

MORNING MOCHA

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ECONOMIST
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Conflict in the Middle-East continued to garner investors' attention, leading to higher demand of safe assets such as dollar and gold. In macro data, US housing starts increased at a brisk pace of 7% in Sep'23, despite rising mortgage rates. Two key Fed officials reiterated the need to keep policy rates on hold, which would enable the Fed to assess the impact of previous rate hikes. Inflation in the UK remained high at 6.7% in Sep'23 (unchanged from Aug'23) versus estimated 6.6%, suggesting that the BoE might need to hike its policy rates further. In contrast, inflation in the Eurozone edged down to 4.3% from 5.2% in Aug'23. In Japan, exports rose by 4.3% in Sep'23 after falling for 3-straight months. Imports however, continued to slide. Indian government announced MSP rates for Rabi crops for marketing season 2024-25. MSPs for lentils and wheat had the maximum rise (7% each).

- Except Nikkei (flat), global stocks closed lower. Investor's remained cautious amidst escalated tension in the Middle East despite US efforts. Apart from this, Fed Chair's speech is expected to reflect some hawkish rhetoric. Stocks in US and UK fell the most. Sensex fell by 0.8%, led by power and banking stocks. It is trading further lower today, in line with other Asian markets.

Fig 1 – Stock markets

	17-10-2023	18-10-2023	% change
Dow Jones	33,998	33,665	(1.0)
S & P 500	4,373	4,315	(1.3)
FTSE	7,675	7,588	(1.1)
Nikkei	32,040	32,042	0
Hang Seng	17,773	17,733	(0.2)
Shanghai Comp	3,083	3,059	(0.8)
Sensex	66,428	65,877	(0.8)
Nifty	19,812	19,671	(0.7)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed broadly weaker against the dollar. DXY rose by 0.3% ahead of Fed Chair's speech. GBP depreciated even as UK's inflation stayed elevated, raising the likelihood of more rate hikes. INR depreciated a tad as oil prices inched up. It is trading flat today, in line with other Asian currencies.

Fig 2 – Currencies

	17-10-2023	18-10-2023	% change
EUR/USD (1 EUR / USD)	1.0577	1.0536	(0.4)
GBP/USD (1 GBP / USD)	1.2183	1.2140	(0.4)
USD/JPY (JPY / 1 USD)	149.81	149.93	(0.1)
USD/INR (INR / 1 USD)	83.26	83.27	0
USD/CNY (CNY / 1 USD)	7.3157	7.3165	0

Source: Bloomberg, Bank of Baroda Research



- Global yields witnessed sell-off. UK's 10Y yield rose by 15bps as CPI data remained firm. US 10Y yield rose by 8bps as New York Fed President spoke of a restrictive policy rate. Japan's 10Y yield also rose to its near decade high, prompting BoJ to announce emergency bond buying. India's 10Y yield rose by 2bps, taking global cues. It is trading higher at 7.38% today.

Fig 3 – Bond 10Y yield

	17-10-2023	18-10-2023	change in bps
US	4.83	4.91	8
UK	4.51	4.66	15
Germany	2.88	2.92	4
Japan	0.78	0.81	3
China	2.69	2.71	2
India	7.33	7.35	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	17-10-2023	18-10-2023	change in bps
Tbill-91 days	6.88	6.89	1
Tbill-182 days	7.05	7.13	8
Tbill-364 days	7.12	7.14	2
G-Sec 2Y	7.28	7.30	2
India OIS-2M	6.80	6.83	3
India OIS-9M	6.94	6.96	2
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	17-10-2023	18-10-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	0	0
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-10-2023	17-10-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	14.3	88.8	74.5
Debt	61.4	17.9	(43.6)
Equity	(47.2)	70.9	118.1
Mutual funds (Rs cr)	2,048.9	1,100.2	(948.6)
Debt	383.2	1,516.9	1,133.6
Equity	1,665.6	(416.6)	(2,082.3)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 12 Oct 2023 and 13 Oct 2023

- Oil rose as EIA's report showed sharper than expected drawdown in stockpiles.

Fig 7 – Commodities

	17-10-2023	18-10-2023	% change
Brent crude (US\$/bbl)	89.9	91.5	1.8
Gold (US\$/ Troy Ounce)	1,923.2	1,947.6	1.3
Copper (US\$/ MT)	7,902.8	7,901.5	0
Zinc (US\$/MT)	2,400.3	2,419.8	0.8
Aluminium (US\$/MT)	2,177.0	2,182.0	0.2

Source: Bloomberg, Bank of Baroda Research



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