

## MORNING MOCHA

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ECONOMIST  
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Inflation in US as measured by Fed's preferred gauge, PCE price index softened to 3% in Jun'23 (3.8% in May'23), its slowest pace in ~2 years. Core PCE index (ex. food and energy) rose by 4.1% in Jun'23 versus 4.6% in May'23. The data has raised the possibility that the Fed's rate hike cycle may have reached its end. In Europe, while GDP growth in Germany stagnated in Q2CY23, growth in France and Spain showed resilience. Industrial output in Japan rebounded to 2% in Jun'23 versus -2.2% in May'23 (MoM). China's official manufacturing PMI edged up to 49.3 in Jul23 from 49 in Jun'23, but remained in contraction. Non-manufacturing PMI dipped to 51.5 from 53.2, led by a steep fall in construction activities. In India, the South-West monsoon has progressed well and is now 6% above LPA. Kharif sowing was lower by 0.3% compared with last year, led by pulses and jute and mesta.

- Except Japan and India (lower), global indices ended higher. Investors remained optimistic on hopes of soft landing. Minneapolis Fed President also showed confidence on inflation outlook. Even University of Michigan's long term inflation expectation data remained well anchored. Nikkei on the other hand dropped following BoJ's unscheduled bond buying operation. Sensex fell by 0.2%. However, it is trading higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	27-07-2023	28-07-2023	% change
Dow Jones	35,283	35,459	0.5
S & P 500	4,537	4,582	1.0
FTSE	7,693	7,694	0
Nikkei	32,891	32,759	(0.4)
Hang Seng	19,639	19,917	1.4
Shanghai Comp	3,217	3,276	1.8
Sensex	66,267	66,160	(0.2)
Nifty	19,660	19,646	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Global currencies broadly ended stronger. DXY fell by 0.1% amidst moderation in US inflation. JPY ended 1.2% lower, after BoJ announced a surprise tweak in its yield control curve. INR depreciated by 0.4% led by higher oil prices. However, it is trading stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

	27-07-2023	28-07-2023	% change
EUR/USD (1 EUR / USD)	1.0979	1.1016	0.3
GBP/USD (1 GBP / USD)	1.2796	1.2851	0.4
USD/JPY (JPY / 1 USD)	139.48	141.16	(1.2)
USD/INR (INR / 1 USD)	81.94	82.26	(0.4)
USD/CNY (CNY / 1 USD)	7.1675	7.1485	0.3

Source: Bloomberg, Bank of Baroda Research



- Except US (lower), global yields closed higher. The most notable jump was seen in Japan's 10Y yield which rose by 12bps as BoJ announced a surprise purchase of ₹ 300bn of bonds. US 10Y yield on the other hand fell by 5bps supported by softening inflation data. India's 10Y yield rose by 4bps amidst lower than expected cut off for 2033 security. It is trading flat today.

**Fig 3 – Bond 10Y yield**

	27-07-2023	28-07-2023	change in bps
US	4.00	3.95	(5)
UK	4.31	4.33	2
Germany	2.47	2.49	2
Japan	0.45	0.57	12
China	2.65	2.66	1
India	7.12	7.16	4

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	27-07-2023	28-07-2023	change in bps
Tbill-91 days	6.69	6.70	1
Tbill-182 days	6.79	6.85	6
Tbill-364 days	6.87	6.88	1
G-Sec 2Y	7.03	7.07	4
India OIS-2M	6.59	6.63	4
India OIS-9M	6.80	6.82	2
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.31	25

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	27-07-2023	28-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.5)	(1.4)	(0.1)
Reverse repo	0.6	0	(0.6)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	26-07-2023	27-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	140.6	(120.9)	(261.5)
Debt	2.6	31.6	28.9
Equity	137.9	(152.4)	(290.4)
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 rose by 0.9% as markets are anticipating demand to rebound.

**Fig 7 – Commodities**

	27-07-2023	28-07-2023	% change
Brent crude (US\$/bbl)	84.2	85.0	0.9
Gold (US\$/ Troy Ounce)	1,946.0	1,959.5	0.7
Copper (US\$/ MT)	8,528.0	8,625.5	1.1
Zinc (US\$/MT)	2,456.5	2,502.3	1.9
Aluminium (US\$/MT)	2,205.0	2,222.0	0.8

Source: Bloomberg, Bank of Baroda Research



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