

MORNING MOCHA

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ECONOMIST
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US CPI rose by 7.5% (highest since 1982) in Jan'22 compared with 7% in Dec'21 and estimated 7.3% increase. This was driven by higher prices of food, electricity and shelter. Following this, the probability of rate hike by Fed in Mar'22 has increased, pushing bond yields and DXY up.

- Except US, other equity indices closed higher. US stocks slid as CPI inflation rose to a 40-year high. S&P and Dow Jones fell sharply by 1.8% and 1.5% respectively. European stocks rose supported by strong earnings report. Sensex and Nifty gained by 0.8% as RBI maintained its accommodative stance and also revised inflation forecast for FY23 lower. Asian stocks are trading lower today.

Fig 1 – Stock markets

	09-02-2022	10-02-2022	% change
Dow Jones	35,768	35,242	(1.5)
S & P 500	4,587	4,504	(1.8)
FTSE	7,643	7,672	0.4
Nikkei	27,580	27,696	0.4
Hang Seng	24,830	24,924	0.4
Shanghai Comp	3,480	3,486	0.2
Sensex	58,466	58,926	0.8
Nifty	17,464	17,606	0.8

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY rose by 0.1% as higher than expected US CPI raised expectations of a more aggressive stance by Fed. EUR closed flat even as EC revised its growth projection lower to 4% in CY22 from 4.3% earlier. Inflation forecast was revised upwards to 3.5% versus 2.2% earlier. INR fell by 0.2% as RBI remained fairly dovish. Asian currencies are trading lower today.

Fig 2 – Currencies

	09-02-2022	10-02-2022	% change
EUR/USD	1.1425	1.1428	0.0
GBP/USD	1.3535	1.3557	0.2
USD/JPY	115.52	116.01	(0.4)
USD/INR	74.81	74.95	(0.2)
USD/CNY	6.3627	6.3541	0.1

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

- Except India (lower), other global yields closed higher tracking further pick up in US CPI print for Jan'22. US (2.03%) and UK's (1.52%) 10Y yields rose the most by 9bps each. India's 10Y yield dropped by 8bps following RBI's announcement of keeping policy rates on hold and maintaining accommodative stance. India's 10Y yield is expected to remain range bound as policy rate hike is not expected in the two quarters at least.



Fig 3 – Bond 10Y yield

	09-02-2022	10-02-2022	% change
US	1.94	2.03	9
UK	1.43	1.52	9
Germany	0.21	0.28	7
Japan	0.21	0.23	2
China	2.73	2.76	3
India	6.81	6.73	(8)

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

- Pressure on short-end yields eased sharply, and T-bill rates fell by 15-17bps, following RBI's policy decision to keep rates on hold and liquidity accommodative.

Fig 4 – Short term rates

	09-02-2022	10-01-2022	% change
Tbill-91 days	3.88	3.73	(15)
Tbill-182 days	4.39	4.24	(15)
Tbill-365 days	4.65	4.48	(17)
G-Sec 2Y	5.09	4.90	(19)
AAACorp Spread 3Y	37.00	37.00	0
SONIA int rate benchmark	0.44	0.45	0
US SOFR	0.05	0.04	(1)

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

Fig 5 – Liquidity

Rs tn	08-02-2022	09-02-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(6.0)	(6.5)	0.5
Reverse repo*	6.3	6.3	0
Repo*	0	0	0

Source: Bloomberg, Bank of Baroda Research *Variable rate outstanding

Fig 6 – Capital market flows

	08-02-2022	09-02-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	(49.3)	(181.8)	(132.5)
Debt	(58.7)	(94.9)	(36.3)
Equity	9.3	(86.9)	(96.2)
Mutual funds (Rs cr)	(1,317.6)	1,594.3	2,911.9
Debt	(26.2)	925.3	951.5
Equity	(1,291.4)	669.0	1,960.4

Source: Bloomberg, Bank of Baroda Research, Note: Data for Mutual Fund inflows pertains to 7 Feb 2022 and 8 Feb 2022

- International oil prices fell by 0.2% (US\$ 92/bbl) and gold prices declined by 0.4%, as US Fed is expected to hike rates faster than anticipated.

Fig 7 – Commodities

	09-02-2022	10-02-2022	% change
Brent crude (US\$/bbl)	91.6	91.4	(0.2)
Gold (US\$/ Troy Ounce)	1,833.4	1,826.9	(0.4)
Copper (US\$/ MT)	10,103.0	10,305.0	2.0
Zinc (US\$/MT)	3,643.8	3,706.8	1.7
Aluminum (US\$/MT)	2,590.0	2,590.0	0

Source: Bloomberg, Bank of Baroda Research



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