

MORNING MOCHA

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ECONOMIST
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Fed officials (Atlanta and Minneapolis Fed President) again hinted at 'continued rate hikes' to control inflation. On macro front, ISM manufacturing data in the US inched up to 47.7 in Feb'23 from 47.4 in Jan'23, albeit remaining below expectation of 48 and also below the 50-mark. Inflationary risks reignited fears in the Eurozone with Germany's harmonised CPI print rising more than expected by 1% on MoM basis (est.: 0.7%). On YoY basis, it has risen to 9.3%. Market is now pricing the ECB terminal rate in the region of about 4%. On domestic front, cut off yields of TBills have risen across all board in the range of 12-13bps. Even the 364-days cut off at 7.39% is nearing the 10Y Gsec yield, which shows that some degree of inversion in the yield curve might be forthcoming.

- Global indices broadly closed higher. Asian stocks were uplifted after China's official PMI staged a strong recovery. Hang Seng jumped by 4.2%, followed by a 1% increase in Shanghai Comp. Equities in US and UK showed only modest gains as manufacturing PMI whilst showing improvement, remained in contractionary zone. Sensex edged up by 0.8% supported by metal and tech stocks. However, it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	28-02-2023	1-03-2023	% change
Dow Jones	32,657	32,662	0.0
S & P 500	3,970	3,951	(0.5)
FTSE	7,876	7,915	0.5
Nikkei	27,446	27,517	0.3
Hang Seng	19,786	20,620	4.2
Shanghai Comp	3,280	3,312	1.0
Sensex	58,962	59,411	0.8
Nifty	17,304	17,451	0.8

Source: Bloomberg, Bank of Baroda Research

- Except Japan (unchanged), other global currencies gained against the dollar. CNY gained the most by 1% supported by robust PMI data. EUR also gained 0.9% as Germany's inflation rose more than anticipated bolstering case for more rate hikes by ECB. INR appreciated by 0.2% supported by gains in local equities. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	28-02-2023	1-03-2023	% change
EUR/USD (1 EUR / USD)	1.0576	1.0668	0.9
GBP/USD (1 GBP / USD)	1.2022	1.2029	0.1
USD/JPY (JPY / 1 USD)	136.17	136.19	0
USD/INR (INR / 1 USD)	82.67	82.51	0.2
USD/CNY (CNY / 1 USD)	6.9356	6.8698	1.0

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose the most by 7bps amidst reiteration by Fed officials of a higher policy rate to control inflation. Even Germany's 10Y yield rose by 6bps as higher than expected CPI data raised hopes of faster pace of rate hike by ECB. Japan and China's 10Y yield closed stable, buoyed by policy support. India's 10Y yield fell by 4bps to 7.42%, tracking slight moderation in OIS rates. It is trading higher at 7.44% today.

Fig 3 – Bond 10Y yield

	28-02-2023	1-03-2023	change in bps
US	3.92	3.99	7
UK	3.83	3.84	1
Germany	2.65	2.71	6
Japan	0.51	0.51	0
China	2.92	2.91	0
India	7.46	7.42	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	28-02-2023	1-03-2023	change in bps
Tbill-91 days	6.89	6.94	5
Tbill-182 days	7.22	7.28	6
Tbill-364 days	7.32	7.37	5
G-Sec 2Y	7.30	7.32	2
SONIA int rate benchmark	3.93	3.93	-
US SOFR	4.55	4.55	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	28-02-2023	1-03-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.2)	(0.7)	(0.5)
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-02-2023	28-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(203.6)	(563.8)	(360.2)
Debt	(7.2)	(2.3)	4.9
Equity	(196.4)	(561.5)	(365.1)
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

- Upbeat data from China pushed global commodity prices higher. While prices of metals rose sharply, oil prices noted a modest 0.5% increase.

Fig 7 – Commodities

	28-02-2023	1-03-2023	% change
Brent crude (US\$/bbl)	83.9	84.3	0.5
Gold (US\$/ Troy Ounce)	1,826.9	1,836.7	0.5
Copper (US\$/ MT)	8,951.0	9,084.0	1.5
Zinc (US\$/MT)	3,030.5	3,142.5	3.7
Aluminium (US\$/MT)	2,373.0	2,431.5	2.5

Source: Bloomberg, Bank of Baroda Research



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