

MORNING MOCHA

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ECONOMIST
Jahnavi Prabhakar

Fed's quarterly survey noted that US banks have reported weaker loan demand and tighter credit standards in Q2CY23, reflecting pass-through of rising interest rates. Focus is expected to shift towards US ISM manufacturing data and non farm payrolls to provide further guidance on how the economy is shaping up, amidst signs of inflation cooling off. Inflation in Eurozone eased off to 5.3% in Jul'23 (5.5% in Jun'23) providing comfort to ECB and raising hope of ECB possibly skipping rate hike in the next cycle. Separately, RBA has maintained status quo, despite an expectation of 25bps rate hike. Japan's unemployment rate dropped to 2.5% in Jun'23 (2.6% in May). All attention will now be on BoE rate decision scheduled later this week.

- Global indices advanced higher boosted by strong corporate earnings. US indices climbed higher amidst reports of softening inflation, supporting investor sentiments. Amongst other indices, Nikkei (1.3%) surged the most followed by Hang Seng (0.8%). Sensex rebounded on strong global cues and amidst strong gains in power and metal stocks. It is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	28-07-2023	31-07-2023	% change
Dow Jones	35,459	35,560	0.3
S & P 500	4,582	4,589	0.1
FTSE	7,694	7,699	0.1
Nikkei	32,759	33,172	1.3
Hang Seng	19,917	20,079	0.8
Shanghai Comp	3,276	3,291	0.5
Sensex	66,160	66,528	0.6
Nifty	19,646	19,754	0.5

Source: Bloomberg, Bank of Baroda Research

- Except INR (flat) and CNY (higher), other global currencies ended lower. DXY firmed up (+ 0.2%) following Fed's report noted that higher rates beginning to have some impact on economy. JPY continued to slide further post BoJ's decision of stepping away from ultra-loose policy. INR ended flat. However, it is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	28-07-2023	31-07-2023	% change
EUR/USD (1 EUR / USD)	1.1016	1.0997	(0.2)
GBP/USD (1 GBP / USD)	1.2851	1.2835	(0.1)
USD/JPY (JPY / 1 USD)	141.16	142.29	(0.8)
USD/INR (INR / 1 USD)	82.26	82.25	0
USD/CNY (CNY / 1 USD)	7.1485	7.1428	0.1

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. The 10Y yields in Japan continued to rise further after BoJ's surprise announcement towards its yield control policy, allowing flexible movement of long term rates. US 10Y inched up by 1bps ahead of the release of the employment data. India's 10Y yield rose by 1bps and is trading lower today.

Fig 3 – Bond 10Y yield

	28-07-2023	31-07-2023	change in bps
US	3.95	3.96	1
UK	4.33	4.31	(2)
Germany	2.49	2.49	0
Japan	0.57	0.61	4
China	2.66	2.66	0
India	7.16	7.18	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	28-07-2023	31-07-2023	change in bps
Tbill-91 days	6.70	6.71	1
Tbill-182 days	6.85	6.84	(1)
Tbill-364 days	6.88	6.88	0
G-Sec 2Y	7.07	7.06	0
India OIS-2M	6.63	6.62	(1)
India OIS-9M	6.82	6.83	1
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.31	5.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	28-07-2023	31-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.4)	0
Reverse repo	0	0.9	0.9
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-07-2023	28-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(120.9)	199.2	320.0
Debt	31.6	46.9	15.3
Equity	(152.4)	152.3	304.7
Mutual funds (Rs cr)	431.5	497.9	66.3
Debt	(326.1)	434.8	760.8
Equity	757.6	63.1	(694.5)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 12 Jul 2023 and 13 Jul 2023

- Oil prices continue to edge upwards amidst news of supply tightening.

Fig 7 – Commodities

	28-07-2023	31-07-2023	% change
Brent crude (US\$/bbl)	85.0	85.6	0.7
Gold (US\$/ Troy Ounce)	1,959.5	1,965.1	0.3
Copper (US\$/ MT)	8,625.5	8,800.0	2.0
Zinc (US\$/MT)	2,502.3	2,565.8	2.5
Aluminium (US\$/MT)	2,222.0	2,282.5	2.7

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com