

## MORNING MOCHA

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Global equity and bond markets witnessed a sell-off and currencies depreciated. This was on account of BoE's declaration that UK might exhibit the deepest downturn; the longest recession since 1920. Even Fed Governor a day earlier flagged significant risks to soft landing. BoE's inflation projection also remained fairly high at 11% in Q4CY22. Hence growth inflation trade off would continue to remain a cause of dilemma for central banks in the near term. In the US, 2Y and 10Y paper exhibited sharpest inversion since early 1980s when Fed Chair was Paul Volcker. It further signalled incipient risks of recession. In the US, markets are monitoring the payroll data where 195k additions in non-farm payroll is expected in Oct-22. In China, Covid cases rose at the sharpest pace since May'22, aggravating demand concerns.

- Except FTSE, other global stocks ended lower. Fears of a global recession resurfaced as central banks continue to tighten monetary policy. BoE warned of a "very challenging" outlook and stated the economy may remain in a recession for the next 2 years. Hang Seng fell the most, followed by S&P 500. Sensex fell by 0.1% led by losses in power stocks. It is trading further lower today, while other Asian markets are trading higher.

**Fig 1 – Stock markets**

	2-11-2022	3-11-2022	% change
Dow Jones	32,148	32,001	(0.5)
S & P 500	3,760	3,720	(1.1)
FTSE	7,144	7,189	0.6
Nikkei	27,679	27,663	(0.1)
Hang Seng	15,827	15,339	(3.1)
Shanghai Comp	3,003	2,998	(0.2)
Sensex	60,906	60,836	(0.1)
Nifty	18,083	18,053	(0.2)

Source: Bloomberg, Bank of Baroda Research

- Global currencies edged down. DXY rose by 1.4% amidst expectations of higher terminal Fed fund rates. GBP depreciated sharply by 2% as BoE painted a grim picture of the economic outlook. EUR too declined by 0.7%. INR too depreciated by 0.1%. However it is trading stronger today, in line with its Asian peers.

**Fig 2 – Currencies**

	2-11-2022	3-11-2022	% change
EUR/USD	0.9818	0.9749	(0.7)
GBP/USD	1.1392	1.1160	(2.0)
USD/JPY	147.90	148.26	(0.2)
USD/INR	82.79	82.89	(0.1)
USD/CNY	7.2900	7.3015	(0.2)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (stable) and China (lower), global yields closed higher. UK's 10Y yield rose the most by 12bps followed by Germany (+10bps) and US (+5bps). Aggravated concerns of inflation, kept borrowing cost elevated despite underlying risks of recession. India's 10Y yield rose by 8bps (7.48%) tracking BoE's policy decision of 75bps rate hike. It is trading at 7.49% today.

**Fig 3 – Bond 10Y yield**

	2-11-2022	3-11-2022	change in bps
US	4.10	4.15	5
UK	3.40	3.52	12
Germany	2.14	2.25	10
Japan	0.25	0.25	0
China	2.69	2.68	(1)
India	7.40	7.48	8

Source: Bloomberg, Bank of Baroda Research

**Fig 4 – Short term rates**

	2-11-2022	3-11-2022	change in bps
Tbill-91 days	6.46	6.44	(2)
Tbill-182 days	6.76	6.77	1
Tbill-364 days	6.94	6.96	2
G-Sec 2Y	7.07	7.14	7
SONIA int rate benchmark	2.19	2.19	0
US SOFR	3.05	3.05	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	2-11-2022	3-11-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.9)	(0.9)	0
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	1-11-2022	2-11-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	737.6	120.5	(617.1)
Debt	(11.2)	(47.6)	(36.5)
Equity	748.8	168.1	(580.6)
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 fell by 1.5% amidst concerns of muted demand.

**Fig 7 – Commodities**

	2-11-2022	3-11-2022	% change
Brent crude (US\$/bbl)	96.2	94.7	(1.5)
Gold (US\$/ Troy Ounce)	1,635.2	1,629.5	(0.4)
Copper (US\$/ MT)	7,663.3	7,596.0	(0.9)
Zinc (US\$/MT)	2,765.0	2,737.3	(1.0)
Aluminium (US\$/MT)	2,251.0	2,264.0	0.6

Source: Bloomberg, Bank of Baroda Research



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