

MORNING MOCHA

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ECONOMIST
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INR continued to hit fresh record low and just shy of the US\$ 80/bbl mark. Though in its intra-day trading it touched the 80-mark. Persistent FII outflows, burgeoning CAD and volatility in oil prices contribute onwards the same. This is expected to keep domestic markets on edge. Elsewhere on global economy, Australia's central bank minutes highlighted that policy rate is below neutral rate, hence signalling more rate hikes in future. The current week will be dominated by policy decision of ECB, where rate hike of 25bps is expected and BoJ's whose policy is going to be ultra-accommodative.

- Barring US, other global stocks ended higher led by improvement in risk-sentiment. Investors monitored earnings results and also awaited policy decisions of ECB (this week) and Fed (next week). Hang Seng rose the most by 2.7%, followed by Shanghai Comp (up by 1.6%). Sensex too gained by 1.4%, supported by global cues. Technology and metal stocks rose the most. However it is trading lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	15-07-2022	18-07-2022	% change
Dow Jones	31,288	31,073	(0.7)
S & P 500	3,863	3,831	(0.8)
FTSE	7,159	7,223	0.9
Nikkei	26,643	26,788	0.5
Hang Seng	20,298	20,846	2.7
Shanghai Comp	3,228	3,278	1.6
Sensex	53,761	54,521	1.4
Nifty	16,049	16,279	1.4

Source: Bloomberg, Bank of Baroda Research

- Except INR (lower), other global currencies edged higher. DXY fell by 0.6% as investors reassessed the path of Fed rate hikes. GBP gained the most by 0.8%, despite political uncertainty. EUR too rose by 0.6%. INR depreciated to a fresh record-low of 79.98/\$, just shy of the 80/\$ mark. However it is trading at 79.95/\$ today. Asian currencies are also trading higher.

Fig 2 – Currencies

	15-07-2022	18-07-2022	% change
EUR/USD	1.0080	1.0143	0.6
GBP/USD	1.1855	1.1953	0.8
USD/JPY	138.57	138.14	0.3
USD/INR	79.88	79.98	(0.1)
USD/CNY	6.7572	6.7432	0.2

Source: Bloomberg, Bank of Baroda Research

- Except Japan China and India (stable), global yields closed higher. Market is pricing in 75bps rate hike by Fed in the next policy as visible in Fed official



Christopher Waller's comments. Even the US inflation expectation data of University of Michigan showed some moderation for 5-year ahead. These provided some comfort on the growth front. Hence risk appetite for other asset class increased for the current trading session. India's 10Y yield is trading at 7.46%, slightly higher than its previous close of 7.44%.

Fig 3 – Bond 10Y yield

	15-07-2022	18-07-2022	change in bps
US	2.92	2.99	7
UK	2.09	2.16	7
Germany	1.13	1.22	8
Japan	0.24	0.24	0
China	2.79	2.79	0
India	7.44	7.44	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	15-07-2022	18-07-2022	change in bps
Tbill-91 days	5.2	5.2	(4)
Tbill-182 days	5.7	5.8	5
Tbill-364 days	6.2	6.2	(1)
G-Sec 2Y	6.4	6.4	0
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	15-07-2022	18-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.8)	(1.7)	0.1
Reverse repo	0.3	2.1	1.8
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	14-07-2022	15-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(65.9)	(206.1)	(140.2)
Debt	(111.4)	(1.5)	109.9
Equity	45.5	(204.6)	(250.1)
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, Mutual fund data as of 1st and 2nd Jul 2022

- Crude prices rose by 5.1% to US\$ 106/bbl amidst comments from Iraq's energy minister that higher oil prices are likely to stay. Gold prices rose by 0.1% as DXY fell.

Fig 7 – Commodities

	15-07-2022	18-07-2022	% change
Brent crude (US\$/bbl)	101.2	106.3	5.1
Gold (US\$/ Troy Ounce)	1,708.2	1,709.2	0.1
Copper (US\$/ MT)	7,178.3	7,411.0	3.2
Zinc (US\$/MT)	2,978.8	3,091.5	3.8
Aluminium (US\$/MT)	2,343.0	2,426.5	3.6

Source: Bloomberg, Bank of Baroda Research



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