

MORNING MOCHA

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ECONOMIST
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US CPI data inched up by 0.1% in Aug'22 against est. 0.1% decline, on MoM basis. CPI excluding food and energy rose even sharply by 0.6%. The major contributors were shelter and medical care expenses. CME Fed watch tool is now pricing in 100bps rate hike with 36% probability which was not expected earlier. The gap between US 10Y and 2Y paper also widened, signalling recession. Germany's Zew expectation survey results also reflected disappointment. Elsewhere, in Japan, policymakers reiterated that 'necessary action' is required wrt yen movement in the wake of policy divergence. On domestic front, WPI data is awaited.

- Global stocks ended mixed. While Asian stocks were mostly higher, stocks elsewhere declined. US stocks saw a sharp selloff after inflation rose more than expected in Aug'22. S&P 500 fell the most by 4.3%, followed by Dow which fell by 3.9%. FTSE too fell by 1.2% as UK's employment report was weaker than expected. Sensex rose by 0.8% led by gains in metal and capital goods stocks. Sensex, along with other Asian markets is trading in deep red today.

Fig 1 – Stock markets

	12-09-2022	13-09-2022	% change
Dow Jones	32,381	31,105	(3.9)
S & P 500	4,110	3,933	(4.3)
FTSE	7,473	7,386	(1.2)
Nikkei	28,542	28,615	0.3
Hang Seng	19,362	19,327	(0.2)
Shanghai Comp	3,262	3,264	0.1
Sensex	60,115	60,571	0.8
Nifty	17,936	18,070	0.7

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies fell. Higher than expected US inflation print reignited hopes of aggressive Fed tightening. As a result, DXY surged by 1.4%, registering its biggest single day gain since Mar'20. EUR fell by 1.5% as Germany's economic sentiment index slipped in Sep'22. INR on the other hand appreciated by 0.5% to a ~1-month high supported by lower oil prices. However it is trading weaker today; in line with other Asian currencies.

Fig 2 – Currencies

	12-09-2022	13-09-2022	% change
EUR/USD	1.0122	0.9970	(1.5)
GBP/USD	1.1683	1.1493	(1.6)
USD/JPY	142.84	144.58	(1.2)
USD/INR	79.53	79.15	0.5
USD/CNY	6.9265	6.9305	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except Japan and India (lower), global yields closed higher. UK's 10Y yield rose at the sharpest pace by 9bps, followed by Germany (+8bps) and US (+5bps). The sell-off in the bond market was on account of overheated inflation print in the US, which calls for aggressive pace of rate hike delivery. US 2Y yield is at its highest since 1 Nov 2007. India's 10Y yield fell by 6bps (7.08%), amidst expectation of inclusion in the Global Bond Index. It is trading higher at 7.12% today, ahead of WPI data.

Fig 3 – Bond 10Y yield

	12-09-2022	13-09-2022	change in bps
US	3.36	3.41	5
UK	3.08	3.17	9
Germany	1.65	1.73	8
Japan	0.25	0.25	(1)
China	2.64	2.65	1
India	7.14	7.08	(6)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	12-09-2022	13-09-2022	change in bps
Tbill-91 days	5.65	5.64	(1)
Tbill-182 days	6.06	6.07	1
Tbill-364 days	6.34	6.33	(1)
G-Sec 2Y	6.61	6.61	0
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.28	2.28	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	12-09-2022	13-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(0.5)	0.1
Reverse repo	0.8	0.8	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	09-09-2022	12-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	291.8	176.8	(115.0)
Debt	6.1	(36.2)	(42.2)
Equity	285.7	212.9	(72.8)
Mutual funds (Rs cr)	152.6	928.3	775.7
Debt	(107.6)	446.3	553.9
Equity	260.2	482.1	221.9

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 7th and 8th Sep 2022

- Crude oil prices fell by 0.9% to US\$ 93/bbl as demand outlook remains blurred.

Fig 7 – Commodities

	12-09-2022	13-09-2022	% change
Brent crude (US\$/bbl)	94.0	93.2	(0.9)
Gold (US\$/ Troy Ounce)	1,724.5	1,702.2	(1.3)
Copper (US\$/ MT)	8,079.5	7,994.3	(1.1)
Zinc (US\$/MT)	3,209.8	3,250.0	1.3
Aluminium (US\$/MT)	2,283.0	2,313.0	1.3

Source: Bloomberg, Bank of Baroda Research



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