

## MORNING MOCHA

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ECONOMIST  
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Global markets reacted to US CPI print which came in at 8.3% for Apr'22 (est.: 8.1%), lower than previous month's 8.5%, suggesting inflation might have peaked. As a result, global yields fell and dollar retreated (thus lending support to gold). Markets are now not expecting Fed to follow a more aggressive rate hike path. On the domestic front, T-bill rates jumped sharply at the RBI auction, as investors await CPI data (due for release today) for guidance on policy direction.

- Barring US and Indian markets, other global indices ended higher. FTSE (1.4%) gained the most led by a gains in mining and energy sector owing to strong earnings report. Positive developments around Covid-19 situation in China boosted investor sentiments. On the other hand, Sensex (0.5%) ended in red and was dragged down by technology stocks. It is trading further lower today, while other Asian stocks are trading higher.

**Fig 1 – Stock markets**

|               | 10-05-2022 | 11-05-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones     | 32,161     | 31,834     | (1.0)    |
| S & P 500     | 4,001      | 3,935      | (1.6)    |
| FTSE          | 7,243      | 7,348      | 1.4      |
| Nikkei        | 26,167     | 26,214     | 0.2      |
| Hang Seng     | 19,634     | 19,825     | 1.0      |
| Shanghai Comp | 3,036      | 3,059      | 0.8      |
| Sensex        | 54,365     | 54,088     | (0.5)    |
| Nifty         | 16,240     | 16,167     | (0.4)    |

Source: Bloomberg, Bank of Baroda Research

- Apart from GBP and EUR, other global currencies appreciated against the dollar. DXY retreated by 0.1% after climbing to a 20-year high as US CPI print rose at a slower pace; signalling inflationary pressure may have possibly peaked. GBP fell by 0.5% amidst fears of slowdown in UK economy. INR rose by 0.1%. It is trading lower today while other Asian currencies are trading mixed.

**Fig 2 – Currencies**

|         | 10-05-2022 | 11-05-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.0529     | 1.0513     | (0.2)    |
| GBP/USD | 1.2316     | 1.2251     | (0.5)    |
| USD/JPY | 130.45     | 129.97     | 0.4      |
| USD/INR | 77.32      | 77.24      | 0.1      |
| USD/CNY | 6.7347     | 6.7217     | 0.2      |

Source: Bloomberg, Bank of Baroda Research

- Except Japan (stable) and China (higher), global yields closed lower as US CPI print indicated that Fed is unlikely to shift to an even more aggressive rate hike path in the coming months. US 10Y yield retreated back from near 3% mark to



2.92%. India's 10Y yield fell the most by 9bps (7.22%) amidst expectation of announcement of OMO purchase/bond switch program in the next 2 weeks.

**Fig 3 – Bond 10Y yield**

|         | 10-05-2022 | 11-05-2022 | change in bps |
|---------|------------|------------|---------------|
| US      | 2.99       | 2.92       | (7)           |
| UK      | 1.85       | 1.83       | (2)           |
| Germany | 1.00       | 0.99       | (1)           |
| Japan   | 0.25       | 0.25       | 0             |
| China   | 2.81       | 2.83       | 2             |
| India   | 7.30       | 7.22       | (9)           |

Source: Bloomberg, Bank of Baroda Research

- India's short term yields spiked sharply in RBI's auction. Cut-off for 91-day paper rose by 93bps (to 4.96%) versus last week, for 182-day it was up by 103bps (to 5.46%) and for 364-day paper it was up by up 109bps (to 5.93%).

**Fig 4 – Short term rates**

|                          | 10-05-2022 | 11-05-2022 | % change |
|--------------------------|------------|------------|----------|
| Tbill-91 days            | 4.69       | 4.87       | 18       |
| Tbill-182 days           | 5.28       | 5.32       | 4        |
| Tbill-364 days           | 5.53       | 5.83       | 30       |
| G-Sec 2Y                 | 6.28       | 6.22       | (6)      |
| SONIA int rate benchmark | 0.94       | 0.94       | 0        |
| US SOFR                  | 0.78       | 0.78       | 0        |

Source: Bloomberg, Bank of Baroda Research ; Note data for mutual fund pertains to 5<sup>th</sup> and 6<sup>th</sup> May 2022

**Fig 5 – Liquidity**

| Rs tn                             | 10-05-2022 | 11-05-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (5.0)      | (4.9)      | 0.1            |
| Reverse repo                      | 3.9        | 3.9        | 0              |
| Repo                              | 0          | 0          | 0              |

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

|                      | 09-05-2022 | 10-05-2022 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn)        | (338.4)    | (650.6)    | (312.3)                |
| Debt                 | 35.3       | (201.3)    | (236.6)                |
| Equity               | (373.7)    | (449.4)    | (75.7)                 |
| Mutual funds (Rs cr) | (1,037.9)  | 670.4      | 1,708.4                |
| Debt                 | (2,579.8)  | 66.3       | 2,646.0                |
| Equity               | 1,541.8    | 604.2      | (937.7)                |

Source: Bloomberg, Bank of Baroda Research

- Crude prices jumped by 4.9% to US\$ 108/bbl as Russia's oil supply to Europe fell. Gold too rose by 0.8%, as US\$ retreated following US CPI print.

**Fig 7 – Commodities**

|                         | 10-05-2022 | 11-05-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl)  | 102.5      | 107.5      | 4.9      |
| Gold (US\$/ Troy Ounce) | 1,838.3    | 1,852.4    | 0.8      |
| Copper (US\$/ MT)       | 9,235.8    | 9,358.8    | 1.3      |
| Zinc (US\$/MT)          | 3,608.5    | 3,683.5    | 2.1      |
| Aluminium (US\$/MT)     | 2,753.5    | 2,778.0    | 0.9      |

Source: Bloomberg, Bank of Baroda Research



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