

## MORNING MOCHA

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ECONOMIST  
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ECB in its latest policy meet, raised its key rates by 75bps, marking it as the largest hike on record. The central bank also vowed to hike rates in the coming months as well, so as to refrain inflation from getting entrenched and eating away savings and investments. US Fed Chair Powell also committed to stringent rate hikes to tame inflationary pressures. With tighter monetary conditions, global growth is expected to slow down and which will in turn provide relief to inflation. China is already witnessing the impact of moderation in economic activity. China's PPI slowed for the 10<sup>th</sup> consecutive month in Aug'22 (2.3% versus est.: 3.2% and 4.2% in Jul'22). Retail prices also cooled off to 2.5% in Aug'22 (est.: 2.8%) from 2.7% in Jul'22.

- Barring Hang Seng and Shanghai Comp, other global indices ended higher as investors monitored a record rate hike by ECB and closely tracked Fed Chair's comments on inflation. Amongst other indices, Nikkei (2.3%) gained the most. Sensex too traded in green led by gains in banking and capital goods stocks. It is trading further higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

	7-09-2022	8-09-2022	% change
Dow Jones	31,581	31,775	0.6
S & P 500	3,980	4,006	0.7
FTSE	7,238	7,262	0.3
Nikkei	27,430	28,065	2.3
Hang Seng	19,044	18,855	(1.0)
Shanghai Comp	3,246	3,236	(0.3)
Sensex	59,029	59,688	1.1
Nifty	17,624	17,799	1.0

Source: Bloomberg, Bank of Baroda Research

- Apart from INR and CNY, other global currencies ended lower. DXY retreated after hawkish commentary by ECB and Fed chair. GBP and EUR both dropped after news of the death of Britain's longest serving monarch. JPY also traded lower as policy divergence between BoJ's and other central banks cannot be ignored. INR is trading higher today; other Asian currencies are trading mixed.

**Fig 2 – Currencies**

	7-09-2022	8-09-2022	% change
EUR/USD	1.0006	0.9997	(0.1)
GBP/USD	1.1533	1.1504	(0.3)
USD/JPY	143.74	144.11	(0.3)
USD/INR	79.90	79.72	0.2
USD/CNY	6.9656	6.9576	0.1

Source: Bloomberg, Bank of Baroda Research

- Global bond yields closed mixed. 10Y yields in Germany and UK increased the most by 14bps and 11bps respectively. US 10Y yield was up by 5bps. Investor



sentiments were impacted by ECB's decision to hike policy rate and Fed Chair Powell's reiteration that Fed will continue to hike rate till inflation is under control. India's 10Y yield fell steeply by 11bps as oil prices remain below US\$ 90/bbl mark. However, following global cues, it is trading higher at 7.14% today.

**Fig 3 – Bond 10Y yield**

	7-09-2022	8-09-2022	change in bps
US	3.26	3.32	5
UK	3.03	3.15	11
Germany	1.58	1.72	14
Japan	0.25	0.25	0
China	2.63	2.63	0
India	7.18	7.08	(11)

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	7-09-2022	8-09-2022	change in bps
Tbill-91 days	5.61	5.62	1
Tbill-182 days	6.08	6.04	(4)
Tbill-364 days	6.31	6.30	(1)
G-Sec 2Y	6.50	6.51	1
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.29	2.28	(1)

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	7-09-2022	8-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.6)	(1.3)	0.3
Reverse repo	1.1	1.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	6-09-2022	7-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	275.6	38.0	(237.6)
Debt	62.2	24.1	(38.1)
Equity	213.4	13.9	(199.5)
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 rose by 1.3% to US\$ 89/bbl as Russia has threatened to stop the supply of oil and gas to countries that implement price cap. Prices rose even as US stockpiles increased by ~9mn barrels.

**Fig 7 – Commodities**

	7-09-2022	8-09-2022	% change
Brent crude (US\$/bbl)	88.0	89.2	1.3
Gold (US\$/ Troy Ounce)	1,718.4	1,708.5	(0.6)
Copper (US\$/ MT)	7,698.5	7,919.0	2.9
Zinc (US\$/MT)	3,150.5	3,150.5	0
Aluminium (US\$/MT)	2,235.0	2,267.5	1.5

Source: Bloomberg, Bank of Baroda Research



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