

MORNING MOCHA

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ECONOMIST
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Inflation concerns yet again aggravated with Germany's PPI soaring to yet another record high of 33.5% in Apr'22, on YoY basis. ECB official signalled that first rate hike may be forthcoming in Jul'22. On domestic front, government has reduced excise duty on petrol and diesel by Rs 8/lt and Rs 6/lt respectively and said that it will cost the exchequer Rs 1tn. Apart this this, it has also increased fertiliser subsidy by Rs 1.1tn (now at a record high of Rs 2.15tn in FY23, taking the previous budgetary allocation of Rs 1.05tn). Further import duty on coal has been reduced to 0% from existing 2.5%.

- Except US stocks (flat), global equity indices ended higher. Hang Seng rose the most by 3%, led by technology stocks. Even Shanghai Comp rose by 1.6%, on account of easing Covid-19 restrictions. Investors are also monitoring signals from global central banks on rates. Sensex rose by 2.9%, led by gains in real estate, metal and capital goods stocks. It is trading lower today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	19-05-2022	20-05-2022	% change
Dow Jones	31,253	31,262	0
S & P 500	3,901	3,901	0
FTSE	7,303	7,390	1.2
Nikkei	26,403	26,739	1.3
Hang Seng	20,121	20,717	3.0
Shanghai Comp	3,097	3,147	1.6
Sensex	52,792	54,326	2.9
Nifty	15,809	16,266	2.9

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. DXY rose by 0.4% even as US 10Y yield continued to edge lower. EUR fell by 0.2% as Germany's PPI inflation surged to a new record-high in Apr'22. GBP gained by 0.1% supported by better than expected retail sales growth in UK. CNY too rose by 0.3% amidst reports of easing lockdown restrictions in Shanghai. After depreciating to a fresh record low, INR appreciated by 0.2%. However, it is trading lower today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	19-05-2022	20-05-2022	% change
EUR/USD	1.0588	1.0564	(0.2)
GBP/USD	1.2467	1.2480	0.1
USD/JPY	127.79	127.88	(0.1)
USD/INR	77.73	77.55	0.2
USD/CNY	6.7125	6.6930	0.3

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. Inflationary concerns remained elevated with G7 finance ministers flagging risks emanating from supply chain bottlenecks due to Russia-Ukraine war. Growth concerns led US 10Y yield fell by 6bps. India's 10Y yield rose by 4bps (7.36%) as minutes of RBI's off cycle meeting highlighted faster pace of rate hikes in FY23. It is trading at 7.37% today.

Fig 3 – Bond 10Y yield

	19-05-2022	20-05-2022	change in bps
US	2.84	2.78	(6)
UK	1.87	1.89	3
Germany	0.95	0.94	(1)
Japan	0.24	0.24	0
China	2.81	2.82	1
India	7.32	7.36	4

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	19-05-2022	20-05-2022	% change
Tbill-91 days	4.9	4.9	1
Tbill-182 days	5.4	5.4	1
Tbill-364 days	5.9	5.9	2
G-Sec 2Y	6.3	6.4	3
SONIA int rate benchmark	0.9	0.9	0
US SOFR	0.8	0.8	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	19-05-2022	20-05-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(4.8)	(3.2)	1.6
Reverse repo	3.7	0.3	(3.4)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	18-05-2022	19-05-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(108.0)	(473.0)	(365.0)
Debt	8.1	21.6	13.5
Equity	(116.1)	(494.6)	(378.5)
Mutual funds (Rs cr)	1,168.2	1,396.1	227.9
Debt	2.1	8.5	6.4
Equity	1,166.1	1,387.6	221.5

Source: Bloomberg, Bank of Baroda Research; Note-mutual fund data pertains to 16 and 17 May 2022

- Crude oil prices rose by 0.5% to US\$ 113/bbl. While supply conditions remain tight, easing of lockdown restrictions in China is expected to spur demand for oil. Gold prices too rose by 0.3%.

Fig 7 – Commodities

	19-05-2022	20-05-2022	% change
Brent crude (US\$/bbl)	112.0	112.6	0.5
Gold (US\$/ Troy Ounce)	1,841.9	1,846.5	0.3
Copper (US\$/ MT)	9,460.5	9,451.0	(0.1)
Zinc (US\$/MT)	3,732.6	3,726.0	(0.2)
Aluminium (US\$/MT)	2,906.5	2,946.0	1.4

Source: Bloomberg, Bank of Baroda Research



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