

MORNING MOCHA

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In line with market expectations, US Fed has raised its policy rate by 25bps, acknowledging that inflation is cooling down. However it further added that, rate hikes will continue for some time in order to bring prices substantially down. US macro data shows that manufacturing activity weakened further in Jan'23 (ISM: 47.4 versus 48.4 in Dec'22), and private sector employment rose by 106k in Jan'23 versus est.: +190k and +253k in Dec'22. Markit PMI data shows that manufacturing activity in Eurozone, UK, Germany, and China remained in contraction in Jan'23, albeit the pace has slowed. In India, Union Budget announcements focused on balancing fiscal consolidation, nudging private investment and providing relief to consumers from inflationary pressures.

- Global indices largely ended higher. Investors monitored Fed's rate hike decision. S&P 500 rose by 1% led by strong gains in technology stocks ahead of the non-farm payrolls data due to release on Friday. Hang Seng also ended higher followed by gains in Shanghai Comp (0.9%). Sensex too ended in green after see-sawing post the budget announcements. IT and metal stocks gained the most. It is trading flat today while other Asian stocks are trading higher.

Fig 1 – Stock markets

	31-01-2023	1-02-2023	% change
Dow Jones	34,086	34,093	0
S & P 500	4,077	4,119	1.0
FTSE	7,772	7,761	(0.1)
Nikkei	27,327	27,347	0.1
Hang Seng	21,842	22,072	1.1
Shanghai Comp	3,256	3,285	0.9
Sensex	59,550	59,708	0.3
Nifty	17,662	17,616	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Barring INR (flat), other global currencies ended higher. DXY declined by 0.9% after Fed's rate decision and the Fed Chair acknowledging the slowing down of inflation. EUR and GBP climbed higher by 1.2% and 0.5% respectively ahead of the rate decision by ECB and BoE. INR ended flat. It is trading stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	31-01-2023	1-02-2023	% change
EUR/USD (1 EUR / USD)	1.0863	1.0990	1.2
GBP/USD (1 GBP / USD)	1.2320	1.2376	0.5
USD/JPY (JPY / 1 USD)	130.09	128.98	0.9
USD/INR (INR / 1 USD)	81.92	81.94	0
USD/CNY (CNY / 1 USD)	6.7553	6.7422	0.2

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. Yields in US (-9bps), India (-7bps) and UK (-2bps) fell the most. Slowdown in the pace of rate hike (25bps) pushed US treasury yields lower. Investors in UK are also expecting BoE to pause soon. In India, 10Y yield got support from less than estimated borrowing program announced in the Union Budget. It is trading further lower at 7.26% today.

Fig 3 – Bond 10Y yield

	31-01-2023	1-02-2023	change in bps
US	3.51	3.42	(9)
UK	3.33	3.31	(2)
Germany	2.29	2.28	0
Japan	0.50	0.49	0
China	2.90	2.91	1
India	7.34	7.28	(7)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	31-01-2023	1-02-2023	change in bps
Tbill-91 days	6.47	6.53	6
Tbill-182 days	6.84	6.90	6
Tbill-364 days	6.89	6.93	4
G-Sec 2Y	6.99	6.92	(7)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.31	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-01-2023	1-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	(0.2)	(0.2)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-01-2023	31-01-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(823.7)	(645.1)	178.6
Debt	(71.1)	52.1	123.3
Equity	(752.5)	(697.2)	55.3
Mutual funds (Rs cr)	(997.5)	(1,843.0)	(845.5)
Debt	(1,753.3)	(188.5)	1,564.7
Equity	755.7	(1,654.5)	(2,410.2)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 24 Jan 2023 and 25 Jan 2023

- Global oil prices fell by 2%, as US data showed considerable build up in stock piles, and OPEC countries decided to stick to their current output targets.

Fig 7 – Commodities

	31-01-2023	1-02-2023	% change
Brent crude (US\$/bbl)	84.5	82.8	(2.0)
Gold (US\$/ Troy Ounce)	1,928.4	1,950.5	1.1
Copper (US\$/ MT)	9,199.6	9,060.5	(1.5)
Zinc (US\$/MT)	3,418.8	3,375.3	(1.3)
Aluminium (US\$/MT)	2,644.0	2,631.5	(0.5)

Source: Bloomberg, Bank of Baroda Research



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