

MORNING MOCHA

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ECONOMIST
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In lacklustre trading week, global markets remained cautious over impact of China's reopening. Many countries imposed restrictions such as US and Italy, while Hong Kong followed China's path. In the US, pending home sales fell more than expected by 4.0% (est.: 1% decline) led by rising mortgage cost. In another blow to global output, chip production in South Korea fell to its lowest since CY09, falling by 15% on YoY basis. Elsewhere, BoJ defended its yield curve target by offering to buy unlimited amounts of 2Y paper at a yield of 0.030% and 5Y paper at 0.240%. It also offered to purchase ¥ 300bn of 1-10Y papers. In domestic market, RBI's 'Report on Trend and Progress of Banking', showed that in terms of capital and asset quality Indian banks are in a healthy position. Notably in the current TBill auction, for 91-day paper, the cut off yield fell by 8bps.

- Except FTSE and Hang Seng (higher), global stocks edged lower. US stocks fell the most as US pending home sales weakened further, suggesting continued stress in the housing sector. Nikkei fell by 0.4% led by losses in shipbuilding and textile stocks. Sensex fell marginally, with metal stocks declining the most. It is trading further lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	27-12-2022	28-12-2022	% change
Dow Jones	33,242	32,876	(1.1)
S & P 500	3,829	3,783	(1.2)
FTSE	7,473	7,497	0.3
Nikkei	26,448	26,341	(0.4)
Hang Seng	19,593	19,899	1.6
Shanghai Comp	3,096	3,087	(0.3)
Sensex	60,927	60,910	0
Nifty	18,132	18,123	(0.1)

Source: Bloomberg, Bank of Baroda Research, Note: Markets in UK and Hong Kong were closed on 27 Dec 2022

- Barring INR (flat), other global currencies fell against the dollar. DXY rose by 0.3% in line with the increase in US 10Y yield. JPY depreciated the most by 0.7% as BoJ minutes highlighted that it is likely to continue with the ultra-loose monetary policy. EUR and CNY fell by 0.3% each. INR is trading marginally stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	27-12-2022	28-12-2022	% change
EUR/USD (1 EUR / USD)	1.0640	1.0612	(0.3)
GBP/USD (1 GBP / USD)	1.2025	1.2018	(0.1)
USD/JPY (JPY / 1 USD)	133.49	134.47	(0.7)
USD/INR (INR / 1 USD)	82.86	82.87	0
USD/CNY (CNY / 1 USD)	6.9601	6.9819	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. Subdued growth environment globally, elevated inflationary concerns and unanticipated policy action by BoJ kept markets abreast. US 10Y yield rose by 4bps ahead of jobless claims data. On the other hand, Germany's 10Y yield fell by 2bps. India's 10Y yield rose a tad by 1bps (7.31%) in absence of fresh cues. It is trading at the same level today.

Fig 3 – Bond 10Y yield

	27-12-2022	28-12-2022	change in bps
US	3.84	3.88	4
UK	3.64	3.66	2
Germany	2.52	2.50	(2)
Japan	0.48	0.46	(1)
China	2.88	2.87	(1)
India	7.31	7.31	1

Source: Bloomberg, Bank of Baroda Research Note: Market UK was closed on 27 Dec 2022

Fig 4 – Short term rates

	27-12-2022	28-12-2022	change in bps
Tbill-91 days	6.40	6.33	(7)
Tbill-182 days	6.70	6.73	3
Tbill-364 days	6.87	6.87	0
G-Sec 2Y	6.98	6.95	(3)
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	27-12-2022	28-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.1)	(0.0)	0.1
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	26-12-2022	27-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	94.3	9.4	(85.0)
Debt	65.7	(10.2)	(75.9)
Equity	28.6	19.5	(9.1)
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, Note: Mutual fund data as of 21 and 22 Dec 2022

- International oil prices eased by 1.3% to US\$ 83.3/bbl as continued increase in Covid-19 cases in China raised concerns over demand outlook.

Fig 7 – Commodities

	27-12-2022	28-12-2022	% change
Brent crude (US\$/bbl)	84.3	83.3	(1.3)
Gold (US\$/ Troy Ounce)	1,813.7	1,804.4	(0.5)
Copper (US\$/ MT)	8,328.0	8,426.0	1.2
Zinc (US\$/MT)	2,987.0	3,025.0	1.3
Aluminium (US\$/MT)	2,389.5	2,381.0	(0.4)

Source: Bloomberg, Bank of Baroda Research



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