MONTHLY MACRO & MARKET INSIGHTS

AUGUST-2026

Baroda BNP PARIBAS MUTUAL FUND

Together for more

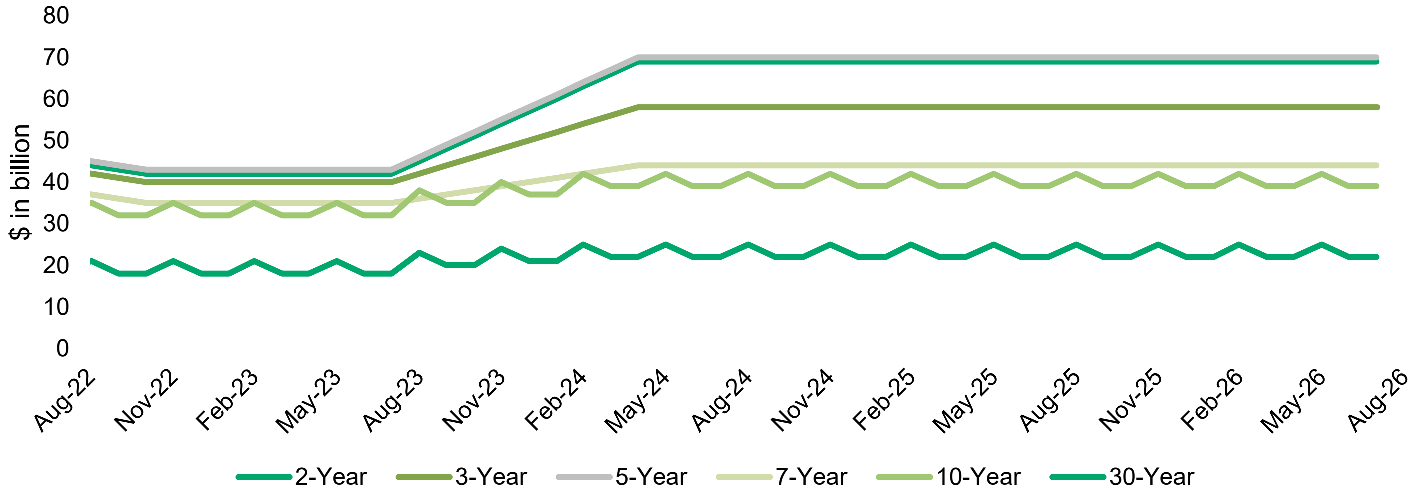
Current Key Events -

- US-Iran resolution has again come under stress with resumption of war and crude prices back to ~90$/bl.
- US Fed FOMC continued with a hawkish pause with the new Chair Kevin warsh reflecting on price stability and concerns on inflation.
- Bank of Japan in June-2026 policy meeting hiked its benchmark rate by 25bps, led by concerns on inflation and a depreciating yen subsequently, in July policy went for a pause.
- Japan and US conducted their first joint currency intervention since 1998, to support yen. Post intervention yen appreciated to ~154 from a historic low of 164.
- RBI in its Aug-2026 policy meeting continued with a pause, the language of the policy was data dependent and neutral.
- RBI advanced the closure of its FX swap facility for FCNR(B) deposits to August 31, 2026, moving the deadline up by one month from September 30, following massive foreign inflows exceeding $50bn.
- India's 10-year benchmark yield hovered around 6.8%, remaining range bound for the month as variables see saw between supportive domestic liquidity and volatile external environment.
- India headline inflation inched higher to 4.4% led by passthrough of petrol, diesel and food prices.
- INR is currently trading in a band width between 95-96.5, as RBI measures to boost capital flows and falling crude prices support the balance of payment fundamentally.

Source: BBNPP Research, Data as on August 18, 2026

US Yields elevated as borrowing cost rise!

An elevated US borrowing – US monthly borrowing across tenures



- US recent monthly borrowings required more of a concession to go smoothly with the appeal of attractive yields being offset by macro risks.
- The $58 billion 3-year Treasury auction led to 3-year yields soaring closer to around 4.3% vs 4.17% in July-2026.
- Similar soaring of yields was witnessed when US govt. sold 30-year bonds at a 5.21% rate, highest since 2001, reflecting greater compensation to fund the deficit.
- The key reasons are concerns on inflation, fiscal risks, and absence of FED as a buyer therefore leaving longer end yields higher.

Source: Bloomberg, BBNPP Research,
Data as on August 17, 2026

AI related financing , pressuring US yields

Hyperscaler Debt Holds High Duration

Company offering	Size in US dollars	Share = or >20-Years in Maturity	Weighted modified duration
Alphabet, February	$20 billion	~35%	~8 years
Amazon, March	$37 billion	~40%	~8 years
Meta, April	$25 billion	~55%	~9.6 years
Amazon, July	$25 billion	~35%	~8 years
Alphabet, August	$25 billion	~40%	~8 years
July Treasury Issuance	$321 billion	~9%	~5.3 years

Note: Weighted modified duration calculations do not include floating rate notes or TIPS.
Source: Bloomberg

Bloomberg

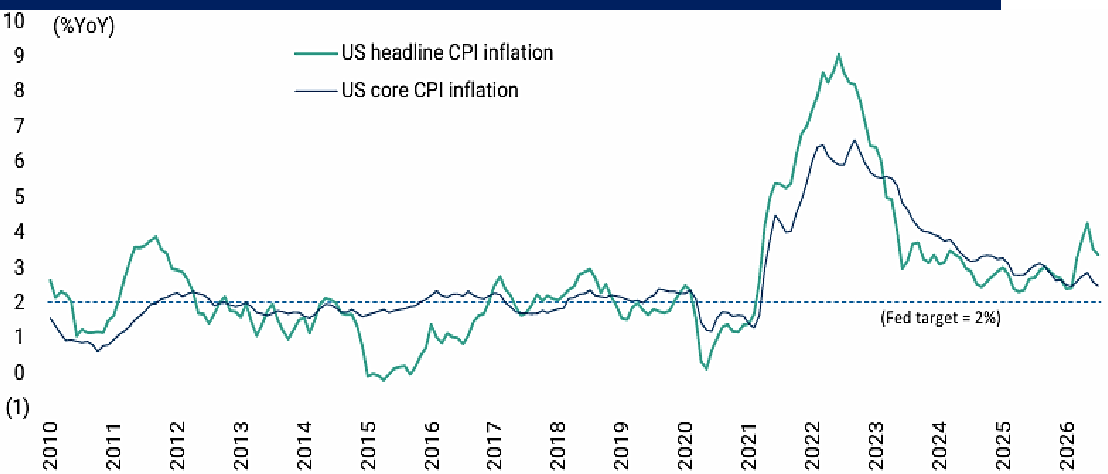
- Hyperscale debt although small in terms of face value but is heavily concentrated in long maturities making it much richer in duration per dollar.
- Therefore, the supply burden piles additional upward pressure on long-end yields that are already being elevated up by the government borrowing outlook.
- We believe the AI boom stands to pressure the long end yields in two ways: by potentially lifting productivity, which would feed into stronger growth and sustainable real rates, and by creating the long-duration debt needed to finance that investment.

Source: Bloomberg, BBNPP Research,
Data as on August 17, 2026

Gold Prices see support from fundamentals

US Rates and Gold Prices

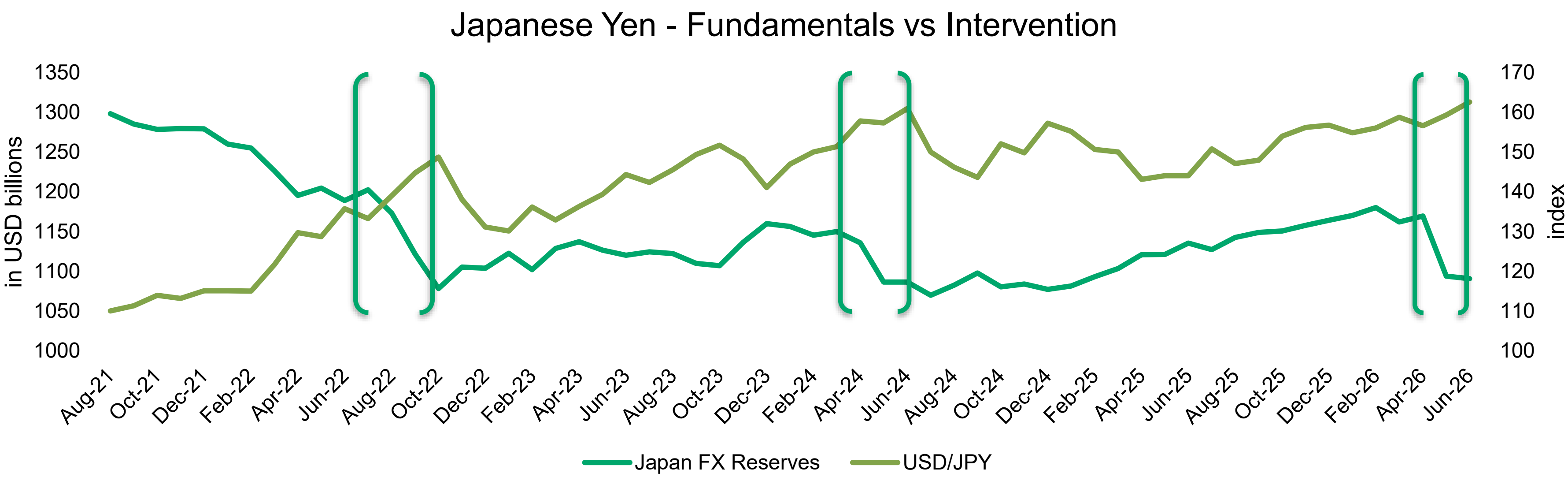
US CPI and Core inflation trend



- Gold has pushed past the $4,400 mark as broad dollar weakness and retreating Fed rate hike expectations help the metal break out of its range of around $4,000/oz.
- While the scale of last week's surge leaves gold vulnerable to potential resistance, a moderating US CPI is expected to provide support for the rally to extend.
- Another key event which supported the current gold rally is the US-Japan currency intervention.
- The overall scale and artificial appreciation of yen and yet again yen continued depreciating reflected fundamentals playing a bigger role in yen depreciation.
- Secondly the intervention also questioned dollar strongness as US intervened by selling EUR rather dollar itself, raising concerns on dollar strength and overall creating a demand for safe haven asset.

Source: Bloomberg, BBNPP Research,
Data as on August 17, 2026

US and Japan Intervention – Yen to appreciate ?



- Coordinated currency intervention between US and Japan to support Japanese yen, led to it appreciating back to 155 levels from a historic low of 164.
- Yet again, Japanese yen has started to witness depreciating pressure following its current fundamentals of higher inflation in Japan and likely intervention not being enough.
- Japan has used up the equivalent of about $87 billion of its reserves this quarter to support yen, the highest amount in recent history.
- Similar attempts were made in last 5 years to lift yen, but yen hardly followed the intent.

Source: Bloomberg, Data as August 07, 2026

Domestic Economy

RBI MPC August 2026

- RBI in its August 2026 meeting, unanimously decided to keep the policy repo rate unchanged at 5.25%, while retaining the neutral policy stance.
- The decision marks a continued wait-and-watch approach, with the RBI seeking greater clarity on the inflation trajectory while remaining supportive of a resilient domestic growth environment.

RBI Inflation Estimates	FY27	Q2 FY27	Q3 FY27	Q4 FY27	Q1 FY28
June-2026 Policy	5.1	5.1	5.9	5.4	-
August -2026 Policy	5	4.7	5.9	5.5	5.3
RBI Growth Estimates	**FY27**	**Q2 FY27**	**Q3 FY27**	**Q4 FY27**	**Q1 FY28**
June-2026 Policy	6.6	6.3	6.5	6.8	-
August -2026 Policy	6.7	6.4	6.5	6.8	7.3

Key reasons justifying the pause –

Current policy hold is justified with growth-inflation trade-off becoming more favorable - The August policy represents a balanced rather than clearly dovish or hawkish policy decision.

Post June and Mid July, the growth-inflation trade-off has become more favorable. As crude prices have fallen and remain range bound, monsoon activity has also shown a pickup, therefore RBI too has shown more confidence on economic growth and inflation, raising its FY27 GDP forecast to 6.7%, while simultaneously trimming its inflation forecast to 5.0%.

This reduces the immediate need for further monetary support while also limiting the case for additional tightening.

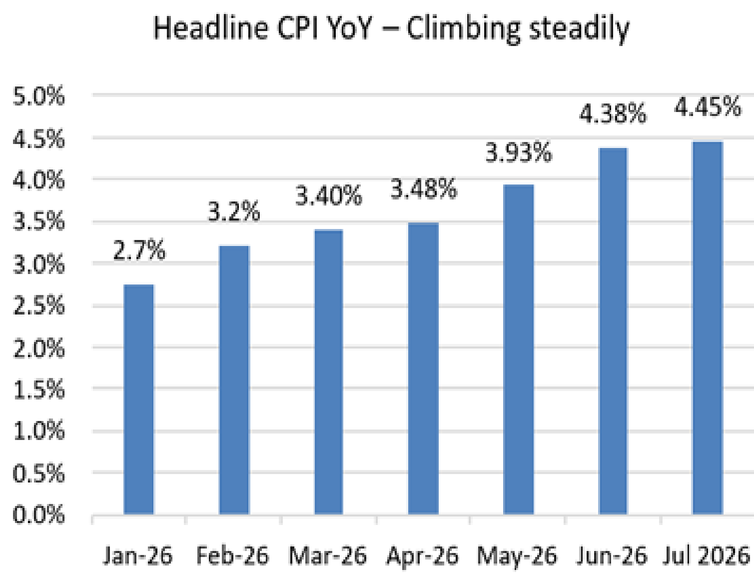
Additionally, the composition of inflation matters. Although headline inflation is projected to rise towards 5.9% in Q3, much of the expected increase is linked to food, fuel and other supply-side factors.

With core inflation remaining relatively moderate, the RBI appears comfortable looking through some of the temporary headline inflation pressures rather than responding with an immediate rate hike.

Neutral stance provides flexibility - By retaining neutrality, the RBI has avoided pre-committing either rate cuts or hikes. This is particularly important given the uncertainty around crude oil prices, geopolitical developments, the monsoon and global financial conditions.

The policy therefore leaves room to respond if the expected inflation trajectory deteriorates or if growth momentum weakens materially.

CPI Inflation –Moderate Pickup!



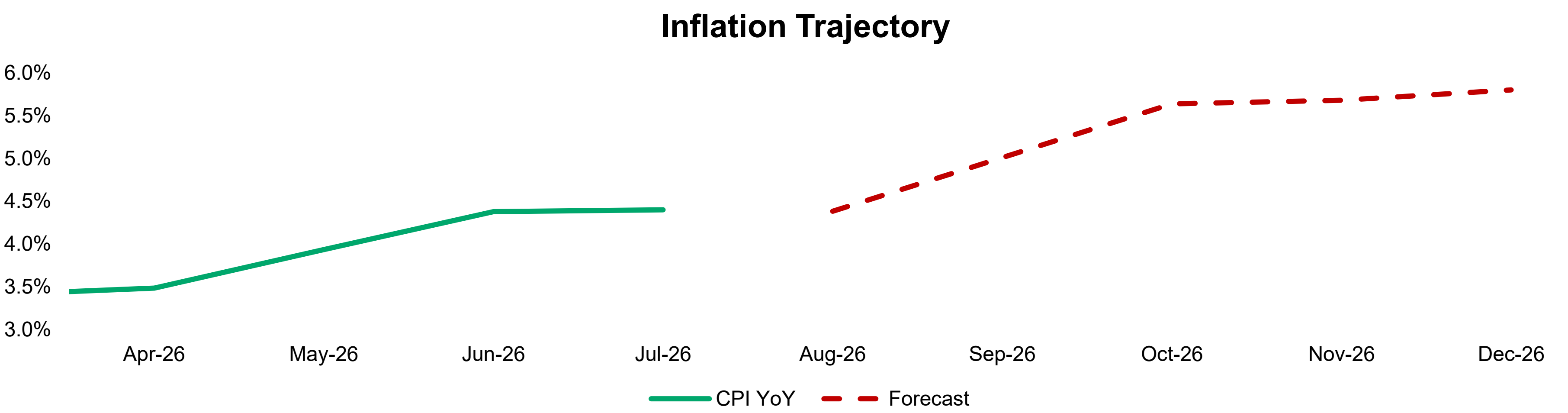
Trends in Inflation

	Weight	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
					YoY%			
Headline CPI	100	2.7	3.2	3.4	3.5	3.9	4.4	4.5
Core CPI	53.0	3.7	3.7	3.7	3.7	3.9	3.9	3.9
Core Core CPI	51.9	2.1	2.0	2.1	2.2	2.3	2.5	2.5
Food and beverages	36.8	2.1	3.4	3.7	4.0	4.5	5.1	5.2
Paan, tobacco and intoxicants	3.0	2.9	3.5	4.2	4.8	4.8	4.8	4.8
Clothing and footwear	6.4	3.0	2.8	2.8	2.8	3.0	3.2	3.4
Housing, water, electricity, gas and other fuels	17.7	1.5	1.5	2.0	1.7	1.7	2.0	2.2
Furnishings, household equipment & maintenance	4.5	1.5	1.4	1.4	1.6	1.9	2.2	2.4
Health	6.1	2.2	1.9	1.8	1.6	1.5	1.4	1.3
Transport	8.8	0.1	-0.05	0.00	-0.01	1.8	4.3	4.4
Information and communication	3.6	0.2	0.2	0.3	0.5	0.3	0.4	0.6
Recreation, sport and culture	1.5	2.3	2.2	2.3	2.1	2.0	1.7	1.6
Education services	3.3	3.4	3.3	3.3	3.2	3.0	3.3	3.6
Restaurants and accommodation services	3.3	2.9	2.7	2.9	4.2	5.7	6.9	7.7
Personal care, social protection, etc	5.0	19.0	19.7	18.6	17.7	18.5	16.7	14.8

- Headline inflation was in line with expectations at 4.4% y/y in July-2026.
- Food and beverage inflation stood at 5.24% in July-26. Sequentially food and beverage inflation increased by 2% m/m driven by higher prices of cereals, meat, pulses, sugar and ready-made products.
- Fuel CPI rose to 4.6% y/y in July on a broad-based increase as fuels for personal transport rose by 7.5% and electricity & other fuels grew by 2%. The rise in fuel inflation reflects past increases in transportation fuels (petrol, diesel, and CNG) and LPG. Subsidized LPG prices were increased by 3.1% m/m in June but some pass through is witnessed in July-2026.
- Core inflation stood at 4.16% y/y in July-2026, similar to last three months. Pass through commercial LPG price hikes in previous months continues to reflect in restaurants and hotels.
- Continued increases are seen in items such as induction stoves and metal utensils. Meanwhile, personal care remains elevated due to the past surge in gold and silver prices.

Source: Bloomberg, Data as August 14, 2026

Inflation and Expectations of Monetary Policies

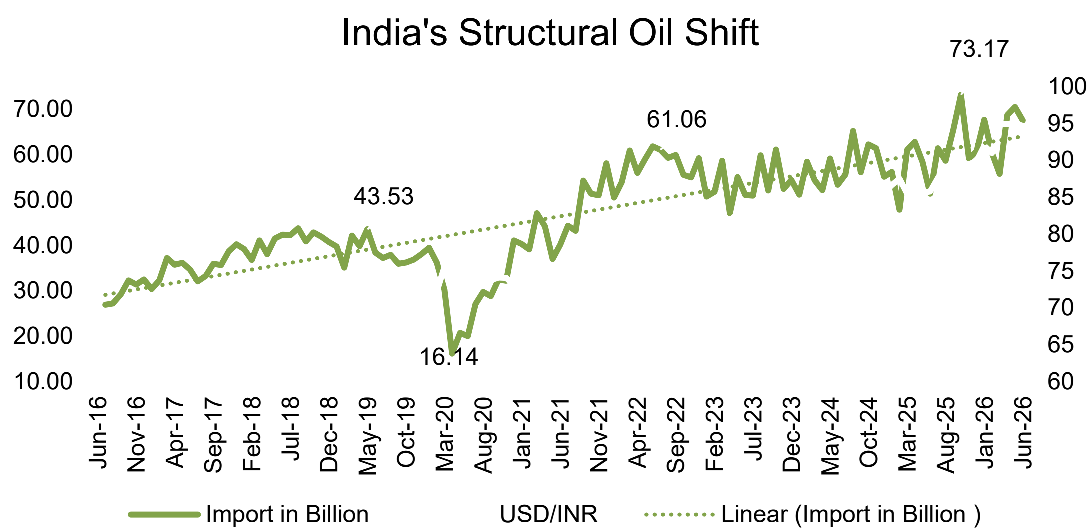


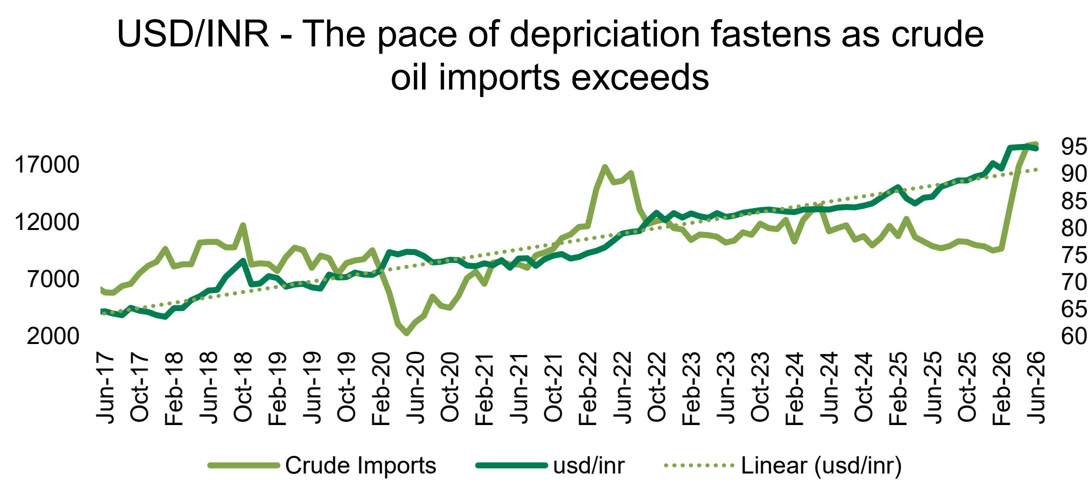
- Resurfacing of conflict between US and Iran has led to elevation of crude prices. The impact on CPI inflation is expected to remain muted contingent on no further increase is expected in retail petrol and diesel prices. Input cost pressures through rise in commodity and raw material costs, which was evident in WPI, the pass-through of the same is expected to remain minimal as demand outlook remains benign.
- On food inflation, In August, daily food price data reflects moderation in price pressures in vegetables as monsoon performance has improved since July, with the cumulative rainfall deficit tracking at 12% (from LPA).
- Reservoir levels have also improved, reaching 97% of normal levels. The latter is important for the rabi crop, which is reliant on irrigation facilities and bodes well for winter food inflation. Although price pressures in proteins, ready-made food, and edible oils are expected to persist.
- Headline inflation is expected to average below 5% in FY27. Risks to headline forecast remains from supply-side factors such as fuel and food.

Source: Bloomberg, Data as August 14, 2026

Merchandise trade deficit to pressure BOP

- Looking at the monthly trade numbers, we have structurally entered an average monthly import bill of ~$60bn.led by higher crude and gold imports.
- And during such shocks the additional impact can range from anything between $5-10bn on our monthly imports.
- Therefore, absence of additional exports, lacks any offsetting of these shocks in merchandise trade.
- For example, India witnessed highest ever of monthly exports in the month of May-2026, clocking in ~$43bn led by surge in exports of engineering goods.
- But the offsetting was weak as India's monthly import also stood at $70bn, led by surge in petroleum imports.
- The point here is that imports shocks make India susceptible to import inflation due to the structure of trade and therefore the exchange rate suffer and import inflation volatility has been severe.



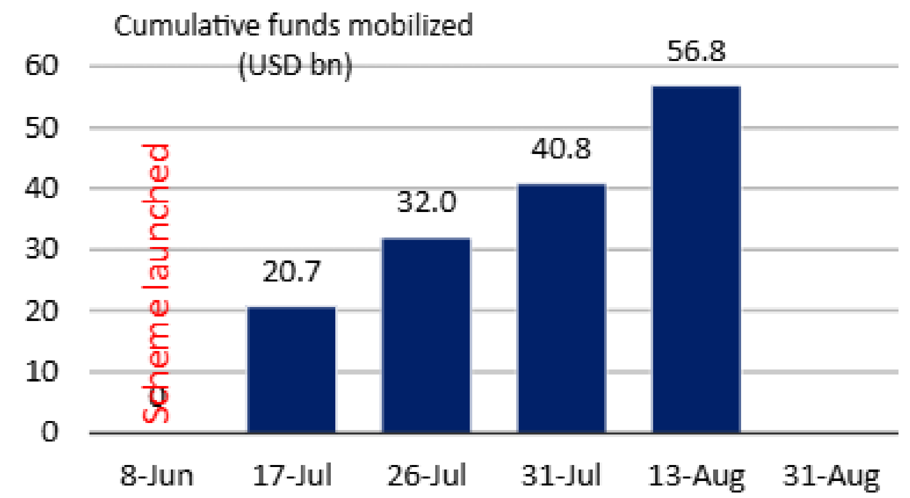


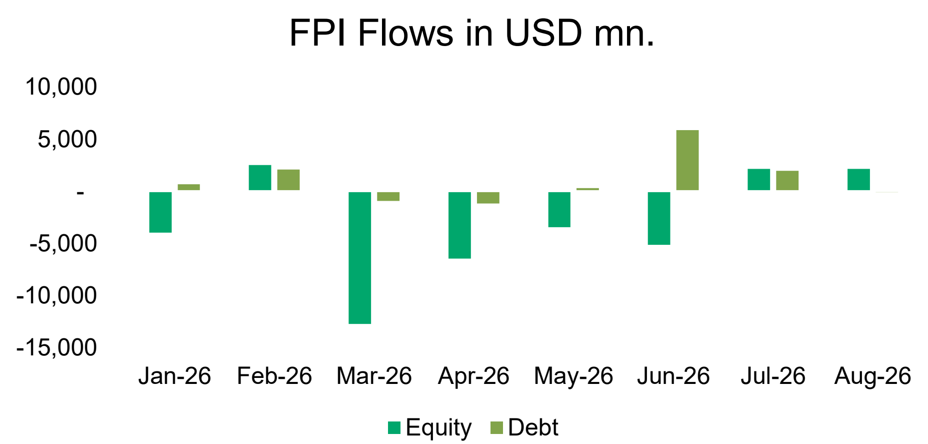
Source: Bloomberg, Data as on July 15, 2026

FCNR window shut to be sooner

- The RBI released the data on mobilization of funds through the forex swap window and the press release indicated that till August 13th, USD 56.8bn has been mobilized of which USD 52.3bn are from FCNR-B flows while the remaining USD 4.5bn is from commercial borrowings.
- The RBI has also announced earlier closure of the FCNR-B window, preponing the closure date by a month to August 31, 2026, vs the earlier date of September 30.
- The decision has been taken according to the RBI "based on the encouraging response to the swap facility for FCNR(B) deposits and the resultant forex inflows."
- We expect in the remaining time inflows from the forex swap cumulatively be around USD 65-70bn.
- In our view these flows will currently fix the deficit from FPI flows in FY27 but will not lead to any big INR appreciation.

Forex Swap Window Scheme

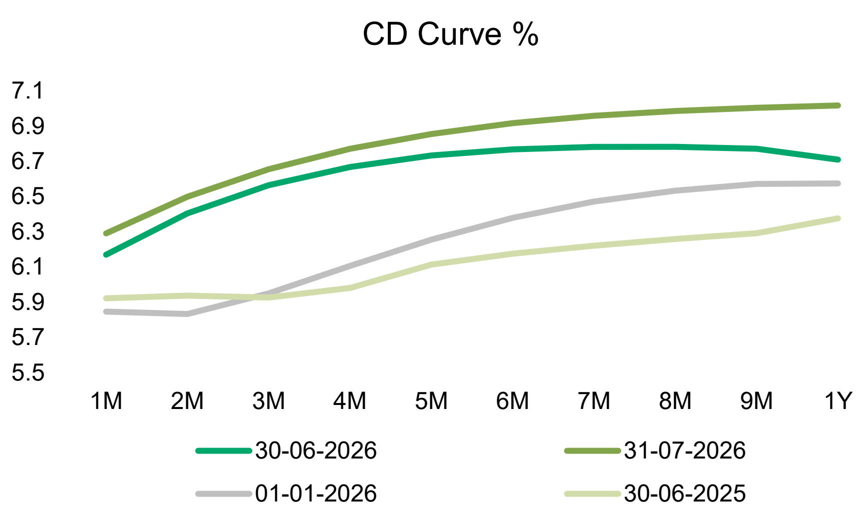


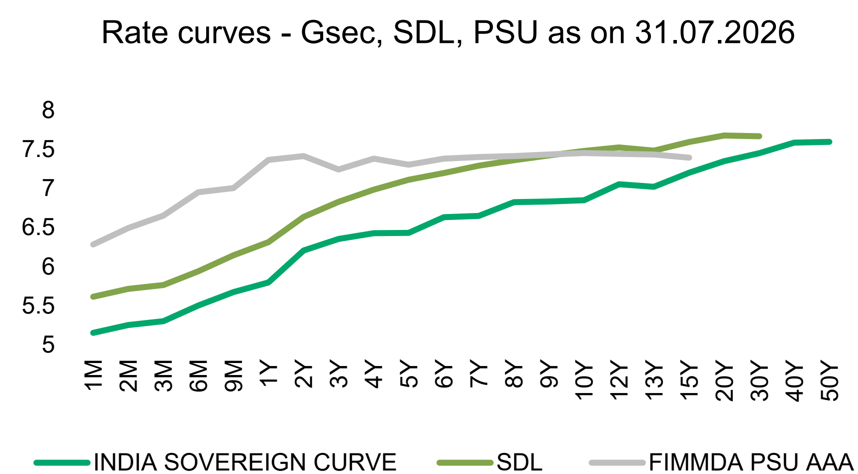


Source: Bloomberg, Internal Research, Data as on August 18th , 2026

Fixed Income Markets

- India's fixed-income market entered July with a more cautious backdrop as CPI inflation rose to 4.38% in June from 3.93% in May, moving above the RBI's 4% target.
- Domestic liquidity conditions remain broadly supportive, although the RBI continues to actively manage liquidity through its market operations.
- The central bank's June measures to encourage foreign-currency inflows, including the special FCNR(B) deposit and swap facility, have also helped improve the external liquidity environment.
- At the same time, government borrowing and elevated global yields continue to act as constraints on the long end.
- The 10-year benchmark remained around the 6.8% level through July, reflecting the balance between supportive domestic liquidity and concerns around inflation, crude oil and global rates.
- We expect liquidity to remain an important support for the front end but believe the long end will continue to trade with a higher risk premium.

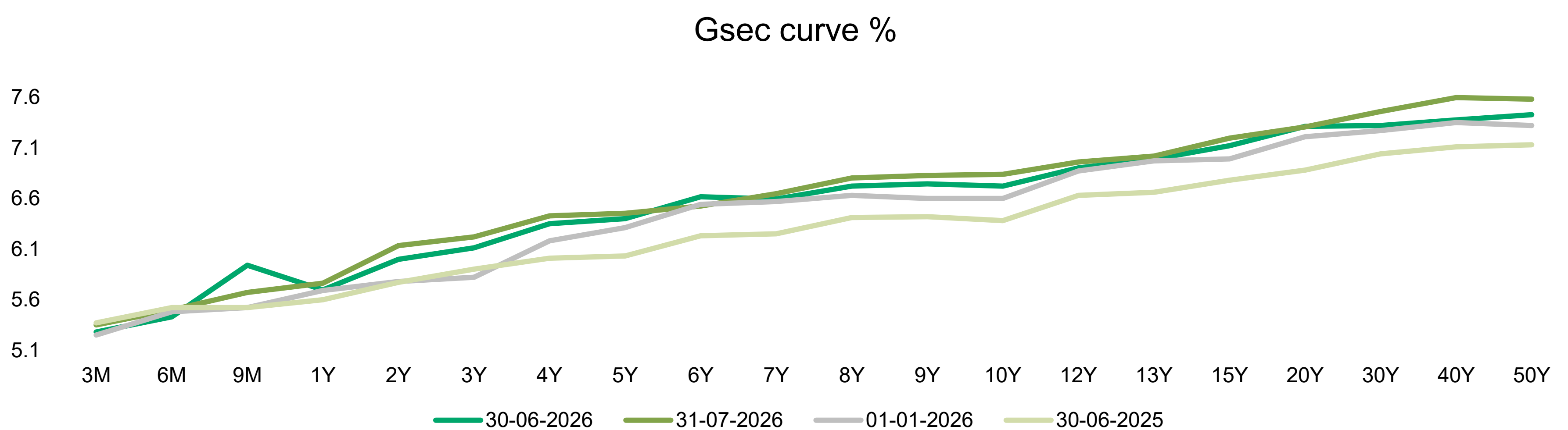




Source: Bloomberg, Internal Research, Data as on July 31st , 2026

Fixed Income Markets

- The G-sec curve saw considerable volatility during July, with the short end benefiting from expectations of easier liquidity and the RBI's measures to attract foreign currency inflows, while the long end remained more vulnerable to inflation, crude and global yield risks.
- The 2-year yield moved from around 5.97% at the beginning of July to around 5.92% towards month-end, while the 10-year yield ended July at approximately 6.83%, resulting in a relatively steep curve.
- The long end also faced pressure from the sharp rise in crude prices and the uncertainty around foreign demand for Indian government bonds.
- Foreign investors had turned net sellers of FAR bonds towards the end of July after strong inflows earlier in the month, while Bloomberg's decision to defer India's inclusion in its Global Aggregate Index added another near-term headwind.
- Overall, the curve continues to reflect a divergence between a relatively well-supported front end and a long end that demands a higher risk premium for inflation, fiscal and external-sector risks.



Source: Bloomberg, Internal Research, Data as on July 31st , 2026

Fixed Income Markets

The Reserve Bank of India's (RBI) recent measures include allowing banks to raise 3-to-5-year Foreign Currency Non-Resident Bank [FCNR(B)] deposits with the central bank fully absorbing the hedging/swap costs, alongside temporary exemptions of eligible FCNR(B) deposits from Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements.

Impact on Banking system liquidity & Money supply:

- RBI has targeted exactly what the economy needed at this juncture i.e., Dollar liquidity.
- More than 60 bn. dollars is expected to subscribe to these FCNR deposits within the fully hedged window - till August 2026.
- These will give a very positive impact on the banking system especially the Credit-to-Deposit Ratio,
- The latest CD ratio is around 82.75%, these flows are expected to reduce the CD ratio
- Resulting in lesser supply certificate of deposits translating into softer rates on the front end of the curve.

Positioning:

- With the quality of liquidity improving. We expect the front end non slr curve offers best opportunity as the spreads from the repo are still wide and may outperform the other segments given the massive liquidity coming to the banking system in the next 1-3 months.
- We intend to maintain an overweight position in money market funds in terms of average maturity and overweight in the up to 3 years non slr curve across funds with higher duration mandates.

Source: Bloomberg, Internal Research, Data as on July 31st , 2026

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