

MORNING MOCHA

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ECONOMIST
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Fed Chair in a highly anticipated speech hinted at further rate hikes to curb inflation, while acknowledging that this may translate into slower growth and softer labour-market conditions. He further stated that rates are likely to remain at elevated levels for some time against market expectations of a loosening monetary policy next year. US 2Y yield shot up sharply to its highest since Nov'07, thus deepening the yield curve inversion. An ECB official also said that ECB will have to hike rates even if it leads to a recession. Reports suggest that ECB is mulling a 75bps rate hike in the upcoming policy meeting, to combat soaring inflation. In the current week, investors await China's official PMIs, US jobs report and Euro Zone's inflation report.

- Global stocks ended mixed. Investors remained concerned about tightening financial conditions following Fed Chair's speech which remained thoroughly hawkish, on the back of higher inflation. US stocks fell the most. Sensex on the other hand rose marginally by 0.1% led by gain in metal and consumer durables stocks. However, it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	25-08-2022	26-08-2022	% change
Dow Jones	33,292	32,283	(3.0)
S & P 500	4,199	4,058	(3.4)
FTSE	7,480	7,427	(0.7)
Nikkei	28,479	28,641	0.6
Hang Seng	19,968	20,170	1.0
Shanghai Comp	3,246	3,236	(0.3)
Sensex	58,775	58,834	0.1
Nifty	17,522	17,559	0.2

Source: Bloomberg, Bank of Baroda Research

- Except INR (flat), other global currencies fell against the dollar. DXY rose by 0.3% as Fed Chair stated that rates are likely to remain elevated "for some time". GBP depreciated by 0.8% to a more than 2-year low. EUR fell by 0.1% amidst a deepening energy crisis in the region. INR is trading weaker today in line with other Asian currencies.

Fig 2 – Currencies

	25-08-2022	26-08-2022	% change
EUR/USD	0.9975	0.9966	(0.1)
GBP/USD	1.1832	1.1744	(0.7)
USD/JPY	136.49	137.64	(0.8)
USD/INR	79.88	79.87	0
USD/CNY	6.8492	6.8717	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. Germany's 10Y yield rose the most by 7bps as ECB minutes flagged possibility of further normalisation in policy rate. US 10Y yield



also rose by 2bps as faster pace of rate hike is expected. CME Fed watch tool is now factoring 75bps rate hike in Sep'22 policy, attaching a 76.5% probability up from 50% last week. India's 10Y yield fell by 8bps (7.22%) amidst media reports of India's inclusion in the global bond index. It is trading higher at 7.26% today as RBI rejected bids for GOI FRB 2028.

Fig 3 – Bond 10Y yield

	25-08-2022	26-08-2022	change in bps
US	3.03	3.04	2
UK	2.62	2.60	(2)
Germany	1.32	1.39	7
Japan	0.23	0.22	(1)
China	2.66	2.66	0
India	7.29	7.22	(8)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	25-08-2022	26-08-2022	change in bps
Tbill-91 days	5.58	5.57	(1)
Tbill-182 days	5.95	6.00	5
Tbill-364 days	6.23	6.21	(2)
G-Sec 2Y	6.35	6.36	1
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.27	2.28	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	25-08-2022	26-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.8)	(1.0)	(0.2)
Reverse repo	0.7	0.5	(0.2)
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	24-08-2022	25-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(18.2)	260.1	278.3
Debt	(39.2)	(35.5)	3.7
Equity	21.1	295.6	274.6
Mutual funds (Rs cr)	1,407.1	(1,641.0)	(3,048.1)
Debt	1,571.0	(2,206.9)	(3,777.9)
Equity	(163.9)	565.9	729.8

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 17th and 18th Aug 2022

- Crude oil prices rose by 1.7% to US\$ 101/bbl amidst expectations that OPEC might cut output. However, further gains were capped by concerns over muted demand. Gold prices edged down as dollar strengthened.

Fig 7 – Commodities

	25-08-2022	26-08-2022	% change
Brent crude (US\$/bbl)	99.3	101.0	1.7
Gold (US\$/ Troy Ounce)	1,758.7	1,738.1	(1.2)
Copper (US\$/ MT)	8,167.0	8,188.3	0.3
Zinc (US\$/MT)	3,624.8	3,646.5	0.6
Aluminium (US\$/MT)	2,433.5	2,493.5	2.5

Source: Bloomberg, Bank of Baroda Research



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