

MORNING MOCHA

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ECONOMIST
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Inflationary pressures continued to mount globally as evident from CPI readings of US, Germany and more recently, China. In US, CPI inflation rose by 8.2% against an estimated 8.1% increase. More importantly, core inflation quickened to a 40-year high of 6.6%. Germany's annual inflation rate at 10% in Sep'22 was the highest on record. Even in China, CPI inflation rose to a 29-month high at 2.8% in Sep'22 from 2.5% in Aug'22. PPI inflation however eased to 0.9% from 2.3% in Aug'22. In India, investors await WPI data, results of the Rs 30,000 crore bond auction and minutes of RBI's policy.

- Global indices closed mixed. Growth and inflation dilemma kept investors jittery. Despite overheating inflation data, US and European markets were supported by expectation of more pro-growth policies in UK. Dow Jones rose by 2.8%, followed by FTSE (up 0.4%). In Asia, Hang Seng fell by 1.9%, dragged down by technology stocks. Sensex ended lower by 0.7% led by banking stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	12-10-2022	13-10-2022	% change
Dow Jones	29,211	30,039	2.8
S & P 500	3,577	3,670	2.6
FTSE	6,826	6,850	0.4
Nikkei	26,397	26,237	(0.6)
Hang Seng	16,701	16,389	(1.9)
Shanghai Comp	3,026	3,016	(0.3)
Sensex	57,626	57,235	(0.7)
Nifty	17,124	17,014	(0.6)

Source: Bloomberg, Bank of Baroda Research

- Except JPY (higher) and INR (flat), other global currencies made gains against the dollar. After rising for 6-straight sessions, DXY fell by 0.8% even as US CPI was higher than expected. GBP gained sharply by 2% on reports that the UK government may announce policies to boost growth. EUR gained 0.8% as Germany's inflation rate was confirmed at a record 10% YoY in Sep'22. INR remained range bound. It is trading a tad stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	12-10-2022	13-10-2022	% change
EUR/USD	0.9703	0.9776	0.8
GBP/USD	1.1100	1.1326	2.0
USD/JPY	146.91	147.12	(0.1)
USD/INR	82.31	82.35	0
USD/CNY	7.1748	7.1695	0.1

Source: Bloomberg, Bank of Baroda Research



- Except US (higher) and China (flat), global yields closed lower. US 10Y yield rose by 5bps after US CPI report. Core inflation rose to its highest in past 40 years. CME Fed watch data is now pricing in 98% probability (~75% earlier) for 75bps rate hike by Fed. UK's 10Y yield fell by 24bps as its Finance Minister said that more growth centric policies might be forthcoming to support the economy. India's 10Y yield fell a tad by 1bps (7.42%) and is trading higher at 7.44% today.

Fig 3 – Bond 10Y yield

	12-10-2022	13-10-2022	change in bps
US	3.90	3.94	5
UK	4.44	4.20	(24)
Germany	2.31	2.29	(3)
Japan	0.26	0.25	(1)
China	2.73	2.73	0
India	7.44	7.42	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-10-2022	13-10-2022	change in bps
Tbill-91 days	6.30	6.30	0
Tbill-182 days	6.70	6.70	0
Tbill-364 days	6.98	6.97	(1)
G-Sec 2Y	7.18	7.18	0
SONIA int rate benchmark	2.19	2.19	0
US SOFR	3.05	3.04	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-10-2022	13-10-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.1	0.0	(0.1)
Reverse repo	0.6	0.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-10-2022	12-10-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(395.3)	(29.6)	365.7
Debt	61.2	13.8	(47.3)
Equity	(456.5)	(43.4)	413.1
Mutual funds (Rs cr)	1,867.3	(576.9)	(2,444.1)
Debt	(448.5)	484.9	933.4
Equity	2,315.8	(1,061.8)	(3,377.6)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 30 Sep 2022 and 3 Oct 2022

- International oil prices rose by 2.3% as distillate stockpiles, which include diesel fell to its lowest since May'22, raising concerns ahead of winter.

Fig 7 – Commodities

	12-10-2022	13-10-2022	% change
Brent crude (US\$/bbl)	92.5	94.6	2.3
Gold (US\$/ Troy Ounce)	1,673.2	1,666.4	(0.4)
Copper (US\$/ MT)	7,636.0	7,665.5	0.4
Zinc (US\$/MT)	2,939.8	2,952.3	0.4
Aluminium (US\$/MT)	2,305.0	2,359.5	2.4

Source: Bloomberg, Bank of Baroda Research



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