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Global equities and currencies fell in the aftermath of Fed policy. DXY gained to its highest since Jul'20. Stronger than expected Q4CY21 GDP growth in the US also bolstered expectations of aggressive rate hikes by Fed. In India, Sensex fell and bond yields rose ahead of the Union Budget.

- Except Dow (flat) and FTSE (higher), other global indices ended lower as investors monitored hawkish commentary by Fed. Amongst other indices, Nikkei (3.1%) dropped the most followed by Hang Seng (2%). Sensex (1%) too ended in red and was dragged down by IT and pharma stocks. However, it is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	27-01-2022	26-01-2022	% change
Dow Jones	34,161	34,168	0
S & P 500	4,327	4,350	(0.5)
FTSE	7,554	7,470	1.1
Nikkei	26,170	27,011	(3.1)
Hang Seng	23,807	24,290	(2.0)
Shanghai Comp	3,394	3,456	(1.8)
Sensex	57,277	57,858	(1.0)
Nifty	17,110	17,278	(1.0)

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

- Global currencies fell against the dollar. DXY rose by 0.8% to its highest since Jul'20 tracking hawkish comments from Fed and stronger than expected US Q4CY21 GDP growth. CNY fell by 0.7% as China's industrial profit growth slowed in Dec'21. INR depreciated by 0.4% led by global cues. It is trading further lower today, in line with other Asian currencies.

Fig 2 – Currencies

	27-01-2022	26-01-2022	% change
EUR/USD	1.1145	1.124	(0.8)
GBP/USD	1.3383	1.3463	(0.6)
USD/JPY	115.37	114.64	(0.6)
USD/INR	75.0688	74.7762	(0.4)
USD/CNY	6.3682	6.3209	(0.7)

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

- Barring US (lower), other global 10Y yields closed higher. India's 10Y yield rose the most, followed by UK, Germany and Japan. US 10Y yield dropped sharply as investors digested stronger than anticipated Q4CY21 GDP print and Fed policy guidance. India's 10Y yield rose by 9bps, following global cues and also ahead of the upcoming Union Budget. It is trading lower at 6.73% today, in line with other Asian bonds.



Fig 3 – Bond 10Y yield

	27-01-2022	26-01-2022	% change
US	1.80	1.86	(6)
UK	1.23	1.20	3
Germany	(0.06)	(0.07)	2
Japan	0.16	0.14	2
China	2.73	2.72	1
India	6.75	6.66	9

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

- Only 182-days T-Bill shot up by 4bps while 90-days and 365-days T-Bill fell by 1bps each. Investors remained cautious following announcement of Rs 5tn 14-day Variable Rate Reverse Repo auction to be held today.

Fig 4 – Short term rates

	27-01-2022	25-01-2022	% change
Tbill-91 days	3.71	3.72	(1)
Tbill-182 days	4.18	4.14	4
Tbill-365 days	4.49	4.50	(1)
G-Sec 2Y	4.82	4.69	13
AAACorp Spread 3Y	5.98	5.93	5
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	27-01-2022	26-01-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.2)	(5.2)	0
Reverse repo*	5.5	6.3	(0.8)
Repo*	0	0	0

Source: Bloomberg, Bank of Baroda Research *Fixed+Variable rate outstanding

Fig 6 – Capital market flows

	25-01-2022	24-01-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	(939.7)	(384.3)	(555.4)
Debt	(8.5)	138.6	(147.1)
Equity	(931.2)	(522.8)	(408.4)
Mutual funds (Rs cr)	868.3	(1,631.5)	2,499.8
Debt	1,103.9	(2,278.4)	3,382.4
Equity	(235.7)	646.9	(882.6)

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

- As Fed policy guidance overshadowed Ukraine and Russia tensions, both crude and gold prices fell. Strong US Q4CY21 GDP print also aided the case for Fed tightening and shifted investors focus from gold to DXY.

Fig 7 – Commodities

	27-01-2022	26-01-2022	% change
Brent crude (US\$/bbl)	89.3	90.0	(0.7)
Gold	1797.4	1819.6	(1.2)

Source: Bloomberg, Bank of Baroda Research



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