

## MORNING MOCHA

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ECONOMIST

Dipanwita Mazumdar

US Fed in its recent policy raised rate by another 75bps for the fourth time in a row, taking the Federal fund rate to 3.75-4%, highest since CY08. Fed Governor clearly flagged risks from premature pausing. Further, the policy statement added statement like 'ongoing increases in the target range will be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2 percent over time'. This led US stocks close lower. Even US 10Y yield (+6bps) firmed up. The private payroll data of ADP also showed buoyant labour demand. In Germany, again strains on growth were visible in the exports data which fell by 0.5% on SA MoM basis (est.: +0.5% increase). Imports also fell by 2.3% (est.: -0.6% decline). In China, health official reiterated that Covid zero policy is likely to stay. The Caixin services PMI print came in lower than expected at 48.4 (est.: 49).

- Except Shanghai Comp and Hang Seng, other global stocks ended lower. Investors monitored Fed Chair's comments which were perceived as more hawkish than expected. US stocks led the decline followed by FTSE. Sensex too fell by 0.4% following global cues. Real estate and technology stocks fell the most. It is trading further lower today in line with other Asian stocks.

**Fig 1 – Stock markets**

	1-11-2022	2-11-2022	% change
Dow Jones	32,653	32,148	(1.5)
S & P 500	3,856	3,760	(2.5)
FTSE	7,186	7,144	(0.6)
Nikkei	27,679	27,663	(0.1)
Hang Seng	15,455	15,827	2.4
Shanghai Comp	2,969	3,003	1.2
Sensex	61,121	60,906	(0.4)
Nifty	18,145	18,083	(0.3)

Source: Bloomberg, Bank of Baroda Research

- Except JPY, other global currencies depreciated against the dollar. DXY ended marginally lower amidst mixed signals from the Fed about future rate hikes and terminal fund rates. GBP fell by 0.8% even as investors expect a 75bps rate hike by BoE today. INR fell by 0.1% as oil prices firmed up. However it is trading weaker today, in line with other Asian currencies.

**Fig 2 – Currencies**

	1-11-2022	2-11-2022	% change
EUR/USD	0.9877	0.9818	(0.6)
GBP/USD	1.1484	1.1392	(0.8)
USD/JPY	148.27	147.90	0.3
USD/INR	82.71	82.79	(0.1)
USD/CNY	7.2775	7.2900	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. US 10Y yield rose by 6bps as Fed Governor remained fairly hawkish in its recent policy. UK's 10Y yield fell by 7bps ahead of BoE's policy decision where a 75bps rate hike is expected. India's 10Y yield closed stable at 7.4%. It is trading higher at 7.44% today.

**Fig 3 – Bond 10Y yield**

	1-11-2022	2-11-2022	change in bps
US	4.04	4.10	6
UK	3.47	3.40	(7)
Germany	2.13	2.14	1
Japan	0.26	0.25	0
China	2.67	2.69	2
India	7.40	7.40	0

Source: Bloomberg, Bank of Baroda Research

- In the Rs 220bn TBill auction, cut off yield rose across the board by 7bps each.

**Fig 4 – Short term rates**

	1-11-2022	2-11-2022	change in bps
Tbill-91 days	6.44	6.46	2
Tbill-182 days	6.64	6.76	12
Tbill-364 days	6.90	6.94	4
G-Sec 2Y	7.01	7.07	6
SONIA int rate benchmark	2.18	2.19	0
US SOFR	3.05	3.05	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	1-11-2022	2-11-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.2)	(0.9)	(0.7)
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	31-10-2022	1-11-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	593.4	737.6	144.2
Debt	(246.1)	(11.2)	234.9
Equity	839.4	748.8	(90.7)
Mutual funds (Rs cr)	(203.0)	2,262.9	2,465.9
Debt	(1,576.2)	977.5	2,553.8
Equity	1,373.2	1,285.4	(87.9)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 14 Oct 2022 and 17 Oct 2022

- Crude oil prices rose by 1.6% following decline in US crude inventories.

**Fig 7 – Commodities**

	31-10-2022	1-11-2022	% change
Brent crude (US\$/bbl)	94.7	96.2	1.6
Gold (US\$/ Troy Ounce)	1,648.0	1,635.2	(0.8)
Copper (US\$/ MT)	7,717.0	7,663.3	(0.7)
Zinc (US\$/MT)	2,770.0	2,765.0	(0.2)
Aluminium (US\$/MT)	2,242.5	2,251.0	0.4

Source: Bloomberg, Bank of Baroda Research



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For further details about this publication, please contact:

**Chief Economist**

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com