

MORNING MOCHA

21 July 2022

ECONOMIST
Dipanwita Mazumdar

UK's CPI print rose to its fresh 40-year high of 9.4% in Jun'22, on YoY basis, against expectation of 9.3% and 9.1% in May'22, led by food and fuel. This raised renewed hopes of faster pace of rate hike by BoE. Elsewhere, BoJ also raised its inflation forecast to 2.3% against earlier estimate of 1.9% for the current fiscal. However, on policy front, it remained ultra-accommodative. Market is looking for cues from ECB's policy decision on the back of its energy related issues. Further, US is also weighing on options for reducing tariff on imports from China, to check inflation. Gold prices also hit its more than a year low on account of strengthening DXY. On domestic front, INR remained on centre stage and is trading above the 80/\$ mark today.

- Barring FTSE (lower), global stocks edged higher. Nikkei rose the most by 2.7%, led by gains in technology stocks. US stocks also ended higher supported by upbeat earning reports. However, FTSE closed lower as UK's inflation surged further. Sensex rose by 1.2%, supported by technology and metal stocks. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	19-07-2022	20-07-2022	% change
Dow Jones	31,827	31,875	0.2
S & P 500	3,937	3,960	0.6
FTSE	7,296	7,264	(0.4)
Nikkei	26,962	27,680	2.7
Hang Seng	20,661	20,890	1.1
Shanghai Comp	3,279	3,305	0.8
Sensex	54,768	55,398	1.2
Nifty	16,341	16,521	1.1

Source: Bloomberg, Bank of Baroda Research

- Except JPY (flat), other global currencies depreciated. DXY rose by 0.4% in line with an increase in US10Y yield. EUR fell by 0.5%, ahead of ECB policy decision. GBP too depreciated by 0.2% as UK's inflation surged to a 40-year high. INR fell to a fresh record low of 79.99/\$. It is trading above the 80/\$ mark today. Other Asian currencies are also trading weaker.

Fig 2 – Currencies

	19-07-2022	20-07-2022	% change
EUR/USD	1.0227	1.0180	(0.5)
GBP/USD	1.1995	1.1973	(0.2)
USD/JPY	138.19	138.21	0
USD/INR	79.95	79.99	0
USD/CNY	6.7442	6.7558	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. Political turmoil in Italy and UK, energy related issues in the Eurozone and key central bank policy decisions kept investors



cautious. UK' 10Y yield fell by 4bps despite its elevated inflation print.

Elsewhere in US, Japan and India, 10Y yield rose a tad by 1bps. India's 10Y yield is trading a tad higher at 7.46% today.

Fig 3 – Bond 10Y yield

	19-07-2022	20-07-2022	change in bps
US	3.02	3.03	1
UK	2.18	2.14	(4)
Germany	1.28	1.26	(2)
Japan	0.24	0.25	1
China	2.79	2.77	(2)
India	7.44	7.45	1

Source: Bloomberg, Bank of Baroda Research

- In the Rs 210bn TBill auction, cut off yields rose across the board (91-days: +16bps, 182-days:+11bps, 364-days:+7bps).

Fig 4 – Short term rates

	19-07-2022	20-07-2022	change in bps
Tbill-91 days	5.2	5.4	14
Tbill-182 days	5.7	5.8	14
Tbill-364 days	6.2	6.2	6
G-Sec 2Y	6.4	6.4	0
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	19-07-2022	20-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.7)	(1.5)	0.2
Reverse repo	2.1	2.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	18-07-2022	19-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	97.7	81.0	(16.8)
Debt	70.2	(51.6)	(121.7)
Equity	27.5	132.5	105.0
Mutual funds (Rs cr)	1,142.6	(36.7)	(1,179.3)
Debt	412.3	(446.4)	(858.7)
Equity	730.2	409.6	(320.6)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 15th and 18th Jul and 1st Jul 2022

- Crude prices moderated by 0.4% to US\$ 107/bbl as US data showed muted gasoline demand. Gold prices hit its lowest since Mar'21, as DXY strengthened..

Fig 7 – Commodities

	19-07-2022	20-07-2022	% change
Brent crude (US\$/bbl)	107.4	106.9	(0.4)
Gold (US\$/ Troy Ounce)	1,711.7	1,696.6	(0.9)
Copper (US\$/ MT)	7,254.5	7,358.0	1.4
Zinc (US\$/MT)	3,033.0	3,084.0	1.7
Aluminium (US\$/MT)	2,389.0	2,430.0	1.7

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com