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ECONOMIST

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Globally central banks are giving different views. While ECB President remained dovish, Fed official (James Bullard) is backing for a 1% rate hike by Jul 2022. Oil prices are inching up as geopolitical tensions prevail and IEA spoke of below target production of OPEC+ in Jan'22. On domestic front, RBI's policy supported yields.

- Global equity indices closed lower amidst heightened geo-political tensions. US stocks led the decline with S&P 500 falling by 1.9% and Dow Jones slipping by 1.4%. Sensex and Nifty declined by 1.3% each as higher than expected inflation in the US raised expectation of aggressive Fed tightening. Tech and consumer durable stocks led the decline. Asian stocks are trading lower today.

Fig 1 – Stock markets

| | 10-02-2022 | 11-02-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 35,242 | 34,738 | (1.4) |
| S & P 500 | 4,504 | 4,419 | (1.9) |
| FTSE | 7,672 | 7,661 | (0.1) |
| Nikkei | 27,580 | 27,696 | 0.4 |
| Hang Seng | 24,924 | 24,907 | (0.1) |
| Shanghai Comp | 3,486 | 3,463 | (0.7) |
| Sensex | 58,926 | 58,153 | (1.3) |
| Nifty | 17,606 | 17,375 | (1.3) |

Source: Bloomberg, Bank of Baroda Research

- Safe-haven DXY and JPY gained by 0.6% and 0.5% respectively, as tension between Russia and Ukraine escalated. EUR dropped by 0.7% as ECB President cautioned against the impact of rate hike. GBP rose by 0.1% as UK's monthly GDP fell less than expected in Dec'21. INR depreciated by 0.6% led by higher oil prices and sell-off in domestic equities. Asian currencies are trading mixed today.

Fig 2 – Currencies

| | 10-02-2022 | 11-02-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.1428 | 1.1350 | (0.7) |
| GBP/USD | 1.3557 | 1.3564 | 0.1 |
| USD/JPY | 116.01 | 115.42 | 0.5 |
| USD/INR | 74.95 | 75.38 | (0.6) |
| USD/CNY | 6.3541 | 6.3546 | 0 |

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

- Global yields closed mixed. While ECB President spoke of a rate hike hurting the economy, Fed official James Bullard spoke of 100bps hike by 1 Jul 2022. US 10Y yield fell by 9bps as Michigan consumer sentiment index dropped to its lowest since Oct'11. UK's 10Y yield rose by 2bps as growth print improved. India's 10Y yield fell by 3bps supported by dovish RBI's policy.



Fig 3 – Bond 10Y yield

| | 10-02-2022 | 11-02-2022 | % change |
|---------|------------|------------|----------|
| US | 2.03 | 1.94 | (9) |
| UK | 1.52 | 1.55 | 2 |
| Germany | 0.28 | 0.30 | 1 |
| Japan | 0.23 | 0.23 | 0 |
| China | 2.76 | 2.79 | 2 |
| India | 6.73 | 6.70 | (3) |

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

- Short-end yields fell broadly. There has been a reversal of 14-day VRRR auction of Rs 6.5tn. Market awaits T Bill auction to be held on 16 Feb, to see movement of cut off yields.

Fig 4 – Short term rates

| | 10-02-2022 | 11-01-2022 | % change |
|--------------------------|------------|------------|----------|
| Tbill-91 days | 3.73 | 3.72 | (1) |
| Tbill-182 days | 4.24 | 4.24 | 0 |
| Tbill-365 days | 4.48 | 4.45 | (3) |
| G-Sec 2Y | 4.90 | 4.88 | (2) |
| AAACorp Spread 3Y | 37.00 | 37.00 | 0 |
| SONIA int rate benchmark | 0.45 | 0.45 | 0 |
| US SOFR | 0.04 | 0.05 | 1 |

Source: Bloomberg, Bank of Baroda Research, Note: Markets in India were closed on 7.02.2022

Fig 5 – Liquidity

| Rs tn | 09-02-2022 | 10-02-2022 | Change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | (6.3) | (6.8) | (0.5) |
| Reverse repo* | 6.3 | 4.1 | (2.2) |
| Repo* | 0 | 0 | 0 |

Source: Bloomberg, Bank of Baroda Research *Variable rate outstanding

Fig 6 – Capital market flows

| | 09-02-2022 | 10-02-2022 | Change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | (181.8) | (230.6) | (48.7) |
| Debt | (94.9) | (4.7) | 90.2 |
| Equity | (86.9) | (225.9) | (139.0) |
| Mutual funds (Rs cr) | (1,317.6) | 1,594.3 | 2,911.9 |
| Debt | (26.2) | 925.3 | 951.5 |
| Equity | (1,291.4) | 669.0 | 1,960.4 |

Source: Bloomberg, Bank of Baroda Research, Note: Data for Mutual Fund inflows pertains to 7 Feb 2022 and 8 Feb 2022

- Crude oil prices rose by 3.3% (highest since Oct'14) on reports that Russia is likely to invade Ukraine and also IEA's data highlighting tight oil market. Gold prices firmed up by 1.7% on safe-haven demand.

Fig 7 – Commodities

| | 10-02-2022 | 11-02-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 91.4 | 94.4 | 3.3 |
| Gold (US\$/ Troy Ounce) | 1,826.9 | 1,858.8 | 1.7 |
| Copper (US\$/ MT) | 10,305.0 | 9,894.3 | (4.0) |
| Zinc (US\$/MT) | 3,706.8 | 3,621.0 | (2.3) |
| Aluminum (US\$/MT) | 2,590.0 | 2,600.0 | 0.4 |

Source: Bloomberg, Bank of Baroda Research



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