

MORNING MOCHA

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Investors braced for an aggressive rate hike by Fed as they anticipate atleast 50-75bps hike in order to keep soaring inflation in check. Oil prices climbed up, led by supply side fears. Treasury yields edged upwards. On the currency front, Dollar index lost its strength as it slipped for the 3rd day in a row. Concerns of slowdown in US economy aggravated with unemployment benefits rising for the 3rd-straight week and US treasury secretary Janet Yellen acknowledging that the downturn is inevitable. Germany's IFO business climate dropped to its lowest level in more than 2-years adding to concerns of global economic slowdown.

- Global indices started the week on mixed note as investors turned their focus towards upcoming Fed's decision. Additionally, corporate earnings report from consumer durable and banking industry along with subdued data print from Germany (IFO climate index slipped to 88.6-lowest in more than 2-years) kept the investors on the edge. Nikkei (0.8%) dropped the most amongst other indices. Sensex (0.5%) too ended in red and was dragged down by losses in auto and oil and gas stocks. It is trading further lower today; while other Asian stocks are trading higher.

Fig 1 – Stock markets

	22-07-2022	25-07-2022	% change
Dow Jones	31,899	31,990	0.3
S & P 500	3,962	3,967	0.1
FTSE	7,276	7,306	0.4
Nikkei	27,915	27,699	(0.8)
Hang Seng	20,609	20,563	(0.2)
Shanghai Comp	3,270	3,250	(0.6)
Sensex	56,072	55,766	(0.5)
Nifty	16,719	16,631	(0.5)

Source: Bloomberg, Bank of Baroda Research

- Except CNY (flat) and JPY (lower), other global currencies ended higher. DXY fell further by 0.2% as investors assess the possible impact of aggressive rate hike by Fed on US and global economy. GBP gained the most by 0.4% as Confederation of British industry survey indicated that challenges around inflation and investment might be easing. INR rose by 0.1%. However, it is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	22-07-2022	25-07-2022	% change
EUR/USD	1.0213	1.0220	0.1
GBP/USD	1.1999	1.2043	0.4
USD/JPY	136.12	136.69	(0.4)
USD/INR	79.85	79.74	0.1
USD/CNY	6.7515	6.7509	0



Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. 10Y yield in the US rose by 5bps, while in UK it closed flat and in case of Germany it ended 1bps lower. Investors await Fed's policy decision (due tomorrow) and slew of corporate earnings reports. India's 10Y yield fell by another 3bps to 7.39%, tracking global cues

Fig 3 – Bond 10Y yield

	22-07-2022	25-07-2022	change in bps
US	2.75	2.80	5
UK	1.94	1.94	0
Germany	1.03	1.02	(1)
Japan	0.22	0.20	(2)
China	2.79	2.78	0
India	7.42	7.39	(3)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	22-07-2022	25-07-2022	change in bps
Tbill-91 days	5.41	5.40	(1)
Tbill-182 days	5.53	5.79	26
Tbill-364 days	6.19	6.21	2
G-Sec 2Y	6.45	6.40	(5)
SONIA int rate benchmark	1.19	1.19	0
US SOFR	1.53	1.52	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	22-07-2022	25-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.2)	(0.7)	0.5
Reverse repo	2.1	2.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	21-07-2022	22-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	296.5	(180.9)	(477.4)
Debt	62.1	(103.9)	(166.0)
Equity	234.4	(77.0)	(311.4)
Mutual funds (Rs cr)	(789.7)	(953.9)	(164.2)
Debt	(397.9)	(492.2)	(94.4)
Equity	(391.9)	(461.7)	(69.8)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 19th and 20th Jul 2022

- Crude prices spiked by 1.9% to US\$ 105/bbl amidst a weaker US\$ and concerns of lower Russian oil supply. Gold prices weakened by 0.5% led by uptick in US treasury yields.

Fig 7 – Commodities

	22-07-2022	25-07-2022	% change
Brent crude (US\$/bbl)	103.2	105.2	1.9
Gold (US\$/ Troy Ounce)	1,727.6	1,719.8	(0.5)
Copper (US\$/ MT)	7,433.0	7,463.8	0.4
Zinc (US\$/MT)	3,069.5	3,059.3	(0.3)
Aluminium (US\$/MT)	2,475.5	2,408.5	(2.7)

Source: Bloomberg, Bank of Baroda Research



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