

MORNING MOCHA

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ECONOMIST
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Macro data from US shows core PCE price index came in line with expectations as it rose by 4.2% (YoY) in Jul'23, tad up from 4.1% in Jun'23, and registered 0.2% MoM gain. This is in line Fed's trajectory to bring inflation back to 2% mark. Thus investors believe that there is 91% probability of Fed remaining on pause in its Sep'23.

Although labour market data needs to be watched more closely for cues. Initial jobless claims for the week ending 26 Aug rose by 228k versus est.: 235k and from 224k the previous week. Non-farm payroll additions data (due today) is awaited keenly for more information. Elsewhere, France Q2 GDP was reaffirmed at 0.5% as per final estimates, but inflation has come to haunt again (4.8% in Aug'23 versus 4.3% in Jul'23). Domestically, India remains the fastest growing economy for quarter ending Jun'23, as it registered 7.8% GDP growth, up from 6.1% in Q4FY23.

- Except Nikkei, other global stocks declined, as investors continue to monitor incoming data from the US (jobless claims, PCE index) and await non-farm payroll data. Recent macro trends suggest that Fed is likely to conclude its tightening cycle. Sensex also ended in red, dragged by oil & gas, and banking stocks. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	30-08-2023	31-08-2023	% change
Dow Jones	34,890	34,722	(0.5)
S & P 500	4,515	4,508	(0.2)
FTSE	7,474	7,439	(0.5)
Nikkei	32,333	32,619	0.9
Hang Seng	18,483	18,382	(0.5)
Shanghai Comp	3,137	3,120	(0.6)
Sensex	65,087	64,831	(0.4)
Nifty	19,347	19,254	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Barring CNY and JPY (higher), other global currencies ended lower. DXY rose by 0.4%, as weakness in global growth revived demand for safe heavens. EUR and GBP fell the most. INR was down by 0.1%, as oil prices inch up. However, it is trading stronger today, while other Asian currencies are trading lower.

Fig 2 – Currencies

	30-08-2023	31-08-2023	% change
EUR/USD (1 EUR / USD)	1.0923	1.0843	(0.7)
GBP/USD (1 GBP / USD)	1.2721	1.2673	(0.4)
USD/JPY (JPY / 1 USD)	146.24	145.54	0.5
USD/INR (INR / 1 USD)	82.73	82.79	(0.1)
USD/CNY (CNY / 1 USD)	7.2870	7.2588	0.4

Source: Bloomberg, Bank of Baroda Research



- Apart from Japan and China (flat), other global yields closed lower. Germany's 10Y yield fell the most by 8bps. US 10Y yield was down by 1bps as PCE price index came in line with expectations, thus raising the likelihood of remaining on pause now. India's 10Y yield also declined by 2bps, following global cues. It is trading just a tad higher at 7.17% today.

Fig 3 – Bond 10Y yield

	30-08-2023	31-08-2023	change in bps
US	4.11	4.11	(1)
UK	4.42	4.36	(6)
Germany	2.55	2.47	(8)
Japan	0.65	0.65	0
China	2.58	2.58	0
India	7.19	7.16	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	30-08-2023	31-08-2023	change in bps
Tbill-91 days	6.81	6.77	(4)
Tbill-182 days	7.01	6.99	(2)
Tbill-364 days	7.03	7.01	(2)
G-Sec 2Y	7.15	7.11	(3)
India OIS-2M	6.73	6.73	0
India OIS-9M	6.95	6.94	(1)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	30-08-2023	31-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.5)	(0.8)	(0.3)
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	29-08-2023	30-08-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	262.9	4.6	(258.3)
Debt	167.0	3.4	(163.6)
Equity	95.9	1.2	(94.7)
Mutual funds (Rs cr)	60.9	410.1	349.3
Debt	(900.6)	(31.0)	869.6
Equity	961.4	441.1	(520.3)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 22nd and 23rd Aug

- Oil prices rose by 1.2% owing to tightening supplies.

Fig 7 – Commodities

	30-08-2023	31-08-2023	% change
Brent crude (US\$/bbl)	85.9	86.9	1.2
Gold (US\$/ Troy Ounce)	1,942.3	1,940.2	(0.1)
Copper (US\$/ MT)	8,445.6	8,404.5	(0.5)
Zinc (US\$/MT)	2,417.3	2,415.7	(0.1)
Aluminium (US\$/MT)	2,201.5	2,208.0	0.3

Source: Bloomberg, Bank of Baroda Research



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