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Global markets went into a tizzy after Fed Chair in his testimony to the Congress hinted at larger rate hikes amidst continued strength in the economy. He stated that the central bank is ready to increase the pace of rate hike based on incoming data. Markets' expectations of a 50bps rate hike in Fed's Mar'23 meeting have increased substantially. Yield curve inversion in the US intensified further to its steepest since 1981 (-105bps). On the other hand, after delivering another 25bps rate hike, RBA spoke of a pause in the monetary policy tightening cycle. In China, impact of slow external and internal demand were visible as both exports and imports contracted in the Jan-Feb'23 period. While exports declined by 6.8% (est. 9.4% drop), imports fell much more sharply by 10.2% (est. 5.5% drop) compared with a 7.5% dip in Dec'22.

- Global indices largely ended lower after Fed Chair in his testimony hinted at a more aggressive monetary tightening, than was initially anticipated. Notably, BoE's policymaker dismissed any talks of pivot towards easier monetary policy. Dow Jones (1.7%) dropped the most followed by losses in Shanghai Comp (1.1%) and Hang Seng (0.3%). Sensex opened lower today, led by weak global cues. Asian stocks on the other hand are trading higher in the morning session.

Fig 1 – Stock markets

	06-03-2023	07-03-2023	% change
Dow Jones	33,431	32,856	(1.7)
S & P 500	4,048	3,986	(1.5)
FTSE	7,930	7,919	(0.1)
Nikkei	28,238	28,309	0.3
Hang Seng	20,603	20,534	(0.3)
Shanghai Comp	3,322	3,285	(1.1)
Sensex	59,809	60,224	0.7
Nifty	17,594	17,711	0.7

Source: Bloomberg, Bank of Baroda Research

- Global currencies depreciated against the dollar. DXY rose by 1.2% to a near 3-month high after Fed Chair hinted at accelerating the pace of rate hikes. GBP depreciated the most by 1.6%. EUR too fell by 1.2% even as Germany's factory orders noted a surprise jump in Jan'23. INR is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	06-03-2023	07-03-2023	% change
EUR/USD (1 EUR / USD)	1.0681	1.0549	(1.2)
GBP/USD (1 GBP / USD)	1.2025	1.1830	(1.6)
USD/JPY (JPY / 1 USD)	135.93	137.16	(0.9)
USD/INR (INR / 1 USD)	81.97	81.92	0.1
USD/CNY (CNY / 1 USD)	6.9318	6.9662	(0.5)

Source: Bloomberg, Bank of Baroda Research



- Global yields ended mixed as investors monitored Fed Chair's testimony suggesting more rate hikes than was expected, to tame inflation. Investors have priced in a 70% chance (up from 30%) of 50bps rate hike in Mar'23 FOMC meet. US 10Y yield edged up by 1bps. The yield curve inversion (2Y and 10Y) steepened further, signalling a potential recession. India's 10Y yield inched up by 1bps. It is trading at 7.43% today.

Fig 3 – Bond 10Y yield

	06-03-2023	07-03-2023	change in bps
US	3.96	3.96	1
UK	3.87	3.82	(4)
Germany	2.75	2.69	(6)
Japan	0.51	0.50	0
China	2.90	2.89	0
India	7.40	7.41	1

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India

Fig 4 – Short term rates

	06-03-2023	07-03-2023	change in bps
Tbill-91 days	6.90	6.95	5
Tbill-182 days	7.23	7.25	2
Tbill-364 days	7.35	7.34	(1)
G-Sec 2Y	7.31	7.29	(2)
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	03-03-2023	06-03-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(0.5)	0.1
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	02-03-2023	03-03-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	1,576.3	(93.6)	(1,669.9)
Debt	33.0	(122.4)	(155.3)
Equity	1,543.3	28.8	(1,514.5)
Mutual funds (Rs cr)	2,812.4	(405.2)	(3,217.6)
Debt	(767.8)	(844.0)	(76.2)
Equity	3,580.2	438.8	(3,141.4)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 28 Feb 2023 and 1 Mar 2023

- Global oil prices fell sharply by 3.4% amidst hawkish comments from Fed Chair. Dismal import data from China added to the woes.

Fig 7 – Commodities

	06-03-2023	07-03-2023	% change
Brent crude (US\$/bbl)	86.2	83.3	(3.4)
Gold (US\$/ Troy Ounce)	1,846.9	1,813.5	(1.8)
Copper (US\$/ MT)	8,893.3	8,737.5	(1.8)
Zinc (US\$/MT)	3,054.0	2,980.8	(2.4)
Aluminium (US\$/MT)	2,382.0	2,350.0	(1.3)

Source: Bloomberg, Bank of Baroda Research



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