

MORNING MOCHA

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ECONOMIST
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US CPI rose by 8.5% in Jul'22 versus est.: 8.7% and 9.1% in Jun'22, supported by ~20% decline in gasoline prices. Equity markets cheered, bond yields cooled and oil prices inched up on hopes of revived demand. However on a MoM basis, inflation remained unchanged from Jun'22 at 1.3% in Jul'22 (est.: 0.2%). Investors are now expecting inflation to have peaked and Fed to slowdown the pace of rate hikes in the coming months. However, some officials like Minneapolis Fed Bank President are still of the view rate hike should continue at the current pace to bring inflation lower.

- Global indices ended mixed as investors monitored varied global data print. US indices ended in green with inflation rising at a softer pace. Hang Seng (2%) dropped the most amongst other indices, followed by Nikkei (0.6%). Sensex (0.1%) too ended in red led by losses in real estate and technology stocks. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	9-08-2022	10-08-2022	% change
Dow Jones	32,774	33,310	1.6
S & P 500	4,122	4,210	2.1
FTSE	7,488	7,507	0.3
Nikkei	28,000	27,819	(0.6)
Hang Seng	20,003	19,611	(2.0)
Shanghai Comp	3,247	3,230	(0.5)
Sensex	58,853	58,817	(0.1)
Nifty	17,525	17,535	0.1

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

- Global currencies ended higher against the dollar. DXY slipped by 1.1% on the back of cooler than anticipated US inflation print, easing concerns and raising hopes of less aggressive rate hike by Fed. GBP rose by 1.2% buoyed by UK politics. INR appreciated by 0.2%. It is trading stronger today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	9-08-2022	10-08-2022	% change
EUR/USD	1.0213	1.0299	0.8
GBP/USD	1.2080	1.2219	1.2
USD/JPY	135.05	132.89	1.6
USD/INR	79.65	79.52	0.2
USD/CNY	6.7527	6.7238	0.4

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

- Global yields closed mixed with 10Y yield in US and China closing flat and yields in India, Germany and UK declining. Weaker than expected US CPI print has increased hopes of slowdown in the pace of rate hikes by Fed. However, Minneapolis Fed Bank President Neel Kashkari still believes that Fed should



continue to hike rate at the current pace to reach 3.9% by end of CY22.

Following global cues, India's 10Y yield was down to 7.31% and is trading at 7.28% today.

Fig 3 – Bond 10Y yield

	9-08-2022	10-08-2022	change in bps
US	2.78	2.78	0
UK	1.97	1.95	(2)
Germany	0.92	0.89	(3)
Japan	0.17	0.19	2
China	2.75	2.75	0
India	7.35	7.31	(4)

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

- At RBI's latest T-bill auction, rates moved up slightly. Compared with last week, there was 4bps increase in 91-day rate and 7bps increase in 182-day rate.

Fig 4 – Short term rates

	8-08-2022	10-08-2022	change in bps
Tbill-91 days	5.50	5.59	9
Tbill-182 days	5.75	5.94	19
Tbill-364 days	6.18	6.25	7
G-Sec 2Y	6.40	6.43	3
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.28	2.29	1

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

Fig 5 – Liquidity

Rs tn	8-08-2022	10-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(1.4)	(0.4)
Reverse repo	0.4	0.1	(0.3)
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

	5-08-2022	8-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	348.6	184.0	(164.6)
Debt	95.8	(13.8)	(109.6)
Equity	252.8	197.7	(55.1)
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 rose by 1.1% to US\$ 97/bbl, following a pickup in gasoline demand in the US and weaker than expected US CPI print.

Fig 7 – Commodities

	9-08-2022	10-08-2022	% change
Brent crude (US\$/bbl)	96.3	97.4	1.1
Gold (US\$/ Troy Ounce)	1,794.3	1,792.4	(0.1)
Copper (US\$/ MT)	7,980.5	8,081.0	1.3
Zinc (US\$/MT)	3,663.5	3,706.3	1.2
Aluminium (US\$/MT)	2,490.5	2,489.5	0

Source: Bloomberg, Bank of Baroda Research



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