

MORNING MOCHA

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ECONOMIST
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US 10Y yield shot up by 9bps as Fed Chair remarked that “it will soon be appropriate to raise the target range for the federal funds rate” signalling rate hike cycle to begin in Mar’22. Thus, DXY rose to its 1-month high. In domestic market, reversal of RBI’s 7-day (Rs 2tn) and 28-day (Rs 500bn) variable rate reverse repo operations, was the key watchable.

- Global indices ended mixed tracking comments from Fed. Dow and Nikkei ended lower by 0.4% each. However, FTSE (1.3%) gained the most. Sensex rose by 0.6%, led by gains in auto and banking stocks. However, it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	26-01-2022	25-01-2022	% change
Dow Jones	34,168	34,298	(0.4)
S & P 500	4,350	4,356	(0.1)
FTSE	7,470	7,371	1.3
Nikkei	27,011	27,131	(0.4)
Hang Seng	24,290	24,244	0.2
Shanghai Comp	3,456	3,433	0.7
Sensex	57,858	57,492	0.6
Nifty	17,278	17,149	0.8

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were close on 26 Jan 2022

- Except CNY (higher), other global currencies closed lower. DXY rose by 0.6% (1-month high) as Fed signalled first rate hike cycle in Mar’22. JPY fell the most by 0.7%, followed by EUR (down by 0.5%). INR depreciated by 0.3% as oil prices rose. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	26-01-2022	25-01-2022	% change
EUR/USD	1.124	1.1301	(0.5)
GBP/USD	1.3463	1.3501	(0.3)
USD/JPY	114.64	113.88	(0.7)
USD/INR	74.78	74.57	(0.3)
USD/CNY	6.3209	6.3261	0.1

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were close on 26 Jan 2022

- Barring Japan and India (flat), global 10Y yields closed higher. US 10Y yield rose sharply by 9bps (1.86%) tracking Fed’s hawkish comments (rate hike in Mar’22). UK and China’s 10Y yields rose by 3bps and 2bps respectively. India’s 10Y yield closed flat, but it is trading much higher today (6.73%-highest since Jul’19) following global cues. Asian bonds are also trading higher today.



Fig 3 – Bond 10Y yield

	26-01-2022	25-01-2022	% change
US	1.86	1.77	9
UK	1.20	1.16	3
Germany	(0.07)	(0.08)	1
Japan	0.14	0.14	0
China	2.72	2.70	2
India	6.66	6.66	0

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were close on 26 Jan 2022

- T-bill across all tenor inched up after reversal of the RBI's 7-day (Rs 2tn) and 28-day (Rs 500bn) variable rate reverse repo operations. Further, T-bill auction results (Rs 260bn) also showed that YTM rose across 91-days (+2bps), 182-days (+5bps) and 364-days (+3bps).

Fig 4 – Short term rates

	25-01-2022	24-01-2022	% change
Tbill-91 days	3.72	3.69	3
Tbill-182 days	4.14	4.08	6
Tbill-365 days	4.50	4.47	3
G-Sec 2Y	4.69	4.72	(2)
AAACorp Spread 3Y	5.93	5.94	(1)
SONIA int rate benchmark	32.04	32.04	0
US SOFR	42.59	42.59	0

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were close on 26 Jan 2022

Fig 5 – Liquidity

Rs tn	25-01-2022	24-01-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.2)	(5.7)	(0.5)
Reverse repo*	4.3	6.8	(2.5)
Repo*	0	0	0

Source: Bloomberg, Bank of Baroda Research *Variable rate outstanding, Note: Markets in India were close on 26 Jan 2022

Fig 6 – Capital market flows

	24-01-2022	21-01-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	(384.3)	(419.6)	35.3
Debt	138.6	(7.0)	145.6
Equity	(522.8)	(412.6)	(110.3)
Mutual funds (Rs cr)	443.6	(218.3)	661.9
Debt	(946.7)	448.4	(1,395.1)
Equity	1,390.3	(666.7)	2,057.0

Source: Bloomberg, Bank of Baroda Research, Note: Data for Mutual Fund inflows pertains to 19 Jan 2022 and 18 Jan 2022

- Crude prices rebounded sharply by 2% (US\$ 88/bbl) owing to ongoing Russia-Ukraine tensions. Gold fell by 1.5% following comments from Fed chair.

Fig 7 – Commodities

	26-01-2022	25-01-2022	% change
Brent crude (US\$/bbl)	90.0	88.2	2.0
Gold	1819.6	1848.0	(1.5)

Source: Bloomberg, Bank of Baroda Research



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