

## MORNING MOCHA

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ECONOMIST  
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US Fed minutes highlighted that the MPC members were concerned about inflation getting “entrenched” and hence batted for a “more restrictive” monetary policy even though it might impinge on growth. Elsewhere, EUR continued to slide amidst rising fears of recession, while DXY gained on safe-haven demand. In India, RBI announced a slew of measures to shore up foreign inflows. This should help stabilise INR amidst fears of a widening CAD.

- Global indices ended mixed. US stocks ended higher as US ISM services PMI was better than expected. Shanghai Comp ended lower by 1.4%, amidst reports of fresh Covid-19 outbreaks. Stocks in Japan and Hong Kong fell as fears of a global recession loomed. Sensex rose by 1.2% led by gains in auto and real estate sectors. It is trading further higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	5-07-2022	6-07-2022	% change
Dow Jones	30,968	31,038	0.2
S & P 500	3,831	3,845	0.4
FTSE	7,025	7,108	1.2
Nikkei	26,423	26,108	(1.2)
Hang Seng	21,853	21,587	(1.2)
Shanghai Comp	3,404	3,355	(1.4)
Sensex	53,134	53,751	1.2
Nifty	15,811	15,990	1.1

Source: Bloomberg, Bank of Baroda Research

- Except INR and CNY (higher), other global currencies closed lower. DXY rose by 0.3% amidst expectation of further rate hikes by Fed. EUR depreciated the most by 0.8% as Eurozone’s retail sales rose less than expected in May’22. GBP fell by 0.2% amidst ongoing political turmoil. INR strengthened by 0.1% as oil prices eased. It is trading further higher today supported by RBI’s measures to boost foreign inflows. Other Asian currencies are also trading higher.

**Fig 2 – Currencies**

	5-07-2022	6-07-2022	% change
EUR/USD	1.0266	1.0182	(0.8)
GBP/USD	1.1947	1.1926	(0.2)
USD/JPY	135.85	135.95	(0.1)
USD/INR	79.36	79.30	0.1
USD/CNY	6.7197	6.7080	0.2

Source: Bloomberg, Bank of Baroda Research

- Except India (lower) and China (flat), global yields closed higher. Investors remained cautious as Fed minutes spoke of ‘even more restrictive’ monetary policy might be needed to prevent entrenched inflation. Investors anticipate another 75bps hike in Jul’22. Thus, US 10Y yield rose the most by 12bps.



Japan's 10Y yield rose by 2bps amidst reports that the central bank is planning to revise its inflation and growth forecast. India's 10Y yield fell by 9bps (7.29%-lowest since May'22) supported by lower oil prices. It is trading at 7.3% today.

**Fig 3 – Bond 10Y yield**

	5-07-2022	6-07-2022	change in bps
US	2.81	2.93	12
UK	2.05	2.09	4
Germany	1.18	1.21	3
Japan	0.22	0.25	2
China	2.83	2.84	0
India	7.39	7.29	(9)

Source: Bloomberg, Bank of Baroda Research

- In the current TBill auction of Rs 210bn, cut off yields fell across the board (91-days:-2bps, 182-days: -12bps and 364-days:-15bps).

**Fig 4 – Short term rates**

	5-07-2022	6-07-2022	change in bps
Tbill-91 days	5.09	5.10	1
Tbill-182 days	5.63	5.64	1
Tbill-364 days	6.10	6.10	0
G-Sec 2Y	6.46	6.36	(10)
SONIA int rate benchmark	1.19	1.19	0
US SOFR	1.52	1.54	2

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	5-07-2022	6-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.2)	(2.9)	0.3
Reverse repo	2.6	2.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	4-07-2022	5-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(221.8)	299.7	521.5
Debt	(40.3)	30.0	70.3
Equity	(181.5)	269.7	451.2
Mutual funds (Rs cr)	1,043.9	1,912.2	868.3
Debt	(248.2)	288.0	536.1
Equity	1,292.0	1,624.2	332.2

Source: Bloomberg, Bank of Baroda Research

- Crude prices fell by 2% to its lowest since Apr'22, led by muted demand outlook amidst expectation of faster rate hikes by Fed.

**Fig 7 – Commodities**

	5-07-2022	6-07-2022	% change
Brent crude (US\$/bbl)	102.8	100.7	(2.0)
Gold (US\$/ Troy Ounce)	1,764.8	1,738.9	(1.5)
Copper (US\$/ MT)	7,657.8	7,506.3	(2.0)
Zinc (US\$/MT)	3,040.1	3,048.0	0.3
Aluminium (US\$/MT)	2,392.0	2,409.5	0.7

Source: Bloomberg, Bank of Baroda Research



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