

MORNING MOCHA

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ECONOMIST
Jahnvi Prabhakar

Following the release of Fed minutes, recent macro data (Private payrolls, ISM services PMI at 53.9 from 50.3) brought back the likelihood of more rate hikes. The private payrolls climbed much higher than anticipated to 497K from 267K in May. Fed's Dallas President commented 'more restrictive policy' will continue, given the strong labour market and inflation outlook remaining above target. Amidst the rate hike fears, global indices ended in red, while 10Y yields climbed higher as the focus would return towards battling elevated inflation. This comes ahead of the US non-farm payrolls data which is expected to surprise positively.

- Except Sensex, other global indices largely ended lower. Sharp sell-off in the market was triggered by early signs of strong labour market (surge in private payroll data), which stoked fears of aggressive rate tightening by Fed. Amongst other indices, Hang Seng (3%) declined the most followed by FTSE (2.2%). On the other hand, Sensex ended in green, led by strong gains in real estate and oil & gas stocks. However, it is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	05-07-2023	06-07-2023	% change
Dow Jones	34,289	33,922	(1.1)
S & P 500	4,447	4,412	(0.8)
FTSE	7,442	7,281	(2.2)
Nikkei	33,339	32,773	(1.7)
Hang Seng	19,110	18,533	(3.0)
Shanghai Comp	3,223	3,206	(0.5)
Sensex	65,446	65,786	0.5
Nifty	19,399	19,497	0.5

Source: Bloomberg, Bank of Baroda Research

- Apart from INR (lower) and CNY (flat), other global currencies closed higher against the dollar. DXY fell by 0.2%, despite macro data supporting Fed's hawkish stance. ECB President's speech reaffirming need for tighter monetary policy, lifted EUR. INR fell by 0.3%, even as oil prices dipped. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	05-07-2023	06-07-2023	% change
EUR/USD (1 EUR / USD)	1.0854	1.0889	0.3
GBP/USD (1 GBP / USD)	1.2704	1.2740	0.3
USD/JPY (JPY / 1 USD)	144.66	144.07	0.4
USD/INR (INR / 1 USD)	82.22	82.51	(0.3)
USD/CNY (CNY / 1 USD)	7.2505	7.2488	0

Source: Bloomberg, Bank of Baroda Research

- Barring China (flat), other global yields closed higher. 10Y yields in UK (+17bps), Germany (+15bps) and US (+10bps) rose sharply. Stronger than



anticipated macro data from the US (ADP employment, ISM services PMI), has increased bets on the possibility of 2nd rate hike by Fed. BoE is also expected to aggressively hike rates to peak at 6.5% (earlier 6.25%). India's 10Y rose by 4bps to 7.15%, following global cues. It is trading further higher today at 7.16%.

Fig 3 – Bond 10Y yield

	05-07-2023	06-07-2023	change in bps
US	3.93	4.03	10
UK	4.49	4.66	17
Germany	2.48	2.63	15
Japan	0.39	0.41	2
China	2.64	2.64	0
India	7.11	7.15	4

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

Fig 4 – Short term rates

	05-07-2023	06-07-2023	change in bps
Tbill-91 days	6.73	6.72	(1)
Tbill-182 days	6.81	6.82	1
Tbill-364 days	6.82	6.82	0
G-Sec 2Y	7.04	7.03	(1)
India OIS-2M	6.60	6.61	1
India OIS-9M	6.74	6.77	3
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	05-07-2023	06-07-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.4)	(2.4)	0
Reverse repo	0.8	1.0	0.2
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	04-07-2023	05-07-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	313.5	321.2	7.7
Debt	6.6	42.6	35.9
Equity	306.9	278.7	(28.2)
Mutual funds (Rs cr)	5,322.2	878.2	(4,444.0)
Debt	4,673.3	1,206.2	(3,467.0)
Equity	649.0	(328.0)	(977.0)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 3 Jul and 4 Jul 2023

- Crude prices declined by 0.2%, as rate hike concerns could dampen demand.

Fig 7 – Commodities

	05-07-2023	06-07-2023	% change
Brent crude (US\$/bbl)	76.7	76.5	(0.2)
Gold (US\$/ Troy Ounce)	1,915.3	1,910.9	(0.2)
Copper (US\$/ MT)	8,304.0	8,246.0	(0.7)
Zinc (US\$/MT)	2,351.0	2,356.8	0.2
Aluminium (US\$/MT)	2,142.5	2,129.0	(0.6)

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com