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Sell-off in global bonds and equities continued amidst the increased possibility of higher for longer US rates. US 10Y yield rose to its highest since Oct'07. Separately, Bank of England paused its rate hike and kept rates steady at 5.25%, with a 5-4 majority. It noted that inflationary pressures have eased, and impact of rate hikes has been felt on growth and labour market. In contrast, core CPI inflation in Japan rose by 3.1% in Aug'23 (est. 3%), staying above BoJ's target for 17-straight months. Even so, BoJ maintained its ultra-dovish policy. Flash PMIs for Japan indicated a sharp drop in manufacturing activity. Services PMI too moderated to an 8-month low. JP Morgan has decided to include India's g-sec bonds in its emerging markets index (GBI-EM) from 28 Jun 2024 for 10 months. Government bonds worth US\$ 330bn are said to be eligible. This would help in garnering much needed foreign inflows and should support INR and bond yields.

- Global equity indices ended lower. Market remained cautious tracking major central bank policy decisions where both Fed and BoE walked on the same lines of hawkish pause based on underlying growth, inflation mix. S&P 500 and Nikkei fell the most. Sensex fell by 0.9%, dragged down by banking and auto stocks. It is trading higher today, while Asian stocks are trading mixed.

Fig 1 – Stock markets

	20-09-2023	21-09-2023	% change
Dow Jones	34,441	34,070	(1.1)
S & P 500	4,402	4,330	(1.6)
FTSE	7,732	7,679	(0.7)
Nikkei	33,024	32,571	(1.4)
Hang Seng	17,886	17,655	(1.3)
Shanghai Comp	3,109	3,085	(0.8)
Sensex	66,801	66,230	(0.9)
Nifty	19,901	19,742	(0.8)

Source: Bloomberg, Bank of Baroda Research

- Global currencies ended mixed. DXY edged up amidst expectations of higher for longer US rates. GBP slipped by 0.4% as BoE kept rates steady. INR closed flat. It is trading stronger today buoyed by India's inclusion in JP Morgan's bond index. Other Asian currencies are trading lower.

Fig 2 – Currencies

	20-09-2023	21-09-2023	% change
EUR/USD (1 EUR / USD)	1.0661	1.0661	0
GBP/USD (1 GBP / USD)	1.2344	1.2298	(0.4)
USD/JPY (JPY / 1 USD)	148.34	147.59	0.5
USD/INR (INR / 1 USD)	83.08	83.09	0
USD/CNY (CNY / 1 USD)	7.2863	7.3064	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Except China and India (lower), global yields closed higher. US and UK's 10Y yield rose the most by 9bps each. US 10Y yield was supported by buoyant labour market data. UK's on the other hand followed a sell off post BoE 's decision and rising borrowing numbers. India's 10Y is trading lower today, supported by inclusion of Indian bonds in JPMorgan's emerging-market index.

Fig 3 – Bond 10Y yield

	20-09-2023	21-09-2023	change in bps
US	4.41	4.49	9
UK	4.22	4.31	9
Germany	2.70	2.74	4
Japan	0.73	0.74	2
China	2.68	2.68	(1)
India	7.18	7.16	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	20-09-2023	21-09-2023	change in bps
Tbill-91 days	6.85	6.79	(6)
Tbill-182 days	7.06	7.03	(3)
Tbill-364 days	7.08	7.07	(1)
G-Sec 2Y	7.14	7.14	1
India OIS-2M	6.83	6.84	1
India OIS-9M	7.03	7.03	0
SONIA int rate benchmark	5.19	5.18	0
US SOFR	5.31	5.30	(1)

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	20-09-2023	21-09-2023	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	1.5	1.5	0
Reverse repo	0.2	0.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	18-09-2023	19-09-2023	change (US\$ mn/Rs cr)
FII (US\$ mn)	(65.0)	(506.4)	(441.4)
Debt	24.6	(137.0)	(161.6)
Equity	(89.6)	(369.5)	(279.9)
Mutual funds (Rs cr)	169.0	1,459.8	1,290.7
Debt	(471.2)	1,115.4	1,586.6
Equity	640.3	344.4	(295.9)

Source: Bloomberg, Bank of Baroda Research | Note: Mutual fund data as of 11 Sep 2023 and 12 Sep 2023

- Oil prices moderated amidst expectation of higher interest rate denting demand.

Fig 7 – Commodities

	20-09-2023	21-09-2023	% change
Brent crude (US\$/bbl)	93.5	93.3	(0.2)
Gold (US\$/ Troy Ounce)	1,930.3	1,920.0	(0.5)
Copper (US\$/ MT)	8,281.5	8,129.8	(1.8)
Zinc (US\$/MT)	2,526.3	2,488.5	(1.5)
Aluminium (US\$/MT)	2,256.0	2,212.0	(2.0)

Source: Bloomberg, Bank of Baroda Research



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