

MORNING MOCHA

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ECONOMIST
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FOMC meeting minutes highlighted that Fed officials might raise policy rates by 50bps in the next meeting. Further, FOMC members “generally agreed” on reducing its balance sheet at a much faster pace of US\$ 95bn/month. This is almost double the pace seen during 2017 to 2019. Thus, bond yields edged up, stocks declined and USD strengthened. Investors also continued to monitor developments surrounding fresh US sanctions as well as possibility of debt default by Russia.

- Barring Shanghai Comp (flat), other global indices ended lower. Faster pace of tightening by Fed and concerns over Russia-Ukraine situation kept investors on edge. Asian stocks declined sharply led by Hang Seng (1.9%) and Nikkei (1.6%). Sensex also fell by 0.9%, led by decline in tech and banking stocks. It is trading further lower today, in line with other Asian stocks.

Fig 1 – Stock markets

	5-04-2022	6-04-2022	% change
Dow Jones	34,641	34,497	(0.4)
S & P 500	4,525	4,481	(1.0)
FTSE	7,614	7,588	(0.3)
Nikkei	27,788	27,350	(1.6)
Hang Seng	22,502	22,081	(1.9)
Shanghai Comp	3,283	3,283	0
Sensex	60,177	59,610	(0.9)
Nifty	17,957	17,808	(0.8)

Source: Bloomberg, Bank of Baroda Research

- Except GBP and CNY (flat), other global currencies closed lower. DXY rose by 0.1% to hover around a 2-year high, as FOMC minutes raised expectations of aggressive policy tightening. EUR depreciated by 0.1% as Germany’s factory orders fell more than expected. INR too fell by 0.6% weighed down by a stronger dollar. Asian currencies are trading lower today.

Fig 2 – Currencies

	5-04-2022	6-04-2022	% change
EUR/USD	1.0905	1.0896	(0.1)
GBP/USD	1.3074	1.3069	0
USD/JPY	123.60	123.80	(0.2)
USD/INR	75.33	75.76	(0.6)
USD/CNY	6.3629	6.3598	0

Source: Bloomberg, Bank of Baroda Research

- Except China (lower), global yields closed higher. US 10Y yield rose by 5bps as Fed minutes showed that shrinking of balance sheet will happen at a much faster pace. China’s 10Y yield closed lower by 2bps as its Cabinet vowed for



stimulus to overcome the pandemic situation. India's 10Y yield rose by 2bps to 6.92% ahead of RBI policy meeting.

Fig 3 – Bond 10Y yield

	5-04-2022	6-04-2022	change in bps
US	2.55	2.60	5
UK	1.65	1.70	5
Germany	0.61	0.65	3
Japan	0.22	0.25	3
China	2.78	2.76	(2)
India	6.90	6.92	2

Source: Bloomberg, Bank of Baroda Research

- Yields on 91-days TBill rose the most by 14bps. In the latest auction, cut off yield for 91-days TBill rose by 3bps and for 364-days, it fell by 2bps.

Fig 4 – Short term rates

	5-04-2022	6-04-2022	% change
Tbill-91 days	3.71	3.85	14
Tbill-182 days	4.20	4.20	0
Tbill-364 days	4.53	4.54	1
G-Sec 2Y	5.01	5.05	5
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	5-04-2022	6-04-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(8.0)	(7.9)	0.1
Reverse repo	2.8	8.3	5.5
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	4-04-2022	5-04-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	237.9	490.6	252.7
Debt	45.9	28.1	(17.8)
Equity	192.0	462.5	270.5
Mutual funds (Rs cr)	(14.2)	4,355.1	4,369.3
Debt	2.0	2,730.0	2,728.0
Equity	(16.2)	1,625.1	1,641.2

Source: Bloomberg, Bank of Baroda Research | Data for Mutual Funds pertains to 1 and 4 Apr 2022

- Crude prices fell by 5.2% to US\$ 101/bbl supported by IEA's decision to deploy 60mn barrels from emergency stockpiles. Gold prices rose by 0.1% on safe haven demand, over fresh sanctions on Russia.

Fig 7 – Commodities

	5-04-2022	6-04-2022	% change
Brent crude (US\$/bbl)	106.6	101.1	(5.2)
Gold (US\$/ Troy Ounce)	1,923.6	1,925.4	0.1
Copper (US\$/ MT)	10,433.0	10,286.8	(1.4)
Zinc (US\$/MT)	4,330.9	4,294.3	(0.8)
Aluminum (US\$/MT)	3,465.0	3,441.0	(0.7)

Source: Bloomberg, Bank of Baroda Research



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