

MORNING MOCHA

06 February 2023

ECONOMIST

Aditi Gupta

Global markets reacted to a stronger than expected US jobs report. US non-farm payrolls increased by 517,000 in Jan'23, against est. 185,000 and 260,000 in Dec'22. This has fuelled expectations that the Fed may raise rates to above 5% and will likely keep it there for some time, effectively ruling out rate cuts priced in by the markets in the latter part of 2023. DXY and US 10Y bond yield surged in response. Another key macro data, US ISM services PMI rose sharply to 55.2 in Jan'23 (est. 50.4) from 49.2 in Dec'22. Services activity in Japan, China and Eurozone also signalled improvement. On the other hand, India's services PMI eased to 57.2 in Jan'23 from 58.5 in Dec'22, but remained in the expansion territory.

- Global indices closed mixed. Investors remained cautious monitoring US payroll data which showed that labour market conditions remained considerably tighter and wage growth has been stable. Apart from this, better services PMI reading in US, Germany and China also impacted investor sentiments. Hang Seng and S&P 500 dropped the most, while FTSE and Nikkei inched up. Sensex rose by 1.5% driven by consumer durables and banking stocks. It is trading weaker today, in line with other Asian stocks.

Fig 1 – Stock markets

	02-02-2023	03-02-2023	% change
Dow Jones	34,054	33,926	(0.4)
S & P 500	4,180	4,136	(1.0)
FTSE	7,820	7,902	1.0
Nikkei	27,402	27,509	0.4
Hang Seng	21,958	21,660	(1.4)
Shanghai Comp	3,286	3,263	(0.7)
Sensex	59,932	60,842	1.5
Nifty	17,610	17,854	1.4

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended weaker against the dollar. DXY rose by 1.1% to a ~3-week high as a stronger than expected US jobs report supported views of higher Fed rates. JPY and GBP depreciated the most. INR appreciated by 0.4% supported by lower oil prices and gains in domestic equities. However, it is trading weaker today in line with other Asian currencies.

Fig 2 – Currencies

	02-02-2023	03-02-2023	% change
EUR/USD (1 EUR / USD)	1.0910	1.0795	(1.1)
GBP/USD (1 GBP / USD)	1.2225	1.2056	(1.4)
USD/JPY (JPY / 1 USD)	128.68	131.19	(1.9)
USD/INR (INR / 1 USD)	82.18	81.84	0.4
USD/CNY (CNY / 1 USD)	6.7311	6.7980	(1.0)

Source: Bloomberg, Bank of Baroda Research



- Global 10Y yields closed mixed. US 10Y yield rose the most by 13bps as labour market conditions remained tight. Even Germany's 10Y yield rose by 11bps as ECB hinted at further rate hikes. Japan and China's 10Y yield closed stable, in absence of any fresh cues. India's 10Y yield fell by 2bps (7.28%) tracking fall in overnight indexed swap rates. It is trading higher at 7.32% today.

Fig 3 – Bond 10Y yield

	02-02-2023	03-02-2023	change in bps
US	3.39	3.52	13
UK	3.01	3.06	5
Germany	2.08	2.19	11
Japan	0.50	0.50	0
China	2.90	2.90	0
India	7.30	7.28	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	02-02-2023	03-02-2023	change in bps
Tbill-91 days	6.54	6.55	1
Tbill-182 days	6.90	6.89	(1)
Tbill-364 days	6.91	6.92	1
G-Sec 2Y	6.92	6.88	(4)
SONIA int rate benchmark	3.43	3.93	50
US SOFR	4.31	4.56	25

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	02-02-2023	03-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.5)	(0.4)	0.1
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	01-02-2023	02-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	660.8	(325.8)	(986.6)
Debt	350.2	118.1	(232.0)
Equity	310.6	(443.9)	(754.5)
Mutual funds (Rs cr)	(2,547.0)	2,446.6	4,993.6
Debt	199.1	(2,166.5)	(2,365.6)
Equity	(2,746.1)	4,613.1	7,359.2

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 25 Jan 2023 and 27 Jan 2023

- Global oil prices fell by 2.7%, amidst expectation of more rate hikes by Fed after US employment report.

Fig 7 – Commodities

	02-02-2023	03-02-2023	% change
Brent crude (US\$/bbl)	82.2	79.9	(2.7)
Gold (US\$/ Troy Ounce)	1,912.7	1,865.0	(2.5)
Copper (US\$/ MT)	9,028.3	8,951.3	(0.9)
Zinc (US\$/MT)	3,411.5	3,269.5	(4.2)
Aluminium (US\$/MT)	2,617.0	2,569.5	(1.8)

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