

MORNING MOCHA

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ECONOMIST

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US PCE deflator closely tracked by Fed to gauge underlying price pressure rose at a sharper pace by 0.4% in Aug'23 compared to 0.2% in Jul'23, on MoM basis. Even University of Michigan's both 1 Year and 5-10 Year inflation expectations remained sticky. US ISM manufacturing print also inched up to 49 in Sep'23 compared to 47.6 seen in Aug'23. More importantly, the employment index rose to 51.2 compared to 48.5 in Aug'23, affirming tighter labour market conditions. This all led expectations of higher for longer rates by Fed. Even Fed governor Michelle Bowman also remained hawkish on the back of uncertainty reigning inflation. On domestic front, slew of macro data releases pointed to resilience of Indian economy. GST collections rose 10% crossing the Rs 1.6 lakh crore mark, core sector output rose by 12.1% in Aug'23 from 8.4% in Jul'23. In the current week, all eyes will be on movement of crude oil and RBI's policy.

- Global indices ended mixed as investors braced for the possibility of higher US rates. US stocks ended mixed after comments from Fed Chair. FTSE fell the most by 1.3%, as manufacturing PMI remained well below the expansion zone. Sensex is trading lower today amidst adverse global cues, with all sectors in red. Asian markets are also trading weaker.

Fig 1 – Stock markets

	29-09-2023	02-10-2023	% change
Dow Jones	33,508	33,433	(0.2)
S & P 500	4,288	4,288	0.0
FTSE	7,608	7,511	(1.3)
Nikkei	31,858	31,760	(0.3)
Hang Seng	17,373	17,810	2.5
Shanghai Comp	3,107	3,110	0.1
Sensex	65,508	65,828	0.5
Nifty	19,524	19,638	0.6

Source: Bloomberg, Bank of Baroda Research

- DXY rose further by 0.7% as continued strength in US economy has increased the likelihood of higher US rates. Both EUR and GBP depreciated, as manufacturing activity deteriorated further. JPY inched closer to 150/\$, raising possibility of intervention. INR is trading weaker today, in line with Asian peers.

Fig 2 – Currencies

	29-09-2023	02-10-2023	% change
EUR/USD (1 EUR / USD)	1.0573	1.0477	(0.9)
GBP/USD (1 GBP / USD)	1.2199	1.2087	(0.9)
USD/JPY (JPY / 1 USD)	149.37	149.86	(0.3)
USD/INR (INR / 1 USD)	83.19	83.04	0.2
USD/CNY (CNY / 1 USD)	7.3118	7.2980	0.2

Source: Bloomberg, Bank of Baroda Research



- Except China (lower), global yields closed higher. UK's 10Y yield rose the most by 13bps followed by US (+11bps) and Germany's (+8bps). This was after US legislators were able to come to a short term agreement on fiscal prudence. Apart from this, macro data in the US also signalled tighter monetary policy. India's 10Y yield is trading at 7.27% today, taking global cues.

Fig 3 – Bond 10Y yield

	29-09-2023	02-10-2023	change in bps
US	4.57	4.68	11
UK	4.44	4.56	13
Germany	2.84	2.92	8
Japan	0.77	0.78	1
China	2.69	2.68	(1)
India	7.24	7.22	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	29-09-2023	02-10-2023	change in bps
Tbill-91 days	6.92	6.80	(12)
Tbill-182 days	7.07	7.03	(4)
Tbill-364 days	7.08	7.02	(6)
G-Sec 2Y	7.16	7.21	4
India OIS-2M	6.84	6.83	(1)
India OIS-9M	7.07	7.05	(2)
SONIA int rate benchmark	5.19	5.19	0
US SOFR	5.31	5.31	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	27-09-2023	28-10-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.2	0.9	(0.3)
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	26-09-2023	27-09-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	70.5	(291.3)	(361.8)
Debt	53.9	(28.2)	(82.1)
Equity	16.6	(263.1)	(279.6)
Mutual funds (Rs cr)	(153.2)	(879.8)	(726.7)
Debt	(1,020.6)	(2,298.5)	(1,277.9)
Equity	867.5	1,418.7	551.3

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 20 Sep 2023 and 21 Sep 2023

- Global commodity prices fell sharply amidst a sharp uptick in US dollar.

Fig 7 – Commodities

	29-09-2023	02-10-2023	% change
Brent crude (US\$/bbl)	95.3	90.7	(4.8)
Gold (US\$/ Troy Ounce)	1,848.6	1,828.0	(1.1)
Copper (US\$/ MT)	8,212.5	7,978.0	(2.9)
Zinc (US\$/MT)	2,642.8	2,581.0	(2.3)
Aluminium (US\$/MT)	2,347.0	2,321.0	(1.1)

Source: Bloomberg, Bank of Baroda Research



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