

MORNING MOCHA

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US Fed raised rates by 25bps to 5-5.25%, highest level in over 16-years as it battles stubborn inflation. Fed Chair noted that they 'no longer anticipate' any more rate hike while no action can be 'ruled out' if any risk emerge that might impede in attaining their goals. Investors viewed this as a possible pause and maybe even a pivot with 52% chance of rate cut in Jul'23. Gold prices firmed while DXY weakened. Oil prices continued to extend their losses further. Separately, China's manufacturing PMI (Caixin) contracted for the first time in 3-months down to 49.5 in Apr'23 (50 in Mar'23) reflected by subdued demand in new orders.

- Global indices ended mixed after Fed hiked rates (25bps) as was widely expected and hinted of a possible pause in the coming months. ECB is also likely to push for a rate hike, given the inflation edged up to 7% in Apr'23 (6.9% in Mar'23). Domestic market ended in red with losses in IT and oil & gas stocks. However, it is trading higher today while other Asian indices are trading mixed.

Fig 1 – Stock markets

	02-05-2023	03-05-2023	% change
Dow Jones	33,685	33,414	(0.8)
S & P 500	4,120	4,091	(0.7)
FTSE	7,773	7,788	0.2
Nikkei	28,856	29,158	1.0
Hang Seng	19,934	19,699	(1.2)
Shanghai Comp	3,286	3,323	1.1
Sensex	61,355	61,193	(0.3)
Nifty	18,148	18,090	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended higher. JPY and GBP gained the most. DXY fell by 0.6%, following Fed's signal to pause going forward. Markets also await jobs data due on Friday to seek guidance on Fed decision, as future course of action will be more data dependent. INR rose by 0.1%, supported by sharp decline in oil prices. It is trading further higher today, in line with other Asian currencies.

Fig 2 – Currencies

	02-05-2023	03-05-2023	% change
EUR/USD (1 EUR / USD)	1.0999	1.1062	0.6
GBP/USD (1 GBP / USD)	1.2467	1.2564	0.8
USD/JPY (JPY / 1 USD)	136.55	134.71	1.4
USD/INR (INR / 1 USD)	81.89	81.83	0.1
USD/CNY (CNY / 1 USD)	6.9225	6.9126	0.1

Source: Bloomberg, Bank of Baroda Research

- Except Japan (flat) and UK (higher), other global yields closed lower. 10Y yields in US and India fell the most (-9bps). Change in Fed's communication indicating that it may opt for a pause and future decisions will be data dependent helped



ease investor sentiments. UK's yield rose as investors await BoE's decision due next week amidst sticky inflation trend. Following global cues, India's 10Y yield fell to 7.01%, and is trading flat at the same level today.

Fig 3 – Bond 10Y yield

	02-05-2023	03-05-2023	change in bps
US	3.42	3.34	(9)
UK	3.67	3.70	3
Germany	2.26	2.25	(1)
Japan	0.42	0.42	0
China	2.79	2.78	(1)
India	7.09	7.01	(9)

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

Fig 4 – Short term rates

	02-05-2023	03-05-2023	change in bps
Tbill-91 days	6.92	6.87	(5)
Tbill-182 days	6.98	6.97	(1)
Tbill-364 days	6.99	6.98	(1)
G-Sec 2Y	6.91	6.84	(7)
India OIS-2M	6.59	6.59	0
India OIS-9M	6.63	6.60	(3)
SONIA int rate benchmark	4.18	4.18	0
US SOFR	4.81	4.81	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	02-05-2023	03-05-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(0.7)	(0.1)
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	28-04-2023	02-05-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	756.3	239.3	(517.0)
Debt	(34.7)	(126.6)	(92.0)
Equity	791.0	365.9	(425.1)
Mutual funds (Rs cr)	2,020.7	760.3	(1,260.4)
Debt	1,574.0	(479.1)	(2,053.0)
Equity	446.8	1,239.4	792.6

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

- Global oil prices continued their steep decline and fell to ~US\$ 72/bbl as Fed announced 25bps rate hike and US inventories unexpectedly rose last week

Fig 7 – Commodities

	02-05-2023	03-05-2023	% change
Brent crude (US\$/bbl)	75.3	72.3	(4.0)
Gold (US\$/ Troy Ounce)	2,016.7	2,039.0	1.1
Copper (US\$/ MT)	8,490.0	8,442.8	(0.6)
Zinc (US\$/MT)	2,611.0	2,623.3	0.5
Aluminium (US\$/MT)	2,366.5	2,321.0	(1.9)

Source: Bloomberg, Bank of Baroda Research



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