

## MORNING MOCHA

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ECONOMIST

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Global market keenly await the release of Fed minutes scheduled this week, along with the commentary by Fed officials, that is expected to provide further rate guidance. Last week data print from US has made a stronger case of terminal rates peaking to 5.28% and have downplayed the likelihood of any rate cuts this year. Core PCE is also scheduled to release this week. PBOC kept the prime lending rate for both 1-year (3.65% for the 6<sup>th</sup> month in a row) and 5-year (4.3%) unchanged in line with expectation. There is possibility of reduction in rates in the coming months in order to support economic recovery. Reserve Bank of New Zealand is expected to hike interest rate by 50bps in the policy meet today.

- Except Dow Jones, other global indices closed lower. News reports of Fed remaining hawkish for a longer period than anticipated earlier kept investors on the edge. Hang Seng (1.3%) dropped the most followed by losses in Shanghai Comp (0.8%). Sensex too ended in red led by losses in realty, IT and consumer durable stocks. However, it is trading higher today, while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	16-02-2023	17-02-2023	% change
Dow Jones	33,697	33,827	0.4
S & P 500	4,090	4,079	(0.3)
FTSE	8,013	8,004	(0.1)
Nikkei	27,696	27,513	(0.7)
Hang Seng	20,988	20,720	(1.3)
Shanghai Comp	3,249	3,224	(0.8)
Sensex	61,320	61,003	(0.5)
Nifty	18,036	17,944	(0.5)

Source: Bloomberg, Bank of Baroda Research

- While Asian currencies ended lower against the dollar, EUR and GBP appreciated. DXY ended flat, following decline in US 10Y yield. GBP was supported by rebound in retail sales growth in Jan'23. Decline in Germany's PPI also helped lift investor sentiments. INR fell by 0.1%, despite dip in oil prices. It is trading further lower today, in line with other Asian currencies.

**Fig 2 – Currencies**

	16-02-2023	17-02-2023	% change
EUR/USD (1 EUR / USD)	1.0674	1.0695	0.2
GBP/USD (1 GBP / USD)	1.1993	1.2037	0.4
USD/JPY (JPY / 1 USD)	133.94	134.15	(0.2)
USD/INR (INR / 1 USD)	82.72	82.83	(0.1)
USD/CNY (CNY / 1 USD)	6.8575	6.8686	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. While yields in US (-5bps) and Germany (-4bps) fell the most, in UK and India they ended higher. Investors were watchful of unexpectedly high retail sales growth in the UK, dip in Germany's PPI; and await FOMC minutes to gauge the trajectory of rate hikes by US Fed. India's 10Y yield rose by 5bps, as RBI partially devolved 2033 bond in weekly G-sec auction. However, tracking global cues, it is trading tad lower at 7.36% today.

**Fig 3 – Bond 10Y yield**

	16-02-2023	17-02-2023	change in bps
US	3.86	3.81	(5)
UK	3.50	3.52	2
Germany	2.48	2.44	(4)
Japan	0.51	0.51	0
China	2.89	2.89	0
India	7.32	7.37	5

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	16-02-2023	17-02-2023	change in bps
Tbill-91 days	6.74	6.77	3
Tbill-182 days	7.08	7.09	1
Tbill-364 days	7.14	7.15	1
G-Sec 2Y	7.16	7.21	5
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	16-02-2023	17-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.1	0.2	0.1
Reverse repo	0	0	0
Repo	0.5	0.5	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	15-02-2023	16-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	56.2	254.7	198.6
Debt	(36.9)	9.1	46.0
Equity	93.0	245.6	152.5
Mutual funds (Rs cr)	(235.0)	(21.3)	213.7
Debt	(352.2)	(68.8)	283.5
Equity	117.3	47.5	(69.8)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 14 Feb 2023 and 15 Feb 2023

- Global oil prices fell by 2.5%, amidst higher supplies in US (crude and gasoline inventories) and possibility of more rate hikes by Fed.

**Fig 7 – Commodities**

	16-02-2023	17-02-2023	% change
Brent crude (US\$/bbl)	85.1	83.0	(2.5)
Gold (US\$/ Troy Ounce)	1,836.4	1,842.4	0.3
Copper (US\$/ MT)	8,991.5	8,950.3	(0.5)
Zinc (US\$/MT)	3,030.8	3,085.8	1.8
Aluminium (US\$/MT)	2,394.0	2,387.5	(0.3)

Source: Bloomberg, Bank of Baroda Research



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