

MORNING MOCHA

08 February 2023

ECONOMIST

Aditi Gupta

Fed Chair in his latest speech stressed that the process of “disinflation” has begun, and he expects significant moderation in inflation this year. However, services inflation remains stubbornly high. He reiterated the need for further rate hikes and said that the Fed action will be contingent on incoming data. Separately, real wage growth in Japan edged up for the first time in 9-months by 0.1% in Dec’22. However, household spending declined more than expected by 1.3% in Dec’22 (est. -0.2%), signalling weak domestic demand. In India, markets await the RBI policy decision today. We expect a 25bps rate hike.

- Except Nikkei (flat) and Indian markets (lower), global indices closed higher. Risk-on sentiments increased as Fed Chair’s speech highlighted that disinflation has begun. S&P 500 and Dow rose the most by 1.3% and 0.8% respectively. Asian shares got support from technology stocks and news reports of falling odds of US recession. Sensex fell by 0.4% dragged down by metal and auto stocks. However, it is trading higher today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	06-02-2023	07-02-2023	% change
Dow Jones	33,891	34,157	0.8
S & P 500	4,111	4,164	1.3
FTSE	7,837	7,865	0.4
Nikkei	27,694	27,685	0
Hang Seng	21,222	21,299	0.4
Shanghai Comp	3,239	3,248	0.3
Sensex	60,507	60,286	(0.4)
Nifty	17,765	17,722	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Barring EUR and INR (flat), other global currencies gained as DXY retreated. After gaining for 3-straight sessions, DXY fell by 0.2% following comments from Fed Chair. JPY appreciated the most by 1.2%. EUR ended flat as Germany’s industrial production fell more than expected in Dec’22. INR is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	06-02-2023	07-02-2023	% change
EUR/USD (1 EUR / USD)	1.0726	1.0726	0
GBP/USD (1 GBP / USD)	1.2019	1.2048	0.2
USD/JPY (JPY / 1 USD)	132.66	131.07	1.2
USD/INR (INR / 1 USD)	82.74	82.70	0
USD/CNY (CNY / 1 USD)	6.7964	6.7846	0.2

Source: Bloomberg, Bank of Baroda Research

- Global 10Y yields closed mixed. Fed Chair’s speech despite highlighting disinflation, remained cautious on tighter labour market conditions. Even



Minneapolis Fed President spoke of the possibility to raise interest rate to 5.4%. These mixed signals impacted bond market sentiments. UK 10Y yield rose the most (+7bps), followed by Germany (+5bps) and US (+3bps). India's 10Y yield fell by 1bps (7.31%), ahead of RBI policy, where a 25bps rate hike is expected.

Fig 3 – Bond 10Y yield

	06-02-2023	07-02-2023	change in bps
US	3.64	3.67	3
UK	3.24	3.32	7
Germany	2.30	2.35	5
Japan	0.51	0.50	0
China	2.91	2.90	(1)
India	7.32	7.31	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	06-02-2023	07-02-2023	change in bps
Tbill-91 days	6.55	6.56	1
Tbill-182 days	6.83	6.90	7
Tbill-364 days	6.91	6.92	1
G-Sec 2Y	6.93	6.94	1
SONIA int rate benchmark	3.93	3.93	0
US SOFR	4.55	4.55	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	06-02-2023	07-02-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.4)	(0.3)	(0.1)
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	03-02-2023	06-02-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	16.1	(174.3)	(190.4)
Debt	46.5	(48.3)	(94.8)
Equity	(30.4)	(126.0)	(95.6)
Mutual funds (Rs cr)	1,246.9	2,946.4	1,699.5
Debt	(2,637.2)	1,748.4	4,385.5
Equity	3,884.0	1,198.0	(2,686.0)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 31 Jan 2023 and 2 Feb 2023

- Global oil price rose further by 3.3%, after US crude stocks fell unexpectedly. Supply concerns on account of earthquake in Turkey and softer dollar also supported prices.

Fig 7 – Commodities

	06-02-2023	07-02-2023	% change
Brent crude (US\$/bbl)	81.0	83.7	3.3
Gold (US\$/ Troy Ounce)	1,867.5	1,873.1	0.3
Copper (US\$/ MT)	8,838.0	8,893.0	0.6
Zinc (US\$/MT)	3,164.0	3,169.8	0.2
Aluminium (US\$/MT)	2,533.5	2,524.5	(0.4)

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