

MORNING MOCHA

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ECONOMIST
Aditi Gupta

Inflation in the US cooled more than expected to 5% in Mar'23 (est. 5.1%) versus 6% in Feb'23 (YoY), supported by a sharp decline in gasoline prices. Core CPI rose by 5.6%, after increasing by 5.5% in Feb'23. FOMC minutes showed that members discussed the possibility of keeping rates steady amidst stress in the banking sector. Projections by Fed staff suggested that the banking crisis could tip the economy into a "mild recession". However, most members agreed that inflation still remained uncomfortably high which warranted a rate hike. Hence, markets now expect that the Fed will likely deliver its final rate hike of 25bps in May'23. Elsewhere, China's exports rose unexpectedly in Mar'23. In India, CPI inflation moderated to 5.7% in Mar'23, while IIP improved marginally to 5.6% from 5.5% in Jan'23.

- Global stocks ended mixed. Hang Seng dropped the most by 0.9%, while Nikkei (+0.6%) and FTSE (+0.5%) edged up. Investors remained cautious tracking Fed minutes which showed that FOMC members have incorporated 'mild recession' starting later this year. US CPI gave mixed picture as headline print moderated but core remained firm. Fed Officials (Francisco and Richmond Fed President) also gave mixed signals. Sensex rose by 0.4%, led by auto and technology stocks. It is trading lower today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	11-04-2023	12-04-2023	% change
Dow Jones	33,685	33,647	(0.1)
S & P 500	4,109	4,092	(0.4)
FTSE	7,786	7,825	0.5
Nikkei	27,923	28,083	0.6
Hang Seng	20,485	20,310	(0.9)
Shanghai Comp	3,314	3,327	0.4
Sensex	60,158	60,393	0.4
Nifty	17,722	17,812	0.5

Source: Bloomberg, Bank of Baroda Research

- Global currencies broadly gained against a weaker dollar. DXY fell by 0.7% as a weaker than expected CPI reading in the US raised the possibility that the Fed is nearing the end of its rate hike cycle. EUR and GBP appreciated the most. INR is trading further stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	11-04-2023	12-04-2023	% change
EUR/USD (1 EUR / USD)	1.0912	1.0992	0.7
GBP/USD (1 GBP / USD)	1.2424	1.2485	0.5
USD/JPY (JPY / 1 USD)	133.68	133.13	0.4
USD/INR (INR / 1 USD)	82.13	82.09	0
USD/CNY (CNY / 1 USD)	6.8860	6.8730	0.2

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. Fed minutes reflected that policy support may be required as mild recession is flagged. Albeit, market is not ruling out the possibility of upcoming 25bps hike. Thus, US 10Y yield fell by 4bps. Germany and UK's 10Y yield firmed up by 6bps and 3bps respectively ahead of major macro releases. India's 10Y yield fell by 2bps (7.19%). It is trading higher at 7.22% today.

Fig 3 – Bond 10Y yield

	11-04-2023	12-04-2023	change in bps
US	3.43	3.39	(4)
UK	3.54	3.57	3
Germany	2.31	2.37	6
Japan	0.46	0.47	1
China	2.82	2.82	0
India	7.21	7.19	(2)

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

Fig 4 – Short term rates

	11-04-2023	12-04-2023	change in bps
Tbill-91 days	6.73	6.71	(2)
Tbill-182 days	6.96	6.95	(1)
Tbill-364 days	7.01	7.00	(1)
G-Sec 2Y	6.91	6.90	(1)
SONIA int rate benchmark	4.18	4.18	0
US SOFR	4.81	4.80	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	11-04-2023	12-04-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.9)	(2.0)	(0.1)
Reverse repo	1.2	1.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	10-04-2023	11-04-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	262.4	71.7	(190.7)
Debt	93.5	(53.8)	(147.3)
Equity	168.9	125.5	(43.4)
Mutual funds (Rs cr)	2,387.4	2,825.8	438.5
Debt	2,453.8	3,916.4	1,462.6
Equity	(66.5)	(1,090.6)	(1,024.1)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 3 Apr 2023 and 5 Apr 2023

- Global oil prices rose by 2% to US\$ 87/bbl supported by moderation in headline CPI data in the US.

Fig 7 – Commodities

	11-04-2023	12-04-2023	% change
Brent crude (US\$/bbl)	85.6	87.3	2.0
Gold (US\$/ Troy Ounce)	2,003.6	2,014.9	0.6
Copper (US\$/ MT)	8,851.5	8,916.8	0.7
Zinc (US\$/MT)	2,770.5	2,799.3	1.0
Aluminium (US\$/MT)	2,302.5	2,325.0	1.0

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