

## MORNING MOCHA

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Investors monitored US Fed minutes which signalled that Fed will continue to tighten monetary policy in order to rein in inflation. However, the pace of rate hike will be less aggressive than was initially anticipated. Analyst have now factored a much higher probability of 50bps rate hike in Sep meeting than the 75bps hike, as expected earlier. UK's inflation print soared to 40-year high, raising bets of more rate hikes by BoE. Global treasury yields rose as a result. On currency front, DXY firmed up again. INR strengthened as oil prices gained.

- Global indices ended mixed as investors monitored the Fed minutes which highlighted, Fed remains committed to raising rates, the pace might be less aggressive than was anticipated. FTSE dropped by 0.3% after UK inflation climbed much higher than expected (10.1% in Jul'22 from 9.4% in Jun'22). On the other hand, Sensex (0.7%) ended in green led by strong gains in consumer durable and technology stocks. However, it is trading lower today in line with other Asian stocks.

**Fig 1 – Stock markets**

	16-08-2022	17-08-2022	% change
Dow Jones	34,152	33,980	(0.5)
S & P 500	4,305	4,274	(0.7)
FTSE	7,536	7,516	(0.3)
Nikkei	28,869	29,223	1.2
Hang Seng	19,831	19,922	0.5
Shanghai Comp	3,278	3,293	0.4
Sensex	59,842	60,260	0.7
Nifty	17,825	17,944	0.7

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY firmed up again and rose by 0.1%. Fed minutes was interpreted as slightly dovish by some analyst with slower pace of rate hike. GBP dropped by 0.4% and remained under pressure due to double digit inflation print. INR appreciated by 0.3% as oil prices urged. It opened weaker today while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

	16-08-2022	17-08-2022	% change
EUR/USD	1.0171	1.0180	0.1
GBP/USD	1.2096	1.2048	(0.4)
USD/JPY	134.22	135.05	(0.6)
USD/INR	79.66	79.45	0.3
USD/CNY	6.7882	6.7811	0.1

Source: Bloomberg, Bank of Baroda Research



- Barring India (lower), other global yields closed higher as concerns over global economic slowdown impacted investors. US 10Y yields gained by 9bps. UK's 10Y yields climbed up by 16bps led double digit inflation print (highest since 1982) and fuelling bets of aggressive rate hike by BoE. India's 10Y yields slipped by 10bps led by global cues and drop in oil prices during the day (touching US\$91.5/bbl mark), before surging back. However, it is trading higher today.

**Fig 3 – Bond 10Y yield**

	16-08-2022	17-08-2022	change in bps
US	2.80	2.90	9
UK	2.13	2.29	16
Germany	0.97	1.08	11
Japan	0.17	0.19	2
China	2.64	2.64	0
India	7.29	7.19	(10)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	16-08-2022	17-08-2022	change in bps
Tbill-91 days	5.52	5.55	3
Tbill-182 days	5.92	5.90	(2)
Tbill-364 days	6.23	6.19	(4)
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	16-08-2022	17-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.3)	(1.0)	0.3
Reverse repo	0.7	0.7	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	11-08-2022	12-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	302.8	1,767.5	1,464.7
Debt	19.9	(22.1)	(42.0)
Equity	282.9	1,789.6	1,506.7
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 2<sup>nd</sup> and 3<sup>rd</sup> Aug 2022

- Crude oil prices gained by 1.4% as steeper drawdown in US crude outweighed worries over Russian output. Gold prices fell by 0.8% as DXY strengthened.

**Fig 7 – Commodities**

	15-08-2022	16-08-2022	% change
Brent crude (US\$/bbl)	92.3	93.7	1.4
Gold (US\$/ Troy Ounce)	1,775.7	1,761.8	(0.8)
Copper (US\$/ MT)	7,975.0	7,925.3	(0.6)
Zinc (US\$/MT)	3,755.0	3,578.5	(4.7)
Aluminium (US\$/MT)	2,392.0	2,411.0	0.8

Source: Bloomberg, Bank of Baroda Research



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