

MORNING MOCHA

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ECONOMIST
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Less aggressive monetary tightening by Fed owing to easing of CPI print, prompted dollar to drop to its lowest level since Jun'22. China's house prices dropped for the 8-month in a row (1.5% in Dec'22) led by weaker demand due to Covid-19 outbreak. However, with the removal of Zero-Covid-19 policy and other measures by government, the property sector is expected to recover steadily. This week, BoJ's is likely to tweak changes in the yield curve control (YCC) policy in its upcoming meet. China's industrial output and GDP report will be tracked closely. Elsewhere, markets will also monitor statements by policy makers and central bank heads as they gather for World Economic Forum at Davos.

- Barring Nikkei, other equity indices closed higher. Cool-off of US CPI offered hopes of possible peaking of interest rates in the coming months by Fed. Germany's GDP inched up by 1.9% for CY22 and analysts now expect the economy might even dodge recession for CY23, despite difficult conditions. This further boosted investor sentiments. Both Hang Seng and Shanghai Comp rose by 1% each. Sensex too ended in green led by gains in metal and IT stocks. It is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	12-01-2023	13-01-2023	% change
Dow Jones	34,190	34,303	0.3
S & P 500	3,983	3,999	0.4
FTSE	7,794	7,844	0.6
Nikkei	26,450	26,120	(1.2)
Hang Seng	21,514	21,739	1.0
Shanghai Comp	3,163	3,195	1.0
Sensex	59,958	60,261	0.5
Nifty	17,858	17,957	0.6

Source: Bloomberg, Bank of Baroda Research

- Except EUR (lower), other global currencies strengthened on account of a weaker dollar due to softening of US CPI print. JPY gained the most by 1.1% as reports suggested that BoJ may further tweak its yield control policy. INR rose by 0.4% supported by FII inflows. It is trading higher today, while other Asian currencies are trading lower following Japan's strong PPI data.

Fig 2 – Currencies

	12-01-2023	13-01-2023	% change
EUR/USD (1 EUR / USD)	1.0853	1.0830	(0.2)
GBP/USD (1 GBP / USD)	1.2210	1.2227	0.1
USD/JPY (JPY / 1 USD)	129.25	127.87	1.1
USD/INR (INR / 1 USD)	81.55	81.34	0.3
USD/CNY (CNY / 1 USD)	6.7295	6.7010	0.4

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed higher. Risk on sentiment improved with better than expected GDP data in Germany, falling 1 year inflation expectation in the US and improved consumer sentiment, as highlighted in the University of Michigan survey results. Fed Reserve Bank of Philadelphia also spoke of inflation passing its peak. India's 10Y yield rose a tad by 1bps (7.30%). It is trading at 7.31% today.

Fig 3 – Bond 10Y yield

	12-01-2023	13-01-2023	change in bps
US	3.44	3.50	6
UK	3.33	3.37	3
Germany	2.16	2.17	1
Japan	0.51	0.51	0
China	2.88	2.90	2
India	7.29	7.30	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-01-2023	13-01-2023	change in bps
Tbill-91 days	6.38	6.38	0
Tbill-182 days	6.70	6.75	5
Tbill-364 days	6.86	6.85	(1)
G-Sec 2Y	6.88	6.86	(2)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-01-2023	13-01-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.1)	(0.8)	0.3
Reverse repo	0.3	0	(0.3)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-01-2023	12-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(423.8)	(185.3)	238.6
Debt	(7.1)	(20.5)	(13.4)
Equity	(416.8)	(164.8)	252.0
Mutual funds (Rs cr)	840.5	855.5	15.0
Debt	640.0	326.5	(313.5)
Equity	200.5	529.0	328.5

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data is of 4 Jan 2023 and 5 Jan 2023

- Global oil prices continued to climb higher (up by 1.5%) on the back of improved optimism over China's demand outlook.

Fig 7 – Commodities

	12-01-2023	13-01-2023	% change
Brent crude (US\$/bbl)	84.0	85.3	1.5
Gold (US\$/ Troy Ounce)	1,897.1	1,920.2	1.2
Copper (US\$/ MT)	9,169.1	9,168.6	0
Zinc (US\$/MT)	3,257.0	3,348.3	2.8
Aluminium (US\$/MT)	2,548.5	2,595.0	1.8

Source: Bloomberg, Bank of Baroda Research



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