

MORNING MOCHA

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ECONOMIST

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In an effort to provide stimulus to the economy, PBOC has reduced the 7 day reverse repo rate by 10bps to 1.9%. This was the first reduction since Aug'22. Elsewhere in the US, the New York Fed survey showed inflation outlook for the 1-year horizon softening by 0.3% to 4.1% This is the lowest since May'21. CME Fed watch tool is pricing in an 81.5% probability of pause in policy rate which was 73.6% yesterday. Even the budget deficit figure in the US in May'23 rose to US\$ 240bn from est. US\$ 236 bn deficit. On domestic front, India's CPI provided comfort especially on food inflation front. IIP also surprised positively, supported by manufacturing sector.

- Except Shanghai Comp, other global stocks ended higher. Expectations of a pause in rate by Fed this week (probability of 81.5% as per CME FedWatch Tool) and easing inflation in US (est. 4% from 4.9%), have helped lift investor sentiments. S&P 500 and Nikkei continued to lead the rally. Sensex rose by 0.2%, supported by gains in real estate and technology stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

| | 9-06-2023 | 12-06-2023 | % change |
|---------------|-----------|------------|----------|
| Dow Jones | 33,877 | 34,066 | 0.6 |
| S & P 500 | 4,299 | 4,339 | 0.9 |
| FTSE | 7,562 | 7,571 | 0.1 |
| Nikkei | 32,265 | 32,434 | 0.5 |
| Hang Seng | 19,390 | 19,404 | 0.1 |
| Shanghai Comp | 3,231 | 3,229 | (0.1) |
| Sensex | 62,626 | 62,725 | 0.2 |
| Nifty | 18,563 | 18,602 | 0.2 |

Source: Bloomberg, Bank of Baroda Research

- DXY rose by another 0.1% as markets await US CPI data and the outcome of the Fed policy meet. GBP fell the most by 0.5% tracking political developments despite hawkish comments by an MPC member. JPY too depreciated as BoJ is widely expected to maintain its dovish stance. INR closed flat. However, it is trading weaker today, while other Asian currencies are trading mostly higher.

Fig 2 – Currencies

| | 9-06-2023 | 12-06-2023 | % change |
|-----------------------|-----------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0749 | 1.0757 | 0.1 |
| GBP/USD (1 GBP / USD) | 1.2572 | 1.2509 | (0.5) |
| USD/JPY (JPY / 1 USD) | 139.40 | 139.60 | (0.1) |
| USD/INR (INR / 1 USD) | 82.47 | 82.43 | 0 |
| USD/CNY (CNY / 1 USD) | 7.1305 | 7.1464 | (0.2) |

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. UK's 10Y yield rose the most by 10bps amidst comments from BoE's MPC member Haskel about the need to raise interest rates from its current level. 10Y yield in the US and Japan remained stable ahead of central bank policy decisions. India's 10Y yield fell by 2bps. It is trading lower at 7.0% today, supported by moderation in CPI data.

Fig 3 – Bond 10Y yield

| | 9-06-2023 | 12-06-2023 | change in bps |
|---------|-----------|------------|---------------|
| US | 3.74 | 3.74 | 0 |
| UK | 4.24 | 4.34 | 10 |
| Germany | 2.38 | 2.39 | 1 |
| Japan | 0.43 | 0.43 | 0 |
| China | 2.69 | 2.69 | 0 |
| India | 7.04 | 7.02 | (2) |

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

Fig 4 – Short term rates

| | 9-06-2023 | 12-06-2023 | change in bps |
|--------------------------|-----------|------------|---------------|
| Tbill-91 days | 6.74 | 6.77 | 3 |
| Tbill-182 days | 6.82 | 6.87 | 5 |
| Tbill-364 days | 6.85 | 6.86 | 1 |
| G-Sec 2Y | 6.90 | 6.88 | (3) |
| India OIS-2M | 6.60 | 6.58 | (2) |
| India OIS-9M | 6.66 | 6.64 | (3) |
| SONIA int rate benchmark | 4.43 | 4.43 | 0 |
| US SOFR | 5.05 | 5.05 | - |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 9-06-2023 | 12-06-2023 | change (Rs tn) |
|-----------------------------------|-----------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (1.7) | (1.6) | 0.1 |
| Reverse repo | 0.5 | 0.6 | 0.1 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 8-06-2023 | 9-06-2023 | change (US\$ mn/Rs cr) |
|----------------------|-----------|-----------|------------------------|
| FII (US\$ mn) | 40.7 | (3.9) | (44.6) |
| Debt | (33.5) | 12.3 | 45.8 |
| Equity | 74.2 | (16.2) | (90.4) |
| Mutual funds (Rs cr) | (30.6) | 798.2 | 828.8 |
| Debt | (327.1) | 1,207.2 | 1,534.3 |
| Equity | 296.5 | (409.0) | (705.5) |

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 7 and 8th Jun 2023

- Oil prices dipped by another 3.9% led by demand concerns.

Fig 7 – Commodities

| | 9-06-2023 | 12-06-2023 | % change |
|-------------------------|-----------|------------|----------|
| Brent crude (US\$/bbl) | 74.8 | 71.8 | (3.9) |
| Gold (US\$/ Troy Ounce) | 1,961.2 | 1,957.8 | (0.2) |
| Copper (US\$/ MT) | 8,349.0 | 8,282.0 | (0.8) |
| Zinc (US\$/MT) | 2,401.0 | 2,347.3 | (2.2) |
| Aluminium (US\$/MT) | 2,268.0 | 2,228.0 | (1.8) |

Source: Bloomberg, Bank of Baroda Research



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