

MORNING MOCHA

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ECONOMIST
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Global markets are now expecting US Fed to pause rate hikes following its Jul'22 meeting. This is expected owing to fears of global growth slowdown. As an indication of that, China's industrial profits fell by (-) 8.5% in Apr'22, (a first in 2 years). Industry wise profits of manufacturing sector were down by 22.4%, while that utilities were down by 26.8%. Further with oil prices remaining elevated, input prices pressures are expected to pinch.

- Global indices ended in green supported by news reports of less aggressive monetary tightening by Fed on the signs of peaking inflation print and consumer spending. Amongst other indices, Hang Seng (2.9%) gained the most followed by S&P 500 (2.5%). Sensex (1.2%) to ended higher led by gains in technology and capital good stocks. It is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	26-05-2022	27-05-2022	% change
Dow Jones	32,637	33,213	1.8
S & P 500	4,058	4,158	2.5
FTSE	7,565	7,585	0.3
Nikkei	26,605	26,782	0.7
Hang Seng	20,116	20,697	2.9
Shanghai Comp	3,123	3,130	0.2
Sensex	54,253	54,885	1.2
Nifty	16,170	16,352	1.1

Source: Bloomberg, Bank of Baroda Research

- Barring INR and JPY (flat), other global currencies closed higher against the dollar. DXY declined by 0.2% with expectations of Fed hitting a pause on rate hike in the latter half of the year, after incorporating rate hikes in June and July meeting. Euro was up by 0.1% on the back of hawkish comments by ECB. INR is trading higher today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	26-05-2022	27-05-2022	% change
EUR/USD	1.0725	1.0735	0.1
GBP/USD	1.2600	1.2631	0.2
USD/JPY	127.12	127.11	0
USD/INR	77.58	77.57	0
USD/CNY	6.7389	6.6994	0.6

Source: Bloomberg, Bank of Baroda Research

- Barring India and China (higher), other global yields fell. UK (5bps) and Germany's (4bps) 10Y yield fell the most, followed by US (1bps), led by growing concerns over growth slowdown. Analysts also expect that this will imply that Fed might pause rate hikes in the latter part of the year. India's 10Y yield closed



higher (6bps) at 7.35%, owing to higher oil prices and weak demand at RBI's latest G-sec auction.

Fig 3 – Bond 10Y yield

	26-05-2022	27-05-2022	change in bps
US	2.75	2.74	(1)
UK	1.97	1.92	(5)
Germany	1.00	0.96	(4)
Japan	0.24	0.23	(1)
China	2.74	2.75	1
India	7.29	7.35	6

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	26-05-2022	27-05-2022	% change
Tbill-91 days	4.9	4.9	(1)
Tbill-182 days	5.4	5.4	0
Tbill-364 days	5.9	5.9	2
G-Sec 2Y	6.3	6.3	3
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	26-05-2022	27-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.1)	(3.0)	0.1
Reverse repo	3.1	3.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	25-05-2022	26-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(174.8)	(21.2)	153.6
Debt	33.8	51.5	17.6
Equity	(208.6)	(72.7)	135.9
Mutual funds (Rs cr)	1,349.5	(2,868.9)	(4,218.4)
Debt	1,230.6	(2,257.8)	(3,488.4)
Equity	118.9	(611.1)	(730.0)

Source: Bloomberg, Bank of Baroda Research

- Crude prices rose by 1.7% to US\$ 119/bbl on hopes of higher demand from the US, and continued uncertainty around EU embargo on Russian oil imports. Gold too rose by 0.2% as US\$ retreated.

Fig 7 – Commodities

	26-05-2022	27-05-2022	% change
Brent crude (US\$/bbl)	117.4	119.4	1.7
Gold (US\$/ Troy Ounce)	1,850.6	1,853.7	0.2
Copper (US\$/ MT)	9,345.5	9,453.5	1.2
Zinc (US\$/MT)	3,745.0	3,867.0	3.3
Aluminium (US\$/MT)	2,865.0	2,871.5	0.2

Source: Bloomberg, Bank of Baroda Research



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