

MORNING MOCHA

03 February 2023

ECONOMIST
Sonal Badhan

In line with market expectations, both BoE and ECB have raised their key policy rates by 50bps. Following this, BoE's policy rate is at 14-year high of 4%. BoE's future guidance was more dovish than expected as it hinted at smaller quantum of rate hikes in the coming meetings, as inflation is seen cooling down. The bank also expects economy to perform better than earlier anticipated (-0.3% in Q1CY23 versus -0.6% earlier). In CY24 the bank expects flat (0%) growth. ECB on the other hand has reaffirmed its stance to continue rate hikes in the coming months as well. In the US, labour market remains tight with initial jobless claims coming in lower (183k) than estimated (200k) for the week ending 28 Jan 2023 and versus 186k last week.

- Barring Dow Jones and Hang Seng, other global indices ended higher. Investors monitored rate decision by ECB and BoE. These decisions came in post Fed's mandate of hiking rate by another 25bps. S&P 500 gained the most followed by gains in FTSE (0.8%). Sensex also climbed higher driven by gains in IT and banking stocks. It is trading higher today while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	1-02-2023	2-02-2023	% change
Dow Jones	34,093	34,054	(0.1)
S & P 500	4,119	4,180	1.5
FTSE	7,761	7,820	0.8
Nikkei	27,347	27,402	0.2
Hang Seng	22,072	21,958	(0.5)
Shanghai Comp	3,285	3,286	0
Sensex	59,708	59,932	0.4
Nifty	17,616	17,610	0

Source: Bloomberg, Bank of Baroda Research

- Except JPY and CNY (higher), other global currencies ended lower. DXY rose by 0.5% ahead of the release of US non-farm payrolls data. Both ECB and BoE raised rates, with BoE signalling possible turning of the inflation wave, in its dovish outlook. GBP slipped by 1.2% followed by EUR by 0.7%. INR ended stronger as oil prices edged lower. However, it is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	1-02-2023	2-02-2023	% change
EUR/USD (1 EUR / USD)	1.0990	1.0910	(0.7)
GBP/USD (1 GBP / USD)	1.2376	1.2225	(1.2)
USD/JPY (JPY / 1 USD)	128.98	128.68	0.2
USD/INR (INR / 1 USD)	81.94	82.18	(0.3)
USD/CNY (CNY / 1 USD)	6.7422	6.7311	0.2

Source: Bloomberg, Bank of Baroda Research



- Barring Japan and India (higher), other global 10Y yields ended lower. Yields in UK (-30bps) and Germany (-20bps) fell the most. More than expected dovish statement by BoE and ECB's indication that inflation might have peaked in Europe, signalled that central banks may begin slowing down the pace of rate hikes soon. In India, 10Y yield rose by 2bps ahead of the weekly RBI auction today. However, it is trading a tad lower at 7.29% today.

Fig 3 – Bond 10Y yield

	1-02-2023	2-02-2023	change in bps
US	3.42	3.39	(2)
UK	3.31	3.01	(30)
Germany	2.28	2.08	(20)
Japan	0.49	0.50	1
China	2.91	2.90	(2)
India	7.28	7.30	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	1-02-2023	2-02-2023	change in bps
Tbill-91 days	6.53	6.54	1
Tbill-182 days	6.90	6.90	0
Tbill-364 days	6.93	6.91	(2)
G-Sec 2Y	6.92	6.92	1
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.31	4.31	0

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	(0.5)	(0.5)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	31-01-2023	1-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(365.8)	660.8	1,026.6
Debt	204.1	350.2	146.1
Equity	(569.9)	310.6	880.5
Mutual funds (Rs cr)	(997.5)	(2,547.0)	(1,549.5)
Debt	(1,753.3)	199.1	1,952.4
Equity	755.7	(2,746.1)	(3,501.9)

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

- Global oil prices fell by 0.8%, as investors fear weak global demand, as China is also showing mixed signs of recovery.

Fig 7 – Commodities

	1-02-2023	2-02-2023	% change
Brent crude (US\$/bbl)	82.8	82.2	(0.8)
Gold (US\$/ Troy Ounce)	1,950.5	1,912.7	(1.9)
Copper (US\$/ MT)	9,060.5	9,028.3	(0.4)
Zinc (US\$/MT)	3,375.3	3,411.5	1.1
Aluminium (US\$/MT)	2,631.5	2,617.0	(0.6)

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com