

MORNING MOCHA

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Echoing comments made by other Fed officials, Fed Chair signalled that the central bank is likely to pause its rate hike cycle as it assesses the inflation and growth dynamics. However, he left room open for further rate hike amidst tightness in labour market and above trend growth. This came on heels of data showing US jobless claims fell to a 9-month low at 198,000 (est. 212,000). Separately, tensions in Middle-East escalated, raising the possibility of more countries getting embroiled in the conflict. Core inflation in Japan eased to a near 12-month low of 2.8% from 3.1% in Aug'23, but stayed firmly above BoJ's target of 2%. GfK's consumer confidence index for UK fell to a 3-month low in Oct'23 at -30, amidst elevated inflation in the region. RBI in the monthly bulletin has highlighted that growth is likely to benefit from festive spending and inflation is expected to moderate further in coming months.

- Global stocks ended in red tracking developments in the Middle-East and comments from Fed Chair. Apart from this, elevated global yields also dampened investor sentiments. Amongst major markets, stocks in Asia declined the most led by Hang Seng and Nikkei. In India, Sensex fell by 0.4%, led by fall in metal and oil and gas stocks. It is trading further lower today, in line with other Asian markets.

Fig 1 – Stock markets

	18-10-2023	19-10-2023	% change
Dow Jones	33,665	33,414	(0.7)
S & P 500	4,315	4,278	(0.8)
FTSE	7,588	7,500	(1.2)
Nikkei	32,042	31,431	(1.9)
Hang Seng	17,733	17,296	(2.5)
Shanghai Comp	3,059	3,005	(1.7)
Sensex	65,877	65,629	(0.4)
Nifty	19,671	19,625	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Most global currencies appreciated against the dollar. DXY fell by 0.3% as the probability of further rate hikes by Fed this year diminished after Fed Chair's speech. EUR edged up the most by 0.4%. INR too recovered even as oil prices inched up. It is trading further stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	18-10-2023	19-10-2023	% change
EUR/USD (1 EUR / USD)	1.0536	1.0582	0.4
GBP/USD (1 GBP / USD)	1.2140	1.2144	0
USD/JPY (JPY / 1 USD)	149.93	149.80	0.1
USD/INR (INR / 1 USD)	83.27	83.24	0
USD/CNY (CNY / 1 USD)	7.3165	7.3104	0.1

Source: Bloomberg, Bank of Baroda Research



- Sell-off in global bond market continued. US 10Y yield rose the most by 7bps after Fed Chair's speech. While investors expect Fed to remain on hold in Nov'23, possibility of elevated rates for a longer period has increased substantially. Japan's 10Y yield continued to rise despite BoJ's bond purchase earlier in the week. India's 10Y yield rose by 2bps. It is trading flat today.

Fig 3 – Bond 10Y yield

	18-10-2023	19-10-2023	change in bps
US	4.91	4.99	7
UK	4.66	4.67	2
Germany	2.92	2.93	1
Japan	0.81	0.84	3
China	2.71	2.72	1
India	7.35	7.37	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	18-10-2023	19-10-2023	change in bps
Tbill-91 days	6.89	6.90	1
Tbill-182 days	7.13	7.10	(3)
Tbill-364 days	7.14	7.12	(2)
G-Sec 2Y	7.30	7.29	(1)
India OIS-2M	6.83	6.81	(2)
India OIS-9M	6.96	6.97	1
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-10-2023	19-10-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	0.2	0.2
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-10-2023	18-10-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	88.8	(192.2)	(281.0)
Debt	17.9	46.8	28.9
Equity	70.9	(239.0)	(309.9)
Mutual funds (Rs cr)	(27.2)	(1,406.4)	(1,379.2)
Debt	(1,371.3)	(1,754.9)	(383.6)
Equity	1,344.1	348.4	(995.6)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 16 Oct 2023 and 17 Oct 2023

- Oil prices rose further as investors assessed the developments in Middle-East.

Fig 7 – Commodities

	18-10-2023	19-10-2023	% change
Brent crude (US\$/bbl)	91.5	92.4	1.0
Gold (US\$/ Troy Ounce)	1,947.6	1,974.5	1.4
Copper (US\$/ MT)	7,901.5	7,928.0	0.3
Zinc (US\$/MT)	2,419.8	2,410.5	(0.4)
Aluminium (US\$/MT)	2,182.0	2,185.0	0.1

Source: Bloomberg, Bank of Baroda Research



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