

MORNING MOCHA

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ECONOMIST
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Global markets continue to monitor ongoing challenges including elevated inflation, global slowdown, prolonged supply chain disruption caused by Covid-19 and ongoing Russia-Ukraine conflict. Eurozone manufacturing PMI moderated, US manufacturing on the other hand, rose at a much faster pace than anticipated in May'22. DXY edged upwards. San Francisco's Fed president also spoke about half-point hike in the coming meetings in line Fed governor Waller's remark yesterday.

- Except Nikkei, other global indices ended lower over concerns of elevated inflation and looming threat of recession. European stocks dropped lower with moderation in manufacturing print for both EU and UK. Sensex (0.3%) too ended in red led by losses in power and technology stocks. However, it is trading higher today while with other Asian stocks are trading mixed.

Fig 1 – Stock markets

	31-05-2022	1-06-2022	% change
Dow Jones	32,990	32,813	(0.5)
S & P 500	4,132	4,101	(0.7)
FTSE	7,608	7,533	(1.0)
Nikkei	27,280	27,458	0.7
Hang Seng	21,415	21,295	(0.6)
Shanghai Comp	3,186	3,182	(0.1)
Sensex	55,566	55,381	(0.3)
Nifty	16,585	16,523	(0.4)

Source: Bloomberg, Bank of Baroda Research

- Barring INR (higher), other global currencies closed lower against the dollar, with JPY (1.1%), GBP (0.9%) and EUR (0.4%) falling the most. DXY rose sharply 0.7%, supported by higher treasury yields. INR appreciated by 0.1%. It is trading even higher today, in line with other Asian currencies.

Fig 2 – Currencies

	31-05-2022	1-06-2022	% change
EUR/USD	1.0734	1.0650	(0.8)
GBP/USD	1.2602	1.2487	(0.9)
USD/JPY	128.67	130.13	(1.1)
USD/INR	77.64	77.53	0.1
USD/CNY	6.6718	6.6862	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global yields rose further in US and Europe, while it fell/remained flat in Asia. US (2.91%) and Germany's 10Y yield rose by 6bps each, followed by 5bps increase in UK's 10Y yield. Concerns over inflation (EU inflation at 8.1% in May'22) and effect of rate hikes on growth, impacted investor sentiments. India's 10Y yield closed flat at 7.42%, following decline in oil prices.



Fig 3 – Bond 10Y yield

	31-05-2022	1-06-2022	change in bps
US	2.84	2.91	6
UK	2.10	2.16	5
Germany	1.12	1.19	6
Japan	0.24	0.24	(1)
China	2.80	2.80	0
India	7.42	7.42	0

Source: Bloomberg, Bank of Baroda Research

- Short-term rates in RBI's T-bill auction (Rs 330bn) rose significantly across all tenures. Cut-off yield for 364-day paper rose the most (+17bps to 6.08%), followed by yield on 182-day paper (+9bps to 5.52%) and 91-day paper (7bps to 4.95%)

Fig 4 – Short term rates

	31-05-2022	1-06-2022	% change
Tbill-91 days	4.9	4.9	0
Tbill-182 days	5.4	5.5	5
Tbill-364 days	5.9	6.0	6
G-Sec 2Y	6.4	6.4	3
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	31-05-2022	1-06-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(3.3)	(3.7)	(0.4)
Reverse repo	3.1	3.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	30-05-2022	31-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	342.7	(75.9)	(418.6)
Debt	48.4	52.2	3.8
Equity	294.3	(128.1)	(422.4)
Mutual funds (Rs cr)	3,297.1	2,204.1	(1,093.1)
Debt	1,467.6	1,143.4	(324.2)
Equity	1,829.5	1,060.7	(768.8)

Source: Bloomberg, Bank of Baroda Research; Note: Mutual fund data pertains to 27 and 30 May 2022

- Crude prices slid after news report of Saudi Arabia prepping to raise the oil production, following European sanctions on Russia. Gold inched up by 0.5%, amidst worries over elevated inflation print, pushing the demand for safe-haven..

Fig 7 – Commodities

	31-05-2022	1-06-2022	% change
Brent crude (US\$/bbl)	122.8	116.3	(5.3)
Gold (US\$/ Troy Ounce)	1,837.4	1,846.6	0.5
Copper (US\$/ MT)	9,445.5	9,498.5	0.6
Zinc (US\$/MT)	3,939.0	3,884.5	(1.4)
Aluminium (US\$/MT)	2,787.0	2,726.0	(2.2)

Source: Bloomberg, Bank of Baroda Research



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