

MORNING MOCHA

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ECONOMIST
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Global markets reacted to macro prints (US retail sales and industrial production) and US Fed Chair Powell's speech. Analysts are expecting Fed to hike rates aggressively as consumer demand remains buoyant (retails sales up by 0.9% in Apr'22). Manufacturing output too rose by 0.8% in Apr'22 (est.: 0.4%) showing robust economic activity. Separately, fears of tight oil supply eased as EU's decision to ban Russian oil imports has reached an impasse with Hungary exercising its veto.

- Global indices ended higher, led by strong data from US (higher than expected improvement in retail sales, industrial output), thereby mitigating fears of recession. Amongst other indices, Hang Seng (3.3%) surged the most. Sensex (2.5%) too climbed higher led by strong gains in metal and oil and gas stocks. It is trading further higher today; while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	16-05-2022	17-05-2022	% change
Dow Jones	32,223	32,655	1.3
S & P 500	4,008	4,089	2.0
FTSE	7,465	7,518	0.7
Nikkei	26,547	26,660	0.4
Hang Seng	19,950	20,603	3.3
Shanghai Comp	3,074	3,094	0.6
Sensex	52,974	54,318	2.5
Nifty	15,842	16,259	2.6

Source: Bloomberg, Bank of Baroda Research

- Barring JPY and INR, other global currencies ended higher. DXY continues to crack against its major peer, falling by 0.8% as demand for safe-haven diminished. Improvement in US retail sales and easing of Covid-19 restrictions in China, boosted investor sentiments. INR depreciated by 0.2%. It is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	16-05-2022	17-05-2022	% change
EUR/USD	1.0434	1.0550	1.1
GBP/USD	1.2319	1.2493	1.4
USD/JPY	129.16	129.38	(0.2)
USD/INR	77.45	77.56	(0.2)
USD/CNY	6.7861	6.7377	0.7

Source: Bloomberg, Bank of Baroda Research

- Except Japan and China (stable), global yields closed sharply higher, as US retail sales print indicated that consumer demand remains strong despite inflationary pressures. US Fed is thus likely to adopt a more aggressive rate hike path. US 10Y yield rose by 10bps to 2.99%, while UK and Germany's



yields rose by 15bps and 11bps, respectively. India's 10Y yield too increased by 5bps to 7.37%.

Fig 3 – Bond 10Y yield

	16-05-2022	17-05-2022	change in bps
US	2.88	2.99	10
UK	1.73	1.88	15
Germany	0.94	1.05	11
Japan	0.25	0.25	0
China	2.82	2.82	0
India	7.32	7.37	5

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	13-05-2022	17-05-2022	% change
Tbill-91 days	4.9	4.9	(1)
Tbill-182 days	5.4	5.4	6
Tbill-364 days	5.8	5.8	(4)
G-Sec 2Y	6.3	6.3	7
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-05-2022	17-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(4.9)	(5.3)	(0.4)
Reverse repo	3.9	3.4	(0.5)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	12-05-2022	13-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(663.8)	(727.2)	(63.4)
Debt	(43.9)	(272.8)	(228.9)
Equity	(619.9)	(454.4)	165.5
Mutual funds (Rs cr)	2,442.1	(77.6)	(2,519.7)
Debt	(659.2)	(614.4)	44.8
Equity	3,101.3	536.8	(2,564.5)

Source: Bloomberg, Bank of Baroda Research

- Crude prices eased by 2% to US\$ 112/bbl as disagreements emerged within EU on the decision to ban Russian oil imports. Gold too fell by 0.5%, as strong US retail sales data fuelled expectation of aggressive rate hike.

Fig 7 – Commodities

	16-05-2022	17-05-2022	% change
Brent crude (US\$/bbl)	114.2	111.9	(2.0)
Gold (US\$/ Troy Ounce)	1,824.1	1,815.2	(0.5)
Copper (US\$/ MT)	9,255.5	9,386.3	1.4
Zinc (US\$/MT)	3,564.5	3,665.3	2.8
Aluminium (US\$/MT)	2,832.0	2,890.5	2.1

Source: Bloomberg, Bank of Baroda Research



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