

MORNING MOCHA

13 June 2022

ECONOMIST
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As a surprise to the markets, US CPI in May'22 rose to 8.6% (est.: 8.3%) from 8.3% in Apr'22, thus reaching the highest mark since Dec'81. While analysts have predicted inflation to have peaked, this rise now opens doors for even more aggressive rate hike by US Fed in the coming months (est: +75bps in Jul'22 versus 50bps expected earlier). Recently, ECB has also indicated to begin rate hike cycle from Jul'22. Continuously elevated inflation also signals that consumers might cut back on demand, thus lending supports to fears of global economic slowdown.

- Barring Shanghai Comp, other global indices ended in red as investor monitored policy decision by ECB and much higher than anticipated inflation print in the US. S&P 500 (2.9%) dropped the most amongst other global indices. European indices too ended lower. Following subdued global cues, Sensex (1.8%) ended in red and was pulled lower by losses in oil and gas and IT stocks. It is trading further lower today in line with other Asian indices.

Fig 1 – Stock markets

	09-06-2022	10-06-2022	% change
Dow Jones	32,273	31,393	(2.7)
S & P 500	4,018	3,901	(2.9)
FTSE	7,476	7,318	(2.1)
Nikkei	28,247	27,824	(1.5)
Hang Seng	21,869	21,806	(0.3)
Shanghai Comp	3,239	3,285	1.4
Sensex	55,320	54,303	(1.8)
Nifty	16,478	16,202	(1.7)

Source: Bloomberg, Bank of Baroda Research

- Except JPY, other global currencies closed lower. DXY rose by 0.9% (highest since-17 May 2022) tracking higher US 10Y yield and much higher than anticipated inflation print. This raises expectations of more hawkish tone by Fed in its upcoming policy (later this week). INR fell by 0.1% amidst FPI outflows. It is trading further lower today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	09-06-2022	10-06-2022	% change
EUR/USD	1.0617	1.0519	(0.9)
GBP/USD	1.2493	1.2315	(1.4)
USD/JPY	134.36	134.41	0
USD/INR	77.77	77.84	(0.1)
USD/CNY	6.6925	6.7091	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Barring China and Japan (flat), other major global yields inched up. UK (12bps) and US' (11bps) 10Y yields rose most sharply, following the release of higher than expected US CPI print. Investor sentiment was also impacted by ECB's



upward revision to its inflation forecasts and indication of imminent rate hike in Jul'22. India's 10Y yield rose by 2bps to 7.52%, following the auction results.

Fig 3 – Bond 10Y yield

	09-06-2022	10-06-2022	change in bps
US	3.04	3.16	11
UK	2.32	2.45	12
Germany	1.43	1.52	9
Japan	0.25	0.25	0
China	2.80	2.79	0
India	7.50	7.52	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	09-06-2022	10-06-2022	% change
Tbill-91 days	5.0	5.0	(1)
Tbill-192 days	5.5	5.6	3
Tbill-364 days	6.1	6.1	(2)
G-Sec 2Y	6.5	6.5	0
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	09-06-2022	10-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.2)	(3.5)	(0.3)
Reverse repo	1.0	1.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	08-06-2022	09-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(296.1)	(180.7)	115.4
Debt	13.7	(0.6)	(14.3)
Equity	(309.8)	(180.1)	129.7
Mutual funds (Rs cr)	(1,011.0)	495.3	1,506.4
Debt	(1,508.0)	(457.9)	1,050.2
Equity	497.0	953.2	456.2

Source: Bloomberg, Bank of Baroda Research; Note-Mutual Fund data pertains to 7 and 8 June 2022

- Brent crude prices fell by 0.9% to US\$ 122/bbl, following surge in US CPI print and re-imposition of partial lockdown in China. Analysts high prices to dent consumer demand. Gold prices rose by 1.3% led by fears economic slowdown.

Fig 7 – Commodities

	09-06-2022	10-06-2022	% change
Brent crude (US\$/bbl)	123.1	122.0	(0.9)
Gold (US\$/ Troy Ounce)	1,848.0	1,871.6	1.3
Copper (US\$/ MT)	9,620.1	9,447.3	(1.8)
Zinc (US\$/MT)	3,777.3	3,706.8	(1.9)
Aluminium (US\$/MT)	2,761.0	2,680.0	(2.9)

Source: Bloomberg, Bank of Baroda Research



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