines) policy decisions. Amongst major indices, Hang Seng fell the most, while FTSE rose sharply. Sensex rose by 0.4%, led by real estate and auto stocks. It is trading higher today, in line with Asian stocks.

Fig 1 – Stock markets

| | 14-02-2023 | 15-02-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 34,089 | 34,128 | 0.1 |
| S & P 500 | 4,136 | 4,148 | 0.3 |
| FTSE | 7,954 | 7,998 | 0.6 |
| Nikkei | 27,603 | 27,502 | (0.4) |
| Hang Seng | 21,114 | 20,812 | (1.4) |
| Shanghai Comp | 3,293 | 3,280 | (0.4) |
| Sensex | 61,032 | 61,275 | 0.4 |
| Nifty | 17,930 | 18,016 | 0.5 |

Source: Bloomberg, Bank of Baroda Research

- Global currencies broadly depreciated against the dollar. DXY rose by 0.7% amidst a sharp increase in US retail sales. GBP fell by 1.2% as UK's inflation eased, suggesting smaller rate hikes by BoE. INR depreciated a tad bit. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

| | 14-02-2023 | 15-02-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0738 | 1.0689 | (0.5) |
| GBP/USD (1 GBP / USD) | 1.2173 | 1.2030 | (1.2) |
| USD/JPY (JPY / 1 USD) | 133.16 | 134.16 | (0.7) |
| USD/INR (INR / 1 USD) | 82.76 | 82.80 | 0 |
| USD/CNY (CNY / 1 USD) | 6.8279 | 6.8550 | (0.4) |

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose by 6bps led by better than expected retail sales data. On the other hand, softening of CPI data in Jan'23 led to a 3bps decline in UK's 10Y yield. India's 10Y yield closed lower by 2bps (7.35%) tracking fall in oil prices. It is trading further lower at 7.34% today.

Fig 3 – Bond 10Y yield

| | 14-02-2023 | 15-02-2023 | change in bps |
|---------|------------|------------|---------------|
| US | 3.74 | 3.80 | 6 |
| UK | 3.52 | 3.49 | (3) |
| Germany | 2.44 | 2.48 | 4 |
| Japan | 0.51 | 0.51 | 0 |
| China | 2.89 | 2.89 | 0 |
| India | 7.37 | 7.35 | (2) |

Source: Bloomberg, Bank of Baroda Research

- In the latest Rs 290bn TBill auction, cut off yields rose across the board (91 days: +6bps, 182 days: +11bps and 364 days: +10bps).

Fig 4 – Short term rates

| | 14-02-2023 | 15-02-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 6.66 | 6.72 | 6 |
| Tbill-182 days | 7.00 | 7.10 | 10 |
| Tbill-364 days | 7.12 | 7.14 | 2 |
| G-Sec 2Y | 7.16 | 7.17 | 1 |
| 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 | 14-02-2023 | 15-02-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | 0.6 | 0.2 | (0.4) |
| Reverse repo | 0 | 0 | 0 |
| Repo | 0.5 | 0.5 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 13-02-2023 | 14-02-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 272.0 | 134.7 | (137.3) |
| Debt | 91.0 | (63.9) | (154.9) |
| Equity | 181.0 | 198.6 | 17.6 |
| 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

- Crude oil prices fell by 0.2% tracking movement in US crude storage buildup.

Fig 7 – Commodities

| | 14-02-2023 | 15-02-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 85.6 | 85.4 | (0.2) |
| Gold (US\$/ Troy Ounce) | 1,854.3 | 1,836.0 | (1.0) |
| Copper (US\$/ MT) | 8,921.0 | 8,826.8 | (1.1) |
| Zinc (US\$/MT) | 3,108.3 | 3,037.0 | (2.3) |
| Aluminium (US\$/MT) | 2,408.0 | 2,384.5 | (1.0) |

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com