

MORNING MOCHA

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ECONOMIST
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Inflation in Europe indicates that prices continue to remain elevated in Oct'22 in both Germany (10.4% versus 10%) and France (6.2% versus 5.6%). On the brighter side, German economy did not contract as expected (-0.2%) and rose by 0.3% in Q3CY22 following 0.1% increase in Q2. France's Q3 GDP was however lower at 0.2% from 0.5% in Q2. In US, consumer sentiment for Oct'22 inched marginally to 59.9 (est.: 59.6) from 59.8 in Sep'22 and investors are expecting another 75bps rate hike from Fed this week. Core PCE for Sep'22 while remaining elevated (6.2%), is expected to come down in the coming months as global commodity prices ease. China's strict Covid-19 lockdown measures are dragging lower commodity prices and domestic manufacturing and services activities (official PMIs).

- Global equities ended mixed. US stocks surged sharply as US core PCE index rose less than estimated, supporting views of a likely Fed pivot in Dec'22. On the other hand, Asian stocks ended mostly lower weighed down by Covid-19 flare ups in China and BoJ's policy stance. Shanghai Comp fell sharply by 2.2%. Sensex bucked the weakness in its Asia peers and rose by 0.3%. Auto stocks led the gains. It is trading further higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	27-10-2022	28-10-2022	% change
Dow Jones	32,033	32,862	2.6
S & P 500	3,807	3,901	2.5
FTSE	7,074	7,048	(0.4)
Nikkei	27,345	27,105	(0.9)
Hang Seng	15,428	14,863	(3.7)
Shanghai Comp	2,983	2,916	(2.2)
Sensex	59,757	59,960	0.3
Nifty	17,737	17,787	0.3

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed against the dollar. DXY rose by 0.1% as investors await the Fed meeting. EUR closed flat supported by better than expected Q3CY22 GDP data from Germany. On the other hand, JPY fell by 0.9% after BoJ reiterated its ultra-dovish stance. INR closed flat. It is trading stronger today, while other Asian currencies are trading lower.

Fig 2 – Currencies

	27-10-2022	28-10-2022	% change
EUR/USD	0.9964	0.9965	0
GBP/USD	1.1565	1.1615	0.4
USD/JPY	146.29	147.60	(0.9)
USD/INR	82.50	82.47	0
USD/CNY	7.2290	7.2524	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Except Japan and China (lower), other global yields closed higher. 10Y yields in Germany (14bps), US (9bps) and UK (8bps) rose the most. Rate hike by ECB, possibility of similar rate hike by US Fed later in the week, sustained increase in inflation in Europe, and better than expected GDP prints, pushed sovereign yields higher. India's 10Y yield was up a tad (1bps), awaiting RBI's decision. It is trading further up at 7.43% today.

Fig 3 – Bond 10Y yield

	27-10-2022	28-10-2022	change in bps
US	3.92	4.01	9
UK	3.40	3.48	8
Germany	1.96	2.10	14
Japan	0.26	0.25	(1)
China	2.70	2.68	(3)
India	7.41	7.42	1

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	27-10-2022	28-10-2022	change in bps
Tbill-91 days	6.39	6.42	3
Tbill-182 days	6.71	6.72	1
Tbill-364 days	6.87	6.91	4
G-Sec 2Y	6.97	6.97	0
SONIA int rate benchmark	2.19	2.19	0
US SOFR	3.03	3.04	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	27-10-2022	28-10-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.5	0.6	0.1
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	25-10-2022	27-10-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	47.0	470.6	423.6
Debt	7.0	45.9	38.9
Equity	40.0	424.7	384.7
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

- International oil prices fell by 1.2%, as China continues to impose stringent restrictions to curb Covid-19 cases in major cities.

Fig 7 – Commodities

	27-10-2022	28-10-2022	% change
Brent crude (US\$/bbl)	97.0	95.8	(1.2)
Gold (US\$/ Troy Ounce)	1,663.3	1,644.9	(1.1)
Copper (US\$/ MT)	7,838.3	7,619.0	(2.8)
Zinc (US\$/MT)	2,983.0	2,855.9	(4.3)
Aluminium (US\$/MT)	2,287.5	2,211.5	(3.3)

Source: Bloomberg, Bank of Baroda Research



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