

MORNING MOCHA

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ECONOMIST
Aditi Gupta

Oil prices surged further (highest since the 2008 Financial crisis), as US announced a ban on oil imports from Russia. Rising oil and commodity prices along with slowing growth have led to increased risks of stagflation. As a result, sell-off in equity markets has continued. Volatility in the global markets is likely to continue as the war continues. Investors will keenly await comments from ECB, as it is the first major central bank to announce its policy since the war broke out.

- Barring India and UK, equity markets elsewhere dipped further amidst a surge in oil prices, as US imposed a ban on Russian oil imports. Shanghai Comp declined the most by 2.4%, followed by Nikkei (down by 1.7%). However, Sensex snapped its 4-day losing streak and rose by 1.1%, led by gains in real estate, technology and capital goods stocks. It is trading further higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	7-03-2022	8-03-2022	% change
Dow Jones	32,817	32,633	(0.6)
S & P 500	4,201	4,171	(0.7)
FTSE	6,959	6,964	0.1
Nikkei	25,221	24,791	(1.7)
Hang Seng	21,058	20,766	(1.4)
Shanghai Comp	3,373	3,294	(2.4)
Sensex	52,843	53,424	1.1
Nifty	15,863	16,013	0.9

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. After rising to a 22-month high, DXY fell by 0.2% as US trade deficit expanded to a record-high in Jan'22. EUR rose by 0.4%, as Germany's industrial production rose more than expected. INR recovered from its historic low (up by 0.1%), in line with gains in domestic equities. Asian currencies are trading mostly lower today.

Fig 2 – Currencies

	7-03-2022	8-03-2022	% change
EUR/USD	1.0854	1.0899	0.4
GBP/USD	1.3104	1.3102	0
USD/JPY	115.32	115.67	(0.3)
USD/INR	76.97	76.91	0.1
USD/CNY	6.3208	6.3187	0

Source: Bloomberg, Bank of Baroda Research

- Global yields closed higher amidst concerns over elevated commodity prices being translated into higher inflation print. UK's 10Y yield rose the most



(+14bps), followed by Germany (+13bps) and US (+7bps). Investors are awaiting cues from ECB meeting. India's 10Y yield rose a tad by 1bps (6.9%).

Fig 3 – Bond 10Y yield

	7-03-2022	8-03-2022	% change
US	1.77	1.85	7
UK	1.30	1.45	14
Germany	(0.02)	0.11	13
Japan	0.15	0.16	1
China	2.84	2.84	0
India	6.89	6.90	1

Source: Bloomberg, Bank of Baroda Research

- Short end yields closed higher ahead of auction.

Fig 4 – Short term rates

	7-03-2022	8-03-2022	% change
Tbill-91 days	3.69	3.68	3
Tbill-182 days	4.15	4.14	2
Tbill-364 days	4.43	4.47	7
G-Sec 2Y	4.85	4.85	0
SONIA int rate benchmark	0.44	0.45	0
US SOFR	0.05	0.05	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	7-03-2022	8-03-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(7.9)	(7.2)	0.7
Reverse repo	7.7	7.7	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	4-03-2022	7-03-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	(1,133.3)	(1,031.8)	101.5
Debt	(148.2)	(2.1)	146.2
Equity	(985.1)	(1,029.8)	(44.7)
Mutual funds (Rs cr)	(2,409.8)	3,731.7	6,141.5
Debt	(4,369.4)	(479.6)	3,889.8
Equity	1,959.6	4,211.3	2,251.7

Source: Bloomberg, Bank of Baroda Research | Note: Data for MFs pertains to 2 Mar and 4 Mar 2022

- International oil prices rose by 3.9% to US\$ 128/bbl (highest since Jul'08), following US ban on Russia's energy sector. Analysts are claiming that if entire Russian oil (11% of global oil supply) is driven out of market, crude prices may rise to US\$ 200/bbl mark. Gold prices rose to its highest since Aug'20.

Fig 7 – Commodities

	7-03-2022	8-03-2022	% change
Brent crude (US\$/bbl)	123.2	128.0	3.9
Gold (US\$/ Troy Ounce)	1,998.1	2,050.8	2.6
Copper (US\$/ MT)	10,255.5	10,160.8	(0.9)
Zinc (US\$/MT)	4,133.0	4,113.0	(0.5)
Aluminum (US\$/MT)	3,740.0	3,498.0	(6.5)

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com