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Following the dip in US CPI, recent data shows that US PPI also cooled off in Jul'22. It fell by 0.5% in Jul'22 (est.: +0.2%) after rising by 1% in Jun'22. This is the first monthly decline since Apr'20 and has led investors to believe that inflation might have peaked in the US. It has also lent support to renewed hopes of improved oil demand. IEA has recently increased its oil demand forecast to 2.1mn bpd as it expects gas-to-oil switch in view of high gas prices. On the contrary, OPEC expects oil demand to fall to 3.1mn bpd if global inflation remains elevated. Fed is also expected to remain cautious and continue to hike rates until CPI fall in the targeted range.

- Global indices ended mixed. Investors monitored US inflation print, post CPI even the PPI print came in lower for Jul'22 confirming softening of prices. However, investors expect the Fed to continue with monetary tightening, until the inflationary pressures recede. Sensex (0.9%) ended in green led by strong gains in banking and consumer durable stocks. It is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

| | 10-08-2022 | 11-08-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 33,310 | 33,337 | 0.1 |
| S & P 500 | 4,210 | 4,207 | (0.1) |
| FTSE | 7,507 | 7,466 | (0.5) |
| Nikkei | 28,000 | 27,819 | (0.6) |
| Hang Seng | 19,611 | 20,082 | 2.4 |
| Shanghai Comp | 3,230 | 3,282 | 1.6 |
| Sensex | 58,817 | 59,333 | 0.9 |
| Nifty | 17,535 | 17,659 | 0.7 |

Source: Bloomberg, Bank of Baroda Research; Note: Markets in Japan were closed on 11.08.2022

- Barring Euro, other global currencies ended lower. DXY remained under pressure and declined by 0.1% after investors expected inflation to have peaked but remains sticky enough for Fed to continue with tightening. GBP dropped by 0.1% ahead of the UK GDP print. INR depreciated by 0.2% as oil prices surged. It opened weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

| | 10-08-2022 | 11-08-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.0299 | 1.0320 | 0.2 |
| GBP/USD | 1.2219 | 1.2205 | (0.1) |
| USD/JPY | 132.89 | 133.02 | (0.1) |
| USD/INR | 79.52 | 79.64 | (0.2) |
| USD/CNY | 6.7238 | 6.7448 | (0.3) |

Source: Bloomberg, Bank of Baroda Research



- Barring India and China (lower), other global yields closed higher. US and UK 10Y yields were up by 11bps each as investors expect Fed to continue tighten monetary policy until inflation falls close to the targeted range. US PPI print suggests that inflation might have peaked now. India's 10Y yield was down by 4bps, awaiting CPI print for Jul'22. However, it is trading higher at 7.30% today.

Fig 3 – Bond 10Y yield

| | 10-08-2022 | 11-08-2022 | change in bps |
|---------|------------|------------|---------------|
| US | 2.78 | 2.89 | 11 |
| UK | 1.95 | 2.06 | 11 |
| Germany | 0.89 | 0.97 | 8 |
| Japan | 0.17 | 0.19 | 2 |
| China | 2.75 | 2.74 | (1) |
| India | 7.31 | 7.27 | (4) |

Source: Bloomberg, Bank of Baroda Research; Note: Markets in Japan were closed on 11.08.2022

Fig 4 – Short term rates

| | 10-08-2022 | 11-08-2022 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 5.59 | 5.52 | (7) |
| Tbill-182 days | 5.94 | 5.92 | (2) |
| Tbill-364 days | 6.25 | 6.23 | (2) |
| G-Sec 2Y | 6.40 | 6.43 | 3 |
| SONIA int rate benchmark | 1.69 | 1.69 | 0 |
| US SOFR | 2.29 | 2.28 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 10-08-2022 | 11-08-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (1.4) | (1.5) | (0.1) |
| Reverse repo | 0.1 | 0.6 | 0.5 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 8-08-2022 | 10-08-2022 | change (US\$ mn/Rs cr) |
|----------------------|-----------|------------|------------------------|
| FII (US\$ mn) | 184.0 | 398.3 | 214.3 |
| Debt | (13.8) | 89.5 | 103.3 |
| Equity | 197.7 | 308.8 | 111.1 |
| 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

- Crude oil prices rose by 2.3% as softening of US CPI has boosted hopes of improved demand. Gold prices fell a tad by 0.1%, as investors analyse statements of Fed officials to predict Fed's rate hike trajectory.

Fig 7 – Commodities

| | 10-08-2022 | 11-08-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 97.4 | 99.6 | 2.3 |
| Gold (US\$/ Troy Ounce) | 1,792.4 | 1,789.7 | (0.1) |
| Copper (US\$/ MT) | 8,081.0 | 8,165.5 | 1.0 |
| Zinc (US\$/MT) | 3,706.3 | 3,782.3 | 2.1 |
| Aluminium (US\$/MT) | 2,489.5 | 2,520.5 | 1.2 |

Source: Bloomberg, Bank of Baroda Research



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