

MORNING MOCHA

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ECONOMIST
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Construction of US housing starts dropped to its lowest level since Feb'21 to 1.44mn units in Jul'22 from 1.55mn units in Jun'22, signalling the impact of the soaring mortgage rates. However, US industrial output surprised positively with manufacturing output rebounding by 0.7% in Jul'22 (0.4% in Jun'22). Capacity utilization also rebounded to 80.3% in Jul'22. On the other hand, China's subdued data print kept global investors on the edge with yuan weakening after surprise rate cut by PBOC. As a result, global demand took a hit with oil prices plummeting by 2.9%. Going ahead, investors will closely monitor US retail sales data print (scheduled on Friday) and Fed minutes scheduled later today.

- Except Hang Seng, other global indices ended higher. Dow Jones gained by 0.7% on the back of strong corporate earnings report. Also investors remained optimistic about Fed achieving a soft landing for the economy even as it continues to tighten rates. Sensex (0.6%) too ended in green led by strong gains in auto and real estate stocks. It is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	15-08-2022	16-08-2022	% change
Dow Jones	33,912	34,152	0.7
S & P 500	4,297	4,305	0.2
FTSE	7,509	7,536	0.4
Nikkei	28,872	28,869	0
Hang Seng	20,041	19,831	(1.0)
Shanghai Comp	3,276	3,278	0.1
Sensex	59,463	59,842	0.6
Nifty	17,698	17,825	0.7

Source: Bloomberg, Bank of Baroda Research; Note: Markets in Japan were closed on 11.08.2022

- Global currencies ended mixed. DXY remained steady ahead of the key data releases including US retail sales and Fed minutes. Euro gained by 0.1% after falling previously on the back of subdued data print from Germany (investor sentiment). Yuan dropped by 0.2% after PBOC surprised with a rate cut. INR ended flat. It opened weaker today tracking lower oil prices. Other Asian currencies are trading mixed.

Fig 2 – Currencies

	15-08-2022	16-08-2022	% change
EUR/USD	1.0160	1.0171	0.1
GBP/USD	1.2055	1.2096	0.3
USD/JPY	133.32	134.22	(0.7)
USD/INR	79.64	79.66	0
USD/CNY	6.7735	6.7882	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Barring Japan and China (lower), other global yields closed higher. Concerns over global growth outlook pushed 10 Y yields higher. UK and Germany 10Y yields were up by 11bps and 7bps respectively. US 10Y yields also edged higher ahead of the Fed minutes. India's 10Y yield was up by 2bps. However, it is trading lower today.

Fig 3 – Bond 10Y yield

	15-08-2022	16-08-2022	change in bps
US	2.79	2.80	2
UK	2.02	2.13	11
Germany	0.90	0.97	7
Japan	0.19	0.17	(2)
China	2.67	2.64	(3)
India	7.27	7.29	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	11-08-2022	12-08-2022	change in bps
Tbill-91 days	5.52	5.55	3
Tbill-182 days	5.92	5.93	1
Tbill-364 days	6.23	6.22	(1)
G-Sec 2Y	6.40	6.43	3
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	11-08-2022	12-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.5)	(0.7)	0.8
Reverse repo	0.6	0.5	(0.1)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	10-08-2022	11-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	398.3	302.8	(95.5)
Debt	89.5	19.9	(69.7)
Equity	308.8	282.9	(25.9)
Mutual funds (Rs cr)	3,513.3	1,017.8	(2,495.5)
Debt	2,873.7	904.3	(1,969.4)
Equity	639.7	113.5	(526.2)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 2nd and 3rd Aug 2022

- Crude oil prices declined by 2.9% led by concerns over global economic slowdown denting global demand. Gold prices fell by 0.2% as investors awaited the release of Fed minutes.

Fig 7 – Commodities

	15-08-2022	16-08-2022	% change
Brent crude (US\$/bbl)	95.1	92.3	(2.9)
Gold (US\$/ Troy Ounce)	1,779.7	1,775.7	(0.2)
Copper (US\$/ MT)	7,972.0	7,975.0	0
Zinc (US\$/MT)	3,643.5	3,755.0	3.1
Aluminium (US\$/MT)	2,390.0	2,392.0	0.1

Source: Bloomberg, Bank of Baroda Research



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