

MORNING MOCHA

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In the data heavy week, investors remain cautious as they await CPI print of US (expected to have increased further in Jun'22 from 8.6% in May'22), and GDP prints of China and UK. Expectations of weak economic activity in China (new Covid-19 restrictions have been announced owing to detection of new variant of the virus), and aggressive monetary policy tightening by the US, are feeding to fears of impending global recession. As a result, gold has dropped to 9-month low, while DXY has strengthened. On domestic front, RBI has announced measures to support the rupee by setting up a mechanism to settle international trade in INR.

- Barring FTSE (flat) and Nikkei (higher), other global equity indices ended lower ahead of the key US data print (inflation, retail sales, factory output) and earnings report. Amongst other indices, Hang Seng (2.8%) dropped the most followed by Shanghai Comp (1.3%). Sensex (0.2%) too ended in red led by losses in technology and capital goods stocks. It is trading further lower today in line with other Asian stocks.

Fig 1 – Stock markets

	08-07-2022	11-07-2022	% change
Dow Jones	31,338	31,174	(0.5)
S & P 500	3,899	3,854	(1.2)
FTSE	7,196	7,197	0
Nikkei	26,517	26,812	1.1
Hang Seng	21,726	21,124	(2.8)
Shanghai Comp	3,356	3,314	(1.3)
Sensex	54,482	54,395	(0.2)
Nifty	16,221	16,216	0

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended lower. DXY continued its ascent and rose by 0.9% ahead of the US CPI print and comments by Fed officials. A higher print would further add pressure of aggressive rate hike (75bps anticipated). Euro depreciated by 1.4% (20-year low) led by concerns of looming recession due to ongoing energy crisis. INR dropped to a life time low of 79.44/US\$. It is trading further lower today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	08-07-2022	11-07-2022	% change
EUR/USD	1.0185	1.0040	(1.4)
GBP/USD	1.2033	1.1892	(1.2)
USD/JPY	136.10	137.44	(1.0)
USD/INR	79.25	79.44	(0.2)
USD/CNY	6.6946	6.7190	(0.4)

Source: Bloomberg, Bank of Baroda Research



- Barring Japan (flat) and India (higher), other global yields closed lower. Germany (10bps), US (9bps) and UK's (6bps) 10Y yields fell the most. Investors remain cautious ahead of US' CPI print due tomorrow. In addition, China's trade and GDP print due this week are also keeping investors on edge. India's 10Y yield rose only a tad by 1bps to 7.43%, owing to steady oil prices.

Fig 3 – Bond 10Y yield

	08-07-2022	11-07-2022	change in bps
US	3.08	2.99	(9)
UK	2.23	2.18	(6)
Germany	1.35	1.25	(10)
Japan	0.24	0.25	0
China	2.84	2.82	(2)
India	7.42	7.43	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	08-07-2022	11-07-2022	% change
Tbill-91 days	5.0	5.3	25
Tbill-192 days	5.5	5.7	29
Tbill-364 days	6.1	6.1	2
G-Sec 2Y	6.4	6.4	2
SONIA int rate benchmark	1.2	1.2	0
US SOFR	1.5	1.5	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	08-07-2022	11-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(2.4)	(2.2)	0.2
Reverse repo	2.6	2.6	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	07-07-2022	08-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(114.4)	13.8	128.2
Debt	(2.8)	(1.3)	1.5
Equity	(111.6)	15.0	126.6
Mutual funds (Rs cr)	(1,437.2)	(2,733.8)	(1,296.7)
Debt	(943.4)	(1,011.9)	(68.5)
Equity	(493.7)	(1,721.9)	(1,228.2)

Source: Bloomberg, Bank of Baroda Research

- Crude prices remained broadly stable at US\$ 107/bbl as China announced fresh Covid-19 related restrictions, thus casting doubts on demand outlook for oil. Gold slipped lower by 0.5% to 9-month low as US\$ strengthened.

Fig 7 – Commodities

	08-07-2022	11-07-2022	% change
Brent crude (US\$/bbl)	107.0	107.1	0.1
Gold (US\$/ Troy Ounce)	1,742.5	1,734.0	(0.5)
Copper (US\$/ MT)	7,795.0	7,572.3	(2.9)
Zinc (US\$/MT)	3,166.5	3,133.0	(1.1)
Aluminium (US\$/MT)	2,436.5	2,379.5	(2.3)

Source: Bloomberg, Bank of Baroda Research



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