MORNING MOCHA

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In line with market expectations, US Fed lowered its policy rate by 25bps to 4-4.25%. This was driven by slowing growth momentum and FOMC realising that “downside risks to employment have risen”. The statement also acknowledged that “Inflation has moved up and remains somewhat elevated”. Fed Chair believes that companies have not passed on the full impact of tariffs as yet. Estimates for both PCE and Core PCE for CY26 were revised upwards to 2.6% (2.4% in Jun’25). Dot plot suggests 2 more rate cuts this year, but a more conservative outlook for next year (1-3 rate cuts). Separately, housing starts fell to 2.5 year low in Aug ’25 (-7% MoM), as market continues to struggle with excess inventory. In the UK, inflation remains elevated as CPI remained unchanged from Jul’25 at 3.8% in Aug’25, led by rise in food inflation.

- Barring S&P 500 and Nikkei, other global stocks ended higher. Investor monitored Fed’s 25bps rate cut decision. However, mixed commentary by Fed Chair on rate trajectory kept investors on edge. Hang Seng surged to a record high led by tech stocks. Sensex edged up with gains in capital good stocks. It is trading higher today; Asian stocks are trading mixed.

Fig 1 – Stock markets

	16-09-2025	17-09-2025	Change, %
Dow Jones	45,758	46,018	0.6
S & P 500	6,607	6,600	(0.1)
FTSE	9,196	9,208	0.1
Nikkei	44,902	44,790	(0.2)
Hang Seng	26,439	26,908	1.8
Shanghai Comp	3,862	3,876	0.4
Sensex	82,381	82,694	0.4
Nifty	25,239	25,330	0.4

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY recovered as investors monitored slightly hawkish commentary by Fed Chair. The EUR weakened as the inflation reading for Aug’25 was revised down to 2% (from 2.1% previously) and closer to the ECB target mark. INR appreciated amidst lower oil prices. However, it is trading weaker today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	16-09-2025	17-09-2025	Change, %
EUR/USD (1 EUR / USD)	1.1867	1.1813	(0.5)
GBP/USD (1 GBP / USD)	1.3647	1.3626	(0.2)
USD/JPY (JPY / 1 USD)	146.48	146.99	(0.3)
USD/INR (INR / 1 USD)	88.06	87.81	0.3
USD/CNY (CNY / 1 USD)	7.1143	7.1042	0.1
DXY Index	96.63	96.87	0.2

Source: Bloomberg, Bank of Baroda Research

- Barring US (higher) and Japan (flat), other global 10Y yields closed lower. US 10Y yield rose by 6bps, as Fed revised its inflation projection upward for next year and dot plot indicates more conservative rate cut scenario in CY26. India's 10Y yield fell by 2bps, as oil prices eased. However, tracking global cues, it is trading higher at 6.50% today.

Fig 3 – Bond 10Y yield

	16-09-2025	17-09-2025	Change, bps
US	4.03	4.09	6
UK	4.64	4.63	(1)
Germany	2.69	2.68	(2)
Japan	1.60	1.60	0
China	1.79	1.77	(2)
India	6.49	6.47	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	16-09-2025	17-09-2025	Change, bps
Tbill-91 days	5.49	5.49	0
Tbill-182 days	5.59	5.59	0
Tbill-364 days	5.62	5.62	0
G-Sec 2Y	5.81	5.79	(1)
India OIS-2M	5.46	5.45	0
India OIS-9M	5.44	5.43	(1)
SONIA int rate benchmark	3.97	3.97	0
US SOFR	4.51	4.39	(12)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	16-09-2025	17-09-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	0.7	0.6	(0.1)
Reverse Repo	0	0	0
Repo*	0	0	0

Source: RBI, Bank of Baroda Research, *Includes LTRO

Fig 6 – Capital market flows

	15-09-2025	16-09-2025	change (US$ mn/Rs cr)
FII (US$ mn)	3.6	509.2	505.6
Debt	41.8	322.3	280.6
Equity	(38.1)	186.9	225.0
Mutual funds (Rs cr)	(4,977.2)	(2,058.1)	2,919.1
Debt	(6,712.2)	(4,275.0)	2,437.2
Equity	1,735.0	2,216.9	481.9

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 12 and 15 Sep 2025

- Oil prices fell, as rise in US stockpiles has revived demand concerns.

Fig 7 – Commodities

	16-09-2025	17-09-2025	Change, %
Brent crude (US$/bbl)	68.5	68.0	(0.8)
Gold (US$/ Troy Ounce)	3,690.0	3,659.9	(0.8)
Copper (US$/ MT)	10,067.2	9,924.9	(1.4)
Zinc (US$/MT)	3,033.3	2,967.9	(2.2)
Aluminium (US$/MT)	2,717.0	2,683.0	(1.3)

Source: Bloomberg, Bank of Baroda Research

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