

MORNING MOCHA

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ECONOMIST
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Investors cautiously await US CPI print due later in the day today, which is expected to have eased to 8.7% in Jul'22 from 9.1% in Jun'22. This will also give cues on Fed's future rate hike actions. Productivity data in US showed that output per worker fell further by 4.6% in Jul'22, following a decline of 7.4% in Jun'22, which led to 10.8% jump in unit labour cost in Jul'22 (est.: 9.6%), compared with 12.6% increase in cost the previous month. Elsewhere in China, producer prices eased with PPI moderating to 4.2% (est.: 4.8%) in Jul'22 from 6.1% in Jun'22. However, retail inflation picked up slightly with CPI at 2.7% versus 2.5% last month, led by higher food prices.

- Barring FTSE and Shanghai Comp (higher), global stocks edged lower as recession fear impacted investor sentiments. Nikkei fell the most by 0.9% amidst weak corporate earnings. US stocks also ended lower as cautiousness prevailed ahead of the release of CPI data, for cues on interest rate trajectory. Sensex is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	8-08-2022	9-08-2022	% change
Dow Jones	32,833	32,774	(0.2)
S & P 500	4,140	4,122	(0.4)
FTSE	7,482	7,488	0.1
Nikkei	28,249	28,000	(0.9)
Hang Seng	20,046	20,003	(0.2)
Shanghai Comp	3,237	3,247	0.3
Sensex	58,388	58,853	0.8
Nifty	17,398	17,525	0.7

Source: Bloomberg, Bank of Baroda Research; Note: Markets in India were closed on 09.08.2022

- Global currencies closed mixed with JPY (0.1%) falling, EUR (0.2%) gaining and GBP and CNY closing flat. DXY fell by 0.1%, dragged by dip in equity markets and as investors await US CPI print. Today, INR is trading higher, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	8-08-2022	9-08-2022	% change
EUR/USD	1.0197	1.0213	0.2
GBP/USD	1.2082	1.2080	0
USD/JPY	134.95	135.05	(0.1)
USD/INR	79.25	79.65	(0.5)
USD/CNY	6.7512	6.7527	0

Source: Bloomberg, Bank of Baroda Research; Note: Markets in India were closed on 09.08.2022

- Except Japan (lower), global yields closed higher. US, UK and Germany's 10Y yield rose by 2bps each. Separately, Fed official, James Bullard remarked that interest rates might be 'higher for longer' to control inflation. The 2Y US paper



exceeded 10Y by 50bps, deepest inversion since CY00 and also a signal of recession. India's 10Y yield is trading at 7.34% today.

Fig 3 – Bond 10Y yield

	8-08-2022	9-08-2022	change in bps
US	2.76	2.78	2
UK	1.95	1.97	2
Germany	0.90	0.92	2
Japan	0.18	0.17	(1)
China	2.75	2.75	0
India	7.30	7.35	5

Source: Bloomberg, Bank of Baroda Research; Note: Markets in India were closed on 09.08.2022

Fig 4 – Short term rates

	5-08-2022	8-08-2022	change in bps
Tbill-91 days	5.54	5.50	(4)
Tbill-182 days	5.73	5.75	2
Tbill-364 days	6.20	6.18	(2)
G-Sec 2Y	6.34	6.40	6
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.28	2.28	0

Source: Bloomberg, Bank of Baroda Research; Note: Markets in India were closed on 09.08.2022

Fig 5 – Liquidity

Rs tn	5-08-2022	8-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.0)	0.7
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research; Note: Markets in India were closed on 09.08.2022

Fig 6 – Capital market flows

	4-08-2022	5-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	266.0	348.6	82.6
Debt	48.8	95.8	47.0
Equity	217.3	252.8	35.5
Mutual funds (Rs cr)	3,513.3	1,017.8	(2,495.5)
Debt	2,873.7	904.3	(1,969.4)
Equity	639.7	113.5	(526.2)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 2nd and 3rd Aug 2022; Note: Markets in India were closed on 09.08.2022

- Crude oil prices fell by 0.4% to US\$ 96/bbl, as there was unexpected rise in US crude stocks, which could indicate weak demand. Gold prices inched up (0.3%) as appetite for US\$ weakened.

Fig 7 – Commodities

	8-08-2022	9-08-2022	% change
Brent crude (US\$/bbl)	96.7	96.3	(0.4)
Gold (US\$/ Troy Ounce)	1,789.0	1,794.3	0.3
Copper (US\$/ MT)	7,986.8	7,980.5	(0.1)
Zinc (US\$/MT)	3,552.8	3,663.5	3.1
Aluminium (US\$/MT)	2,445.5	2,490.5	1.8

Source: Bloomberg, Bank of Baroda Research



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