

MORNING MOCHA

14 June 2022

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Global stock markets ended in red and 10Y yields inched up, as investors fear more aggressive rate hike by US Fed to tame the inflation. Tight liquidity conditions and elevated price pressures may dent demand, thus increasing the possibility of economic recession. Latest print from UK shows that the monthly GDP rose by 0.2% (est.: 0.4%) in Apr'22, slowing from 0.8% in Mar'22. Industrial production contracted by 0.6% (est.: 0.3% increase) with manufacturing output declining by 1%. Both shortage of supplies and increasing input costs have impacted the output.

- Global indices continued to slide as investors turned their focus towards upcoming Fed policy meet. S&P500 tumbled by 3.9%, signalling the entry into bear market and aggravating fears of recession. Hang Seng and Nikkei ended lower by 3.4% and 3% respectively. Sensex (2.7%) too ended in deep red led by sharp losses in IT and metal stocks. It is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	10-06-2022	13-06-2022	% change
Dow Jones	31,393	30,517	(2.8)
S & P 500	3,901	3,750	(3.9)
FTSE	7,318	7,206	(1.5)
Nikkei	27,824	26,987	(3.0)
Hang Seng	21,806	21,068	(3.4)
Shanghai Comp	3,285	3,256	(0.9)
Sensex	54,303	52,847	(2.7)
Nifty	16,202	15,774	(2.6)

Source: Bloomberg, Bank of Baroda Research

- Barring JPY, other global currencies ended lower against the dollar. DXY climbed to 20-year high ahead of the much-anticipated hawkish Fed policy. GBP was under pressure and fell by 1.5% amidst disappointing GDP print. INR depreciated by 0.3% and hit a record low at 78/US\$. However, it is trading higher today while other Asian currencies are trading mixed.

Fig 2 – Currencies

	10-06-2022	13-06-2022	% change
EUR/USD	1.0519	1.0409	(1.0)
GBP/USD	1.2315	1.2134	(1.5)
USD/JPY	134.41	134.42	0
USD/INR	77.84	78.04	(0.3)
USD/CNY	6.7091	6.7546	(0.7)

Source: Bloomberg, Bank of Baroda Research

- Barring Japan (flat), other major global yields rose sharply. US (20bps), Germany (12bps) and UK's (8bps) 10Y yields rose the most. Investor sentiments were dented by US' red hot inflation print raising fears of aggressive



rate hikes by Fed, thus tipping the economy into recession. Following global cues, India's 10Y yield too rose by 8bps to 7.6%.

Fig 3 – Bond 10Y yield

	10-06-2022	13-06-2022	change in bps
US	3.16	3.36	20
UK	2.45	2.53	8
Germany	1.52	1.63	12
Japan	0.25	0.26	0
China	2.79	2.81	1
India	7.52	7.60	8

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	10-06-2022	13-06-2022	% change
Tbill-91 days	5.0	5.0	(1)
Tbill-192 days	5.6	5.6	4
Tbill-364 days	6.1	6.1	3
G-Sec 2Y	6.5	6.6	6
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	10-06-2022	13-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.5)	(3.6)	(0.1)
Reverse repo	1.0	1.0	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	09-06-2022	10-06-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(180.7)	(624.6)	(443.9)
Debt	(0.6)	(215.9)	(215.3)
Equity	(180.1)	(408.7)	(228.6)
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; Note-Mutual Fund data pertains to 7 and 8 June 2022

- Brent crude prices rose by 0.2%. Prices were impacted by tight supply owing to drop in exports from Libya and possibility of dented consumer demand. Gold prices fell by 2.8% as US\$ strengthened.

Fig 7 – Commodities

	10-06-2022	13-06-2022	% change
Brent crude (US\$/bbl)	122.0	122.3	0.2
Gold (US\$/ Troy Ounce)	1,871.6	1,819.3	(2.8)
Copper (US\$/ MT)	9,447.3	9,285.5	(1.7)
Zinc (US\$/MT)	3,706.8	3,627.8	(2.1)
Aluminium (US\$/MT)	2,680.0	2,628.0	(1.9)

Source: Bloomberg, Bank of Baroda Research



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