

MORNING MOCHA

05 July 2023

ECONOMIST
Jahnavi Prabhakar

Markets will await Fed's minutes scheduled to release later today for more clarity on future path of rate hike. According to CME FEDWATCH, there is a 90% likelihood of a rate hike (25bps) to 5.5% in the Jul'23 meet. On global growth, Japan's services PMI remained in the expansion zone, despite tad moderation (54 vs 55.9 in May'23) highlighting strong demand conditions. Furthermore, China's CAIXIN services activity (53.9 vs 57.1 in May) in line with official PMI, softened on the back of weakened demand, with both new business activity and new orders expanding at a much slower pace in Jun'23. Separately, Australia's Central Bank (RBA) maintained status quo, though they warned, more tightening might be required.

- Global indices ended mixed amidst thin trading and ongoing uncertainty around interest rate decisions by global central Banks. Investors will turn their focus towards Fed minutes and US payrolls report for further guidance. Hang Seng gained the most. The gains in Sensex were supported by rally in IT and banking stocks. It opened flat today, while other Asian stocks are trading lower.

Fig 1 – Stock markets

	03-07-2023	04-07-2023	% change
Dow Jones	34,408	34,418	0
S & P 500	4,450	4,456	0.1
FTSE	7,527	7,520	(0.1)
Nikkei	33,753	33,423	(1.0)
Hang Seng	19,307	19,416	0.6
Shanghai Comp	3,244	3,245	0
Sensex	65,205	65,479	0.4
Nifty	19,323	19,389	0.3

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

- Barring EUR and INR (lower), other global currencies closed higher. CNY and GBP gained the most. Investors await Fed minutes for guidance on future rate trajectory. Currently there are 90% chances of a 25bps hike in Jul'23. INR fell by 0.1% as oil prices inched up. It is trading further weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	03-07-2023	04-07-2023	% change
EUR/USD (1 EUR / USD)	1.0912	1.0879	(0.3)
GBP/USD (1 GBP / USD)	1.2693	1.2713	0.2
USD/JPY (JPY / 1 USD)	144.68	144.47	0.1
USD/INR (INR / 1 USD)	81.96	82.02	(0.1)
USD/CNY (CNY / 1 USD)	7.2468	7.2162	0.4

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

- Global yields closed mixed. While 10Y yields in UK and Japan fell, in Germany it inched up. ECB officials have maintained their stance on tight monetary policy



conditions. In UK, weakening macro data has revived fears of recession risks. India's 10Y yield closed unchanged at 7.12%, and is trading a tad lower at 7.11% today.

Fig 3 – Bond 10Y yield

	03-07-2023	04-07-2023	change in bps
US	3.84	3.85	2
UK	4.44	4.42	(2)
Germany	2.44	2.45	2
Japan	0.41	0.39	(2)
China	2.65	2.65	0
India	7.12	7.12	0

Source: Bloomberg, Bank of Baroda Research, 07.26 GS 2033 security taken for India | Note: Markets in US were closed on 4 Jul 2023

Fig 4 – Short term rates

	03-07-2023	04-07-2023	change in bps
Tbill-91 days	6.69	6.68	(1)
Tbill-182 days	6.81	6.80	(1)
Tbill-364 days	6.82	6.82	0
G-Sec 2Y	7.02	7.04	2
India OIS-2M	6.61	6.60	(1)
India OIS-9M	6.74	6.74	0
SONIA int rate benchmark	4.93	4.93	0
US SOFR	5.06	5.09	3

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 4 Jul 2023

Fig 5 – Liquidity

Rs tn	03-07-2023	04-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.2)	(2.3)	(0.1)
Reverse repo	0.1	0.8	0.7
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-06-2023	03-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	1,550.4	246.2	(1,304.2)
Debt	106.1	(53.8)	(159.9)
Equity	1,444.3	300.1	(1,144.3)
Mutual funds (Rs cr)	(1,948.4)	5,322.2	7,270.6
Debt	(3,395.6)	4,673.3	8,068.9
Equity	1,447.3	649.0	(798.3)

Source: Bloomberg, Bank of Baroda Research

- Crude prices rose by 2.1%, as major oil producers (Saudi Arabia and Russia) will begin their voluntary production cuts from Aug'23.

Fig 7 – Commodities

	03-07-2023	04-07-2023	% change
Brent crude (US\$/bbl)	74.7	76.3	2.1
Gold (US\$/ Troy Ounce)	1,921.6	1,925.5	0.2
Copper (US\$/ MT)	8,397.0	8,346.0	(0.6)
Zinc (US\$/MT)	2,355.3	2,403.0	2.0
Aluminium (US\$/MT)	2,157.5	2,167.5	0.5

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com