

MORNING MOCHA

27 September 2022

ECONOMIST

Aditi Gupta

Volatility in the global markets continued as investors braced for further rate hikes. Business sentiment index in Germany fell sharply, reinforcing expectations that the economy is likely to slip into a recession. Led by concerns over UK government's latest fiscal measures, GBP fell to a record-low, and UK's 10Y yield shot up. CNY slipped further to a 14-year low, even as PBOC announced a hike in the forex risk reserve ratio to arrest the currency's fall. Falling industrial profits in China raised fresh concerns over growth. Indian market too joined the global sell off with stocks at a near 2-month low and INR at a record low. 10Y bond yield however found support from a drop in oil prices.

- Except FTSE (flat), other global stocks ended lower. Concerns remain over growth, as OECD slashed global GDP forecast to 2.2% in CY23 versus 2.8% estimated earlier. Nikkei dropped the most, followed by US stocks. Sensex also fell by 1.6%, led by a decline in metal and real estate stocks. However, it is trading higher today, while Asian markets are trading mixed, monitoring China's industrial profits data which remained muted

Fig 1 – Stock markets

| | 23-09-2022 | 26-09-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 29,590 | 29,261 | (1.1) |
| S & P 500 | 3,693 | 3,655 | (1.0) |
| FTSE | 7,019 | 7,021 | 0 |
| Nikkei | 27,154 | 26,432 | (2.7) |
| Hang Seng | 17,933 | 17,855 | (0.4) |
| Shanghai Comp | 3,088 | 3,051 | (1.2) |
| Sensex | 58,099 | 57,145 | (1.6) |
| Nifty | 17,327 | 17,016 | (1.8) |

Source: Bloomberg, Bank of Baroda Research

- Global currencies depreciated further. GBP fell by 1.6% to a record low led by concerns over the government's new fiscal measures. EUR too slipped by 0.8% to a 20-year low as Ifo's business climate index for Germany fell to a ~2-year low. DXY rose by 0.8% to a 20-year high. INR hit a new historic low of 81.63/\$. However, it is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

| | 23-09-2022 | 26-09-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 0.9687 | 0.9609 | (0.8) |
| GBP/USD | 1.0859 | 1.0689 | (1.6) |
| USD/JPY | 143.31 | 144.75 | (1.0) |
| USD/INR | 80.99 | 81.63 | (0.8) |
| USD/CNY | 7.1283 | 7.1372 | (0.1) |

Source: Bloomberg, Bank of Baroda Research



- Except India (lower), global yields closed higher. UK's 10Y yield shot up by 42bps as an expansionary fiscal policy and depreciating GBP raised expectations of aggressive policy response from BoE. US 10Y yield also rose by 24bps amidst hopes of faster pace of rate hikes by Fed. The spread between 2Y and 30Y paper widened to its sharpest since CY00. India's 10Y yield fell by 3bps (7.36%), supported by falling oil prices. It is trading lower at 7.34% today.

Fig 3 – Bond 10Y yield

| | 23-09-2022 | 26-09-2022 | change in bps |
|---------|------------|------------|---------------|
| US | 3.68 | 3.92 | 24 |
| UK | 3.83 | 4.24 | 42 |
| Germany | 2.02 | 2.12 | 9 |
| Japan | 0.24 | 0.25 | 2 |
| China | 2.68 | 2.70 | 2 |
| India | 7.39 | 7.36 | (3) |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 23-09-2022 | 26-09-2022 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 5.90 | 6.01 | 11 |
| Tbill-182 days | 6.40 | 6.54 | 14 |
| Tbill-364 days | 6.70 | 6.44 | (26) |
| G-Sec 2Y | 6.96 | 7.05 | 9 |
| SONIA int rate benchmark | 2.19 | 2.19 | 0 |
| US SOFR | 2.99 | 2.99 | 0 |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 23-09-2022 | 26-09-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.2) | (0.2) | 0 |
| Reverse repo | 0.4 | 0.5 | 0.1 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 22-09-2022 | 23-09-2022 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | (333.2) | (350.8) | (17.6) |
| Debt | (57.2) | (29.4) | 27.8 |
| Equity | (275.9) | (321.3) | (45.4) |
| Mutual funds (Rs cr) | (1,024.0) | (1,495.2) | (471.2) |
| Debt | (1,620.8) | (1,382.6) | 238.2 |
| Equity | 596.8 | (112.6) | (709.4) |

Source: Bloomberg, Bank of Baroda Research

- Crude oil prices fell further by 2.4% to a 9-month low of US\$ 84/bbl, weighed down by a stronger dollar and demand concerns.

Fig 7 – Commodities

| | 23-09-2022 | 26-09-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 86.2 | 84.1 | (2.4) |
| Gold (US\$/ Troy Ounce) | 1,643.9 | 1,622.4 | (1.3) |
| Copper (US\$/ MT) | 7,518.0 | 7,430.0 | (1.2) |
| Zinc (US\$/MT) | 3,020.3 | 2,936.0 | (2.8) |
| Aluminium (US\$/MT) | 2,165.0 | 2,139.5 | (1.2) |

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com