



CareEdge

# ► Debt & Forex Market Update

August 2025



## Key Global Developments

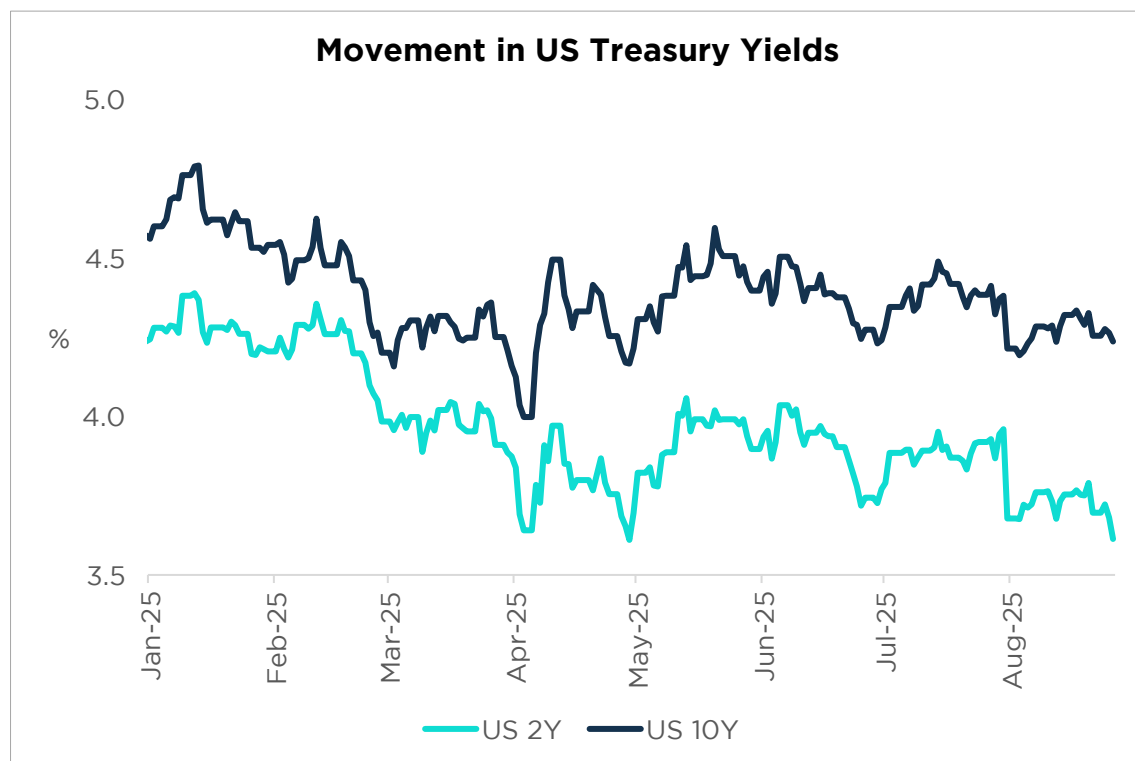
- US Short-Term Yield Falls; Fed Likely to Cut Policy Rate in September
- Global Trade Resilience Matrix: Assessing Vulnerabilities & Buffers to Global Trade Shocks

## India Debt & FX Market Trends

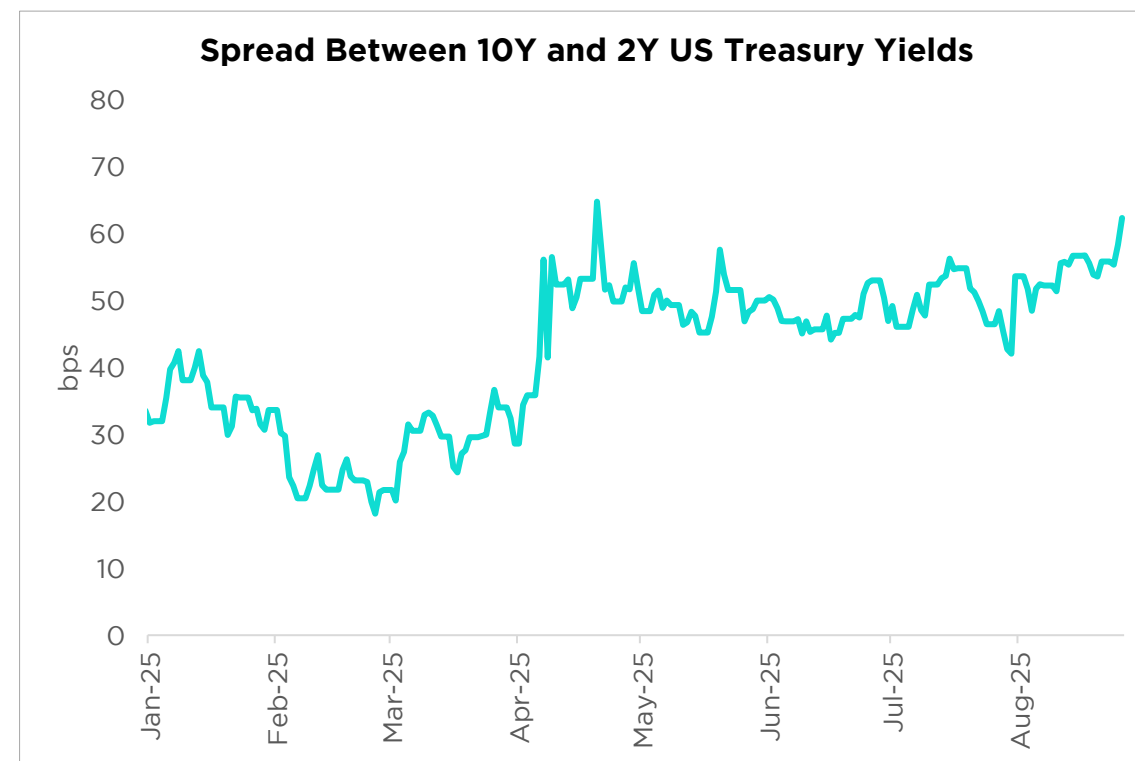
- CPI Inflation Moderates Further in July
- Cumulative Rainfall 4% Above the LPA
- Liquidity Conditions are Comfortable
- Centre May Face Rs 700-800 Billion Annual Impact from GST Reforms
- 10Y GSec Yield Surges; Yield Curve Steepens
- Policy Rate Cut Transmission Accelerates
- CD Issuances Dip; CP Issuances Surge
- Corporate Bond Issuances at 6-Month Low in July
- Goods Trade Deficit at 8-Month High; Services Surplus Steady
- Net FDI Eases; FPI Outflows Continue for Third Straight Month
- Rupee Near Record Lows

# ≡ Key Global Developments

# US Short-Term Yield Falls; Fed Likely to Cut Policy Rate in September



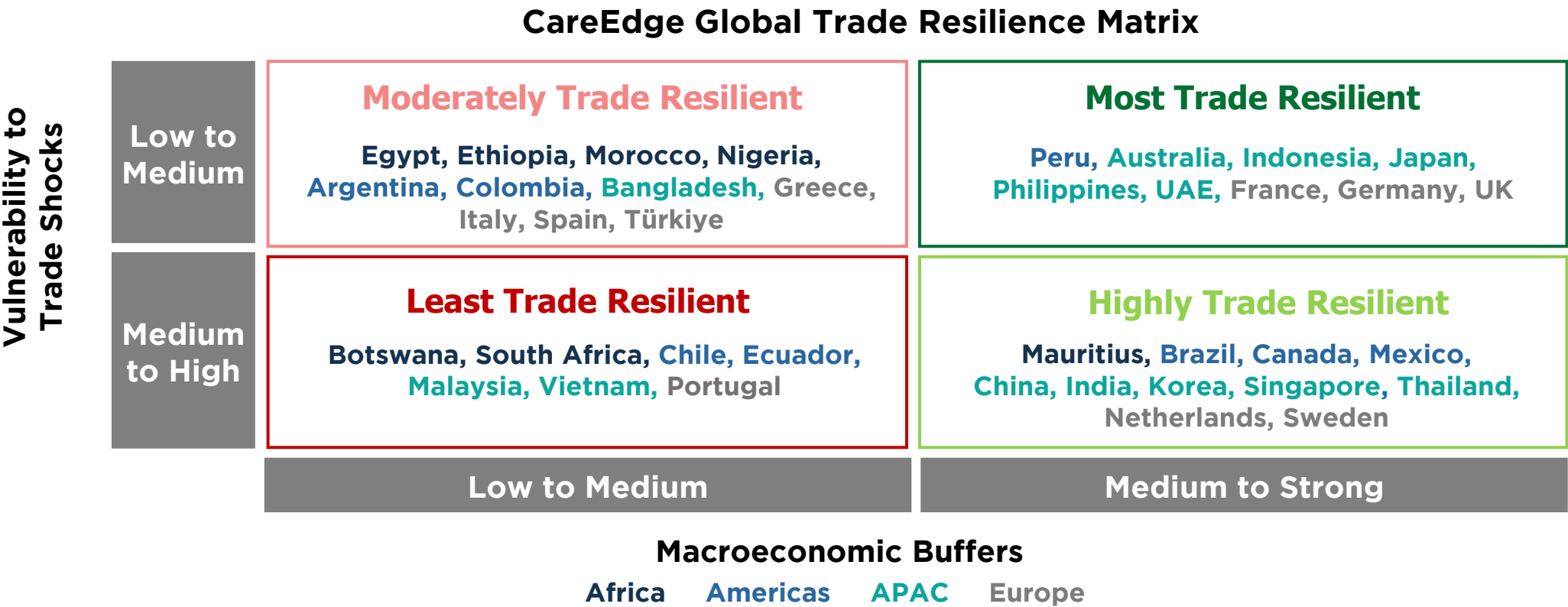
Source: Refinitiv. Data as of 27 August



Source: Refinitiv. Data as of 27 August

- US 2Y yield has declined by 31 bps over the past month, with Fed Chair Powell's dovish tone at Jackson Hole adding to the move.
- The 10Y yield has eased by 15 bps but remains elevated amidst fiscal concerns and tariff-related inflation risks.
- The 10Y-2Y spread has widened to 62 bps from 46 bps a month ago.
- Markets are now pricing in two 25 bps Fed rate cuts in September and December 2025.

# Global Trade Resilience Matrix: Assessing Vulnerabilities & Buffers to Global Trade Shocks

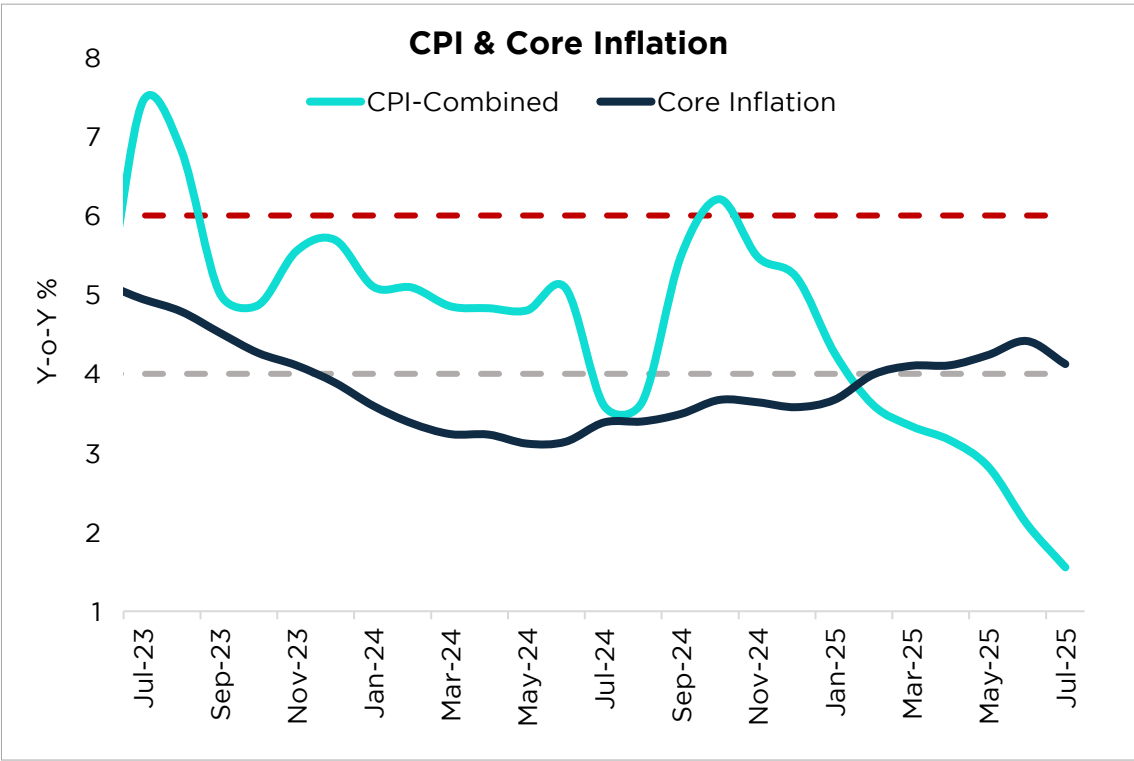


- CareEdge Global's Trade Resilience Matrix evaluates 38 economies from our coverage universe on vulnerability to trade shocks and the strength of macroeconomic buffers. Countries are classified into four resilience profiles: Most Trade Resilient, Highly Trade Resilient, Moderately Trade Resilient and Least Trade Resilient.
- The US has imposed an additional 25% tariff on India, raising total tariffs to 50%. This could result in an annual drag on growth of around 0.8-1%. While India's direct goods export exposure to the US is modest (~2% of GDP), elevated tariffs risk eroding competitiveness. Negotiations may take time, as India remains cautious on sensitive sectors like agriculture and dairy. There are also risks of sectoral tariffs on pharmaceuticals and select electronics, which are currently exempt. Nonetheless, we remain hopeful about a potential resolution in the coming months that could align India's tariff more closely with peers, but the situation warrants close monitoring.

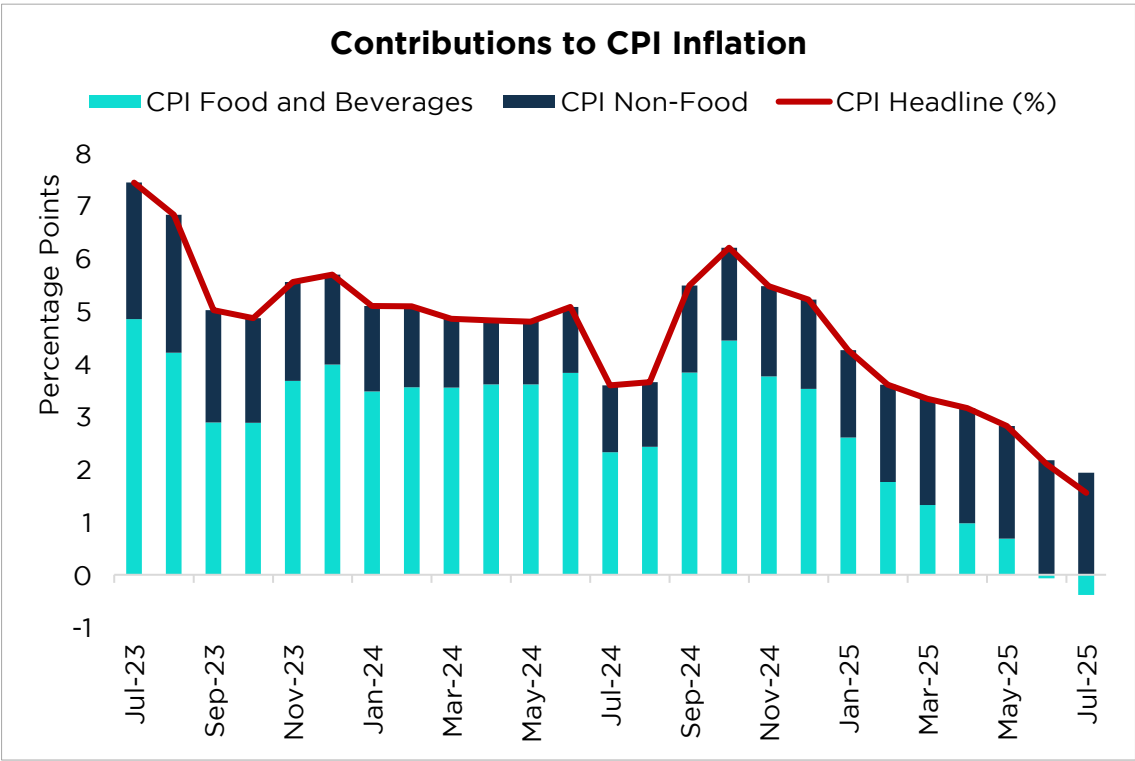


# ≡ India Debt & FX Market Trends

# CPI Inflation Moderates Further in July



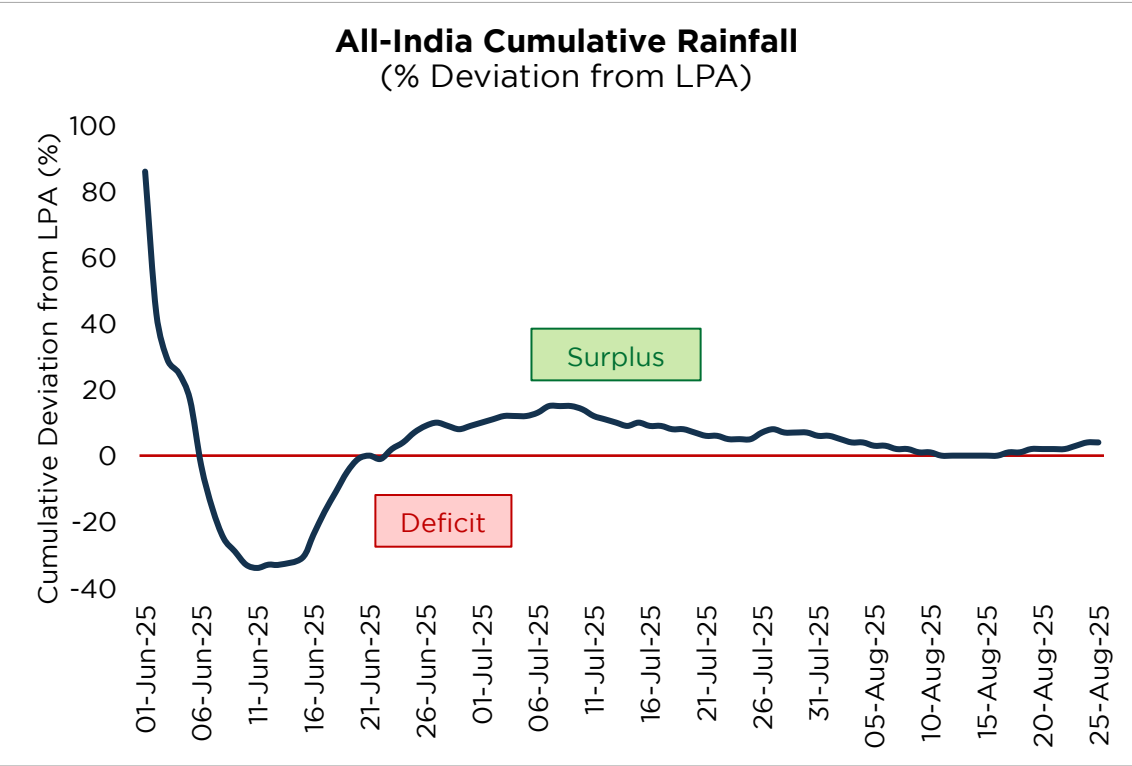
Source: MOSPI, CareEdge



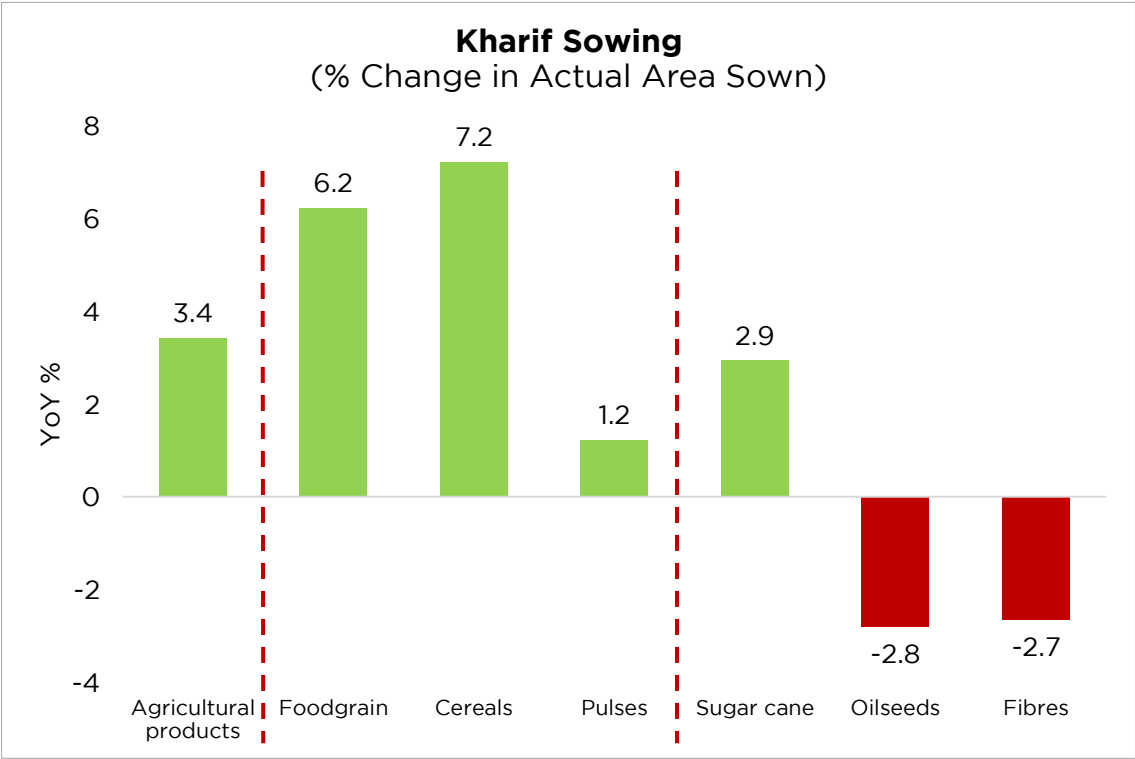
Source: MOSPI, CareEdge

- The CPI inflation eased further to 1.6% in July, primarily driven by the deepening of deflation in the food category.
- The core inflation also eased to 4.1% down from 4.4% last month and remains at comfortable levels.
- We project average CPI inflation at 3.1% for FY26. However, we expect inflationary momentum to rise in H2 FY26 as the favourable base effect fades.
- Q4 FY26 inflation is projected to average well above 4%, and for FY27, we expect it to average above 4.5%. Accordingly, we do not anticipate further rate cuts unless economic growth weakens significantly.

# Cumulative Rainfall 4% Above the LPA



Source: IMD, CMIE. Data as of 25 August

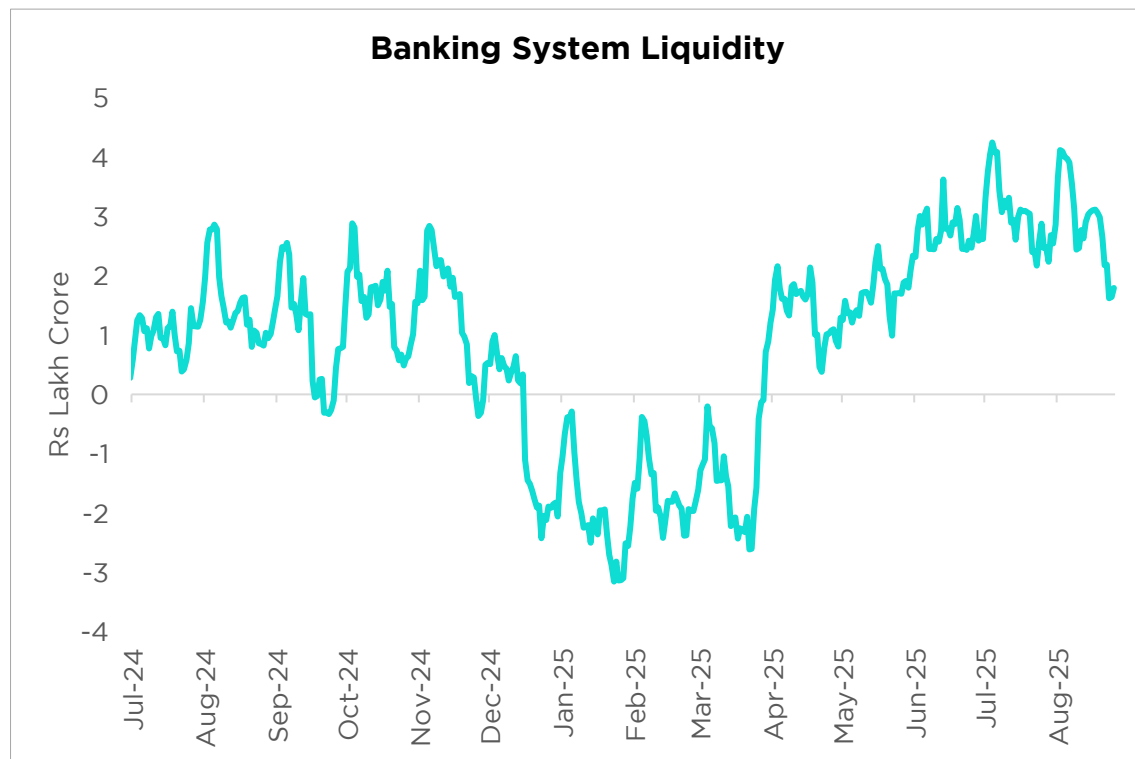


Source: Ministry of Agriculture & Farmers Welfare, CMIE. Data as of 22 August

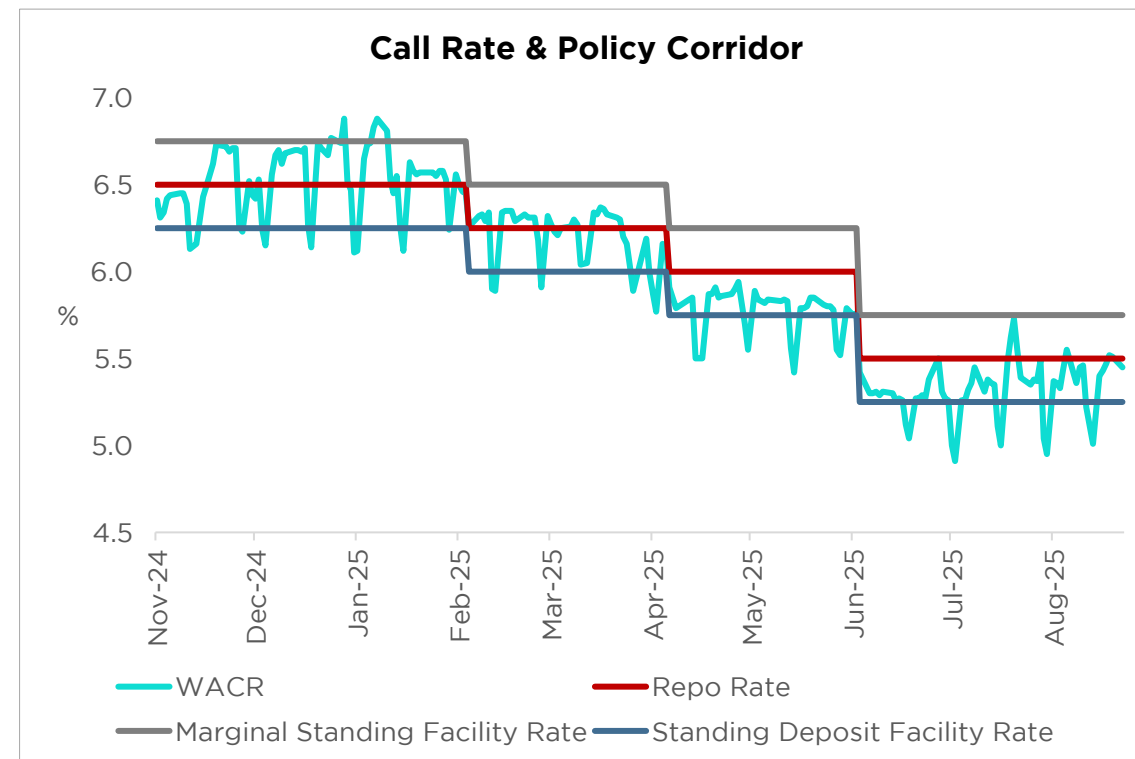
- The Southwest monsoon slowed in the first half of August but remained above the Long Period Average (LPA), standing at 4% above LPA as of 25 August 2025.
- Favourable prospects for agricultural output persist, with rainfall expected to pick up going forward.
- Total sown area recorded a 3.4% YoY increase as of 22 August 2025, despite subdued oilseeds and fibres sowing.



# Liquidity Conditions Comfortable



Sources: RBI, CEIC. Data as of 25 August  
Positive values denote liquidity surplus.



Sources: RBI, CEIC. Data as of 25 August

- Banking system liquidity surplus averaged Rs 3 lakh crore in August (up to 25 August), though it narrowed recently due to GST outflows.
- On average, the WACR was 15 bps below the policy rate in August.
- The RBI has been conducting both VRRR and VRR auctions to manage liquidity conditions.
- Liquidity conditions are expected to stay comfortable, supported by month-end government spending, with the upcoming CRR cut in September providing further support.

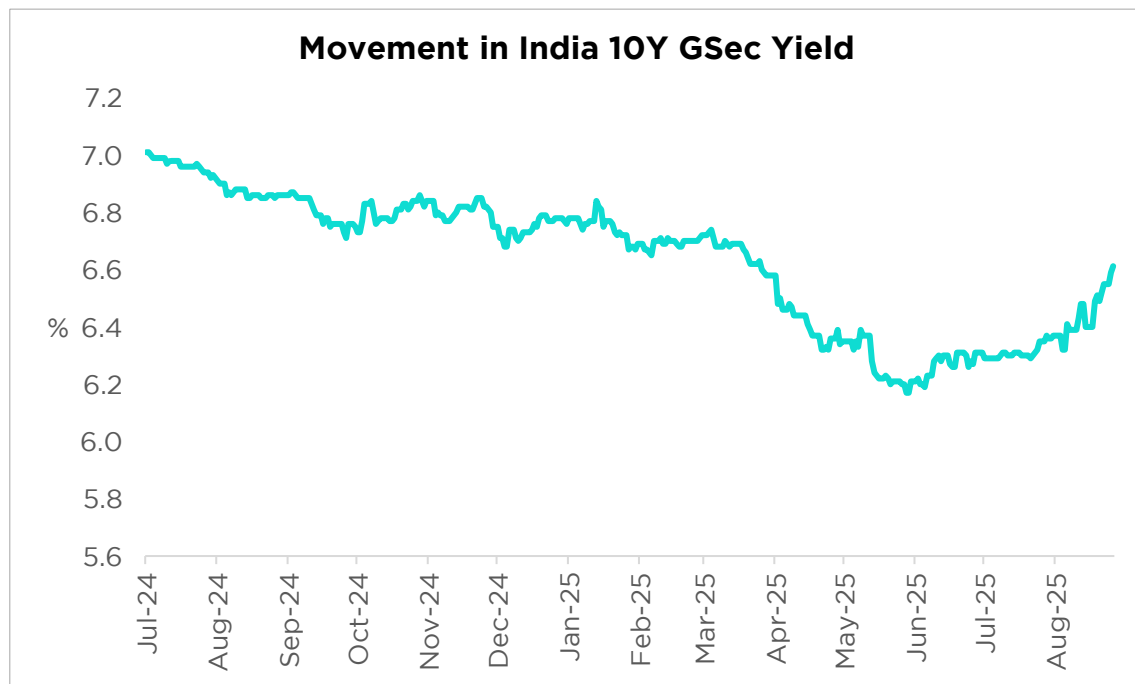
# Centre May Face Rs 700-800 Billion Annual Impact from GST Reforms

- The government is working towards reforms in the GST regime aimed at lowering the tax slabs and simplifying the structure, which is expected to provide a boost to domestic consumption. While the final fine prints from the GST council are still awaited, ongoing discourse indicates three key changes:
  - 99% of items in the 12% slab to move to 5%
  - 90% of items in the 28% slab are to move to 18%.
  - Sin goods to be taxed at a higher rate of 40%.
- Impact on Central Finance: We expect the net annual impact of around Rs 700-800 billion annually, given the rejig in tax slabs. Since it is expected to be implemented from November, the impact is expected to be in the tune of Rs 300-400 billion in FY26.
- Impact on Inflation: Overall impact on the inflation is expected to be around 20-30 bps annually in the current CPI series. However, we need to examine the finer details, which would give granular product-wise tax rates. Additionally, the introduction of the new CPI series with a 2024 base year will be an important development to monitor, as it can alter the impact of the GST rejig. The new series is expected to feature a reduced weight for the food basket and inclusion of additional segments like prices of e-commerce and video streaming services.
- Impact on Growth: The GST reform is expected to be net positive for private consumption. However, lower tax revenues could somewhat constrain government expenditure if the focus on fiscal consolidation is maintained.

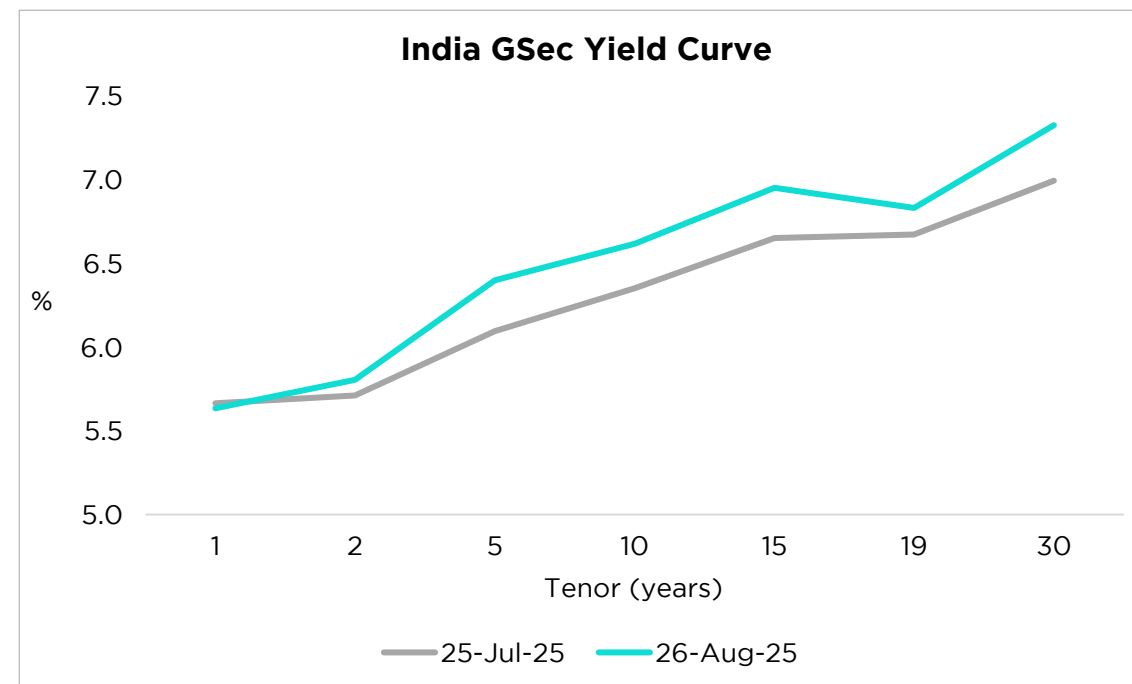
Tax Slabs	Share of Revenue in Each Tax Slab	Estimated Revenue by Slabs (Rs Billion)	Estimated Revenue Loss by Slab (Rs Billion)
5%	7%	708	--
12%	6%	607	350
18%	72%	7279	--
28%	15%	1517	650
Total Annual GST Revenue Downside (Rs Billion)			1000
Revenue Upside from Buoyancy & Higher tax on Sin Goods (Rs Billion)			200-300
<b>Net Annual Impact (Rs Billion)</b>			<b>700-800</b>

[Source: CareEdge](#)

# 10Y GSec Yield Surges; Yield Curve Steepens



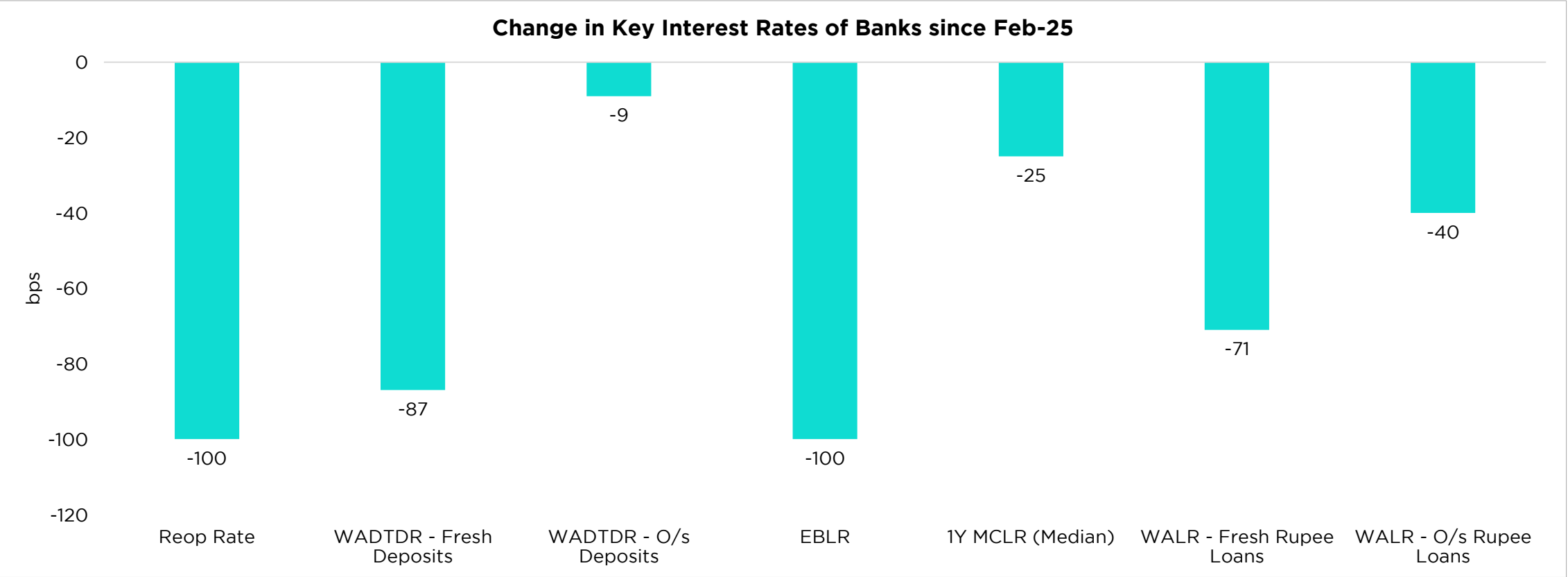
Source: Refinitiv. Data as of 26 August



Source: Refinitiv

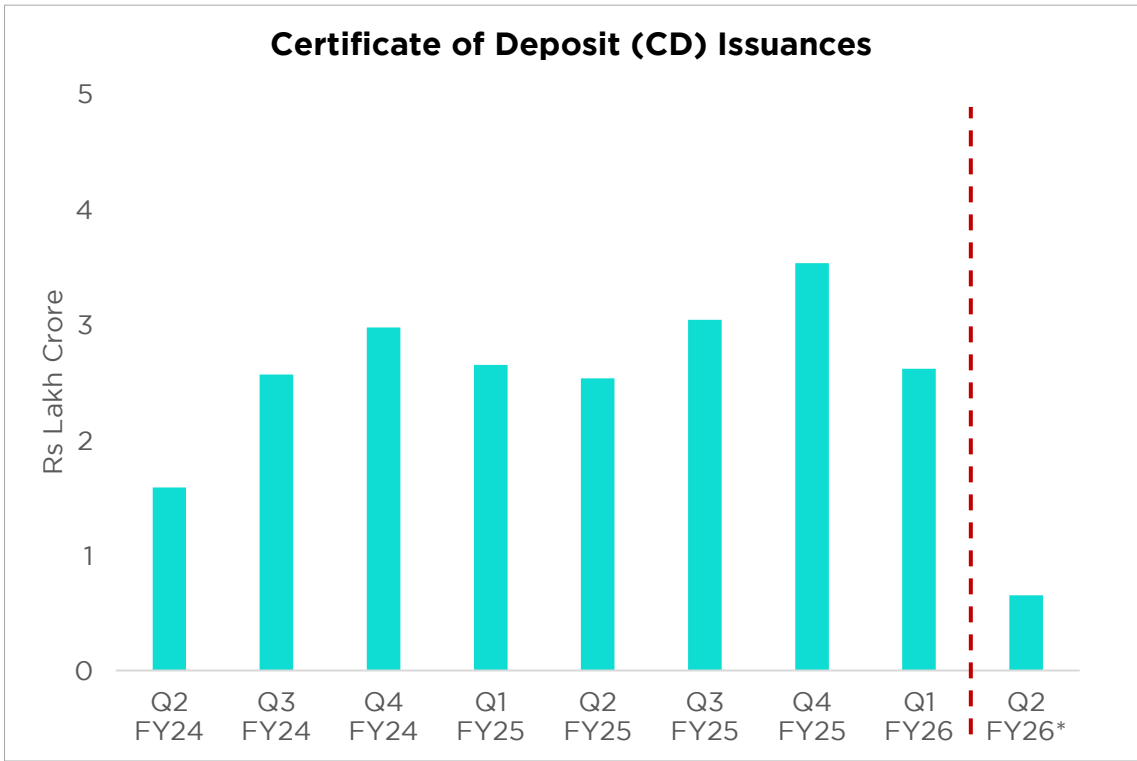
- India 10Y GSec yield rose by around 26 bps over the past month on MPC's hawkish tone and concerns that the proposed GST rationalisation could raise government borrowing.
- We expect the 10-year benchmark to stay elevated in the near term.
- The yield curve has steepened, with long-end yields rising over the past month.
- We do not expect further RBI rate cuts. However, if US tariffs on India stay elevated and growth risks increase, this could warrant stronger policy support from the RBI, including more accommodative measures.

# Policy Rate Cut Transmission Accelerates

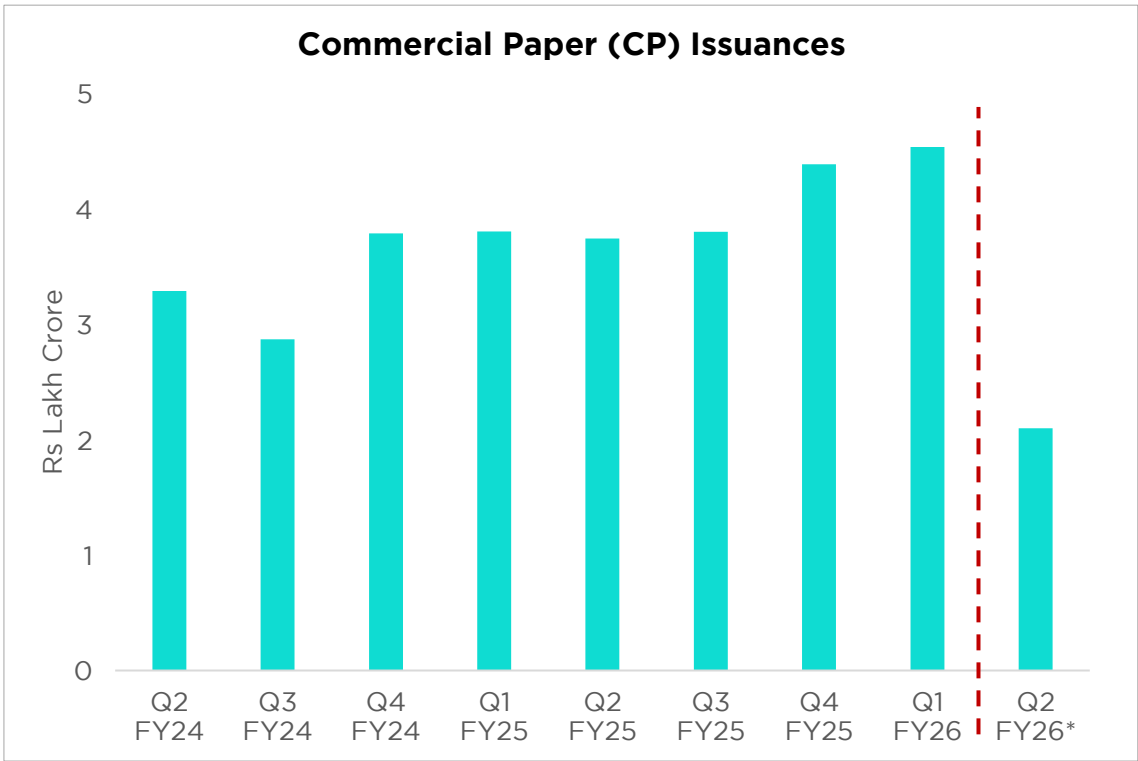


Source: RBI.  
Data on WADTDR and WALR is for June 2025  
Note: WADTDR: Weighted Average Domestic Term Deposit Rate; EBLR: External Benchmark-based Lending Rate; MCLR: Marginal Cost of Funds-based Lending Rate; WALR: Weighted Average Lending Rate

# CD Issuances Dip; CP Issuances Surge



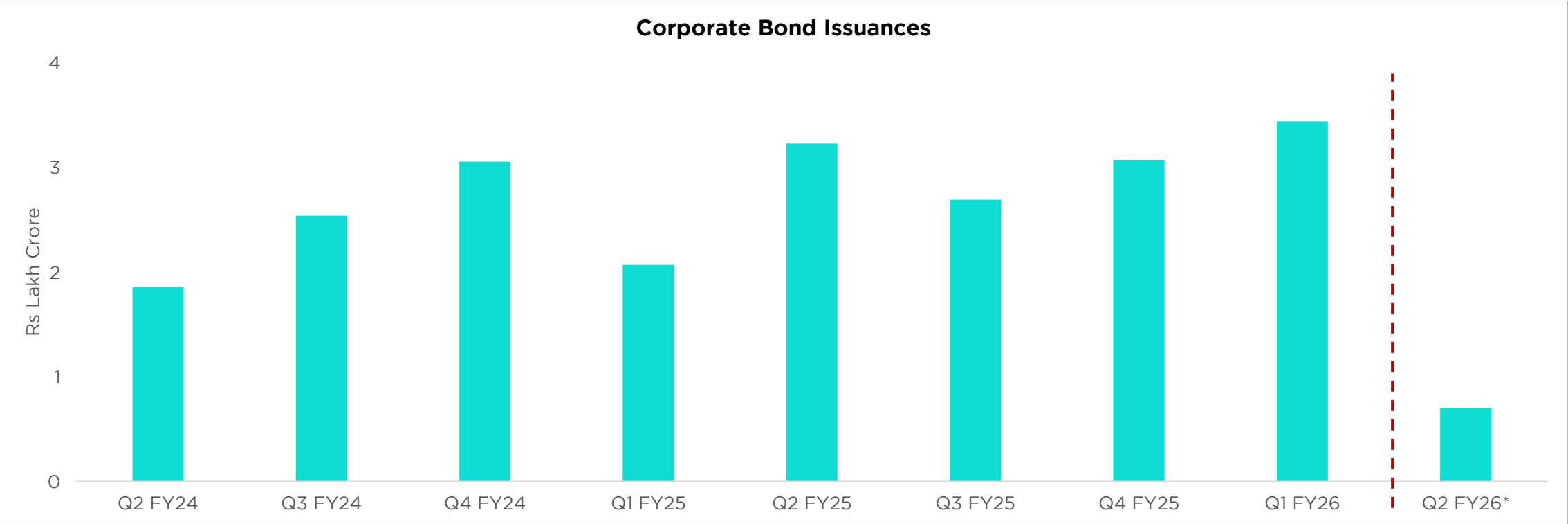
Source: CMIE. \*Data as of 08 August



Source: CMIE. \*Data as of 15 August

- FYTD CD issuances stood at Rs 3.27 lakh crore (up to 08 August), 6.6% lower than the same period last year.
- FYTD CP issuances stood at Rs 6.64 lakh crore (up to 15 August), up 21% YoY.

# Corporate Bond Issuances at 6-Month Low in July

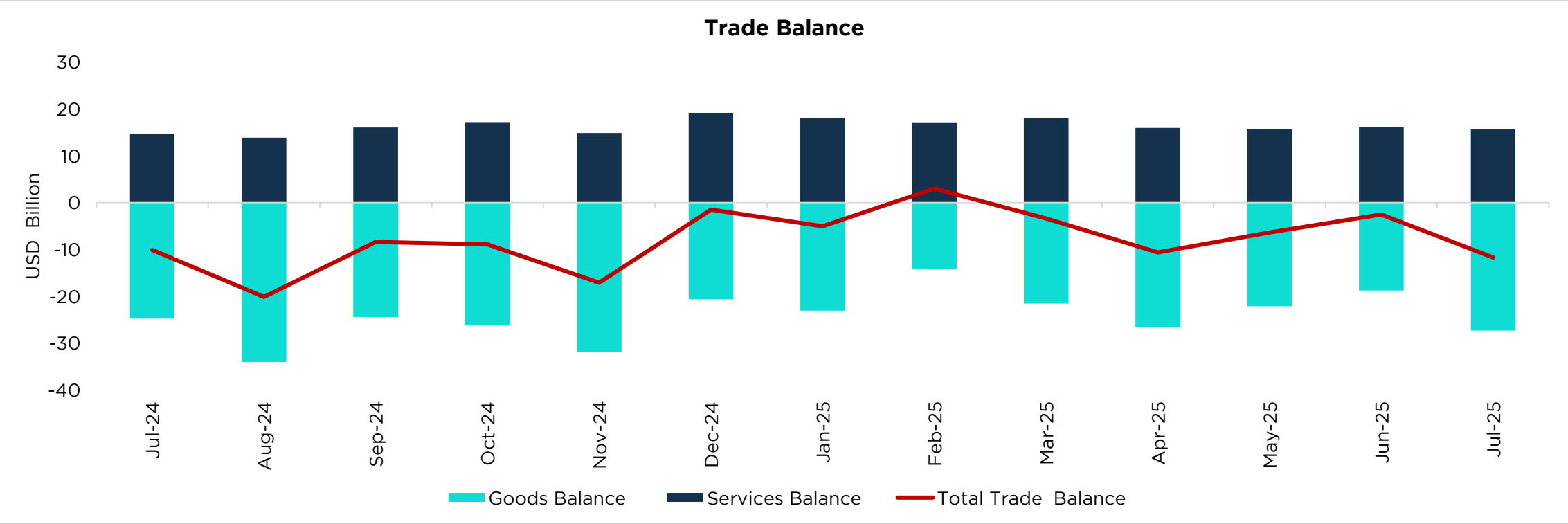


Source: Prime Database. Data includes private placements and public issues. \*Provisional data as of July 2025.

- Corporate bond issuances eased to Rs 0.7 lakh crore in July, a six-month low.
- However, FYTD issuances rose 32% YoY to Rs 4.14 lakh crore (up to July). Ccorporates front-loaded issuances in Apr-June amidst falling yields. However, yields have increased slightly lately.



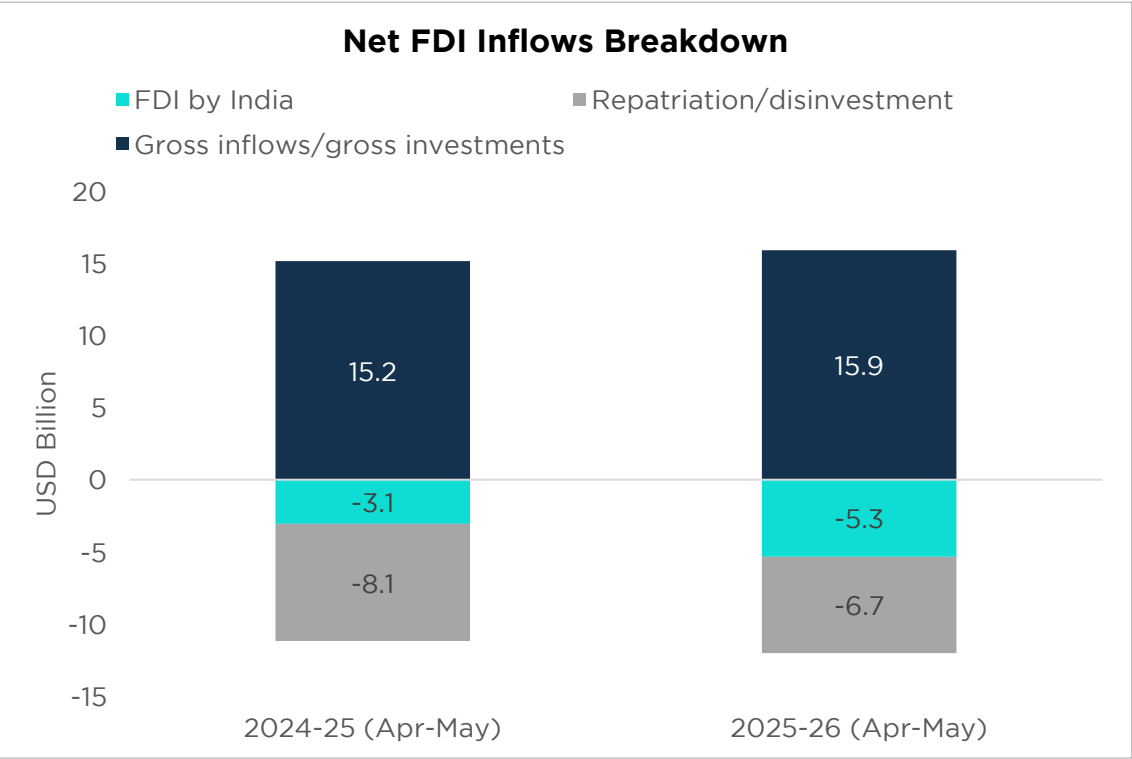
# Goods Deficit at 8-Month High; Services Surplus Steady



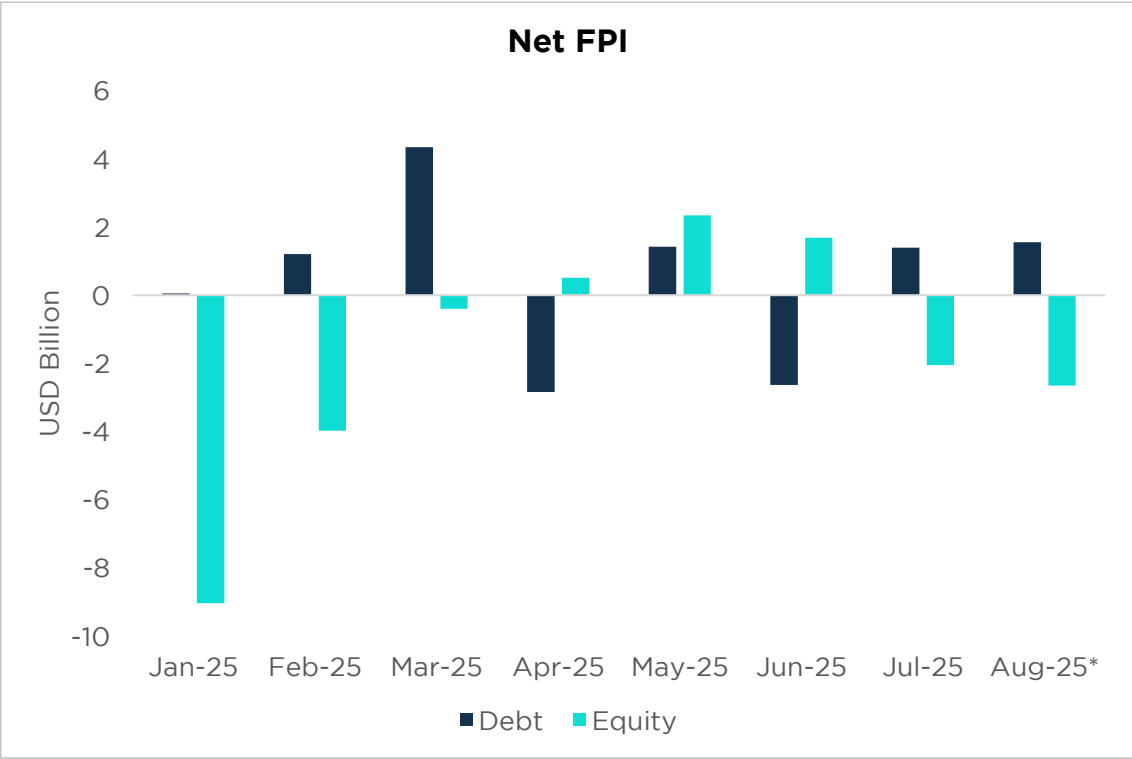
Source: CMIE

- India's goods trade deficit widened to USD 27.4 billion in July. Services surplus stood at USD 15.6 billion.
- FYTD goods deficit widened to USD 94.8 billion (vs USD 86.9 billion a year ago). FYTD services surplus increased to USD 63.5 billion (vs USD 54.3 billion a year ago).
- Overall trade deficit (goods & services) stood at USD 31.3 billion FYTD, marginally lower than USD 32.5 billion in the corresponding period a year ago.
- We expect India's goods exports to slightly weaken amidst a global trade slowdown. Non-petroleum exports are likely to contract by 0.8% YoY in FY26 (vs 6% growth in FY25).
- We expect services exports to remain resilient despite some pressure, rising 8% YoY in FY26.

# Net FDI Eases; FPI Outflows Continue for Third Straight Month



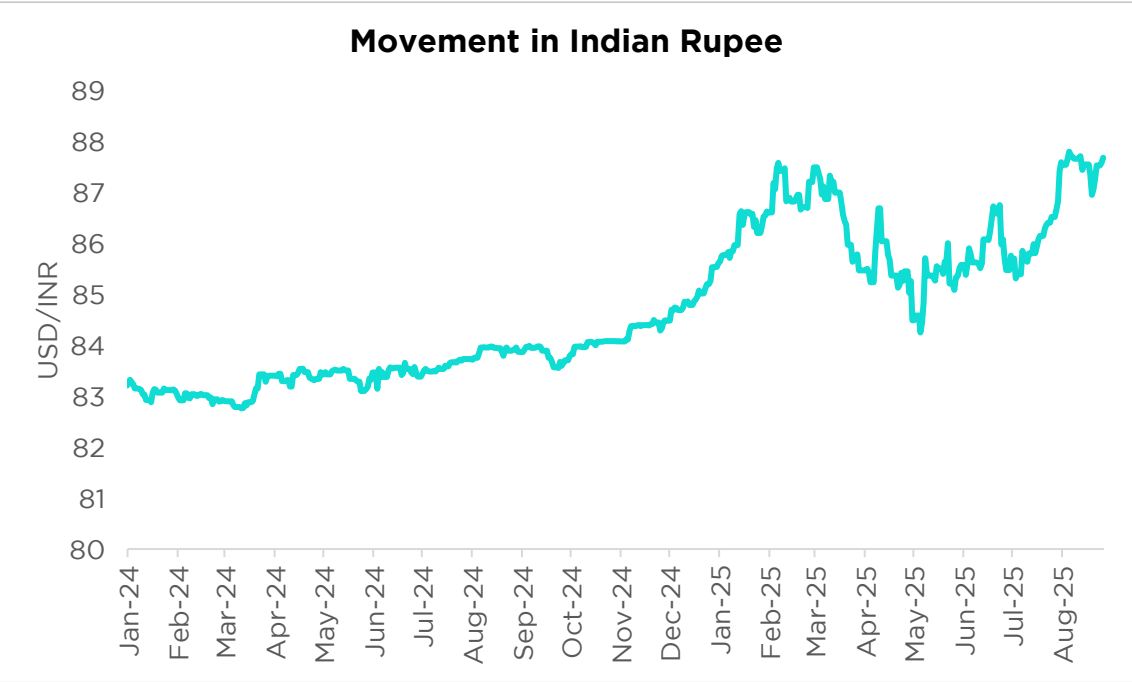
Source: CMIE



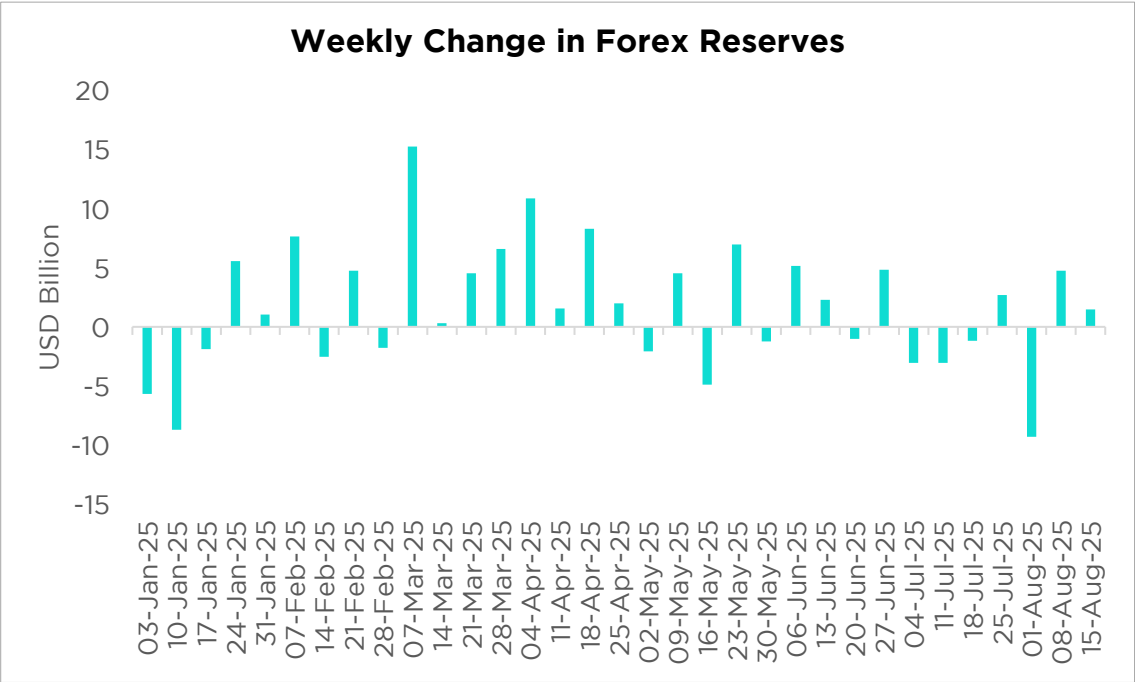
Source: NSDL. \*Data as of 26 August

- Net FDI inflows into India eased to USD 3.9 bn in Apr-May FY26 (-2% YoY), as a 74% surge in outward FDI offset a 5% rise in gross inflows.
- CYTD net FPI outflows (equity + debt) stood at USD 9.1 billion, led by equity (-USD 13.6 billion) and partly offset by debt inflows (+USD 4.5 billion).
- We expect India’s net FDI inflows to show a muted performance in FY26, while developments around the US-India trade deal will be crucial for market sentiment and FPI flows.

# Rupee Near Record Lows

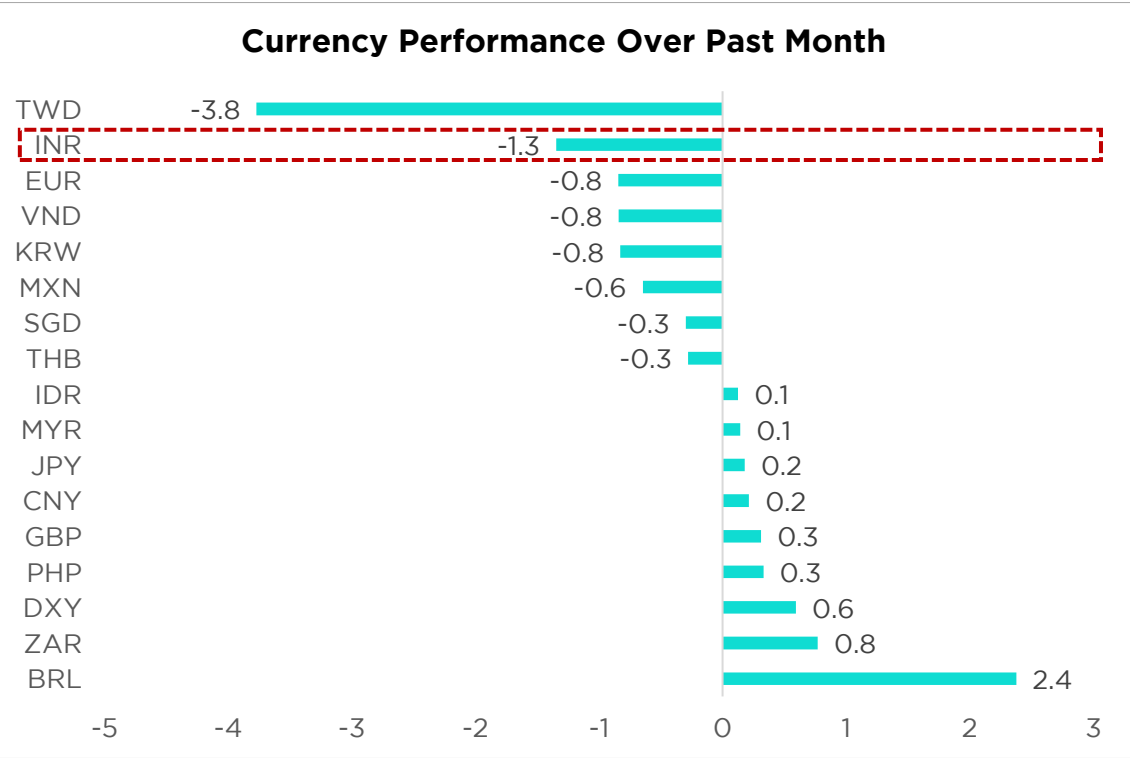


Source: Refinitiv. Data as of 26 August

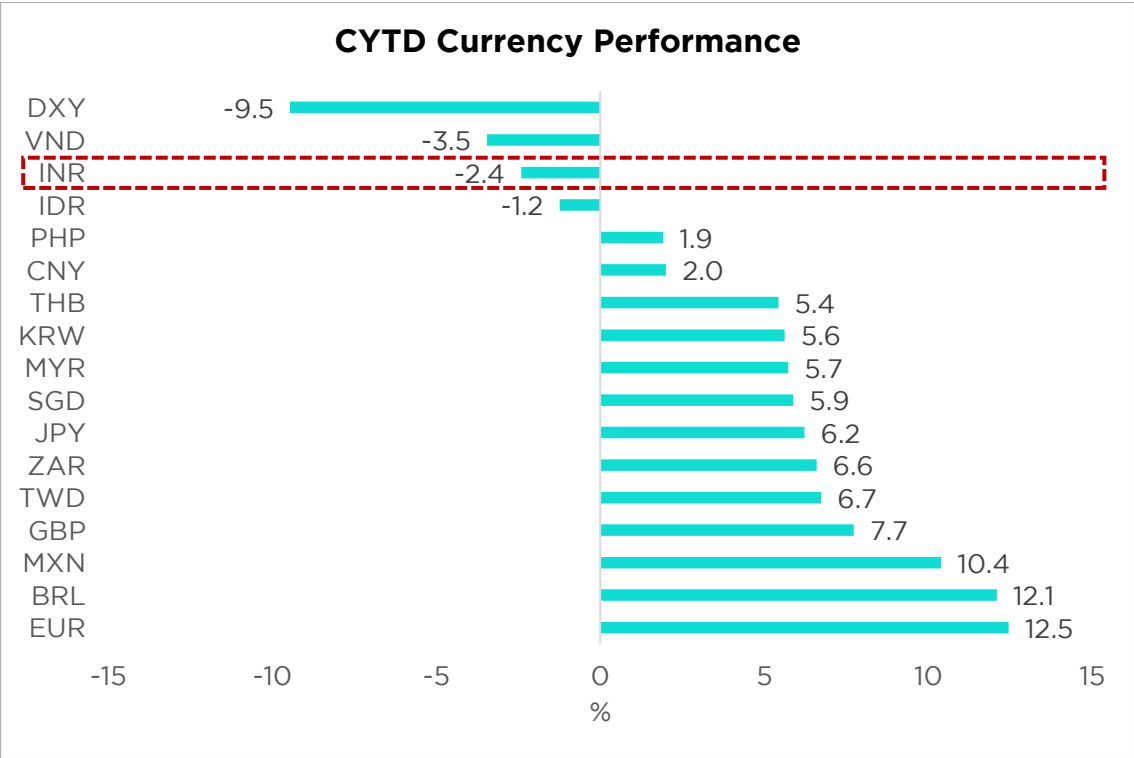


Source: Refinitiv, CareEdge

- The rupee has depreciated by 1.3% against the dollar over the past month, pressured by US tariff announcements and continued FPI outflows.
- FX reserves saw a sharp weekly decline in early August, suggesting potential RBI intervention in the forex market.
- We expect the rupee to stay under pressure in the near term, hovering around 87.5-88, though RBI intervention should cap volatility. That said, we retain our FY26-end forecast of 85-87 for USD/INR, supported by a softer dollar outlook, firm yuan, a manageable CAD and a potential US-India trade deal.
- Developments around the US-India trade deal will be key to watch for its impact on market sentiment and the rupee.
- 40 currency trade weighted REER at 100.4 in June indicates valuation concerns have eased.



Source: Refinitiv. Data as of 26 August. Note: Negative values imply currency has weakened. DXY measures the dollar’s performance against a basket of currencies, while the performance of other currencies is measured against the USD.



Source: Refinitiv. Data as of 26 August

- The dollar index is down calendar year-to-date, weighed by trade policy uncertainty and US fiscal concerns. Expected Fed rate cuts in H2 2025 should keep the dollar soft.
- Yuan has been supported by the extension of the US-China trade truce by another 90 days and stronger PBOC fixings.

# CareEdge Forecasts



## Economic Growth

GDP growth projected at  
**6.4%** in FY26



## Inflation

Average CPI inflation projected at  
**3.1%** in FY26



## Current Account Deficit

CAD (as % of GDP) projected at  
**0.9%** in FY26



## Fiscal Deficit

Fiscal deficit (as % of GDP) budgeted  
at **4.4%** in FY26



## Interest Rates

10-Year G-Sec Yield to range  
between **6.0%-6.2%** by end-FY26



## Currency

USD/INR projected to trade  
between **85-87** by end-FY26

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