

MORNING MOCHA

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ECONOMIST
Aditi Gupta

Bank of England (BoE) raised policy rates by an expected 50bps (biggest rate hike since CY95), as it attempts to tame skyrocketing inflation. It said that CPI inflation is likely to peak at 13% in Oct'22. It further noted that UK is likely to slip into recession in Q4CY22 and emerge from it only in early CY24. Elsewhere in US, labour market conditions softened as jobless claims rose its highest since Nov'21. Oil prices crashed and yield curve inversion in US and UK deepened amidst fears of a looming recession. US jobs report due later today will be keenly awaited. In India, markets await the monetary policy decision of RBI.

- Global indices ended mixed. Equity indices in US ended lower led by losses in energy stocks as oil prices crashed to a 6-month low. FTSE ended flat as BoE warned of the possibility of a prolonged recession in UK. Sensex declined by 0.1% as real estate and banking stocks slipped. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

| | 3-08-2022 | 4-08-2022 | % change |
|---------------|-----------|-----------|----------|
| Dow Jones | 32,813 | 32,727 | (0.3) |
| S & P 500 | 4,155 | 4,152 | (0.1) |
| FTSE | 7,446 | 7,448 | 0 |
| Nikkei | 27,742 | 27,932 | 0.7 |
| Hang Seng | 19,767 | 20,174 | 2.1 |
| Shanghai Comp | 3,164 | 3,189 | 0.8 |
| Sensex | 58,351 | 58,299 | (0.1) |
| Nifty | 17,388 | 17,382 | 0) |

Source: Bloomberg, Bank of Baroda Research

- Except INR (lower), other global currencies strengthened. DXY fell by 0.8% as US jobless claims rose last week. EUR rose the most by 0.8% as Germany's factory orders declined less than expected in Jun'22. GBP rose by 0.1% as BoE raised rate by 50bps. INR depreciated by 0.4% on concerns over widening trade deficit. It is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

| | 3-08-2022 | 4-08-2022 | % change |
|---------|-----------|-----------|----------|
| EUR/USD | 1.0166 | 1.0246 | 0.8 |
| GBP/USD | 1.2149 | 1.2160 | 0.1 |
| USD/JPY | 133.86 | 132.89 | 0.7 |
| USD/INR | 79.16 | 79.47 | (0.4) |
| USD/CNY | 6.7580 | 6.7493 | 0.1 |

Source: Bloomberg, Bank of Baroda Research

- Except China (stable), global yields closed lower amidst tensions surrounding Taiwan. Further recession risk along with central banks' aggressive approach for price stability also added to woes. Notably in US, inversion between 2Y and



10Y paper was the sharpest since CY00. For UK as well, this similar inversion happened for the first time since CY19. India's 10Y yield fell sharply by 8bps (7.16%) as declining yields on short term papers and OIS curve indicates a cautious move by RBI. It is trading further lower 7.11% today.

Fig 3 – Bond 10Y yield

| | 3-08-2022 | 4-08-2022 | change in bps |
|---------|-----------|-----------|---------------|
| US | 2.70 | 2.69 | (2) |
| UK | 1.91 | 1.89 | (2) |
| Germany | 0.87 | 0.80 | (7) |
| Japan | 0.19 | 0.18 | (1) |
| China | 2.73 | 2.73 | 0 |
| India | 7.24 | 7.16 | (8) |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 3-08-2022 | 4-08-2022 | change in bps |
|--------------------------|-----------|-----------|---------------|
| Tbill-91 days | 5.55 | 5.50 | (5) |
| Tbill-182 days | 5.88 | 5.68 | (20) |
| Tbill-364 days | 6.21 | 6.15 | (6) |
| G-Sec 2Y | 6.35 | 6.35 | 0 |
| SONIA int rate benchmark | 1.19 | 1.19 | 0 |
| US SOFR | 2.30 | 2.29 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 3-08-2022 | 4-08-2022 | change (Rs tn) |
|-----------------------------------|-----------|-----------|----------------|
| Net Liquidity (-Surplus/+deficit) | (1.9) | (1.9) | 0 |
| Reverse repo | 0.4 | 0.4 | 0 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 2-08-2022 | 3-08-2022 | change (US\$ mn/Rs cr) |
|----------------------|-----------|-----------|------------------------|
| FII (US\$ mn) | 193.8 | 508.2 | 314.4 |
| Debt | (17.7) | 5.0 | 22.6 |
| Equity | 211.5 | 503.2 | 291.7 |
| Mutual funds (Rs cr) | 122.3 | (152.0) | (274.2) |
| Debt | (1,036.6) | (1,134.4) | (97.8) |
| Equity | 1,158.8 | 982.4 | (176.4) |

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 26th and 27th Jul 2022

- Crude prices fell by 2.7% to US\$ 94/bbl amidst concerns of muted demand. Gold prices rose by 1.5% as recession fears increased demand for safe haven.

Fig 7 – Commodities

| | 3-08-2022 | 4-08-2022 | % change |
|-------------------------|-----------|-----------|----------|
| Brent crude (US\$/bbl) | 96.8 | 94.1 | (2.7) |
| Gold (US\$/ Troy Ounce) | 1,765.3 | 1,791.3 | 1.5 |
| Copper (US\$/ MT) | 7,671.8 | 7,720.2 | 0.6 |
| Zinc (US\$/MT) | 3,389.0 | 3,576.5 | 5.5 |
| Aluminium (US\$/MT) | 2,378.0 | 2,403.0 | 1.1 |

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com