Key Events up to Jan-2026

- ❑ India concluded a Free Trade Agreement (FTA), with European Union, with a combined market estimated at over USD 24 trillion.
- ❑ India concluded a Free Trade Agreement (FTA), with New Zealand and UK expanding trade opportunities.
- ❑ Gold prices made new highs, tracking above $5250 fueled by dollar substitution and uncertain geopolitical situation.
- ❑ Silver and Copper prices too increased to new highs led by supply issues and newly found demand in AI and clean energy sector.
- ❑ Domestic monetary policy remains accommodative on –
  - ❖ Another rate cut delivered in Dec-2025 policy, repo rate currently stands at 5.25%.
  - ❖ RBI announced more durable liquidity measures totaling to almost 2 Trillion (OMO purchase INR 1tn, USD 10bn FX swap and 90-day VRR worth INR 250bn).
- ❑ Consequently, domestic yield curve flattened with short end elevated due to high credit demand, whereas long end was supported by RBI OMOs and demand from long term investors.
- ❑ The INR reached a new low against the USD, aided by FPI outflows and uncertainty on US trade tariffs.
- ❑ India's key stats – CPI, GDP, IIP will undergo base year change from 2012 to 2024.

Source: BBNPP Research, Data as on January 26, 2026

US FOMC - A hawkish talk and A dovish walk!

FED marked the third rate cut in Dec-2025 reducing its policy rate by 25bps to 3.50-3.75%.

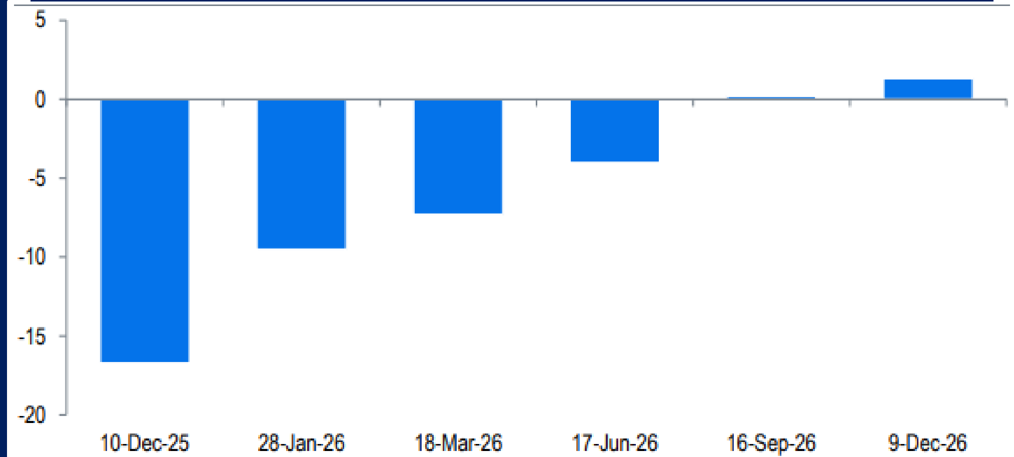
The key communication –

- The policy was an attempted hawkish cut but Fed's announcement of initiating purchases of shorter-term Treasury securities is onset of Quantitative easing therefore making the policy dovish effectively.
- The dot plot has projected only one cut in 2026 and 2027.

Our View – We believe the FED will continue to remain data dependent and the SEP (summary of economic projections) to align accordingly.

The key triggers on Fed's rate trajectory depends further clarity on US labor market conditions post government shutdown, US tariffs and its actual impact on inflation and tightness in US money markets.

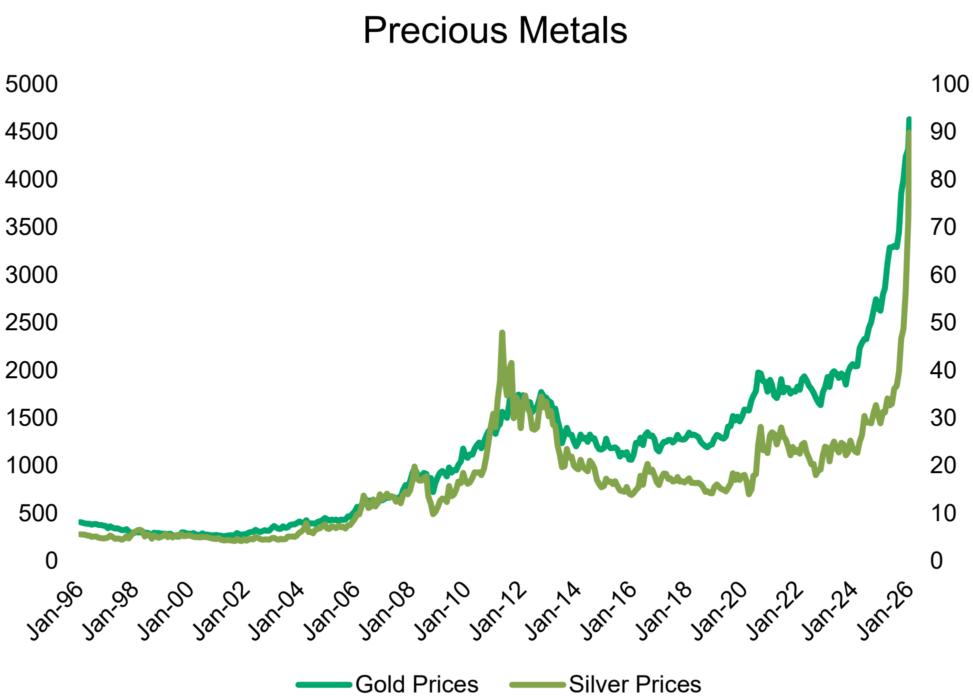
Medium-term FOMC expectation

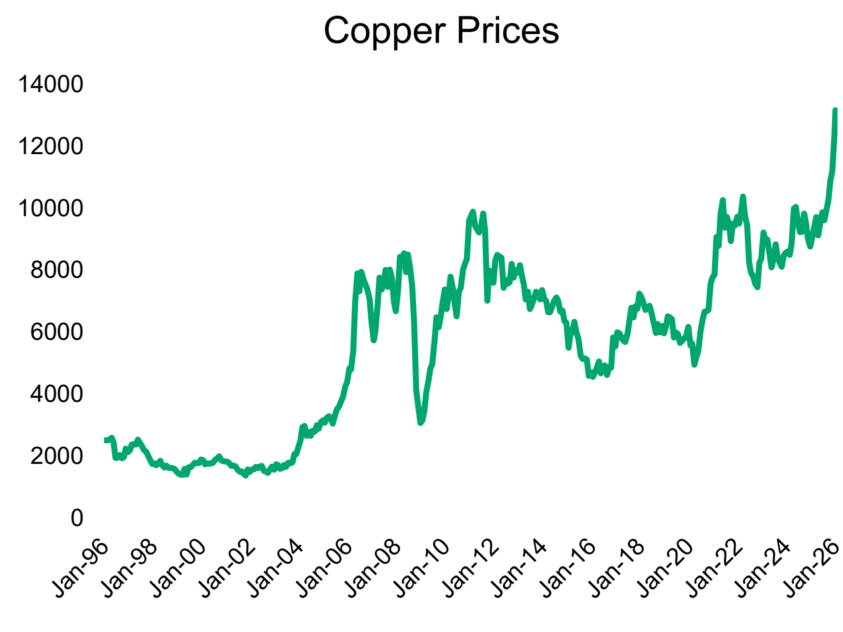


Year	Meeting	Real GDP	Unemployment rate	PCE inflation	Core PCE inflation	Fed funds rate
2025	Dec-25	1.7	4.5	2.9	3.0	3.6
	Sep-25	1.6	4.5	3.0	3.1	3.6
2026	Dec-25	2.3	4.4	2.4	2.5	3.4
	Sep-25	1.8	4.4	2.6	2.6	3.4
2027	Dec-25	2.0	4.3	2.1	2.1	3.1
	Sep-25	1.9	4.3	2.1	2.1	3.1
2028	Dec-25	1.9	4.2	2.0	2.0	3.1
	Sep-25	1.8	4.2	2.0	2.0	3.1
LR	Dec-25	1.8	4.2	2.0		3.0
	Sep-25	1.8	4.2	2.0		3.0

Source: Bloomberg, BBNPP Research, Data as on December 11th , 2025

Gold Prices – Reflecting Uncertainty and Global chaos!

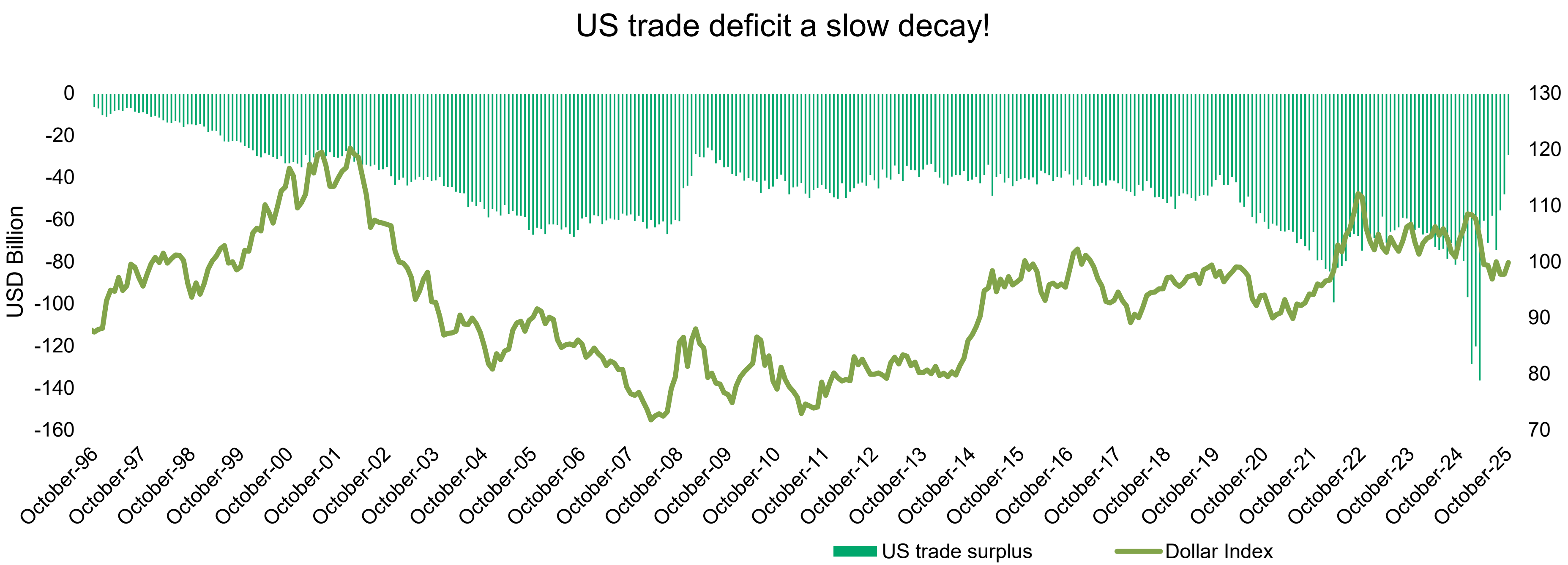




- December's 4% gain took gold's full-year return to a multi-decade record of 67% y/y.
- Central banks, tariff and trade risks, strong options market activity and a weaker US dollar all played a part.
- The US capture of Maduro and ongoing tensions in Venezuela reminds us that geopolitical flare-ups tend to recede quite quickly, but the frequency of such events and their cumulative effect over the last year has likely raised the pulse rate of markets and risk premia with it. Gold seems to be the main beneficiary in these scenarios.
- Copper prices are another metal on fire, with supply limitatios increase demand through AI sector has led to fresh surge in copper prices.

Source: Bloomberg, BBNPP Research, Data as on December 11th , 2025

US trade tariffs – Moderate benefits!



- US trade deficit narrowed sharply to $29.4 billion in October 2025, the smallest gap since June 2009, down from a revised $48.1 billion in September-2025.
- US continues to sign trade deals across nations. Overall, the deficit has come down, but overall, China seems to be the winner of the trade war with its decadal high surplus.
- Dollar index remained range around 98-99. Concerns remain on FED autonomy and political pressure.
- Cutting of federal rates is expected to weigh on dollar index and would competively help US trade balances.

Source: Bloomberg, BBNPP Research, Data as on December 11th , 2025

India – Key FTA's amidst global chaos!

Meanwhile India has concluded major FTAs mentioned below –

- India has concluded major FTAs with UK, New Zealand and European Union.
- The most significant of the deals is India-EU FTA, with an combined **market estimated at ~USD 24 trillion.**
- The EU's average tariff rate on Indian goods will **drop from 3.8% to 0.1%.**
- **This** could boost India's exports and imports from EU which have been stagnant of late.
- **EU accounts for ~17% of India's exports** and India enjoys a trade surplus with EU.
- The FTA reduces tariffs on 99% of India's exports to EU and 97% of EU's exports to India over time.

- ❑ **EU-India FTA is a comprehensive agreement that spans both goods and services.**
- ❑ **More importantly, there is a comprehensive agreement on mobility for movement of skilled and semi-skilled professionals.**
- ❑ Amidst US tariffs on India these Trade agreements build substitute destinations for Indian export markets.

RBI MPC December 2025- All accommodative with Neutral Stance

Key Policy Highlights –

- RBI Monetary policy unanimously reduced the repo rate by 25bps to 5.25%.
- RBI has decided to conduct OMO (Open Market Operations) purchases of government securities of INR 1 trn. and a 3-year USD/INR Buy Sell swap of USD 5 bn, in December.
- RBI has projected headline inflation at 2% for FY26 reflecting a smooth inflation trajectory.
- RBI has projected India's GDP to grow by 7.3% y/y in FY26 higher than 6.8% projected earlier.

RBI Inflation Estimates	FY26	Q3 FY26	Q4 FY26	Q1 FY27	Q2 FY27
October-2025 Policy	2.6	1.8	4	4.5	-
December-2025 Policy	2.0	0.6	2.9	3.9	4

RBI Growth Estimates	FY26	Q3 FY26	Q4 FY26	Q1 FY27	Q2 FY27
October-2025 Policy	6.8	6.4	6.2	6.4	
December-2025 Policy	7.3	7	6.5	6.7	6.8

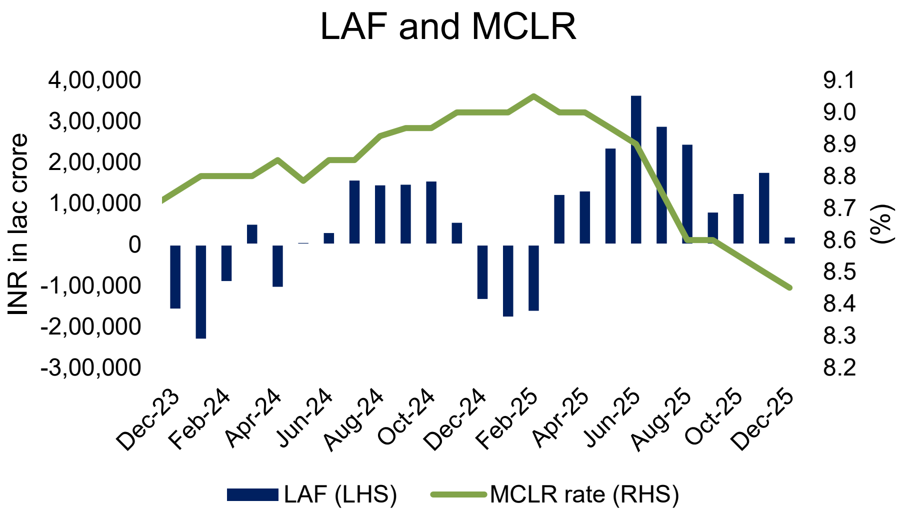
Our View

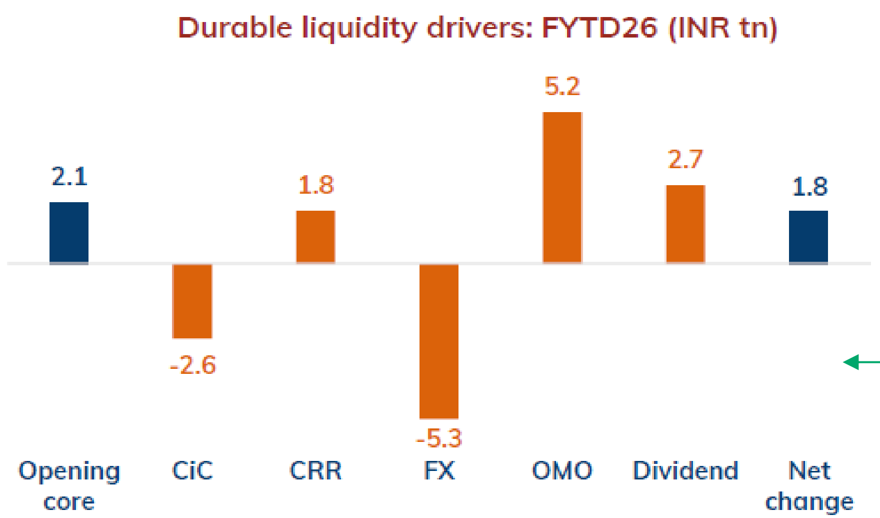
The dynamics of RBI's future monetary policy decisions will depend on:

- **Firstly**, the direction of FED policy monetary, where we expect fed to deliver at least 2 rate cuts by March 2026 led by labor market concerns and tightness in US money markets,
- **Secondly**, domestic growth is currently supported by multiple reforms and policies pushes, the actual momentum of the economy will be visible in Q4 FY26 post effects of GST cuts. However, the current run rate of less than double digit nominal GDP also provides an impetus to remain in expansionary mode on monetary policy front especially when fiscal expansion potential remains limited.
- **Thirdly**, inflation expectations in Q1 and Q2 FY27 are lower than 4% and real rates remain 'substantially high' as per RBI's Governor. Therefore, RBI may acknowledge scope for either reducing rates further/continue infusion of durable liquidity or remain on long pause with liquidity infusion mode till the time double digit nominal GDP or inflation more than 4% on sustainable basis is achieved.

Source: RBI, Data as on December 05th , 2025

Improving Liquidity and Transmission of Rate cuts!





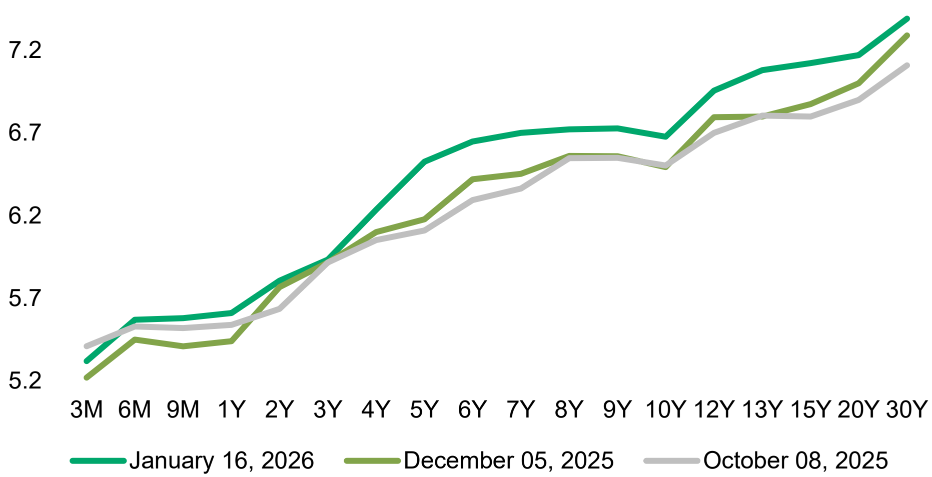
- System liquidity was under pressure on account of GST and foreign capital outflows.
- This led to increase in domestic yields.
- Post the announcement of further liquidity support (INR 1tn OMO purchase + USD 10bn FX swap + INR 250bn LTVRR) and month-end government spending, domestic yield curve flattened.
- Overall pressure on yields especially short remains as CD ratio remains high (currently above 80).
- Also, the supply remain limited to the belly of the curve.
- We expect short- term rates to be supported with expectation of issuances of CDs in the coming quarter from commercial banks.
- We expect market to focus on the Union Budget, with change in anchor to debt to GDP, the focus will remain on pace of fiscal consolidation and borrowing numbers.

Durable liquidity has increased by INR 1.8tn this year taking total to INR 3.9tn.

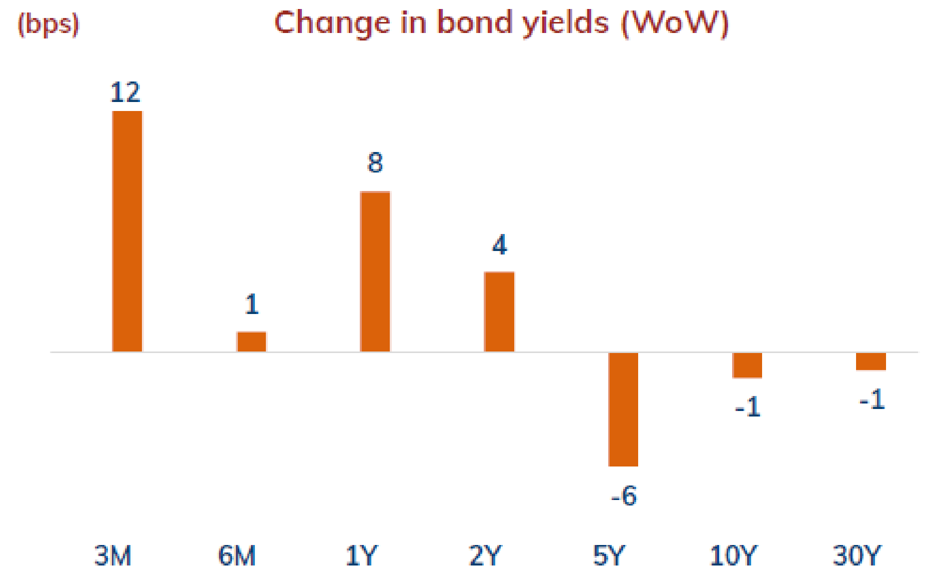
Source: Bloomberg, RBI Data as on Jan, 23rd , 2026
MCLR- Marginal Cost of Lending rate
LAF – Liquidity Adjustment Facility

India Rates!

India Sovereign Curve Steepened Mid Jan-2026



Post RBI Announcements, bond yields on the long end softened

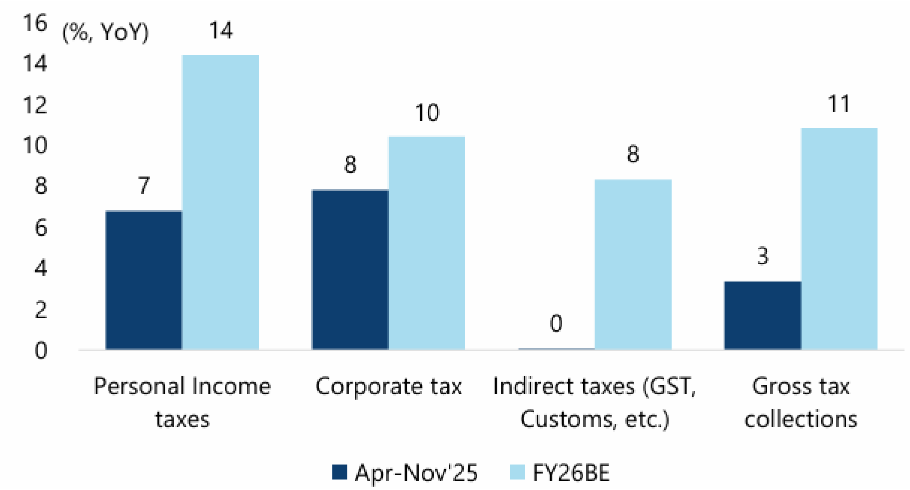


- The pressure on the bond markets peaked mid Jan-2026, amid supply-demand mismatch, despite continuation of OMO purchases by the RBI.
- The yield curve extended its steepening bias as OMO purchases mostly remain concentrated in the belly of the curve.
- Post recent announcements by RBI, ddomestic yield curve flattened.
- The long-end yields inched lower with expectations of further liquidity measures.
- However short end remain elevated on account of poor auction demand and tighter liquidity conditions.
- The heavy SDL supply effect also continues to weigh on sentiment.

Source: Bloomberg, Data as on January 23rd , 2026

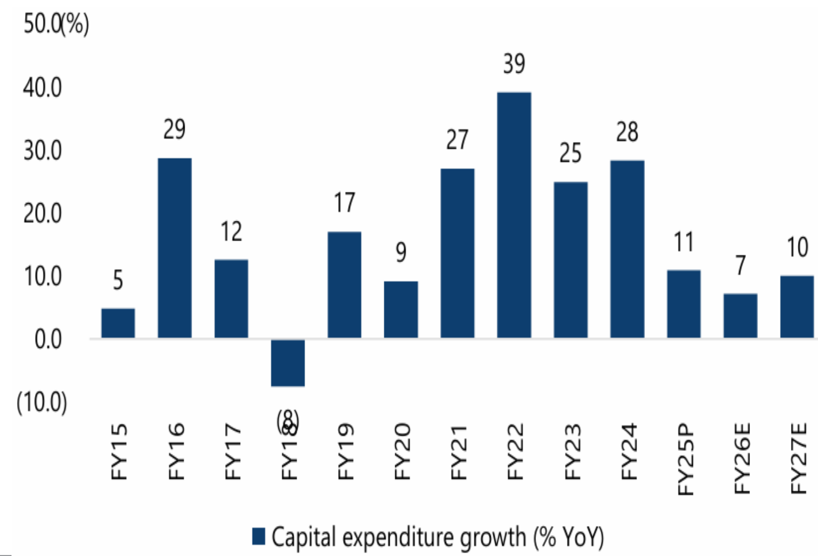
India Fiscal Math !

Central govt. tax revenue growth (FY26(BE) growth over FY25(P))

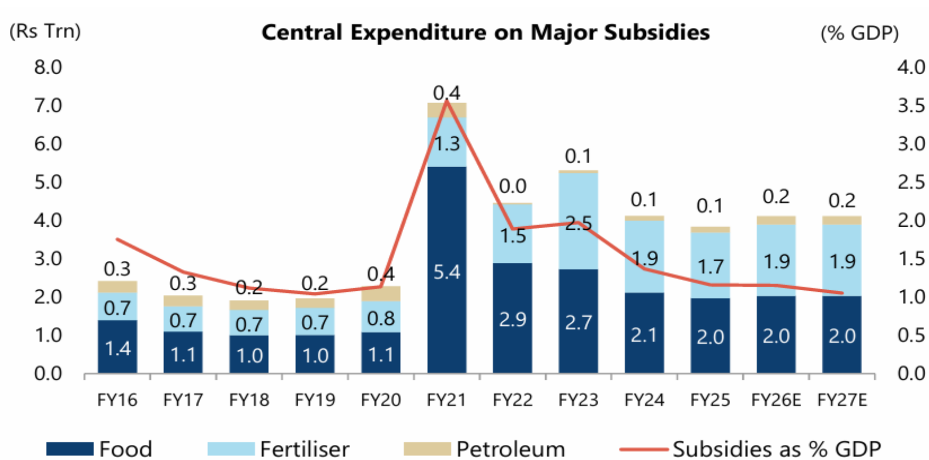


The taxes are slowing, but govt. will have support from RBI dividend transfer. Allocation to capex is expected to remain elevated.

Capital expenditure growth trend

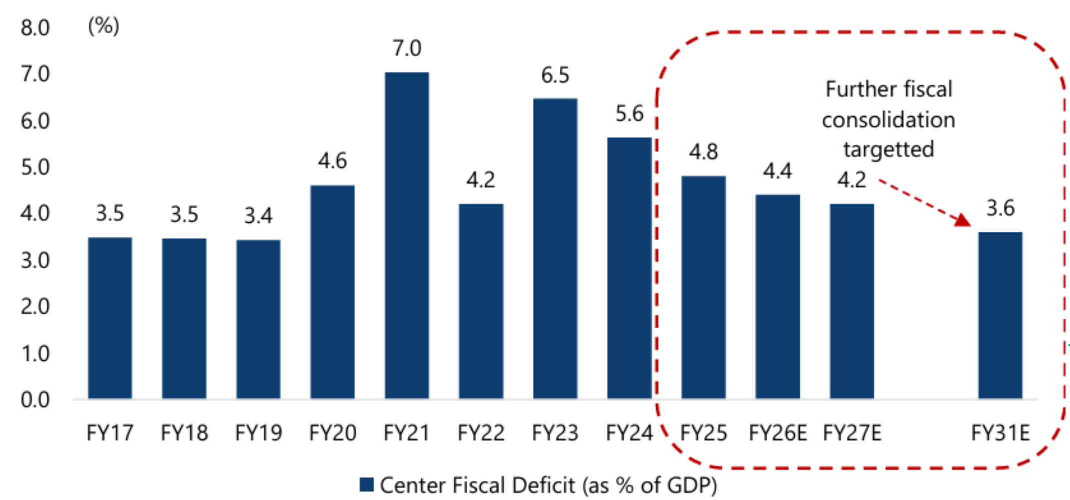


Expenditure on major subsidies expected to stay flattish in FY27E

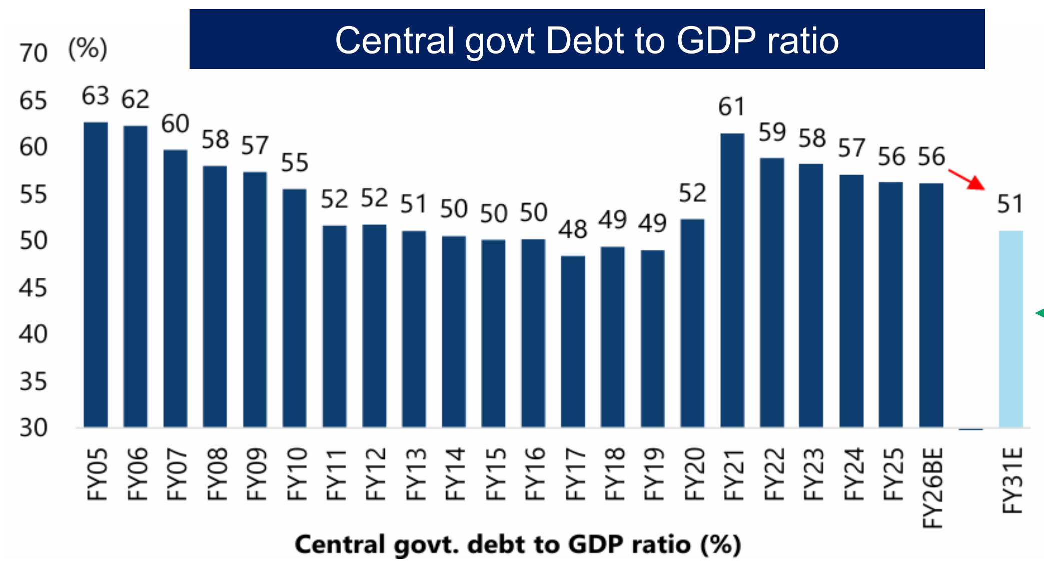


Source CGA, Jefferies, Data as on January 15th , 2025

Centre's Debt consolidation target!



To align with center's fiscal consolidation target, fiscal deficit for FY27 should decline by 20bps.
Given low tax buoyancy we also expect possibility of a pro growth budget and fiscal deficit to remain at 4.4% of GDP



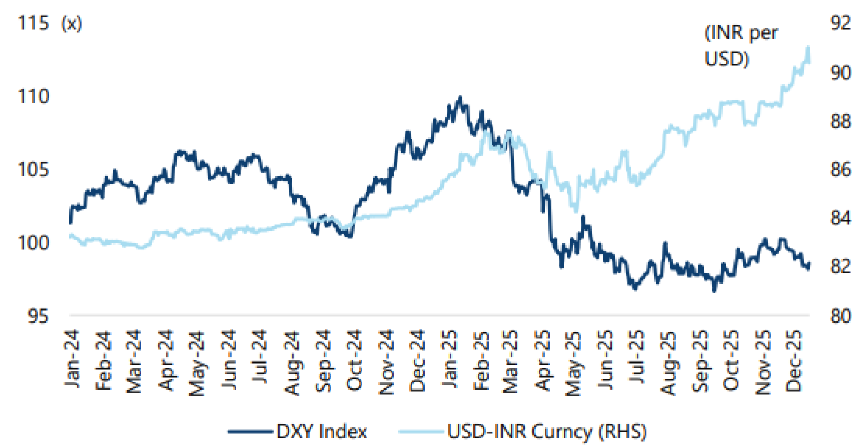
Debt / GDP ratio is still above pre-COVID levels, however, the central govt has targeted to bring it down by 5ppt by FY31Est.

Source CGA, Jefferies, Data as on January 15th , 2025

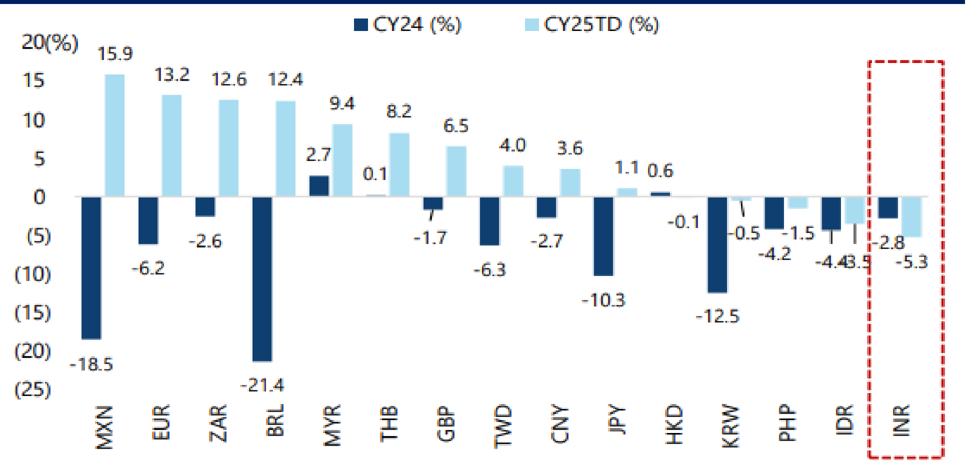
INR Depreciation- Is this a fundamental problem?

- Sharp INR decline of 5-16% against major currencies during CY25 has raised concerns on INR outlook.
- Concerns on US trade in our view has overplayed and led to INR depreciation.
- We believe robust fundamentals (low CAD, high FX reserves, weaker DXY and rising gross FDI) will support INR.

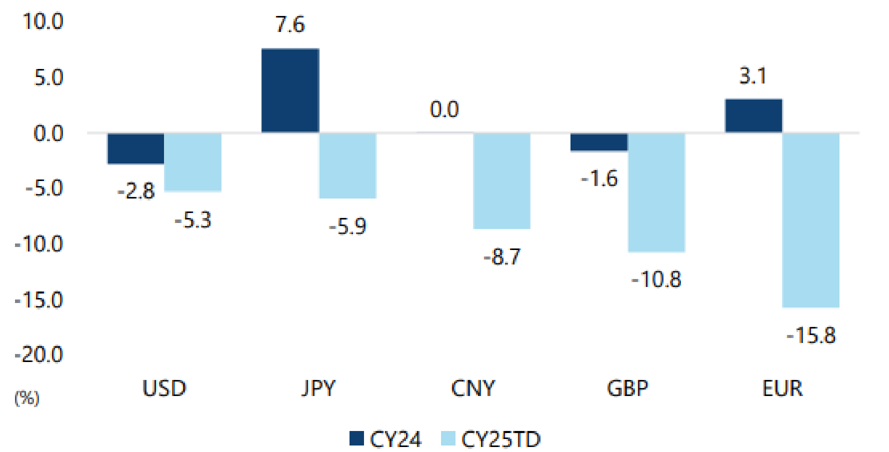
Indian rupee depreciated by 5% vs US dollar in CY25 so far despite DXY being down 9%



The INR has also been the worst-performing major currency so far in CY25



The rupee has weakened against all major currencies during CY25, with a sharper depreciation versus EUR, GBP, CNY, JPY



Source: Bloomberg, Jefferies, Data as on December 17th 2025

India Inflation - Comforting RBI

YoY%	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25
CPI inflation	1.6	2.1	1.4	0.3	0.7	1.3
Food and Beverages	-0.8	0.05	-1.4	-3.7	-2.8	-1.8
Pan, Tobacco and Intoxicants	2.4	2.5	2.7	2.9	3.0	3.0
Clothing and Footwear	2.5	2.3	2.3	1.7	1.5	1.4
Housing	3.2	3.1	3.0	3.0	3.0	2.9
Fuel and Light	2.7	2.3	2.0	2.0	2.3	2.0
Miscellaneous	5.0	5.0	5.4	5.7	5.6	6.2
Core	4.2	4.2	4.4	4.5	4.4	4.7

- India CPI inflation came at 1.33% y/y in December-2025 marking the eleventh consecutive print below the 4% inflation target.
- While headline inflation edged up in Dec-2025 from 0.7% in Nov-2025 it was driven by unfavorable base effects.
- Food inflation continued to remain in deflation. Food and beverage inflation declined by 1.8% y/y in Dec-2025 v/s a decline of 2.8% y/y in Nov-25. The decline was visible in key food items like vegetables, pulses, spices and cereals.
- High frequency daily food price indicators for first two weeks of January-26 indicated a month-on-month decline in vegetable, pulses and cereal prices.
- On the contrary, core inflation inched up to 4.7% y/y in Dec-25 vs 4.3% in Nov-25. However, core ex gold and silver where core inflation was ranging at 2.3% y/y.
- With India set to transition to a new CPI series in Feb 2026, with the base year revised to 2024 using the household consumption expenditure survey, the weights of food and core inflation will change.
- The new CPI series will give a better picture on core inflation with inclusion of modern services such as quick commerce in the index.
- Looking at the current inflation trajectory and RBI's dovish tone last policy, we still see space for another cut. The timing will depend on timelines of US tariffs and growth indicators in Q4 FY26. The space is available, but the key is timing.

Source: Bloomberg, Data as on January 13th , 2026

Fixed Income Markets Outlook

Global Monetary Dynamics –

- ❑ FOMC and Bank of Japan continue with contrary monetary policy outlook.
- ❑ The pressure of the above can keep high uncertainty in the global rates market.
- ❑ We expect FED to remain accommodative on rates front amidst political pressure and soft labour market.

Domestic Growth & Inflation –

- ❑ Shift in base year for GDP and inflation looks fundamentally positive for the economy.
- ❑ Growth projections will change as the base year changes.
- ❑ Therefore, the trajectory will get clarity once the new base and weights are released.
- ❑ Overall, RBI's language on growth is supportive and comfortable on inflation.

Currency-

- ❑ US trade tariffs remain a key variable, affecting INR depreciation.
- ❑ Latest FTA deals are sentiment boosting and also opens different market access to India for both goods and services.
- ❑ Therefore, at current levels we see INR valuations being closer to fair level and provides an entry point from foreign investors in fixed income markets.

Spreads and Rates

- ❑ RBI has been very proactive on liquidity and rates front.
- ❑ Even though the spreads are elevated due to higher CD ratio.
- ❑ We believe RBI's concerns on growth, will be visible on rates through liquidity measures.
- ❑ Also, next quarter we expect some normalization of CD levels.
- ❑ Therefore, positive real rates of ~250-350 bps, post RBI rate cut of 125 bps provides a fundamental case for remaining invested in fixed income assets.

Source: PIB, RBI, Bloomberg, BOJ, FOMC, BOE, ECB, MOSPI. Data as on as on Jan 26th 2026.
Past performance may or may not be sustained in future and is not a guarantee of any future returns.

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