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Possibility of an escalation in US-China conflict amidst US House of Representative Speaker's visit to Taiwan, impacted investor sentiments. Further, three senior Fed officials suggested that the Fed is unlikely to taper from its policy tightening path raising expectations of further rate hikes. Thus, DXY and US 10Y yield rose. On the other hand, RBA while increasing rates by an expected 50bps, hinted that further rate action is not a "pre-set path". In India, trade deficit surged to a further record-high of US\$ 31bn in Jul'22 as exports decelerated while imports increased unabated.

- Except Sensex, other global indices ended lower. Investors monitored flaring up of the geopolitical tensions between US and China, after US House representative visited Taiwan. Dow fell by 1.2% with US JOLTS jobs opening dropping to 9-month low, signalling softer labour demand. Amongst other indices, Hang Seng (2.4%) declined the most. Sensex ended flat. It is trading higher today in line with other Asian stocks.

Fig 1 – Stock markets

	1-08-2022	2-08-2022	% change
Dow Jones	32,798	32,396	(1.2)
S & P 500	4,119	4,091	(0.7)
FTSE	7,413	7,409	(0.1)
Nikkei	27,993	27,595	(1.4)
Hang Seng	20,166	19,689	(2.4)
Shanghai Comp	3,260	3,186	(2.3)
Sensex	58,116	58,136	0
Nifty	17,340	17,345	0

Source: Bloomberg, Bank of Baroda Research

- Barring INR and CNY (higher), other global currencies declined. After falling for last four trading sessions, DXY edged up by 0.8% amidst hawkish comments from Fed officials. JPY declined the most by 1.2%, followed by EUR which fell by 0.9%. INR appreciated by 0.4% to a 1-month high supported by FPI inflows. However, it is trading weaker today, in line with other Asian currencies.

Fig 2 – Currencies

	1-08-2022	2-08-2022	% change
EUR/USD	1.0262	1.0166	(0.9)
GBP/USD	1.2250	1.2170	(0.7)
USD/JPY	131.61	133.17	(1.2)
USD/INR	79.03	78.71	0.4
USD/CNY	6.7688	6.7525	0.2

Source: Bloomberg, Bank of Baroda Research

- Global yields closed mixed. US 10Y yield jumped up sharply by 18bps as hawkish comments from several Fed officials led to expectations that the Fed will continue with its aggressive rate hikes. Concerns over US-China relations



too impacted sentiments. 10Y yields in UK (6bps) and Germany (4bps) also inched up. India's 10Y yield fell by 4bps to a 2-month low of 7.2% awaiting RBI's policy meet. However, it is trading higher at 7.23% today.

Fig 3 – Bond 10Y yield

	1-08-2022	2-08-2022	change in bps
US	2.57	2.75	18
UK	1.81	1.87	6
Germany	0.78	0.82	4
Japan	0.19	0.18	(1)
China	2.74	2.74	(1)
India	7.24	7.20	(4)

Source: Bloomberg, Bank of Baroda Research

Fig 4 – Short term rates

	1-08-2022	2-08-2022	change in bps
Tbill-91 days	5.52	5.53	1
Tbill-182 days	5.75	5.73	(2)
Tbill-364 days	6.22	6.16	(6)
G-Sec 2Y	6.38	6.35	(3)
SONIA int rate benchmark	1.19	1.19	0
US SOFR	2.28	2.28	0

Source: Bloomberg, Bank of Baroda Research

Fig 5 – Liquidity

Rs tn	1-08-2022	2-08-2022	change (Rs tn)
Net Liquidity (-Surplus/+deficit)	(1.3)	(2.0)	(0.7)
Reverse repo	0.4	0.4	0
Repo	0	0	0

Source: RBI, Bank of Baroda Research

Fig 6 – Capital market flows

	29-07-2022	1-08-2022	change (US\$ mn/Rs cr)
FII (US\$ mn)	128.8	724.5	595.7
Debt	(56.4)	49.1	105.5
Equity	185.1	675.4	490.3
Mutual funds (Rs cr)	122.3	(152.0)	(274.2)
Debt	(1,036.6)	(1,134.4)	(97.8)
Equity	1,158.8	982.4	(176.4)

Source: Bloomberg, Bank of Baroda Research, Mutual fund data as of 26th and 27th Jul 2022

- Oil prices rose by 0.5% ahead of the OPEC+ meet. It is expected that producers may not increase supply amidst concerns over global recession. Gold prices slipped as USD rose.

Fig 7 – Commodities

	1-08-2022	2-08-2022	% change
Brent crude (US\$/bbl)	100.0	100.5	0.5
Gold (US\$/ Troy Ounce)	1,772.2	1,760.4	(0.7)
Copper (US\$/ MT)	7,821.3	7,808.8	(0.2)
Zinc (US\$/MT)	3,441.0	3,412.0	(0.8)
Aluminium (US\$/MT)	2,430.5	2,414.5	(0.7)

Source: Bloomberg, Bank of Baroda Research



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