

MORNING MOCHA

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Bank of Japan in a surprise move, tweaked its yield control curve (YCC) to allow for “greater flexibility”, while keeping policy rate unchanged. It will allow 10Y yield to trade in the range of +/- 50bps from its target. It also pledged to purchase 10Y bonds at 1% everyday through fixed rate purchase operations. This comes on the heels of data which showed CPI inflation in Tokyo rose by 3.2% in Jul’23 (est. 2.8%) from 3.1% in Jun’23. Separately, ECB hiked its policy rate by 25bps to a 23-year high. However, the ECB Chief stated that further rate decisions will be data dependent. Markets have now pared back expectations of future rate hikes by ECB, as growth in the region continues to show signs of strain. On the other hand, US economy continues to power through, with Q2CY23 GDP beating market expectations to rise by 2.4% (est. 1.8%) from 2% in Q1. Jobless claims fell by 7,000 to 221,000 (est. 235,000), indicating continued strength in the labour market.

- Stocks in US ended in red, as strong macro data has raised the likelihood of more rate hikes by Fed. Dow Jones and S&P 500 fell by 0.7% and 0.6% respectively. On the other hand, Hang Seng rose by 1.4% led by technology stocks. Sensex fell by 0.7% led by losses in auto and oil and gas stocks. It is trading further lower today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	26-07-2023	27-07-2023	% change
Dow Jones	35,520	35,283	(0.7)
S & P 500	4,567	4,537	(0.6)
FTSE	7,677	7,693	0.2
Nikkei	32,668	32,891	0.7
Hang Seng	19,365	19,639	1.4
Shanghai Comp	3,223	3,217	(0.2)
Sensex	66,707	66,267	(0.7)
Nifty	19,778	19,660	(0.6)

Source: Bloomberg, Bank of Baroda Research

- Except INR and JPY, other global currencies depreciated against the dollar. DXY fell by 0.9% as US GDP rose more than expected in Q2. EUR fell by 1% as investors perceived ECB Chief’s comments as dovish. INR gained 0.1%. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	26-07-2023	27-07-2023	% change
EUR/USD (1 EUR / USD)	1.1086	1.0979	(1.0)
GBP/USD (1 GBP / USD)	1.2941	1.2796	(1.1)
USD/JPY (JPY / 1 USD)	140.24	139.48	0.5
USD/INR (INR / 1 USD)	82.00	81.94	0.1
USD/CNY (CNY / 1 USD)	7.1431	7.1675	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Except Germany and Japan (lower), other global yields edged up. US 10Y yield rose sharply by 13bps amidst better than expected macro data from the US (GDP and jobless claims). 10Y yields in UK also edged up by 3bps. India's 10Y yield rose by 2bps as inflation concerns weighed. It is trading further higher at 7.16% today ahead of auction results.

Fig 3 – Bond 10Y yield

	26-07-2023	27-07-2023	change in bps
US	3.87	4.00	13
UK	4.28	4.31	3
Germany	2.49	2.47	(1)
Japan	0.46	0.45	(1)
China	2.65	2.65	0
India	7.10	7.12	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	26-07-2023	27-07-2023	change in bps
Tbill-91 days	6.71	6.69	(2)
Tbill-182 days	6.86	6.79	(7)
Tbill-364 days	6.88	6.87	(1)
G-Sec 2Y	7.00	7.03	3
India OIS-2M	6.61	6.59	(1)
India OIS-9M	6.79	6.80	1
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.06	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	26-07-2023	27-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.5)	(0.1)
Reverse repo	0.6	0.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	25-07-2023	26-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	353.7	140.6	(213.2)
Debt	4.8	2.6	(2.1)
Equity	349.0	137.9	(211.0)
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 rose by 1.6%, amidst anticipation of a supply crunch.

Fig 7 – Commodities

	26-07-2023	27-07-2023	% change
Brent crude (US\$/bbl)	82.9	84.2	1.6
Gold (US\$/ Troy Ounce)	1,972.1	1,946.0	(1.3)
Copper (US\$/ MT)	8,577.3	8,528.0	(0.6)
Zinc (US\$/MT)	2,464.1	2,456.5	(0.3)
Aluminium (US\$/MT)	2,213.0	2,205.0	(0.4)

Source: Bloomberg, Bank of Baroda Research



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