

MORNING MOCHA

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ECONOMIST
Aditi Gupta

In line with market expectations, the Fed kept its policy rate steady at 5.25%-5.5%. However, Fed's projection indicate the possibility of another 25bps rate hike this year. The projections also suggest a modest 50bps rate cut next year versus 100bps projected in Jun'23, implying that rates are going to be higher for longer. Growth projections for 2023 and 2024 were revised up to 2.1% (from 1.8%) and 1.5% (from 1.1%) respectively. Inflation is expected to moderate, and will reach the Fed's target of 2% only in 2026. Separately, inflation in UK edged down to an 18-month low of 6.7% in Aug'23, (est. 7%) from 6.8% in Jul'23. This has raised the possibility that the BoE may not hike rates when it meets today.

- Except FTSE (higher), global equity indices ended lower. Fed's hawkish pause impacted market sentiments. Further, 12 out of 19 Fed officials expected fund rate to rise again in CY23. Thus, anticipation of some liquidity tightening impacted equity market outlook. S&P 500 fell the most followed by Nikkei. Sensex fell by 1.2%, dragged down by real estate, metal and banking stocks. It is trading further lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	19-09-2023	20-09-2023	% change
Dow Jones	34,518	34,441	(0.2)
S & P 500	4,444	4,402	(0.9)
FTSE	7,660	7,732	0.9
Nikkei	33,243	33,024	(0.7)
Hang Seng	17,997	17,886	(0.6)
Shanghai Comp	3,125	3,109	(0.5)
Sensex	67,597	66,801	(1.2)
Nifty	20,133	19,901	(1.2)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY rose by 0.2% after hawkish commentary from Fed. GBP depreciated by 0.4% as UK's inflation moderated unexpectedly in Aug'23, putting the BoE in a dilemma. INR recovered from its record low amidst intervention by RBI. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	19-09-2023	20-09-2023	% change
EUR/USD (1 EUR / USD)	1.0679	1.0661	(0.2)
GBP/USD (1 GBP / USD)	1.2392	1.2344	(0.4)
USD/JPY (JPY / 1 USD)	147.86	148.34	(0.3)
USD/INR (INR / 1 USD)	83.27	83.08	0.2
USD/CNY (CNY / 1 USD)	7.2973	7.2863	0.2

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose by 5bps as Fed remained cautious over sticky inflation while expecting a soft landing. UK's 10Y yield fell by 13bps as CPI surprised on the downside ahead of BoE policy. Germany's 10Y yield also fell by 4bps as PPI remained in deflation. India's 10Y yield fell by 2bps. It is trading higher at 7.2% today, due to tight liquidity conditions.

Fig 3 – Bond 10Y yield

	19-09-2023	20-09-2023	change in bps
US	4.36	4.41	5
UK	4.34	4.22	(13)
Germany	2.74	2.70	(4)
Japan	0.72	0.73	1
China	2.68	2.68	0
India	7.19	7.18	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	19-09-2023	20-09-2023	change in bps
Tbill-91 days	6.85	6.85	0
Tbill-182 days	7.06	7.06	0
Tbill-364 days	7.07	7.08	1
G-Sec 2Y	7.14	7.14	1
India OIS-2M	6.83	6.83	0
India OIS-9M	7.04	7.03	(1)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-09-2023	20-09-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.5	1.1	(0.4)
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-09-2023	18-09-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(29.3)	(65.0)	(35.7)
Debt	(65.5)	24.6	90.1
Equity	36.2	(89.6)	(125.8)
Mutual funds (Rs cr)	169.0	1,459.8	1,290.7
Debt	(471.2)	1,115.4	1,586.6
Equity	640.3	344.4	(295.9)

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

- Oil prices moderated by 0.9% anticipating elevated policy rates by Fed.

Fig 7 – Commodities

	19-09-2023	20-09-2023	% change
Brent crude (US\$/bbl)	94.3	93.5	(0.9)
Gold (US\$/ Troy Ounce)	1,931.4	1,930.3	(0.1)
Copper (US\$/ MT)	8,233.5	8,281.5	0.6
Zinc (US\$/MT)	2,467.5	2,526.3	2.4
Aluminium (US\$/MT)	2,215.5	2,256.0	1.8

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