

## MORNING MOCHA

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ECONOMIST  
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US' Aug'22 non-manufacturing ISM index came in at 56.9, higher than estimated 55.4 and also up from previous month's 56.7. Investors are now expecting Fed to continue to hike policy rate by 75bps in its Sep'22 meeting. The fear is also that higher interest rate regime is likely to stifle growth in the coming quarters. Central Bank of Australia too increased its policy rate by 50bps to 2.35%—level highest since Jan'15. As rates weigh in, Australia's GDP seems to have stagnated, with Q2CY22 GDP at 0.9%, lower than estimated 1.1%, and similar to Q1 (0.8%). Elsewhere in Europe, high inflation is already impacting manufacturing and service sector growth. Demand from China is also likely to suffer as it maintains zero Covid policy and continues to keep its cities in lockdown.

- Except FTSE, Shanghai Comp (higher), and Nikkei (flat), other global stocks closed lower. Markets in the US fell the most. Better than expected non-manufacturing US ISM print, has led to renewed concerns that Fed will remain on path of aggressive monetary policy tightening. Sensex fell by 0.1%, dragged by banking and auto stocks. It is trading further lower today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	5-09-2022	6-09-2022	% change
Dow Jones	31,318	31,145	(0.6)
S & P 500	3,924	3,908	(0.4)
FTSE	7,287	7,300	0.2
Nikkei	27,620	27,627	0
Hang Seng	19,226	19,203	(0.1)
Shanghai Comp	3,200	3,243	1.4
Sensex	59,246	59,197	(0.1)
Nifty	17,666	17,656	(0.1)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

- Barring GBP and INR (flat), other global currencies closed lower. JPY, EUR and CNY fell the most. DXY rose by 0.6% and remains near its 20-year high. Fears of recessions have resurfaced following the release of services PMIs of Europe, and news of Covid-19 lockdowns in China. INR closed flat. However, it is trading lower today, in line with other Asian currencies.

**Fig 2 – Currencies**

	5-09-2022	6-09-2022	% change
EUR/USD	0.9929	0.9904	(0.3)
GBP/USD	1.1517	1.1520	0
USD/JPY	140.60	142.80	(1.5)
USD/INR	79.85	79.84	0
USD/CNY	6.9340	6.9545	(0.3)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022



- Barring India (lower) and China (flat), other global yields closed sharply up. Driven by increased concerns over Fed maintaining an aggressive policy stance, 10Y yields of both US and UK rose by 16bps, followed by 8bps increase in Germany's yield. India's 10Y yield fell by 4bps (7.18%), supported by dip in oil prices and amidst hopes of India getting included in the global bonds index. It is trading tad higher at 7.19% today.

**Fig 3 – Bond 10Y yield**

	5-09-2022	6-09-2022	change in bps
US	3.19	3.35	16
UK	2.94	3.10	16
Germany	1.56	1.64	8
Japan	0.24	0.24	1
China	2.63	2.63	0
India	7.22	7.18	(4)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

**Fig 4 – Short term rates**

	5-09-2022	6-09-2022	change in bps
Tbill-91 days	5.60	5.63	3
Tbill-182 days	6.05	6.06	1
Tbill-364 days	6.29	6.27	(2)
G-Sec 2Y	6.45	6.50	5
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.29	2.29	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

**Fig 5 – Liquidity**

Rs tn	5-09-2022	6-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.1)	(1.9)	0.2
Reverse repo	1.2	0.7	(0.5)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	2-09-2022	5-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(235.6)	48.4	284.0
Debt	(74.6)	15.4	89.9
Equity	(161.0)	33.0	194.0
Mutual funds (Rs cr)	(3,627.9)	3,042.5	6,670.4
Debt	(1,255.6)	2,285.2	3,540.8
Equity	(2,372.3)	757.3	3,129.6

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 25<sup>th</sup> and 26<sup>th</sup> Aug 2022

- Crude oil prices fell by 3% as global demand concerns weighed on. Continued lockdown restrictions in China and slowdown in Europe is weighing on demand.

**Fig 7 – Commodities**

	5-09-2022	6-09-2022	% change
Brent crude (US\$/bbl)	95.7	92.8	(3.0)
Gold (US\$/ Troy Ounce)	1,710.4	1,702.1	(0.5)
Copper (US\$/ MT)	7,731.0	7,751.0	0.3
Zinc (US\$/MT)	3,241.5	3,203.5	(1.2)
Aluminium (US\$/MT)	2,285.5	2,260.5	(1.1)

Source: Bloomberg, Bank of Baroda Research



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