MONTHLY MACRO & MARKET INSIGHTS

JULY-2026

Baroda BNP PARIBAS MUTUAL FUND

Together for more

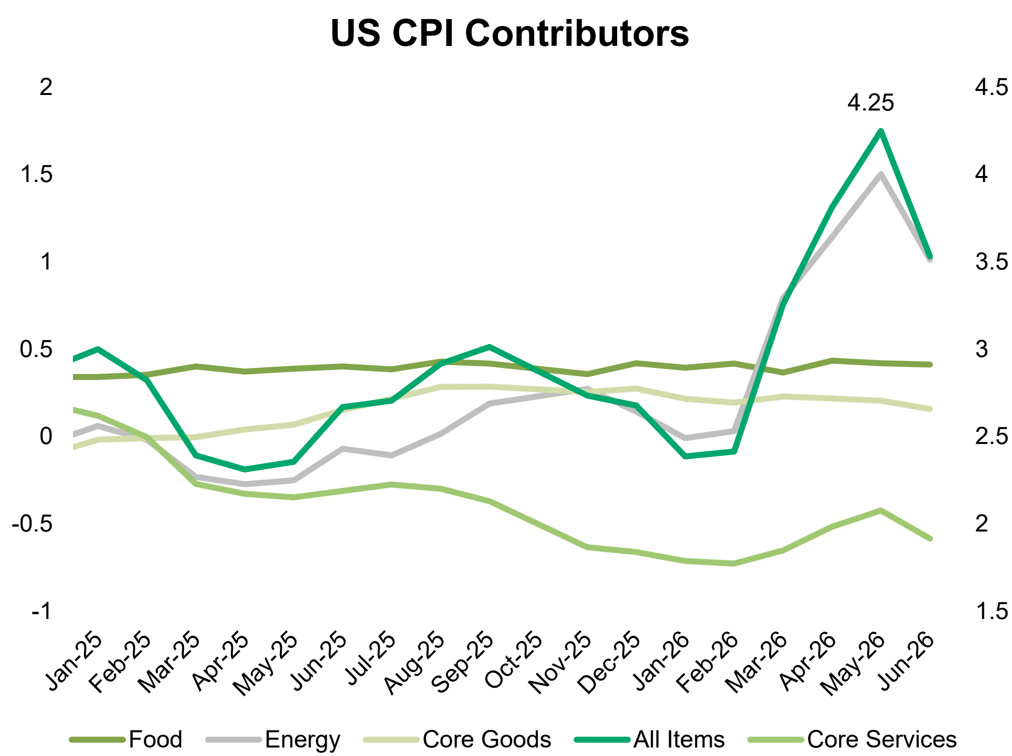
Current Key Events -

- US-Iran resolution has again come under stress with resumption of war and crude prices back to 88$/bl.
- US Fed FOMC continued with a hawkish pause with the new Chair Kevin warsh reflecting on price stability and concerns on inflation.
- Bank of Japan in June-2026 policy meeting hiked its benchmark rate by 25bps, led by concerns on inflation and a depreciating yen.
- Gold Prices remain volatile amidst changing global asset demand and is currently hovering around 4000$/ounce.
- RBI in its June-2026 policy meeting continued with a cautious but hawkish pause led by concerns on inflation though both external and domestic concerns.
- India Wholesale inflation jumped to 9.3% y/y highest in last 43 months led by increase in global commodity prices.
- India’s 10-year benchmark yield inched lower to ~6.8% led by falling brent prices and expectations of increase in debt flows led by RBI measures to boost domestic currency.
- India headline inflation inched higher to 4.4% led by pickup in 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 July 20, 2026

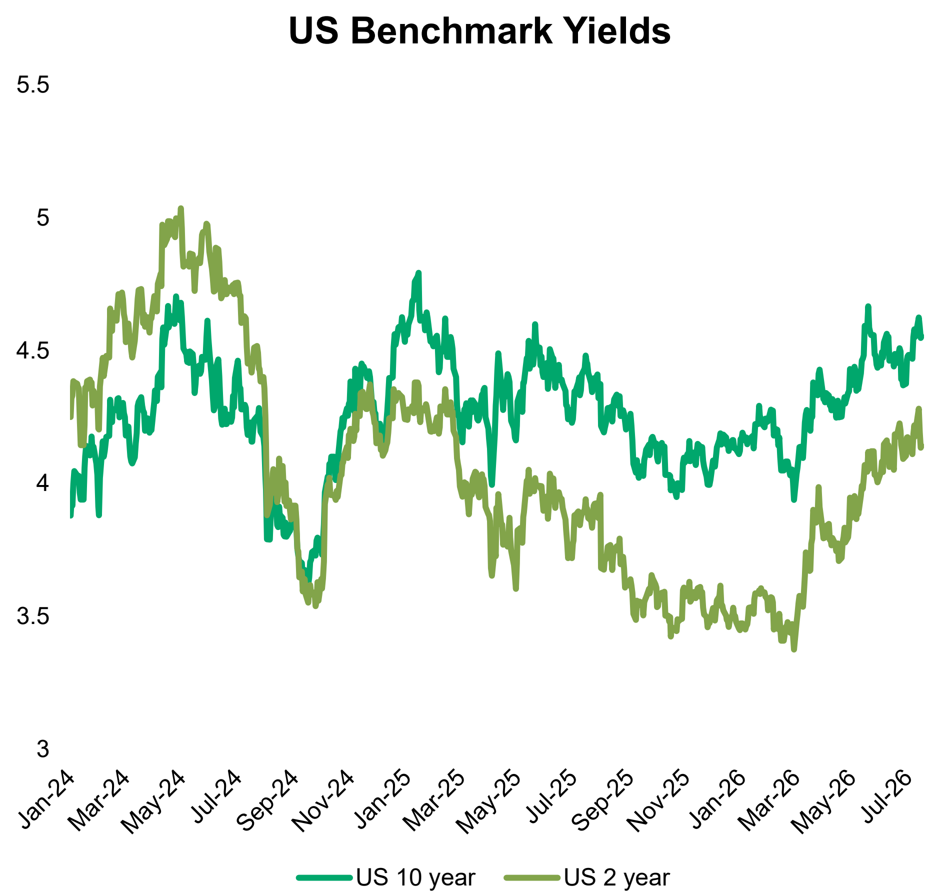
US CPI – A decline led by energy basket!

- The annual inflation rate in the US fell to 3.5% in June 2026 vs 4.2% in May-2026.
- Energy costs increased 15.7%, below 23.5% in May-2026, as the ceasefire between the US and Iran alleviated inflationary pressures from the energy component.
- Contribution from energy inflation declined in June-2026 vs May-2026.
- The recent increase in crude prices back to 88$/bl from 73$/bl during the peace talk week is expected to again pressure US CPI.
- The volatile nature of crude basket is keeping the overall interest rate expectations on the upside as longer the pressure on crude is expected to keep inflation higher for longer.



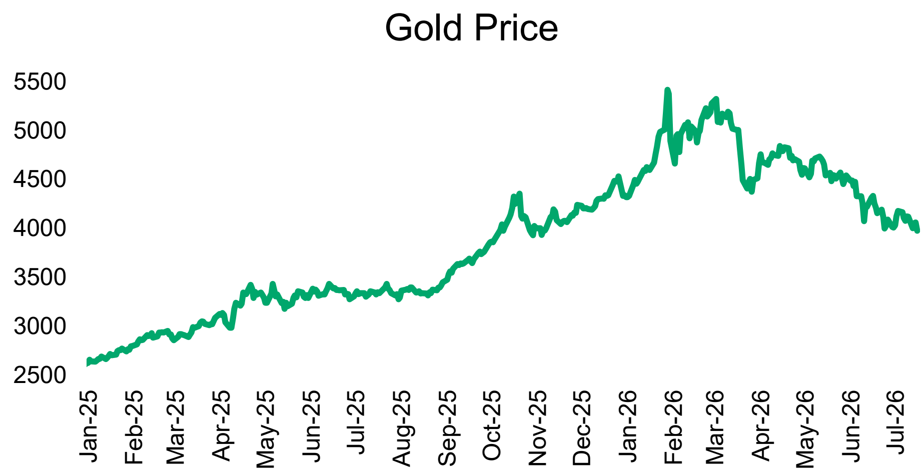
US FOMC rate decision – An investor swing

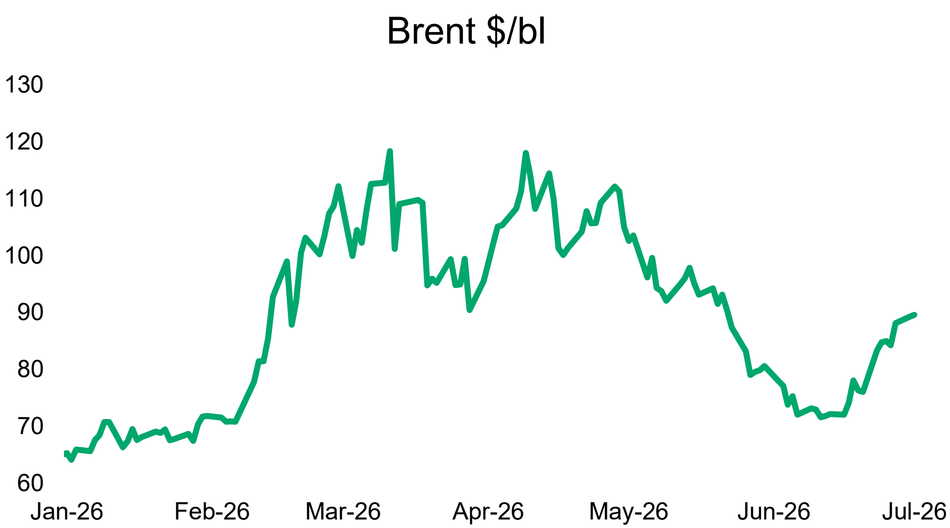
- Meanwhile, a relief for markets was that US CPI inflation slowed more than expected.
- Headline CPI inflation decelerated from 4.2% YoY in May to 3.5% YoY in June, well below consensus expectations of 3.8%.
- While US PPI inflation also slowed to 5.5% YoY in June compared with consensus estimates of 6.2%, with the May figure also revised down from 6.5% YoY to 6.0%.
- This should give the Fed more reason to remain on hold even though the main reason for the weaker numbers was the MoU-triggered decline in energy prices, and that risk has now revived.
- Still the money markets are now discounting 28bp of rate hike this year, down from 43bp on Monday prior to the release of the CPI data, though the ten-year Treasury bond yield remains above the key 4.5% level.



Commodities in see saw!

- Asset classes are pricing in different probabilities of US FED interest rate decision as US-Iran war keeps the commodities volatile.
- Gold hovered around $4,030 an ounce as investors assessed the evolving US-Iran conflict and its implications for oil prices, inflation. Oil price climbed to 88$/bl.
- Even so, elevated energy prices continue to fuel inflation concerns and reinforce expectations that US interest rates will remain higher for longer.
- We expect gold to reflect the expectations of US monetary policy and the dynamics of US-Iran war and thus remain volatile.

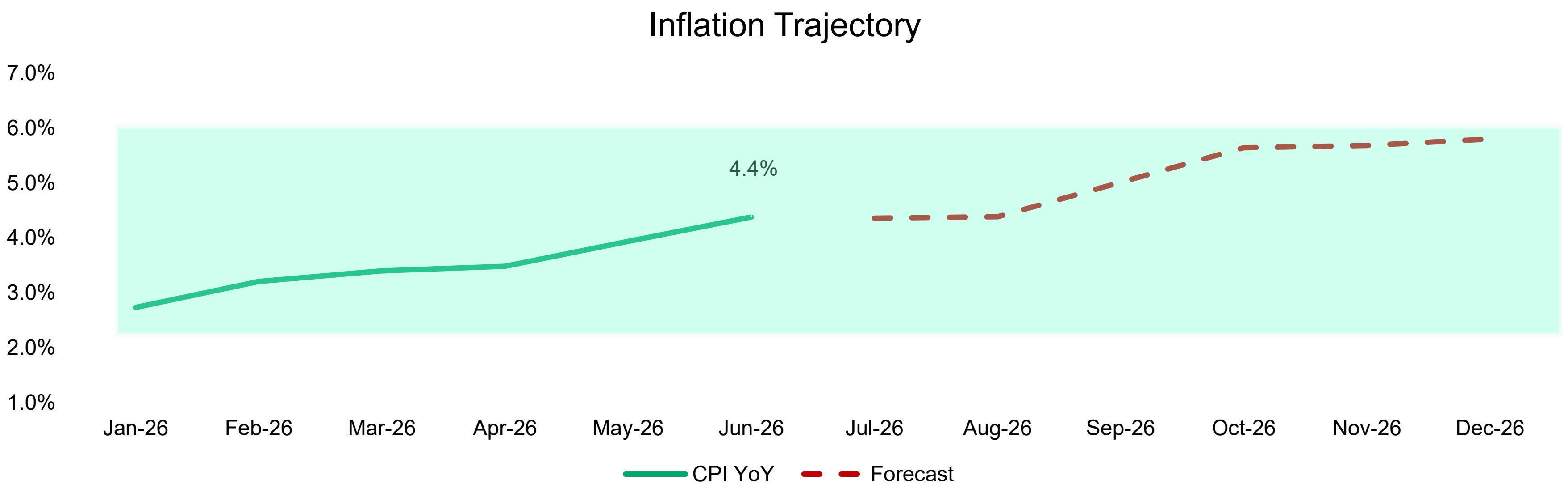




Source: Bloomberg, BBNPP Research, Data as on July 17, 2026

Domestic Economy

India Inflation – Global concerns cools down but!

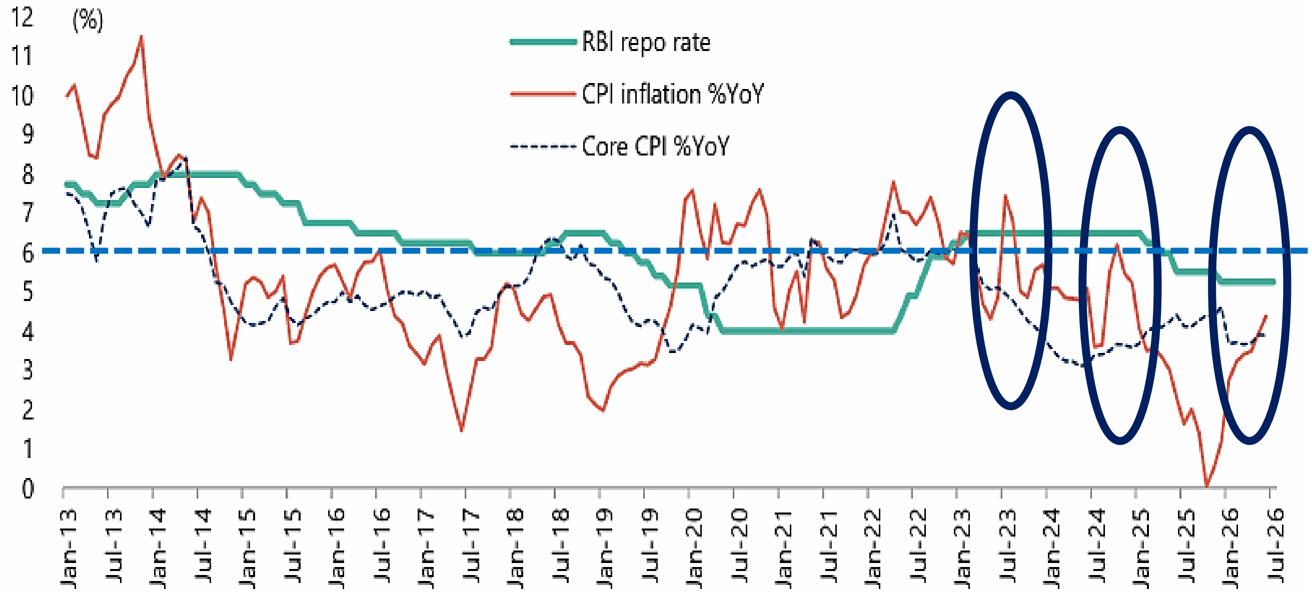


- Headline CPI accelerated to 4.4% y/y in June vs 3.9% in May.
- The increase was primarily driven by higher food prices and the gradual pass-through of war-induced increases in global energy prices and transportation costs.
- Food CPI accelerated to 5.1% y/y in June from 4.5% in the prior month, driven by higher prices across the board.
- Core CPI remained steady at 3.9% y/y in June for the second month in a row.
- Within core inflation, the uptick was led by higher inflation in restaurant services, education, furnishings & household equipment and clothing & footwear.

Source: Bloomberg, Data as on July 13, 2026

Inflation and Expectations of Monetary Policies

CPI inflation well below RBI's tolerance band



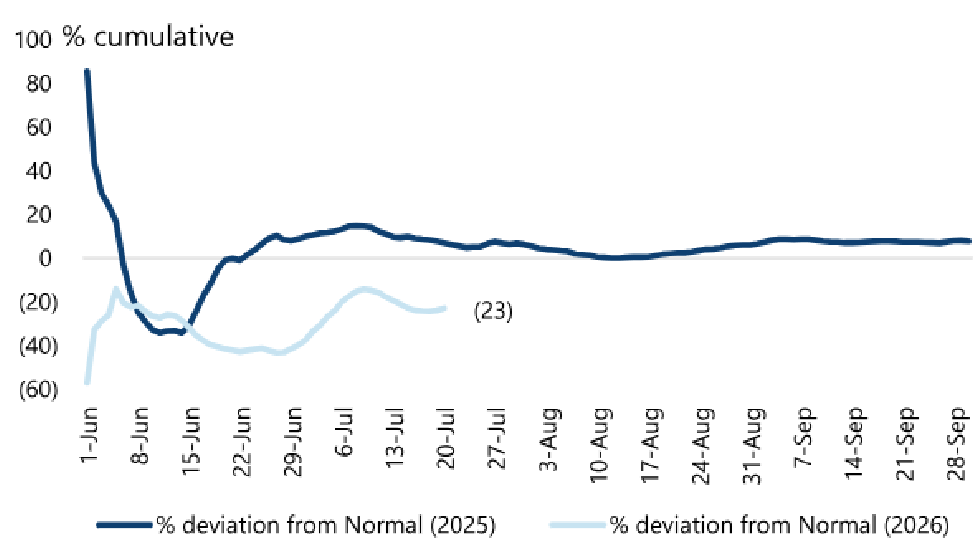
- In the above chart we have highlighted events where headline inflation crossed the upper tolerance bandwidth.
- It is important to note that all the events reflect short term shocks to inflation and therefore repo rate remained unchanged.
- In our view, only if shocks to inflation are consistent and seep into headline inflation for a longer period, RBI eventually then will rise rates.
- Currently July and August inflation numbers will give RBI clarity on rates front.

Source: Bloomberg, Data as July 14, 2026

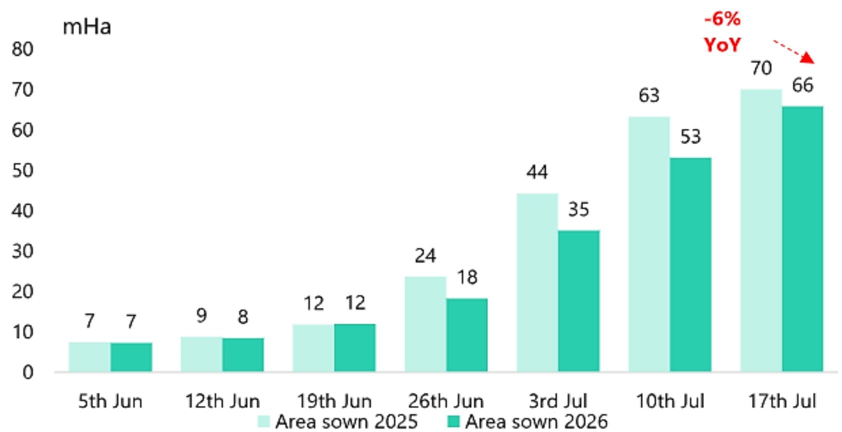
Monsoon and Sowing Activity

- **Monsoon season rainfall trending 23% below normal, seasonal prediction at -10% below average.**
- **El Nino and deficit monsoon are building up trends across India which will be important to understand rural consumption with a lag.**
- **A monsoon deficit and the overhang rural economy be it sentimentally is expected to be visible coming quarters.**
- Deficit monsoon has driven lower sowing of the monsoon crop with area sown -6% YoY so far

Monsoon season rainfall vs. normal



Monsoon crop sowing trend



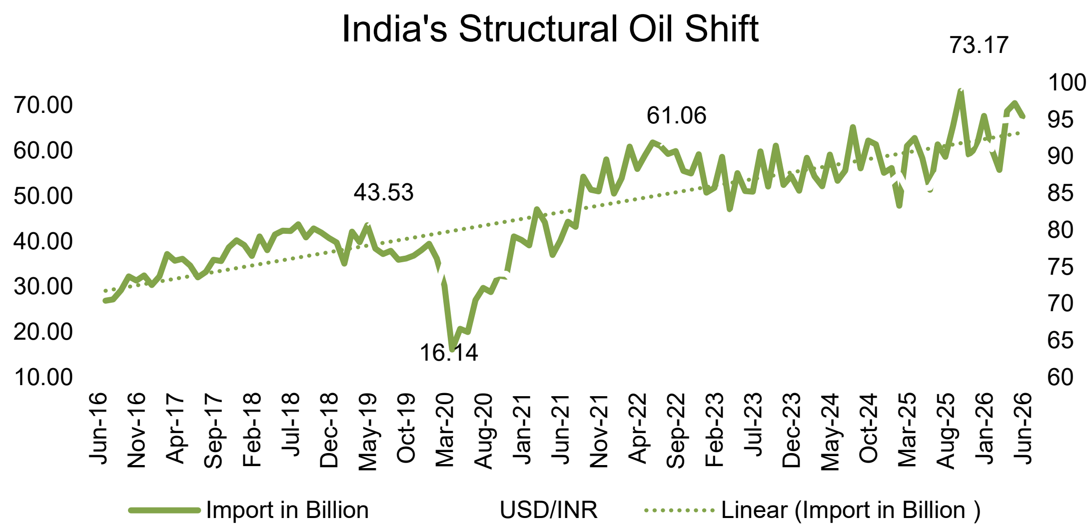
Cumulative Deviation from Long Period Average (LPA)

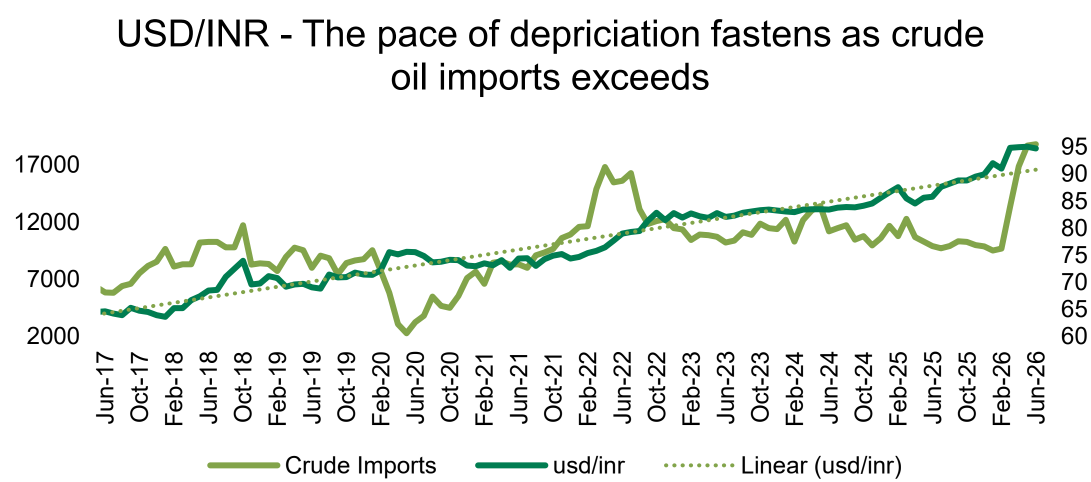
	as of 7 June	as of 14 June	as of 21 June	as of 28 June	as of 6 July	as of 13 July
All-India	**-22**	**-28**	**-42**	**-43**	**-20**	**-19**
North-west India	31	13	-12	-29	-19	-12
Central India	-36	-55	-66	-56	-5	-8
South Peninsula	-3	-4	-26	-31	-15	-22
East & North-east India	-32	-40	-41	-43	-41	-36

Source: Bloomberg, Data as on July 20, 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.





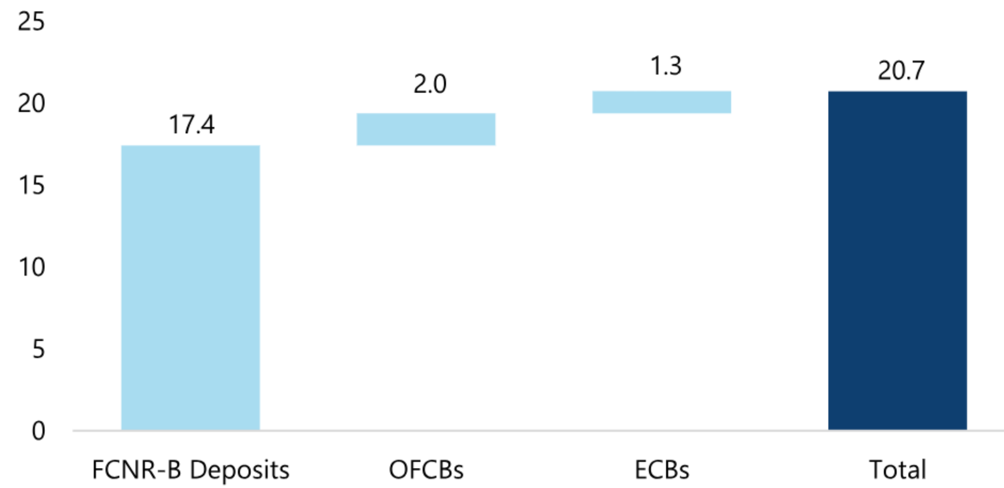
Source: Bloomberg, Data as on July 15, 2026

FCNR Bonds – A decent start !

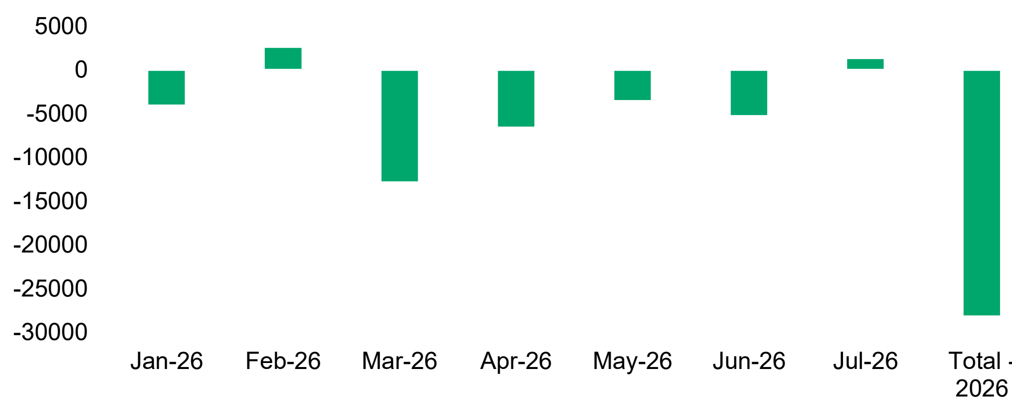
- Indian banks' mobilization of FCNR-B deposit & ECBs is off to a good start with $21bn raised till 17 July (within a month of clarification on foreign-branch leverage.
- FCNR-B mobilization is at $17.4bn.
- At this pace, mobilization of $50-60bn will be possible.
- This comes as relief amidst continued FPI out flows from equity segment.

In our view, FCNR deposits are more likely to fill the gap on capital account from equity outflows and slow down INR depreciation amidst US –Iran war. Also the key impact could be visible in bringing down the current elevated CD ratio.

Forex inflows under RBIs 2026 scheme till 17-Jul (US$bn)



FPI Flows in Equity

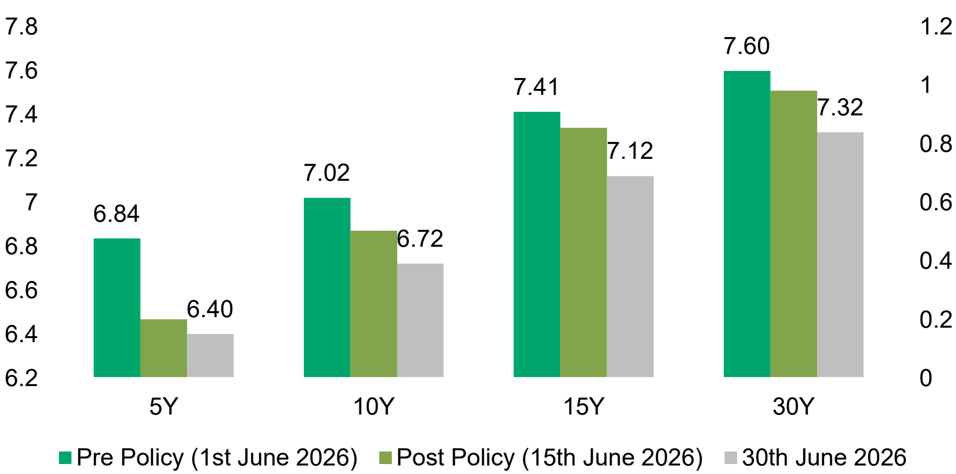


Source: Bloomberg, Data as on July 20, 2026

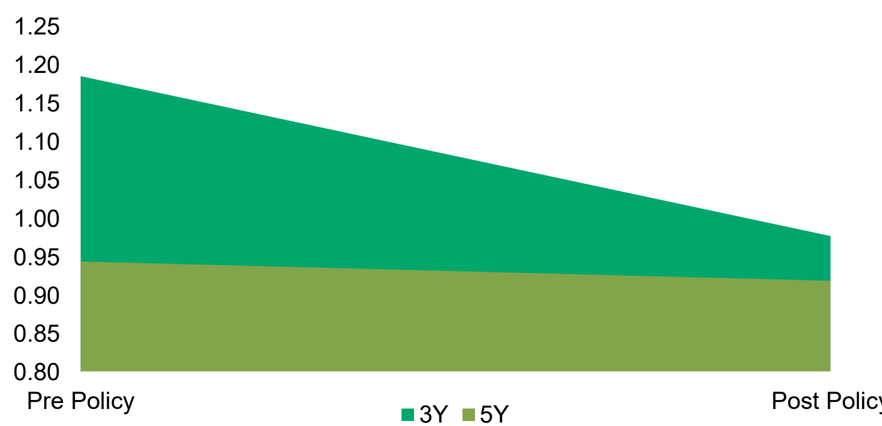
Fixed Income Markets

- The Indian Fixed Income markets last month was mainly dictated by global geopolitical shocks.
- Proactive measures by the RBI to stem liquidity tightness imparted much required relief to strained liquidity last month.
- Overall, the markets witnessed volatility in yields to the tune of 20-25 bps during the month with 10-year G-sec benchmark making a low of almost 6.87%.
- High quality Corporate bonds and State Development Loans (SDLs) reflected G-sec yield movements with spreads hovering steadily around 50-65 bps across maturities.
- Though, we saw the shorter end bonds reacting to liquidity conditions throughout the month.
- Need for sticky deposits in the banking system has been largely addressed with the FCNR deposit window. The measure will provide the banking system with enough deposit to cater to the credit growth in the economy thus reducing the supply of CDs and soften the rates at short end of the curve which is important for transmission of policy rates.

Pre & Post Policy Movement



Spread Compression G-sec - Corp Bond (Pre & Post Policy)



Source: Bloomberg, Internal Research, Data as on July 13th , 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 50 bn. dollars is expected to subscribe to these FCNR deposits within the fully hedged window - till September 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 20th, 2026

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