

MORNING MOCHA

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ECONOMIST
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Global markets reacted to US CPI print which came in at 8.3% for Apr'22 (est.: 8.1%), lower than previous month's 8.5%, suggesting inflation might have peaked. As a result, global yields fell and dollar retreated (thus lending support to gold). Markets are now not expecting Fed to follow a more aggressive rate hike path. On the domestic front, T-bill rates jumped sharply at the RBI auction, as investors await CPI data (due for release today) for guidance on policy direction.

- Barring US and Indian markets, other global indices ended higher. FTSE (1.4%) gained the most led by a gains in mining and energy sector owing to strong earnings report. Positive developments around Covid-19 situation in China boosted investor sentiments. On the other hand, Sensex (0.5%) ended in red and was dragged down by technology stocks. It is trading further lower today, while other Asian stocks are trading higher.

Fig 1 – Stock markets

	10-05-2022	11-05-2022	% change
Dow Jones	32,161	31,834	(1.0)
S & P 500	4,001	3,935	(1.6)
FTSE	7,243	7,348	1.4
Nikkei	26,167	26,214	0.2
Hang Seng	19,634	19,825	1.0
Shanghai Comp	3,036	3,059	0.8
Sensex	54,365	54,088	(0.5)
Nifty	16,240	16,167	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Apart from GBP and EUR, other global currencies appreciated against the dollar. DXY retreated by 0.1% after climbing to a 20-year high as US CPI print rose at a slower pace; signalling inflationary pressure may have possibly peaked. GBP fell by 0.5% amidst fears of slowdown in UK economy. INR rose by 0.1%. It is trading lower today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	10-05-2022	11-05-2022	% change
EUR/USD	1.0529	1.0513	(0.2)
GBP/USD	1.2316	1.2251	(0.5)
USD/JPY	130.45	129.97	0.4
USD/INR	77.32	77.24	0.1
USD/CNY	6.7347	6.7217	0.2

Source: Bloomberg, Bank of Baroda Research

- Except Japan (stable) and China (higher), global yields closed lower as US CPI print indicated that Fed is unlikely to shift to an even more aggressive rate hike path in the coming months. US 10Y yield retreated back from near 3% mark to



2.92%. India's 10Y yield fell the most by 9bps (7.22%) amidst expectation of announcement of OMO purchase/bond switch program in the next 2 weeks.

Fig 3 – Bond 10Y yield

	10-05-2022	11-05-2022	change in bps
US	2.99	2.92	(7)
UK	1.85	1.83	(2)
Germany	1.00	0.99	(1)
Japan	0.25	0.25	0
China	2.81	2.83	2
India	7.30	7.22	(9)

Source: Bloomberg, Bank of Baroda Research

- India's short term yields spiked sharply in RBI's auction. Cut-off for 91-day paper rose by 93bps (to 4.96%) versus last week, for 182-day it was up by 103bps (to 5.46%) and for 364-day paper it was up by up 109bps (to 5.93%).

Fig 4 – Short term rates

	10-05-2022	11-05-2022	% change
Tbill-91 days	4.69	4.87	18
Tbill-182 days	5.28	5.32	4
Tbill-364 days	5.53	5.83	30
G-Sec 2Y	6.28	6.22	(6)
SONIA int rate benchmark	0.94	0.94	0
US SOFR	0.78	0.78	0

Source: Bloomberg, Bank of Baroda Research ; Note data for mutual fund pertains to 5th and 6th May 2022

Fig 5 – Liquidity

Rs tn	10-05-2022	11-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.0)	(4.9)	0.1
Reverse repo	3.9	3.9	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	09-05-2022	10-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(338.4)	(650.6)	(312.3)
Debt	35.3	(201.3)	(236.6)
Equity	(373.7)	(449.4)	(75.7)
Mutual funds (Rs cr)	(1,037.9)	670.4	1,708.4
Debt	(2,579.8)	66.3	2,646.0
Equity	1,541.8	604.2	(937.7)

Source: Bloomberg, Bank of Baroda Research

- Crude prices jumped by 4.9% to US\$ 108/bbl as Russia's oil supply to Europe fell. Gold too rose by 0.8%, as US\$ retreated following US CPI print.

Fig 7 – Commodities

	10-05-2022	11-05-2022	% change
Brent crude (US\$/bbl)	102.5	107.5	4.9
Gold (US\$/ Troy Ounce)	1,838.3	1,852.4	0.8
Copper (US\$/ MT)	9,235.8	9,358.8	1.3
Zinc (US\$/MT)	3,608.5	3,683.5	2.1
Aluminium (US\$/MT)	2,753.5	2,778.0	0.9

Source: Bloomberg, Bank of Baroda Research



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