

MORNING MOCHA

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ECONOMIST
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Concerns of elevated inflation print predominated with Germany's producer prices (PPI) rising to yet another record high of 33.6% in May'22. ECB president also reaffirmed its plan to raise policy rates twice between Jul-Sep'22 and also spoke of heightened risks to financial stability. In its recent minutes, RBA also said that its inflation print will peak at 7% by end of CY22. Thus, 25-50bps rate hike is expected in its Jul'22 meeting. Even St Louis Fed President warned that US inflation expectations could 'become unmoored without credible Fed action'. Market will also await cues from Fed President's testimony to be held this week. On the domestic front, India's 10Y yield fell by 12bps as OIS rates fell across all tenors.

- Global indices ended mixed. FTSE rose the most by 1.5% supported by gains in financial and energy stocks. Hang Seng too gained by 0.4%. On the other hand, Nikkei fell by 0.7%. Sensex snapped its 6-day losing streak and rose by 0.5%. This was led by gains in technology and consumer durables stocks. It is trading further higher today in line with other Asian stocks.

Fig 1 – Stock markets

	17-06-2022	20-06-2022	% change
Dow Jones	29,927	29,889	(0.1)
S & P 500	3,667	3,675	0.2
FTSE	7,016	7,122	1.5
Nikkei	25,963	25,771	(0.7)
Hang Seng	21,075	21,164	0.4
Shanghai Comp	3,317	3,315	0
Sensex	51,360	51,598	0.5
Nifty	15,294	15,350	0.4

Source: Bloomberg, Bank of Baroda Research, US markets were closed on 20th Jun

- Except JPY (flat), other major global currencies gained against the dollar. DXY fell by 0.4%. EUR rose by 0.1% as ECB President confirmed a 25bps rate hike in Jul'22. GBP also rose by 0.1% amidst hawkish comments from BoE's Catherine Mann. INR strengthened by 0.1%. However, it is trading lower today, while other Asian currencies are trading higher.

Fig 2 – Currencies

	17-06-2022	20-06-2022	% change
EUR/USD	1.0499	1.0511	0.1
GBP/USD	1.2241	1.2253	0.1
USD/JPY	135.02	135.07	0
USD/INR	78.08	77.98	0.1
USD/CNY	6.7167	6.6925	0.4

Source: Bloomberg, Bank of Baroda Research

- Except India (lower), global yields closed higher. UK (highest since CY14) and Germany's 10Y yield rose the most by 11bps and 9bps respectively. This was



on account of central bank officials hinting at higher policy rate on the back of heightened inflationary pressure and weakening currencies. India's 10Y yield on the other hand, fell by 12bps (7.43%) as OIS rates fell for all maturities (1Y:-5bps,3Y:-13bps, 5Y:-18bps and 10Y:-17bps). It is trading at higher 7.47% today.

Fig 3 – Bond 10Y yield

	17-06-2022	20-06-2022	change in bps
US	3.20	3.23	3
UK	2.50	2.60	11
Germany	1.66	1.75	9
Japan	0.23	0.24	1
China	2.81	2.83	1
India	7.54	7.43	(12)

Source: Bloomberg, Bank of Baroda Research, US markets were closed on 20th Jun

Fig 4 – Short term rates

	17-06-2022	20-06-2022	% change
Tbill-91 days	5.1	5.0	(6)
Tbill-192 days	5.7	5.7	(3)
Tbill-364 days	6.2	6.2	(8)
G-Sec 2Y	6.6	6.5	(6)
SONIA int rate benchmark	1.2	1.2	0
US SOFR	0.7	1.5	75

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	17-06-2022	20-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.3)	(2.1)	0.2
Reverse repo	0.3	2.0	1.7
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	16-06-2022	17-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(387.7)	(974.8)	(587.1)
Debt	12.2	171.7	159.5
Equity	(399.9)	(1,146.5)	(746.6)
Mutual funds (Rs cr)	1,700.1	(475.9)	(2,175.9)
Debt	576.2	(1,000.0)	(1,576.2)
Equity	1,123.9	524.1	(599.8)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 15 and 16th Jun 2022

- Crude prices rose by 0.9% to US\$ 114/bbl as concerns over tight supply outweighed fears of recession. Gold prices closed flat.

Fig 7 – Commodities

	17-06-2022	20-06-2022	% change
Brent crude (US\$/bbl)	113.1	114.1	0.9
Gold (US\$/ Troy Ounce)	1,839.4	1,838.7	0
Copper (US\$/ MT)	8,967.0	8,989.5	0.3
Zinc (US\$/MT)	3,576.5	3,593.8	0.5
Aluminium (US\$/MT)	2,498.0	2,527.0	1.2

Source: Bloomberg, Bank of Baroda Research



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