

MONTHLY MACRO & MARKET INSIGHTS

MAY-2026

Current Key Events -

- ❑ US Iran conflict continue to pressure crude oil prices keeping it above 100\$/bl for almost all of April - 2026 and May-2026.
- ❑ Global bond yields remain elevated, currencies of oil importing nations especially Asian economies depreciated further.
- ❑ Shortage of Natural gas, fertilizers, crude etc has affected global inflation dynamics, with importing countries witnessing price pressures.
- ❑ Gold Prices remain volatile amidst geopolitical tensions ranging between ~\$4500-4700/ounce.
- ❑ Fed in its May-2026 monetary policy meeting kept the fed fund rate unchanged. Fed's forward-looking view on inflation and West Asia crisis reflected a divergence from any rate cutting policy in 2026.
- ❑ 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 higher towards 7.10% in May-2026 led by high brent prices and elevated global rates.
- ❑ RBI has projected GDP growth at 6.9% in FY27 vs 7.6% in FY26, whereas inflation is expected to be higher at 4.6% in FY27 vs 2.1% in FY26.
- ❑ INR continued to depreciate further to ~96.3, as India's import bill and over-all of balance of payment raises risks.

Global Economy

Global Monetary Dynamics

FOMC

- ❑ Fed kept the federal funds rate unchanged at the 3.5%–3.75% target range in April 2026.
- ❑ Fed members seem to be divided in future policy decisions.
- ❑ Meanwhile, Powell to remain Fed governor after his Chair term ends.
- ❑ Middle East escalations – heightened uncertainty about the economic outlook.
- ❑ Our view is Fed to remain on hold for future policies unless the current West Asia crisis worsens.

Bank of Japan

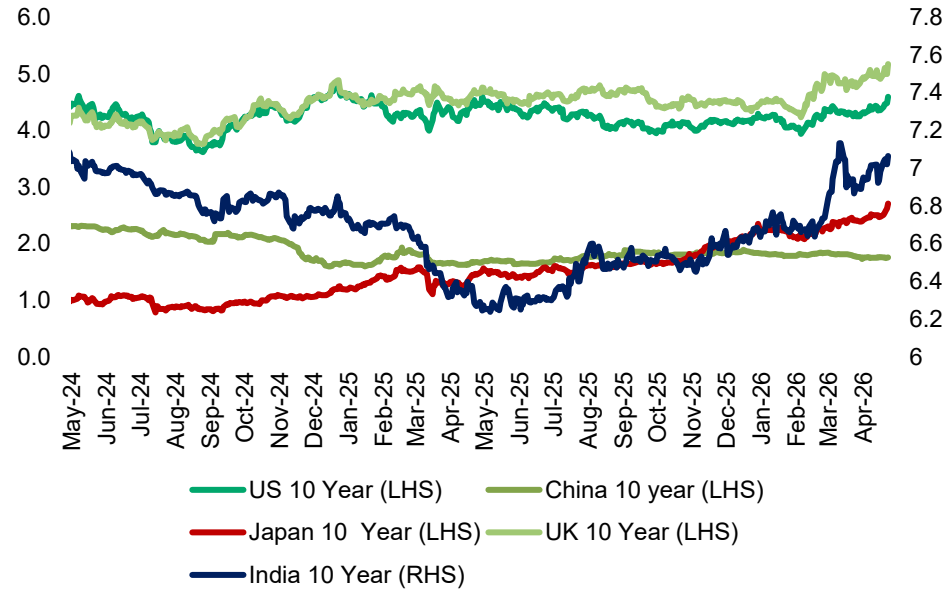
- ❑ The Bank of Japan kept the short-term policy rate steady at 0.75% in April 2026 meeting.
- ❑ Middle east conflicts signaled inflation risks leading to hawkish stance.
- ❑ Rising fuel costs – Leading to upward prices projections.
- ❑ June Rate hike on cards due to escalating middle east crisis.

PBOC

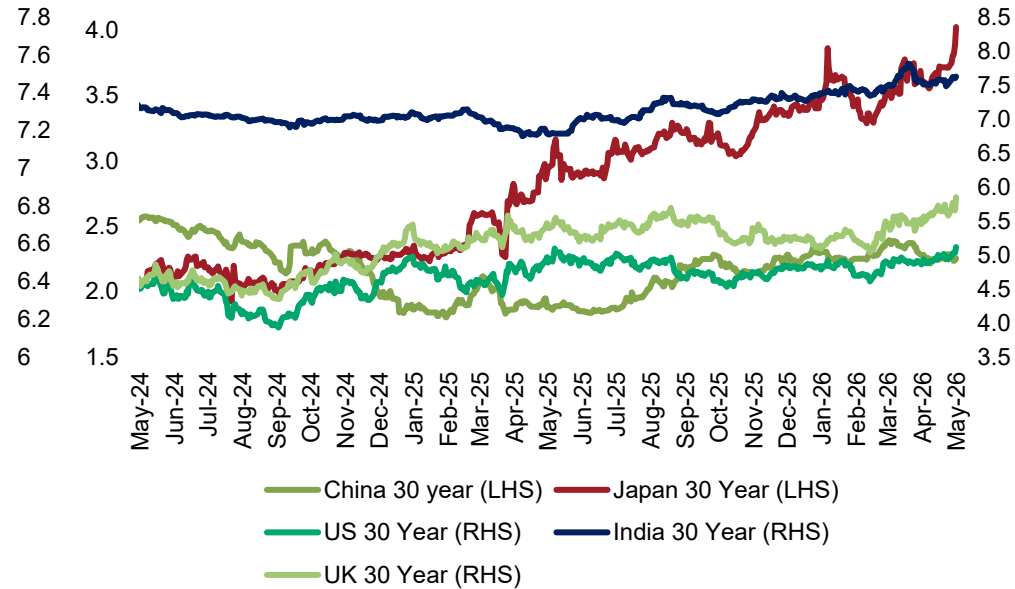
- ❑ Eleventh straight months of no rate change by PBOC.
- ❑ Deflationary pressures ease in China as middle east war pressure prices.
- ❑ Policy to remain “supportive” and “moderately loose” – Growth supportive policy.
- ❑ Yuan one of the few currencies to appreciate against dollar.

Rising Global Yields

Global 10 year yields



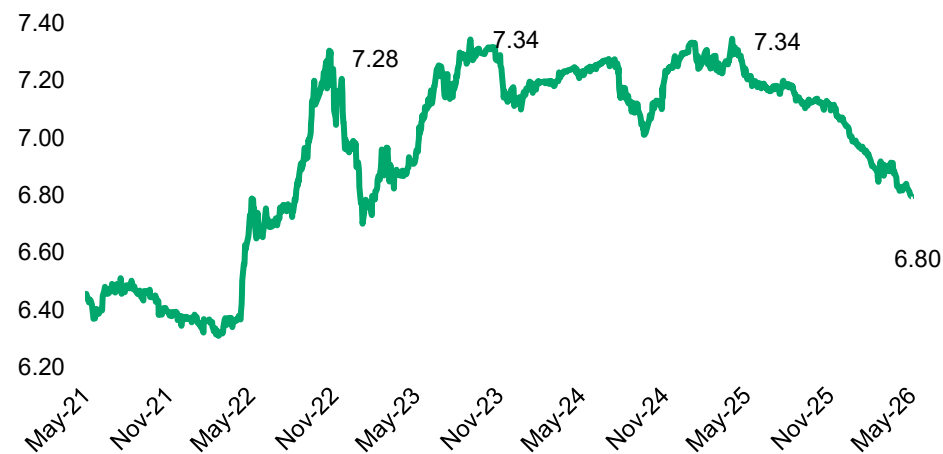
Global 30 year yields



- ❑ US 10-year benchmark yield hovered around 4.6% and US 30 year touched a multi year high of above 5%.
- ❑ Elevated US yields due to Middle East conflict accelerating US inflation ruling out Fed's rate cuts this year.
- ❑ Japan too witnessed historically high yields, with its 30-year bond yield overpassing the 4% mark.
- ❑ Inflation concerns and elevated debt levels have become the key reason for rising global rates.

China an odd one out !

USD/CNY



China's Trade Win



- ❑ The yuan has been one of the best-performing currencies since the Iran war began.
- ❑ China remained resilient to the energy shock, shielded by vast commodity reserve and expansion into renewable energy.
- ❑ Yuan's current appreciation story is opposite of the depreciation witnessed during the Russia Ukraine war.
- ❑ The key implication of yuan appreciation is that exports from China become expensive and that is inflationary for global goods markets.

Oil Markets and Supply

❑ The Strait of Hormuz disruption has removed at least 10% of global oil supply.

The adjustment has four channels:

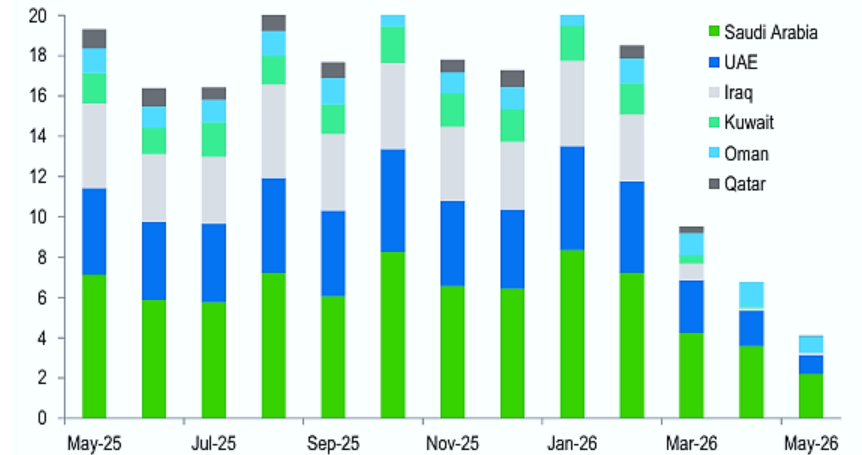
- erase the expected surplus;
- draw down stockpiles;
- pump more elsewhere; or
- destroy demand by using less energy or switching away from oil.

❑ The alternate infrastructure or the current bypass architecture appears to be capable of cushioning the shock rather than eliminating structural dependency on Hormuz itself.

❑ The most notable change has been US crude exports, which recorded an all-time weekly highly crude exports.

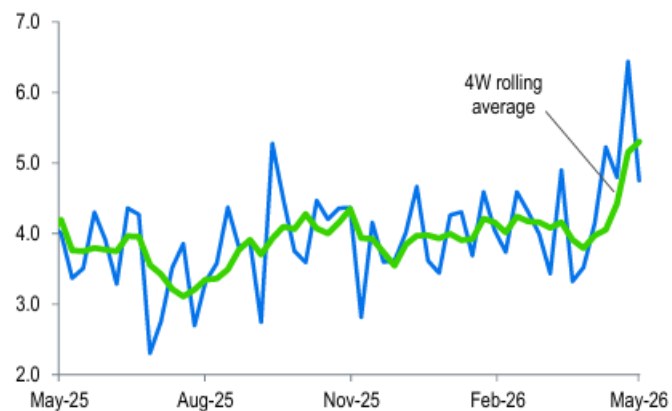
Crude Oil Exports

Crude oil export volumes (million barrels per day – mb/d)



US Oil Exports

US crude oil exports (mb/d)



Source: Bloomberg, StanC, BBNPP Research, Data as on May 11 2026

Together for more

Asian PMI reflect inflationary pressures but still holding up

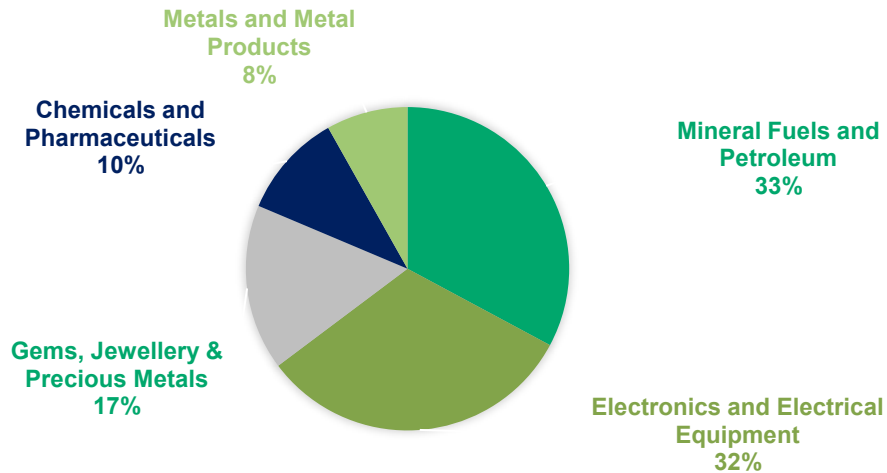
Date	Australia	China	India	Indonesia	Japan	Malaysia	Philippines	Korea	Thailand	Korea
Apr-25	51.7	50.4	58.2	46.7	48.7	48.6	53	47.5	49.5	45.6
May-25	51	48.3	57.6	47.4	49.4	48.8	50.1	47.7	51.2	49.8
Jun-25	50.6	50.4	58.4	46.9	50.1	49.3	50.7	48.7	51.7	48.9
Jul-25	51.3	49.5	59.1	49.2	48.9	49.7	50.9	48	51.9	52.4
Aug-25	53	50.5	59.3	51.5	49.7	49.9	50.8	48.3	52.7	50.4
Sep-25	51.4	51.2	57.7	50.4	48.5	49.8	49.9	50.7	54.6	50.4
Oct-25	49.7	50.6	59.2	51.2	48.2	49.5	50.1	49.4	56.6	54.5
Nov-25	51.6	49.9	56.6	53.3	48.7	50.1	47.4	49.4	56.8	53.8
Dec-25	51.6	50.1	55	51.2	50	50.1	50.2	50.1	57.4	53
Jan-26	52.3	50.3	55.4	52.6	51.5	50.2	52.9	51.2	52.7	52.5
Feb-26	51	52.1	56.9	53.8	53	49.3	54.6	51.1	53.5	54.3
Mar-26	49.8	50.8	53.9	50.1	51.6	50.7	51.3	52.6	54.1	51.2
Apr-26	51.3	52.2	54.7	49.1	55.1	51.6	48.3	53.6	52.7	50.5

□ Two months into the Middle East conflict, Asian economies PMI indicator showed resilience, but the surveys reflect, energy shock has started pressure input prices and overall demand.

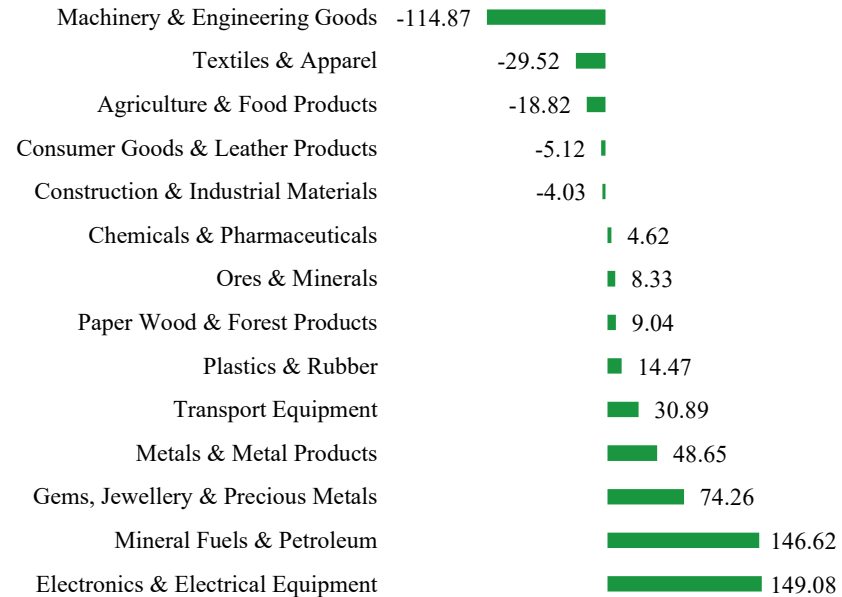
Domestic Economy

India's Structural problem!

SHARE OF TOP ITEMS IN INDIA'S IMPORT BASKET



NET IMPORTS (in USD Billions)



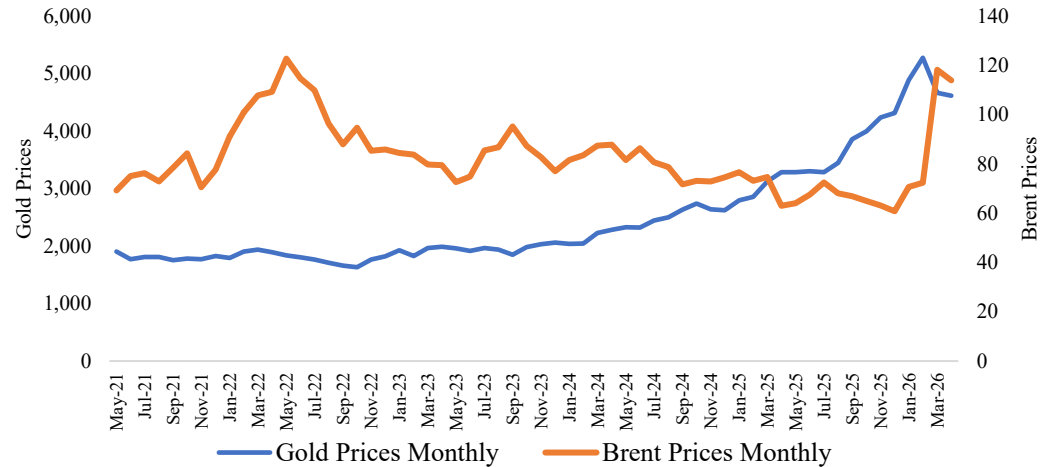
- India's total imports stood at ~\$733billion in FY26, while exports are around \$420billion in FY26, resulting in a net import burden exceeding \$313 billion.
- Out of which India imports crude oil (27.62%), electronics (26.85%), precious metals (13.96%),
- However, the moment geopolitical instability disrupts energy markets or global supply chains, India's vulnerabilities begin to surface rapidly through higher import bills and inflation, pressuring the rupee,
- Current crude oil shock is already pressuring the current account with high import bills.
- In April 2026, India's import number jumped to 10% y/y to US\$71.9 bn driven by oil imports rising 53% m/m, reflecting spike in crude prices and gold imports rising 82% y/y.

Source: RBI, Data as on May 18th, 2026

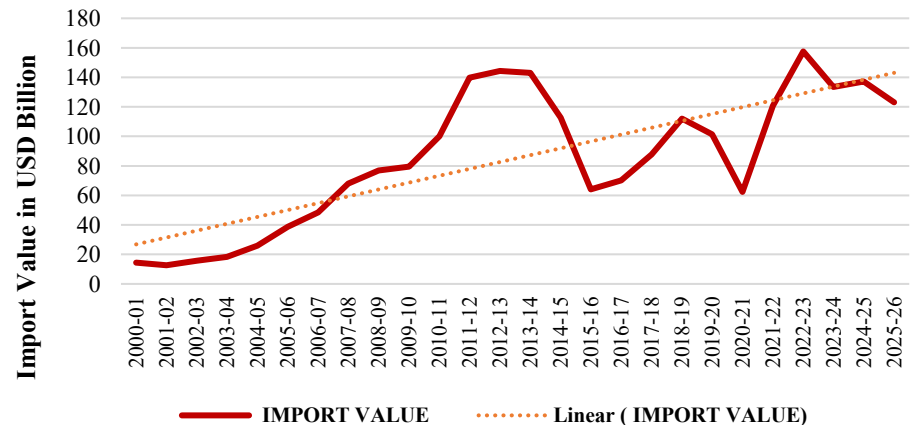
Higher Brent And Gold Prices seeping into domestic economy

- The increase in brent oil prices and elevated gold prices reflect current West Asia crisis and evolving geopolitical tensions.
- India's petroleum import value tracking the global crude prices showed a sharp pickup in crude imports.

BRENT AND GOLD PRICES

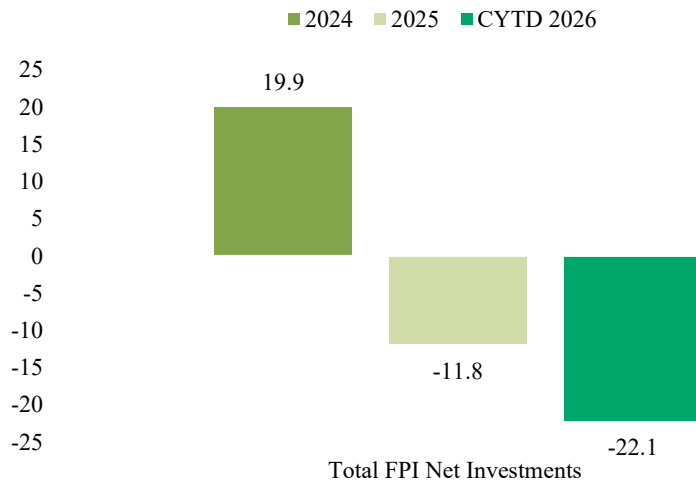


Crude Import Value

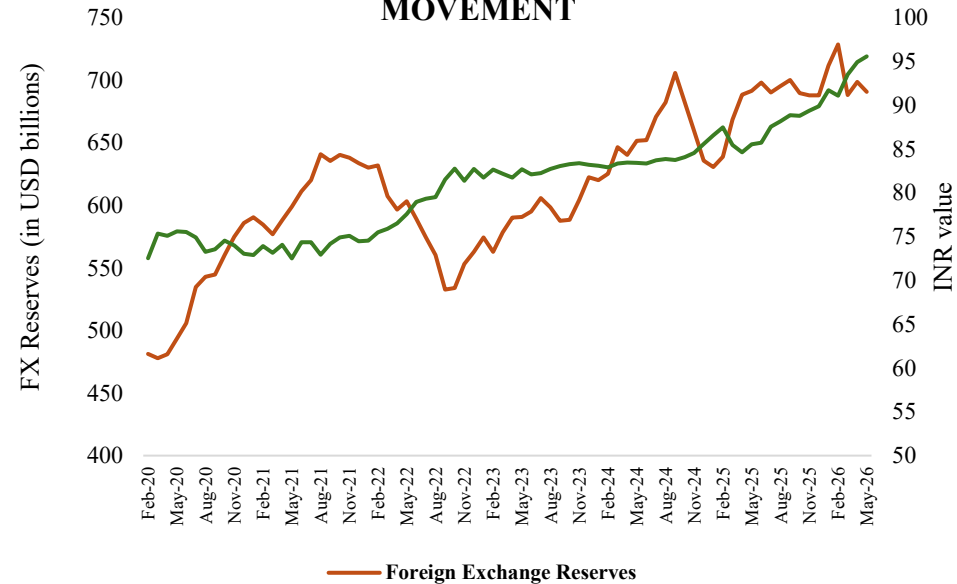


India's External Headwinds

FPI Net Investments (in billions)

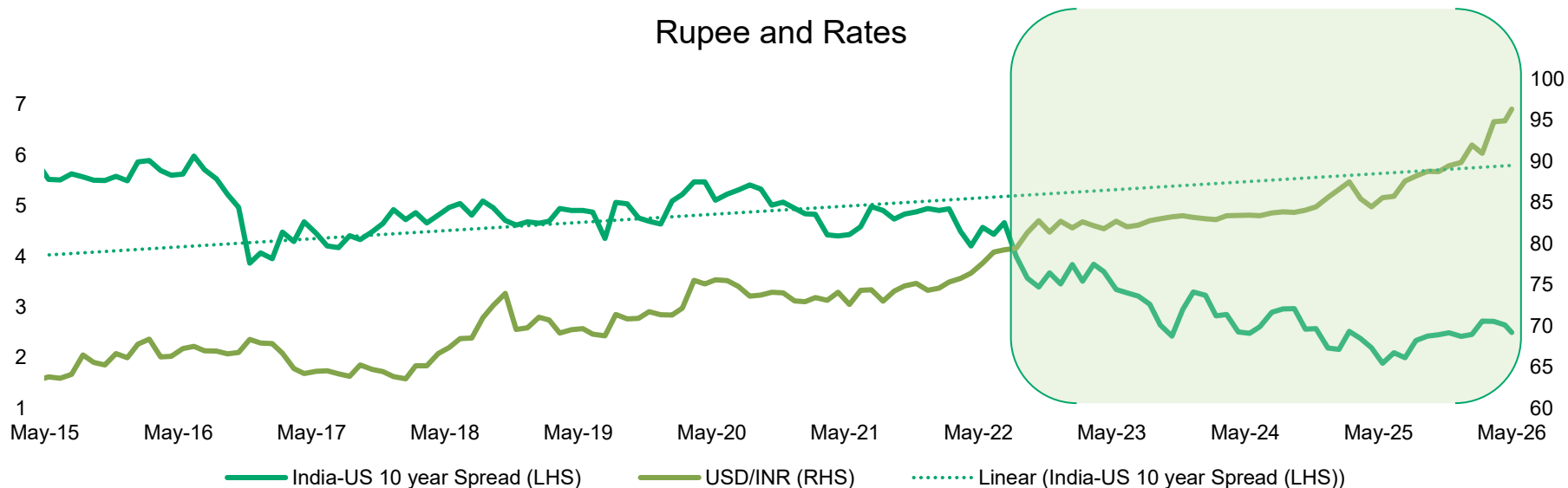


INDIA'S FOREX RESERVES AND RUPEE MOVEMENT



- ❑ The FPI trend shows a sharp shift, India recorded strong net inflows in 2024, however, the trend reversed in 2025 and CYTD 2026, with net outflows.
- ❑ Rising global uncertainty, elevated oil prices, geopolitical tensions, and higher global interest rates have led foreign investors to pull capital from emerging markets, creating pressure on India's capital account and the rupee.

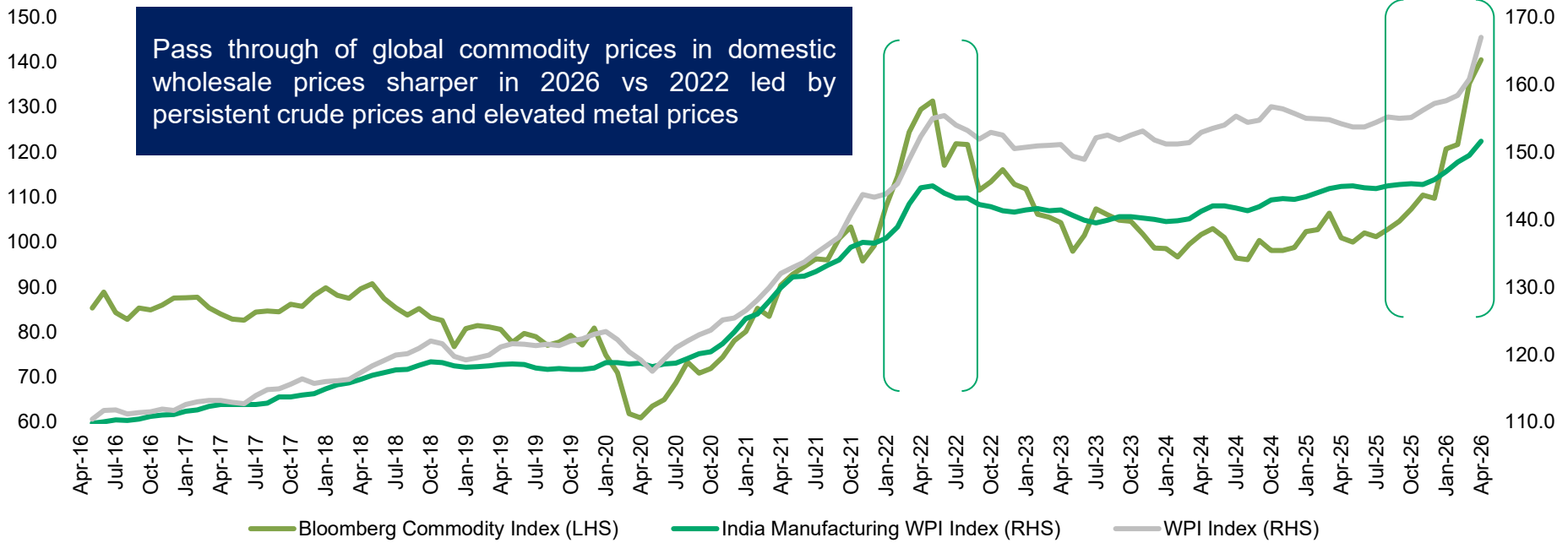
Currency Pressures to remain ?



- ❑ India's 10-year bonds are running above 7%, but we continue to witness INR depreciating as low as 96.3.
- ❑ The above chart depicts narrowing of spreads between India and US benchmark yields thus reducing any carry advantage which was attached to the rupee.
- ❑ The spreads have declined after Russia Ukraine war. Global rates for most economies like US and Japan have seen a shift during the same period reflecting a structural shifts of global rates.
- ❑ Therefore INR is expected to witness depreciating pressures until the current West Asia crisis settles and brent prices reflect the true demand supply equation rather than shocks.

Wholesale Prices reflect Middle East war pressures

Whole Sale Prices Flare up!



- Wholesale inflation flared up by 8.3% y/y in April-2026 highest in last 42 months, led by sharp & broad-based upturn in fuel prices and persistently elevated global metal prices.
- The direct linkages of global commodity prices to domestic wholesale prices has led to an immediate pass-through, and thus a sharp build-up of price pressures at the producer level.

Domestic Inflation – Prone to upside risks

CPI Inflation Categories		MoM		YoY	
Items	Weights	Apr-26	Mar-26	Apr-26	Mar-26
All Items	100	0.27%	0.26%	3.48%	3.40%
Food & Beverages	36.75	0.22%	0.24%	4.01%	3.71%
Milk, other dairy products and eggs	7.28	0.28%	-0.21%	3.12%	3.01%
Oils and fats	2.74	1.72%	1.04%	9.23%	7.81%
Fruits and nuts	3.7	0.61%	3.02%	7.87%	7.27%
Vegetables, tubers, plantains, cooking bananas and pulses	6.82	-1.05%	-2.42%	2.28%	1.68%
Paan, Tobacco and Intoxicants	2.99	0.85%	0.87%	4.77%	4.23%
Clothing and footwear	6.38	0.43%	0.25%	2.81%	2.74%
Electricity, gas and other fuels	5.36	-0.05%	1.47%	0.69%	1.64%
LPG Cylinder and Piped Natural Gas	1.98	0.00%	3.61%	3.02%	5.27%
Petrol	4.49	0.02%	0.00%	0.07%	0.04%
Restaurants and accommodation services	3.35	1.54%	0.36%	4.20%	2.88%
Gold /Diamond /Platinum Jewelry	0.62	0.28%	0.15%	40.71%	45.88%

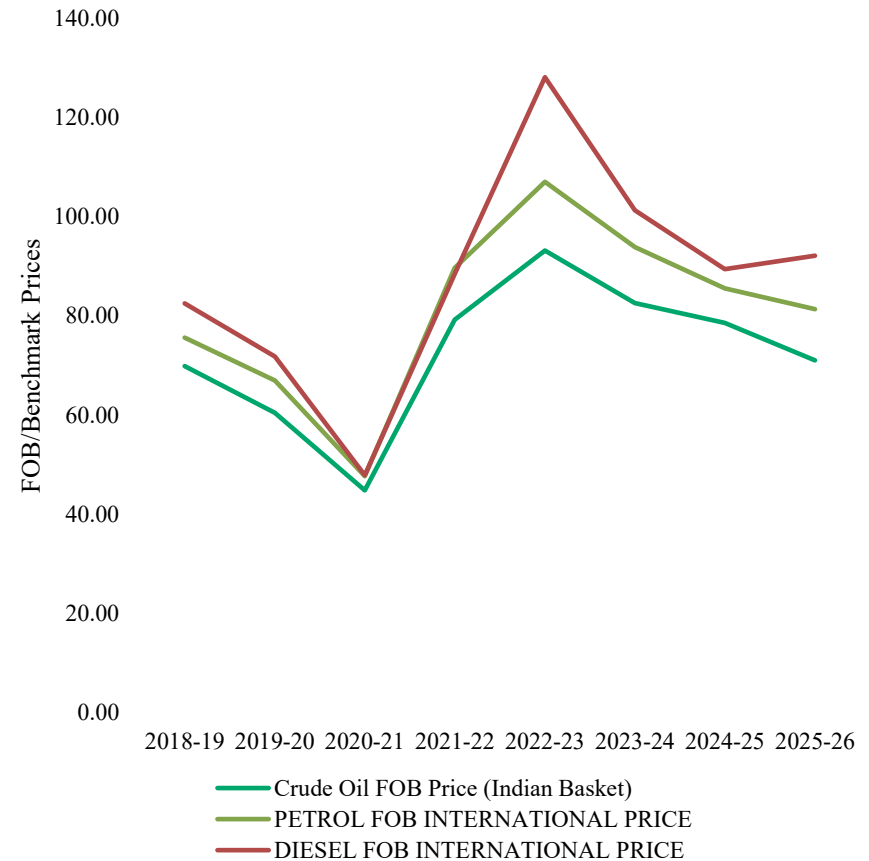
- ❑ Headline CPI picked up marginally to 3.5% y/y in April-2026 from 3.4% in March-2026.
- ❑ Inflation largely contained with moderate increase in food prices and limited pass through of higher fuel prices.
- ❑ Additionally precious metals like gold and silver declined in April-2026 vis a vis March-2026.
- ❑ We expect food prices to increase selectively and not broad based.
- ❑ Retail petrol and diesel prices were hiked by Rs. 3 each, in May-2026, imply a limited pass through of ~15-20bps.
- ❑ We expect another hike of retail fuel prices if crude oil prices don't soften.
- ❑ We expect FY27 CPI inflation to average around 5.2-5.4% y/y as our base case scenario of the expectation that the West Asia crisis persists no longer than H1 FY27.
- ❑ If war persists for longer than the base case, inflation is expected to remain above 6% level in H2 FY27.

Government Measures amidst the chaos!

To protect the rupee and manage downward pressure on foreign exchange reserves, the Government and the Reserve Bank of India (RBI) have deployed a series of measures –

- ❑ **Curbing Non-Essential Imports:** Policymakers are targeting the current account deficit (CAD) by considering curbs on non-essential imports like increase in gold duty from 5% to 15%.
- ❑ **Austerity and Energy Conservation:** Appeals have been made to reduce non-essential foreign travel and promote fuel conservation to lessen the dollar demand from oil imports.
- ❑ **Boosting Capital Inflows:** To attract stable foreign capital, experts and officials are exploring options to ease External Commercial Borrowings (ECBs) and offer higher-yield diaspora and NRI deposit schemes.
- ❑ **Tax on refined petroleum exports** - India reimposed a Special Additional Excise Duty (SAED) on petroleum exports to control domestic supply and capture windfall profits amidst volatile global energy prices.

Crude Import Cost vs Refined Product Export Prices

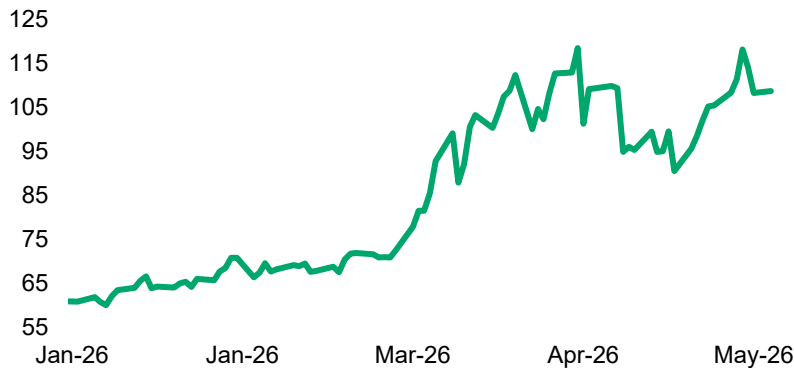




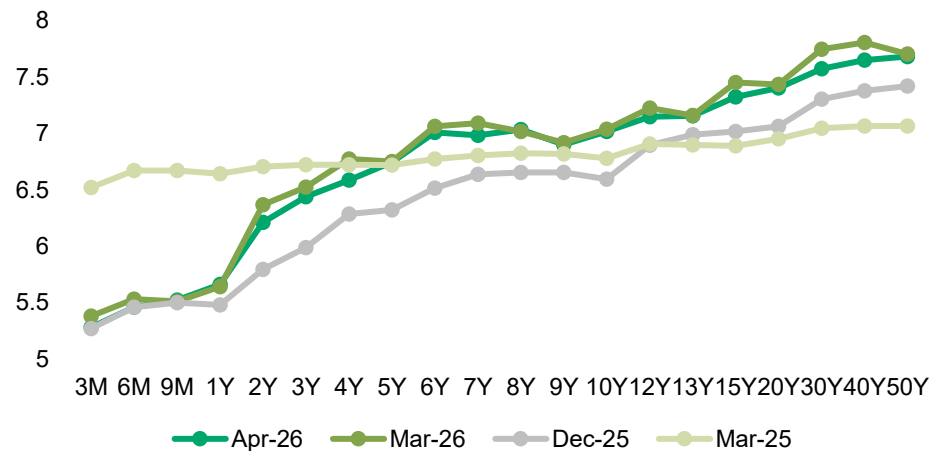
Fixed Income Markets Outlook

- ❑ The Indian fixed Income market last month experienced significant volatility across segment primarily shaped by a major geopolitical conflict in West Asia, which spiked crude oil having its ramifications on INR as well as global yields.
- ❑ In midst of this global turmoil and uncertainty, RBI announced its monetary policy guiding the market on its rate, inflation and growth projections.
- ❑ The major driver for most of the parameters was the movement in brent prices which moved in the range of \$95 to \$118 on news of settlement and disagreements between US and Iran.
- ❑ The rise in prices also increased speculation about increase in local energy prices and its indirect impact, especially post poll in couple of states.

Brent\$/bl



India Sovereign Curve %

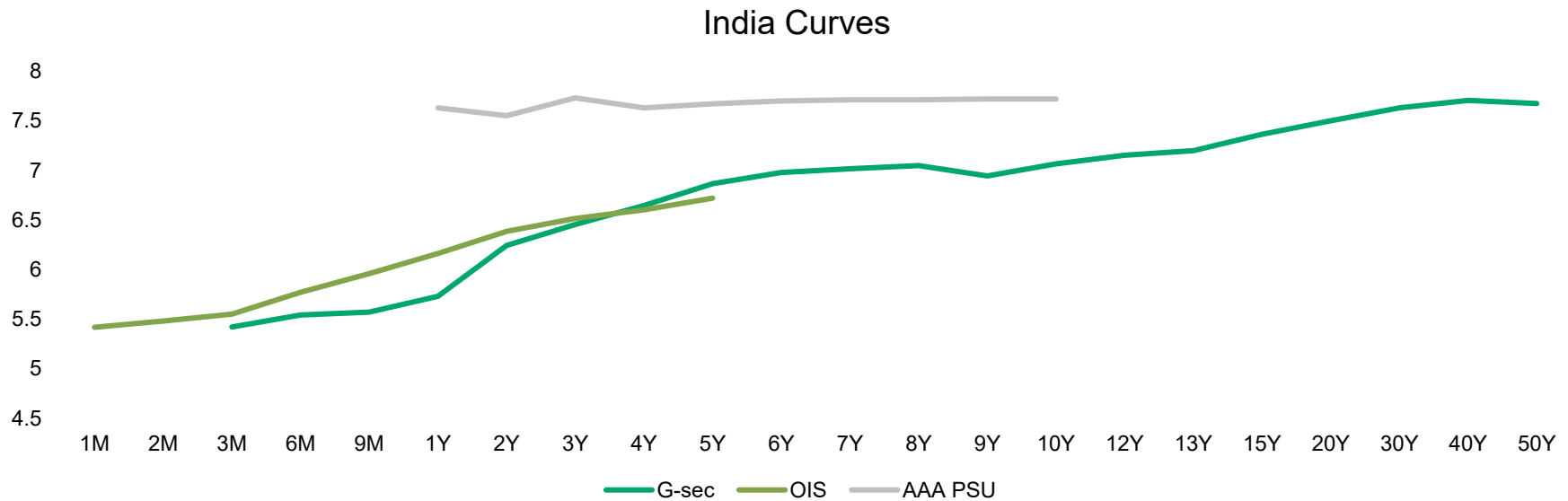


Source: Bloomberg, Internal Research, Data as on April 30th, 2026



Fixed Income Markets Outlook

- ❑ Corporate bonds and SDL witnessed similar trends during the month as G-sec curve in light of continued supply and muted demand in light of the above factors.
- ❑ The spread for long G-sec (esp. above 25 years) contracted following reduced supply in light of the fact that the 10-year benchmark continued its upward journey during the month.
- ❑ Corporate bonds mainly in the 1-to-3-year maturity bucket were seen in demand as most of the fund managers preferred such bonds due to attractive accruals and lesser duration impact in a rising yield scenario.



Source: Bloomberg, Internal Research, Data as on May-15th , 2026



Fixed Income Markets Outlook

- ❑ At the shorter end, the curve witnessed some easing in levels up to 6 months following the March end phenomena and due to liquidity coming back to the banking system. As we moved towards one-year segment we witnessed overall stiffness in the levels above 7% following supply and other factors impacting overall yield curve.
- ❑ The Indian Rupee (INR) underwent extreme volatility in April 2026 and May-2026 -, driven by geopolitical shocks in West Asia and persistent global dollar strength.
- ❑ The currency hit a historic low of Rs 96.35 per US Dollar, marking a steep 12% decline over a 12-month period. The Indian Rupee faced severe depreciation pressure, crossing the Rs 93–96 per dollar mark, which further incentivized the RBI to stay vigilant on liquidity and forex interventions.

Outlook:

Going ahead, structural tailwinds like global index inclusion persist, the market faces immediate pressure from a record borrowing calendar and geopolitical volatility. We recommend a **barbell approach** recommending core allocations in **short-maturity bonds** and **money market instruments** from accrual and spread perspective, while **tactically positioning** in long gilts and SDLs for any alpha generating opportunities.

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