

## MORNING MOCHA

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ECONOMIST  
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FOMC minutes reflected that members were split on further course of policy. While a number of members believed that further rate increases may not be needed, some believed that persistently high inflation may require further policy tightening.

Members generally agreed that risks to inflation remained tilted to the upside. On the other hand, tightening credit conditions due to bank failures remained a key risk to growth. Impasse over US debt ceiling talks continued, which weighed on investor sentiments. Elsewhere, CPI inflation in UK moderated less than expected to 8.7% (est. 8.2%) from 10.1% in Mar'23, as core inflation rose to a 31-year high. In Germany, Ifo's business climate index dipped to 91.7 in May'23 from 93.0 in Apr'23, led by a decline in future expectations.

- Global indices closed lower. Investors remained cautious tracking Fed minutes which had an uncertain tone. Governor Waller in his recent statement also cautioned against inflation. Elsewhere, Fitch's concern about progress in debt talks in the US and its impact on country's rating, also influenced sentiments. FTSE and Hang Seng fell the most. Sensex fell by 0.3%, led by a fall in metal stocks. It is trading further lower today, while Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	23-05-2023	24-05-2023	% change
Dow Jones	33,056	32,800	(0.8)
S & P 500	4,146	4,115	(0.7)
FTSE	7,763	7,627	(1.7)
Nikkei	30,958	30,683	(0.9)
Hang Seng	19,431	19,116	(1.6)
Shanghai Comp	3,246	3,205	(1.3)
Sensex	61,982	61,774	(0.3)
Nifty	18,348	18,285	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies fell against the dollar. DXY rose further by 0.4% to a near 2-month high, amidst diminishing hopes of a rate cut by Fed. Safe-haven demand also pushed dollar higher. GBP slipped by 0.4% even as inflation in UK was higher than expected. INR appreciated by 0.2%. It is trading weaker today, while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

	23-05-2023	24-05-2023	% change
EUR/USD (1 EUR / USD)	1.0770	1.0750	(0.2)
GBP/USD (1 GBP / USD)	1.2413	1.2365	(0.4)
USD/JPY (JPY / 1 USD)	138.59	139.47	(0.6)
USD/INR (INR / 1 USD)	82.81	82.67	0.2
USD/CNY (CNY / 1 USD)	7.0560	7.0609	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except Germany (stable) and India (lower), global yields closed higher. UK's 10Y yield rose by 6bps as CPI reading firmed up in Apr'23. US 10Y yield also rose by 5bps amidst risks of debt default. India's 10Y yield fell by 2bps on news reports of corporate buying. It is trading at 7.0% today.

**Fig 3 – Bond 10Y yield**

	23-05-2023	24-05-2023	change in bps
US	3.69	3.74	5
UK	4.16	4.21	6
Germany	2.47	2.47	0
Japan	0.40	0.41	1
China	2.70	2.71	1
India	7.01	6.99	(2)

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

**Fig 4 – Short term rates**

	23-05-2023	24-05-2023	change in bps
Tbill-91 days	6.70	6.74	4
Tbill-182 days	6.85	6.89	4
Tbill-364 days	6.86	6.87	1
G-Sec 2Y	6.83	6.78	(6)
India OIS-2M	6.54	6.55	1
India OIS-9M	6.57	6.56	(1)
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.05	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	23-05-2023	24-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.4)	(0.5)	(0.1)
Reverse repo	0.5	0.5	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	22-05-2023	23-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	188.0	54.1	(133.9)
Debt	32.2	15.5	(16.7)
Equity	155.8	38.6	(117.2)
Mutual funds (Rs cr)	1,718.3	1,562.6	(155.7)
Debt	938.6	1,393.8	455.2
Equity	779.8	168.9	(610.9)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 19 and 22 May 2023

- Global oil prices rose by 2% as US stockpiles fell unexpectedly.

**Fig 7 – Commodities**

	23-05-2023	24-05-2023	% change
Brent crude (US\$/bbl)	76.8	78.4	2.0
Gold (US\$/ Troy Ounce)	1,975.2	1,957.2	(0.9)
Copper (US\$/ MT)	8,035.7	7,851.8	(2.3)
Zinc (US\$/MT)	2,367.5	2,305.3	(2.6)
Aluminium (US\$/MT)	2,227.0	2,205.0	(1.0)

Source: Bloomberg, Bank of Baroda Research



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