

MORNING MOCHA

20 July 2022

ECONOMIST
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Markets remained cautious awaiting ECB's policy decision where even a 50bps rate hike cannot be ruled out considering the Jun'22 CPI inflation print is still elevated at 8.6%. Elsewhere, Bank of England (BoE) Governor also hinted at 50bps rate hike in the coming policy. Macro indicators in the US remained weak with muted home sales data. In China as well, Premier Li Keqiang also hinted that focus should be on price stability and employment generation on the back of a flexible growth target. On domestic front, movement of domestic currency is closely tracked and further depreciation cannot be ruled out.

- Except Hang Seng (lower) and Shanghai Comp (flat), other global stocks edged up. US stocks rose the most supported by better than expected earnings report. Investor sentiments were also lifted by reports that Russia is likely to restart gas supply to Europe. Sensex rose by 0.5%, led by gains in real estate and banking stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	18-07-2022	19-07-2022	% change
Dow Jones	31,073	31,827	2.4
S & P 500	3,831	3,937	2.8
FTSE	7,223	7,296	1.0
Nikkei	26,788	26,962	0.6
Hang Seng	20,846	20,661	(0.9)
Shanghai Comp	3,278	3,279	0
Sensex	54,521	54,768	0.5
Nifty	16,279	16,341	0.4

Source: Bloomberg, Bank of Baroda Research

- DXY fell further by 0.6% as investors pared back expectations of a 100bps rate hike by Fed. Disappointing home sales data also weighed. On the other hand, EUR rose by 0.8% amidst reports that ECB may hike policy rates by 50bps. However, sharp upside were capped by political uncertainty in Italy. INR closed flat. It is trading a tad higher today, in line with other Asian currencies.

Fig 2 – Currencies

	18-07-2022	19-07-2022	% change
EUR/USD	1.0143	1.0227	0.8
GBP/USD	1.1953	1.1995	0.4
USD/JPY	138.14	138.19	0
USD/INR	79.98	79.95	0
USD/CNY	6.7432	6.7442	0

Source: Bloomberg, Bank of Baroda Research

- Except Japan China and India (stable), global yields closed higher. Market is eyeing ECB's policy decision where 50bps hike cannot be ruled out as inflation is overheated. In that case global 10Y yields might inch up higher. Germany's



10Y yield rose the most by 6bps followed by US and UK. Even Governor Bailey of BoE spoke of 50bps hike and scaling back its bond holdings, which might be forthcoming. India's 10Y yield is trading at the same level today.

Fig 3 – Bond 10Y yield

	18-07-2022	19-07-2022	change in bps
US	2.99	3.02	4
UK	2.16	2.18	2
Germany	1.22	1.28	6
Japan	0.24	0.24	0
China	2.79	2.79	0
India	7.44	7.44	0

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	18-07-2022	19-07-2022	change in bps
Tbill-91 days	5.2	5.2	6
Tbill-182 days	5.8	5.7	(11)
Tbill-364 days	6.2	6.2	0
G-Sec 2Y	6.4	6.4	1
SONIA int rate benchmark	1.2	1.2	0
US SOFR	1.5	1.5	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	18-07-2022	19-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.7)	0
Reverse repo	2.1	2.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-07-2022	18-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(206.1)	97.7	303.9
Debt	(1.5)	70.2	71.7
Equity	(204.6)	27.5	232.2
Mutual funds (Rs cr)	(1,437.2)	(2,733.8)	(1,296.7)
Debt	(943.4)	(1,011.9)	(68.5)
Equity	(493.7)	(1,721.9)	(1,228.2)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 1st and 2nd Jul 2022

- Crude prices rose by 1% to US\$ 107/bbl despite increase in US crude inventories. Gold prices rose by 0.1% as DXY fell.

Fig 7 – Commodities

	18-07-2022	19-07-2022	% change
Brent crude (US\$/bbl)	106.3	107.4	1.0
Gold (US\$/ Troy Ounce)	1,709.2	1,711.7	0.1
Copper (US\$/ MT)	7,411.0	7,254.5	(2.1)
Zinc (US\$/MT)	3,091.5	3,033.0	(1.9)
Aluminium (US\$/MT)	2,426.5	2,389.0	(1.5)

Source: Bloomberg, Bank of Baroda Research



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