

MORNING MOCHA

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Following the softening of labour market in the US and expectation of moderation in inflation as well in May'23, investors are now hoping for an earlier than anticipated end in Fed's rate hike cycle. Initial jobless claims in the US rose by 28k for the week ending 3 Jun 2023, to reach 261k (est.: 237k) and 232k in the previous week. China's latest price also shows signs of economic recovery cooling down. Threat of deflation hangs as CPI remains close to zero (May'23: 0.2%; 0.1% in Apr'23). Core inflation fell (0.6% versus 0.7%) suggesting that demand for services is fading. PPI also fell further by (-) 4.6% in May'23 from (-) 3.6% in Apr'23, led by energy and metal prices. This also signals weakness in global demand.

- Apart from markets in UK, Japan and India (lower), other global indices closed higher. In US, macro data (jobless claims) suggests that the economy is slowing and Fed may remain on hold for now. In Europe, Eurozone entered recession in Q1 (-0.1% versus 0% as per 1st estimates), impacting the investor sentiments. Sensex fell by 0.5%, led by realty, auto, tech and banking stocks. However, it is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	7-06-2023	8-06-2023	% change
Dow Jones	33,665	33,834	0.5
S & P 500	4,268	4,294	0.6
FTSE	7,624	7,600	(0.3)
Nikkei	31,914	31,641	(0.9)
Hang Seng	19,252	19,299	0.2
Shanghai Comp	3,198	3,214	0.5
Sensex	63,143	62,849	(0.5)
Nifty	18,726	18,635	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Except INR (flat), other global currencies ended higher against the dollar. DXY fell by 0.7% as investors eye earlier than anticipated end of Fed rate hike cycle. INR ended flat even as oil prices fell. However, it is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	7-06-2023	8-06-2023	% change
EUR/USD (1 EUR / USD)	1.0699	1.0782	0.8
GBP/USD (1 GBP / USD)	1.2438	1.2560	1.0
USD/JPY (JPY / 1 USD)	140.13	138.92	0.9
USD/INR (INR / 1 USD)	82.55	82.57	0
USD/CNY (CNY / 1 USD)	7.1350	7.1118	0.3

Source: Bloomberg, Bank of Baroda Research

- 10Y yields in developed markets pared back, with US (-8bps) and Germany (-5bps) falling the most. More than expected increase in initial jobless claims in



the US and expectation of inflation cooling further down in May'23, has raised hopes of Fed ending its rate hike cycle soon. India's 10Y rose by 4bps, as RBI sounded more cautious on CPI in its policy briefing. However, following global cues, it is trading a tad lower at 7% today.

Fig 3 – Bond 10Y yield

	7-06-2023	8-06-2023	change in bps
US	3.80	3.72	(8)
UK	4.25	4.23	(2)
Germany	2.46	2.40	(5)
Japan	0.43	0.44	1
China	2.71	2.71	0
India	6.98	7.02	4

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

Fig 4 – Short term rates

	7-06-2023	8-06-2023	change in bps
Tbill-91 days	6.74	6.74	0
Tbill-182 days	6.85	6.82	(3)
Tbill-364 days	6.85	6.85	0
G-Sec 2Y	6.85	6.90	6
India OIS-2M	6.54	6.60	6
India OIS-9M	6.62	6.66	4
SONIA int rate benchmark	4.43	4.43	0
US SOFR	5.05	5.05	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	7-06-2023	8-06-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.2)	(2.0)	0.2
Reverse repo	1.2	1.5	0.3
Repo	0.3	0	(0.3)

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	6-06-2023	7-06-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	136.0	193.0	57.0
Debt	1.5	18.1	16.5
Equity	134.5	175.0	40.5
Mutual funds (Rs cr)	2,461.7	662.4	(1,799.3)
Debt	1,146.1	1,344.9	198.8
Equity	1,315.6	(682.5)	(1,998.1)

Source: Bloomberg, Bank of Baroda Research | Mutual funds data as of 5 and 6 Jun 2023

- Global oil prices fell by 1.3%, after the White House refuted reports of temporary oil export deal between US and Iran.

Fig 7 – Commodities

	7-06-2023	8-06-2023	% change
Brent crude (US\$/bbl)	77.0	76.0	(1.3)
Gold (US\$/ Troy Ounce)	1,940.0	1,965.5	1.3
Copper (US\$/ MT)	8,292.1	8,336.0	0.5
Zinc (US\$/MT)	2,399.1	2,407.0	0.3
Aluminium (US\$/MT)	2,219.0	2,254.5	1.6

Source: Bloomberg, Bank of Baroda Research



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