CareEdge RATINGS

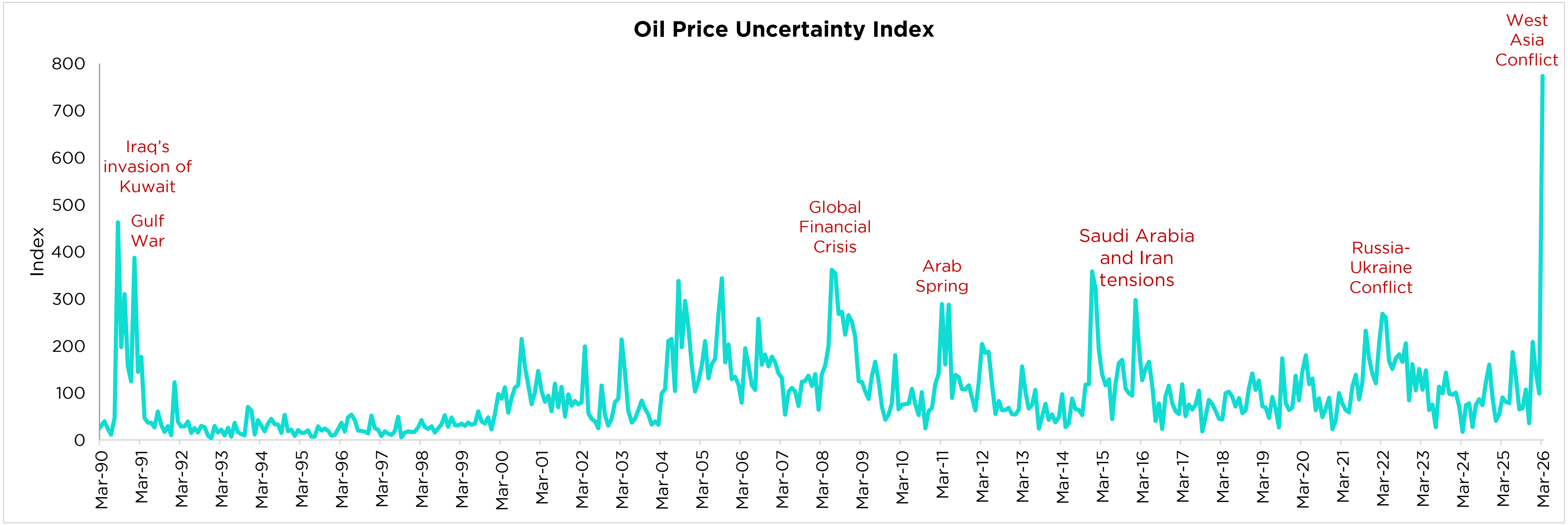
CareEdge

Debt & Forex Market Update

March 2026

Key Global Developments

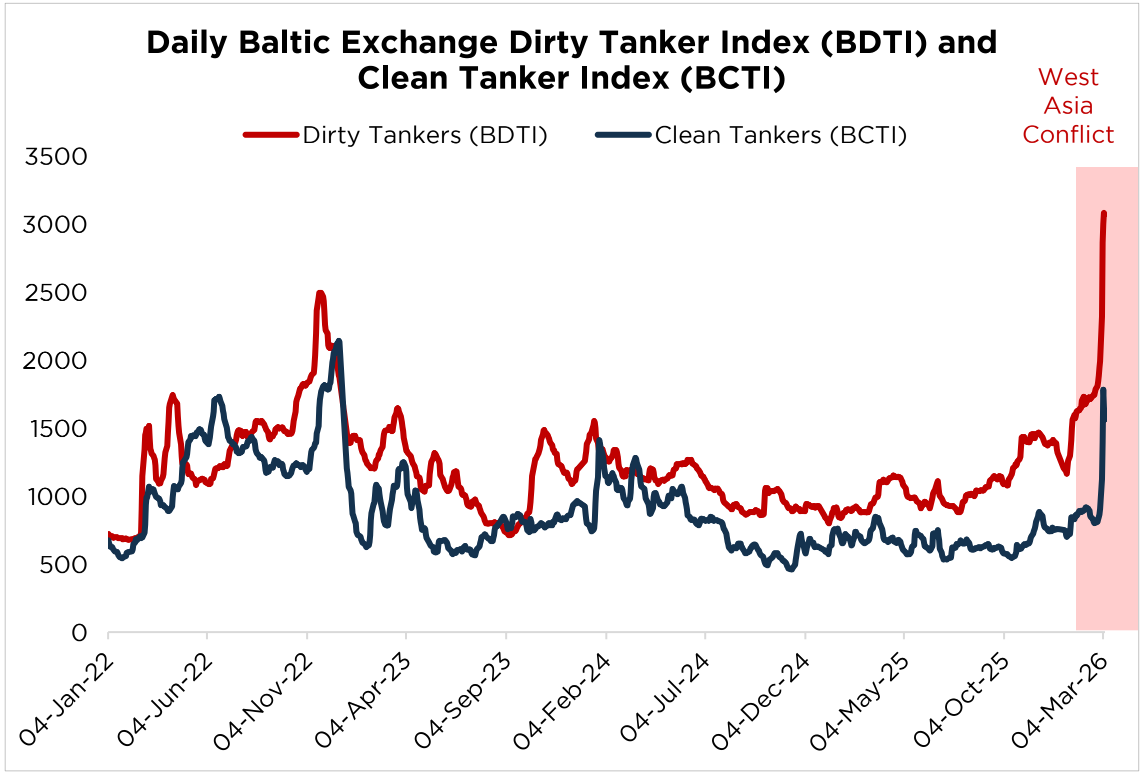
Oil Price Uncertainty Shoots Up as West Asia Conflict Intensifies



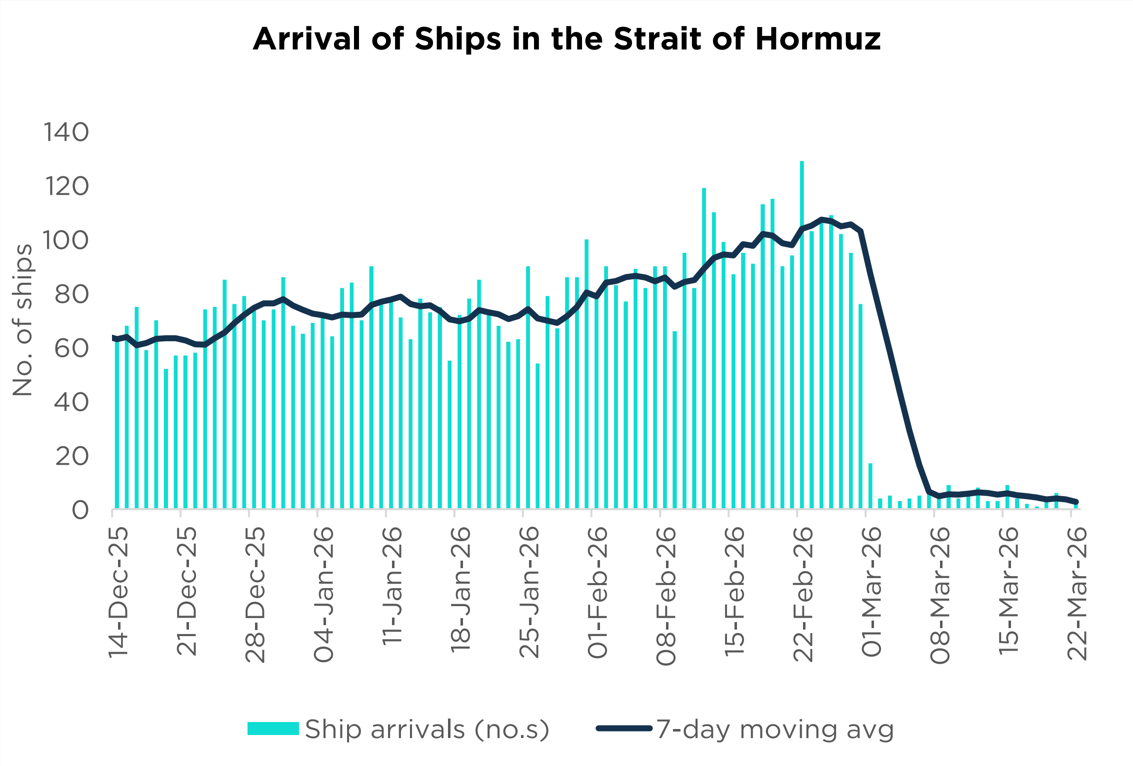
Source: The Macroeconomic Effects of Oil Price Uncertainty, published in Energy Economics in 2023

- .The global oil price uncertainty index has jumped to its highest level following concerns around the West Asia conflict.
- The prices of Brent crude oil and LNG (Japan-Korea Marker) (30th March '26) have increased by 55% and 90%, respectively, since the beginning of the conflict.
- Going ahead, the duration of the conflict and its eventual impact on the global and domestic economy remain a key monitorable.

Freight Rates for Shipping Petroleum Products Rise



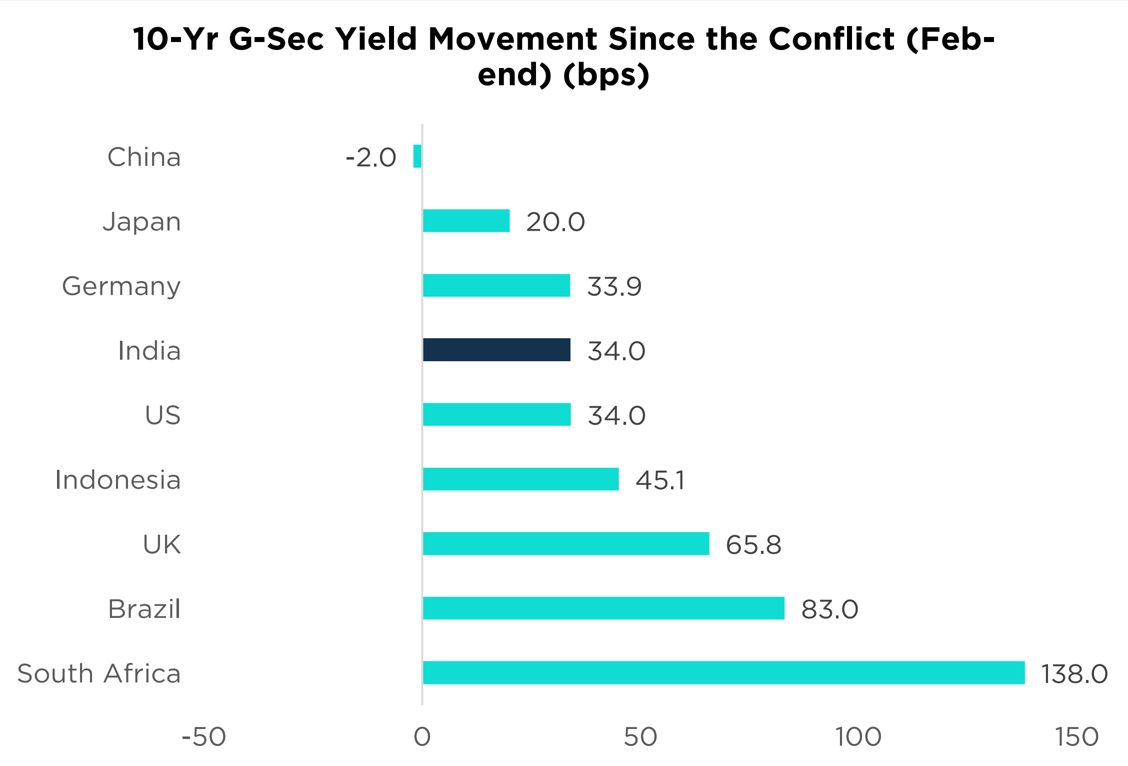
Source: UNCTAD, as sourced by UNCTAD from Clarkson Research Services Limited 2026. Note: The BDTI and BCTI show the cost of shipping oil on a basis of the average costs of major shipping routes. Clean tankers carry lower-sulfur petroleum, including refined petroleum products. Dirty tankers mostly carry crude oil



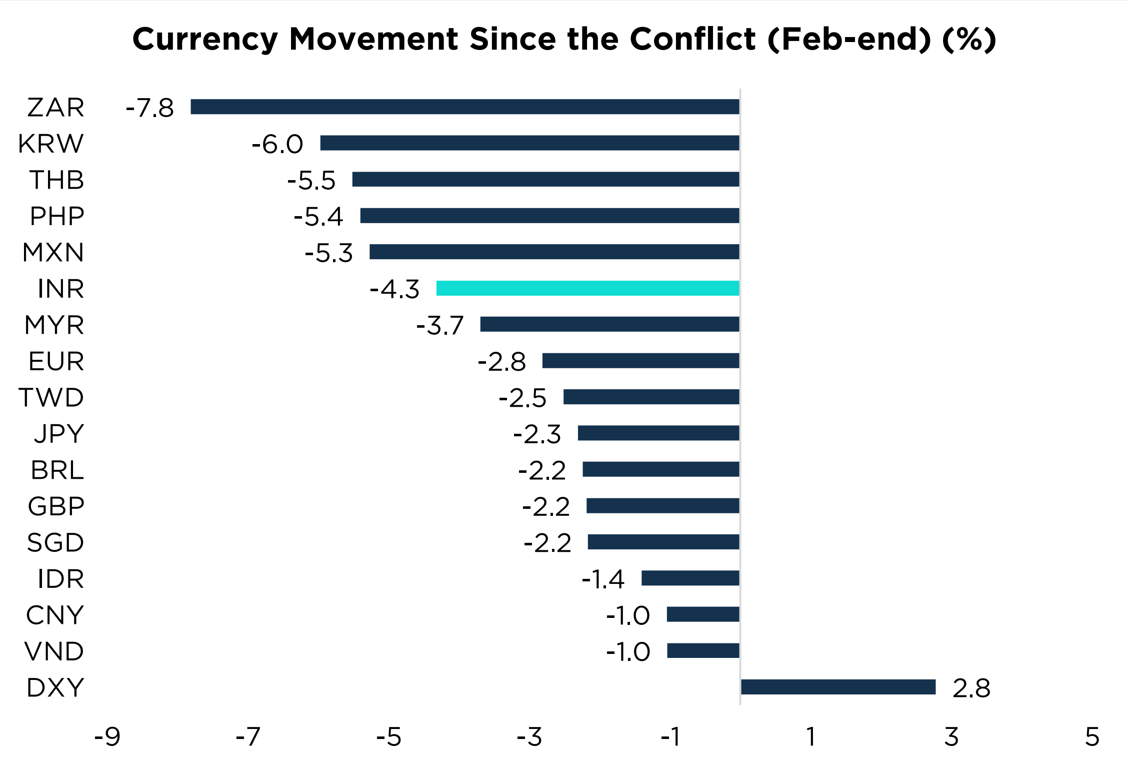
Source: IMF Port Watch; Note – data as of 22nd March 2026

- The escalating global tensions have resulted in a surge in freight rates for oil tankers.
- Furthermore, freight insurance premiums are also rising, adding to the overall costs and disrupting the global supply chains.
- The conflict has resulted in a sharp decline in the number of ships and volume of trade transiting through the Strait of Hormuz.

Global Yields Increase; Major Currencies Depreciate Against DXY



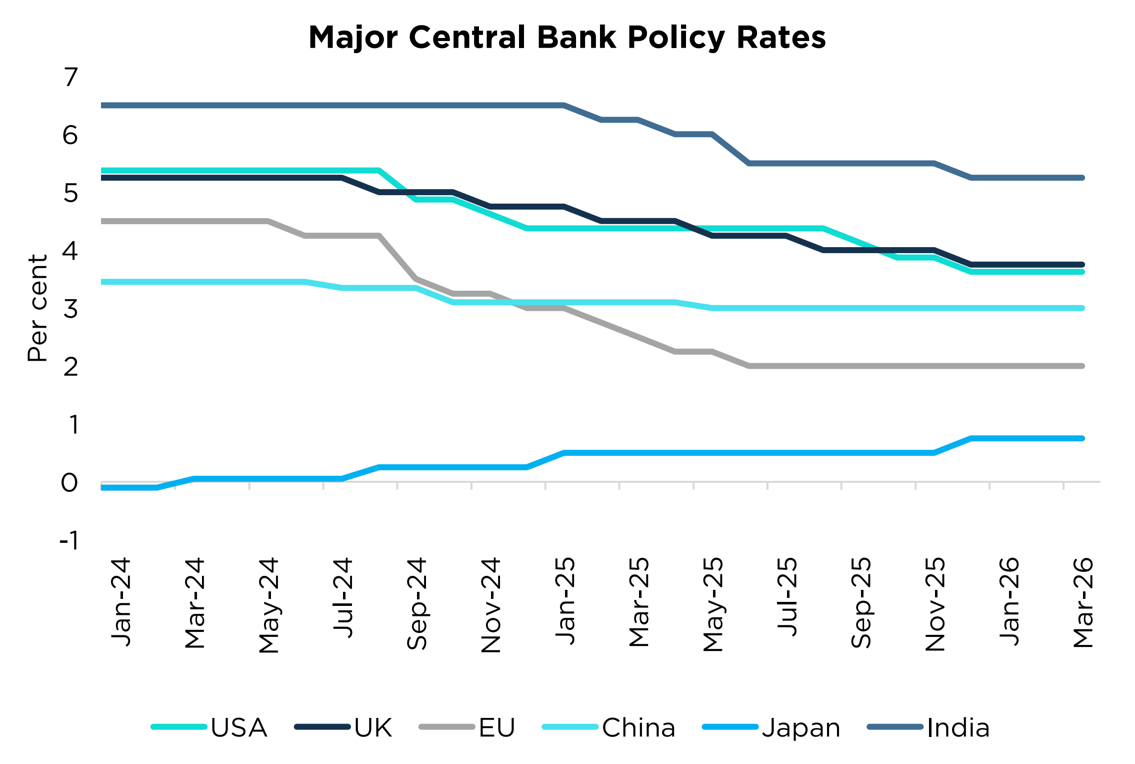
Source: Refinitiv, CareEdge; Note: Change since the conflict is calculated for 30 March Vs 26 February



Source: Refinitiv, CareEdge. Data as of 30 March. Note: Negative values imply currency has weakened. DXY measures the dollar's performance against a basket of currencies, while the performance of other currencies is measured against the USD; Change since the conflict is calculated for 30 March Vs 26 February

- Since the West Asia conflict began, bond yields have increased across most economies amid heightened global uncertainty.
- Moreover, most major currencies have depreciated against the US dollar, while the dollar itself has strengthened by around 2.8% during the same period.

Major Central Banks Pause Policy Rate Changes



Source: BIS, CareEdge

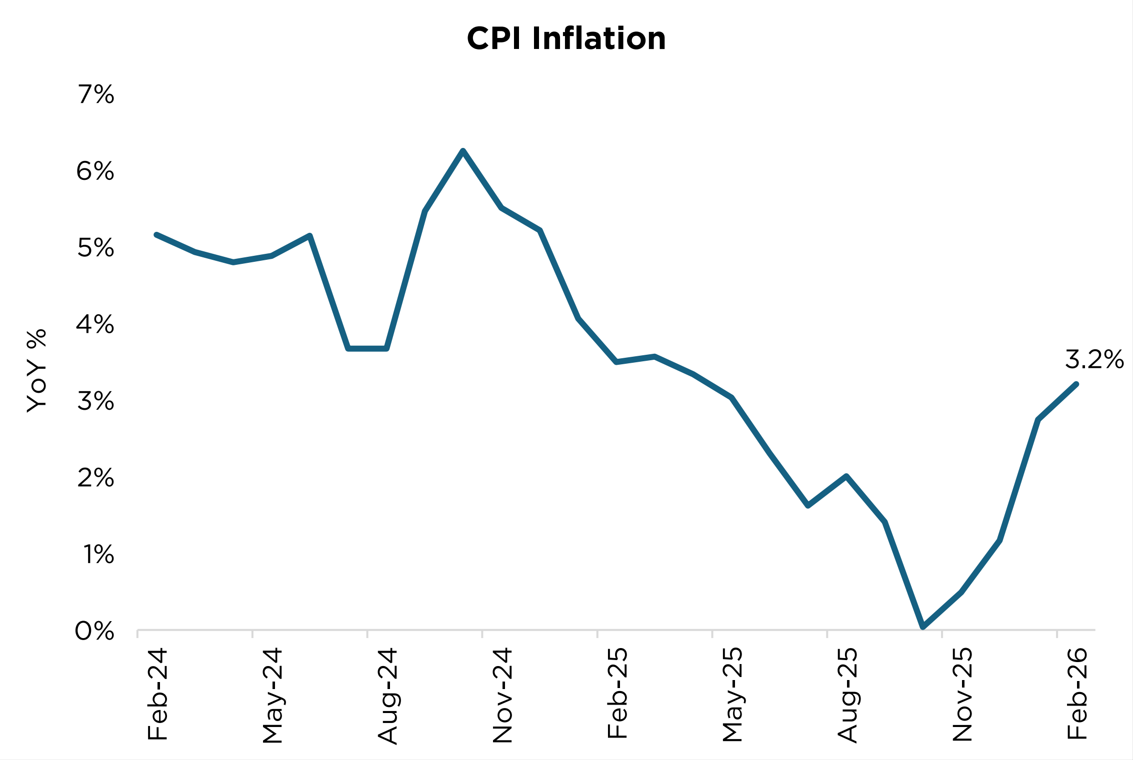
Rise in Near-term Inflation Outlook			
Central Bank	Period	Earlier outlook	Current outlook
Bank of England	Q2 2026	2.1%	3 - 3.5%
European Central Bank	2026	1.9	2.6
Federal Reserve	Q4 2026	2.4	2.7

Source: Monetary Policy Reports of respective Central Banks, CareEdge; Note: Revisions were made in the March meetings of respective CBs.

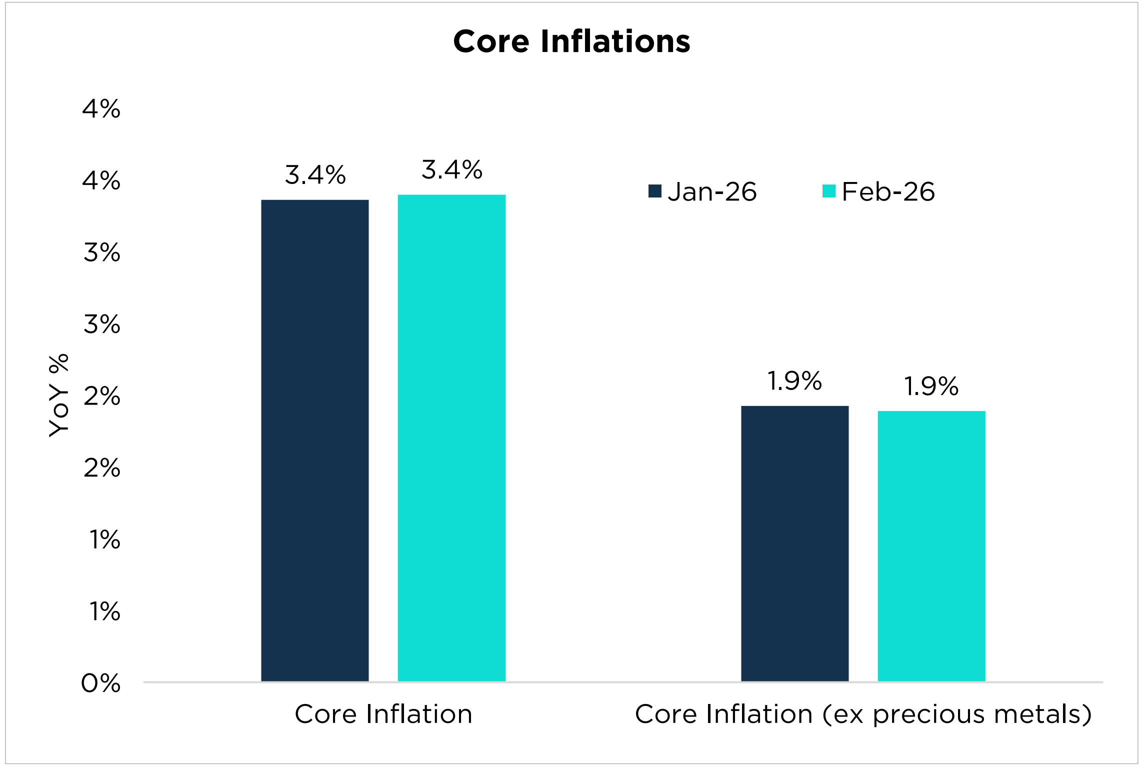
- Rise in energy prices has increased central banks' near-term inflation projections.
- Major central banks have paused policy rate changes, with prospects for further rate cuts during 2026 diminishing.
- Fed expected to deliver only a single rate cut in 2026, while BoE is not expected to cut rates further. ECB is likely to hike rates beginning Q2 2026.

India Debt & FX Market Trends

CPI Inflation Inches Up to 3.2% in February



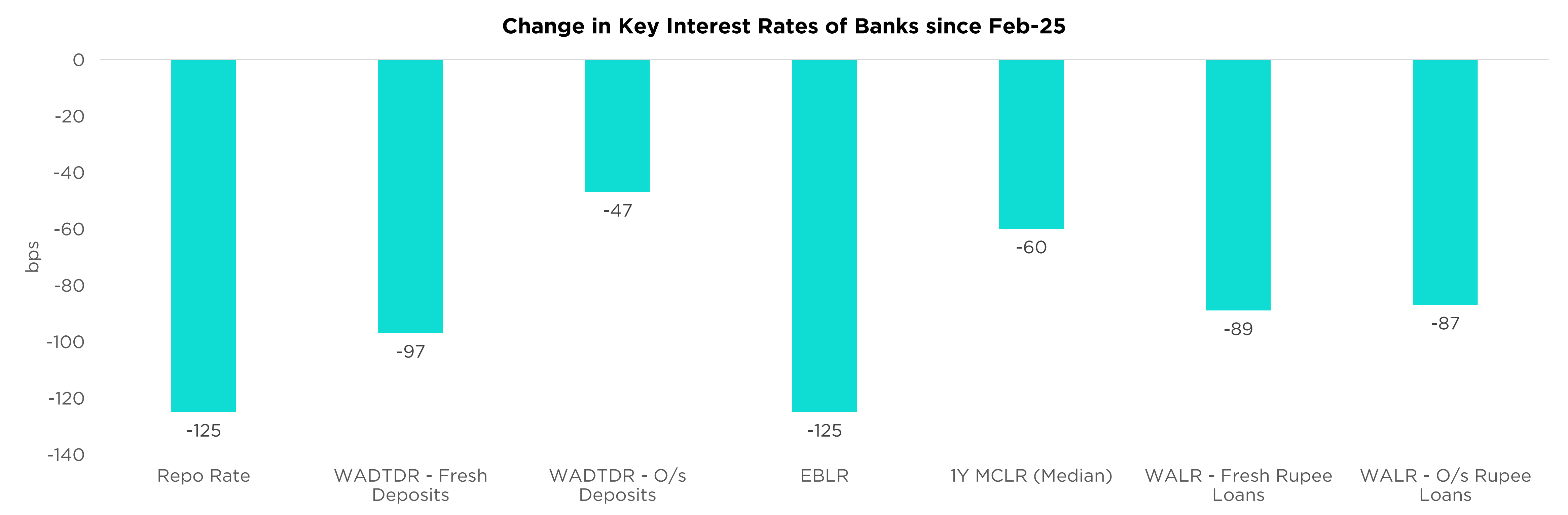
Source: MOSPI, CareEdge



Source: MOSPI, CareEdge

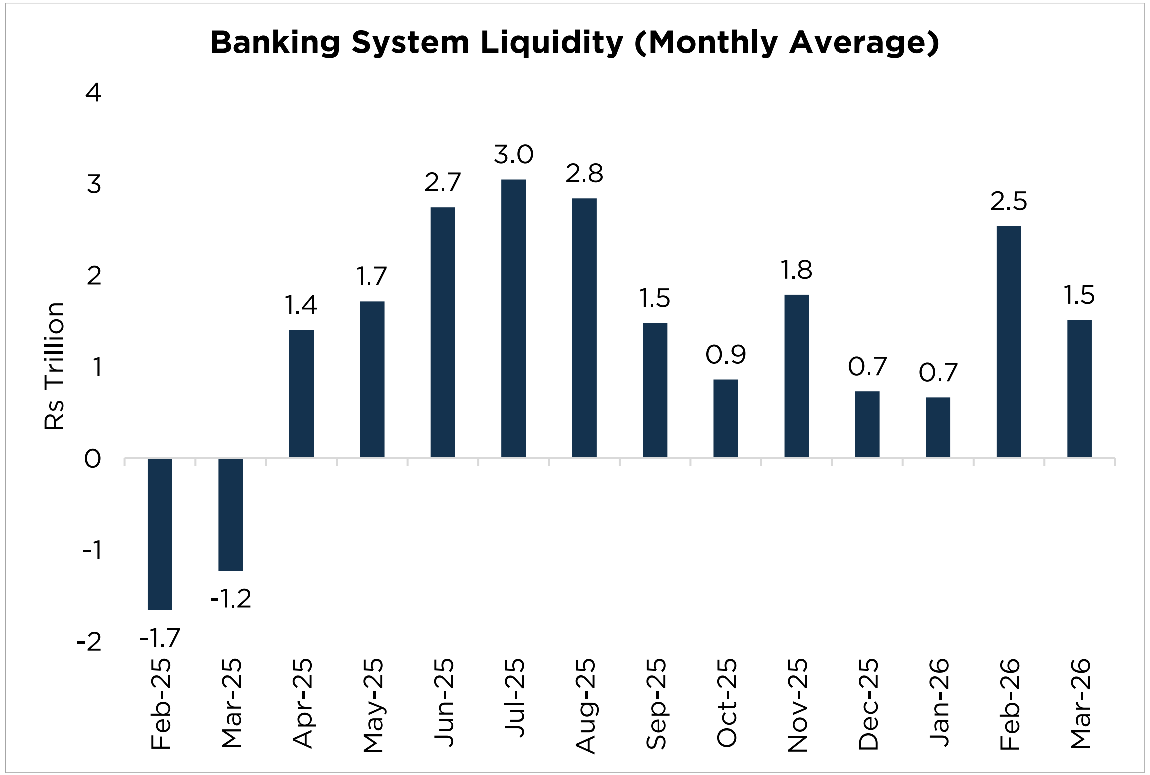
- CPI inflation in February edged up to 3.2%, due to an increase in food inflation (3.4% in February Vs 2.1% in January) and precious metals.
- The rise in food and beverage inflation, despite sequential moderation, was largely anticipated as the favourable base effect from last year faded.
- The higher probability of an El Niño weather event in FY27 and the risks from the ongoing geopolitical tensions remain critical monitorables for the inflation scenario.

Monetary Policy Transmission Remains Underway

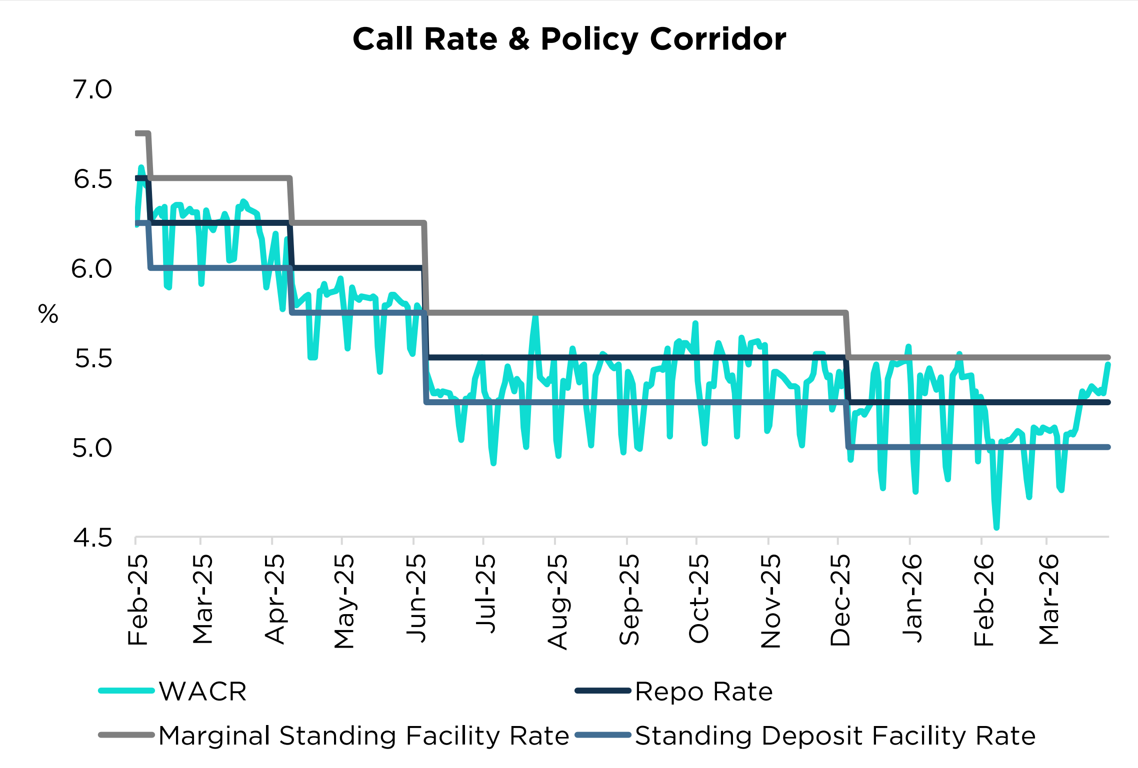


Source: RBI, CMIE, CareEdge
Data on WADTDR and WALR is for February 2026; Data on MCLR is for March 2026
Note: WADTDR: Weighted Average Domestic Term Deposit Rate; EBLR: External Benchmark-based Lending Rate; MCLR: Marginal Cost of Funds-based Lending Rate; WALR: Weighted Average Lending Rate

Liquidity Remains a Monitorable



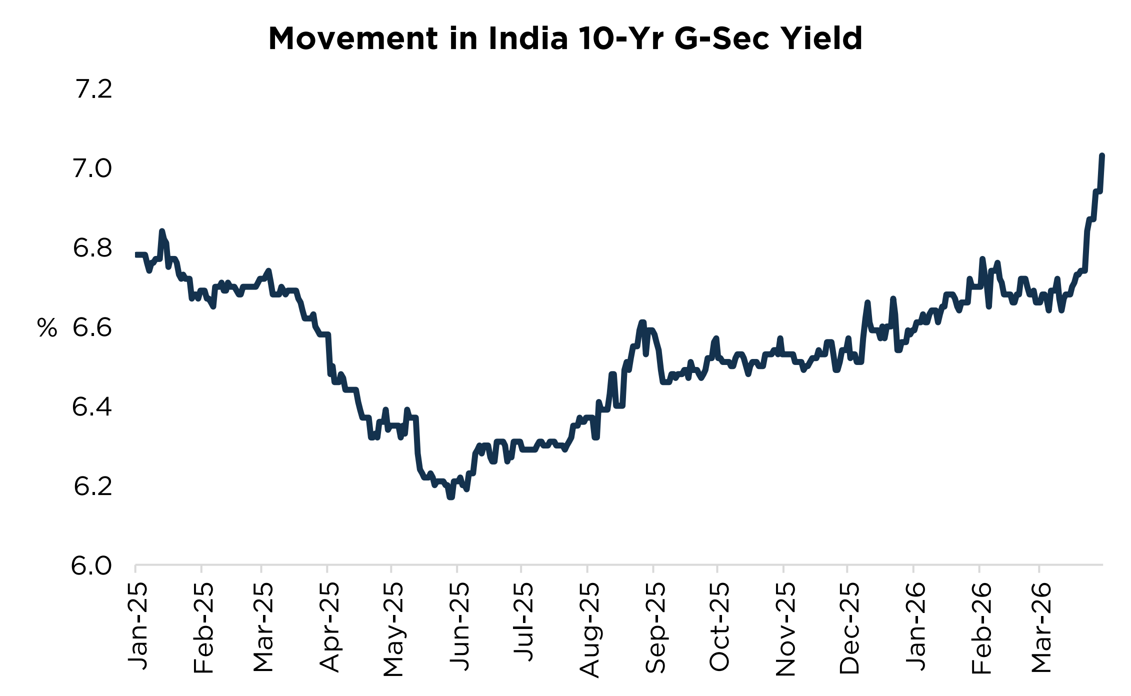
Sources: RBI, CEIC, CareEdge. Data as of 29 March. Positive values denote liquidity surplus



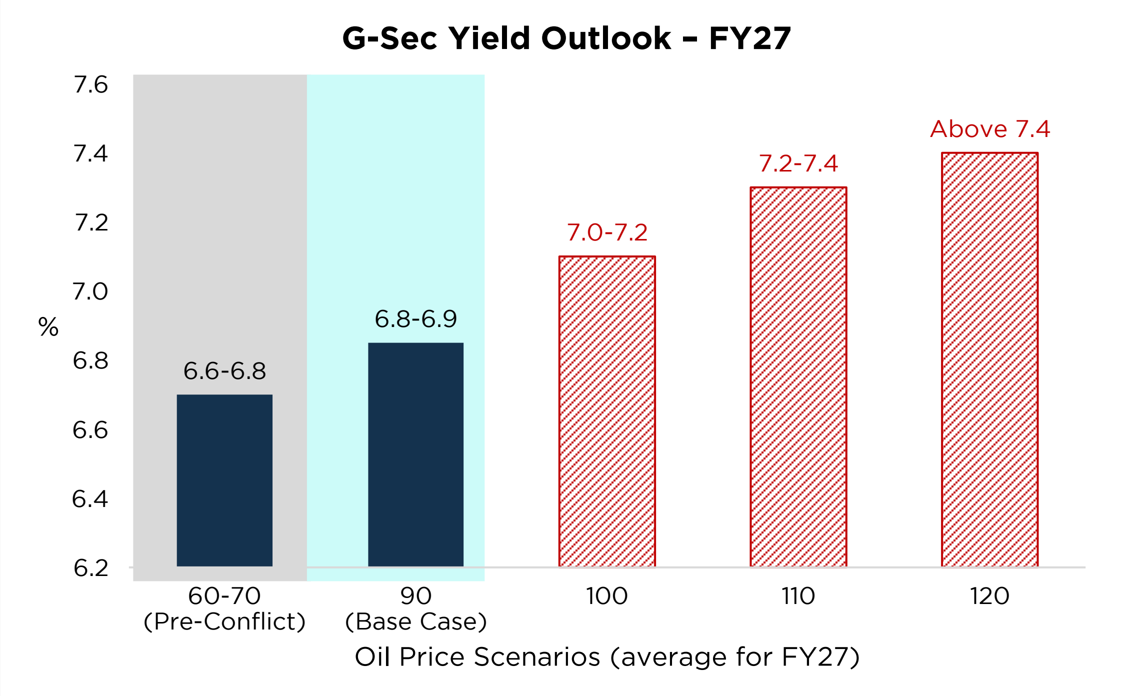
Sources: RBI, CEIC, CareEdge. Data as of 27 March

- Banking system liquidity has averaged a surplus of Rs 1.5 trillion in March so far (up to 27 March).
- The WACR has recently spiked amid tighter liquidity conditions, largely driven by tax outflows.
- RBI has been conducting VRR auctions and OMOs to ease liquidity pressures.

10Y G-Sec Yields Climb



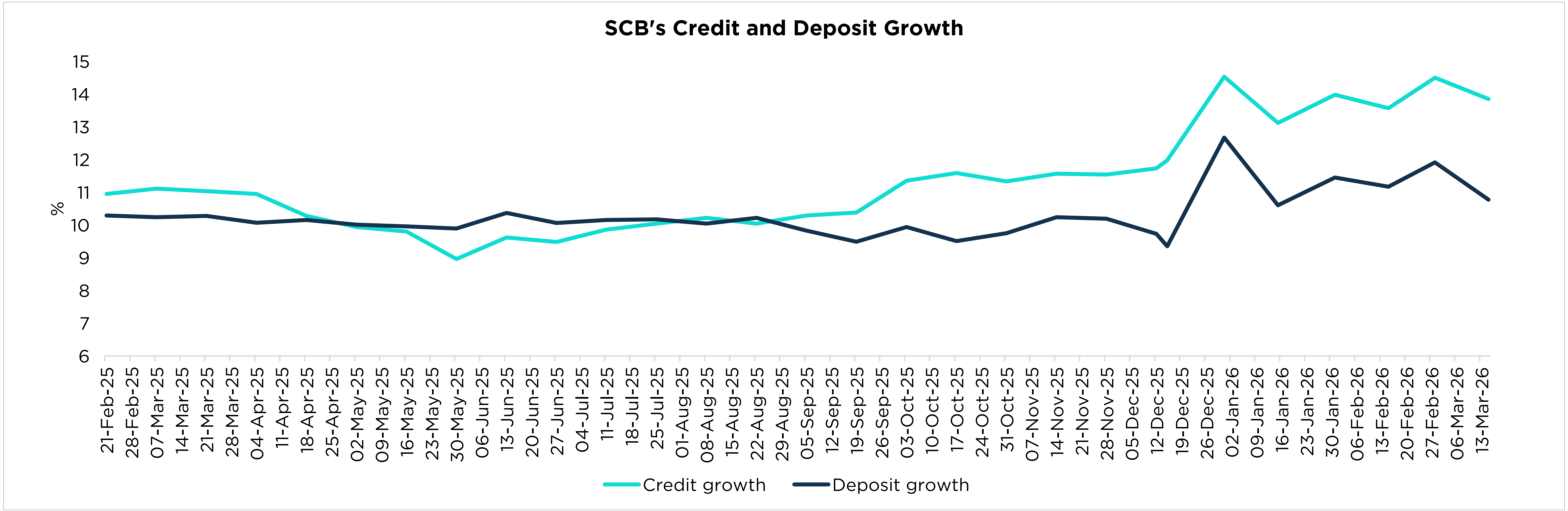
Source: Refinitiv, CareEdge. Data as of 30 March



Source: CareEdge Projections

- Elevated prices of oil and gas are stoking fears of increased fiscal and inflationary pressures, thereby pushing up G-sec yields across tenors. The 10-Yr G-sec yield has risen 37 bps in March so far, crossing 7%, a level last seen in July 2024.
- Higher than expected state government borrowings are placing upward pressure on G-sec yields. States raised around Rs 191 billion more than the projected Q4 FY26 figure.
- As per the government borrowing calendar, gross borrowing for FY27 is projected at Rs 16.1 trillion, below the budgeted Rs 17.2 trillion, reflecting recent G-sec switches.
- The borrowing calendar shows less front-loading, with 51% of FY27 gross borrowing to be raised in H1 versus a 55.9% average over the past four years.
- If the price of crude oil averages USD 90/bbl in FY27, we expect G-sec yields to average 6.8 – 6.9% over the year. If the hostilities in West Asia persist for a longer duration such that the price of crude oil averages USD 120/bbl in FY27, we expect the 10-Yr G-Sec yield to rise above 7.4% in FY27.

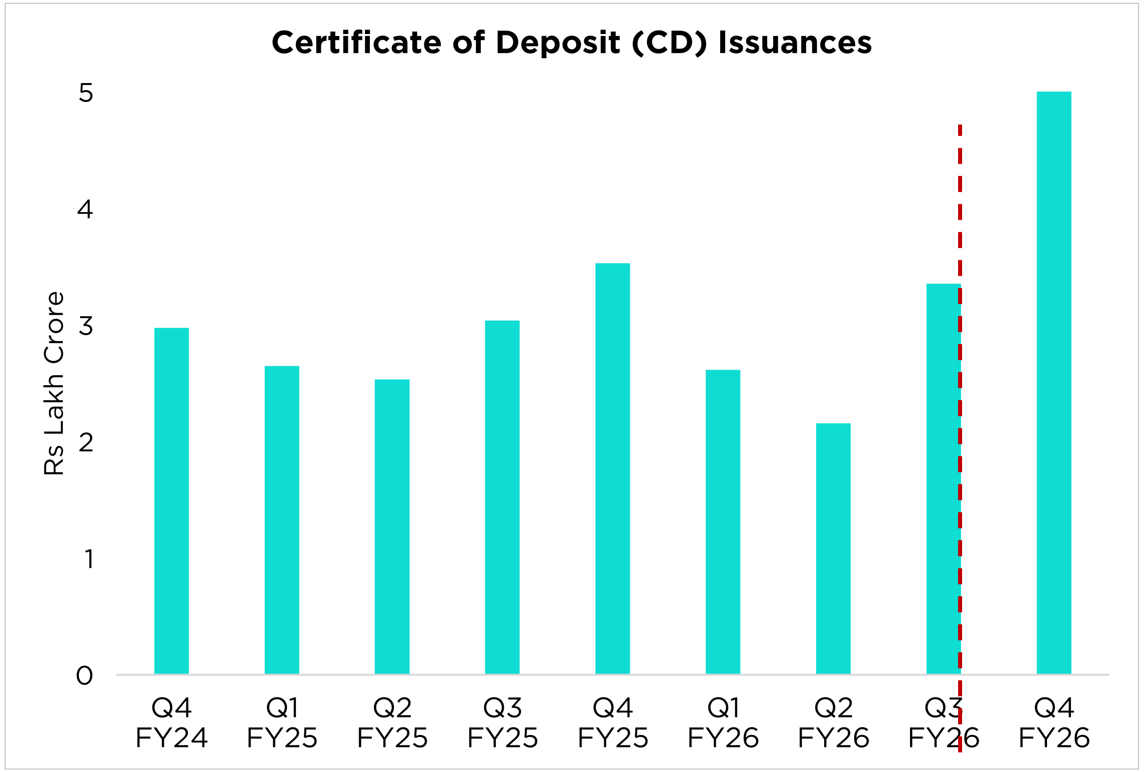
Credit and Deposit Growth Strengthen



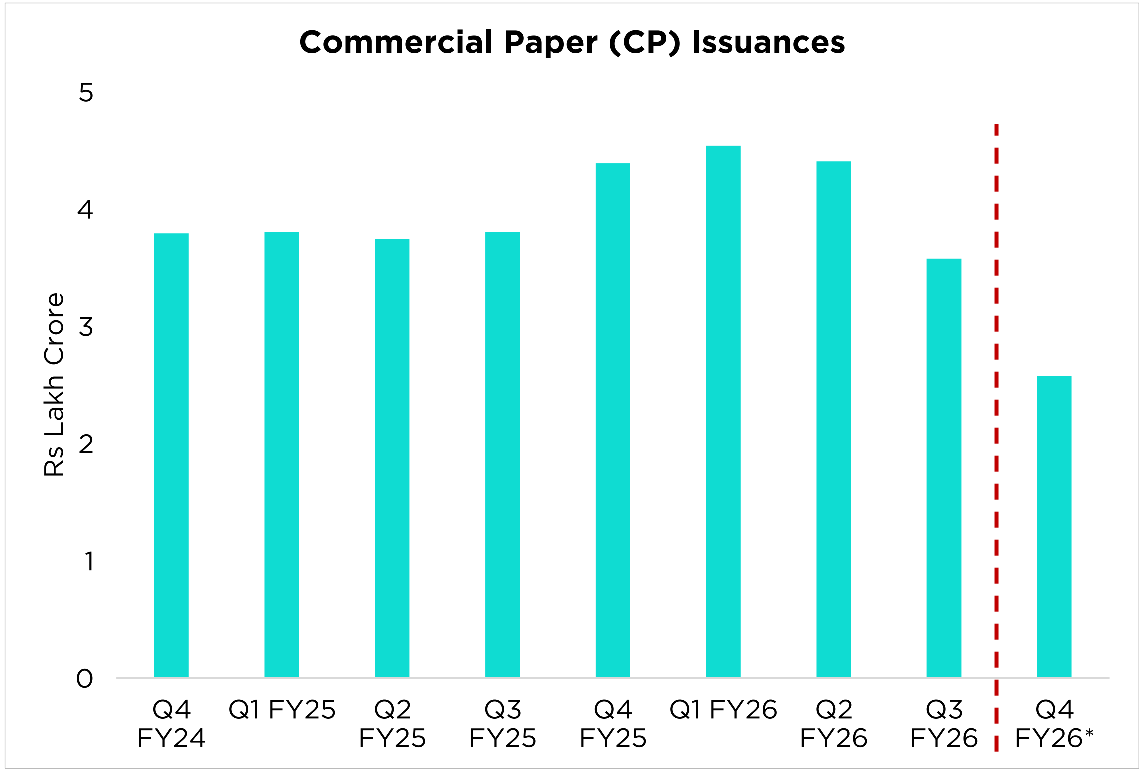
Source: CMIE, CareEdge

- Credit growth stood at 13.9% YoY as of 15 March, higher than 11% in the corresponding period last year.
- Deposit growth at 10.8% YoY was the same as in the corresponding period of the previous year.

CD Issuances Gain Momentum; CP Issuances Rise Moderately



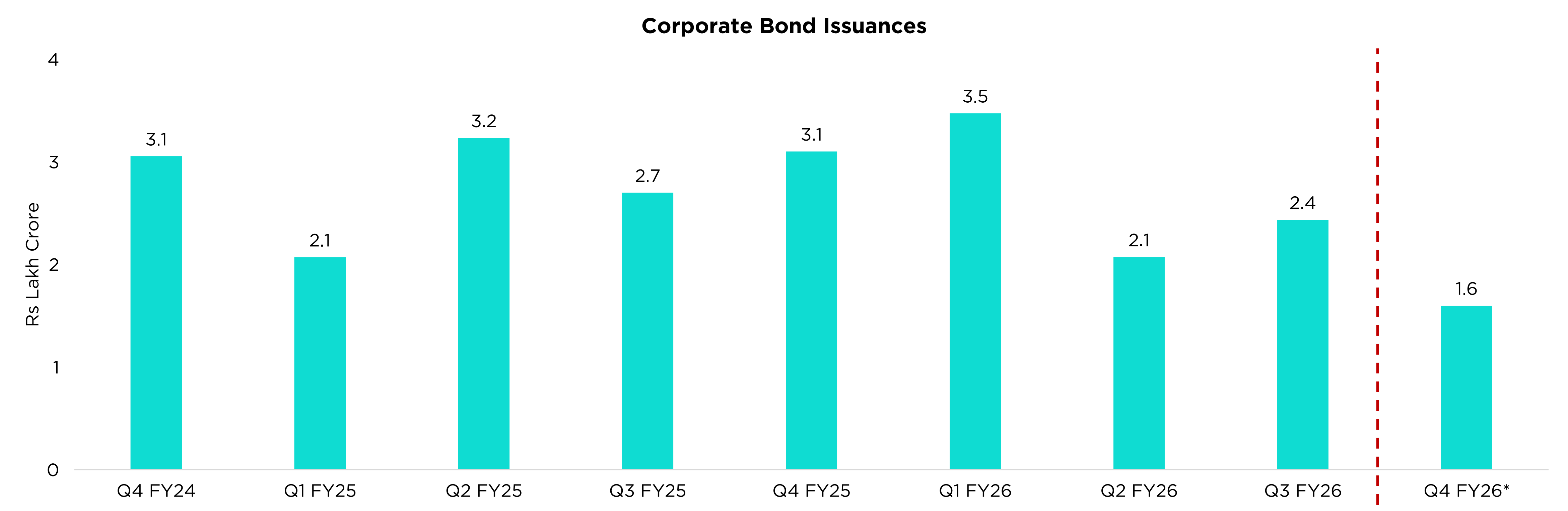
Source: CMIE, CareEdge. *Data as of 20 March



Source: CMIE, CareEdge. *Data as of 28 February

- Q4 FY26 has seen a notable rise in CD issuances. FYTD CD issuances reached Rs 13.2 lakh crore (as of 20 March), up 12.4% YoY.
- FYTD CP issuances increased 9% YoY to Rs 15.1 lakh crore (as of 28 February).

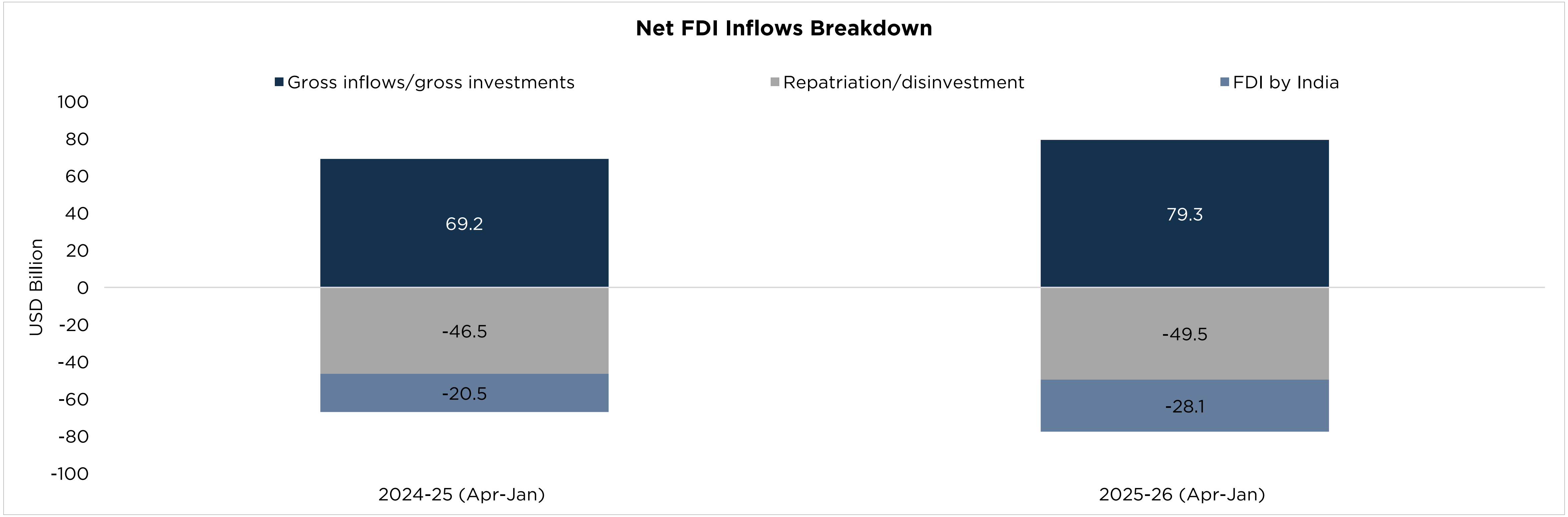
Corporate Bond Issuances Remain Muted



Source: Prime Database, CareEdge. Data includes private placements and public issues. *Provisional data as of February 2026

- Corporate bond issuances declined to Rs 0.86 lakh crore in February, down 21.3% YoY.
- On a FYTD basis (up to February), issuances stood at Rs 9.6 lakh crore, reflecting a 2.9% YoY decline, compared with a 6.7% YoY increase in the same period last year.

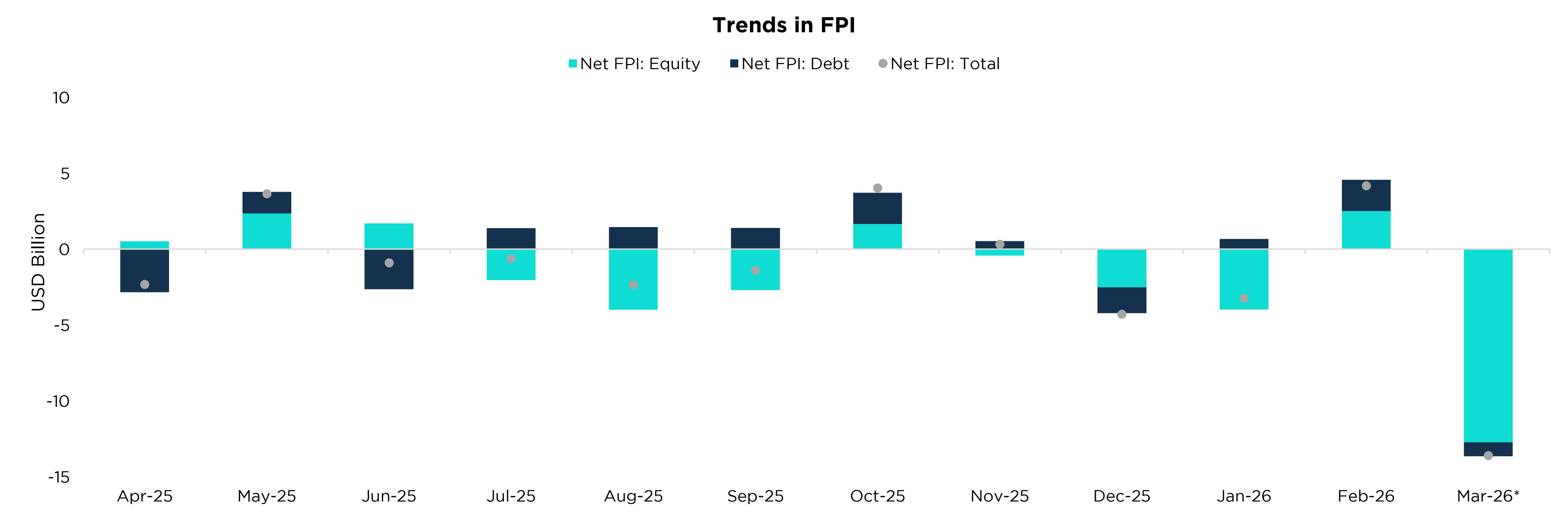
Net FDI Inflows Remain Subdued



Source: CMIE, CareEdge

- India's FDI inflows (gross investment less repatriation) rose 31.4% YoY to USD 29.8 billion during Apr–Jan FY26, supported by a 14.7% YoY increase in gross investments.
- Repatriation increased 6.5% YoY, increasingly offsetting gross inflows.
- India's FDI outflows surged 37.2% YoY to USD 28.1 billion during Apr–Jan FY26, reflecting greater overseas expansion by domestic firms.
- As a result of higher repatriation and rising outward investments, net FDI inflows (Gross inflows - Repatriation - FDI by India) stood at USD 1.7 billion in Apr–Jan FY26, compared with USD 1 billion for the full year FY25.

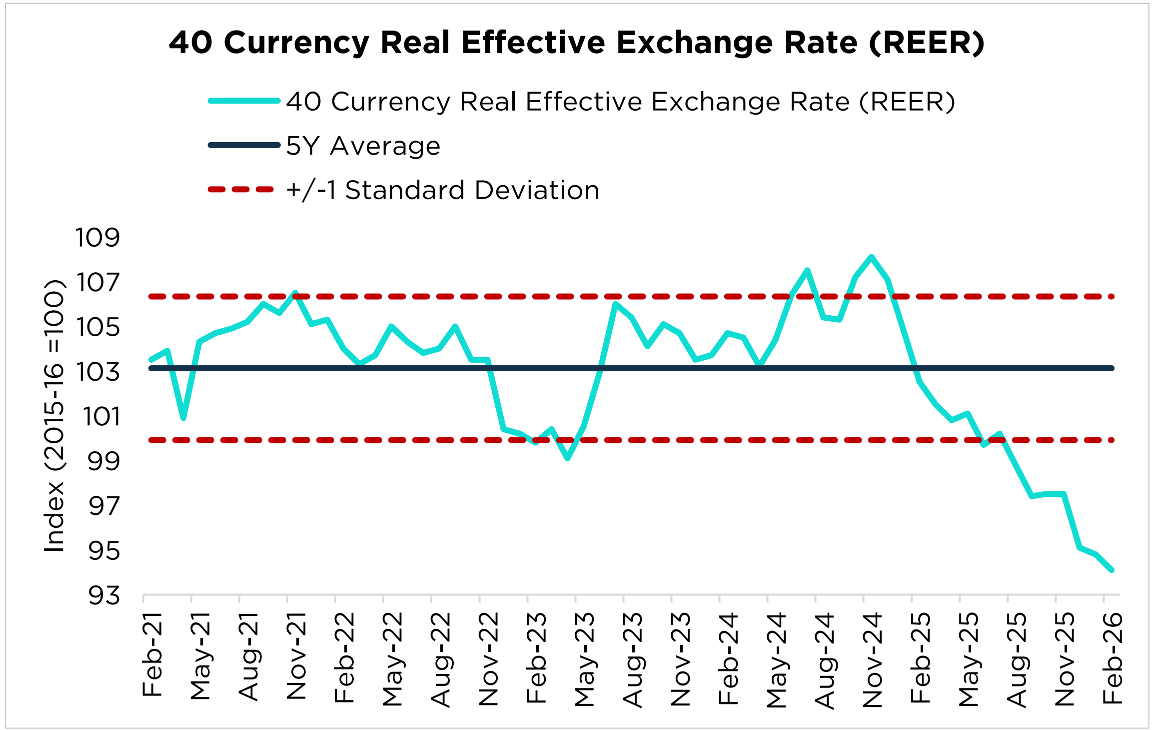
FPI Flows Remain Under Pressure amid Global Uncertainties



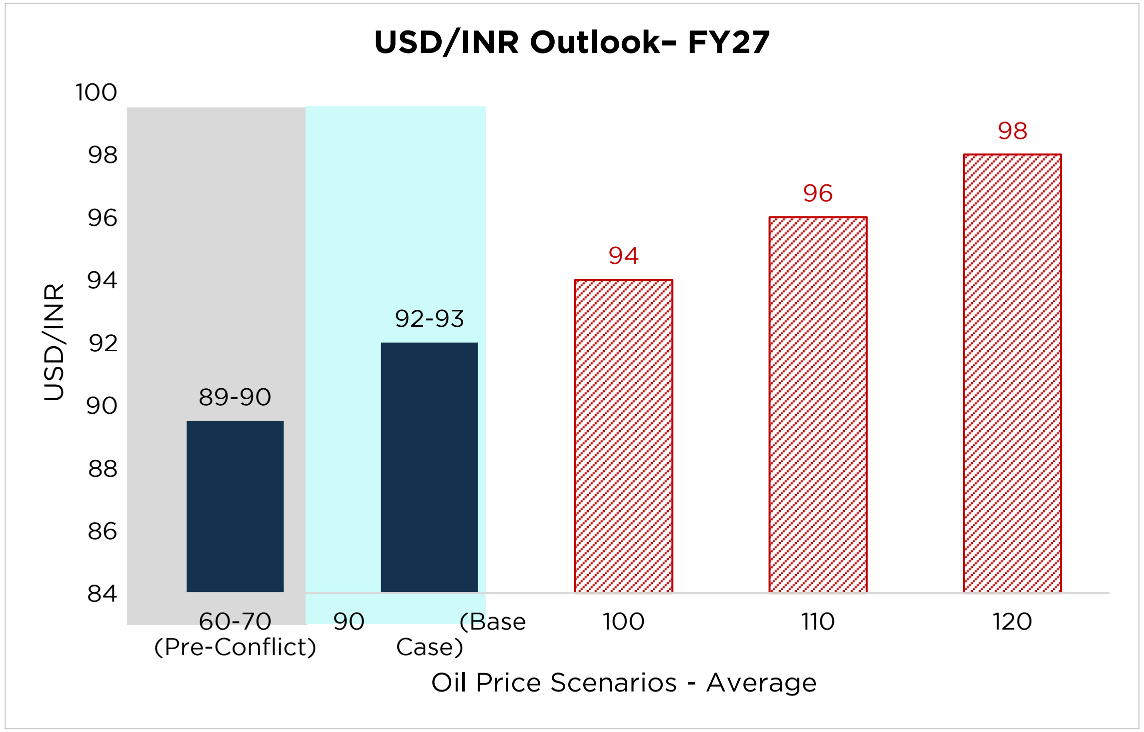
Source: NSDL, CareEdge. *Data as of 30 March

- FPI outflows intensified following the recent West Asia conflict, with USD 13.6 billion exiting in March, the highest monthly outflow in the past six years.
- Cumulative FPI outflows reached USD 16.6 billion in FY26 so far, compared with inflows of USD 2.7 billion in FY25.
- Persistent global uncertainties, elevated crude oil prices, and rupee weakness are likely to keep investor sentiment cautious, weighing on FPI flows.

Rupee has been Depreciating



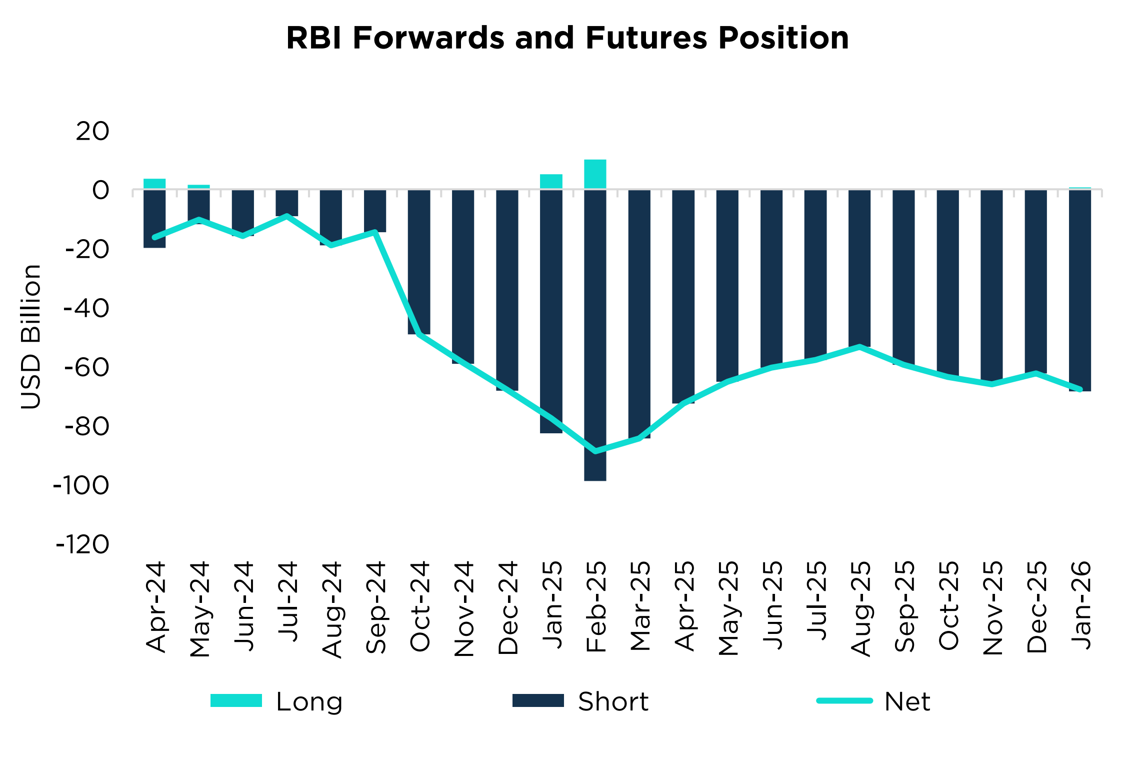
Source: CMIE, CareEdge



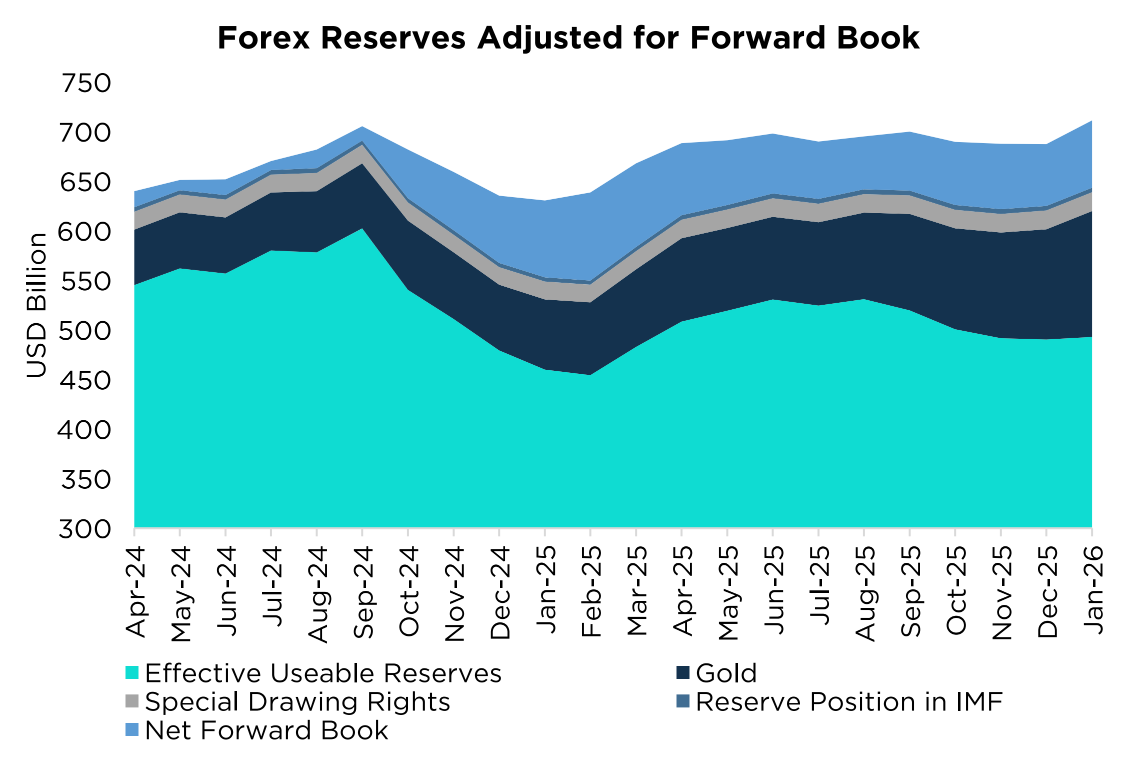
Source: CareEdge Projections

- The rupee depreciated by 4.3% (30th Mar '26) against the dollar since the beginning of the conflict in West Asia. On a REER basis, the rupee remains significantly undervalued as of the end of February 2026.
- The undervaluation of the rupee suggests that when hostilities moderate, there is scope for the rupee to appreciate. Moreover, structural factors such as recent trade deals remain positive for the rupee.
- On 27th March 2026, the RBI directed banks to limit their net open exposure to the currency in the forex market to USD 100 million by the end of each day to help ease currency volatility.
- If the price of crude oil averages USD 90/bbl, we expect the rupee to average 92-93/USD over the year. If the conflict in West Asia prolongs, leading to oil prices averaging USD 120/bbl in FY27, we project the rupee to average 98/USD in the year

Forward Book and Reserve Composition



Source: CEIC CareEdge;



Source: CEIC, CareEdge.

- RBI has stabilised volatility in the rupee by intervening significantly in the currency derivatives market, thereby increasing its net forwards and futures position.
- Aggregate forex reserves remain steady, but the share of gold in reserves has increased from 8.7% at the beginning of FY25 to 18.7% on 13th March 2026.
- In Jan 2026, forex reserves stood at USD 711.5 billion, of which foreign currency assets were USD 561 billion. Accounting for the net forward position, effective usable reserves were USD 493.2 billion.
- In the forward book, forward short positions with maturity greater than 1 year account for 59% of total forward short positions, indicating no immediate stress.

CareEdge RATINGS

Rajani Sinha	Chief Economist	rajani.sinha@careedge.in	+91 - 22 - 6754 3525
Bharadwaja Adiraju	Senior Economist	bharadwaja.adiraju@careedge.in	+91 - 22 – 6754 3518
Khushi Jindal	Associate Economist	khushi.jindal@careedge.in	+91 - 22 - 6754 3568
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and strong position across the segments. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd, (II) CARE ESG Ratings Ltd, and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.