

MORNING MOCHA

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Fears of a global recession surfaced again as PMIs showed moderation in manufacturing activity in Europe, US and China amidst muted demand and high inflation. Germany's retail sales fell by a record 8.8% in Jun'22 (YoY) exacerbating these concerns. As a result, oil prices declined sharply by 9.1%. Further, expectations of a possible flare up in tensions between US and China ahead of US House of Representative Speaker's visit to Taiwan kept investors on edge. In India, strong manufacturing PMI data and lower oil prices buoyed investor sentiments.

- Global indices ended mixed. While Asian stocks ended largely higher, stocks in US and UK edged down. Disappointing manufacturing PMI data from US, China and Europe impacted investor sentiments. Sensex consolidated its gains and rose by another 0.9%, led by gains in power and auto stocks. However it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	29-07-2022	1-08-2022	% change
Dow Jones	32,845	32,798	(0.1)
S & P 500	4,130	4,119	(0.3)
FTSE	7,423	7,413	(0.1)
Nikkei	27,802	27,993	0.7
Hang Seng	20,157	20,166	0
Shanghai Comp	3,253	3,260	0.2
Sensex	57,570	58,116	0.9
Nifty	17,158	17,340	1.1

Source: Bloomberg, Bank of Baroda Research

- Barring CNY (lower), other global currencies edged up. DXY declined by another 0.4% in line with a fall in US 10Y yield. Disappointing ISM manufacturing PMI also drove DXY lower. GBP rose by 0.6% ahead of BoE policy meet. INR appreciated by 0.3%, supported by lower oil prices and FPI inflows. It is trading further stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	29-07-2022	1-08-2022	% change
EUR/USD	1.0220	1.0262	0.4
GBP/USD	1.2171	1.2250	0.6
USD/JPY	133.27	131.61	1.3
USD/INR	79.27	79.03	0.3
USD/CNY	6.7445	6.7688	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Except Japan (flat), other global yields closed lower. US 10Y yield fell the most by 8bps, followed by UK (6bps) and Germany (4bps). Muted manufacturing activity from Europe to Asia as seen in the PMI print for Jul'22, drop in retail sales in Germany and falling construction spending in the US added to woes.



India's 10Y yield fell by 8bps to 7.24% as crude prices dropped. Expectations that a new 10Y security may be issued also impacted market sentiments. It is trading at 7.2% today.

Fig 3 – Bond 10Y yield

	29-07-2022	1-08-2022	change in bps
US	2.65	2.57	(8)
UK	1.86	1.81	(6)
Germany	0.82	0.78	(4)
Japan	0.19	0.19	0
China	2.77	2.74	(2)
India	7.32	7.24	(8)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	29-07-2022	1-08-2022	change in bps
Tbill-91 days	5.56	5.52	(4)
Tbill-182 days	5.89	5.75	(14)
Tbill-364 days	6.25	6.22	(3)
G-Sec 2Y	6.41	6.38	(3)
SONIA int rate benchmark	1.19	1.19	0
US SOFR	2.28	2.27	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	29-07-2022	1-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.6)	(1.3)	(0.7)
Reverse repo	0.3	0.4	0.1
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	28-07-2022	29-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	716.3	128.8	(587.5)
Debt	(92.7)	(56.4)	36.4
Equity	809.0	185.1	(623.9)
Mutual funds (Rs cr)	122.3	(152.0)	(274.2)
Debt	(1,036.6)	(1,134.4)	(97.8)
Equity	1,158.8	982.4	(176.4)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 26th and 27th Jul 2022

- Crude prices fell by 9.1% to US\$ 100/bbl as macro prints globally hinted at muted demand. Gold prices also inched up by 0.4% on safe haven demand.

Fig 7 – Commodities

	29-07-2022	1-08-2022	% change
Brent crude (US\$/bbl)	110.0	100.0	(9.1)
Gold (US\$/ Troy Ounce)	1,765.9	1,772.2	0.4
Copper (US\$/ MT)	7,931.3	7,821.3	(1.4)
Zinc (US\$/MT)	3,412.3	3,441.0	0.8
Aluminium (US\$/MT)	2,488.5	2,430.5	(2.3)

Source: Bloomberg, Bank of Baroda Research



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