

MORNING MOCHA

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ECONOMIST
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EU countries have reached an agreement to ban most of Russian oil imports under the 6th set of sanctions on Russia. The President of European Council has confirmed that this move will immediately impact 75% of Russian oil imports and ~90% imports will be impacted by end of CY22. As a result, oil breached the US\$ 120/bbl mark. Germany's inflation at 8.7% in May'22 (7.8% in Apr'22) is already feeling the brunt of higher oil prices. Analysts expect ECB to hike rate earlier than anticipated. In US as the inflation is estimated to have peaked, Fed is expected to pause after July, thus lending support to global markets.

- Global stocks rose further amidst an improvement in risk appetite. Reports of easing lockdown curbs in Shanghai and fresh stimulus measures to support growth boosted investor sentiments. Nikkei rose by 2.2%. Sensex too edged up by 1.9%, led by gains in consumer durables, real estate and technology stocks. However, it is trading lower today while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	27-05-2022	30-05-2022	% change
Dow Jones	32,637	33,213	1.8
S & P 500	4,058	4,158	2.5
FTSE	7,585	7,600	0.2
Nikkei	26,782	27,369	2.2
Hang Seng	20,697	21,124	2.1
Shanghai Comp	3,130	3,149	0.6
Sensex	54,885	55,926	1.9
Nifty	16,352	16,661	1.9

Source: Bloomberg, Bank of Baroda Research; Note: US markets were closed on 30.5.2022

- Except JPY (lower), other global currencies closed higher against the dollar. EUR rose by 0.4% as Germany's CPI inflation surged in May'22, bolstering hopes of rate hike by ECB. CNY too rose by 0.6% on reports of relaxation of Covid-19 curbs and fresh stimulus measures. INR closed flat even as oil prices edged up. However, it is trading lower today in line with other Asian currencies.

Fig 2 – Currencies

	27-05-2022	30-05-2022	% change
EUR/USD	1.0735	1.0779	0.4
GBP/USD	1.2631	1.2652	0.2
USD/JPY	127.11	127.59	(0.4)
USD/INR	77.57	77.54	0
USD/CNY	6.6994	6.6614	0.6

Source: Bloomberg, Bank of Baroda Research; Note: US markets were closed on 30.5.2022

- Barring Japan (flat) and US (closed), other global yields rose. Germany (9bps) and UK's (7bps) 10Y yields rose the most. Relaxation in Covid-19 restrictions in major cities of China helped boost investor sentiment. Also, record high inflation



in Germany made a stronger case for ECB rate hike. India's 10Y yield closed higher (6bps) at 7.41%, tracking jump in oil prices.

Fig 3 – Bond 10Y yield

	30-05-2022	30-05-2022	change in bps
US	2.75	2.74	(1)
UK	1.92	1.99	7
Germany	0.96	1.06	9
Japan	0.23	0.24	0
China	2.75	2.77	3
India	7.35	7.41	6

Source: Bloomberg, Bank of Baroda Research; Note: US markets were closed on 30.5.2022

Fig 4 – Short term rates

	27-05-2022	30-05-2022	% change
Tbill-91 days	4.9	4.9	3
Tbill-182 days	5.4	5.4	1
Tbill-364 days	5.9	5.9	2
G-Sec 2Y	6.3	6.4	4
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research; Note: US markets were closed on 30.5.2022

Fig 5 – Liquidity

Rs tn	27-05-2022	30-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.0)	(3.0)	0
Reverse repo	3.1	3.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	26-05-2022	27-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(21.2)	(440.9)	(419.7)
Debt	51.5	(37.0)	(88.4)
Equity	(72.7)	(403.9)	(331.2)
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; Note: Mutual fund data pertains to 25 and 26 May 2022

- Crude prices rose by 1.9% to US\$ 122/bbl as EU countries reached an agreement to ban most (90%) of Russian oil imports by the end of CY22. Gold too rose a tad by 0.1% as US\$ retreated further.

Fig 7 – Commodities

	27-05-2022	30-05-2022	% change
Brent crude (US\$/bbl)	119.4	121.7	1.9
Gold (US\$/ Troy Ounce)	1,853.7	1,855.2	0.1
Copper (US\$/ MT)	9,453.5	9,537.5	0.9
Zinc (US\$/MT)	3,867.0	3,922.3	1.4
Aluminium (US\$/MT)	2,871.5	2,888.5	0.6

Source: Bloomberg, Bank of Baroda Research



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