MONTHLY MACRO-INSIGHTS

NOVEMBER- 2025

Baroda BNP PARIBAS MUTUAL FUND

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Key Events October- Nov-2025…

- ❑ RBI in October policy kept the repo rate unchanged at 5.5% and stance 'neutral'. The policy was dovish with RBI highlighting space for rate cuts as growth concerns increase.

- ❑ The 56th GST Council meeting unanimously moved to the two rates: 5% and 18% with the special rate of 40% for limited goods.
- ❑ The net revenue loss to the indicated is Rs 480bn. We do not expect FY27 to show any negative impact on fiscal, as conversion of "GST Cess" into "GST" should offset the impact.
- ❑ Fiscal slippage risks are contained.

- ❑ FOMC cut the federal fund rate by 25bps to 3.75-4.00% with now concerns tilting towards labor market conditions.

- ❑ Brent prices declined to 64$/bl as geopolitical tensions eased.

- ❑ Domestic inflation eased to a series low of 0.25% y/y in October-2025.

- ❑ Central government announced its H2 FY26 borrowing program of Rs 6.77 tn, (45.8% of total), bringing the full-year FY26 borrowing to Rs14.72 tn (FY2026BE: Rs14.82 tn

- ❑ RBI on cumulative basis infused ~5 trn in FY26 through liquidity measures.

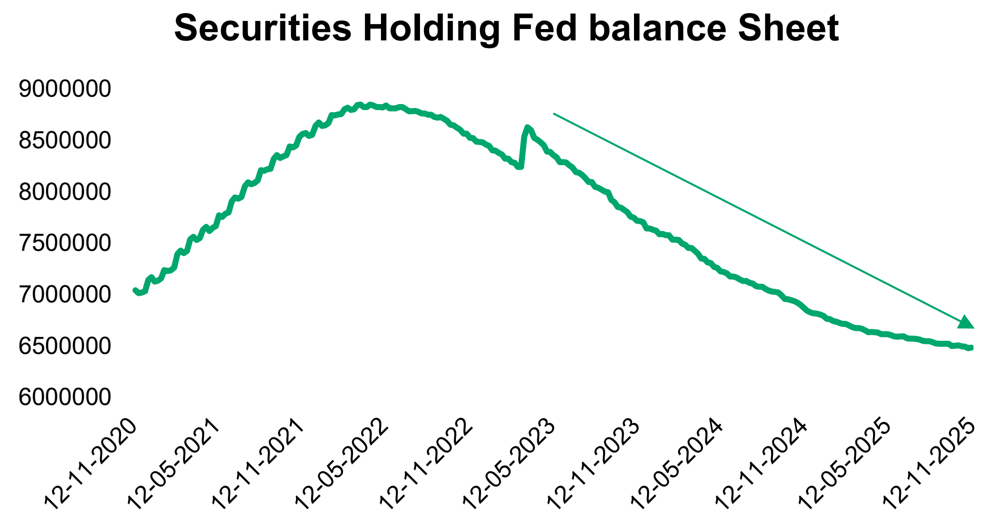
Source: BBNPP Research, Data as on November 20, 2025

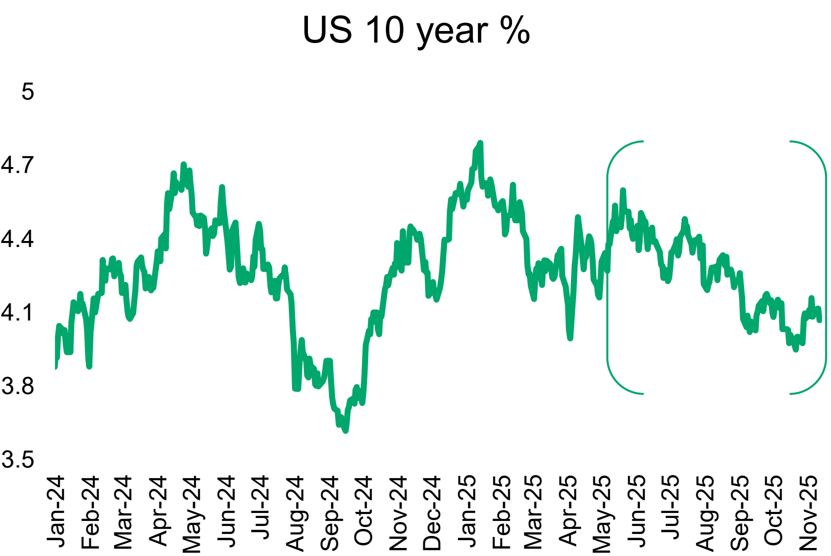
Global Economy

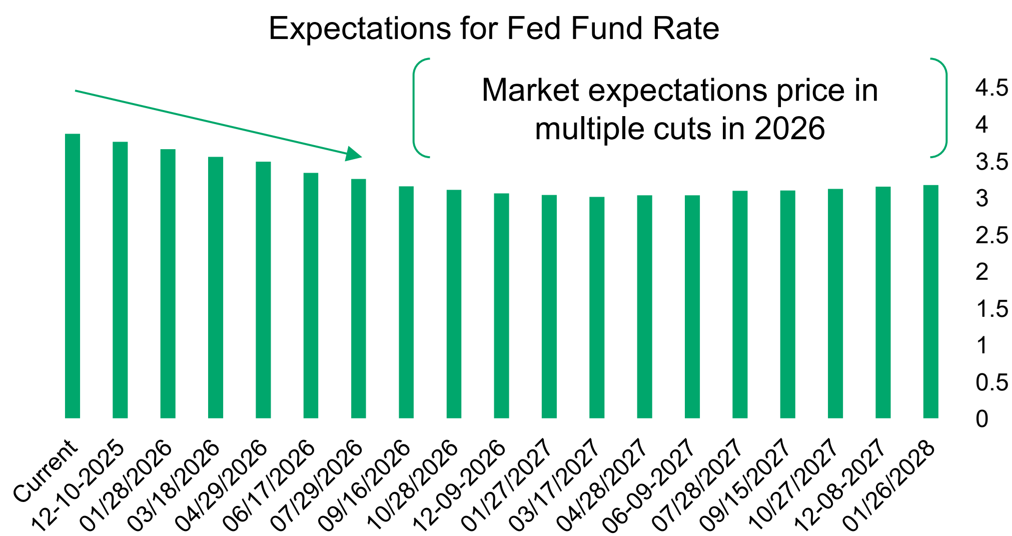
Fed cut !

FED marked the second rate cut in Oct-2025 reducing its policy rate by 25bps to 3.75-4%.
The key communication –
- A non-committal language on December cut.
- Fed announced it will halt balance sheet runoff from December 1st, citing tighter liquidity conditions.
- The monetary dynamics in US is back to uncertainty on rate cuts with government shutdown leaving data crunch.

Our View – Fed will has begun a slow rate cutting cycle, we expect the US money market liquidity situation to drive the benchmark rates lower.





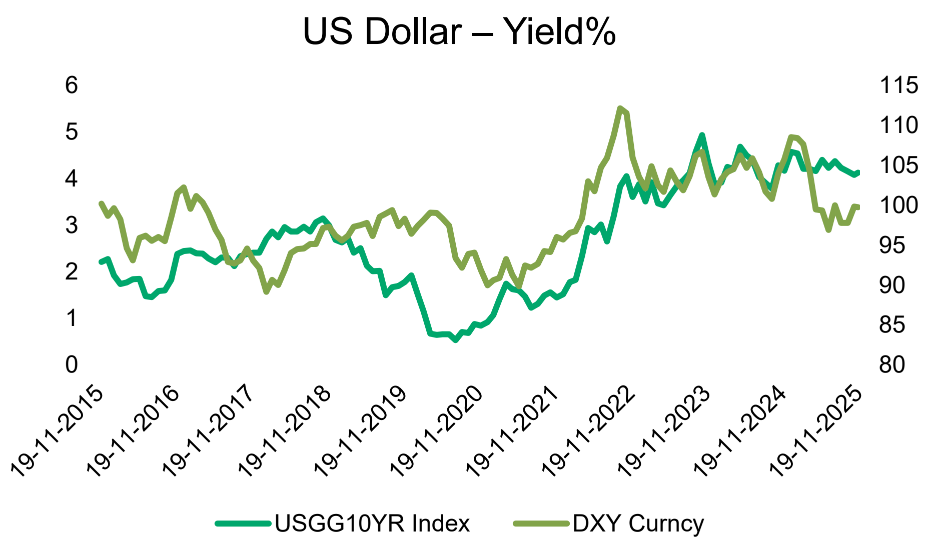


Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

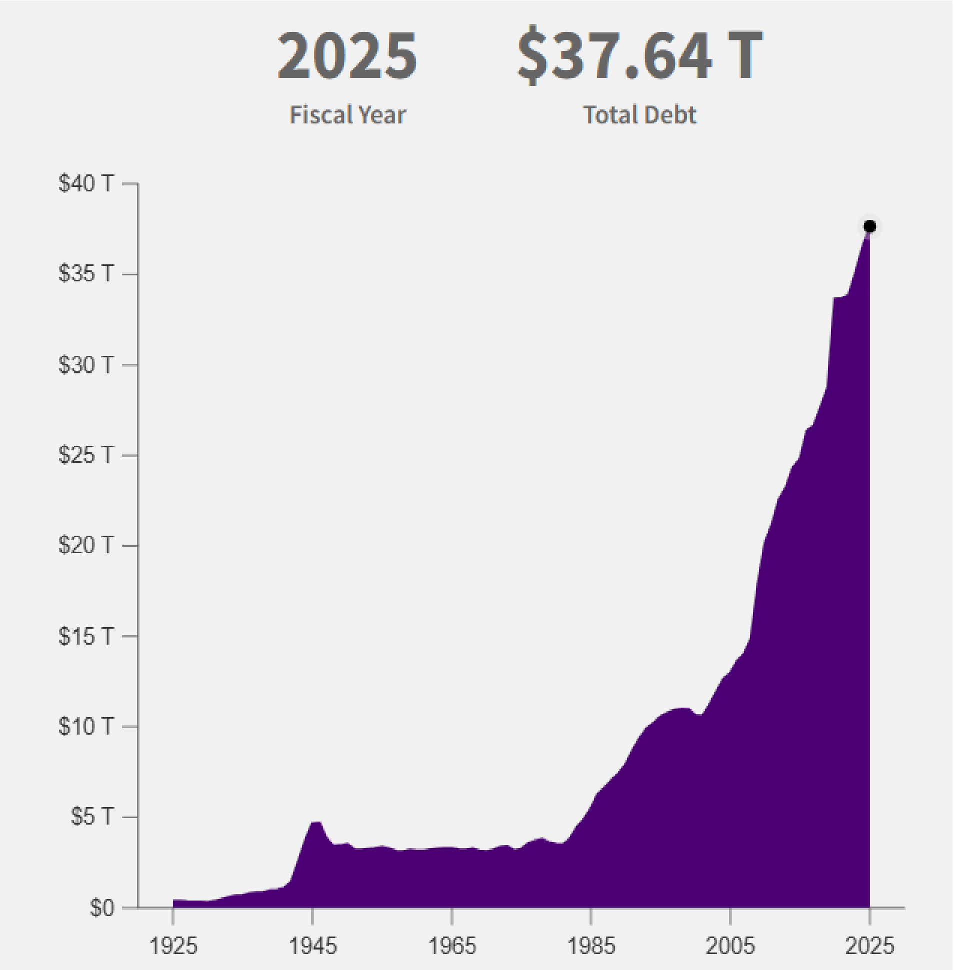
What ifs and What Can -

- The biggest pain point for US remains its national debt.
- The concerns on US debt issues have kept the yields elevated even post rate cut by FED.
- The dollar index has remained range bound reflecting the see saw of economic variables.

Our View – Expectations of higher nominal GDP growth is expected to keep the debt situation stagnant and current dynamics of AI boom will be the key changer of US growth story as reflected in dollar strength.



The Growing National Debt



Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

Japan – A political intersection

Japan Interest Rate

USD/JPY

- Japan’s 10-year government bond yield climbed above 1.77% amid rising fiscal concerns.
- Japanese yen depreciated further to 157 levels against USD.
- The duo saw a sharp movement post concerns on the new Prime Minister Sanae Takaichi’s stimulus package, which is expected to exceed 20 trillion yen double of last year.
- The massive spending plan has raised concerns about Japan’s fiscal health, when they haven’t really come out of inflation problem.

Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

Domestic Economy

RBI MPC October 2025 – A reluctant wait!

Key Policy Highlights –

- RBI revised its growth projections to 6.8% for FY26 driven by boost from rationalization of goods and services tax (GST) rates.
- Language on growth outlook highlighted significant concerns.
- **RBI Governor highlighted that the external environment has deteriorated since the August policy.**
- The space and intent to cut was visible in the policy language led by growth concerns.
- **The average headline inflation for 2025-26 has been revised lower at 2.6%.**

RBI Inflation Estimates	FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
October-2025 Policy	2.6	1.8	1.8	4	4.5
August-2025 Policy	3.1	2.1	3.1	4.4	4.9

RBI Growth Estimates	FY26	Q2 FY26	Q3 FY26	Q4 FY26	Q1 FY27
October-2025 Policy	6.8	7	6.4	6.2	6.4
August-2025 Policy	6.5	6.7	6.6	6.3	6.6

"The sobering of inflation has given greater leeway for monetary policy to support growth without compromising on the primary mandate of price stability."

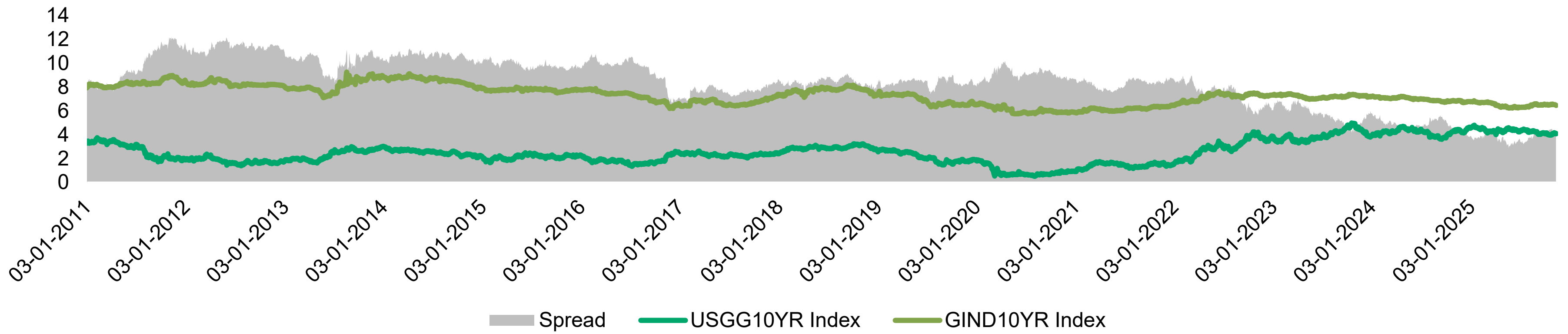
RBI Governor

Our View

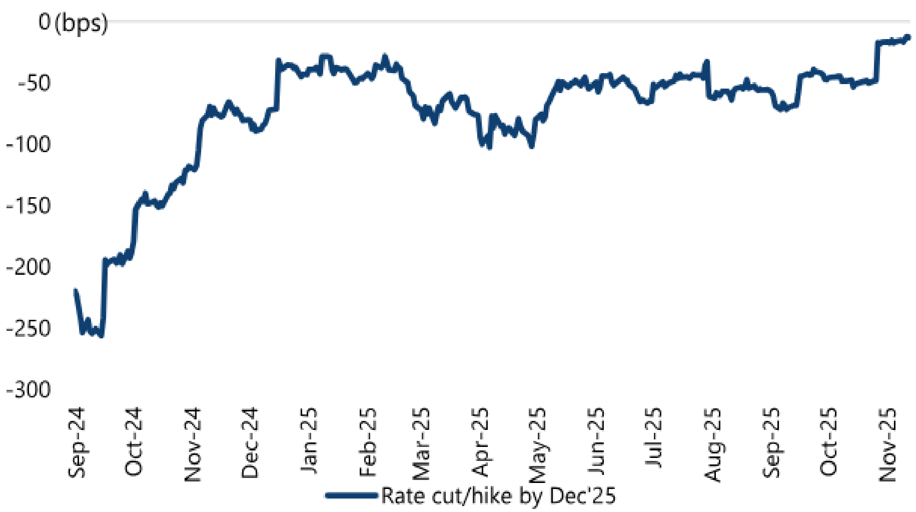
- The RBI's decision to keep the repo rate unchanged at 5.5% and maintaining a neutral stance signals a cautious and data-dependent approach amidst global and domestic uncertainties.
- However, Governor has provided the guidance for near term accommodation on the policy rates.
- GDP forecast has been raised to 6.80% from 6.5% but the statement "Lower than aspirational rates" says that monetary policy has more room for accommodation.
- The chances of December-25 rate cut have increased and at these elevated spreads gives a good opportunity for up to 5 year on corporate bond curve.
- RBI's forward guidance on space for rate cuts gives us confidence on growth supported future policy expectations.

Source: RBI, Data as on October 01st , 2025

The yields, spreads and flows



Fed rate cut expectation by Dec'25 (bps)



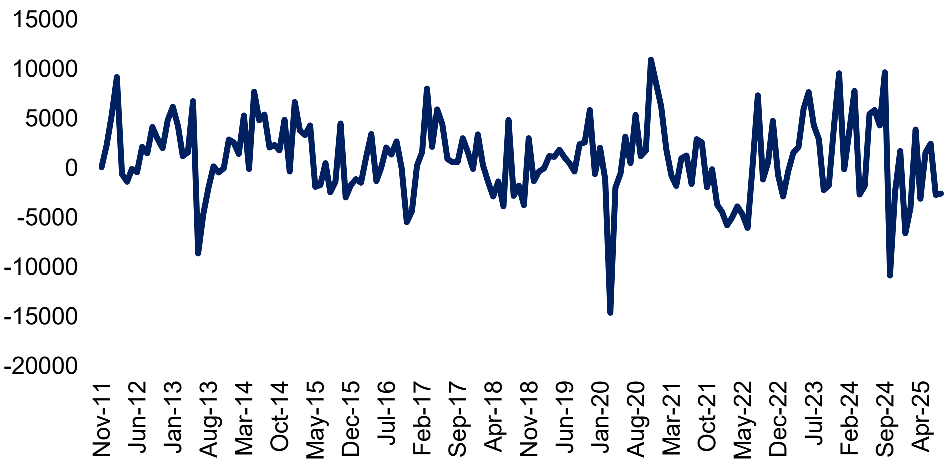
- Historically, the spreads between US and India rates have been around 400bps.
- Currently the spread has narrowed to ~250bps.
- The expectations of fed cuts have garnered pace.

We believe the spreads are not the only factors affecting flows, currency, inflation, growth and fiscal positioning of both countries also determine the flows.

Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

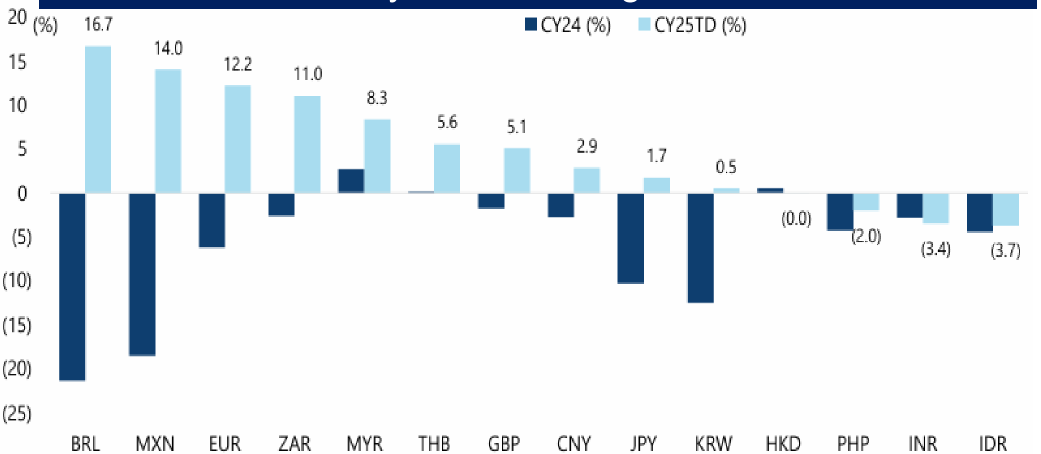
The probability of flows

Historic Net FPI Flows in USD millions

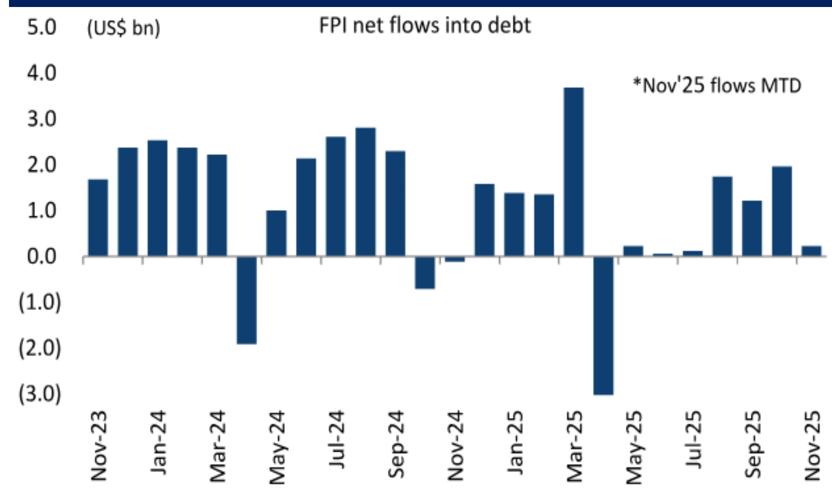


- As we saw in the previous slide, the expectations of Fed cuts have increased.
- This is expected to be positive for domestic debt flows.
- Supporting the same is the fact that INR has already depreciated by ~3.5% in CYTD'25.
- Secondly, the expectations of domestic rate cuts have increased post October inflation print which also makes an attractive case for Indian debt markets.

Currency movement against dollar

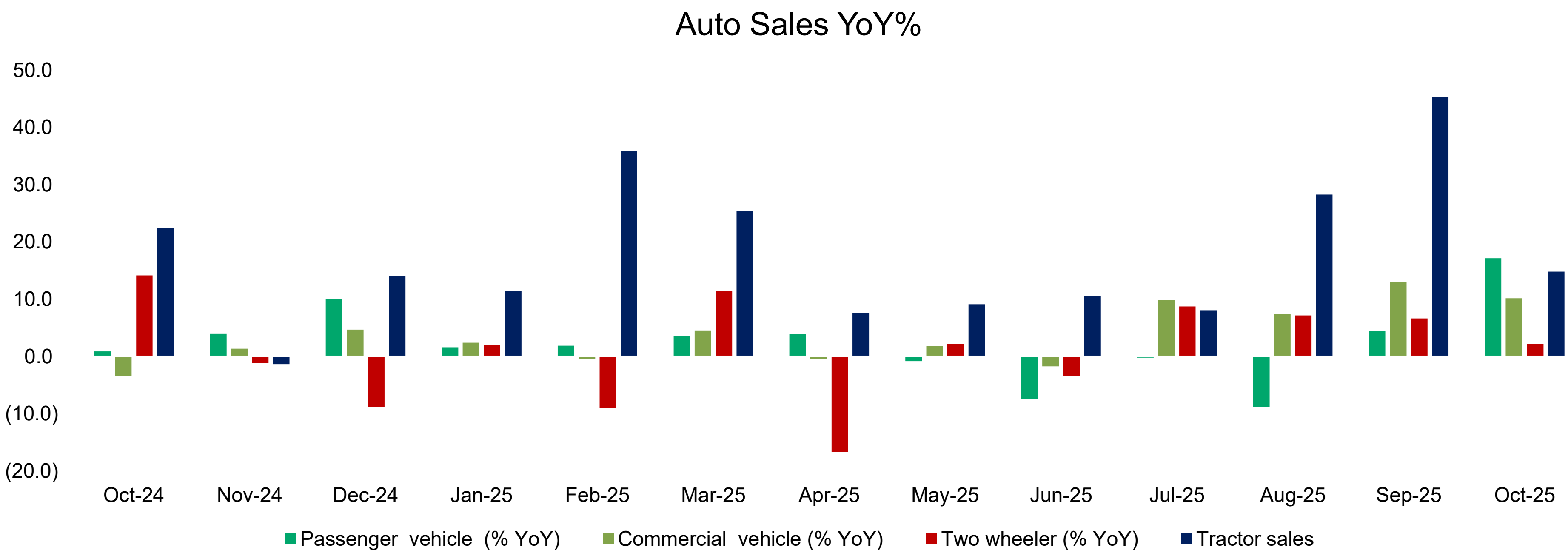


Flows in Domestic Debt Markets



Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

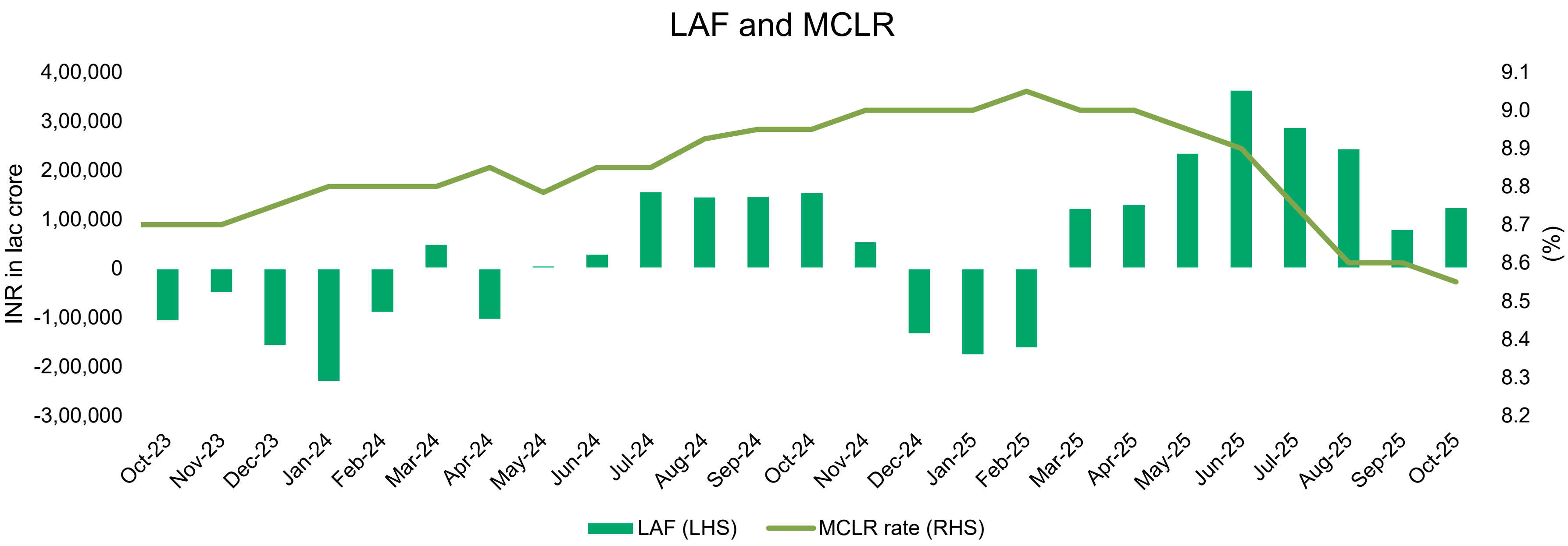
GST Cuts Push sales for biggest Industry!



- India's auto sales in October 2025 reached an all-time retail high, driven by pent-up demand, lower prices from a recent GST cut, and strong festive season sentiment, with significant growth in both the two-wheeler and passenger vehicle segments.
- It's important to note that auto sector remains one of the highest employment generating sector and the GST cuts pushed the passenger vehicle sales out from last 4 months contraction.

Source: Bloomberg, BBNPP Research, Data as on November 20, 2025

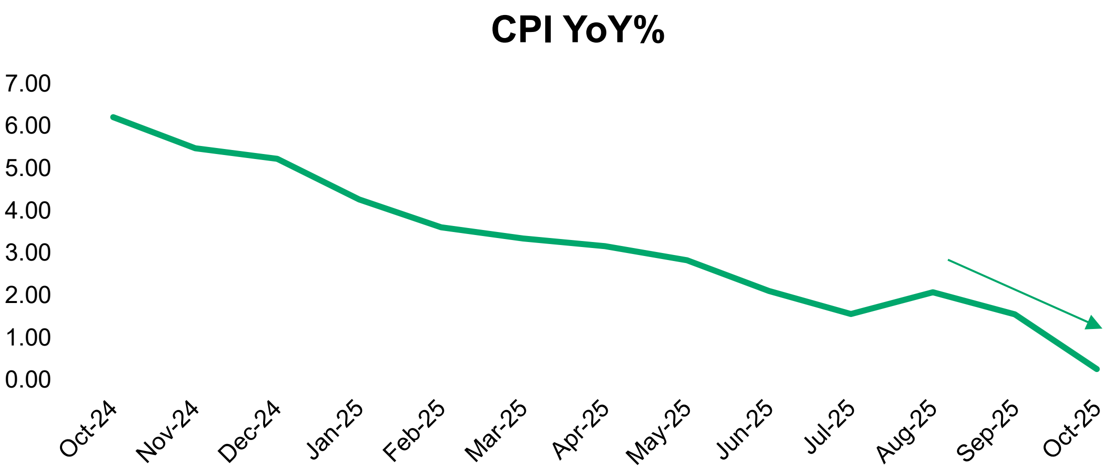
Improving Liquidity and Transmission of Rate cuts!

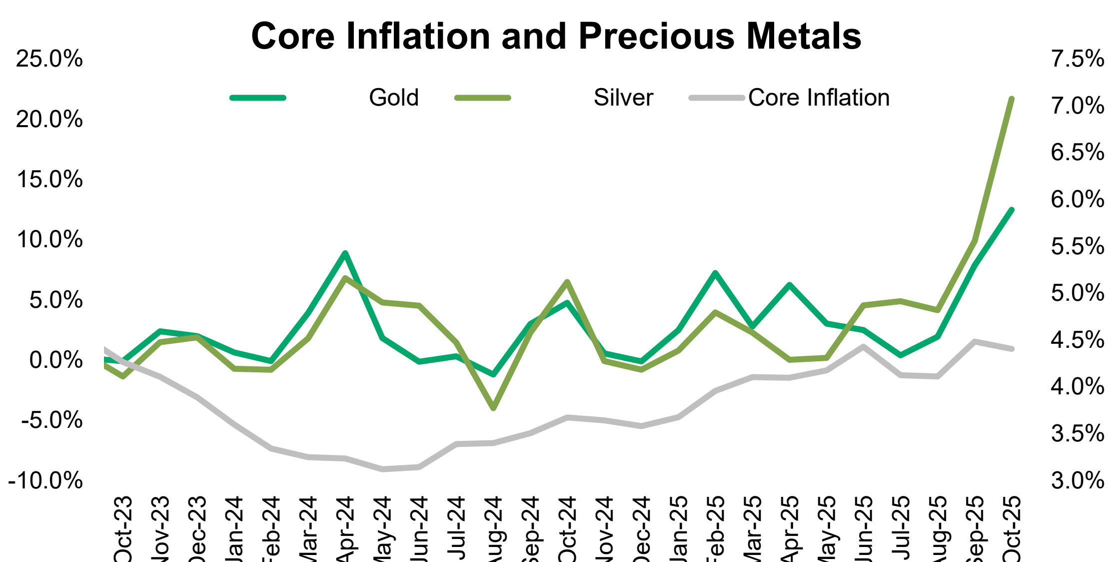


- Liquidity conditions moved to surplus zone towards the end of the month in October-2025 led by month end government spending.
- The RBI continued with Variable repo rate(VRR) auctions to manage overnight rates.
- Tracking the benchmark rates and liquidity MCLR rate softened further by 5bps in Oct-25.
- We expect liquidity surplus to remain comfortable supported by (1) G-sec redemption of ~Rs1 tn, (2) third tranche of CRR rate cut and (3) continued government spending.

Source: Bloomberg, RBI Data as on October 31st , 2025
MCLR- Marginal Cost of Lending rate
LAF – Liquidity Adjustment Facility

Domestic Inflation





- Headline CPI fell to 0.25% y/y in October-2025, the series all-time low. The decline was on account of lower food prices, GST cuts past through and favourable base effects.
- CPI inflation is expected to remain benign led by 1) Lower crude oil prices keeping input cost inflation under check 2) High-frequency food prices indicate a continued decline in food prices in Nov-25, Also, from Dec-2025 with the winter food crop arrival, food prices are expected to moderate further.
- With the impact of GST cut higher than anticipated in October itself, the inflation trajectory has softened further with FY26 inflation expected at 2.3%. The space to cut remains open as real rates look optically higher and RBI's intent to support growth was clearly visible last policy.

Source: RBI, Data as on October -2025

Decoding Yield Signals

Economic Variable	Our View	Impact on yields
Growth	Economic activity remains a fragile spot as external environment remains volatile.	↓
Inflation	Inflation trajectory looks optimistic, we expect inflation to average at 2.3% Y/Y in FY26.	↓
Domestic Liquidity	Recent measures by RBI has effectively tackled the deficit liquidity conditions and is in surplus mode.	↓
Fiscal Health	Government's outlook on fiscal consolidation remains positive for the bond markets. Some fiscal worries have popped up with recent GST cut announcements.	↔
RBI Monetary Policy	RBI MPC delivered another rate cut of 50bps, bringing down the repo rate to 5.50%.	↓
Global Commodities	Concerns on global economic outlook is visible in declining brent prices and softer commodity prices.	↓
Global Monetary Policy Stance	Global Monetary pivot has begun, tracking global inflation and growth dynamics.	↓

Source – Internal Research, Data as on 20.11.2025

Fixed Income Outlook - Opportunity Going forward!

US Monetary Shift – FED in October-25 policy delivered a rate cut and also mentioned end of quantitative tightening. The uncertainty on future cuts is contrary to our view of more cuts and quantitative easing soon to follow. The reason is that in the current Fed meeting, the governor highlighted rates inching up in the money market. Looking closely at the Interest rates on reserve balance (IORB), which averaged around 4.4% in September and 4.15% in October, considering the FED fund rate is at 4-4.25% the narrow spread highlights the tightness in the liquidity conditions in the US money market. Also, as the governor himself highlighted pressures on selected dates on use of standing repo facility (SRF). Such symptoms of tightening liquidity should be seen as the major mover for future rate cuts and quantitative easing.

Changing Policy Dynamics from August to October-25 - Since the August-25 policy, when the monetary policy committee (MPC) pointed to a limited room for supporting growth, policymakers now in October-25 MPC signal available policy space to aid growth. RBI's forward guidance on space for rate cuts gives us confidence on growth supported future policy expectations.

Elevated spreads and yields - We believe the recent sell off started since August-25 has created another opportunity for investors as it has resulted in valuation of securities to a reasonably attractive point wherein spreads of 10-year benchmark vs the overnight rate and SDLs/Long gsec versus the 10yr benchmark have reached the higher end of the trading range. The investors could benefit from further easing of rates in months ahead.

Fiscal concerns added to the woes But! – Fiscal concerns aided further rise in yields, but we do not expect GST rate cuts to be fiscally negative as we expect Government to benefit from higher volumes at lower GST rates along with other avenues to manage the deficit, if any.

INR took the hit - INR depreciation has resulted in INR valuation being closer to fair level and provides an attractive entry point from foreign investors in fixed income markets.

At last, the opportunity - Positive real rates of ~200 bps (1yr T-bill vs FY26 inflation), post RBI rate cut of 100 bps provides a fundamentally attractive case for remaining invested in fixed income assets. Benign inflation forecast of 2.6%, below RBI threshold of 4% for FY 26 and maintaining GDP forecast at 6.8% indicates a continuity of pro-growth-oriented policy mindset. Multiyear high spread between benchmarks and long end G-sec is expected to provide ample opportunity, with stable to lower rate view and comfortable macros.

Source – Bloomberg, RBI, Data as on 20.11..2025

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