

MORNING MOCHA

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ECONOMIST
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Asian markets were rattled over news reports that majority of China's cities are predicting a Covid-19 peak in Jan'23. In a relief, the University of Michigan's inflation expectation data showed some cooling off. Even PCE data, which is closely watched by Fed showed some softening. On the other hand, macro indicators in the US remained buoyant with new home sales data coming in better than expected. Even the core capital goods data, a close proxy of business fixed investment rose more than expected. In Japan, 40-year high core inflation data implied that finally pass through of price pressure to consumers is happening and in the coming days BoJ's move will be closely watched. Domestic market in the current week will eye month end data releases (fiscal, eight core, credit data).

- Except US and UK, other global indices gained. Easing PCE inflation in the US, raised expectations that the Fed may soften its stance. Asian stocks however extended their decline, amidst concerns over the Covid-19 situation in China. Sensex declined sharply by 1.6%. Power and metal stocks shed the most. It is trading higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	22-12-2022	23-12-2022	% change
Dow Jones	33,027	33,204	0.5
S & P 500	3,822	3,845	0.6
FTSE	7,469	7,473	0.0
Nikkei	26,508	26,235	(1.0)
Hang Seng	19,679	19,593	(0.4)
Shanghai Comp	3,054	3,046	(0.3)
Sensex	60,826	59,845	(1.6)
Nifty	18,127	17,807	(1.8)

Source: Bloomberg, Bank of Baroda Research

- Global currencies were mixed. DXY fell by 0.1% amidst a deceleration in US core PCE index, suggesting a less aggressive stance from the Fed. EUR and GBP gained by 0.2% and 0.1% respectively. On the other hand, JPY fell by 0.4% as Japan's inflation rose to a 40-year high. INR depreciated by 0.1% as oil prices increased. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	22-12-2022	23-12-2022	% change
EUR/USD (1 EUR / USD)	1.0596	1.0617	0.2
GBP/USD (1 GBP / USD)	1.2038	1.2053	0.1
USD/JPY (JPY / 1 USD)	132.35	132.91	(0.4)
USD/INR (INR / 1 USD)	82.76	82.87	(0.1)
USD/CNY (CNY / 1 USD)	6.9854	6.9900	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose the most by 7bps on account of buoyant macro data. Even 10Y yields in UK and Germany firmed up by 5 and 4bps each, as inflation fears persist. In China, 10Y yield fell by 1bps on expectation of stimulus. India's 10Y yield rose a tad by 1bps (7.32%). It is trading at 7.33% today.

Fig 3 – Bond 10Y yield

	22-12-2022	23-12-2022	change in bps
US	3.68	3.75	7
UK	3.59	3.64	5
Germany	2.36	2.40	4
Japan	0.40	0.39	(2)
China	2.88	2.87	(1)
India	7.31	7.32	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	22-12-2022	23-12-2022	change in bps
Tbill-91 days	6.37	6.43	6
Tbill-182 days	6.69	6.71	2
Tbill-364 days	6.85	6.88	3
G-Sec 2Y	6.94	6.94	0
SONIA int rate benchmark	3.43	3.43	-
US SOFR	4.30	4.30	-

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	22-12-2022	23-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.3)	(0.3)	0
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	21-12-2022	22-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(102.8)	149.8	252.5
Debt	(42.4)	9.6	52.1
Equity	(60.3)	140.1	200.5
Mutual funds (Rs cr)	1,903.3	650.0	(1,253.4)
Debt	690.8	313.9	(376.9)
Equity	1,212.5	336.1	(876.5)

Source: Bloomberg, Bank of Baroda Research

- Crude oil prices rose by 3.6% to US\$ 84/bbl amidst reports that Russia could cut output in response to the G7 price cap.

Fig 7 – Commodities

	22-12-2022	23-12-2022	% change
Brent crude (US\$/bbl)	81.0	83.9	3.6
Gold (US\$/ Troy Ounce)	1,792.5	1,798.2	0.3
Copper (US\$/ MT)	8,290.5	8,328.0	0.5
Zinc (US\$/MT)	2,965.0	2,987.0	0.7
Aluminium (US\$/MT)	2,406.0	2,389.5	(0.7)

Source: Bloomberg, Bank of Baroda Research



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