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ECONOMIST
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In a widely anticipated address, Fed Chair opened the room for a possible rate cut in Sep'25, citing weakening labour market conditions. Even so, he acknowledged the risks to inflation from tariff related uncertainty. Probability of a 25bps rate cut in the Fed's Sep'25 meeting currently hover around 80%. Focus will remain on this week's PCE report, Fed's preferred gauge of inflation, which will shed more light on domestic price pressures. Separately, Bank of Japan's Governor stated that wage costs are likely to continue rising amidst labour shortages. This has increased expectations that the BoJ is likely to resume its rate hike cycle. On the domestic front, investors are likely to keep a close eye on US tariff developments ahead of the looming deadline.

- Except India, other global indices ended higher as Fed Chair hinted at a possible rate cut. Stocks in the US rose the most, with both the S&P 500 and Dow Jones rising by over 1%. Focus will remain on earnings report by a major US tech giant. Amongst other markets, Shanghai Comp rose by 1.4%, led by a rally in semi-conductor stocks. Stock markets in India ended in red, as metal and banking stocks declined.

Fig 1 – Stock markets

	21-08-2025	22-08-2025	Change, %
Dow Jones	44,786	45,632	1.9
S & P 500	6,370	6,467	1.5
FTSE	9,309	9,321	0.1
Nikkei	42,610	42,633	0.1
Hang Seng	25,105	25,339	0.9
Shanghai Comp	3,771	3,826	1.4
Sensex	82,001	81,307	(0.8)
Nifty	25,084	24,870	(0.9)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended stronger as the dollar weakened. DXY dipped as Fed Chair hinted at a rate cut. Amongst major currencies both EUR and JPY strengthened by 1%. INR depreciated, tracking losses in domestic equities. It is however trading stronger today in line with Asian peers.

Fig 2 – Currencies

	21-08-2025	22-08-2025	Change, %
EUR/USD (1 EUR / USD)	1.1606	1.1718	1.0
GBP/USD (1 GBP / USD)	1.3412	1.3525	0.8
USD/JPY (JPY / 1 USD)	148.37	146.94	1.0
USD/INR (INR / 1 USD)	87.26	87.53	(0.3)
USD/CNY (CNY / 1 USD)	7.1805	7.1675	0.2
DXY Index	98.62	97.72	(0.9)

Source: Bloomberg, Bank of Baroda Research

- 10Y yield in major AEs dipped, with the US declining at the sharpest pace. This is on the back of increased rate cut bets amongst traders, following Fed Chair's speech. Elsewhere in Japan and China, 10Y yield traded in a narrow range. India's 10Y yield rose a tad tracking auction results. It is trading at the same level today.

Fig 3 – Bond 10Y yield

	21-08-2025	22-08-2025	Change, bps
US	4.33	4.25	(7)
UK	4.73	4.69	(4)
Germany	2.76	2.72	(4)
Japan	1.61	1.63	1
China	1.77	1.79	2
India	6.53	6.55	2

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	21-08-2025	22-08-2025	Change, bps
Tbill-91 days	5.46	5.46	0
Tbill-182 days	5.55	5.56	1
Tbill-364 days	5.58	5.59	1
G-Sec 2Y	5.83	5.81	(3)
India OIS-2M	5.50	5.50	0
India OIS-9M	5.49	5.49	0
SONIA int rate benchmark	3.97	3.97	0
US SOFR	4.31	4.32	1

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	21-08-2025	22-08-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	2.2	2.2	0
Reverse Repo	1.8	0	(1.8)
Repo*	0	0	0

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

Fig 6 – Capital market flows

	20-08-2025	21-08-2025	change (US$ mn/Rs cr)
FII (US$ mn)	75.4	(83.4)	(158.8)
Debt	109.6	(18.7)	(128.3)
Equity	(34.2)	(64.7)	(30.5)
Mutual funds (Rs cr)	1,503.6	(795.9)	(2,299.5)
Debt	(261.6)	(1,888.1)	(1,626.5)
Equity	1,765.2	1,092.2	(673.0)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 19 Aug and 20 Aug 2025

- Oil prices ended flat tracking developments on Russia-Ukraine peace deal.

Fig 7 – Commodities

	21-08-2025	22-08-2025	Change, %
Brent crude (US$/bbl)	67.7	67.7	0.1
Gold (US$/ Troy Ounce)	3,338.7	3,371.9	1.0
Copper (US$/ MT)	9,643.5	9,718.1	0.8
Zinc (US$/MT)	2,758.0	2,815.1	2.1
Aluminium (US$/MT)	2,585.0	2,624.5	1.5

Source: Bloomberg, Bank of Baroda Research

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