

## MORNING MOCHA

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Key event has been Fed Chair's speech which had a dovish bias. The speech hinted at smaller pace of rate hikes by US Fed going forward amidst hopes of soft landing for the economy and lagged impact of previous rate hikes. Thus, US 10Y yield fell by 14bps and DXY fell by 0.8%. As per reports, Fed funds futures are pricing in a terminal rate of 4.95% against 5.06% expected earlier. On macro front, US private payroll numbers indicated softening in the labour market. In China, the Caixin manufacturing PMI reading was better than expected at 49.4, albeit remaining for the fourth consecutive month in contraction. Another notable development has been softer tone on Covid stance by one of China's official. On domestic front, GDP growth for Q2 came in at 6.3% which is slightly lower than our forecast of 6.5%.

- Barring Nikkei (lower), other global stocks rallied. Indication of slower pace of rate hikes by Fed Chair and easing Covid-19 curbs in some Chinese cities buoyed market sentiments. S&P 500 rose the most by 3.1%. On the other hand, Nikkei fell by 0.2%, weighed down by weakness in industrial production. Sensex rose by 0.7% to a fresh record-high, supported by gains in power and metal stocks. It is trading further higher today, in line with other Asian stocks.

**Fig 1 – Stock markets**

|               | 29-11-2022 | 30-11-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones     | 33,853     | 34,590     | 2.2      |
| S & P 500     | 3,958      | 4,080      | 3.1      |
| FTSE          | 7,512      | 7,573      | 0.8      |
| Nikkei        | 28,028     | 27,969     | (0.2)    |
| Hang Seng     | 18,205     | 18,597     | 2.2      |
| Shanghai Comp | 3,150      | 3,151      | 0.1      |
| Sensex        | 62,682     | 63,100     | 0.7      |
| Nifty         | 18,618     | 18,758     | 0.8      |

Source: Bloomberg, Bank of Baroda Research

- Global currencies edged up following a decline in dollar. DXY fell by 0.8% as Fed Chair hinted at slowing down the pace of rate hikes from Dec'22. CNY rose by 0.9% as lockdown restrictions were eased in few Chinese cities. INR appreciated by 0.4% supported by positive global cues, even as oil prices inched up. It is trading further stronger today, in line with other Asian currencies.

**Fig 2 – Currencies**

|                       | 29-11-2022 | 30-11-2022 | % change |
|-----------------------|------------|------------|----------|
| EUR/USD (1 EUR / USD) | 1.0330     | 1.0406     | 0.7      |
| GBP/USD (1 GBP / USD) | 1.1952     | 1.2058     | 0.9      |
| USD/JPY (JPY / 1 USD) | 138.63     | 138.07     | 0.4      |
| USD/INR (INR / 1 USD) | 81.73      | 81.43      | 0.4      |
| USD/CNY (CNY / 1 USD) | 7.1593     | 7.0924     | 0.9      |

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield fell sharply by 14bps tracking Fed Chair's dovish comments. UK's 10Y yield rose by 6bps as BoE sold £ 346mn (\$415 mn) of long-maturity and index-linked debt that it had bought under emergency action. India's 10Y yield closed stable at 7.28% and is trading lower at 7.25% today.

**Fig 3 – Bond 10Y yield**

|         | 29-11-2022 | 30-11-2022 | change in bps |
|---------|------------|------------|---------------|
| US      | 3.74       | 3.61       | (14)          |
| UK      | 3.10       | 3.16       | 6             |
| Germany | 1.92       | 1.93       | 1             |
| Japan   | 0.25       | 0.25       | 0             |
| China   | 2.91       | 2.92       | 2             |
| India   | 7.28       | 7.28       | 0             |

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

|                          | 29-11-2022 | 30-11-2022 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days            | 6.39       | 6.37       | (2)           |
| Tbill-182 days           | 6.70       | 6.71       | 1             |
| Tbill-364 days           | 6.84       | 6.84       | 0             |
| G-Sec 2Y                 | 6.87       | 6.86       | (1)           |
| SONIA int rate benchmark | 2.93       | 2.93       | 0             |
| US SOFR                  | 3.80       | 3.81       | 1             |

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

| Rs tn                             | 29-11-2022 | 30-11-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (0.6)      | (1.2)      | (0.6)          |
| Reverse repo                      | 0.5        | 0.5        | 0              |
| Repo                              | 0          | 0          | 0              |

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

|                      | 28-11-2022 | 29-11-2022 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn)        | 348.1      | 164.2      | (183.9)                |
| Debt                 | 28.2       | 7.6        | (20.7)                 |
| Equity               | 319.9      | 156.6      | (163.3)                |
| Mutual funds (Rs cr) | 2,043.9    | 1,128.1    | (915.8)                |
| Debt                 | 882.5      | 159.4      | (723.1)                |
| Equity               | 1,161.4    | 968.6      | (192.7)                |

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 11 Nov 2022 and 14 Nov 2022

- Crude prices inched up by 2.9% amidst the sharpest drop in US crude stocks since CY19.

**Fig 7 – Commodities**

|                         | 29-11-2022 | 30-11-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl)  | 83.0       | 85.4       | 2.9      |
| Gold (US\$/ Troy Ounce) | 1,749.9    | 1,768.5    | 1.1      |
| Copper (US\$/ MT)       | 8,036.0    | 8,226.8    | 2.4      |
| Zinc (US\$/MT)          | 2,949.5    | 3,050.3    | 3.4      |
| Aluminium (US\$/MT)     | 2,379.5    | 2,477.5    | 4.1      |

Source: Bloomberg, Bank of Baroda Research



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