

MORNING MOCHA

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ECONOMIST
Dipanwita Mazumdar

Investors are cautious ahead of Fed Chair's speech at the Jackson Hole Symposium. Other Fed officials also sounded hawkish in their recent interviews. St Louis Fed Chief stressed the need for frontloading rates to put downward pressure on inflation. Even Philadelphia Fed President said that there might be ambiguity between 50 and 75bps rate hike in the coming policy. But according to him, 50bps might not be a substantial move. Elsewhere, growth indicators were reeling under pressure. In Hong Kong, exports fell at a sharper pace of 8.9% against estimated 4.8% decline. Even Germany's IFO business climate data moderated compared to previous month. In US as well, second estimate of Q2GDP data showed contraction of 0.6%. However, the pace is less than 0.9% contraction shown in the first estimate.

- Except India, global stocks edged up. Investors continued to monitor comments from Fed officials, fresh government stimulus in China and ECB minutes. Hang Seng rose the most by 3.6%. US stocks too rose supported by strong macro data (Q2CY22 GDP and jobless claims). Sensex fell by 0.5% led by losses in technology and oil&gas stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	24-08-2022	25-08-2022	% change
Dow Jones	32,969	33,292	1.0
S & P 500	4,141	4,199	1.4
FTSE	7,472	7,480	0.1
Nikkei	28,313	28,479	0.6
Hang Seng	19,269	19,968	3.6
Shanghai Comp	3,215	3,246	1.0
Sensex	59,085	58,775	(0.5)
Nifty	17,605	17,522	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Barring INR, other global currencies appreciated against the dollar. DXY fell by 0.2% even as US Q2CY23 GDP declined less than initially estimated. EUR gained 0.1% supported by better than expected data (Q2CY23 GDP). INR depreciated by 0.1% amidst FPI outflows. It is trading marginally stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	24-08-2022	25-08-2022	% change
EUR/USD	0.9967	0.9975	0.1
GBP/USD	1.1799	1.1832	0.3
USD/JPY	137.12	136.49	0.5
USD/INR	79.82	79.88	(0.1)
USD/CNY	6.8595	6.8492	0.2

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed ahead of Fed Chair's speech for cues on trajectory of Fed fund rate. US and UK's 10Y yield fell the most by 8bps each. China's 10Y yield on the other hand rose by 2bps supported by growth related measures of the government. India's 10Y yield rose a tad by 1bps to 7.29%. It is trading lower at 7.27%.

Fig 3 – Bond 10Y yield

	24-08-2022	25-08-2022	change in bps
US	3.10	3.03	(8)
UK	2.70	2.62	(8)
Germany	1.37	1.32	(5)
Japan	0.23	0.23	0
China	2.64	2.66	2
India	7.29	7.29	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	24-08-2022	25-08-2022	change in bps
Tbill-91 days	5.59	5.58	(1)
Tbill-182 days	5.98	5.95	(3)
Tbill-364 days	6.25	6.23	(2)
G-Sec 2Y	6.35	6.36	1
SONIA int rate benchmark	1.69	1.69	(0)
US SOFR	2.27	2.27	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	24-08-2022	25-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.7)	(0.8)	(0.1)
Reverse repo	0.7	0.7	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	23-08-2022	24-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	534.1	(18.2)	(552.3)
Debt	401.7	(39.2)	(440.9)
Equity	132.4	21.1	(111.3)
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 fell by 1.9% to US\$ 99/bbl amidst falling US gasoline demand and expectation of positive response from the ongoing US-Iran nuclear deal.

Fig 7 – Commodities

	24-08-2022	25-08-2022	% change
Brent crude (US\$/bbl)	101.2	99.3	(1.9)
Gold (US\$/ Troy Ounce)	1,751.2	1,758.7	0.4
Copper (US\$/ MT)	8,058.3	8,167.0	1.3
Zinc (US\$/MT)	3,587.5	3,624.8	1.0
Aluminium (US\$/MT)	2,430.0	2,433.5	0.1

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com