

MORNING MOCHA

08 December 2022

ECONOMIST
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High interest rates in the US continue to take a toll on the housing market as mortgage application for the week ending 2 Dec 2022 fell by another 1.9%, following 0.8% decline in the previous week. Weak global demand has also led to steep decline in China's exports in Nov'22 (-8.7% versus est.: 3.5% and -0.3% in Oct'22). Stringent Covid-19 restrictions in the country also pushed its imports for Nov'22 down by -10.6% versus est.: -6% and -0.7% in Oct'22. Eurozone's revised estimates for Q3CY22 indicated that economy did indeed slowdown, and broadly at a similar pace of 0.3% versus 0.2% as per flash estimates. Fears of weak global demand are also pushing oil prices lower.

- Barring Dow Jones (flat), other global indices ended lower as investor sentiments took beating with fears of global economic downturn resurfacing. Additionally, accelerated concerns of Fed rate hike also kept investors on the hook. Hang Seng (3.2%) dropped the most. Sensex (0.3%) too ended in red led by losses in consumer durable and real estate stocks. It is trading higher today while other Asian indices are trading mixed.

Fig 1 – Stock markets

	6-12-2022	7-12-2022	% change
Dow Jones	33,596	33,598	0
S & P 500	3,941	3,934	(0.2)
FTSE	7,521	7,489	(0.4)
Nikkei	27,886	27,686	(0.7)
Hang Seng	19,441	18,815	(3.2)
Shanghai Comp	3,213	3,200	(0.4)
Sensex	62,626	62,411	(0.3)
Nifty	18,643	18,561	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended higher. Dollar index weakened (0.5%) amidst fears of potential recession hitting US shores. Investors also remained wary of Fed keeping rates higher for much longer period. CNY jumped by 0.4% with news report of China planning to lift Covid-19 restrictions. INR appreciated by 0.2% despite a dip in oil prices. It is trading stronger today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	6-12-2022	7-12-2022	% change
EUR/USD (1 EUR / USD)	1.0467	1.0506	0.4
GBP/USD (1 GBP / USD)	1.2133	1.2203	0.6
USD/JPY (JPY / 1 USD)	137.00	136.62	0.3
USD/INR (INR / 1 USD)	82.61	82.48	0.2
USD/CNY (CNY / 1 USD)	6.9950	6.9700	0.4

Source: Bloomberg, Bank of Baroda Research



- Barring India and Japan, global bond yields closed lower. US 10Y yield fell sharply by 11bps to 3.42% as macro data is presenting a mixed picture and investors believe that Fed will have to hike rates for longer a period. Risk to a recession already remain elevated with deepening of inverted yield curve in the US. India's 10Y yield rose by 2bps, following RBI's 35bps hike in policy rates. However, it is trading a tad lower at 7.26% today, following global cues.

Fig 3 – Bond 10Y yield

	6-12-2022	7-12-2022	change in bps
US	3.53	3.42	(11)
UK	3.08	3.04	(3)
Germany	1.80	1.78	(2)
Japan	0.26	0.26	0
China	2.95	2.91	(3)
India	7.25	7.27	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	6-12-2022	7-12-2022	change in bps
Tbill-91 days	6.33	6.40	7
Tbill-182 days	6.67	6.77	10
Tbill-364 days	6.79	6.91	12
G-Sec 2Y	6.85	6.86	1
SONIA int rate benchmark	2.93	2.93	0
US SOFR	3.81	3.80	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	6-12-2022	7-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(1.6)	(0.8)
Reverse repo	0.3	0.3	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	5-12-2022	6-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(91.4)	22.9	114.3
Debt	18.2	54.1	35.9
Equity	(109.6)	(31.2)	78.3
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 declined further by 2.7% and fell to its lowest level in CYTD22. Prices fell following the news of higher than expected US fuel stocks.

Fig 7 – Commodities

	6-12-2022	7-12-2022	% change
Brent crude (US\$/bbl)	79.4	77.2	(2.7)
Gold (US\$/ Troy Ounce)	1,771.0	1,786.3	0.9
Copper (US\$/ MT)	8,384.8	8,430.0	0.5
Zinc (US\$/MT)	3,179.0	3,207.0	0.9
Aluminium (US\$/MT)	2,508.5	2,485.5	(0.9)

Source: Bloomberg, Bank of Baroda Research



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