

## MORNING MOCHA

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ECONOMIST  
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BoJ in its widely anticipated meeting unanimously moved against the tide and continued with the ultra-low rates. It announced no new changes to yield curve control, against market expectation. Thus showcasing its intention to continue with large scale bond buying and to increase it on flexible basis. As a result, Japanese stocks climbed higher in morning session today. 10Y yield also edged upwards. Separately, Germany's investor sentiment survey (Zew) moved in to the positive territory (16.9 against -23.3 in Dec'22) for the first time since Russia-Ukraine conflict signalling some improvement in Germany's economic climate.

- Global equity indices closed mixed as investors monitored policy makers in Davos voicing out concerns over global economic slowdown in CY23. Amongst other indices, Nikkei jumped the most followed by gains in Sensex (0.9%). Domestic market was supported by FII buying and strong gains in capital goods and power stocks. It is trading flat today while other Asian indices are trading higher. Japanese stocks surged by more than 2% after BoJ announced no new changes in the yield curve control policy.

**Fig 1 – Stock markets**

|               | 16-01-2023 | 17-01-2023 | % change |
|---------------|------------|------------|----------|
| Dow Jones     | 34,303     | 33,911     | (1.1)    |
| S & P 500     | 3,999      | 3,991      | (0.2)    |
| FTSE          | 7,860      | 7,851      | (0.1)    |
| Nikkei        | 25,822     | 26,139     | 1.2      |
| Hang Seng     | 21,747     | 21,578     | (0.8)    |
| Shanghai Comp | 3,228      | 3,224      | (0.1)    |
| Sensex        | 60,093     | 60,656     | 0.9      |
| Nifty         | 17,895     | 18,053     | 0.9      |

Source: Bloomberg, Bank of Baroda Research Note: US markets were closed on 16.01.2023

- Global currencies ended mixed. GBP rose by 0.8% as average weekly earnings rose more than expected suggesting that the BoE is unlikely to slow down the pace of rate hikes. On the other hand, EUR depreciated by 0.3% even as Germany's Zew economic sentiment index turned positive unexpectedly. INR depreciated by 0.3% as oil prices rose. It is trading further weaker today, in line with other Asian currencies.

**Fig 2 – Currencies**

|                       | 16-01-2023 | 17-01-2023 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0822     | 1.0788     | (0.3)    |
| GBP/USD (1 GBP / USD) | 1.2194     | 1.2286     | 0.8      |
| USD/JPY (JPY / 1 USD) | 128.58     | 128.12     | 0.4      |
| USD/INR (INR / 1 USD) | 81.62      | 81.77      | (0.2)    |
| USD/CNY (CNY / 1 USD) | 6.7382     | 6.7719     | (0.5)    |

Source: Bloomberg, Bank of Baroda Research Note: US markets were closed on 16.01.2023



- Global 10Y yields closed broadly lower. US 10Y yield rose by 4bps as investors assess Fed's future rate path. Germany's 10Y yield fell the most by 8bps amidst news reports that the ECB may slow down the pace of rate hikes after a 50bps hike in Feb'23. 10Y yield in UK also dipped by 6bps. Japan's 10Y yield was stable but remained above BoJ's yields curve target. India's 10Y yield closed flat. It is trading a tad lower at 7.32% today.

**Fig 3 – Bond 10Y yield**

|         | 16-01-2023 | 17-01-2023 | change in bps |
|---------|------------|------------|---------------|
| US      | 3.50       | 3.55       | 4             |
| UK      | 3.38       | 3.32       | (6)           |
| Germany | 2.18       | 2.09       | (8)           |
| Japan   | 0.53       | 0.52       | 0             |
| China   | 2.92       | 2.91       | (1)           |
| India   | 7.33       | 7.33       | 0             |

Source: Bloomberg, Bank of Baroda Research Note: US markets were closed on 16.01.2023

**Fig 4 – Short term rates**

|                          | 16-01-2023 | 17-01-2023 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days            | 6.35       | 6.48       | 13            |
| Tbill-182 days           | 6.76       | 6.77       | 1             |
| Tbill-364 days           | 6.87       | 6.87       | 0             |
| G-Sec 2Y                 | 6.88       | 6.92       | 3             |
| SONIA int rate benchmark | 3.43       | 3.43       | 0             |
| US SOFR                  | 4.30       | 4.30       | 0             |

Source: Bloomberg, Bank of Baroda Research Note: US markets were closed on 16.01.2023

**Fig 5 – Liquidity**

| Rs tn                             | 16-01-2023 | 17-01-2023 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.4)      | (0.5)      | (0.1)          |
| Reverse repo                      | 0.5        | 0.5        | 0              |
| Repo                              | 0          | 0          | 0              |

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

|                      | 13-01-2023 | 16-01-2023 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn)        | (312.4)    | 243.3      | 555.7                  |
| Debt                 | 146.8      | 50.3       | (96.5)                 |
| Equity               | (459.2)    | 193.0      | 652.2                  |
| 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 rebounded yet again by 1.7% to US\$ 85.9/bbl on expectation of improved demand outlook with reopening of China's economy.

**Fig 7 – Commodities**

|                         | 16-01-2023 | 17-01-2023 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl)  | 84.5       | 85.9       | 1.7      |
| Gold (US\$/ Troy Ounce) | 1,916.0    | 1,908.7    | (0.4)    |
| Copper (US\$/ MT)       | 9,088.2    | 9,283.0    | 2.1      |
| Zinc (US\$/MT)          | 3,323.5    | 3,312.8    | (0.3)    |
| Aluminium (US\$/MT)     | 2,621.0    | 2,618.5    | (0.1)    |

Source: Bloomberg, Bank of Baroda Research



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