

## MORNING MOCHA

13 July 2022

ECONOMIST  
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Even as concerns of a global recession are spiralling, both BoK and RBNZ have raised their respective policy rates by 50bps today. While in case of New Zealand this is the 3<sup>rd</sup> 50bps hike, in case of Korea, this is the first 50bps hike (previously rates were increased by 25bps). The aggressive stance is keeping in view to tame elevated domestic inflation and is also in line with other key global central banks. In India too inflation remains sticky at 7%. Food and fuel prices remain key concerns. We expect another 25bps rate hike by RBI in its next meeting. However, prices might see some relief with international oil prices falling below US\$100/bbl.

- Barring FTSE, other global indices ended lower ahead of the key US inflation print (expected to be higher than 8.6% in May'22). Amongst other indices, Nikkei (1.8%) dropped the most followed by Shanghai Comp (1%). Investors also monitored growing concerns of global economic slowdown and fresh curbs imposed by China to curtail the spread of Covid-19. Sensex (0.9%) too ended in red led by losses in IT and metal stocks. However, it is trading higher today in line with other Asian stocks.

**Fig 1 – Stock markets**

|               | 11-07-2022 | 12-07-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones     | 31,174     | 30,981     | (0.6)    |
| S & P 500     | 3,854      | 3,819      | (0.9)    |
| FTSE          | 7,197      | 7,210      | 0.2      |
| Nikkei        | 26,812     | 26,337     | (1.8)    |
| Hang Seng     | 21,124     | 20,845     | (1.3)    |
| Shanghai Comp | 3,314      | 3,281      | (1.0)    |
| Sensex        | 54,395     | 53,887     | (0.9)    |
| Nifty         | 16,216     | 16,058     | (1.0)    |

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. Euro and GBP ended flat. Euro moved in parity with US\$, with the possibility of falling to new lows ahead of US CPI print. Germany's ZEW economic sentiment index dropped sharply (-53.8 from -28 points) raising concerns around Germany's energy supply. DXY continued to strengthen further. INR remained under pressure and depreciated by 0.2%. It is trading further lower today; other Asian currencies are trading mixed.

**Fig 2 – Currencies**

|         | 11-07-2022 | 12-07-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.0040     | 1.0037     | 0        |
| GBP/USD | 1.1892     | 1.1889     | 0        |
| USD/JPY | 137.44     | 136.87     | 0.4      |
| USD/INR | 79.44      | 79.60      | (0.2)    |
| USD/CNY | 6.7190     | 6.7249     | (0.1)    |

Source: Bloomberg, Bank of Baroda Research



- Barring Japan (flat), other global yields fell further. Germany (11bps) and UK's (10bps) 10Y yields fell the most. US 10Y yield was down by 2bps. Looming fears of aggressive rate hike by Fed and economic impact of Europe's energy crisis kept investors on the edge. India's 10Y yield fell by 3bps to 7.39%, following steep decline in international oil prices.

**Fig 3 – Bond 10Y yield**

|         | 11-07-2022 | 12-07-2022 | change in bps |
|---------|------------|------------|---------------|
| US      | 2.99       | 2.97       | (2)           |
| UK      | 2.18       | 2.08       | (10)          |
| Germany | 1.25       | 1.13       | (11)          |
| Japan   | 0.25       | 0.24       | 0             |
| China   | 2.82       | 2.81       | (1)           |
| India   | 7.43       | 7.39       | (3)           |

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

|                          | 11-07-2022 | 12-07-2022 | % change |
|--------------------------|------------|------------|----------|
| Tbill-91 days            | 5.3        | 5.2        | (12)     |
| Tbill-192 days           | 5.7        | 5.7        | (1)      |
| Tbill-364 days           | 6.1        | 6.1        | 2        |
| G-Sec 2Y                 | 6.4        | 6.4        | 2        |
| SONIA int rate benchmark | 1.2        | 1.2        | 0        |
| US SOFR                  | 1.5        | 1.5        | 0        |

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

| Rs tn                             | 11-07-2022 | 12-07-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (2.2)      | (2.4)      | (0.2)          |
| Reverse repo                      | 2.6        | 2.2        | (0.4)          |
| Repo                              | 0          | 0          | 0              |

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

|                      | 08-07-2022 | 11-07-2022 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn)        | 13.8       | 40.7       | 26.9                   |
| Debt                 | (1.3)      | (4.6)      | (3.3)                  |
| Equity               | 15.0       | 45.2       | 30.2                   |
| Mutual funds (Rs cr) | (1,437.2)  | (2,733.8)  | (1,296.7)              |
| Debt                 | (943.4)    | (1,011.9)  | (68.5)                 |
| Equity               | (493.7)    | (1,721.9)  | (1,228.2)              |

Source: Bloomberg, Bank of Baroda Research

- Crude prices declined sharply by 7% to fall below US\$100/bbl amidst fears of global growth slowdown and following the build-up seen in US inventories. Gold also dropped by 0.5% as US\$ strengthened further.

**Fig 7 – Commodities**

|                         | 11-07-2022 | 12-07-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl)  | 107.1      | 99.5       | (7.1)    |
| Gold (US\$/ Troy Ounce) | 1,734.0    | 1,726.0    | (0.5)    |
| Copper (US\$/ MT)       | 7,572.3    | 7,335.0    | (3.1)    |
| Zinc (US\$/MT)          | 3,133.0    | 3,123.5    | (0.3)    |
| Aluminium (US\$/MT)     | 2,379.5    | 2,360.0    | (0.8)    |

Source: Bloomberg, Bank of Baroda Research



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