

## MORNING MOCHA

06 June 2022

ECONOMIST  
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China's Caixin Services PMI print, was at 41.4 in May'22, better than 36.2 in Apr'22; albeit remaining in contraction. BoJ governor said monetary stimulus will be forthcoming and commented on inflation being transitory. US nonfarm payroll print rose by 390,000, higher than expectation of 325,000 in May'22. US CPI data is also scheduled to be released in the current week. Oil prices remained elevated (US\$ 120/bbl) despite OPEC+ decision to increase supply. On the domestic front, RBI policy will shed light on rates, liquidity and inflation trajectory.

- Global indices ended lower as investors monitored global data print. US jobs report came in better than anticipated, once again raising the likelihood of aggressive rate hike by the Fed. Further, Australia is also expected to hike rates on the back of accelerating inflation (14-year high in May'22). S&P 500 dropped the most (1.6%), amongst other indices. Sensex (0.1%) too ended in red led by losses in auto stocks. It is trading lower today; while Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	02-06-2022	03-06-2022	% change
Dow Jones	33,248	32,900	(1.0)
S & P 500	4,177	4,109	(1.6)
FTSE	7,608	7,533	(1.0)
Nikkei	27,414	27,762	1.3
Hang Seng	21,295	21,082	(1.0)
Shanghai Comp	3,182	3,195	0.4
Sensex	55,818	55,769	(0.1)
Nifty	16,628	16,584	(0.3)

Source: Bloomberg, Bank of Baroda Research, UK markets were closed on 2<sup>nd</sup> and 3<sup>rd</sup> Jun 2022

- Apart from INR (flat), global currencies ended higher. DXY gained by 0.3% on the back of better than expected jobs reports, signalling a tighter labor market. The data print is supportive of more aggressive rate hike by the Fed. EUR dropped by 0.3% ahead of the ECB policy scheduled later this week. INR is trading higher today; while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

	02-06-2022	03-06-2022	% change
EUR/USD	1.0747	1.0719	(0.3)
GBP/USD	1.2578	1.2488	(0.7)
USD/JPY	129.84	130.88	(0.8)
USD/INR	77.61	77.63	0
USD/CNY	6.6862	6.6603	0.4

Source: Bloomberg, Bank of Baroda Research

- Except Japan (lower), global yields closed higher. Germany's 10Y yield rose the most by 4bps as investors are expecting a rate hike from ECB on the back of



persistent record high inflation. US 10Y yield rose by 3bps on the back of comments from Cleveland Fed President about a 50bps hike in Jul'22. Japan's 10Y yield fell by 1bps as BoJ Governor spoke of monetary stimulus. India's 10Y yield rose by 2bps (7.46%) as cut off yield in the auction was higher compared to last auction. It is trading further higher at 7.5% today, ahead of the policy.

**Fig 3 – Bond 10Y yield**

	02-06-2022	03-06-2022	change in bps
US	2.91	2.93	3
UK	2.10	2.16	5
Germany	1.24	1.27	4
Japan	0.24	0.23	(1)
China	2.80	2.81	1
India	7.43	7.46	2

Source: Bloomberg, Bank of Baroda Research, UK markets were closed on 2<sup>nd</sup> and 3<sup>rd</sup> Jun 2022

**Fig 4 – Short term rates**

	02-06-2022	03-06-2022	% change
Tbill-91 days	4.9	4.9	0
Tbill-364 days	6.1	6.1	1
G-Sec 2Y	6.4	6.5	8
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	02-06-2022	03-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.6)	(3.4)	0.2
Reverse repo	3.0	0.3	(2.7)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	01-06-2022	02-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(109.4)	0.8	110.3
Debt	(16.3)	74.5	90.8
Equity	(93.1)	(73.7)	19.5
Mutual funds (Rs cr)	2,204.1	151.3	(2,052.8)
Debt	1,143.4	123.3	(1,020.0)
Equity	1,060.7	27.9	(1,032.8)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 30th May and 1<sup>st</sup> Jun 2022

- Crude prices rose by 1.8% to US\$ 120/bbl despite OPEC+ decision to increase output by 648,000/bpd/month against 432,000bpd/month earlier. Gold prices fell by 0.9% as dollar strengthened.

**Fig 7 – Commodities**

	02-06-2022	03-06-2022	% change
Brent crude (US\$/bbl)	117.6	119.7	1.8
Gold (US\$/ Troy Ounce)	1,868.6	1,851.2	(0.9)
Copper (US\$/ MT)	9,445.5	9,498.5	0.6
Zinc (US\$/MT)	3,939.0	3,884.5	(1.4)
Aluminium (US\$/MT)	2,787.0	2,726.0	(2.2)

Source: Bloomberg, Bank of Baroda Research



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