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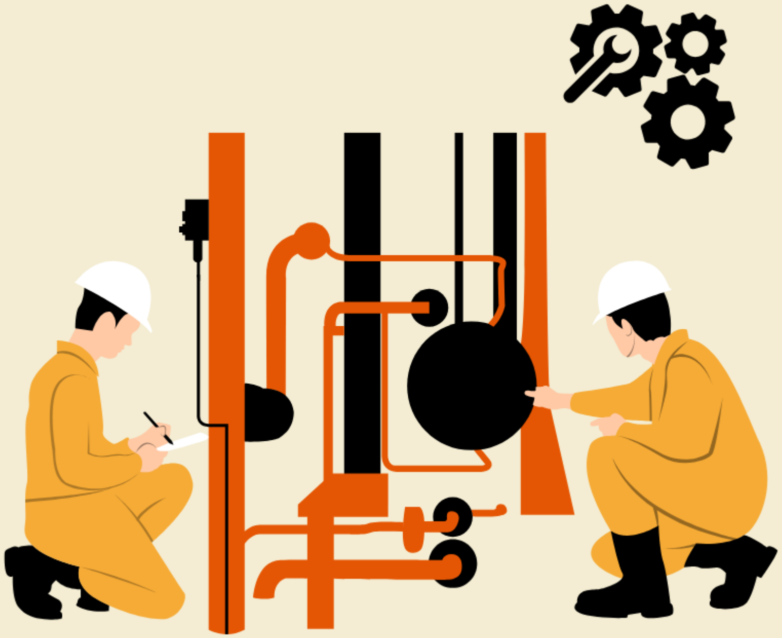

MACRO PULSE REPORT

May 2025

Summary

Since our last update in Apr-25, the global economic outlook appears to be transitioning from a worst-case scenario to a bad one. The de-escalation of Trump's tariff tantrum provides a breathing space – this limited window of 90 days could be utilised for forging bilateral trade deals with the US. Post the temporary de-escalation, the effective tariff rate imposed by the US has dropped to ~13% from ~23% earlier. While this is encouraging, it would still be higher than the 2.3% effective rate of tariff as of the end of 2024. It is widely expected that the US is unlikely to dilute the 10% universal tariff floor along with higher select sector-specific rates. Hence, the incremental scope for lowering the weighted average tariff rate appears somewhat restricted hitherto. For India, the 10% universal tariff will offer solace by not putting it in a disadvantageous position. One can be hopeful that the highly anticipated BTA with the US (implementation of the first phase is expected by Jul-25) will enable special carveouts, enhance market access, and ease non-trade barriers in a bid to double bilateral trade between the two nations to USD 500 bn by 2030. The recently announced India-UK FTA could serve as a template to expedite negotiations.

In the near-term, the volatility and unpredictability of trade related announcements will continue to dent sentiment and weigh on growth prospects. The IMF downgraded its forecast for 2025 and 2026 World GDP growth by 50 bps and 30 bps to 2.8% and 3.0% respectively vs. an estimated growth of 3.3% in 2024. This loss of global growth momentum will have a spillover impact on India. Having said, the ongoing easing of domestic monetary policy, liquidity conditions, and regulatory framework along with a seasonal kicker from the likelihood of a normal monsoon will provide a buffer.

Moving beyond the external uncertainty, India's macro-balance appears to be improving with a benign outlook on inflation and steady progress on twin deficits. This offers comfort and stability for domestic asset classes. We expect the MPC to opt for an additional 50 bps of rate easing in the next two policy reviews – this should guide the 10Y g-sec yield lower towards 6.00% before the end of FY26. For INR, although fundamentals favor a stable outturn, external uncertainties and the need to preserve trade competitiveness could put a moderate depreciation bias, with likelihood of 89.5 levels by end of FY26.

Domestic growth: Momentum improves a tad in Q4 FY25

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High frequency lead indicators paint a better growth picture for Q4 FY25. Indicators such as E-way bills generation, steel consumption, cement production, PMI manufacturing as well as tractor sales have posted strong growth over the quarter.

High frequency indicators	Quarterly			
	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY26
Passenger vehicle sales (%YoY)	2.8	-1.9	5.0	2.4
Credit card spends (%YoY)	24.2	20.0	16.9	11.6
Two wheeler sales (%YoY)	20.7	12.5	1.4	1.5
Tractor sales (domestic, %YoY)	0.2	1.4	6.7	24.2
Port cargo traffic (%YoY)	3.9	6.2	-1.7	9.0
Air Cargo traffic (%YoY)	13.8	16.2	10.7	2.0
Domestic air passenger traffic (%YoY)	5.6	7.2	11.4	12.0
Intl Air Passenger traffic (%YoY)	15.9	10.3	10.0	8.5
GST E-way bills (cr)	10.0	10.6	11.0	11.8
Steel consumption (%YoY)	15.0	12.1	7.9	11.8
Cement production (%YoY)	0.5	3.4	8.9	12.3
Manufactruing PMI (index)	58.2	57.4	56.8	57.4
Services PMI (index)	60.5	59.6	58.7	58.0
Core industries (%YoY)	6.3	2.4	4.9	4.1
IIP (%YoY)	5.4	2.3	4.1	3.6

We forecast Q4 FY25 GVA and GDP growth at 6.1% and 6.8% respectively, compared to 6.2% (for both) in Q3 FY25 As such, FY25 GDP is expected at 6.3% (vs. MOSPI's estimate of 6.4%).

Apr-25: Data holds up despite global trade tensions mounting

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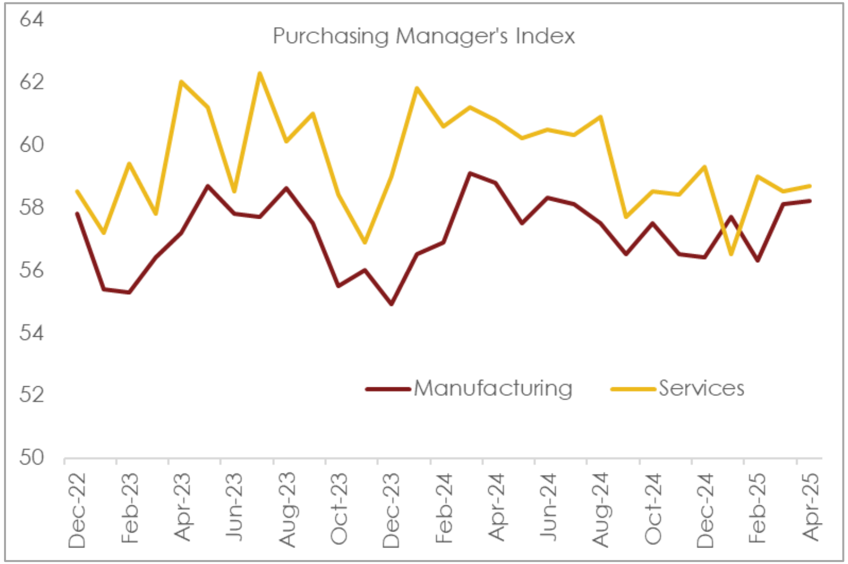
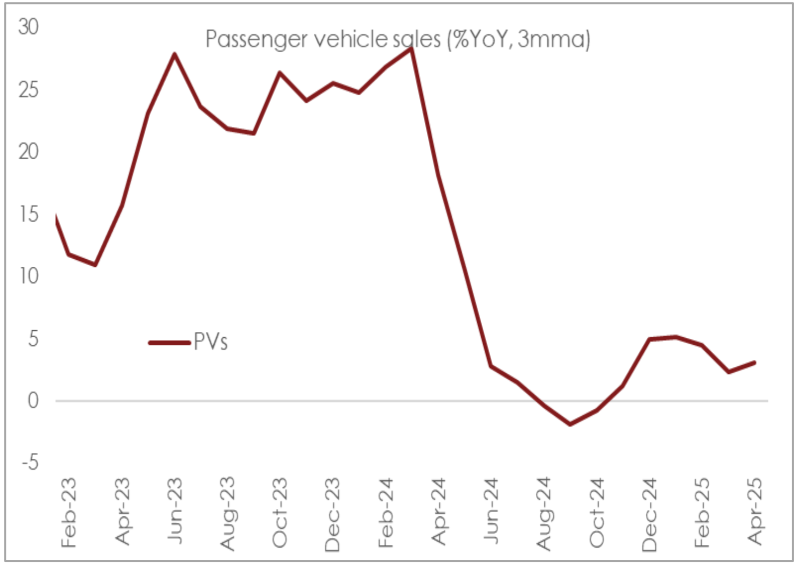
Domestic economic activity continued to hold up despite heightened global trade uncertainties in the month of Apr-25. While the 90-day suspension of tariffs came early for most trade partners, imposition of high punitive reciprocal tariffs between US and China led to downward revisions to 2025 global trade and growth outlook.

Domestic merchandise trade to and from US displayed signs of bunching up amidst the tariff go/no-go

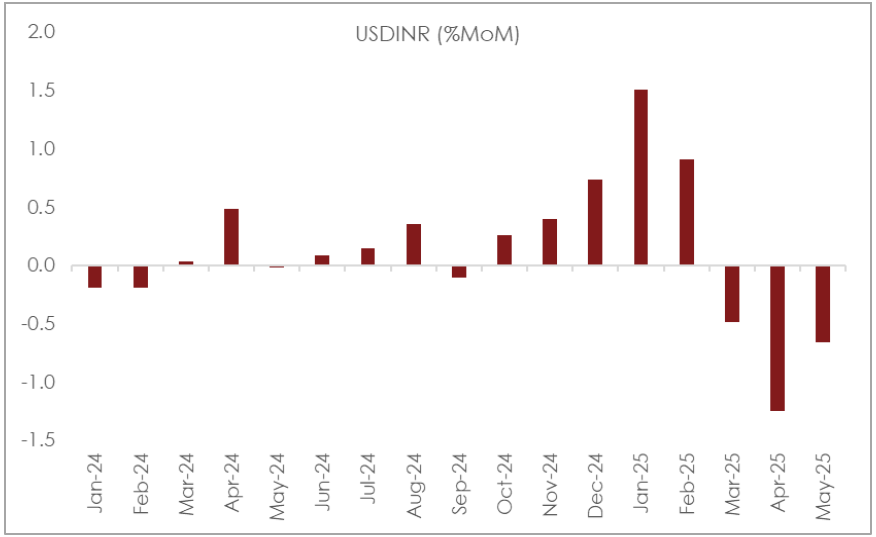
- Exports to US clocked a growth of 31.4%YoY over Mar-Apr-25, compared to FY25 growth of ~12%.
- Even imports from US clocked a growth of 36% over Mar-Apr-25, compared to FY25 growth of ~7%.

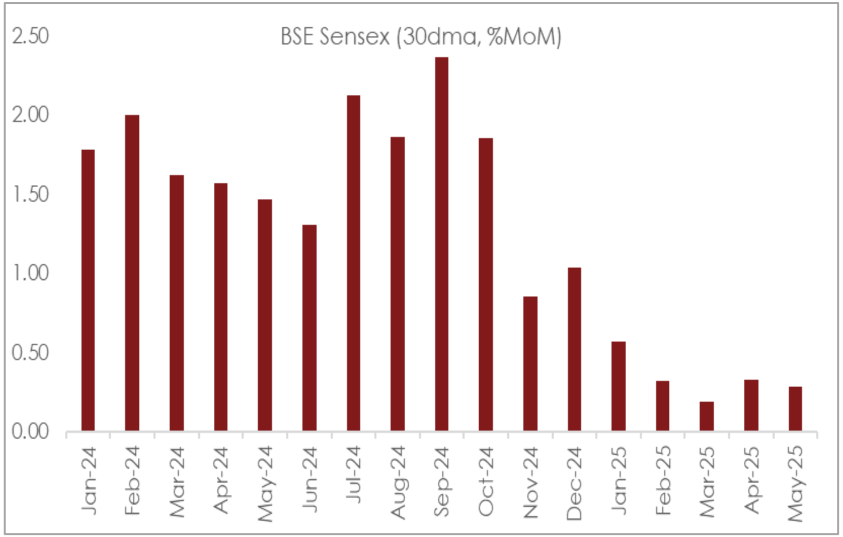




May-25: Border skirmishes to have minimal impact on economy

The recent border skirmish between India and Pakistan was only short-lived, and hence should lead to no economic loss for the Indian economy. Indian financial market displayed resilience during the period, with the equity market index as well as the Rupee bouncing back after the ceasefire announcement.



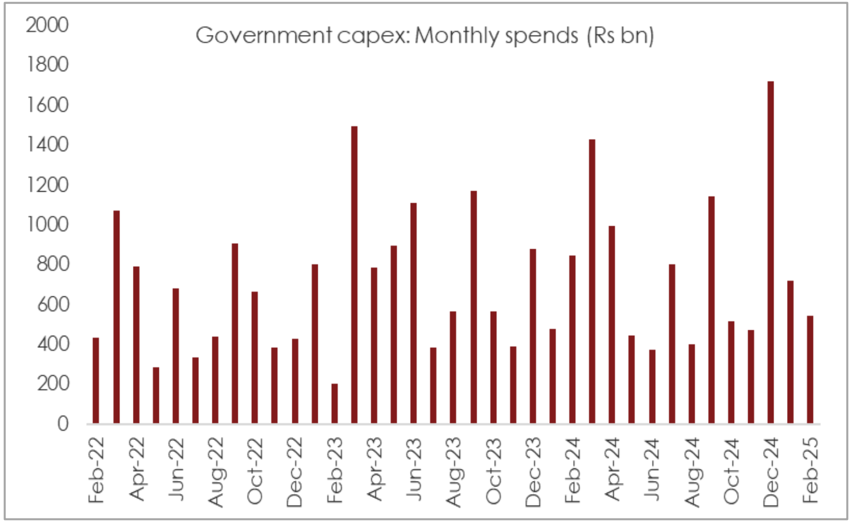


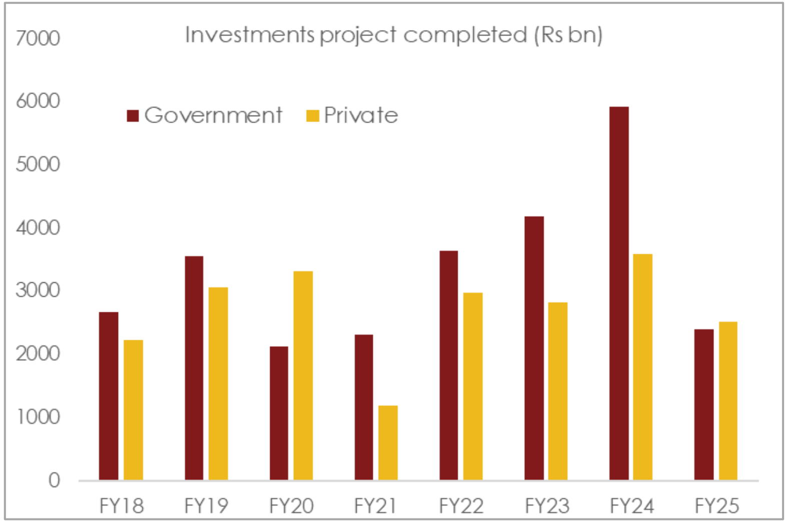
Negative change indicates depreciation

FY26 growth outlook: Government capex to support as private capex remains in abeyance

After a backloaded support to growth in FY25, as per media reports, Finance Ministry has already sounded out various ministries and departments to front-load their capital expenditure in FY26.

Pace of project completions by private sector saw a sharp deceleration (-30%YoY) in FY25. With global environment remaining highly uncertain with respect to both geopolitical as well as geoeconomic landscape, private capex could continue to remain subdued.





Budget's urban consumption push

FY26 Budget provided a consumption stimulus by announcing a reduction in personal income taxes, that is likely to cost the exchequer Rs 1 tn. The improvement in disposable incomes of middle-income earners, can be expected to support urban consumption over the coming quarters.

The impact of the consumption stimulus could end up being longer, amidst the direct income cash transfers (at state-level) that are likely to playout fully in FY26, along with impending 8th Pay Commission to be implemented Jan-26 onwards and declining consumer inflation augmenting personal disposable incomes.

Consumption stimulus: Possible impact	
Staples	Food with higher nutritional value
Small-ticket discretionary goods	Home furnishings, Phone, Laptops etc.
Big-ticket discretionary goods	Auto and two-wheeler
Discretionary services	Air travel, Hospitality, Concerts

Tax reduction

-To cost exchequer ~Rs 1 tn

Direct cash transfer by states

- Total outgo could be close to Rs 2 tn

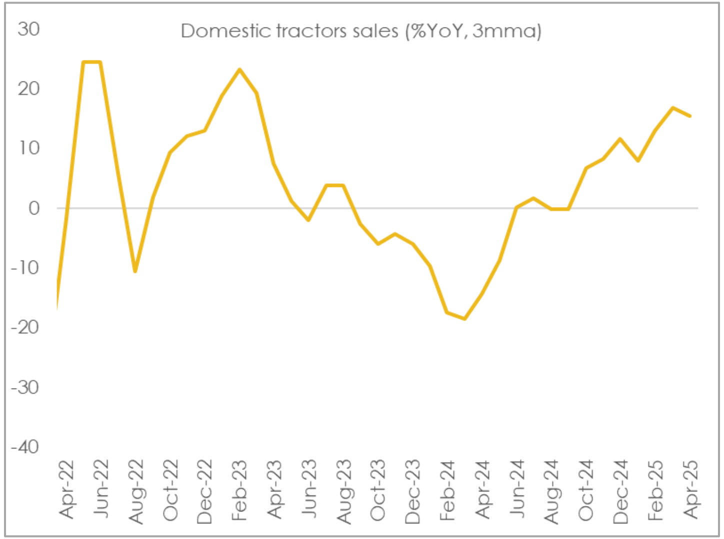
8^{th} pay commission

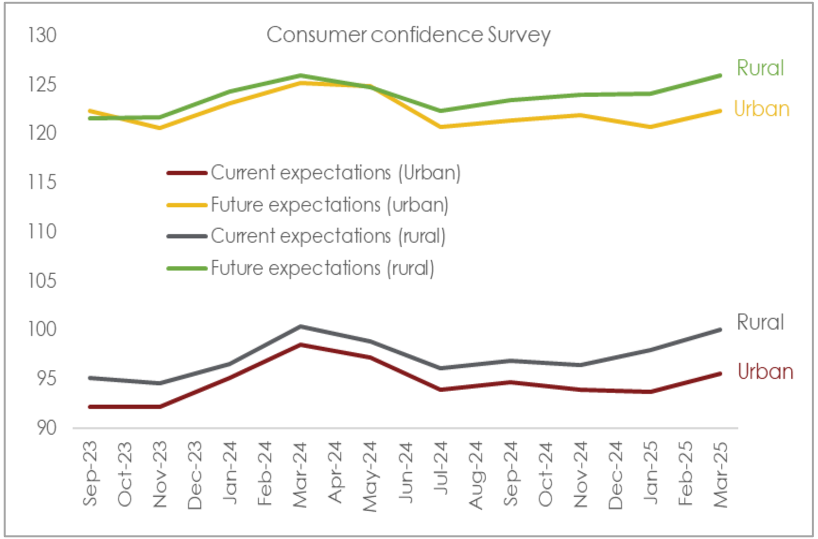
- To be implemented Jan-26 onwards

Rural recovery on track

Tractor sales have been fairly healthy over the last 2 quarters, owing to above normal monsoon in 2024 and healthy prospects of Rabi production. The sowing for summer crop has been healthy, despite early onset of heatwaves.

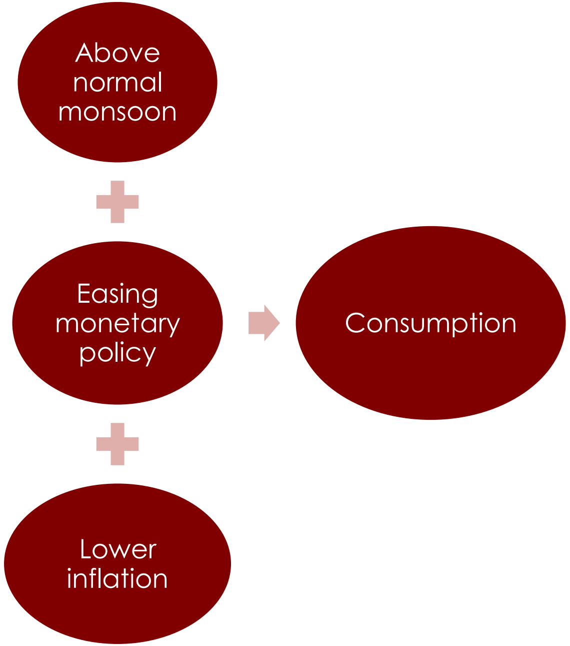
From the newly released RBI's rural consumer confidence survey, we find evidence of rural sentiment continuing to remain above urban sentiment in the recent past, with the gap having widened in latter months. This is also reinforced by a stronger volume growth in rural markets vis-à-vis urban for FMCG companies in Q4 FY25.





Consumption recovery to broaden

Above normal outlook for Southwest monsoon, along with moderating headline inflation (driven by disinflation in food) and easing monetary policy augurs well for overall consumption outlook in FY26.



Compared to a year ago, perception of spending (as per RBI's consumer confidence survey) has improved for both urban and rural consumers, with former outpacing the latter by a small margin

Consumer spending current Perception: Urban				
Survey Round	**Increased**	**Remained Same**	**Decreased**	**Net Response**
Mar-24	73.1	3.8	23.1	**69.2**
May-24	76.2	3.8	20.1	**72.5**
Jul-24	78.9	3.1	18.0	**75.8**
Sep-24	80.4	2.7	16.9	**77.6**
Nov-24	80.9	1.9	17.2	**79.0**
Jan-25	79.3	1.3	19.4	**77.9**
Mar-25	80.1	1.2	18.8	**78.9**
% in last 1 year	**7.0**	**-2.7**	**-4.3**	**9.7**

Consumer spending current Perception: Rural				
Survey Round	**Increased**	**Remained Same**	**Decreased**	**Net Response**
Mar-24	82.5	14.4	3.1	**79.5**
May-24	85.0	12.3	2.7	**82.3**
Jul-24	86.2	11.5	2.2	**84.0**
Sep-24	87.9	9.7	2.5	**85.4**
Nov-24	88.5	9.6	1.9	**86.6**
Jan-25	87.9	10.3	1.9	**86.0**
Mar-25	90.5	7.3	2.2	**88.2**
% in last 1 year	**8.0**	**-7.1**	**-0.9**	**8.7**

UK India FTA: Landmark deal, could support domestic labour-intensive sectors

UK and India signed a historic FTA earlier this month, in a bid to strengthen further strategic partnership between the two countries.

Merchandise Trade

- About 99% of India's exports to benefit from zero duty in the UK
- India to cut duties on 90% of tariff lines for UK, zero tariff on 85% of items
- India to slash automotive tariffs from over 100% to 10%, subject to threshold
- Whiskey and gin tariffs to be halved to 75%, to be slashed further to 40% over the next 10 years

Services

- Two-way trade in key services such as IT/ITes, Finance, Professional, Business and educational services to get a fillip
- Mobility of professional to ease via additional visas, subject to a quota
- Indian workers in the UK to be exempt from social security contribution for up to 3 years

The UK government has described the pact as "the biggest and most economically significant bilateral trade deal the UK has done since leaving the EU". Now all eyes are on the impending India-US Bilateral Trade Agreement.

India-UK trade to double to USD 60 bn by 2030

Indian consumers to get cheaper cosmetics, electrical machinery, chocolates, biscuits, salmon, medical devices

UK consumers to benefit from cheaper clothes, footwear and food products from India

FY26 GDP growth retained at 6.5%, albeit with downside bias

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While we hold on to our FY26 India GDP growth estimate of 6.5%, now with a downside bias amidst the continuing flux in global tariffs and trade flows. While US-China tariff war has de-escalated (though temporarily), uncertainty over trade and economic policies, combined with a volatile geopolitical landscape, is likely to weigh on the pace of global growth.

1) Global geopolitics and geoeconomic remains highly uncertain – to weigh on trade

2) Private sector capex recovery timeline

3) Government's fiscal impulse remains lower

1) Healthy sowing of the summer crop

2) IMD forecasts an "above normal" monsoon for 2025

3) Rural demand maintains a gradual recovery, should galvanize further

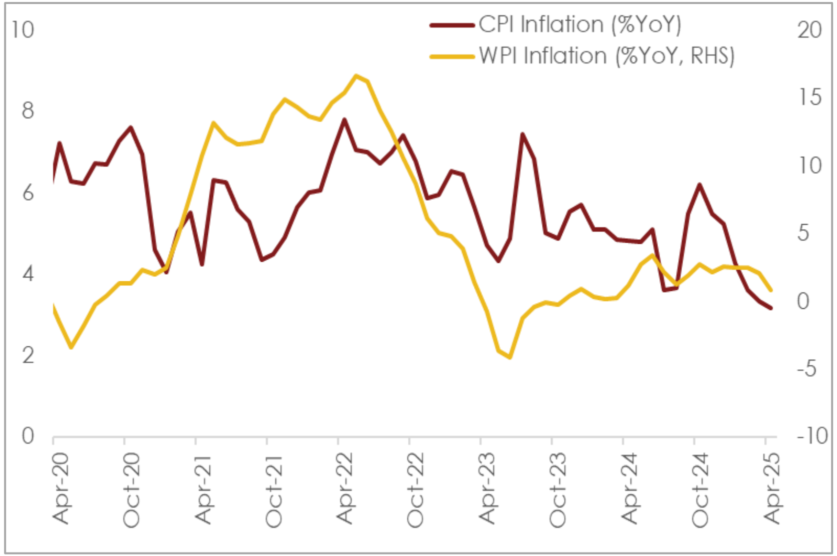
4) Tax reduction, lower inflation and monetary easing to support urban consumption

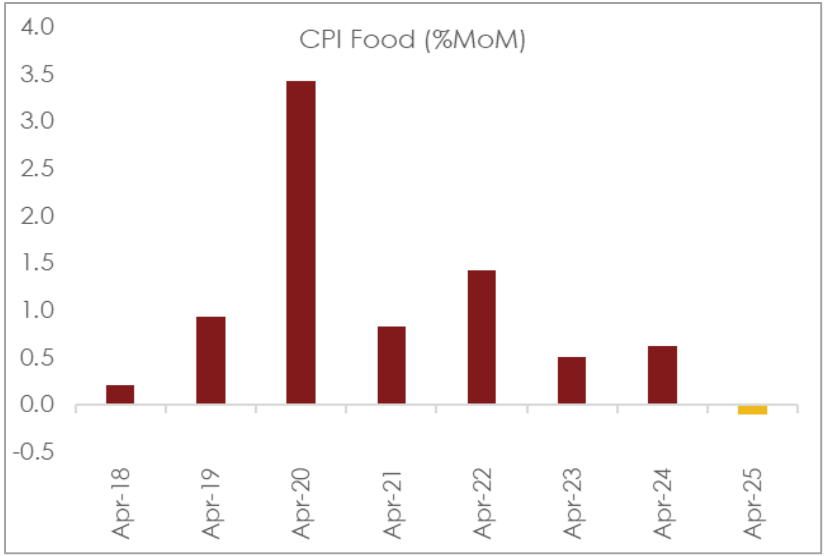
4) Front-loading of government capex

CPI inflation eases to a 69-month low

India's CPI inflation eased further to a 69-month low of 3.16% in May-25 from 3.34% in Apr-25. This was broadly in line with market expectations, marking the third consecutive reading printing below 4.0%.

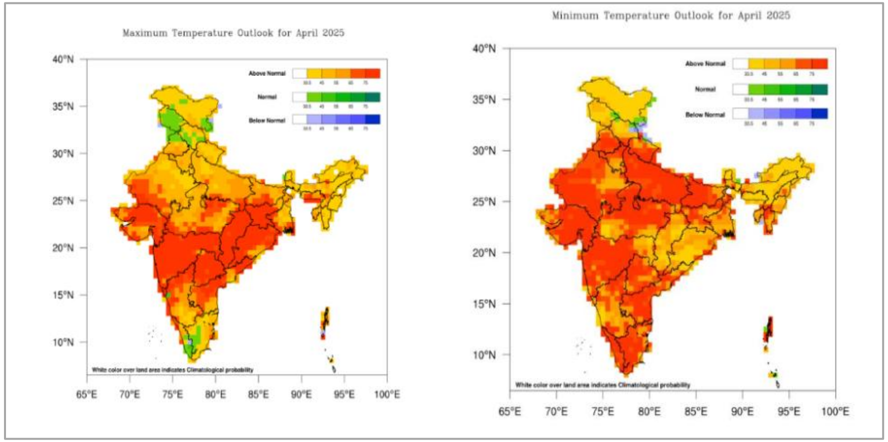
Defying the summer build-up, food prices corrected sequentially by 10 bps. As such, annualised food inflation softened to a 42-month low of 2.14%YoY.





Despite an early start to summer, risks contained

Despite an earlier than usual onset of summer with abnormally high temperatures, sowing of summer crops has remained strong – recording a growth of ~11%YoY. Note, the average maximum, average minimum and mean temperature in Apr-25 were above normal with departure from normal of 0.95°C, 0.78°C and 0.86°C respectively for the country as a whole.



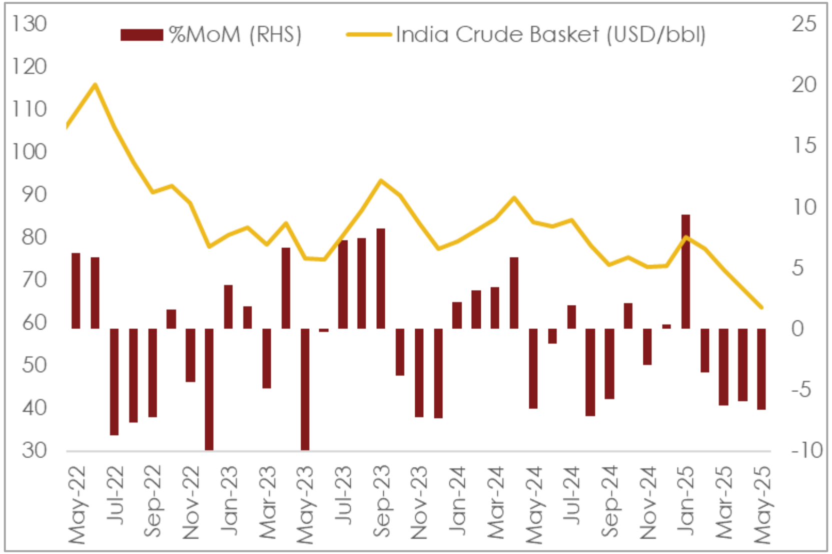
Sowing of summer crop has seen a robust gain in area sown led by Rice, Pulses and Coarse cereals.

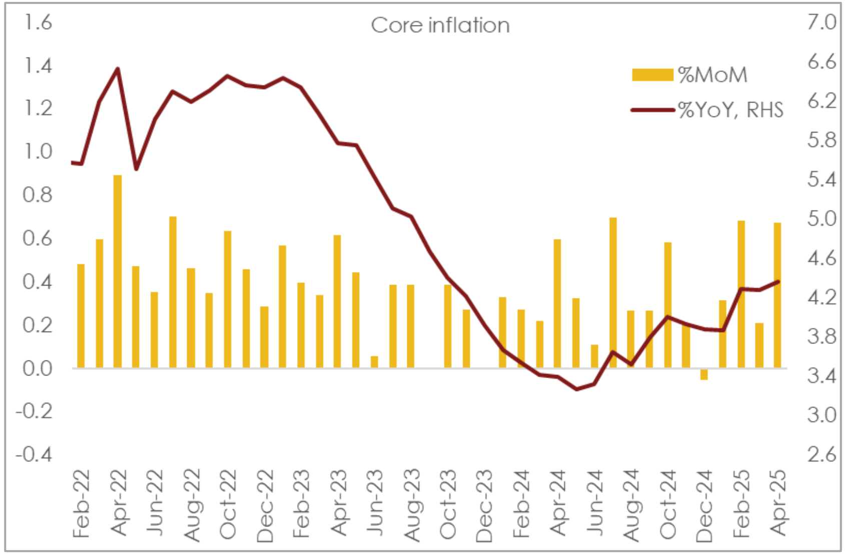
Progress of Area coverage under Summer crops as on 2nd May-25				
Crops	Normal Summer	Area Sown (lakh ha)		% change vs. last year
		2024	2025	
Rice	**30.8**	**28.6**	**32.0**	**12.1**
Pulses	**21.7**	**18.5**	**20.7**	**11.9**
Greengram	19.0	15.7	17.4	10.7
Blackgram	2.7	2.6	3.1	19.5
Other Pulses	0.0	0.2	0.2	0.0
Coarse Cereals	**11.0**	**13.0**	**14.5**	**12.0**
Jowar	0.3	0.5	0.5	0.0
Bajra	4.1	5.0	5.1	1.8
Ragi	0.3	0.1	0.2	23.1
Small Millets	0.0	0.0	0.0	0.0
Maize	6.3	7.4	8.8	19.7
Oilseeds	**7.9**	**9.2**	**9.5**	**3.0**
Groundnut	3.0	4.1	4.3	4.9
Sunflower	0.3	0.3	0.4	16.1
Sesamum	4.5	4.7	4.8	0.8
Other Oilseeds	0.0	0.1	0.1	-12.5
Total	**71.3**	**69.2**	**76.7**	**10.8**

Crude and core-core inflation both offer comfort

India's crude basket continues to trend lower for the fourth consecutive month. The recent decision of OPEC+ to expedite supply hikes, has lent a further downside to global oil prices.

Core CPI inflation rose further to 4.4% in Apr-25 from 4.3% in Mar-25. Bulk of the price pressures within Core CPI has been driven by Miscellaneous sub-category; of which, gold prices within Personal Care and Effects sub-category.





Above normal monsoon with an early onset

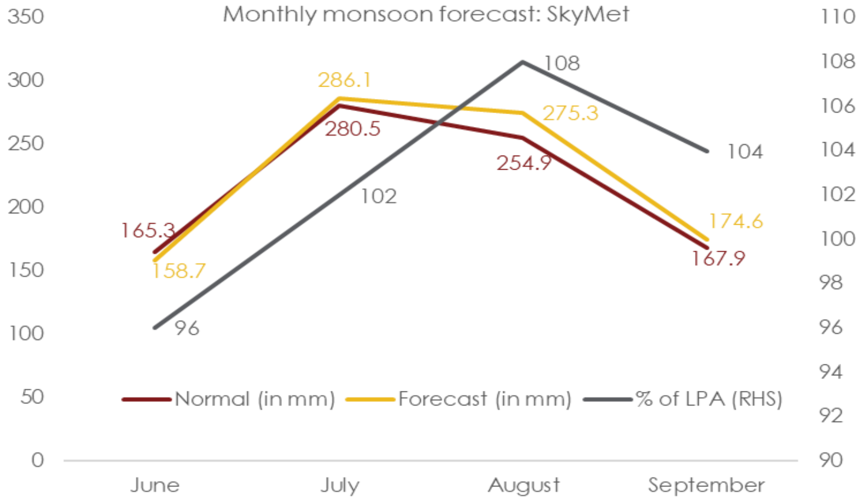
Indian Meteorological Department (IMD) forecasts Southwest monsoon to be "Above Normal" in 2025, with an early onset pegged for 27th May-25

2025 Southwest Monsoon forecast			
Category	Rainfall (%of LPA)	IMD Probability	SkyMet Probability
Excess	>110	26	10
Above Normal	**105-110**	**33**	30
Normal	96-104	30	40
Below Normal	90-95	9	15
Deficient	<90	2	5

Southwest Monsoon Onset Date			Gap (in days)
Year	Actual	Forecast	
2018	29-May	29-May	0
2019	08-Jun	06-Jun	2
2020	01-Jun	05-Jun	-4
2021	03-Jun	31-May	3
2022	29-May	27-May	2
2023	08-Jun	04-Jun	4
2024	30-May	31-May	-1
2025		27-May	

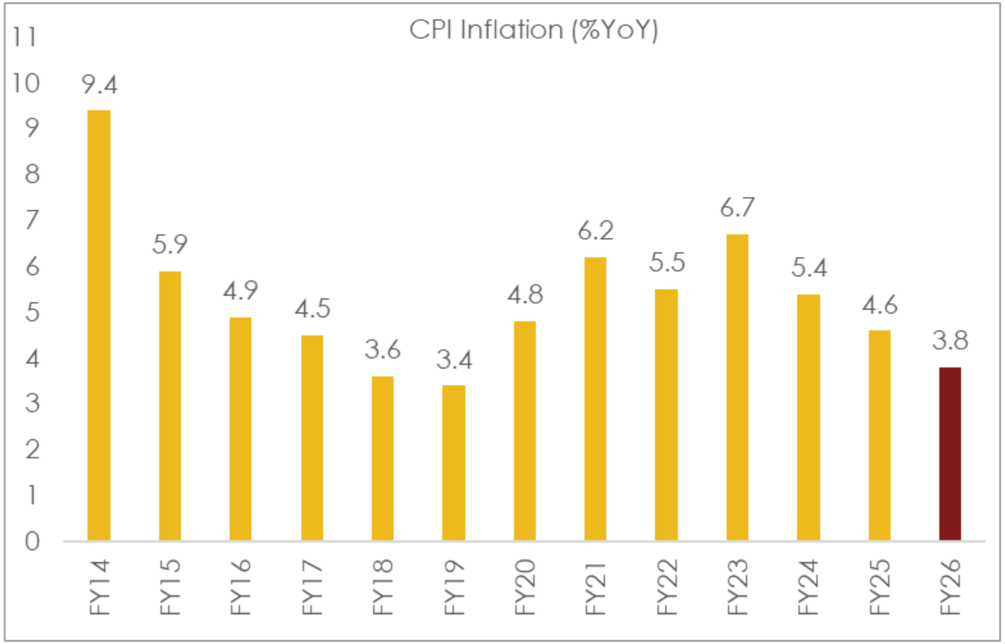
In comparison, Private agency SkyMet has projected Southwest monsoon to be a notch lower at "Normal" i.e., at 103% of LPA. Further, it expects rainfall to be at 96% in Jun-25, but to fare better in second half of the season

- Keeping in mind the expectation of above normal monsoon, Government has set a target of 354.64 mn tonnes of foodgrain production for 2025-26, compared to last year's target of 341.55 mn tonnes.



FY26 CPI inflation: To slip below 4.0%

Amidst the strength in recent food price correction, a surplus Southwest monsoon outlook, and easing of external risks at the margin, we revise lower our FY26 CPI inflation forecast by 30 bps to 3.8% now.



Snapshot of Apr-Feb FY25 fiscal performance

The cumulative fiscal deficit for the period Apr-Feb FY25 stood at 85.8% of the revised estimate, lower than 90.8% of actuals in the corresponding period in FY24. This is predominantly on account of relatively lower pace of spending, while receipts at an aggregate level maintained a marginally higher relative run-rate.

Key Fiscal Variables (Cumulative position, as of February)

	% of FY Actual/Target		%YoY	
	FY24	FY25	FY24	FY25
Revenue Receipts	81.0	81.2	11.6	13.5
Net Tax	79.5	78.8	6.8	9.0
Non-Tax	89.7	92.9	44.9	36.9
Non-Debt Capital Receipts	59.8	63.3	-38.6	3.4
Total Receipts	**80.5**	**80.9**	**10.1**	**13.4**
Revenue Expenditure	84.2	83.3	1.3	4.7
of which, Interest Payments	*82.8*	*83.7*	*10.2*	*8.2*
of which, Major Subsidies	*87.3*	*94.7*	*-21.4*	*0.6*
Capital Expenditure	84.9	79.7	36.5	0.8
Total Expenditure	**84.4**	**82.5**	**7.3**	**3.9**
Fiscal Deficit	**90.8**	**85.8**	**-**	**-**

FY26 Union Budget: At a glance

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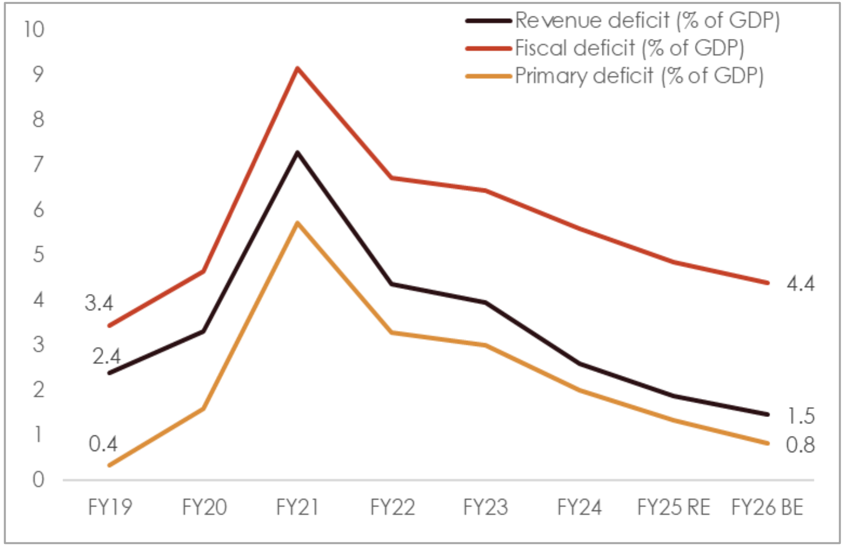
The government revised its target lower for FY25 fiscal deficit to 4.8% of GDP from 4.9% earlier. For FY26, the Union Budget projects a fiscal deficit ratio of 4.4%, the lowest in the post-COVID phase. At a headline level, the entire compression in fiscal deficit in FY26 is budgeted to be driven by curbing revenue expenditure by 40 bps.

	In Rs bn			As % of GDP		
	FY24	**FY25 RE**	**FY26 BE**	**FY24**	**FY25 RE**	**FY26 BE**
Revenue Receipts	27,290	30,880	34,204	9.2	9.5	9.6
Gross Tax Revenue	34,655	38,535	42,702	11.7	11.9	12.0
Net Tax Revenue	**23,273**	**25,570**	**28,374**	**7.9**	**7.9**	**7.9**
Non-Tax Revenue	**4,018**	**5,310**	**5,830**	**1.4**	**1.6**	**1.6**
Dividends & Profits	1,709	2,893	3,250	0.6	0.9	0.9
Non-Debt Capital Receipts	**598**	**590**	**760**	**0.2**	**0.2**	**0.2**
Disinvestments	331	330	470	0.1	0.1	0.1
Total Expenditure	44,434	47,165	50,653	15.0	14.6	14.2
Revenue Expenditure	**34,943**	**36,981**	**39,443**	**11.8**	**11.4**	**11.0**
Interest Payment	10,639	11,379	12,763	3.6	3.5	3.6
Subsidy	4,349	4,279	4,262	1.5	1.3	1.2
Capital Expenditure	**9,492**	**10,184**	**11,211**	**3.2**	**3.1**	**3.1**
Revenue Deficit	7,652	6,101	5,238	2.6	1.9	1.5
Fiscal Deficit	**16,546**	**15,695**	**15,689**	**5.6**	**4.8**	**4.4**
Primary Deficit	5,908	4,316	2,926	2.0	1.3	0.8

FY26 revenue deficit to be below pre-COVID level; borrowings to remain ranged

Revenue deficit is budgeted to moderate to an 18-year low of 1.5% of GDP in FY26. Primary deficit is gradually getting aligned with its pre-COVID level.



The Budget pegs FY26 gross and net market borrowings at Rs 14.8 tn and Rs 11.5 tn respectively. The increase in net g-sec borrowing in FY26 is inorganic in nature due to higher than budgeted buybacks (GoI conducted Rs 882 bn worth of buyback in FY25 against its budgeted target of Rs 302 bn). Seen as a ratio to GDP, FY26 net g-sec borrowing stands at 4-year low of 3.0%.

Key Sources of Financing Fiscal Deficit (Rs bn)

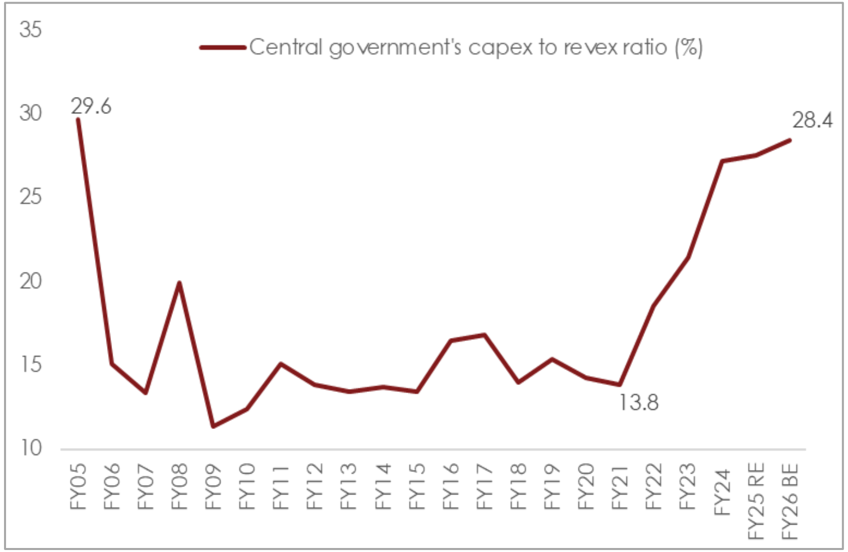
	FY24	FY25 RE	FY26 BE
External Debt	551	320	235
Net Market Borrowing	12,261	9,851	11,538
G-Sec	**11,778**	**10,745**	**11,538**
T-Bill	483	-895	0
Small Savings	4,514	4,119	3,434
State Provident Funds	51	50	50
Others*	-838	-45	407
Cash Drawdown	8	1401	25
Total	16,546	15,695	15,689

* Includes Internal Debt and Public Account (other than SPF)

We expect the FY26 fiscal deficit target of 4.4% of GDP to be met.

Expenditure quality to get healthier in FY26; New operational target from FY27

Notwithstanding the pruning of overall expenditure, the spending mix is set to improve further in FY26, with the capex/revex ratio budgeted to increase to its highest level in 21-years.



The central government will switch to a debt targeting framework from FY27. As per the budget documents, the central government would endeavour to keep fiscal deficit in each year from FY27 such that the central government debt is on declining path towards the range of 49-51% of GDP by FY31 vis-à-vis 56.1% projected for FY26.

FY26 Union Budget's projection of central government's debt (% of GDP) by FY31

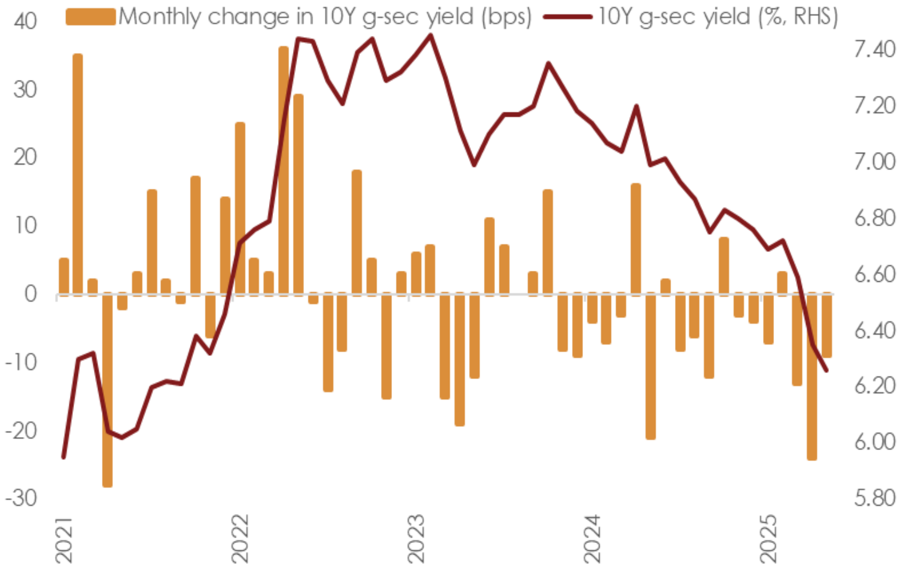
	Mild Case	Moderate Case	High Case
FY31 (Projected with 10.0% Nominal GDP growth)	52.0	50.6	49.3
FY31 (Projected with 10.5% Nominal GDP growth)	51.0	49.7	48.4
FY31 (Projected with 11.0% Nominal GDP growth)	50.1	48.8	47.5

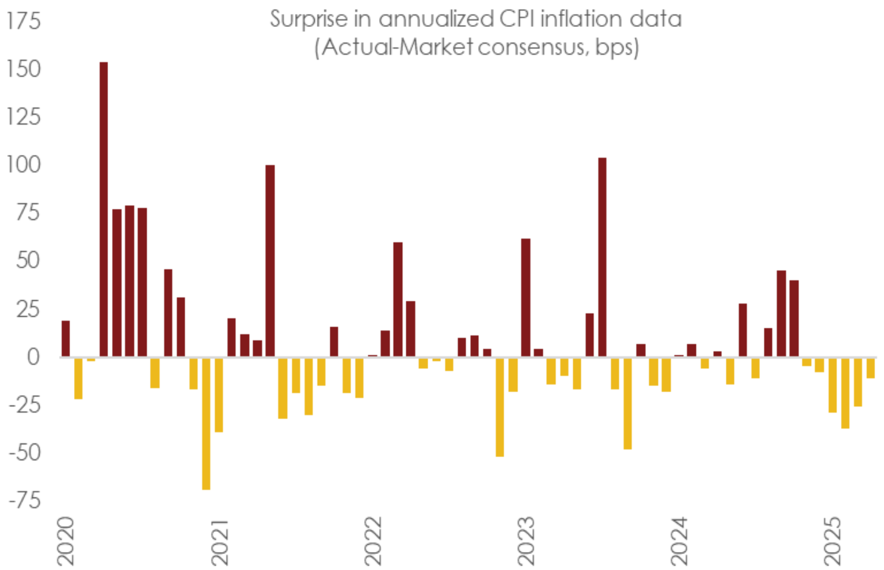
Note: Central government debt as per FY25 RE and FY26 BE is at 57.1% and 56.1% of GDP respectively.

Moderation in yields continues

The 10Y g-sec yield eased to a 44-month low of 6.27% in May-25 do far. Over the last 3 months, the 10Y yield has fallen by 45 bps.

While CPI inflation has undershot the 4% target for three consecutive months, it has posted a downward surprise for six straight months in a row. This shows that market participants underestimated the extent of price correction in last six months.



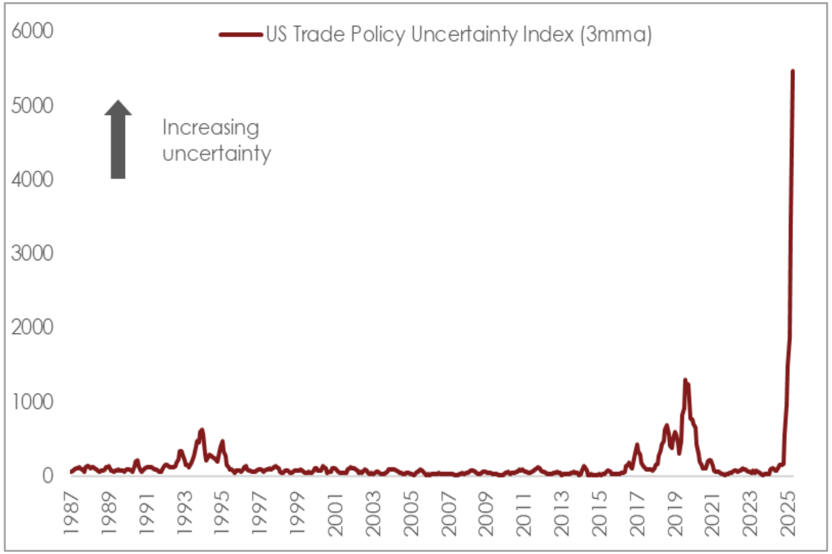


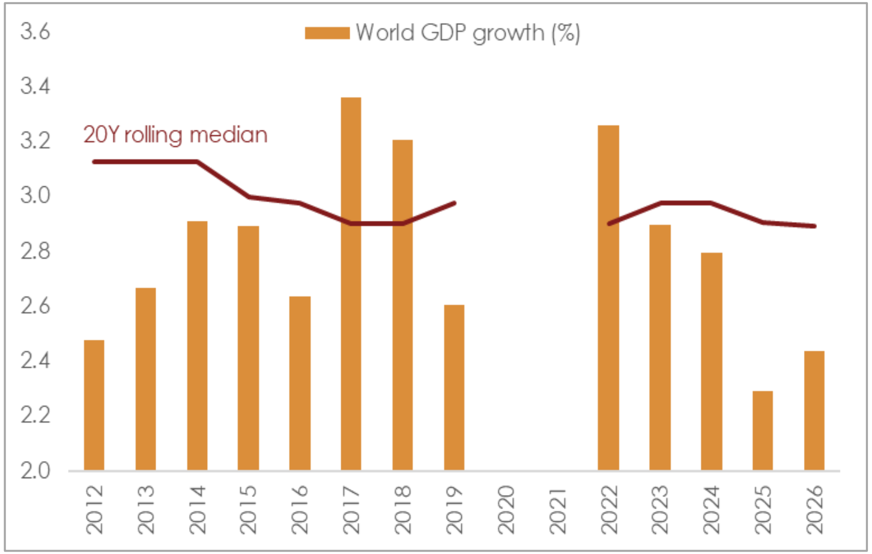
Note: Median values from Reuters poll is used as a proxy for market consensus.

Uncertainty on global growth persists

Heightened uncertainty on account of US tariffs is likely to weigh upon global trade. The WTO expects the volume of world merchandise trade to contract by 0.2% in 2025 compared to 2.9% expansion in 2024.

As such, the IMF now projects global growth to decelerate to 2.8% in 2025 from 3.3% in 2024, with risks tilted to the downside. Notably, World GDP growth* has undershot its long term trend of ~3% in 2023 and 2024 – this underperformance is now projected to widen significantly in 2025 and 2026.



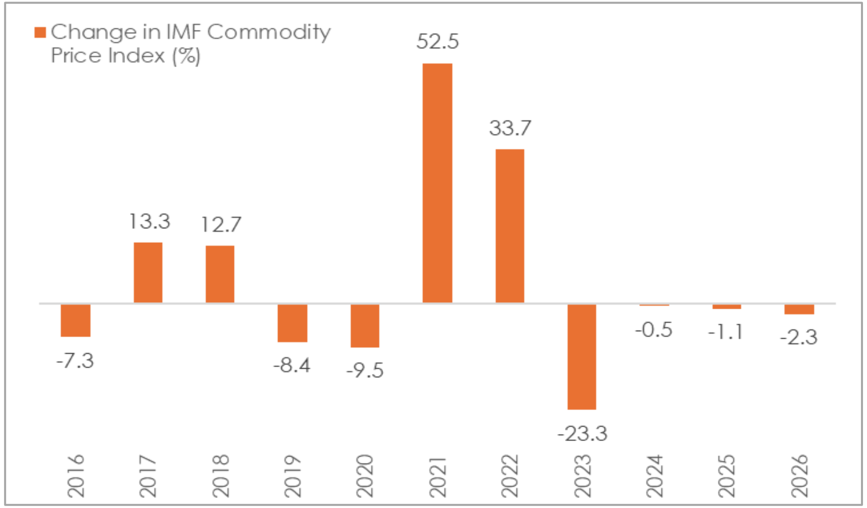


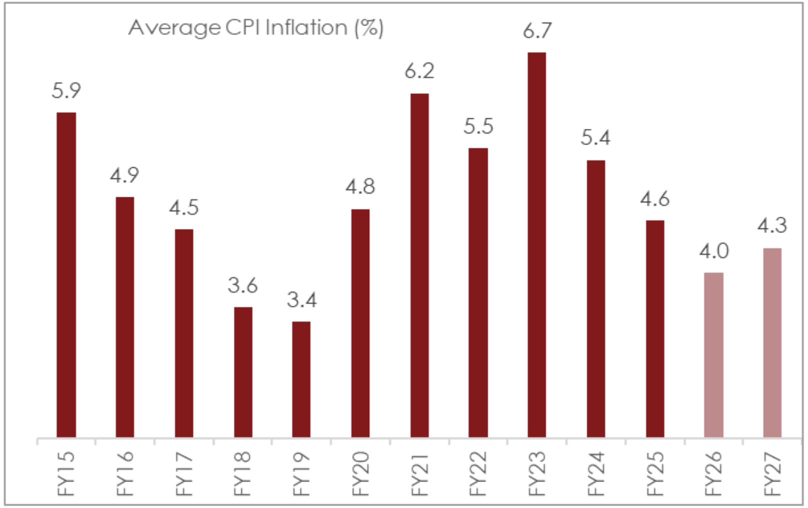
* As per market exchange rates provided by the IMF.

Inflation could reap the collateral benefits

With global growth momentum likely to decelerate, commodity prices could carry a downside. The IMF projects 1.1-2.3% fall in the price of its generic commodity price basket in 2025 and 2026. Specifically, price of Brent crude has eased to an average of USD 67 pb in FY26 so far from an average of USD 79 pb in FY25.

The RBI expects CPI inflation to align with the target – and projects it at 4.0% and 4.3% in FY25 and FY26. In addition to the support from global commodity prices, IMD's forecast of 5% surplus rainfall in the southwest monsoon season would play a key role.



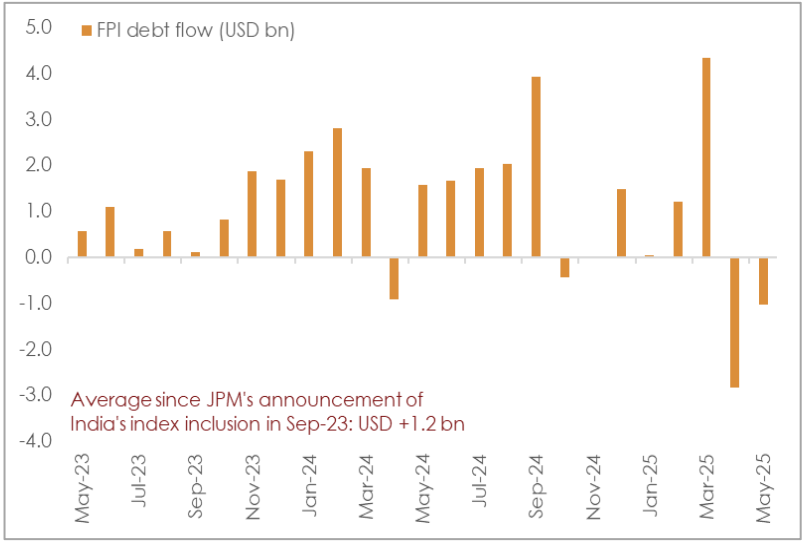


OMOs continue to improve the supply-demand balance

The RBI has also been conducting OMO purchases to infuse durable liquidity. Since Jan-25, the central bank has purchased Rs 5226 tn g-secs – this exceeds the cumulative net g-sec issuance of Rs 4566 bn over the corresponding period.

	Net g-sec issuance (Rs bn)	Net OMO purchase (Rs bn)	OMO purchase as % of net issuance
Jan-25	1100	588	53.5
Feb-25	1250	800	64.0
Mar-25	320	1445	451.6
Apr-25	1250	1200	96.0
May-25	646	1192	184.5

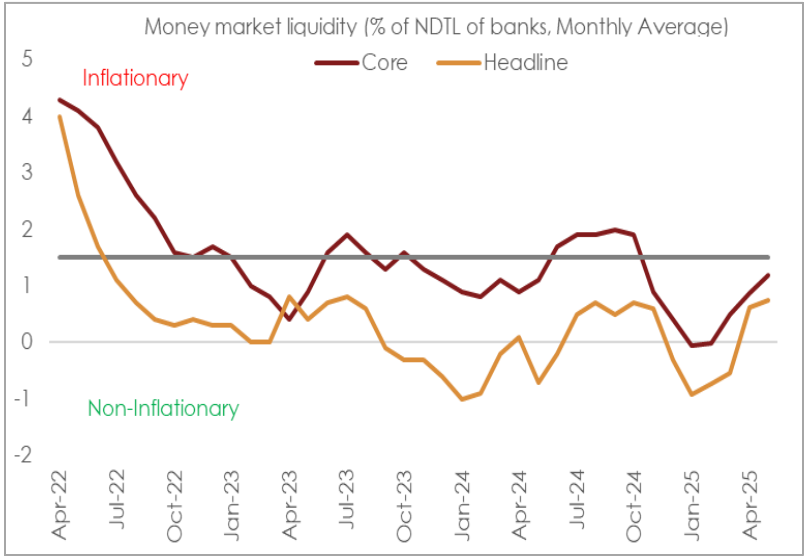
Notwithstanding the FPI debt outflow of USD 3.9 bn in FY26 so far, the FPIs have been active investors in India's g-secs since the announcement of the index inclusion in Sep-23. As global risk aversion moderates and regulatory easing with respect to compliance ease, FPI debt flow could regain momentum in the coming quarters.

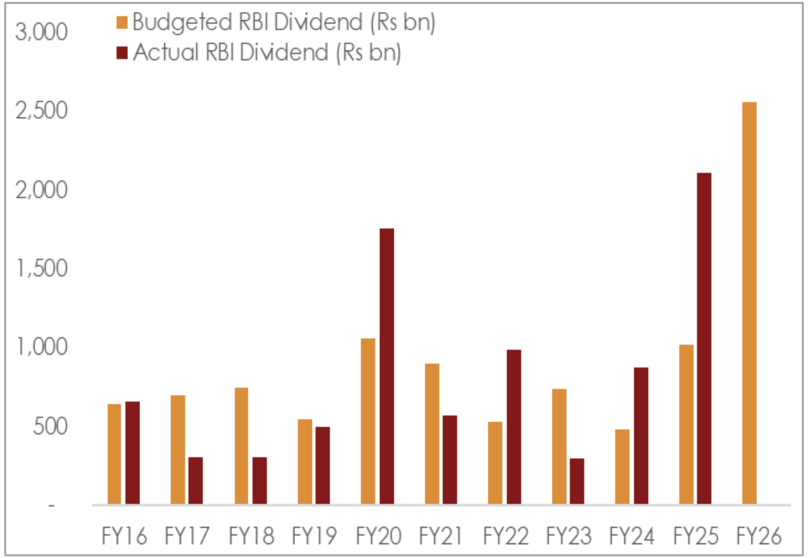


Rates outlook

The RBI has cumulatively infused Rs 8.57 tn of durable liquidity via CRR cut, OMO purchases, and buy-sell FX swap since Dec-24. The headline and core liquidity has averaged 0.8% and 1.2% of NDTL in May-25 so far.

Although the FY26 Union Budget has made provision for close to Rs 2.5 tn RBI dividend income, the market participants expect it to be somewhat higher, in the Rs 2.5-3.0 tn range. This will further boost liquidity.

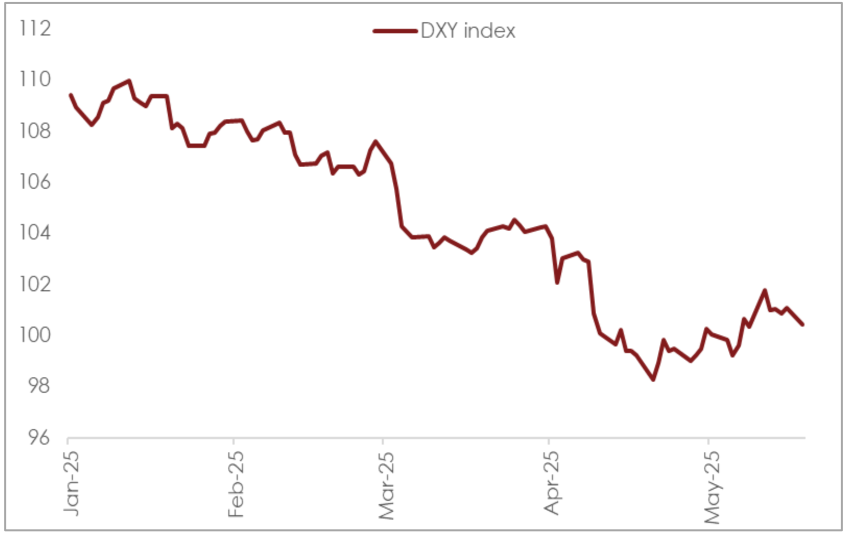




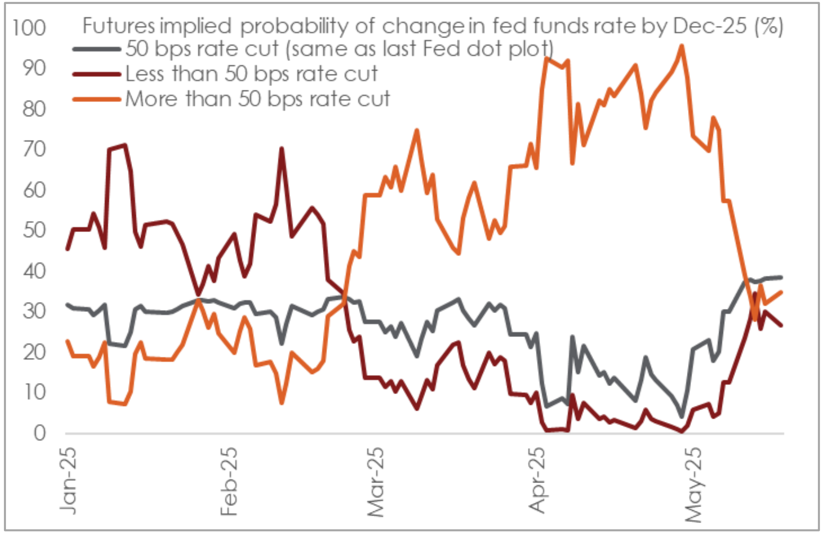
Post the downward revision in CPI inflation forecast, we now expect 10Y g-sec yield to drift lower towards 6.00% before end Mar-26.vs. our earlier expectation of 6.20%.

USD regains partially

After losing 9.4% in 2025 until Apr 21st, the DXY index has recovered 2.2% thereafter.



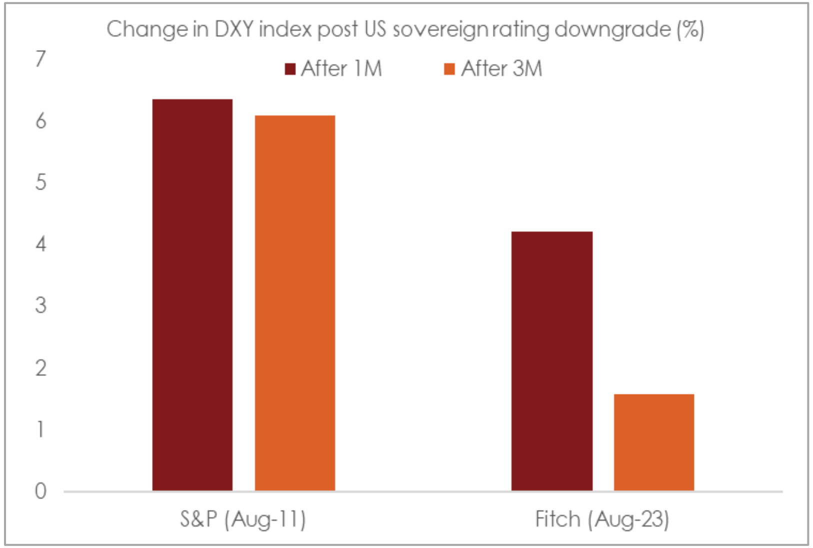
The recovery in the USD has come about as market participants scaled back their aggressive rate easing expectations from the Fed, which appears to be focused on controlling above-target inflation. Notwithstanding the recent deterioration in sentiment indicators, the Fed seems to be guided by actual real activity indicators for now.

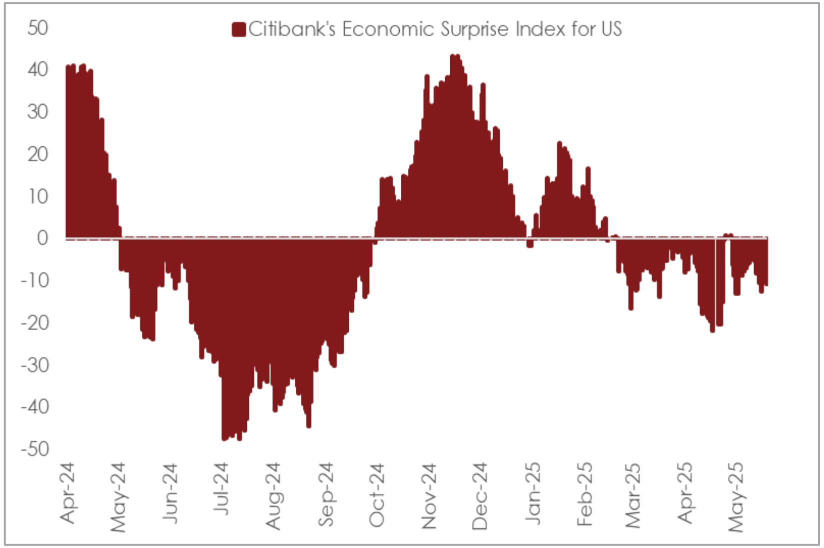


However, USD is away from its recent peak

Moody's downgraded US sovereign credit rating to Aa1 from Aaa earlier on fiscal and debt concerns. Now US no longer enjoys pristine credit quality status – S&P and Fitch had downgraded it earlier in Aug-11 and Aug-23 respectively. Previous episodes of downgrade resulted in USD strength, with reduced intensity. The recent downgrade by Moody's is unlikely to cause much impact.

Meanwhile, notwithstanding some moderation, negative data surprises continue to emerge from the US. This is posing near term headwinds for the USD.

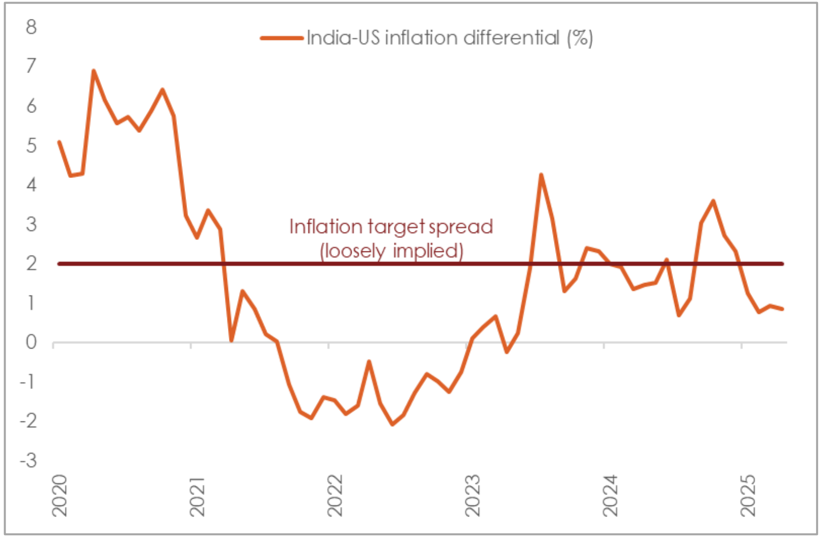


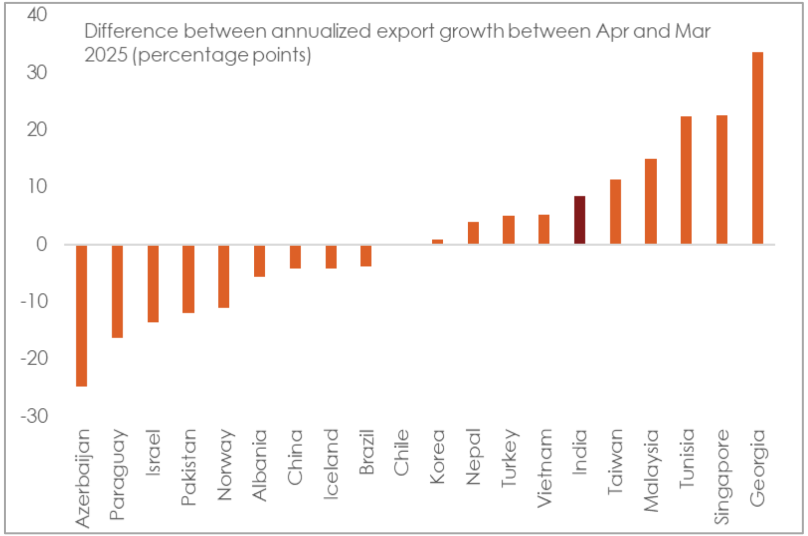


Meanwhile, INR enjoys strategic gains

Fast deceleration in India's inflation compared to US has turned the inflation spread in favor of India. CPI inflation spread between India and US has been under 2 percentage points over Jan-Apr 2025.

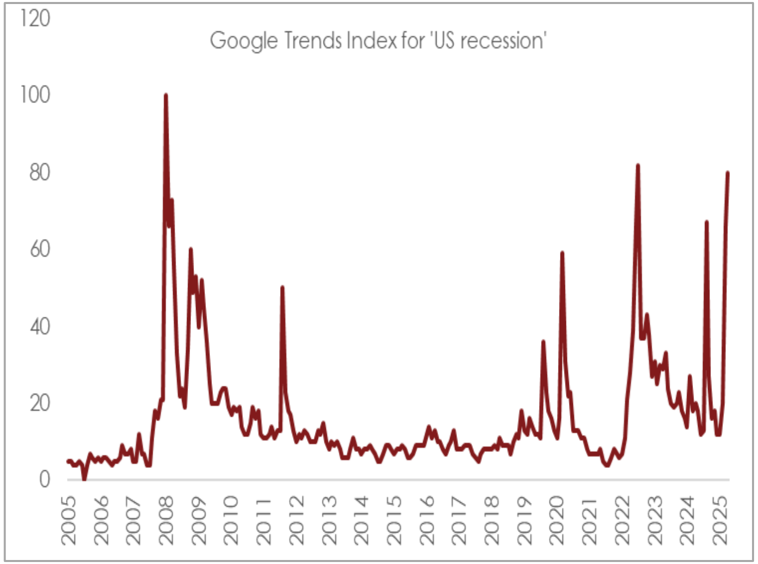
Notwithstanding elevated trade uncertainty on account of US tariffs, India's exports momentum fared relatively better in Apr-25 vs. Mar-25. Fast progress on the India-US BTA could potentially help in the near-to-medium term.



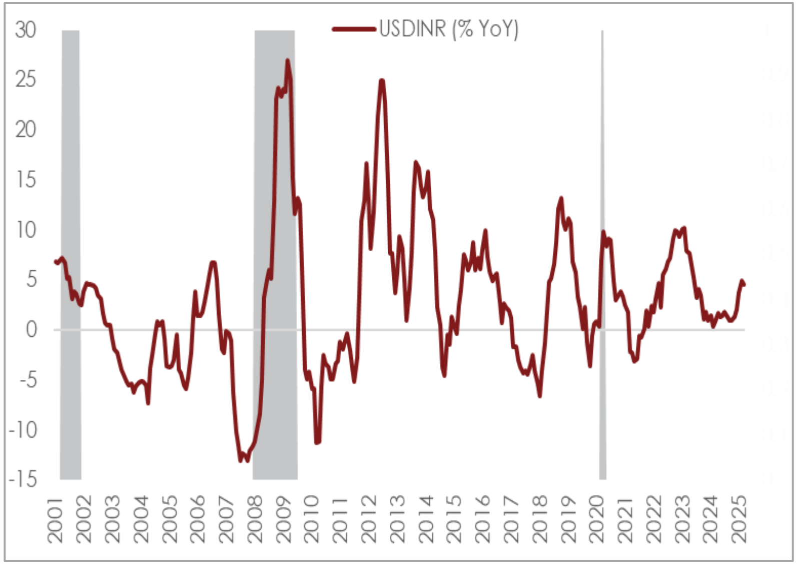


However, heightened global trade uncertainty could provide risk

The volatile communication around US tariffs and its unpredictability is stoking concerns over a potential sharp loss in US growth momentum.



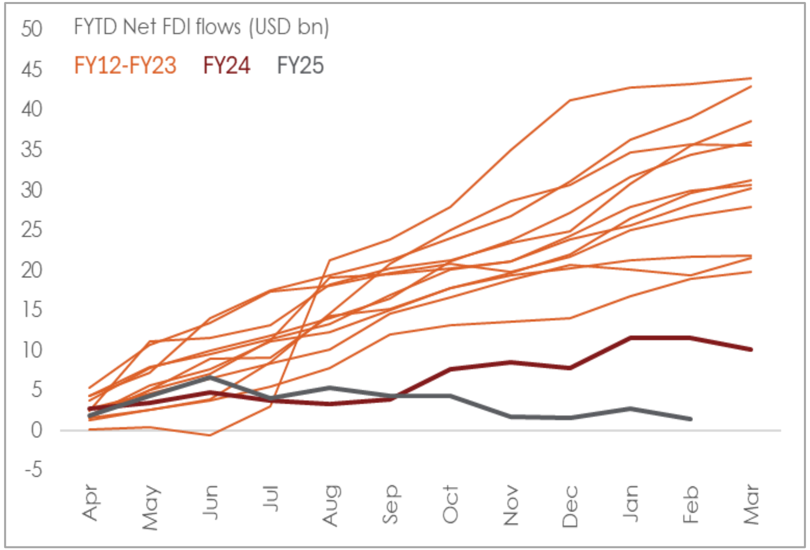
Past episodes of US recession have coincided with INR depreciation pressures. Having said, it remains to be seen if the current unique position of loss in US economic credibility will cause a similar outcome in global FX market.

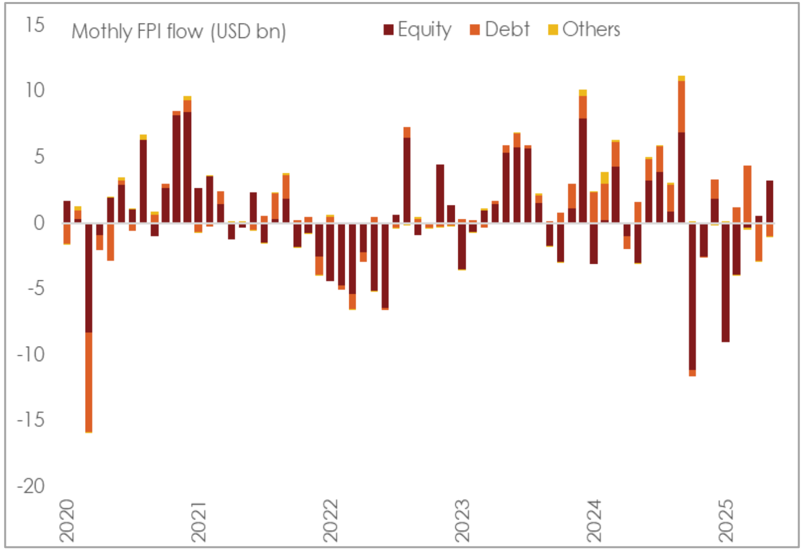


Foreign investment flows have been weak

Weakness in net FDI flows has accentuated since FY24 on account of a pick-up in repatriation by MNCs/PE investors. In FY25, net FDI flows have plummeted to an anemic level of just USD 1.5 bn between Apr-Feb.

Meanwhile, FPI flows continue to remain weak as well as volatile on account of elevated geopolitical and geoeconomic uncertainties. After recording a subdued inflow of USD 2.7 bn in FY25, FPIs have sold USD 0.2 bn worth of domestic equities and bonds in FY26 so far.

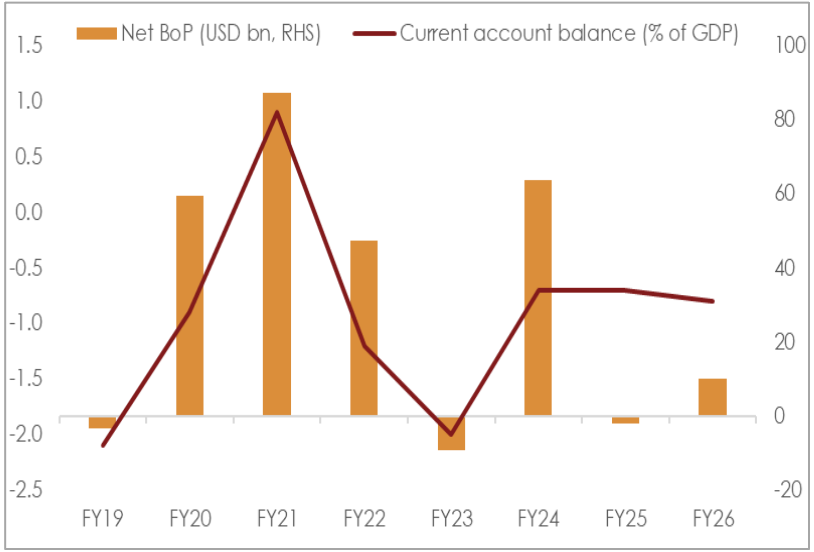


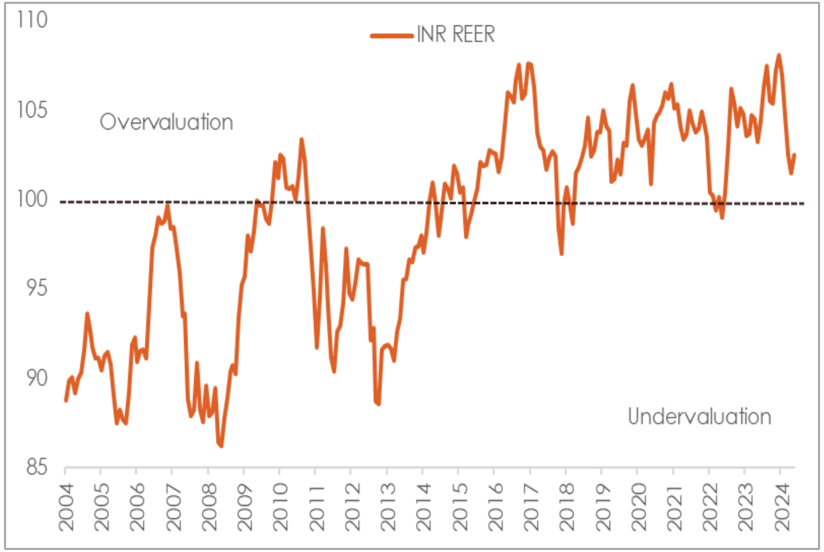


Rupee outlook

We expect FY25 current account deficit at 0.7% of GDP, accompanied by a BoP deficit of USD 2 bn. For FY26, we maintain our CAD forecast of 0.8% of GDP, accompanied by a BoP surplus of USD 10 bn.

Basis REER, we estimate INR to be ~4% overvalued (as of Apr-25) vis-à-vis its long period average. INR overvaluation levels have dropped considerably in last 5 months and now no longer give an impression of being stretched. This will curb excessive incremental pressure for INR weakness.



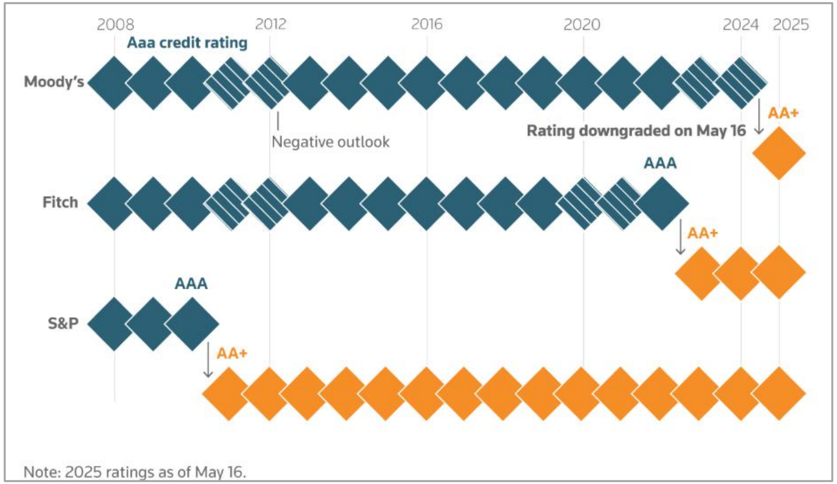


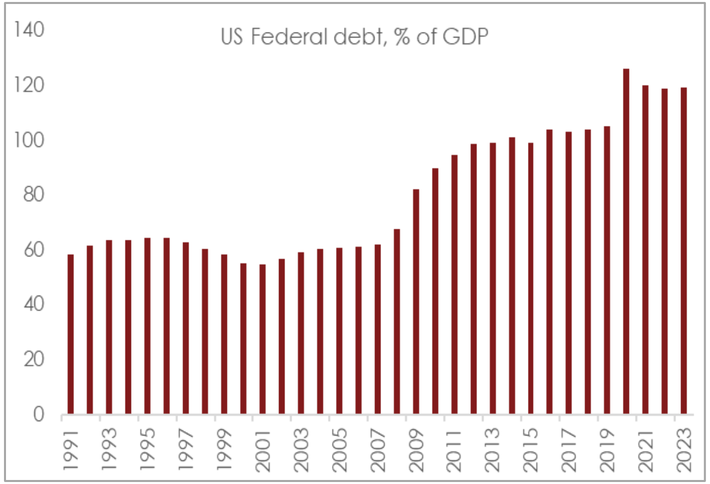
Considering the known-unknown geopolitical and geoeconomic risks, we maintain our USDINR call of 89.5 before end FY26.

Moody’s US downgrade

Moody’s Ratings stripped the US government of its top credit rating, from a gold-standard Aaa to Aa1. Moody’s is the last of the three major rating agencies to lower the federal government’s credit rating. Standard & Poor’s downgraded federal debt in 2011 and Fitch Ratings followed in 2023.

Moody’s expects federal deficits to widen, driven mainly by increased interest payments on debt, rising entitlement spending, and relatively low revenue generation

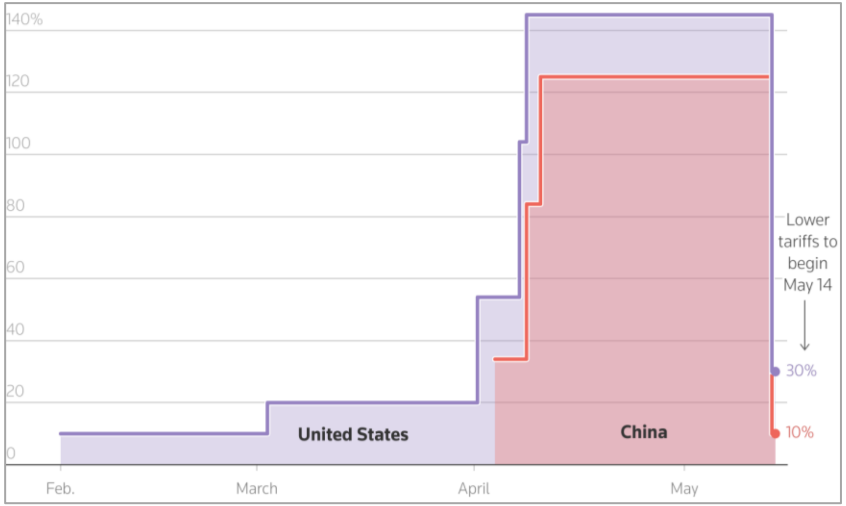


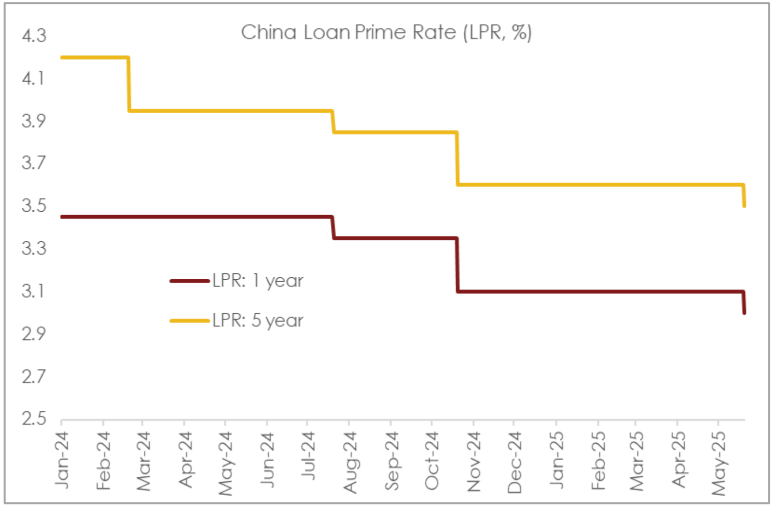


Tariff truce: US and China renegotiating

US and China announced on 12th May-25 that they would slash reciprocal tariffs on for a period of 90 days. The US has cut tariffs imposed on Chinese imports to 30% from 145% earlier while China has reduced duties on US imports to 10% from 125%

The tariff truce implies upward revision to China's 2025 GDP growth forecasts, along with odds of a US recession easing. In a bid to support growth, China cut its key lending rates by 10 bps on 20th May-25 for the first time in 7 months.

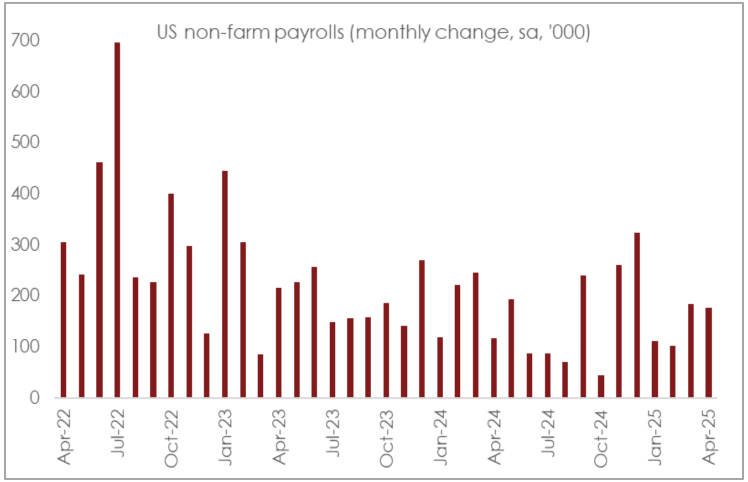


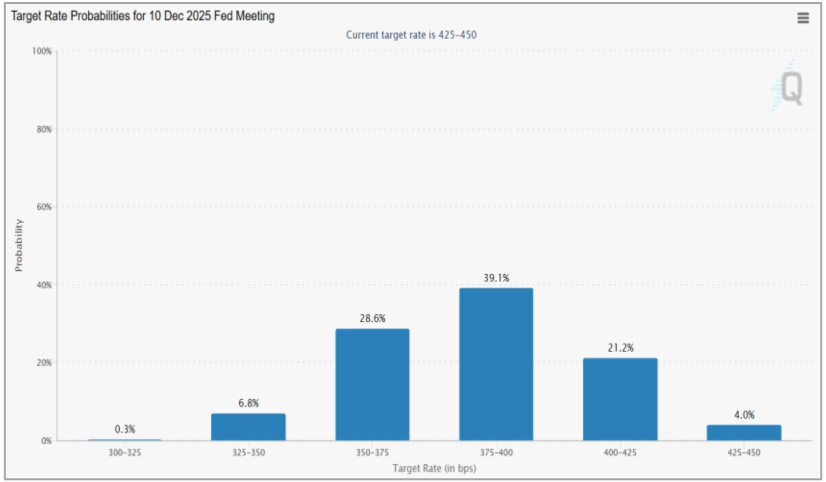


US economy: Market participants pare rate cut expectations

US Non-farm payrolls (NFP) rose by 177k in Apr-25, to beat market expectations of 130k increase. The unemployment rate remained unchanged at 4.2%

The continuing strength in US economic data coupled with easing of trade tensions between US-China, has pushed market participants to pare rate cut expectations by Fed to 50 bps (from 75-100 bps earlier) in 2025 now – in line with Fed's dot plot.





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