

MORNING MOCHA

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ECONOMIST
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US Fed delivered 3rd consecutive rate hike (highest since CY08) after it raised the rates by 75bps hike to a new target range of 3%-3.25%. There is expectation of more rate hikes in the coming months, with median projections for federal funds rate now expected at 4.4% in CY22. As per the dot plot, Fed has signalled more rate hike with a target range of 4.75%-5% in CY23. Median projection for real GDP and core PCE inflation stands at 0.2% (1.7% June projection) and 4.5% (4.3% June projection) respectively for CY22. Dollar index rallied, while oil prices declined. Global equity indices also took a beating. After Fed, BoJ today continued with its ultra-loose monetary policy, by keeping rates on hold. Rate decisions from BoE, Norway and Switzerland are also awaited in the coming days.

- Except FTSE, other global indices ended lower. US Fed raised rates, in line with expectation for third time in a row signalling it is ready to fight inflation. Amongst other indices, Hang Seng (1.8%) dropped the most followed by Dow Jones (1.7%). Sensex (0.4%) too ended in red and was dragged down by losses in power and capital goods stocks. It is trading further lower today, in line with other Asian markets.

Fig 1 – Stock markets

	20-09-2022	21-09-2022	% change
Dow Jones	30,706	30,184	(1.7)
S & P 500	3,856	3,790	(1.7)
FTSE	7,193	7,238	0.6
Nikkei	27,688	27,313	(1.4)
Hang Seng	18,781	18,445	(1.8)
Shanghai Comp	3,122	3,117	(0.2)
Sensex	59,720	59,457	(0.4)
Nifty	17,816	17,718	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Global currencies fell as Fed delivered a 75bps rate hike in its latest policy meeting. EUR (near 20-year low) and GBP fell the most. DXY was up by 0.4% and remains at a level more than two decade high. Following global cues, INR also fell by 0.3%. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	20-09-2022	21-09-2022	% change
EUR/USD	0.9971	0.9837	(1.3)
GBP/USD	1.1381	1.1270	(1.0)
USD/JPY	143.75	144.06	(0.2)
USD/INR	79.76	79.98	(0.3)
USD/CNY	7.0183	7.0502	(0.5)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (flat) and UK (higher), other global yields closed lower. 10Y yields in US and Germany fell by 3bps each. With Fed maintaining its aggressive rate hike stance there has been increased pressure on US 2Y yields, leading to inverted yield curve. Thus, signalling risks to economic recession. India's 10Y yield fell by 3bps to 7.23%, as oil prices inched down. However, following Fed's decision, it is trading sharply higher at 7.32% today.

Fig 3 – Bond 10Y yield

	20-09-2022	21-09-2022	change in bps
US	3.56	3.53	(3)
UK	3.29	3.31	2
Germany	1.93	1.89	(3)
Japan	0.26	0.26	0
China	2.66	2.64	(2)
India	7.26	7.23	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	20-09-2022	21-09-2022	change in bps
Tbill-91 days	5.78	5.87	9
Tbill-182 days	6.16	6.37	21
Tbill-364 days	6.54	6.63	9
G-Sec 2Y	6.89	6.89	0
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.27	2.26	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	20-09-2022	21-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.2	0.1	(0.1)
Reverse repo	0.8	0.8	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	19-09-2022	20-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	91.8	195.3	103.5
Debt	(0.1)	(31.1)	(31.0)
Equity	91.9	226.4	134.5
Mutual funds (Rs cr)	152.6	928.3	775.7
Debt	(107.6)	446.3	553.9
Equity	260.2	482.1	221.9

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 7th and 8th Sep 2022

- Crude oil prices continued to slip further to (US\$ 90/bbl) after Fed delivered another rate hike to quell inflation. There were also concerns of weak demand.

Fig 7 – Commodities

	20-09-2022	21-09-2022	% change
Brent crude (US\$/bbl)	90.6	89.8	(0.9)
Gold (US\$/ Troy Ounce)	1,664.9	1,673.9	0.5
Copper (US\$/ MT)	7,826.0	7,749.0	(1.0)
Zinc (US\$/MT)	3,144.3	3,112.0	(1.0)
Aluminium (US\$/MT)	2,245.5	2,202.5	(1.9)

Source: Bloomberg, Bank of Baroda Research



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