

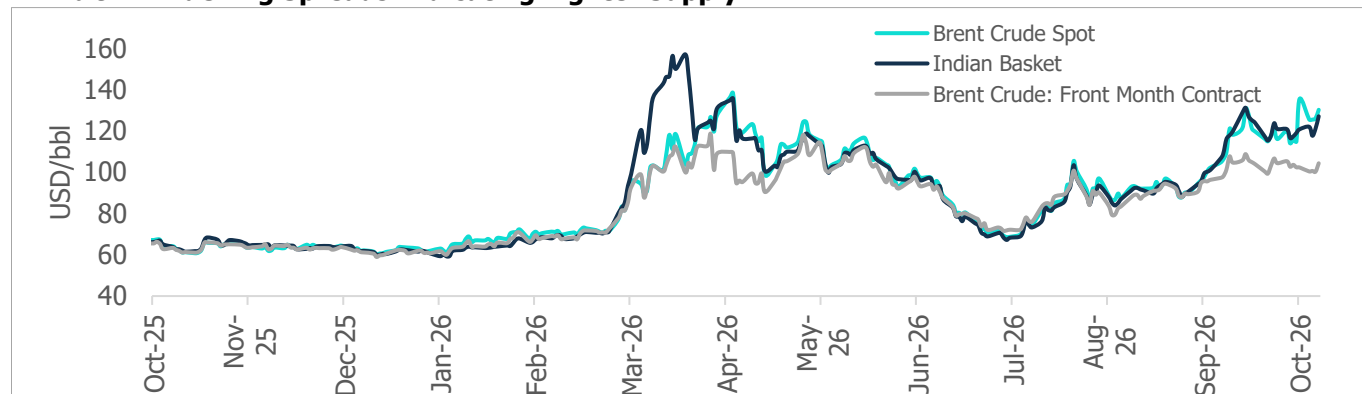
October 21, 2026 | Economics

West Asia Conflict Escalates, Keeping Oil Prices High: The conflict in West Asia has intensified over the past two weeks. Yemen's Houthi rebels have increased attacks on Saudi oil facilities and airports, including Riyadh's main airport. A missile strike on Saudi Aramco's Dhahran complex reportedly caused a fire, following earlier attacks on the company's Jazan refinery in July and the East-West pipeline in September, which carries crude to the Red Sea port of Yanbu. Meanwhile, Iran has targeted tankers in and near the Strait of Hormuz, although the US says more vessels are now transiting under its protection. Brent crude has consequently remained above USD 100/bbl, trading between USD 100-108/bbl over the past two weeks. Spot prices have risen further, with spot Brent reaching about USD 135/bbl in early October, signalling very tight supply. OPEC+ kept its November output targets unchanged, while Gulf producers continue to pump well below their quotas. However, President Trump's announcement of a Russia-Ukraine 'energy ceasefire' – despite no confirmation from either side – has recently calmed the market to some extent.

The following factors are currently having an impact on the oil market:

- **Widening Gap Between the Indian Basket, Spot Oil Prices, and Brent Futures:** Both India's crude basket and Spot Brent Crude prices are trading well above Brent Crude futures. Indian basket and Spot Brent Crude prices averaged about USD 123/bbl and USD 126/bbl to date in October, much higher than the Brent front-month futures contract, which averaged USD 1s03/bbl (Exhibit 1). This divergence between spot prices and futures prices reflects scarce physical supply of crude oil. Higher geopolitical tensions and attacks on shipping lanes also raise shipping and insurance costs, pushing up onshore prices even more.
- **Widening crack spreads:** Fuel prices are rising faster than crude prices, pushing refining margins to record levels. The US diesel crack spread is around USD 70/bbl, much higher than USD 20-25/bbl during normal times. Attacks on Russian and Gulf refineries have reduced capacity, while fuel stocks remain low. This keeps diesel and jet fuel prices high, with prices rising faster than Brent crude.
- **Expected uptick in demand in coming months:** Oil demand usually rises in winter as more fuel is used for heating, especially in Europe and North America. Countries will also need to refill stocks used up during the conflict, and China is buying more crude oil again. OPEC has cut its 2026 demand forecast for the sixth time in a row but raised its 2027 forecast because of this restocking. These factors could add upward pressure on energy prices in the coming month.

Exhibit 1: Widening Spreads Indicating Tighter Supply

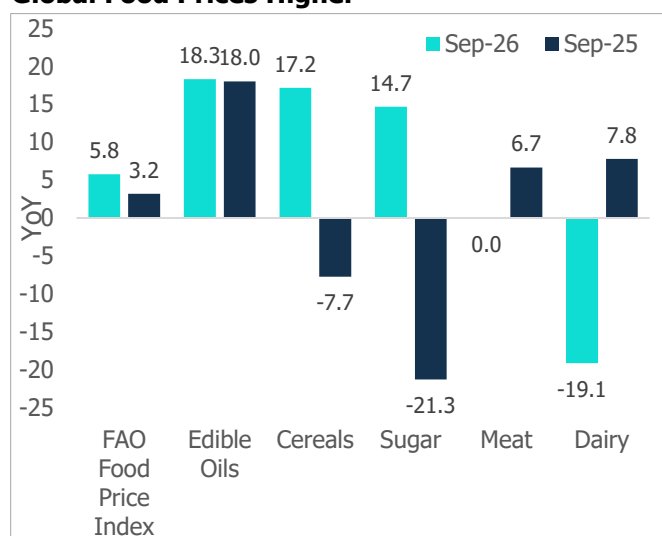


Source: CEIC, CareEdge

Global Food and Industrial Metal Prices Add to Inflationary Pressures Beyond Energy: Industrial metal price movements over the past month have largely been driven by commodity-specific demand and supply dynamics. Copper prices surged to a record high amid concerns over declining inventories and supply disruptions, while robust demand from electrification, renewable energy expansion and data centres has provided further support (Exhibit 3). Aluminium prices have eased from their May highs amid some de-escalation of the conflict in West Asia. However, prices remain elevated compared with year-ago levels. The risk of a rebound in aluminium prices remains high, given the volatile geopolitical situation in West Asia.

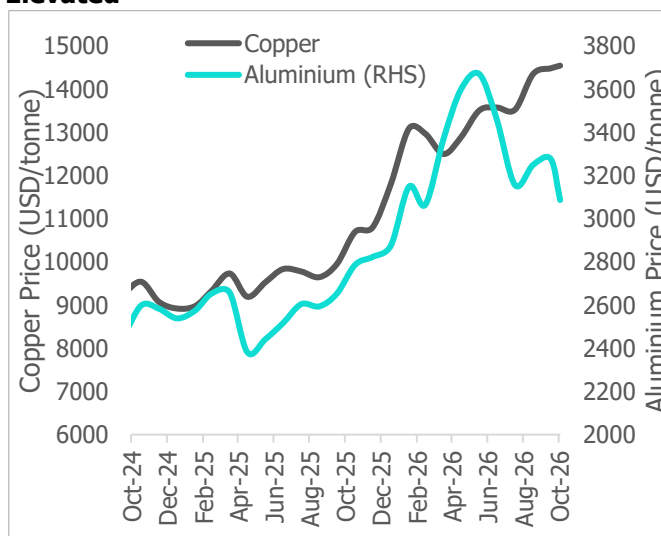
Global food inflation has also increased, driven by higher prices of sugar, edible oils and foodgrains (Exhibit 2). El Niño-induced below-normal rainfall in Southeast Asia has affected edible oil production, particularly palm oil. Ongoing logistical disruptions in the Black Sea region amid the Russia–Ukraine conflict have further added to price pressures in both edible oil and cereals. Disruptions along key maritime chokepoints, combined with adverse weather conditions, have pushed up cereal prices, particularly rice. Higher fertiliser prices have also contributed to elevated food production costs. Meanwhile, lower sugarcane production in Thailand and concerns over crop prospects in India amid below-normal rainfall have supported global sugar prices. The diversion of foodgrains towards biofuel production, amid elevated global energy prices, has added to these pressures. Elevated commodity prices are a concern, as they could indirectly feed into consumer price inflation globally.

Exhibit 2: Edible Oil, Cereals, and Sugar Drive Global Food Prices Higher



Source: CEIC, FAO, Refinitiv, LME, CareEdge

Exhibit 3: Industrial Metal Prices Also Remain Elevated

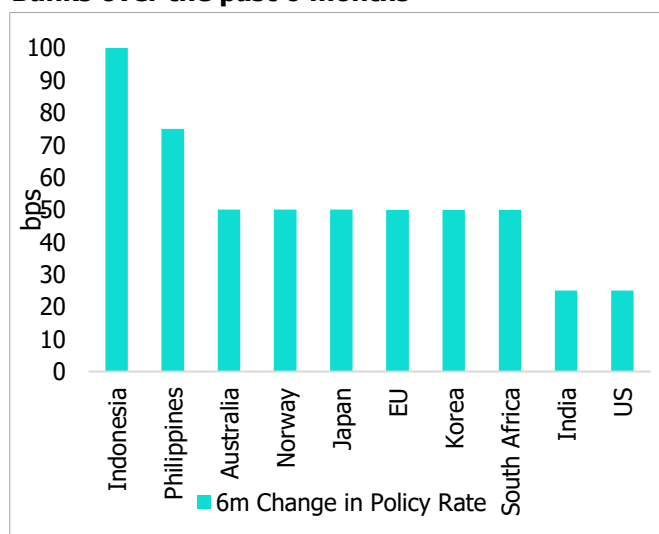


Rising Global Sovereign Yields and Rate Hike Expectations

Global bond markets over the past year have remained under pressure from concerns over fiscal sustainability and inflation, reflected in elevated long-term yields and higher term premia. Persistent fiscal pressures and inflation continue to pose upside risks to long-end yields across major advanced economies. However, yields have eased considerably over the past couple of weeks, although they remain high by historical standards. The recent moderation in yields follows a sharp sell-off in long-dated government bonds, which had pushed yields to multi-decade highs. At these elevated levels, government bonds have become more attractive to investors, prompting a shift towards safer assets amid growing concerns that rising borrowing costs could constrain economic growth and increase financing pressures for debt-intensive sectors, particularly AI infrastructure. This reallocation towards government bonds has supported prices and contributed to the recent decline in yields.

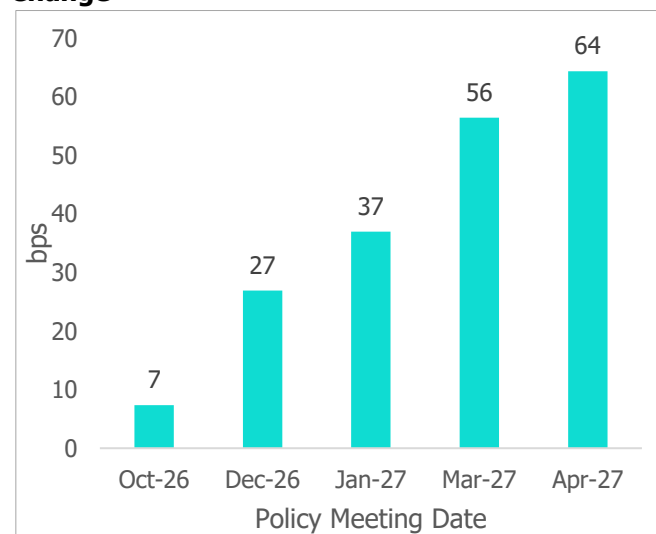
Inflation remains above central bank targets across most major economies, reinforcing market expectations of further monetary tightening in the coming months (Exhibit 4). In the US, although the Federal Reserve is expected to keep rates unchanged at its upcoming policy meeting in October, ahead of the midterm elections, markets are pricing in a resumption of rate hikes thereafter. The Overnight Index Swap (OIS) curve indicates expectations of two additional 25-bps rate hikes by the US Federal Reserve in December 2026 and March 2027 (Exhibit 5). Similarly, euro short-term rate (ESTR) forwards imply two 25-bps rate hikes by the European Central Bank over the same period, suggesting that markets anticipate a continued tightening cycle across both economies.

Exhibit 4: Policy Rate Hikes by Major Central Banks over the past 6 months



Source: CEIC, Refinitiv, CareEdge.

Exhibit 5: US FED-OIS Implied Policy Rate Change

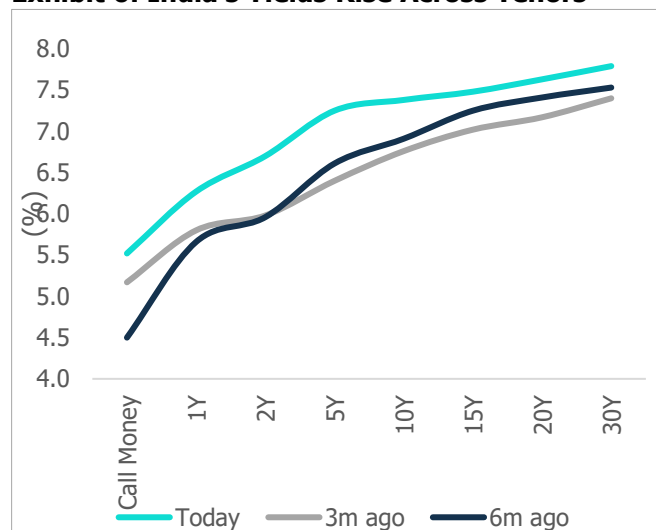


Domestic Liquidity Surplus Narrows but Yields Remain Elevated

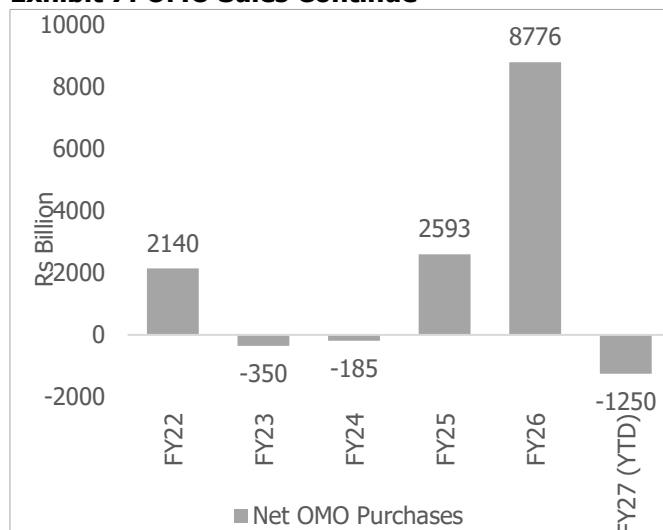
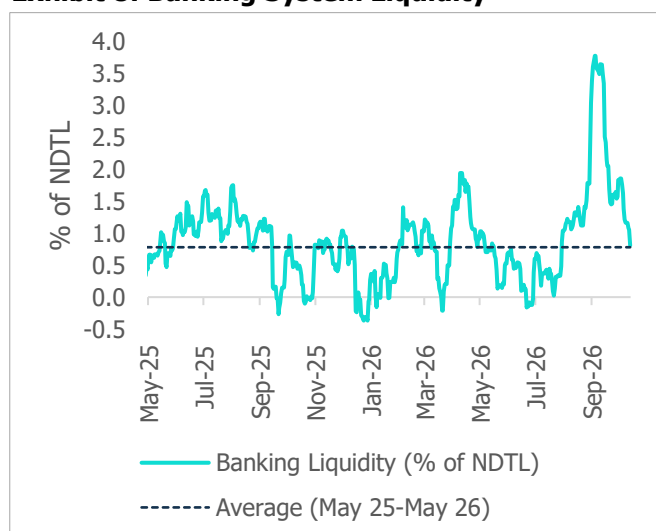
To tackle the glut in systemic liquidity resulting from the strong FCNR inflows, the Reserve Bank of India (RBI) successfully conducted an Open Market Operation (OMO) sale of government securities worth Rs 250 billion on 13th October 2026. This follows earlier OMO sales in September 2026, through which the RBI absorbed Rs 1 trillion in three tranches (Exhibit 7). The RBI has shifted its forward guidance to an explicitly hawkish bias, moving its policy stance to "calibrated tightening" with a 25-bps rate hike. While the central bank does not provide a fixed, pre-announced calendar for OMOs, its recent policy actions indicate that future liquidity management will rely on active, opportunistic OMO sales to align system liquidity with its restrictive policy stance. Apart from the RBI's interventions, part of the excess liquidity should be absorbed by the festive-season uptick in currency demand, the maturity of the RBI's short dollar forward positions, and higher CRR requirements linked to deposit growth. Tighter liquidity conditions are crucial for effective transmission of the rate hike undertaken by the RBI. Policy rate hikes, OMO sales and inflationary concerns have pushed up the yield curve across tenors (Exhibit 6).

Banking system liquidity has moderated to 0.9% of Net Demand and Time Liabilities (NDTL) as of October 15, 2026 (Exhibit 8), bringing it closer to the average of 0.8% recorded during May 2025–May 2026, before the FCNR-related inflows. Liquidity conditions are likely to tighten further following the RBI's decision to increase the minimum daily CRR maintenance requirement from 90% to 99% of the prescribed requirement, effective from the reporting fortnight commencing October 16, 2026. The narrower compliance band will constrain banks' ability to utilise a larger share of their funds for short-term market deployment during the fortnight, facilitating the absorption of surplus liquidity. The recent tightening has already driven up the weighted average call money rate, signalling firmer overnight money-market conditions (Exhibit 9). This should help improve liquidity management and limit the

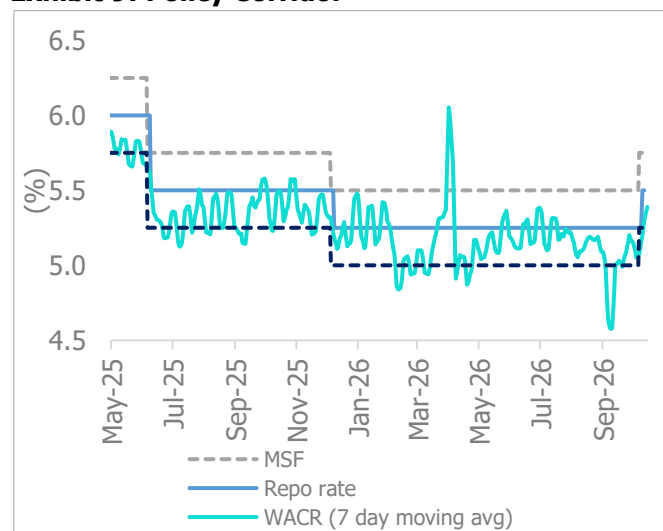
need for additional large-scale absorption measures. Against this backdrop, we expect the ongoing rate-hiking cycle to remain relatively shallow, with a further cumulative increase of 50 bps over the next few policy meetings.

Exhibit 6: India's Yields Rise Across Tenors


Source: CEIC, Refinitiv, CareEdge. *Negative Number Indicates net OMO Sales

Exhibit 7: OMO Sales Continue*

Exhibit 8: Banking System Liquidity


Source: CEIC, Refinitiv, CareEdge.

Exhibit 9: Policy Corridor


Government Borrowing on Track, IDBI Stake Sale to Cushion Fiscal Pressures

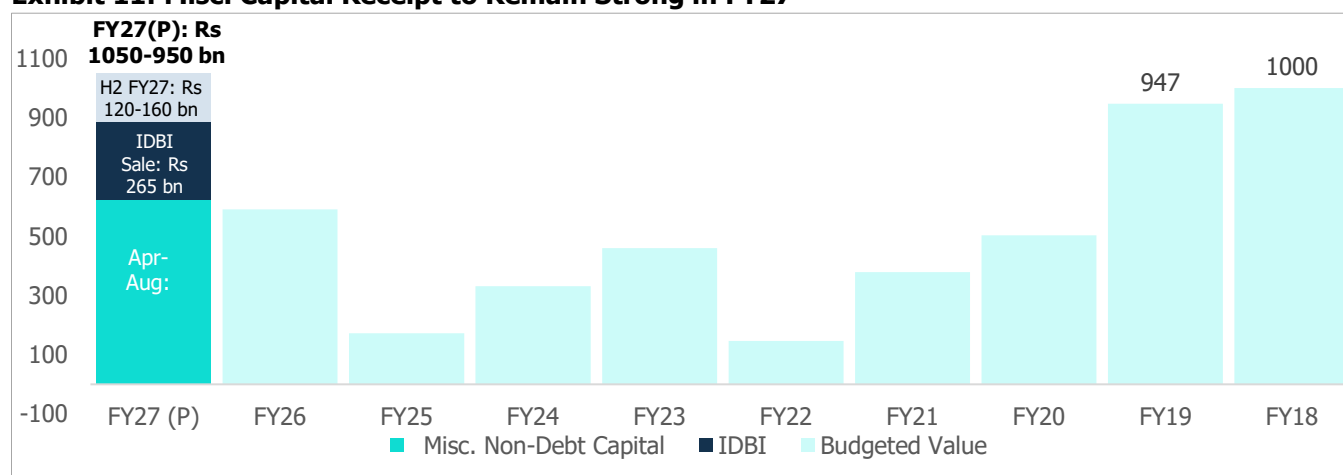
Government borrowing remained broadly on track, with the Centre borrowing Rs 8.1 trillion in H1 FY27, equivalent to 99.2% of the planned amount and 2.9% higher than a year ago (Exhibit 10). The government's H2 FY27 borrowing calendar indicates gross borrowings of Rs 7.9 trillion, including Rs 4.8 trillion in Q3 and Rs 3.1 trillion in Q4. State borrowing also gained momentum, with SDL issuances rising 6.7% YoY to Rs 5 trillion in H1 FY27, or 87% of the planned amount. States are expected to borrow a further Rs 3.6 trillion in Q3 FY27. With the proposed IDBI Bank strategic disinvestment, we expect the Centre's miscellaneous capital receipts, including disinvestment and asset monetisation proceeds, to approach Rs 1 trillion in FY27, broadly comparable to the elevated levels recorded in FY2018-19 (Exhibit 11). The Cabinet has approved the sale of a combined 60.72% stake in IDBI Bank to Fairfax Financial Holdings for Rs 529 billion, of which approximately Rs 265 billion is expected to accrue to the Centre from its 30.48% stake. LIC holds the remaining stake. This would significantly boost to capital receipts and

take collections beyond the budgeted target of Rs 800 billion. Further, we expect proceeds from minority stake sales and asset monetisation to push total receipts closer to Rs 1 trillion in FY27. The additional inflows would provide some fiscal headroom to absorb expenditure pressures, particularly from higher subsidies and fuel excise duty cuts amid elevated global oil prices.

Exhibit 10: Summary of G-Sec Issuances

	FY24	FY25	FY26	FY27	Planned Borrowing for FY27	Amount Borrowed (% of Planned Amount)	Growth in Borrowing (YoY)
	Actual Borrowing (Rs. Trillion)				Rs Trillion	%	%
Q1	4.1	3.4	4.0	4.1	4.1	100	1.75
Q2	4.8	4.0	3.9	4.1	4.1	98	2.92
Q3	3.9	3.8	3.6	0.7*	4.8	14	
Q4	2.7	2.8	3.1				
Total	15.4	14.0	14.6	8.8			
Summary of SDL Issuances							
Q1	1.7	1.5	2.0	2.0	2.5	80.1	1.5
Q2	1.9	2.4	2.7	2.9	3.2	92.2	10.6
Q3	2.5	2.3	2.9	0.2**	3.6	6.5	
Q4	4.0	4.6	5.2				
Total	10.1	10.7	12.8	5.2			

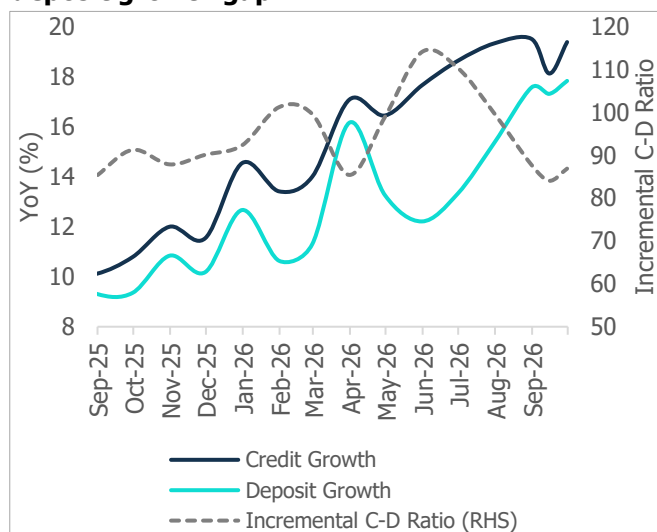
Source: RBI, CareEdge; Note: * Data until 9th October 2026; ** Data until 7th October 2026

Exhibit 11: Misc. Capital Receipt to Remain Strong in FY27


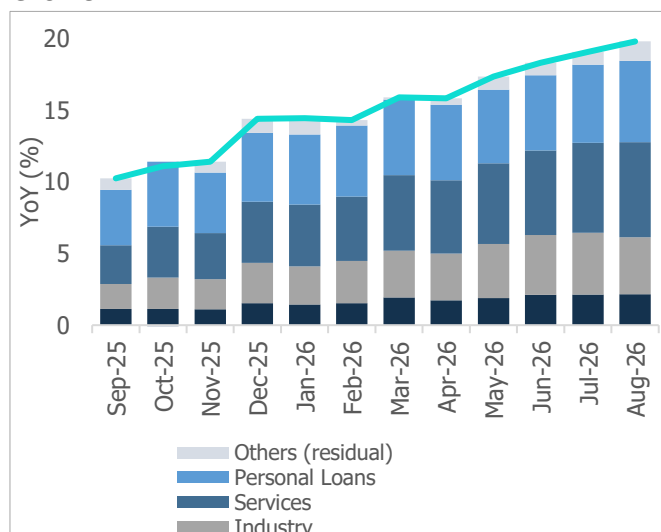
Source: CEIC, CareEdge Estimates. FY27(P) refers to CareEdge Projections

Deposit Growth Rises due to FCNR Inflows but Still Lags Credit Growth

Bank deposit growth accelerated to 17.8% YoY in September, its highest level since December 2011, while credit growth remained robust at 19.4% (Exhibit 12). The sustained expansion in both credit and deposits indicates strong momentum in banking sector activity. Importantly, strong FCNR inflows have eased funding pressures, moderating the incremental credit-deposit (C-D) ratio to 87% at end-September from 114% at end-May. On the credit side, sectoral growth remained broad-based in August, with agriculture, industry, services and personal loans expanding by 17%, 18%, 24% and 17% YoY, respectively (Exhibit 13).

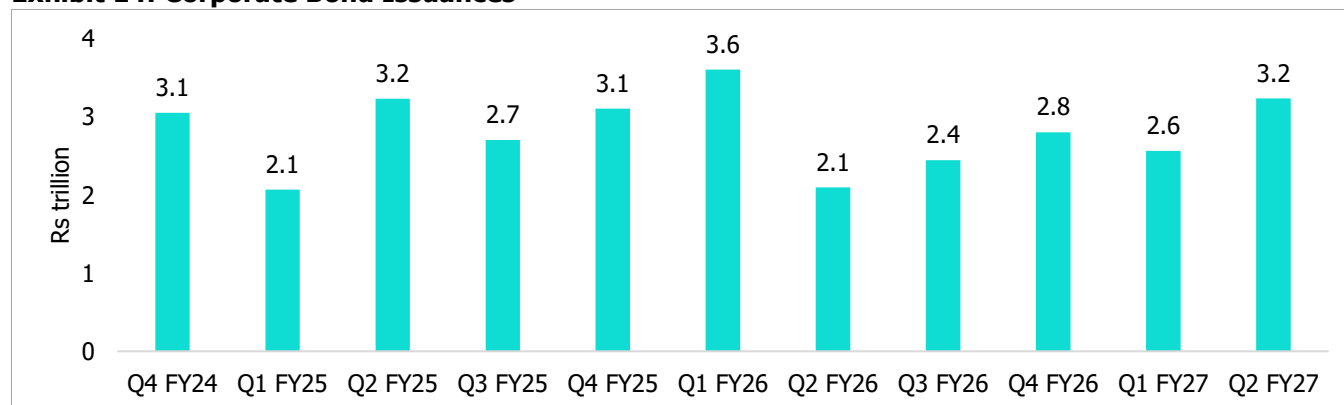
Exhibit 12: FCNR (B) inflows narrow credit and deposit growth gap


Source: CEIC, CareEdge

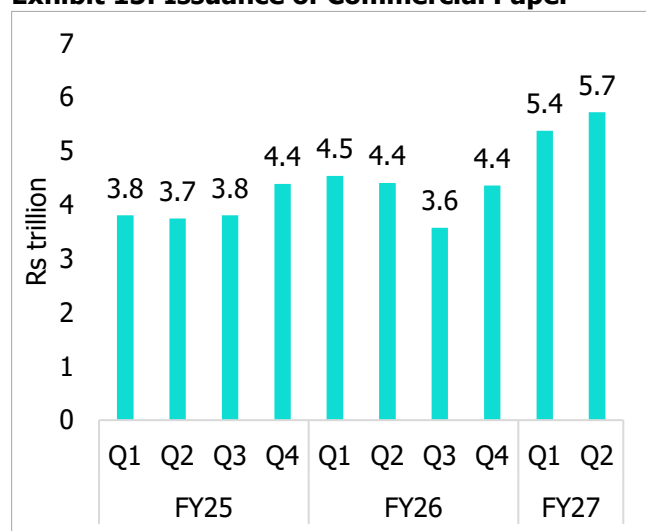
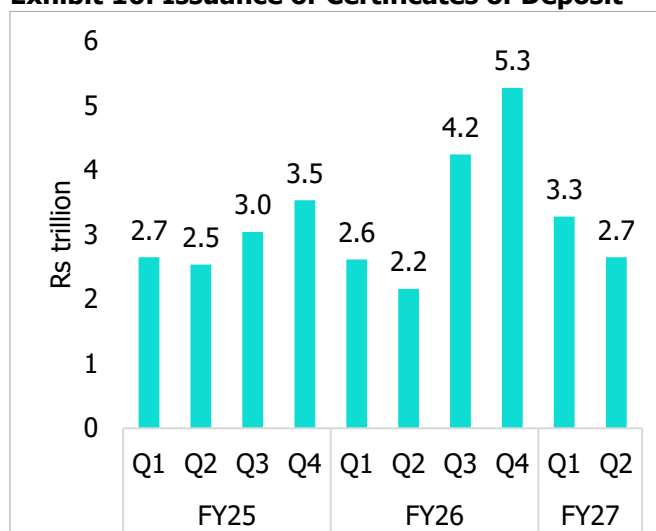
Exhibit 13: Contribution to Non-Food Credit Growth


Corporates Front-Load Longer-Term Borrowing as Rate Hike Cycle Kicks In

Corporate bond issuances rose 1.7% YoY in H1 FY27, with growth accelerating to 54% in Q2 after four consecutive quarters of contraction (Exhibit 14). The rebound likely reflected firms front-loading borrowings to lock in lower interest rates ahead of the RBI's expected rate-hike cycle. However, with the cost of capital expected to rise in the near term, corporate bond issuances may moderate going forward, even as bank credit continues to grow as a preferred source of funding. Issuance of certificates of deposit (CDs) totalled Rs 2.7 trillion in Q2 FY27 (Exhibit 15). While they were up 23% YoY, CD issuances declined sequentially. This reflects banks' lower dependence on CDs as deposits have risen, driven by strong FCNR inflows. Issuance of commercial paper (CP) grew by a healthy 30% YoY in H1 FY27 (Exhibit 16).

Exhibit 14: Corporate Bond Issuances


Source: Prime Database, CareEdge

Exhibit 15: Issuance of Commercial Paper**Exhibit 16: Issuance of Certificates of Deposit**

Source: RBI, CMIE, CareEdge

RBI Measures Stabilised the Rupee, but Underlying Pressures Persist

The rupee has recovered some ground in mid-October, with USD/INR easing to around 95 from its recent record low of nearly 97 (Exhibit 17). The rebound reflects stepped-up intervention by the Reserve Bank of India (RBI), including a 25-bps repo rate hike to 5.50%, a dedicated dollar supply window for oil marketing companies (OMCs), and tighter regulations on rupee derivatives. However, the underlying pressures on the currency remain, with elevated crude oil prices, foreign portfolio outflows and higher global bond yields continuing to weigh on sentiment (Exhibit 18).

The RBI has intensified its efforts to contain exchange-rate volatility through both direct intervention and measures to curb speculative positioning. Its net short position in the forward market has increased to around USD 200 billion, while foreign exchange reserves have declined by approximately USD 60 billion from their early-September peak of USD 786 billion to USD 726 billion (Exhibit 19). Monetary policy has also become part of the defence strategy, with the October repo rate hike. Governor Sanjay Malhotra's remarks that monetary policy cannot be entirely separated from financial stability further underscore the RBI's resolve to deal with the currency weakness.

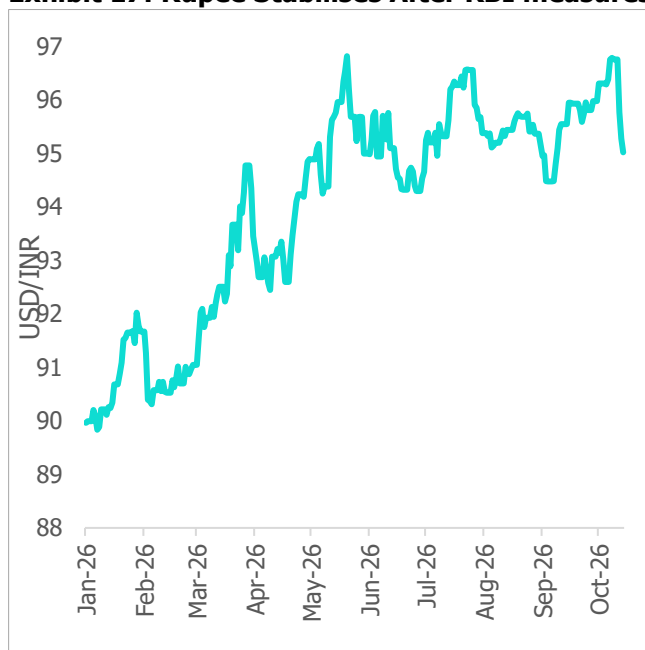
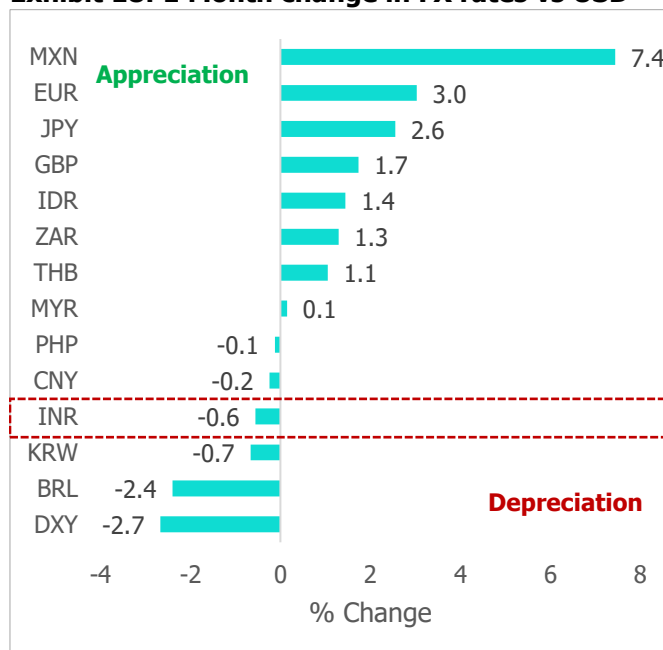
Since 12 October, the RBI has been meeting the entire daily dollar requirements of OMCs - Indian Oil Corporation, Bharat Petroleum Corporation and Hindustan Petroleum Corporation. As major purchasers of foreign currency, OMCs exert significant demand pressure on the spot market. Meeting their dollar requirements through a dedicated window can therefore reduce their direct participation in the spot market, easing immediate demand and limiting exchange-rate volatility. However, this arrangement shifts the burden onto the RBI's forex reserves.

The RBI has also tightened regulations governing foreign exchange derivatives through two circulars issued on 10 October, aimed at limiting speculative positions and reducing flexibility in currency trading. The key measures include:

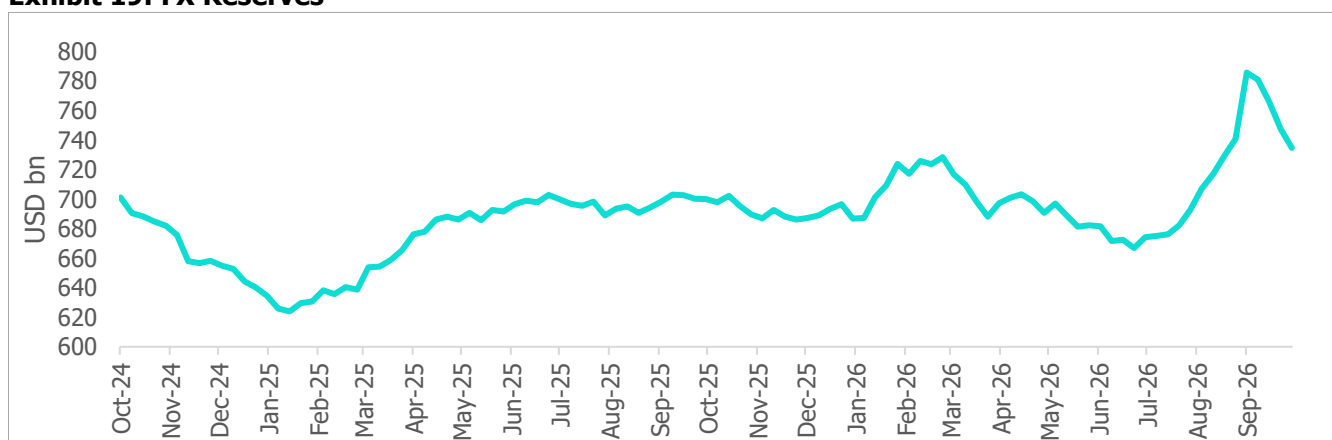
- **Restrictions on rebooking cancelled contracts:** Authorised dealers can no longer permit clients to rebook cancelled rupee-linked derivative contracts. Rollovers at maturity remain permissible.
- **Lower threshold for unhedged positions:** The limit for entering foreign exchange contracts without demonstrating an underlying exposure has been reduced from USD 100 million to USD 5 million.

- **Higher reserve requirements for banks:** Authorised dealers must maintain a cash reserve with the RBI equivalent to 20% of the rupee notional value of eligible contracts involving the purchase of foreign currency against the rupee.

Collectively, these measures increase the cost of maintaining speculative positions against the rupee and constrain the flexibility available to market participants. While they may help moderate short-term volatility, their effectiveness in supporting the currency will depend on whether the underlying sources of pressure – particularly elevated oil prices, capital outflows and higher global yields – begin to ease. Looking ahead, we expect USD/INR to trade in the range of 94-96 by end-FY27.

Exhibit 17: Rupee Stabilises After RBI measures

Exhibit 18: 1 Month change in FX rates vs USD*


Source: RBI, CMIE, CareEdge. *A positive value indicates depreciation against USD, while a negative value indicates appreciation against USD.

Exhibit 19: FX Reserves


Source: CEIC, CareEdge

Equity Market Performance and FPI Flows

Global equities were broadly flat over the past month, while MSCI EM fell 4.8% (Exhibit 20). US indices held up while the Euro Stoxx 50 fell over the past month. Political unrest and sporadic protests across Europe have impacted stock market performance in Europe. Performance within emerging markets has also diverged sharply. Brazil's Bovespa rose 10.3% in the month as Bolsonaro's surprise lead in the first round of the presidential election raised investor optimism. In contrast, Korea's KOSPI fell 13.0% in the month amid a sharp correction in AI-linked chip stocks, driven by doubts over returns on AI investment, the rising capabilities of Chinese memory-chip makers and expectations of further US rate hikes. Although the Fed is expected to pause in October, it is likely to resume rate hikes at its December meeting. Equity markets will remain sensitive to the US midterm results, FOMC member commentaries, inflation and employment data, and evolving geopolitical tensions.

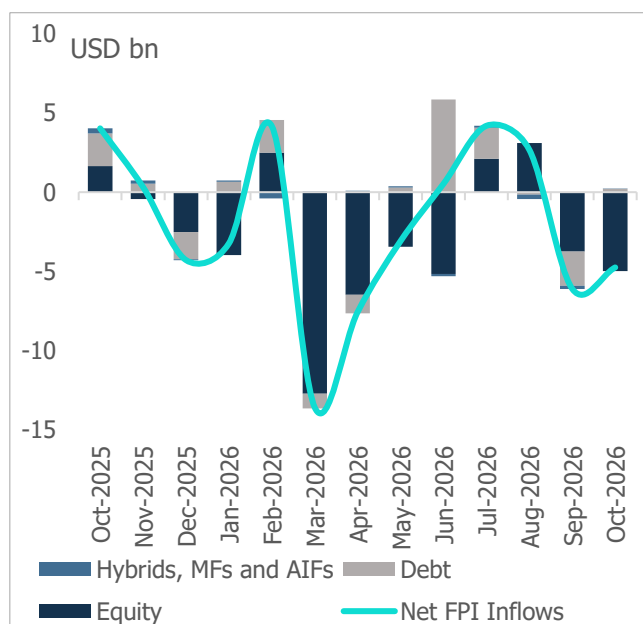
Indian equities have lagged their peers (Exhibit 20). The SENSEX fell 2.7% in the month, 5.5% over three months, 6.7% over six months and 11.3% over the year, the second-weakest one-year return among the markets tracked after Indonesia. In dollar terms, the BSE DOLLEX 200 declined 3.1% in the month and 12.8% over the year, reflecting the rupee's depreciation. Foreign portfolio investors (FPIs) continue to sell Indian assets (Exhibit 21). They pulled out a net USD 4.8 bn so far in October, after USD 6.1 bn in September, mostly from equities. So far in calendar 2026, FPIs have taken out about USD 33.2 bn from equities and USD 26.8 bn overall. Steady buying by domestic institutional investors (DIIs) continues to support the market. However, the global backdrop remains a key challenge, with a stronger US dollar, high global bond yields and high energy prices. Some optimism has returned after Finance Minister Nirmala Sitharaman said she is open to hearing stakeholders' views on Long-Term Capital Gains (LTCG) tax and Securities Transaction Tax (STT) ahead of Budget 2027.

Exhibit 20: Indian Equity Market Performance Remains Subdued

Equity Market Performance (%)				
	1M	3M	6M	1Y
MSCI World	0.1	1.4	7.3	15.0
MSCI ACWI	-0.2	1.1	7.3	17.0
MSCI EM	-4.8	-2.2	3.0	22.1
China - SSE	-3.1	-5.0	-7.1	-2.5
Indonesia - IDX	-9.1	-1.6	-22.0	-26.3
India - SENSEX	-2.7	-5.5	-6.7	-11.3
India - BSE DOLLEX 200	-3.1	-4.3	-6.3	-12.8
Brazil - Bovespa	10.3	16.9	4.9	45.8
Taiwan -TAIEX	5.3	8.7	31.0	81.5
Korea - KOSPI	-13.0	-12.4	-3.5	68.7
EU - Euro Stoxx 50	-2.1	-1.4	4.3	11.5
US - NASDAQ Comp.	1.4	2.2	10.7	18.5
US - S&P 500	0.8	2.3	9.6	16.2

Source: RBI, CMIE, CareEdge. Data as of 15th October.

Exhibit 21: FPI Outflows Remain Elevated



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