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Economist
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Global markets anticipated some tightness in liquidity over likely rate hikes by major central banks to combat inflation amidst aggravating war situation. CME Fed watch tool is now attaching a 70% probability of a rate hike by Fed in Sep'26, which was just 39.6%, a week earlier. BoJ Governor also hinted at rate hike in Sep'26 in his recent commentary tracking slew of economic data of the region. Bond markets have also started pricing in a higher rate trajectory. UK's 10Y yield touched its highest level since 2007, US 30Y yield is trading at its near 19-year high. Germany's 30Y yield is also at its highest since 2011. The spillover effect was also felt across global equity and currency indices. International oil prices are currently trading at US$ 95/bbl. On domestic front, liquidity swelled to Rs 7.8 lakh crore. Markets are anticipating absorption measures from RBI to maintain liquidity at the normalcy level.

- Global stocks witnessed a broad-based sell-off as fresh tensions in Middle East unnerved investors. US stocks declined sharply amidst increased bets of a Sep'26 rate hike due to elevated oil prices. Sensex ended steady as losses in auto and consumer durables stocks were offset by gains in tech and oil and gas stocks. It is however trading weaker today in line with other Asian indices.

Table 1 – Stock markets

	31-08-2026	01-09-2026	Change, %
Dow Jones	53,186	52,767	(0.8)
S & P 500	7,686	7,631	(0.7)
FTSE	10,824	10,789	(0.3)
Nikkei	66,312	66,215	(0.1)
Hang Seng	25,567	25,330	(0.9)
Shanghai Comp	3,986	3,980	(0.2)
Sensex	76,957	76,944	0
Nifty	24,080	24,056	(0.1)

Source: Bloomberg, Bank of Baroda Research

- Except INR, other global currencies ended weaker against the dollar. DXY rose by 0.3% tracking higher US treasury yields. JPY depreciated despite an imminent rate hike. INR rose by 0.2% due to support from RBI. It opened steady today; other Asian currencies are trading mostly weaker.

Table 2 – Currencies

	31-08-2026	01-09-2026	Change, %
EUR/USD (1 EUR / USD)	1.1618	1.1593	(0.2)
GBP/USD (1 GBP / USD)	1.3549	1.3516	(0.2)
USD/JPY (JPY / 1 USD)	159.74	160.18	(0.3)
USD/INR (INR / 1 USD)	95.17	94.95	0.2
USD/CNY (CNY / 1 USD)	6.7197	6.7208	0
DXY Index	99.43	99.68	0.3

Source: Bloomberg, Bank of Baroda Research

- UK's 10Y yield rose sharply by 16bps as BoE official hinted at elevated inflationary risks and its impact on wage negotiations. Elsewhere, as well, yields rose considerably as market is broadly pricing in rate hike by Fed in its Sep'26 meeting. India's 10Y yield rose by 1bps. It is trading further higher at 6.98% today.

Table 3 – Bond 10Y yield

	31-08-2026	01-09-2026	Change, bps
US	4.75	4.80	5
UK	5.06	5.22	16
Germany	3.32	3.34	2
Japan	2.96	3.01	5
China	1.69	1.68	(1)
India	6.95	6.96	1

Source: Bloomberg, Bank of Baroda Research

Table 4 – Short term rates

	31-08-2026	01-09-2026	Change, bps
Tbill-91 days	5.27	5.24	(3)
Tbill-182 days	5.62	5.62	0
Tbill-364 days	5.80	5.81	1
G-Sec 2Y	6.28	6.27	0
India OIS-2M	5.37	5.37	0
India OIS-9M	5.85	5.86	1
SONIA int rate benchmark	3.73	3.73	0
US SOFR	3.64	3.65	1

Source: Bloomberg, Bank of Baroda Research

Table 5 – Liquidity

Rs tn	31-08-2026	01-09-2026	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	6.7	7.8	1.1

Source: RBI, Bank of Baroda Research

Table 6 – Capital market flows

	31-08-2026	01-09-2026	change (US$ mn/Rs cr)
FII (US$ mn)	(162.9)	(591.1)	(428.2)
Debt	(28.1)	(21.9)	6.2
Equity	(134.8)	(569.2)	(434.4)
Mutual funds (Rs cr)	8,393.5	4,828.2	(3,565.3)
Debt	3,656.0	331.1	(3,325.0)
Equity	4,737.5	4,497.1	(240.4)

Source: Bloomberg, Bank of Baroda Research, Note: Mutual fund data as of 28th & 31st Aug

- Oil prices inched up further amidst elevated geo-political tensions.

Table 7 – Commodities

	31-08-2026	01-09-2026	Change, %
Brent crude (US$/bbl)	90.5	94.7	4.6
Gold (US$/ Troy Ounce)	4,437.4	4,328.8	(2.4)
Copper (US$/ MT)	14,445.6	14,405.6	(0.3)
Zinc (US$/MT)	4,084.0	4,062.9	(0.5)
Aluminium (US$/MT)	3,242.0	3,281.0	1.2

Source: Bloomberg, Bank of Baroda Research

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