

MORNING MOCHA

06 December 2022

ECONOMIST
Jahnvi

Fears of more rate hikes by Fed daunted market sentiments. This was led by strengthening of US economy as has been reflected by unexpected improvement in ISM non-manufacturing PMI (56.5 from 54.5). A 50bps rate hike is already priced in the upcoming meet with terminal rates hitting above 5% by May'23. Moving in tandem with other Central Bank, Australia too raised the rates for the 3rd consecutive time by 25bps to 3.1% (10-year high) and signalled the requirement of more tightening ahead. Investors carefully observed as China begins to gradually ease off Covid-19 restrictions and begins opening the economy in hopes of normalisation

- Barring US indices and Sensex, other global indices ended lower. Investors' sentiments were soured as there is much higher possibility of rate hikes by Fed than initially anticipated. On the other hand, lifting down of restrictions in China pushed Asian indices higher. Sensex started the week in red and was dragged down by losses in IT and auto stocks. It is trading further lower today while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	02-12-2022	05-12-2022	% change
Dow Jones	34,430	33,947	(1.4)
S & P 500	4,072	3,999	(1.8)
FTSE	7,556	7,568	0.1
Nikkei	27,778	27,820	0.2
Hang Seng	18,675	19,518	4.5
Shanghai Comp	3,156	3,212	1.8
Sensex	62,869	62,835	(0.1)
Nifty	18,696	18,701	0

Source: Bloomberg, Bank of Baroda Research

- Except CNY, global currencies broadly depreciated against the dollar. DXY rose by 0.7% supported by upbeat macro data in the US, which raised the hopes that terminal Fed rate may be above 5%. JPY depreciated the most by 1.8% followed by INR at 0.6%. CNY was supported by easing Covid-19 related restrictions in the region. INR is trading further weaker today, while other Asian currencies are trading higher.

Fig 2 – Currencies

	02-12-2022	05-12-2022	% change
EUR/USD (1 EUR / USD)	1.0535	1.0491	(0.4)
GBP/USD (1 GBP / USD)	1.2280	1.2190	(0.7)
USD/JPY (JPY / 1 USD)	134.31	136.75	(1.8)
USD/INR (INR / 1 USD)	81.32	81.80	(0.6)
USD/CNY (CNY / 1 USD)	7.0535	6.9625	1.3

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield firmed up by 9bps supported by better macro print (ISM services, durable goods orders). UK's 10Y yield fell by 5bps as CBI report indicated that Britain could shrink into recession in CY23. Japan and India's 10Y yield closed stable. India's 10Y yield is trading a tad higher at 7.24% today ahead of RBI's policy decision.

Fig 3 – Bond 10Y yield

	02-12-2022	05-12-2022	change in bps
US	3.49	3.57	9
UK	3.15	3.10	(5)
Germany	1.86	1.88	2
Japan	0.26	0.26	0
China	2.91	2.92	1
India	7.22	7.23	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	02-12-2022	05-12-2022	change in bps
Tbill-91 days	6.32	6.31	(1)
Tbill-182 days	6.69	6.68	(1)
Tbill-364 days	6.80	6.78	(2)
G-Sec 2Y	6.80	6.81	1
SONIA int rate benchmark	2.93	2.93	0
US SOFR	3.82	3.81	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	04-12-2022	05-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.9)	(1.5)	0.4
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	01-11-2022	02-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(173.6)	155.5	329.1
Debt	8.2	109.4	101.2
Equity	(181.8)	46.1	227.9
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 dropped by 3.4% to US\$82.7/bbl. Investors were cautious monitoring OPEC + plans to continue with the Oct'22 plan of reducing output by 2mn bbl per day. Gold prices also edged downwards.

Fig 7 – Commodities

	02-12-2022	05-12-2022	% change
Brent crude (US\$/bbl)	85.6	82.7	(3.4)
Gold (US\$/ Troy Ounce)	1,797.6	1,768.7	(1.6)
Copper (US\$/ MT)	8,432.5	8,348.5	(1.0)
Zinc (US\$/MT)	3,085.3	3,139.5	1.8
Aluminium (US\$/MT)	2,545.5	2,522.5	(0.9)

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com