

## MORNING MOCHA

08 September 2022

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US Fed's Beige Book suggests that elevated inflationary pressures, higher mortgage rates, labour and supply shortages are hampering growth. However, personal consumption still remains relatively strong and overall economic outlook in Aug'22 was unchanged from Jul'22. Now investors await Fed Chair's speech on more cues on rate action. Fears of slowdown in global growth have heightened after China reported worse (7.1% in Aug'22) than expected (12.5%) exports data (18% in Jul'22). Even Taiwan reported moderation in export growth at 2% (lowest in 2 years) versus 14.2% in Jul'22, led by decline in exports to China. Global composite PMI index has fallen to 49.3 (a first since Jun'20) in Aug'22 from 50.8 in Ju'22.

- Global indices ended mixed as investors focus on upcoming Fed's Chair speech, signalling Central Banks's approach towards managing inflation. FTSE (0.9%) and Hang Seng (0.8%) dropped the most. US indices inched up, shrugging off growth concerns. Sensex ended in red, led by losses in auto and power stocks. However, it is trading higher today in line with other Asian stocks.

**Fig 1 – Stock markets**

	6-09-2022	7-09-2022	% change
Dow Jones	31,145	31,581	1.4
S & P 500	3,908	3,980	1.8
FTSE	7,300	7,238	(0.9)
Nikkei	27,627	27,430	(0.7)
Hang Seng	19,203	19,044	(0.8)
Shanghai Comp	3,243	3,246	0.1
Sensex	59,197	59,029	(0.3)
Nifty	17,656	17,624	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except EUR and GBP, other global currencies ended lower. DXY retreated and fell by 0.3% on the back of fall in treasury yield. Investors will monitor ECB's rate decision and Fed's chair speech, scheduled later today. INR depreciated by 0.1% but opened higher today as oil prices tumbled. Other Asian currencies are also trading higher today.

**Fig 2 – Currencies**

	6-09-2022	7-09-2022	% change
EUR/USD	0.9904	1.0006	1.0
GBP/USD	1.1520	1.1533	0.1
USD/JPY	142.80	143.74	(0.7)
USD/INR	79.84	79.90	(0.1)
USD/CNY	6.9545	6.9656	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global bond yields closed mixed. 10Y yields in US, UK and Germany fell sharply as recessionary risks loom. US Fed's beige book also cautioned against



elevated inflation hurting growth. Following global cues, India's 10Y yield rose a tad. It is trading sharply lower at 7.13% today, following decline in oil prices.

**Fig 3 – Bond 10Y yield**

	6-09-2022	7-09-2022	change in bps
US	3.35	3.26	(9)
UK	3.10	3.03	(7)
Germany	1.64	1.58	(6)
Japan	0.24	0.25	1
China	2.63	2.63	0
India	7.18	7.18	1

Source: Bloomberg, Bank of Baroda Research

- RBI's latest T-bill auction results indicate that cut-off yield on 91-day paper remained broadly unchanged while that of 182-day and 364-day inched up.

**Fig 4 – Short term rates**

	6-09-2022	7-09-2022	change in bps
Tbill-91 days	5.63	5.61	(2)
Tbill-182 days	6.06	6.08	2
Tbill-364 days	6.27	6.31	4
G-Sec 2Y	6.50	6.51	1
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	6-09-2022	7-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.9)	(1.6)	0.3
Reverse repo	0.7	1.1	0.4
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	5-09-2022	6-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	48.4	275.6	227.2
Debt	15.4	62.2	46.8
Equity	33.0	213.4	180.4
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 sharply by 5.2% (near 7 month low) owing to concerns surrounding risk of global recession and sharp fall in China's export growth.

**Fig 7 – Commodities**

	6-09-2022	7-09-2022	% change
Brent crude (US\$/bbl)	92.8	88.0	(5.2)
Gold (US\$/ Troy Ounce)	1,702.1	1,718.4	1.0
Copper (US\$/ MT)	7,751.0	7,698.5	(0.7)
Zinc (US\$/MT)	3,203.5	3,150.5	(1.7)
Aluminium (US\$/MT)	2,260.5	2,235.0	(1.1)

Source: Bloomberg, Bank of Baroda Research



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