

MORNING MOCHA

US labour market data shows that initial jobless claims for the week ending 13 May, fell by 22k from the previous week to 242k (est.: 252k). This is the steepest decline since 20 Nov'21. Tight labour market has once again revived fears of rate hike in Jun'23, probability of which has now increased to 30%, versus 20% probability of rate cut which was being considered until last month. This has led to rise in yields and DXY. Possibility of reaching a deal over US debt ceiling, as indicated by US President and Speaker of the house, also supported markets. Elsewhere, global demand (led by China) continues to remain a key issue. Japan's exports in Apr'23 have hit a 2-year low as they rose by 2.6% (est.: 3%) from 4.3% in Mar'23.

Barring Sensex, other global indices ended higher lifted by hopes riding over US debt ceiling deal. Nikkei continued to rally and surged by 1.6% registering a record high (highest level since 1990) as G-7 summit kicked off. Hang Seng and S&P 500 (9-month high) both rose by 0.9% each. Sensex continued to fall for the 3rd straight session with deep losses in power and real estate stocks. However, it is trading higher today in line with other Asian indices.

Fig 1 – Stock markets

	17-05-2023	18-05-2023	% change
Dow Jones	33,421	33,536	0.3
S & P 500	4,159	4,198	0.9
FTSE	7,723	7,742	0.2
Nikkei	30,094	30,574	1.6
Hang Seng	19,561	19,727	0.9
Shanghai Comp	3,284	3,297	0.4
Sensex	61,561	61,432	(0.2)
Nifty	18,182	18,130	(0.3)

Source: Bloomberg, Bank of Baroda Research

 Global currencies ended lower. Dollar continued to strengthen (+0.7%) riding on the optimism wave around US debt ceiling. US yields climbed up, supporting demand for dollar. INR depreciated with more pain in the offering with rising DXY and with market pricing in 30% chance of rate hike in June. It is trading weaker today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	17-05-2023	18-05-2023	% change
EUR/USD (1 EUR / USD)	1.0840	1.0770	(0.6)
GBP/USD (1 GBP / USD)	1.2487	1.2409	(0.6)
USD/JPY (JPY / 1 USD)	137.68	138.71	(0.7)
USD/INR (INR / 1 USD)	82.39	82.59	(0.2)
USD/CNY (CNY / 1 USD)	6.9965	7.0375	(0.6)

Source: Bloomberg, Bank of Baroda Research

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ECONOMIST Sonal Badhan





 Barring China (flat), global yields ended higher. 10Y yields in UK, Germany and US rose the most. Commentary from Fed officials (Dallas Fed President) suggests that economic data point doesn't warrant for a pause as yet. Probability of rate hike inJun'23 is now at 30%. Following global cues, India's 10Y rose by 2bps to 6.99%, but is trading flat today.

Fig 3 – Bond 10Y yield

	17-05-2023	18-05-2023	change in bps
US	3.56	3.65	8
UK	3.84	3.96	12
Germany	2.34	2.45	11
Japan	0.37	0.38	1
China	2.72	2.72	0
India	6.97	6.99	2

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

Fig 4 – Short term rates

	17-05-2023	18-05-2023	change in bps
Tbill-91 days	6.84	6.80	(4)
Tbill-182 days	6.94	6.94	0
Tbill-364 days	6.95	6.93	(2)
G-Sec 2Y	6.84	6.85	1
India OIS-2M	6.61	6.60	(1)
India OIS-9M	6.55	6.57	2
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.05	0
Source: Bloomborg, Bank of Barada Basaarah			

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	17-05-2023	18-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(0.9)	(0.1)
Reverse repo	0.1	0.1	0
Repo	0	0	0
Repo	0	0	

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-05-2023	17-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	349.8	280.4	(69.5)
Debt	141.3	182.5	41.3
Equity	208.6	97.8	(110.7)
Mutual funds (Rs cr)	(147.1)	(1,645.4)	(1,498.3)
Debt	(771.1)	(1,032.6)	(261.4)
Equity	624.0	(612.8)	(1,236.9)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 11 May 2023 and 12 May 2023

Crude prices fell (1.4%), amidst stronger dollar and greater chances of rate hike.

Fig 7 – Commodities

	17-05-2023	18-05-2023	% change
Brent crude (US\$/bbl)	77.0	75.9	(1.4)
Gold (US\$/ Troy Ounce)	1,981.8	1,957.6	(1.2)
Copper (US\$/ MT)	8,262.8	8,128.5	(1.6)
Zinc (US\$/MT)	2,518.8	2,450.0	(2.7)
Aluminium (US\$/MT)	2,296.5	2,283.5	(0.6)

Source: Bloomberg, Bank of Baroda Research





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