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ECONOMIST
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US CPI data due later in the week remains a key watchable for the markets. Global equities rose sharply supported by strong earnings report. Crude oil prices continue to inch up amidst a revival in demand. In India, investors keenly await RBI's policy guidance. We expect RBI to begin policy normalisation by hiking reverse repo rate by 25bps. Growth estimate for FY22 is also expected to be revised lower.

- Equity indices closed higher tracking better earning results and easing tensions in Ukraine. Hang Seng rose the most by 2.1%, followed by S&P 500 which rose by 1.5%. Investors are also awaiting cues from the inflation print in the US, to assess whether it is transitory or of a durable nature. Sensex and Nifty rose by 1.1% each, with banking, auto, and IT stocks gaining the most.

Fig 1 – Stock markets

| | 08-02-2022 | 09-02-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 35,463 | 35,768 | 0.9 |
| S & P 500 | 4,522 | 4,587 | 1.5 |
| FTSE | 7,567 | 7,643 | 1.0 |
| Nikkei | 27,285 | 27,580 | 1.1 |
| Hang Seng | 24,329 | 24,830 | 2.1 |
| Shanghai Comp | 3,453 | 3,480 | 0.8 |
| Sensex | 57,809 | 58,466 | 1.1 |
| Nifty | 17,267 | 17,464 | 1.1 |

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed against the dollar. DXY fell by 0.2% ahead of US CPI data. EUR rose by 0.1% as Germany's exports rose unexpectedly in Dec'21. Amongst other currencies, while GBP depreciated by 0.1%, JPY closed stable. INR fell by 0.2% as oil prices remained firm above ~US\$ 90/bbl. Asian currencies are trading higher today.

Fig 2 – Currencies

| | 08-02-2022 | 09-02-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.1415 | 1.1425 | 0.1 |
| GBP/USD | 1.3543 | 1.3535 | (0.1) |
| USD/JPY | 115.55 | 115.52 | 0 |
| USD/INR | 74.75 | 74.81 | (0.1) |
| USD/CNY | 6.3665 | 6.3627 | 0.1 |

Source: Bloomberg, Bank of Baroda Research, Note: Markets in China will remain closed this week

- Except China (higher) and India (stable), global yields closed lower. Investors await US CPI data. US 2Y yield also inched up to its highest since Feb'20 at 1.35%. India's 10Y yield closed stable as investors are anticipating some measures from RBI to control the yield curve.



Fig 3 – Bond 10Y yield

| | 08-02-2022 | 09-02-2022 | % change |
|---------|------------|------------|----------|
| US | 1.96 | 1.94 | (2) |
| UK | 1.49 | 1.43 | (6) |
| Germany | 0.27 | 0.21 | (5) |
| Japan | 0.22 | 0.21 | (1) |
| China | 2.72 | 2.73 | 1 |
| India | 6.81 | 6.81 | 0 |

Source: Bloomberg, Bank of Baroda Research, Note: Markets in China will remain closed this week

- Tbill yields rose across the board. In the Tbill auction of Rs 260bn, cut off yield rose a tad by 1bps for 182 and 364-days Tbill. Even the 2-day VRRR of Rs 1tn went for reversal.

Fig 4 – Short term rates

| | 08-02-2022 | 09-02-2022 | % change |
|--------------------------|------------|------------|----------|
| Tbill-91 days | 3.85 | 3.88 | 3 |
| Tbill-182 days | 4.35 | 4.39 | 4 |
| Tbill-365 days | 4.59 | 4.65 | 6 |
| G-Sec 2Y | 5.11 | 5.09 | (3) |
| AAACorp Spread 3Y | 37.00 | 37.00 | 0 |
| SONIA int rate benchmark | 0.45 | 0.44 | 0 |
| US SOFR | 0.05 | 0.05 | 0 |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 08-02-2022 | 09-02-2022 | Change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (6.0) | (6.5) | (0.5) |
| Reverse repo* | 6.3 | 6.3 | 0 |
| Repo* | 0 | 0 | 0 |

Source: Bloomberg, Bank of Baroda Research

Fig 6 – Capital market flows

| | 07-02-2022 | 08-02-2022 | Change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 150.3 | (49.3) | (199.6) |
| Debt | 20.2 | (58.7) | (78.8) |
| Equity | 130.1 | 9.3 | (120.8) |
| Mutual funds (Rs cr) | (182.6) | (986.2) | (803.5) |
| Debt | 330.2 | (1,282.9) | (1,613.1) |
| Equity | (512.9) | 296.7 | 809.6 |

Source: Bloomberg, Bank of Baroda Research, Note: Data for Mutual Fund inflows pertains to 3 Feb 2022 and 4 Feb 2022

- International oil prices rose by 0.8% (US\$ 92/bbl) as crude inventories fell unexpectedly and demand rose to a record-high. Gold prices firmed up by 0.4%, amidst weakness in US dollar.

Fig 7 – Commodities

| | 08-02-2022 | 09-02-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 90.8 | 91.6 | 0.8 |
| Gold (US\$/ Troy Ounce) | 1,825.9 | 1,833.4 | 0.4 |
| Copper (US\$/ MT) | 9,809.3 | 10,103.0 | 3.0 |
| Zinc (US\$/MT) | 3,593.8 | 3,643.8 | 1.4 |
| Aluminum (US\$/MT) | 2,590.0 | 2,590.0 | 0 |

Source: Bloomberg, Bank of Baroda Research



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