

MORNING MOCHA

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ECONOMIST

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In India, GST council approved the two-tier system, revamping the tax structure. In addition to the major goods being part of the 5% and 18% slab, new system would also include 40% slab for 'sin goods'. These will be levied on luxury items such as yachts, large cars and also on aerated beverages and tobacco. There will be zero rate on insurance policies which is positive for health sector. GST rate on daily items have been lowered from 12% and 18% to 5%, thereby making these items cheaper. The rates will be effective from 22nd Sep and is expected to boost the consumption sector. The net fiscal impact of this overhaul is expected to be around Rs 48,000 cr. Separately, India's services PMI surged to 15-year high to 62.9 in Aug'25 from 60.5 in Jul'25. This was on the back of the expansion in new business and supported by strong demand. In US, job openings dropped by 176,000 to 7.1mn (10-month low). The Fed Beige report highlighted sluggishness in the economy due to tariffs.

- Global markets closed mixed. S&P 500 inched up as investors turned hopeful of Fed reducing rates in upcoming meeting. Amongst other indices, Shanghai Comp, dropped the most. Sensex rebounded with strong gains in metal stocks. It is trading higher today, in line with other Asian stocks.

Fig 1 – Stock markets

	02-09-2025	03-09-2025	Change, %
Dow Jones	45,296	45,271	(0.1)
S & P 500	6,416	6,448	0.5
FTSE	9,117	9,178	0.7
Nikkei	42,310	41,939	(0.9)
Hang Seng	25,497	25,343	(0.6)
Shanghai Comp	3,858	3,814	(1.2)
Sensex	80,158	80,568	0.5
Nifty	24,580	24,715	0.6

Source: Bloomberg, Bank of Baroda Research

- Barring CNY, other currencies closed higher. DXY fell by 0.3%, tracking weak labour market data. GBP rose by 0.4%, driven by higher services PMI and awaiting BoE's annual decision on adjustments to its QE program. INR rose by 0.1%, and is trading even higher today, while other currencies are trading lower.

Fig 2 – Currencies

	02-09-2025	03-09-2025	Change, %
EUR/USD (1 EUR / USD)	1.1640	1.1662	0.2
GBP/USD (1 GBP / USD)	1.3394	1.3444	0.4
USD/JPY (JPY / 1 USD)	148.36	148.10	0.2
USD/INR (INR / 1 USD)	88.16	88.07	0.1
USD/CNY (CNY / 1 USD)	7.1383	7.1421	(0.1)
DXY Index	98.40	98.14	(0.3)

Source: Bloomberg, Bank of Baroda Research



- Except Japan, 10Y yields closed lower elsewhere. Yields in Europe and US fell the most. US treasury yield was impacted by fewer than expected job openings (JOLTS data) and sustained weakness in factory orders. India's 10Y yield fell by 2bps, helped by dip in oil prices. It is trading further lower today at 6.52%, amidst resurgence in FPI buying.

Fig 3 – Bond 10Y yield

	02-09-2025	03-09-2025	Change, bps
US	4.26	4.22	(4)
UK	4.80	4.75	(5)
Germany	2.79	2.74	(5)
Japan	1.62	1.63	1
China	1.77	1.75	(2)
India	6.57	6.54	(2)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	02-09-2025	03-09-2025	Change, bps
Tbill-91 days	5.49	5.50	1
Tbill-182 days	5.57	5.61	4
Tbill-364 days	5.61	5.65	4
G-Sec 2Y	5.85	5.84	0
India OIS-2M	5.52	5.51	(1)
India OIS-9M	5.52	5.50	(2)
SONIA int rate benchmark	3.97	3.97	0
US SOFR	4.34	4.39	5

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	02-09-2025	03-09-2025	Change (Rs tn)
Net Liquidity (-deficit/+surplus)	3.0	3.0	0
Reverse Repo	1.9	1.7	(0.2)
Repo*	0	0	0

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

Fig 6 – Capital market flows

	01-09-2025	02-09-2025	change (US\$ mn/Rs cr)
FII (US\$ mn)	(157.5)	(89.3)	68.2
Debt	29.7	17.2	(12.5)
Equity	(187.2)	(106.5)	80.7
Mutual funds (Rs cr)	3,178.6	839.9	(2,338.7)
Debt	(3,235.2)	(2,439.9)	795.2
Equity	6,413.7	3,279.8	(3,134.0)

Source: Bloomberg, Bank of Baroda Research| Note: Mutual Fund data as of 29 Aug and 1 Sep 2025

- Oil prices slid as OPEC+ is considering another output hike.

Fig 7 – Commodities

	02-09-2025	03-09-2025	Change, %
Brent crude (US\$/bbl)	69.1	67.6	(2.2)
Gold (US\$/ Troy Ounce)	3,533.2	3,559.4	0.7
Copper (US\$/ MT)	9,910.9	9,908.6	0
Zinc (US\$/MT)	2,885.4	2,879.8	(0.2)
Aluminium (US\$/MT)	2,619.0	2,619.0	0

Source: Bloomberg, Bank of Baroda Research



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