MONTHLY MACRO & MARKET INSIGHTS

JUNE-2026

Baroda BNP PARIBAS MUTUAL FUND

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Current Key Events -

- US-Iran resolution brought down global uncertainty on the west asia crisis and reopening of transit through Straight of Hormuz bring down crude prices to ~75$/bl.
- US Fed FOMC continued with a hawkish pause with the new Chair Kevin warsh reflecting on price stability and concerns on inflation.
- Bank of Japan in June-2026 policy meeting hiked its benchmark rate by 25bps, led by concerns on inflation and a depreciating yen.
- Gold Prices remain volatile amidst changing global asset demand and is currently hovering around 4200$/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 8.3% y/y highest in last 42 months led by increase in global commodity prices.
- India's 10-year benchmark yield inched lower to ~6.8% in June-2026 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 3.93% led by pickup in gold, petrol, diesel and food prices.
- INR is currently trading in a band width between 94-95, as RBI measures to boost capital flows and falling crude prices support the balance of payment fundamentally.

Source: BBNPP Research, Data as on June 20, 2026

FED June 2026 Policy

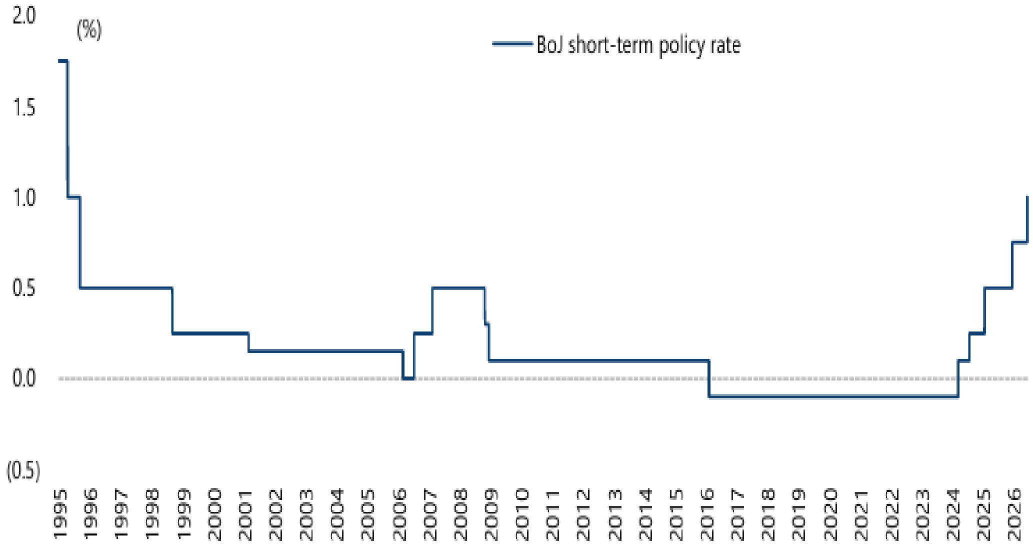
	2026	2027	2028	Longer Run
Change in real GDP (% 4Q/4Q)				
June (p)	2.1	2.3	2.1	2.0
March	2.4	2.3	2.1	2.0
Unemployment rate (%)				
June (p)	4.3	4.2	4.2	4.2
March	4.4	4.3	4.2	4.2
PCE inflation (% 4Q/4Q)				
June (p)	3.4	2.2	2.0	2.0
March	2.7	2.2	2.0	2.0
Core PCE inflation (% 4Q/4Q)				
June (p)	3.1	2.3	2.0	
March	2.7	2.2	2.0	
Federal funds target rate (midpoint)				
June (p)	3.625	3.375	3.125	3.125
March	3.375	3.125	3.125	3.125

- Fed kept the federal funds rate unchanged at the 3.5%–3.75% target range in June 2026.
- This is the first Fed policy by new FED Chair Kevin Warsh.
- FOMC in its economic projections revised the inflation target upwards.
- The upward revision of CPI has built up market expectations of one rate hike in CY2026.
- Also, the FED policy was read hawkish as concerns on inflation was even communicated by the new FED chair, who in his earlier communication has sounded very dovish.
- We read the policy differently-
- 1. A simple hawkish policy would imply forward guidance on trajectory of inflation which is missing from current policy.
- Also, the new FED chair is bringing 5 new task forces, which is usually not the case in regular fed meetings, it highlights not anything less than change.
- Thirdly post policy data pricing has been of a dovish policy with slight fall in US yields and meanwhile fall in gold prices.

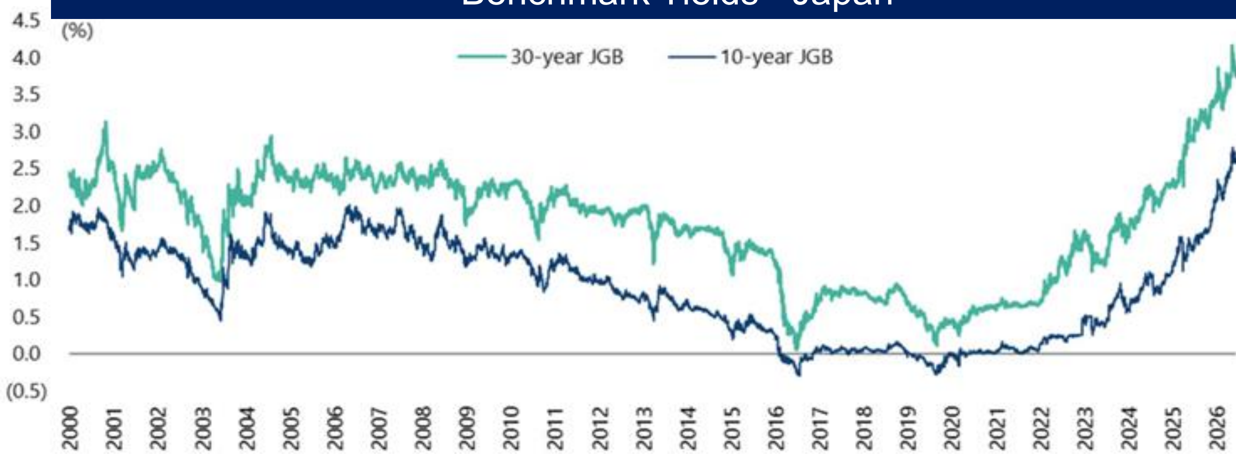
Source: BBNPP Research, Data as on June 20, 2026
FOMC – Federal Open Market Committee

Bank of Japan June-2026 Policy

Bank of Japan Policy rate



Benchmark Yields - Japan



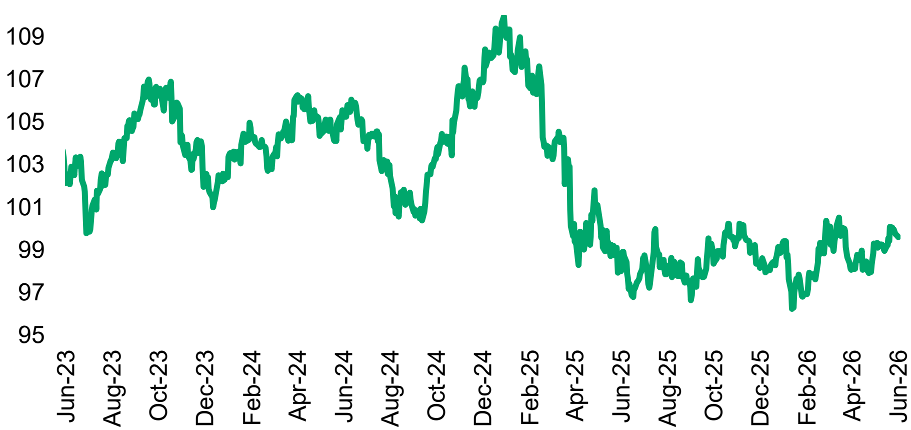
- Bank of Japan (BOJ) raised its key short-term policy rate by 25 bps to 1.0%.
- A 7-1-member decision marking highlighting efforts combat rising inflation.
- Despite the rate hike concerns for yen have not declined as yen continues to depreciate is currently closer to 161 levels.
- Inflation remains a key concern of Bank of Japan with CPI nearing 2%.

Source: Bloomberg, Data as on June 20, 2026

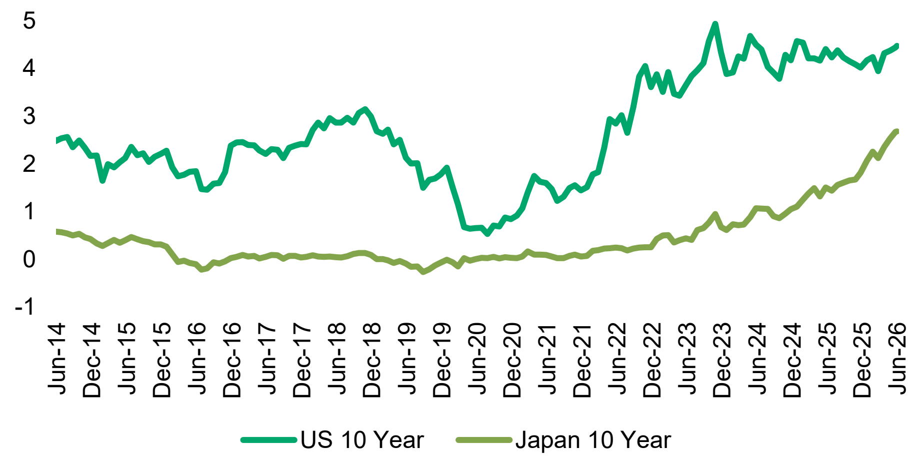
A case for elevated yields!

- Post Russia Ukraine war global yields have structurally remained elevated as inflation pressures rose. and also, in a post covid world the economies have burdened themselves with high debt.
- Economies like Japan have seen a shift in their interest rates from negative interest rate regime to current elevated rates.
- This has resulted in narrowing interest rate differentials amongst economies and therefore a rush for capital.
- In the below chart, we can see that the spread between US and Japan 10-year bond yields have started to narrow as Bank of Japan delivered another rate hike.
- A strong dollar and changing interest rate scenarios could be a reason why the base yields for economy are not expected to remain higher than their previous historic lows.

A strong DXY

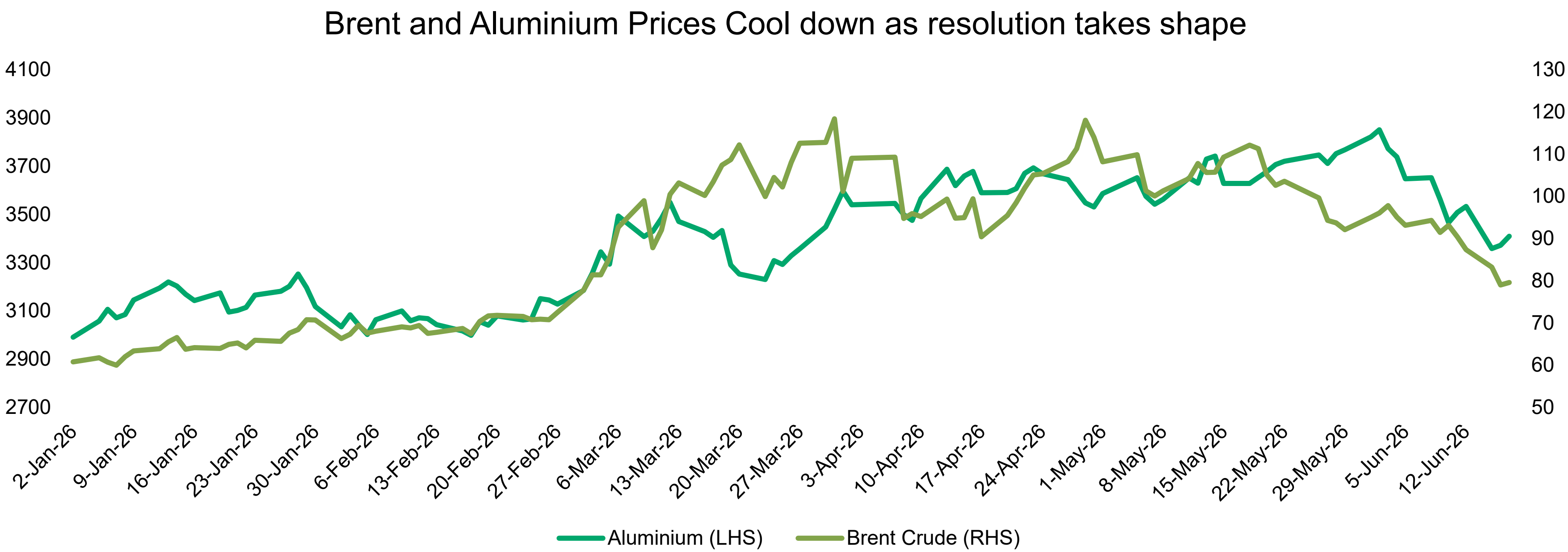


Spread between US-Japan 10 year



Source: Bloomberg, Data as on June 20, 2026

Commodities cooling as resolution takes center stage

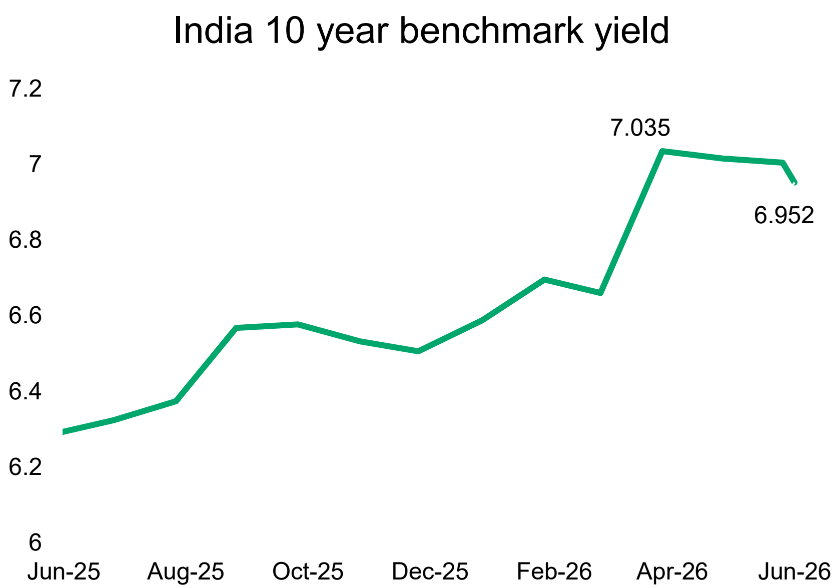


- The signing of the US-Iran peace deal has helped in clearing geopolitical blockades that have strained global supply chains, causing speculative risk premiums to diminish and pulling Brent crude and aluminium prices down to two-month lows.
- Declining brent prices are a respite to global inflation especially of countries with net importers of oil.
- The decline in brent prices also support the forward guidance of various monetary policies who are currently at hold.

Source: Bloomberg, Data as on June 12, 2026

Domestic Economy

RBI MPC June-2026 – A cautious pause!



- Reserve bank of India has acknowledged the shift in global monetary policy dynamics taking into consideration that several central banks have pivoted towards monetary tightening and resumed rate hikes.
- MPC has underscored that the duration of conflict to be the ultimate deciding factor impacting the macro-economic landscape be it growth or inflation projections.
- Both domestic GDP and inflation dynamics to remain contingent on global headwinds as well as on the progress and spatial distribution of the Southwest monsoon.
- Domestic headline inflation to witness higher commodity and food price shock and lower demand pressures as economic activity is expected to slow, therefore the spread between headline and core inflation to widen.

RBI Inflation Estimates	FY27	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27
June-2026 Policy	5.1	4.2	5.1	5.9	5.4
April-2026 Policy	4.6	4	4.4	5.2	4.7
RBI Growth Estimates	**FY27**	**Q1 FY27**	**Q2 FY27**	**Q3 FY27**	**Q4 FY27**
June-2026 Policy	6.6	6.6	6.3	6.5	6.8
April-2026 Policy	6.9	6.8	6.7	7	7.2

Our View –

- We expect RBI to remain on cautious hold and pivot if shocks to inflation increase.
- Monetary policy is expected to carefully assess the inflation scenario during, post monsoon.
- The announced measures for capital flows and other measures to boost capital inflows is expected to help RBI in clearly focusing on the interest rate glide path led by inflation expectations.

Source: RBI, Data as on June 08th , 2026

RBI MPC June-2026 – Measures by RBI

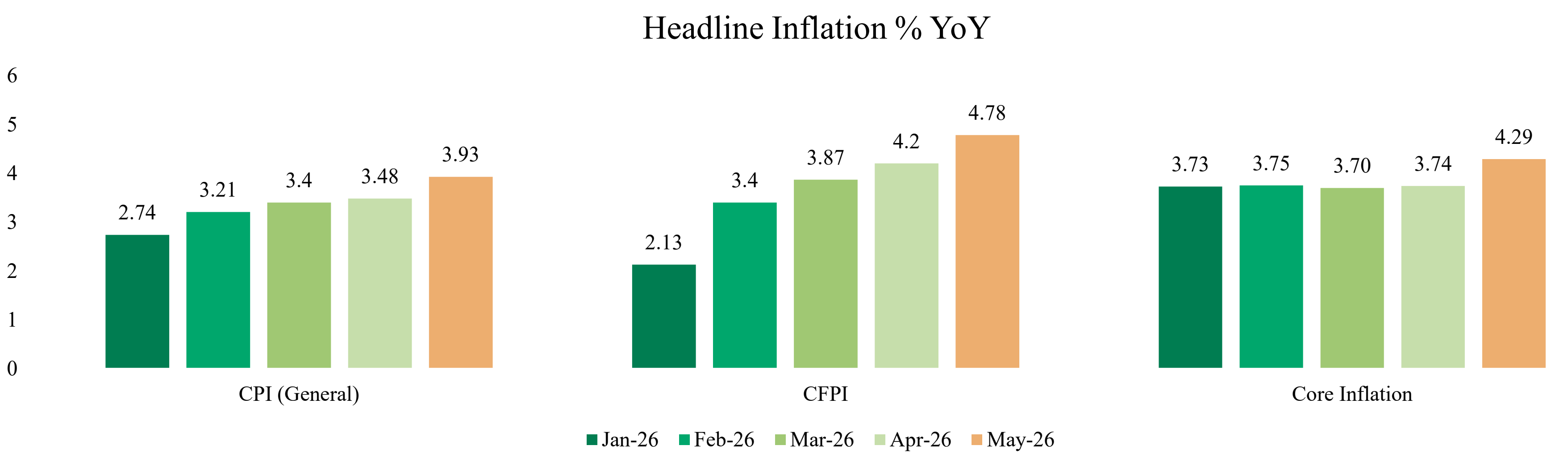
As highlighted before we expect RBI to tilt towards inflation vs growth. Meanwhile we expect RBI to use other methods to manage currency and rate hikes to follow inflation trajectory.
RBI announced the below five measures to attract foreign capital and ease pressure on the rupee.

- Opening of more long-tenor government securities under FAR to foreign investors.
- Relaxing FPI investment limits under the General Route
- Increasing investment limits for NRIs/OCIs and other overseas individuals in listed equities
- Offering concessional forex swap support for PSU ECBs and fresh 3–5-year FCNR(B) deposits by banks until September 30, 2026, and
- Restoring the export proceeds realization period to nine months.

Also. Government of India exempted foreign investors from capital gains tax on G-Sec investments, another measure aimed at attracting more stable foreign capital. We expect the above to help bridge the gap on Balance of Payment with an expected inflow of about ~USD 65-75 billion.

Source: BBNPP Internal Research, Data as on June 20, 2026

India Inflation – Global concerns cools down but!



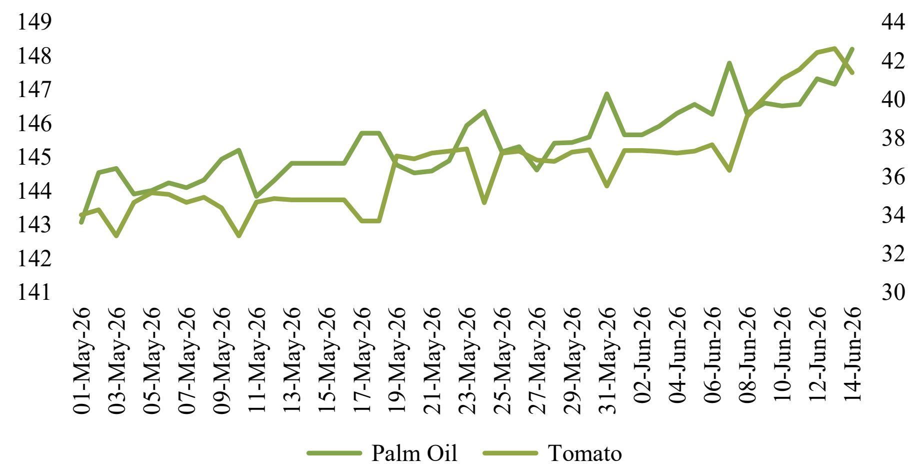
- CPI inflation rose to 3.93% y/y on May-2026, slightly higher than our expectations of 3.8%.
- The headline number picked up sequentially by 0.75% m/m in May-2026, fastest pickup in last 10 months.
- Contribution wise headline number was driven by increase in petrol, diesel, gold, silver, airfare, vegetables, meat and poultry and rural fuel wood prices.
- The current resolution between US and Iran is expected to offset major upside risks to inflation.
- As the resolution comes into effect the volatility from West Asia crisis and its impact on energy prices and supply is expected to decline and thus the current crude prices fell below $80/bl.
- Risks to domestic inflation now remain from El Nino-related disruptions and heat waves. For the month of June-2026 we expect headline number to witness higher contribution from food inflation and slower momentum in pickup of core inflation as major shocks from West Asia war pressuring core, are now expected to recede.
- Also, on the monetary policy front, continued sub-4% inflation readings along with softening crude oil prices, if sustained, could provide RBI more room to be on a wait and watch mode in the August policy.

Source: Bloomberg, Data as on June 12, 2026

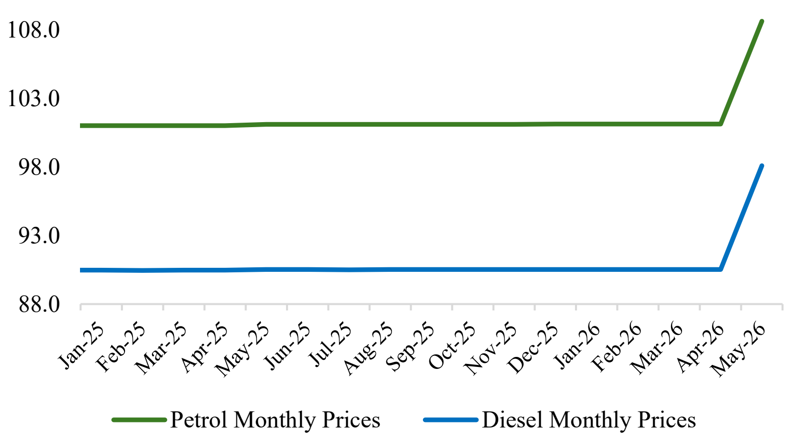
Drivers of Food and Core CPI

- High frequency data from the Department of Consumer Affairs for the month of June MTD show continued pickup in Vegetable and Edible oil prices.
- Remaining pass through of price hikes in retail petrol and diesel prices, elevated air fares, and an increase in metal prices like gold and silver is expected to put some sequential pressure on core inflation in June-2026.
- Post US Iran resolution crude prices have significantly cooled off, therefore offsetting any further upside to risk to inflation from external sector.
- El Nino and its impact on food inflation remains a bigger worry domestic inflation.

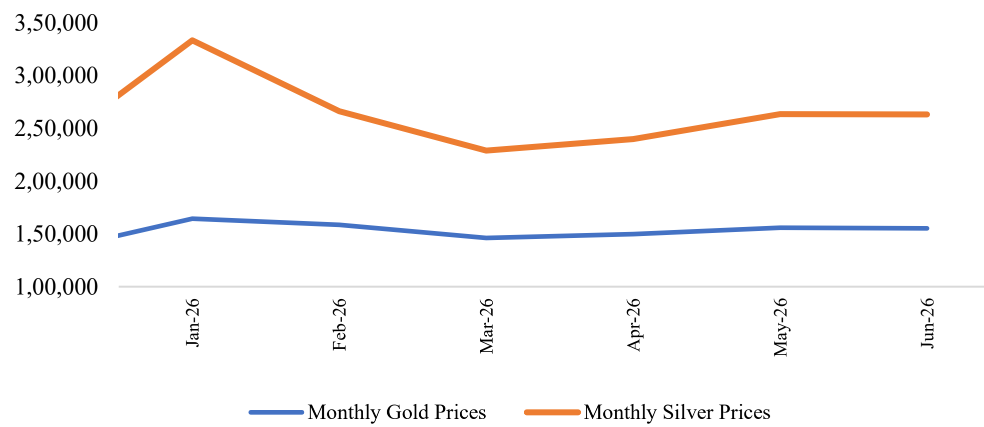
Daily Food Price in Rs./kg



Petrol and Diesel Prices

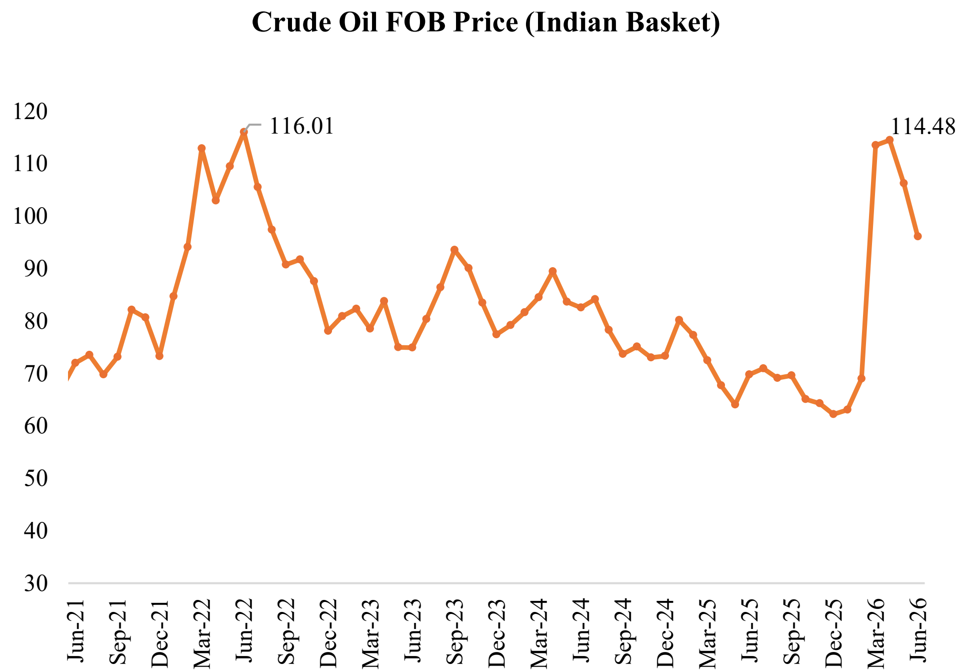


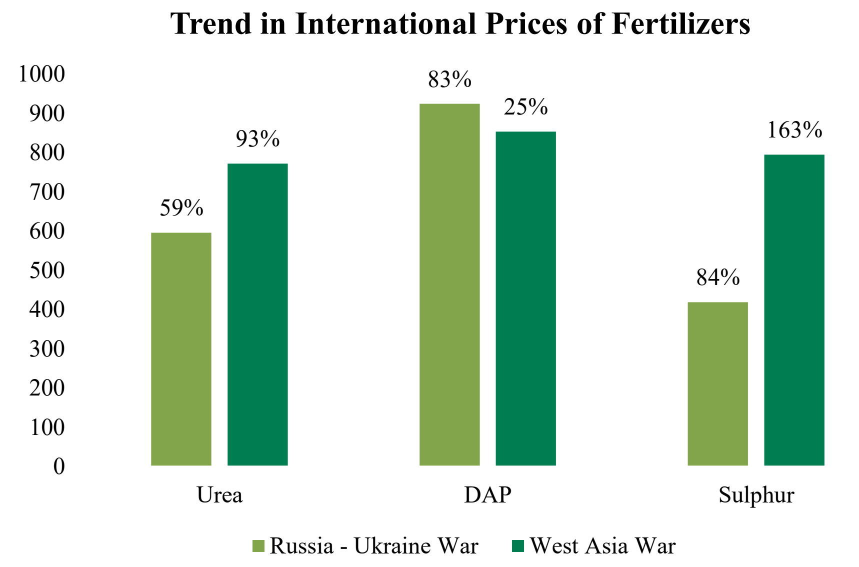
Gold and Silver Prices



Source: DCA, PPAC, Bloomberg, Data as on June 14, 2026

Fiscal Cost of the war?





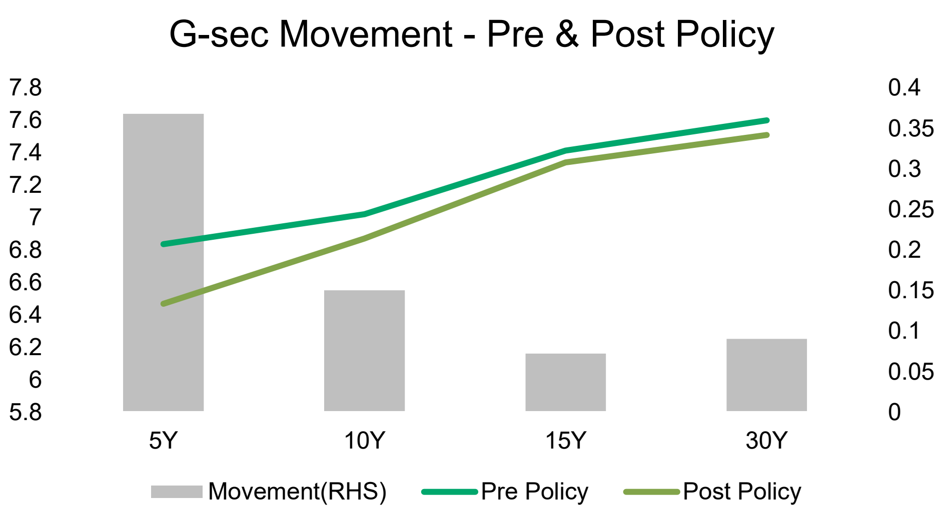
Date	Event	Change	After change (Petrol)	After change (Diesel)
22 May 2022	Cut — post-Ukraine crude spike	↓ Petrol ₹8 · Diesel ₹6	₹19.90 / litre	₹15.80 / litre
07 Apr 2025	Hike — trade war oil price fall; absorbed by OMCs	↑ ₹2 each	₹13.00 / litre*	₹10.00 / litre*
27 Mar 2026	Cut — US-Israel-Iran crisis; crude spike shield	↓ ₹10 each	₹3.00 / litre*	₹0 (zero) *

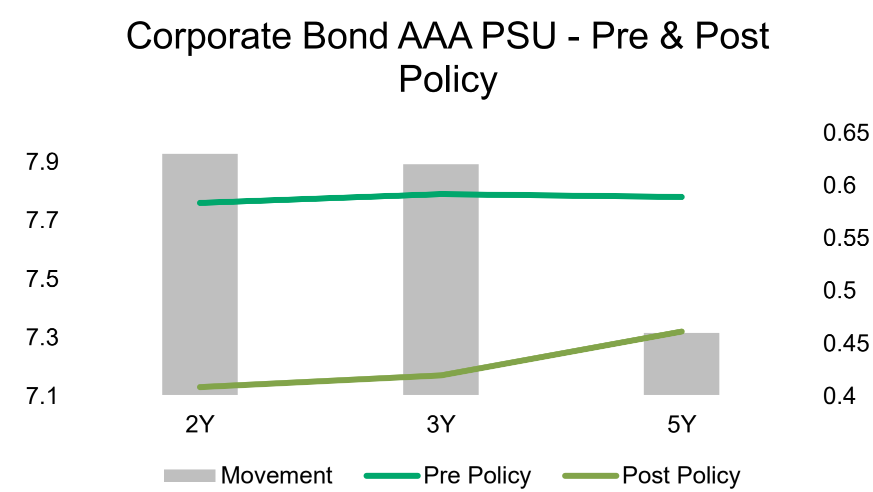
- The west asia war flared up India's commodity bill.
- West Asia crisis had once again pushed crude oil prices higher, with the Indian Basket price rising to US$114.48/barrel.
- The impact of higher crude (also through excise duty cut) and fertilizer prices is expected to cost centre additional 1-1.5trn.
- We expect fiscal deficit as % of GDP to be higher then budget estimates by 20bps.

Source: DCA, PPAC, Bloomberg, Data as on June 14, 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.





Source: Bloomberg, Internal Research, Data as on June14th , 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 June , 2026

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