

MORNING MOCHA

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ECONOMIST
Dipanwita Mazumdar

Growth and inflationary concerns continued to bother global economy. China again stepped up stimulus with US\$ 146bn support for infrastructure spending. Central Bank of South Korea raised policy rate by 25bps to 2.5% and also raised its inflation forecast to 5.2% for CY22 (highest since CY98). Traders are also betting faster pace of rate hike from BoE as its 1Y OIS rates rose sharply by 16bps. Markets are also awaiting cues from ECB minutes and Fed Chair's speech. Notably, CME Fed watch tool is pricing in a 75bps hike in the next policy. On the domestic front, MPC member Prof Varma spoke of geopolitical risk being biggest threat to India's growth outlook and also said high inflation will not become the 'norm'.

- Global stocks ended mixed. US stocks edged up awaiting clarity on future rate hikes by the Fed Chair. However, Shanghai Comp and Hang Seng dropped the most amidst ongoing property crisis in China. Sensex rose by 0.1% supported by gains in real estate stocks. Asian stocks are trading higher today, buoyed by announcement of stimulus measures by China. Sensex too is trading in green.

Fig 1 – Stock markets

	23-08-2022	24-08-2022	% change
Dow Jones	32,910	32,969	0.2
S & P 500	4,129	4,141	0.3
FTSE	7,488	7,472	(0.2)
Nikkei	28,453	28,313	(0.5)
Hang Seng	19,503	19,269	(1.2)
Shanghai Comp	3,276	3,215	(1.9)
Sensex	59,031	59,085	0.1
Nifty	17,578	17,605	0.2

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed broadly weaker. DXY was unchanged ahead of Fed Chair's speech. GBP and JPY both depreciated by 0.3% each. INR gained 0.1% against the dollar supported by FPI inflows. It is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	23-08-2022	24-08-2022	% change
EUR/USD	0.9970	0.9967	(0.0)
GBP/USD	1.1836	1.1799	(0.3)
USD/JPY	136.77	137.12	(0.3)
USD/INR	79.86	79.82	0.1
USD/CNY	6.8350	6.8595	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Except China (stable), global yields closed higher. UK's 10Y yield rose the most by 12bps as OIS rates suggested sharper pace of rate hike by BoE. US 10Y



yield also rose by 6bps as capital goods orders data was better than expected. India's 10Y yield rose a tad by 1bps to 7.29%. It is trading at 7.3%.

Fig 3 – Bond 10Y yield

	23-08-2022	24-08-2022	change in bps
US	3.05	3.10	6
UK	2.58	2.70	12
Germany	1.32	1.37	5
Japan	0.22	0.23	1
China	2.63	2.64	0
India	7.28	7.29	1

Source: Bloomberg, Bank of Baroda Research

- In the current Rs 210bn auction of TBill, cut off yield rose across the board (91 days: +4bps, 182 days: +8bps and 364 days: +7bps).

Fig 4 – Short term rates

	23-08-2022	24-08-2022	change in bps
Tbill-91 days	5.55	5.59	4
Tbill-182 days	5.80	5.98	18
Tbill-364 days	6.18	6.25	7
G-Sec 2Y	6.35	6.36	1
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.28	2.27	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	23-08-2022	24-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.7)	(0.7)	0
Reverse repo	0.7	0.7	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	22-08-2022	23-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(33.6)	534.1	567.6
Debt	9.8	401.7	391.9
Equity	(43.4)	132.4	175.8
Mutual funds (Rs cr)	1,407.1	(1,641.0)	(3,048.1)
Debt	1,571.0	(2,206.9)	(3,777.9)
Equity	(163.9)	565.9	729.8

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 17th and 18th Aug 2022

- Crude oil prices rose by 1% to US\$ 101/bbl amidst fear of output cut from OPEC+.

Fig 7 – Commodities

	23-08-2022	24-08-2022	% change
Brent crude (US\$/bbl)	100.2	101.2	1.0
Gold (US\$/ Troy Ounce)	1,748.2	1,751.2	0.2
Copper (US\$/ MT)	8,170.8	8,058.3	(1.4)
Zinc (US\$/MT)	3,548.5	3,587.5	1.1
Aluminium (US\$/MT)	2,424.0	2,430.0	0.2

Source: Bloomberg, Bank of Baroda Research



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Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com