

MORNING MOCHA

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ECONOMIST
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Unemployment rate in the US edged down to 3.5% in Sep'22 from 3.7% in Aug'22, indicating tighter labour market conditions. This in turn strengthened expectations of a more aggressive rate hike by US Fed. As per CME Fed watch tool, traders are pricing in a 75bps rate hike with 78.1% probability attached to it. New York Fed President also spoke of more action on central bank's part to control inflation. Even Chicago Fed President said that the policy rate is likely to be 4.5-4.75% by spring CY23. Elsewhere in Germany, recession fear looms as high frequency data such as retail sales and industrial production tanked in Aug'22. On domestic front, CPI data will be closely watched. Any print above 7% will be discomfoting to domestic yields.

- Global stocks witnessed a sharp sell-off after data showed that US labour market conditions remained strong, bolstering the case for further rate hikes by the Fed. Stocks in the US fell the most with both S&P 500 and Dow Jones shedding more than 2% over US-China woes. Sensex too fell by 0.1% following global cues. Technology and metal stocks declined the most. It is trading further lower today in line with other Asian stocks.

Fig 1 – Stock markets

	6-10-2022	7-10-2022	% change
Dow Jones	29,927	29,297	(2.1)
S & P 500	3,745	3,640	(2.8)
FTSE	6,997	6,991	(0.1)
Nikkei	27,311	27,116	(0.7)
Hang Seng	18,012	17,740	(1.5)
Shanghai Comp	3,041	3,024	(0.6)
Sensex	58,222	58,191	(0.1)
Nifty	17,332	17,315	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Except CNY, other global currencies fell against the dollar. DXY rose by 0.5% as strong labour market conditions strengthened the case for more rate hike by the Fed. GBP and EUR fell by 0.7% and 0.5% respectively. JPY weakened to a 24-year low. INR too depreciated to a new record low of 82.33/\$. It is trading further weaker today in line with other Asian currencies.

Fig 2 – Currencies

	6-10-2022	7-10-2022	% change
EUR/USD	0.9791	0.9744	(0.5)
GBP/USD	1.1162	1.1086	(0.7)
USD/JPY	145.14	145.25	(0.1)
USD/INR	81.89	82.33	(0.5)
USD/CNY	7.1249	7.1160	0.1

Source: Bloomberg, Bank of Baroda Research



- Barring Japan and India (flat), other major global yields closed higher. Germany's 10Y yield rose the most by 11bps as import prices in Aug'22 increased at the sharpest pace since CY73 oil crisis. Thus, reigniting hopes of faster pace of rate hike by ECB. Even US 10Y yield rose by 6bps as tighter labour market raised hopes of an aggressive policy response from Fed. India's 10Y yield is trading 4bps higher at 7.50% today.

Fig 3 – Bond 10Y yield

	6-10-2022	7-10-2022	change in bps
US	3.82	3.88	6
UK	4.17	4.24	7
Germany	2.09	2.19	11
Japan	0.25	0.25	0
China	2.72	2.75	3
India	7.45	7.46	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	6-10-2022	7-10-2022	change in bps
Tbill-91 days	5.96	6.12	16
Tbill-182 days	6.44	6.53	9
Tbill-364 days	6.71	6.76	5
G-Sec 2Y	7.11	7.15	4
SONIA int rate benchmark	2.19	2.19	0
US SOFR	3.04	3.05	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	6-10-2022	7-10-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.7)	(0.4)	0.3
Reverse repo	0	0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	4-10-2022	6-10-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	190.5	88.3	(102.2)
Debt	(47.3)	(3.4)	43.9
Equity	237.8	91.7	(146.1)
Mutual funds (Rs cr)	1,867.3	(576.9)	(2,444.1)
Debt	(448.5)	484.9	933.4
Equity	2,315.8	(1,061.8)	(3,377.6)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 30 Sep 2022 and 3 Oct 2022

- Crude oil prices rose by 3.7% to US\$ 98/bbl, amidst concerns of tighter supply following OPEC+ decision and in anticipation of EU's embargo on Russian oil.

Fig 7 – Commodities

	6-10-2022	7-10-2022	% change
Brent crude (US\$/bbl)	94.4	97.9	3.7
Gold (US\$/ Troy Ounce)	1,712.5	1,694.8	(1.0)
Copper (US\$/ MT)	7,649.8	7,507.8	(1.9)
Zinc (US\$/MT)	3,143.3	3,011.5	(4.2)
Aluminium (US\$/MT)	2,347.0	2,299.0	(2.0)

Source: Bloomberg, Bank of Baroda Research



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