

MORNING MOCHA

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ECONOMIST

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Fitch downgraded the US rating to AA+ from AAA over concerns of fiscal deterioration expected in next 3-years and repeated debt-ceiling negotiations with last minute resolutions that has eroded confidence in fiscal management. Beyond this, US JOLTS report noted that job opening has fallen to a 2-year low, however it remains consistent with tight labour market conditions. Additionally, US manufacturing data signalled some hope of stabilizing, albeit at a slow pace (46.8 in Jun from 46 in May'23) post improvement in new orders. The spotlight will turn towards US non-farm payroll, non-manufacturing data and BoE rate decision.

- Global indices ended mixed as investors digested the news of the Fitch downgrading US long term foreign currency. Dow Jones edged up amidst mixed signals from economic data (lower job opening-still labor market remain tight and US manufacturing though in contraction- better than last month). European indices ended lower amidst weakness in global manufacturing. Sensex slipped led by subdued global cues and was dragged down by losses in real estate and cap good stocks. It is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	31-07-2023	1-08-2023	% change
Dow Jones	35,560	35,631	0.2
S & P 500	4,589	4,577	(0.3)
FTSE	7,699	7,666	(0.4)
Nikkei	33,172	33,477	0.9
Hang Seng	20,079	20,011	(0.3)
Shanghai Comp	3,291	3,291	0
Sensex	66,528	66,459	(0.1)
Nifty	19,754	19,734	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Except INR (flat), other global currencies ended lower. DXY surged by 0.4% following the economic data that suggested that despite lower job opening, labor market conditions continue to remain tight. JPY remained under pressure tracking any move by BoJ. INR ended flat. However, it is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	31-07-2023	1-08-2023	% change
EUR/USD (1 EUR / USD)	1.0997	1.0984	(0.1)
GBP/USD (1 GBP / USD)	1.2835	1.2777	(0.5)
USD/JPY (JPY / 1 USD)	142.29	143.34	(0.7)
USD/INR (INR / 1 USD)	82.25	82.26	0
USD/CNY (CNY / 1 USD)	7.1428	7.1777	(0.5)

Source: Bloomberg, Bank of Baroda Research



- Barring Japan and India (lower), other global yields closed higher. The 10Y yields in UK climbed up by 9bps ahead of the BoE rate decision. US 10Y yield edged up by 6bps amidst news of tight labour market conditions. Germany's 10Y yield was also up by 6bps. India's 10Y yield declined by 1bps and is trading higher today.

Fig 3 – Bond 10Y yield

	31-07-2023	1-08-2023	change in bps
US	3.96	4.02	6
UK	4.31	4.40	9
Germany	2.49	2.56	6
Japan	0.61	0.61	(1)
China	2.66	2.67	1
India	7.18	7.16	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	31-07-2023	1-08-2023	change in bps
Tbill-91 days	6.71	6.70	(1)
Tbill-182 days	6.84	6.83	(1)
Tbill-364 days	6.88	6.88	0
G-Sec 2Y	7.06	7.04	(3)
India OIS-2M	6.62	6.62	0
India OIS-9M	6.83	6.82	(1)
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.30	5.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-07-2023	1-08-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.4)	(0.8)
Reverse repo	0.9	0.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	28-07-2023	31-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	199.2	(62.8)	(262.0)
Debt	46.9	31.3	(15.6)
Equity	152.3	(94.1)	(246.4)
Mutual funds (Rs cr)	431.5	497.9	66.3
Debt	(326.1)	434.8	760.8
Equity	757.6	63.1	(694.5)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 12 Jul 2023 and 13 Jul 2023

- Oil prices slid breaking 3-day momentum despite lower US crude inventories.

Fig 7 – Commodities

	31-07-2023	1-08-2023	% change
Brent crude (US\$/bbl)	85.6	84.9	(0.8)
Gold (US\$/ Troy Ounce)	1,965.1	1,944.3	(1.1)
Copper (US\$/ MT)	8,800.0	8,594.3	(2.3)
Zinc (US\$/MT)	2,565.8	2,567.3	0.1
Aluminium (US\$/MT)	2,282.5	2,255.5	(1.2)

Source: Bloomberg, Bank of Baroda Research



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