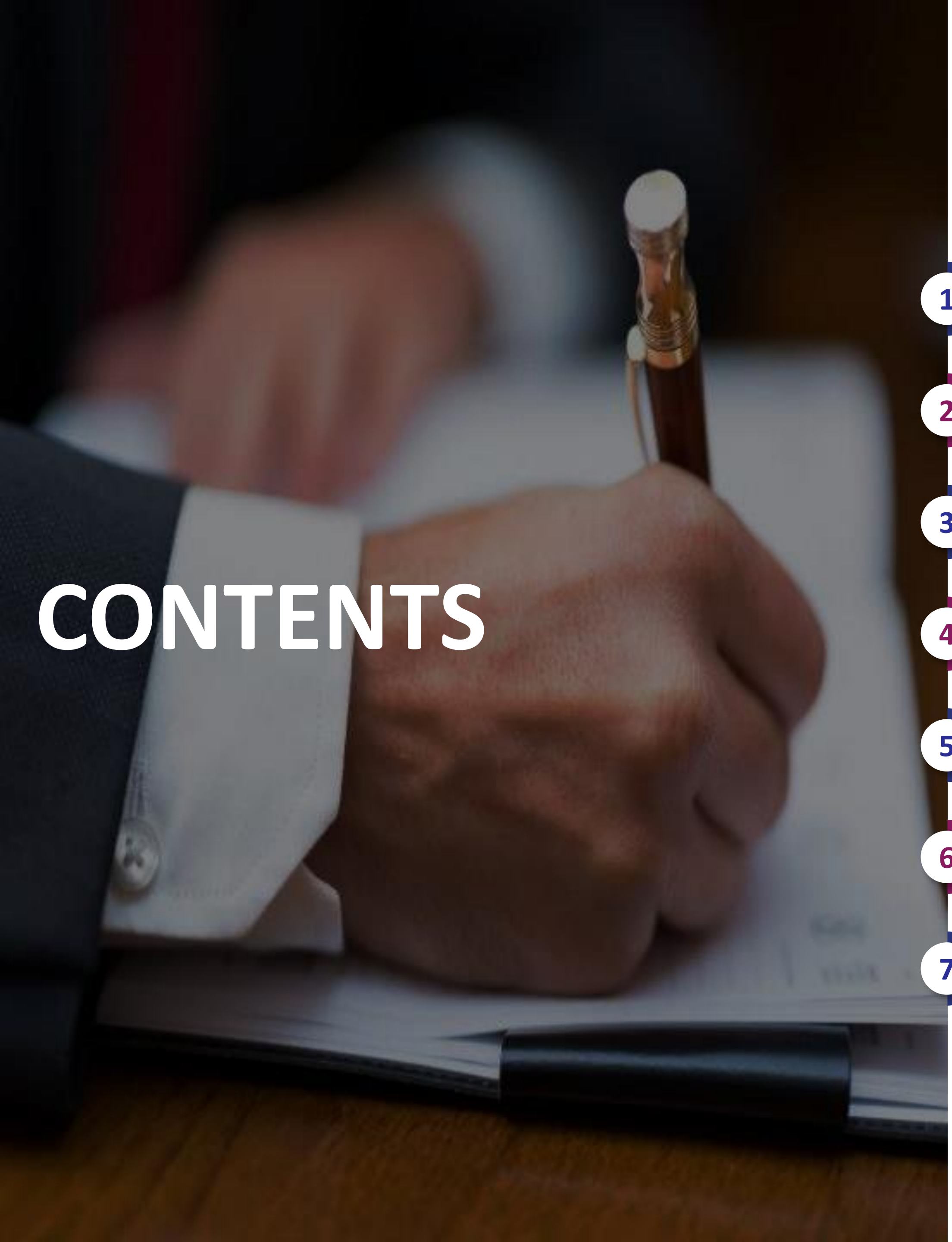
ECOCAPSULE

The Art of the Ordeal - The TACO Man's Steal Deals

July 2025



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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

As of Jul’25, the global financial landscape reflects a mix of resilient equity markets, persistent geopolitical tensions, and shifting monetary policy. US equities continued their strong run, with both the Nasdaq and S&P 500 hitting record highs. This momentum is supported by market adjustment to the interim tariff regime and a rebound in global manufacturing PMIs amid supply chain diversification. Investor focus remains on the upcoming 9 Jul’25 tariff decision, with a TACO-style extension seen as the base case. The US has finalised initial trade agreements with China, the UK, and Vietnam, with hopes for one with India soon. These deals are expected to soften global spillovers.

DXY weakness and currency volatility more broadly are driving investors to explore alternative assets. Gold, cryptocurrencies, and stablecoins are gaining favour as perceived hedges along with EUR, GBP etc., offering diversification amid uncertain monetary paths and geopolitical flux. The rising appeal of these alternatives signals a broader shift in investor behaviour, especially as traditional safe havens become entangled in policy and trade risks.

Geopolitical risks beyond traditional financial arenas are increasingly shaping market dynamics, with recent tensions in Iran injecting fresh volatility into crude oil prices. While global supply disruptions have been limited so far, buffered by spare capacity in other producing regions and higher non-OPEC+ exports. However, the risk of escalation—and potential disruption of critical shipping lanes—remains a key overhang for global energy markets and the broader inflation trajectory.

India’s economic outlook remains mixed. Advance tax collections rose just 3.9% y/y (1 Apr– 19 Jun’25), hinting at subdued nominal GDP growth. Industrial output weakened, with the IIP hitting a 9-month low in May’25, led by sharp declines in electricity and mining due to monsoon disruptions. That said, early kharif sowing trends are encouraging, supported by healthy rainfall and reservoir levels. Additionally, the RBI’s large dividend is set to bolster fiscal space, enabling higher public spending or debt reduction—potentially supporting growth and reinforcing investor confidence in fiscal management.

RBI has adopted a more accommodative monetary stance, maintaining surplus liquidity to support growth and credit flow. The recent extension of market hours is a strategic move to deepen financial markets and enhance efficiency for participants. However, these measures come amid a slowdown in credit growth, which has slipped into single digits—despite improved rate transmission and relaxed norms across asset classes. While the latest RBI’s FSR highlights systemic strength, the divergence with on-ground credit trends is notable. As seen in the early 2000s, monetary easing alone may not be sufficient to reignite credit momentum, underscoring the need for complementary demand-side catalysts.

While policy rates continue to transmit through the banking system, the bond market appears to have priced in a pause to the rate cut cycle. G-sec yields have firmed, and the yield curve is now at its steepest in years. As previously highlighted in EcoCapsule, corporate spreads have widened, reflecting rising risk aversion across credit segments and a growing preference for shorter-duration instruments amid lingering uncertainty

MACROECONOMIC OVERVIEW

CONSUMPTION AND CONSTRUCTION FLOAT THE ECONOMY IN FY25

SBICAPS
Complete Investment Banking Solutions

REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23
GVA	**6.8**	**6.5**	**5.8**	**6.5**	**7.3**	**8.0**	**9.2**	**9.9**	**6.6**
Agriculture and allied	**5.4**	**6.6**	**4.1**	**1.5**	**0.9**	**1.5**	**3.7**	**5.7**	**9.4**
Industry	**6.5**	**4.8**	**3.8**	**8.5**	**9.5**	**11.8**	**15.1**	**7.3**	**3.8**
Mining and quarrying	2.5	1.3	-0.4	6.6	0.8	4.7	4.1	4.1	4.6
Manufacturing	4.8	3.6	2.2	7.6	11.3	14.0	17.0	7.3	1.5
Electricity, gas & water supply	5.4	5.1	3.0	10.2	8.8	10.1	11.7	4.1	8.6
Construction	10.8	7.9	8.4	10.1	8.7	10.0	14.6	9.2	7.1
Services	**7.3**	**7.4**	**7.2**	**6.8**	**7.8**	**8.3**	**7.5**	**12.5**	**7.6**
Trade, hotel, transport & comm.	6.0	6.7	6.1	5.4	6.2	8.0	5.4	11.0	7.5
Finance, real estate and prof serv.	7.8	7.1	7.2	6.6	9.0	8.4	8.3	15.0	10.9
Public admin., defence & Other svcs	8.7	8.9	8.9	9.0	8.7	8.4	8.9	9.3	2.5

REAL GDP EXPENDITURE COMPONENTS

Change (% y/y)	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	Q4FY23
GDP	**7.4**	**6.4**	**5.6**	**6.5**	**8.4**	**9.5**	**9.3**	**9.7**	**6.9**
Private final consumption exp. (PFCE)	**6.0**	**8.1**	**6.4**	**8.3**	**6.2**	**5.7**	**3.0**	**7.4**	**2.1**
Govt. final consumption exp. (GFCE)	**-1.8**	**9.3**	**4.3**	**-0.3**	**6.6**	**2.3**	**20.1**	**5.3**	**9.0**
Gross capital formation (GCF)	**7.8**	**4.9**	**7.7**	**6.2**	**9.1**	**12.4**	**11.9**	**8.9**	**5.3**
Gross fixed capital formation (GFCF)	9.4	5.2	6.7	6.7	6.0	9.3	11.7	8.4	5.6
Exports	**3.9**	**10.8**	**3.0**	**8.3**	**7.7**	**3.0**	**4.6**	**-7.0**	**9.4**
Imports	**-12.7**	**-2.1**	**1.0**	**-1.6**	**11.4**	**11.3**	**14.3**	**18.0**	**-1.8**

- Real GDP growth, above consensus, was led by jubilant consumption and resurgent government capex in FY25, aided by shrinking subsidy bills and slower imports
- PFCE's strong growth was underpinned by rural demand, while Union spending on roads, defence, and ports boosted GFCF, as private capex remained patchy

Source: MoSPI, CEIC, SBICAPS

ECONOMY BLOWS HOT AND COLD ON MONSOON WINDS

SBICAPS
Complete Investment Banking Solutions

INDICATOR	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25
INDUSTRY												
Manufacturing PMI	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4
IIP (%y/y)	5.0%	0.0%	3.2%	3.7%	5.0%	3.7%	5.2%	2.7%	3.9%	2.6%	1.2%	
Eight Core (%y/y)	6.3%	-1.5%	2.4%	3.8%	5.8%	5.1%	5.1%	3.4%	4.5%	1.0%	0.7%	
Finished Steel Consumption (%y/y)	14.4%	10.0%	11.8%	8.9%	9.5%	5.2%	10.9%	10.9%	13.6%	6.0%	8.1%	
2W Retail Sales (%y/y)	17.5%	6.3%	-8.5%	37.0%	16.4%	-17.4%	4.2%	-6.0%	-1.4%	2.6%	7.3%	
PV Retail Sales (%y/y)	14.0%	-4.5%	-18.8%	36.5%	-10.7%	0.2%	15.5%	-8.1%	8.8%	4.4%	-3.1%	
SERVICES/CONSUMPTION												
Services PMI	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59	58.5	58.7	58.8	60.7
Petrol Consumption (%y/y)	10.5%	8.6%	3.0%	8.7%	9.6%	11.1%	6.7%	5.0%	5.7%	5.0%	9.2%	6.4%
Diesel Consumption (%y/y)	4.5%	-2.5%	-1.9%	0.1%	8.5%	5.9%	4.2%	-1.3%	0.9%	4.3%	2.2%	1.2%
Railway Freight Volume (%y/y)	4.6%	-3.3%	6.0%	1.4%	1.4%	1.7%	-1.6%	-3.0%	3.0%	3.6%	5.6%	2.6%
Port Cargo Volume (%y/y)	6.0%	6.7%	5.9%	-3.4%	-5.0%	3.4%	6.2%	7.4%	13.3%	7.0%	4.4%	
Electricity supply (% y/y)	8.3%	-4.7%	0.4%	0.8%	3.8%	5.2%	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%
Total Airport Footfall (%y/y)	7.8%	7.5%	8.1%	9.8%	13.2%	10.5%	13.5%	11.2%	9.3%	10.3%	3.0%	7.7%
Fastag revenues (%y/y)	12.0%	8.4%	10.4%	10.4%	14.5%	13.3%	19.0%	18.3%	14.5%	21.6%	20.0%	19.7%
UPI transactions (%y/y)	34.6%	30.7%	30.7%	37.0%	23.9%	27.5%	27.5%	20.2%	25.2%	21.9%	23.0%	21.6%
GST Revenues (%y/y)	10.3%	10.0%	6.5%	8.9%	8.5%	7.3%	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%

Source: S&P Global, FADA, CEIC, SBICAPS

DOMESTIC ECONOMY SEARCHES FOR GROWTH TRIGGERS IN EARLY FY26

Economy conveys mixed messages as early South Westerlies spell rains on an industrial parade

- IIP dipped to its lowest in 9 months driven by contractions in mining and electricity generation, as rains dampened industrial activity in May’25.Eight core index rose at a tepid rate, with contractions in electricity and petroleum-based industries offset by continued momentum in steel and cement production
- According to CMIE, new project announcements rose to ~2.5x y/y to Rs. 3.5 trn in Q1FY26, driven by Rs. 1.4 trn commitments in metals and Rs. 633 bn in power. According to UNCTAD, India stood out amongst ASEAN peers for greenfield capital expenditure project announcements which surged 28% y/y to USD 110 bn in CY24
- Deleveraged balance sheets and lower rates owing to outsized cut from the RBI make conditions fecund for corporates to go on a leveraged-expansion spree. The easing of project finance norms and ample liquidity will also help banks lend freely to them

Retail sector expects a bounce back and surge in consumer spending in FY26

- According to RAI, retail sales rose 7% y/y in May’25 to USD 900 bn, up from 5% y/y trough in mid FY25, with 10% y/y growth in QSR segment indicative of consumer willingness to spend
- Quick commerce’s emergence as a major disruptor is underscored by meteoric growth from USD 0.3 bn in FY22 to USD 5 bn in FY25. It is further expected to grow to USD 30 bn by FY30
- Moderating PV sales, especially in the entry-level, raises questions for urban consumption, while jubilant 2W, despite base effects, and tractor sales allude to strength in rural demand

Trade shines only in niches as tariffs reign supreme, while global uncertainty dictates tempo of foreign investments

- CAD stood at USD 23.3 bn (0.6% of GDP) in FY25, lower than USD 26 bn (0.7% of GDP) in FY24, amidst higher services surplus, despite slower goods trade and capital flows
- Robust merchandise exports is driven by realigning supply chains, especially in electronic goods sector, with Foxxconn reporting 97% of its India exports to US in FY25, while other Chinese brands tap “Make In India” contract manufacturers. Notably, Union is expediting approvals under PLI scheme for electronic components, with outloay of Rs. 230 bn, to Aug’25
- Despite net FDI taking a nosedive in FY25, gross inflows surged 13% y/y, driven by large supply chain and semi-conductor investments. Further, domestic startup funding rose 8% y/to USD 5.7 bn in H1CY25, with ~47%, amounting to USD 3 bn, flowing into late-stage startups. Several startups have initiated “reverse flipping” process to aid domestic IPO bid

RBI'S DIVIDEND AIDES FISCAL CONSOLIDATION EFFORTS BY UNION

ITEM (Rs. bn)	FY24A	FY25PE	FY26BE	GROWTH FY26BE/FY25PE	2MFY25	2MFY26	GROWTH 2MFY26/2MFY25	2MFY26/FY25RE
Corporation Tax	9,111	9,868	10,820	9.7%	453	450	-0.8%	5%
Income Tax	10,447	11,830	14,380	21.6%	1,803	1,918	6.4%	16%
Customs Duty	2,331	2,329	2,400	3.1%	281	293	4.1%	13%
Excise Duty	3,054	3,003	3,170	5.6%	243	264	8.6%	9%
Service Tax	4	0	1		-1	-2		
GST	9,572	10,316	11,780	14.2%	1,734	2,139	23.4%	21%
Other Taxes	39	50	50	0.0%	11	10	-10.8%	
Gross tax Revenue	**34,655**	**37,952**	**42,702**	**12.5%**	**4,596**	**5,152**	**12.1%**	**14%**
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	1,398	1,635	17.0%	13%
Net tax Revenue	**23,273**	**24,987**	**28,374**	**13.6%**	**3,190**	**3,509**	**10.0%**	**14%**
Non-Tax Revenue	**4,018**	**5,375**	**5,830**	**8.5%**	**2,517**	**3,569**	**41.8%**	**66%**
Non-debt Capital Receipts	**598**	**418**	**760**	**81.7%**	**21**	**252**	**1108.6%**	**60%**
Total Receipts	**27,888**	**30,781**	**34,964**	**13.6%**	**5,728**	**7,330**	**28.0%**	**24%**
Revenue Expenditure	34,943	36,035	39,443	9.5%	4,798	5,248	9.4%	15%
Capital Expenditure	9,492	10,520	11,211	6.6%	1,436	2,214	54.1%	21%
Total Expenditure	**44,434**	**46,555**	**50,653**	**8.8%**	**6,235**	**7,461**	**19.7%**	**16%**
Revenue Deficit	**7,652**	**5,671**	**5,238**	**-7.6%**	**-909**	**-1,830**	**101.2%**	**-32%**
Fiscal Deficit	**16,546**	**15,773**	**15,689**	**-0.5%**	**506**	**132**	**-74.0%**	**1%**
Nominal GDP	**295,357**	**327,718**	**356,979**	**8.9%**	453	450	-0.8%	5%

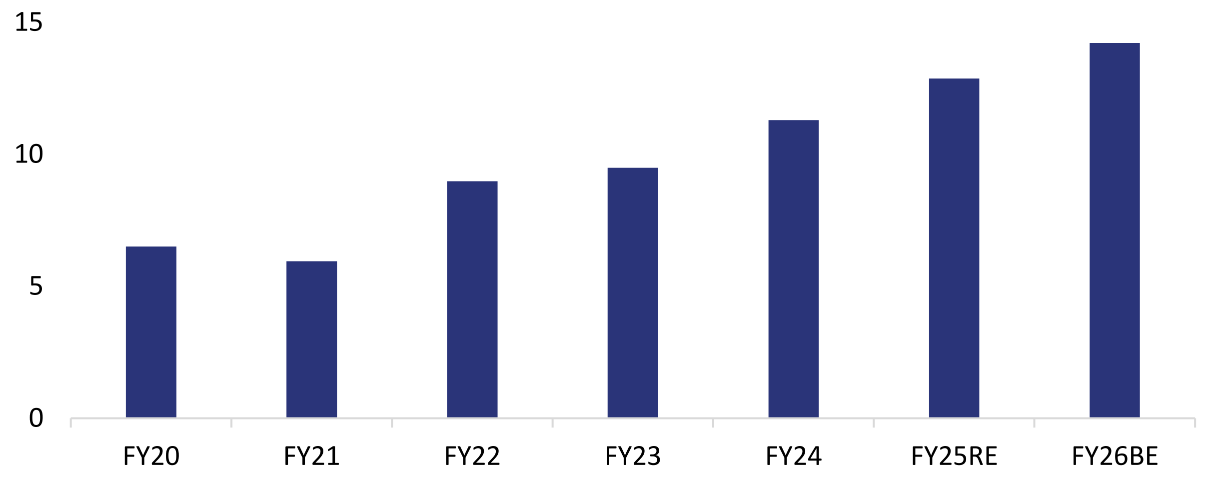
- Gross direct tax collection rose 5% y/y to Rs. 5.45 trn in YTD FY26 as of 19th Jun'25, with refunds surging 58% y/y to Rs. 864 bn, leading to net direct tax collections falling 1.4% y/y. Further, advance tax receipts grew 3.9% y/y to Rs. 1.55 trn, driven by 5.9% y/y rise in corporate taxes to Rs. 1.22 trn, while non-corporate taxes fell 2.7% y/y to Rs. 339 bn.

- Capex surged 54% y/y to Rs. 2.2 trn at 20% of FY26BE, driven by spending on roads and railways as Union intends to front load infrastructure investments to stimulate demand. Capex intensity is boosted by fiscal consolidation with fiscal deficit at 0.8% FY26BE, aided by RBI's record dividend of Rs. 2.7 trn in FY26.

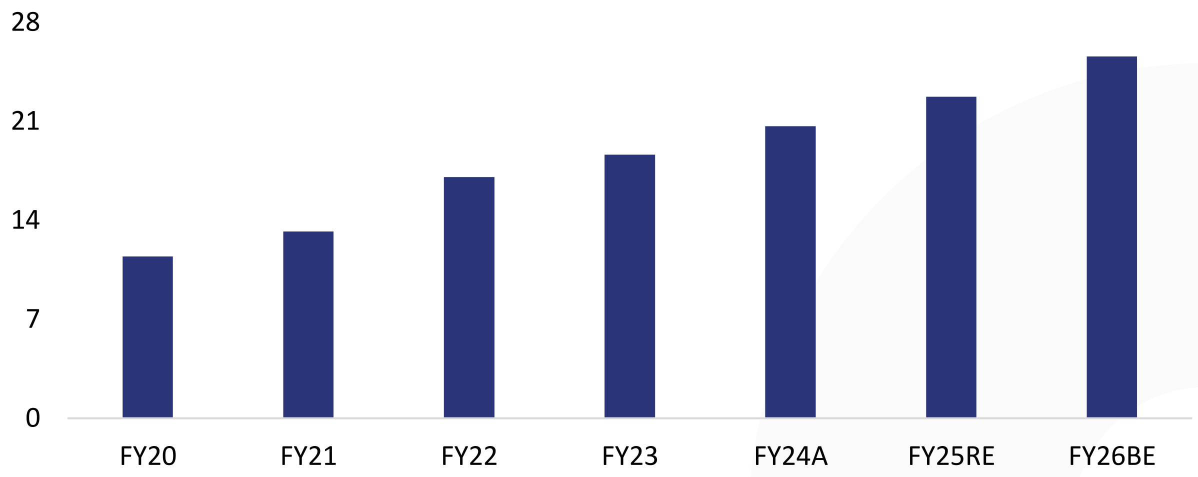
Source: Union Budget Documents, CGA, CEIC, SBICAPS

STATES TO GET HIGHER TRANSFERS IN FY26BE

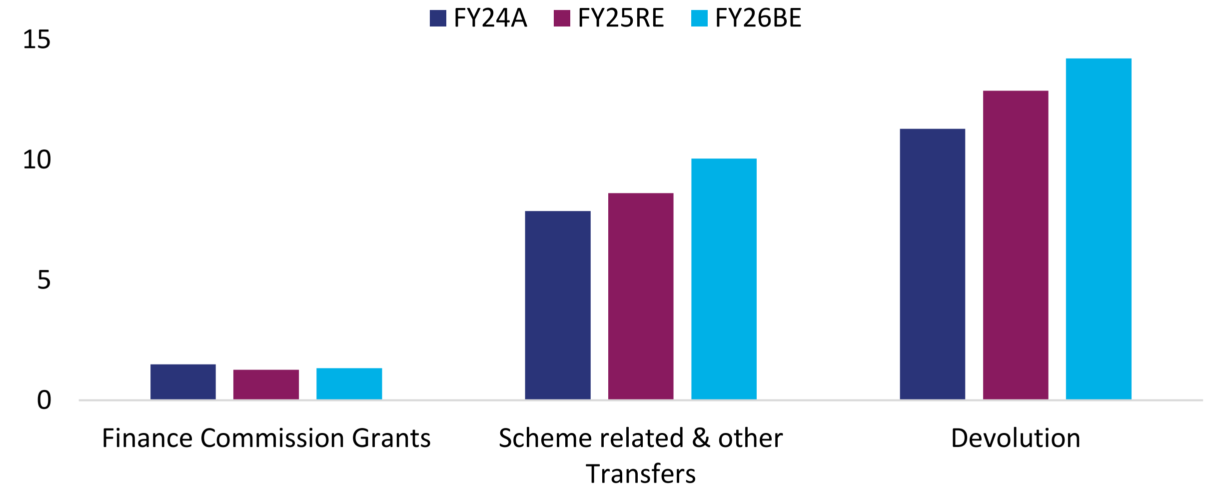
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



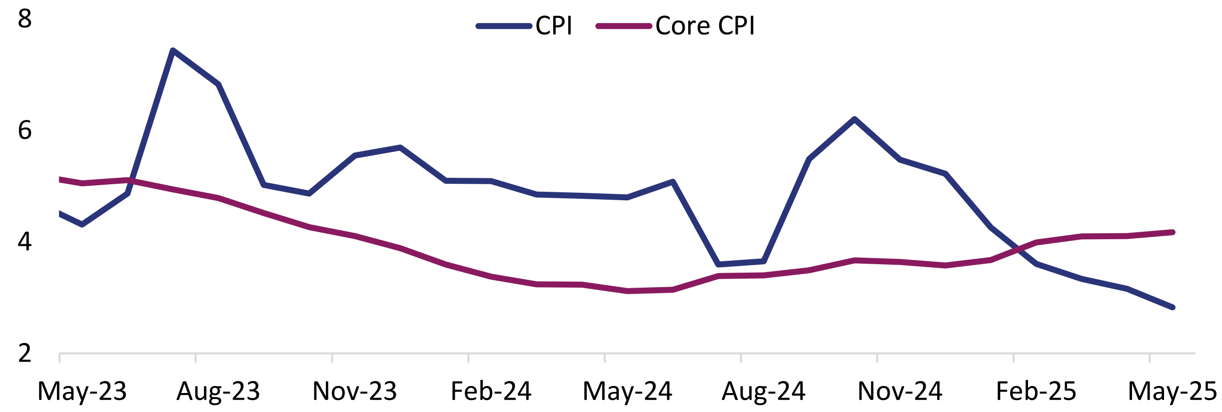
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



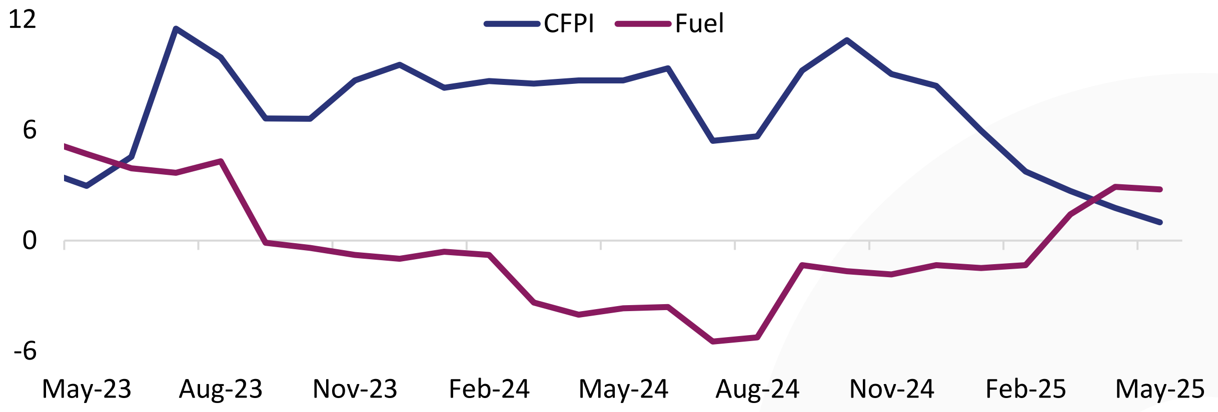
- States have rejoiced on higher transfers from Union, expected to grow further by ~Rs. 2.8 trn in FY26BE vs. FY25RE, higher than the Rs. 2.1 trn addition expected in FY25RE over FY24A, led by an equally higher devolution of taxes and scheme related transfers

CONSUMER INFLATION NOW REINED IN

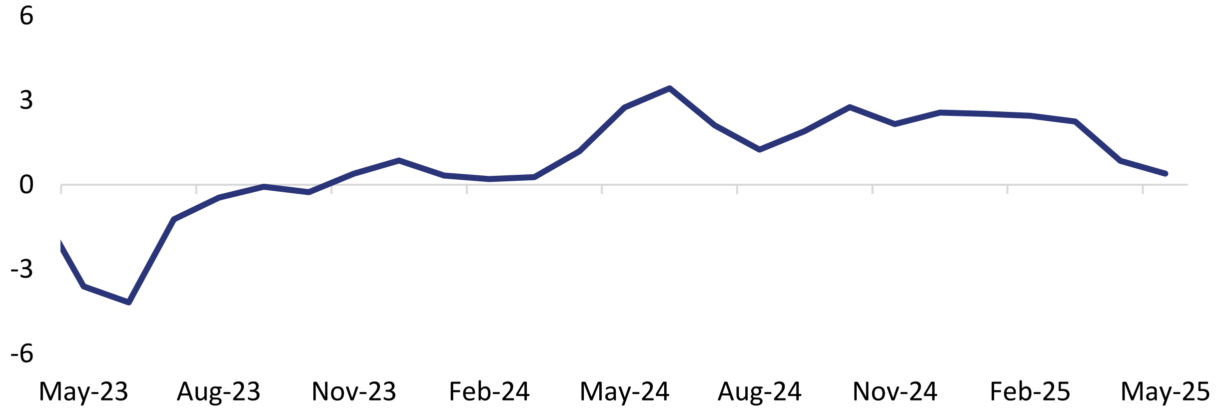
CONSUMER PRICE INDEX (CPI) & CORE CPI (% Y/Y)



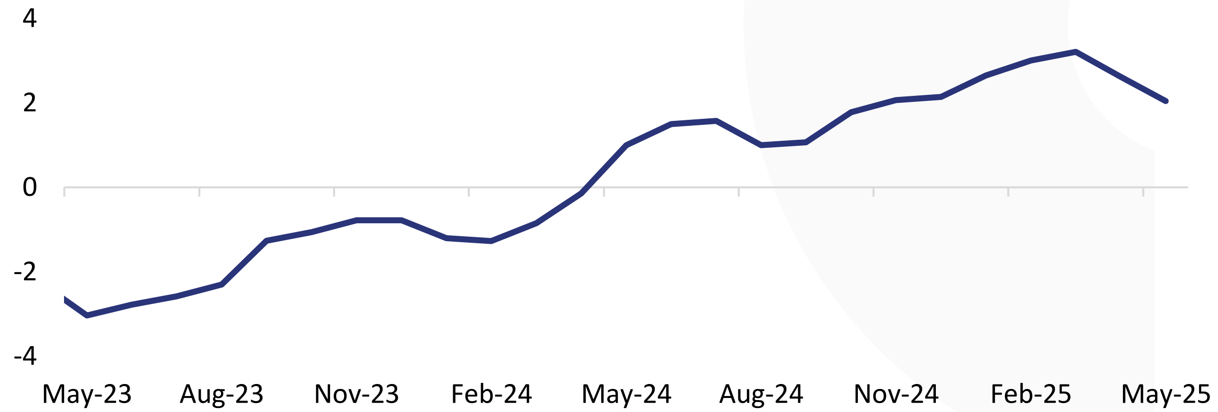
CFPI AND CPI: FUEL (% Y/Y)



WHOLESALE PRICE INDEX (WPI) (% Y/Y)



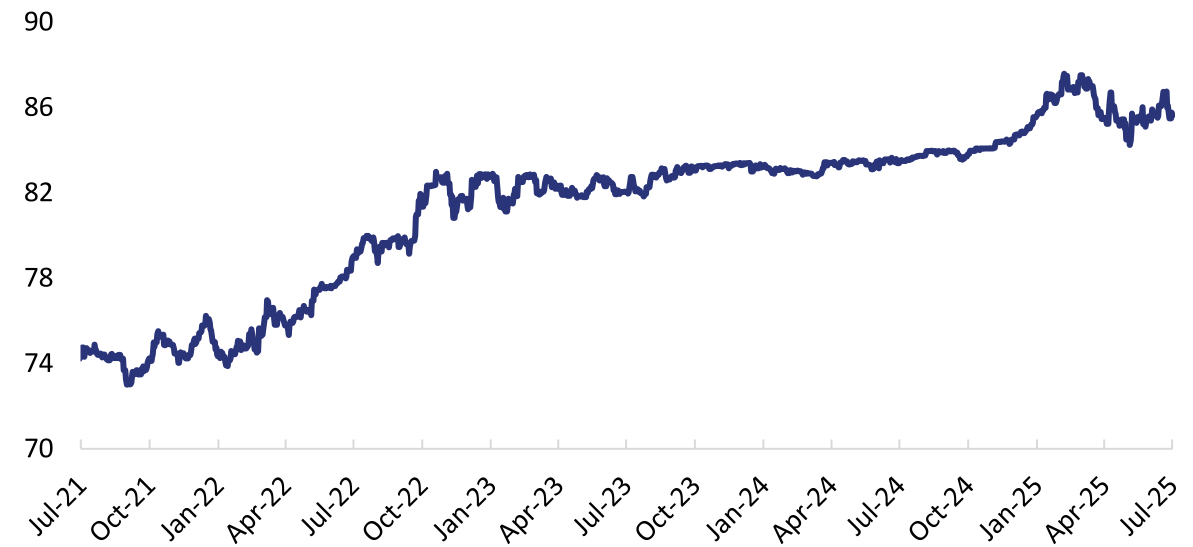
WPI: MANUFACTURED PRODUCTS (% Y/Y)



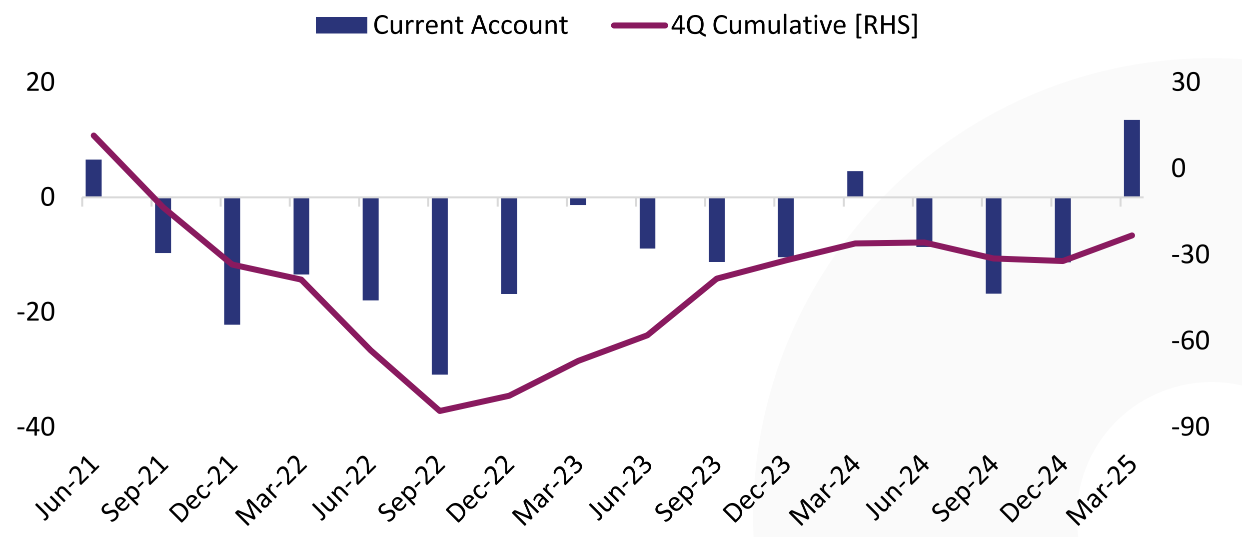
- CPI dipped further to 2.8% y/y in MaY'25, it's lowest since Feb'19, driven by falling food inflation, with lower prices of vegetables, pulses, fish and meat, and a flatlining core print. Further, 11% y/y rise in Kharif sowing stands to favour a benign food inflation outlook. *In FY26, we expect CPI to chime in at ~3.9%, a whiff above RBI's estimates*
- WPI fell to its lowest in 14-months, with extended contractions in primary articles, driven by benign food prices and lower protein inflaton, while slower demand kept fuel prices lower. WPI manufactured products cooled from its local peak in Apr'25, with reacceleration seen only in sectors with recently improved demand like textiles and pharmaceuticals

CURRENT ACCOUNT SURPLUS RECORDED IN Q4FY25

USD/INR EXCHANGE RATE (Rs. per USD)



CURRENT ACCOUNT BALANCE (USD bn)

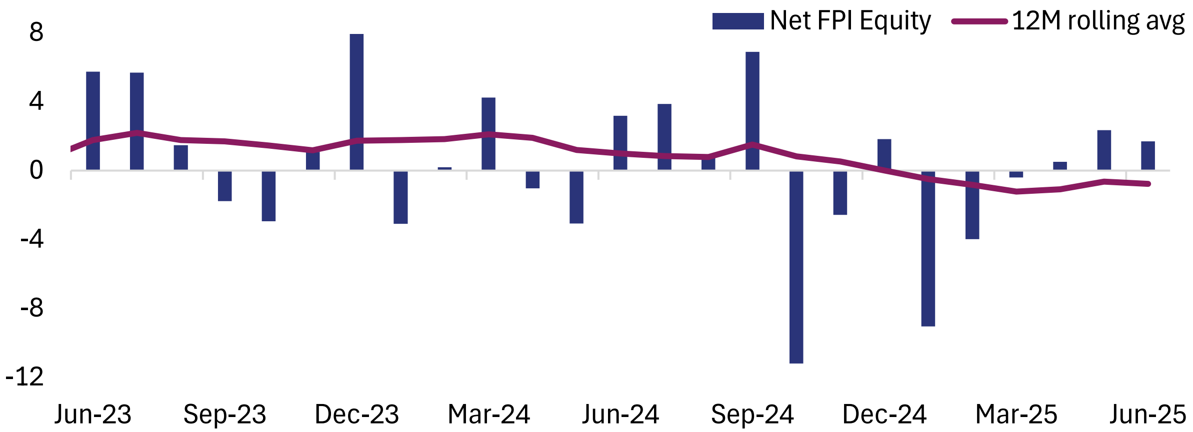


INDICATOR	JUN'24	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25
Forex Reserves (USD Bn)	652.0	670.6	682.2	705.8	682.1	659.4	635.7	630.6	638.7	668.3	688.4	691.3	697.9
Goods Imports (%y/y)	4.6%	11.2%	10.0%	7.8%	1.9%	16.1%	2.3%	10.3%	-16.3%	11.4%	19.1%	-1.7%	
Oil Imports (%y/y)	19.7%	22.7%	-25.6%	6.5%	17.0%	6.5%	-9.0%	-13.4%	-29.6%	16.3%	25.6%	-26.1%	
Non-oil Imports (%y/y)	0.0%	7.9%	22.6%	8.2%	-3.2%	19.7%	6.3%	19.9%	-11.3%	9.4%	16.3%	10.0%	
Goods Exports (%y/y)	2.4%	0.6%	-9.9%	-0.3%	16.6%	-5.3%	-1.5%	-2.6%	-11.1%	0.7%	9.0%	-2.2%	
Oil Exports (%y/y)	-18.8%	-13.8%	-40.4%	-30.6%	-25.1%	-52.2%	-31.6%	-59.7%	-30.4%	-9.5%	4.7%	-30.4%	
Non-oil Exports (%y/y)	7.6%	4.1%	0.2%	6.7%	25.5%	7.8%	5.1%	14.5%	-6.3%	2.2%	10.1%	5.1%	
Goods Trade Balance (USD Bn.)	-20.8	-24.8	-34.0	-24.4	-26.1	-32.0	-20.7	-23.1	-14.1	-21.5	-26.4	-21.9	
Services Exports (%y/y)	3.2%	16.6%	5.7%	14.6%	22.7%	14.2%	16.9%	12.1%	11.7%	18.7%	8.8%	9.6%	
Services Imports (%y/y)	-3.1%	16.0%	9.1%	13.5%	28.0%	26.1%	13.9%	12.6%	-4.7%	5.3%	1.0%	-1.0%	
Overall Trade Balance (USD Bn)	-7.3	-10.1	-20.1	-8.4	-8.9	-17.1	-1.5	-5.1	3.0	-3.4	-10.5	-6.1	

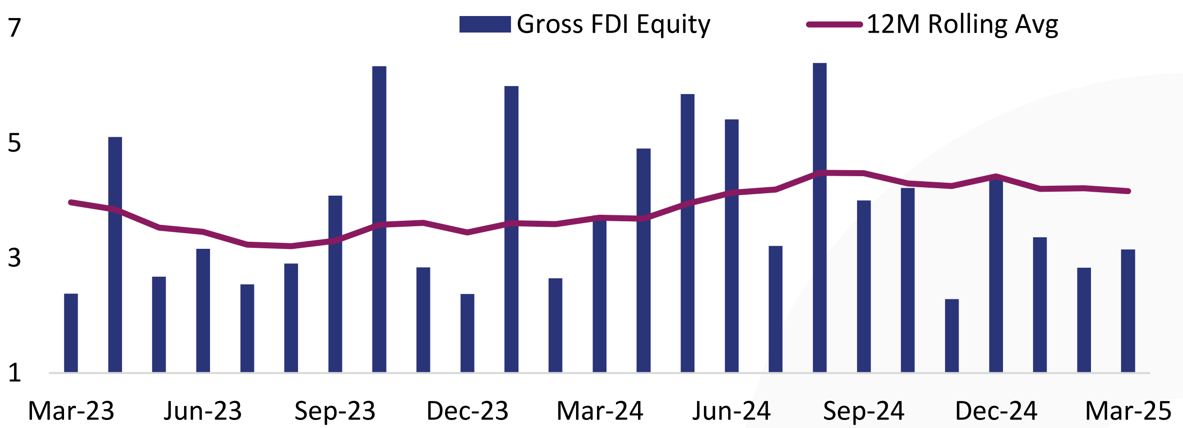
Source: CEIC, Bloomberg, SBICAPS

MODERATING GEOPOLITICAL TENSIONS STOKE FPI RISK SENTIMENTS IN JUN'25

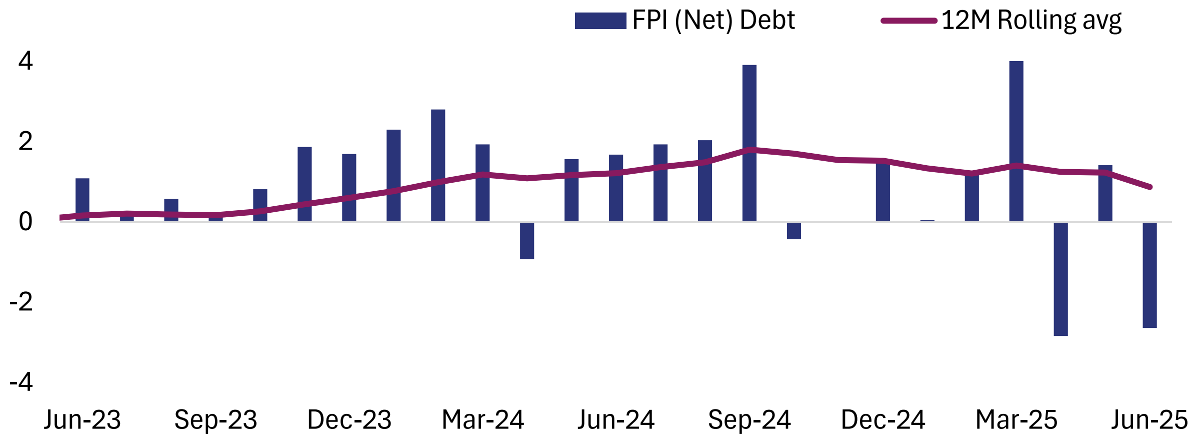
NET FPI EQUITY INFLOW (USD bn)



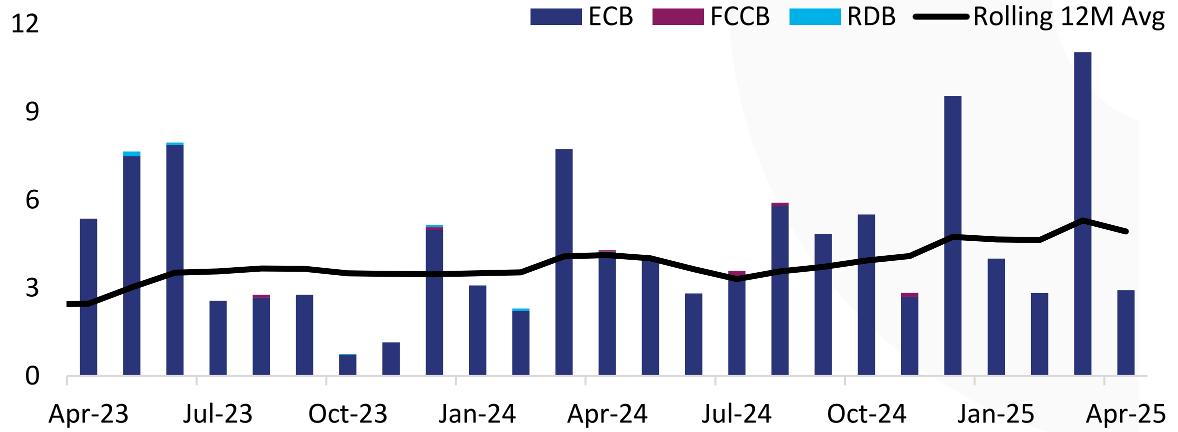
GROSS FDI EQUITY INFLOWS (USD bn)



NET FPI DEBT FLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



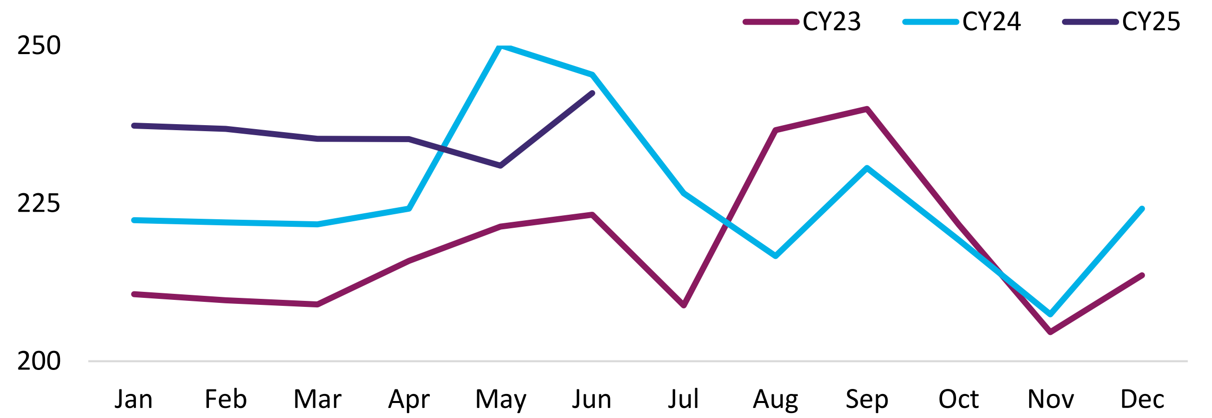
- Announcement of US-China trade framework and slowing tensions in West Asia prompted considerable FPI flows in domestic equities in 2nd half of Jun'25, reversing 1st half outflows.
- Despite net FDI taking a nosedive in FY25, gross inflows surged 13% y/y, driven by large supply chain and semi-conductor investments. Narrowing yield differential due to higher US yields keep ECB issuances morose at the start of FY26, off of FY25 highs.

Source: NSDL, RBI, CEIC, SBICAPS

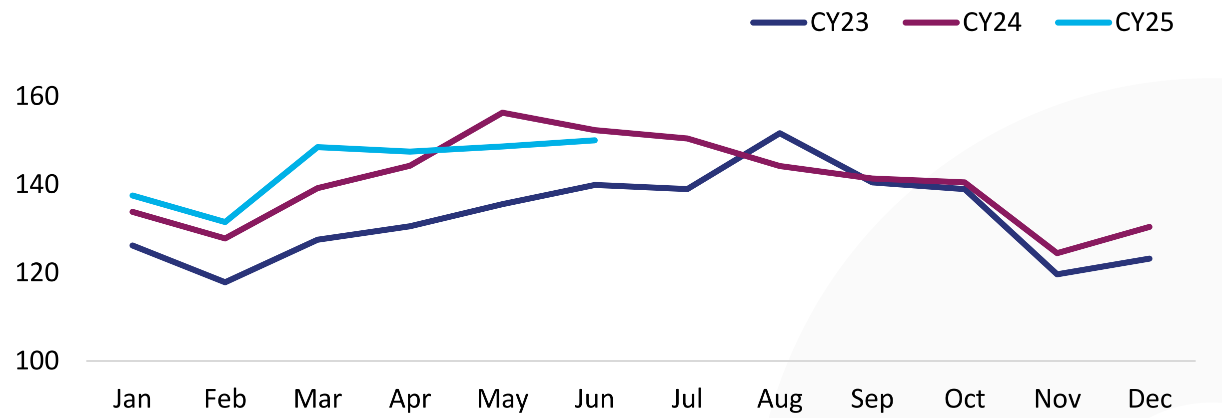
SECTORAL UPDATES

EARLY MONSOONS DAMPEN COOLING DEMAND

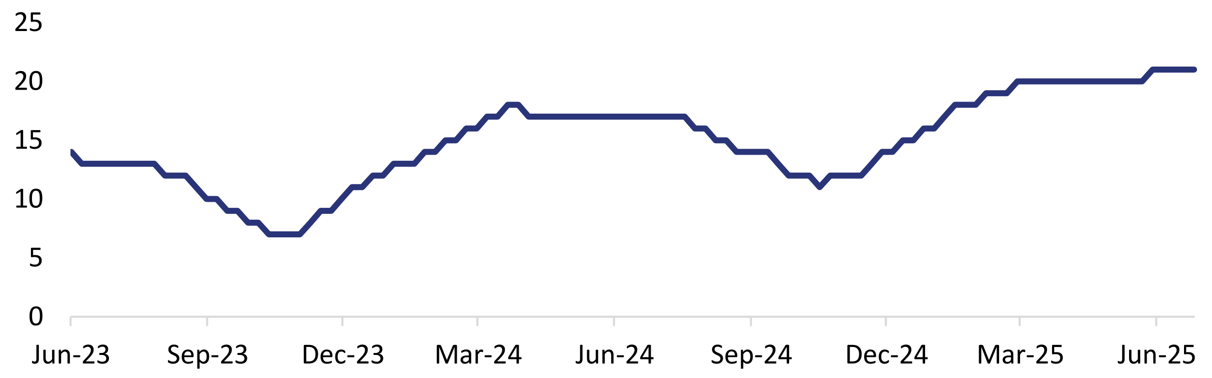
PEAK POWER DEMAND (GW)



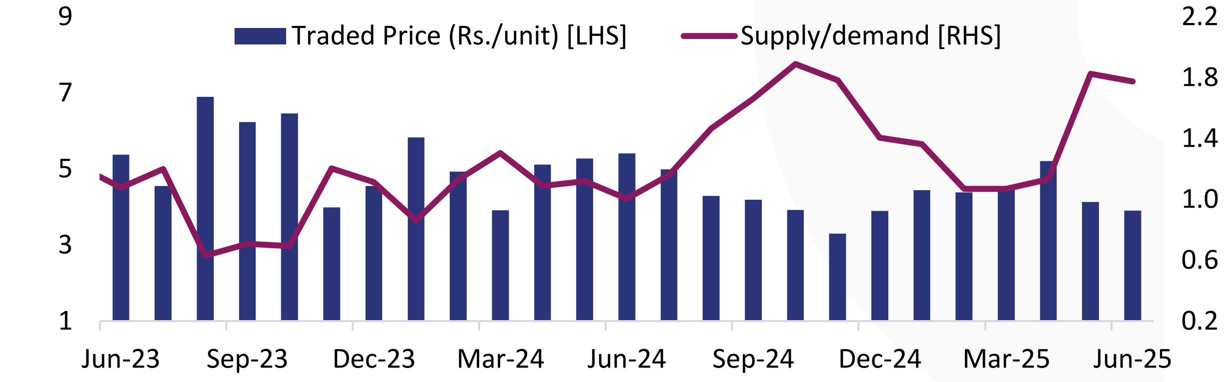
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM

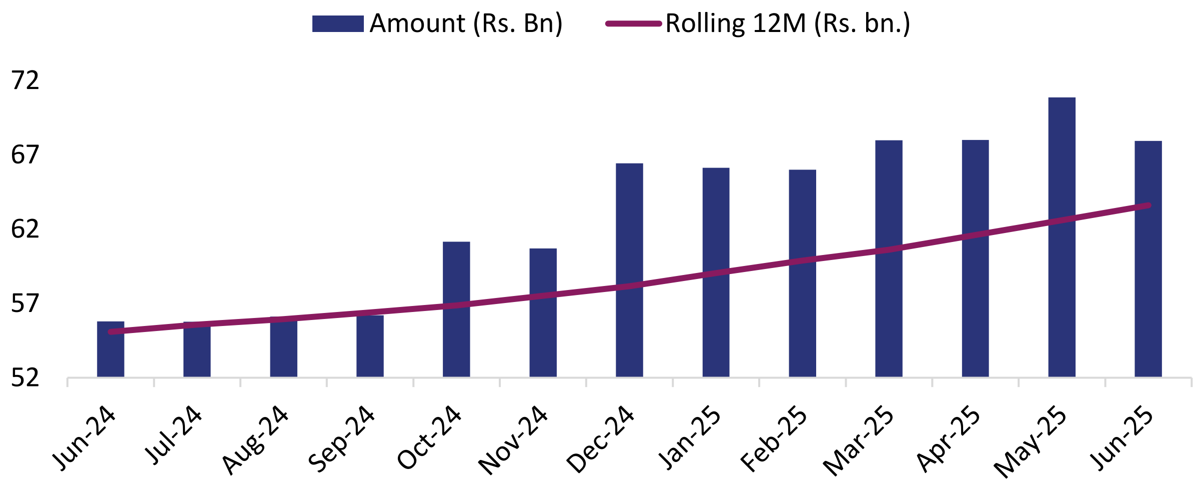


- Electricity consumption fell 1.5% y/y to 150 BU in Jun’25 as early onset of monsoons damp cooling demand, with Northern region especially remaining laggard.
- Concurrently, increased renewable generation resulted in high supply side liquidity on exchanges, leading to 28% y/y decline in DAM prices to Rs. 3.90 per unit in Jun’25.

Source: Bloomberg, IEX, CEIC, SBICAPS

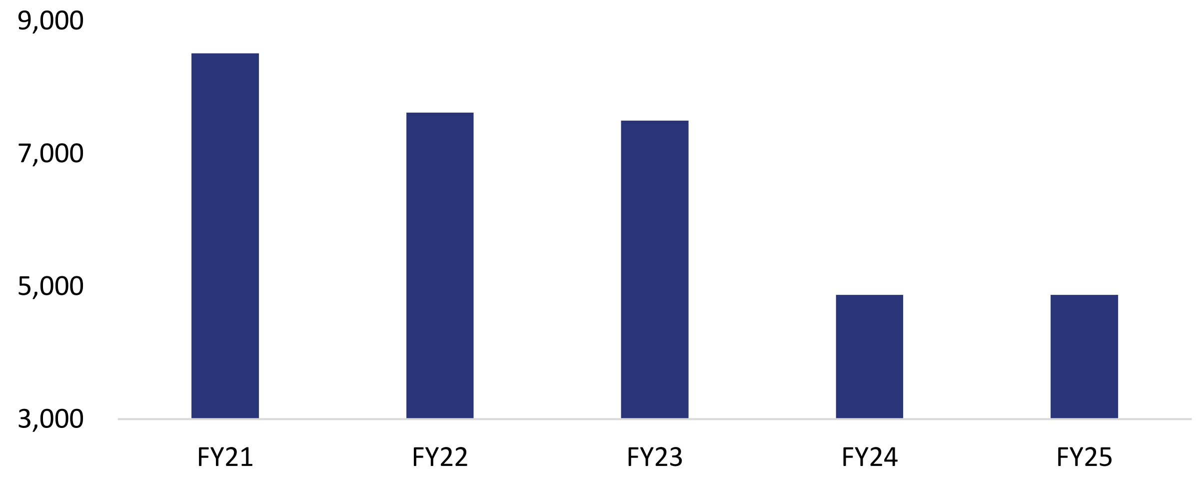
NEW TOLLING POLICY COULD CHANGE FASTAG DYNAMICS

FASTAG COLLECTIONS

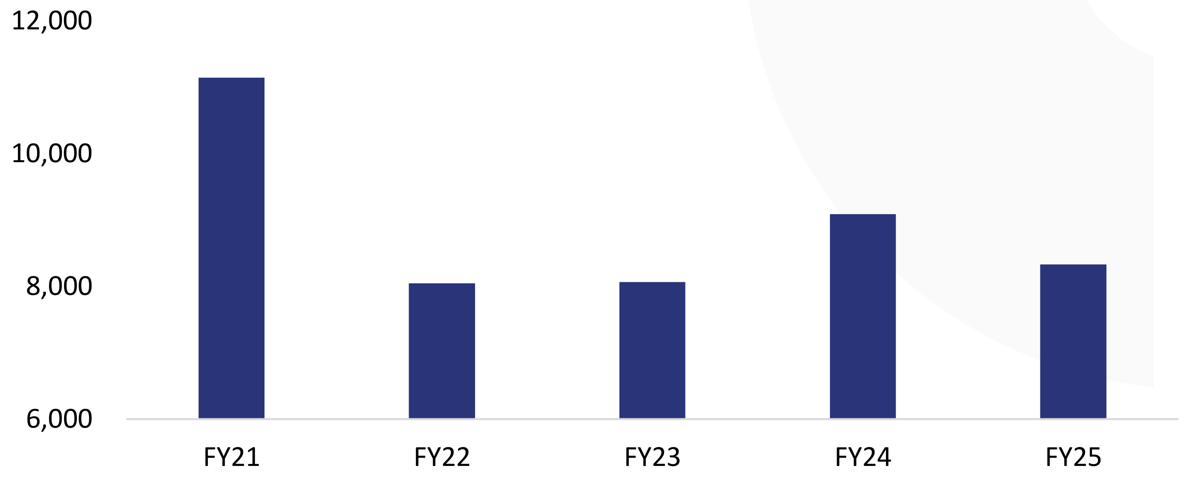


- FastTag collections rose 23% y/y to Rs. 67.9 bn, off of highs of May'25. MoRTH has approved a toll revision, wherein tolls will be halved for stretches where structures such as flyovers, underpasses and tunnels account for more than half the toll length
- MoRTH Minister announced that Rs. 5 trn worth road projects will be awarded in FY26, of which Rs. 1.5 trn has been awarded as of Jun'25
- The Union is set to halt TOT model in favour of InvITs, earmarking Rs. 250 bn for retail investor in upcoming InvIT unit issuance in FY26

NATIONAL HIGHWAY AWARDING (km) – 11MFY



NATIONAL HIGHWAY CONSTRUCTION (km) – 11MFY



POLICY TRANSMISSION ACCELERATES ON EASIER LIQUIDITY

SBICAPS
Complete Investment Banking Solutions

INDICATOR	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25
CREDIT												
Non-food credit growth (%y/y)	15.1%	13.6%	13.0%	11.5%	10.6%	11.1%	11.4%	10.9%	11.0%	10.2%	8.8%	8.9%
Industry credit growth (%y/y)	10.2%	9.7%	8.9%	7.9%	8.0%	7.2%	8.0%	7.1%	7.8%	6.6%	4.8%	
Services credit growth (%y/y)	15.4%	13.9%	13.7%	12.7%	13.0%	11.7%	12.5%	12.0%	12.4%	10.5%	8.7%	
Personal credit growth (%y/y)	17.8%	13.9%	13.4%	12.9%	13.3%	12.0%	11.8%	11.7%	11.6%	11.9%	11.1%	
DEPOSITS												
Total Deposits (%y/y)	10.6%	10.9%	11.1%	11.7%	11.2%	11.5%	10.8%	10.6%	10.3%	9.9%	10.0%	10.4%
Time Deposits (%y/y)	10.9%	10.9%	11.1%	13.2%	11.5%	11.4%	11.0%	11.0%	10.7%	10.4%	8.9%	9.2%
Demand Deposits (%y/y)	8.2%	10.6%	11.7%	11.6%	8.9%	12.3%	9.4%	7.7%	7.0%	6.4%	18.0%	19.6%
KEY RATIOS												
C/D Ratio (%)	77.3%	79.5%	79.6%	79.0%	79.5%	80.4%	80.4%	80.8%	80.7%	80.8%	79.6%	78.9%
Investment/Deposit Ratio (%)	29.6%	29.9%	29.8%	29.8%	29.7%	29.6%	29.9%	30.0%	29.9%	29.7%	29.3%	28.9%
KEY RATES												
1Y MCLR (Median-All SCB)	8.85%	8.90%	8.95%	8.95%	9.00%	9.00%	9.00%	9.05%	9.00%	9.00%	8.95%	8.90%
WALR – fresh (%)	9.40%	9.41%	9.37%	9.54%	9.40%	9.25%	9.32%	9.40%	9.35%	9.26%	9.20%	
WALR – o/s (%)	9.91%	9.89%	9.88%	9.88%	9.87%	9.85%	9.85%	9.78%	9.75%	9.68%	9.67%	
WADTDR – fresh (%)	6.48%	6.46%	6.54%	6.44%	6.46%	6.57%	6.62%	6.55%	6.72%	6.34%	6.11%	
WADTDR – o/s (%)	6.92%	6.93%	6.95%	6.96%	6.98%	7.00%	7.09%	7.10%	7.11%	7.11%	7.07%	
Repo Rate	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%

Source: RBI, CEIC, SBICAPS; Data excludes impact of HDFC merger for Jul'24

BANKING ENTERING THE NEXT PHASE OF THE CYCLE

Turning tides of credit growth: can regulatory largesse stimulate credit growth?

- Industry credit growth's sharp slump can be attributable to large industries (1% y/y) moving to capital markets, while MSME growth remains strong. According to media sources, large firms have pre-paid high-cost debt in lieu of bond issuances
- Credit growth is visible in pockets for electronics export push and capex in petrochemicals, while infrastructure contracts. Easing of project finance provisioning norms vis a vis draft circulars could lead to a revival in the latter
- Services credit growth is marred by slowdown in sectors like CRE and professional services and contraction in NBFCs, who have switched to capital markets and overseas borrowings, as bank rates remain high, despite rate cuts
- PSL targets for SFBs have been reduced from 75% to 60%, freeing up additional capital for lending into sectors with competitive advantage, like housing. Further, RBI has raised the LTV for gold loans under Rs. 250k from 75% to 85%, inducing further leverage for high growth sector.

Banks aim to strengthen capital base to maintain their pristine books

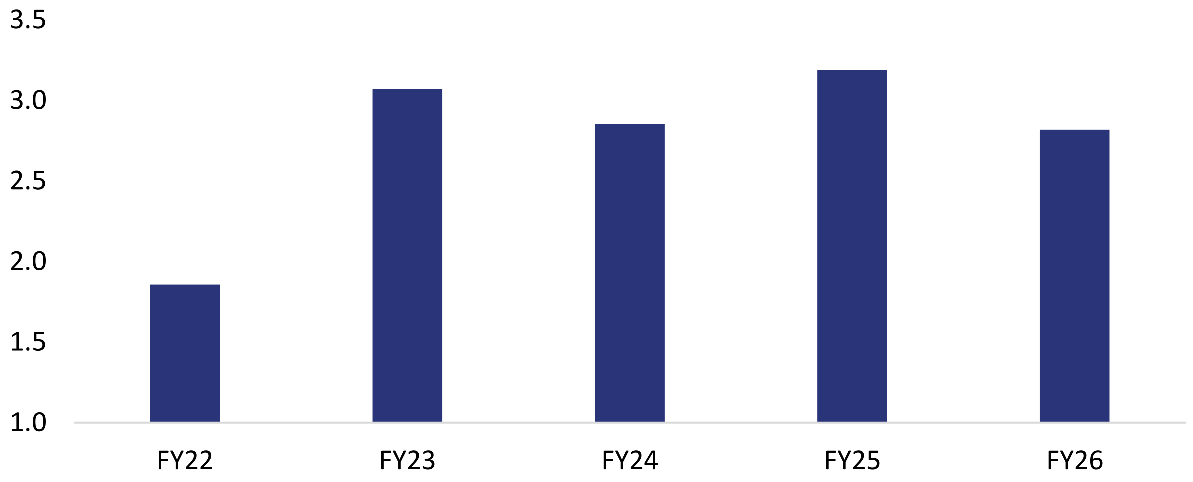
- According to RBI's FSR, banking system's profitability surged 16.7% y/y to all-time highs, with GNPA settling at 12 year low of 2.3%, with comfortable CRAR of 17.2% and CET-1 of 14.6%. However, with recent struggles with asset quality in mind, RBI predicts that under stress conditions, GNPA could slip to 5.3% - 5.6% in FY27, amidst shaky credit growth
- Banks are looking to shore up their capital position with 10 banks announcing QIPs worth Rs. 720 bn in FY26. Further, Union has indicated intentions of selling 20% stake in 5 PSBs in FY26

Banks adjust rates quickly to minimise NIM pressures

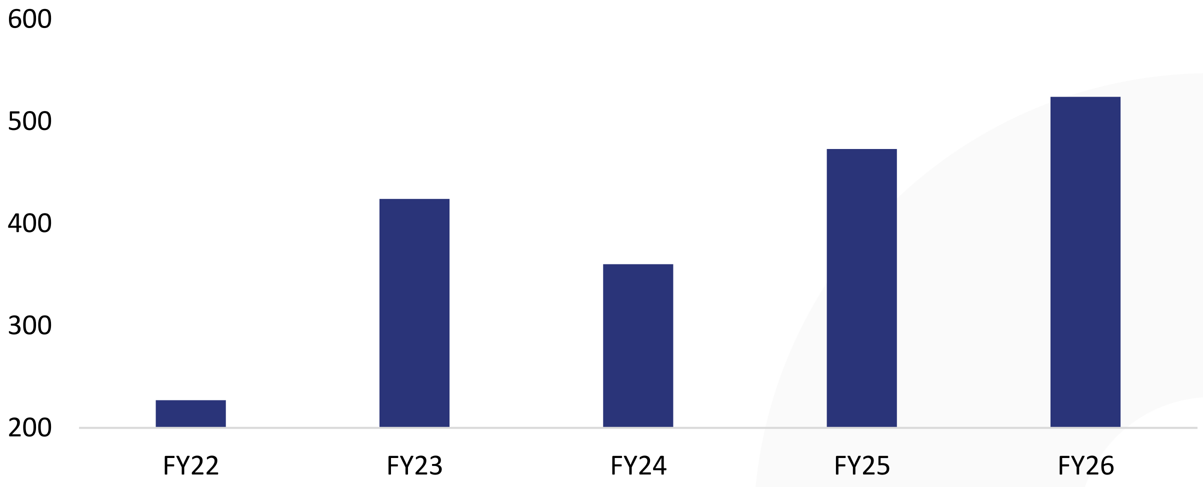
- Deposit growth has held the 10% mark and is on the rise, with plush liquidity allowing banks to comfortably raise deposits without raising rates
- Fresh lending rates were cut by 6 bps in May'25, while deposit rates were slashed by another 23 bps. Notably, outstanding lending rates reduced by only 1 bp, while deposit rates dropped by 4 bps as rates reset slowly on existing portfolio. Fresh spreads exceed outstanding spreads, reflective of banking system vision of profitable growth

INSURANCE PREMIUM SHOWS MODERATE GROWTH IN MAY’25

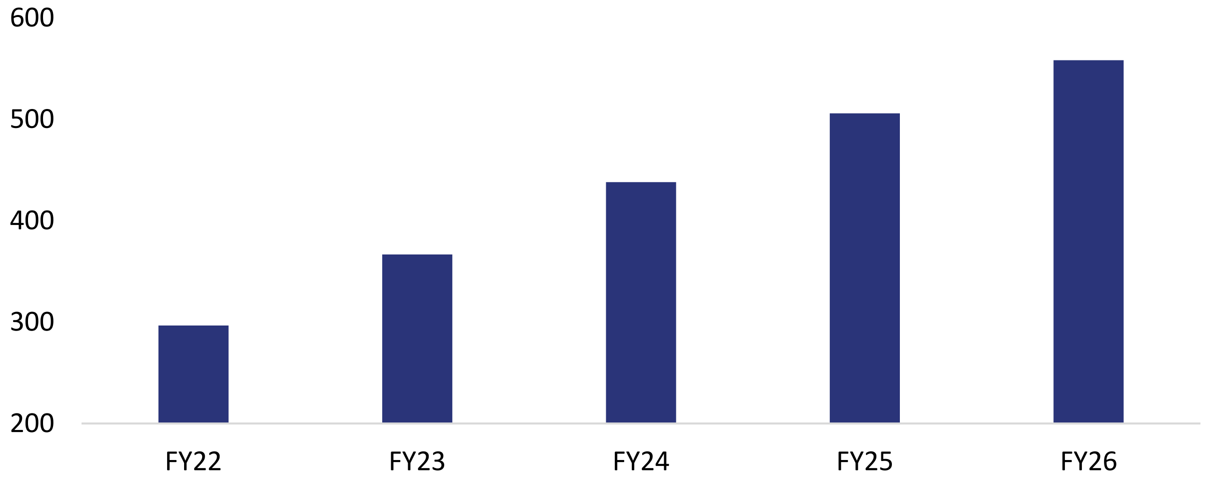
NEW LIFE INSURANCE POLICIES – 2MFY (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE – 2MFY (Rs. bn)



GROSS DIRECT PREMIUM- NON- LIFE INSURANCE – 2MFY (Rs. bn)

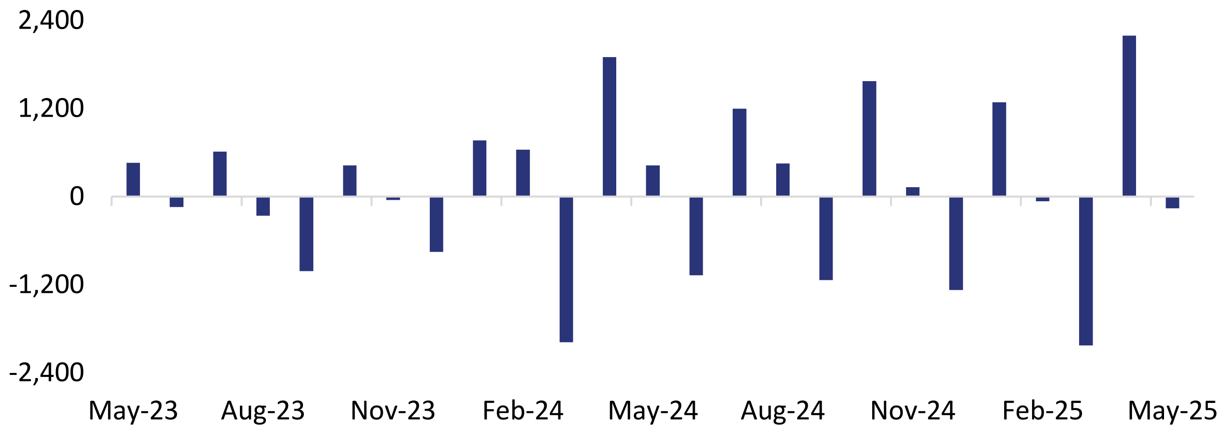


- Life insurance premia saw 13% y/y rise in May’25 despite drop in policies sold. Private insurers led the growth with 16.6% increase
- Non-life insurers premia grew by 6.5% y/y in May’25 driven by standalone insurers which rose by 9.9%. Premium of general insurers grew by 5.7%

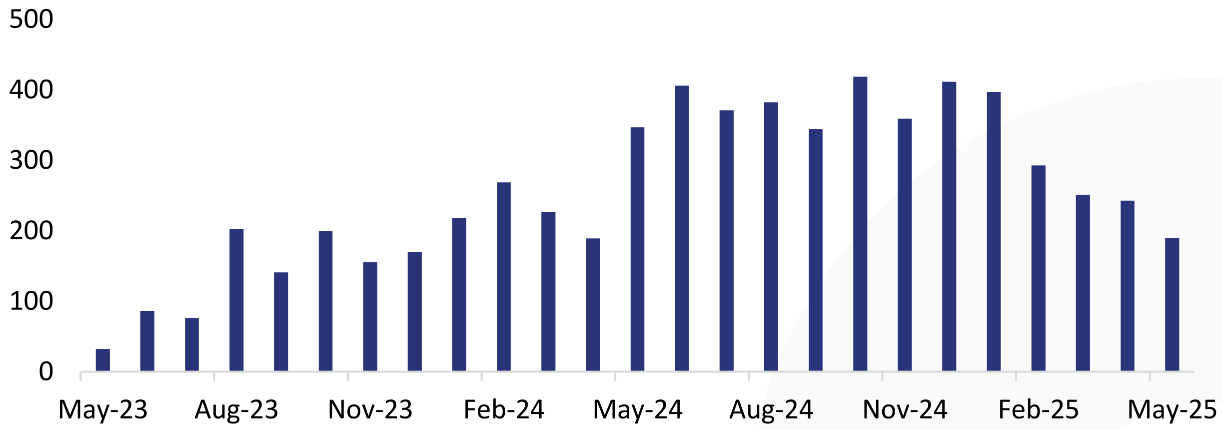
Source: Life Insurance Council, CEIC, SBICAPS

CORPORATE BOND MF SEE GOOD INFLOWS IN MAY'25

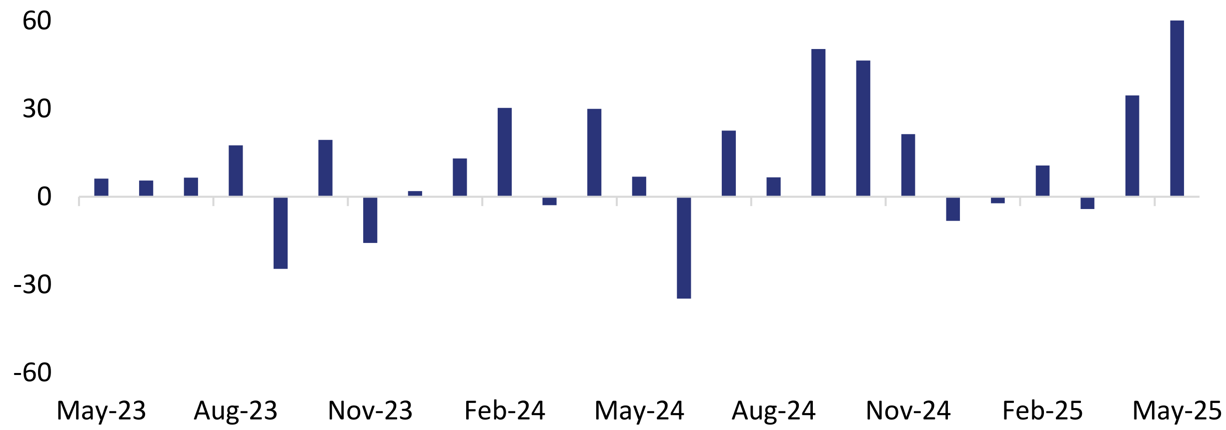
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



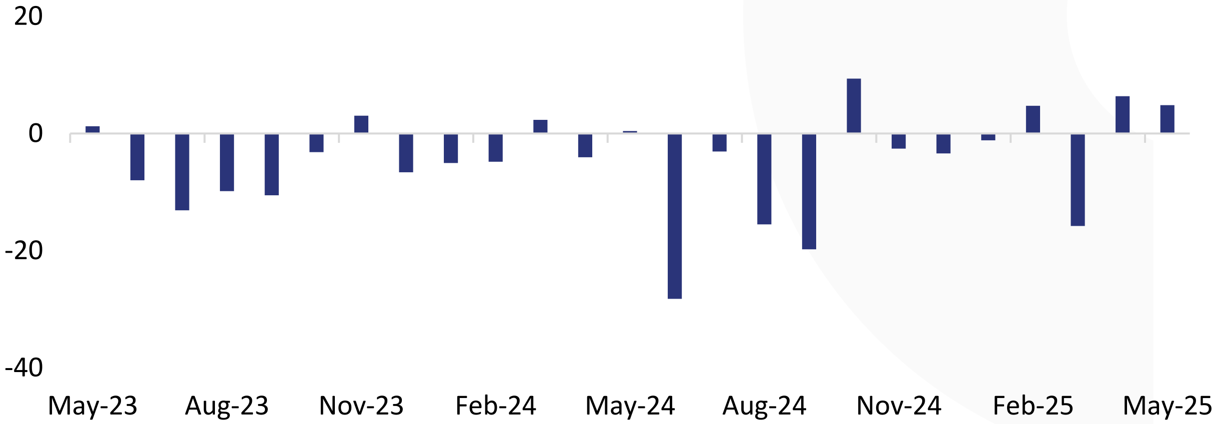
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)

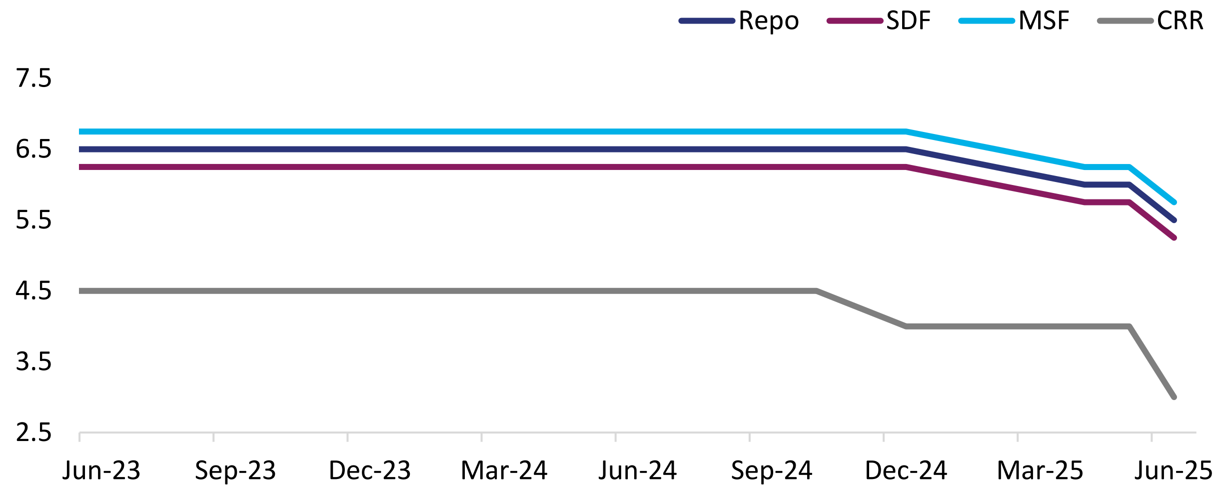


- Mutual fund flows remained morose in May'25, at its lowest sine Nov'23, excluding quarter ends. Debt funds saw mild outflow of Rs. 159 bn, as outflows from shorter duration funds was slightly offset by copious flows in corporate bond fund. Equity fund flows fell for 5th consecutive month, with flows shifting to multicap funds from thematic funds, as investors stay wary of taking sectoral bets. Arbitrage funds saw highest ever inflows of Rs. 157 bn as investors desire alpha in chaos

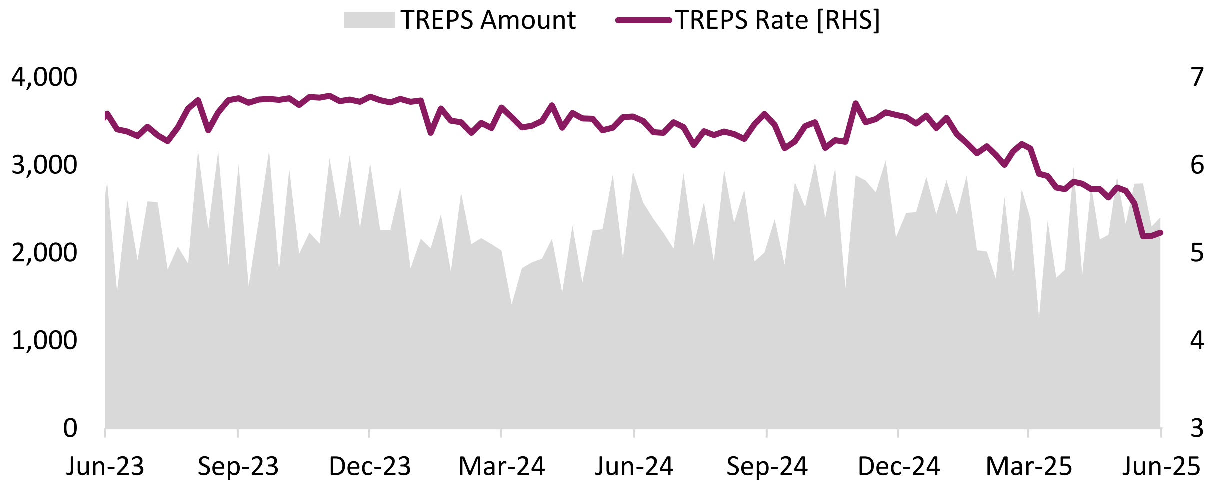
MONETARY POLICY AND YIELDS

RBI ON WAIT AND WATCH AS OUTSIZED CUTS GET TRANSMITTED

KEY RATES (%)



TREPS DAILY AVG VOLUME (Rs. Bn.) AND RATE (%)



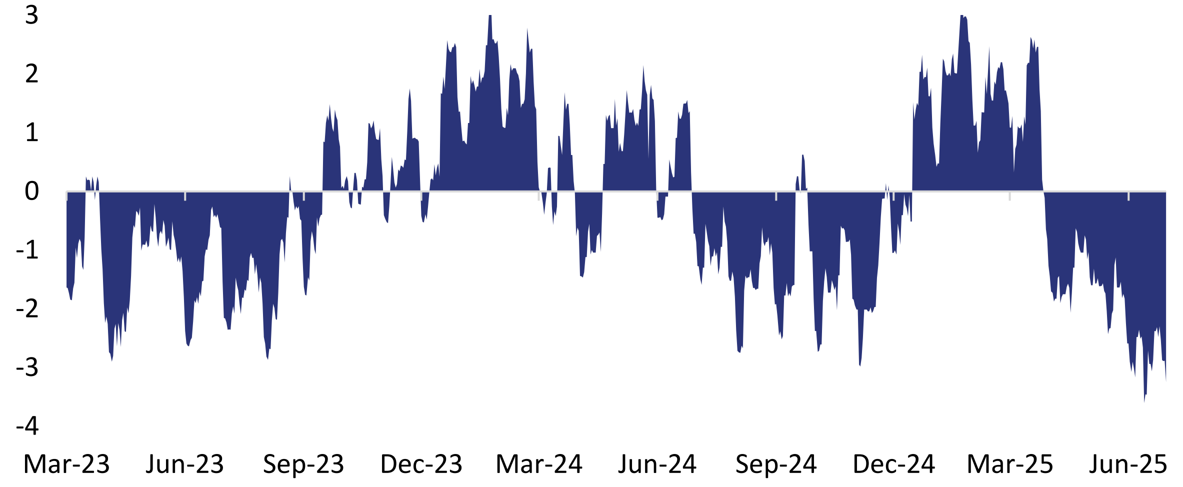
STANCE OF POLICY

DATE	STANCE	VOTE
04-May-22	Remain accommodative, while focusing on withdrawal of accommodation	6-0
08-Jun-22 05-Aug-22	Withdrawal of Accommodation	6-0
30-Sep-22	Withdrawal of Accommodation	5-1
07-Dec-22 08-Feb-23	Withdrawal of Accommodation	4-2
06-Apr-23 08-Jun-23 10-Aug-23 06-Oct-23 08-Dec-23 08-Feb-24 05-Apr-24	Withdrawal of Accommodation	5-1
07-Jun-24 07-Aug-24	Withdrawal of Accommodation	4-2
09-Oct-24 05-Dec-24 07-Feb-25	Neutral	6-0
09-Apr-25	Accomodative	6-0
06-Jun-25	**Neutral**	**6-0**

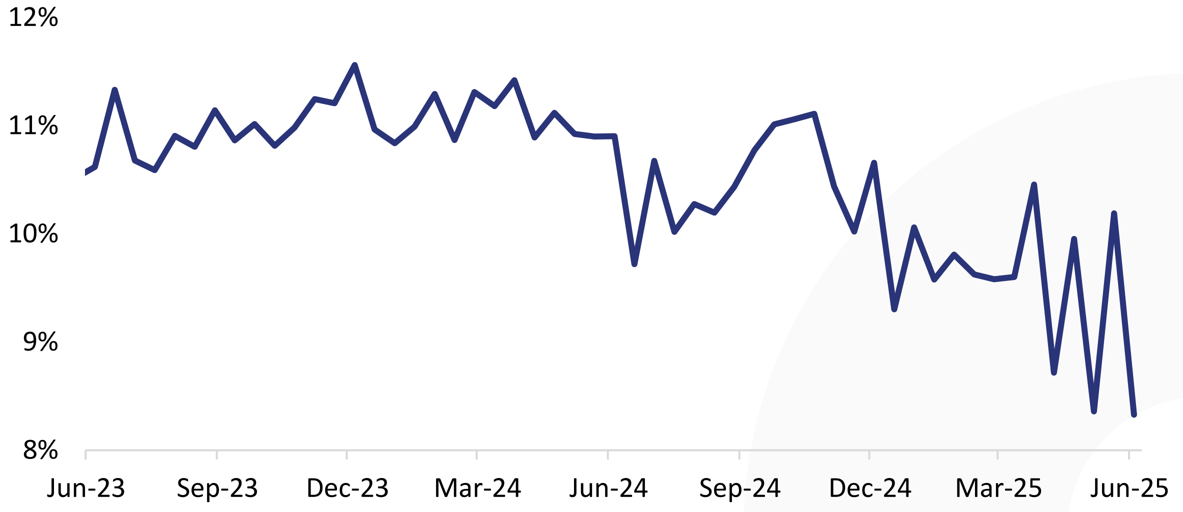
- In the minutes to the MPC, panelists acknowledged diminishing monetary policy space, while advocating for timely support for growth with CRR and Repo cuts.
- Mr. Malhotra was more sanguine, stating that a consistently benign inflation reading opens up space for more policy support in the form of rate cuts.
- *We anticipate future policy decisions to be data driven, with at max ~25bps of additional rate cuts*

BANKING SYSTEM LIQUIDITY AT MULTI-YEAR HIGH

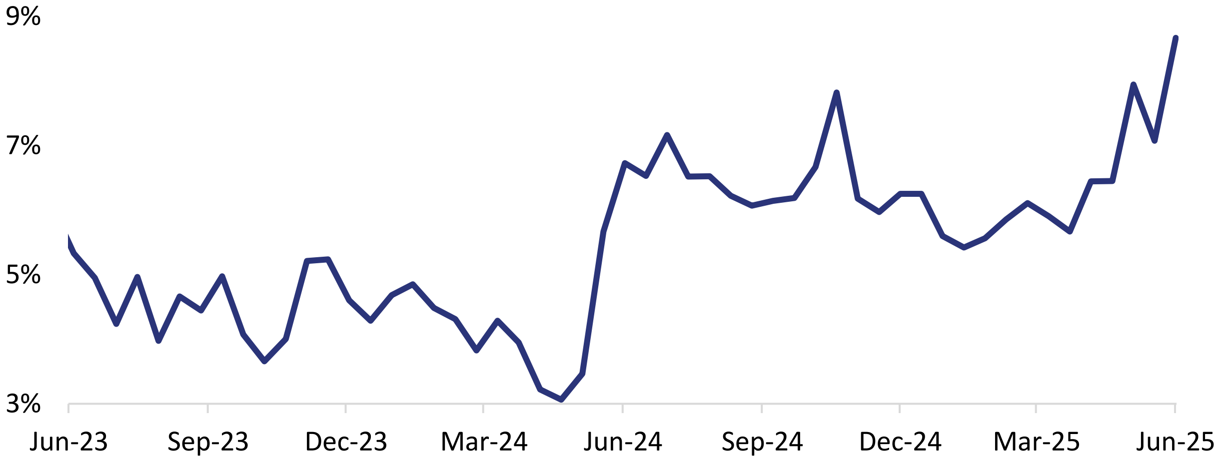
BLOOMBERG INDIA LIQUIDITY INDICATOR* (Rs. trn)



MONEY STOCK M3 (Y/Y)



CURRENCY WITH PUBLIC (Y/Y)

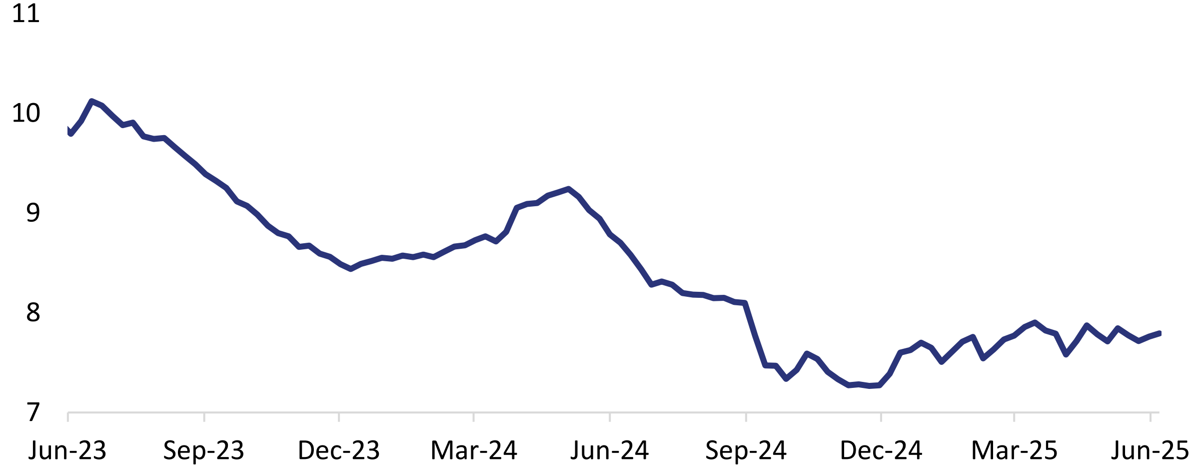


- Liquidity surplus exceeded Rs. 3.7 trn in mid-Jun'25, it's highest since Jun'22, despite bumper dividend by RBI as durable liquidity measures exceeding Rs. 10 trn take effect
- This prompted the RBI to mop up excess liquidity through multiple VRRR auctions, which have seen a fair response
- RBI's proposed CRR cut by 1pp to 3% in 4 tranches starting Sep'25 will inject durable liquidity

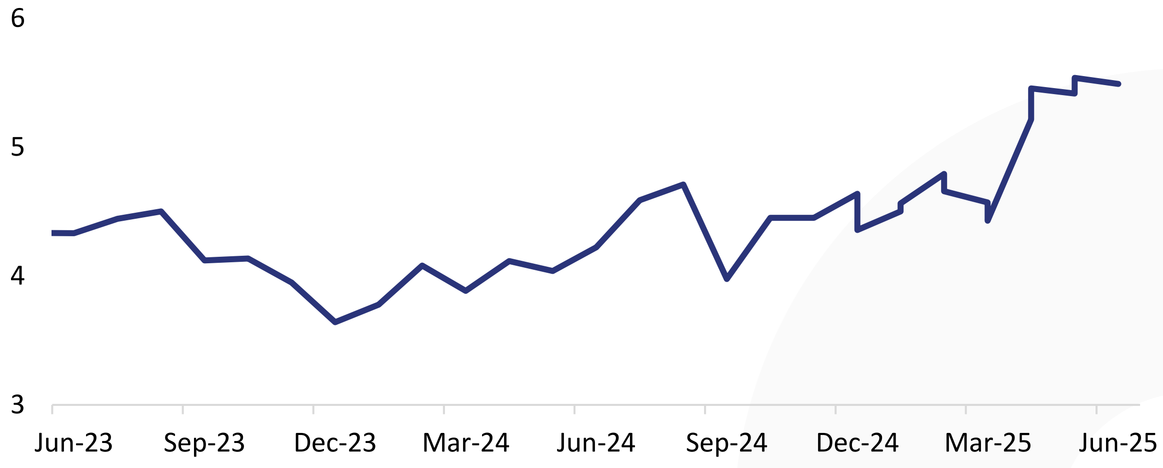
Source: Bloomberg, RBI, SBICAPS; *Negative values indicate surplus

LIQUIDITY TUGS SHORTER END OF YIELD CURVE BELOW REPO RATE

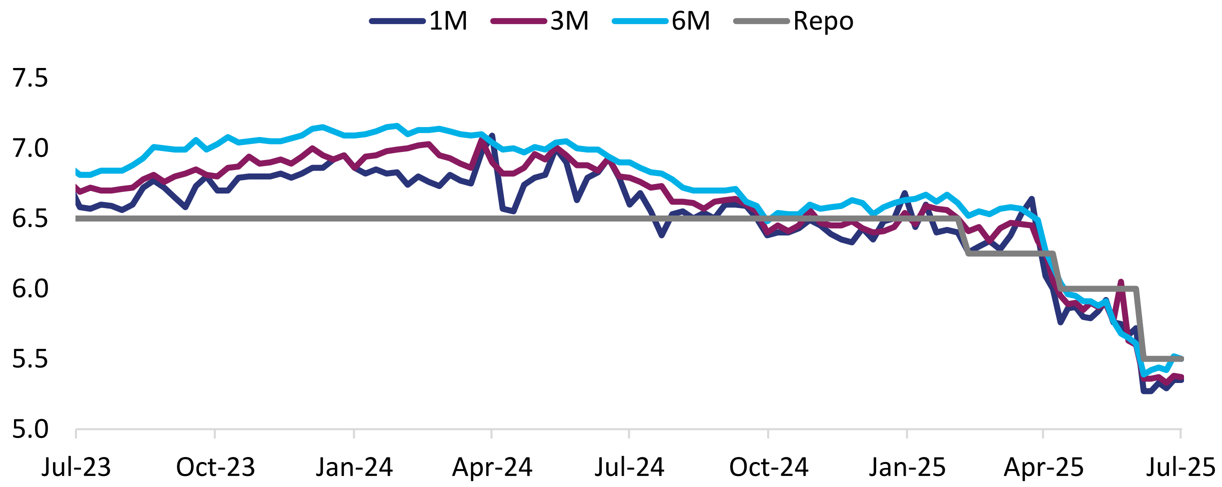
T-BILL OUTSTANDING (Rs. trn)



COMMERCIAL PAPER OUTSTANDING (Rs. trn)



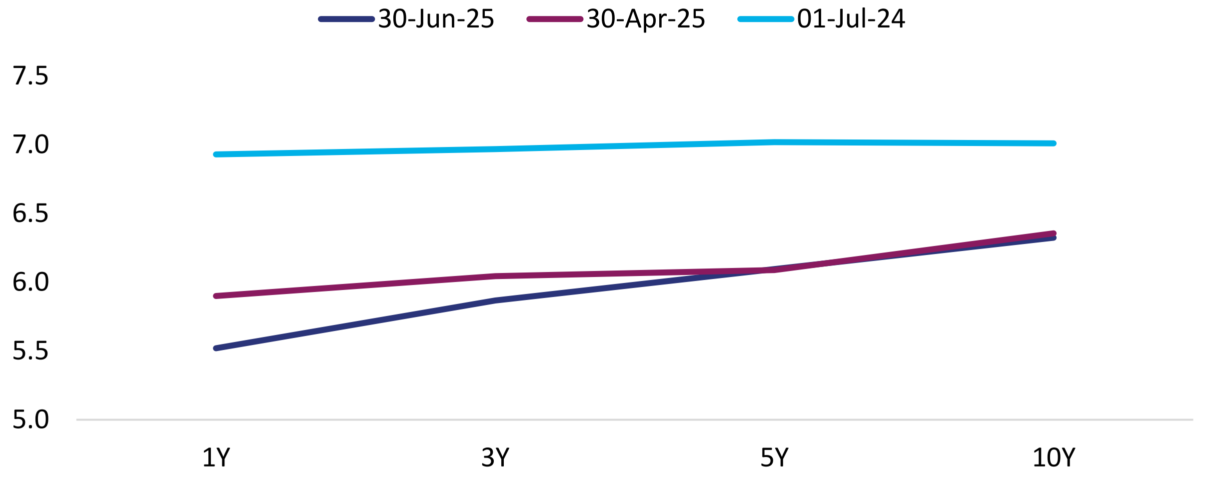
T-BILL SECONDARY YIELDS & REPO (%)



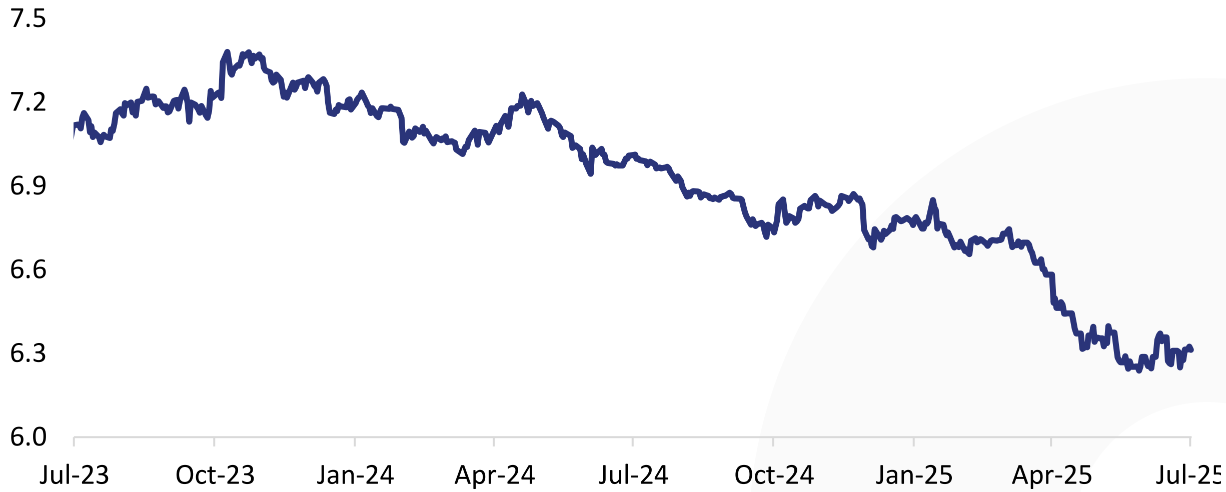
- Surfeit liquidity has translated into short rates with several money market rates like TREPS moving ~25 bps below repo rate
- Further, drop in average T-bill rates was more than the 25 bps rate cut, with monthly average 91-day primary yields falling ~40 bps post rate cuts in Jun’25, while that for 364-day t-bill was ~20 bps.
- CP issuances rebounded in Jun’25, with NBFCs flocking for liabilities to on-lend, as average CP rates fell ~35 bps m/m as of mid-Jun’25

YIELD CURVE STEEPENS AS RATE CUT HOPES DIMINISH

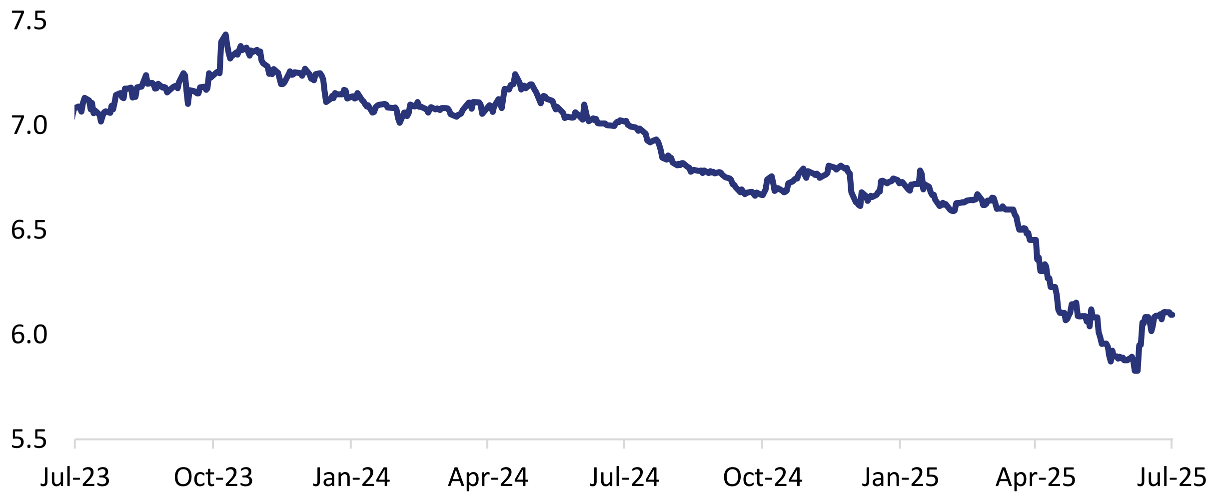
YIELD CURVE (%)



G-SEC YIELD (10 YEARS) (%)



G-SEC YIELD (5 YEARS) (%)

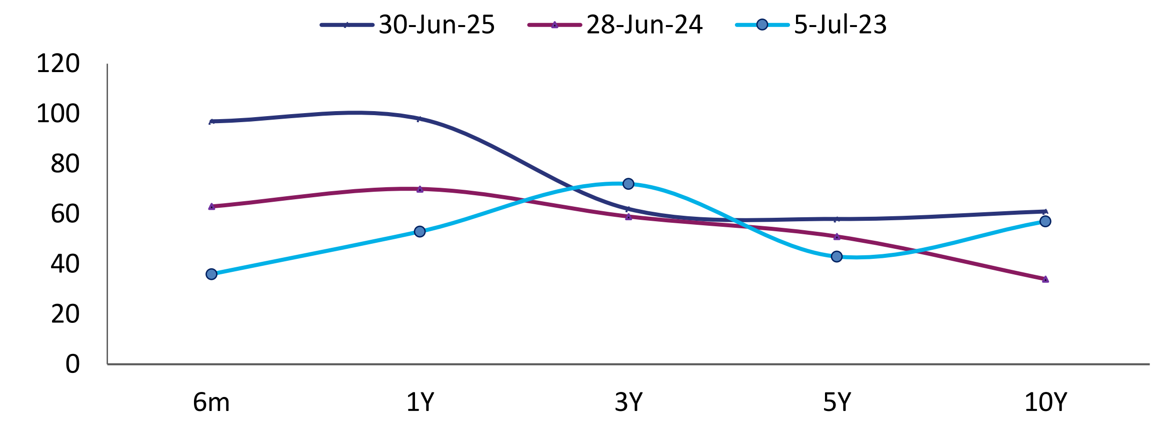


- Ample liquidity and lesser room for further rate cuts means that shorter end of the curve has traversed downwards far more than the longer end

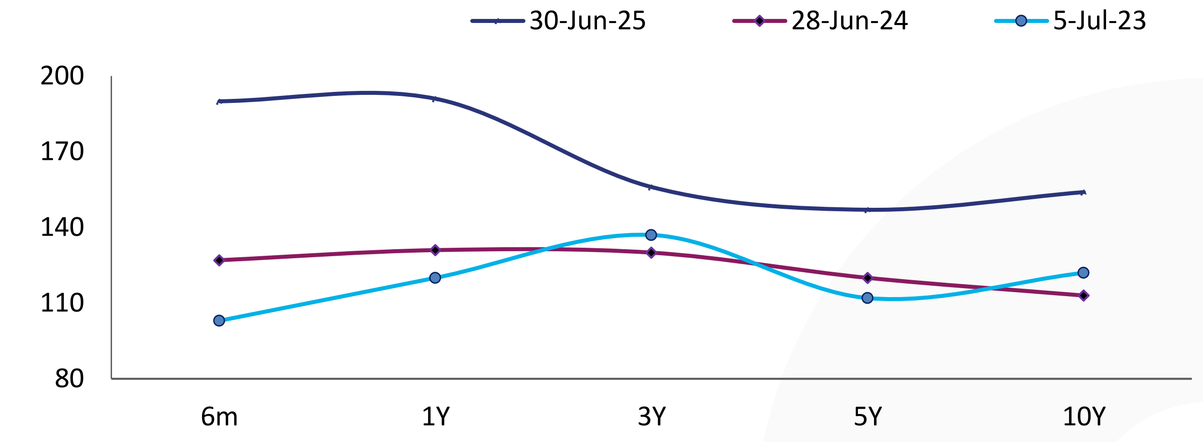
Source: Bloomberg, SBICAPS

OIS PLATEAU, CORPORATE SPREADS LOW, SGS SPREADS BLOW IN JUN'25

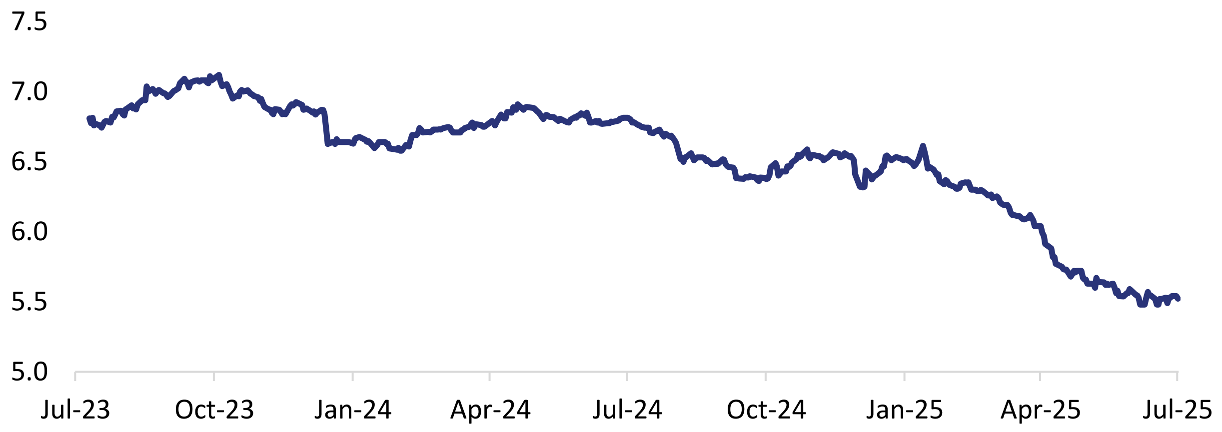
FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



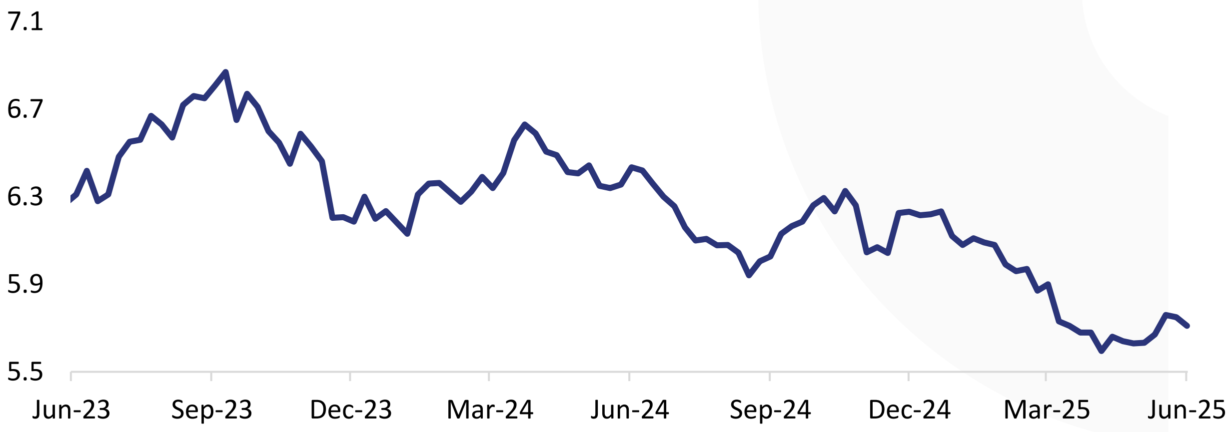
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



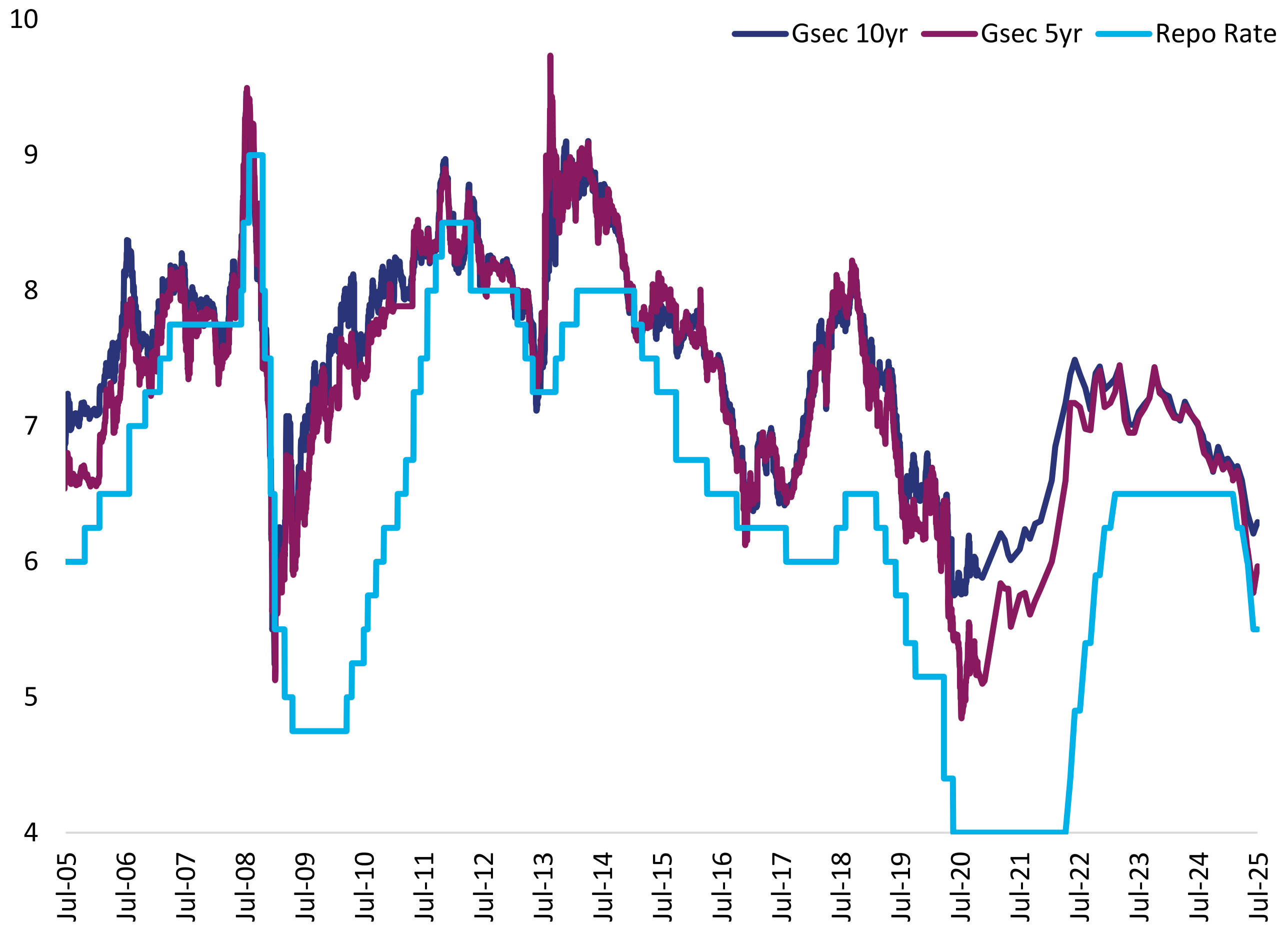
OIS 5 –YEAR (%)



- OIS yields have been asymptotes with the 5.5% levels, with 5Y inching above 1Y OIS indicative of higher WACR expectations moving forward and lack of room for rate cuts
- Corporate spreads thinned out in Jun'25, despite rate cuts, with higher rated issuances on the belly of the curve accruing maximum benefits. SGS spreads have heaved upwards in Jun'25

OUTLOOK ON G-SEC YIELDS

KEY RATES (%)



- We expect headline inflation (CPI) to average ~3.9% in FY26 with evenly balanced risks
- We expect general government (Union + State) fiscal deficit ~7.1% of GDP in FY26

YIELD OUTLOOK

We expect 10Y G-Sec yields to remain ~6.25% ± 25bps in the coming months

Below are the upside and downside risks to our yield outlook:

Yield softening triggers

- Inclusion in global bond indices
- Liquidity surplus
- Softening in commodity prices due to global slowdown

Yield hardening triggers

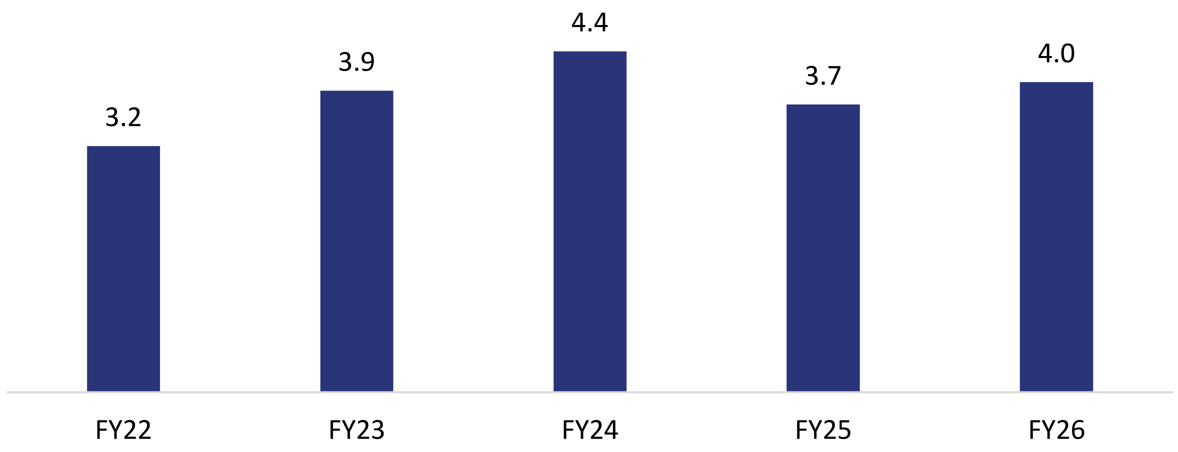
- Higher CPI print than estimate
- Higher crude price- impact on fiscal position and inflation
- Higher government borrowing
- Currency volatility as seen in CY13 and CY18

Source: Bloomberg, SBICAPS

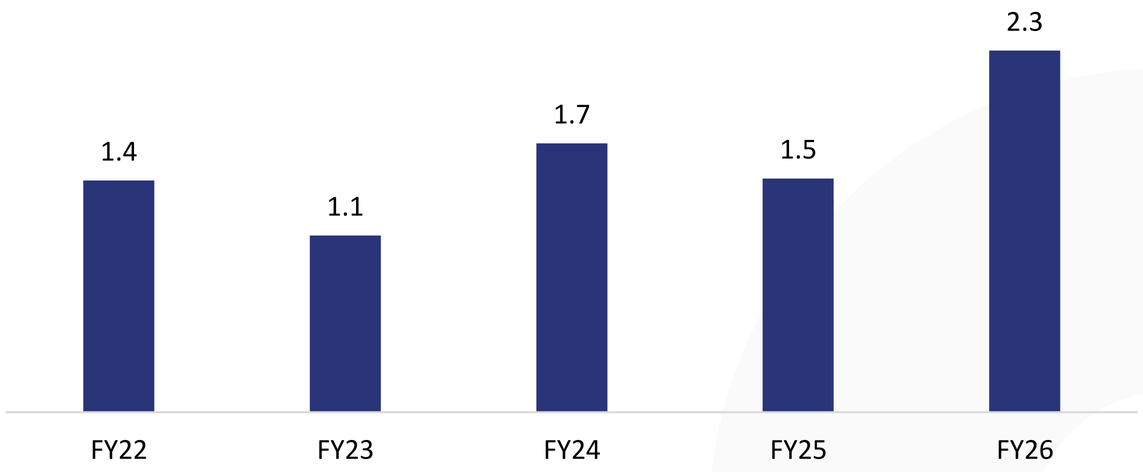
CAPITAL MARKETS

RBI NIMBLY MANAGES SUPPLY OF G-SEC IN THE MARKET

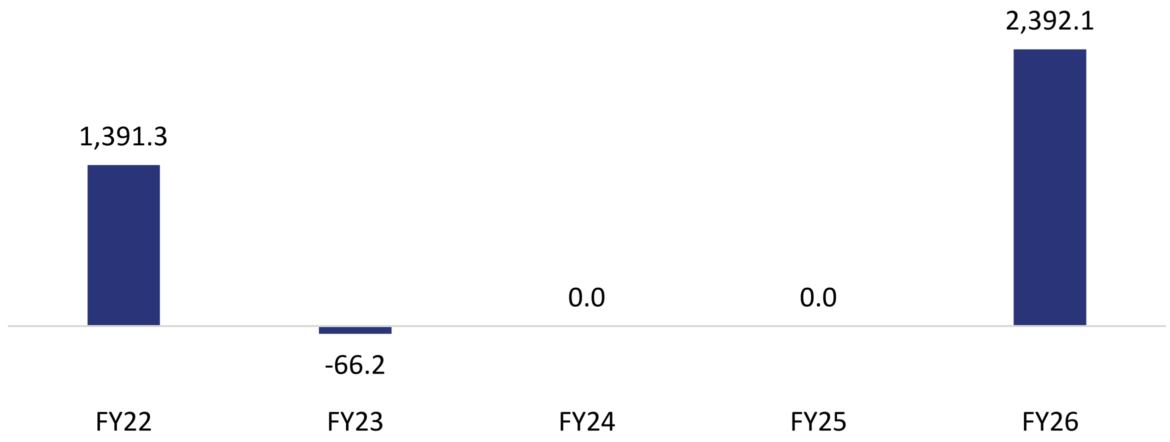
G-SEC: GROSS AMOUNT RAISED (Rs. trn) – Q1FY



SGS BIDS ACCEPTED (Rs. trn) – Q1FY



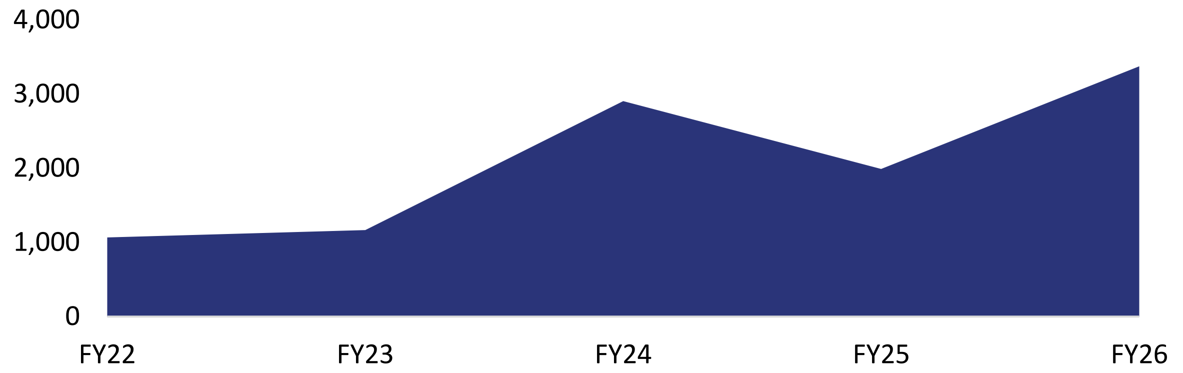
CUMULATIVE NET OMO PURCHASES (Rs. bn) – Q1FY



- SGS issuance calendar has indicated issuances worth Rs. 2.87 trn in Q2FY26, up 40% q/q, with Maharashtra (Rs. 390 bn), Tamil Nadu (Rs. 300 bn) and West Bengal (Rs. 240bn) being the highest offtakers
- OMOs stopped in Jun'25 with a tepid Rs. 100 mn purchase as liquidity remains in surplus. Notably, cumulative OMO numbers already exceed full year numbers for the past decade, except for FY21.

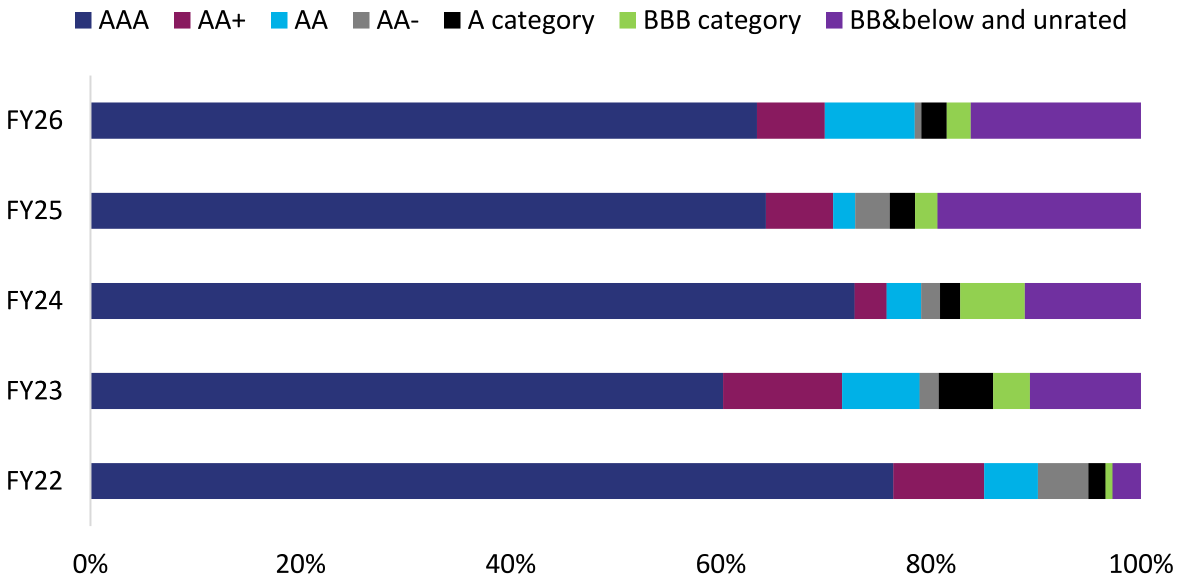
RATE REDUCTION BOOSTS CORPORATE BOND ISSUANCES IN JUN'25

GROSS PRIVATE PLACEMENTS – Q1FY (Rs. bn)

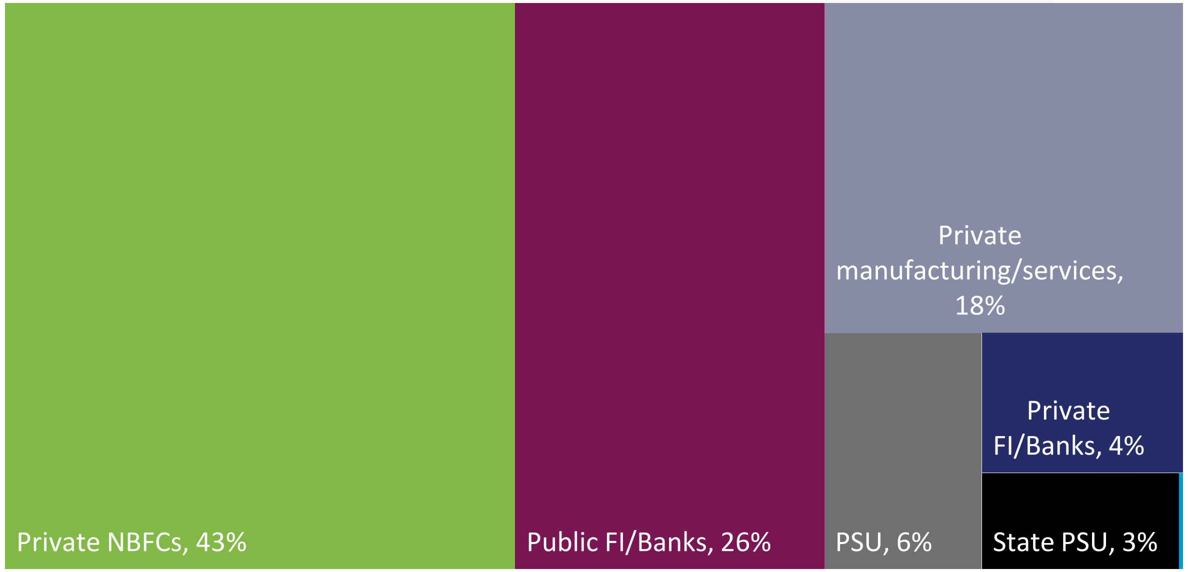


- Debt issuances almost doubled y/y in Q1FY25, with several large corporations and conglomerates eyeing to raise funds at lower rates, preferring shorter tenors
- Lower rated issuances have picked up in Jun'25, with reducing spreads especially in lower tenors as rate cuts push savvy buyers further down the credit spectrum in search of higher returns
- Private banks and NBFCs have bucked the trend and started to garner share from PSUs, as they tap into lower interest funding for on-lending. Notably, private manufacturing/services sector grew handsomely in Jun'25

GROSS ISSUANCE WITH RATING SPLIT – Q1FY (%)

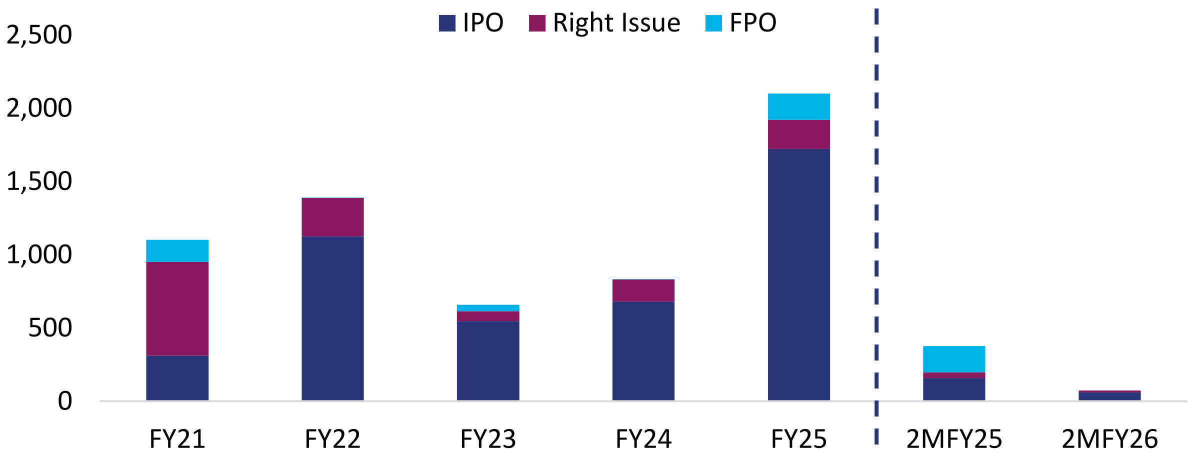


ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- Q1FY26

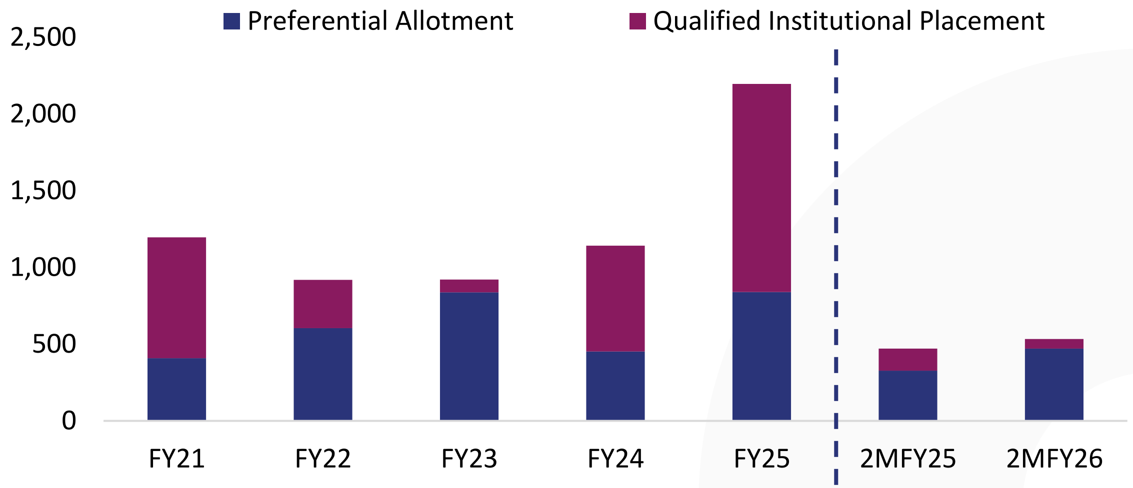


STABILISING SENTIMENTS AUGMENT EQUITY ISSUANCES IN MAY'25

EQUITY MOBILISATION THROUGH PRIMARY MARKETS - PUBLIC AND RIGHTS ISSUE (Rs. Bn)



EQUITY MOBILISATION THROUGH PRIMARY MARKETS – PRIVATE (Rs bn)



EQUITY CAPITAL RAISED - PUBLIC AND RIGHTS ISSUE (Rs. bn)

Sector	FY25	2MFY26
Automobile and Auto Components	366.6	51.3
Financial Services	239.6	8.8
Information Technology	145.7	2.8
Textiles	16.0	1.9
Healthcare	148.2	1.5
Capital Goods	181.3	1.5
Total	2,101.9	71.9

- Jun'25 has been touted as the best month for IPOs since Dec'24 highs, driven by issuance from a major financial services company.
- Preferential issuances continued momentum in May'25, with notable capital infusion by promoter into a power company.

GLOBAL SNAPSHOT

REDUCING TENSIONS HINT AT A SENSE OF NORMALCY IN GLOBAL MARKETS

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COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	4.8%	1.6%
Copper	5.3%	6.3%
Aluminium	6.3%	2.9%
Iron Ore 62% Fe*	-4.6%	-11.3%
Gold	1.0%	42.5%
Brent Crude	3.9%	-23.3%
Natural Gas	0.3%	39.5%
Newcastle Coal	9.0%	-17.6%

EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	5.0%	13.3%
Nikkei 225	5.7%	1.2%
STOXX Europe 600	-1.3%	5.5%
FTSE 100	-0.1%	7.3%
BSE Sensex 30	2.9%	5.5%
Hang Seng	3.9%	35.5%
IBOV	1.3%	11.3%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXY Index	-2.6%	-8.7%
USD/EUR	-3.0%	-8.9%
USD/JPY	0.8%	-10.9%
USD/GBP	-1.5%	-8.0%
USD/CNY	-0.5%	-1.5%
USD/INR	0.3%	2.6%

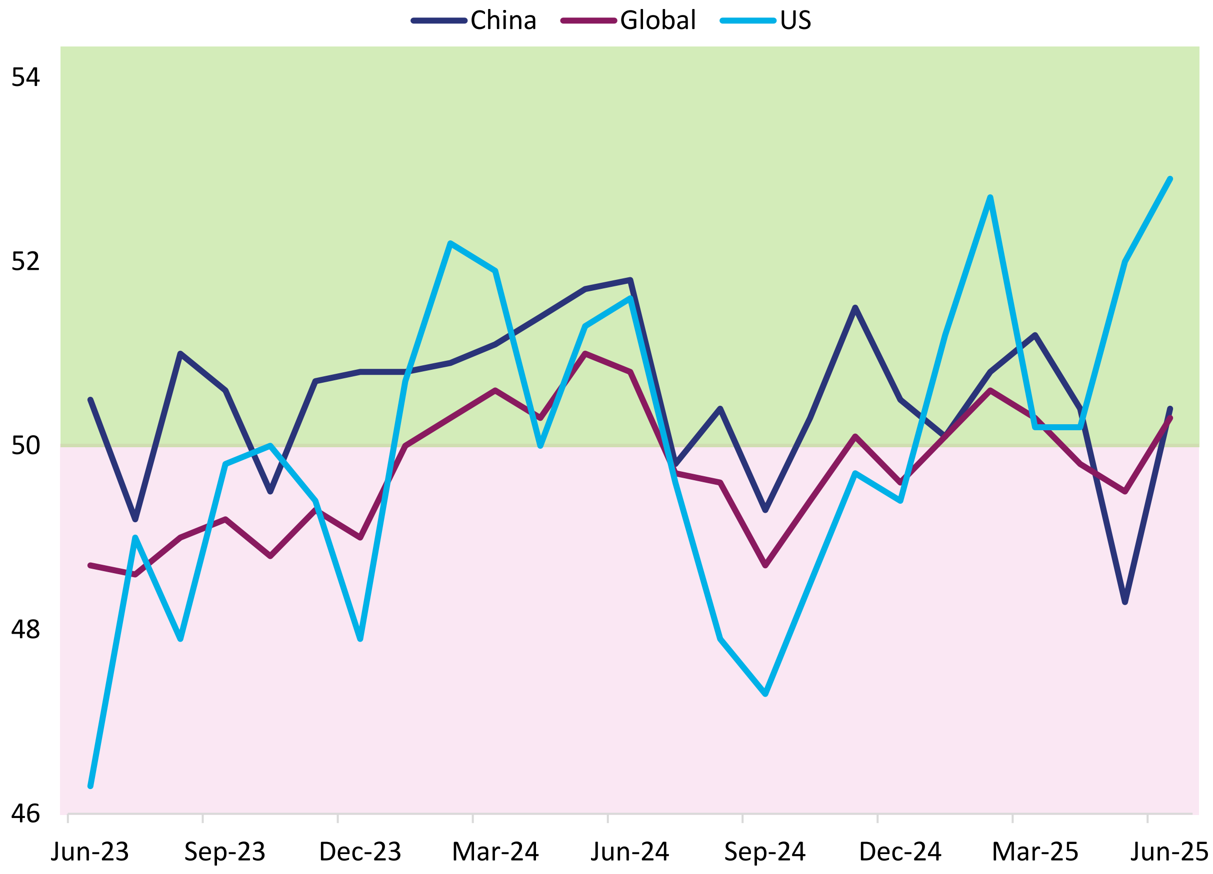
Note: Positive numbers indicate strengthening USD

- Greenback exuded significant weakness against a basket of currencies in Jun’25, driven by uncertainty impacting the its safe haven status. EUR gained massively against the USD on better-than-expected data
- Crude prices rose sharply as missiles rained over West Asia at the start of Jun’25, with swift reversal as tensions cooled. Yet, sanctions on Iran and Russia kept overall prices high, despite OPEC+ output hike
- Global equity markets displayed a clear risk-on sentiment with US outpacing peers, driven by strong earnings and rate cut expectations. Asian markets were modestly positive as economic challenges remain subdued for now.

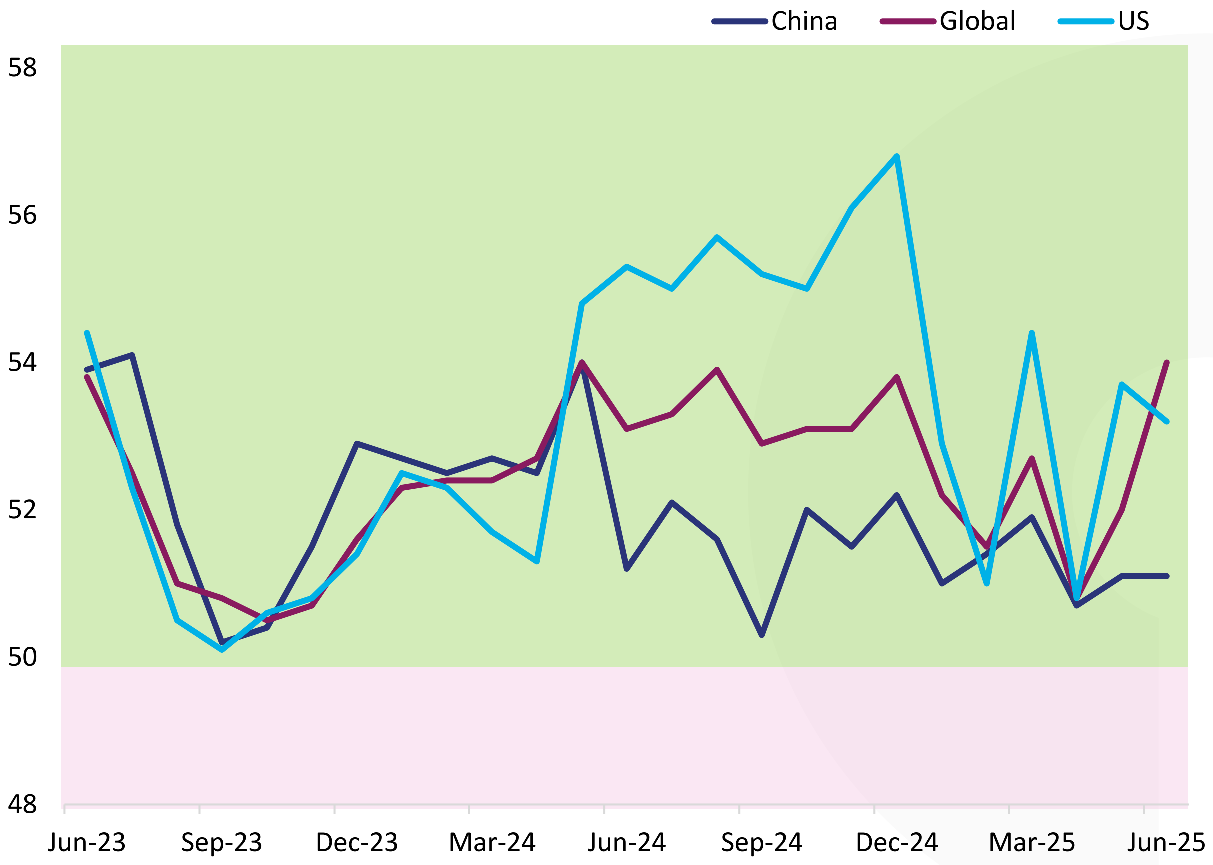
1Y & 1M change are as of 01 Jul’25, * CFR China

GLOBAL ECONOMIC ACTIVITY RISES CAUTIOUSLY

GLOBAL PMI- MANUFACTURING



GLOBAL PMI- SERVICES



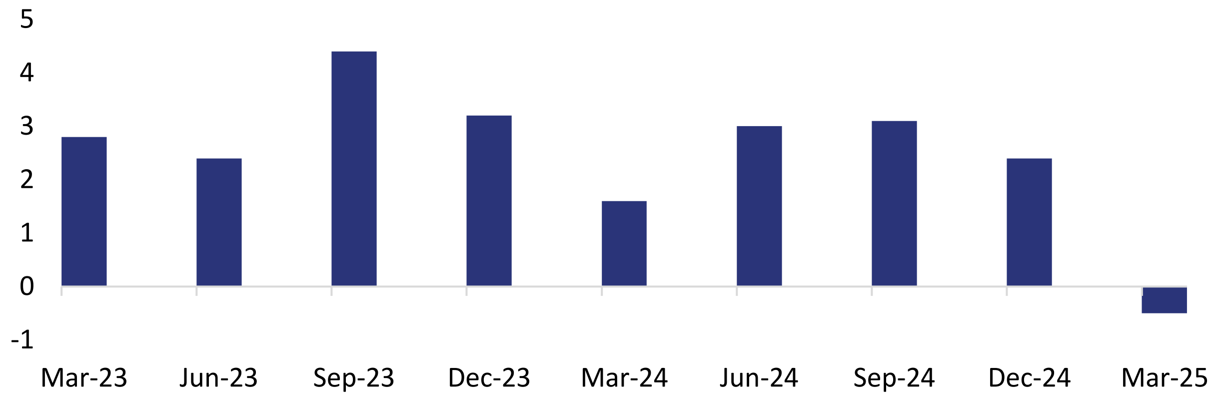
- Global manufacturing activity turned expansionary in Jun'25 driven by modest increase in new orders and outputs, despite tariff laden cost inflation. Notably, US manufacturing activity surged to 3-month high with reinvigorated domestic demand, as rise in cost inflation was promptly passed on to customers.

- Global services PMI remains expansionary with outperformance from India and the US, while Asia remained a mixed bag.

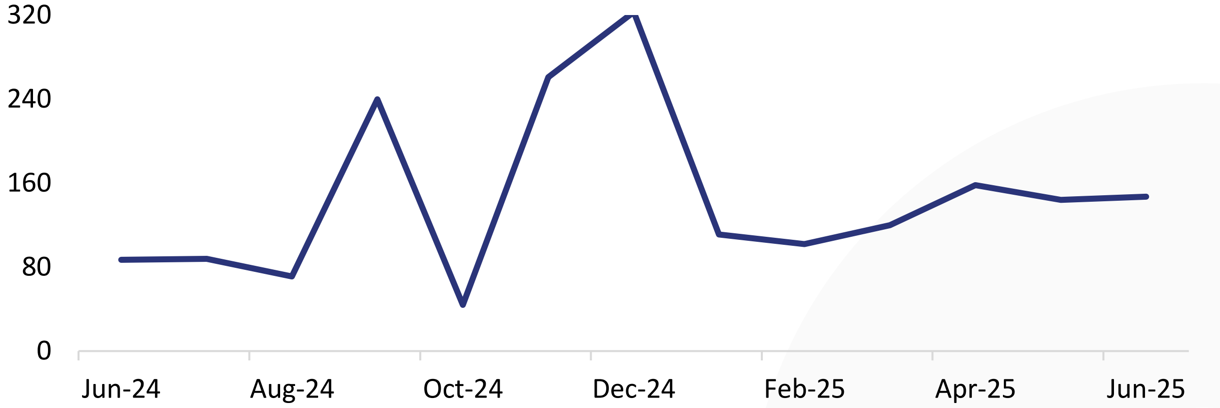
Source: S&P Global, Bloomberg, SBICAPS

QUACK LIKE A DUCK OR SOAR LIKE AN EAGLE?

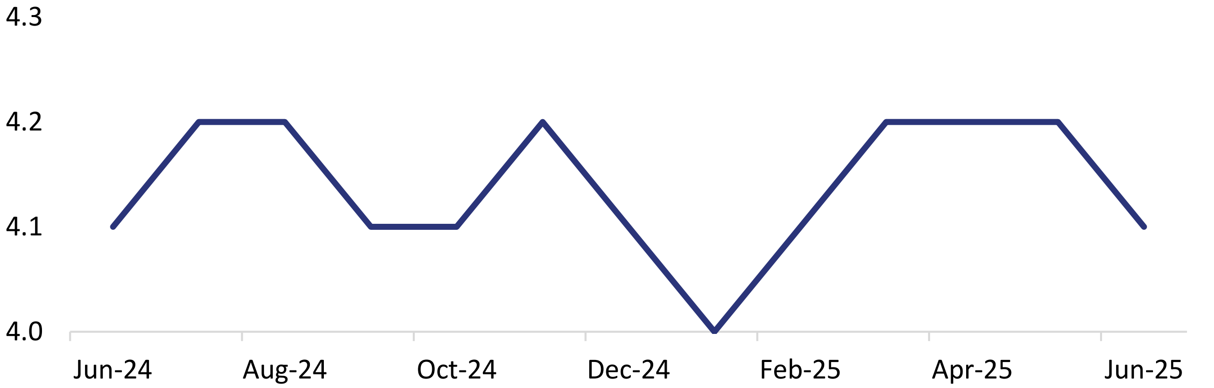
US REAL GDP GROWTH (% Q/Q SAAR)



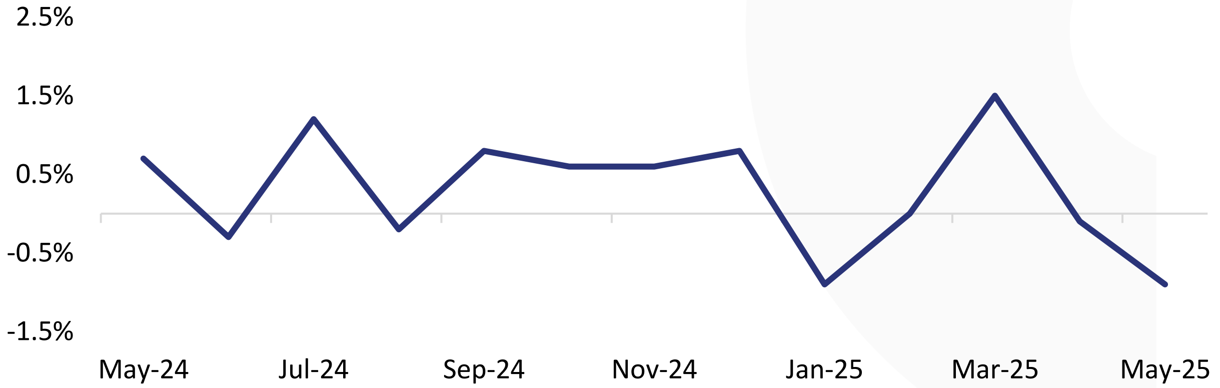
CHANGE IN NON-FARM PAYROLL (‘000 M/M)



UNEMPLOYMENT RATE (%)



RETAIL SALES (M/M)

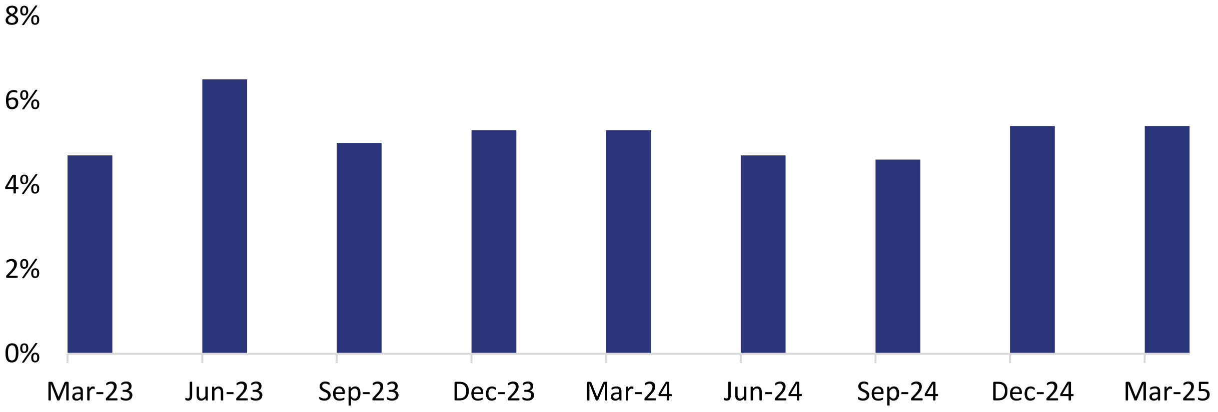


- US real GDP contracted 0.5% q/q saar in Q1CY25, downward revised 0.2pp, driven by sharp rise in imports and slower consumer spending, offset partially by buoyant investments. Notably, consumer spending rose 0.5% q/q saar in Q1CY25, downward revised by 0.7pp. Retail sales slumped further, with declines in discretionary spends like auto and building material
- US labour markets remain unrelenting, as non-farm payrolls exceed expectations in Jun’25 with upward revised numbers, while unemployment holds 4.1% in Jun’25. Notably, additions were concentrated in few sectors with state and local governments adding 73k jobs and healthcare adding 39k jobs, while employment changed little in other major sectors.

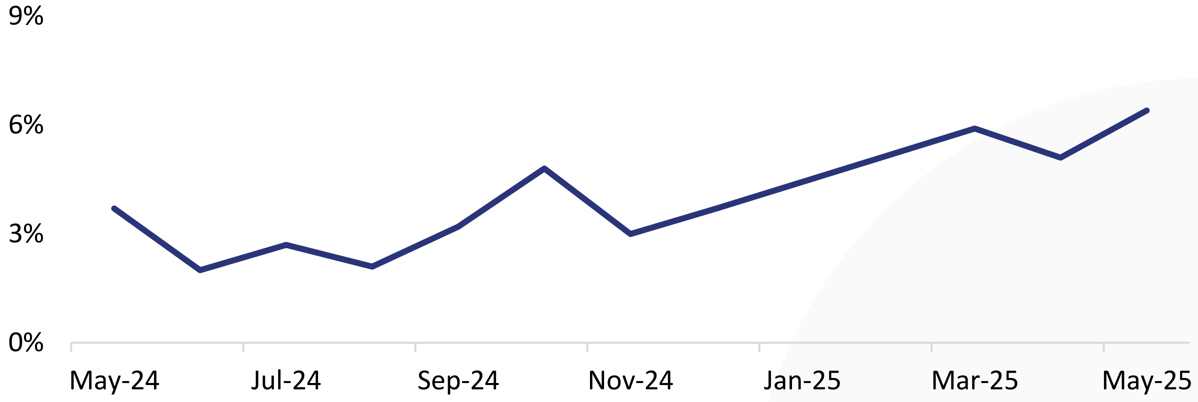
Source: Bloomberg, SBICAPS

STIMULUS WORKS TO WAKE THE DRAGON FROM ITS SLUMBER

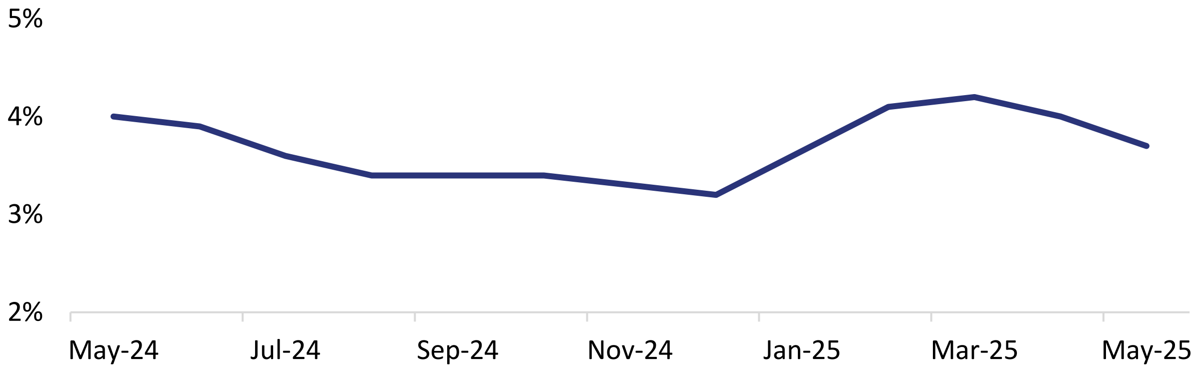
CHINA REAL GDP GROWTH (% Y/Y)



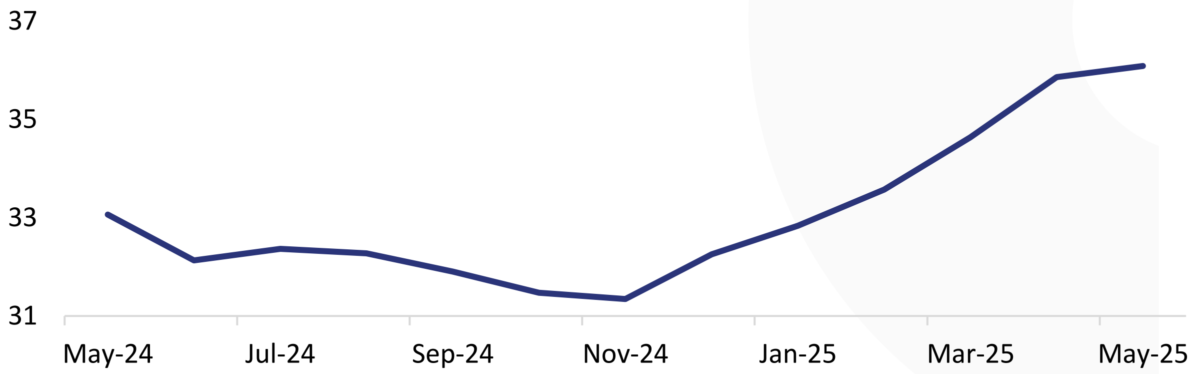
RETAIL SALES (% Y/Y)



FIXED ASSET INVESTMENT (% Y/Y)



AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING

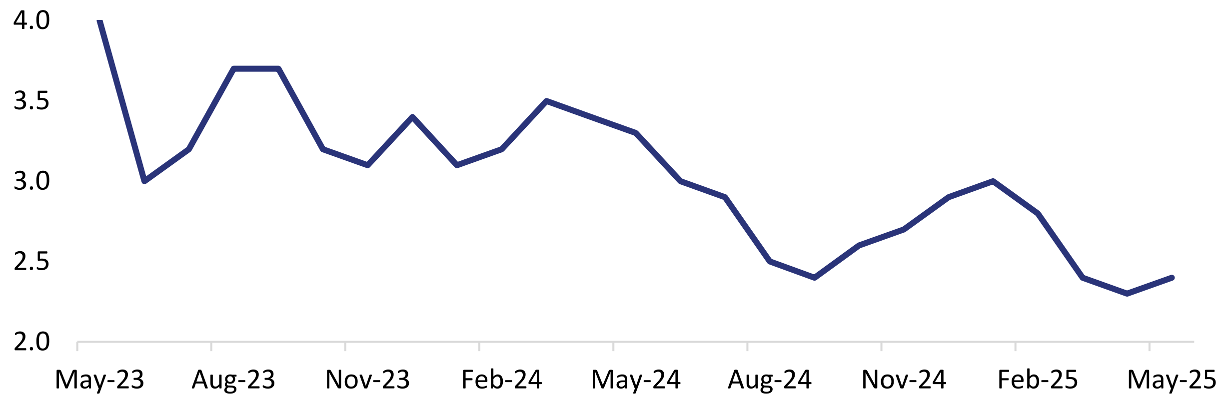


- China's economy grew 5.4% y/y in Q1CY25, beating all expectations, reflective of strong industrial activity, stimulus driven consumption and investments, ahead of steep new tariffs imposed by US. Further, tariff truce with US has led to a broad based improvement in trade and factory orders.
- Retail sales grew 6.4% y/y in May'25, driven by trade-in programs and surge in online shopping displaying robust consumption. Fixed asset investment growth slowed in May'25, with deepening contraction in property investments. Further, industrial output rose 5.8% y/y in May'25 (Apr: 5.9% y/y).

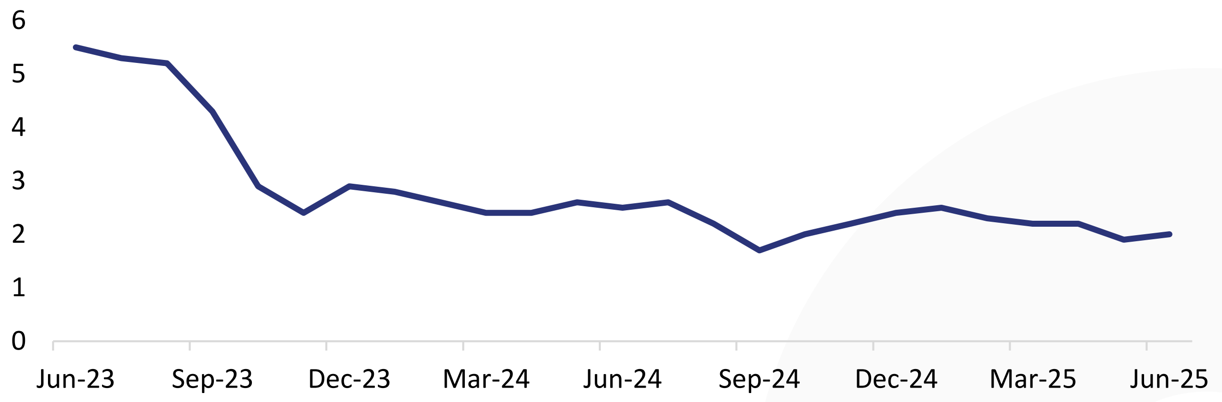
Source: Bloomberg, SBICAPS

INFLATION EXPECTATIONS IN THE AIR, DESPITE RANGEBOUND NUMBERS

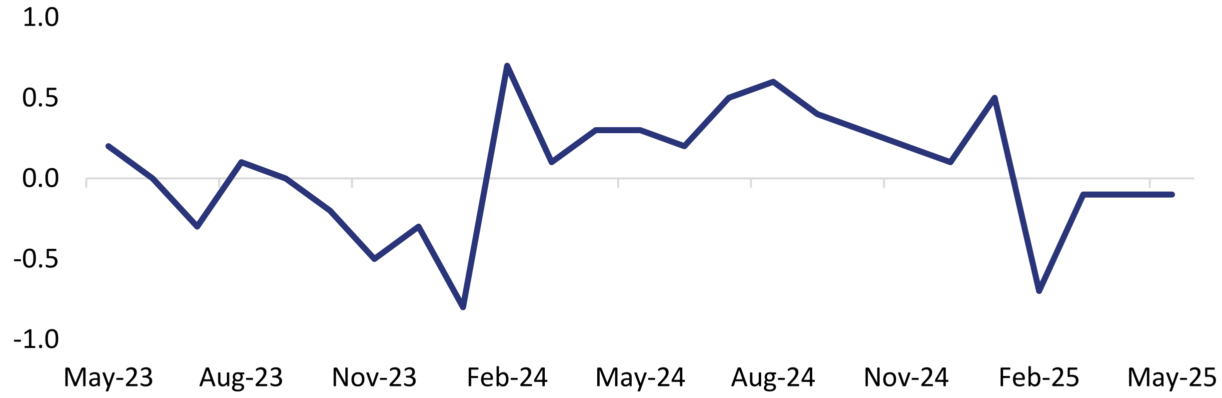
US CPI (% Y/Y)



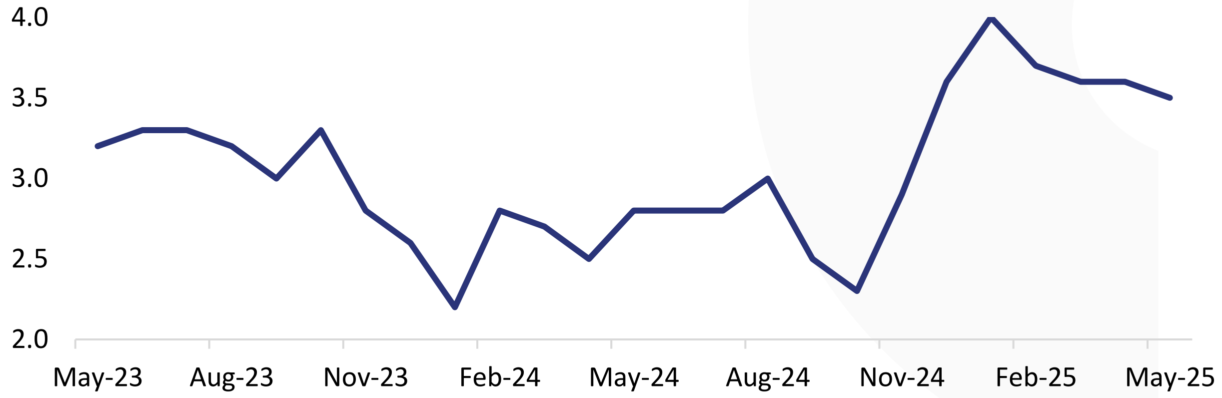
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



JAPAN CPI (% Y/Y)

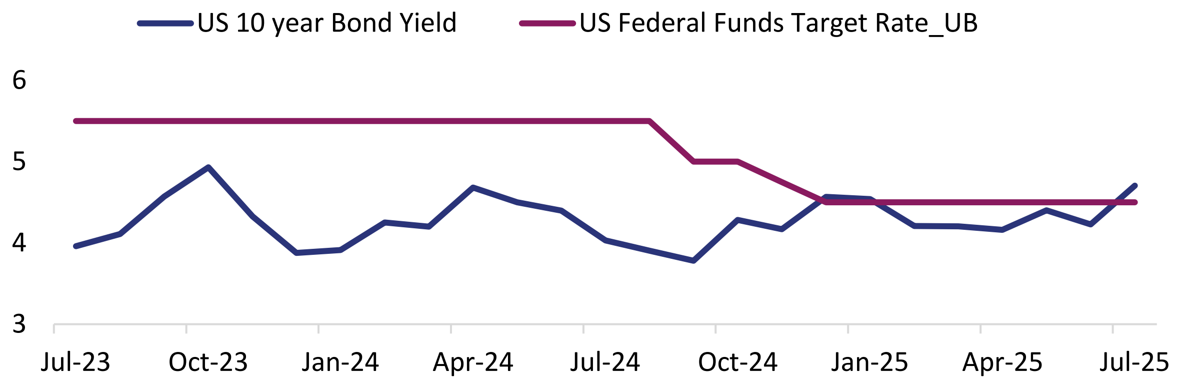


- US CPI inched upwards to 2.4% y/y in May’25, driven by re-emergence of services inflation. Moreover, several US Fed officials have warned about delayed impact of tariff pressures
- Eurozone inflation has been constantly hugging the target rate as US tariffs weigh on services activities. Inflationary woes seemed to have subdued, but not over, in Asia with China reeling on the edge of deflation, while BoJ mulls balancing high rice prices and perfunctory wage hikes.

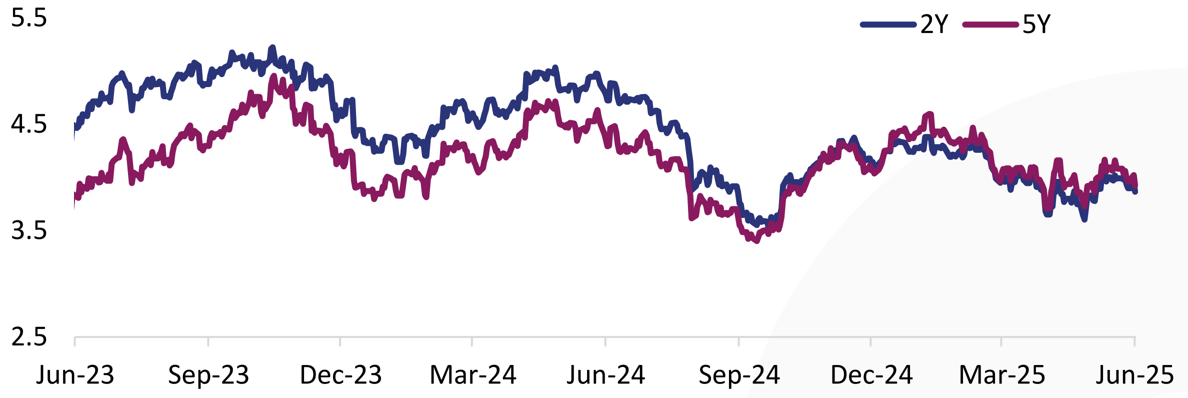
Source: Bloomberg, SBICAPS

US FED HOLDS BACK ON RATE MOVE TO ASSESS TARIFF IMPACT

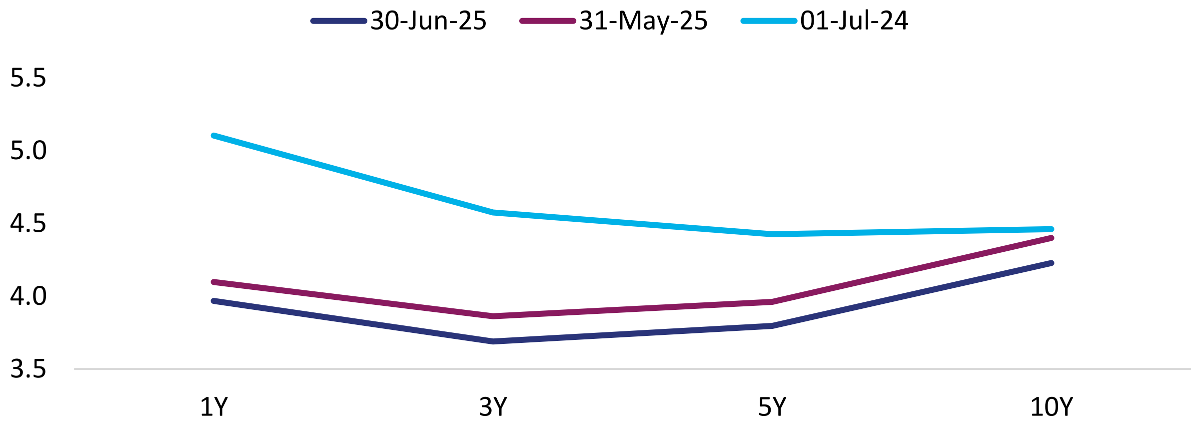
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



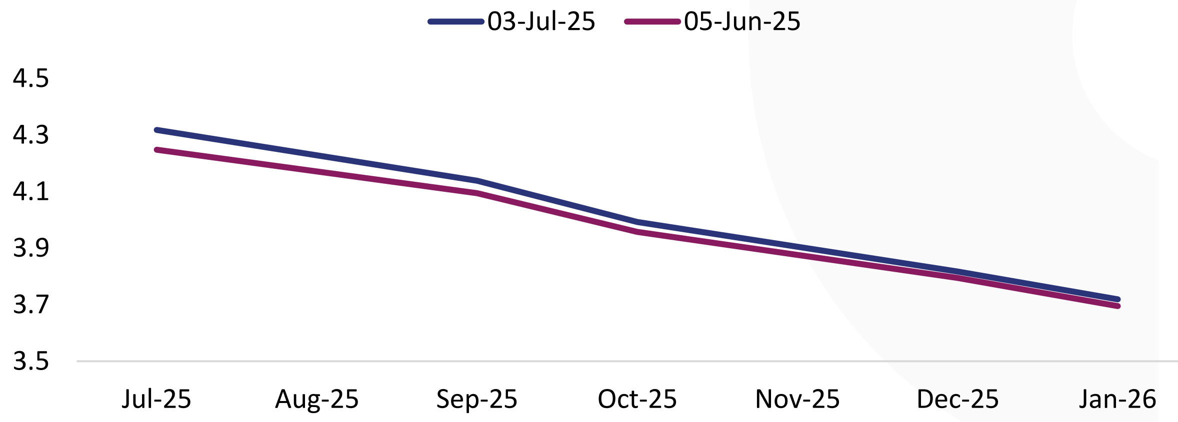
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



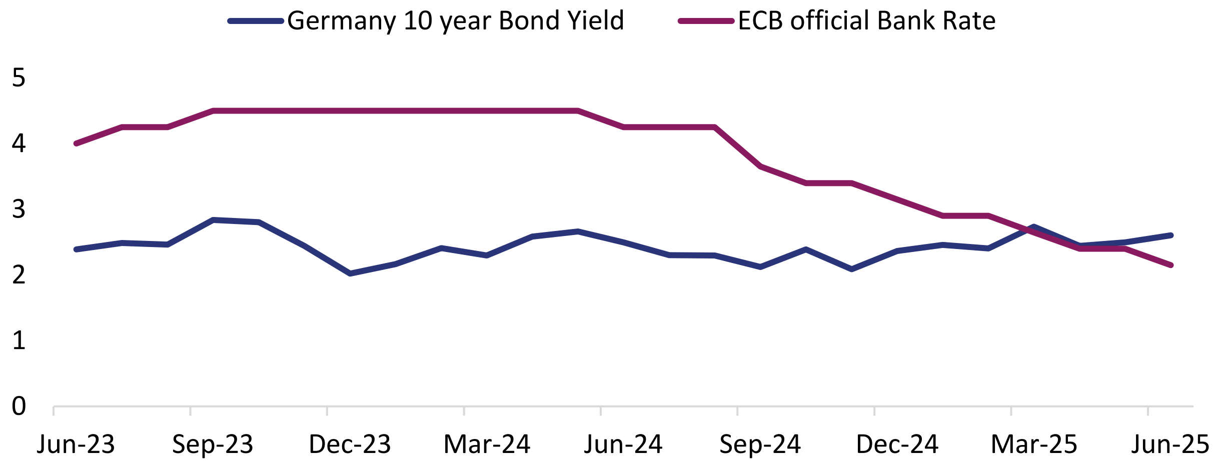
MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



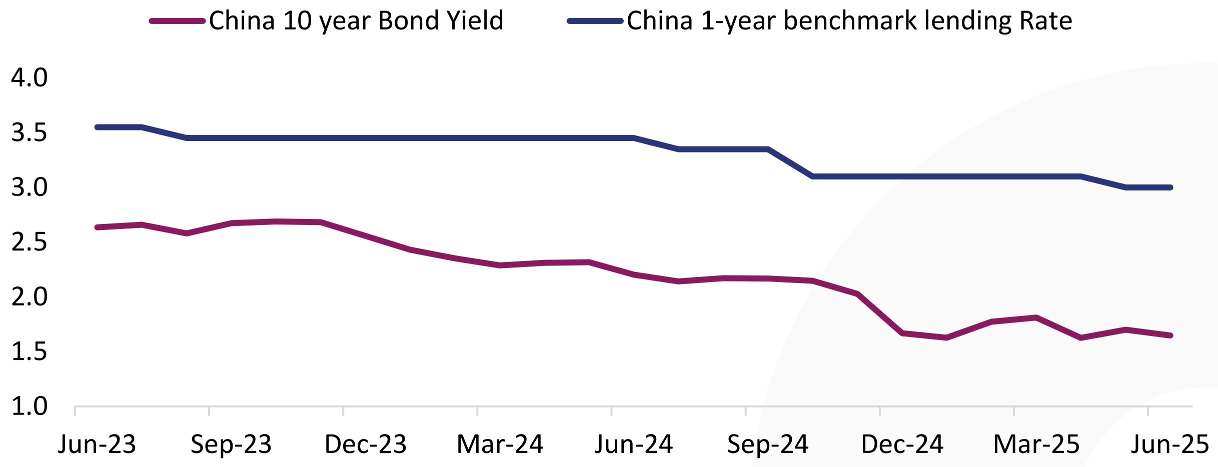
- Volatile Jun’25 for US yields was characterized by swift surge and decline with the geopolitical rollercoaster, amidst confluence of factors exerting downwards pressure such as morose economic data, low inflation and shaky labour markets. However, rising fiscal deficit, flippant trade deals and unwinding basis trade are still keeping the uncertainty gauge high
- Mr. Powell has advocated for a wait and watch approach as impact of tariffs are yet uncertain. Markets are pricing 27% chance for Jul’25 rate cuts, with 25 bps expected in Sep’25

SHARP DIVERGENCE IN CENTRAL BANK ACTIONS

EUROZONE 10-YEAR BOND YIELD VS POLICY RATE (%)



CHINA 10-YEAR BOND YIELD VS POLICY RATE (%)



POLICY RATE OF OTHER MAJOR CENTRAL BANKS

REGION	MAR'22	MAR'23	MAR'24	MAR'25	CURRENT
England	0.75%	4.25%	5.25%	4.50%	4.25%
Japan	-0.10%	-0.10%	0.10%	0.50%	0.50%
Brazil	11.75%	13.75%	10.75%	14.25%	14.75%
Australia	0.10%	3.60%	4.35%	4.10%	3.85%
Canada	0.75%	4.50%	5.00%	2.75%	2.75%
S. Korea	1.25%	3.50%	3.50%	2.75%	2.50%
S. Africa	4.25%	7.75%	8.25%	7.50%	7.25%
Russia	20.00%	7.50%	16.00%	21.00%	20.00%

Iberoamerica follows divergent strategies:

- Brazil hiked the Selic by 25 bps to 15%, the highest in 20-years, as robust economy fuels inflationary woes, while signaling a pause to the rate hike cycle.
- Banxico cut rates by an outsized 50 bps to 8%, its lowest in 3 years, despite pickup in inflation due to concerns about slowdown in the economy.

Scandinavia in rate cut mode, hints at more support:

- Norway cut policy rate by 25 bps, for the first time since CY20, to 4.25%, committing to 2 more cuts each in CY25 and CY26, as inflation came down faster than expected
- Sweden cut rates by 25 bps to 2% citing a weak economy and falling inflation
- Denmark cut rates by 25 bps to 1.6% for the 8th consecutive meeting

Source: Bloomberg, SBICAPS

ECONOMIC CALENDAR

GLOBAL ECONOMIC CALENDAR – (07 JUL – 20 JUL)

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DATE	AREA	EVENT	PERIOD
7	EC	Retail Sales YoY	May
9	CH	New Yuan Loans CNY YTD	Jun
9	CH	Aggregate Financing CNY YTD	Jun
9	CH	PPI YoY	Jun
9	CH	CPI YoY	Jun
9	US	FOMC Meeting Minutes	
14	CH	Trade Balance	Jun
14	JN	Industrial Production YoY	May
14	**IN**	**Wholesale Prices YoY**	**Jun**
14	**IN**	**CPI YoY**	**Jun**
15	**IN**	**Trade Balance**	**Jun**
15	CH	GDP YoY	2Q

DATE	AREA	EVENT	PERIOD
15	CH	Retail Sales YoY	Jun
15	CH	Industrial Production YoY	Jun
15	EC	ZEW Survey Expectations	Jul
15	US	CPI YoY	Jun
16	US	PPI Final Demand YoY	Jun
16	US	Industrial Production MoM	Jun
17	JN	Trade Balance	Jun
17	EC	CPI YoY	Jun F
17	US	Retail Sales Advance MoM	Jun
18	JN	Natl CPI YoY	Jun
18	US	Building Permits	Jun P
18	US	U. of Mich. Sentiment	Jul P

Source: Bloomberg, SBICAPS

GLOBAL ECONOMIC CALENDAR – (21 JUL – 31 JUL)

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DATE	AREA	EVENT	PERIOD
21	CH	Loan Prime Rate	
21	**IN**	**Eight Infrastructure Industries**	**Jun**
23	US	Existing Home Sales	Jun
24	JN	S&P Global Japan PMI Composite	Jul P
24	**IN**	**HSBC India PMI Composite**	**Jul P**
24	EC	HCOB Eurozone Composite PMI	Jul P
24	EC	ECB Main Refinancing Rate	
24	US	S&P Global US Composite PMI	Jul P
24	US	New Home Sales	Jun
25	US	Durable Goods Orders	Jun P
28	**IN**	**Industrial Production YoY**	**Jun**
29	US	Advance Goods Trade Balance	Jun

DATE	AREA	EVENT	PERIOD
29	US	JOLTS Job Openings	Jun
30	EC	GDP SA YoY	2Q A
30	US	ADP Employment Change	Jul
30	US	GDP Annualized QoQ	2Q A
30	US	FOMC Rate Decision (Upper Bound)	45868
31	JN	BOJ Target Rate	45869
31	**IN**	**Bank Credit YoY**	**Jun**
31	JN	Industrial Production YoY	Jun P
31	CH	Composite PMI	Jul
31	**IN**	**Fiscal Deficit YTD INR**	**Jun**
31	US	Challenger Job Cuts YoY	Jul
31	US	PCE Price Index YoY	Jun

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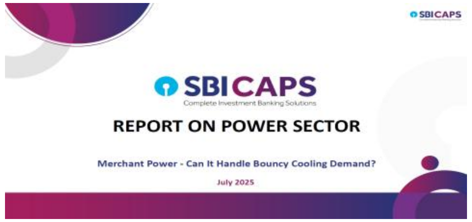

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Merchant Power: Can it Handle the Bouncy Cooling Demand?

June 2025

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Inflation Battle Turns Into A Campaign For Growth

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A Solid Q4 Caps Off Stable Growth In FY25

May 2025

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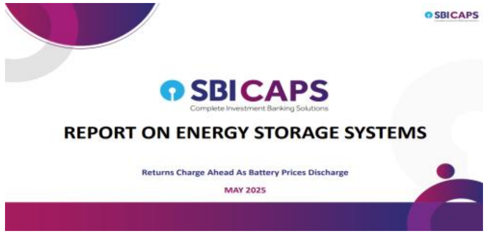
Rate Race: Entering The Next Phase of The Banking Cycle

May 2025



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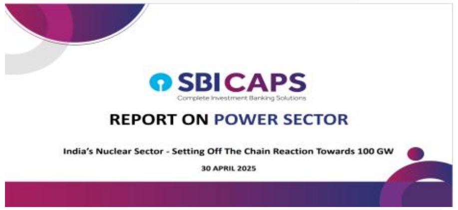
May 2025



ECOCAPSULE
The Calm Before a Storm in The Teacup

May 2025

Report on Green Hydrogen
BRIDGING THE GREEN GAP - INVESTIGATION INTO PROJECT ECONOMICS OF GREEN H2

April 2025

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