

MORNING MOCHA

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ECONOMIST
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US 10Y yield rose sharply by 7bps amidst comments from Kansas Fed President of federal fund rate might rising to 2% in Aug'22, contingent on the inflation trajectory. In China, stimulus measures have been announced which includes 140bn yuan additional tax cut and 300bn yuan in railway construction bonds. Investors are also weighing in possible tariff cut on Chinese goods by US President. Today, manufacturing PMI print of major economies will be released which will provide fresh cues. On domestic front, RBI's Governor hinted at faster pace of rate hike.

- Global equities ended mixed. US stocks rose sharply as US President suggested removing imports tariffs on some Chinese imports. Dow Jones and S&P 500 rose by 2% and 1.9% respectively. FTSE rose by 1.7% led by gains in banking and insurance stocks. Nikkei too rose by 1%. On the other hand, Sensex fell by 0.1%. Metal stocks fell sharply by 8.3% as the government imposed export duty on certain iron and steel products. It is trading further lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	20-05-2022	23-05-2022	% change
Dow Jones	31,262	31,880	2.0
S & P 500	3,901	3,974	1.9
FTSE	7,390	7,513	1.7
Nikkei	26,739	27,002	1.0
Hang Seng	20,717	20,470	(1.2)
Shanghai Comp	3,147	3,147	0
Sensex	54,326	54,289	(0.1)
Nifty	16,266	16,215	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Except JPY and INR (flat), other global currencies ended higher. DXY fell by 1% despite a sharp surge in US 10Y yield. EUR rose the most by 1.2% amidst expectations of rate hike by ECB. GBP too gained by 0.9%. CNY surged by 0.7% as China mulls lifting lockdown restrictions. INR closed flat. However, it is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	19-05-2022	20-05-2022	% change
EUR/USD	1.0564	1.0691	1.2
GBP/USD	1.2480	1.2588	0.9
USD/JPY	127.88	127.90	0)
USD/INR	77.55	77.52	0
USD/CNY	6.6930	6.6497	0.7

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. US 10Y yield rose by 7bps as Kansas Fed President spoke of interest rate to rise to 2% by Aug'22. Even Germany's 10Y



yield rose by 7bps supported by better IFO business sentiment data and expectation of a rate hike by ECB in Jul'22. China's 10Y yield on the other hand, fell by 2bps, supported by stimulus measures. India's 10Y yield rose by 3bps (7.39%) as RBI's Governor indicated more rate hikes may be forthcoming. It is trading at 7.37% today.

Fig 3 – Bond 10Y yield

	20-05-2022	23-05-2022	change in bps
US	2.78	2.85	7
UK	1.89	1.97	8
Germany	0.94	1.02	7
Japan	0.24	0.24	0
China	2.82	2.80	(2)
India	7.36	7.39	3

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	20-05-2022	23-05-2022	% change
Tbill-91 days	4.9	4.9	(3)
Tbill-182 days	5.4	5.4	(4)
Tbill-364 days	5.9	5.8	(9)
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	22-05-2022	23-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.6)	(3.4)	0.2
Reverse repo	3.1	3.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	19-05-2022	20-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(473.0)	198.8	671.7
Debt	21.6	11.1	(10.5)
Equity	(494.6)	187.6	682.2
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

- International commodity prices edged upwards. Crude prices rose by 0.8% to US\$ 113.4/bbl, amidst demand optimism as China looks at lifting lockdown restrictions. Gold prices edged up amidst a retreat in US dollar.

Fig 7 – Commodities

	20-05-2022	23-05-2022	% change
Brent crude (US\$/bbl)	112.6	113.4	0.8
Gold (US\$/ Troy Ounce)	1,846.5	1,853.6	0.4
Copper (US\$/ MT)	9,451.0	9,588.5	1.5
Zinc (US\$/MT)	3,726.0	3,800.5	2.0
Aluminium (US\$/MT)	2,946.0	2,956.0	0.3

Source: Bloomberg, Bank of Baroda Research



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