

MORNING MOCHA

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ECONOMIST
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Markets cheered softer than expected inflation print from the US, which suggests that the terminal Fed rate may not be as high as expected earlier. US CPI eased to 7.1% in Nov'22, against expectations of 7.3% increase and from 7.7% in Oct'22. This marked the slowest pace of price increase since Dec'21 and was led by a drop in gasoline prices and healthcare. With this, investors' expectations of Fed's terminal rate has been scaled back to 4.8% versus 5.1% expected earlier. Even in the Eurozone, CPI inflation in Germany eased to 11.3% in Nov'22 versus 11.6% in Oct'22, suggesting moderation in pace of rate hikes going forward. Focus is now on Central Bank meetings in the US, Eurozone and UK.

- Except China, global equity indices closed higher. With a moderation in US CPI, markets anticipate a softer pace of rate hike by Fed in the near term and are pricing terminal rate just below 5% mark. FTSE rose the most, followed by S&P and Hang Seng. Sensex rose by 0.6%, led by technology stocks. It is trading further higher today in line with other Asian stocks.

Fig 1 – Stock markets

	12-12-2022	13-12-2022	% change
Dow Jones	34,005	34,109	0.3
S & P 500	3,991	4,020	0.7
FTSE	7,446	7,503	0.8
Nikkei	27,842	27,955	0.4
Hang Seng	19,464	19,596	0.7
Shanghai Comp	3,179	3,176	(0.1)
Sensex	62,131	62,533	0.6
Nifty	18,497	18,608	0.6

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies made strong gains against the dollar. DXY declined by 1.1% to a 6-month low, as US CPI rose less than expected in Nov'22. EUR edged up by 0.9% as Germany's investor sentiment index improved further in Dec'22. INR depreciated by 0.3% due to higher oil prices. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	12-12-2022	13-12-2022	% change
EUR/USD (1 EUR / USD)	1.0537	1.0633	0.9
GBP/USD (1 GBP / USD)	1.2269	1.2366	0.8
USD/JPY (JPY / 1 USD)	137.67	135.59	1.5
USD/INR (INR / 1 USD)	82.54	82.81	(0.3)
USD/CNY (CNY / 1 USD)	6.9776	6.9517	0.4

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. Lower CPI as well as core CPI print in the US in Nov'22 raised hopes of a softer rate increase by Fed, thus US 10Y yield fell the



most by 11bps. Even a softer CPI print in Germany led its 10Y yield close a tad lower by 1bps. On the other hand, UK's 10Y yield rose by 10bps as average weekly earnings data rose more than expected, adding to woes of BoE. India's 10Y yield fell by 3bps (7.27%), supported by below 6% CPI print. It is trading further lower at 7.25% today.

Fig 3 – Bond 10Y yield

	12-12-2022	13-12-2022	change in bps
US	3.61	3.50	(11)
UK	3.20	3.30	10
Germany	1.94	1.93	(1)
Japan	0.25	0.25	0
China	2.92	2.93	1
India	7.29	7.27	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-12-2022	13-12-2022	change in bps
Tbill-91 days	6.35	6.38	3
Tbill-182 days	6.72	6.73	1
Tbill-364 days	6.87	6.85	(2)
G-Sec 2Y	6.89	6.88	(1)
SONIA int rate benchmark	2.93	2.93	0
US SOFR	3.80	3.80	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-12-2022	13-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.4)	(1.4)	0
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	9-12-2022	12-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(12.6)	408.7	421.3
Debt	(0.7)	(28.8)	(28.1)
Equity	(11.9)	437.5	449.4
Mutual funds (Rs cr)	4,557.6	136.6	(4,421.0)
Debt	2,379.3	(569.2)	(2,948.5)
Equity	2,178.3	705.8	(1,472.5)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 5 Dec 2022 and 8 Dec 2022

- Crude oil prices rose by 3.4% to US\$ 81/bbl, amidst a sharp pullback in dollar. Supply concerns also remained due to the outage in a key US-Canada pipeline.

Fig 7 – Commodities

	12-12-2022	13-12-2022	% change
Brent crude (US\$/bbl)	78.0	80.7	3.4
Gold (US\$/ Troy Ounce)	1,781.4	1,810.8	1.6
Copper (US\$/ MT)	8,329.3	8,449.3	1.4
Zinc (US\$/MT)	3,300.0	3,346.3	1.4
Aluminium (US\$/MT)	2,414.0	2,461.0	1.9

Source: Bloomberg, Bank of Baroda Research



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