

MORNING MOCHA

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ECONOMIST
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UK's CPI print rose to its fresh 40-year high of 9.4% in Jun'22, on YoY basis, against expectation of 9.3% and 9.1% in May'22, led by food and fuel. This raised renewed hopes of faster pace of rate hike by BoE. Elsewhere, BoJ also raised its inflation forecast to 2.3% against earlier estimate of 1.9% for the current fiscal. However, on policy front, it remained ultra-accommodative. Market is looking for cues from ECB's policy decision on the back of its energy related issues. Further, US is also weighing on options for reducing tariff on imports from China, to check inflation. Gold prices also hit its more than a year low on account of strengthening DXY. On domestic front, INR remained on centre stage and is trading above the 80/\$ mark today.

- Barring FTSE (lower), global stocks edged higher. Nikkei rose the most by 2.7%, led by gains in technology stocks. US stocks also ended higher supported by upbeat earning reports. However, FTSE closed lower as UK's inflation surged further. Sensex rose by 1.2%, supported by technology and metal stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	19-07-2022	20-07-2022	% change
Dow Jones	31,827	31,875	0.2
S & P 500	3,937	3,960	0.6
FTSE	7,296	7,264	(0.4)
Nikkei	26,962	27,680	2.7
Hang Seng	20,661	20,890	1.1
Shanghai Comp	3,279	3,305	0.8
Sensex	54,768	55,398	1.2
Nifty	16,341	16,521	1.1

Source: Bloomberg, Bank of Baroda Research

- Except JPY (flat), other global currencies depreciated. DXY rose by 0.4% in line with an increase in US10Y yield. EUR fell by 0.5%, ahead of ECB policy decision. GBP too depreciated by 0.2% as UK's inflation surged to a 40-year high. INR fell to a fresh record low of 79.99/\$. It is trading above the 80/\$ mark today. Other Asian currencies are also trading weaker.

Fig 2 – Currencies

	19-07-2022	20-07-2022	% change
EUR/USD	1.0227	1.0180	(0.5)
GBP/USD	1.1995	1.1973	(0.2)
USD/JPY	138.19	138.21	0
USD/INR	79.95	79.99	0
USD/CNY	6.7442	6.7558	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. Political turmoil in Italy and UK, energy related issues in the Eurozone and key central bank policy decisions kept investors



cautious. UK' 10Y yield fell by 4bps despite its elevated inflation print.

Elsewhere in US, Japan and India, 10Y yield rose a tad by 1bps. India's 10Y yield is trading a tad higher at 7.46% today.

Fig 3 – Bond 10Y yield

	19-07-2022	20-07-2022	change in bps
US	3.02	3.03	1
UK	2.18	2.14	(4)
Germany	1.28	1.26	(2)
Japan	0.24	0.25	1
China	2.79	2.77	(2)
India	7.44	7.45	1

Source: Bloomberg, Bank of Baroda Research

- In the Rs 210bn TBill auction, cut off yields rose across the board (91-days: +16bps, 182-days:+11bps, 364-days:+7bps).

Fig 4 – Short term rates

	19-07-2022	20-07-2022	change in bps
Tbill-91 days	5.2	5.4	14
Tbill-182 days	5.7	5.8	14
Tbill-364 days	6.2	6.2	6
G-Sec 2Y	6.4	6.4	0
SONIA int rate benchmark	1.2	1.2	0
US SOFR	1.5	1.5	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	19-07-2022	20-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.5)	0.2
Reverse repo	2.1	2.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	18-07-2022	19-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	97.7	81.0	(16.8)
Debt	70.2	(51.6)	(121.7)
Equity	27.5	132.5	105.0
Mutual funds (Rs cr)	1,142.6	(36.7)	(1,179.3)
Debt	412.3	(446.4)	(858.7)
Equity	730.2	409.6	(320.6)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 15th and 18th Jul and 1st Jul 2022

- Crude prices moderated by 0.4% to US\$ 107/bbl as US data showed muted gasoline demand. Gold prices hit its lowest since Mar'21, as DXY strengthened..

Fig 7 – Commodities

	19-07-2022	20-07-2022	% change
Brent crude (US\$/bbl)	107.4	106.9	(0.4)
Gold (US\$/ Troy Ounce)	1,711.7	1,696.6	(0.9)
Copper (US\$/ MT)	7,254.5	7,358.0	1.4
Zinc (US\$/MT)	3,033.0	3,084.0	1.7
Aluminium (US\$/MT)	2,389.0	2,430.0	1.7

Source: Bloomberg, Bank of Baroda Research



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