

## MORNING MOCHA

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Global markets continued to remain cautious over China's reopening and its spill over impact. Economies around the world increased restrictions in terms of testing to contain the spread of the virus. There have not been much macro data releases except in the US where retail inventory rose more than expected in Nov'22. The Dallas Fed manufacturing activity on the other hand remained weaker than anticipated. Elsewhere, ECB Vice President spoke of the dual dilemma of high inflation and slowdown in growth. In Japan, more monetary stimulus is expected as one of the board members hinted at the fact that expansion in the range of 10Y JGB yield is not intended to change the direction of monetary easing. This needs to be closely watched in the coming days.

- Global indices were mixed as markets gauged the impact of easing Covid-19 restrictions in China. Trading remained thin amidst year-end holidays. Shanghai Comp rose the most by 1%. In the US, while Dow Jones edged up by 0.1%, S&P 500 declined by 0.4%. Sensex rose by 0.6%, supported by sharp gains in metal stocks. It is trading further higher today, while other Asian stocks are trading mixed.

**Fig 1 – Stock markets**

	26-12-2022	27-12-2022	% change
Dow Jones	33,204	33,242	0.1
S & P 500	3,845	3,829	(0.4)
FTSE	7,469	7,473	0
Nikkei	26,406	26,448	0.2
Hang Seng	19,679	19,593	(0.4)
Shanghai Comp	3,066	3,096	1.0
Sensex	60,566	60,927	0.6
Nifty	18,015	18,132	0.7

Source: Bloomberg, Bank of Baroda Research, Note: Markets in UK and Hong Kong were closed on 27 Dec 2022

- Barring EUR and CNY (flat), other global currencies fell against the dollar. DXY fell by 0.1%, as investors assessed the future course of Fed policy. JPY fell the most by 0.5% as BoJ Governor dismissed the possibility of exiting from the ultra-loose monetary policy. INR fell by 0.2% as oil prices firmed up. It is trading marginally weaker today, in line with other Asian currencies.

**Fig 2 – Currencies**

	26-12-2022	27-12-2022	% change
EUR/USD (1 EUR / USD)	1.0637	1.0640	0
GBP/USD (1 GBP / USD)	1.2062	1.2025	(0.3)
USD/JPY (JPY / 1 USD)	132.88	133.49	(0.5)
USD/INR (INR / 1 USD)	82.65	82.86	(0.2)
USD/CNY (CNY / 1 USD)	6.9627	6.9601	0

Source: Bloomberg, Bank of Baroda Research



- Global yields broadly closed higher. Higher oil prices, reopening of China's economy, persisting worries over inflation and hawkish comments from major central bank officials directed the trajectory of yields. Germany's 10Y yield rose the most (+12bps) followed by US (+9bps). India's 10Y yield fell a tad by 1bps (7.31%) led by strong demand in the SDL auction. It is trading at 7.32% today.

**Fig 3 – Bond 10Y yield**

	26-12-2022	27-12-2022	change in bps
US	3.75	3.84	9
UK	3.59	3.64	5
Germany	2.40	2.52	12
Japan	0.39	0.48	9
China	2.87	2.88	1
India	7.32	7.31	(1)

Source: Bloomberg, Bank of Baroda Research Note: Market UK was closed on 27 Dec 2022

**Fig 4 – Short term rates**

	26-12-2022	27-12-2022	change in bps
Tbill-91 days	6.39	6.40	1
Tbill-182 days	6.70	6.70	0
Tbill-364 days	6.88	6.87	(1)
G-Sec 2Y	6.97	6.98	1
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.30	4.30	0

Source: Bloomberg, Bank of Baroda Research

**Fig 5 – Liquidity**

Rs tn	26-12-2022	27-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(0.2)	(0.1)	0.1
Reverse repo	0.1	0.1	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

**Fig 6 – Capital market flows**

	23-12-2022	26-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(106.4)	94.3	200.7
Debt	(0.5)	65.7	66.2
Equity	(105.9)	28.6	134.5
Mutual funds (Rs cr)	1,903.3	650.0	(1,253.4)
Debt	690.8	313.9	(376.9)
Equity	1,212.5	336.1	(876.5)

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 21 and 22 Dec 2022

- Global commodity prices rose as China eased Covid-19 restrictions. Gold and oil prices edged up by 0.9% and 0.5% respectively. Even Arctic Blast in the US impacted oil prices.

**Fig 7 – Commodities**

	23-12-2022	27-12-2022	% change
Brent crude (US\$/bbl)	83.9	84.3	0.5
Gold (US\$/ Troy Ounce)	1,798.2	1,813.7	0.9
Copper (US\$/ MT)	8,290.5	8,328.0	0.5
Zinc (US\$/MT)	2,965.0	2,987.0	0.7
Aluminium (US\$/MT)	2,406.0	2,389.5	(0.7)

Source: Bloomberg, Bank of Baroda Research



