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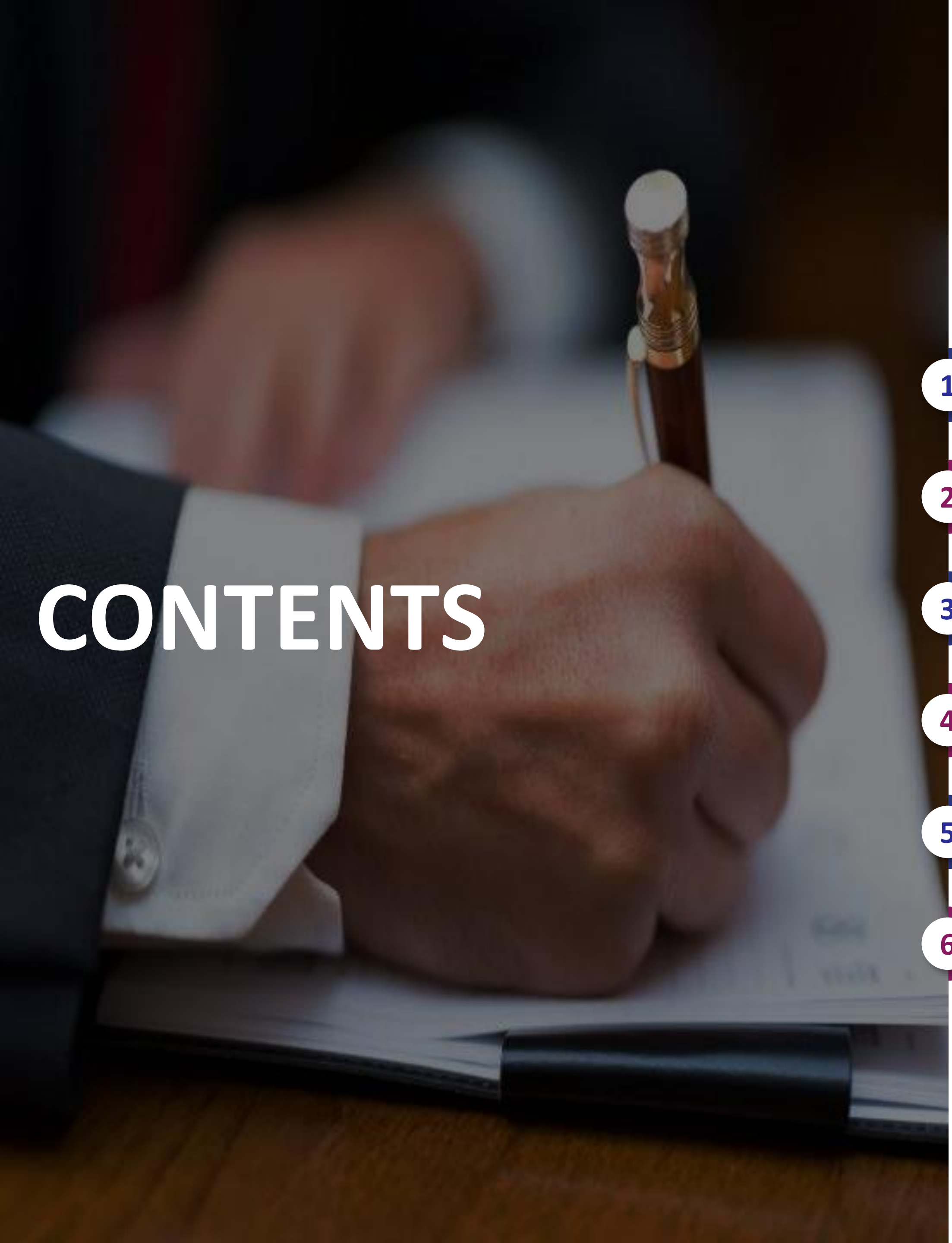
Domestic Harriers Unleashed On External Barriers

December 2025



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EXECUTIVE SUMMARY

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Global growth outlook appears steady and solid with the big economies leading from the front

The IMF expects the global economy to grow at a similar pace in CY26 vs. CY25, with stable growth expected for big economies such as the US, China, and India. The US has shown resilience with high frequency job market indicators printing promising numbers and AI/data centre boom crystallising. China is consolidating its economic progress with supply side rationalisation and is likely to aim for a 5% y/y real GDP growth in CY26. India remains a standout, likely to clock beyond 7% y/y real GDP growth in FY26, aided by a confluence of domestic consumption and government intent.

An extended period of benign energy inflation globally could unravel in the coming months

Brent crude and thermal coal prices have been subdued based on the continuous threat of global slowdown and gradual supply increases. The tide could be turning, with natural gas prices at a 3-year high in the US. With the world's increased dependence on US LNG through trade deals and winter approaching, gas and power prices could approach new highs in Europe unless Russian supplies are restored. Spillover effects, besides steady demand from China and India amidst uncertain supply from the Urals could prop up the crude markets. *Adding a low base of CY25 to the mix, and energy, which played a deflationary role till now could show up in Central Bank calculations again.*

External frontiers remain clouded for India, though policymakers appear unfazed

Current account deficit remained in check in H1 at 0.8% of nominal GDP. With Q4 generally being a good quarter for inflows, *CAD should be manageable in FY26*. Notwithstanding this and generous forex buffers of ~USD 700 bn, the INR depreciated to below Rs. 90/USD. INR has depreciated at a time when the DXY has not gained, keeping the CNY relatively strong – this offers relief for exporters in a time of tariff turmoil. The RBI too has condoned this depreciation given its net short position is yet to unwind sustainably, and given ample room remains on the inflation front.

Monetary policy beyond rates: liquidity to guide the yield curve corridor and shape

The RBI's surprise repo rate cut has ensured that future actions are not outside the realms of possibility. However, the successful transmission to the lending/deposit rates, which has appreciably occurred this cycle, is only possible with adequate liquidity. Recognising this, the RBI has decided to inject durable liquidity through a mix of OMO purchases and forex swaps. The aim is, however, to water the greenshoots of credit growth and not generate short-term fizz, hence the *a gradual reshaping of the yield curve to reduce tenor premium could also ensue, with VRRR operations at the short end.*

A curated policy mix is revolutionising industry and credit growth, with much awaited private capex set to trickle in

Industry credit grew at the highest pace in 3 years in Oct'25, with further acceleration in MSME offtake augmented by large industries such as mining, pharmaceuticals, metals, petro-chemicals and electronics. Notably, robust infrastructure offtake was supported by capex revival in power sector and a surge in ports. The rate cut will help interest rate sensitive sectors such as renewables and real estate and sustain the momentum through CY26. Whether these greenshoots will blossom into a healthy bout of private capex remains to be seen, though light corporate balance sheets, moderate spreads, and stable yields on Union G-secs provide the necessary ingredients.

MACROECONOMIC OVERVIEW

EFFECTIVE POLICY INITIATIVES SPARK GDP SURGE IN Q2FY26

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REAL GVA SECTORAL BREAK UP

Change (% y/y)	Q2FY26	Q1FY26	Q4FY25	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
GVA	**8.1**	**7.6**	**6.8**	**6.5**	**5.8**	**6.5**	**7.3**	**8.0**	**9.2**
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
Services	**9.2**	**9.3**	**7.3**	**7.4**	**7.2**	**6.8**	**7.8**	**8.3**	**7.5**
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
GDP	**8.2**	**7.8**	**7.4**	**6.4**	**5.6**	**6.5**	**8.4**	**9.5**	**9.3**
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**
Gross capital formation (GCF)	**5.1**	**7.3**	**7.8**	**4.9**	**7.7**	**6.2**	**9.1**	**12.4**	**11.9**
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**

- Real GDP growth hit 6-quarter high in Q2FY26, outpacing market estimates, with domestic anchors like strong consumption and robust capital formation, despite crosswinds from muted trade and global tariff turmoil. Notably, manufacturing took the reigns of industrial growth, with services, led by financials, outshining other sectors
- *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.*

Source: MoSPI, CEIC, SBICAPS

BROAD BASED OPTIMISIM IN HIGH FREQUENCY INDICATORS

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
INDUSTRY												
Manufacturing PMI	56.4	57.7	56.3	58.1	58.2	57.6	58.4	59.1	59.3	57.7	59.2	56.6
IIP (%y/y)	3.7%	5.2%	2.7%	3.9%	2.6%	1.9%	1.5%	4.3%	4.1%	4.6%	0.4%	
Eight Core (%y/y)	5.1%	5.1%	3.4%	4.5%	1.0%	1.2%	2.2%	3.7%	6.5%	3.3%	0.0%	
Finished Steel Consumption (%y/y)	5.2%	10.9%	10.9%	13.6%	6.0%	8.1%	9.3%	7.3%	10.0%	8.9%	2.4%	
2W Retail Sales (%y/y)	-17.6%	4.2%	-6.3%	-1.8%	2.3%	7.3%	4.7%	-6.5%	2.2%	6.5%	51.8%	-3.1%
PV Retail Sales (%y/y)	-2.0%	15.5%	-10.3%	6.3%	1.6%	-3.1%	2.5%	-0.8%	0.9%	5.8%	11.3%	19.7%
SERVICES/CONSUMPTION												
Services PMI	59.3	56.5	59	58.5	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8
Petrol Consumption (%y/y)	11.1%	6.7%	5.0%	5.7%	5.0%	9.2%	6.8%	5.9%	5.5%	8.0%	7.4%	2.6%
Diesel Consumption (%y/y)	5.9%	4.2%	-1.3%	0.9%	4.2%	2.1%	1.5%	2.4%	1.2%	6.6%	-0.3%	4.7%
Railway Freight Volume (%y/y)	1.7%	-1.6%	-3.0%	3.0%	3.6%	2.7%	0.9%	0.0%	8.5%	-2.7%	4.7%	6.8%
Port Cargo Volume (%y/y)	3.3%	6.2%	7.4%	13.3%	7.0%	4.4%	5.5%	4.0%	2.5%	11.5%	12.0%	14.6%
Electricity supply (% y/y)	5.2%	2.3%	-0.7%	6.4%	1.6%	-5.3%	-2.0%	1.6%	3.9%	3.0%	-5.9%	-0.9%
Total Airport Footfall (%y/y)	10.5%	13.5%	11.2%	9.3%	10.3%	3.0%	3.7%	-1.0%	1.0%	-0.7%	4.1%	7.2%
Fastag revenues (%y/y)	13.3%	19.0%	18.3%	14.5%	21.6%	20.0%	17.5%	19.6%	25.7%	20.0%	9.3%	16.1%
UPI transactions (%y/y)	27.5%	27.5%	20.2%	25.2%	21.9%	23.0%	19.8%	21.5%	20.6%	20.6%	16.1%	22.1%
Gross GST Revenues (%y/y)	7.3%	12.3%	9.1%	9.9%	12.6%	16.4%	6.2%	7.5%	6.5%	9.1%	4.6%	0.7%

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

MANUFACTURING TO COMPLEMENT CONSUMPTION GOING AHEAD

Consumption caravan chugs along post festive fervour as tax changes bring and easing lending rates bring about structural success

- Auto retail sales rose 2.1% y/y in Nov’25, despite high base, defying post-festive moderation trend as demand sustained beyond festive expectations. PV sales surged in Nov’25, after record high Oct’25, aided by GST benefits, marriage season and dealership offers.

- Rural momentum was maintained with healthy reservoir levels and rabi sowing. Despite 2W sales moderating due to supply constraints, a 56% y/y growth in tractor sales indicated sustained prosperity. Similarly, fertilizer output grew 6.7% y/y in Oct’25

- According to Nielsen Report, FMCG sales grew 12.9% y/y in Q2FY26, with strong volume expansion in rural areas driven by food and personal care as modern trade eyes a speedy recovery. A gradual pickup in urban demand is centred around e-commerce as the main growth engine

- ATF’s rebound momentum entailing 5% y/y rise in Nov’25 was reflective of holiday season travel. There could be an easing in Dec’25 owing to the recent air crisis

- UPI transactions rose 22% y/y to Rs. 26.3 trn, with daily transaction volumes rising to 682 mn reflective of users actively making small ticket daily purchases with UPI

Manufacturing revival likely to persist in Q3FY26, though concentrated in select sub-sectors

- Manufacturing PMI remained expansionary eased to 56.6 in Nov’25, with output and new orders growing at a solid clip, albeit moderating on softer export orders from higher US tariffs.

- IIP growth touched a 14-month low and 8-core index too disappointed in Oct’25 due to fewer working days. Pockets of expansion, especially in infrastructure and related goods sustained. Output of steel (6.7% y/y) and cement (5.3% y/y) are indicative of the same

- Diesel consumption soared to 6-month high as GST fueled festive demand spurred a rise in trucking. CV sales rose 20% y/y supported by infrastructure work and tourism.

- FasTag collections surged 16% y/y to Rs. 70.5 bn in Nov’25, its 2nd highest ever showing, despite annual passes shaving off 50.5 mn trips

- Strong consumption led to increased freight movement with 12% y/y rise in port traffic in Oct’25, driven by surge in cooking coal and fertilizers. Railway freight accelerated 7% y/y.

UNION TREADS THE FISCAL PATH DESPITE LOWER TAXES IN THE COFFERS

ITEM (Rs. bn)	FY24A	FY25RE	FY26BE	GROWTH FY26BE/FY25RE	7MFY25	7MFY26	GROWTH 7MFY26/7MFY25	7MFY26/FY26BE
Corporation Tax	9,111	9,868	10,820	9.7%	4,879	5,131	5.2%	47.4%
Income Tax	10,447	11,830	14,380	21.6%	6,265	6,696	6.9%	46.6%
Customs Duty	2,331	2,329	2,400	3.1%	1,321	1,288	-2.5%	53.7%
Excise Duty	3,054	3,003	3,170	5.6%	1,512	1,632	7.9%	51.5%
Service Tax	4	0	1		1	-11		
GST	9,572	10,316	11,780	14.2%	5,996	6,068	1.2%	51.5%
Other Taxes	39	50	50	0.0%	47	29	-36.7%	
Gross tax revenue	**34,655**	**37,952**	**42,702**	**12.5%**	**20,326**	**21,144**	**4.0%**	**49.5%**
(-) Transfer to States, UTs	11,295	12,869	14,224	10.5%	7,230	8,350	15.5%	58.7%
Net tax revenue	**23,273**	**24,987**	**28,374**	**13.6%**	**13,050**	**12,743**	**-2.4%**	**44.9%**
Non-Tax Revenue	**4,018**	**5,375**	**5,830**	**8.5%**	**3,993**	**4,891**	**22.5%**	**83.9%**
Non-debt Capital Receipts	**598**	**418**	**760**	**81.7%**	**188**	**371**	**97.2%**	**48.8%**
Total Receipts	**27,888**	**30,781**	**34,964**	**13.6%**	**17,231**	**18,005**	**4.5%**	**51.5%**
Revenue Expenditure	34,943	36,035	39,443	9.5%	20,074	20,079	0.0%	50.9%
Capital Expenditure	9,492	10,520	11,211	6.6%	4,665	6,177	32.4%	55.1%
Total Expenditure	**44,434**	**46,555**	**50,653**	**8.8%**	**24,739**	**26,256**	**6.1%**	**51.8%**
Revenue Deficit	**7,652**	**5,671**	**5,238**	**-7.6%**	**3,031**	**2,445**	**-19.3%**	**46.7%**
Fiscal Deficit	**16,546**	**15,773**	**15,689**	**-0.5%**	**7,508**	**8,251**	**9.9%**	**52.6%**
Nominal GDP	**2,95,357**	**3,27,718**	**3,56,979**	**8.9%**				
Fiscal Deficit (% of Nominal GDP)	**5.6%**	**4.8%**	**4.4%**					

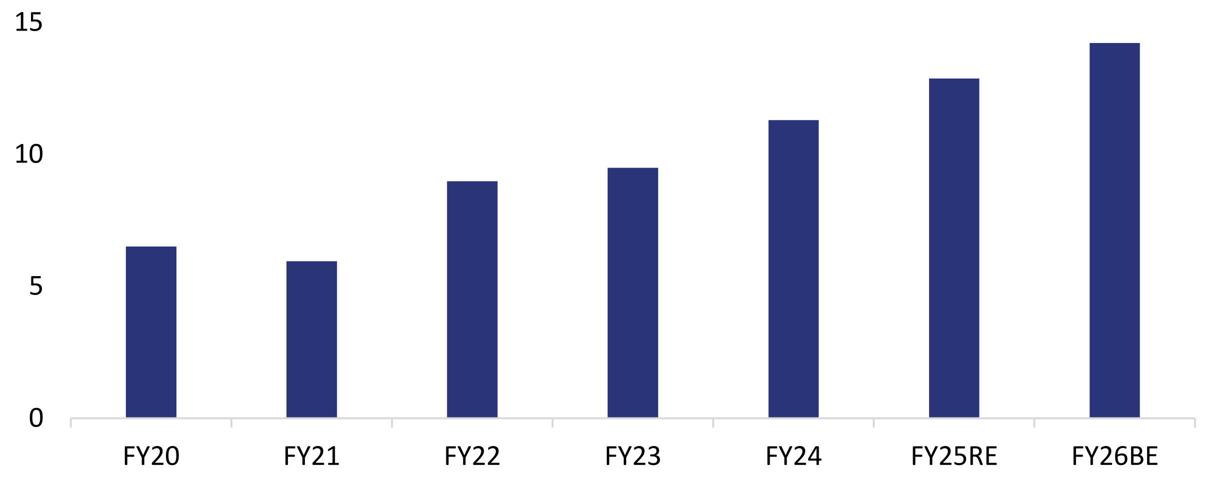
- Net direct tax collections rose 7% y/y to Rs. 12.9 trn in YTD FY26 as of 10 Nov’25, with 2.2% y/y rise in gross collections aided by 18% y/y fall in refunds. GST collections have slowed post rationalization, offset by higher non-tax revenues. Further, according to media sources, CPSEs are set to overshoot budget dividends in FY26

- Capex continues to rise at a strong pace, with Union spending on roads and defense, while a muted revex displays prudent use of capital in face of slowing tax collections

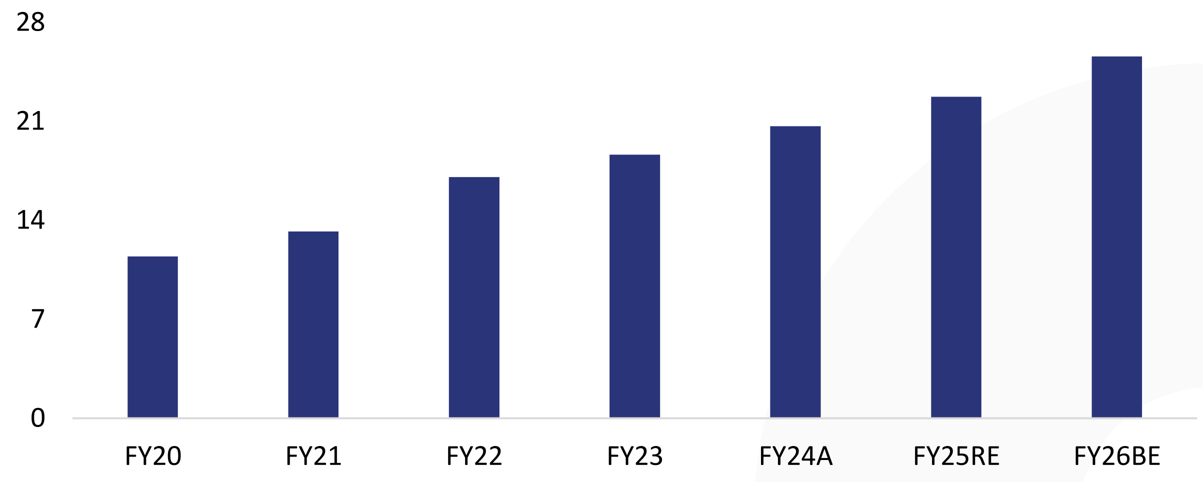
Source: Union Budget Documents, CGA, SBICAPS

STATES UP ON CAPEX IN YTDFY26

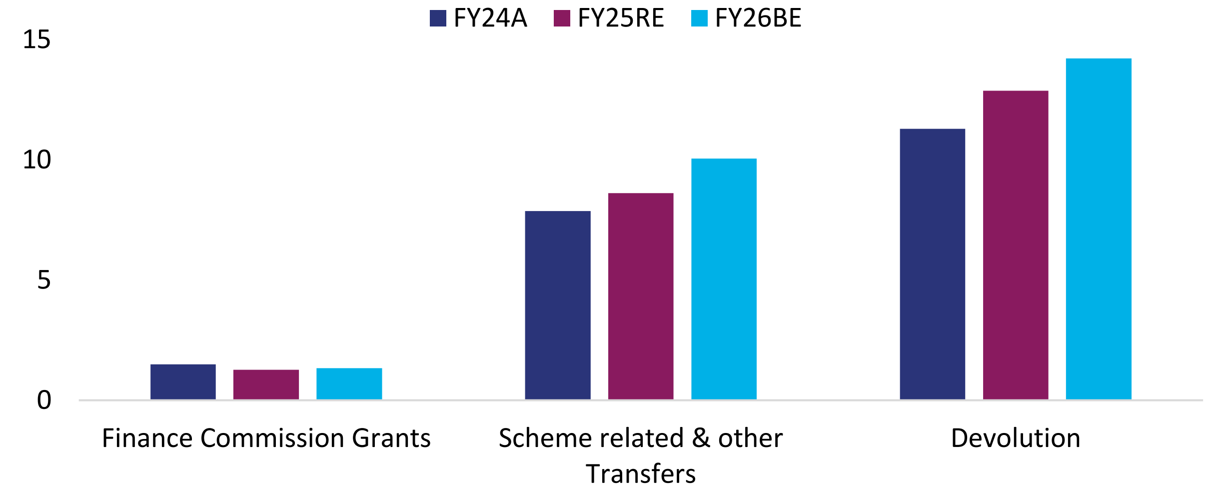
STATES SHARE IN UNION TAXES (Rs. trn)



TOTAL TRANSFER TO STATES AND UTs (Rs. trn)



COMPOSITION OF TRANSFERS TO STATES (Rs. trn)



- 19 major States spent 33.5% of their budgeted capex during 7MFY26. Haryana led the group by utilising 85% of BE, with Telangana hot on its heels. This represents a rise on-year, helped by low base as many States had election related pauses in 7MFY25
- Central Grants released under RDSS reached Rs. 370 bn till date, (38% of sanctioned GBS), with disbursements reaching Rs. 108 bn in 7MFY26. Highest disbursements were received by UP (Rs. 17.1 bn), MP (Rs. 12.4 bn), and Bihar (Rs. 9.9 bn) in 7MFY26

LOWER INFLATION ALLOWS AMPLE CUSHION FOR MONETARY EASING

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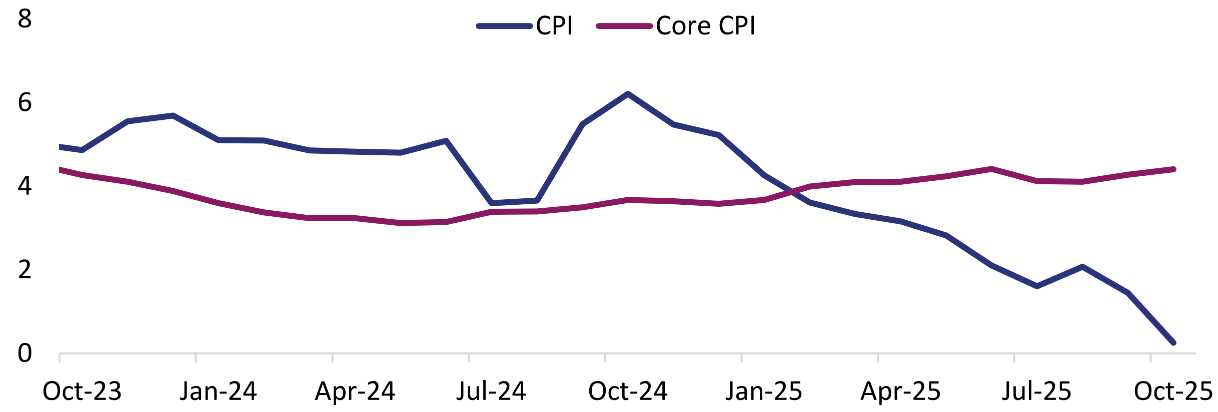
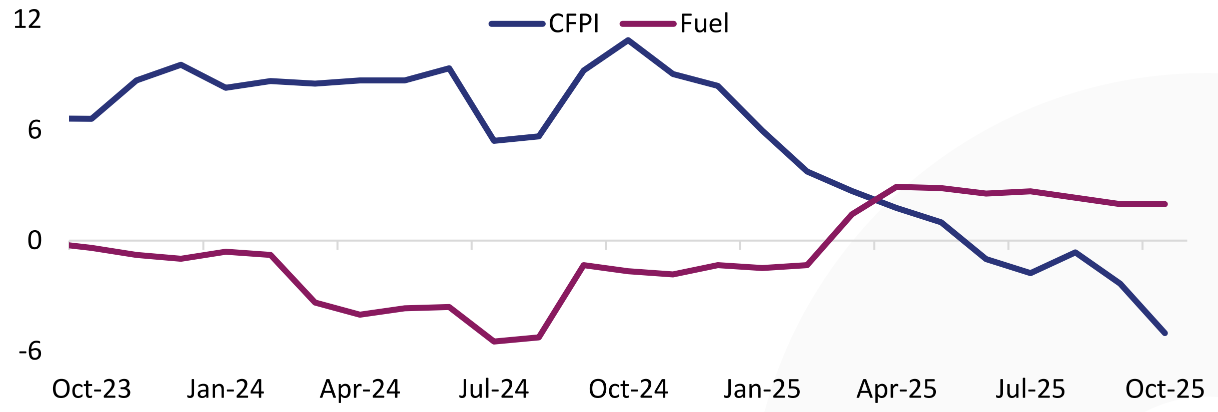
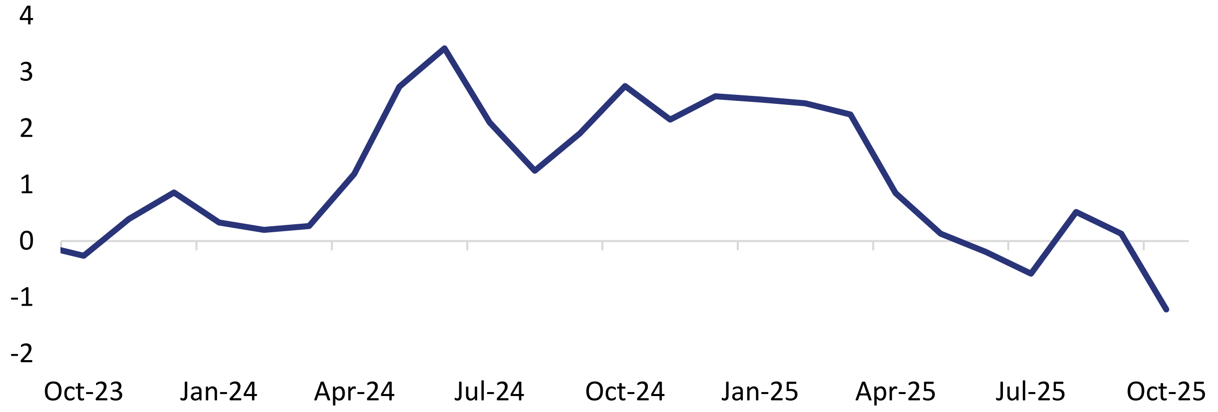
CONSUMER PRICE INDEX (CPI) & CORE CPI (% Y/Y)



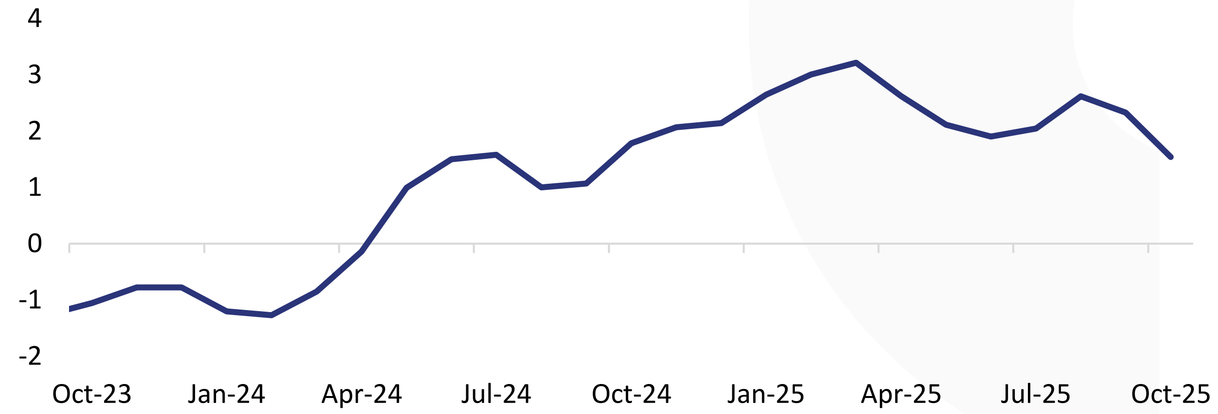
CFPI AND CPI: FUEL (% Y/Y)



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



WPI: MANUFACTURED PRODUCTS (% Y/Y)

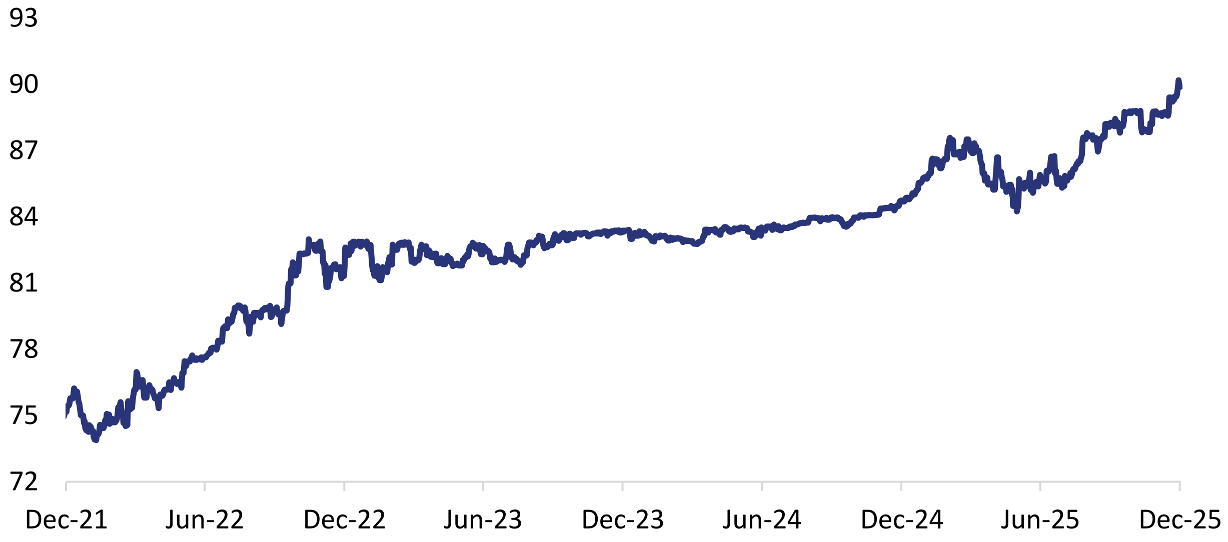


- CPI dipped to record lows in Oct’25 driven by high base effects and sharply contracting food prices, with deflation in rural areas offset by tepid rise in urban centers. Core inflation’s rise was stoked by rising prices of precious metals, while core inflation excluding gold and silver moderated slightly
- WPI turned deflationary in Oct’25, driven by GST rate rationalization, sharply lower food prices and favourable base effects. Manufactured products rose at a muted 1.5% y/y in Oct’25, offset by deflation in primary articles and fuel and power.

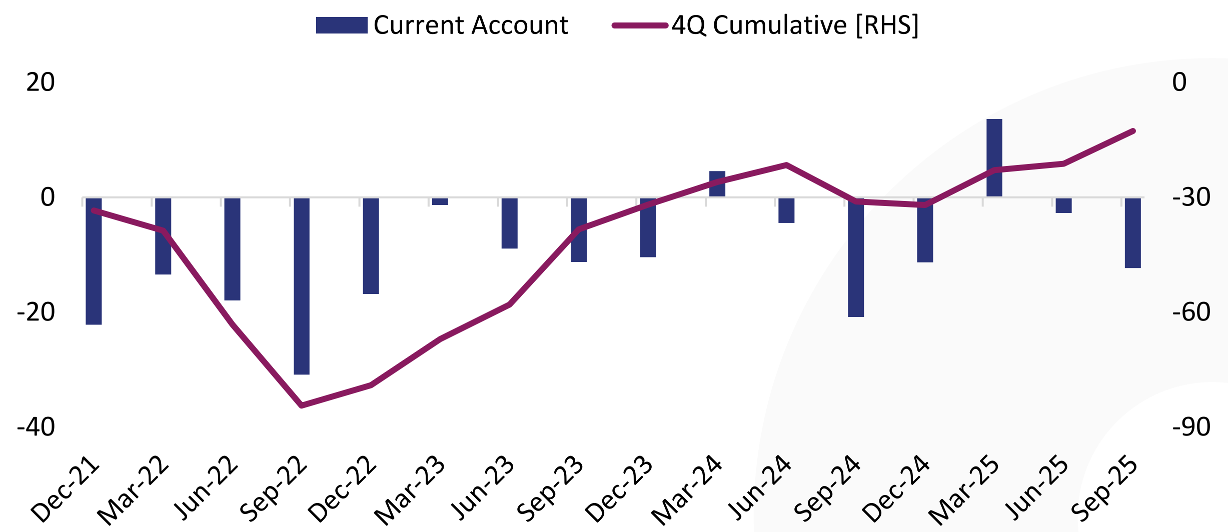
Source: CEIC, SBICAPS

INR DEPRECIATES TO RECORD LOWS EVEN AS CAD IS IN CHECK

USD/INR EXCHANGE RATE (Rs. per USD)



CURRENT ACCOUNT BALANCE (USD bn)

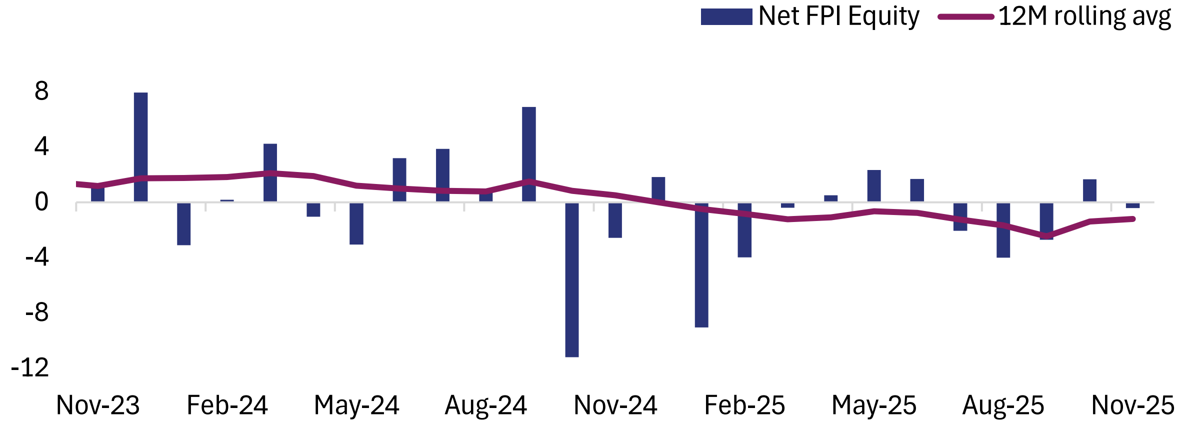


INDICATOR	NOV'24	DEC'24	JAN'25	FEB'25	MAR'25	APR'25	MAY'25	JUN'25	JUL'25	AUG'25	SEP'25	OCT'25	NOV'25
Forex Reserves (USD Bn)	659.4	635.7	630.6	638.7	668.3	688.4	691.3	698.1	690.1	695.4	700.1	689.7	688.1
Goods Imports (%y/y)	16.8%	2.7%	10.7%	-14.8%	12.1%	20.0%	-1.3%	-3.4%	8.6%	-10.1%	16.7%	16.6%	
Oil Imports (%y/y)	6.5%	-9.0%	-13.4%	-29.6%	16.3%	25.5%	-26.2%	-8.4%	7.4%	9.4%	-5.9%	-21.7%	
Non-oil Imports (%y/y)	20.6%	6.9%	20.5%	-9.0%	10.4%	17.6%	10.6%	-1.6%	9.0%	-14.3%	24.4%	32.2%	
Goods Exports (%y/y)	-5.3%	-1.5%	-2.6%	-10.9%	0.9%	-3.8%	-1.2%	-1.3%	13.3%	6.1%	6.7%	-11.8%	
Oil Exports (%y/y)	-52.4%	-31.6%	-59.6%	-30.4%	-9.6%	-36.5%	-23.8%	-24.4%	7.4%	2.0%	14.9%	-10.4%	
Non-oil Exports (%y/y)	7.8%	5.1%	14.5%	-6.0%	2.4%	9.1%	3.9%	3.2%	14.1%	6.7%	5.5%	-12.0%	
Goods Trade Balance (USD Bn.)	-32.0	-20.7	-23.1	-14.1	-21.5	-27.1	-22.6	-19.1	-27.5	-26.7	-32.2	-41.7	
Services Exports (%y/y)	14.2%	16.9%	12.1%	11.7%	18.7%	8.9%	9.6%	12.0%	10.3%	2.8%	12.6%	2.2%	
Services Imports (%y/y)	26.1%	13.9%	12.6%	-4.7%	5.3%	1.0%	-1.0%	5.1%	8.5%	-5.3%	7.8%	2.9%	
Overall Trade Balance (USD Bn)	-17.1	-1.5	-5.1	3.1	-3.3	-11.2	-6.8	-2.9	-11.1	-11.1	-13.3	-24.2	

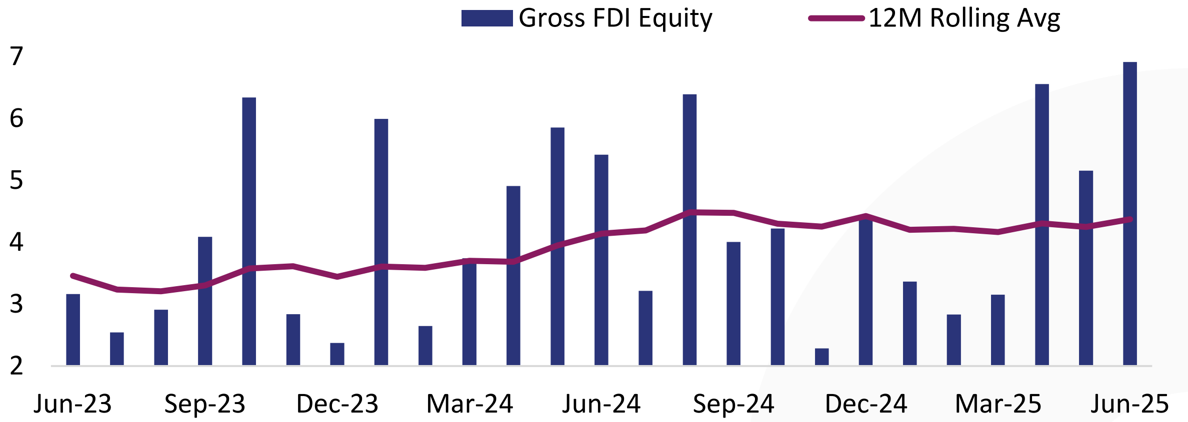
Source: CEIC, Bloomberg, SBICAPS

RISK-OFF SENTIMENT INFLUENCES FPI BOND FLOWS OVER EQUITY

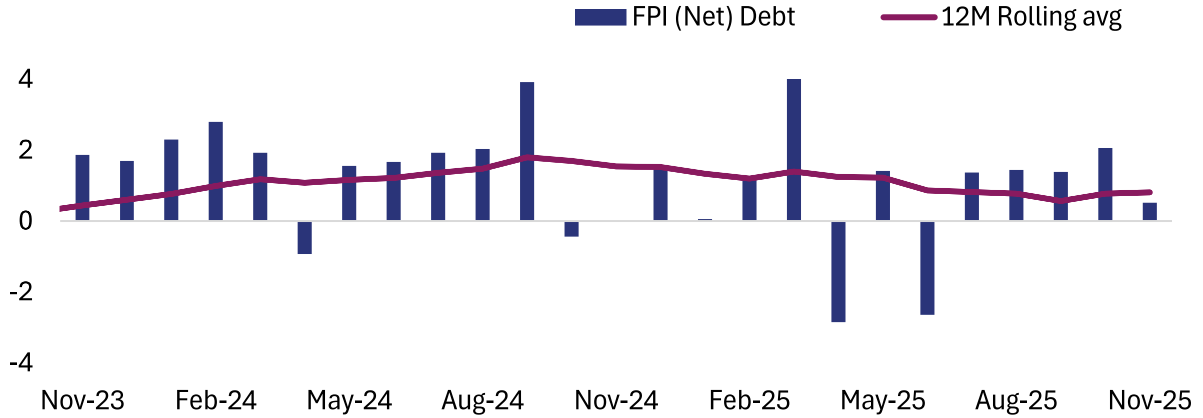
NET FPI EQUITY INFLOW (USD bn)



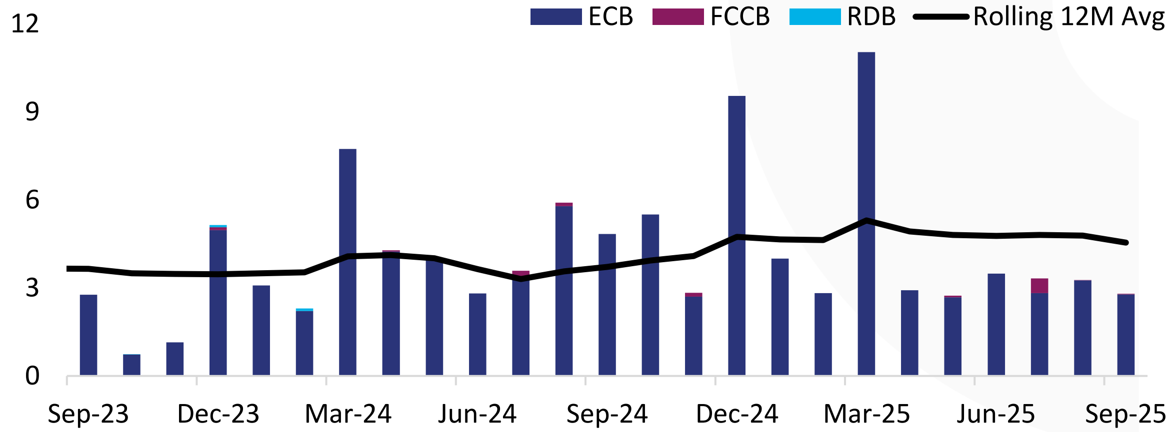
GROSS FDI EQUITY INFLOWS (USD bn)



NET FPI DEBT FLOWS (USD bn)



GROSS ECB ISSUED (USD bn)



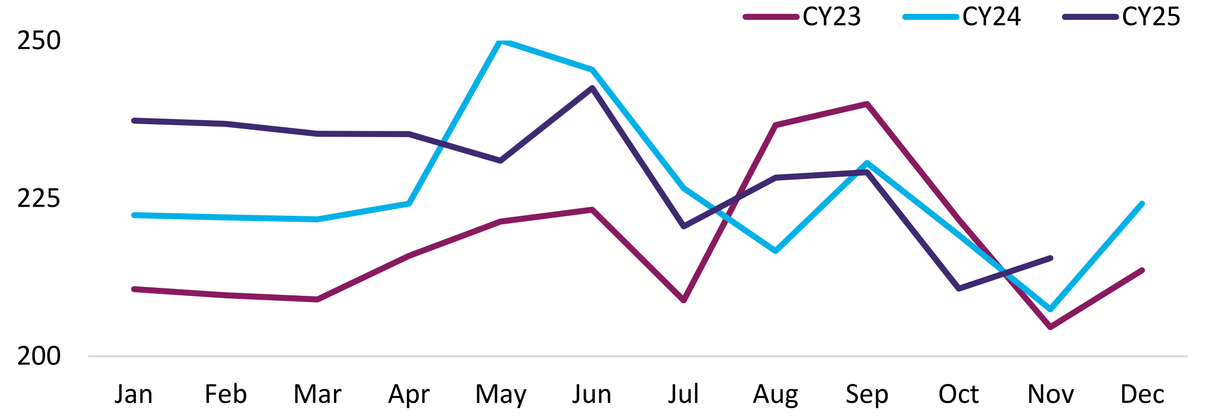
- FPIs resumed selling domestic equities after a brief pause in Nov'25, driven by global risk-off sentiment, AI related volatility and selective preference for primary markets
-
- Modest debt inflows were driven by expectations of rate cuts and INR depreciation, with expectation of inclusion in bond indices driving FAR flows

Source: NSDL, RBI, CEIC, SBICAPS

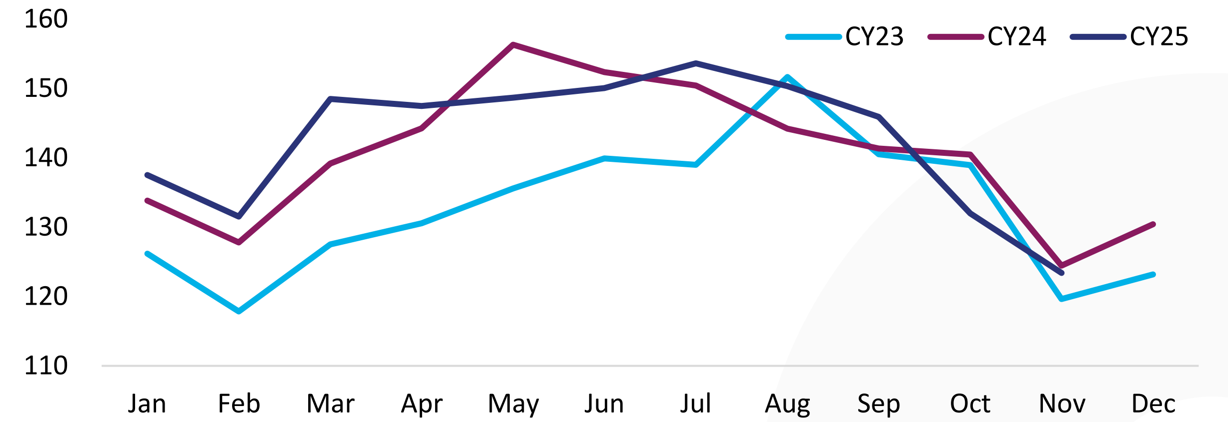
SECTORAL UPDATES

CLEMENT WEATHER MUTES POWER DEMAND IN NOV'25

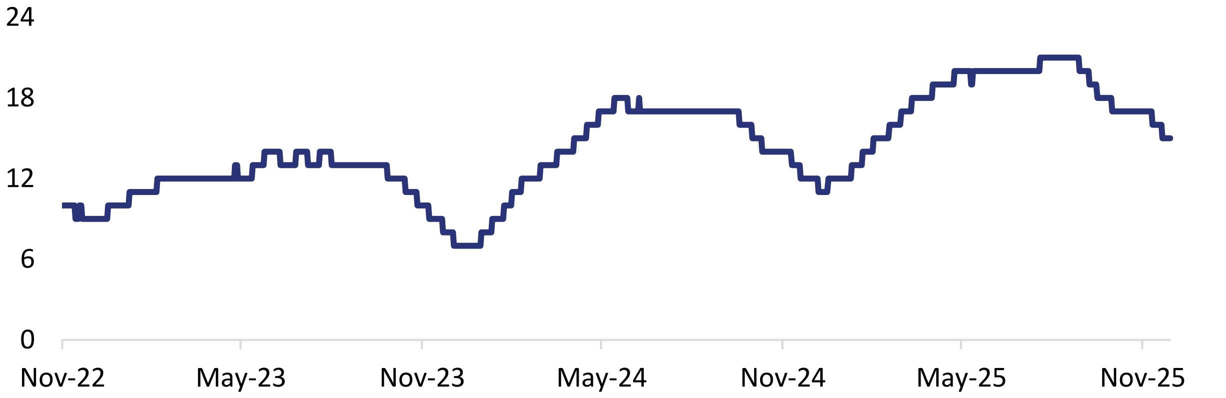
PEAK POWER DEMAND (GW)



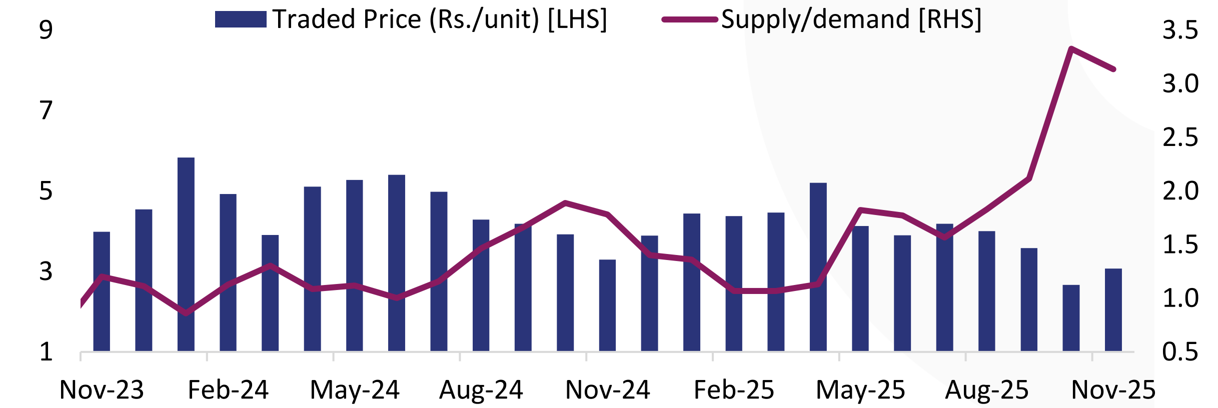
POWER SUPPLY (BU)



COAL STOCKS WITH POWER SECTOR (NUMBER OF DAYS)



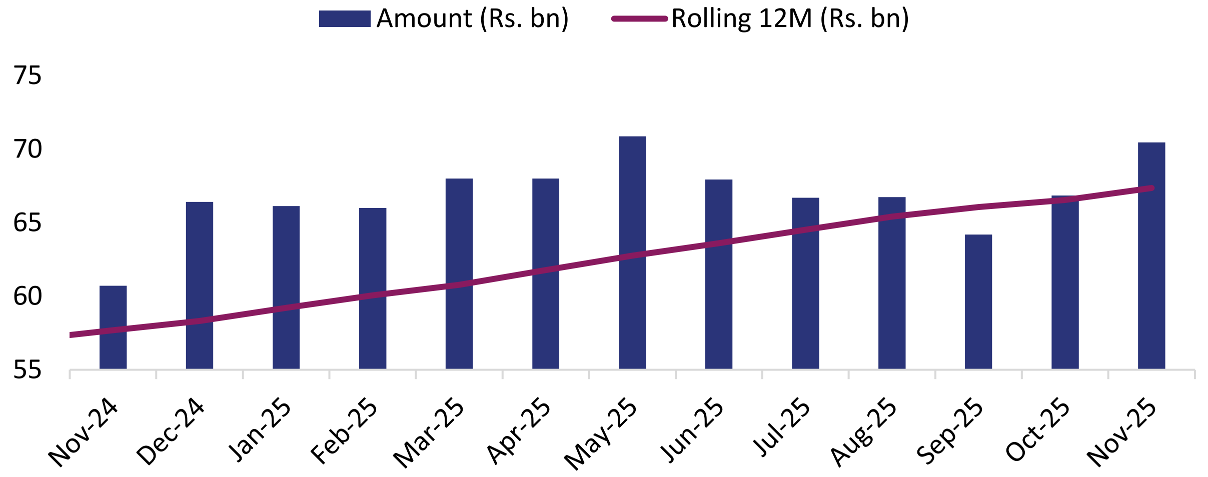
SPOT PRICE (Rs./UNIT) VS. SUPPLY-DEMAND IN DAM



- Power consumption fell ~1% y/y in Nov'25 to 123.4 BU. Notably, consumption rose in the Southern and North-Eastern regions, while it fell considerably in North, West and East. DAM prices fell 7% y/y to Rs. 3.07 per unit, amidst ample supply side liquidity
- PM Mr. Modi announced that Union is mulling framework to open nuclear sector for public participation, akin to space industry, to support broader climate goals and energy security

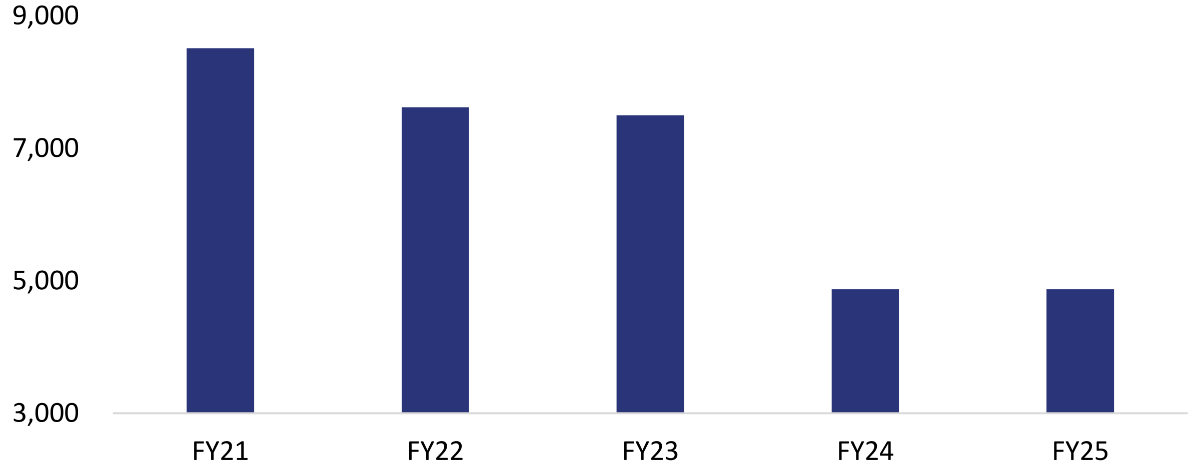
HIGHWAY FASTAG COLLECTIONS SHOW RENEWED VIGOUR

FASTAG COLLECTIONS

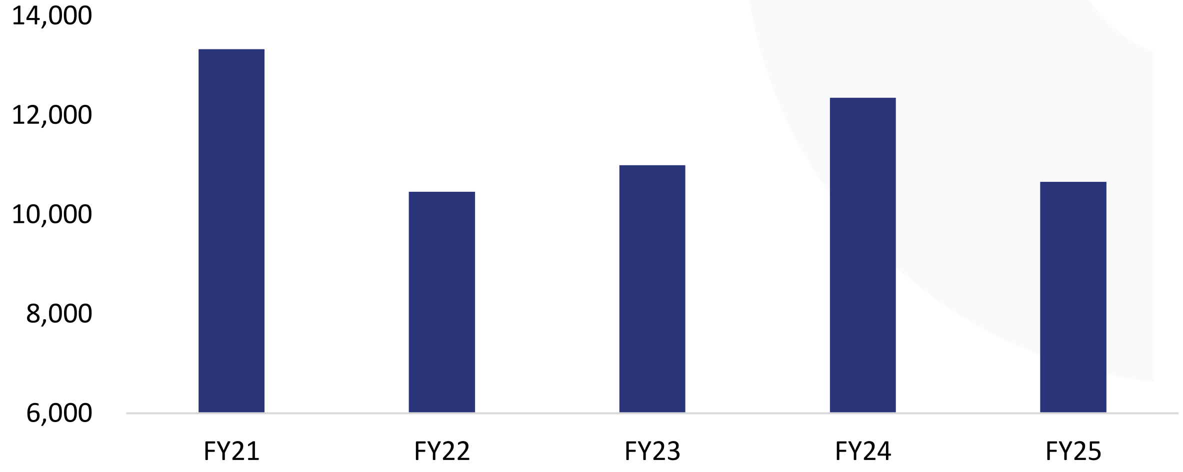


- FasTag collections rose 16% y/y to Rs. 70.5 bn in Nov’25, its second highest ever showing, driven by festive season travel, despite 50 mn trips by annual passes
- Union is considering to overhaul highway contract norms in an effort to de-risk private investments and safeguard lenders, to attract private players

NATIONAL HIGHWAY AWARDING (km) – 11MFY



NATIONAL HIGHWAY CONSTRUCTION (km)



CREDIT GROWTH'S REDEMPTION ARC GAINS MOMENTUM

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
CREDIT													
Non-food credit growth (%y/y)	11.1%	11.4%	10.9%	11.0%	10.2%	8.8%	9.3%	9.9%	9.9%	10.2%	12.2%	12.1%	
Industry credit growth (%y/y)	7.2%	8.0%	7.1%	8.2%	6.6%	4.8%	5.9%	6.0%	6.5%	7.3%	10.0%		
Services credit growth (%y/y)	11.7%	12.5%	12.0%	12.0%	10.5%	8.7%	9.2%	10.6%	10.6%	10.2%	13.0%		
Personal credit growth (%y/y)	12.0%	11.8%	11.7%	11.7%	11.9%	11.1%	11.7%	11.9%	11.8%	11.7%	14.0%		
DEPOSITS													
Total Deposits (%y/y)	11.5%	10.8%	10.6%	10.3%	9.9%	10.0%	10.4%	10.1%	10.1%	9.8%	9.5%	9.4%	
Time Deposits (%y/y)	11.4%	11.0%	11.0%	10.7%	10.4%	8.9%	9.2%	9.5%	9.1%	8.8%	8.5%	8.4%	
Demand Deposits (%y/y)	12.3%	9.4%	7.7%	7.0%	6.4%	18.0%	19.6%	14.6%	17.9%	17.7%	16.8%	16.7%	
KEY RATIOS													
C/D Ratio (%)	80.4%	80.4%	80.8%	80.7%	80.8%	79.6%	78.9%	78.9%	79.2%	79.3%	80.3%	80.2%	
Investment/Deposit Ratio (%)	29.6%	29.9%	30.0%	29.9%	29.7%	29.3%	28.9%	28.6%	28.8%	28.8%	29.1%	28.5%	
KEY RATES													
1Y MCLR (Median-All SCB)	9.00%	9.00%	9.05%	9.00%	9.00%	8.95%	8.90%	8.75%	8.60%	8.60%	8.55%	8.50%	
WALR – fresh (%)	9.25%	9.33%	9.40%	9.35%	9.26%	9.20%	8.62%	8.81%	8.74%	8.50%	8.64%		
WALR – o/s (%)	9.85%	9.87%	9.80%	9.77%	9.68%	9.67%	9.44%	9.38%	9.32%	9.26%	9.24%		
WADTDR – fresh (%)	6.57%	6.62%	6.55%	6.72%	6.34%	6.11%	5.75%	5.61%	5.56%	5.61%	5.57%		
WADTDR – o/s (%)	7.00%	7.09%	7.10%	7.11%	7.11%	7.07%	7.00%	6.92%	6.87%	6.82%	6.78%		
Repo Rate	6.50%	6.50%	6.25%	6.25%	6.00%	6.00%	5.50%	5.50%	5.50%	5.50%	5.50%	5.50%	5.25%

Source: RBI, CEIC, SBICAPS

REVIVAL OF INDUSTRY BANK CREDIT GROWTH IS PROMISING

Festive fervour raises credit ante, with hardened capital market rates allowing banks to cater to large industries' needs

- Bank credit resurgence is driven by a broad-based rise across sectors, with momentum in current growth engines like MSME and certain personal loans categories complemented by re-emergence of constrained segments like NBFCs and credit cards. The acceleration aligns with RBI's measures to ease credit flows and Union fiscal initiatives

- Industry credit grew at the highest pace in 3 years, with further acceleration in MSME offtake augmented by large industries such as mining, pharmaceuticals, metals, petro-chemicals and electronics. Notably, robust infrastructure offtake was supported by capex revival in power sector and surge in ports

- Services sector was propped up by double digit growth in NBFC segment which seeked funds for on-lending during festive season fervour, amidst moderately tight liquidity and taut capital market rates. Momentum quickened in trade, CRE, tourism, computer and shipping.

- Personal loans was aided by consumption boosting measures such as GST cuts which took effect at end of Oct'25, propelled by gold loans frenzy, housing finance and vehicle loans amidst festive season consumption. Unsecured segments too grew faster than recent times, yet much below the fiery post-pandemic showing.

Banks balance rate transmission against margin pressures

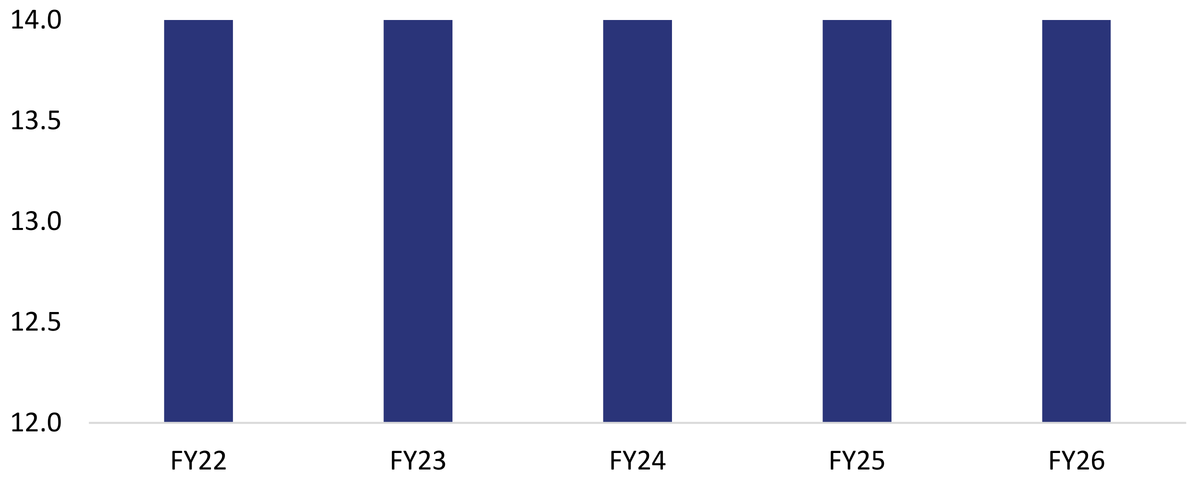
- Deposit growth has slowed down at the fag end of CY25, due to festive season related currency leakages and lower deposit rates. Subsequently, CD ratio has exceeded 80% mark.

- Notably, SCBs used strong festive credit demand in Oct'25 to raise WALR on new loans by 15 bps m/m to rebuild margins a tad. Continued decline of WALR o/s reflects re-pricing of older high-coupon loans and shift towards lower-yield mortgage and secured retail portfolios, along with rising share of better-rated corporates.

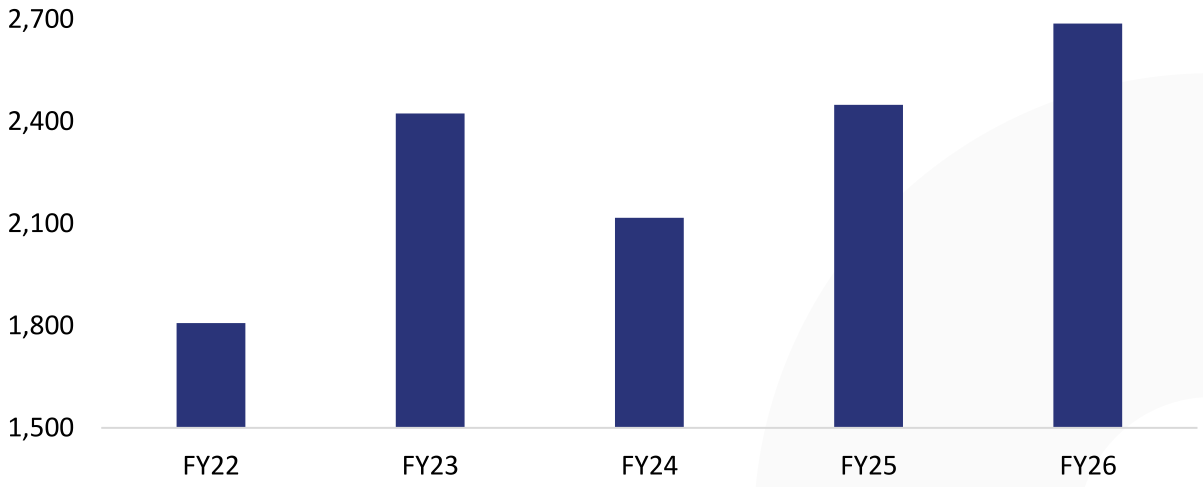
- Bank MCLR to Union G-sec spread is now low compared to historical levels. This along with RBI's commitment to maintain adequate systemic liquidity means a pickup in bank credit could ensue

INSURERS EXPERIENCE A BUMPER NOV'25

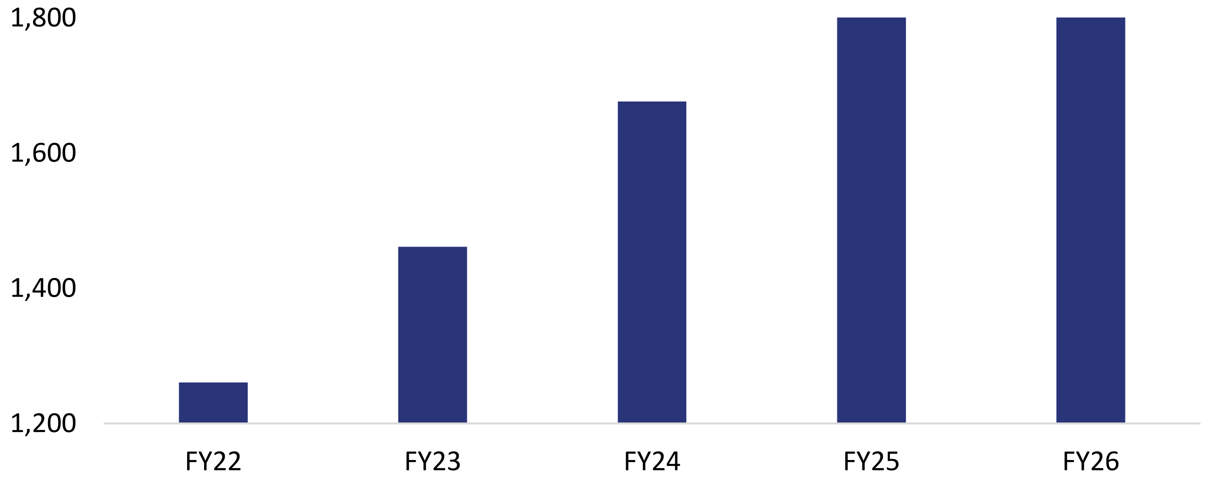
NEW LIFE INSURANCE POLICIES – 7MFY (mn units)



FIRST YEAR PREMIUM- LIFE INSURANCE – 7MFY (Rs. bn)



GROSS DIRECT PREMIUM- NON- LIFE INSURANCE – 7MFY (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.

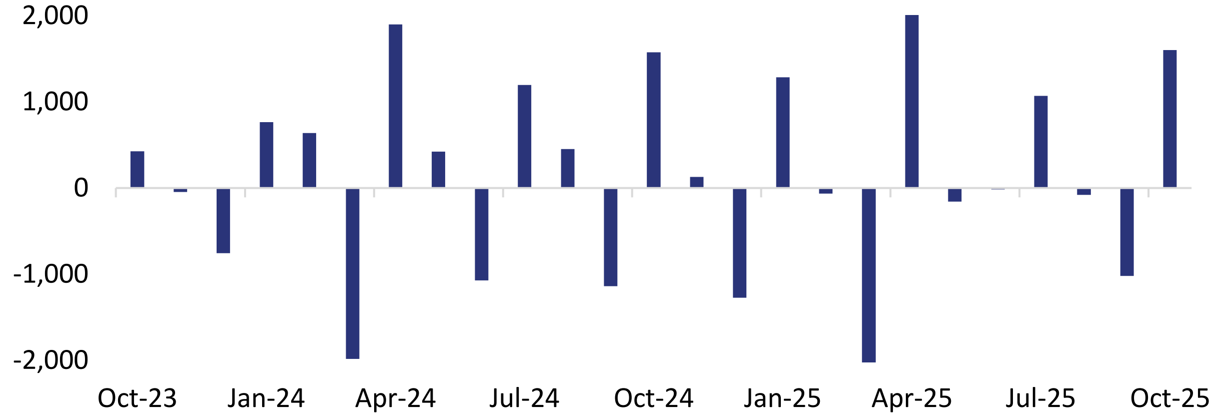
- Non-life insurers' gross direct premia jumped 24% y/y to Rs. 269 bn fueled by rising motor sales and retail health demand. Health insurers surged 36% y/y, matched by private insurers, while their PSU counterparts fell 0.4% y/y

Source: CEIC, SBICAPS

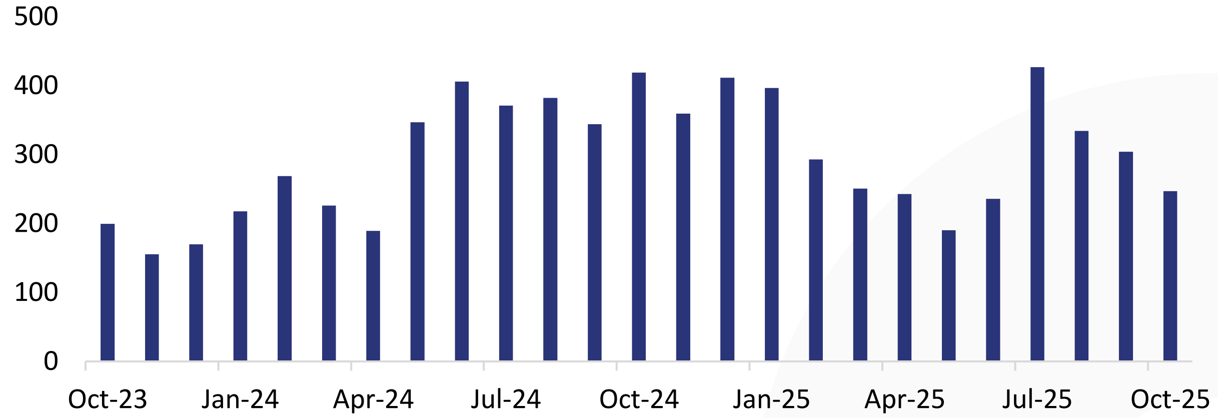
CAUTIOUS OPTIMISM LEADS TO SAFER ALLOCATIONS IN OCT'25

SBICAPS
Complete Investment Banking Solutions

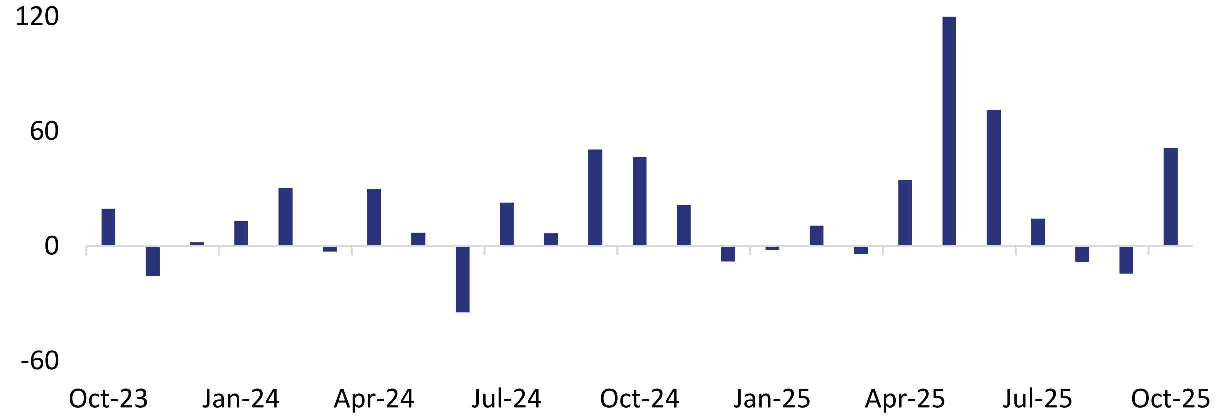
OPEN ENDED SCHEME: INCOME/DEBT MF NET INFLOW (Rs. bn)



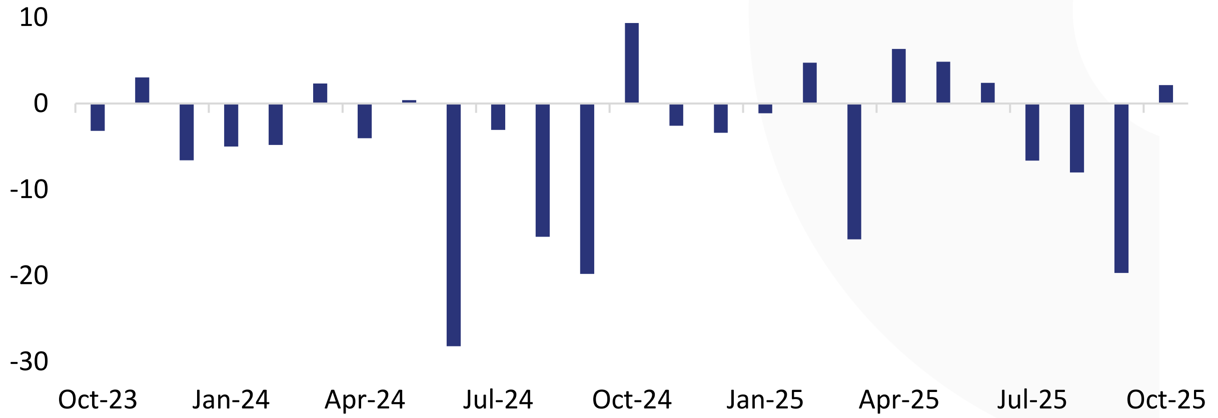
OPEN ENDED SCHEME: EQUITY MF NET INFLOW (Rs. bn)



CORPORATE BOND NET INFLOW (Rs. bn)



BANKING AND PSU FUND NET INFLOW (Rs. bn)

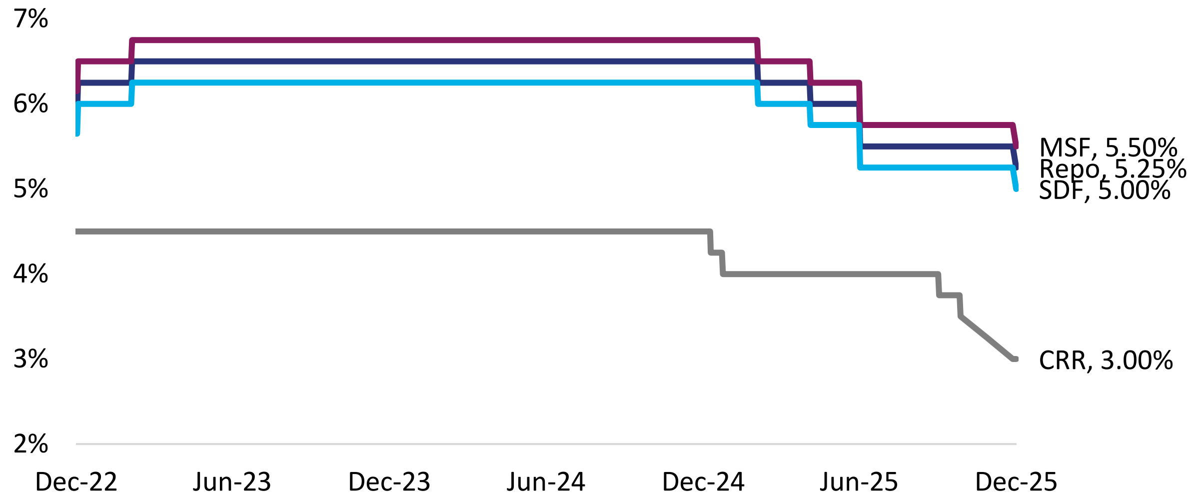


- Debt funds recovered from sharp outflows in Oct'25 with short duration categories attracting corporate redeployment of quarter-end surpluses. Outflows in longer-duration funds signals preference for low-risk liquidity amidst softer yields. This led to higher flows into corporate bond funds as spreads remained elevated in late-Oct'25
- Equity funds experienced further moderation of inflows amidst profit booking despite benchmark rallies. Flexi-cap and mid-cap funds see robust flows aided by positive results. Notably, hybrid funds like arbitrage and multi asset funds saw significant flows in Oct'25, while gold ETFs experience 2 months of solid inflows

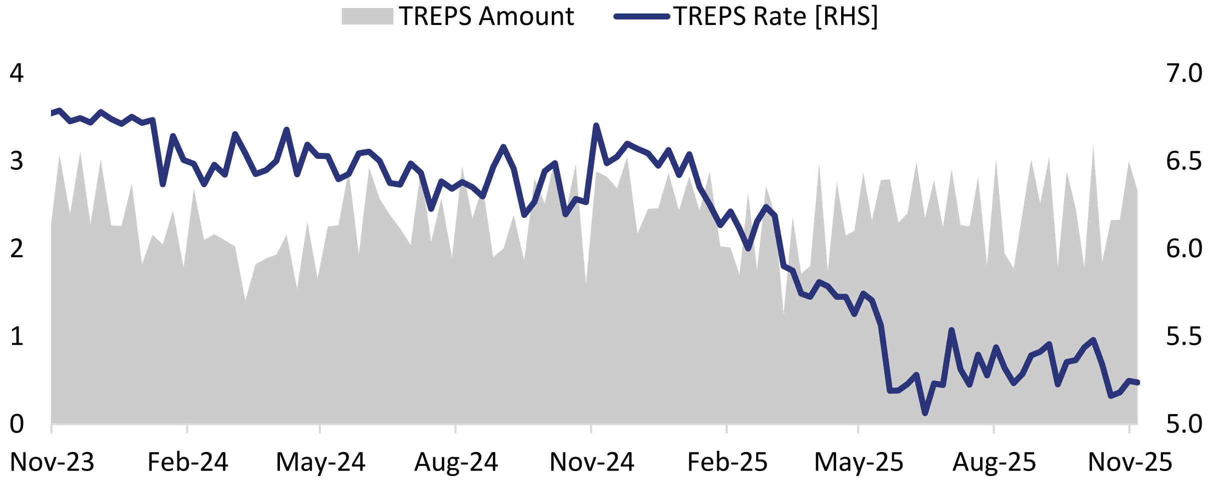
MONETARY POLICY AND YIELDS

MPC RESOLVES THE DEBATE IN A DIVIDED MARKET WITH A RATE CUT`

KEY RATES



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



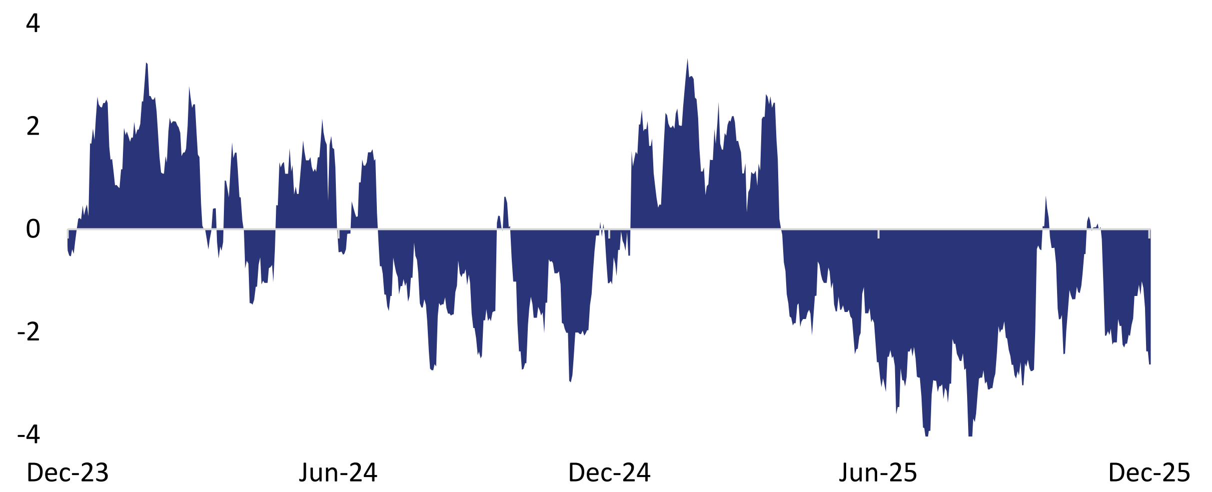
STANCE OF POLICY

DATE	STANCE	VOTE
07-DEC-22 08-FEB-23	WITHDRAWAL OF ACCOMMODATION	4-2
06-APR-23 08-JUN-23 10-AUG-23 06-OCT-23 08-DEC-23 08-FEB-24 05-APR-24	WITHDRAWAL OF ACCOMMODATION	5-1
07-JUN-24 07-AUG-24	WITHDRAWAL OF ACCOMMODATION	4-2
09-OCT-24 05-DEC-24 07-FEB-25	NEUTRAL	6-0
09-APR-25	ACCOMODATIVE	6-0
06-JUN-25 06-AUG-25	NEUTRAL	6-0
01-OCT-25	NEUTRAL	4-2
05-DEC-25	**NEUTRAL**	**5-1**

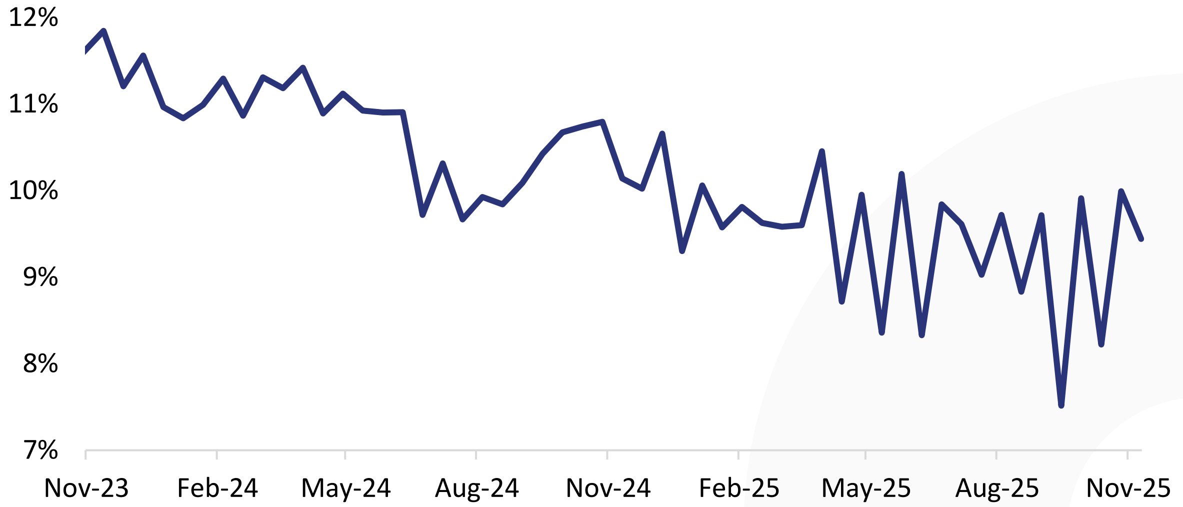
- The MPC unanimously voted to cut the policy repo rate by 25 bps to 5.25%, and 5-1 vote to keep stance at neutral with Prof. Singh voting for an accommodative stance
- Governor alluded to a benign inflation as a motivator, emphasising that even the paltry figure now projected for FY26 is only due to rise in precious metal prices
- *The possibility of future cuts in the cycle is not ruled out*

RBI TO OFFER LONG-STANDING LIQUIDITY THROUGH OPERATIONS

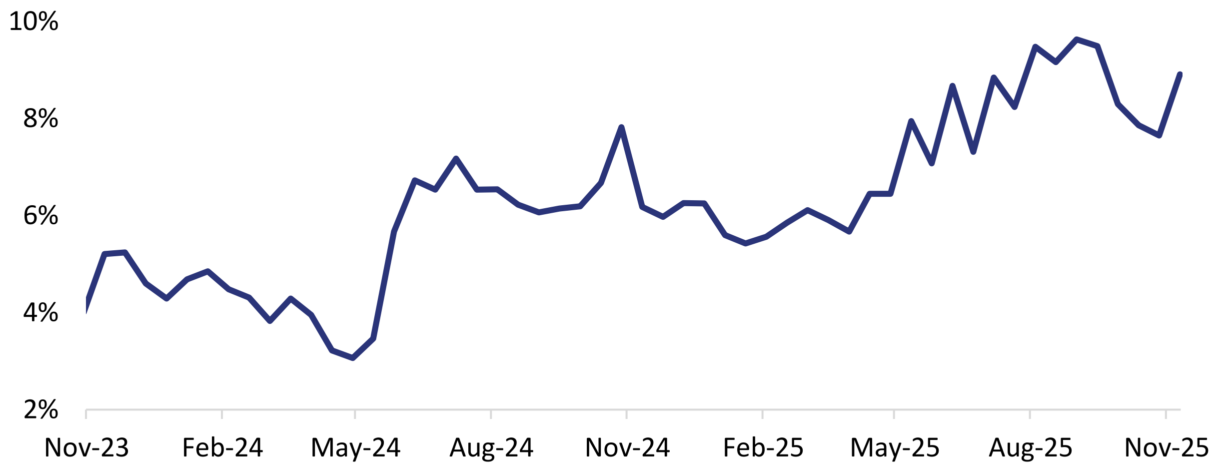
BLOOMBERG INDIA LIQUIDITY INDICATOR* (Rs. trn)



MONEY STOCK M3 (Y/Y)



CURRENCY WITH PUBLIC (Y/Y)

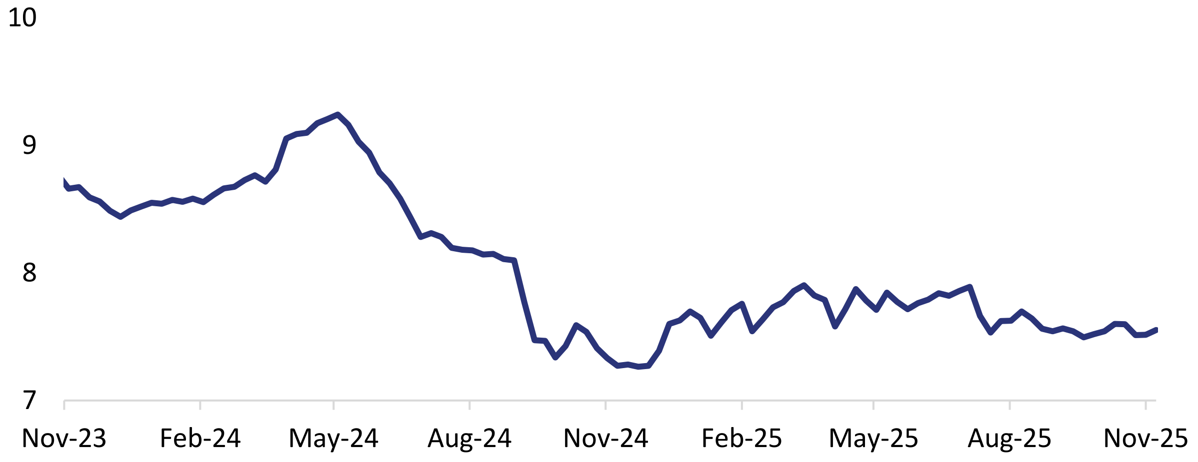


- Systemic liquidity has dwindled from comfortable surplus to sub- 0.5% of NDTL in Nov'25, often closer to the neutral mark as RBI's intervention in forex markets drained substantial liquidity, despite CRR cuts
- Tax outflows and festive season currency leakage put temporary strains on liquidity in Nov'25, which the RBI managed through fine tuning VRR auctions
- OMO purchases worth Rs. 1 trn will be conducted in Dec'25, along with 3Y USD/ INR Buy/Sell Swaps worth Rs. 5 bn, to ensure adequate durable liquidity for policy transmission. *Further interventions are possible in coming months*

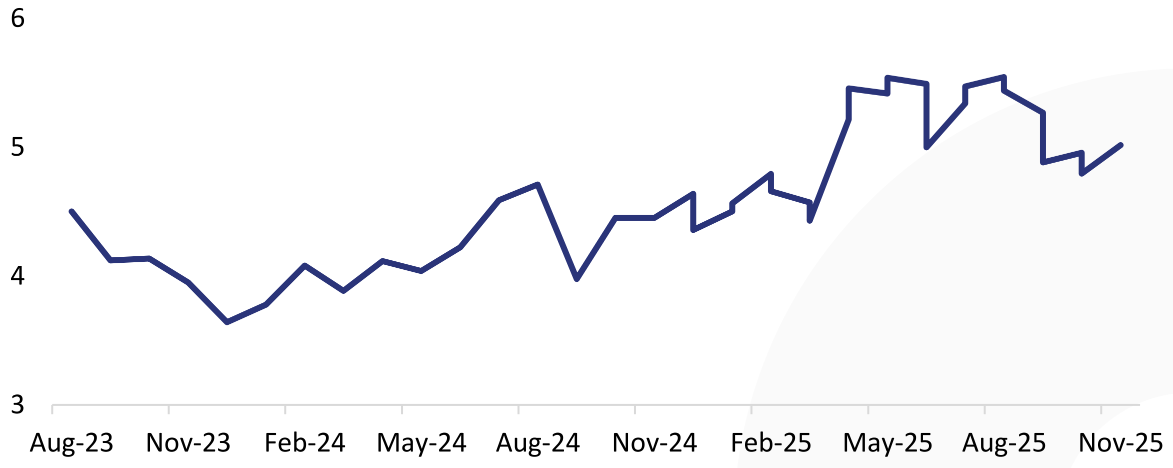
Source: Bloomberg, RBI, SBICAPS; *Negative values indicate surplus

MONEY MARKET RATES REMAIN ORDERLY DUE TO MANAGEABLE LIQUIDITY

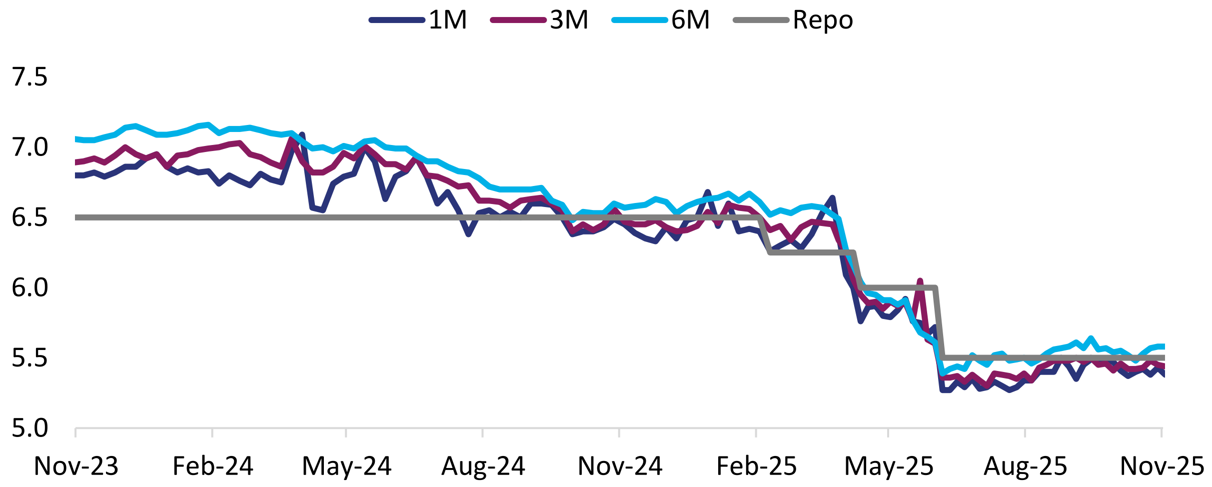
T-BILL OUTSTANDING (Rs. trn)



COMMERCIAL PAPER OUTSTANDING (Rs. trn)



T-BILL SECONDARY YIELDS & REPO (%)

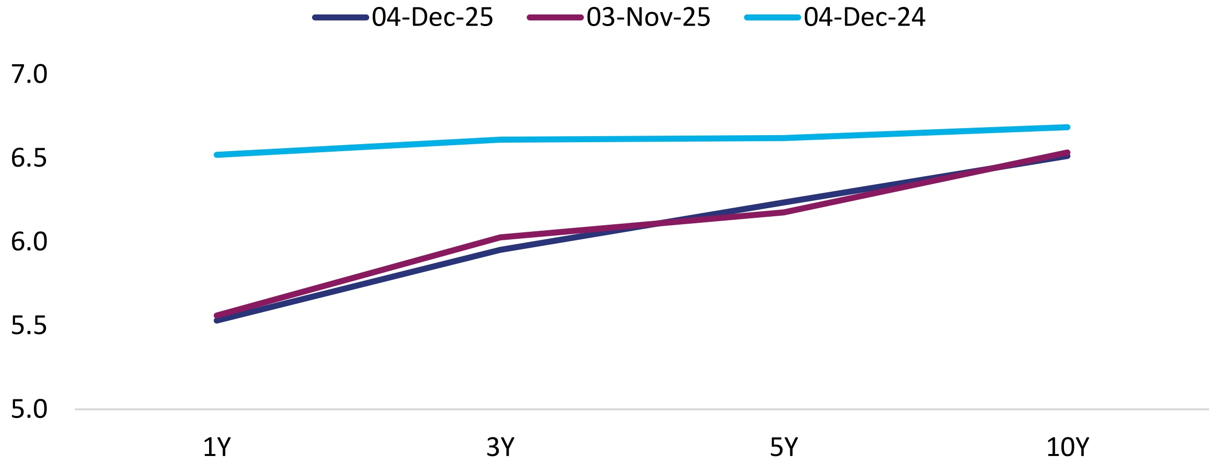


- Money market rates have hence traversed closer to the repo rate, from below the SDF mark, with TREPs rate closer to 5.3% at end of Nov’25
- T-Bill yields have remained flattish m/m throughout Nov’25. Notably, 91-day T-Bills have been subscribed at an average ~2x in Nov’25.
- CP yields remained range bound, akin to money market yields, albeit with an upward bias making the elevated spreads attractive to investors.

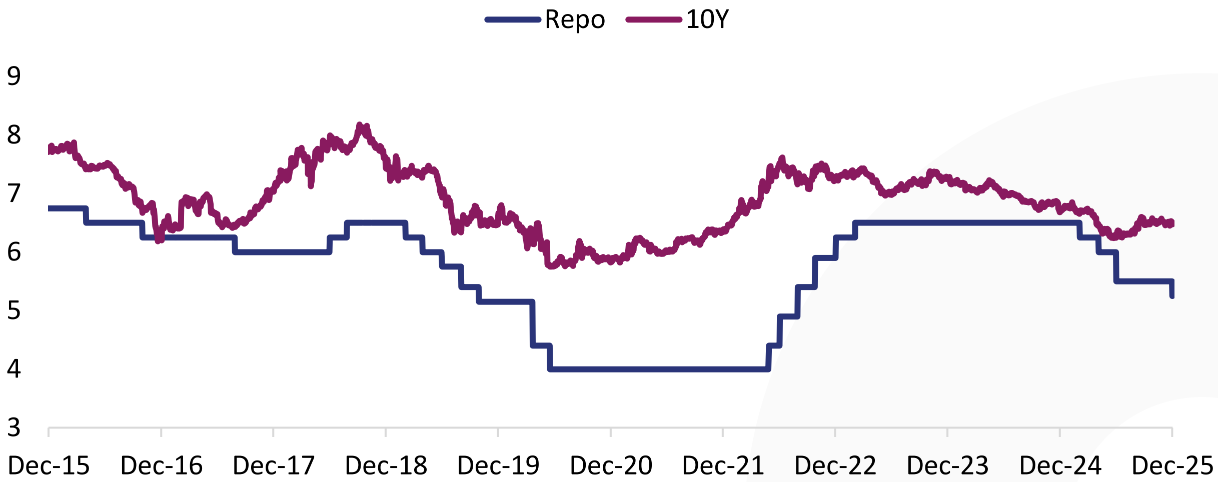
Source: RBI, CEIC, SBICAPS

UNION G-SEC YIELDS EYE STRONGER TRIGGERS FOR DIRECTIONAL MOVES

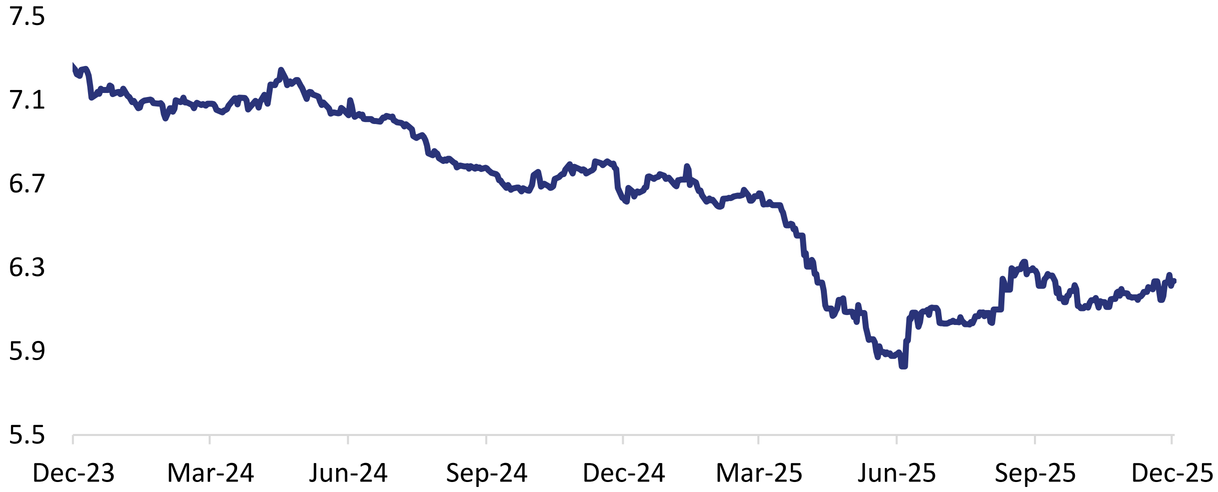
YIELD CURVE (%)



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



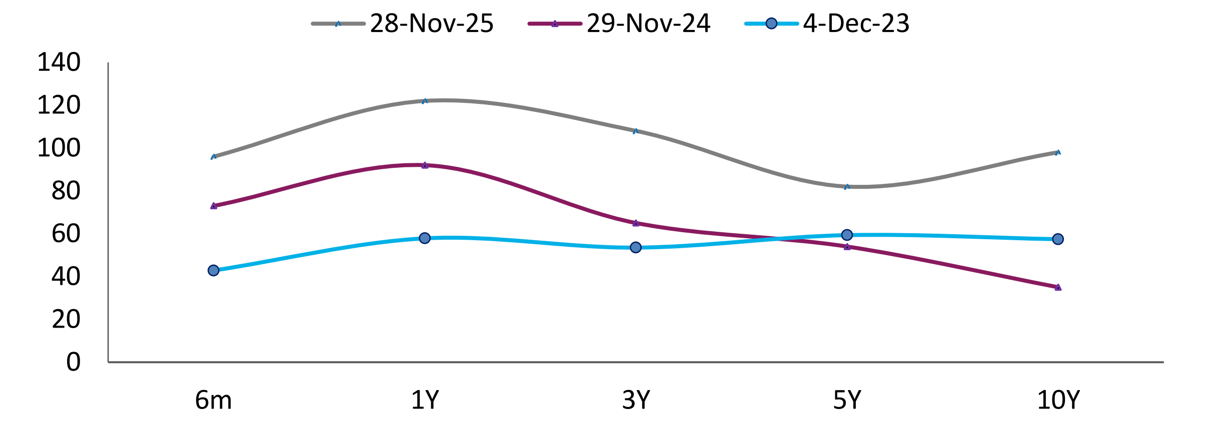
G-SEC YIELD (5 YEARS) (%)



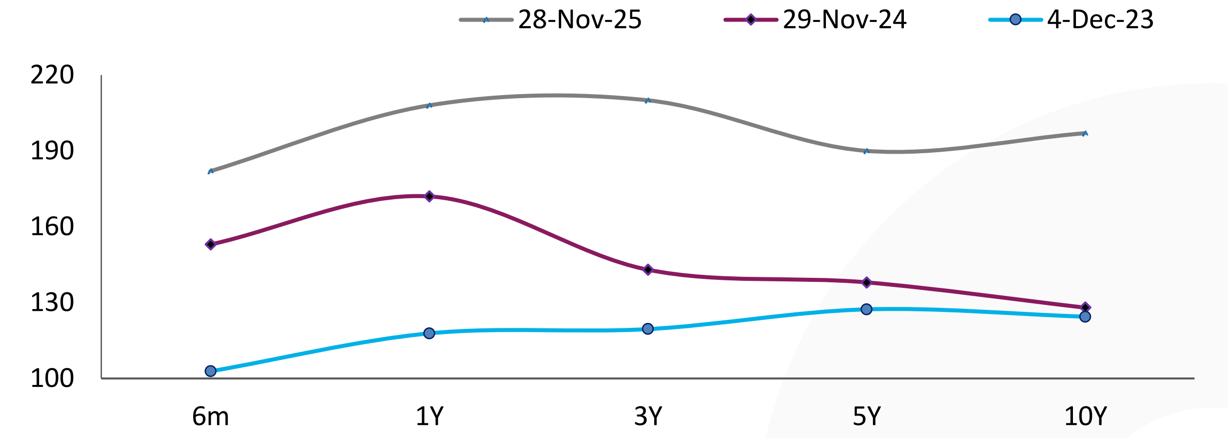
- Benchmark 10Y G-Sec yields have oscillated around the 6.5% mark throughout Nov’25, with markets weighing soft inflation data and rate cut hopes against strong growth, FX concerns and geopolitical uncertainties.
- *Broader outlook remains sensitive to currency volatility and the RBI’s operations. We expect 10Y Union G-sec to remain at 6.50% ± 0.25%*

CORPORATE SPREADS REMAIN IN CHECK

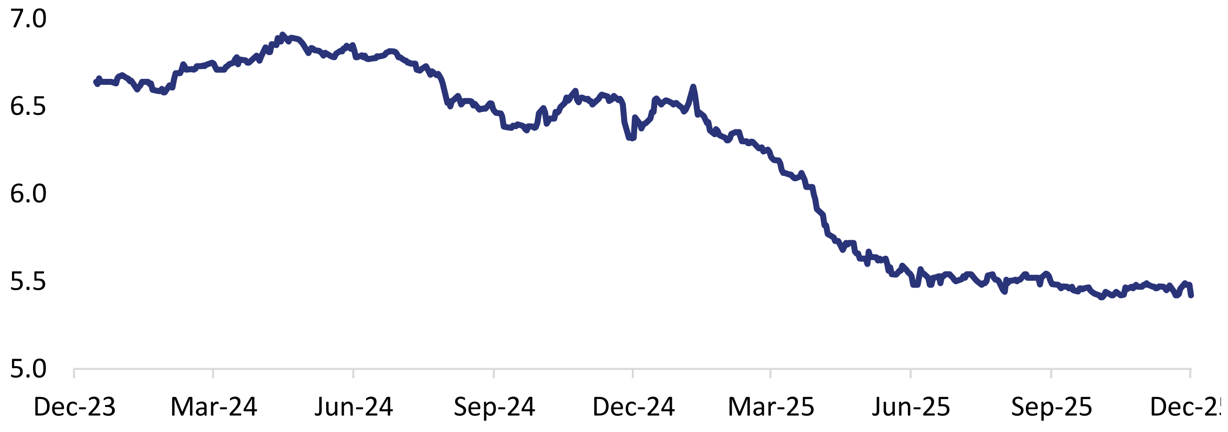
FIMMDA CORPORATE AAA SPREAD OVER GILT CURVE (bps)



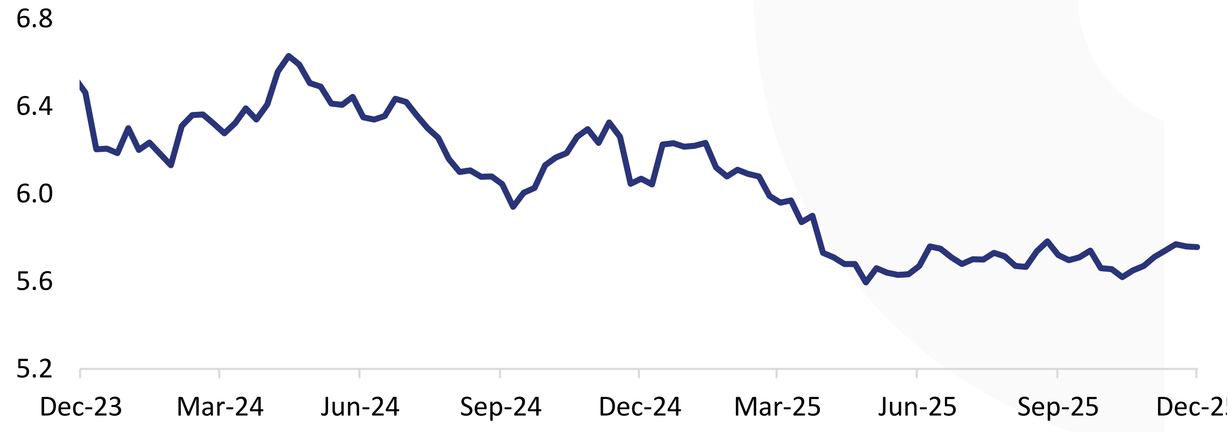
FIMMDA CORPORATE AA SPREAD OVER GILT CURVE (bps)



OIS 1- YEAR (%)



OIS 5 –YEAR (%)

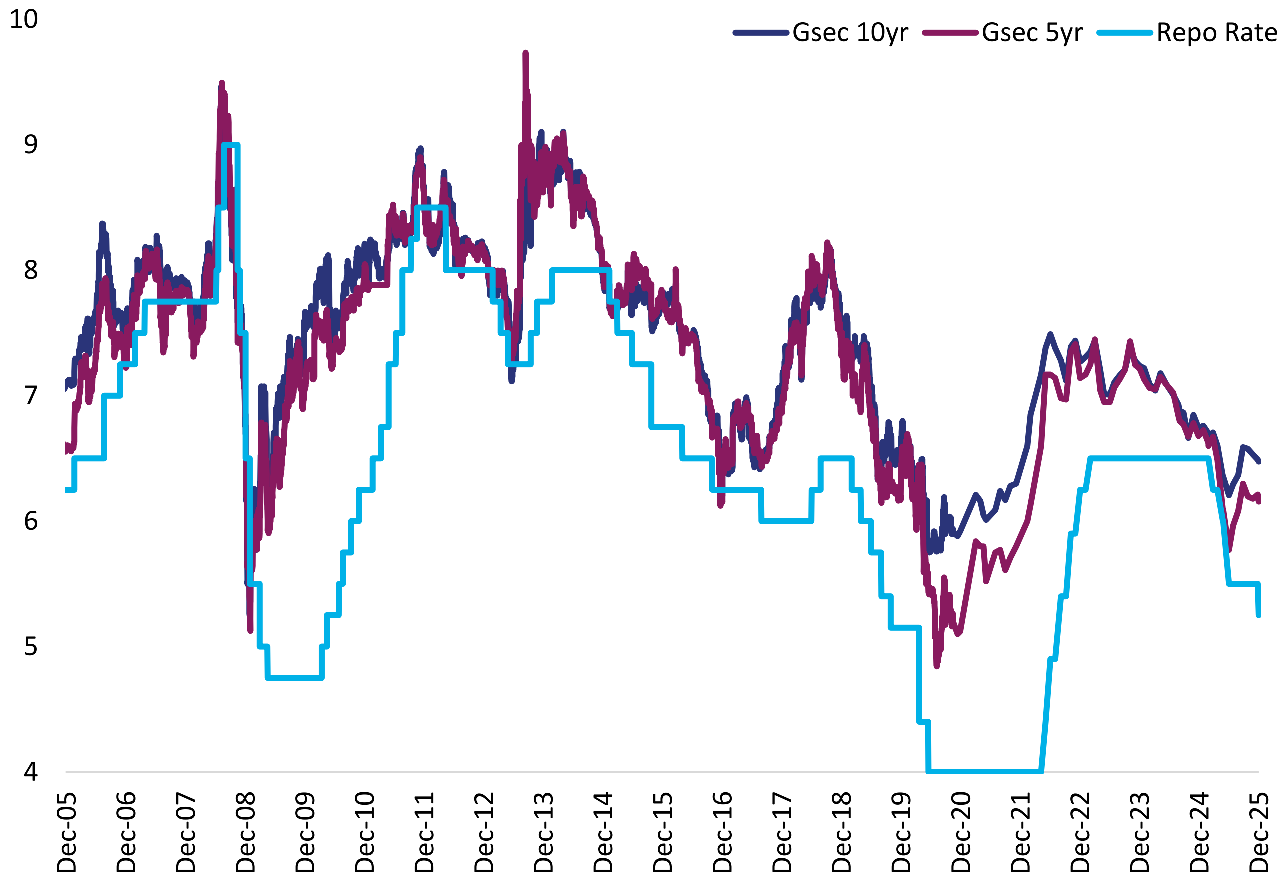


- 1Y OIS rates remained flat, indicating stable WACR expectations for year ahead, while Nov'25 saw a spike in 5Y OIS rates due to increased hedging amidst heightened uncertainty.
- Corporate spreads widened m/m in Nov'25 across tenors and credit spectrum, reflective of position unwinding as rate-cut hopes faded post-GDP print. Spreads of PSU corporates notably narrowed driven by moderate issuances and resilient mutual fund buying. SDL spreads tightened due to supply dynamics with lower issuances in Nov'25

Source: Bloomberg, FIMMDA, SBICAPS

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 ~6.50% ± 25bps 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

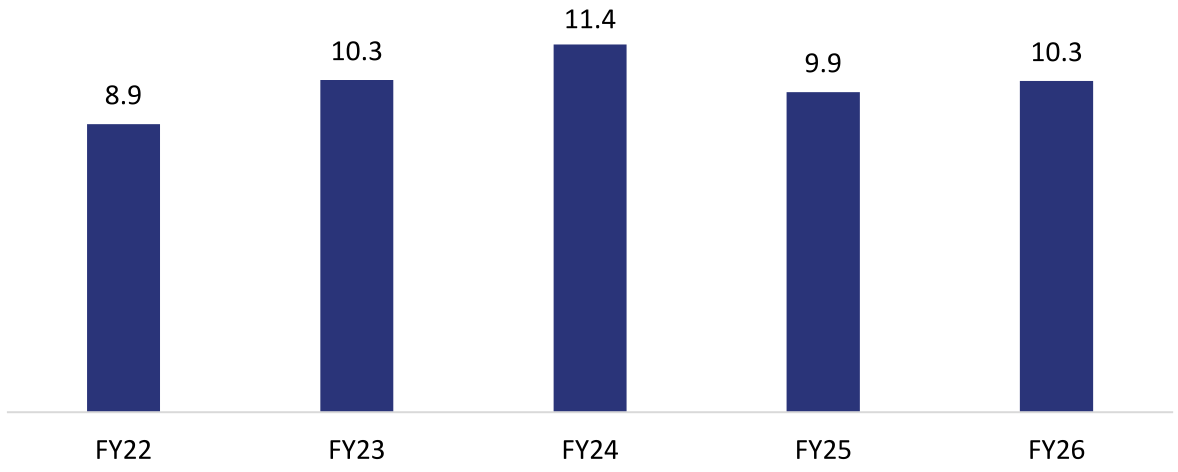
Yield hardening triggers

- 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

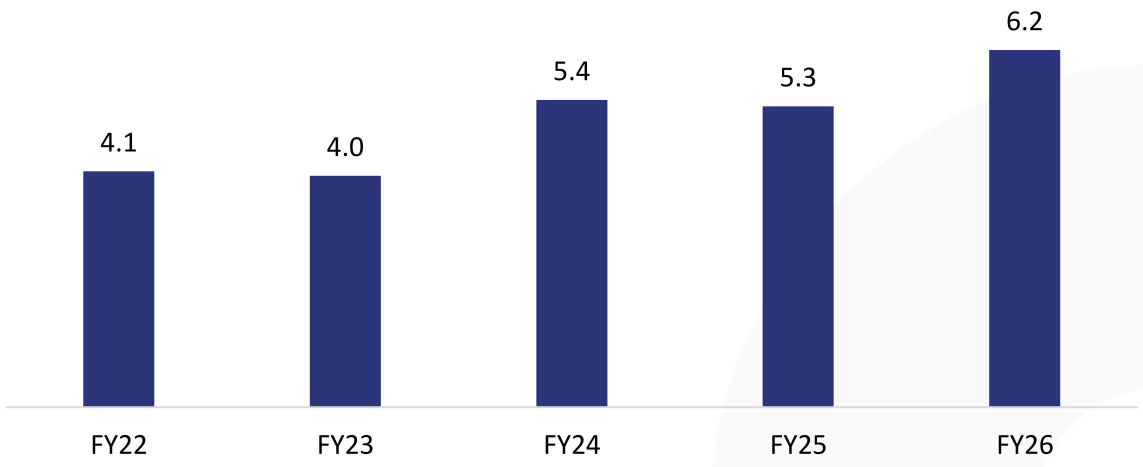
CAPITAL MARKETS

RBI ANNOUNCES SIGNIFICANT OMO OPERATIONS MOVING FORWARD

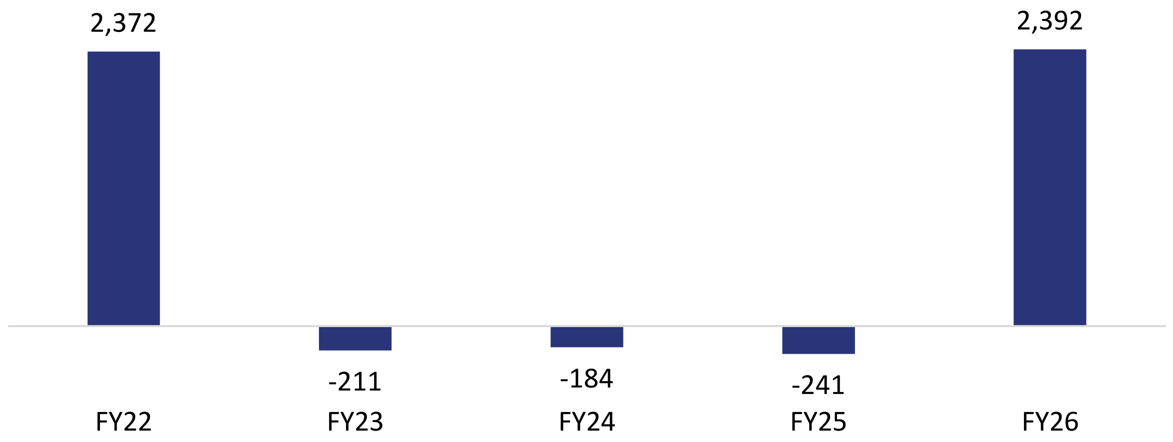
G-SEC: GROSS AMOUNT RAISED (Rs. trn) – 8MFY



SGS BIDS ACCEPTED (Rs. trn) – 8MFY



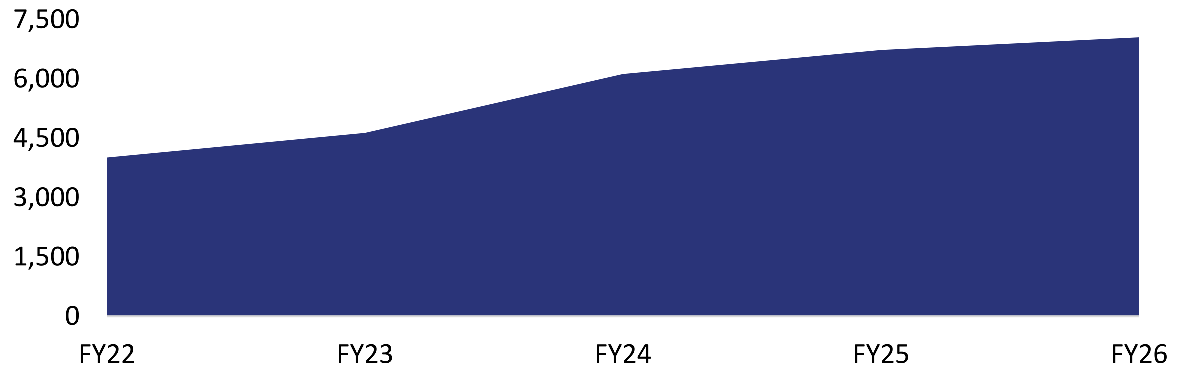
CUMULATIVE NET OMO PURCHASES (Rs. bn) – 8MFY



- G-Sec issuances were in line with indicative calendar with yields lower ~5bps m/m
- SGS issuances underwhelmed by Rs. 273 bn in Nov’25 vs indicative, leading to compressed spreads vs G-Sec, augmented by rate cut expectations. Notably, last auction of Nov’25 had the highest offtake of the quarter
- RBI has conducted significant OMO operations in Nov’25, for the first time since May’25, with net purchases preserving comfortable liquidity. RBI has announced Rs. 1 trn OMO purchase in Dec’25, with expectations of more moving forward

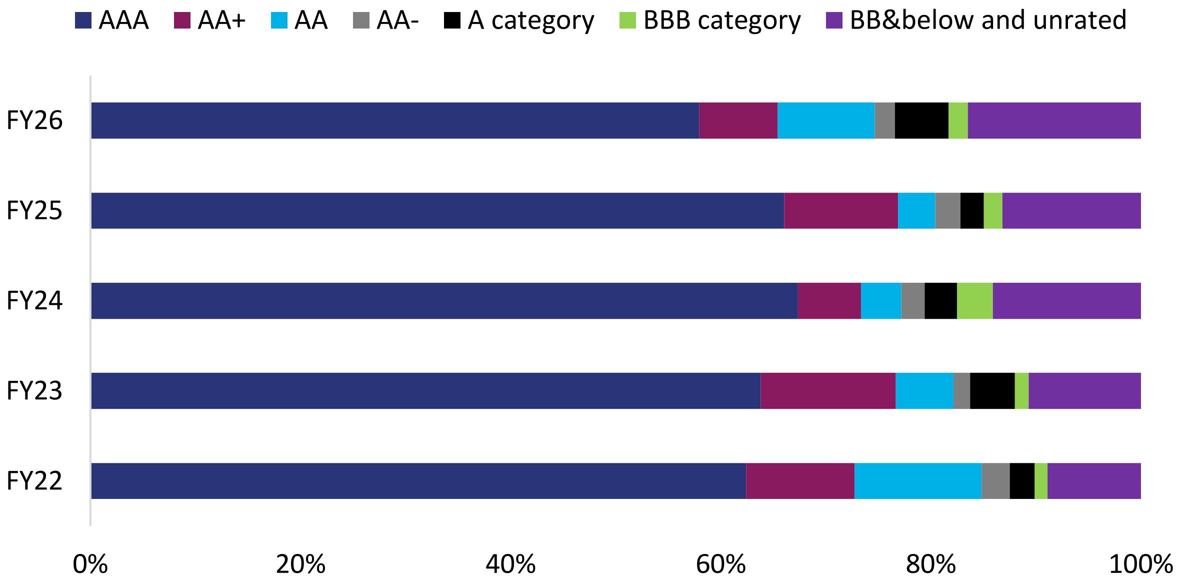
HIGHER RATED ISSUANCES FLOOD THE MARKETS IN NOV'25

GROSS PRIVATE PLACEMENTS – 8MFY (Rs. bn)

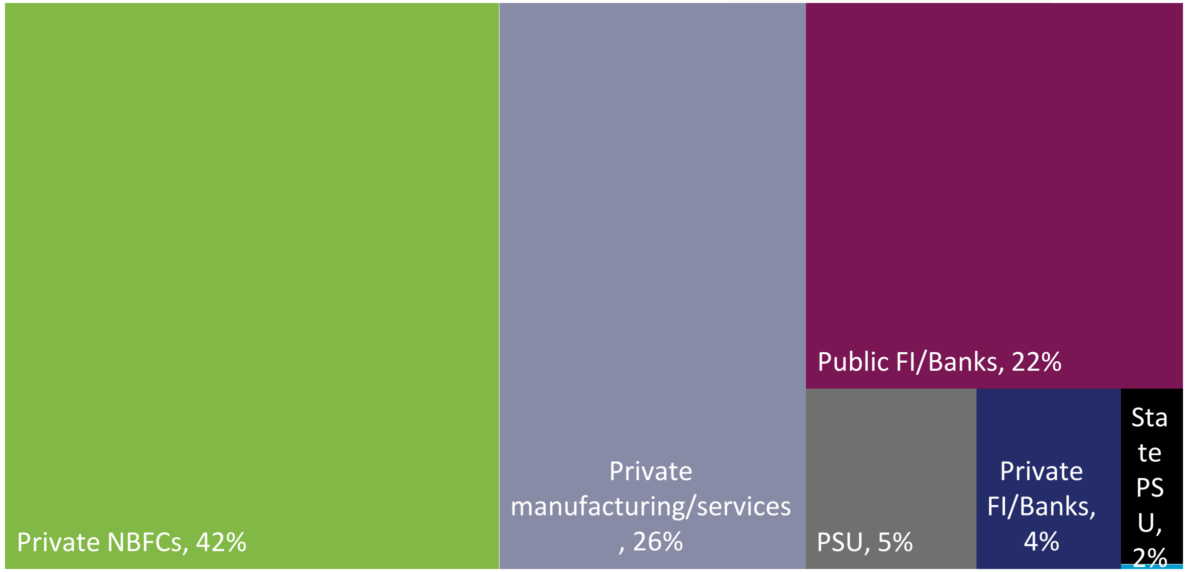


- Gross issuances were flattish y/y in Nov'25 at Rs. 812 bn, amidst rising spreads and shift to cheaper EBLR-linked loans as corporates awaited Dec'25 rate cuts
- AAA and AA rated papers garnered the highest monthly share of issuances in YTD FY26 in Nov'25 amidst investor interest for high-quality papers
- Rising funding costs kept NBFCs / HFCs participation in check while infra capex momentum led to higher amount of PSU and PSB issuances. Private manufacturing firms' share is maintained well above average of FY25, suggestive of private capex uptick

GROSS ISSUANCE WITH RATING SPLIT – 8MFY (%)

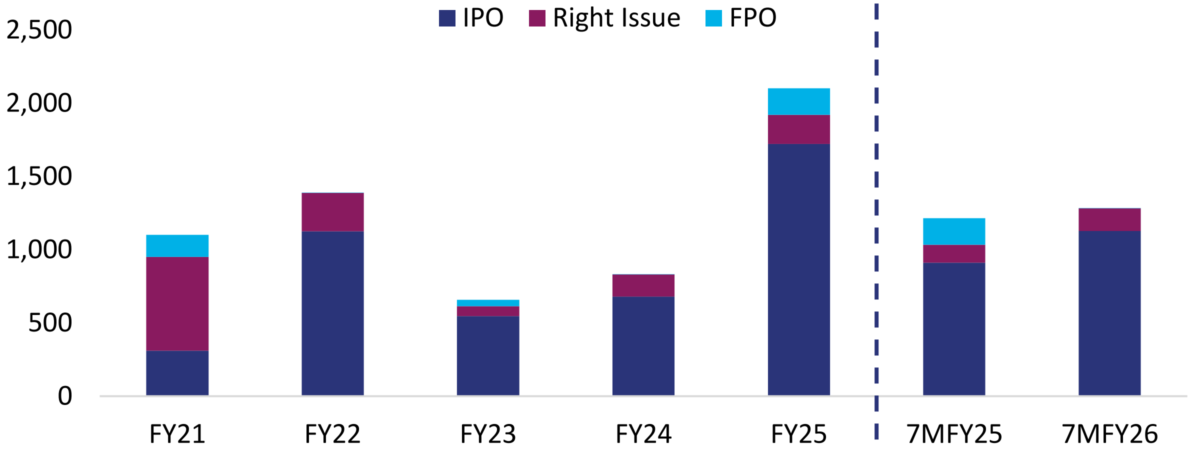


ISSUER TYPE WISE GROSS ISSUANCES BY AMOUNT- 8MFY26

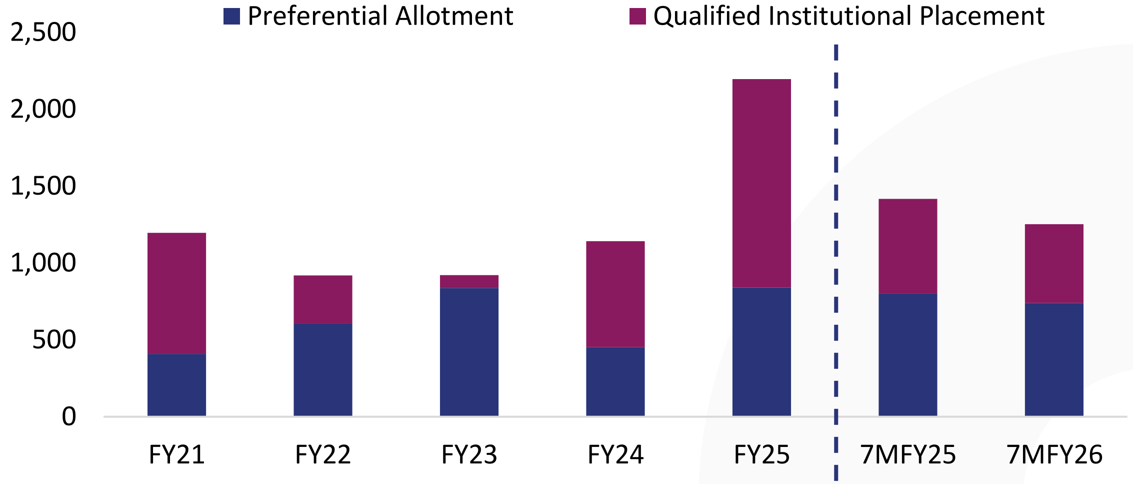


SLEW OF IPO LINED UP FOR THE EQUITY MARKETS

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	7MFY26
Financial Services	239.6	434.7
Consumer Durables	31.3	161.5
Capital Goods	181.3	134.9
Consumer Services	287.0	101.0
Services	93.1	69.3
Healthcare	148.2	58.5
Total	**2,101.9**	**1,285.1**

- IPO market had hit all-time high in Oct’25 with Rs. 428 bn mobilized across NBFC, consumer electronics and pharmaceutical sectors.
- Consumer-oriented startups and a big fintech have helped maintain the issuance momentum in Nov’25

GLOBAL SNAPSHOT

US RATE CUT EXPECTATIONS DRIVE ASSET CLASS RETURNS IN NOV'25

COMMODITIES	%1M change	%1Y change
LME Metals Index	2%	16%
Copper	3%	26%
Aluminium	-1%	11%
Iron Ore 62% Fe*	1%	2%
Gold	5%	59%
Brent	-4%	-15%
Natural Gas	16%	62%
Newcastle Coal	4%	-19%

EQUITY INDICES	%1M change	%1Y change
S&P 500	-0.3%	12.9%
Nikkei 225	-4.8%	27.2%
STOXX Europe 600	0.6%	11.7%
FTSE 100	0.0%	16.1%
BSE Sensex 30	1.1%	5.0%
Hang Seng	-1.5%	30.4%
IBOV	7.1%	27.7%

CURRENCIES	%1M change	%1Y change
DXY Index	-0.7%	-6.8%
USD/EUR	-1.1%	-9.7%
USD/JPY	0.9%	4.0%
USD/GBP	-0.7%	-4.3%
USD/CNY	-0.8%	-3.1%
USD/INR	1.7%	6.6%

Note: Positive numbers indicate strengthening USD

- Gold continued to rise 5% m/m in Nov'25 driven by US Fed rate cut bets, Central Bank buying and geopolitical tensions offsetting China's VAT curbs on retail demand
- Greenback weakened in Nov'25, after being pressured by soft US jobs data, tariff uncertainties and expected easing cycle, stabilizing above 99 mark on hopes of fiscal stimulus
- Equity indices posted modest gains amidst mixed earnings, policy shifts and signs of US slowdown, with US and Eurozone resilience offset by Asian weakness in Nov'25

1Y & 1M change are as of 03 Dec'25, * CFR China

Source: Bloomberg, SBICAPS

PMI INDICATORS MODERATE IN NOV'25

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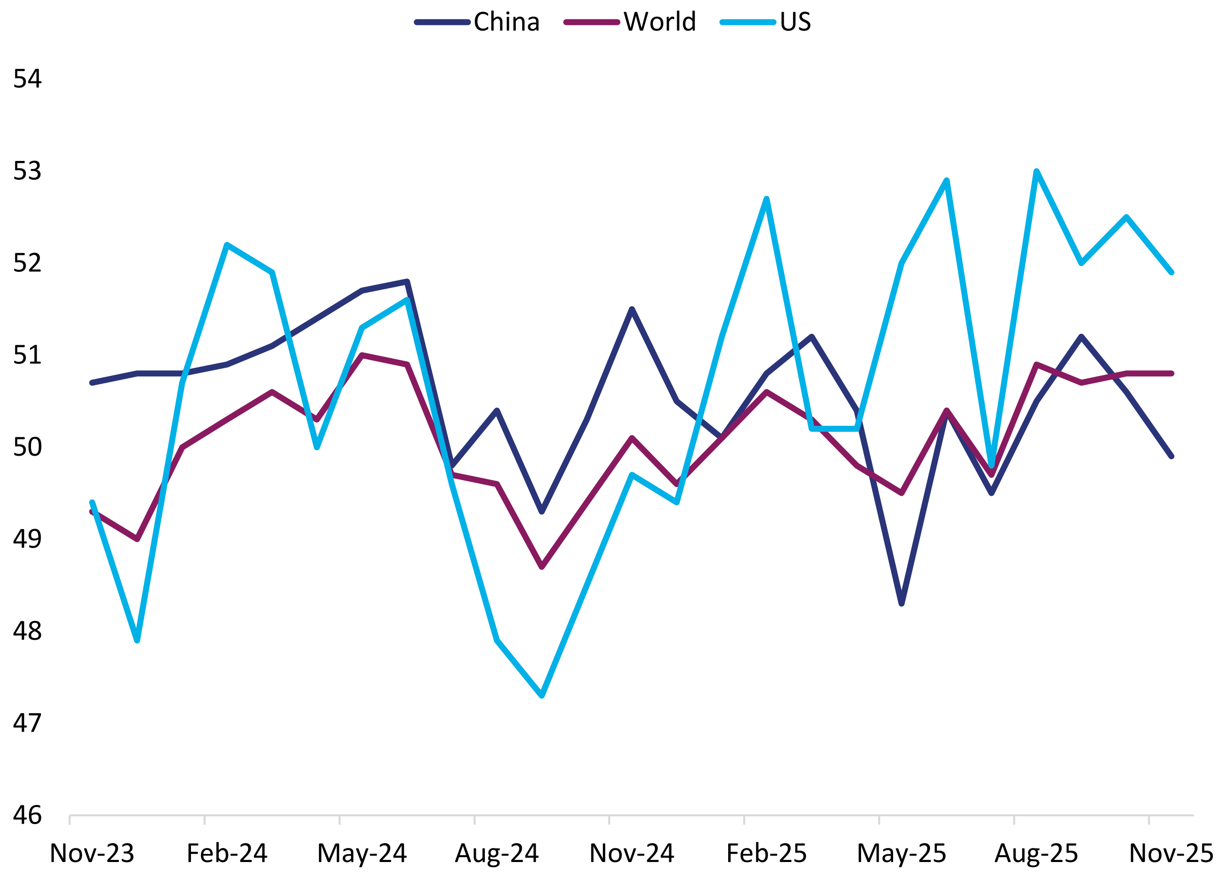
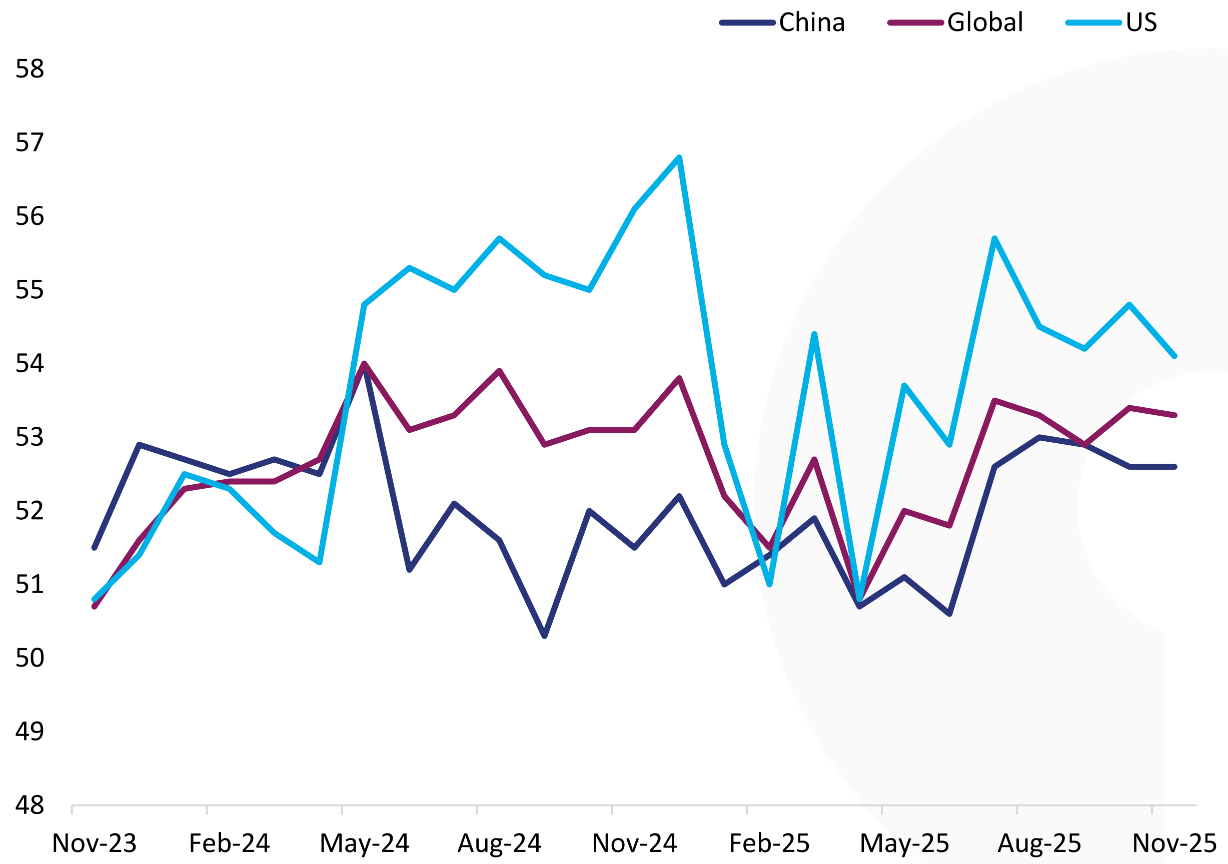
GLOBAL PMI- MANUFACTURING



GLOBAL PMI- SERVICES

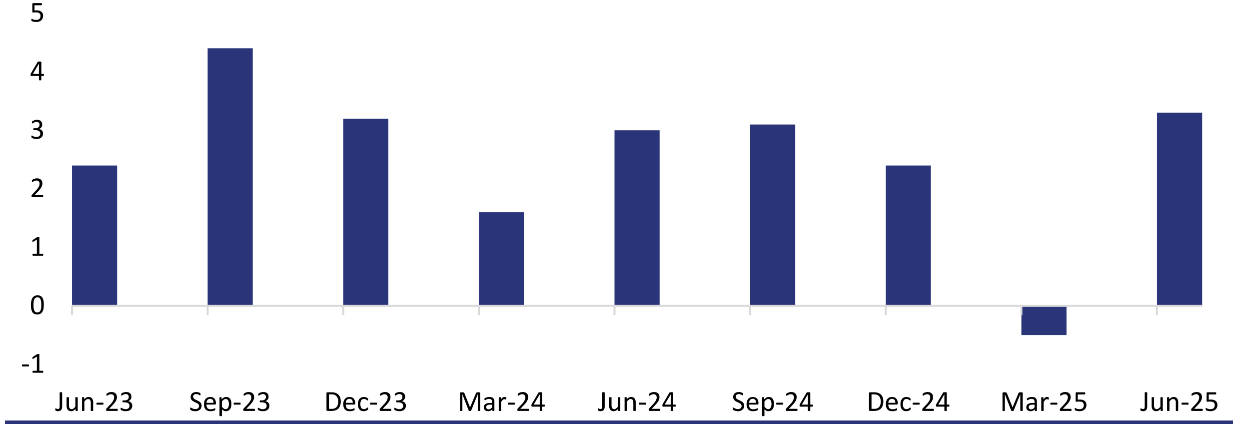


- Global manufacturing PMI remained flattish m/m in Nov'25, with consistent production and domestic demand offset by declining export business marred by uncertain trade flows. US manufacturing experienced a marked weakness in new order inflows with rise in production leading to inventory buildup. Notably, Eurozone, Japan and China hit contractionary zones
- Global Composite PMI inched upwards, yet with souring business outlook in Oct'25. Services traction was seen in financial and consumer services, with tariffs raising operating costs.

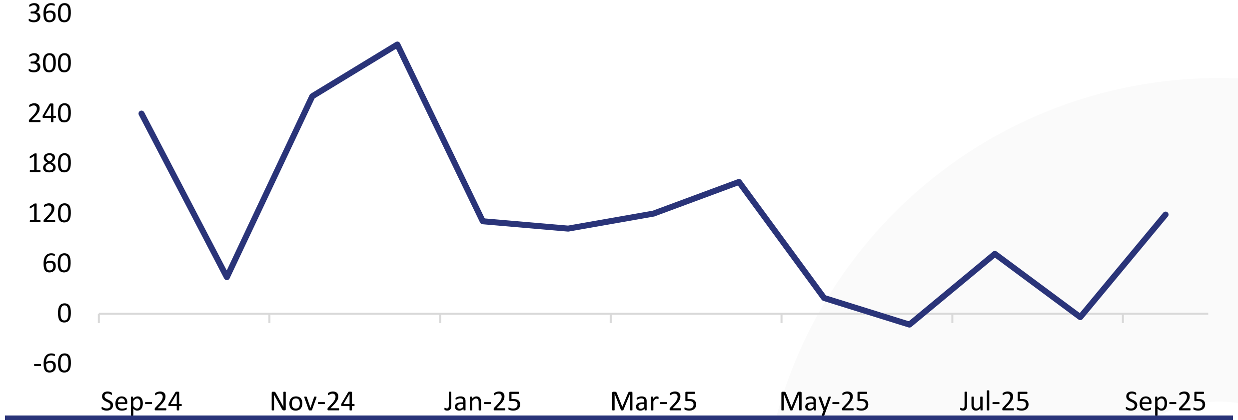
Source: S&P Global, Bloomberg, SBICAPS

US EMPLOYMENT FIGURES SHOW SOME RESILIENCE

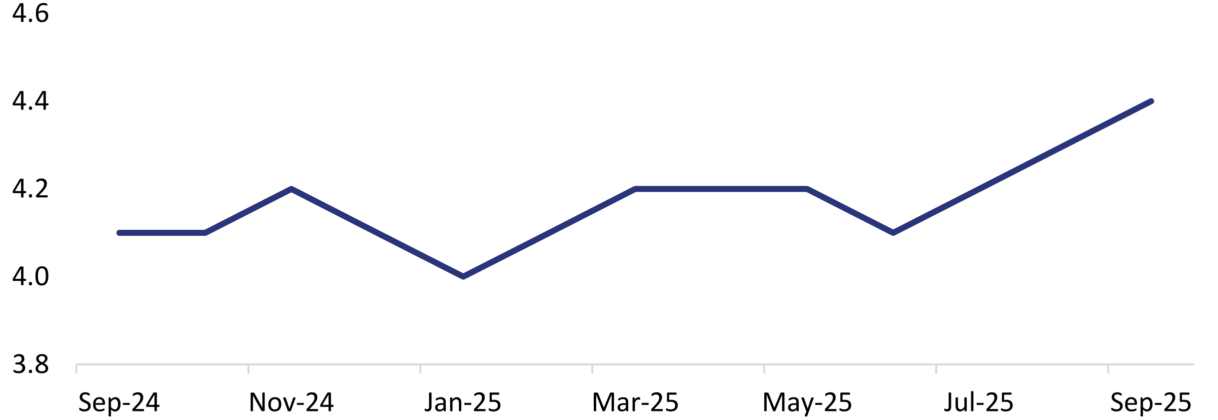
US REAL GDP GROWTH (% Q/Q SAAR)



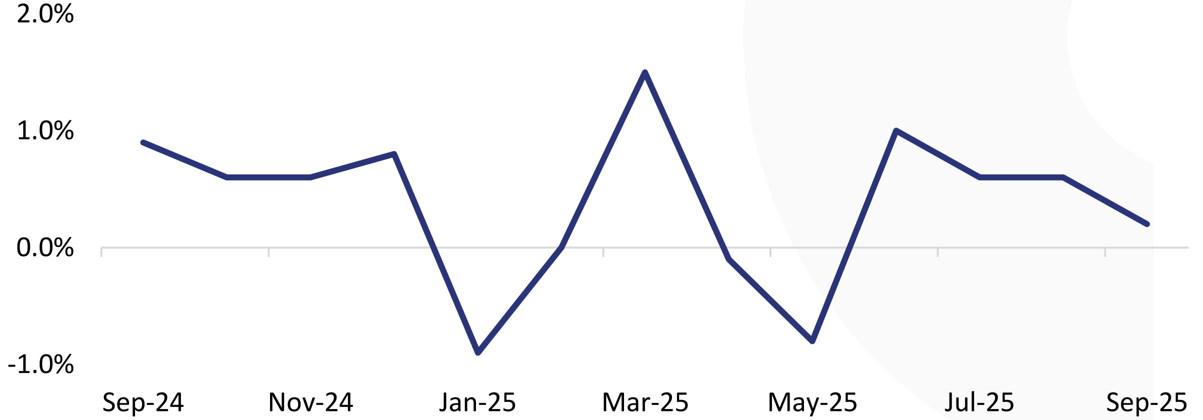
CHANGE IN NON-FARM PAYROLL ('000 M/M)



UNEMPLOYMENT RATE (%)



RETAIL SALES (M/M)

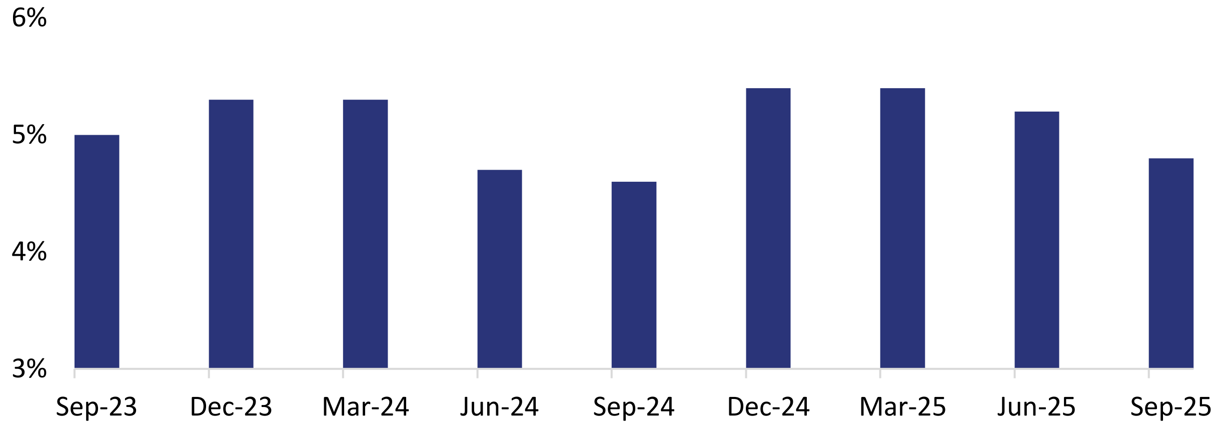


- US GDP rose 3.8% q/q saar in Q2CY25 (Q1: -0.5% q/q saar), upward revised 0.5pp. Consumption grew 2.5% q/q saar (+0.9pp), while 30% q/q saar drop in imports helped add 5pp to growth. Retail sales dipped below expectations in Sep'25 due to tariff related consumer fatigue.
- Labour market remained mixed in Sep'25 with rise in payrolls offset by uptick in unemployment. According to Challenger Report, US employers cut 72k jobs in Nov'25. Notably, planned layoffs rose 54% y/y in 11MCY25 to 1.2 mn, its highest since pandemic hit CY20, while planned hires fell 35% y/y to 497k its lowest since CY10, indicative of divergent labour market

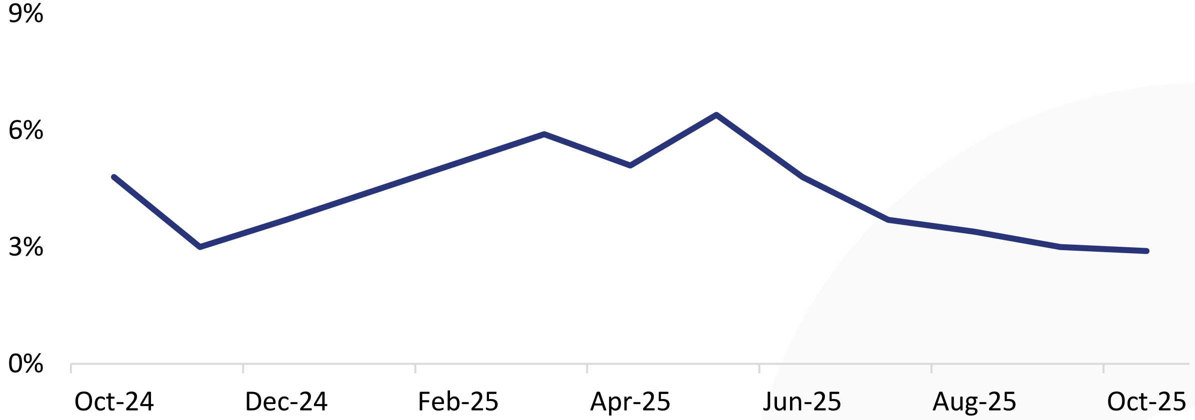
Source: Bloomberg, SBICAPS

CHINESE ECONOMY REMAINS STRONG FOR NOW

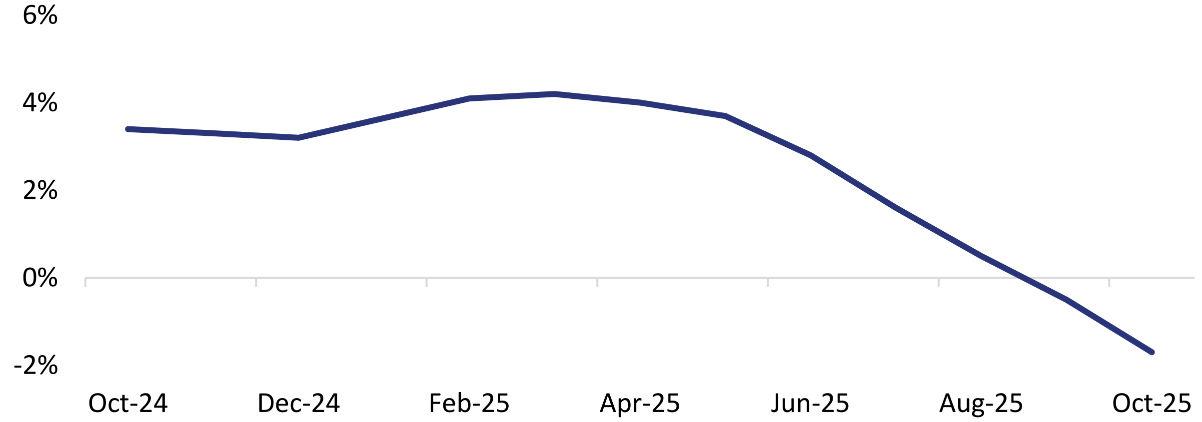
CHINA REAL GDP GROWTH (% Y/Y)



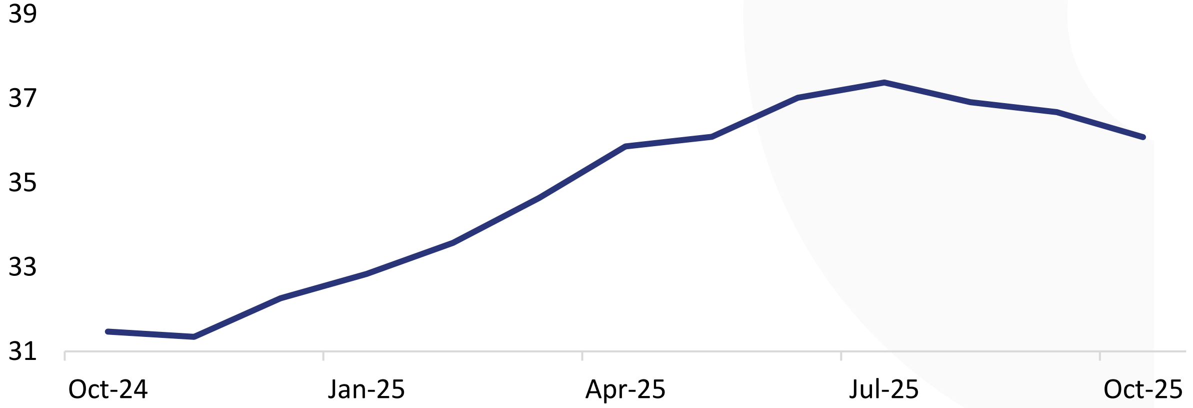
RETAIL SALES (% Y/Y)



FIXED ASSET INVESTMENT (% Y/Y)



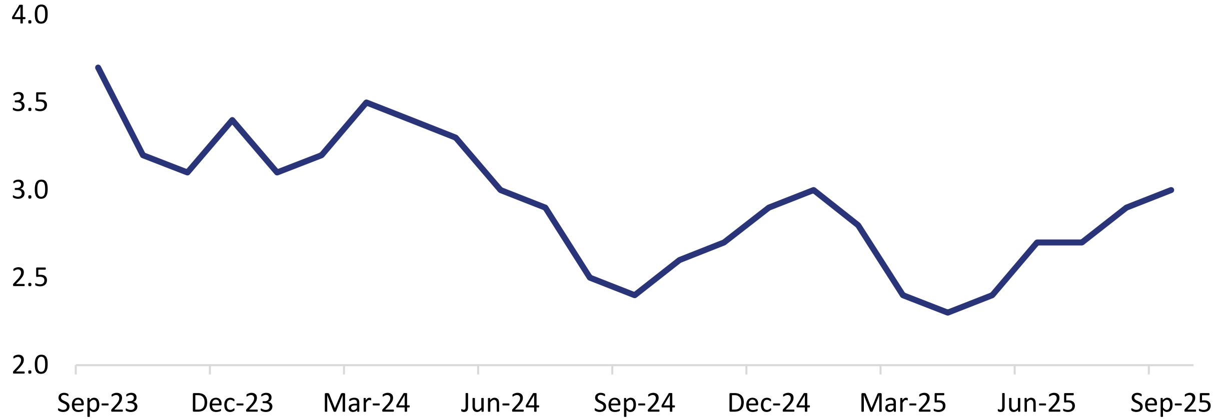
AGGREGATE FINANCING (CNY TRN) – 12M CUMULATIVE ROLLING



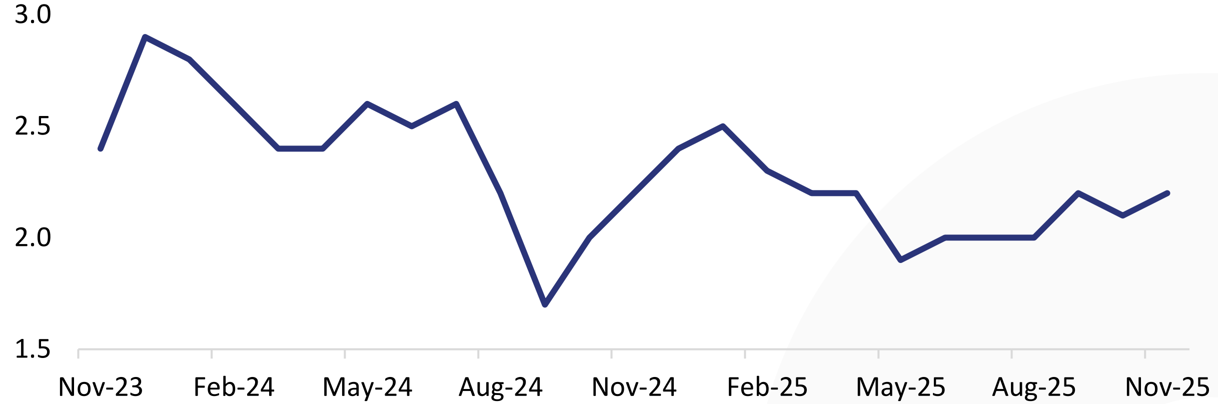
- China posted a huge trade surplus of USD 112 bn in Nov'25 helped by surging exports and limited rise in imports
- As per media sources, China is likely to target 5% y/y real GDP growth for CY26

GLOBAL INFLATION IN LINE WITH CENTRAL BANK EXPECTATIONS

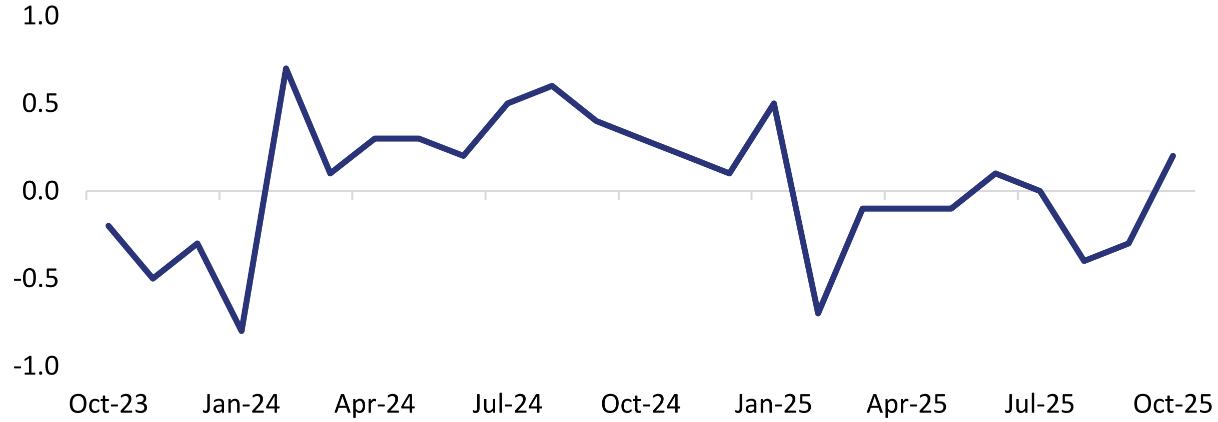
US CPI (% Y/Y)



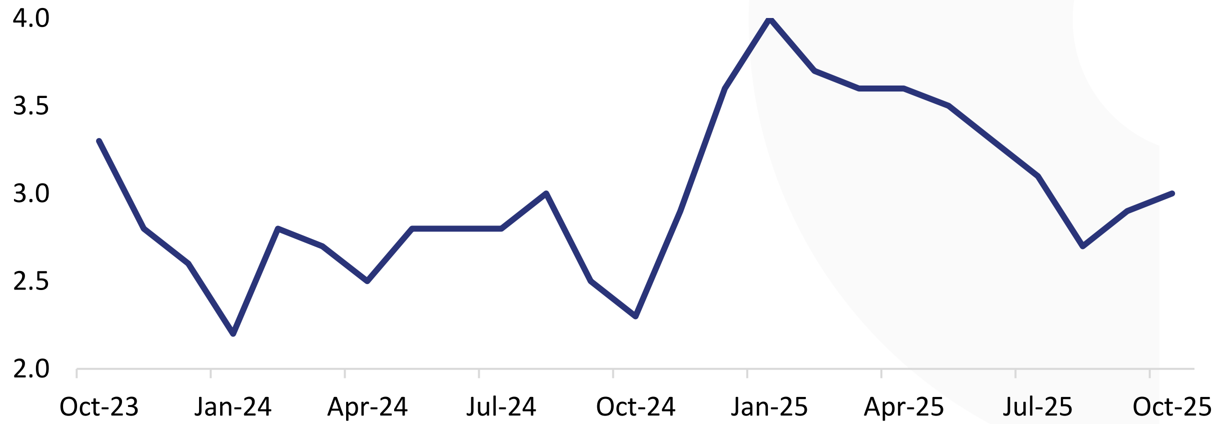
EUROZONE CPI (% Y/Y)



CHINA CPI (% Y/Y)



JAPAN CPI (% Y/Y)



- US CPI matched a 15-month high in Sep'25, with persistent upwards pressure from shelter under services inflation. Eurozone inflation hovers near target, with broad based disinflation
- China CPI turned positive for the first time in 4-months driven by holiday season travel and consumption demand. Japan's stubborn inflation reinforces case for BoJ rate hikes in near term

Source: Bloomberg, SBICAPS

DIVERGENT DATA AND OPINIONS SPARK VOLATILITY IN US YIELDS

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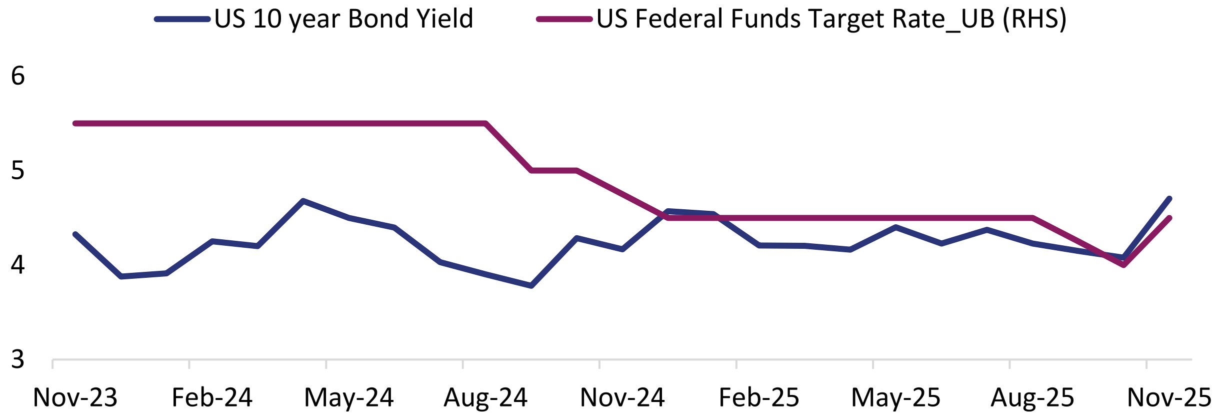
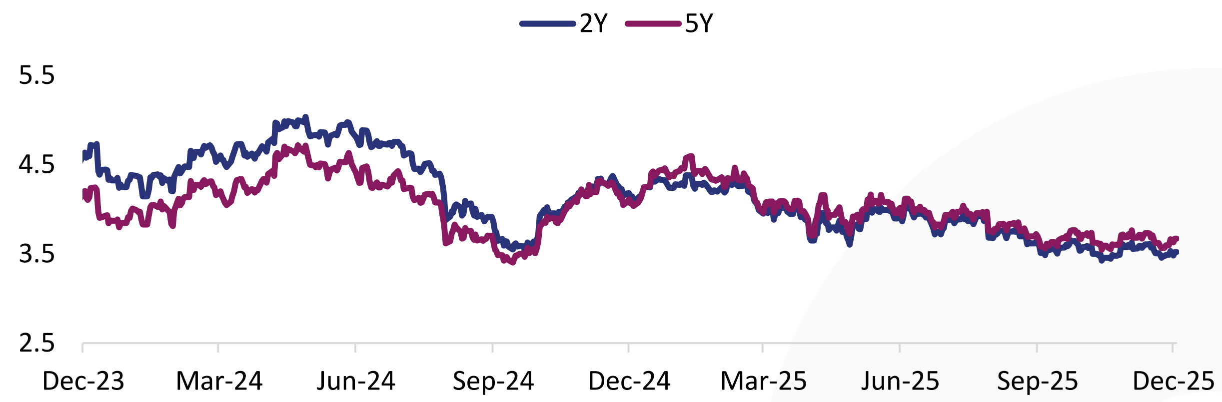
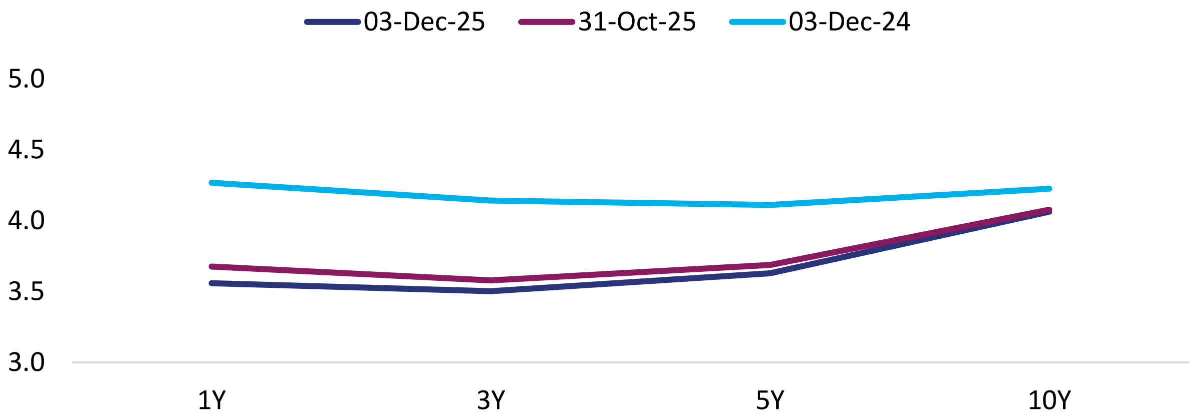
US 10-YEAR G-SEC YIELD VS POLICY RATE (%)



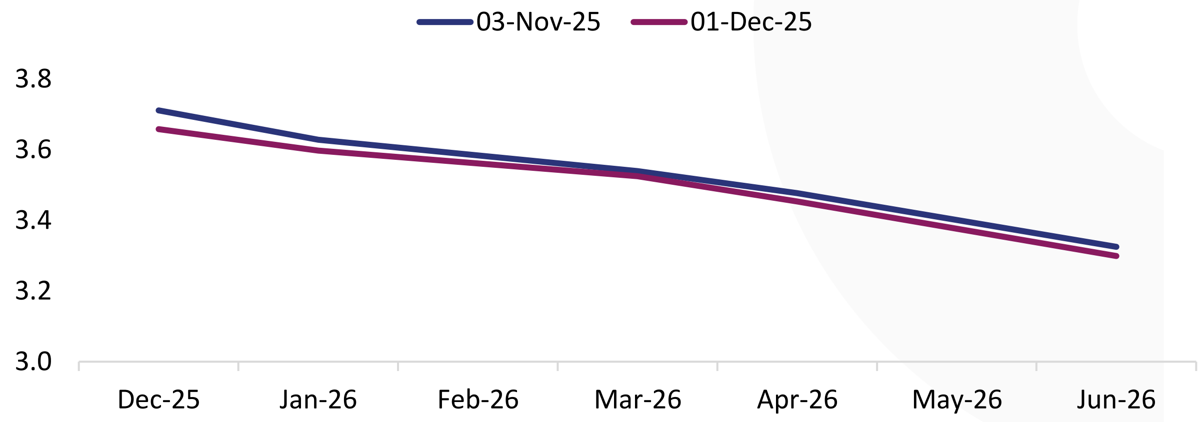
US 2Y AND 5Y G-SEC YIELD (%)



YIELD CURVE (%)



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

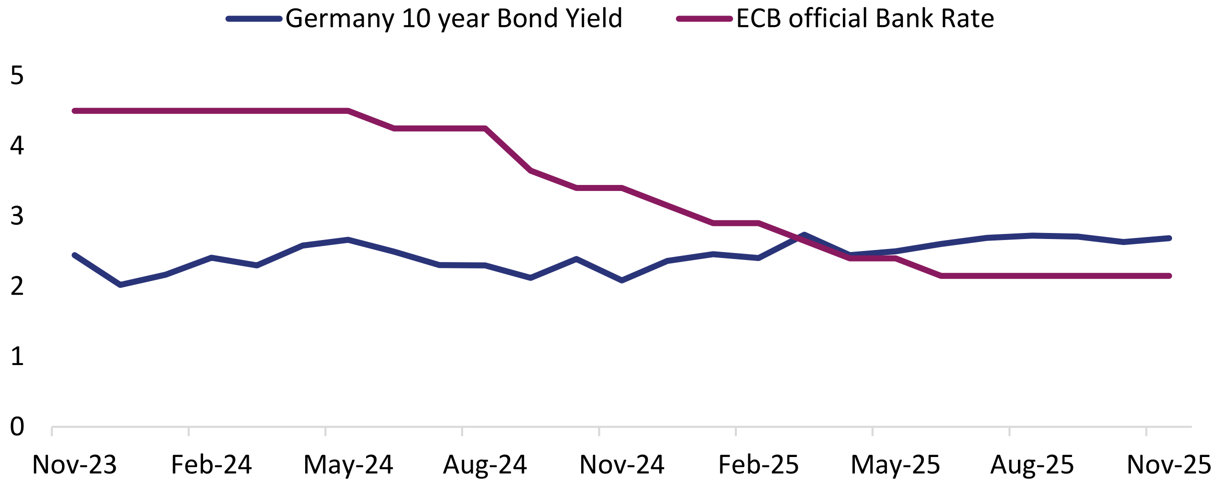


- US benchmark 10Y has anchored around the 4% mark, with considerable 2-way volatility throughout Nov'25 as markets weighed softer jobs data against divergent US Fed guidance and mounting fiscal concerns. Surprise drop in payrolls in Nov'25 has markets leaning into the easing narrative, but Fed Speak has focused on a stubborn 3% inflation with marginal downtick.

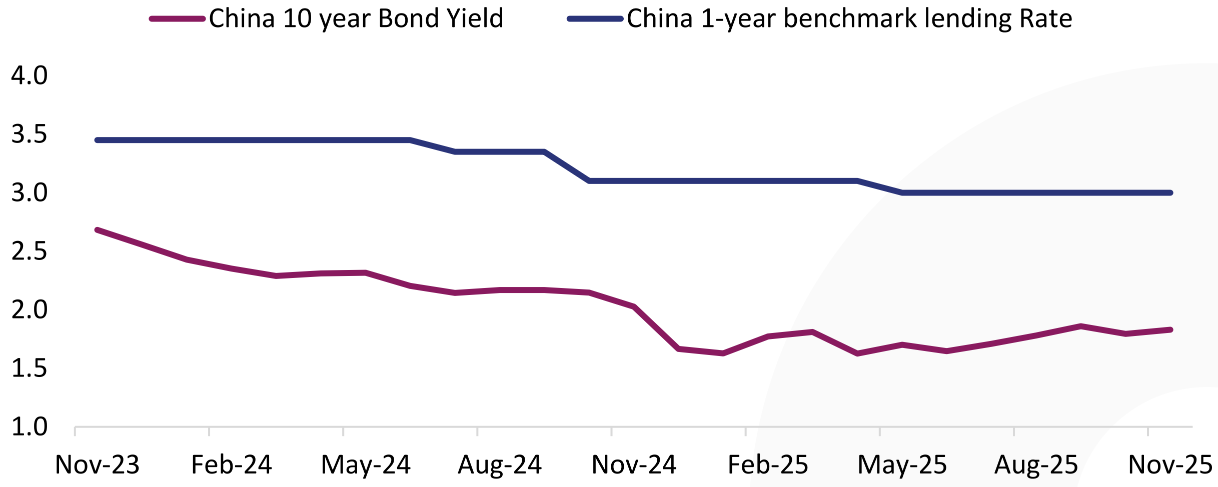
- Subsequently, markets are pricing 85% chance of rate cuts in Dec'25, with gradual easing ~75 bps in CY26

RATE CUTS BECOME SPARSE WITH CENTRAL BANKS PICKING A CAUTIOUS TONE

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%	3.60%
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%	16.50%

- Mexico cut its benchmark rates by 25 bps to 7.25%, its lowest since May'22, citing growth weakness, with several board members signaling for a cautious approach
- New Zealand cut its policy rate by 25 bps to 2.25%, its lowest level since mid-CY22, with policymakers signaling an end to the easing cycle as economy picks up

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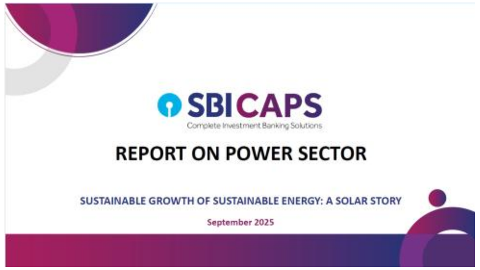

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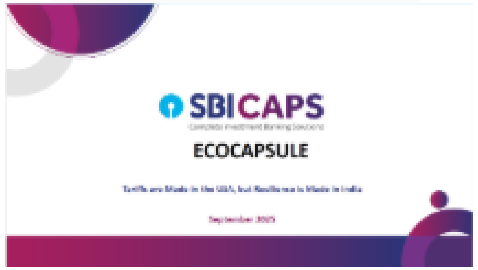

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