

MORNING MOCHA

22 February 2023

ECONOMIST

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Global markets continue to fret over the future of interest rates ahead of the release of Fed minutes and any future guidance on rate trajectory. Stronger than expected economic data from US (business activity edged up to 8-month high) added further support to the likelihood of continuation of stiff monetary policy by Fed. Separately, in line with expectation, Central Bank of New Zealand hiked rates by 50bps to 4.75% (14-year high) and signalled the likelihood of more rate hikes in order to ensure inflation returns to target range. BoJ noted that in order to curb elevated yields, it will conduct emergency bond buying as 10Y yield breached 0.5% mark.

- Barring Shanghai Comp (higher) and Sensex (flat), other global indices ended lower with concerns emerging over rates staying higher for a longer period to tackle inflation. This was further supported by additional economic data (US composite PMI climbed to 50.2 in Feb'23 against 46.8 in Jan'23) release. Dow Jones slipped with fading hopes of any dovish pivot by Fed. Sensex ended flat. It is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	20-02-2023	21-02-2023	% change
Dow Jones	33,827	33,130	(2.1)
S & P 500	4,079	3,997	(2.0)
FTSE	8,014	7,978	(0.5)
Nikkei	27,532	27,473	(0.2)
Hang Seng	20,887	20,529	(1.7)
Shanghai Comp	3,290	3,307	0.5
Sensex	60,692	60,673	0
Nifty	17,845	17,827	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: US markets were shut on 20.2.23

- Barring GBP (higher), other major currencies closed lower against the dollar. DXY rose by 0.3%. DXY and GBP rose as PMI indices showed that services led economic activity returned to growth in Feb'23 in the US and UK. EUR was impacted by worsening manufacturing activity in the area. INR fell by 0.1%. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	20-02-2023	21-02-2023	% change
EUR/USD (1 EUR / USD)	1.0686	1.0648	(0.4)
GBP/USD (1 GBP / USD)	1.2041	1.2112	0.6
USD/JPY (JPY / 1 USD)	134.25	135.01	(0.6)
USD/INR (INR / 1 USD)	82.73	82.80	(0.1)
USD/CNY (CNY / 1 USD)	6.8552	6.8795	(0.4)

Source: Bloomberg, Bank of Baroda Research | Note: US markets were shut on 20.2.23

- Except Japan and China (flat), global 10Y yields closed higher. Yields in US (at highest since Nov'22) and UK rose sharply (+14bps each). Resilient economic



activity in the US has led to increased fears that inflation might remain sticky and Fed will have to keep rates elevated for a longer duration of time. US 2Y yield also rose, keeping the yield curve inverted, thus indicating fears of imminent recession. Following global cues, India's 10Y yield rose by 1bps. It is trading further higher at 7.40% today.

Fig 3 – Bond 10Y yield

	20-02-2023	21-02-2023	change in bps
US	3.81	3.95	14
UK	3.47	3.61	14
Germany	2.46	2.53	6
Japan	0.51	0.51	0
China	2.92	2.92	0
India	7.35	7.36	1

Source: Bloomberg, Bank of Baroda Research | Note: US markets were shut on 20.2.23

Fig 4 – Short term rates

	20-02-2023	21-02-2023	change in bps
Tbill-91 days	6.78	6.78	0
Tbill-182 days	7.09	7.10	1
Tbill-364 days	7.16	7.20	4
G-Sec 2Y	7.19	7.21	3
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	20-02-2023	21-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.4	0.7	0.3
Reverse repo	0	0	0
Repo	0.5	0.5	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-02-2023	20-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(34.1)	38.0	72.1
Debt	55.8	(18.9)	(74.7)
Equity	(89.9)	56.9	146.8
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 tumbled again by 1.2% to US\$ 83.1/bbl, amidst concerns around global economic growth.

Fig 7 – Commodities

	20-02-2023	21-02-2023	% change
Brent crude (US\$/bbl)	84.1	83.1	(1.2)
Gold (US\$/ Troy Ounce)	1,841.4	1,835.1	(0.3)
Copper (US\$/ MT)	9,115.5	9,183.5	0.7
Zinc (US\$/MT)	3,164.5	3,171.5	0.2
Aluminium (US\$/MT)	2,457.5	2,467.5	0.4

Source: Bloomberg, Bank of Baroda Research



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