

MORNING MOCHA

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ECONOMIST
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In a move, that will reflect fastest tightening of monetary policy since the previous Fed Chair, Paul Volcker in 1980s, FOMC in Jul'22 unanimously hiked policy rates for 2nd time in a row by 75bps. There wasn't a clear guidance on future hike. However, Fed Chair noted an 'unusual increase could be appropriate in next meeting' though it will be more data dependent. He also stated U.S economy is in not in recession, though there are signs of slowdown. DXY slipped, equity indices largely edged up.

- Barring Nikkei and Shanghai Comp, other global indices ended higher. Investors' concerns eased about the pace of future rate hike based on Fed's chair commentary. Amongst other indices, S&P 500 (2.6%) rose the most as it climbed to a 6-week high amidst strong corporate earnings report. Markets will await Q2CY22 GDP print and consumer confidence scheduled later this week. Sensex (1.0%) too ended in green led by gains in capital goods and technology stocks. It is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	26-07-2022	27-07-2022	% change
Dow Jones	31,762	32,198	1.4
S & P 500	3,921	4,024	2.6
FTSE	7,306	7,348	0.6
Nikkei	27,655	27,716	0.2
Hang Seng	20,906	20,670	(1.1)
Shanghai Comp	3,277	3,276	(0.1)
Sensex	55,268	55,816	1.0
Nifty	16,484	16,642	1.0

Source: Bloomberg, Bank of Baroda Research

- Except INR (lower), other global currencies closed higher. DXY fell by 0.7% as Fed acknowledged that are emerging signs of slowing economic growth and that next rate hike decision will be data dependent. GBP (1.1%) and EUR (0.8%) gained the most. INR fell by 0.2%, as oil prices inch up. However, it is trading higher today, in line with other Asian currencies.

Fig 2 – Currencies

	26-07-2022	27-07-2022	% change
EUR/USD	1.0117	1.0200	0.8
GBP/USD	1.2028	1.2158	1.1
USD/JPY	136.91	136.57	0.2
USD/INR	79.78	79.90	(0.2)
USD/CNY	6.7638	6.7590	0.1

Source: Bloomberg, Bank of Baroda Research

- Barring UK, Germany (higher) and China (flat), other global yields closed lower. US 10Y yield fell by 2bps as US Fed indicated that next rate hike decision in



Sep'22 will be data driven, thus leaving scope for a less hawkish stance.

India's 10Y yield fell by 3bps to 7.34%.

Fig 3 – Bond 10Y yield

	26-07-2022	27-07-2022	change in bps
US	2.81	2.78	(2)
UK	1.92	1.96	4
Germany	0.93	0.95	2
Japan	0.21	0.20	(1)
China	2.77	2.77	0
India	7.37	7.34	(3)

Source: Bloomberg, Bank of Baroda Research

- Short-term rates registered sharp jump in RBI's latest T-bill auction, as RBI is expected to hike rates again in its Aug'22 meeting. Cut-off yield for 91-day paper rose by 22bps and for 182-day it was up by 13bps.

Fig 4 – Short term rates

	26-07-2022	27-07-2022	change in bps
Tbill-91 days	5.39	5.61	22
Tbill-182 days	5.74	5.96	22
Tbill-364 days	6.22	6.31	9
G-Sec 2Y	6.51	6.54	3
SONIA int rate benchmark	1.19	1.19	0
US SOFR	1.53	1.53	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	26-07-2022	27-07-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.5)	(0.5)	0
Reverse repo	2.1	2.6	0.5
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	25-07-2022	26-07-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(187.3)	(137.5)	49.8
Debt	(115.3)	22.7	137.9
Equity	(72.0)	(160.1)	(88.2)
Mutual funds (Rs cr)	(789.7)	(953.9)	(164.2)
Debt	(397.9)	(492.2)	(94.4)
Equity	(391.9)	(461.7)	(69.8)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 19th and 20th Jul 2022

- Crude prices spiked by 2.1% to US\$ 106/bbl on the back of lower crude inventories and higher demand from U.S. Gold prices also inched up by 1%.

Fig 7 – Commodities

	26-07-2022	27-07-2022	% change
Brent crude (US\$/bbl)	104.4	106.6	2.1
Gold (US\$/ Troy Ounce)	1,717.3	1,734.2	1.0
Copper (US\$/ MT)	7,520.3	7,627.3	1.4
Zinc (US\$/MT)	3,142.0	3,148.0	0.2
Aluminium (US\$/MT)	2,421.5	2,422.5	0.0

Source: Bloomberg, Bank of Baroda Research



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