

MORNING MOCHA

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ECONOMIST
Aditi Gupta

ECB announced ending its asset purchase programme from 1 Jul 2022 and also signalled a 25bps rate hike in Jul'22. Inflation forecast for CY22 was revised up to 6.8%, while growth estimate was lowered to 2.8%. Notably, inflation is expected to be above ECB's target of 2%, till CY24. In US, jobless claims rose more than expected to 229,000-highest since Jan'22. PPI inflation in China eased to a 14-month low of 6.4% in May'22 from 8.4% in Apr'22 on a YoY basis, as strict Covid-19 restrictions curbed demand. CPI inflation remained steady at 2.1% in May'22. In India, IIP data is scheduled to be released later in the day.

- Except Nikkei (flat), global equity indices ended lower. Investors monitored ECB policy decision, developments surrounding China's "Covid zero" policy and jobless claims data in the US. S&P 500 fell the most (2.4%) followed by Dow Jones (1.9%) and FTSE (1.5%). However, Sensex, rose by 0.8%, led by oil and gas and technology stocks. It is trading lower today; while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	08-06-2022	09-06-2022	% change
Dow Jones	32,911	32,273	(1.9)
S & P 500	4,116	4,018	(2.4)
FTSE	7,593	7,476	(1.5)
Nikkei	28,234	28,247	0
Hang Seng	22,015	21,869	(0.7)
Shanghai Comp	3,264	3,239	(0.8)
Sensex	54,892	55,320	0.8
Nifty	16,356	16,478	0.7

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed lower. DXY rose by 0.7% tracking higher US 10Y yield. EUR depreciated the most by 0.9% as ECB revised the growth forecast for CY22 sharply lower to 2.8% versus 3.7% earlier. INR weakened marginally to a fresh record-low of 77.77/\$ amidst persistent FPI outflows. It is trading further lower today; while other Asian currencies are trading mixed.

Fig 2 – Currencies

	08-06-2022	09-06-2022	% change
EUR/USD	1.0716	1.0617	(0.9)
GBP/USD	1.2537	1.2493	(0.4)
USD/JPY	134.25	134.36	(0.1)
USD/INR	77.74	77.77	0
USD/CNY	6.6838	6.6925	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. While China's 10Y yield fell a tad by 1bps on expectation of more stimulus from PBOC, Japan's 10Y yield closed stable as



PPI data (MoM) remained flat against est.: 0.6% increase in May'22. On the other hand, Germany's 10Y yield rose sharply by 8bps following ECB's signalling of 25bps rate hike in Jul'22. It also revised its inflation projection upwards to 6.8% in CY22 (5.1% earlier). India's 10Y yield closed flat at 7.5%. It is trading at 7.52% ahead of auction results.

Fig 3 – Bond 10Y yield

	08-06-2022	09-06-2022	change in bps
US	3.02	3.04	2
UK	2.25	2.32	8
Germany	1.35	1.43	8
Japan	0.25	0.25	0
China	2.81	2.80	(1)
India	7.49	7.50	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	08-06-2022	09-06-2022	% change
Tbill-91 days	4.98	4.97	(1)
Tbill-192 days	5.58	5.54	(4)
Tbill-364 days	6.07	6.07	0
G-Sec 2Y	6.50	6.49	0
SONIA int rate benchmark	0.94	0.94	0
US SOFR	0.77	0.76	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	08-06-2022	09-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.2)	(3.2)	0
Reverse repo	1.0	1.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	07-06-2022	08-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(297.6)	(296.1)	1.5
Debt	(9.1)	13.7	22.8
Equity	(288.5)	(309.8)	(21.3)
Mutual funds (Rs cr)	(1,011.0)	495.3	1,506.4
Debt	(1,508.0)	(457.9)	1,050.2
Equity	497.0	953.2	456.2

Source: Bloomberg, Bank of Baroda Research

- Brent crude prices fell a tad by 0.4% to US\$ 123.1/bbl, as China imposed fresh lockdown restriction in Shanghai, thus raising demand concerns. Gold prices fell by 0.3% as dollar strengthened.

Fig 7 – Commodities

	08-06-2022	09-06-2022	% change
Brent crude (US\$/bbl)	123.6	123.1	(0.4)
Gold (US\$/ Troy Ounce)	1,853.4	1,848.0	(0.3)
Copper (US\$/ MT)	9,736.3	9,620.1	(1.2)
Zinc (US\$/MT)	3,845.8	3,777.3	(1.8)
Aluminium (US\$/MT)	2,819.0	2,761.0	(2.1)

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com