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Global markets remained volatile following Fed Chair's speech which was more hawkish than market expectations. Reports also suggest that ECB is likely to hike rates by 75 bps in its next policy meeting. A synchronised global monetary policy tightening is likely to have an impact on growth. This coupled with the property crisis in China, cost of living crisis in UK and the energy crisis in Europe have exacerbated concerns of a global recession. A deepening inversion in the US yield curve also signals increased likelihood of an impending recession. As a result, global stocks declined sharply and currencies were also mostly lower. US jobs report, due later in the week will provide further clarity on the rate path.

- Except Shanghai Comp, global stocks broadly closed lower. Fed Chair's hawkish comments signalling rising rates amidst higher inflation dented investor sentiments. Nikkei dropped the most (2-week slump) followed by US and European stocks. Even Minneapolis Fed President said that the stock markets' response reflects central bank's message to control inflation. Sensex too dropped by 1.5% led by technology stocks. However, it is trading higher today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	26-08-2022	29-08-2022	% change
Dow Jones	32,283	32,099	(0.6)
S & P 500	4,058	4,031	(0.7)
FTSE	7,480	7,427	(0.7)
Nikkei	28,641	27,879	(2.7)
Hang Seng	20,170	20,023	(0.7)
Shanghai Comp	3,236	3,241	0.1
Sensex	58,834	57,973	(1.5)
Nifty	17,559	17,313	(1.4)

Source: Bloomberg, Bank of Baroda Research

- Except EUR (higher), other global currencies fell against the dollar. EUR rose by 0.3% supported by expectations of a 75 bps rate hike by the ECB. DXY was flat. JPY fell by 0.8% to a 5-week low amidst widening policy divergence between Fed and BoJ. INR depreciated by 0.1% as oil prices rose. However it is trading stronger today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	26-08-2022	29-08-2022	% change
EUR/USD	0.9966	0.9997	0.3
GBP/USD	1.1744	1.1709	(0.3)
USD/JPY	137.64	138.72	(0.8)
USD/INR	79.87	79.97	(0.1)
USD/CNY	6.8717	6.9088	(0.5)

Source: Bloomberg, Bank of Baroda Research



- Global yields closed mixed. Germany's 10Y yield rose the most by 11bps as investors are pricing in a 75bps rate hike by ECB in Sep'22 policy. US 10Y yield also rose by 6bps. China's 10Y yield fell by 2bps supported by stimulus measures. India's 10Y yield rose by 3bps (7.25%) amidst rising oil prices. It is trading a tad lower at 7.24% today.

Fig 3 – Bond 10Y yield

	26-08-2022	29-08-2022	change in bps
US	3.04	3.10	6
UK	2.60	2.60	0
Germany	1.39	1.50	11
Japan	0.22	0.25	3
China	2.66	2.64	(2)
India	7.22	7.25	3

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	26-08-2022	29-08-2022	change in bps
Tbill-91 days	5.57	5.64	7
Tbill-182 days	6.00	6.06	6
Tbill-364 days	6.21	6.28	7
G-Sec 2Y	6.35	6.36	1
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.28	2.28	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	26-08-2022	29-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.0)	(1.0)	0
Reverse repo	0.5	1.2	0.7
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	25-08-2022	26-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	260.1	5.7	(254.4)
Debt	(35.5)	19.9	55.4
Equity	295.6	(14.2)	(309.8)
Mutual funds (Rs cr)	1,407.1	(1,641.0)	(3,048.1)
Debt	1,571.0	(2,206.9)	(3,777.9)
Equity	(163.9)	565.9	729.8

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 17th and 18th Aug 2022

- Crude oil prices rose sharply by 4.1% to US\$ 105/bbl supported by prospects of an output cut by OPEC+ and turmoil in Libya. Gold prices fell by 0.1%.

Fig 7 – Commodities

	26-08-2022	29-08-2022	% change
Brent crude (US\$/bbl)	101.0	105.1	4.1
Gold (US\$/ Troy Ounce)	1,738.1	1,737.1	(0.1)
Copper (US\$/ MT)	8,167.0	8,188.3	0.3
Zinc (US\$/MT)	3,624.8	3,646.5	0.6
Aluminium (US\$/MT)	2,433.5	2,493.5	2.5

Source: Bloomberg, Bank of Baroda Research



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