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ECONOMIST

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Growing risk of recession continued to weigh in on investors as they began the pre-holiday week with early signs of economic softness adding to the negative sentiments. China begins to reopen the economy fraught with hopes of revival, though this was outweighed by uncertainty as cases continued to surge. Reserve Bank of Australia in its minutes highlighted considering variety of options including pausing rate hikes but noted the importance of 'acting consistently' in its Dec'22 meeting. Bank of Japan while holding rates steady today, widened its yield curve control band to 0.5% as its upper limit (from 0.25% upper limit earlier).

- Barring FTSE and Sensex, other global indices ended in red as investors' monitored reopening of China's economy and likelihood of elevated rates in the US for a longer period. Shanghai Comp (1.9%) dropped the most, followed by Nikkei (1.1%). On the other hand, Sensex ended higher and was supported by gains in auto and power stocks. However, it is trading lower today in line with other Asian stocks.

Fig 1 – Stock markets

	16-12-2022	19-12-2022	% change
Dow Jones	32,920	32,758	(0.5)
S & P 500	3,852	3,818	(0.9)
FTSE	7,332	7,361	0.4
Nikkei	27,527	27,238	(1.1)
Hang Seng	19,451	19,353	(0.5)
Shanghai Comp	3,168	3,107	(1.9)
Sensex	61,338	61,806	0.8
Nifty	18,269	18,420	0.8

Source: Bloomberg, Bank of Baroda Research

- Global currencies closed mixed. While EUR and INR gained, GBP was flat and JPY and CNY depreciated. DXY closed flat. Risk appetite of investors improved as Germany's Ifo sentiment index rose for the 3rd consecutive month and was higher than estimated. China's easing Covid-19 restrictions also helped. Today, JPY is trading stronger following BoJ's decision to widen yield target range. On the other hand, INR is trading lower today, in line with other Asian currencies.

Fig 2 – Currencies

	16-12-2022	19-12-2022	% change
EUR/USD (1 EUR / USD)	1.0586	1.0607	0.2
GBP/USD (1 GBP / USD)	1.2148	1.2149	0
USD/JPY (JPY / 1 USD)	136.60	136.91	(0.2)
USD/INR (INR / 1 USD)	82.87	82.70	0.2
USD/CNY (CNY / 1 USD)	6.9740	6.9797	(0.1)

Source: Bloomberg, Bank of Baroda Research



- Except Japan (flat) and China (lower), other global bond yields closed higher. 10Y yields in UK (17bps—at ~5 week high), US (10bps) and Germany (5bps) rose the most. Hawkish comments of global central banks continue to impact investor sentiments. Elevated rates for a longer duration of time is casting concerns over the economic outlook as well. India's 10Y yield rose by 2bps following global cues and is trading further higher at 7.33% today.

Fig 3 – Bond 10Y yield

	16-12-2022	19-12-2022	change in bps
US	3.48	3.58	10
UK	3.33	3.50	17
Germany	2.15	2.20	5
Japan	0.25	0.26	0
China	2.91	2.89	(3)
India	7.28	7.30	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	16-12-2022	19-12-2022	change in bps
Tbill-91 days	6.39	6.39	0
Tbill-182 days	6.69	6.70	1
Tbill-364 days	6.86	6.88	2
G-Sec 2Y	6.94	6.94	0
SONIA int rate benchmark	3.43	3.43	0
US SOFR	4.32	4.32	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-12-2022	19-12-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	0.4	0.4	0
Reverse repo	0	0.1	0.1
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	15-12-2022	16-12-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	150.8	(70.9)	(221.6)
Debt	(35.7)	18.2	53.9
Equity	186.5	(89.0)	(275.5)
Mutual funds (Rs cr)	(85.7)	136.6	222.3
Debt	(69.5)	(569.2)	(499.7)
Equity	(16.2)	705.8	722.0

Source: Bloomberg, Bank of Baroda Research | Note: Mutual funds data as of 7 Dec 2022 and 8 Dec 2022

- Crude oil prices inched up by 1% to US\$ 79.8/bbl as news of reopening of China's economy lifted investor sentiments on hopes of demand revival.

Fig 7 – Commodities

	16-12-2022	19-12-2022	% change
Brent crude (US\$/bbl)	79.0	79.8	1.0
Gold (US\$/ Troy Ounce)	1,793.1	1,787.6	(0.3)
Copper (US\$/ MT)	8,234.0	8,303.3	0.8
Zinc (US\$/MT)	3,048.5	3,052.0	0.1
Aluminium (US\$/MT)	2,375.0	2,361.0	(0.6)

Source: Bloomberg, Bank of Baroda Research



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