

## MORNING MOCHA

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ECONOMIST  
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Global markets tumbled as elevated global inflation prints (most recently UK) raised fears that it will impact consumer demand and growth (US housing starts fell in Apr'22). It is also expected that Central Banks will opt for faster than anticipated rate hikes. Inflation in UK surged to 9% in Apr'22, while core CPI rose to 6.2%. On the domestic front, RBI's minutes indicate that an immediate rate hike (instead of waiting till Jun'22) was required to avoid any larger rate hikes and to anchor inflation expectation. Future course of rates will depend upon inflation trajectory.

- Except Nikkei and Hang Seng (higher), global equities ended lower. Investors were concerned about the 40-year high inflation print in UK in Apr'22. Also, Fed Chair's comments on rate hike and keeping it above neutral rate, impacted market sentiments. S&P 500 fell the most by 4% followed by Dow Jones (-3.6%). Sensex fell by 0.2% led by losses in real estate and oil and gas stocks. It is trading further lower today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	17-05-2022	18-05-2022	% change
Dow Jones	32,655	31,490	(3.6)
S & P 500	4,089	3,924	(4.0)
FTSE	7,518	7,438	(1.1)
Nikkei	26,660	26,911	0.9
Hang Seng	20,603	20,644	0.2
Shanghai Comp	3,094	3,086	(0.2)
Sensex	54,318	54,209	(0.2)
Nifty	16,259	16,240	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Barring JPY and INR, other global currencies ended lower. DXY rose by 0.4% as Fed Chair hinted at aggressive rate hikes to tame inflation. In addition, continued Covid-19 restrictions in China and fresh cases emerging in port cities near Beijing, also contributed to safe-haven demand. INR closed flat.

**Fig 2 – Currencies**

	17-05-2022	18-05-2022	% change
EUR/USD	1.0550	1.0464	(0.8)
GBP/USD	1.2493	1.2341	(1.2)
USD/JPY	129.38	128.23	0.9
USD/INR	77.56	77.58	0
USD/CNY	6.7377	6.7542	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except Japan (stable), global yields closed lower as growth concerns remained elevated. US 10Y yield fell the most by 10bps, as housing starts data fell in Apr'22. UK, Germany and China's 10Y yield fell by 2bps each. India's 10Y yield closed a tad lower by 1bps (7.35%) awaiting cues from analysing RBI's minutes



for the off cycle May policy. It is trading lower at 7.33% today, supported by government's switch announcement of Rs 160bn.

**Fig 3 – Bond 10Y yield**

	17-05-2022	18-05-2022	change in bps
US	2.99	2.88	(10)
UK	1.88	1.87	(2)
Germany	1.05	1.03	(2)
Japan	0.25	0.25	0
China	2.82	2.80	(2)
India	7.37	7.35	(1)

Source: Bloomberg, Bank of Baroda Research

- India's short term yields rose across the board with 182-days T-Bill rising the most by 7bps. However, yesterday's auction results showed that cut off yield moderated slightly (91-days:-4bps, 182-days: -3bps and 364-days: flat).

**Fig 4 – Short term rates**

	16-05-2022	18-05-2022	% change
Tbill-91 days	4.9	4.9	1
Tbill-182 days	5.4	5.4	7
Tbill-364 days	5.8	5.9	6
G-Sec 2Y	6.3	6.4	8
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	17-05-2022	18-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.3)	(5.0)	0.3
Reverse repo	3.4	3.7	0.3
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	13-05-2022	17-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(727.2)	(202.8)	524.5
Debt	(272.8)	11.3	284.1
Equity	(454.4)	(214.1)	240.3
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; Note-mutual fund data pertains to 12 and 13 May 2022

- Crude prices fell by 2.5% to US\$ 109/bbl as government data showed that US has ramped up output. Gold rose marginally by 0.1%, despite strong US\$.

**Fig 7 – Commodities**

	17-05-2022	18-05-2022	% change
Brent crude (US\$/bbl)	111.9	109.1	(2.5)
Gold (US\$/ Troy Ounce)	1,815.2	1,816.6	0.1
Copper (US\$/ MT)	9,386.3	9,250.1	(1.5)
Zinc (US\$/MT)	3,665.3	3,629.0	(1.0)
Aluminium (US\$/MT)	2,890.5	2,857.5	(1.1)

Source: Bloomberg, Bank of Baroda Research



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