

MORNING MOCHA

05 August 2022

ECONOMIST

Aditi Gupta

Bank of England (BoE) raised policy rates by an expected 50bps (biggest rate hike since CY95), as it attempts to tame skyrocketing inflation. It said that CPI inflation is likely to peak at 13% in Oct'22. It further noted that UK is likely to slip into recession in Q4CY22 and emerge from it only in early CY24. Elsewhere in US, labour market conditions softened as jobless claims rose its highest since Nov'21. Oil prices crashed and yield curve inversion in US and UK deepened amidst fears of a looming recession. US jobs report due later today will be keenly awaited. In India, markets await the monetary policy decision of RBI.

- Global indices ended mixed. Equity indices in US ended lower led by losses in energy stocks as oil prices crashed to a 6-month low. FTSE ended flat as BoE warned of the possibility of a prolonged recession in UK. Sensex declined by 0.1% as real estate and banking stocks slipped. However, it is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	3-08-2022	4-08-2022	% change
Dow Jones	32,813	32,727	(0.3)
S & P 500	4,155	4,152	(0.1)
FTSE	7,446	7,448	0
Nikkei	27,742	27,932	0.7
Hang Seng	19,767	20,174	2.1
Shanghai Comp	3,164	3,189	0.8
Sensex	58,351	58,299	(0.1)
Nifty	17,388	17,382	0)

Source: Bloomberg, Bank of Baroda Research

- Except INR (lower), other global currencies strengthened. DXY fell by 0.8% as US jobless claims rose last week. EUR rose the most by 0.8% as Germany's factory orders declined less than expected in Jun'22. GBP rose by 0.1% as BoE raised rate by 50bps. INR depreciated by 0.4% on concerns over widening trade deficit. It is trading stronger today, in line with other Asian currencies.

Fig 2 – Currencies

	3-08-2022	4-08-2022	% change
EUR/USD	1.0166	1.0246	0.8
GBP/USD	1.2149	1.2160	0.1
USD/JPY	133.86	132.89	0.7
USD/INR	79.16	79.47	(0.4)
USD/CNY	6.7580	6.7493	0.1

Source: Bloomberg, Bank of Baroda Research

- Except China (stable), global yields closed lower amidst tensions surrounding Taiwan. Further recession risk along with central banks' aggressive approach for price stability also added to woes. Notably in US, inversion between 2Y and



10Y paper was the sharpest since CY00. For UK as well, this similar inversion happened for the first time since CY19. India's 10Y yield fell sharply by 8bps (7.16%) as declining yields on short term papers and OIS curve indicates a cautious move by RBI. It is trading further lower 7.11% today.

Fig 3 – Bond 10Y yield

	3-08-2022	4-08-2022	change in bps
US	2.70	2.69	(2)
UK	1.91	1.89	(2)
Germany	0.87	0.80	(7)
Japan	0.19	0.18	(1)
China	2.73	2.73	0
India	7.24	7.16	(8)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	3-08-2022	4-08-2022	change in bps
Tbill-91 days	5.55	5.50	(5)
Tbill-182 days	5.88	5.68	(20)
Tbill-364 days	6.21	6.15	(6)
G-Sec 2Y	6.35	6.35	0
SONIA int rate benchmark	1.19	1.19	0
US SOFR	2.30	2.29	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	3-08-2022	4-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.9)	(1.9)	0
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	2-08-2022	3-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	193.8	508.2	314.4
Debt	(17.7)	5.0	22.6
Equity	211.5	503.2	291.7
Mutual funds (Rs cr)	122.3	(152.0)	(274.2)
Debt	(1,036.6)	(1,134.4)	(97.8)
Equity	1,158.8	982.4	(176.4)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 26th and 27th Jul 2022

- Crude prices fell by 2.7% to US\$ 94/bbl amidst concerns of muted demand. Gold prices rose by 1.5% as recession fears increased demand for safe haven.

Fig 7 – Commodities

	3-08-2022	4-08-2022	% change
Brent crude (US\$/bbl)	96.8	94.1	(2.7)
Gold (US\$/ Troy Ounce)	1,765.3	1,791.3	1.5
Copper (US\$/ MT)	7,671.8	7,720.2	0.6
Zinc (US\$/MT)	3,389.0	3,576.5	5.5
Aluminium (US\$/MT)	2,378.0	2,403.0	1.1

Source: Bloomberg, Bank of Baroda Research



Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com