

## MORNING MOCHA

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The Swedish Central Bank surprised the markets by hiking policy rates by 100bps in order to combat inflation and heightened the possibility of more hikes. This comes in the wake of aggressive monetary tightening expected (75bps) by Fed and other key Central Banks in the coming days. Against this, major currencies ended lower against dollar with US 10Y climbing upwards. Dollar index edged up to 20-year high. Oil prices dropped as fears of recession weighed in on demand outlook.

- Apart from US indices, other global indices ended higher as investors braced themselves for the Fed rate hike which has already been priced in by the market (75bps). Amongst other indices, Hang Seng (1.2%) surged the most. Sensex too ended in green led by gains in consumer durable and auto stocks. However, it is trading lower today, in line with other Asian markets.

**Fig 1 – Stock markets**

	19-09-2022	20-09-2022	% change
Dow Jones	31,020	30,706	(1.0)
S & P 500	3,900	3,856	(1.1)
FTSE	7,237	7,193	(0.6)
Nikkei	27,568	27,688	0.4
Hang Seng	18,566	18,781	1.2
Shanghai Comp	3,116	3,122	0.2
Sensex	59,141	59,720	1.0
Nifty	17,622	17,816	1.1

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

- Barring INR (flat), other major currencies fell against the dollar. DXY rose by 0.4% to hover near levels last seen in Jun'02, supported by rise in bond yields. EUR, GBP and JPY fell the most. Investors are bracing for 75bps rate hike by US Fed this week. INR closed flat as oil prices inched down. However, it is trading lower today, in line with other Asian currencies.

**Fig 2 – Currencies**

	19-09-2022	20-09-2022	% change
EUR/USD	1.0024	0.9971	(0.5)
GBP/USD	1.1431	1.1381	(0.4)
USD/JPY	143.21	143.75	(0.4)
USD/INR	79.77	79.76	0
USD/CNY	7.0050	7.0183	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Except Japan (flat) and China (lower), other global yields inched up. Yields in UK, Germany and US (highest since 2011) rose the most. Short-term (2Y) yields which are more sensitive to policy rate hikes, were also trading at over decade high levels. Investors await Fed's rate decision and economic forecasts.



Following global cues, India's 10Y yield rose by 3bps to 7.26%. It is trading further higher at 7.30% today.

**Fig 3 – Bond 10Y yield**

	19-09-2022	20-09-2022	change in bps
US	3.49	3.56	7
UK	3.14	3.29	15
Germany	1.81	1.93	12
Japan	0.26	0.26	0
China	2.68	2.66	(2)
India	7.24	7.26	3

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	19-09-2022	20-09-2022	change in bps
Tbill-91 days	5.75	5.78	3
Tbill-182 days	6.09	6.16	7
Tbill-364 days	6.49	6.54	5
G-Sec 2Y	6.84	6.89	5
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.27	2.27	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	19-09-2022	20-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0	0.2	0
Reverse repo	0.8	0.8	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	16-09-2022	19-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	303.0	91.8	(211.1)
Debt	738.5	(0.1)	(738.6)
Equity	(435.6)	91.9	527.5
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 7<sup>th</sup> and 8<sup>th</sup> Sep 2022

- Crude oil prices declined by 1.5% to (US\$ 91/bbl) ahead of anticipated Fed rate hike and amidst subdued demand outlook. Gold price retreated by 0.7%.

**Fig 7 – Commodities**

	19-09-2022	20-09-2022	% change
Brent crude (US\$/bbl)	92.0	90.6	(1.5)
Gold (US\$/ Troy Ounce)	1,675.8	1,664.9	(0.7)
Copper (US\$/ MT)	7,826.5	7,826.0	0
Zinc (US\$/MT)	3,165.8	3,144.3	(0.7)
Aluminium (US\$/MT)	2,251.0	2,245.5	(0.2)

Source: Bloomberg, Bank of Baroda Research



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