



Complete Investment Banking Solutions

ECOCAPSULE

The Cold War Turns Hot

August 2025



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EXECUTIVE SUMMARY



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Crease lines drawn in the game of “Deal or No Deal” even as the winner is unclear

The US signed major deals with the EU and Japan during the month, locking in 15% tariffs. The jury is out on whether this constitutes a victory for either party, with most concluding it is a pyrrhic one owing to the large investment obligations imposed as far as Japan & EU are concerned, and the short-term inflationary impact likely on the US. Two big trading partners, Canada and Mexico continue reeling without a deal, whereas China has managed to maintain status quo. *We believe the air of finality continues to elude even the deals which are deemed concluded and there will be several more rounds of back and forth before clarity emerges.*

A tariff is starting to impact global growth, making room for policy rate compromises

Global PMIs are at multi-month highs. Continuous delays in tariff setting is keeping manufacturing afloat even as services remain largely unafflicted. However, cracks have begun to appear. US non-farm payroll additions stood at 73k in Jul’25 with massive downward revisions of 258k in May’25 and Jul’25. This prompted several US Fed officials to call for more rate cuts in defiance of the Chair. Further, Mr. Trump’s eagerness to replace the hawks in the US Fed may act as a catalyst for rate cuts. *Markets expects 2 rate cuts in CY25 now, though the long-term rate expectation has moved upwards in past month due to fear of persistent tariff-led inflation. The global impact of tariffs will uncoil itself in a rear-ended fashion through asset price volatility and delayed investments, once the carrying strength of the supply chain breaks down*

India slapped with punitive tariffs as it defies the US in a push for trade sovereignty

India is amongst the nations now facing the highest tariffs in the world at 50%. This includes a base tariff of 25% (which is moderately high relative to peers) and additional 25% as penalty for importing energy from Russia. Notably, tariffs kick in on 28 Aug’25, giving a window for further negotiation, even though its scope is denied by the US for the sake of brinkmanship. In any case, India has taken a firm stance. This is enabled by its low dependence on exports for growth and blossoming agreements with other blocs. *In the medium term, key labour-intensive export-driven sectors such as textiles and MSMEs could bear the brunt, and the government is likely to support them through schemes.*

As global headwinds blow vigorously, domestic monsoon winds imperative to sow the seeds of growth

Clearly, now the locus of growth must shift inwards. A significant driver in FY26 is expected to be rural consumption, as ample rainfall has not only led to expansion in the sown area, but also filled the reservoirs for a bumper rabi. The impact is already seen in tractor sales, with 2W sales expected to pick up in the festive season. The concerns stem from the capex side. While the Union and States have seen a sharp rise in capex in Q1FY26, private capex continues to lag. Worryingly, flow of funds towards commercial ends was up by just 3% in FY25, below even the inflation rate. While emergent sectors are typically less capex intensive, players in traditional sectors have enough internal accruals to fund their capex.

Incremental monetary space for growth support to remain limited unless things go south in H2FY26

For now, the Central Bank seems kosher with the growth-inflation dynamic and opted for a hawkish pause in the Aug’25 policy. We expect at most 25bps of cuts, driven on incoming data. Meanwhile, the transmission to both lending and deposit rates has been impressive, highlighting the benefits of an EBLR dominated system. The yield curve has steepened due to ample liquidity at the lower end. The Central Bank also needs to keep an eye out for the currency, with INR depreciating on tariff news and unwinding USD forward position despite ample forex buffers. Careful control would be needed to ensure export competitiveness in an increasingly polarised and volatile financial market.

MACROECONOMIC OVERVIEW



TARIFF COULD POSE A REAR-ENDED IMPACT ON GROWTH IN FY26

REAL GVA SECTORAL BREAK UP

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

REAL GDP EXPENDITURE COMPONENTS

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

Global growth estimate for CY25 was taken upwards by IMF, albeit remaining moderate. The outlook remains highly susceptible to trade tensions. Even while India's economy is structurally less dependent on exports for growth, blazing high 50% tariffs could impact key labour-intensive sectors such as textiles. Accordingly, we estimate FY26 real GDP growth at 6.2% y/y

RESILIENT CONSUMPTION CARRIES SLUGGISH INDUSTRY ACROSS THE FINISH LINE

INDICATOR	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25
INDUSTRY												
Manufacturing PMI	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1
IIP (%y/y)	0.0%	3.2%	3.7%	5.0%	3.7%	5.2%	2.7%	3.9%	2.6%	1.9%	1.5%	
Eight Core (%y/y)	-1.5%	2.4%	3.8%	5.8%	5.1%	5.1%	3.4%	4.5%	1.0%	1.2%	1.7%	
Finished Steel Consumption (%y/y)	10.0%	11.8%	8.9%	9.5%	5.2%	10.9%	10.9%	13.6%	6.0%	8.1%	9.3%	
2W Retail Sales (%y/y)	6.3%	-8.5%	37.0%	16.4%	-17.4%	4.2%	-6.0%	-1.4%	2.6%	7.7%	5.1%	0.4%
PV Retail Sales (%y/y)	-4.5%	-18.8%	36.5%	-10.7%	0.2%	15.5%	-8.1%	8.8%	4.4%	-0.4%	5.7%	2.3%
SERVICES/CONSUMPTION												
Services PMI	60.9	57.7	58.5	58.4	59.3	56.5	59	58.5	58.7	58.8	60.4	60.5
Petrol Consumption (%y/y)	8.6%	3.0%	8.7%	9.6%	11.1%	6.7%	5.0%	5.7%	5.0%	9.2%	6.8%	5.5%
Diesel Consumption (%y/y)	-2.5%	-1.9%	0.1%	8.5%	5.9%	4.2%	-1.3%	0.9%	4.2%	2.2%	1.6%	2.1%
Railway Freight Volume (%y/y)	-3.3%	6.0%	1.4%	1.4%	1.7%	-1.6%	-3.0%	3.0%	3.6%	2.7%	2.6%	1.8%
Port Cargo Volume (%y/y)	6.7%	5.9%	-3.4%	-5.0%	3.4%	6.2%	7.4%	13.3%	7.0%	4.4%	5.5%	
Electricity supply (% y/y)	-4.7%	0.4%	0.8%	3.8%	5.2%	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%	1.6%
Total Airport Footfall (%y/y)	7.5%	8.1%	9.8%	13.2%	10.5%	13.5%	11.2%	9.3%	10.3%	3.0%	11.2%	2.1%
Fastag revenues (%y/y)	8.4%	10.4%	10.4%	14.5%	13.3%	19.0%	18.3%	14.5%	21.6%	20.0%	17.5%	19.6%
UPI transactions (%y/y)	30.7%	30.7%	37.0%	23.9%	27.5%	27.5%	20.2%	25.2%	21.9%	23.0%	19.8%	21.5%
Gross GST Revenues (%y/y)	10.0%	6.5%	8.9%	8.5%	7.3%	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%	7.5%

DOUBLING DOWN ON DOMESTIC DRIVERS IS DESIRABLE

Industrial production is middling barring some bright spots in construction segment, tariff torture could hurt some export sectors

- Manufacturing PMI hitting 16-month high in Jul'25, with strong growth in new orders and output indicating demand buoyancy. Crude steel production rose 13.3% y/y in Jun'25 driven by import curbs and capacity expansion, with players doubling down on investments in green steel. Cement production also remains fair on construction output
- Electronics manufacturing remains a key bright spot, with industry expected to grow at CAGR of 26% to reach USD 500 bn by CY30. Union has declared semiconductors at heart of this industry, with SEMICON India Programme attracting investments worth Rs. 760 bn. Notably, electronics remain outside the ambit of US tariffs on India
- IIP slowed to 10-month low, as monsoon reined in growth in mining and power. Eight core industries growth remained similarly subdued. Hence, the industrial recovery is not broad based. This is also indicated by the fact that total flow of resources to commercial sector grew by a mere 3% y/y in FY25

Monsoon expected to deal the magic touch for rural demand as sowing season comes to an end

- Domestic consumption displays reinvigorated strength, with retail sales rising 8% y/y in Jun'25 (May: 7%) in an upward trend, driven by 10% growth in apparels and QSR. According to RAI, the pace of retail sales is expected to bounce back to ~10% by end of FY26, after languishing at ~5% for much of FY25
- Quick commerce continues to remain a disruptor, growing 150% y/y in Q1FY26 (as per RedSeer), driven by rapid expansion of dark stores, with metros contributing to 80% of sales. GOVs have risen at 142% 3Y CAGR to USD 7.2 bn in FY25, with ~70% revenue now coming from seller commissions, as several D2C brands line up to list their products in festive season
- Auto sales dropped 4.3% y/y in Jul'25, as customer defer purchase decision of 2W and PVs to festive period, with dealerships noticing increased enquiry from rural marketing, while urban sentiment remains subdued. Notably, tractor sales remains jubilant in FY26, underpinned by agri-subsidies and favourable rains

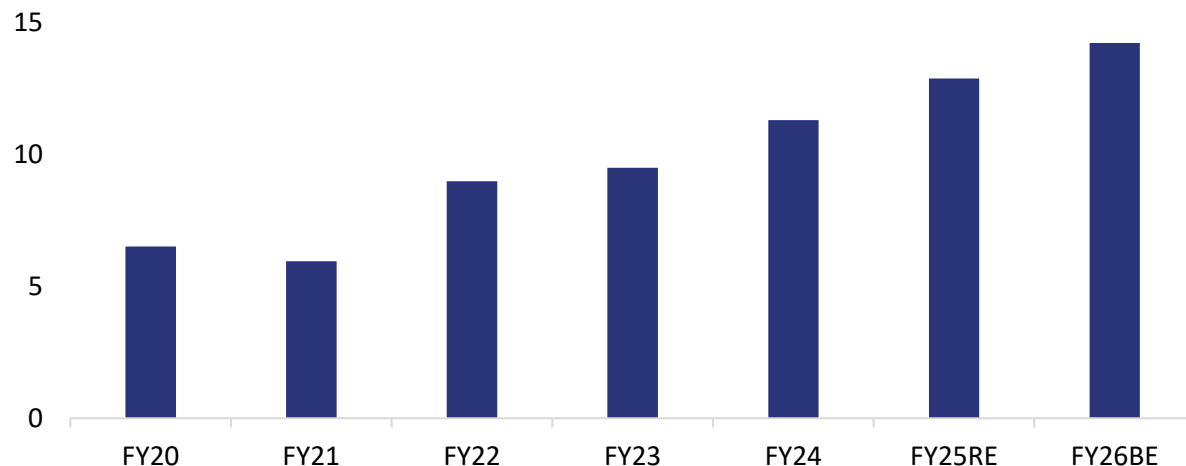
UNION CAPEX BRAWNY IN Q1FY26 EVEN AS DIRECT TAX COLLECTIONS LAG

ITEM (Rs. bn)	FY24A	FY25RE	FY26BE	GROWTH FY26BE/FY25PE	Q1FY25	Q1FY26	GROWTH Q1FY26/Q1FY25	Q1FY26/FY26BE
Corporation Tax	9,111	9,868	10,820	9.7%	1,748	1,727	-1.2%	16.0%
Income Tax	10,447	11,830	14,380	21.6%	2,873	2,858	-0.5%	19.9%
Customs Duty	2,331	2,329	2,400	3.1%	471	424	-9.9%	17.7%
Excise Duty	3,054	3,003	3,170	5.6%	514	556	8.3%	17.5%
Service Tax	4	0	1		0	-2		
GST	9,572	10,316	11,780	14.2%	2,568	2,981	16.1%	25.3%
Other Taxes	39	50	50	0.0%	19	14		
Gross tax Revenue	34,655	37,952	42,702	12.5%	8,308	8,690	4.6%	20.4%
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	2,795	3,269	17.0%	23.0%
Net tax Revenue	23,273	24,987	28,374	13.6%	5,496	5,403	-1.7%	19.0%
Non-Tax Revenue	4,018	5,375	5,830	8.5%	2,800	3,731	33.2%	64.0%
Non-debt Capital Receipts	598	418	760	81.7%	45	280	519.9%	36.9%
Total Receipts	27,888	30,781	34,964	13.6%	8,342	9,414	12.9%	26.9%
Revenue Expenditure	34,943	36,035	39,443	9.5%	7,889	9,470	20.0%	24.0%
Capital Expenditure	9,492	10,520	11,211	6.6%	1,811	2,751	52.0%	24.5%
Total Expenditure	44,434	46,555	50,653	8.8%	9,699	12,221	26.0%	24.1%
Revenue Deficit	7,652	5,671	5,238	-7.6%	-408	336	-182.4%	6.4%
Fiscal Deficit	16,546	15,773	15,689	-0.5%	1,357	2,807	106.9%	17.9%
Nominal GDP	295,357	327,718	356,979	8.9%				

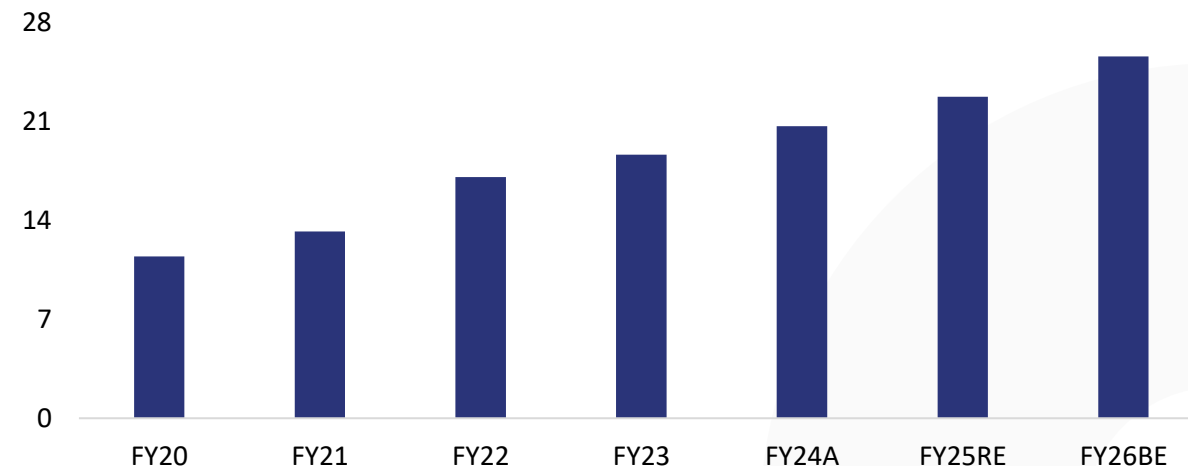
- Gross direct tax collections rose a tepid 3.1% y/y in YTD FY26 to Rs. 6.64 trn as of 10 Jul'25, with refunds surging 38% leading to net collections contracting 1.4% to Rs. 5.63 trn. GST revenues grew at a robust pace of 7.5% y/y in Jul'25, as maturity in GST regime keeps growth rates range bound, while non-tax revenues are boosted by bumper RBI dividends
- Capex surged 52% y/y to Rs. 2.7 trn at 24% of FY26BE, driven by spending on roads and railways as Union front loads infrastructure investments to stimulate demand. Capex intensity is boosted by fiscal consolidation with fiscal deficit at 17.1% FY26BE. CPSE capex also saw a steady uptick in Q1

STATES RAMP UP CAPEX ON BETTER TRANSFERS FROM THE UNION

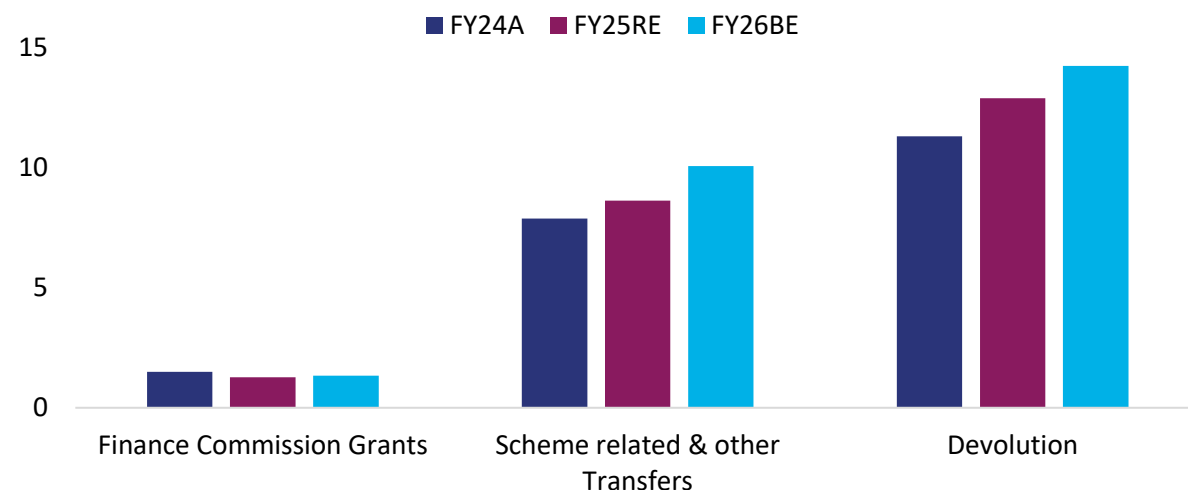
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



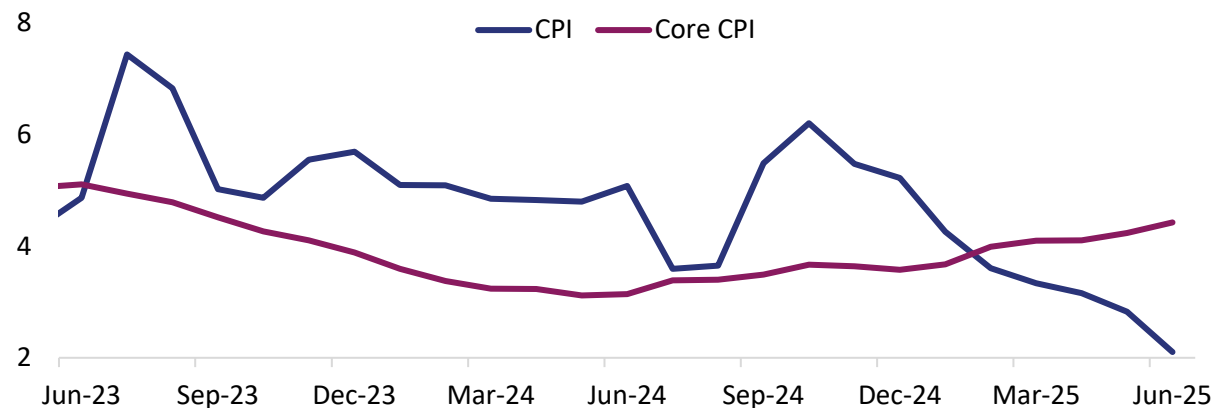
COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



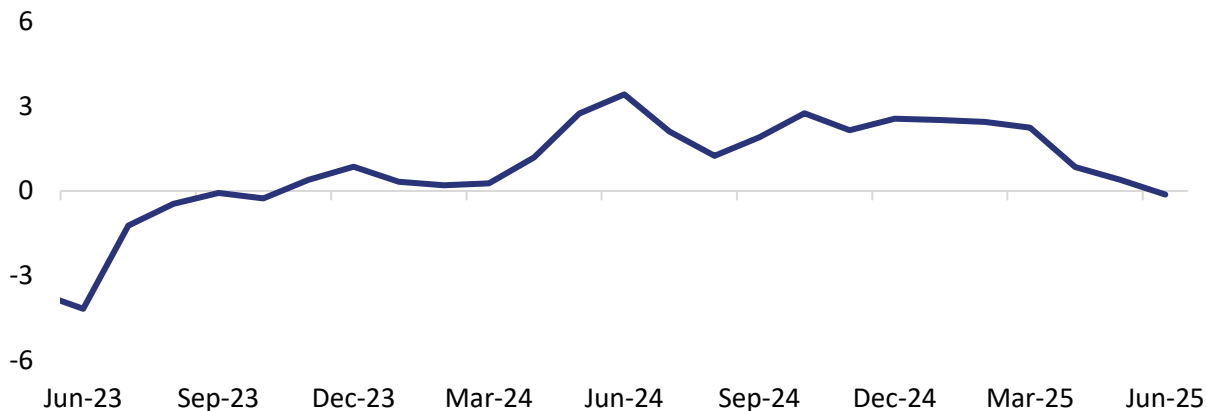
- States have rejoiced on higher transfers from Union, expected to grow further by ~Rs. 2.8 trn in FY26BE vs. FY25RE, higher than the Rs. 2.1 trn addition expected in FY25RE over FY24A, led by an equally higher devolution of taxes and scheme related transfers
- Data for 23 states showed that aggregate capex touched Rs. 994.8 bn, up 22% y/y. 16 of the 23 states recorded a rise in capex compared to last year.

CONSUMER PRICES TANK ON CHEAP VEGETABLES

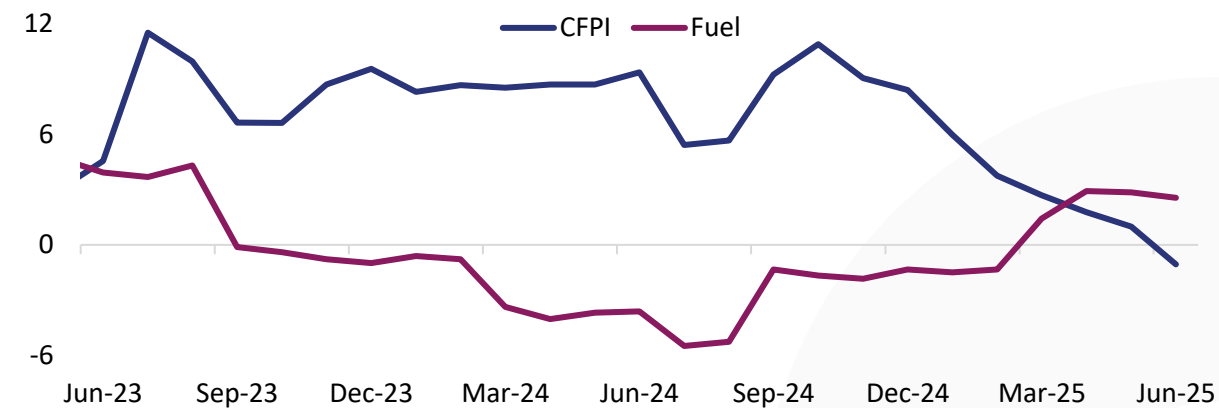
CONSUMER PRICE INDEX (CPI) & CORE CPI (% Y/Y)



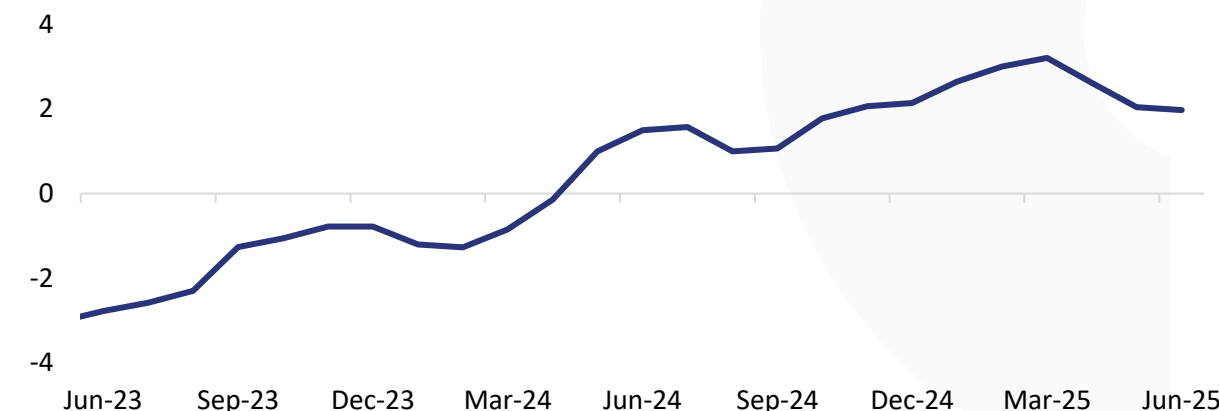
WHOLESALE PRICE INDEX (WPI) (% Y/Y)



CFPI AND CPI: FUEL (% Y/Y)



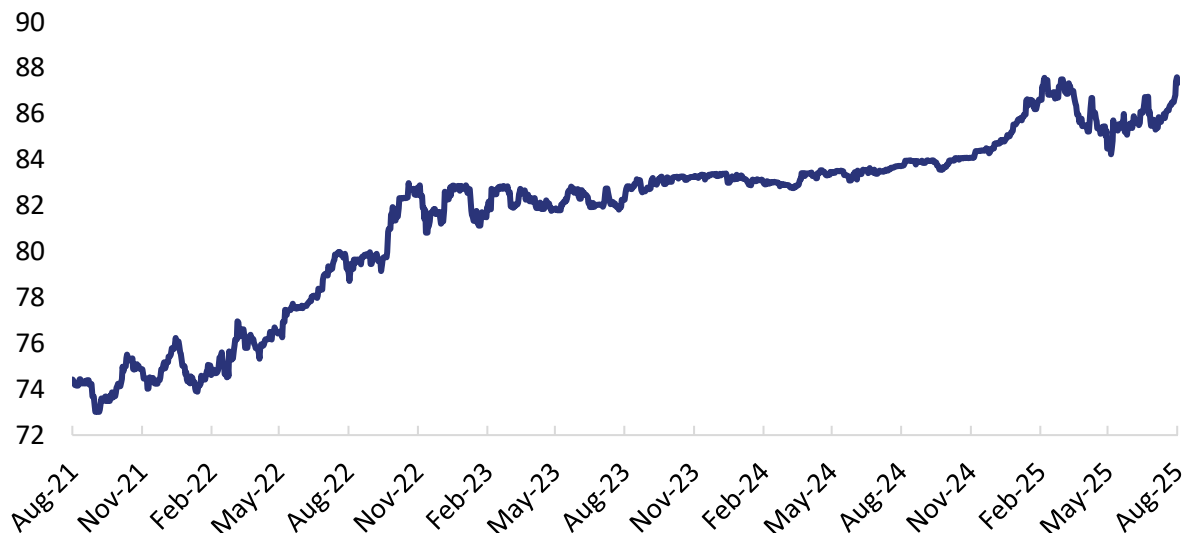
WPI: MANUFACTURED PRODUCTS (% Y/Y)



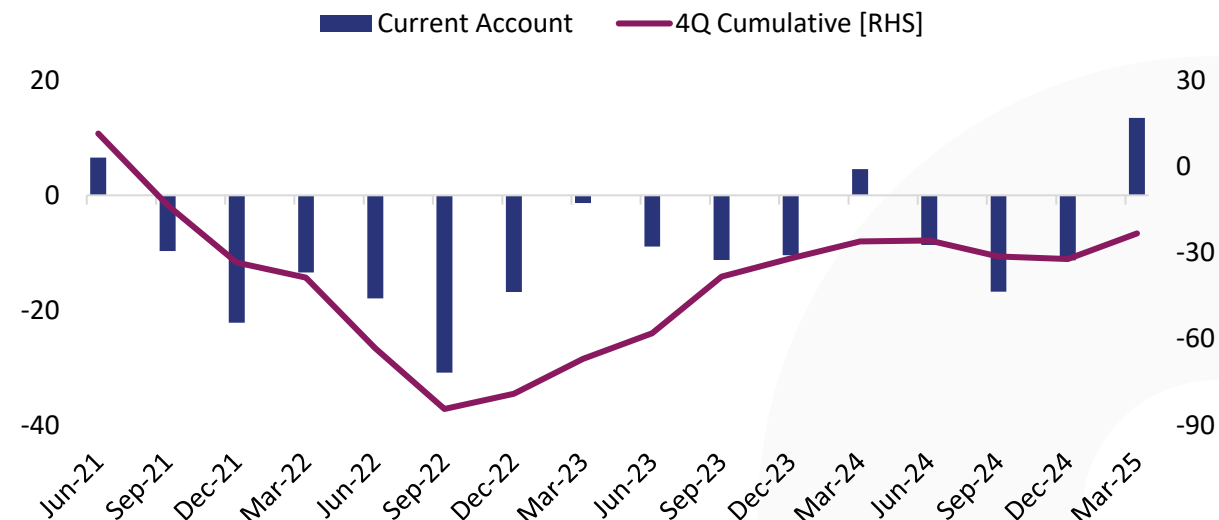
- CPI print chimed in at 2.1% y/y in Jun'25, on the lower end of RBI's band, driven by contracting food prices, offset by steady rise in core inflation due to demand-driven price hikes with hint of tariffs. RBI slashed inflation estimates in FY26 due to low base and ample monsoons aiding sowing. *In FY26, we expect CPI to be inline with RBI's estimates*
- WPI contracted for the first time since Oct'23 driven by falling food prices and steeper fall in fuel prices. WPI manufactured products slowed marginally due to broad based slowdown as commodity prices wane. Notably, rise in global edible oil prices is reflected in strong inflation on both retail and wholesale levels.

INR FREEFALL AS TARIFF TAN'TRUMP'S HURT THE MARKETS

USD/INR EXCHANGE RATE (Rs. per USD)



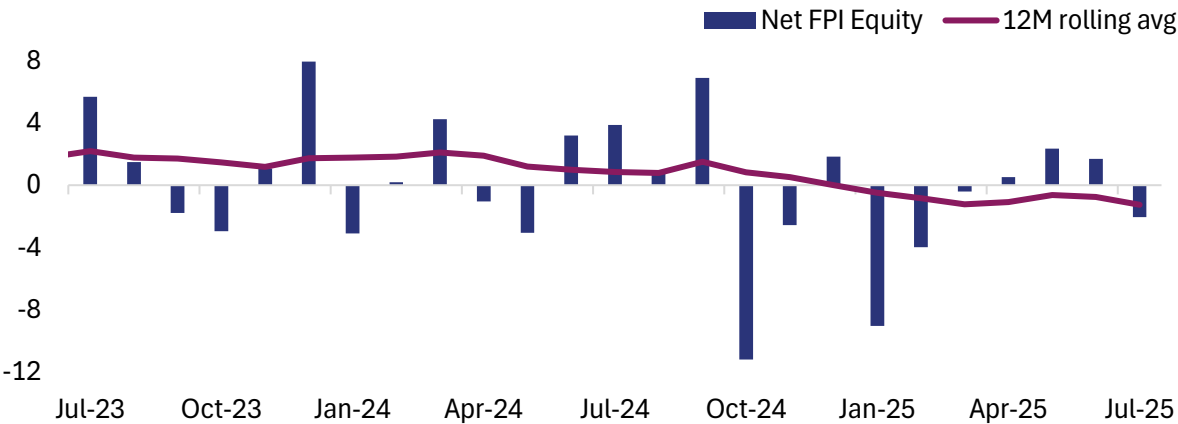
CURRENT ACCOUNT BALANCE (USD bn)



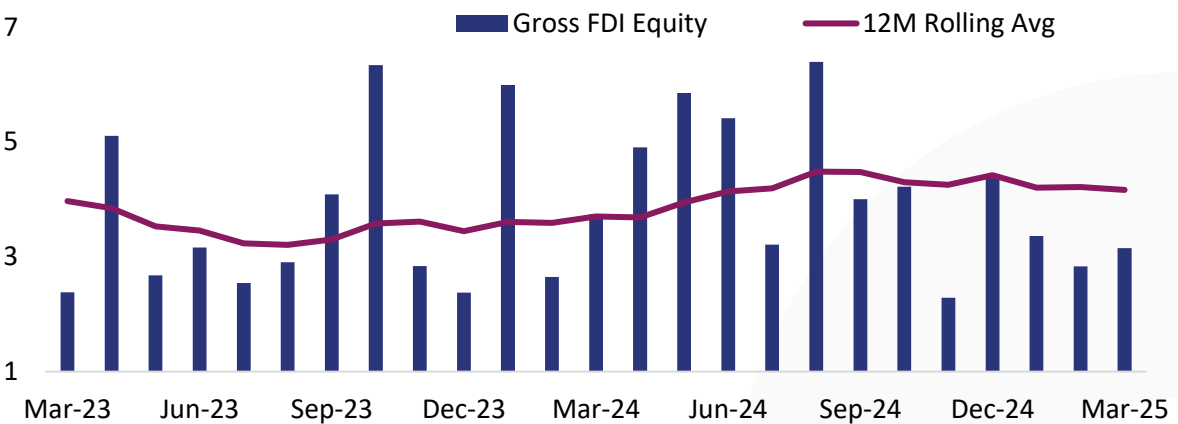
INDICATOR	JUL'24	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25
Forex Reserves (USD Bn)	670.6	682.2	705.8	682.1	659.4	635.7	630.6	638.7	668.3	688.4	691.3	698.1	698.2
Goods Imports (%y/y)	11.2%	10.0%	7.8%	1.9%	16.1%	2.3%	10.3%	-16.3%	11.4%	19.1%	-1.7%	-3.7%	
Oil Imports (%y/y)	22.7%	-25.6%	6.5%	17.0%	6.5%	-9.0%	-13.4%	-29.6%	16.3%	25.6%	-26.1%	-8.4%	
Non-oil Imports (%y/y)	7.9%	22.6%	8.2%	-3.2%	19.7%	6.3%	19.9%	-11.3%	9.4%	16.3%	10.0%	-2.0%	
Goods Exports (%y/y)	0.6%	-9.9%	-0.3%	16.6%	-5.3%	-1.5%	-2.6%	-11.1%	0.7%	8.6%	-2.3%	-0.1%	
Oil Exports (%y/y)	-13.8%	-40.4%	-30.6%	-25.1%	-52.2%	-31.6%	-59.7%	-30.4%	-9.5%	1.9%	-30.7%	-16.0%	
Non-oil Exports (%y/y)	4.1%	0.2%	6.7%	25.5%	7.8%	5.1%	14.5%	-6.3%	2.2%	10.3%	5.0%	2.9%	
Goods Trade Balance (USD Bn.)	-24.8	-34.0	-24.4	-26.1	-32.0	-20.7	-23.1	-14.1	-21.5	-26.6	-21.9	-18.8	
Services Exports (%y/y)	16.6%	5.7%	14.6%	22.7%	14.2%	16.9%	12.1%	11.7%	18.7%	8.8%	9.6%	12.0%	
Services Imports (%y/y)	16.0%	9.1%	13.5%	28.0%	26.1%	13.9%	12.6%	-4.7%	5.3%	1.0%	-1.0%	5.1%	
Overall Trade Balance (USD Bn)	-10.1	-20.1	-8.4	-8.9	-17.1	-1.5	-5.1	3.0	-3.4	-10.6	-6.2	-2.6	

FOREIGN INVESTORS SHY AWAY FROM INDIA

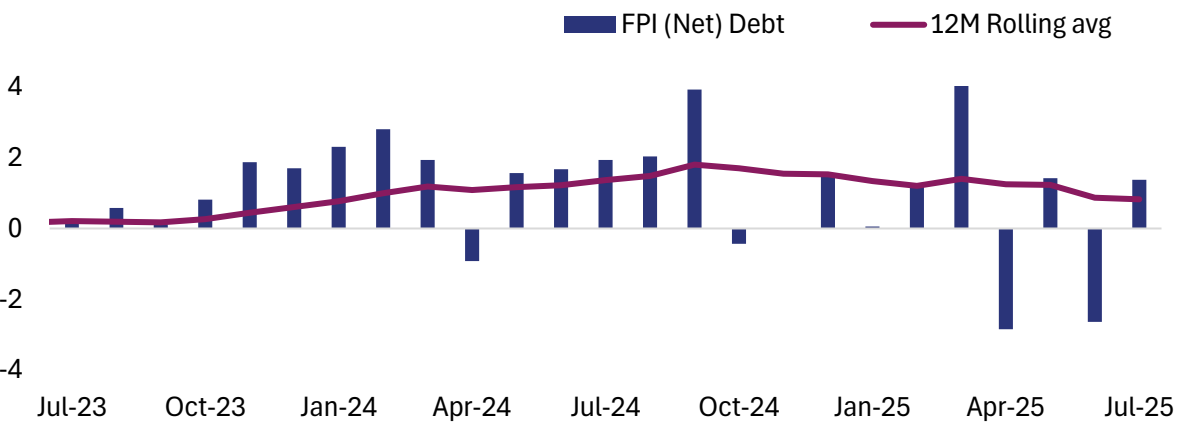
NET FPI EQUITY INFLOW (USD bn)



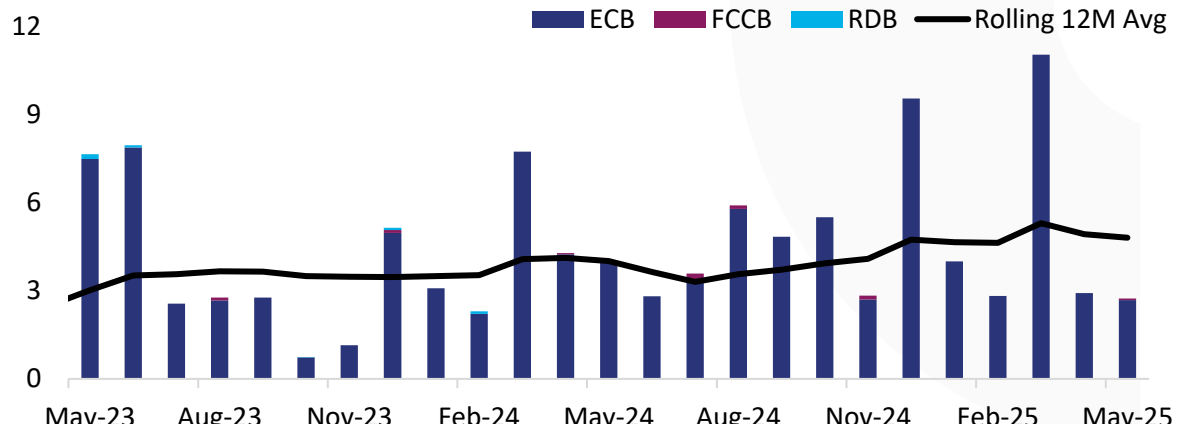
GROSS FDI EQUITY INFLOWS (USD bn)



NET FPI DEBT FLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



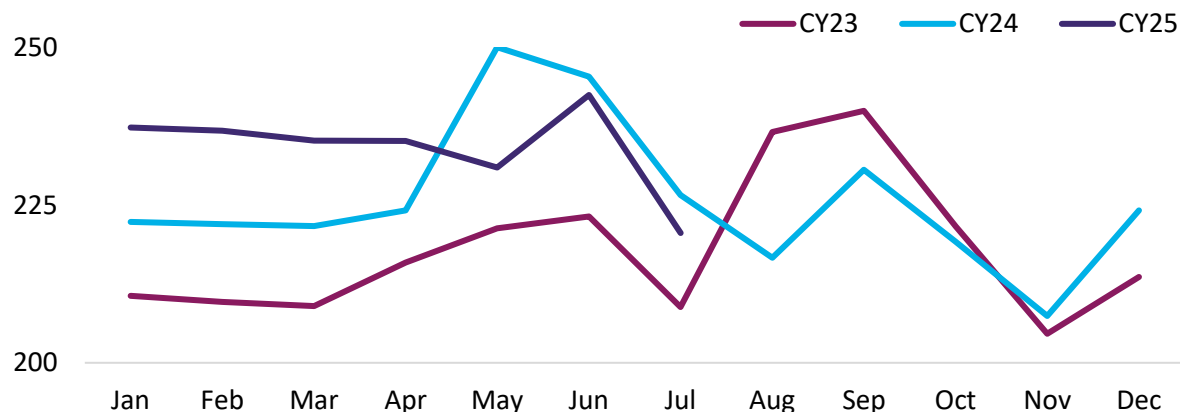
- FPI flows in Jun'25 were marred by cautious sentiment around 25% US tariff levies and additional penal measures for oil trade, amidst sharp depreciation in INR. Net FDI has slumped in recent months, despite robust gross flows, while ECB issuances remain morose in FY26
- JP Morgan is considering cutting the country cap for India from 10% to 8.5%, in a bid to improve the average yield of its EM Bond index

SECTORAL UPDATES

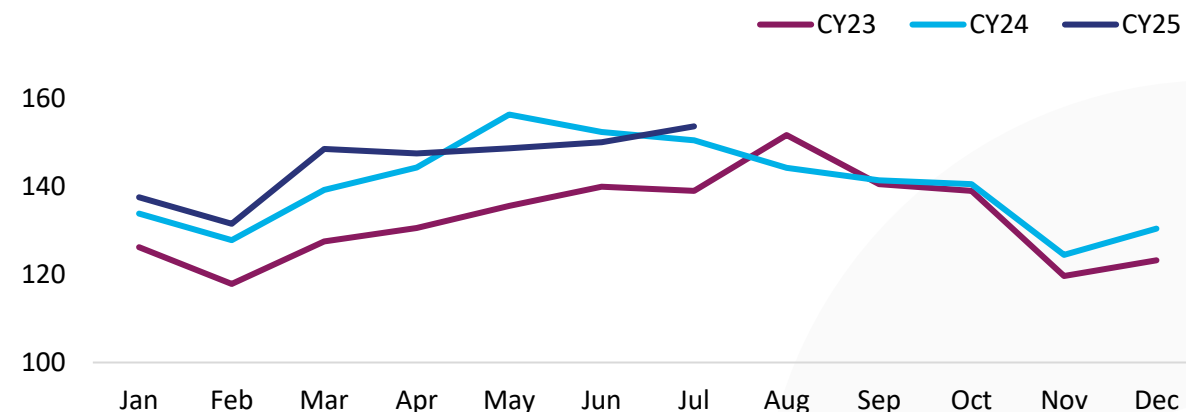


ELECTRICITY SUPPLY MODERATES ON RAIN-LED COOLING

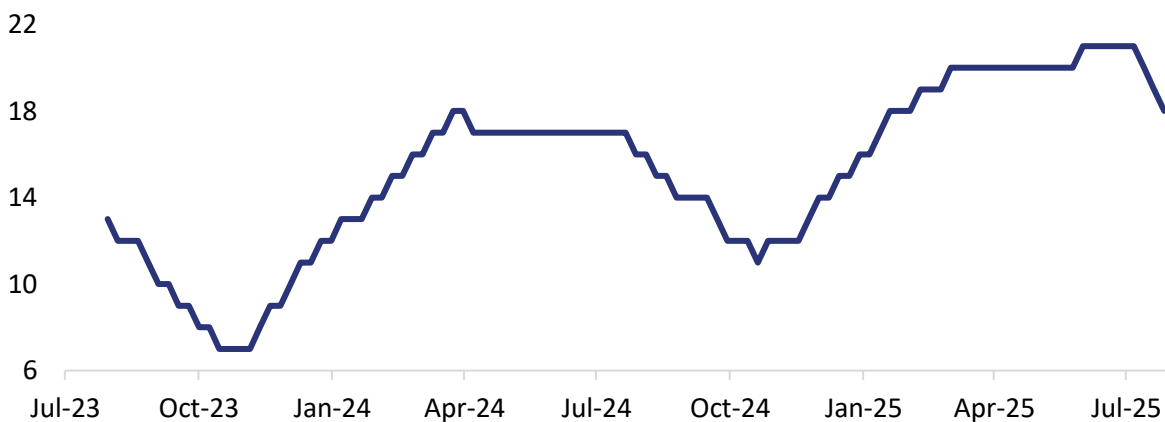
PEAK POWER DEMAND (GW)



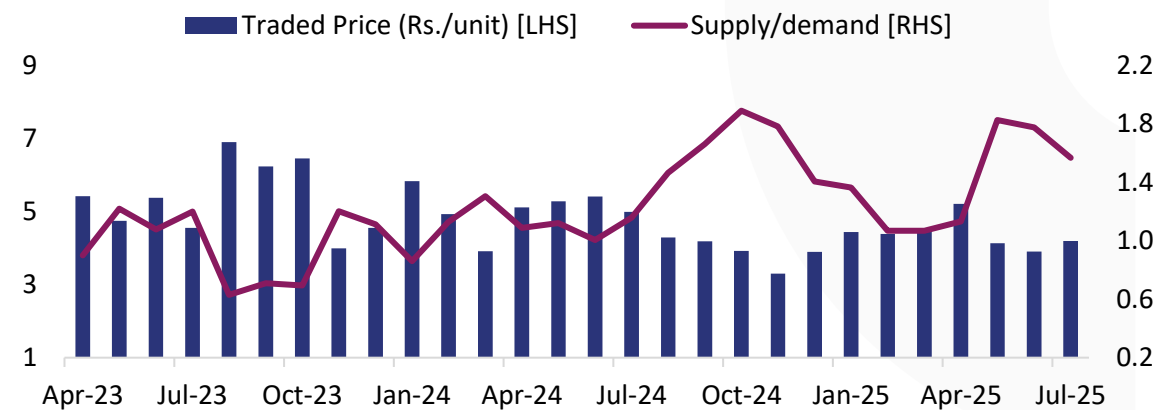
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



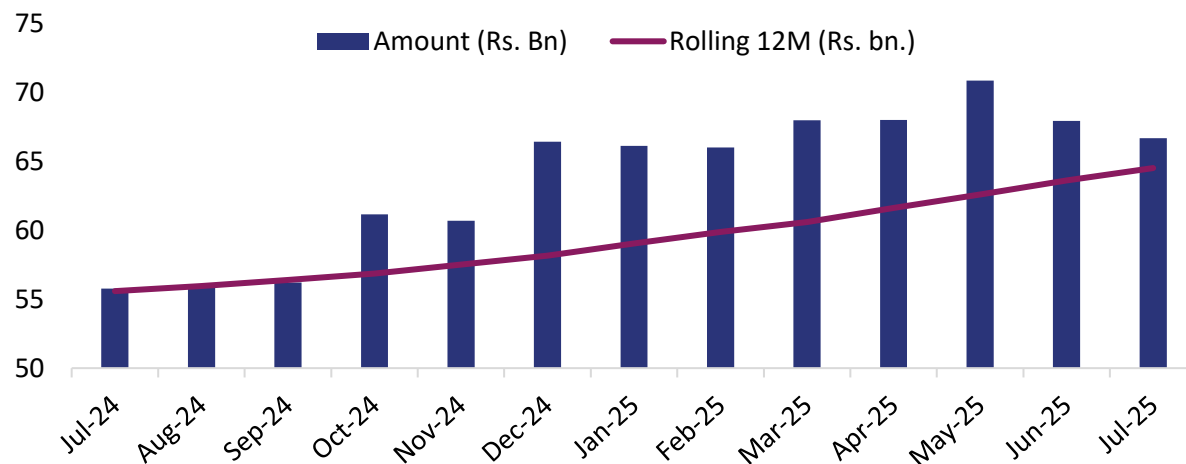
SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Electricity consumption rebounded at slow clip of 2.6% y/y to 153 BU in Jul'25, as monsoon relief dampens cooling appliance requirement, especially in northern region. DAM prices fell 16% y/y to Rs. 4.2 per unit, driven by increased renewable generation providing supply side liquidity. Notably, solar additions touched ~11 GW in Q1FY26, a record pace
- Coal India has allowed coal it supplies under long-term FSAs to be diverted for power generated to sell on exchanges, in the spirit of new SHAKTI regulations

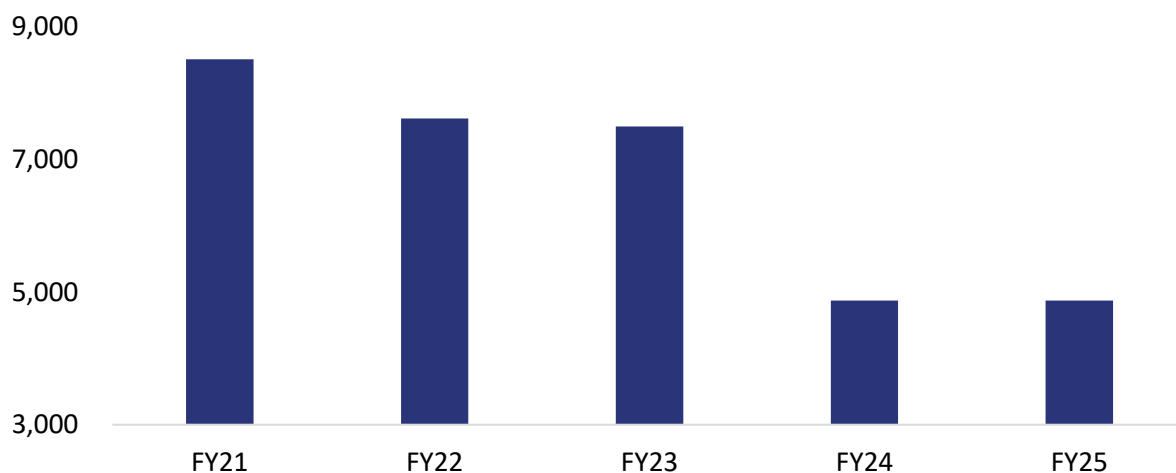
NH CONSTRUCTION PACE SLOWED IN FY25

FASTAG COLLECTIONS

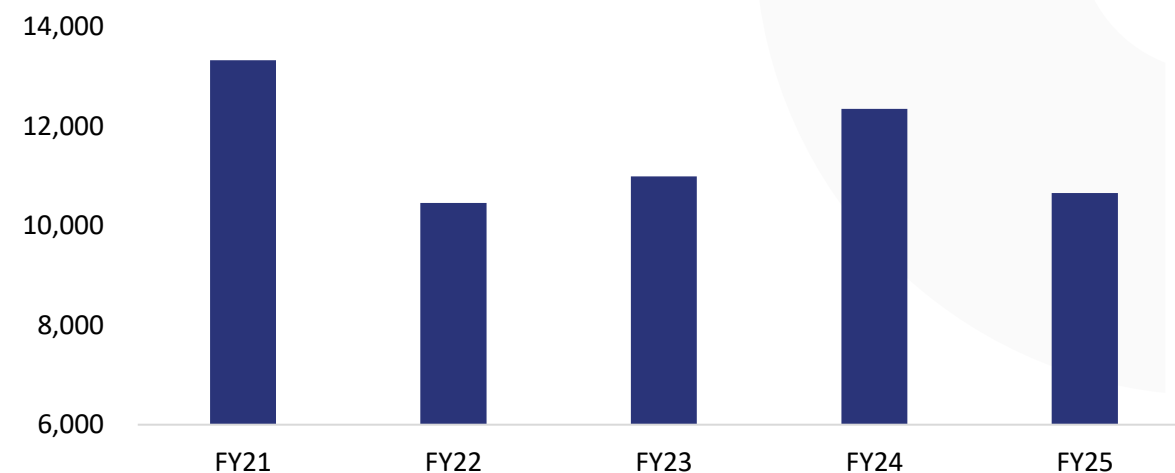


- FasTag collections rose 20% y/y to Rs. 66.7 bn, it's lowest in 5 months, yet maintaining strong pace. Further, Union announced the scrapping of GPS based tolling systems in favour of FasTag and ANPR for ease and convenience
- MoRTH Minister Mr. Gadkari stated that Union has taken up construction of 8,391 km long National High Speed Corridors, of which, 5,110 km are constructed and 2,730 km have become operational.
- He reiterated focus on such corridors to improve logistics efficiency, claiming logistics costs will be below 10% by Dec'25, lower than 12% for US and close to China's 8%

NATIONAL HIGHWAY AWARDING (km) – 11MFY



NATIONAL HIGHWAY CONSTRUCTION (km)



CREDIT GROWTH SLOWS DUE TO INDUSTRIAL INACTION

INDICATOR	AUG'24	SEP'24	OCT'24	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25
CREDIT												
Non-food credit growth (%y/y)	13.6%	13.0%	11.5%	10.6%	11.1%	11.4%	10.9%	10.9%	10.2%	8.8%	9.3%	8.7%
Industry credit growth (%y/y)	9.7%	8.9%	7.9%	8.0%	7.2%	8.0%	7.1%	7.8%	6.6%	4.8%	5.5%	
Services credit growth (%y/y)	13.9%	13.7%	12.7%	13.0%	11.7%	12.5%	12.0%	12.4%	10.5%	8.7%	9.0%	
Personal credit growth (%y/y)	13.9%	13.4%	12.9%	13.3%	12.0%	11.8%	11.7%	11.6%	11.9%	11.1%	12.1%	
DEPOSITS												
Total Deposits (%y/y)	10.9%	11.1%	11.7%	11.2%	11.5%	10.8%	10.6%	10.3%	9.9%	10.0%	10.4%	10.1%
Time Deposits (%y/y)	10.9%	11.1%	13.2%	11.5%	11.4%	11.0%	11.0%	10.7%	10.4%	8.9%	9.2%	9.5%
Demand Deposits (%y/y)	10.6%	11.7%	11.6%	8.9%	12.3%	9.4%	7.7%	7.0%	6.4%	18.0%	19.6%	14.6%
KEY RATIOS												
C/D Ratio (%)	79.5%	79.6%	79.0%	79.5%	80.4%	80.4%	80.8%	80.7%	80.8%	79.6%	78.9%	78.9%
Investment/Deposit Ratio (%)	29.9%	29.8%	29.8%	29.7%	29.6%	29.9%	30.0%	29.9%	29.7%	29.3%	28.9%	28.6%
KEY RATES												
1Y MCLR (Median-All SCB)	8.90%	8.95%	8.95%	9.00%	9.00%	9.00%	9.05%	9.00%	9.00%	8.95%	8.90%	8.75%
WALR – fresh (%)	9.41%	9.37%	9.54%	9.40%	9.25%	9.33%	9.40%	9.35%	9.26%	9.20%	8.62%	
WALR – o/s (%)	9.89%	9.88%	9.88%	9.87%	9.85%	9.85%	9.78%	9.75%	9.68%	9.67%	9.45%	
WADTDR – fresh (%)	6.46%	6.54%	6.44%	6.46%	6.57%	6.62%	6.55%	6.72%	6.34%	6.11%	5.75%	
WADTDR – o/s (%)	6.93%	6.95%	6.96%	6.98%	7.00%	7.09%	7.10%	7.11%	7.11%	7.07%	7.00%	
Repo Rate	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%	5.50%

RATE TRANSMISSION FASTER THAN EVER BEFORE THIS CYCLE

Systemic credit slowdown is offset by offtake in niches, as MPC kool-aid vows to reverse hangover of regulatory curbs:

- Credit offtake's letdown is driven by large corporates moving to capital markets, while banks remain wary of retail exposure, especially in the low-income segment. Jul'25 witnessed a tepid broad-based redemption across categories, in part to MSMEs' crusade to rise and pockets of discretionary demand revival.
- Credit growth to large industries lags, while that of MSME shines, focused on trade credit in export-oriented electronics and pharmaceuticals and capex by OMCs in petrochemicals to aid energy transition. Infrastructure credit has contracted, albeit at slower pace, with end of telecom capex cycle and tepid roads construction, while airports continue outsized offtake
- Services credit growth is aided by CRE, Shipping and Other Services, while tariff related disruptions and ease of capital market deter Trade, NBFC and Tourism. Slowdown in unsecured personal loans category is reflective of banks' caution due to recent slippages; however, tepid revival is seen in vehicles and housing while gold loans remain fiery
- RBI Governor Mr. Malhotra opined that asset quality snags of unsecured borrowers seems to have subsided, with several bankers suggesting bottoming of MFI and Personal Loans NPAs in Q1FY26. Mr. Malhotra has further reiterated continued monetary, regulatory and fiscal support to boost demand and spur credit growth

Banks look to shore up capital to prepare for the next leg of growth

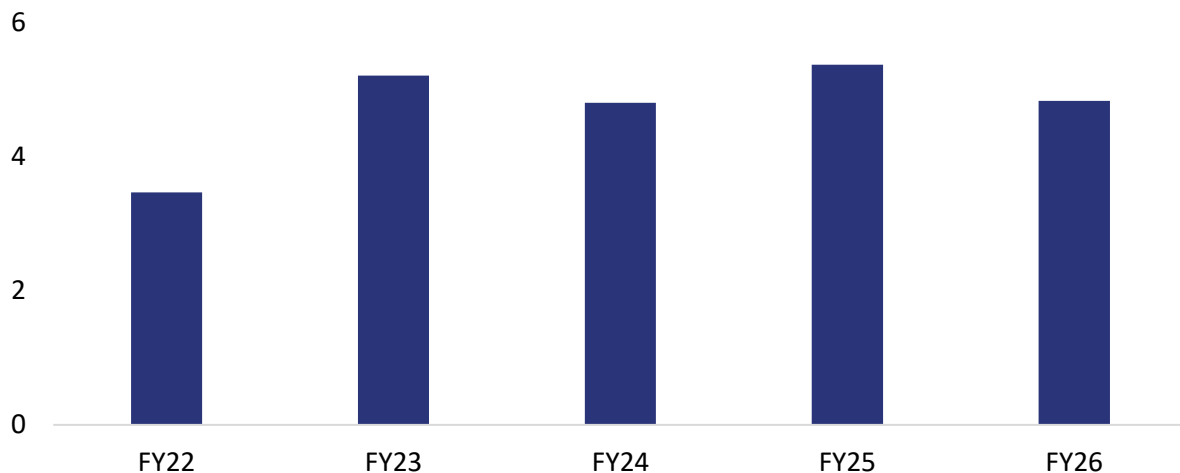
- Banks deposit growth has held ~10% y/y mark for most of CY25, despite banks slashing rates hurriedly. According to Q1FY26 results, CASA ratio of most banks has fallen > 10pp in over 2 years due to over-reliance on costly term deposits for accelerated on-lending. Slow credit growth, cheaper capital raise and ample profits has kept the pressure off of deposits in FY26
- Banks are shoring up capital for the next phase of credit growth with several boards approving capital raises through equity and debt. Equity issuances were led by the largest lender in Jul'25, followed by approvals from UBI, Canara Bank and Indian Bank. IndusInd is set to raise Rs. 300 bn for regulatory purposes

Lenders bank on transmission for enhanced profitability

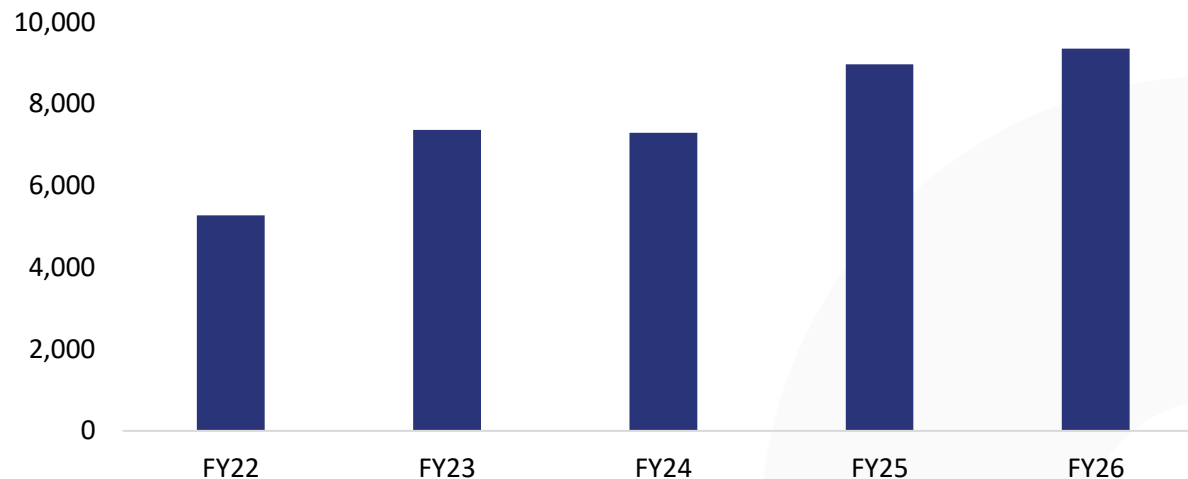
- Transmission to lending rates has been rapid vs previous cycles, with fresh WALR being cut at ~3x the pace (~30 bps in Jun'19 vs ~80 bps in Jun'25), driven by changing book composition
- Transmission to deposit rates has been even steeper ~100 bps from peak, while a deep cut in MCLR ~15 bps m/m is indicative of banks' intent to cut lending rates for credit boost

PREMIUM GROWTH SLOWS FOR GENERAL INSURERS IN JUL'25

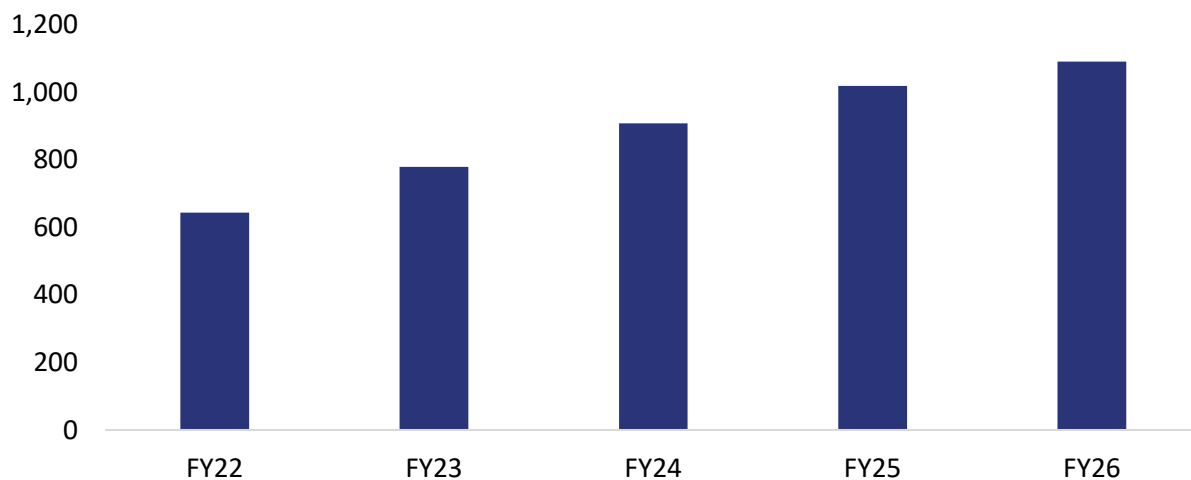
NEW LIFE INSURANCE POLICIES – Q1FY (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE – Q1FY (Rs. bn)



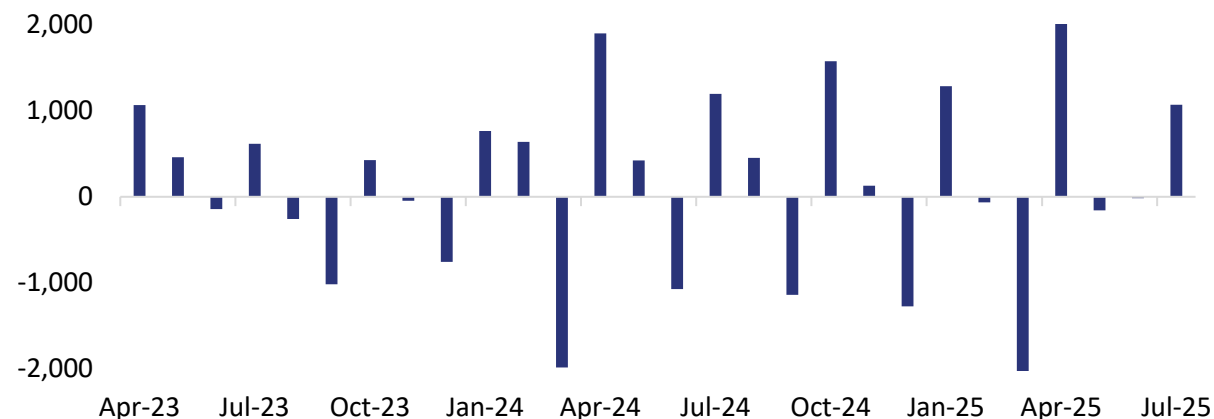
GROSS DIRECT PREMIUM- NON- LIFE INSURANCE – 4MFY (Rs. bn)



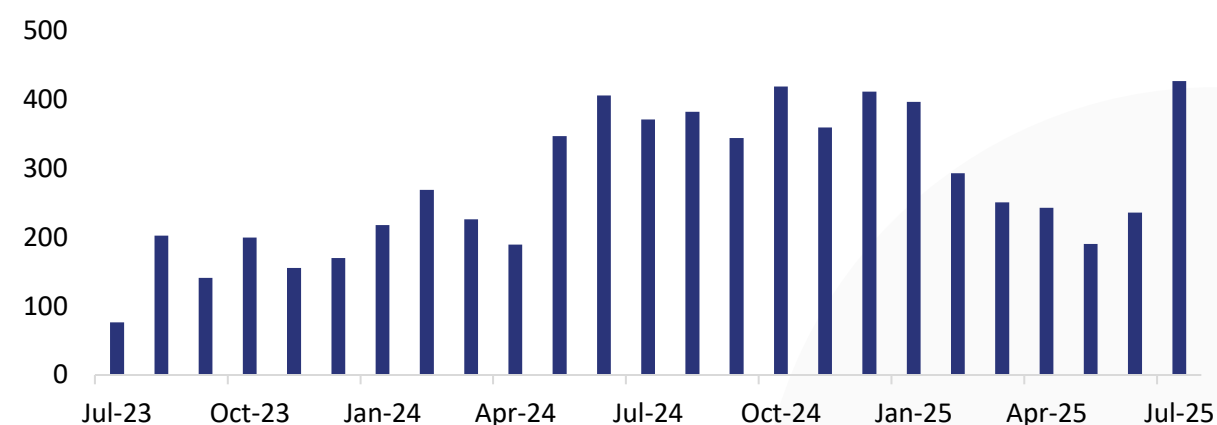
- Life insurance premia dropped 3.1% y/y in Jun'25 driven by contracting group single premiums, lower credit life sales and impact of surrender value norms, with PSU insurer premiums dropping faster than that of private
- Non-life insurers reported a rise in premia of 2.8% y/y, with total at Rs. 297 bn. General insurers reported a decline of 0.3%, while standalone health insurers fared better, seeing a 10% rise in premia. For 4MFY26, premia have growth by 7.1% y/y.

MF FLOWS SHOW RENAISSANCE IN JUL'25

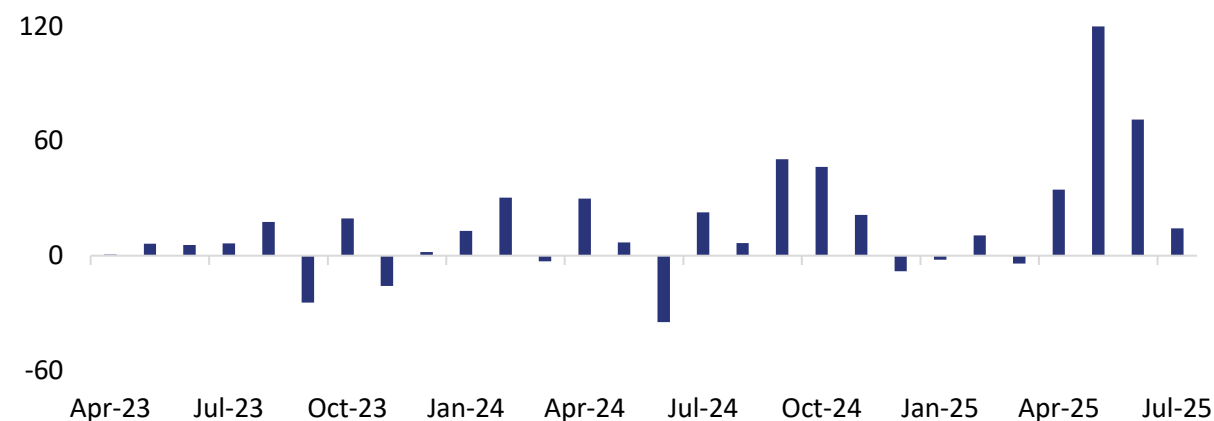
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



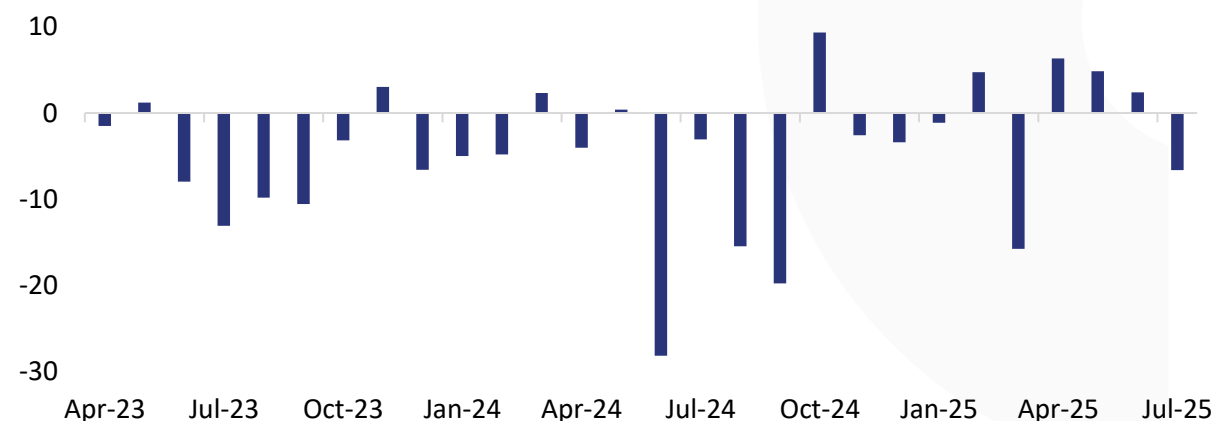
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)



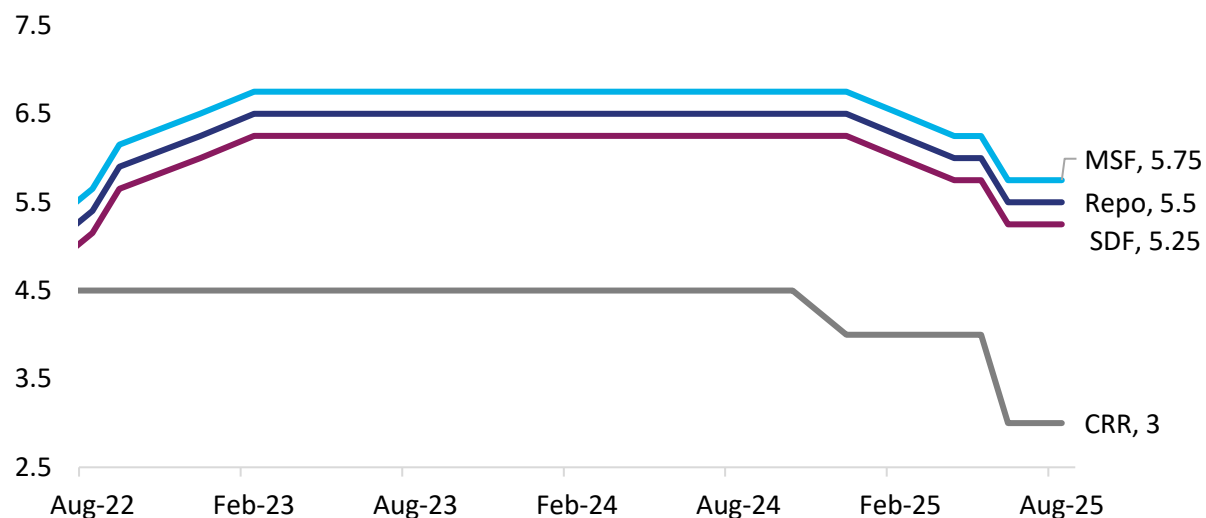
- Open ended debt funds saw inflows of over Rs. 1 trn, down 11% y/y. Good flows were seen in liquid and money market funds as ample liquidity was in the market
- Equity funds saw a handsome 15% rise to Rs. 427 bn in the same month. Sectoral/thematic funds saw good traction for the first time since Jan'25, with small cap funds doing well.

MONETARY POLICY AND YIELDS



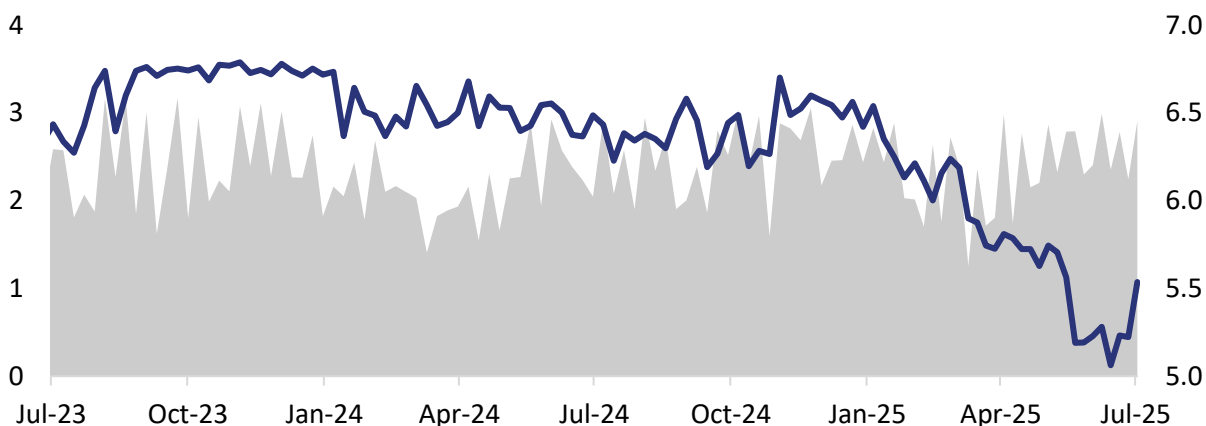
RBI ON WAIT AND WATCH AS OUTSIZED CUTS GET TRANSMITTED

KEY RATES (%)



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

■ TREPS Amount — TREPS Rate [RHS]



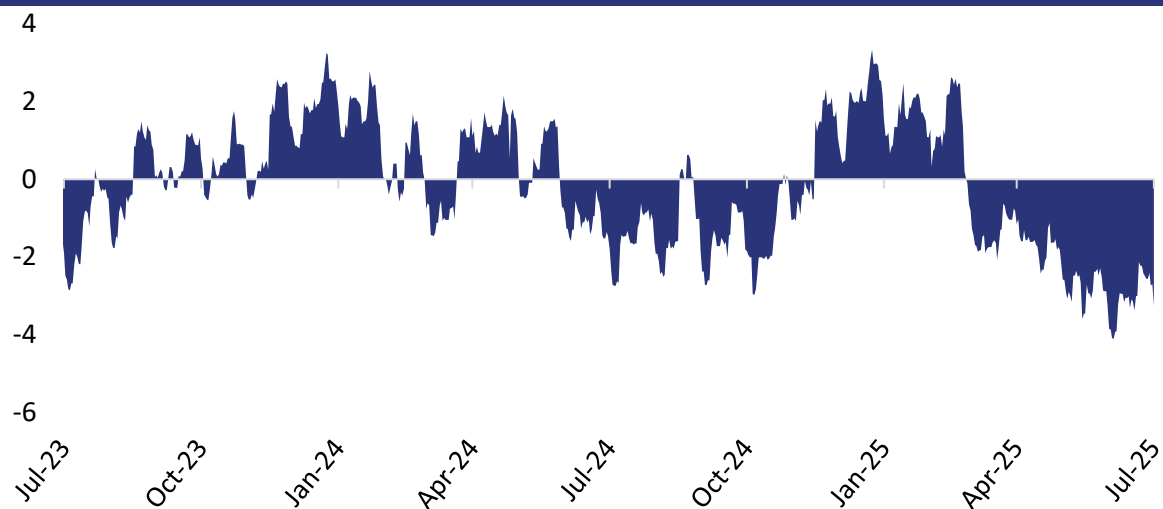
STANCE OF POLICY

DATE	STANCE	VOTE
05-Aug-22	WITHDRAWAL OF ACCOMMODATION	6-0
30-Sep-22	WITHDRAWAL OF ACCOMMODATION	5-1
07-Dec-22	WITHDRAWAL OF ACCOMMODATION	4-2
08-Feb-23		
06-Apr-23	WITHDRAWAL OF ACCOMMODATION	5-1
08-Jun-23		
10-Aug-23		
06-Oct-23		
08-Dec-23		
08-Feb-24		
05-Apr-24		
07-Jun-24	WITHDRAWAL OF ACCOMMODATION	4-2
07-Aug-24		
09-Oct-24	NEUTRAL	6-0
05-Dec-24		
07-Feb-25		
09-Apr-25	ACCOMODATIVE	6-0
06-Jun-25	NEUTRAL	6-0
06-Aug-25	NEUTRAL	6-0

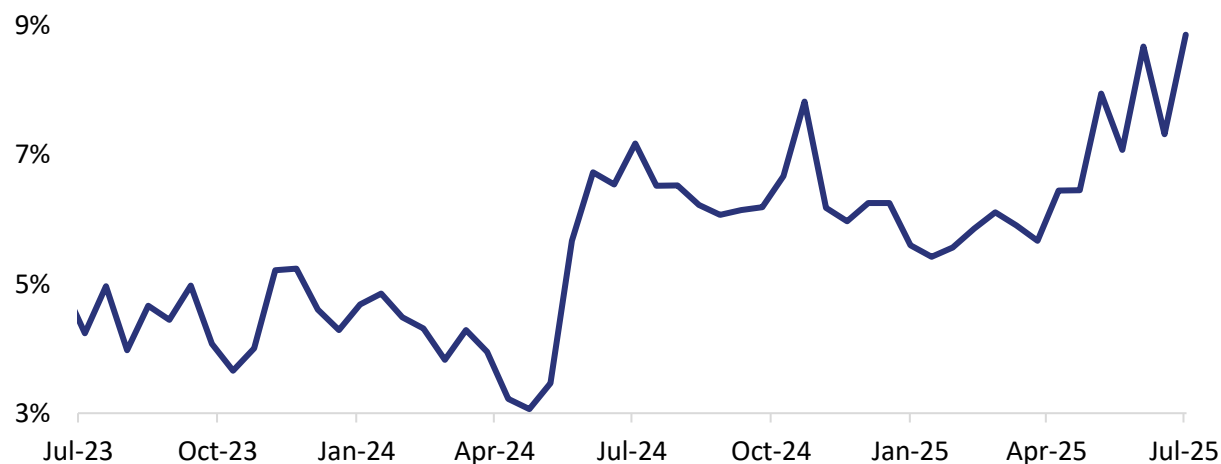
- MPC unanimously decided on a status quo policy, with Governor Mr. Malhotra citing sustained growth in face of benign food inflation amidst abating geopolitical challenges. He has reiterated support through conducive monetary, regulatory and fiscal policies
- We anticipate future policy decisions to be data driven, with at max ~25bps of additional rate cuts*

LIQUIDITY REMAINS AMPLE THROUGH YTD FY26

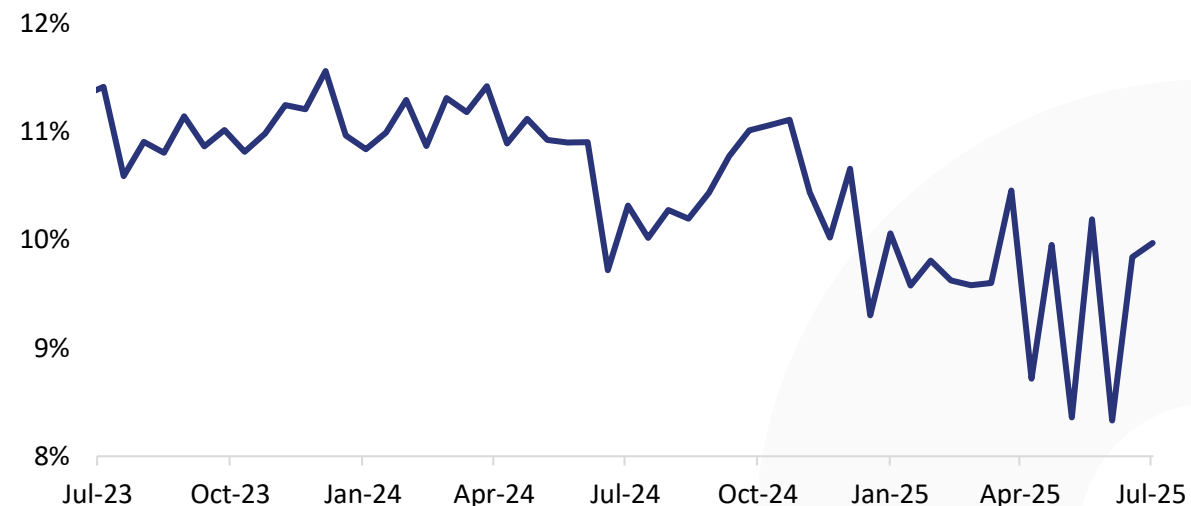
BLOOMBERG INDIA LIQUIDITY INDICATOR* (Rs. trn)



CURRENCY WITH PUBLIC (Y/Y)



MONEY STOCK M3 (Y/Y)



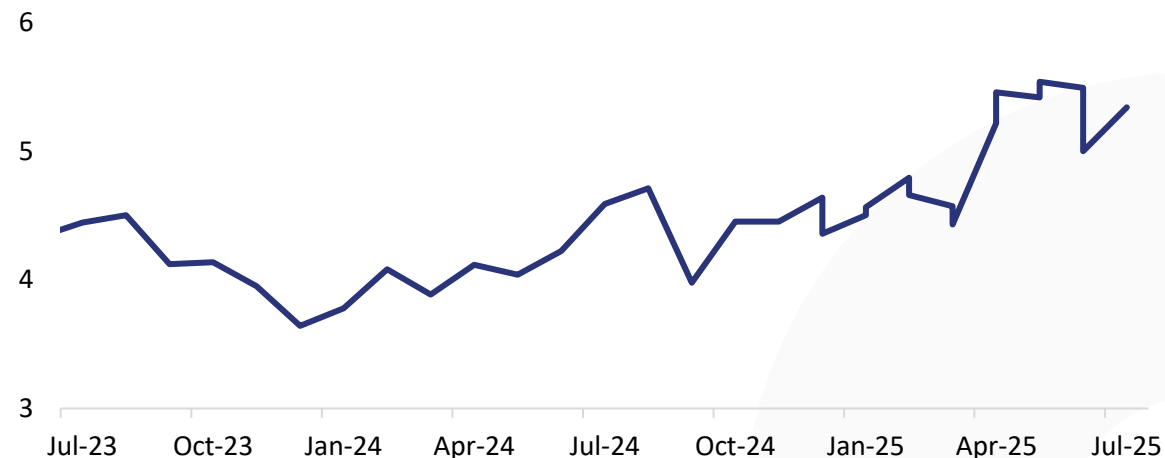
- Liquidity surplus extended to Rs. 4 trn in Jul'25, its highest in 3 years, driven by copious Union spending, keeping money market rates below repo rate
- Working Group of the RBI has recommended continuation of WACR as operating target. It has also suggested keep VRR and VRRR of various tenors as key instruments to reach this target

LIQUIDITY TUGS SHORTER END OF YIELD CURVE BELOW REPO RATE

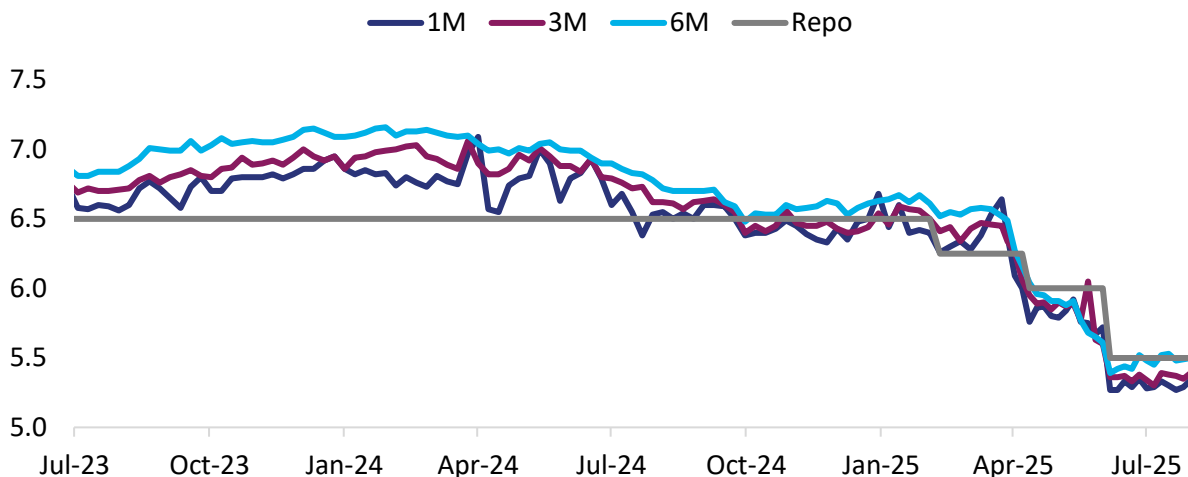
T-BILL OUTSTANDING (Rs. trn)



COMMERCIAL PAPER OUTSTANDING (Rs. trn)



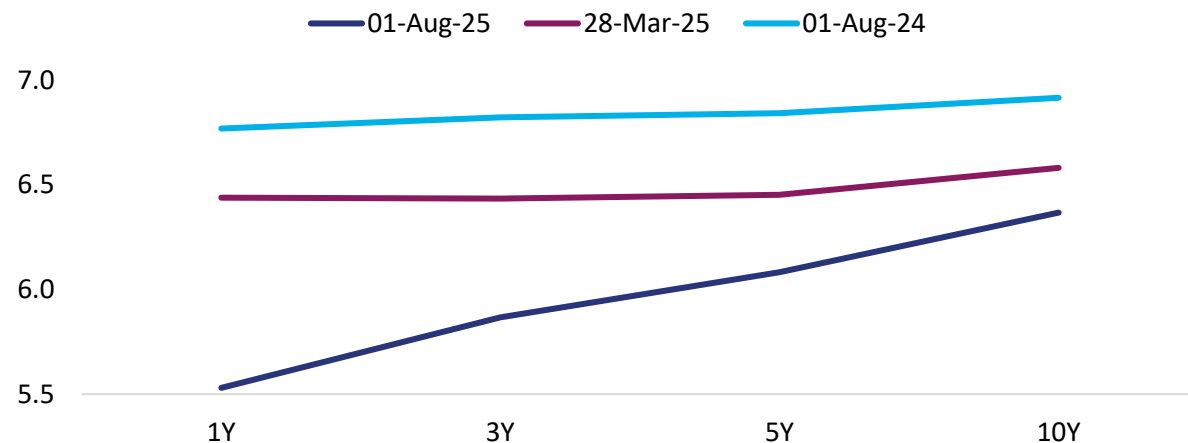
T-BILL SECONDARY YIELDS & REPO (%)



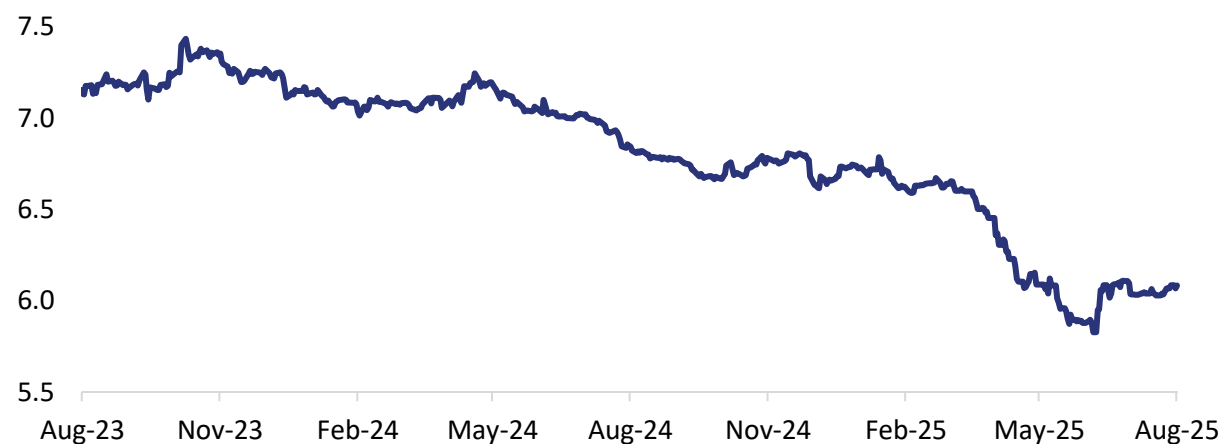
- Surfeit liquidity has translated into short rates with WACR moving below the repo while several money market rates like TREPS moving even below the SDF rate.
- T-bill rates have flatlined m/m in Jul'25, albeit hugging the repo rate with 91-day T-bill ~10 bps lower than repo rate, while higher tenors exhibit steepness in anticipation of liquidity drought in the medium term.
- CP issuances have risen 27% y/y to Rs. 5.4 trn in 4MFY26 driven by falling rates. Notably, top 5 corporates have raised ~25% of total issuances as lower rates accrue on the shorter end of the curve

LONGER END OF THE CURVE REMAINS RANGEBOUND

YIELD CURVE (%)



G-SEC YIELD (5 YEARS) (%)



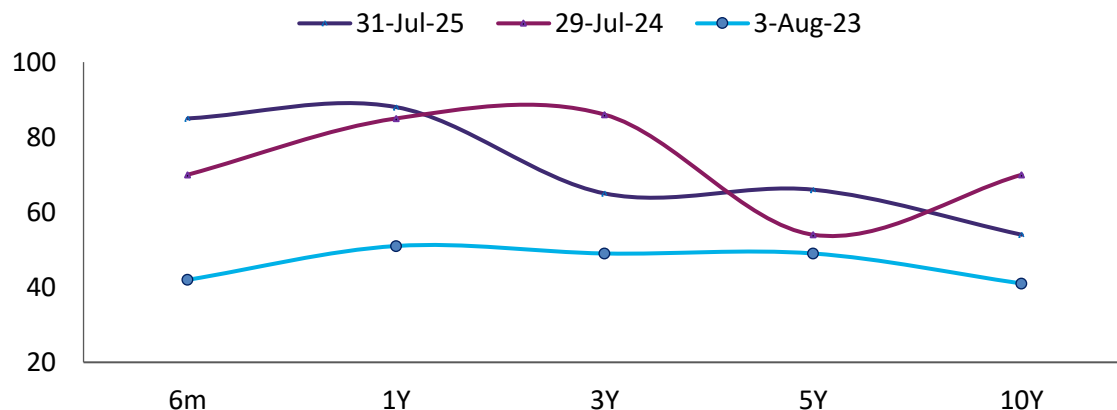
G-SEC YIELD (10 YEARS) (%)



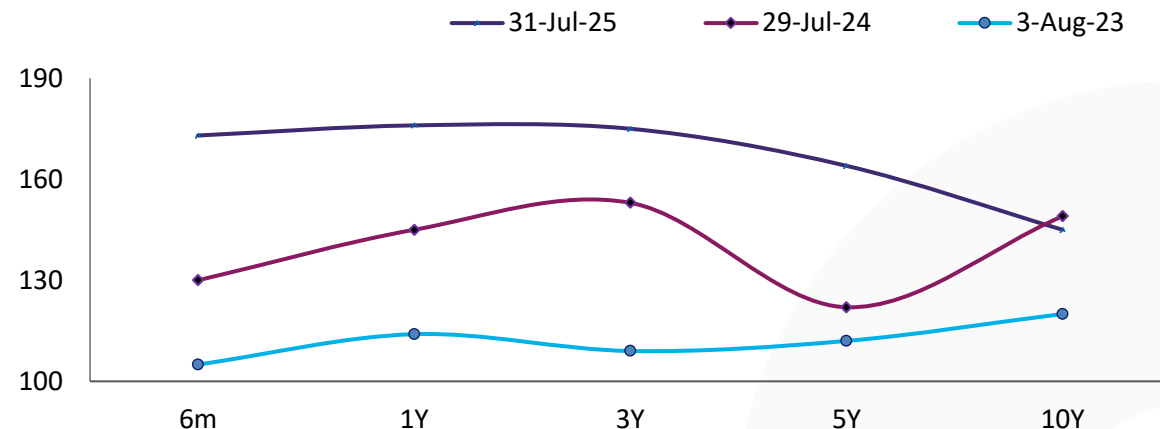
- Benchmark Union G-sec yields have remained rangebound ~6.25% in FY26, influenced by external factors with tariff announcements leading to higher long-term yields
- *Broader outlook remains sensitive to currency volatility and the RBI's operations. We expect 10Y Union G-sec to remain at 6.25%±0.25%*

HUNGER FOR CREDIT IS SATIATED AT THE BELLY OF THE CURVE

FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



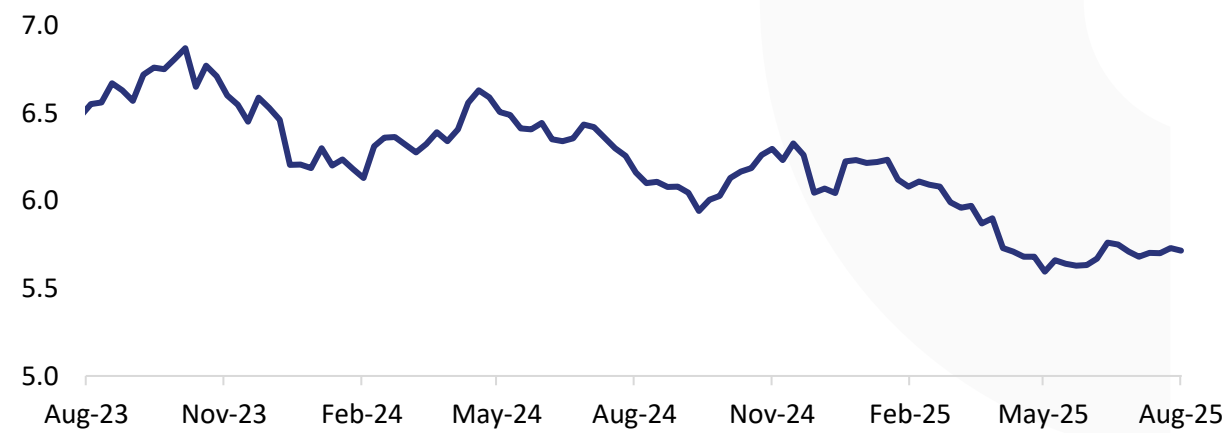
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



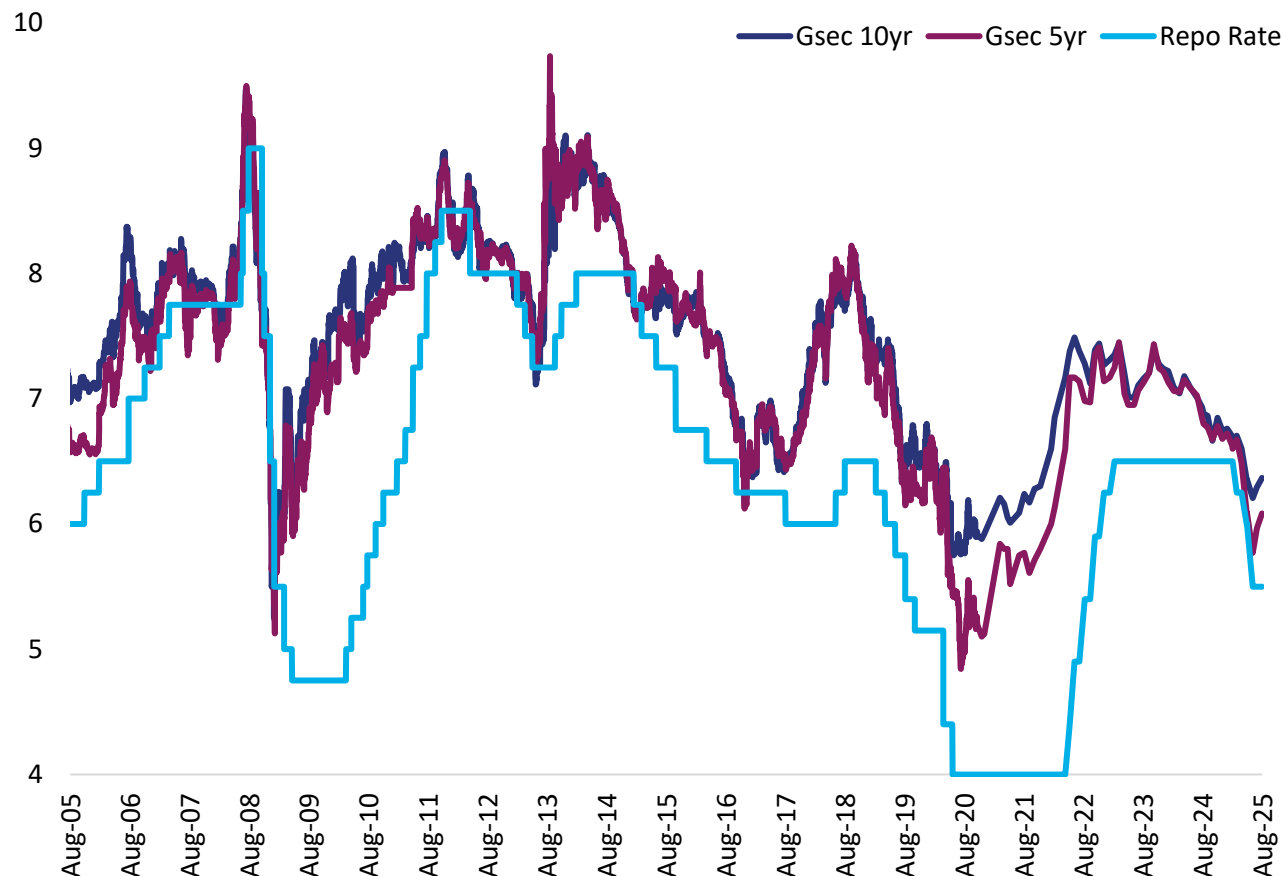
OIS 5 -YEAR (%)



- 1Y OIS rates have been yo-yo-ing around the 5.5% mark, while ascending 5Y rates indicate higher WACR expectations, reflecting markets' view of limited room for rate cuts
- Corporate spreads have slimmed on the belly of the curve where there is maximum demand and quality supply. SGS rates have heaved further upwards in Jul'25, with ample supply

OUTLOOK ON G-SEC YIELDS

KEY RATES (%)



- We expect headline inflation (CPI) to coincide with 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 $\sim 6.25\% \pm 25\text{bps}$ in the coming months

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

Yield softening triggers

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

Yield hardening triggers

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

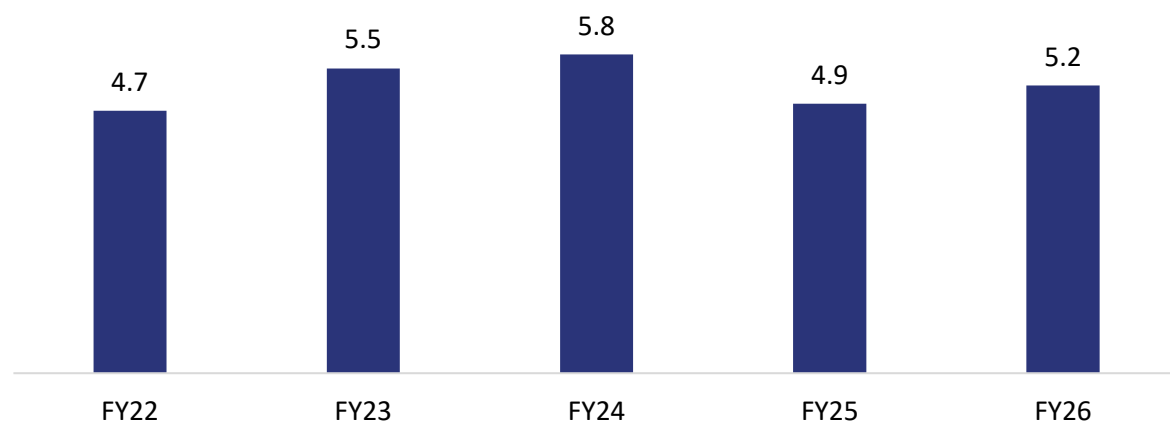


CAPITAL MARKETS

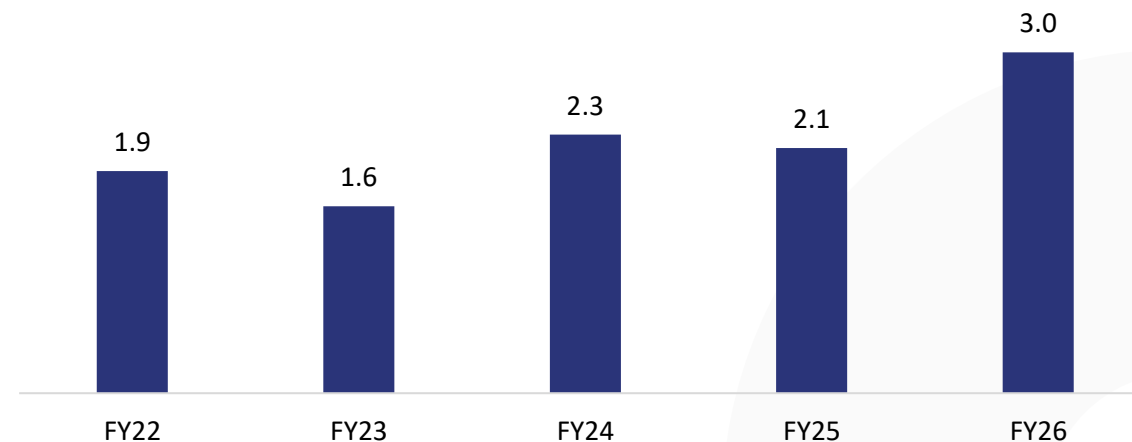


RBI NIMBLY MANAGES SUPPLY OF G-SEC IN THE MARKET

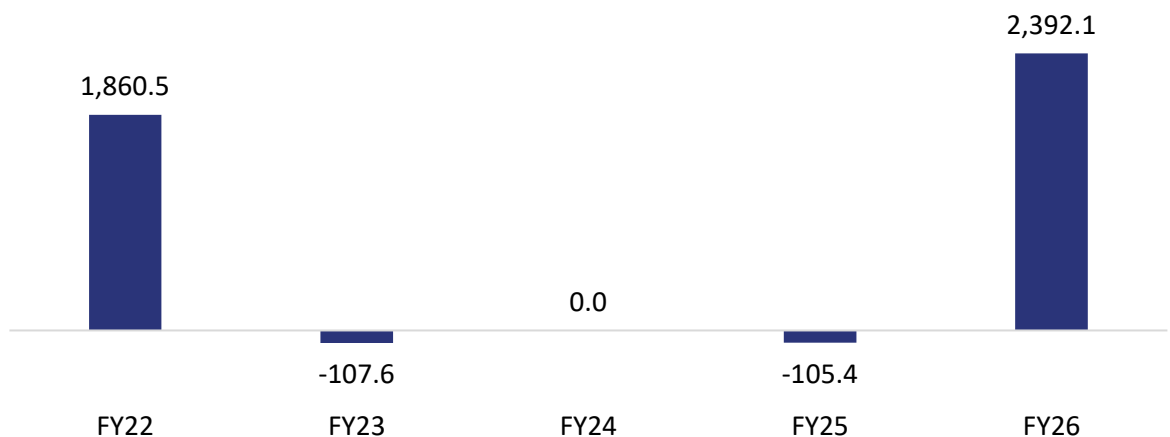
G-SEC: GROSS AMOUNT RAISED (Rs. trn) – 4MFY



SGS BIDS ACCEPTED (Rs. trn) – 4MFY



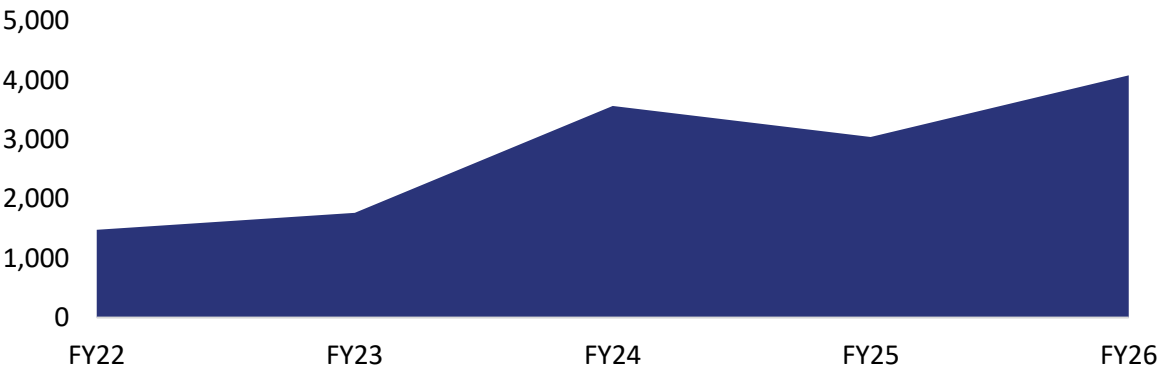
CUMULATIVE NET OMO PURCHASES (Rs. bn) – 4MFY



- Tepid under-issuance of SGS in Q1FY26 has carried onwards to Jul'25, albeit with huge variations among states. Andhra Pradesh and Telangana continue issuing more than required amidst capex push,
- RBI used OMO purchases to induce systemic liquidity but has refrained from doing so since Jun'25, since liquidity turned plush

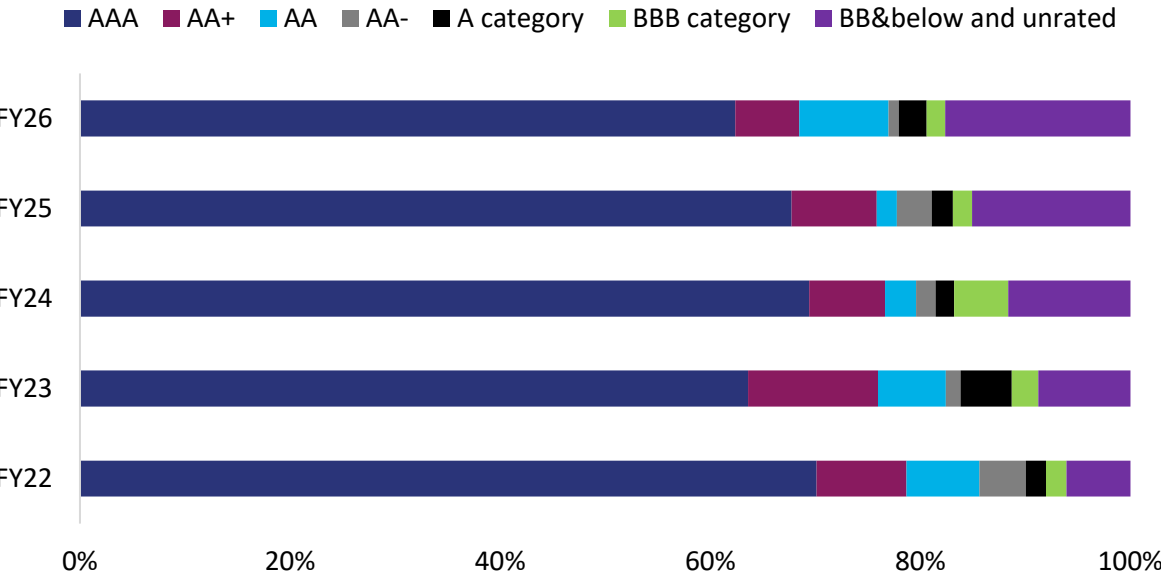
CORPORATE BOND MARKET UP ON RATE DYNAMICS

GROSS PRIVATE PLACEMENTS – 4MFY (Rs. bn)

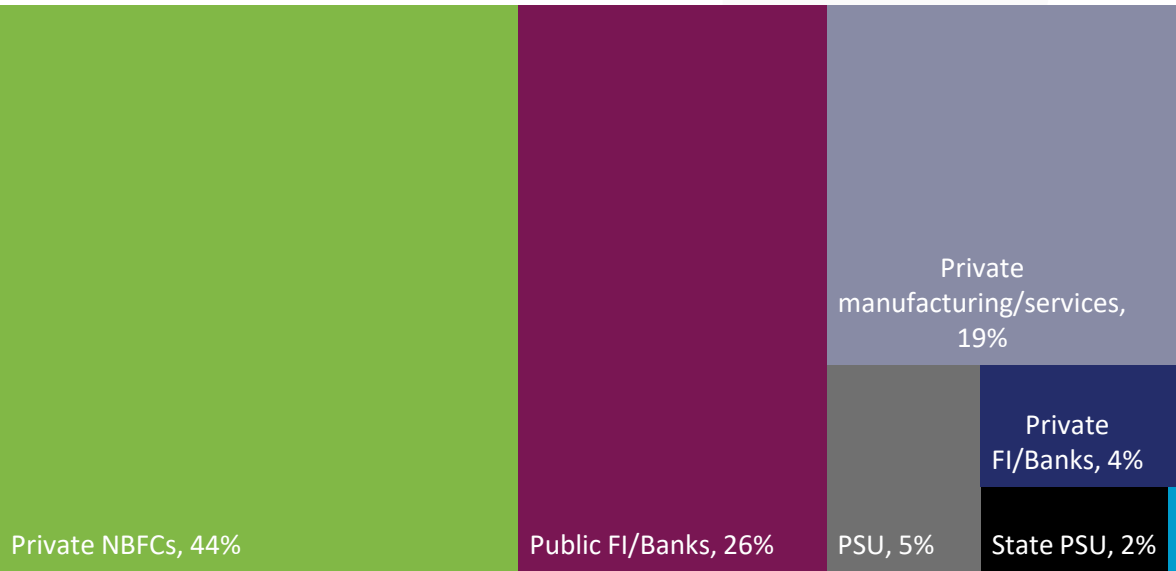


- Transmission of rate cuts have started to accrue fully to bond markets, with even AA corporate yields on mid tenors moving below average WALR by end Jul’25.
- Corporate bond issuances have subsequently risen ~33% y/y in 4MFY26, with corporates slowly moving to longer tenor papers to lock-in lower rates as they come by.
- Private banks and NBFCs have bucked the trend and started to garner share from PSUs, as they tap into lower interest funding for on-lending. Notably, private manufacturing/services sector rose 50% y/y in Jul’25 reflective of capex intent.

GROSS ISSUANCE WITH RATING SPLIT – 4MFY (%)

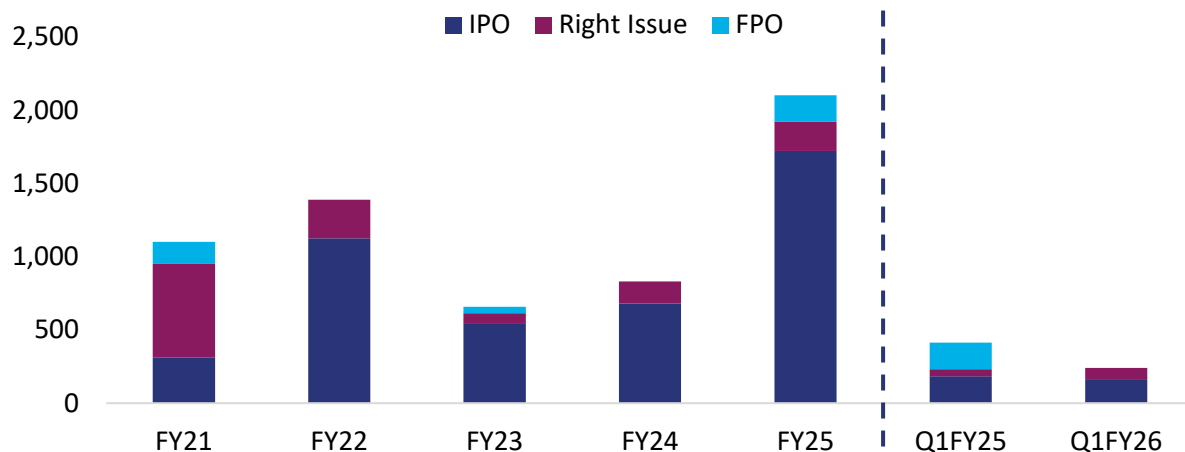


ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- 4MFY26

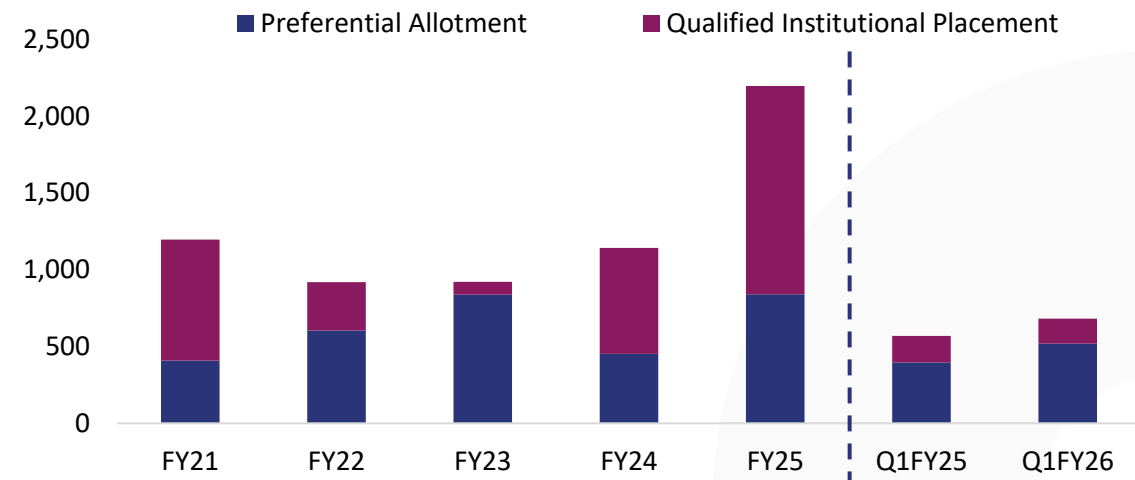


STABILISING SENTIMENTS HELPS AUGMENT ISSUANCES PACE

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	Q1FY26
Automobile and Auto Components	366.6	51.3
Financial Services	239.6	43.5
Consumer Services	287.0	35.0
Capital Goods	181.3	32.2
Oil, Gas and Consumable Fuels	0.8	28.0
Realty	26.4	15.0
Total	2,101.9	230.6

- Jul'25 carried the IPO momentum of Jun'25, with several listings in real-estate space and a major financial company going public.
- Further, apart from banks, several NBFC arms of domestic conglomerates have indicated listing intentions to contend with RBI norms and aid capital adequacy
- Preferential allotment was tepid in Jun'25, with capital raise from few infrastructure players only. Notably, a big ports player has indicated intentions of preferential issue in Jul'25 to augment expansion

GLOBAL SNAPSHOT



COMMODITIES VOLATILE ON UNCERTAIN TARIFF ENVIRONMENT

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	-2.1%	7.0%
Copper	-4.7%	7.4%
Aluminium	-1.3%	11.8%
Iron Ore 62% Fe*	6.6%	-3.2%
Gold	0.7%	37.6%
Brent Crude	1.7%	-9.6%
Natural Gas	-11.0%	54.3%
Newcastle Coal	2.8%	-19.4%

CURRENCIES	%1M CHANGE	%1Y CHANGE
DXY Index	1.6%	-4.4%
USD/EUR	1.7%	-5.4%
USD/JPY	2.2%	2.4%
USD/GBP	2.8%	-3.8%
USD/CNY	0.2%	0.5%
USD/INR	2.3%	4.2%

Note: Positive numbers indicate strengthening USD

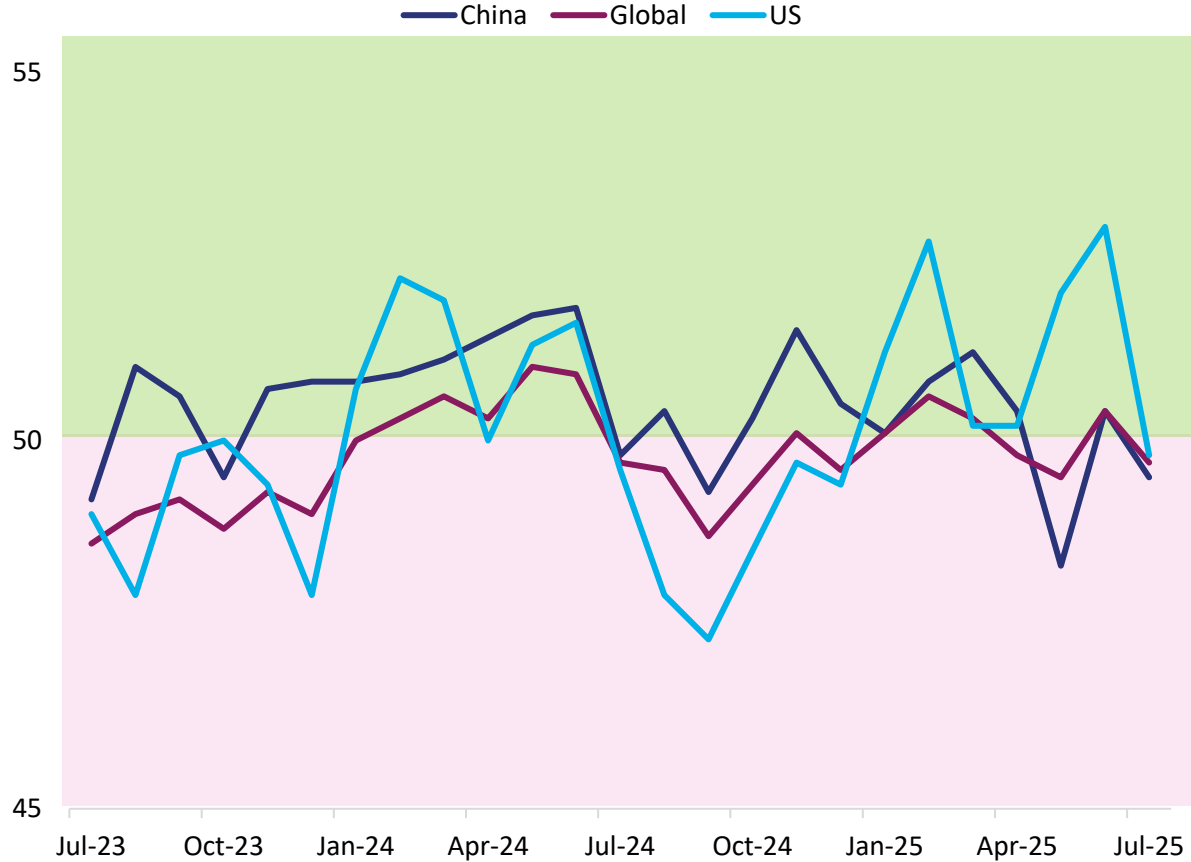
EQUITY INDICES	%1M CHANGE	%1Y CHANGE
S&P 500	-0.7%	16.7%
Nikkei 225	1.0%	11.9%
STOXX Europe 600	-1.0%	7.6%
FTSE 100	2.8%	10.9%
BSE Sensex 30	-3.3%	-0.4%
Hang Seng	3.0%	45.3%
IBOV	-6.2%	5.2%

- AE stock markets have seen a rally due to risk-off inflows and strong GDP print in H1. This comes in the time when FII interest in Indian markets has reduced
- Copper prices in the US tanked by over 20% in a day on the announcements of tariffs on the precious metal. Prices elsewhere in the globe moved slowed
- Even as the DXY corrected on year, the INR has depreciated against the USD owing to winding down of large positions by RBI. The Central Bank has condoned this to improve export competitiveness in the face of exorbitant tariffs

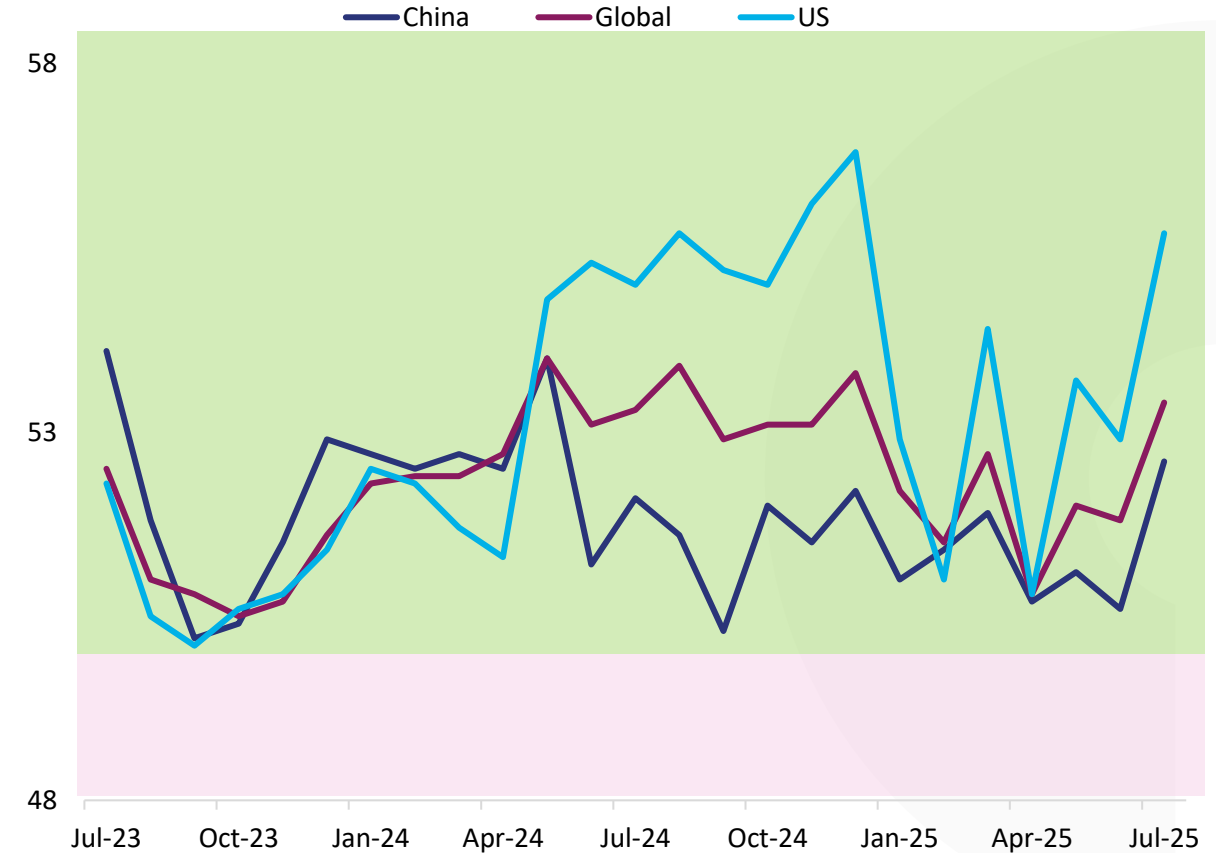
1Y & 1M change are as of 04 Aug'25, * CFR China

SERVICES BUOY GLOBAL ECONOMIC ACTIVITY IN JUL'25

GLOBAL PMI- MANUFACTURING



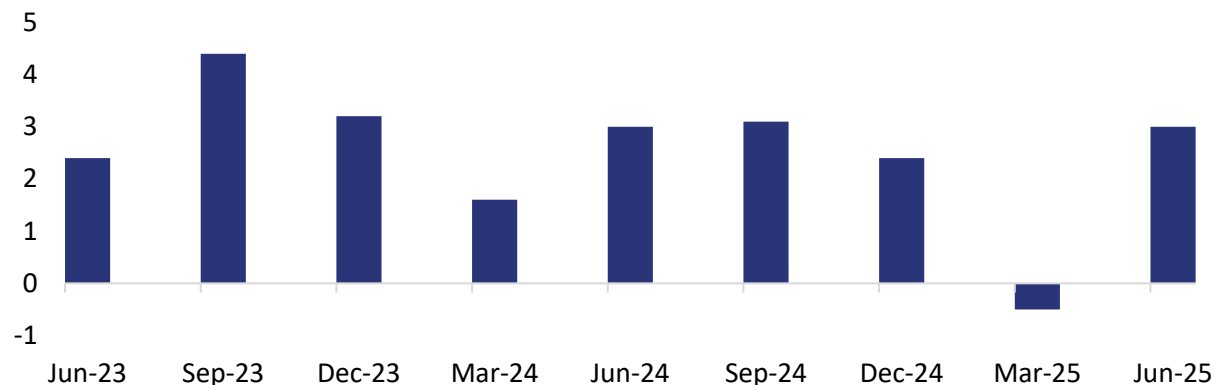
GLOBAL PMI- SERVICES



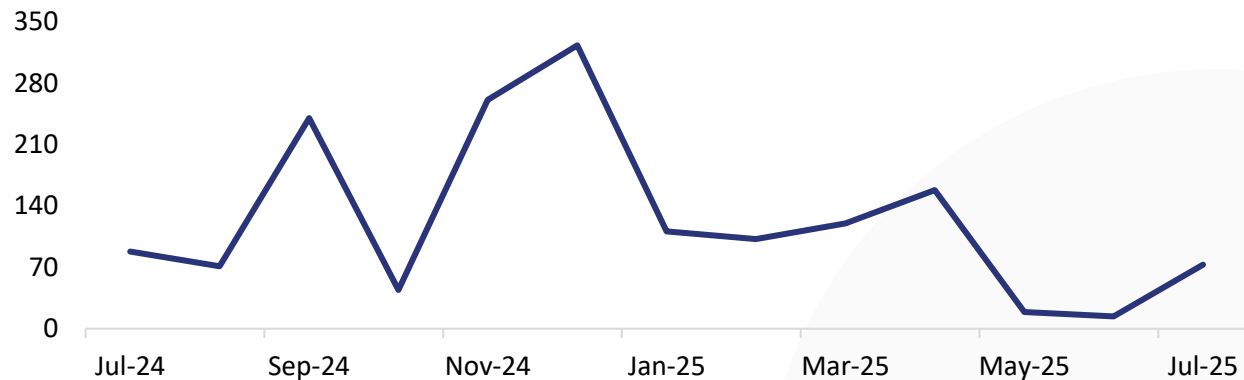
- Global manufacturing activity turned contractionary in Jul'25, reflecting downturn in new orders, export and output. US only experienced a mild upturn in output, while manufacturing activity remained morose in Asia and Europe
- Global services PMI rose to 7-month high, led by India and US, with faster new business expansion, while growth in Asia was enough to offset a manufacturing slump

US ECONOMY'S RISE FAILS TO DECEIVE ON CHOPPY IMPORTS

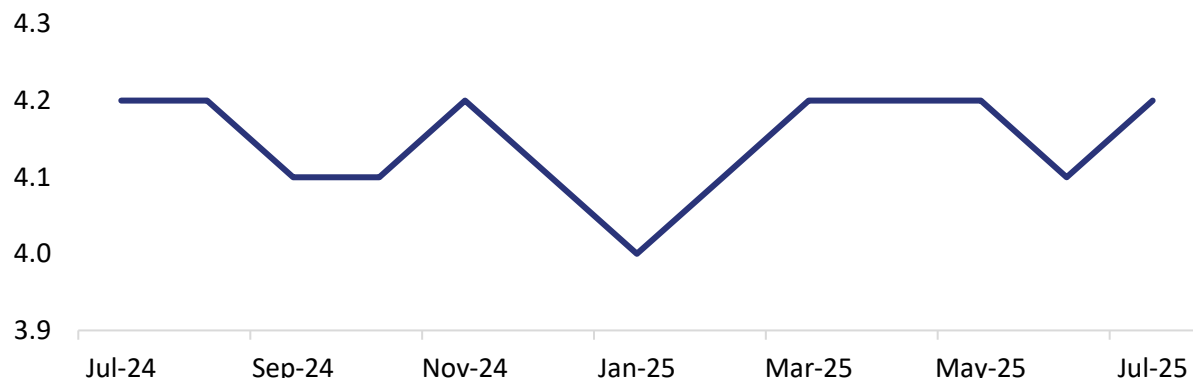
US REAL GDP GROWTH (% Q/Q SAAR)



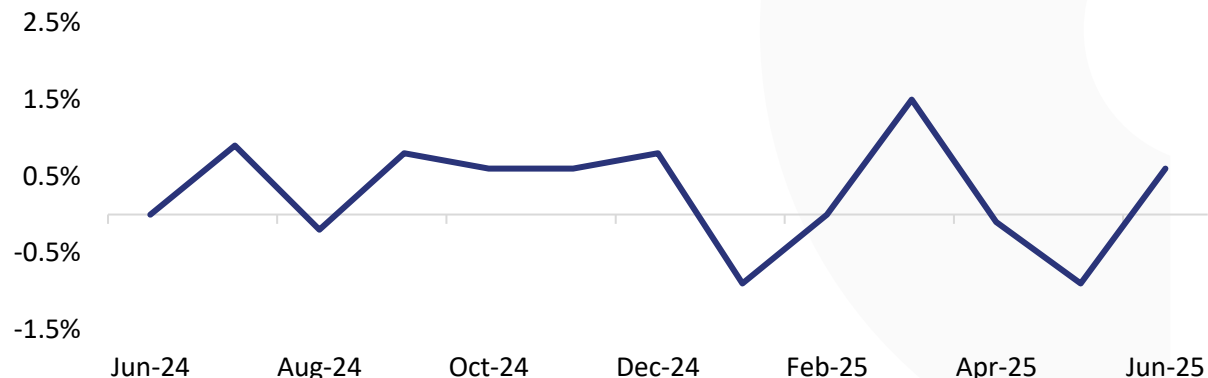
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



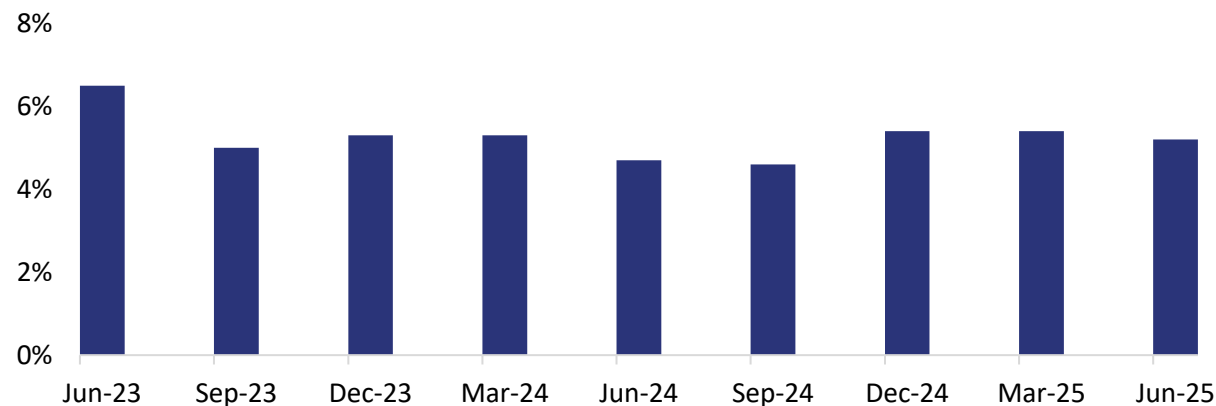
RETAIL SALES (M/M)



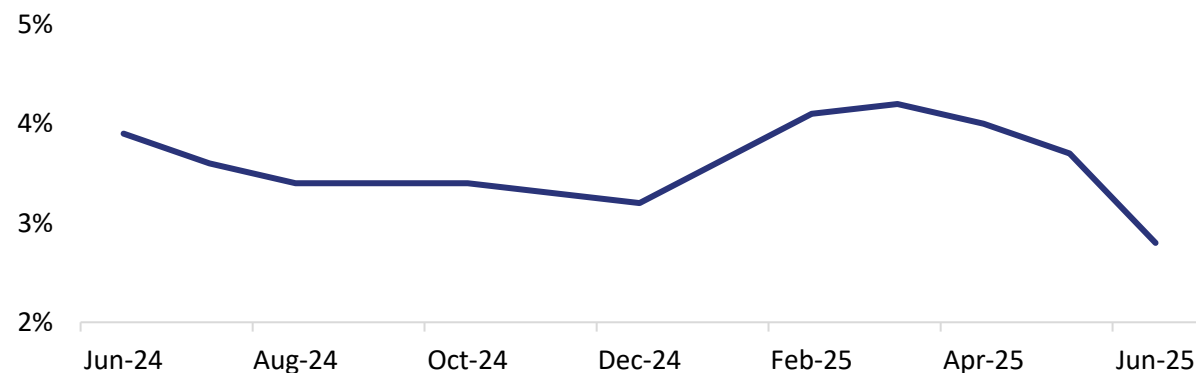
- US real GDP grew at a decent pace of 3% q/q saar in Q2CY25, beating forecasts, driven by 1.4% q/q rise in consumer spending, tepid 4.8% q/q growth in investments and 30.3% q/q contraction in imports. US retail sales rose 0.6% m/m, with auto sales leading the charge. However, decline auto volumes hint at tariff related input inflation
- US non-farm payrolls addition stood at 73k in Jul'25 with massive downward revisions of 258k in May'25 and Jul'25 suggesting a sharp deterioration in labour market conditions

CHINESE DRAGON ROARS IN FACE OF TARIFF TIRADE

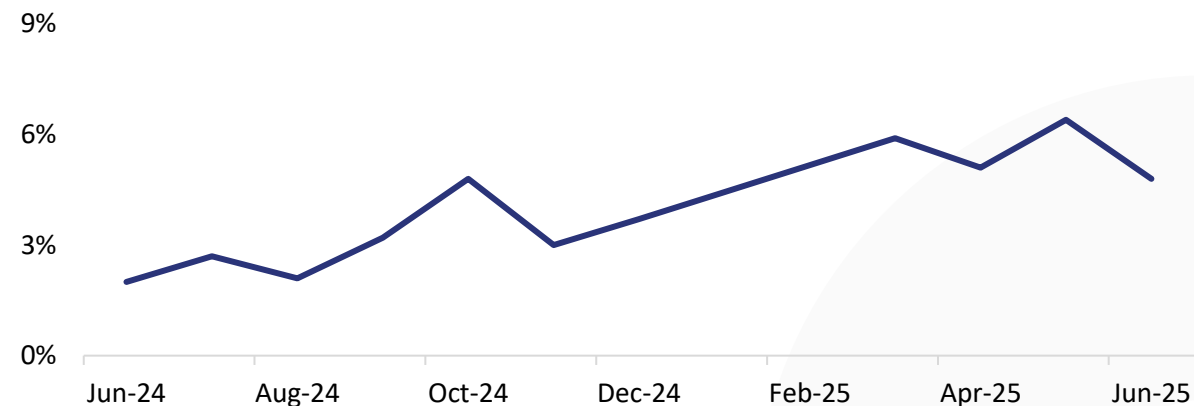
CHINA REAL GDP GROWTH (% Y/Y)



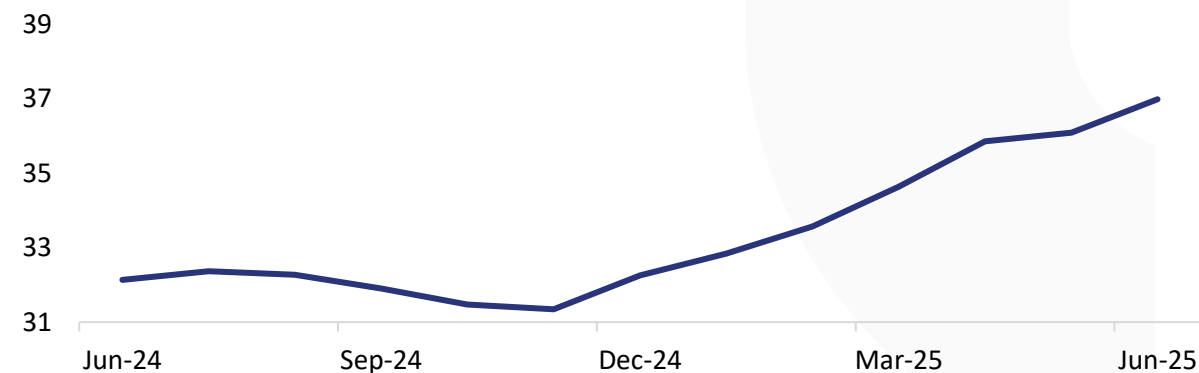
FIXED ASSET INVESTMENT (% Y/Y)



RETAIL SALES (% Y/Y)



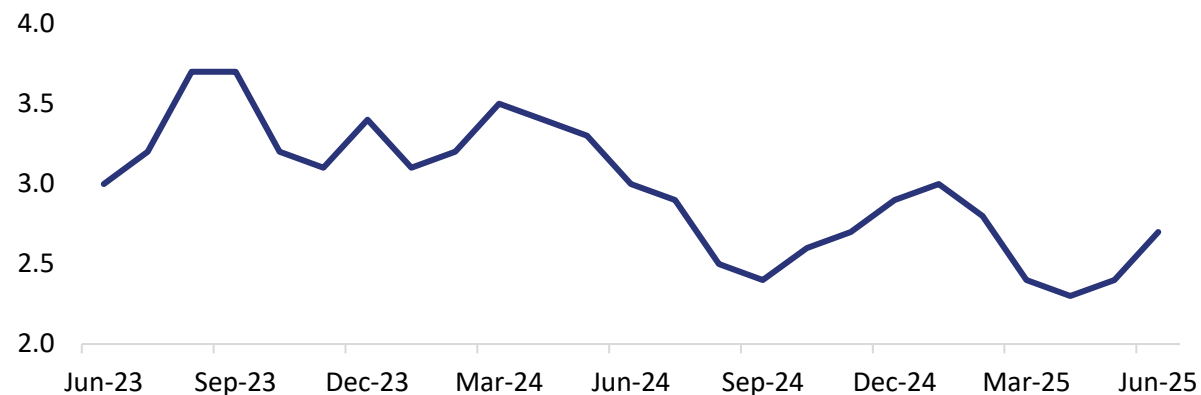
AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



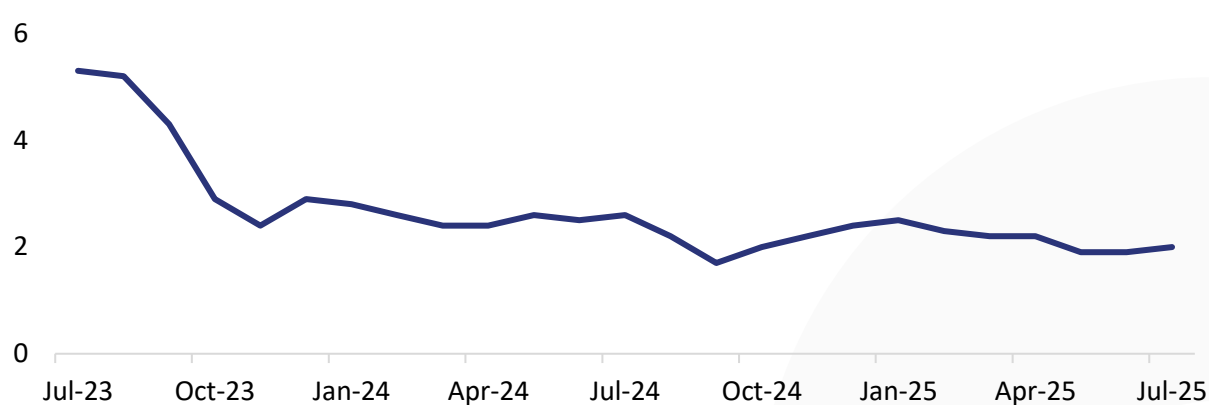
- China's economy grew 5.2% y/y in Q2CY25, displaying surprise resilience, with 52% contribution from domestic consumption amidst diminishing threat of a trade war.
- Retail sales slowed down to 4.8% y/y in Jun'25 (May: 6.4% y/y), supported by trade-in programs, industrial output rose 6.8% y/y in Jun'25 (May: 5.8% y/y) likely due to trade truce.

INFLATION EXPECTATIONS IN THE AIR, DESPITE RANGEBOUND NUMBERS

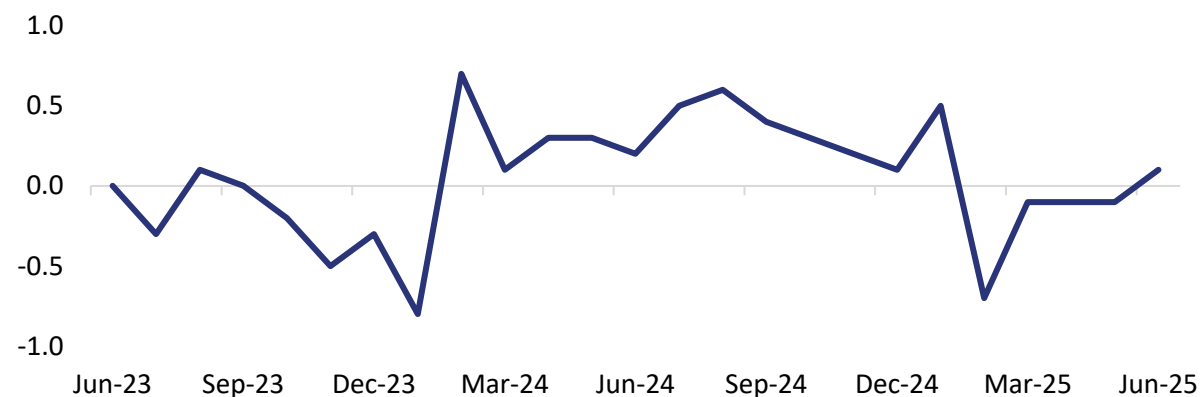
US CPI (% Y/Y)



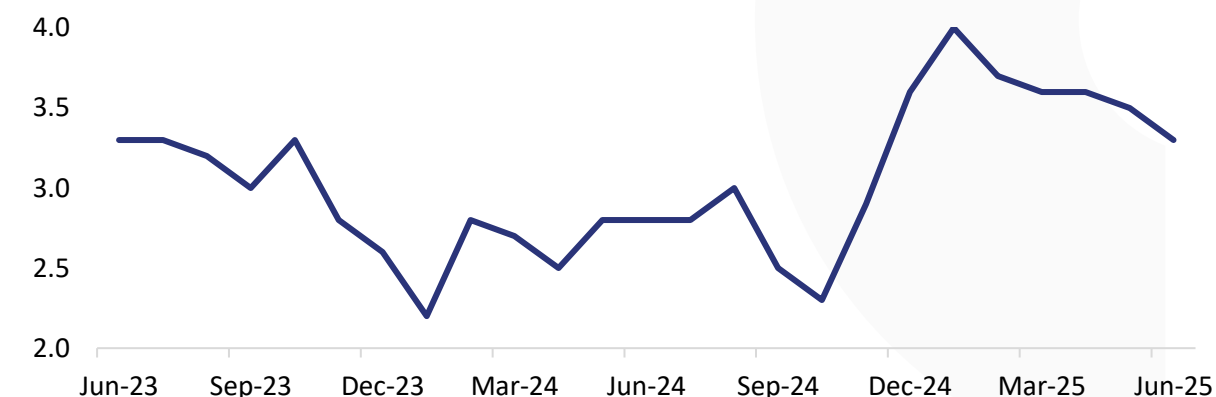
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



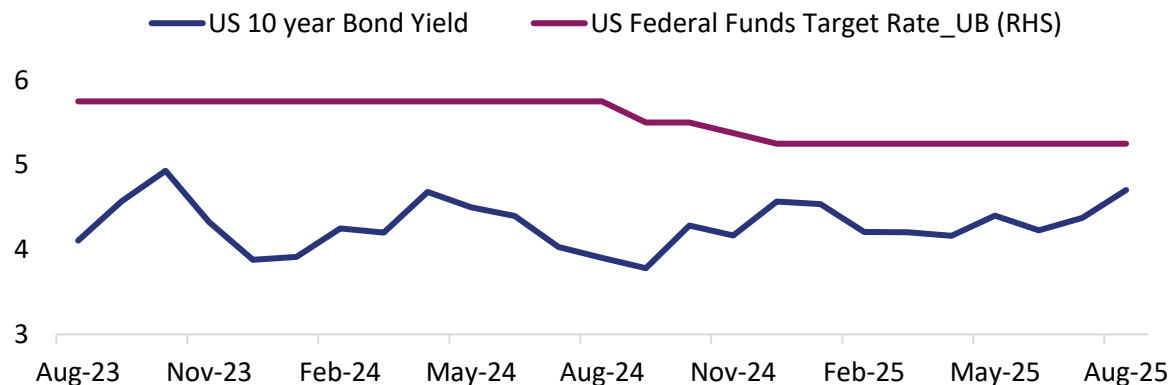
JAPAN CPI (% Y/Y)



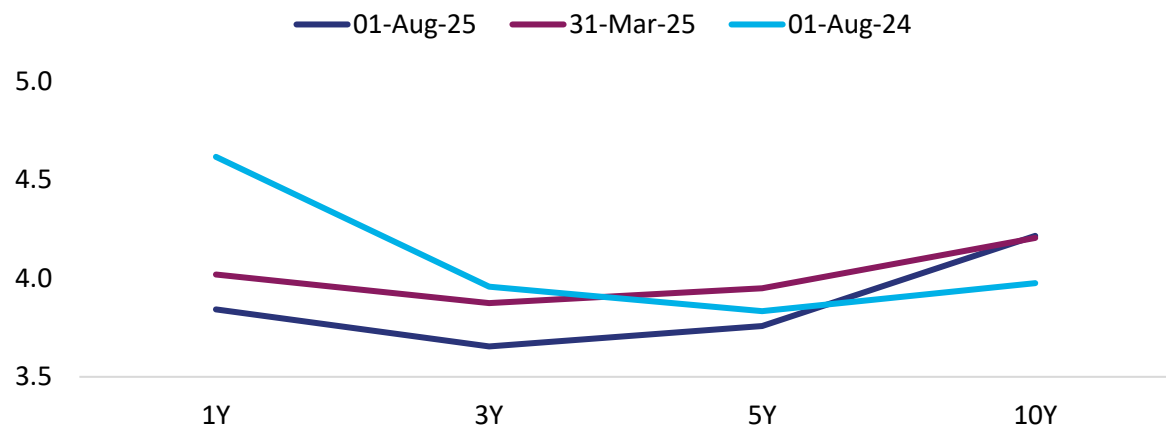
- US inflation spiked in Jun'25, driven by services inflation, with some tariff sensitive sectors like apparels, furnishings showing hint of duty-driven price rise. Moreover, several US Fed officials have warned about delayed impact of tariff pressures
- Eurozone inflation has been constantly hugging the target rate as US tariffs weigh on services activities. Inflationary woes seemed to have subdued, but not over, in Asia with China reeling on the edge of deflation, while BoJ mulls balancing high rice prices and perfunctory wage hikes.

US FED HOLDS BACK ON RATE MOVE TO ASSESS TARIFF IMPACT

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

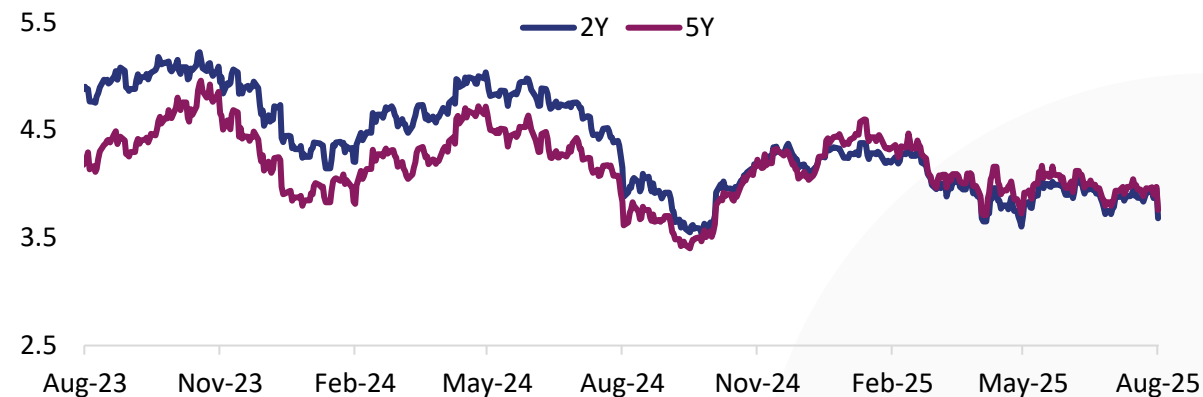


YIELD CURVE (%)

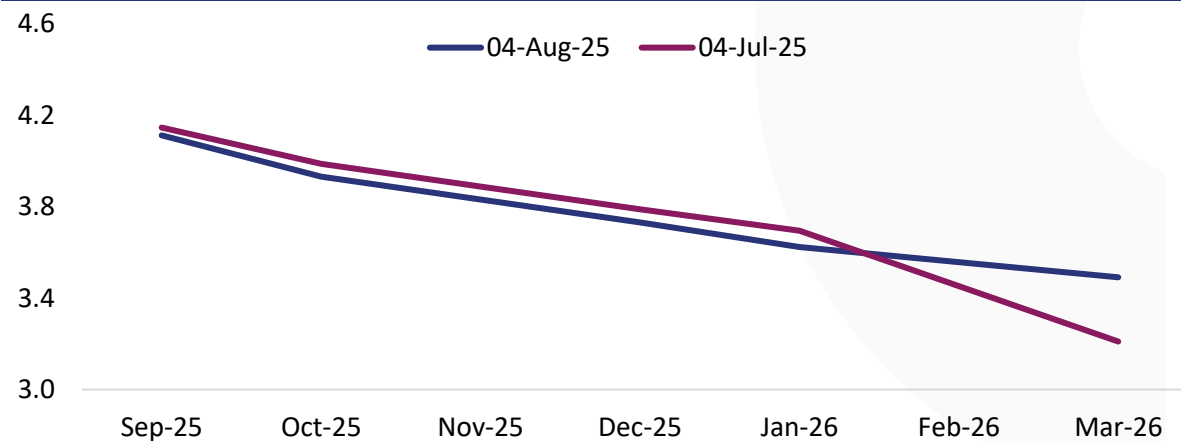


- US FOMC decided to hold rates in Jul'25, with Chair Powell advocating for modestly restrictive rates as tariff impact remains uncertain. Weak jobs data with landslide backward revisions has had US Fed officials in knots with non-dissenter calling for rate cuts post FOMC.
- Rate cut expectations have aggravated only a tad bit in the near term, as questions linger on stability of trade policies and fiscal concerns.

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

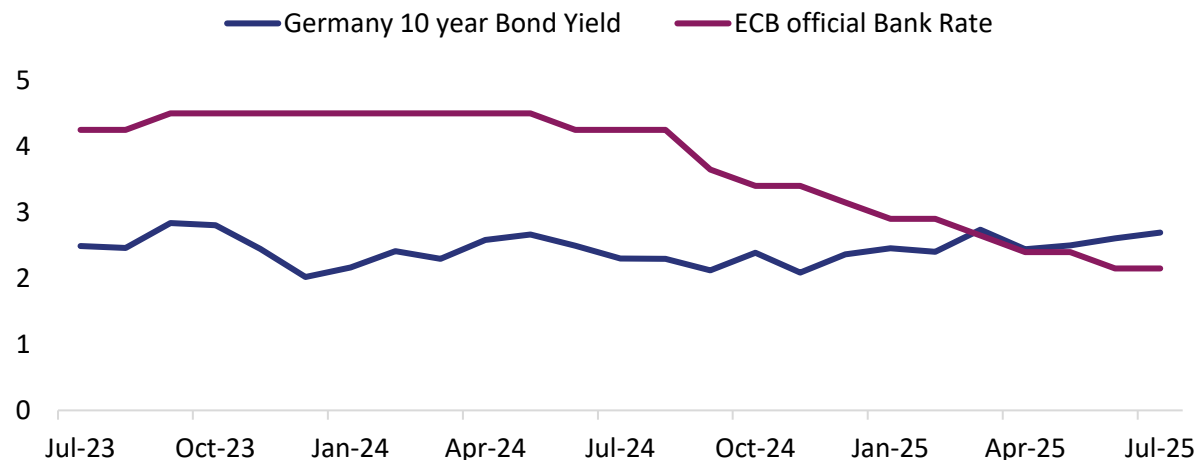


MARKET-IMPLIED PATH OF US FED POLICY RATE (%)

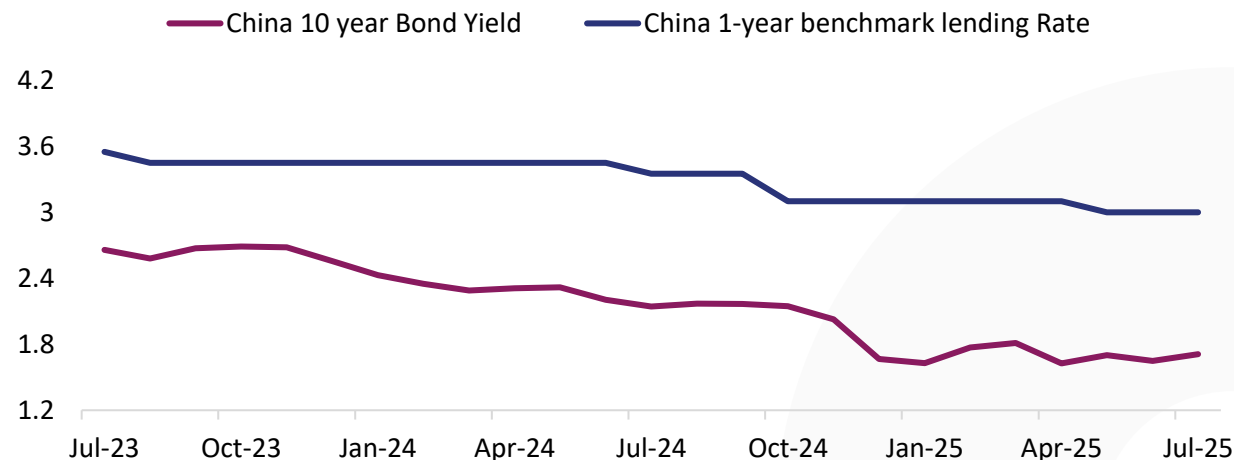


EM CENTRAL BANKERS PLOUGH ON WITH RATE EASING IN JUL'25

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



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



POLICY RATE OF OTHER MAJOR CENTRAL BANKS

REGION	MAR'22	MAR'23	MAR'24	MAR'25	CURRENT
England	0.75%	4.25%	5.25%	4.50%	4.00%
Japan	-0.10%	-0.10%	0.10%	0.50%	0.50%
Brazil	11.75%	13.75%	10.75%	14.25%	15.00%
Australia	0.10%	3.60%	4.35%	4.10%	3.85%
Canada	0.75%	4.50%	5.00%	2.75%	2.75%
S. Korea	1.25%	3.50%	3.50%	2.75%	2.50%
S. Africa	4.25%	7.75%	8.25%	7.50%	7.00%
Russia	20.00%	7.50%	16.00%	21.00%	18.00%

- BoE cut rates by 25 bps to 4% in a finely balanced 5-4 vote, as MPC weighs up sticky inflation against contracting economy and a softening labour market
- East Asian CBs flag growth risks, despite trade deals in place:
 - Philippines cut policy rate by 25 bps to 5.25% and is leaning towards 2 more cuts in CY25
 - Indonesia cut policy by 25 bps to 5.25% to boost domestic demand as IDR remains stable
- Rate slashing in Eastern Europe is driven by growth concerns:
 - Russia cut policy rate by 2pp to 18% amidst economic slowdown and muted inflation
 - Turkey cut policy rate by 3pp to 43% as inflation keeps edging down

ECONOMIC CALENDAR

GLOBAL ECONOMIC CALENDAR – (12 AUG – 19 AUG)

DATE	AREA	EVENT	PERIOD
12	IN	CPI	Jul
12	US	CPI	Jul
13	JN	PPI	Jul
13	IN	Trade Balance	Jul
13	TH	BoT Benchmark Interest Rate	
14	UK	GDP	2Q P
14	UK	Industrial Production	Jun
14	UK	Manufacturing Production	Jun
14	UK	Trade Balance GBP	Jun
14	EC	GDP	2Q S
14	EC	Industrial Production	Jun
14	EC	Employment	2Q P

DATE	AREA	EVENT	PERIOD
14	US	PPI Final Demand	Jul
15	JN	GDP Nominal SA	2Q P
15	CH	New Home Prices	Jul
15	CH	Retail Sales YoY	Jul
15	CH	Industrial Production	Jul
15	CH	Fixed Assets Ex Rural YTD	Jul
15	JN	Industrial Production	Jun F
15	JN	Capacity Utilization	Jun
15	US	Industrial Production	Jul
18	EC	Trade Balance	Jun
19	US	Housing Starts	Jul
19	US	Building Permits	Jul P

GLOBAL ECONOMIC CALENDAR – (20 AUG – 31 AUG)

DATE	AREA	EVENT	PERIOD
20	JN	Trade Balance	Jul
20	CH	5-Year Loan Prime Rate	20-Aug
20	UK	CPI	Jul
20	EC	CPI	Jul F
21	JN	S&P Global Japan PMI Composite	Aug P
21	IN	HSBC India PMI Composite	Aug P
21	EC	HCOB Eurozone Composite PMI	Aug P
21	UK	S&P Global UK Composite PMI	Aug P
21	US	S&P Global US Composite PMI	Aug P
21	US	Existing Home Sales	Jul
22	UK	Retail Sales Ex Auto Fuel	Jul
25	US	New Home Sales	Jul

DATE	AREA	EVENT	PERIOD
25	US	Building Permits	Jul F
26	JN	PPI Services	Jul
27	CH	Industrial Profits	Jul
28	IN	Industrial Production	Jul
28	US	GDP Annualized	2Q S
28	US	Core PCE Price Index	2Q S
28	SK	BOK Base Rate	
29	JN	Industrial Production	Jul P
29	JN	Retail Sales	Jul
29	IN	GDP	2Q
29	IN	Fiscal Deficit	Jul
29	US	PCE Price Index	Jul

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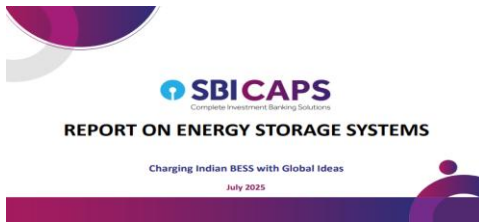


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