



Complete Investment Banking Solutions

## ECOCAPSULE

**(Y)earning For A Less Volatile Year - Hopes For 2026**

**January 2026**

# CONTENTS

1	Executive Summary	3
2	Macroeconomic Overview	6
3	Sectoral Updates	17
4	Monetary Policy And Yields	24
5	Capital Markets	31
6	Global Snapshot	35

# EXECUTIVE SUMMARY

# EXECUTIVE SUMMARY (1/2)

## Much ado about nothing? Global growth was resilient albeit low, even as tariffs turned from threat to truth

The aftermath of the announcement of tariffs by the US was the expectation of a collapse in global trade. These shockwaves led to sharp downward revisions to global growth estimates by mid-CY25. However, in a matter of months, expectations were corrected, and a 3.2% y/y real output growth is projected for CY25 – temperate but tolerable. Fair growth in US, China, and India offset weakness in select countries in Europe. Backing this change was the understanding that tariffs are as much to be seen as bargaining chips for trade deals as modes of revenue. This led to many countries chalking out agreements with the US and has meant that the trade balance of major countries is yet to go off-kilter. *CY26 will remain volatile as may be exemplified by actions in Venezuela in the first week itself, though uncertainty is off highs seen in the past few years.*

## Policy paradox: easing inflation concerns effected lower rates even as long-term yields remained indifferent

Benign crude prices and base effects effected a downward drift in inflation. This helped global Central Banks cut rates even though inflation remained above target in most cases. Curiously, while the short-term rates have responded to the call of the Central Banks, long-term yields remain inertial. This paradox may be explained by a combination of factors. First, markets do not perceive inflationary threats to be behind us – and a sudden pivot to a hike cycle remains possible. Second, and more grimly, the increasing debt/GDP of countries in the post-pandemic era is resetting expectations of default risk for sovereigns. Finally, long-term bond investors are gradually diversifying their portfolios as there is a growing realisation that the days of base zero (ultra low policy rates in the aftermath of the GFC) are gone.

## Domestic deliverance: storm of local activity backed by Government initiatives needs some gusts of private capex next year

India is set to deliver stunning real growth in FY26 (FAE: 7.4% y/y) fired by the twin cylinders – consumption and capex. A set of tax reforms during the year redoubled consumption intensity which was on a high helped by monsoon-driven rural prosperity. Government capex is up 28% y/y in 8MFY26 with traction being seen in Roads and Railways, even as revex remained in check. *Union and State capex have been the drivers of growth for some fiscals now, and both are faced with fiscal constraints in FY27 as tax collections shrink for the former, and the latter no longer has access to GST compensation cess. Thus, in FY27, even as the Governments bear a chunk of the developmental capex, it would be welcome if private players, with their light and shiny balance sheets, pick up the onus of capex, especially in the new age sectors.*

## Goldilocks vs. Global Shocks: RBI chooses to cut rates as prices seek the nadir

With inflation tending below the lower band of RBI's tolerance zone, a surprise rate cut in Dec'25 capped off a year which saw a deep dip in the repo rate. The bulk of the work in lowering inflation came from sinking food prices, with their *outlook for CY26 also remaining benign* owing to bountiful sowing in the current year, subject to possible supply-shocks in vegetable and fruit prices due to short-term weather disturbances. Energy prices also remained unenergetic on global cues. Core prices remained above trends, though it is important to note that much of this comes from precious metals, as gold glittered and silver sparkled during the year due to a global flight to safety away from the USD. The *broader outlook for inflation in CY26 will also be subject to the change in the CPI base, though it is not expected to exert any upward pressure.*

## EXECUTIVE SUMMARY (2/2)

### A fluid situation: turbulent liquidity and laminar policy balanced by fiscal fizz keeps yields stagnant

Despite the RBI plunging its repo rate by 125bps in CY25, mirroring global trends, the year saw only ~17bps drop in 10Y benchmark Union G-sec yield. This has led to a steepening of the curve as short term rates have tugged southwards. This means that the Central Bank has diversified its toolkit and made liquidity as a tool front and centre. Net OMO purchases of close to Rs. 6.5 trn in CY25 are amongst the highest on record. Fx swaps were also carried out to infuse liquidity. Amidst generous credit growth, the RBI remains fully focussed in providing enough liquidity for effective transmission. In this endeavour it has met with success as the WALR (fresh) dipped 54 bps between Dec'23 and Nov'25, with WADTDR (fresh) seeing almost complete transmission. *The RBI will continue to use these policy tools in CY26.*

### External flows or external blows? Currents felt in the currency market as INR sees sharp depreciation

CY25 saw total FPI outflows of USD 11.8 bn as FAR debt inflows of USD 6.5 bn were unable to compensate for heavy equity outflows. This was owing to a combination of high perceived valuation vs. comparable EMs and concerns over differentially high tariffs on India by USA. Net FDI flows were muted at USD 7.2 bn in 10MCY25. This meant that the INR saw the worst annual drop in 3 years, dropping by ~5% against the USD in a year where the latter did not perform too well. Nevertheless, *concerns over balance of payments are diminished with CAD expected to remain in check for FY26. The trajectory of the INR in CY26 will remain subject to investment flows and an early trade deal with the US.*

### Regulatory rejig and DII confidence: a host of reforms see a good year for capital markets

CY25 was a year of big bang regulatory shifts. The RBI amended the large exposure framework, eased ECB registrations, changed risk weights, and consolidated its circulars – all jewels in the clockwork of credit. The SEBI eased the procedure for capital raises, cleaned up mutual fund regulations, and classified REITs as “equity related instruments”. These measures meant that In a volatile year, capital market activity was a silver lining. Main board equity IPOs saw an 8% y/y jump in quantum raised in CY25 to Rs. 1.72 trn across 103 IPOs. The victory was enabled by the rise of the domestic investors as DIIs pumped in USD 89.6 bn in a year where FPIs succumbed. Bond issuances maintained a steady pace in CY25, with increasing depth (more issuances below AAA were seen compared to previous years) and breadth (share of private manufacturing jumped). Hybrids stole the show with InvITs and REITs raking in Rs. 338 bn, up 33%. *These factors are structural and expected to give benefits in CY26, with momentum in alternate asset classes and GIFT City investments expected.*

# MACROECONOMIC OVERVIEW

# OUTLOOK FOR REAL GDP GROWTH FOR FY26 LOOKS SUNNY

## REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
<b>GVA</b>	<b>8.1</b>	<b>7.6</b>	<b>6.8</b>	<b>6.5</b>	<b>5.8</b>	<b>6.5</b>	<b>7.3</b>	<b>8.0</b>	<b>9.2</b>
Agriculture and allied	3.5	3.7	5.4	6.6	4.1	1.5	0.9	1.5	3.7
Industry	7.7	6.3	6.5	4.8	3.8	8.5	9.5	11.8	15.1
Mining and quarrying	0.0	-3.1	2.5	1.3	-0.4	6.6	0.8	4.7	4.1
Manufacturing	9.1	7.7	4.8	3.6	2.2	7.6	11.3	14.0	17.0
Electricity, gas & water supply	4.4	0.5	5.4	5.1	3.0	10.2	8.8	10.1	11.7
Construction	7.2	7.6	10.8	7.9	8.4	10.1	8.7	10.0	14.6
<b>Services</b>	<b>9.2</b>	<b>9.3</b>	<b>7.3</b>	<b>7.4</b>	<b>7.2</b>	<b>6.8</b>	<b>7.8</b>	<b>8.3</b>	<b>7.5</b>
Trade, hotel, transport & comm.	7.4	8.6	6.0	6.7	6.1	5.4	6.2	8.0	5.4
Finance, real estate and prof serv.	10.2	9.5	7.8	7.1	7.2	6.6	9.0	8.4	8.3
Public admin., defence & Other svcs	9.7	9.8	8.7	8.9	8.9	9.0	8.7	8.4	8.9

## REAL GDP EXPENDITURE COMPONENTS

Change (% y/y)	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
<b>GDP</b>	<b>8.2</b>	<b>7.8</b>	<b>7.4</b>	<b>6.4</b>	<b>5.6</b>	<b>6.5</b>	<b>8.4</b>	<b>9.5</b>	<b>9.3</b>
Private final consumption exp. (PFCE)	7.9	7.0	6.0	8.1	6.4	8.3	6.2	5.7	3.0
Govt. final consumption exp. (GFCE)	-2.7	7.4	-1.8	9.3	4.3	-0.3	6.6	2.3	20.1
<b>Gross capital formation (GCF)</b>	<b>5.1</b>	<b>7.3</b>	<b>7.8</b>	<b>4.9</b>	<b>7.7</b>	<b>6.2</b>	<b>9.1</b>	<b>12.4</b>	<b>11.9</b>
Gross fixed capital formation (GFCF)	7.3	7.8	9.4	5.2	6.7	6.7	6.0	9.3	11.7
Exports	5.6	6.3	3.9	10.8	3.0	8.3	7.7	3.0	4.6
Imports	12.8	10.9	-12.7	-2.1	1.0	-1.6	11.4	11.3	14.3

- As per first advance estimates, real GDP is estimated to attain a growth of 7.4% y/y. Nominal GDP will reach a level of Rs. 357 trn, up 8%. Real GVA is expected to clock a growth of 7.3%, with marginal difference between GDP and GVA
- The risks remain evenly balanced as we expect FY26 real GDP growth to be > 7% with slight moderation in H2. Nominal GDP will remain challenged in FY26 as inflation sinks, and we expect ~8.5% y/y figure to register.*

# INDICATORS SHOWED SELECTIVE PICKUP IN CY25 VS. CY24

INDICATOR	CY21	CY22	CY23	CY24	CY25
<b>INDUSTRY</b>					
IIP (%y/y)*	12.7%	4.6%	5.8%	4.4%	3.5%
Eight Core (%y/y)*	10.1%	7.2%	8.0%	4.8%	3.0%
Finished Steel Consumption (%y/y)*	18.9%	9.3%	14.4%	11.2%	8.5%
2W Retail Sales (%y/y)	-2.2%	23.3%	10.4%	10.9%	7.2%
PV Retail Sales (%y/y)	20.0%	23.6%	11.2%	6.0%	9.7%
<b>SERVICES/CONSUMPTION</b>					
Petrol Consumption (%y/y)	12.7%	11.2%	6.7%	8.1%	6.2%
Diesel Consumption (%y/y)	6.7%	10.2%	5.0%	2.7%	2.6%
Railway Freight Volume (%y/y)	17.0%	7.5%	4.0%	4.4%	2.3%
Port Cargo Volume (%y/y)	9.8%	6.1%	5.9%	2.8%	8.4%
Electricity supply (% y/y)	9.3%	9.0%	7.6%	4.9%	1.2%
Total Airport Footfall (%y/y)	27.2%	61.4%	25.8%	8.4%	4.2%
Fastag revenues (%y/y)	77.5%	46.3%	22.4%	12.4%	16.5%
UPI transactions (%y/y)	111.3%	76.0%	45.2%	35.0%	21.4%
Gross GST Revenues (%y/y)	30.2%	23.3%	11.8%	8.4%	8.5%

# BROAD BASED OPTIMISM IN HIGH FREQUENCY INDICATORS

INDICATOR	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25	OCT'25	NOV'25	DEC'25
<b>INDUSTRY</b>												
Manufacturing PMI	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6	55.0
IIP (%y/y)	5.2%	2.7%	3.9%	2.6%	1.9%	1.5%	4.3%	4.1%	4.6%	0.5%	6.7%	
Eight Core (%y/y)	5.1%	3.4%	4.5%	1.0%	1.2%	2.2%	3.7%	6.5%	3.3%	-0.1%	1.8%	
Finished Steel Consumption (%y/y)	10.9%	10.9%	13.6%	6.0%	8.1%	9.3%	7.3%	10.0%	8.9%	2.4%	6.0%	
2W Retail Sales (%y/y)	4.2%	-6.3%	-1.8%	2.3%	7.3%	4.7%	-6.5%	2.2%	6.5%	51.8%	-3.1%	9.5%
PV Retail Sales (%y/y)	15.5%	-10.3%	6.3%	1.6%	-3.1%	2.5%	-0.8%	0.9%	5.8%	11.3%	19.7%	26.6%
<b>SERVICES/CONSUMPTION</b>												
Services PMI	56.5	59	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8	58.0
Petrol Consumption (%y/y)	6.7%	5.0%	5.7%	5.0%	9.2%	6.8%	5.9%	5.5%	8.0%	7.4%	2.6%	7.1%
Diesel Consumption (%y/y)	4.2%	-1.3%	0.9%	4.2%	2.1%	1.5%	2.4%	1.2%	6.5%	-0.3%	4.7%	5.0%
Railway Freight Volume (%y/y)	-1.6%	-3.0%	3.0%	3.6%	2.7%	0.9%	0.0%	8.5%	-2.7%	4.7%	6.8%	5.4%
Port Cargo Volume (%y/y)	6.0%	7.4%	13.3%	7.0%	4.4%	5.5%	4.0%	2.5%	11.5%	12.0%	14.6%	12.8%
Electricity supply (% y/y)	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%	1.6%	3.9%	3.0%	-5.9%	-0.9%	6.4%
Total Airport Footfall (%y/y)	13.5%	11.2%	9.3%	10.3%	3.0%	3.7%	-1.0%	1.0%	-0.7%	4.7%	7.0%	-8.3%
Fastag revenues (%y/y)	19.0%	18.3%	14.5%	21.6%	20.0%	17.5%	19.6%	18.7%	14.3%	9.3%	16.1%	11.2%
UPI transactions (%y/y)	27.5%	20.2%	25.2%	21.9%	23.0%	19.8%	21.5%	20.6%	20.6%	16.1%	22.1%	20.3%
Gross GST Revenues (%y/y)	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%	7.5%	6.5%	9.1%	4.6%	0.7%	6.1%

# INDICATORS UNDERPIN HIGH BUT NORMALISING GROWTH

- IIP rebounded sharply in Nov'25, driven by 8% y/y growth in manufacturing, despite contraction in mining and weaker electricity print. Strength was lent by infrastructure/ construction goods and capital goods while weakness was concentrated in consumer durables.
- Core industries corroborate ongoing strength in construction and infrastructure sectors with robustness in cement and steel, offsetting contractions in crude oil and natural gas. This suggests that industrial upcycle is led by construction and government capex vs weakness in energy sectors.
- According to CMIE data, investments in new projects fell 6% y/y to Rs. 10 trn in Q3FY26. However, private sector investments rose 7.3% y/y to Rs. 9.2 trn, with share of manufacturing sector at 41% and electricity at 24%.
- Diesel demand hit 6-month high in Dec'25, helped by post-monsoon recovery in trucking, higher highway traffic and GST impact on logistics and goods movements. 7% y/y growth in LPG and momentum in petrol indicate strong household energy demand while 28% y/y rise in bitumen suggests improved road construction at the end of CY25.
- Auto retail sales rose 14.6% y/y to 2.03 mn units in Dec'25, driven by GST rationalization in mass segments, festive and marriage season demand and new model launches. PV sales rose amidst standout rural demand and 2W sales jumped, with dealers being strapped by supply constraints. 3W rebounded at 36.1% and CV rose 25%, driven by rising logistics demand
- UPI transactions rose to its highest ever showing of Rs. 28 trn in Dec'25. Robust FASTag volumes, alongside robust diesel and bitumen use, reinforce the picture of buoyant road logistics and passenger mobility, especially on inter-city and inter-state corridors.

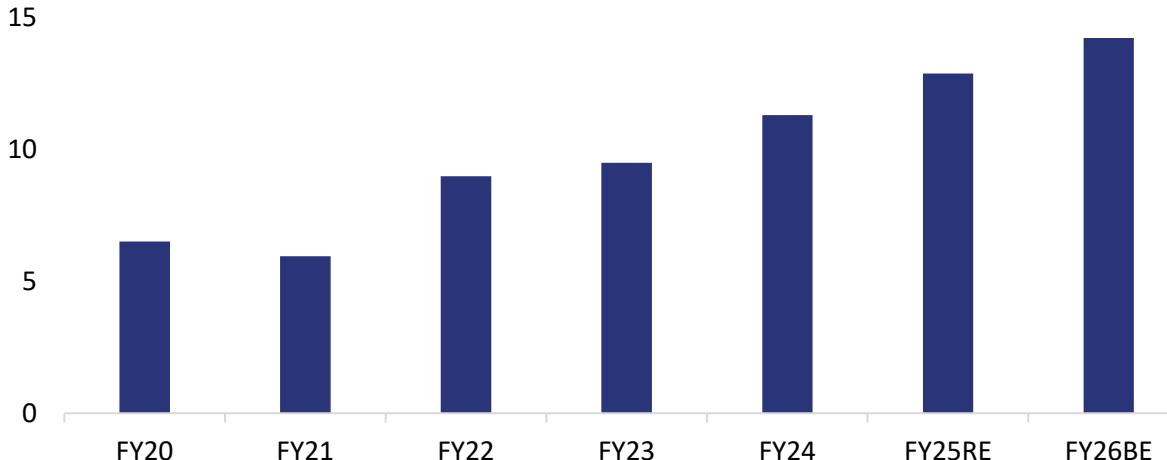
# CAPEX REMAINS STRONG EVEN AS UNION TAX KITTY GROWS SLOWLY

ITEM (Rs. bn)	FY24A	FY25RE	FY26BE	GROWTH FY26BE/FY25RE	8MFY25	8MFY26	GROWTH 8MFY26/8MFY25	8MFY26/FY26BE
Corporation Tax	9,111	9,868	10,820	9.7%	5,116	5,515	7.8%	51.0%
Income Tax	10,447	11,830	14,380	21.6%	7,008	7,483	6.8%	52.0%
Customs Duty	2,331	2,329	2,400	3.1%	1,541	1,429	-7.3%	59.5%
Excise Duty	3,054	3,003	3,170	5.6%	1,751	1,913	9.3%	60.3%
Service Tax	4	0	1		1	-12		
GST	9,572	10,316	11,780	14.2%	6,780	6,646	-2.0%	56.4%
Other Taxes	39	50	50	0.0%	52	33	-36.3%	
<b>Gross tax revenue</b>	<b>34,655</b>	<b>37,952</b>	<b>42,702</b>	<b>12.5%</b>	<b>22,610</b>	<b>23,364</b>	<b>3.3%</b>	<b>54.7%</b>
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	8,121	9,366	15.3%	65.8%
<b>Net tax revenue</b>	<b>23,273</b>	<b>24,987</b>	<b>28,374</b>	<b>13.6%</b>	<b>14,434</b>	<b>13,939</b>	<b>-3.4%</b>	<b>49.1%</b>
Non-Tax Revenue	4,018	5,375	5,830	8.5%	4,270	5,164	20.9%	88.6%
Non-debt Capital Receipts	598	418	760	81.7%	240	389	62.5%	51.2%
<b>Total Receipts</b>	<b>27,888</b>	<b>30,781</b>	<b>34,964</b>	<b>13.6%</b>	<b>18,944</b>	<b>19,492</b>	<b>2.9%</b>	<b>55.7%</b>
Revenue Expenditure	34,943	36,035	39,443	9.5%	22,275	22,677	1.8%	57.5%
Capital Expenditure	9,492	10,520	11,211	6.6%	5,135	6,582	28.2%	58.7%
<b>Total Expenditure</b>	<b>44,434</b>	<b>46,555</b>	<b>50,653</b>	<b>8.8%</b>	<b>27,410</b>	<b>29,259</b>	<b>6.7%</b>	<b>57.8%</b>
Revenue Deficit	7,652	5,671	5,238	-7.6%	3,570	3,574	0.1%	68.2%
Fiscal Deficit	16,546	15,773	15,689	-0.5%	8,466	9,767	15.4%	62.3%
Nominal GDP	2,95,357	3,27,718	3,56,979	8.9%				
<b>Fiscal Deficit (% of Nominal GDP)</b>	<b>5.6%</b>	<b>4.8%</b>	<b>4.4%</b>					

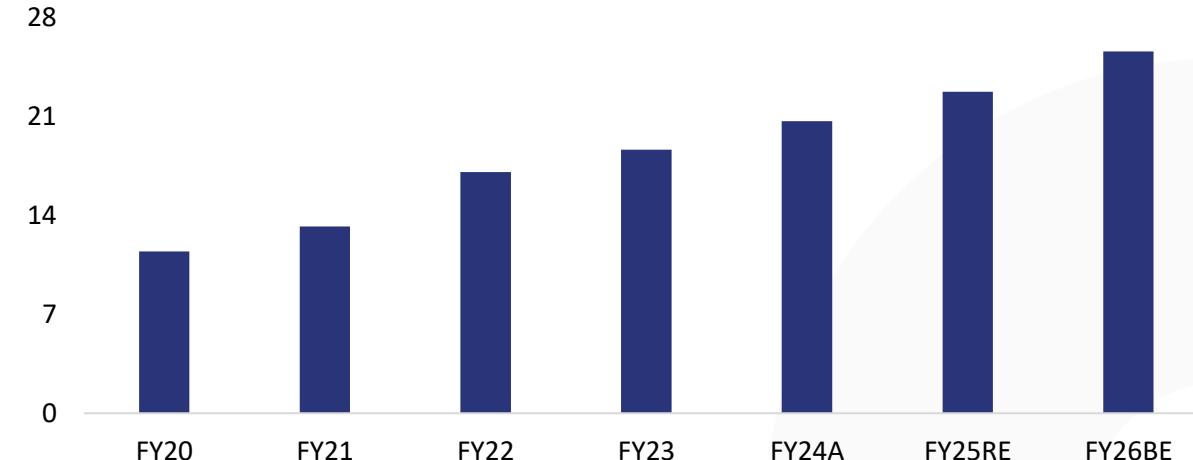
- Gross direct tax collections grew 4.2% y/y to Rs. 20 trn in YTD FY26 as of 17th Dec'25, driven by 7.6% y/y rise in corporate taxes to Rs. 9.9 trn and 1.2% y/y rise in non-corporate taxes to Rs. 9.7 trn. Refunds fell 13.5% y/y leading to 8% y/y rise in net collections to Rs. 17 trn.
- Advance tax collections rose 4.3% y/y to Rs. 7.9 trn, with 8% y/y rise in corporate taxes to Rs. 6.1 trn and 6.5% y/y fall in non-corporate taxes to Rs. 1.8 trn in YTD FY26 as of 17th Dec'25. Gross GST collections grew a robust 8.6% y/y to Rs. 16.5 trn in 9MFY26

# STATES DELICATELY BALANCE FUNDING AND SPENDING REQUIREMENTS

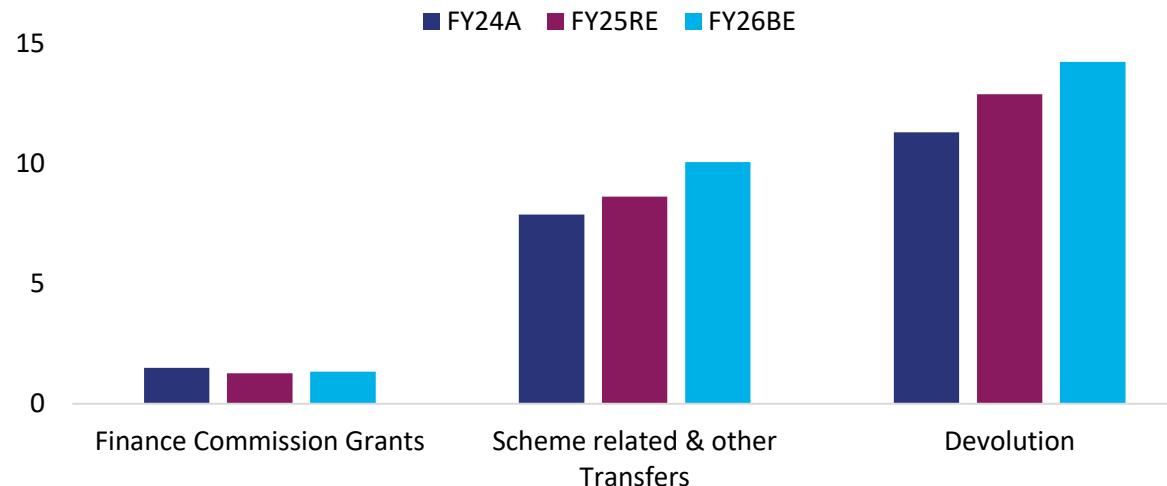
## STATES SHARE IN UNION TAXES (Rs. trn)



## TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



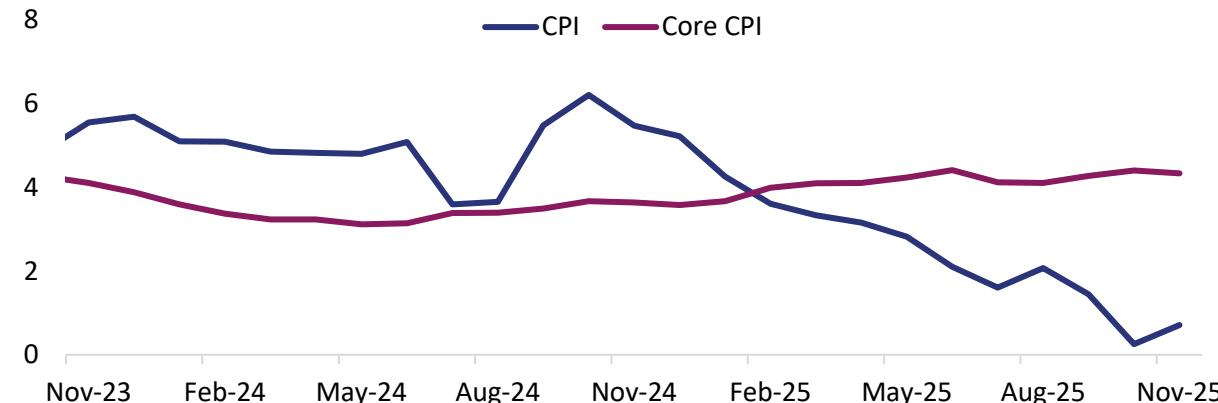
## COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



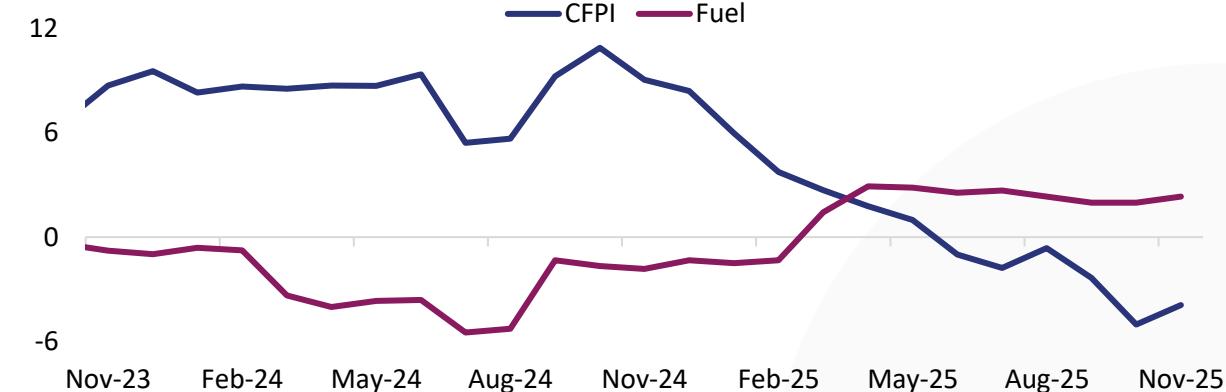
- According to analysis of 21 States, State capex stood at 38.3% of FY26BE in 8MFY26, with 16 of 21 States spending less than half of FY26BE. Notably, capex utilization as % of FY26BE for Telangana was at 99.8%, Haryana at 92.7% and Kerala at 58.2% in 8MFY26
- According to media sources, Union has released Rs. 610 bn to States under SASCI in YTD FY26 as of 15<sup>th</sup> Dec'25, with Uttar Pradesh receiving Rs. 85 bn, Assam at Rs. 56 bn and Maharashtra at Rs. 46 bn

# LOWER INFLATION ALLOWS AMPLE CUSHION FOR MONETARY EASING

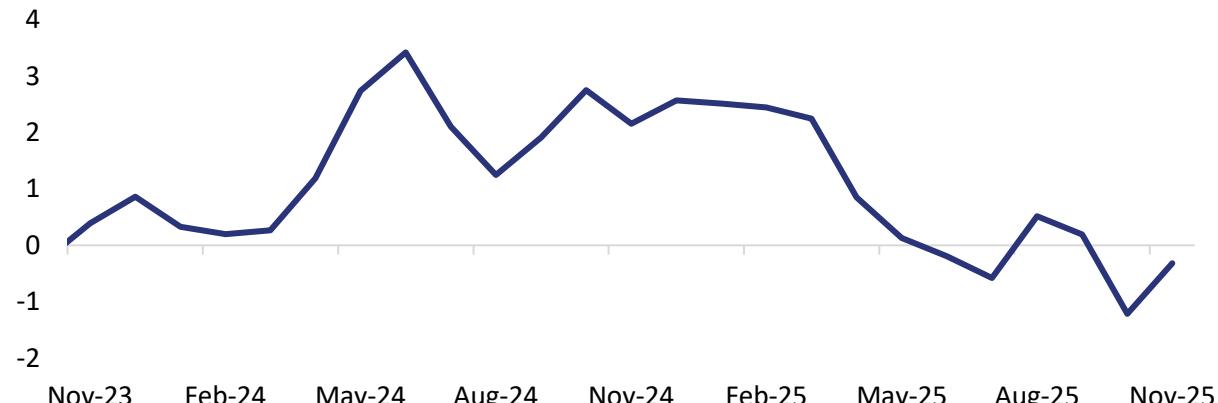
## CONSUMER PRICE INDEX (CPI) & CORE CPI (% Y/Y)



## CFPI AND CPI: FUEL (% Y/Y)



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



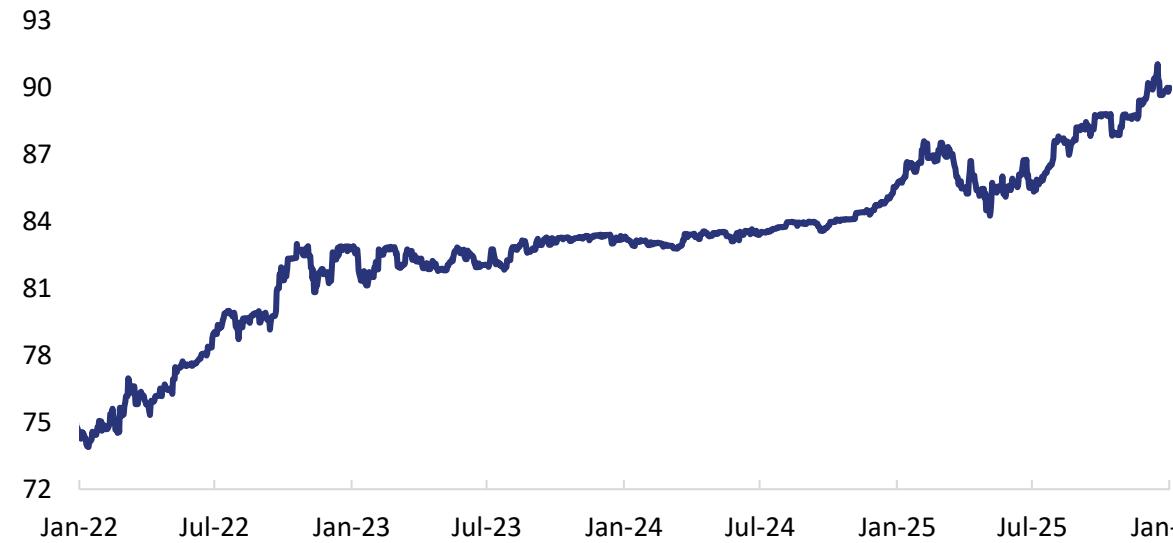
## WPI: MANUFACTURED PRODUCTS (% Y/Y)



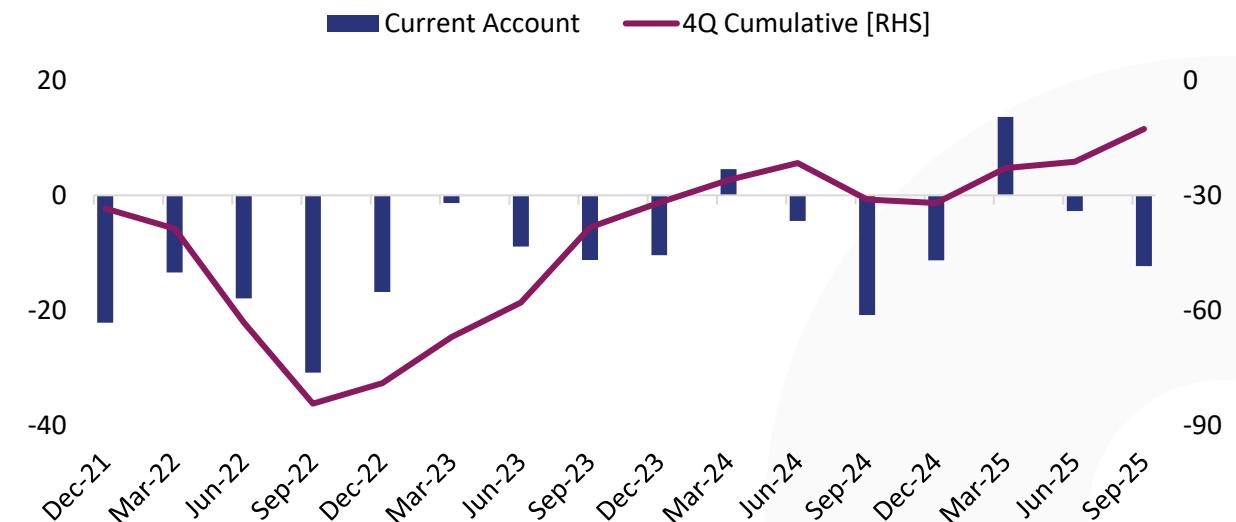
- CPI rebounded in Nov'25, off record lows, amidst slower contraction y/y in food prices with m/m uptick due to unseasonal rains. Core inflation moderated, with muted housing prices, rescinding precious metals and GST impact on daily items. MPC member Mr. Kumar interjected that benign inflation provides policy space, but current ranges are cause for discomfort
- WPI's deflationary bout was driven by softer fuel and food prices, offset by rising minerals and certain manufactured goods.

# RBI STEPS IN TO CURB INR VOLATILITY AFTER RECORD LOWS IN MID-DEC'25

## USD/INR EXCHANGE RATE (Rs. per USD)



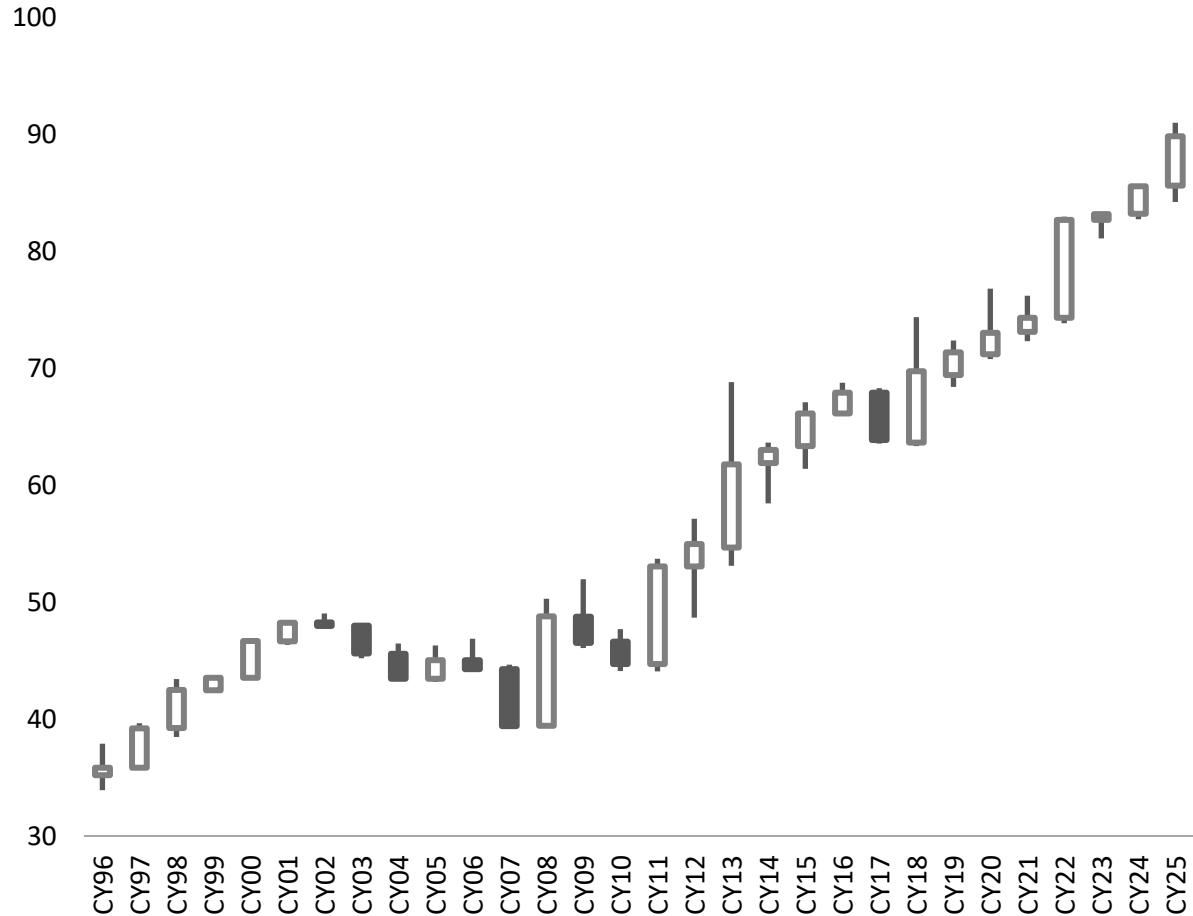
## CURRENT ACCOUNT BALANCE (USD bn)



INDICATOR	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25	OCT'25	NOV'25	DEC'25
<b>Forex Reserves (USD Bn)</b>	635.7	630.6	638.7	668.3	688.4	691.3	698.1	690.1	695.4	700.1	689.7	687.9	693.3
Goods Imports (%y/y)	2.7%	10.7%	-14.8%	12.1%	20.0%	-1.3%	-3.4%	9.1%	-9.5%	18.0%	16.9%	-1.9%	
Oil Imports (%y/y)	-9.0%	-13.4%	-29.6%	16.3%	25.5%	-26.2%	-8.4%	7.4%	9.4%	-5.8%	-21.7%	-11.3%	
Non-oil Imports (%y/y)	6.9%	20.5%	-9.0%	10.4%	17.6%	10.6%	-1.6%	9.6%	-13.6%	26.1%	32.7%	1.2%	
Goods Exports (%y/y)	-1.5%	-2.6%	-10.9%	0.9%	-3.8%	-1.2%	-1.3%	13.3%	5.8%	6.2%	-11.9%	19.4%	
Oil Exports (%y/y)	-31.6%	-59.6%	-30.4%	-9.6%	-36.6%	-23.9%	-24.4%	7.4%	-0.3%	10.8%	-10.8%	11.6%	
Non-oil Exports (%y/y)	5.1%	14.5%	-6.0%	2.4%	9.1%	3.9%	3.2%	14.1%	6.7%	5.5%	-12.0%	20.3%	
<b>Goods Trade Balance (USD Bn.)</b>	-20.7	-23.1	-14.1	-21.5	-27.1	-22.6	-19.1	-27.8	-27.2	-33.1	-41.7	-24.5	
Services Exports (%y/y)	16.9%	12.1%	11.7%	18.7%	8.9%	9.6%	12.0%	10.4%	2.8%	12.6%	2.2%	6.7%	
Services Imports (%y/y)	13.9%	12.6%	-4.7%	5.3%	1.0%	-1.0%	5.1%	8.5%	-5.3%	7.9%	2.9%	-2.1%	
<b>Overall Trade Balance (USD Bn)</b>	-1.5	-5.1	3.1	-3.3	-11.2	-6.8	-2.9	-11.4	-11.6	-14.3	-24.3	-7.1	

# CY25 WAS CHARACTERIZED BY FOREX VOLATILITY ACROSS ECONOMIES

## LONG-TERM USD/INR EXCHANGE RATE (Rs. per USD)



## PERFORMANCE OF MAJOR CURRENCIES VS USD

	CY24	CY25
USD DXY	6%	-9%
China	-2%	4%
Japan	-10%	0%
Eurozone	-5%	13%
India	-3%	-5%
UK	-1%	8%
Brazil	-20%	13%
Australia	-8%	8%
Canada	-7%	5%
South Korea	-12%	2%
South Africa	-1%	14%
Russia	-19%	44%
Thailand	0%	8%
Vietnam	-5%	-3%
Indonesia	-4%	-4%
Poland	-3%	15%
Nigeria	-43%	7%

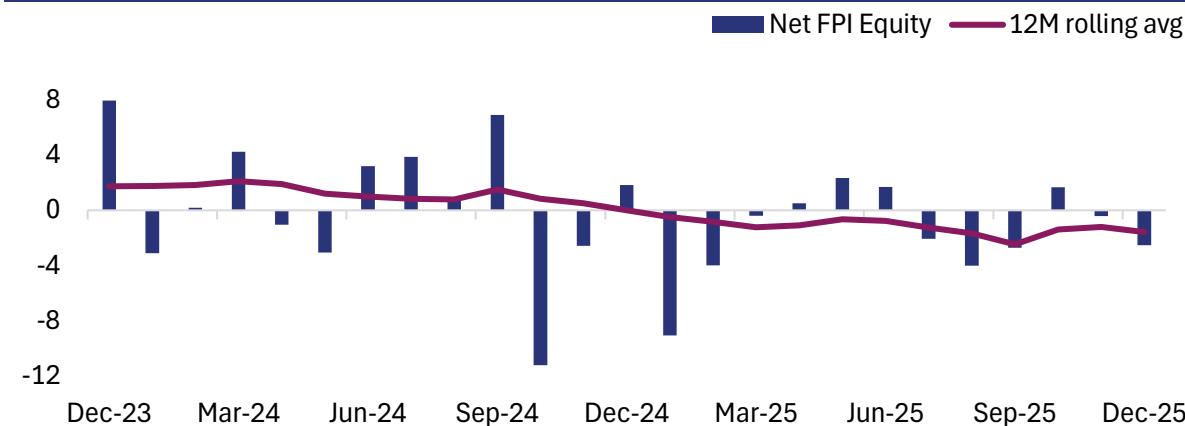
Note: +ve indicates depreciation of USD vs. LCY

Colour coding for a CY indicates best (blue) and worst (red) performing currencies vs USD

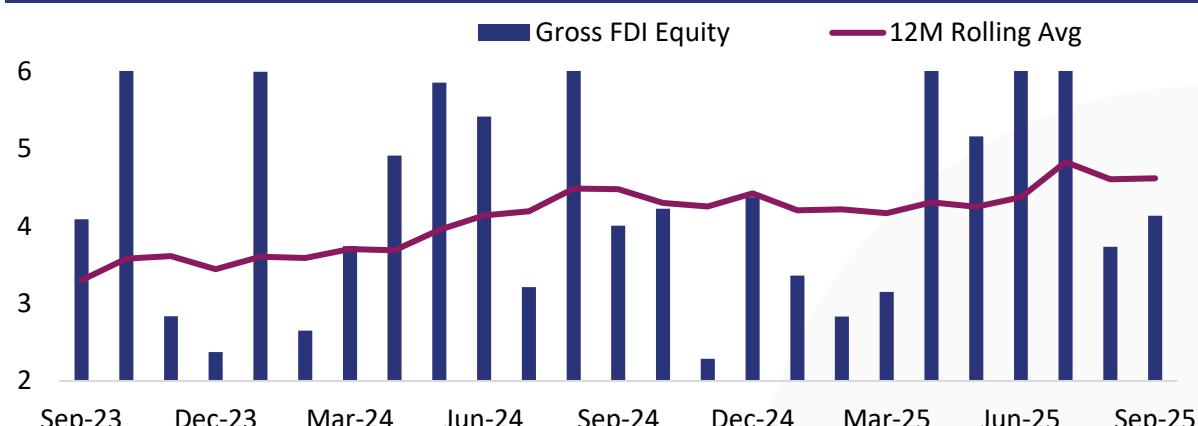
- Performance of major currencies vs USD in CY25 was dictated by tariff shocks, policy rate actions, and geopolitics. USD clawed back most of the gains of CY24 and slid lower amidst slower growth and cooling inflation. The INR underperformed most of its peers in CY25, reversing the trend seen in CY24
- Developed economies like EU and UK appreciated vs USD in CY25 as rate cycles were at the fag end, with fiscal stimuli propping growth considerations. High-yield EMs like India, Indonesia, Latin America underperformed, while low-yield surplus economies like Thailand, Vietnam faced slower depreciation

# FOREIGN INVESTORS PREFERRED DOMESTIC DEBT VS EQUITIES IN CY25

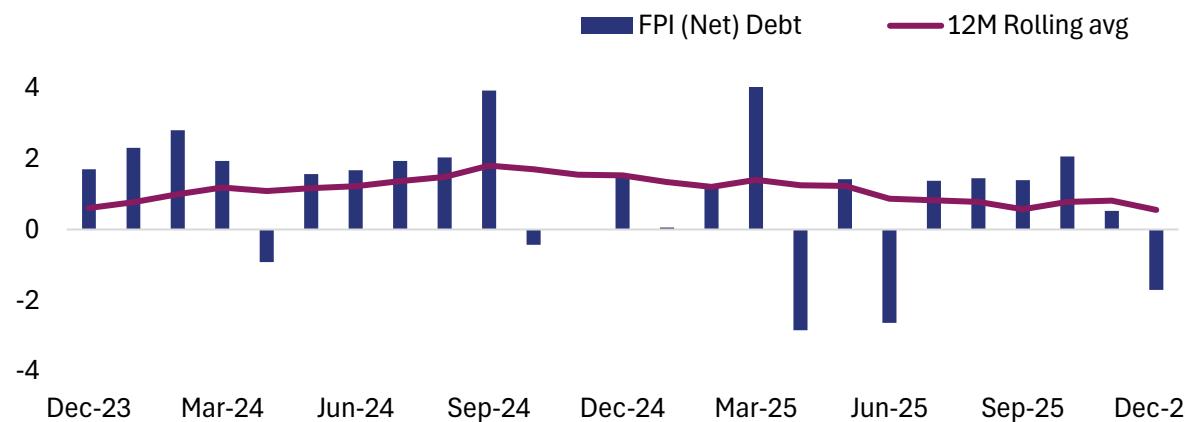
## NET FPI EQUITY INFLOW (USD bn)



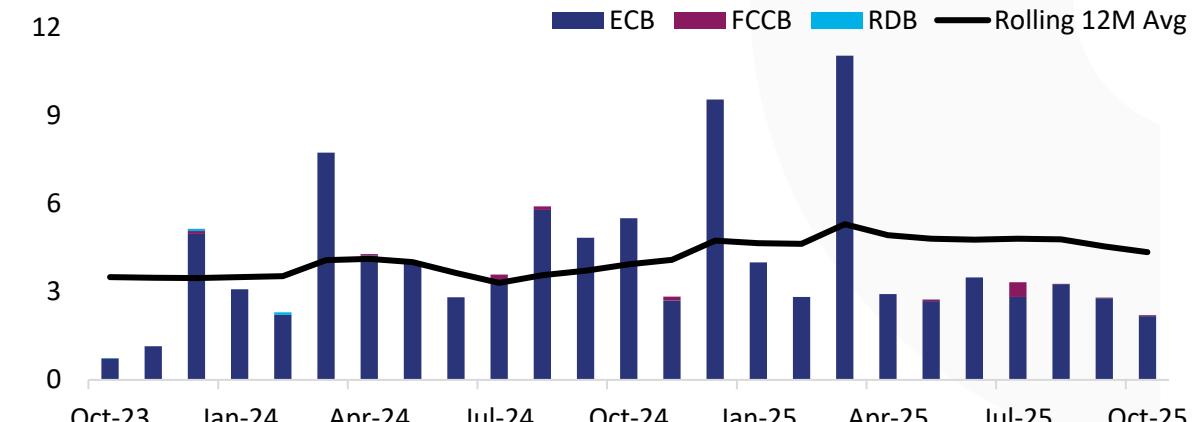
## GROSS FDI EQUITY INFLOWS (USD bn)



## NET FPI DEBT FLOWS (USD bn)



## GROSS ECB ISSUED (USD bn)

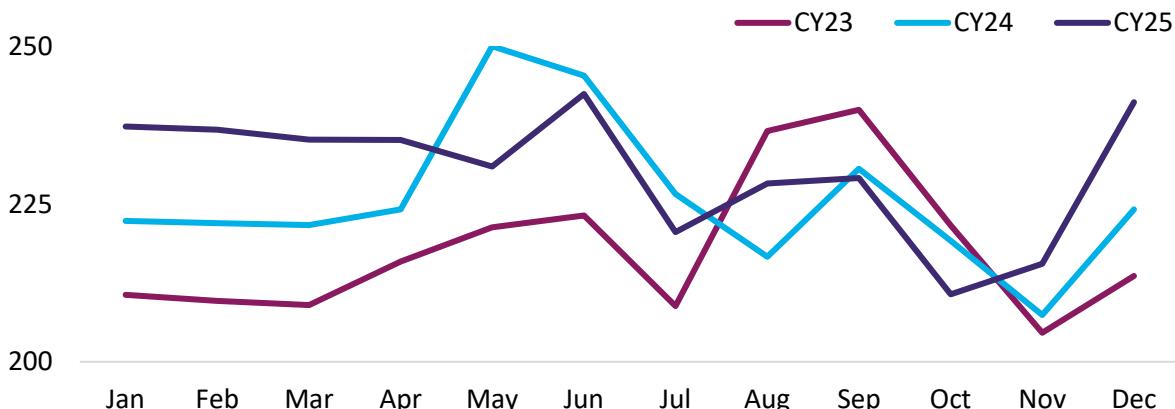


- FPIs withdrew net USD 1.6 bn from domestic equities, with outflows of ~USD 18 bn in CY25 being the highest ever withdrawal. Notably, outflows were concentrated in secondary markets with FPIs preferring investing in primary equity issuances. FPI debt flows were negative for the first time in 6-months, likely due to year-end profit booking.
- In CY25, FPIs were net sellers in equities in 8/12 months but net buyers in debt in 9/12 months, underscoring preference for domestic fixed-income story over richly-valued equities.

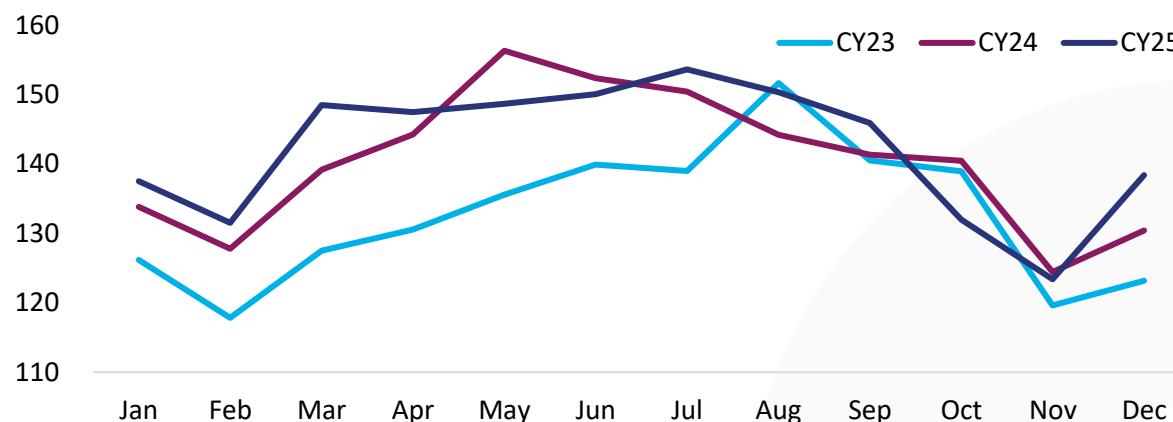
# SECTORAL UPDATES

# POWER CONSUMPTION DISPLAYS UPWARDS TREND MOVING INTO CY26

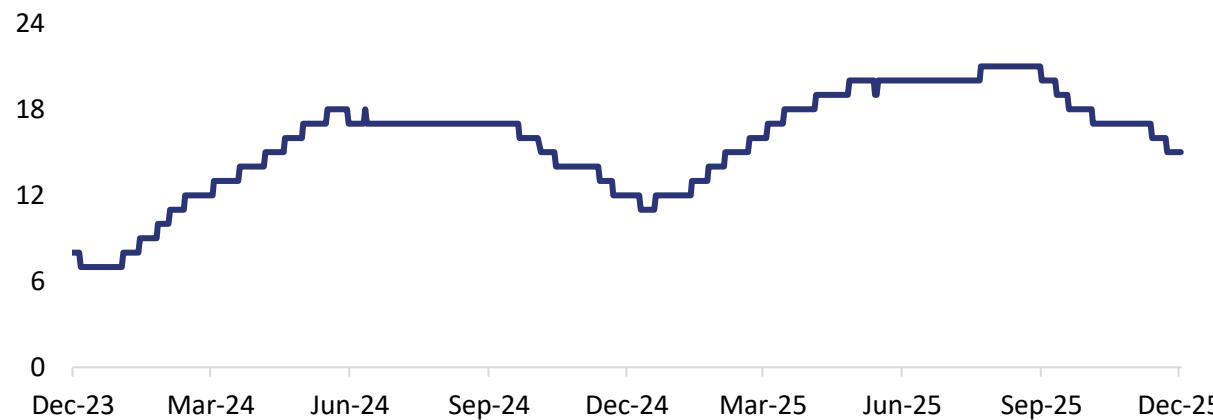
## PEAK POWER DEMAND (GW)



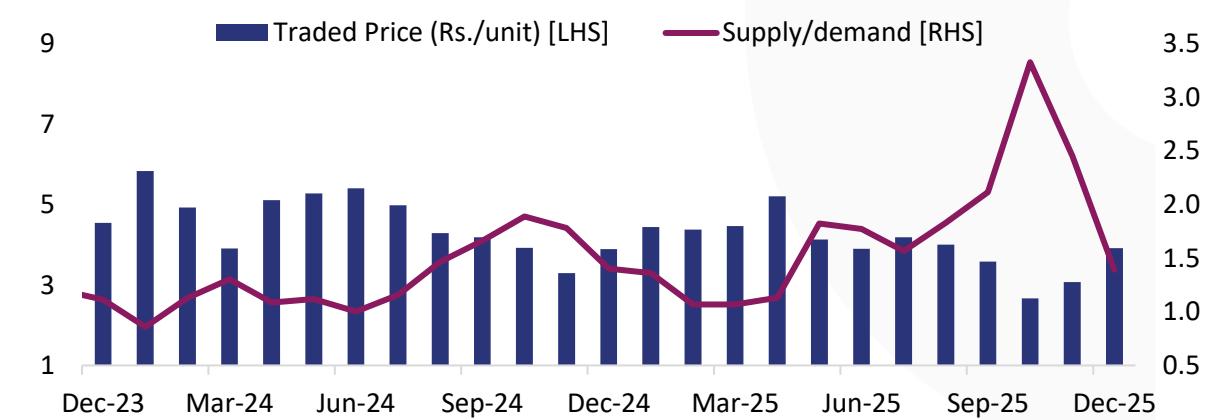
## POWER SUPPLY (BU)



## COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



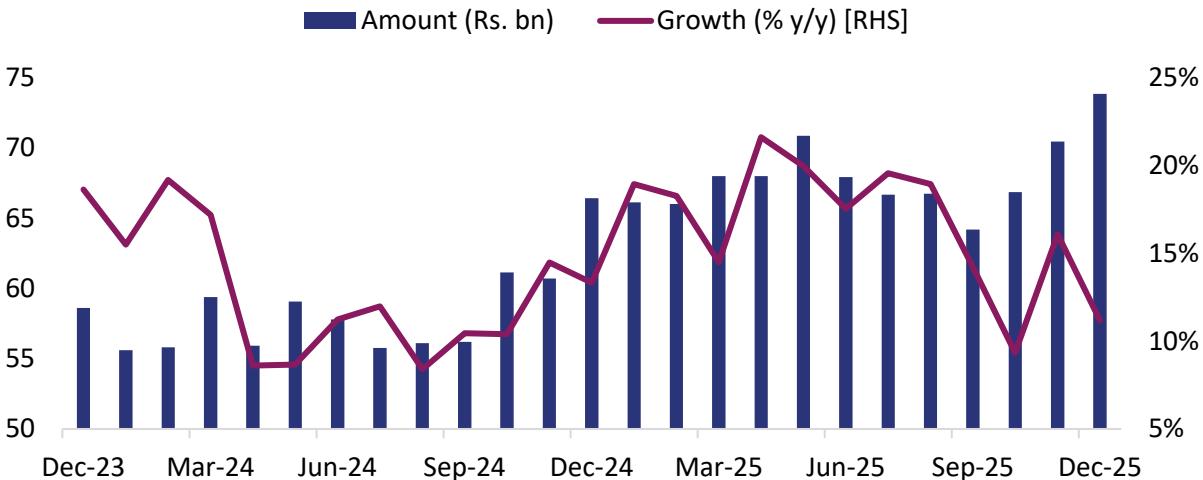
## SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Power consumption rose 7% y/y to 138.4 BU in Dec'25, driven by South and East regions, with daily demand displaying a rising trend due to increased year-end industrial activity
- Cabinet has approved the Sustainable Harnessing of Advancement of Nuclear Energy for Transforming India (SHANTI) Bill, aimed at providing comprehensive legal framework for nuclear power sector including private participation in nuclear supply chain. It further allows FDI upto 49% through JVs with domestic entities, typically through a PSU player

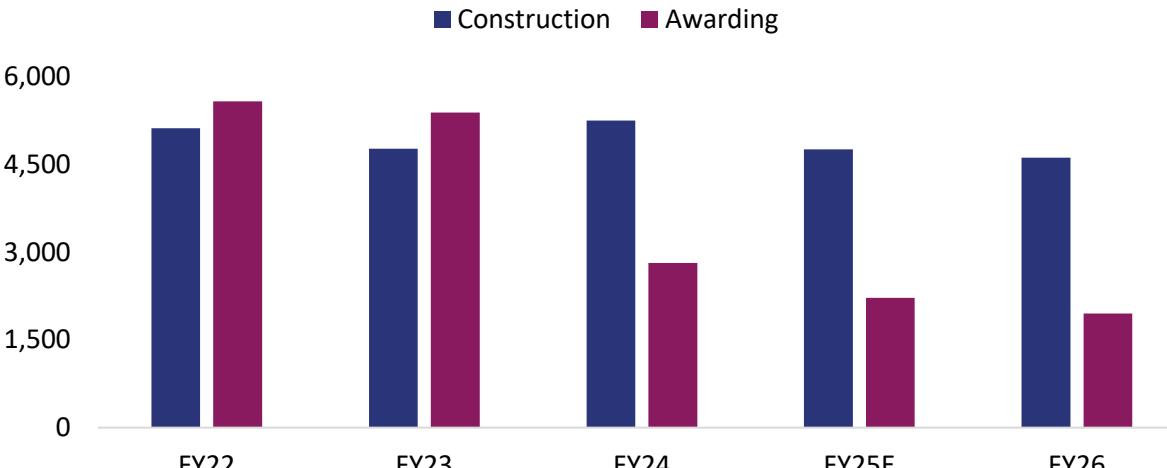
# HIGHWAY CONSTRUCTION REMAINS MEASURED EVEN AS CAPEX GAINS STEAM

## FASTAG COLLECTIONS

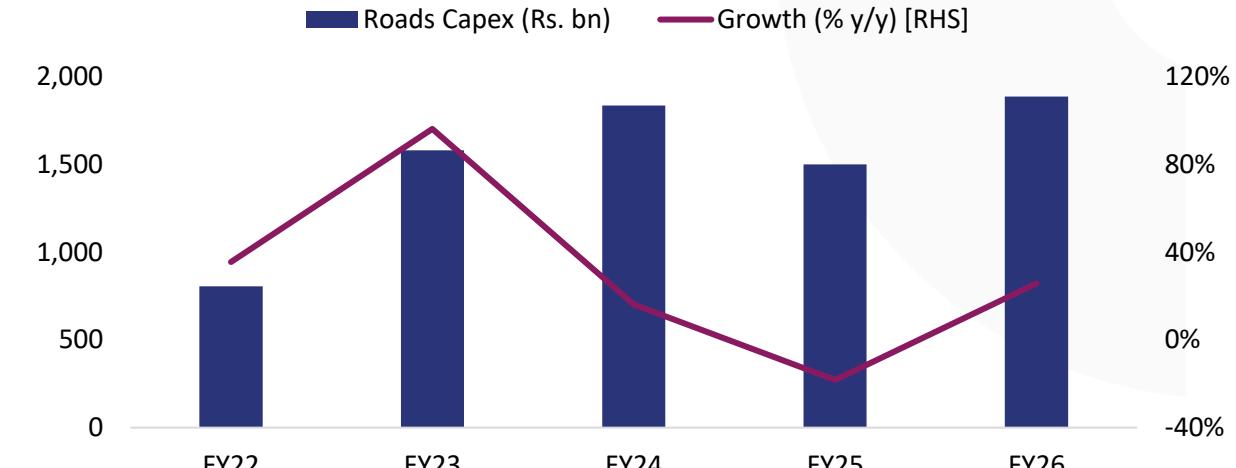


- FasTag collections rose 11.2% y/y to Rs. 74 bn in Dec'25, its highest ever showing, with lower single digit growth in volumes
- Pace of roads construction has remained flattish y/y in 8MFY26. Capex by roads ministry rose 27% y/y to Rs. 1.9 trn, driven by pipeline of wider four and six-lane highways, eight-lane expressways and high-speed corridor projects

## NATIONAL HIGHWAY AWARDING (km) – 8MFY\*



## ROADS MINISTRY CAPEX – 8MFY

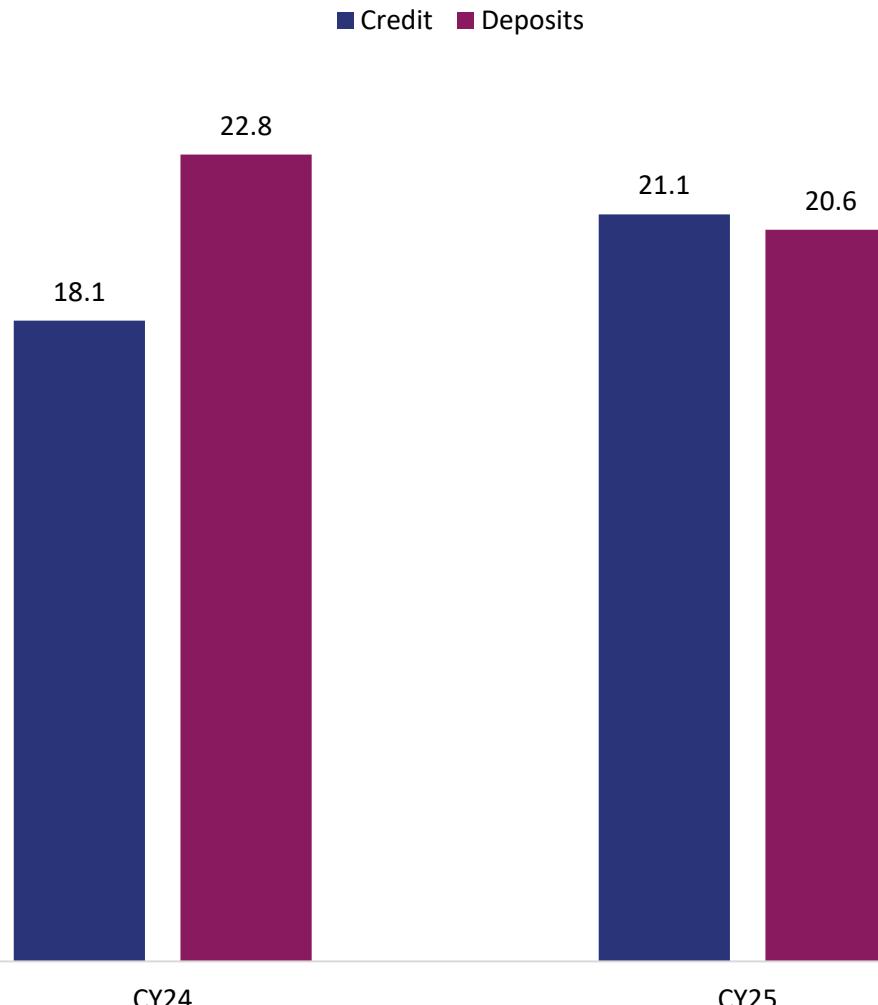


# END OF CY25 WITNESSES BROAD-BASING OF CREDIT GROWTH

INDICATOR	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25	OCT'25	NOV'25	DEC'25
<b>CREDIT</b>												
Non-food credit growth (%y/y)	11.4%	10.9%	11.0%	10.2%	8.8%	9.3%	9.9%	9.9%	10.2%	12.2%	11.4%	10.6%
Industry credit growth (%y/y)	8.0%	7.1%	8.2%	6.6%	4.8%	5.9%	6.0%	6.5%	7.3%	10.0%	9.6%	
Services credit growth (%y/y)	12.5%	12.0%	12.0%	10.5%	8.7%	9.2%	10.6%	10.6%	10.2%	13.0%	11.7%	
Personal credit growth (%y/y)	11.8%	11.7%	11.7%	11.9%	11.1%	11.7%	11.9%	11.8%	11.7%	14.0%	12.8%	
<b>DEPOSITS</b>												
Total Deposits (%y/y)	10.8%	10.6%	10.3%	9.9%	10.0%	10.4%	10.1%	10.1%	9.8%	9.5%	9.4%	8.6%
Time Deposits (%y/y)	11.0%	11.0%	10.7%	10.4%	8.9%	9.2%	9.5%	9.1%	8.8%	8.5%	8.4%	8.3%
Demand Deposits (%y/y)	9.4%	7.7%	7.0%	6.4%	18.0%	19.6%	14.6%	17.9%	17.7%	16.8%	16.7%	10.6%
<b>KEY RATIOS</b>												
C/D Ratio (%)	80.4%	80.8%	80.7%	80.8%	79.6%	78.9%	78.9%	79.2%	79.3%	80.3%	80.2%	80.5%
Investment/Deposit Ratio (%)	29.9%	30.0%	29.9%	29.7%	29.3%	28.9%	28.6%	28.8%	28.8%	29.1%	28.5%	28.4%
<b>KEY RATES</b>												
1Y MCLR (Median-All SCB)	9.00%	9.05%	9.00%	9.00%	8.95%	8.90%	8.75%	8.60%	8.60%	8.55%	8.50%	8.45%
WALR – fresh (%)	9.33%	9.40%	9.35%	9.26%	9.20%	8.62%	8.81%	8.72%	8.39%	8.61%	8.71%	
WALR – o/s (%)	9.87%	9.80%	9.77%	9.68%	9.67%	9.44%	9.38%	9.32%	9.26%	9.24%	9.21%	
WADTDR – fresh (%)	6.62%	6.55%	6.72%	6.34%	6.11%	5.75%	5.61%	5.56%	5.61%	5.57%	5.59%	
WADTDR – o/s (%)	7.09%	7.10%	7.11%	7.11%	7.07%	7.00%	6.92%	6.87%	6.82%	6.78%	6.73%	
Repo Rate	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%

# CREDIT-DEPOSIT MISMATCH REDUCED IN CY25 VS. CY24

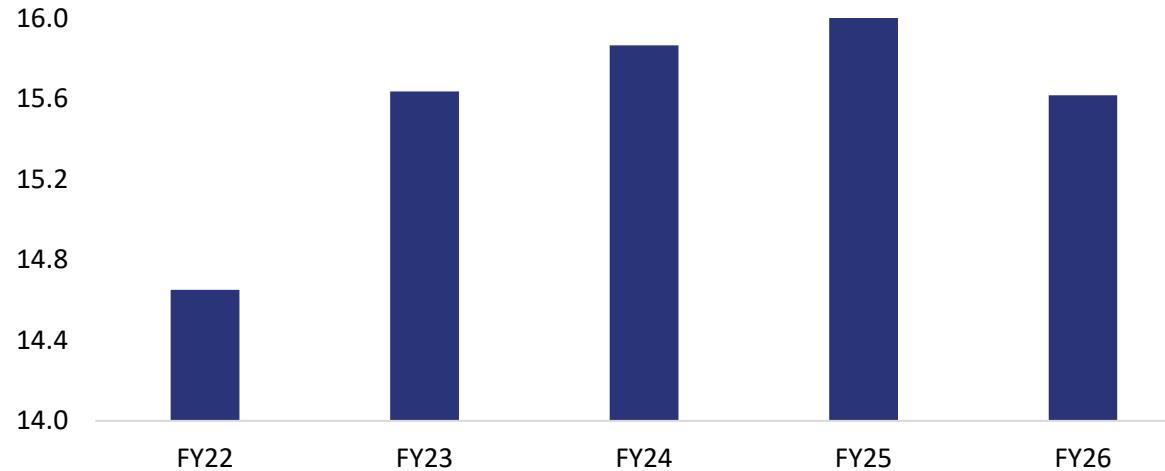
## INCREMENTAL BANK CREDIT VS. DEPOSIT (NET) (Rs. trn)



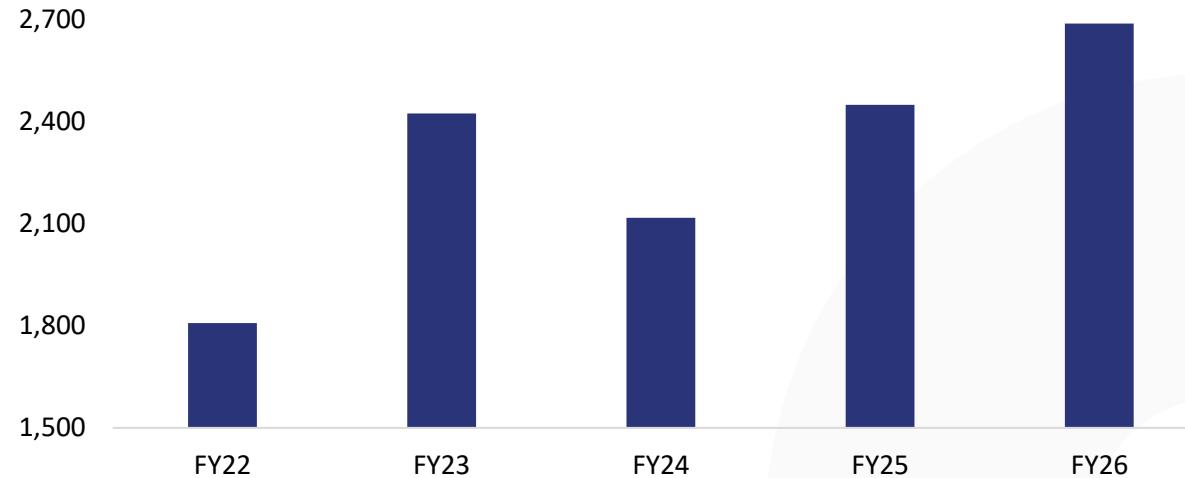
- Industry credit's growth was underpinned by double digit growth in MSME segment along with working capital and capacity addition needs of select large segments like infrastructure, engineering, textiles and petroleum products
- Personal loans remain the driver of credit growth, albeit normalizing from yester-years. Vehicle loans and gold loans continue to grow steadily, while housing and credit cards show moderation indicative of base effects and some risk-calibration from banks
- Deposit growth has moderated to single digits at the end of CY25 leading to edging up of aggregate CD ratio beyond 80%. Notably, incremental credit has outpaced incremental deposit in CY25 vs CY24, which has prompted banks to raise CDs at unprecedented levels
- WALR on outstanding loans fell in Nov'25, reflective of repricing of older higher-rate loans. Fresh deposit rates display signs of stabilizing around 5.8% mark, albeit awaiting impact of 25 bps cut in Dec'25
- Slow deposits growth and rising CD ratio limit banks' abilities to materially cut deposit pricing while firmer lending rates inhibit credit offtake. 75% of individual deposits are up for repricing by Sep'26, its highest since trough of previous rate cut cycle

# INSURERS EXPERIENCE A BUMPER NOV'25

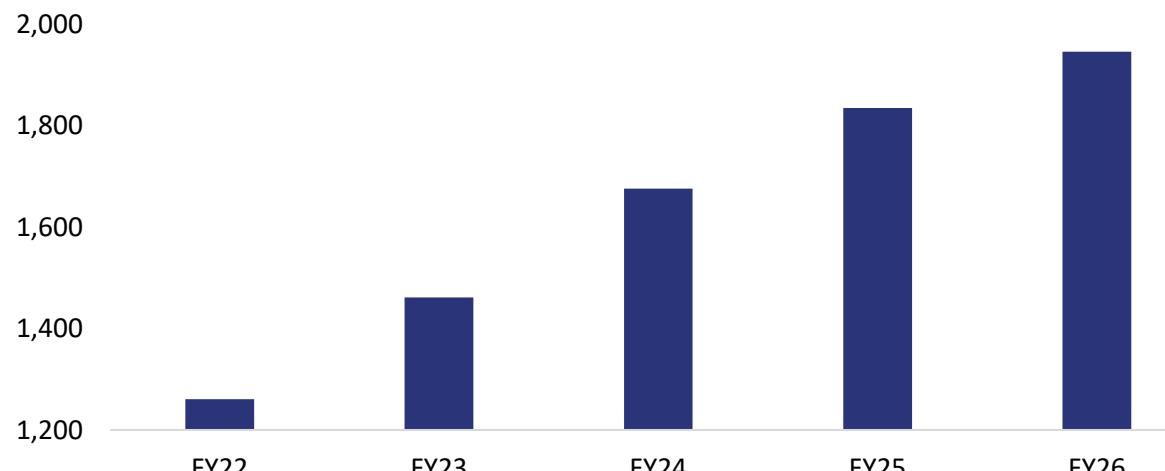
## NEW LIFE INSURANCE POLICIES – 8MFY (mn units)



## FIRST YEAR PREMIUM- LIFE INSURANCE – 8MFY (Rs. bn)



## GROSS DIRECT PREMIUM- NON- LIFE INSURANCE – 8MFY (Rs. bn)

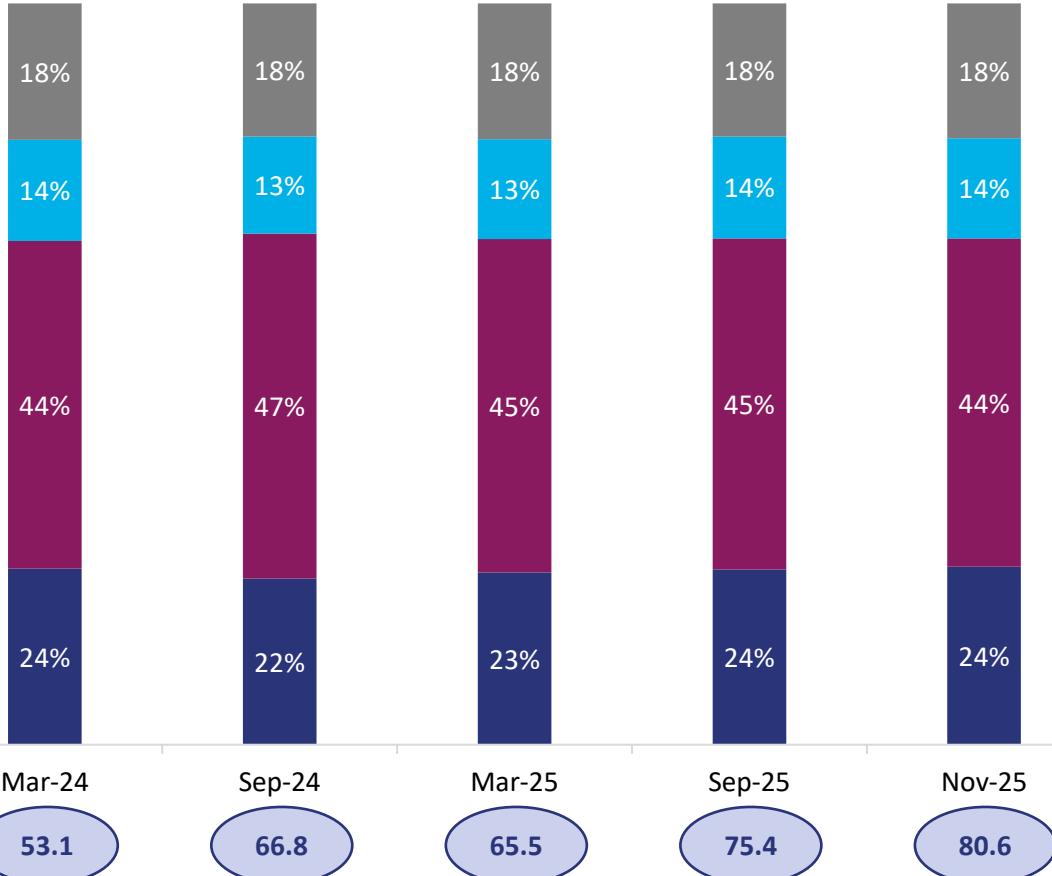


- Life insurance premiums surged 23% y/y in Nov'25 to Rs. 340 bn driven by robust growth in individual segment aided by GST reductions on such products. Notably, PSU insurer grew faster than private peers.
- Non-life insurers' gross direct premia jumped 24% y/y to Rs. 269 bn fueled by rising motor sales and retail health demand. Health insurers surged 36% y/y, matched by private insurers, while their PSU counterparts fell 0.4% y/y

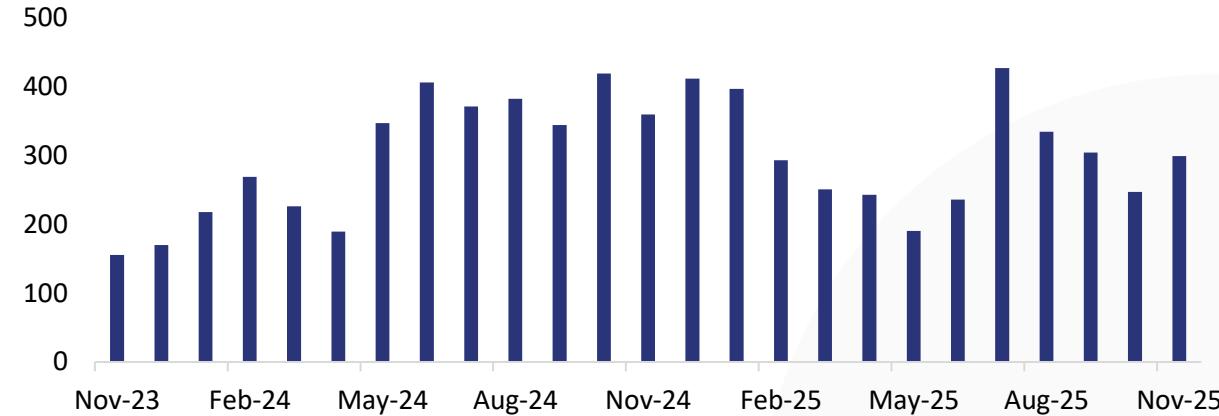
# MF FLOWS REFLECTIVE OF RISK-ON SENTIMENT AS INVESTORS SEEK ALPHA

## AUM SPLIT OF OPEN ENDED MUTUAL FUNDS

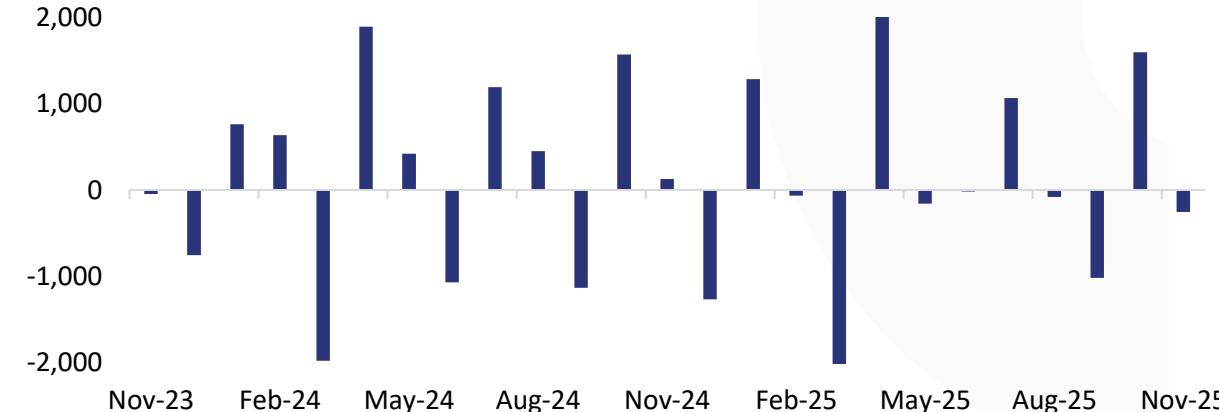
■ Debt ■ Equity ■ Hybrid ■ Others (inc. ETFs)



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



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

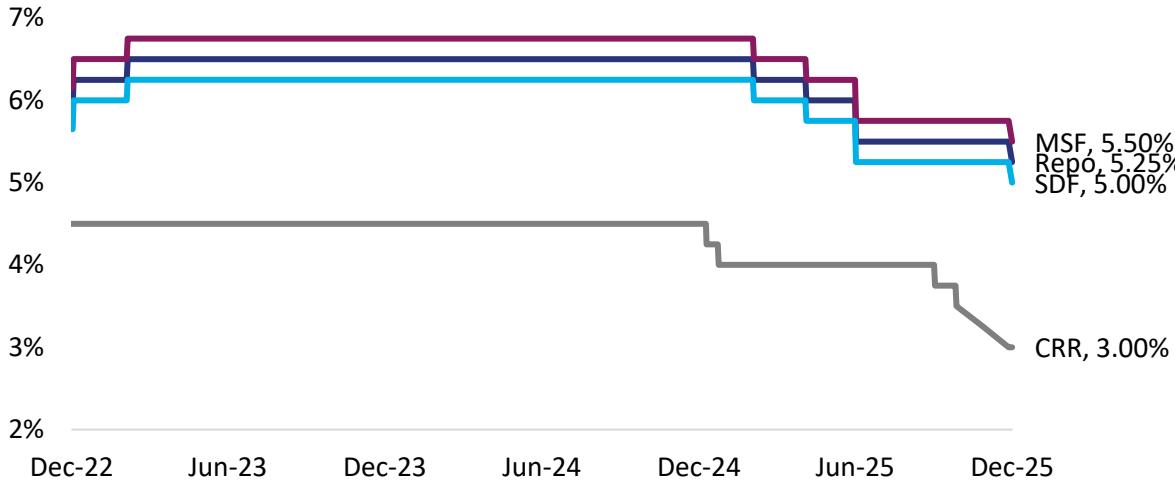


- Equity flows were up 21% m/m in Nov'25, with highest flows mid and small cap funds, followed by flexicap and value funds reflecting tilt towards alpha oriented strategies
- Debt funds saw whipsaw pattern in the past 3 months, with withdrawals in Nov'25 driven by Rs. 376 bn outflow in overnight funds and Rs. 140 bn outflow in liquid funds, while higher duration funds saw decent inflows indicating largely treasury driven withdrawals. Multi-asset and arbitrage funds lead hybrid flows as investors seek alpha in times of volatility

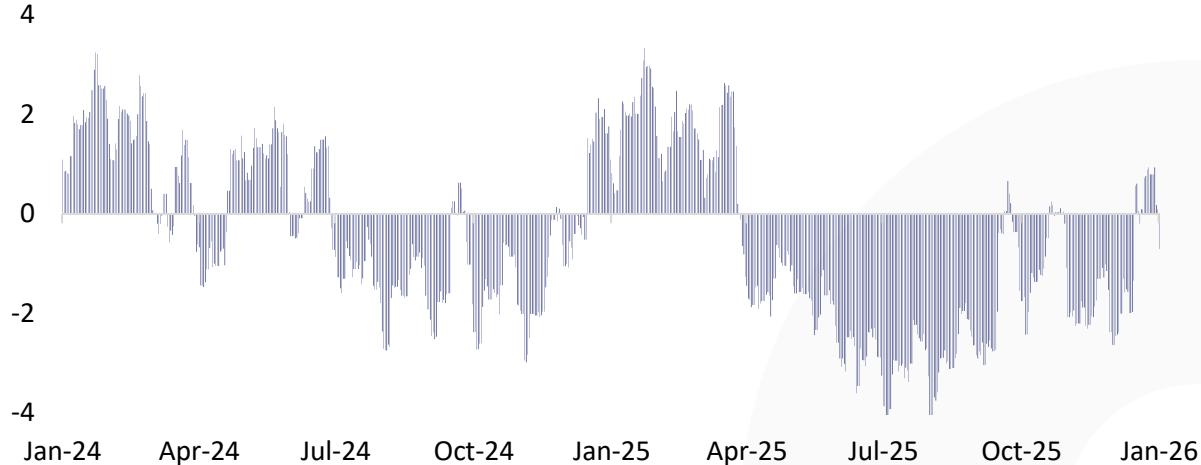
# MONETARY POLICY AND YIELDS

# CONFLUENCE OF FACTORS TUG AT SYSTEMIC LIQUIDITY IN DEC'25

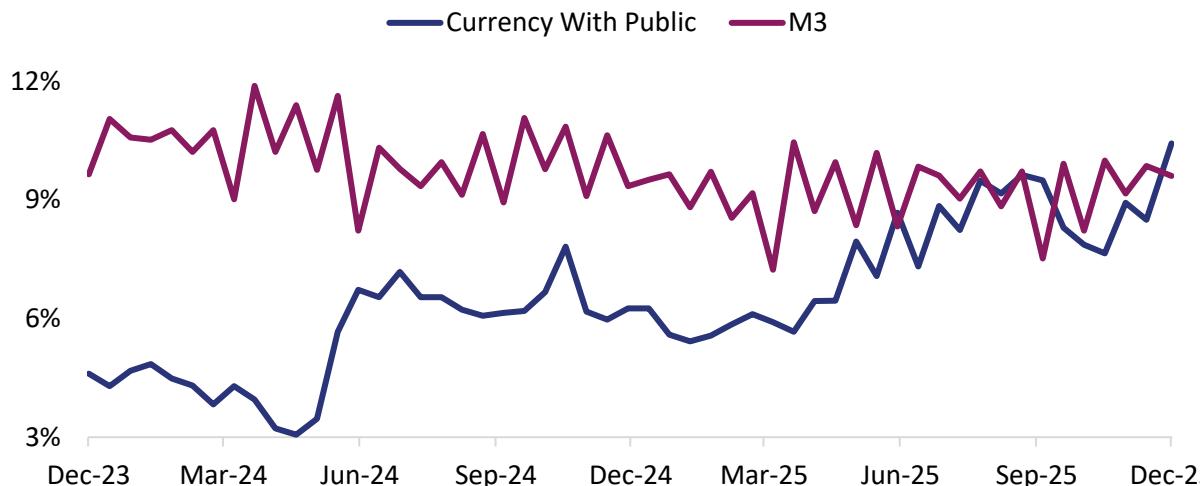
## KEY RATES



## BLOOMBERG INDIA LIQUIDITY INDICATOR\* (Rs. trn)



## CURRENCY WITH PUBLIC (Y/Y) VS MONEY STOCK M3 (Y/Y)



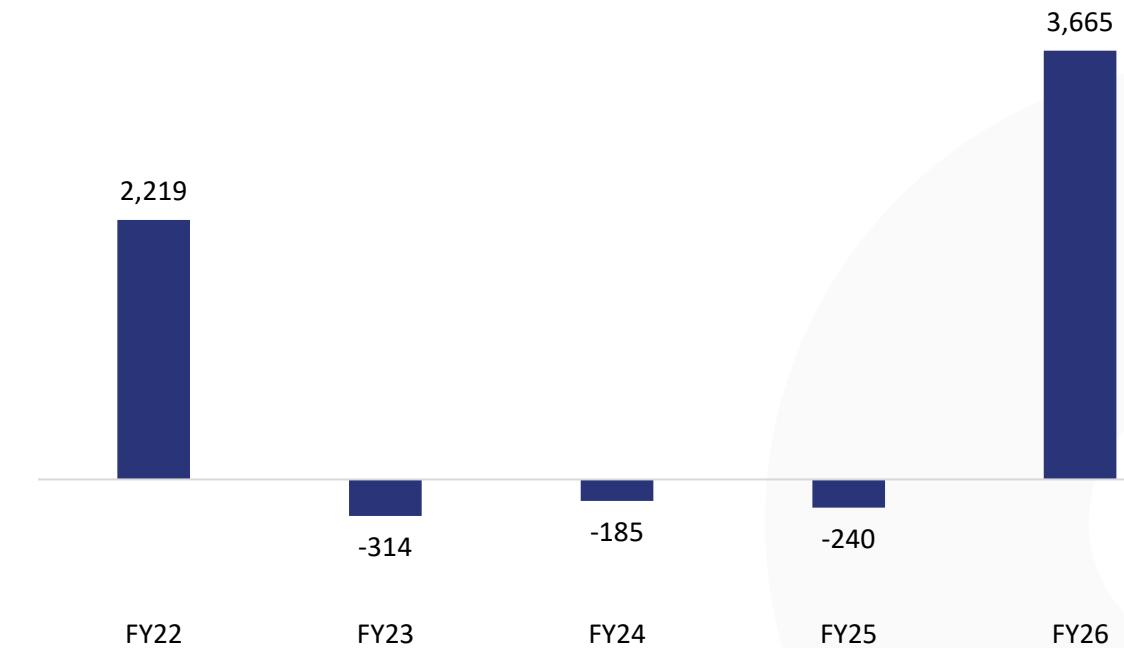
- The MPC unanimously voted to cut the policy repo rate by 25 bps to 5.25%, and 5-1 vote to keep stance at neutral with Prof. Singh voting for an accommodative stance
- Currency with public has surged in H2CY25 driven by festive season spending, while slower deposits growth has anchored M3 growth to ~9.5% levels, indicative of moderating liquidity conditions.

# RBI READIES ARSENAL TO BATTLE LIQUIDITY TUSSLE

## DURABLE LIQUIDITY MEASURES BY RBI IN CY25

MEASURE	DESCRIPTION	AUCTION DATE	AMOUNT INJECTED (Rs. bn)
OMO Purchase	Through NDS OM	Jan'25	388
OMO Purchase Auctions	Auction Process	30th Jan	200
		13th Feb	400
		20th Feb	400
		12th Mar	500
		18th Mar	500
		25th Mar	445
		3rd Apr	200
		8th Apr	200
		17th Apr	400
		22th Apr	200
		29th Apr	200
		6th May	500
		9th May	250
		15th May	250
		19th May	192
		11th Dec	500
		18th Dec	500
		29th Dec	500
Term Repo Auctions	56-day	7th Feb	500
	49-day	14th Feb	750
	45-day	21st Feb	580
	43-day	17th Apr	257
USD/INR Buy/Sell Swap Auction	6M Tenor	31st Jan	440
	3Y Tenor	28th Feb	880
	3Y Tenor	24th Mar	880
	3Y Tenor	16th Dec	450

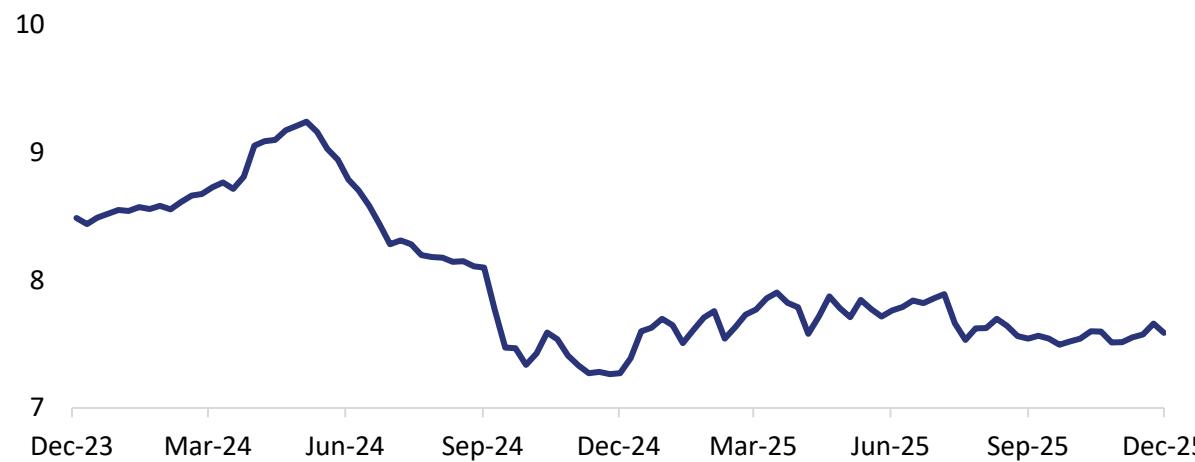
## CUMULATIVE NET OMO PURCHASES (Rs. bn) – 9MFY



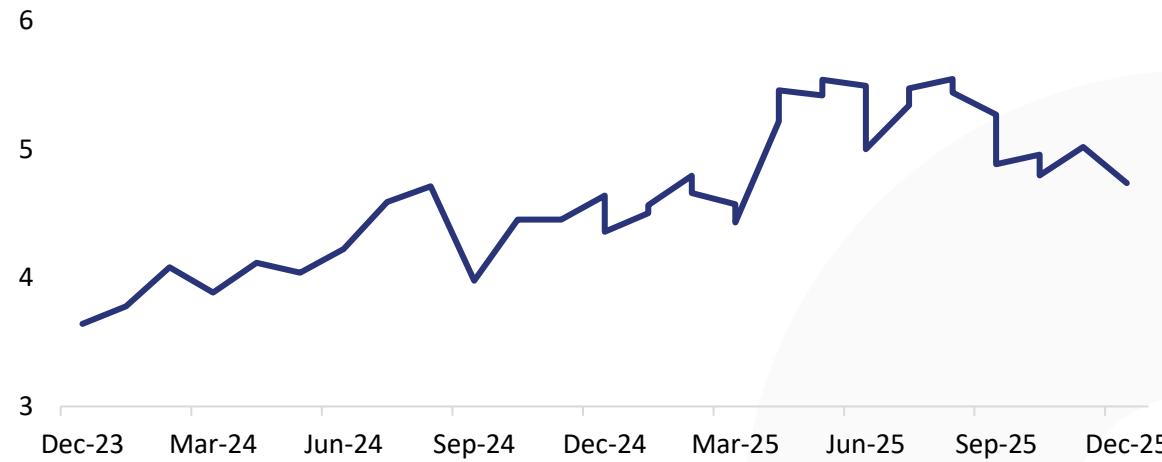
- RBI's net purchase under OMOs have been at a all time high in 9MFY26, with planned auctions for Jan'26 raising the ante further
- RBI conducted OMO purchase auctions worth Rs. 1.5 trn in Dec'25, while vowing to conduct further such operations worth Rs. 1.5 trn in Jan'26 to induce systemic liquidity
- RBI conducted 3Y USD/INR Buy/Sell Swap worth USD 10 bn in Dec'25 while announcing another on 13 Jan'26 to infuse systemic liquidity
- Further, RBI has been conducting VRR auctions to fine tune short-term liquidity

# MONEY MARKET SUPPLY GROWS STEADILY IN DEC'25

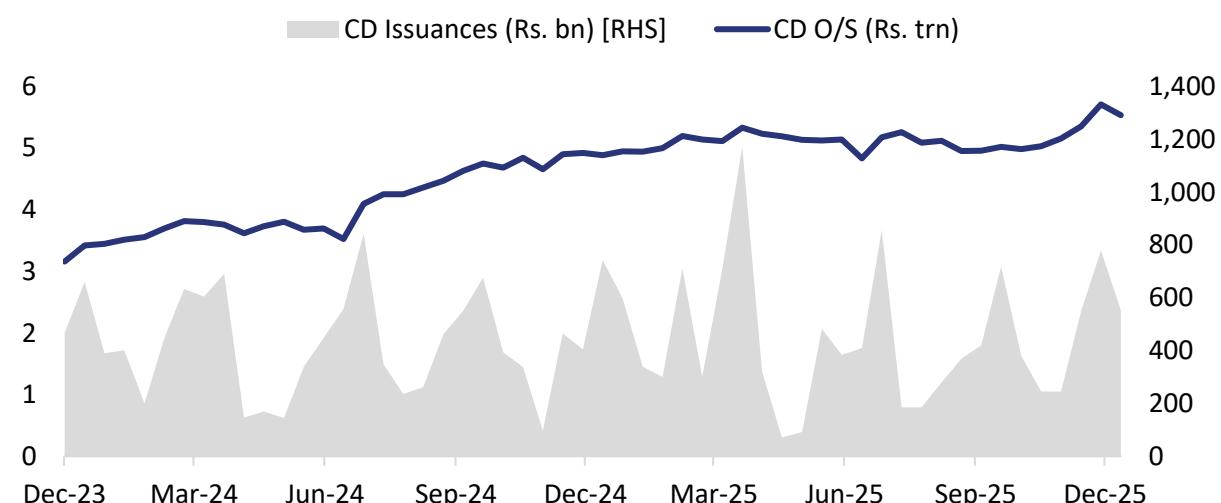
## T-BILL OUTSTANDING (Rs. trn)



## COMMERCIAL PAPER OUTSTANDING (Rs. trn)



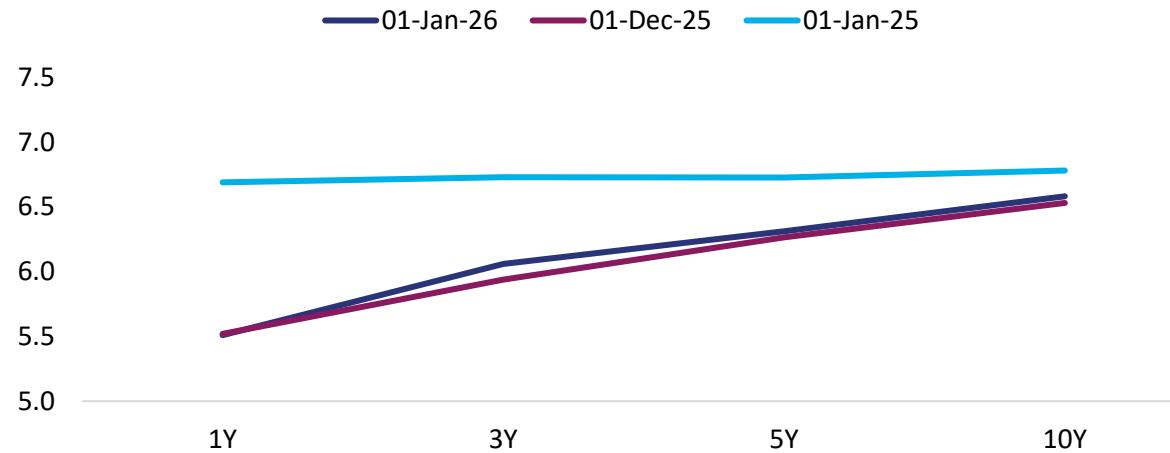
## CERTIFICATES OF DEPOSIT



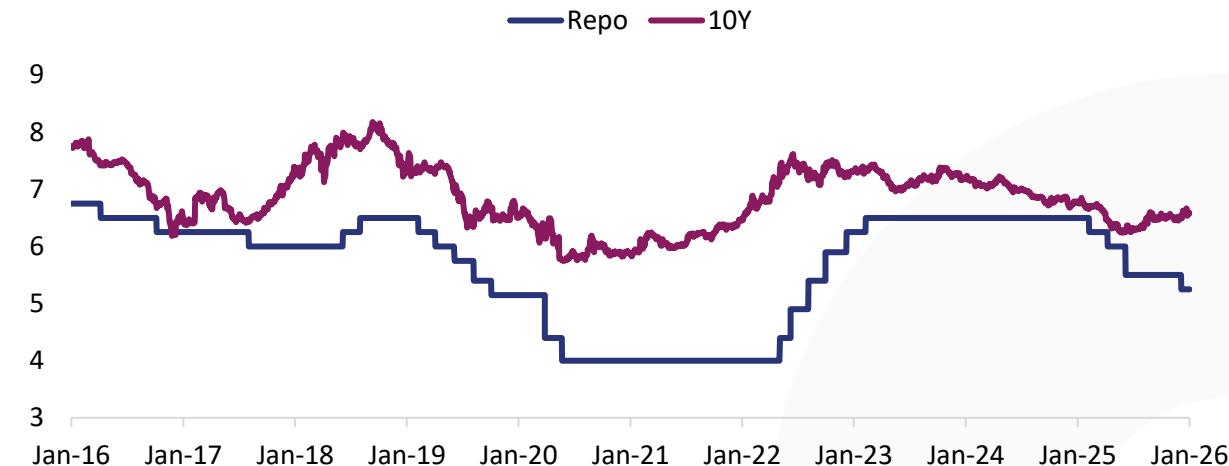
- T-Bill issuances have exceeded notified, with 91-day T-Bills being subscribed 2.9 times on average in Dec'25, while 182-day and 364-day T-Bills were 1.2 times subscribed
- T-Bill issuance calendar has proposed Rs. 3.8 trn worth issuances in Q4FY26, inline with Q4FY25 indicative. Notably, Q4FY25 issuances were subscribed 1.1 times, with major oversubscription in 91-day papers.
- CP issuances lagged in the 1<sup>st</sup> half of Dec'25, picking up steam in the latter parts as NBFCs and corporates seek to meet quarter-end funding needs. CP rates remained sticky, despite T-Bill yields edging downwards amid tight liquidity swings.
- Tepid deposit accretion and sustained CASA pressures have pushed banks to aggressively tap CD markets with all-time high issuances in CY25

# UNION G-SEC YIELD CURVE REMAINS STEEP

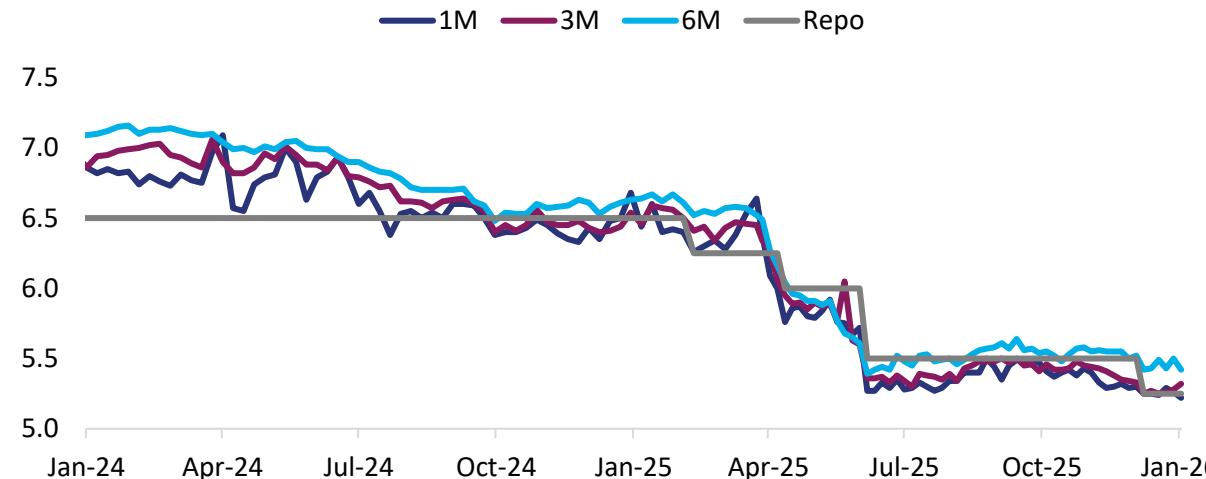
## YIELD CURVE (%)



## UNION G-SEC YIELD (10 YEARS) VS REPO (%)



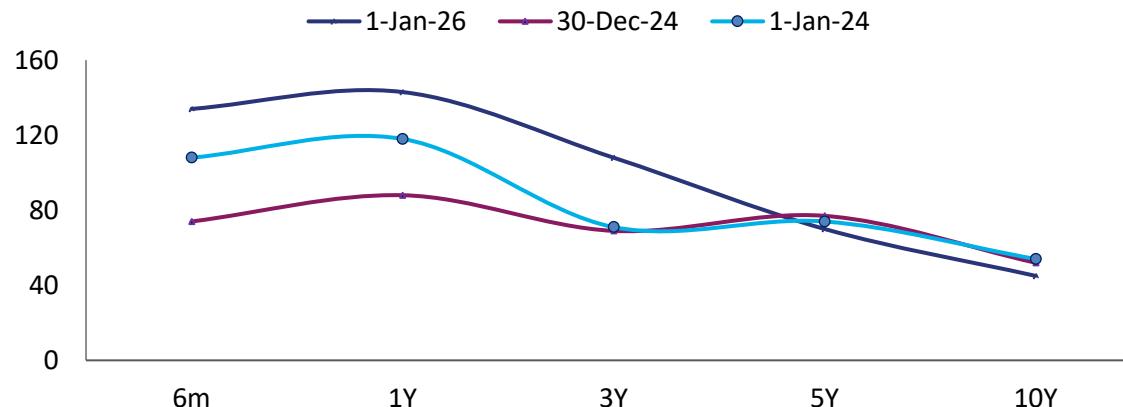
## T-BILL SECONDARY YIELDS & REPO (%)



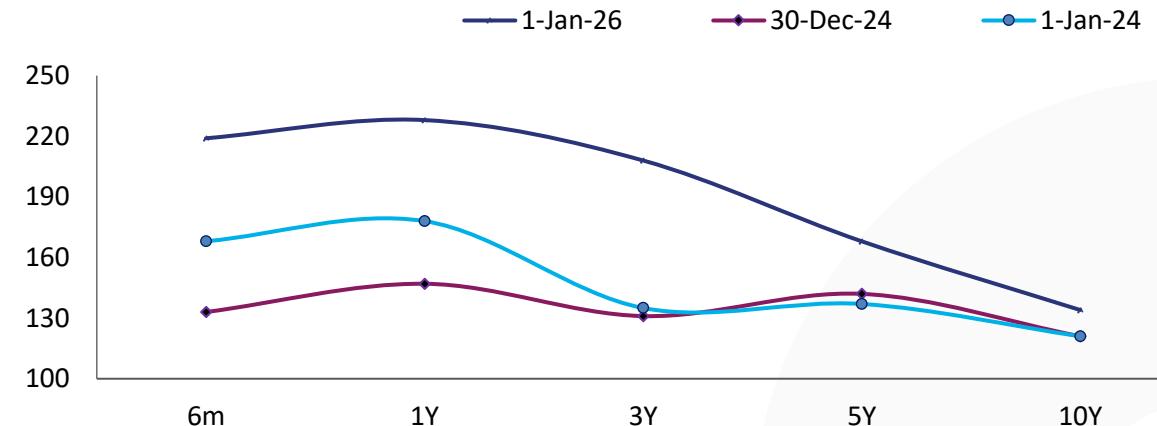
- T-Bill yields followed the path of rate cuts with 91-day T-Bill rates hugging the repo rate, while higher tenor papers moved with slower vigour
- Benchmark 10Y yields yo-yo-ed around the 6.6% handle with  $\pm 10$  bps movement during Dec'25, ending at around 6.65%, driven by INR volatility, liquidity conditions, and view on supply
- Notably, yield on the belly of the curve in the 3Y – 7Y tenors rose mid-Dec'25 but has hence cooled off post RBI's intervention on USD and liquidity.

# SPREAD MOVEMENTS FAVOUR LONG-TENOR HIGH QUALITY ISSUANCES

## FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



## FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



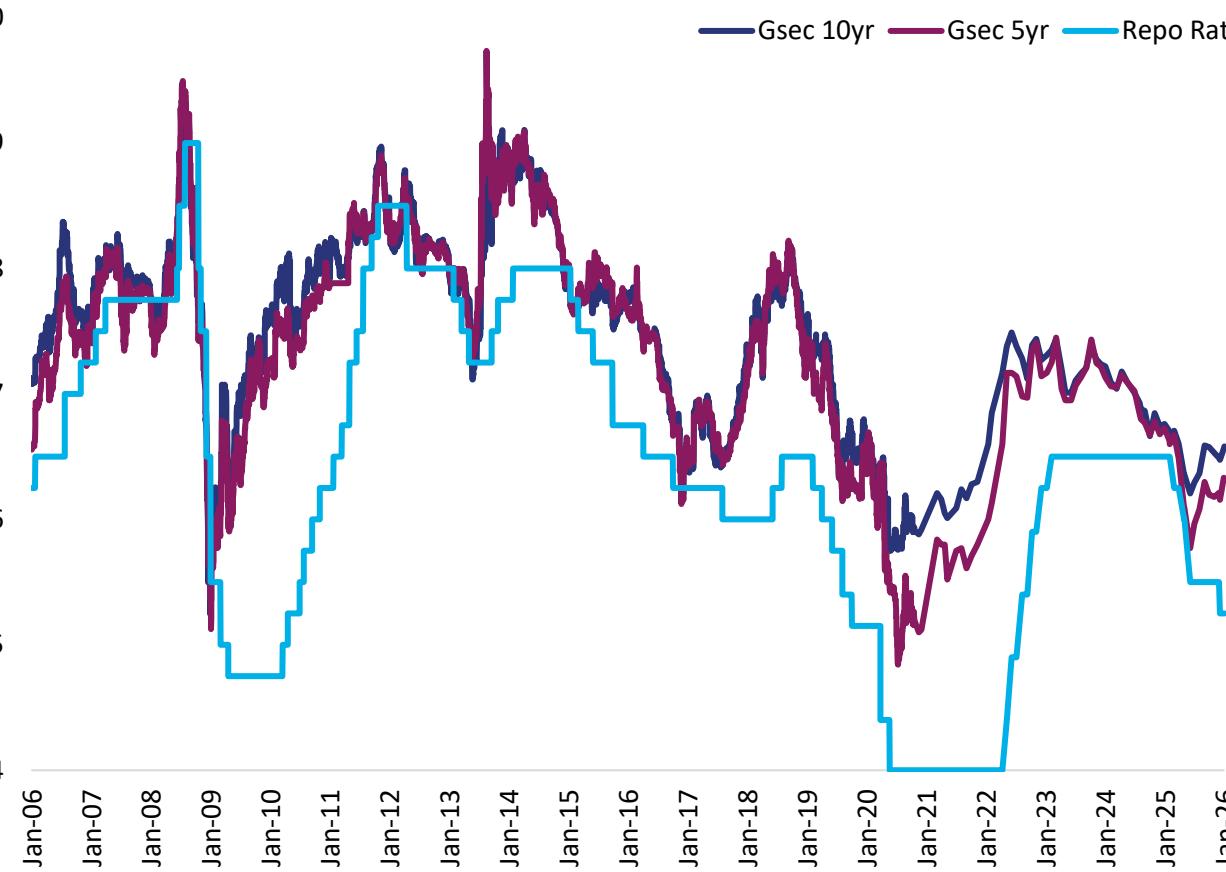
## 1Y AND 5Y OIS (%)



- Corporate spreads at the shorter end rose due to rate cuts leading to lower benchmark yields, while taut liquidity kept corporate yields sticky
- On the longer end, spreads narrowed, especially on the belly of the curve, with higher rated papers benefitting the most, as insurers chased higher yields from quality papers amidst benign default environment
- SGS spreads have stabilized, with 10Y yields ending CY25 in the range of 7.32% - 7.54%, with higher supply in Q4FY26 likely raising the ceiling moving forward
- Tenor-wise divergence in OIS rates signal expectations of higher WACR in the longer term, beyond 1Y

# OUTLOOK ON G-SEC YIELDS

## KEY RATES (%)



- We expect headline inflation (CPI) to be around RBI's projection 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  $\sim 6.50\% \pm 25\text{bps}$  in the coming months

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

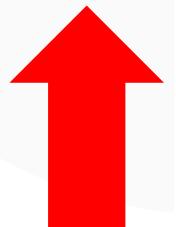
### Yield softening triggers

- FII flows due to global bond indices
- Liquidity surplus
- RBI's OMO operation
- Softening in commodity prices due to global slowdown



### Yield hardening triggers

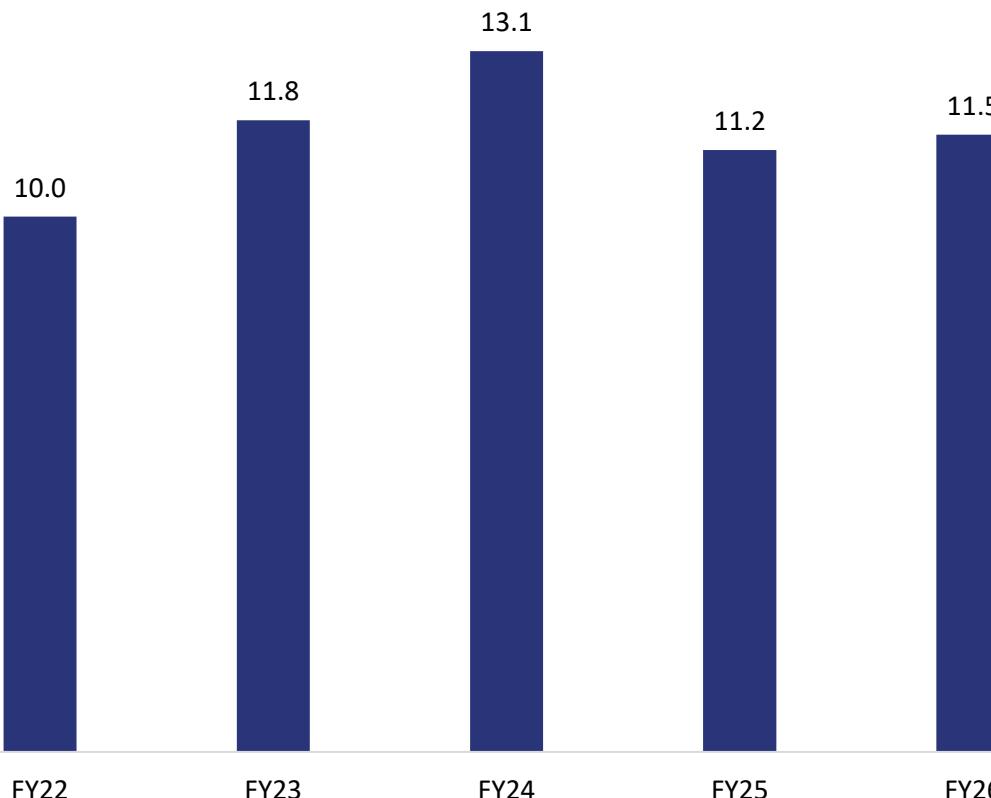
- Higher CPI print than estimate
- Higher crude price- impact on fiscal position and inflation
- Higher government borrowing
- Currency volatility as seen in CY13 and CY18



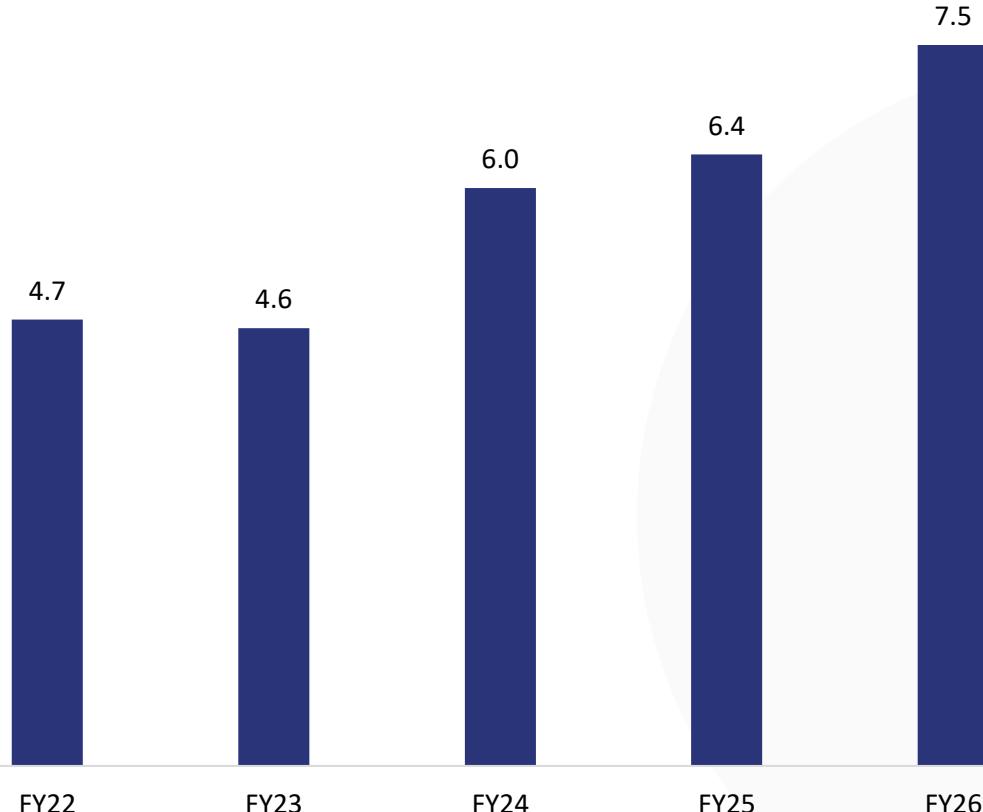
# CAPITAL MARKETS

# STATES ON BORROWING SPREE AS THE FISCAL CLOSES

## G-SEC: GROSS AMOUNT RAISED (Rs. trn) – 9MFY



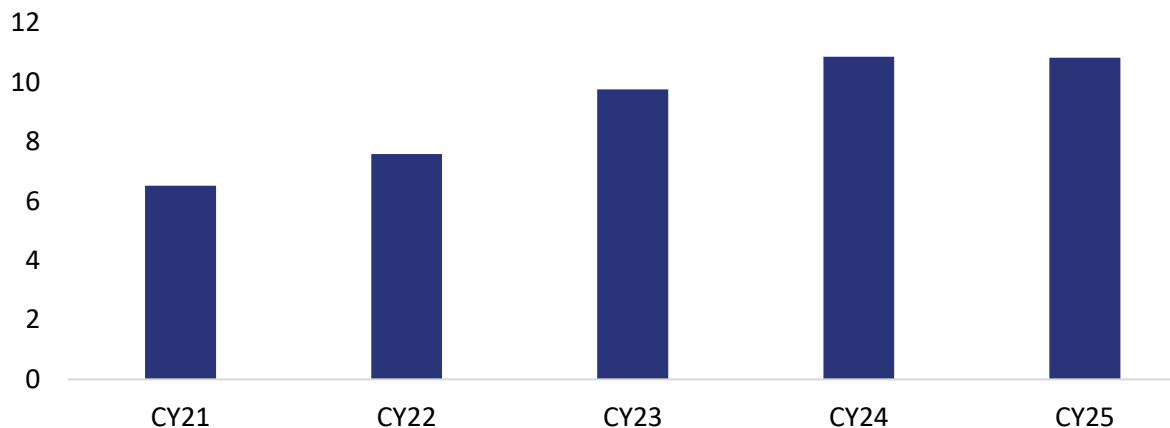
## SGS BIDS ACCEPTED (Rs. trn) – 9MFY



- G-Sec issuances were in line with indicative calendar. Net borrowings of Union G-secs in YTDFY26 (as on 19 Dec'25) stood at Rs. 8.1 trn, which is up ~10% y/y, even as gross borrowings in the same time periods were up by less than 3%
- With a flourish of issues in Dec'25, In Q3FY26, SGS issued reached Rs. 2.5 trn vs indicative of Rs. 2.8 trn, with Telangana, Kerala and Tamil Nadu exceeding the indicative, while West Bengal, Odisha and Gujarat issued lesser. States' issuance calendar for Q4FY26 proposes highest ever issuances as GST compensation cess dries up

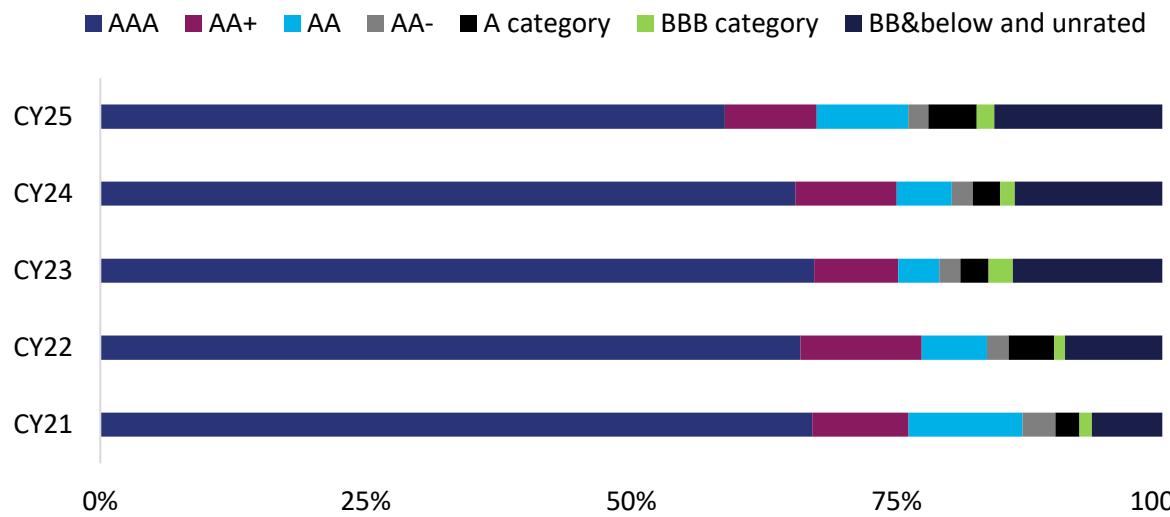
# CORPORATE BOND MARKETED DEEPENED IN CY25

## GROSS PRIVATE PLACEMENTS (Rs. trn)

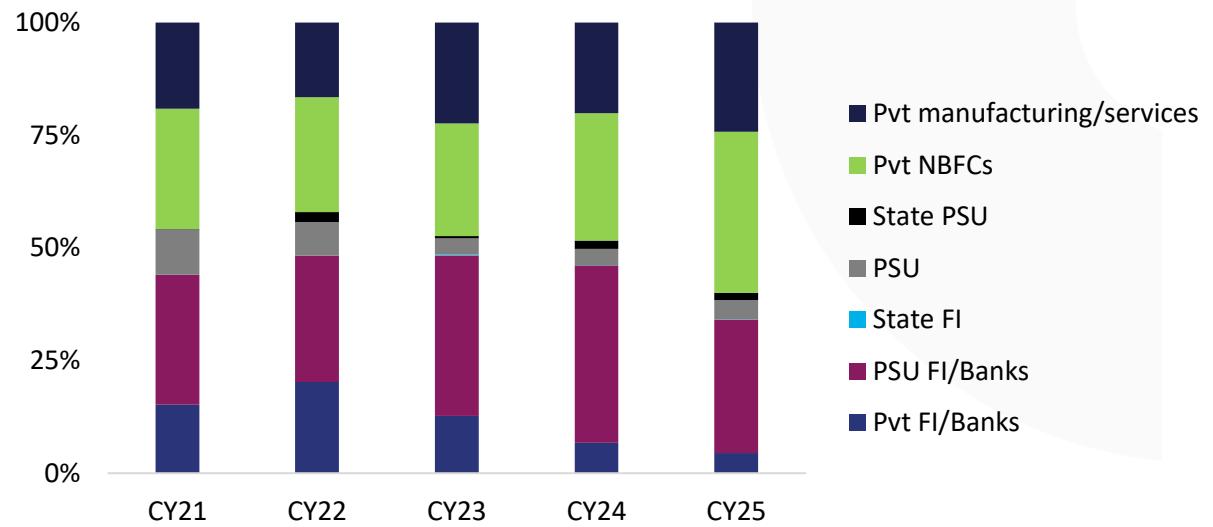


- Debt issuances in CY25 have kept up with the fervour of a bumper CY24, aided by RBI's policy rate cuts, with issuer mix shifting significantly
- Banks have held off from issuing debt in CY25, after raising much in the previous years, instead tapping equity markets for their funding needs
- Notably, private manufacturing and services sectors have stepped up issuances, along with NBFCs, with major traction in lower rated papers as rate cuts have boosted investor preference for higher yields in the lower rated credit spectrum

## GROSS ISSUANCE WITH RATING SPLIT (%)

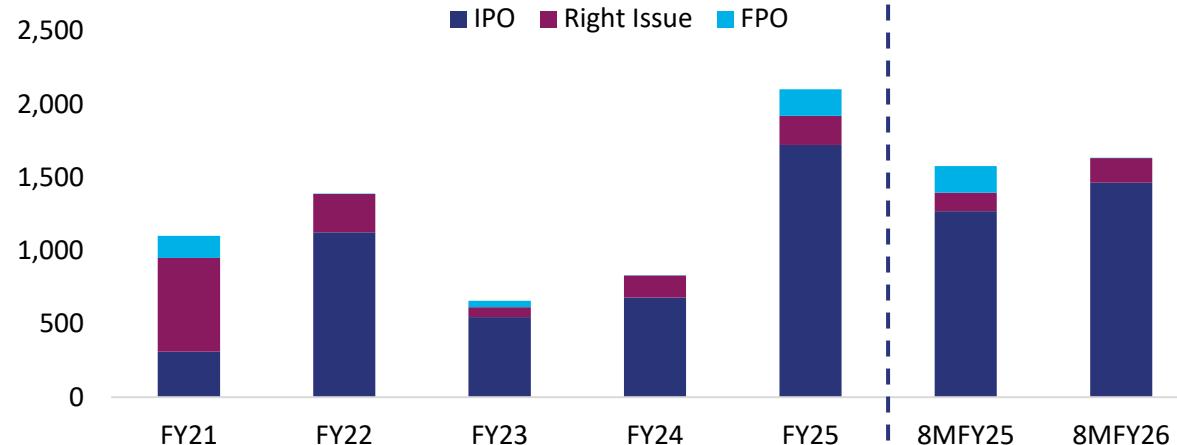


## ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT

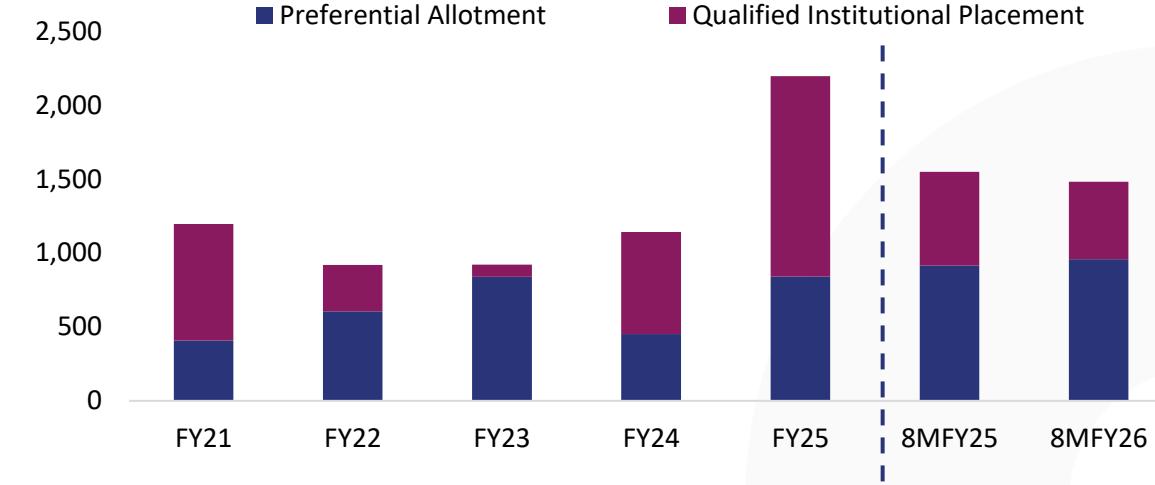


# EQUITY RAISING SAW A BUMPER CY25

## 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	8MFY26
Financial Services	239.6	551.5
Consumer Services	287.0	208.9
Capital Goods	181.3	172.3
Consumer Durables	31.3	161.7
Automobile and Auto Components	366.6	96.6
Services	93.1	70.5
<b>Total</b>	<b>2,101.9</b>	<b>1,285.1</b>

- Main board equity IPOs saw an 8% y/y jump in quantum raised in CY25 to Rs. 1.72 trn across 103 IPOs
- Hybrids stole the show with InvITs and REITs raking in Rs. 338 bn, up 33%. During the year, REITs were classified in line with equity for mutual funds
- Consumer-oriented startups and a big fintech have helped maintain the issuance momentum in Nov'25, after a bumper Oct'25

# GLOBAL SNAPSHOT

# GOLD SHOWS PRECIOUS POWER, BEATS BLACK GOLD

## GLOBAL COMMODITIES

COMMODITIES	%1M change	%1Y change
LME Metals Index	8.4%	31.0%
Copper	10.9%	43.9%
Aluminium	4.4%	17.4%
Iron Ore 62% Fe*	1.1%	2.3%
Gold	1.9%	64.6%
Brent	-3.7%	-18.5%
Natural Gas	-24.0%	1.5%
Newcastle Coal	-3.2%	-14.2%

1Y & 1M change are as of 03 Jan'26, \*CFR China

- Gold's secular rise in CY25 was driven by safe-haven demand due to geopolitics, aggressive Fed easing expectations and tariff tirade. Silver massively outperformed gold in CY25, beyond the monetary policy/ hedge story due to supply glut in key producers
- Crude prices were pressured by structural softening of oil demand from renewable and EV adoption, along with cyclical factors like aggressive non-OPEC supply and OPEC+ discipline fatigue wherein repeated output hikes countered periodic geopolitical spikes
- Base metal prices soared in CY25, with supply bottlenecks being the key narrative, apart from electrification and energy transition themes

## GOLD – COMEX (USD/t. oz)



## BRENT CRUDE (USD/bbl)



# AI PLAY DICTATES EQUITY RETURNS IN KEY JURISDICTIONS

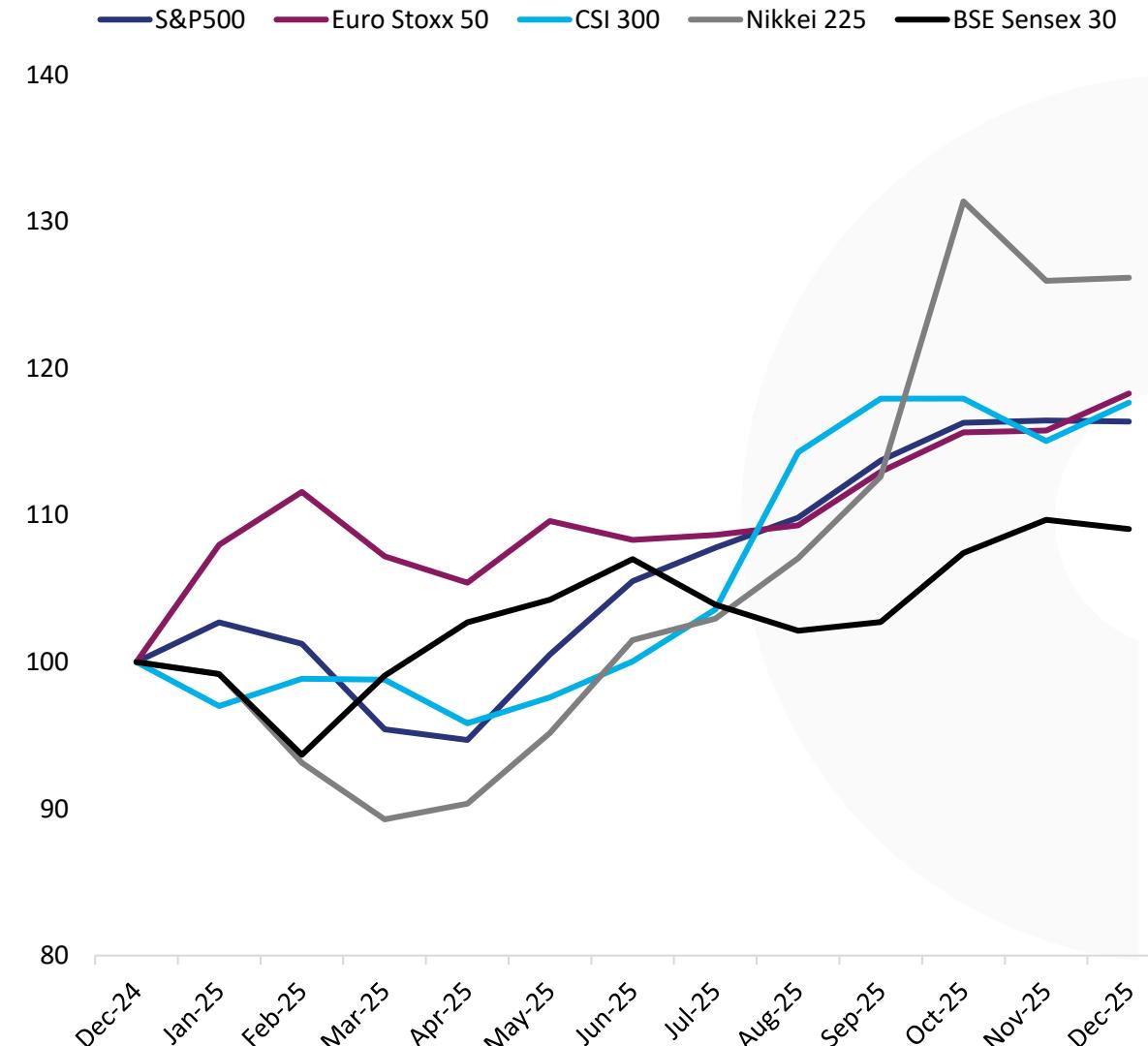
## GLOBAL EQUITIES

EQUITY INDICES	%1M change	%1Y change
S&P 500	0.2%	16.6%
Nikkei 225	-0.3%	26.2%
STOXX Europe 600	2.9%	16.0%
FTSE 100	2.4%	20.2%
BSE Sensex 30	-0.4%	8.6%
Hang Seng	-1.8%	30.6%
IBOV	0.0%	34.1%

1Y & 1M change are as of 03 Jan'26

- US indices displayed resilient performance despite tariff shocks and volatilities, supported by strong earnings, US Fed easing and AI and Tech leadership, with a narrow breadth favouring a few key names
- Japanese equities had its strongest year in decades, powered by corporate reforms, wage growth and JPY weakness aiding exports
- Chinese markets staged a recovery in H2CY25 driven by moderate stimulus packages, tech rebound and AI narrative

## INDEX IN LOCAL CURRENCY (INDEX TO 100 AS OF CY25 START)



# POLICY SHIFTS KEEPS THE USD FROM TRUMPING EVERYONE

## GLOBAL COMMODITIES

CURRENCIES	%1M change	%1Y change
DXY Index	-1.1%	-9.4%
USD/EUR	-1.1%	-11.8%
USD/JPY	0.6%	-0.5%
USD/GBP	-1.9%	-7.1%
USD/CNY	-1.2%	-4.2%
USD/INR	0.5%	5.0%

1Y & 1M change are as of 03 Jan'26

- Greenback's drop in CY25, from a surprisingly strong position at end of CY24, marks the steepest drop in decades driven by slower growth, narrowing rate differentials and tariff driven uncertainty leading to capital outflows
- JPY strengthened in H1CY25 driven by expectations of rate hikes, yet pared back much of the gains due to structural outflows, trade deal uncertainty, offset by carry trade appeal
- EUR gained throughout CY25 as completion of rate cut cycle lent relative hawkishness to ECB's tone, exacerbated by fiscal support across Eurozone

## DXY INDEX

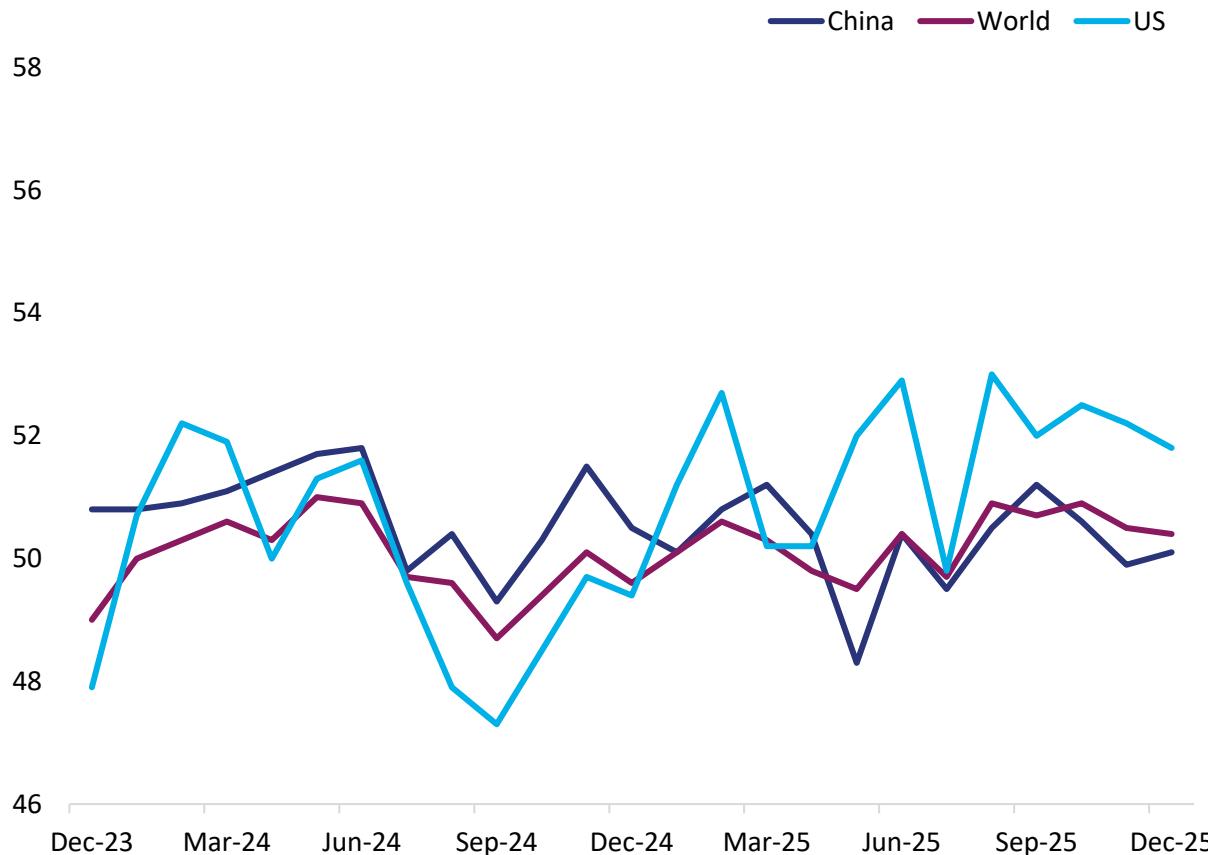


## USD/JPY

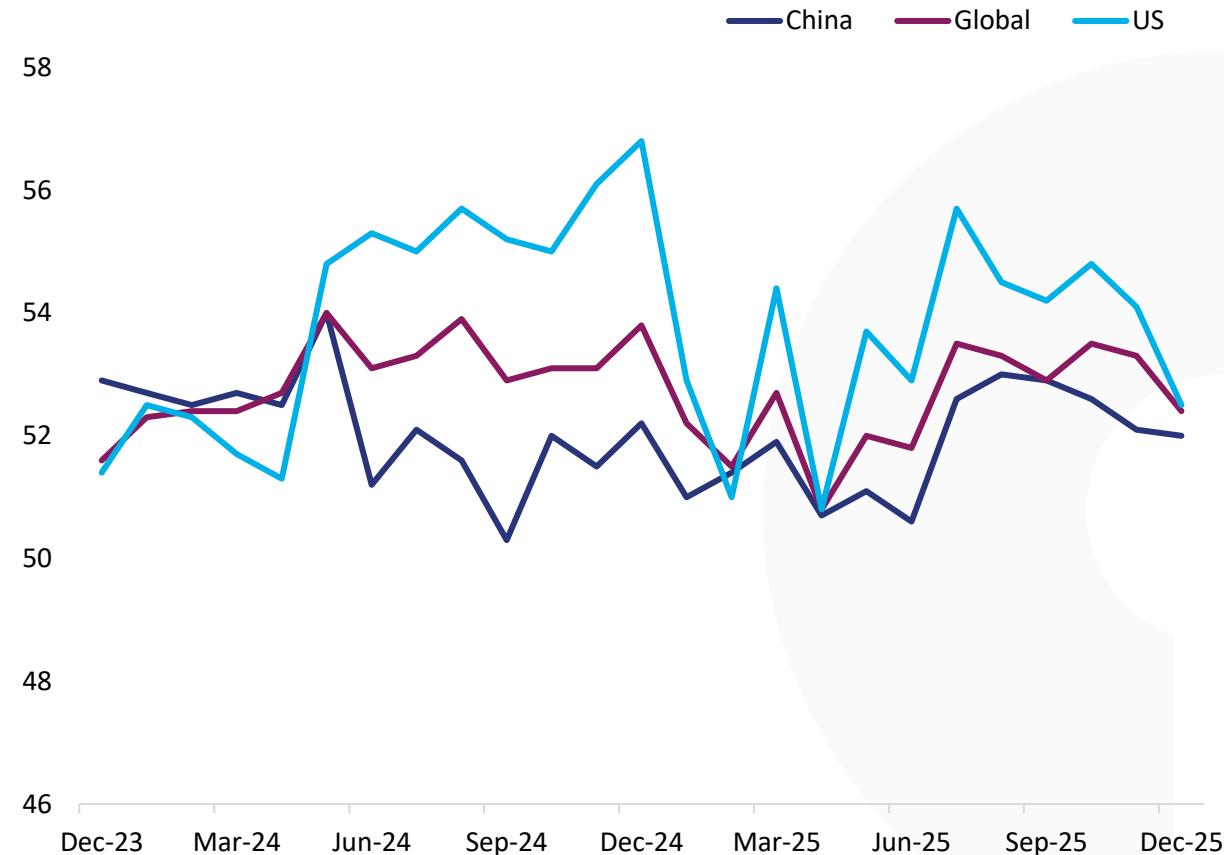


# GLOBAL ECONOMIES WEIGHED BY DEMAND SLOWDOWN IN DEC'25

## GLOBAL PMI- MANUFACTURING



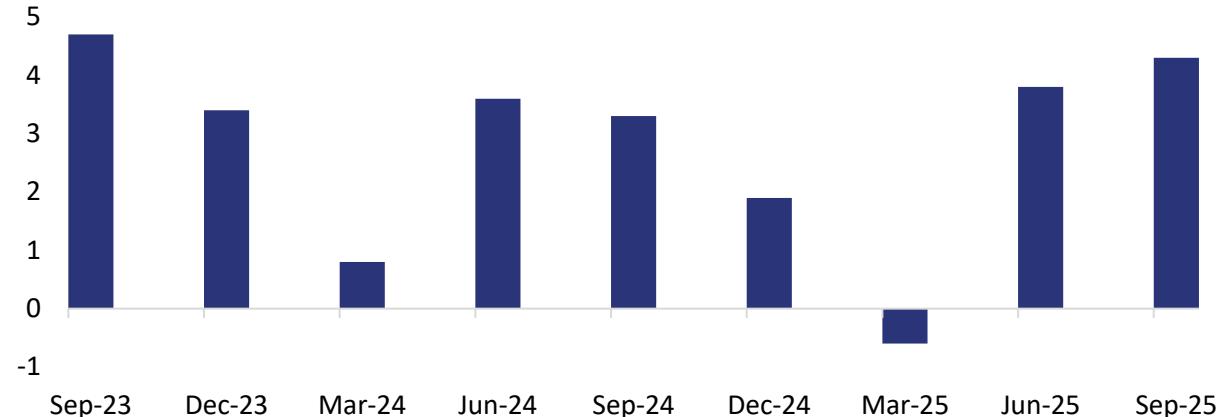
## GLOBAL PMI- SERVICES



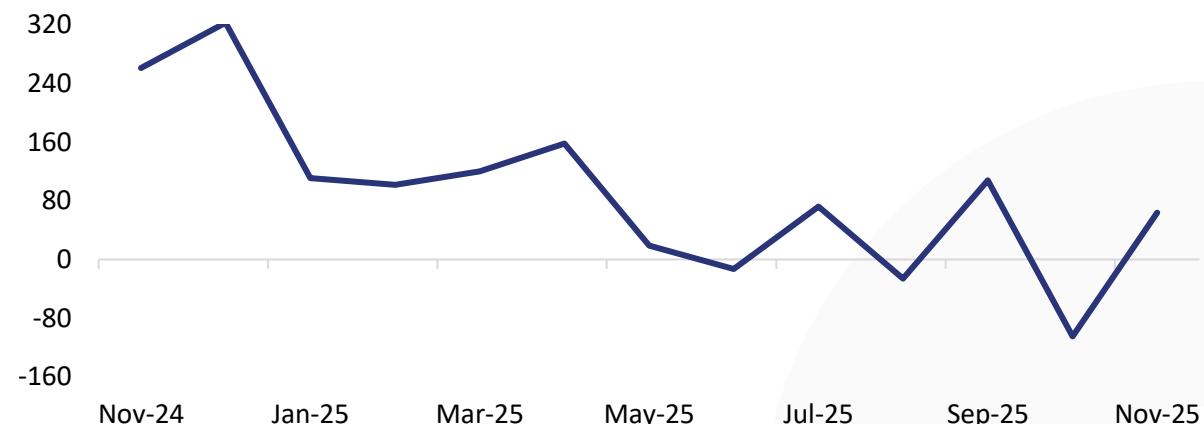
- Global manufacturing PMI approached the neutral mark with flattish new orders and employment with higher outputs. US manufacturing activity too softened, with factories continuing to produce goods despite suffering drop in orders, as input inflation moderates. Manufacturing in Asia rose to the neutral mark with weaker reductions in new orders and rising outputs
- Growth in services sector remained strong vs manufacturing, yet easing significantly. US registered above average services growth, while Eurozone, China and Japan caused a drag

# US LABOUR MARKET REMAINS STRONG

## US REAL GDP GROWTH (% Q/Q SAAR)



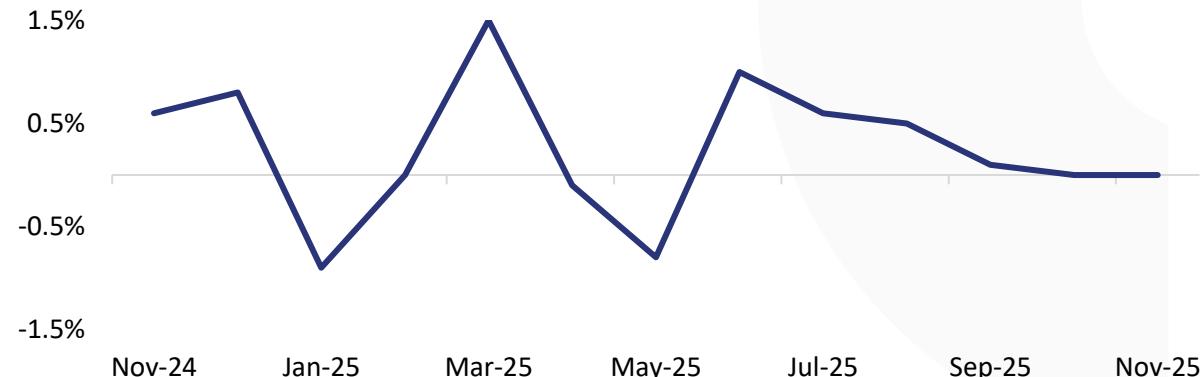
## CHANGE IN NON-FARM PAYROLL ('000 M/M)



## UNEMPLOYMENT RATE (%)



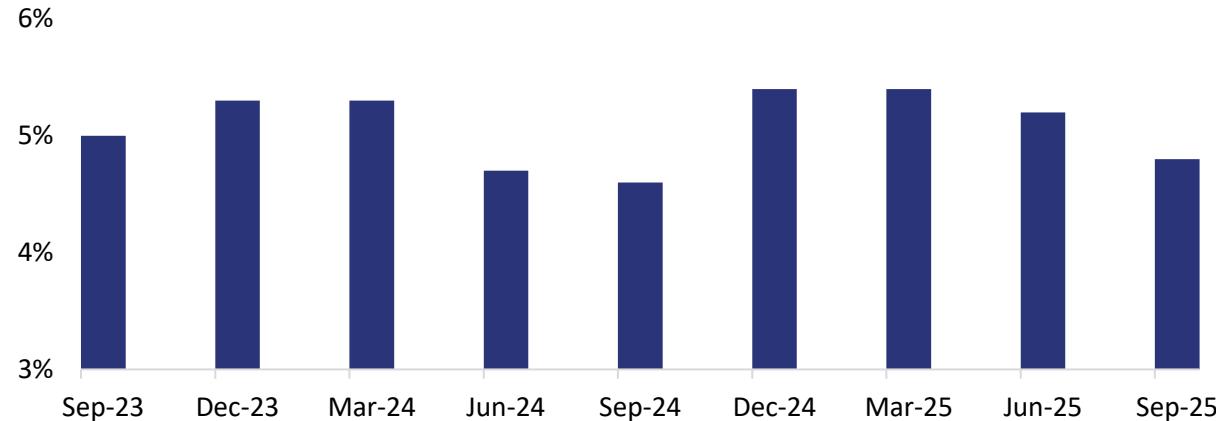
## RETAIL SALES (M/M)



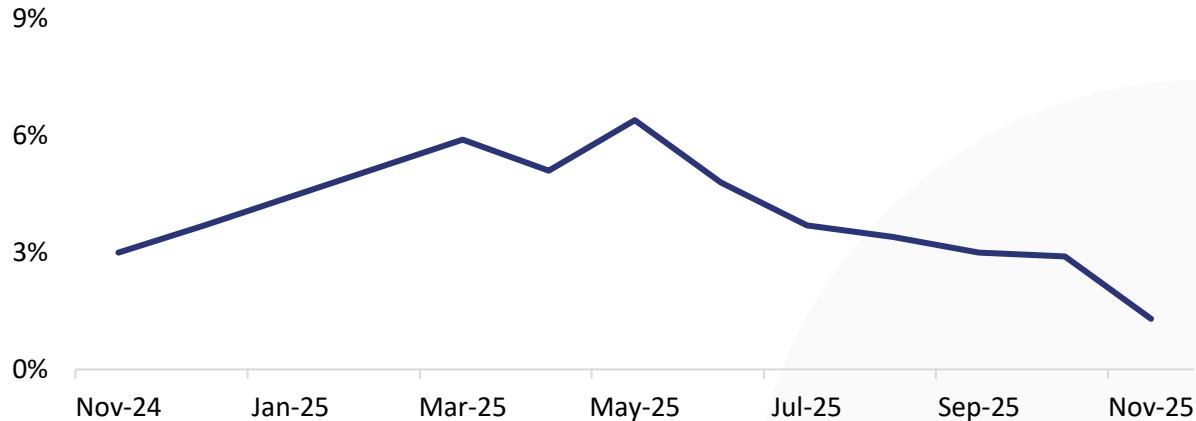
- US GDP surged 4.3% q/q saar in Q3CY25, its strongest print in 2 years, driven by resilient consumer spending, trade tailwinds, despite softer investments. Consumer spending accelerated 3.5% q/q led by services growth, while net exports added 1.6pp to headline. Retail sales rose 4.6% y/y in Nov'25, with dipping core sales reflecting value focused cautious spending.
- US non-farm payrolls fell 105k in Oct'25, before rebounding at 64k in Nov'25, with the whipsaw indicative of a cooling labour market. Slowdown in jobs growth was concentrated in sectors like healthcare and federal government. Unemployment rate ticked up to 4.6% in Nov'25, its highest in 50-months.

# CHINESE POLITBURO PLEDGES CONSUMPTION SUPPORT AHEAD OF INDUSTRIAL BOOST

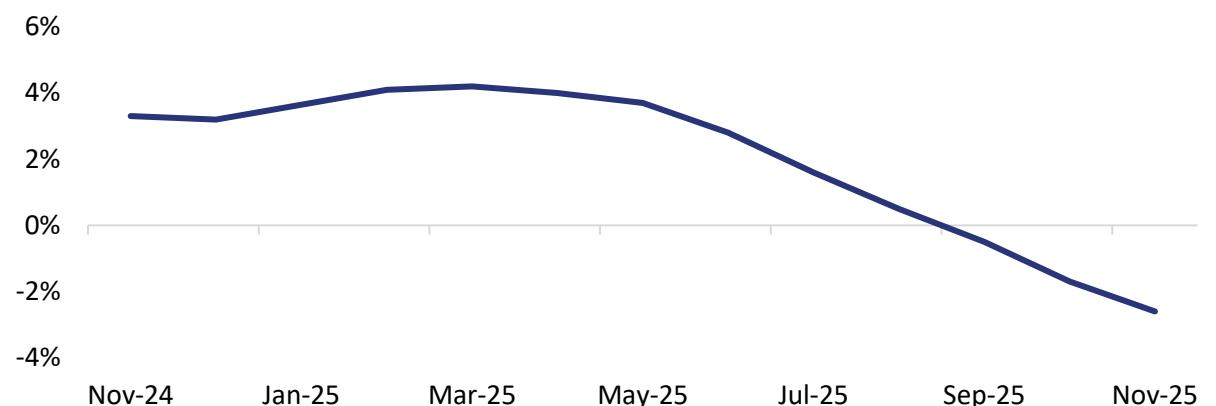
## CHINA REAL GDP GROWTH (% Y/Y)



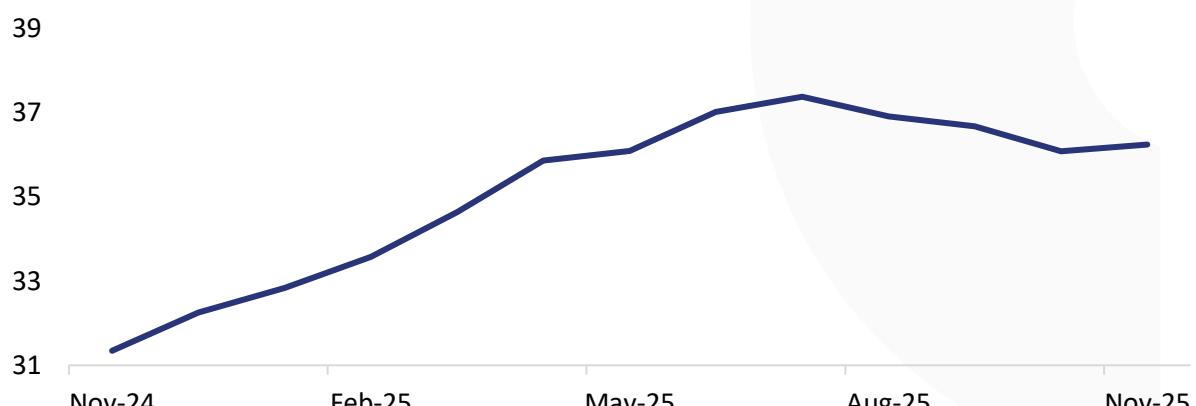
## RETAIL SALES (% Y/Y)



## FIXED ASSET INVESTMENT (% Y/Y)



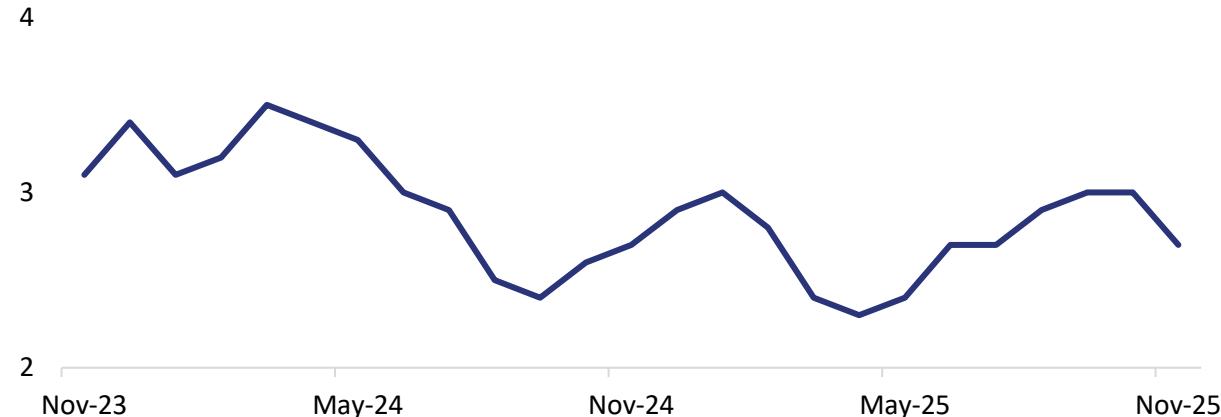
## AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



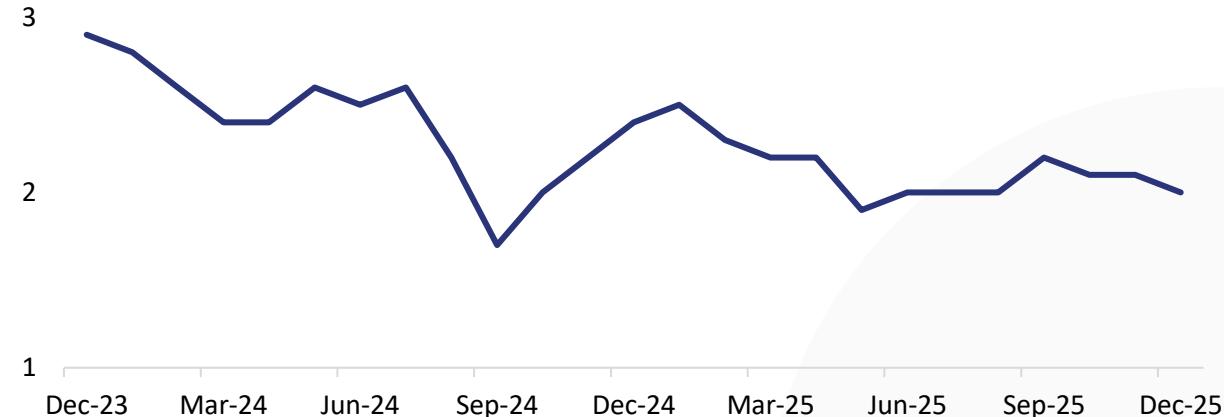
- Retail sales dipped to 3Y low in Nov'25 reflecting subdued consumer sentiment. Fixed asset investment was dragged by real estate despite infrastructure support. Industrial output rose 4.8% y/y in Nov'25 at a steady yet slower pace amid tepid demand and export slowdown. Industrial profits fell off a cliff at the end of CY25, with state firms slipping the most.
- As per media sources, Chinese policymakers have promised to maintain a proactive fiscal policy in CY26, stimulating both consumption and investments to maintain growth of around 5%. China announced an initial USD 9 bn in consumer subsidies for CY26 to support its consumer goods trade-in programme to bolster domestic demand ahead of industrial support.

# GLOBAL INFLATION IN LINE WITH CENTRAL BANK EXPECTATIONS

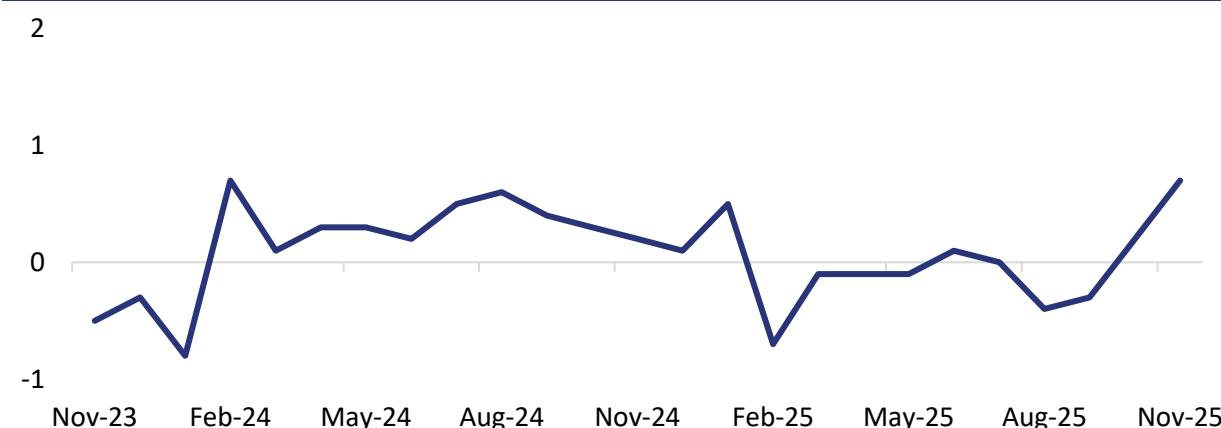
## US CPI (% Y/Y)



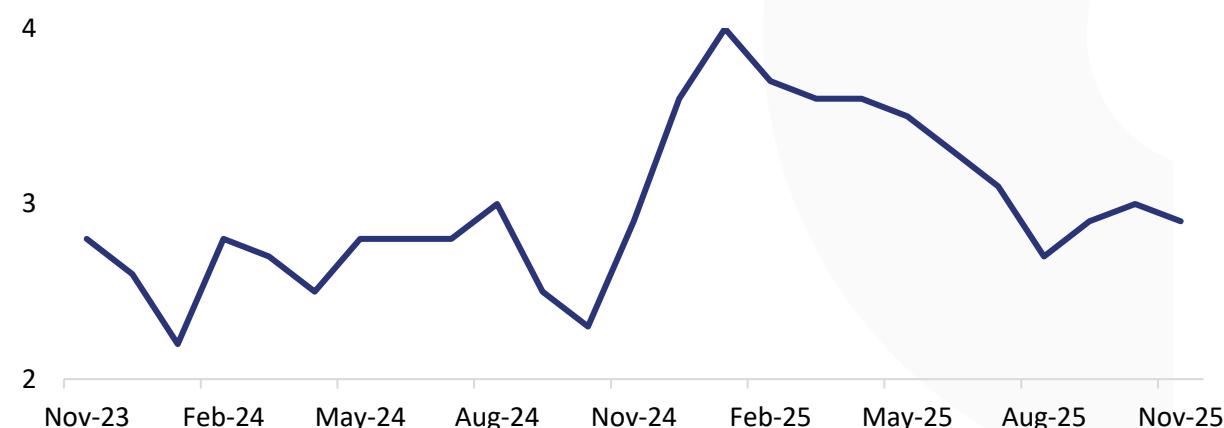
## EUROZONE CPI (% Y/Y)



## CHINA CPI (% Y/Y)



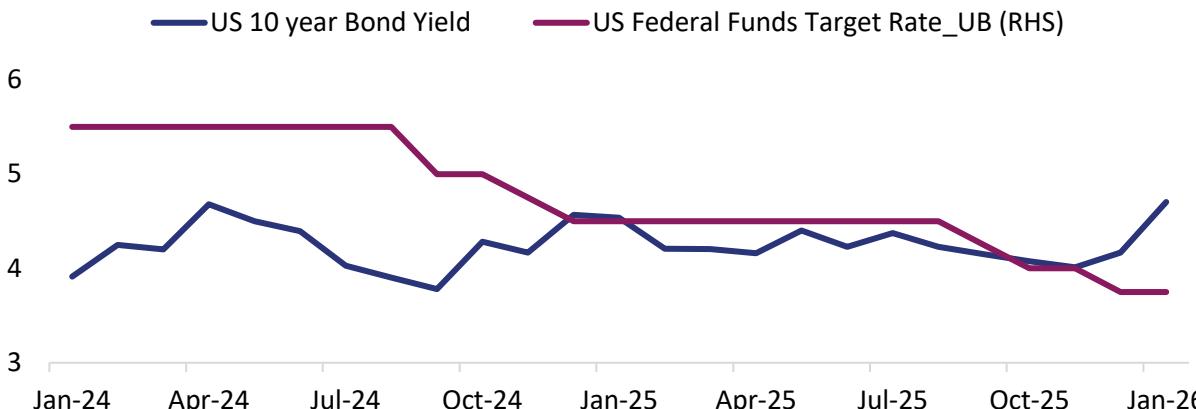
## JAPAN CPI (% Y/Y)



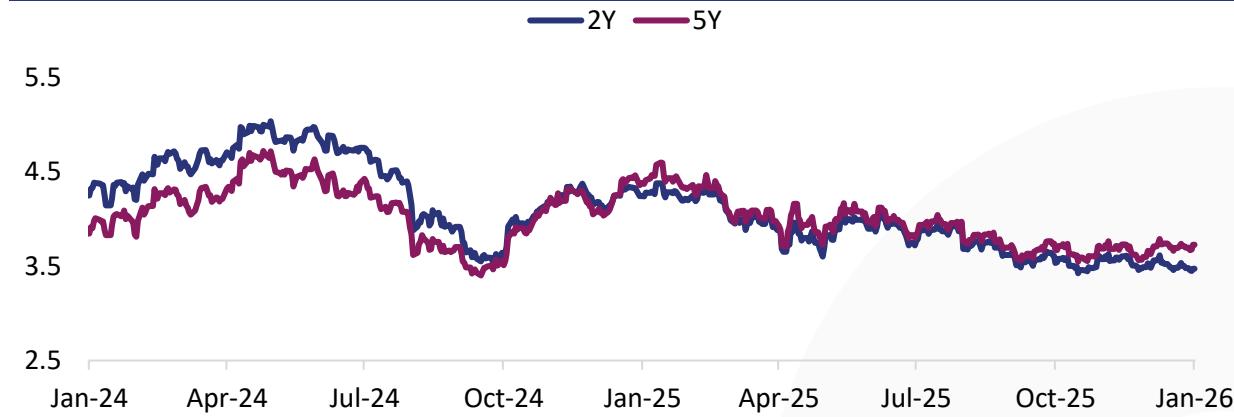
- US CPI cooled to 2.7% y/y in Nov'25 with softest core in 4.5 years driven by shelter moderation, despite firmer energy. Eurozone inflation hovers near target, with broad based disinflation
- China CPI rose 0.7% y/y in Nov'25 with mild pressure from core inflation and flattish food prices. Japan's stubborn inflation reinforces case for BoJ rate hikes in near term

# US YIELDS PRICE IN HIGHER FOR LONGER RATES IN CY26

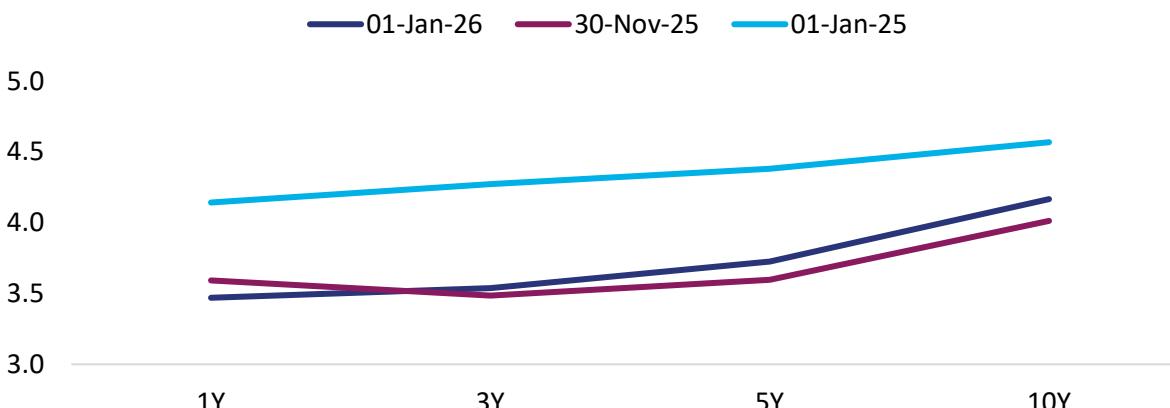
## US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



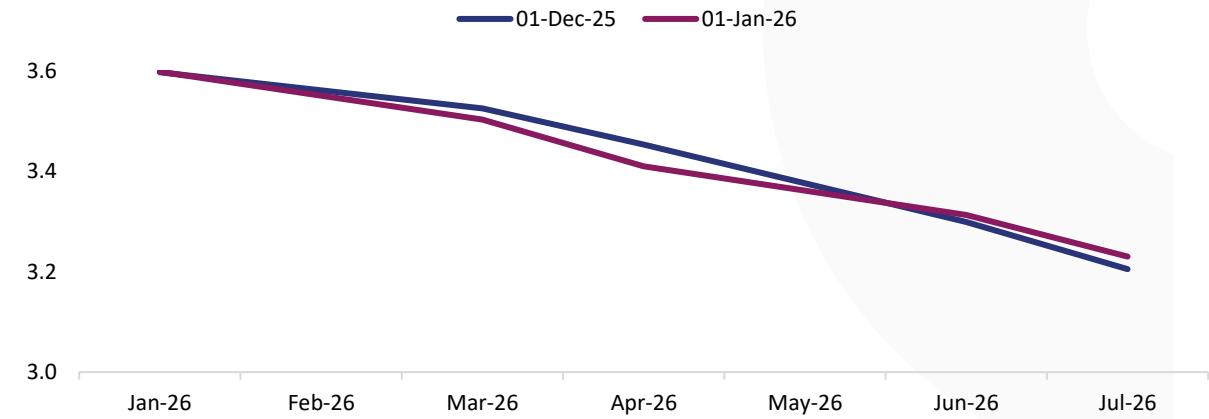
## US 2Y AND 5Y G-SEC YIELD (%)



## YIELD CURVE (%)



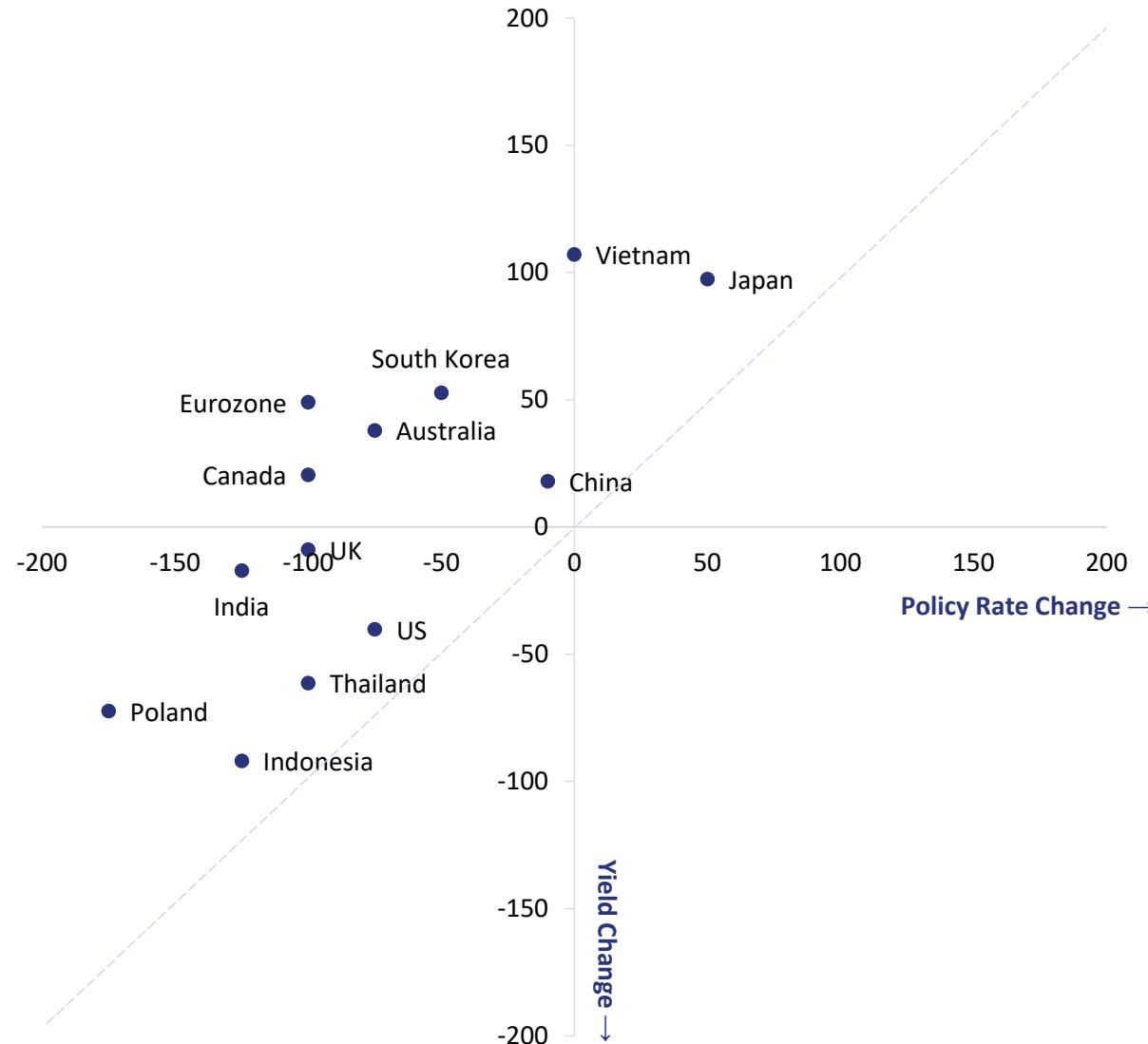
## MARKET-IMPLIED PATH OF US FED POLICY RATE (%)



- US FOMC cut its policy rate by 25 bps in Dec'25 to 3.50% - 3.75%, but 10Y jumped 10 bps to ~4.2% as dot plot showed only one cut in CY26, with hawkish dissent from various US Fed members. Mr. Powell interjected that policy is well positioned to wait and see as economy evolves, with Fed Speak in Dec'25 revolving around holding rates.
- Subsequently, markets are pricing 85% chance of hold in Jan'26, with gradual easing ~75 bps in CY26

# YIELD TRAJECTORY DISJOINTED FROM POLICY PATH ACROSS JURISDICTIONS

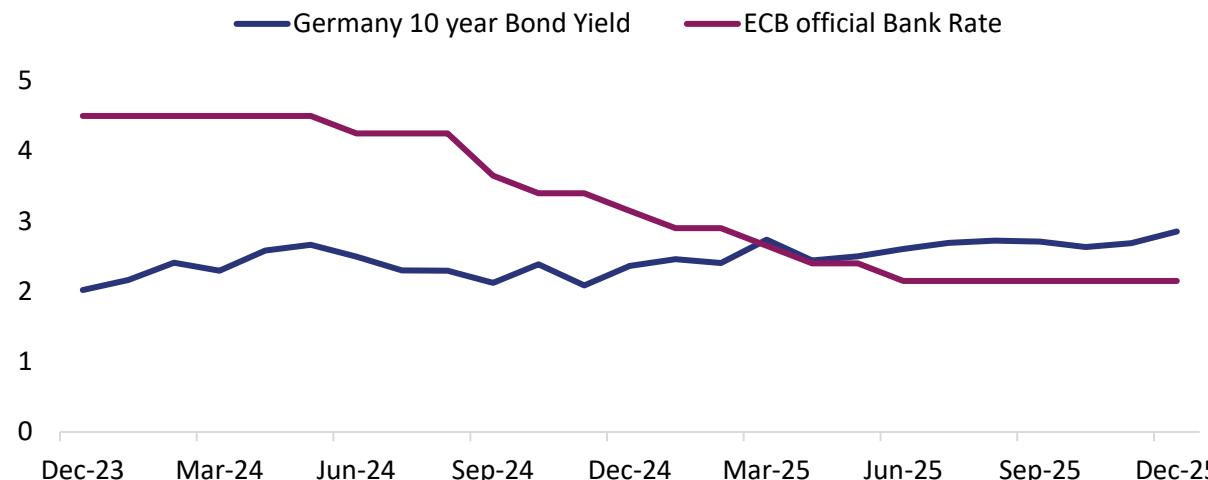
## POLICY RATE VS 10Y G-SEC CHANGE (bps) – CY25 VS CY24



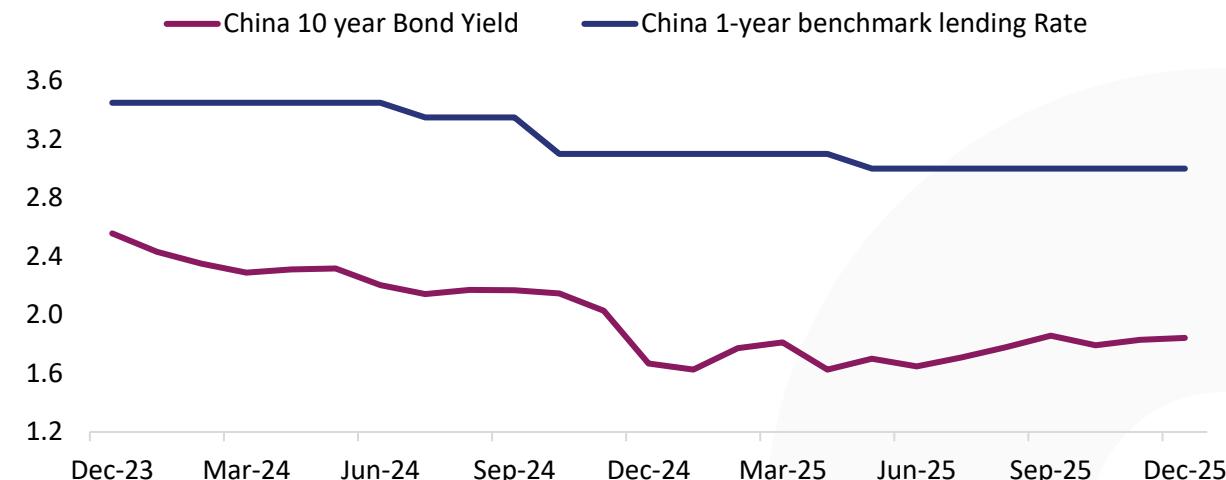
- Yields across jurisdictions have not followed the path of the policy rate, with yields remaining flat due to other considerations like slow fiscal consolidation amidst high debt to GDP ratios across countries and promises of fiscal stimuli due to slower growth

# ANTICIPATION OF INFLATION KEEPS CENTRAL BANKERS DIVIDED

## 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%	3.75%
Japan	-0.10%	-0.10%	0.10%	0.50%	0.75%
Brazil	11.75%	13.75%	10.75%	14.25%	15.00%
Australia	0.10%	3.60%	4.35%	4.10%	3.60%
Canada	0.75%	4.50%	5.00%	2.75%	2.25%
S. Korea	1.25%	3.50%	3.50%	2.75%	2.50%
S. Africa	4.25%	7.75%	8.25%	7.50%	7.00%
Russia	20.00%	7.50%	16.00%	21.00%	16.00%

- BoJ raised its policy rate by 25 bps to 0.75%, its highest in 30 years, with Governor Mr. Ueda signalled further hikes in CY26 amidst moderate price and wage hikes
- BoE cut its policy rate by 25 bps to 3.75% in a narrow 5-4 vote, indicating easing pace of rate cuts, as MPC balances stagnant economy with upside inflation risks in CY26
- Banxico cut its policy rate by 25 bps to 7%, maintaining a slower pace in the easing cycle amidst concerning inflation outlook and volatility in MXN

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