

MORNING MOCHA

02 March 2022

ECONOMIST
Aditi Gupta

Global markets remained on edge as hostilities between Russia and Ukraine continued. Commodity prices rose steeply led by oil, exacerbating concerns over rising inflation. Fresh sanctions on Russia also spooked markets. Bond yields in UK, Germany and US fell sharply. Apart from the trajectory of the war and rising commodity prices, investors also await Fed Chair's testimony and US payroll numbers due later in the week.

- Global stocks closed mixed. Equity markets in US and UK closed lower as countries imposed fresh sanctions on Russia. Dow Jones fell by 1.8%, followed by FTSE (down by 1.7%). However, Asian stocks ended higher, led by Nikkei (up by 1.2%). Shanghai Comp rose by 0.8% as China's official services PMI rose in Feb'22. Sensex is trading lower today, in line with other Asian equities.

Fig 1 – Stock markets

	28-02-2022	1-03-2022	% change
Dow Jones	33,893	33,295	(1.8)
S & P 500	4,374	4,306	(1.5)
FTSE	7,458	7,330	(1.7)
Nikkei	26,527	26,845	1.2
Hang Seng	22,713	22,762	0.2
Shanghai Comp	3,462	3,489	0.8
Sensex	55,859	56,247	0.7
Nifty	16,658	16,794	0.8

Source: Bloomberg, Bank of Baroda Research | Markets in India were closed on 1 Mar 2022

- Except JPY (higher) and CNY (flat), other global currencies closed lower. DXY rose by 0.7% to its highest since Jun'20 on safe-haven demand, as Russia-Ukraine conflict continued to linger on. EUR fell the most by 0.8% to a near 19-month low. GBP also fell by 0.7% even as UK's manufacturing PMI rose to a 3-month high. Asian currencies are trading lower today.

Fig 2 – Currencies

	28-02-2022	1-03-2022	% change
EUR/USD	1.1219	1.1125	(0.8)
GBP/USD	1.3420	1.3325	(0.7)
USD/JPY	115.00	114.92	0.1
USD/INR	75.29	75.34	(0.1)
USD/CNY	6.3092	6.3119	0

Source: Bloomberg, Bank of Baroda Research | Markets in India were closed on 1 Mar 2022

- Barring China and India, other global yields fell sharply. 10Y yields in UK (28bps), Germany (21bps) and US (10bps) fell. Investor sentiments were impacted due to intensification of Russia's attack on Ukraine. Steep rise in oil prices (+3.9%) also impacted sentiments. Thus, India's 10Y yield rose by 2bps.



Fig 3 – Bond 10Y yield

	28-02-2022	1-03-2022	% change
US	1.83	1.73	(10)
UK	1.41	1.13	(28)
Germany	0.14	(0.07)	(21)
Japan	0.19	0.18	(2)
China	2.79	2.82	3
India	6.75	6.77	2

Source: Bloomberg, Bank of Baroda Research | Markets in India were closed on 1 Mar 2022

- Except 182-day T-bill (flat), other T-bill yields rose. Yield on the 364-day paper rose by 6bps. Centre's announcement that it will borrow more than the planned amount in Mar'22 (Rs 1.86tn versus Rs 1.26tn), through T-bills impacted yields.

Fig 4 – Short term rates

	25-02-2022	28-02-2022	% change
Tbill-91 days	3.69	3.68	1
Tbill-182 days	4.15	4.14	0
Tbill-364 days	4.43	4.47	6
G-Sec 2Y	4.85	4.85	4
SONIA int rate benchmark	0.44	0.45	0
US SOFR	0.05	0.05	0

Source: Bloomberg, Bank of Baroda Research | Markets in India were closed on 1 Mar 2022

Fig 5 – Liquidity

Rs tn	25-02-2022	28-02-2022	Change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(7.2)	(7.4)	(0.2)
Reverse repo	0.5	5.4	4.9
Repo	0	0	0

Source: RBI, Bank of Baroda Research | Markets in India were closed on 1 Mar 2022

Fig 6 – Capital market flows

	24-02-2022	25-02-2022	Change (US\$ mn/Rs cr)
FII (US\$ mn)	(892.7)	(517.6)	375.1
Debt	(4.1)	71.4	75.5
Equity	(888.6)	(589.0)	299.6
Mutual funds (Rs cr)	2,637.2	2,021.5	(615.7)
Debt	2,003.0	1,307.9	(695.1)
Equity	634.3	713.7	79.4

Source: Bloomberg, Bank of Baroda Research; Note: Data for Mutual Fund inflows pertains to 17 Feb 2022 and 18 Feb 2022

- International oil prices surged 3.9% to US\$ 105/bbl, despite IEA's assurance that it will release 60mn barrels from global oil reserves. Tensions between Russia and Ukraine pushed oil prices up. Gold prices too rose by 1.9%.

Fig 7 – Commodities

	28-02-2022	1-03-2022	% change
Brent crude (US\$/bbl)	101.0	105.0	3.9
Gold (US\$/ Troy Ounce)	1,909.0	1,945.3	1.9
Copper (US\$/ MT)	9,919.0	10,092.0	1.7
Zinc (US\$/MT)	3,687.8	3,766.5	2.1
Aluminum (US\$/MT)	3,368.5	3,478.0	3.3

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 www.bankofbaroda.com



For further details about this publication, please contact:

Chief Economist

Bank of Baroda

chief.economist@bankofbaroda.com