

MORNING MOCHA

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ECONOMIST
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Inflation data prints in the US and India were the primary market movers. In the US, inflation rose less than expected by 0.2% (est. 0.3%) in Jun'23, on MoM basis. The YoY print of 3% was the lowest since Mar'21. Even core CPI moderated to 0.2% (MoM) and 4.8% (YoY). This has raised hopes that Fed may be soon nearing its end of rate hike cycle. Elsewhere in India, CPI rose more than expected by 4.8%. Thus the gap between India and US inflation rate has widened to 1.8% in Jun'23 from 0.3% in May'23. However, RBI's decision would be contingent on the evolution of domestic growth and inflation dynamics. In China, signs of slowdown were reflected in the weak export performance, which fell by 12.8% in Jun'23, on YoY basis. Notably, export growth of the region remained weak in 4 out of 6 months of CY23.

- US stocks rejoiced as softening inflation print has led to expectations of a possible end to the Fed's rate hike cycle. Both S&P 500 and Dow Jones ended higher. Amongst other indices, FTSE rose the most by 1.8%, led by gains in banking and mining stocks. Asian indices ended mixed. Sensex declined 0.3%, as technology shares retreated. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	11-07-2023	12-07-2023	% change
Dow Jones	34,261	34,347	0.3
S & P 500	4,439	4,472	0.7
FTSE	7,283	7,416	1.8
Nikkei	32,204	31,944	(0.8)
Hang Seng	18,660	18,861	1.1
Shanghai Comp	3,221	3,196	(0.8)
Sensex	65,618	65,394	(0.3)
Nifty	19,439	19,384	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Following a weaker than expected inflation report from the US, DXY dropped to a more than 1 year low, falling by 1.2%. Other currencies advanced. JPY and EUR gained the most, rising by 1.3% and 1.1% respectively. Gains in INR were capped at 0.1%, amidst higher oil prices. It is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	11-07-2023	12-07-2023	% change
EUR/USD (1 EUR / USD)	1.1009	1.1129	1.1
GBP/USD (1 GBP / USD)	1.2933	1.2988	0.4
USD/JPY (JPY / 1 USD)	140.36	138.50	1.3
USD/INR (INR / 1 USD)	82.37	82.25	0.1
USD/CNY (CNY / 1 USD)	7.2098	7.1655	0.6

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. UK and US' 10Y yield fell by 15bps and 11bps respectively. A moderation in CPI data again raised the possibility of an end in rate hike cycle. Even Germany's 10Y yield fell by 7bps ahead of ECB minutes. China's 10Y yield closed stable. India's 10Y yield rose by 2bps. It is trading lower at 7.08% today, as market has already priced in the increase in CPI.

Fig 3 – Bond 10Y yield

	11-07-2023	12-07-2023	change in bps
US	3.97	3.86	(11)
UK	4.66	4.51	(15)
Germany	2.65	2.58	(7)
Japan	0.46	0.47	2
China	2.64	2.64	0
India	7.09	7.12	2

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

Fig 4 – Short term rates

	11-07-2023	12-07-2023	change in bps
Tbill-91 days	6.71	6.73	2
Tbill-182 days	6.78	6.85	7
Tbill-364 days	6.85	6.86	1
G-Sec 2Y	7.08	7.07	(1)
India OIS-2M	6.59	6.61	2
India OIS-9M	6.76	6.80	4
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.06	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	11-07-2023	12-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.8)	(0.4)
Reverse repo	0.1	0.5	0.4
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	10-07-2023	11-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	10.2	217.5	207.3
Debt	(118.0)	39.1	157.1
Equity	128.2	178.4	50.2
Mutual funds (Rs cr)	(1,642.3)	1,165.1	2,807.4
Debt	(1,125.9)	(16.7)	1,109.3
Equity	(516.4)	1,181.7	1,698.2

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 7th and 10th Jul

- Oil prices rose as expectations of fewer rate hikes boosted demand outlook.

Fig 7 – Commodities

	11-07-2023	12-07-2023	% change
Brent crude (US\$/bbl)	79.4	80.1	0.9
Gold (US\$/ Troy Ounce)	1,932.2	1,957.4	1.3
Copper (US\$/ MT)	8,305.0	8,488.8	2.2
Zinc (US\$/MT)	2,340.9	2,411.0	3.0
Aluminium (US\$/MT)	2,168.5	2,236.0	3.1

Source: Bloomberg, Bank of Baroda Research



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