

MORNING MOCHA

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In line with expectations, Fed hiked the policy rate by 50bps, biggest jump in over 22-years and also announced measures to reduce its US\$ 9tn balance sheet starting next month. However, Fed Chair has ruled out the possibility of 75bps rate hike in the coming future. Global yield and equity indices ended mixed. On the domestic front, RBI surprised with repo rate hike of 40bps and CRR of 50bps as inflation becomes a major threat. India's 10Y yield rose by 26bps (3-year high). There is likelihood of more such hikes in the coming months.

- Global indices ended mixed as investors monitored Fed's decision of hiking rates in line with expectations. Amongst other indices, S&P 500 (3.0%) rose the most. On the other hand, European indices dipped on the back of disappointing retail sales print. FTSE was down by 0.9%. Sensex (2.3%) nosedived after RBI surprised with the rate hike decision. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	03-05-2022	04-05-2022	% change
Dow Jones	33,129	34,061	2.8
S & P 500	4,175	4,300	3.0
FTSE	7,561	7,493	(0.9)
Nikkei	26,848	26,819	(0.1)
Hang Seng	21,102	20,870	(1.1)
Shanghai Comp	2,975	3,047	2.4
Sensex	56,976	55,669	(2.3)
Nifty	17,069	16,678	(2.3)

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed higher as dollar retreated following Fed policy decision. DXY fell by 0.8% as Fed Chair brushed aside the possibility of 75bps rate hikes in the near future. GBP rose the most by 1.1% ahead of BoE policy decision. EUR and JPY strengthened by 1% and 0.8% each. INR rose by 0.1% as RBI hiked rate by 40bps. It is trading further higher today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	03-05-2022	04-05-2022	% change
EUR/USD	1.0521	1.0622	1.0
GBP/USD	1.2499	1.2631	1.1
USD/JPY	130.14	129.09	0.8
USD/INR	76.52	76.42	0.1
USD/CNY	6.6266	6.6085	0.3

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. US 10Y yield fell by 4bps as Fed Chair stated that the Fed is "not actively considering" a 75bps rate hike. UK's 10Y yield rose by



1bps as investors expect BoE to raise interest rates by 25bps in its meeting scheduled today. India's 10Y yield rose sharply by 26bps to 7.38% (3-year high) as RBI delivered a surprise repo rate hike of 40bps. Investors expect RBI to hike rates again in its Jun'22 policy. It is trading further higher at 7.43% today.

Fig 3 – Bond 10Y yield

	03-05-2022	04-05-2022	change in bps
US	2.97	2.93	(4)
UK	1.96	1.97	1
Germany	0.97	0.97	1
Japan	0.23	0.23	0
China	2.85	2.84	(1)
India	7.12	7.38	26

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	03-05-2022	04-05-2022	% change
Tbill-91 days	4.04	4.03	(1)
Tbill-182 days	4.28	4.42	14
Tbill-364 days	4.77	4.82	5
G-Sec 2Y	5.51	5.59	8
SONIA int rate benchmark	0.69	0.69	0
US SOFR	0.30	0.30	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	02-05-2022	04-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(5.3)	(5.7)	(0.4)
Reverse repo	5.0	5.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	29-04-2022	02-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(398.7)	(11.9)	386.7
Debt	36.4	(186.5)	(222.9)
Equity	(435.0)	174.6	609.6
Mutual funds (Rs cr)	1,595.5	1,594.6	(1.0)
Debt	161.1	(105.7)	(266.8)
Equity	1,434.5	1,700.3	265.8

Source: Bloomberg, Bank of Baroda Research

- Crude prices surged by 4.9% to US\$ 110/bbl led by news of European Commission considering phased oil embargo on Russia along with sanctioning it's top banks. With inventories already restricted, this is likely to add pressure on prices. Gold prices continued to move up as dollar dipped further.

Fig 7 – Commodities

	03-05-2022	04-05-2022	% change
Brent crude (US\$/bbl)	105.0	110.1	4.9
Gold (US\$/ Troy Ounce)	1,868.1	1,881.2	0.7
Copper (US\$/ MT)	9,405.8	9,468.0	0.7
Zinc (US\$/MT)	3,988.8	3,986.3	(0.1)
Aluminium (US\$/MT)	2,911.0	2,953.0	1.4

Source: Bloomberg, Bank of Baroda Research



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