

MORNING MOCHA

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Sell off in the global currency and bond market was seen ahead of Fed's policy decision, where a 75bps rate hike is expected. However, as underlying macro indicators in the US remained benign, market is expecting a pivot from Fed on policy front. Elsewhere in the Eurozone, inflation hit a record new high for the 12th consecutive month, inching up to 10.7% (est.: 10.2%) in Oct'22 from 9.9% in Sep'22. Reserve Bank of Australia went for another rate hike of 25bps and hinted at more rate hikes in future. The central bank further expects inflation to peak around 8% later this year against its earlier expectation of 7.75%. It further lowered its growth forecast to 3% and 1.5% in CY23 and CY24 respectively. On domestic front, MPC meeting is scheduled but no rate call is expected.

- Global stocks ended mixed. US stocks fell as investors await the upcoming Fed policy and jobs report. Stocks in China also edged lower as official PMIs showed further moderation in economic activity. On the other hand, Nikkei rose by 1.8% as Japan's retail sales rose more than expected. Sensex edged up by 1.3% led by gains in auto and technology stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	28-10-2022	31-10-2022	% change
Dow Jones	32,862	32,733	(0.4)
S & P 500	3,901	3,872	(0.7)
FTSE	7,048	7,095	0.7
Nikkei	27,105	27,587	1.8
Hang Seng	14,863	14,687	(1.2)
Shanghai Comp	2,916	2,893	(0.8)
Sensex	59,960	60,747	1.3
Nifty	17,787	18,012	1.3

Source: Bloomberg, Bank of Baroda Research

- Global currencies fell against the dollar. DXY rose by 0.7% as investors brace for another 75bps increase in Fed policy rate. EUR fell by 0.8% as GDP growth moderated sharply in Q3CY22. CNY fell by 0.7% as both manufacturing and services PMI slumped in Oct'22. INR too depreciated by 0.4%. However it is trading stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	28-10-2022	31-10-2022	% change
EUR/USD	0.9965	0.9882	(0.8)
GBP/USD	1.1615	1.1469	(1.3)
USD/JPY	147.60	148.71	(0.7)
USD/INR	82.47	82.79	(0.4)
USD/CNY	7.2524	7.3050	(0.7)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (stable) and China (lower), global yields closed higher. US, UK and Germany's 10Y yield rose by 4bps each. Fed's upcoming policy decision, higher than expected inflation print in the Eurozone, better retail sales print in Germany, all contributed to sell off. India's 10Y yield rose by 3bps (7.45%) ahead of the off cycle MPC meet. It is trading lower at 7.43% today.

Fig 3 – Bond 10Y yield

	28-10-2022	31-10-2022	change in bps
US	4.01	4.05	4
UK	3.48	3.52	4
Germany	2.10	2.14	4
Japan	0.25	0.25	0
China	2.68	2.65	(3)
India	7.42	7.45	3

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	28-10-2022	31-10-2022	change in bps
Tbill-91 days	6.42	6.42	0
Tbill-182 days	6.72	6.70	(2)
Tbill-364 days	6.91	6.87	(4)
G-Sec 2Y	6.97	7.01	4
SONIA int rate benchmark	2.19	2.19	0
US SOFR	3.04	3.05	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	28-10-2022	31-10-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.6	0.2	(0.4)
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	27-10-2022	28-10-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	470.6	(49.4)	(519.9)
Debt	45.9	(240.8)	(286.7)
Equity	424.7	191.5	(233.2)
Mutual funds (Rs cr)	(203.0)	2,262.9	2,465.9
Debt	(1,576.2)	977.5	2,553.8
Equity	1,373.2	1,285.4	(87.9)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 14 Oct 2022 and 17 Oct 2022

- Crude oil prices fell by 1% amidst fear of muted demand tracking China's zero Covid policy.

Fig 7 – Commodities

	28-10-2022	31-10-2022	% change
Brent crude (US\$/bbl)	95.8	94.8	(1.0)
Gold (US\$/ Troy Ounce)	1,644.9	1,633.6	(0.7)
Copper (US\$/ MT)	7,619.0	7,522.0	(1.3)
Zinc (US\$/MT)	2,855.9	2,735.5	(4.2)
Aluminium (US\$/MT)	2,211.5	2,222.0	0.5

Source: Bloomberg, Bank of Baroda Research



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