

MORNING MOCHA

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ECONOMIST
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Recent data from the US (PPI, jobless claims) indicates that while prices remain elevated, labour market is signalling slowdown. US PPI rose by 11.3% in Jun'22 (est.:10.7%) from 10.8% in May'22. On MoM basis too it rose (1.1%) more than expected (0.8%). On the other hand, jobless claims for the week ending 9 Jul 2022 rose to 244k (highest since Nov'21) from 235k in the previous week. Even China is showing signs of weak growth with GDP in Q2CY22 rising by only 0.4% versus est.: 1.2% and 4.8% in Q1. This is mainly the impact of stringent lockdown imposed to curb the spread of Covid-19 in early Q2. However, industrial production in Jun'22 showed signs of improvement (3.9%) compared with May'22 (0.7%). Even retail sales improved in Jun'22 (3.1%) versus May'22 (-6.7%).

- Barring Nikkei, other global indices closed lower as investors assess the risk of global recession and aggressive rate hike by Fed. Hang Seng (0.2%) ended in red after Singapore tightened its monetary policy in an off cycle move. Sensex (0.2%) too dropped lower, led by technology and metal stocks. However, it is trading higher today, while other Asian stock are trading lower.

Fig 1 – Stock markets

	13-07-2022	14-07-2022	% change
Dow Jones	30,773	30,630	(0.5)
S & P 500	3,802	3,790	(0.3)
FTSE	7,156	7,040	(1.6)
Nikkei	26,479	26,643	0.6
Hang Seng	20,798	20,751	(0.2)
Shanghai Comp	3,284	3,282	(0.1)
Sensex	53,514	53,416	(0.2)
Nifty	15,967	15,939	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended lower. DXY strengthened further (0.5%) as the demand for safe haven rose again amidst fears of global economic downturn. Euro slipped as EC revised its forecast downwards for growth and upwards for inflation. INR depreciated further to 79.88/US\$, closing in on the 80/US\$ mark. It is trading further lower today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	13-07-2022	14-07-2022	% change
EUR/USD	1.0059	1.0018	(0.4)
GBP/USD	1.1889	1.1824	(0.5)
USD/JPY	137.39	138.96	(1.1)
USD/INR	79.64	79.88	(0.3)
USD/CNY	6.7187	6.7561	(0.6)

Source: Bloomberg, Bank of Baroda Research



- Barring China (lower), other global yields inched up. 10Y yield of UK rose by 4bps, while that of US and Germany rose by 3bps each. Following elevated prices in the US, Fed is likely to raise rates by another 75-100bps later this month, thus raising fears of global growth slowdown. India's 10Y yield rose by 5bps to 7.38%, as fears of domestic monetary policy tightening increased.

Fig 3 – Bond 10Y yield

	13-07-2022	14-07-2022	change in bps
US	2.93	2.96	3
UK	2.06	2.10	4
Germany	1.15	1.18	3
Japan	0.23	0.24	1
China	2.81	2.79	(2)
India	7.34	7.38	5

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	13-07-2022	14-07-2022	% change
Tbill-91 days	5.2	5.2	(5)
Tbill-192 days	5.7	5.7	1
Tbill-364 days	6.1	6.2	2
G-Sec 2Y	6.4	6.4	2
SONIA int rate benchmark	1.2	1.2	0
US SOFR	1.5	1.5	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	13-07-2022	14-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.6)	(2.5)	0.1
Reverse repo	2.6	2.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	11-07-2022	12-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(173.1)	(410.7)	(237.6)
Debt	9.9	(69.2)	(79.1)
Equity	(183.0)	(341.5)	(158.5)
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 fell further as US Fed is likely to take an even more aggressive stance on the quantum of rate hike later this month. Gold also fell by 1.5% as US\$ strengthened.

Fig 7 – Commodities

	13-07-2022	14-07-2022	% change
Brent crude (US\$/bbl)	99.6	99.1	(0.5)
Gold (US\$/ Troy Ounce)	1,735.5	1,709.9	(1.5)
Copper (US\$/ MT)	7,310.5	7,160.0	(2.1)
Zinc (US\$/MT)	3,039.0	2,951.5	(2.9)
Aluminium (US\$/MT)	2,355.5	2,336.5	(0.8)

Source: Bloomberg, Bank of Baroda Research



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