

MORNING MOCHA

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ECONOMIST

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UK Government's reversal of previous fiscal policy measures and early signs of markets bottoming out, cheered investors and pushed the indices in green. Dollar index softened and lifted gold prices. Oil prices oscillated through the day and remained unchanged on the back of dip in dollar index and China's loose monetary policy. RBA in its minutes highlighted the risk of rate hike is 'finely balanced' and more hikes are likely. Markets will track the following data prints scheduled to be released today, Germany ZEW index and US industrial production.

- Apart from Nikkei, other global indices started the week on optimistic note with indices trading in green with the beginning of the corporate earnings season. UK Government U-turn further brightened prospects for investors. Sensex continued to climb higher (0.8%) led by gains in power and banking stocks. It is trading further higher today taking cues from other Asian stocks.

Fig 1 – Stock markets

	14-10-2022	17-10-2022	% change
Dow Jones	29,635	30,186	1.9
S & P 500	3,583	3,678	2.6
FTSE	6,859	6,920	0.9
Nikkei	27,091	26,776	(1.2)
Hang Seng	16,588	16,613	0.2
Shanghai Comp	3,072	3,085	0.4
Sensex	57,920	58,411	0.8
Nifty	17,186	17,312	0.7

Source: Bloomberg, Bank of Baroda Research

- Except Asian currencies, other currencies closed higher. GBP (+1.7%) and EUR (+1.2%) recorded the most gains. DXY fell by 1.1%. Fiscal U-turn in the UK supported European currencies and pushed the US dollar lower. INR closed flat, while JPY and CNY fell against the dollar. INR is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	14-10-2022	17-10-2022	% change
EUR/USD	0.9722	0.9841	1.2
GBP/USD	1.1172	1.1358	1.7
USD/JPY	148.67	149.04	(0.2)
USD/INR	82.34	82.36	0
USD/CNY	7.1925	7.1965	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Led by UK government's reversal of most of its fiscal policies announced in the "mini budget", 10Y yields in UK fell sharply by 36bps. Even yields in Germany (8bps) and US (1bps) eased. Further, investor sentiment was also supported by President Biden's indication to release more oil from SPR to curtail rising oil



prices, which will help support global inflation. Following global cues and steady oil prices, India's 10Y yield too fell by 8bps. It is trading further lower at 7.38% today.

Fig 3 – Bond 10Y yield

	14-10-2022	17-10-2022	change in bps
US	4.02	4.01	(1)
UK	4.34	3.98	(36)
Germany	2.35	2.27	(8)
Japan	0.25	0.26	0
China	2.70	2.70	0
India	7.47	7.41	(6)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	14-10-2022	17-10-2022	change in bps
Tbill-91 days	6.22	6.24	2
Tbill-182 days	6.62	6.60	(2)
Tbill-364 days	6.98	6.93	(5)
G-Sec 2Y	7.22	7.03	(19)
SONIA int rate benchmark	2.19	2.18	0
US SOFR	3.04	3.04	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	14-10-2022	17-10-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.0	(0.1)	(0.1)
Reverse repo	0.6	0.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	13-10-2022	14-10-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(137.9)	(137.0)	0.9
Debt	(3.6)	(74.4)	(70.9)
Equity	(134.3)	(62.6)	71.7
Mutual funds (Rs cr)	1,867.3	(576.9)	(2,444.1)
Debt	(448.5)	484.9	933.4
Equity	2,315.8	(1,061.8)	(3,377.6)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 30 Sep 2022 and 3 Oct 2022

- International oil prices remained steady and was provided support by weaker dollar. Furthermore, China's loose monetary policy has also given support to oil prices.

Fig 7 – Commodities

	14-10-2022	17-10-2022	% change
Brent crude (US\$/bbl)	91.6	91.6	0
Gold (US\$/ Troy Ounce)	1,644.5	1,650.1	0.3
Copper (US\$/ MT)	7,652.8	7,642.5	(0.1)
Zinc (US\$/MT)	2,980.5	2,889.0	(3.1)
Aluminium (US\$/MT)	2,306.0	2,229.0	(3.3)

Source: Bloomberg, Bank of Baroda Research



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