

MORNING MOCHA

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ECONOMIST
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Fears of inflationary concerns and recession again took the centre stage. UK CPI print rose to its 40-year high of 9.1% in May'22, led by escalated food prices. Fed Chair on the other hand in his testimony said that there might be a possibility of 'hard landing' in terms of growth. Elsewhere, China's President also spoke of further measures needed to restore economic stability. US President proposed a 3-month suspension of federal gasoline tax to provide respite to consumers. On the domestic front, MPC minutes flagged inflation as the major cause of worry. India's CAD narrowed to 1.5% of GDP in Q4FY22 from 2.6% in Q2 led by moderation in trade deficit. For FY22, CAD expanded to 1.2% of GDP versus a surplus of 0.9% in FY21.

- Global stocks retreated as recession risks resurfaced. While reiterating the commitment to keep inflation in check, Fed Chair warned of the possibility of recession. Hang Seng fell the most by 2.6%, followed by Sensex which fell by 1.4%. The decline in domestic market was led by metal and real estate stocks. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	21-06-2022	22-06-2022	% change
Dow Jones	30,530	30,483	(0.2)
S & P 500	3,765	3,760	(0.1)
FTSE	7,152	7,089	(0.9)
Nikkei	26,246	26,150	(0.4)
Hang Seng	21,560	21,008	(2.6)
Shanghai Comp	3,307	3,267	(1.2)
Sensex	52,532	51,823	(1.4)
Nifty	15,639	15,413	(1.4)

Source: Bloomberg, Bank of Baroda Research

- Except EUR and JPY (higher), other global currencies closed lower. DXY fell by 0.2% in line with the decline in US 10Y yield as Fed Chair warned about the possibility of recession. GBP fell by 0.1% as UK's inflation surged further. EUR rose by 0.3% even as Euro Area's consumer confidence index declined in Jun'22. INR depreciated by 0.4% to a fresh historic low of 78.39/\$ amidst subdued global cues and weakness in other EM currencies. However, it is trading higher today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	21-06-2022	22-06-2022	% change
EUR/USD	1.0533	1.0566	0.3
GBP/USD	1.2277	1.2266	(0.1)
USD/JPY	136.57	136.26	0.2
USD/INR	78.08	78.39	(0.4)
USD/CNY	6.6895	6.7023	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (higher) and China (stable), global yields closed lower. UK, Germany and US' 10Y yield fell the most by 16, 13 and 12bps each. Investors' appetite for sovereign bonds increased amidst growing fears of recession as flagged by Fed's Chair in his recent testimony. India's 10Y yield also fell by 9bps (7.4%) supported by moderation in oil prices. It is trading at 7.39% today.

Fig 3 – Bond 10Y yield

	21-06-2022	22-06-2022	change in bps
US	3.27	3.16	(12)
UK	2.65	2.50	(16)
Germany	1.77	1.64	(13)
Japan	0.24	0.25	1
China	2.83	2.83	0
India	7.48	7.40	(9)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	21-06-2022	22-06-2022	% change
Tbill-91 days	5.0	5.1	6
Tbill-192 days	5.5	5.7	20
Tbill-364 days	6.2	6.3	9
G-Sec 2Y	6.6	6.5	(1)
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	21-06-2022	22We06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.1)	(2.1)	0
Reverse repo	2.0	2.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	20-06-2022	21-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(11.2)	(118.7)	(107.6)
Debt	(55.0)	32.0	87.0
Equity	43.8	(150.8)	(194.6)
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 fell by 2.5% to US\$ 112/bbl, as recession fears loomed. Gold prices on the other hand, rose by 0.3% on safe haven demand.

Fig 7 – Commodities

	21-06-2022	22-06-2022	% change
Brent crude (US\$/bbl)	114.7	111.7	(2.5)
Gold (US\$/ Troy Ounce)	1,833.0	1,837.7	0.3
Copper (US\$/ MT)	8,995.5	8,773.5	(2.5)
Zinc (US\$/MT)	3,703.0	3,696.5	(0.2)
Aluminium (US\$/MT)	2,533.5	2,479.5	(2.1)

Source: Bloomberg, Bank of Baroda Research



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