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Latest services PMIs for major economies indicate slowdown in activity in Aug'22. PMIs for China, Germany, UK and France all indicate that growth is losing momentum, thus aggravating fears of slowdown in global growth. Investors are hoping that China will announce stimulus (fiscal and monetary) measures soon in order to revive growth. Looming energy crisis in Europe is also a concern with Russia pausing the supply of gas indefinitely. On the domestic front, services activity rebounded sharply in Aug'22. With growth still intact, RBI's policy action will be guided by trajectory of inflation, influenced by global commodity prices. Production cuts announced by OPEC+ will determine the trajectory of oil prices.

- Except Nikkei and Hang Seng (lower), other global stocks closed higher. Markets in the US were closed for holiday. Elsewhere, investors hinged hopes on China announcing more stimulus measures to revive economic growth. Most recently, PBOC has announced further cut in foreign exchange reserve requirement. FTSE gained 0.1%, led by political developments. Sensex was up by 0.8%, led by capital goods, banking and real estate stocks. It is trading further higher today, while other Asian stocks are trading mixed.

Fig 1 – Stock markets

	2-09-2022	5-09-2022	% change
Dow Jones	31,656	31,318	(1.1)
S & P 500	3,967	3,924	(1.1)
FTSE	7,281	7,287	0.1
Nikkei	27,651	27,620	(0.1)
Hang Seng	19,452	19,226	(1.2)
Shanghai Comp	3,186	3,200	0.4
Sensex	58,803	59,246	0.8
Nifty	17,539	17,666	0.7

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

- Barring GBP (higher), other global currencies closed lower. CNY, EUR and JPY fell the most. Losses were led by evolving geo-political situation in the Europe as Russia has paused gas flows through Nord Stream-I indefinitely. Fears of recession also boosted dollar demand. INR depreciated by 0.1% as oil prices inched up. It is trading flat today, while other Asian currencies are trading mixed.

Fig 2 – Currencies

	2-09-2022	5-09-2022	% change
EUR/USD	0.9954	0.9929	(0.3)
GBP/USD	1.1509	1.1517	0.1
USD/JPY	140.20	140.60	(0.3)
USD/INR	79.80	79.85	(0.1)
USD/CNY	6.9000	6.9340	(0.5)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022



- Global yields closed mixed. While 10Y yields in Asia declined, they inched up in UK and Germany. Yields in Europe reacted to inching up of energy prices, which will fuel retail inflation further up and force ECB to take an aggressive policy stand. India's 10Y yield fell by 2bps (7.22%) amidst hopes of India getting included in J.P. Morgan Emerging Market Bond Index. It is trading lower at 7.21% today.

Fig 3 – Bond 10Y yield

	2-09-2022	5-09-2022	change in bps
US	3.25	3.19	(6)
UK	2.92	2.94	2
Germany	1.53	1.56	4
Japan	0.24	0.24	(1)
China	2.64	2.63	(1)
India	7.23	7.22	(2)

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

Fig 4 – Short term rates

	2-09-2022	5-09-2022	change in bps
Tbill-91 days	5.60	5.60	0
Tbill-182 days	6.05	6.05	0
Tbill-364 days	6.30	6.29	(1)
G-Sec 2Y	6.45	6.50	5
SONIA int rate benchmark	1.69	1.69	0
US SOFR	2.29	2.29	0

Source: Bloomberg, Bank of Baroda Research | Note: Markets in US were closed on 5 Sep 2022

Fig 5 – Liquidity

Rs tn	2-09-2022	5-09-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.8)	(2.1)	(0.3)
Reverse repo	1.2	1.2	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	1-09-2022	2-09-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	(273.2)	(235.6)	37.6
Debt	16.1	(74.6)	(90.7)
Equity	(289.3)	(161.0)	128.3
Mutual funds (Rs cr)	(3,627.9)	3,042.5	6,670.4
Debt	(1,255.6)	2,285.2	3,540.8
Equity	(2,372.3)	757.3	3,129.6

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 25th and 26th Aug 2022

- Crude oil prices rose by another 2.9% to US\$ 96/bbl as OPEC+ announced production cuts. Gold prices fell, as dollar demand remains strong.

Fig 7 – Commodities

	2-09-2022	5-09-2022	% change
Brent crude (US\$/bbl)	93.0	95.7	2.9
Gold (US\$/ Troy Ounce)	1,712.2	1,710.4	(0.1)
Copper (US\$/ MT)	7,691.0	7,731.0	0.5
Zinc (US\$/MT)	3,172.5	3,241.5	2.2
Aluminium (US\$/MT)	2,295.5	2,285.5	(0.4)

Source: Bloomberg, Bank of Baroda Research



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