

MORNING MOCHA

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ECONOMIST
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Latest data for US labour market shows that conditions continue to remain tighter than expected, as non-farm payrolls rose by 263k in Nov'22 versus consensus estimate of 200k, but additions have slowed from previous month's 284k. It is widely expected that Fed will begin slowing the pace of rate hikes from Dec'22 meeting. However, steady YoY rise in hourly wage (+5.1% in Nov'22 versus est.: 4.6% and 4.9% in Oct'22), remains a concern for inflation. In case of Europe, MoM dip in France's industrial production (-2.6% in Oct'22 versus -0.9% in Sep'22) and elevated PPI in Eurozone (30.8% in Oct'22) is worrying. OPEC+ decision to keep production cuts unchanged and of China loosening Covid-19 restrictions may put upward pressure on commodity prices.

- Barring Dow Jones and FTSE (flat), other global indices ended lower. Investors monitored better than expected US non-farm payrolls data. Amongst other indices, Nikkei (1.6%) dropped the most. Sensex (0.7%) too ended in red led by sharp losses in power and auto stocks. It is trading further lower today while other Asian stocks are trading higher.

Fig 1 – Stock markets

	01-12-2022	02-12-2022	% change
Dow Jones	34,395	34,430	0.1
S & P 500	4,077	4,072	(0.1)
FTSE	7,558	7,556	(0.0)
Nikkei	28,226	27,778	(1.6)
Hang Seng	18,736	18,675	(0.3)
Shanghai Comp	3,165	3,156	(0.3)
Sensex	63,284	62,869	(0.7)
Nifty	18,813	18,696	(0.6)

Source: Bloomberg, Bank of Baroda Research

- Apart from INR and CNY (flat), other global currencies ended higher. Dollar index dropped (-0.2%) to more than 3-month low, after Fed chair signalled about slower pace of rate hike. Japanese Yen leaped ahead after BoJ policymaker made comments hinting a hawkish tilt. INR depreciated by 0.1%. It is trading lower today, while other Asian currencies are trading higher.

Fig 2 – Currencies

	1-12-2022	2-12-2022	% change
EUR/USD (1 EUR / USD)	1.0520	1.0535	0.1
GBP/USD (1 GBP / USD)	1.2247	1.2280	0.3
USD/JPY (JPY / 1 USD)	135.33	134.31	0.8
USD/INR (INR / 1 USD)	81.22	81.32	(0.1)
USD/CNY (CNY / 1 USD)	7.0534	7.0535	0

Source: Bloomberg, Bank of Baroda Research



- Barring Japan and US, global yields inched up. While US 10Y was down by 2bps as smaller rate hike is expected in Dec'22 policy meeting, yields in UK (+5bps) and Germany (+4bps) rose the most. Yields in UK rose as BoE has begun the process of unwinding its balance sheet by selling securities as per market appetite. India's 10Y yield rose a tad and is trading at 7.23% today.

Fig 3 – Bond 10Y yield

	1-12-2022	2-12-2022	change in bps
US	3.50	3.49	(2)
UK	3.10	3.15	5
Germany	1.81	1.86	4
Japan	0.25	0.26	0
China	2.90	2.91	1
India	7.21	7.22	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	1-12-2022	2-12-2022	change in bps
Tbill-91 days	6.35	6.32	(3)
Tbill-182 days	6.69	6.69	0
Tbill-364 days	6.82	6.80	(2)
G-Sec 2Y	6.84	6.80	(3)
SONIA int rate benchmark	2.93	2.93	0
US SOFR	3.82	3.82	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	1-12-2022	2-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.7)	0
Reverse repo	0.5	0	(0.5)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-11-2022	1-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	1,132.5	(173.6)	(1,306.1)
Debt	40.2	8.2	(32.1)
Equity	1,092.3	(181.8)	(1,274.1)
Mutual funds (Rs cr)	(268.8)	1,761.8	2,030.6
Debt	(49.7)	1,849.0	1,898.6
Equity	(219.1)	(87.1)	132.0

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 25 Nov 2022 and 28 Nov 2022

- Crude oil prices remained broadly unchanged as US rig count remained steady in the week. Investors will react to OPEC+ decision to keep output cut unchanged and Europe's Russian oil ban.

Fig 7 – Commodities

	1-12-2022	2-12-2022	% change
Brent crude (US\$/bbl)	85.4	85.3	(0.1)
Gold (US\$/ Troy Ounce)	1,749.7	1,755.2	0.3
Copper (US\$/ MT)	7,962.3	8,003.0	0.5
Zinc (US\$/MT)	2,900.3	2,910.8	0.4
Aluminium (US\$/MT)	2,397.0	2,367.5	(1.2)

Source: Bloomberg, Bank of Baroda Research



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