

MORNING MOCHA

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Global markets continue to react to news indicating increased risks of global economic slowdown amidst elevated prices. To get the economy back on track, it is expected that China will soon begin lifting Covid-19 restrictions. China has also announced lowering of its 5Y LPR to 4.45% from 4.6% (biggest cut on record; est.: 5bps cut), while maintaining its 1Y LPR unchanged (est.: 5bps cut). 5Y LPR rate is used for benchmarking mortgage loans hence the move it aimed to revive the housing sector. Oil prices have thus increased, over hopes of revival in demand.

- Barring Shanghai Comp, other global indices tumbled led by concerns over global economic slowdown and fears of surge in inflation. Dow Jones dropped sharply by 0.8% registering worst day since CY20 as fears of recession loomed. Sensex (2.6%) too ended in deep red led by subdued global cues along with FII selling and likelihood of more rate hikes by RBI (evident through RBI minutes). Technology and metal stocks declined the most. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	18-05-2022	19-05-2022	% change
Dow Jones	31,490	31,253	(0.8)
S & P 500	3,924	3,901	(0.6)
FTSE	7,438	7,303	(1.8)
Nikkei	26,911	26,403	(1.9)
Hang Seng	20,644	20,121	(2.5)
Shanghai Comp	3,086	3,097	0.4
Sensex	54,209	52,792	(2.6)
Nifty	16,240	15,809	(2.7)

Source: Bloomberg, Bank of Baroda Research

- Except INR (lower), other global currencies ended higher. DXY dropped by 1% (10 day-low) tracking US 10Y yields, amidst volatility in global financial markets. Greater likelihood of aggressive monetary tightening by ECB, pushed EUR higher as it rose by 1.2%. INR depreciated by 0.2%, led by surge in oil prices. It is trading higher today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	18-05-2022	19-05-2022	% change
EUR/USD	1.0464	1.0588	1.2
GBP/USD	1.2341	1.2467	1.0
USD/JPY	128.23	127.79	0.3
USD/INR	77.58	77.73	(0.2)
USD/CNY	6.7542	6.7125	0.6

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed, with 10Y yield of Germany falling the most (8bps), followed by US (5bps) and India (3bps). UK's yield closed flat while China's



yield went up by 1bps. Fears of slowdown in global economic growth have impacted investor sentiments. India's 10Y yield closed lower at 7.32%, following global cues and as investors opted for the safe-haven asset in the wake of equity sell-off.

Fig 3 – Bond 10Y yield

	18-05-2022	19-05-2022	change in bps
US	2.88	2.84	(5)
UK	1.87	1.87	0
Germany	1.03	0.95	(8)
Japan	0.25	0.24	0
China	2.80	2.81	1
India	7.35	7.32	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	18-05-2022	19-05-2022	% change
Tbill-91 days	4.9	4.9	0
Tbill-182 days	5.4	5.4	(2)
Tbill-364 days	5.9	5.9	(3)
G-Sec 2Y	6.4	6.3	(3)
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-05-2022	19-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.0)	(4.8)	(0.2)
Reverse repo	3.7	3.7	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	17-05-2022	18-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(202.8)	(108.0)	94.8
Debt	11.3	8.1	(3.2)
Equity	(214.1)	(116.1)	98.0
Mutual funds (Rs cr)	1,168.2	1,396.1	227.9
Debt	2.1	8.5	6.4
Equity	1,166.1	1,387.6	221.5

Source: Bloomberg, Bank of Baroda Research; Note-mutual fund data pertains to 16 and 17 May 2022

- Crude prices rose by 2.7% to US\$ 112/bbl as China is expected to gradually begin lifting Covid-19 restrictions, thereby providing support to oil demand. Gold too rose by 1.4% as US\$ retreated.

Fig 7 – Commodities

	18-05-2022	19-05-2022	% change
Brent crude (US\$/bbl)	109.1	112.0	2.7
Gold (US\$/ Troy Ounce)	1,816.6	1,841.9	1.4
Copper (US\$/ MT)	9,250.1	9,460.5	2.3
Zinc (US\$/MT)	3,629.0	3,732.6	2.9
Aluminium (US\$/MT)	2,857.5	2,906.5	1.7

Source: Bloomberg, Bank of Baroda Research



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