

MORNING MOCHA

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Ahead of the key rate hike by Fed, China kept the benchmark rate unchanged today making a clear case of policy divergence across the globe. Last month, China had reduced rates in order to revive the economy, as it was battling resurgence of Covid-19 and property crisis on its turf. The policy divergence has also heightened risk of capital outflow. BoJ is also expected to continue with the ultra-loose monetary policy, despite the core inflation accelerating to 8-year high. With key rate decisions anticipated from global central bank in the coming days, dollar remained steady. Oil prices edged up on the back of supply side challenges.

- Global stocks ended mixed as focus shifts towards Fed's upcoming policy meet with investors already bracing in for 75bps rate hike. While Asian indices ended lower; US indices closed in green. Sensex (0.5%) too ended higher led by gains in auto and IT stocks. It is trading further higher today, in line with other Asian markets.

Fig 1 – Stock markets

| | 16-09-2022 | 19-09-2022 | % change |
|---------------|------------|------------|----------|
| Dow Jones | 30,822 | 31,020 | 0.6 |
| S & P 500 | 3,873 | 3,900 | 0.7 |
| FTSE | 7,282 | 7,237 | (0.6) |
| Nikkei | 27,876 | 27,568 | (1.1) |
| Hang Seng | 18,762 | 18,566 | (1.0) |
| Shanghai Comp | 3,126 | 3,116 | (0.3) |
| Sensex | 58,841 | 59,141 | 0.5 |
| Nifty | 17,531 | 17,622 | 0.5 |

Source: Bloomberg, Bank of Baroda Research Japan and UK markets were shut on 19.9.22.

- Global currencies closed mixed. EUR gained the most, while CNY and JPY fell the most. DXY ended flat as investors await slew of Central Bank decisions this week (Fed, BoE, BoJ). BoJ is expected to remain accommodative despite core CPI inching to near 8-year high, thus also putting pressure on Yen. INR closed flat despite pick up in oil prices. However, it is trading higher today; while other Asian currencies are trading mixed.

Fig 2 – Currencies

| | 16-09-2022 | 19-09-2022 | % change |
|---------|------------|------------|----------|
| EUR/USD | 1.0016 | 1.0024 | 0.1 |
| GBP/USD | 1.1420 | 1.1431 | 0.1 |
| USD/JPY | 142.92 | 143.21 | (0.2) |
| USD/INR | 79.75 | 79.77 | 0 |
| USD/CNY | 6.9870 | 7.0050 | (0.3) |

Source: Bloomberg, Bank of Baroda Research

- Barring Japan and China (flat), other global yields inched up. Yields in Germany (+5bps) and US (+4bps) rose the most as US Fed is widely expected to



increase policy rates by another 75bps this week. BoE is also expected to hike rates. Following global cues and rise in oil prices, India's 10Y yield rose a tad by 1bps to 7.24%. It is trading sharply higher at 7.29% today.

Fig 3 – Bond 10Y yield

| | 16-09-2022 | 19-09-2022 | change in bps |
|---------|------------|------------|---------------|
| US | 3.45 | 3.49 | 4 |
| UK | 3.17 | 3.14 | (3) |
| Germany | 1.76 | 1.81 | 5 |
| Japan | 0.26 | 0.26 | 0 |
| China | 2.68 | 2.68 | 0 |
| India | 7.23 | 7.24 | 1 |

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

| | 16-09-2022 | 19-09-2022 | change in bps |
|--------------------------|------------|------------|---------------|
| Tbill-91 days | 5.83 | 5.75 | (8) |
| Tbill-182 days | 6.04 | 6.09 | 5 |
| Tbill-364 days | 6.42 | 6.49 | 7 |
| G-Sec 2Y | 6.83 | 6.84 | 1 |
| SONIA int rate benchmark | 1.69 | 1.69 | 0 |
| US SOFR | 2.28 | 2.27 | (1) |

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

| Rs tn | 16-09-2022 | 19-09-2022 | change (Rs tn) |
|-----------------------------------|------------|------------|----------------|
| Net Liquidity (-Surplus/+deficit) | 0 | 0 | 0 |
| Reverse repo | 0.8 | 0.8 | 0 |
| Repo | 0 | 0 | 0 |

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

| | 15-09-2022 | 16-09-2022 | change (US\$ mn/Rs cr) |
|----------------------|------------|------------|------------------------|
| FII (US\$ mn) | 24.5 | 303.0 | 278.5 |
| Debt | 109.8 | 738.5 | 628.7 |
| Equity | (85.4) | (435.6) | (350.2) |
| Mutual funds (Rs cr) | 152.6 | 928.3 | 775.7 |
| Debt | (107.6) | 446.3 | 553.9 |
| Equity | 260.2 | 482.1 | 221.9 |

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 7th and 8th Sep 2022

- Crude oil prices continued to move up by 0.7% to (US\$ 92/bbl) as supply side concerns (OPEC+ Production was lower than the target level in Aug;22) outweighed subdued demand outlook on the back of higher interest rates.

Fig 7 – Commodities

| | 16-09-2022 | 19-09-2022 | % change |
|-------------------------|------------|------------|----------|
| Brent crude (US\$/bbl) | 91.4 | 92.0 | 0.7 |
| Gold (US\$/ Troy Ounce) | 1,675.1 | 1,675.8 | 0 |
| Copper (US\$/ MT) | 7,869.0 | 7,826.5 | (0.5) |
| Zinc (US\$/MT) | 3,184.1 | 3,165.8 | (0.6) |
| Aluminium (US\$/MT) | 2,277.0 | 2,251.0 | (1.1) |

Source: Bloomberg, Bank of Baroda Research



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