MONTHLY MACRO-INSIGHTS

AUGUST- 2025

Baroda BNP PARIBAS MUTUAL FUND

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Global Economy

What we cover this month?

- ❑ Global Monetary Policies - Snapshot
- ❑ US Inflation – A key watch!
- Global Yields – Navigating different tides
- ❑ India – Liquidity, Growth and Inflation
- ❑ RBI Rates and Liquidity
- Outlook!

Key Events July- August 2025…

- ❑ RBI in its August Policy held the rates steady and reduced inflation expectation from 3.7% to 3.1% for FY 26.
- ❑ RBI MPC to have a data dependent policy response as it continues to monitor global trade and domestic growth developments.
- ❑ RBI in June-25 policy reduced the CRR rate by 100 bps to 3% infusing liquidity of ~2.5 lac crore by Dec-2025.
- ❑ Brent prices declined to 66$/bl as geopolitical tensions eased.
- ❑ US Fed in July-2025 meeting delivered another pause after the uncertainty around US inflation and US tariffs.
- ❑ RBI on cumulative basis infused ~5 trn in FY26 through liquidity measures.
- ❑ India Inflation has softened further to 2.1% in June-25 led by declining food prices.
- ❑ GST rates and slab revision likely to be announced, bond market nervous on fiscal implications

Source: BBNPP Research, Data as on August,20, 2025

Global Monetary Policies – Snapshot

US FOMC

FOMC continued with another pause.

The policy tone was slightly hawkish with concerns on tariff related inflation.

Our View - Expect the FED to remain data dependent in the upcoming monetary policy meetings.

Uncertainty regarding inflation is expected to keep the balance tilted towards inflation control and the rates on pause till further evidence in growth slowdown is visible.

Bank of Japan

Summary of opinions from the BoJ's July meeting points to a growing impetus for a rate hike.

At its July meeting, the central bank raised its inflation outlook.

Japan's Q2 GDP growth surprised on the upside, offsetting the Bank of Japan's (BoJ)'s fears of a sharp economic growth slowdown.

Our View – We expect Bank of Japan concerns to materialize in 2026 with one rate hike in Q4 2026.

Global Monetary Policies Snapshot

People's Bank of China

China's economic growth could face more headwinds in H2, after Trump tariffs looming on their exports.

Our View- The PBoC is expected to ease more in H2 than H1, on deepening deflation, weak credit demand and renewed real-estate pressure.

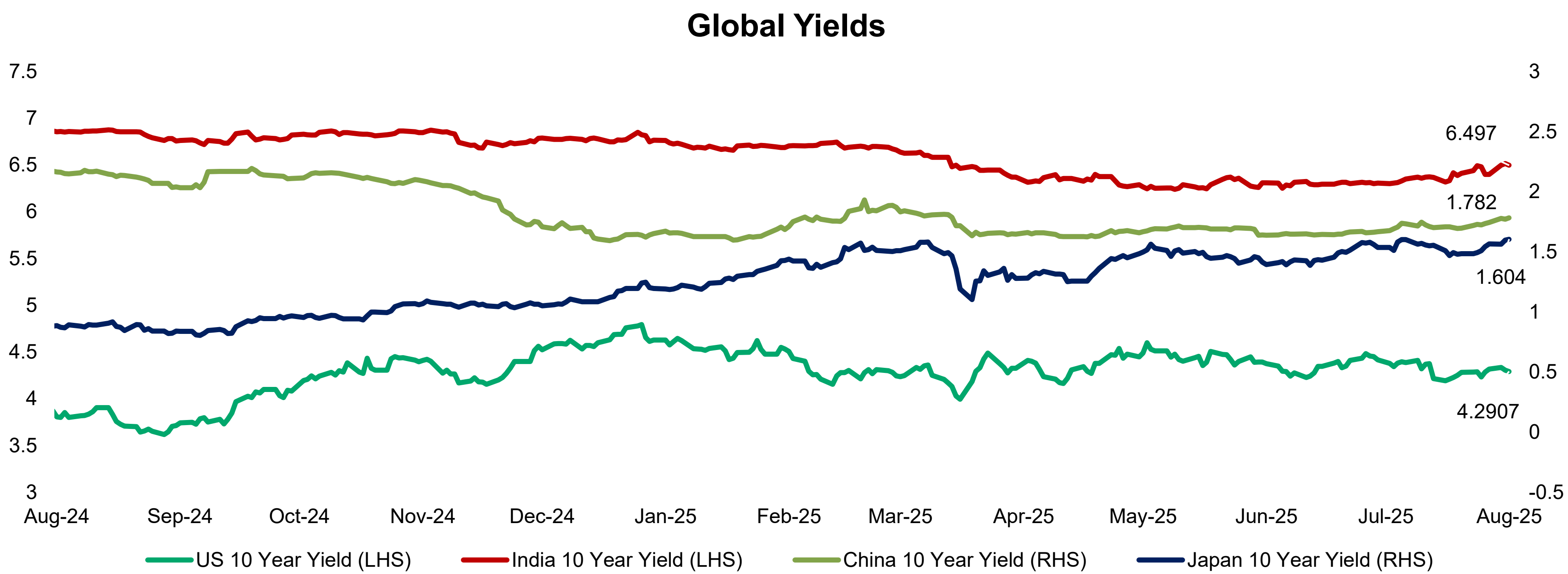
European Central Bank

The ECB kept policy rate unchanged in Aug-25, effectively marking the end of its current easing cycle after eight cuts.

Our View - ECB is expected to have a wait-and-see stance, as they evaluate the impact of lingering trade uncertainty and the potential fallout from proposed US tariffs on economic growth and inflation.

Source: Bloomberg, FOMC, ECB, BOJ and PBOC Data as on August 15th ,

Global yields – What's priced in ?



- Japan's 10-year government bond yield rose above 1.6% hovering to its highest level since 2008 led by concerns on core inflation (3.1%).
- US 10 year remained range bound between 4.4-4.3%. Uncertainty over the path of interest rates amid tariff concerns kept the yields tight.
- China continues to maintain its interest rates at historic low alongside developments in the ongoing US-China trade truce.
- Due to the change in stance to 'neutral' in Jun policy and fiscal concerns on account of potential changes in GST rates, bond yields in India have adjusted higher

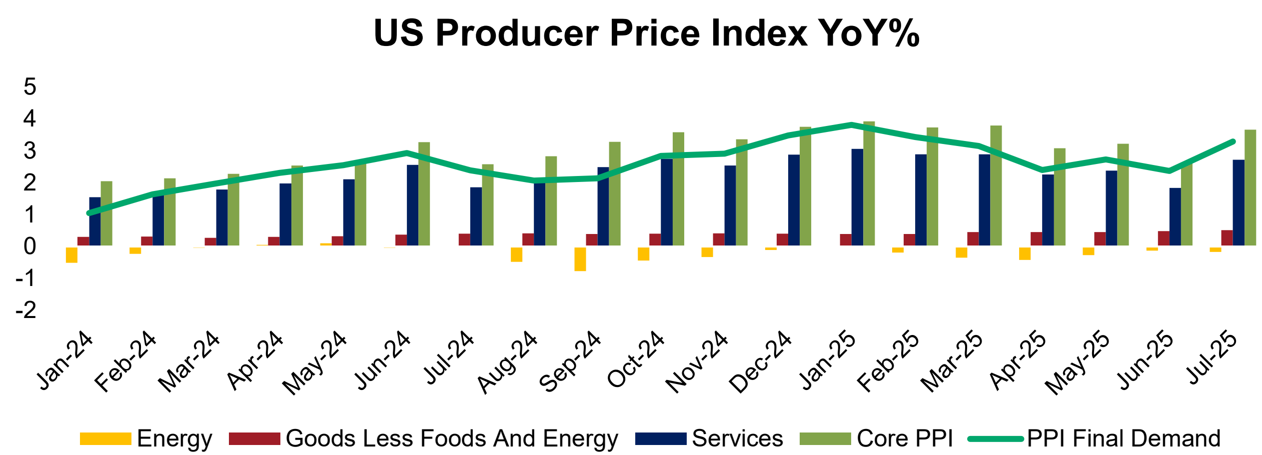
Source: Bloomberg, Data as on August 20th , 2025

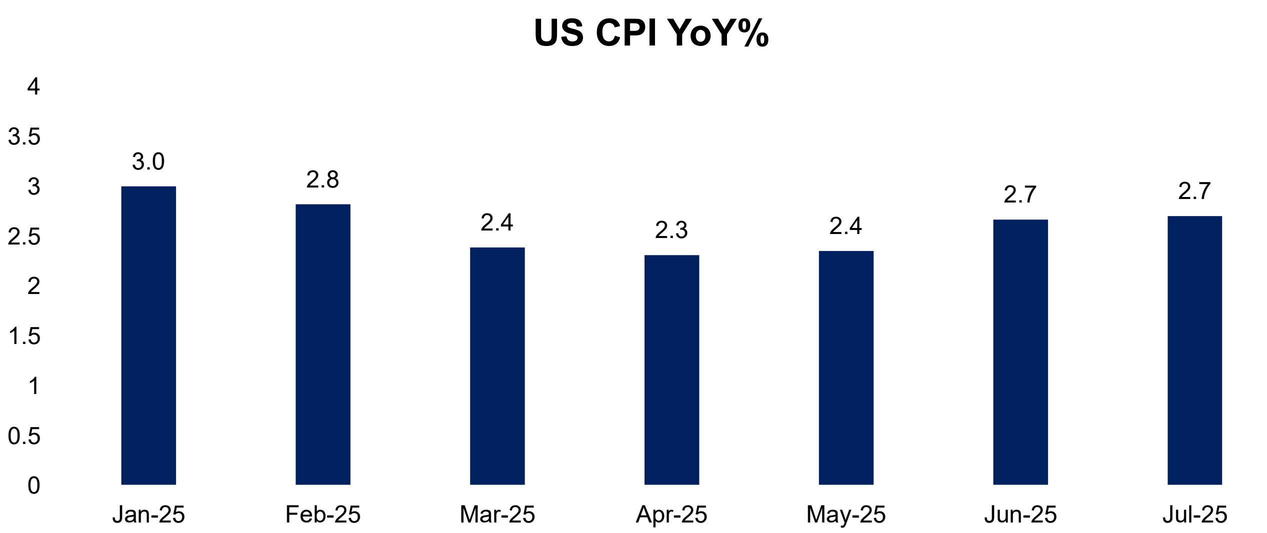
US Tariff update and Impact

- President Trump announced an additional bilateral tariff of 50% on India as penalty for importing crude oil from Russia.
- Effective August 27th, the cumulative bilateral tariff on India will rise to 50%, which is currently the highest globally (along with Brazil).
- Compared to other Asian countries, India is relatively insulated from global trade volatilities as it is a domestic demand driven economy and has an overall trade deficit.
- In case the cumulative 50% tariffs persist till March 2026, then the downside risk to FY26 GDP growth estimate is 30bps to 40bps.

Source: Bloomberg, Data as on July 31st , 2025

US producer prices see uptick, CPI stagnant





- ❑ U.S. producer prices increased July-25 amid a surge in the costs of goods and services, suggesting a broad pickup in inflation was imminent.
- ❑ The expectations of softer services to offset goods inflation has been completely washed away with both components goods and services rising in July.
- ❑ US Headline inflation remains stagnant in July-2025.
- ❑ We expect pass through of higher tariffs in US to be visible in H2 2025.

Source: Bloomberg, Data as on August 20th , 2025

Summary of Events and Our View

- ❑ US Inflation to be a key watch, Why?
- FOMC rate cutting cycle to proceed cautiously after Trump tariffs and implying spillovers on inflation.
- The actual impact on growth and inflation is yet to pan out and will be a key watch.
- Recent political discussions around potential change of guard at the FED would remain a key monitorable

- ❑ Emerging Markets growth – Economic outlook defined by divergence and currency pressures to remain
- China's economy to be supported by stimulus both fiscal and monetary further adding pressure to yuan and other EM currencies.
- The USD and EM FX – Global FX vulnerable to tariffs, weaker trade, and higher US rates

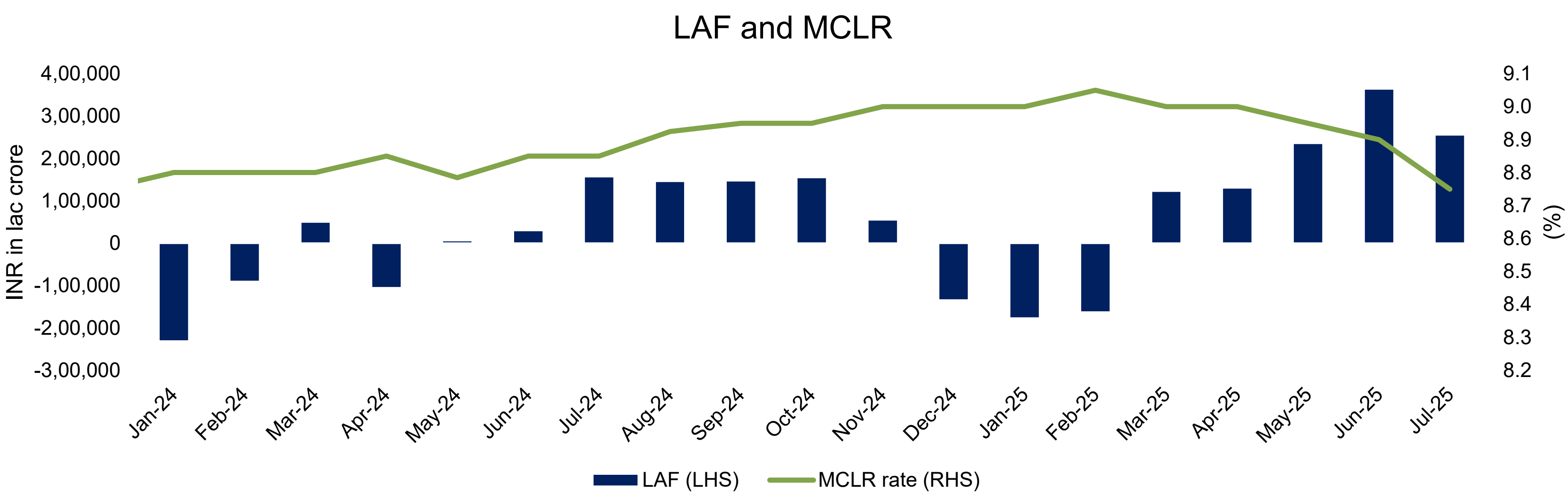
Our View-

- We expect dollar index to weaken further as high US debt calls for a weak dollar even though there is a case for retracement given it has weakened significantly since Jan 2025
- We expect FED to find window for rate cuts balancing high current yields, inflation trajectory post tariffs and unemployment rate.
- Changing geopolitical risks and alliances remain a key watch for headwinds to domestic economy.

Source: BBNPP Research, Data as on August 20th , 2025

Domestic Economy

Improving Liquidity – In spirit of the stance!



- Banking and durable liquidity are currently comfortable, and financial conditions have significantly eased in past four months.
- RBI delivered a CRR rate cut of 100bps in four tranches of 25bps each, bringing the CRR rate to 3%.
- The move has been a liquidity bonanza with the CRR cut expected to provide a liquidity boost of ~2.5 lac crore by December-2025.
- Banking MCLR tracking the benchmark rates and liquidity reduced to 8.75%, reflecting transmission of rate cuts in the economy.

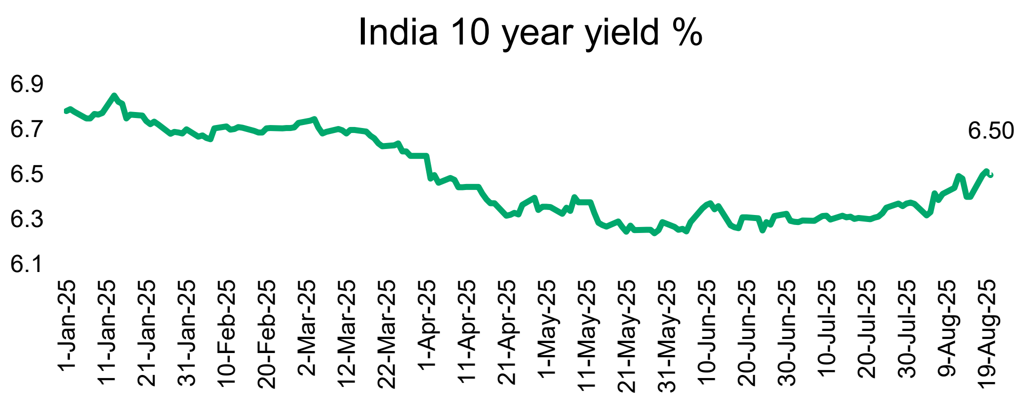
Source: Bloomberg, RBI Data as on July 31st , 2025

RBI MPC August 2025 – A long pause, until growth falters

Key Policy Highlights –

- RBI maintained its GDP forecast at 6.5% reflecting RBI's confidence on domestic growth.
- MPC is cautious and watchful of uncertainty, led by ongoing tariff negotiations, geopolitical tensions and volatile global financial markets.
- Growth dynamics become a key risk and a policy mover.
- RBI's inflation expectations show a benign inflation outlook for FY26, moderating to 3.1% from earlier projected 3.7%.
- Domestic yields reacted negatively post policy as inflation projections remained slightly hawkish for Q1 FY27.

RBI FY26 Estimates in %	August-25 Policy	June -25 Policy	Change in bps
CPI - Inflation	3.1	3.7	-0.6
GDP Growth	6.5	6.5	0

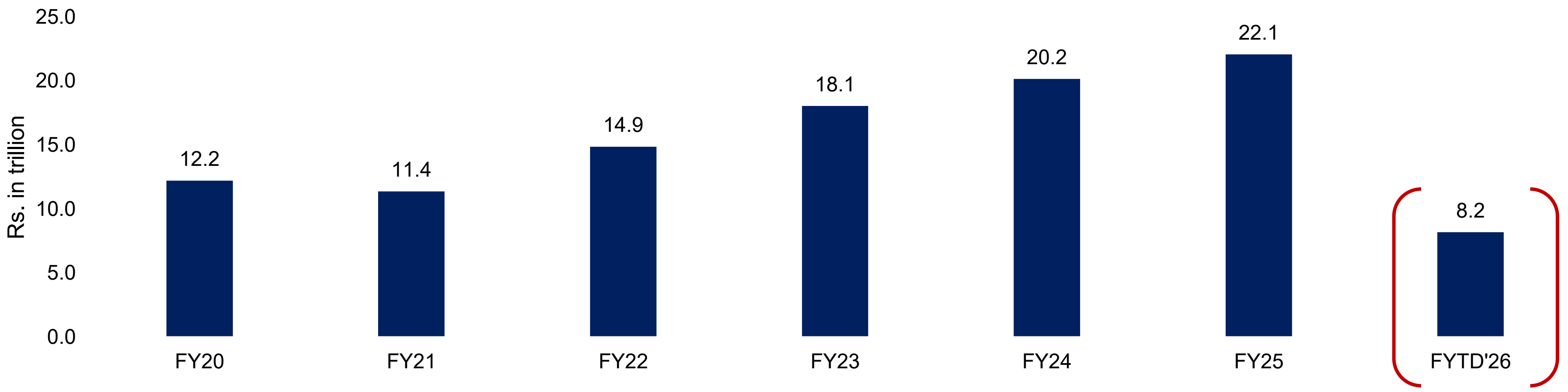


Our View

- ❑ Expect MPC to have a data dependent policy response, post monitoring global trade and domestic growth developments.
- ❑ While risks to growth remain on the downside, we expect RBI to deliver another rate cut if growth falters.
- ❑ Festive season will be a key guiding path for growth indicators, meanwhile there is space for transmission of the front-loaded rate cuts by RBI.

Source: Bloomberg, Data as on August 20th , 2025

Rationalization of GST rates – Looking inward



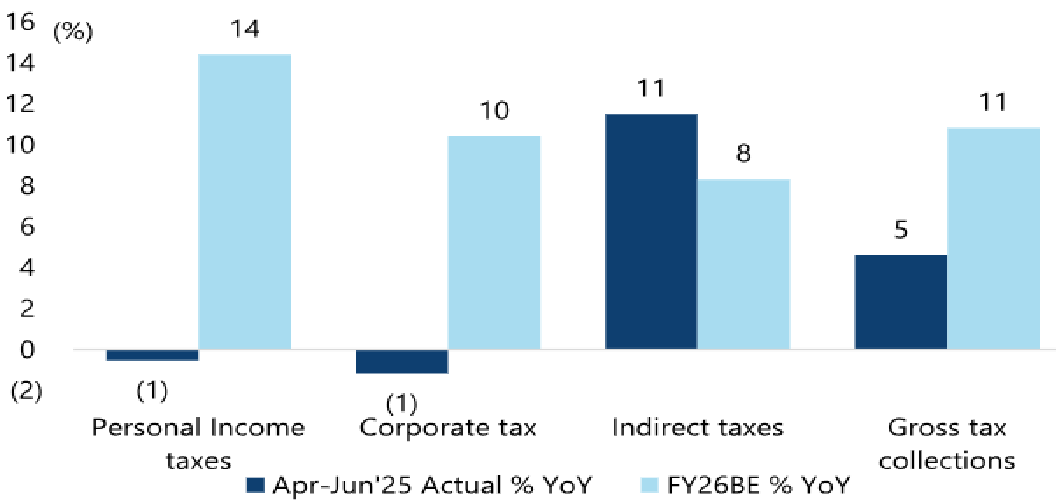
- We expect gross fiscal impact to be expected at INR 1.2trn (30bps of GDP) on a full year basis.
- The monthly average collections also have risen from INR1.24trn in FY22 to over INR2trn in FY26 so far between April –July-25
- We expect this move to boost consumption in an already moderating economy and during a polarizing world economy.

GST Tax rate	Percentage contribution in revenue	Revenue lost (% of GST collections)	Revenue impact (Rs trn)
5%	6-8%		
12%	5-6%	2%	0.5
18%	70-75%		
28%	13-15%	3%	0.7
Others	1-2%		
Full year impact:		5%	1.2

Source: Compiled from Lok Sabha Unstarred Question No.1012, answered on 2 December 2024,

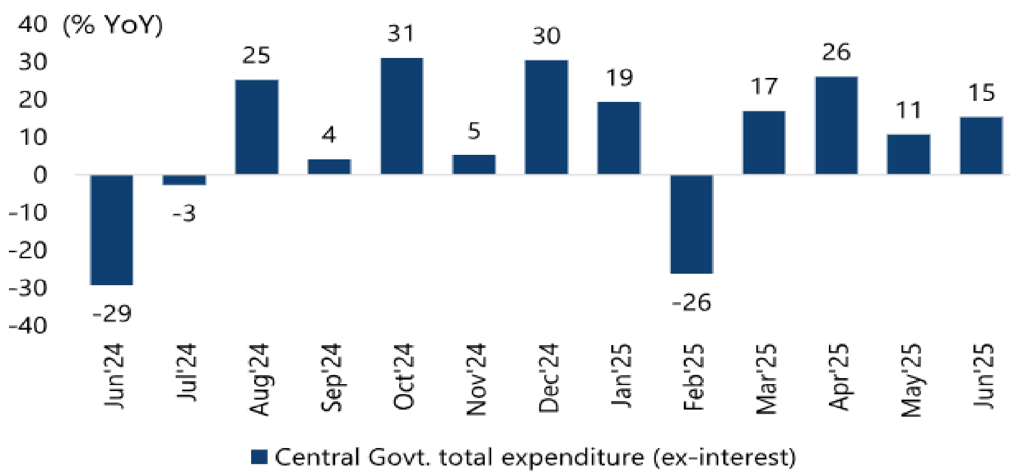
India's Fiscal Picture

Central Govt. Tax revenue growth

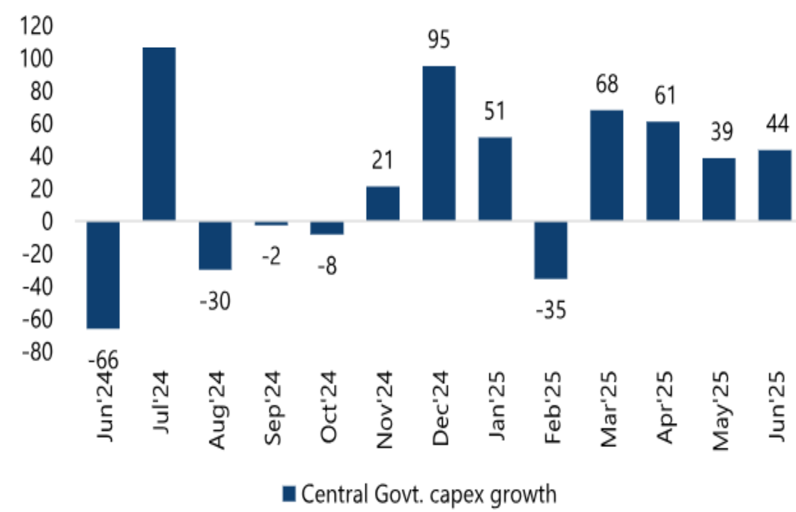


- Centre's gross tax collections growth remained weak. Gross tax revenue growth was tepid at ~5%.
- The moderation was led by weaker direct tax collections.
- Indirect tax collections remained robust and grew at 11% y/y in Q1 FY26 supporting centre's tax collections.
- On the expenditure front, capital expenditure continued to grow at a healthy pace.
- We do not foresee any significant deviation in the fiscal dynamics in FY26.

Central Govt. total expenditure (ex-interest) growth

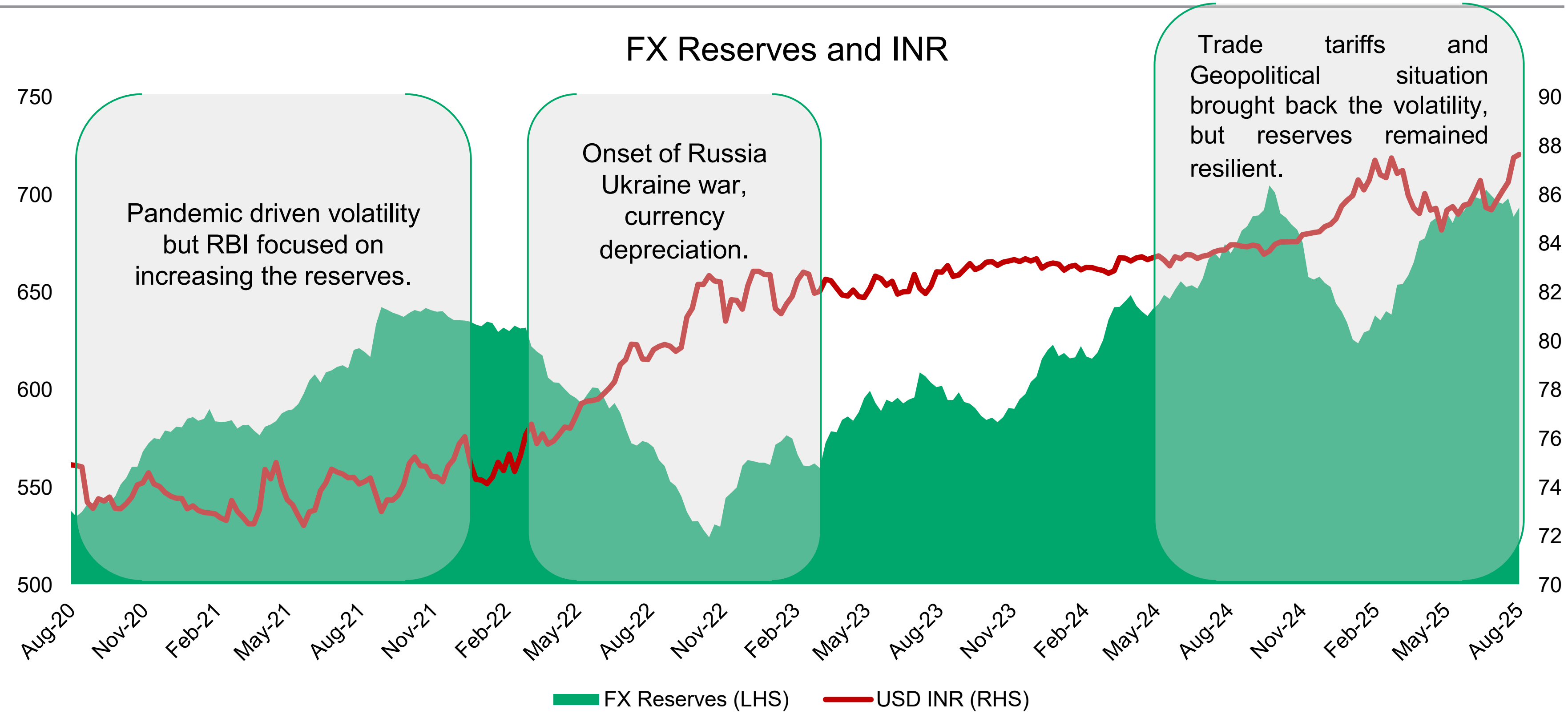


Central Govt. Capex growth



Source: Bloomberg, Jefferies, Data as on August 20th , 2025

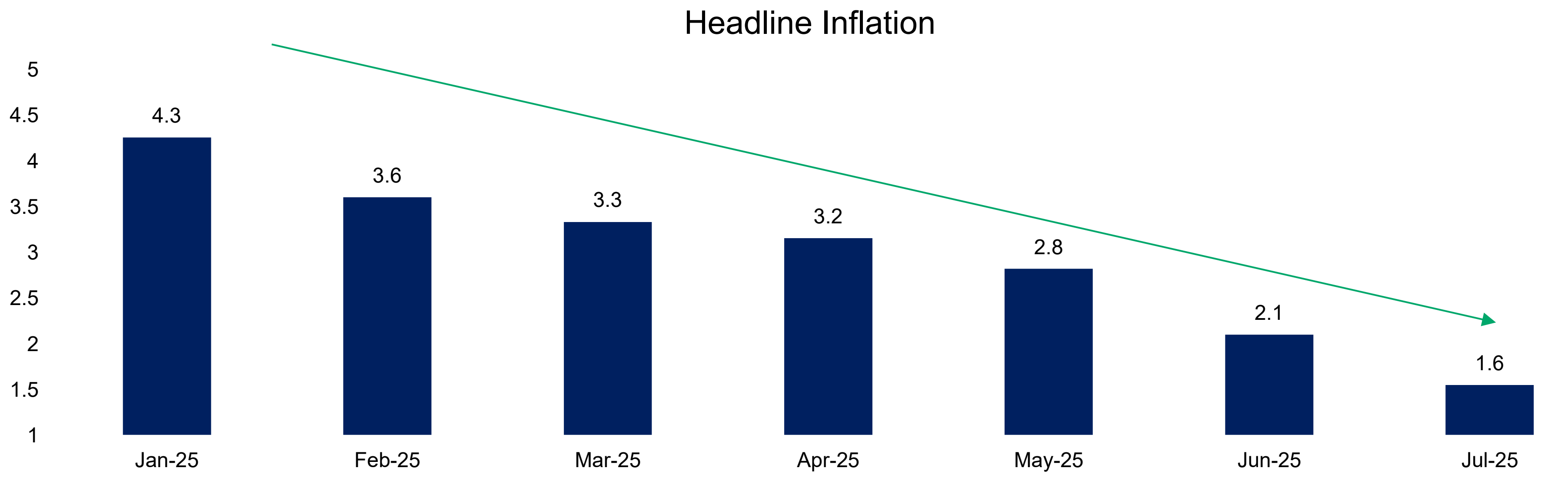
India FX reserves - Building on the resilience



- India's FX reserves currently hover around USD 693 billion.
- USD/INR is hovering in the range of 86-8 as geopolitical tensions continue to weigh on currencies.
- RBI FX buffer continue to strengthen with FX reserves amounting to ~12 months of import.

Source: Bloomberg, Data as on August 08, 2025

Domestic Inflation – 8 year low!

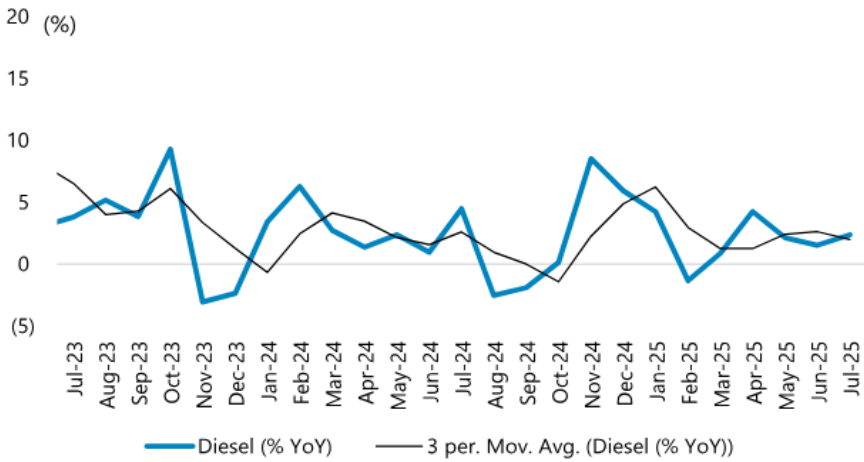


- Headline CPI hits 8-year low at 1.6% y/y in July-25, second instance of sub-2% print since the base change in 2011.
- The domestic inflation trajectory remains favorable, driven by moderating food price.
- High-frequency food price data for Aug-25 shows easing in prices of pulses and eggs, while vegetable and fruit prices continue to inch higher but at a slower sequential pace than in July-25
- Core inflation moderates to 4.2% y/y in July-25 v/s 4.5% y/y in June-25.
- Going forward it is expected to be supported by timely monsoons, benign commodity prices.
- On the upside, the favorable base effects are expected to fade in Q4 FY26.

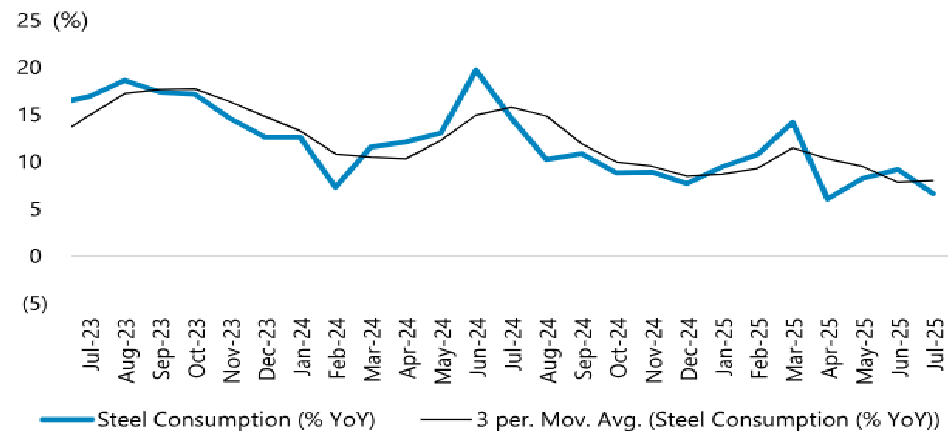
Source: Bloomberg, Data as on August 14th , 2025

Growth Indicators – A preview

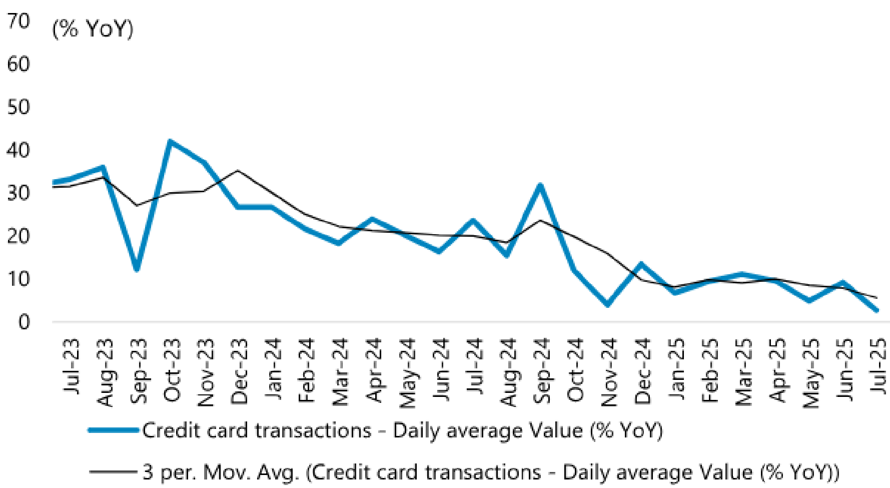
Diesel Consumption – A proxy for Industrial activity



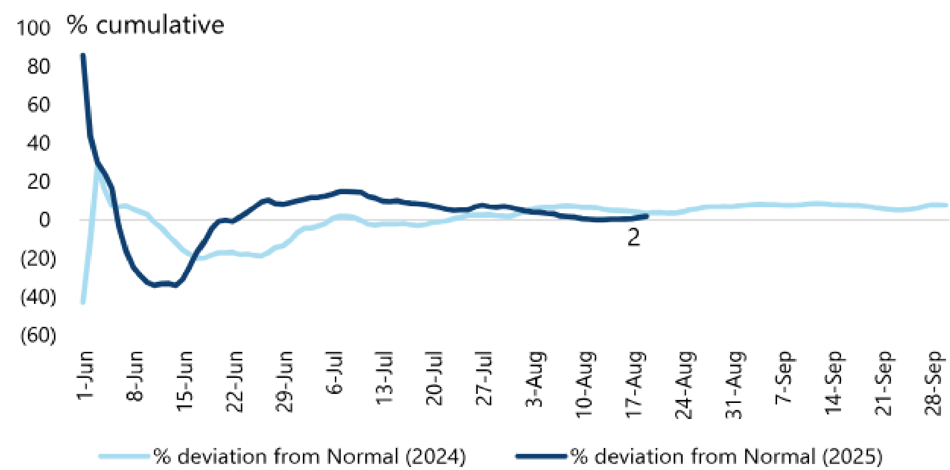
Steel Consumption – Capex Supported, Relatively better



Credit Card Transaction – Slowing Consumption



Monsoon season rainfall trending 2% above normal – Positive for rural outlook



Source: Bloomberg, Jefferies, Data as on August 20th , 2025

Decoding Yield Signals

Economic Variable	Our View	Impact on yields
Growth	Economic activity remains a fragile spot as external environment remains volatile.	↓
Inflation	Inflation trajectory looks optimistic with a few bumps; we expect inflation to average at 3.1% Y/Y in FY26.	↓
Domestic Liquidity	Recent measures by RBI has effectively tackled the deficit liquidity conditions and is in surplus mode.	↓
Fiscal Health	Government's outlook on fiscal consolidation remains positive for the bond markets. Some fiscal worries have popped up with recent GST cut announcements.	↔
RBI Monetary Policy	RBI MPC delivered another rate cut of 50bps, bringing down the repo rate to 5.50%.	↓
Global Commodities	Concerns on global economic outlook is visible in declining brent prices and softer commodity prices.	↓
Global Monetary Policy Stance	Global Monetary pivot has begun, tracking global inflation and growth dynamics.	↓

Source – Internal Research, Data as on 20.08.2025

Fixed Income Outlook

- The impact of uncertainty on US inflation and growth will be a key watch on global front.
- Changing geopolitical alliances and trade policies add uncertainty to the external outlook.
- **On the domestic front, evolving growth dynamics have taken center stage.**
- Additionally, center's announcement on GST cuts remain a key watch having tailwinds for growth and possible headwinds for fiscal dynamics.
- RBI’s forward guidance and the rate cut gives us the confidence on growth supported future policy expectations.
- **Recent moves by RBI give us confidence that liquidity will be managed in spirit of the stance.**
- RBI had injected INR 5tn through OMOs recently and also cut CRR by 100 bps to aid transmission of rates.
- The spreads on the short end are elevated and current liquidity expectations make them attractive

Source – Bloomberg, RBI, Data as on 20.08.2025

Fixed Income Outlook

Our View

We see value in the fixed income market in light of;

a) Positive real rates of ~200 bps, post RBI rate cut of 100 bps.

b) Benign inflation forecast of 3.1%, below RBI threshold of 4% .

c) Maintaining GDP forecast at 6.5% indicates a continuity of pro-growth-oriented policy mindset.

d) Possibility of further weakness in dollar index (DXY) going ahead, downward pressure on US treasury (UST's) and stable crude is expected to provide macro stability.

e) Multiyear high spread between benchmark and long G-secs to provide opportunity, with stable to lower rate view and comfortable macros

f) Corporate bonds (up to 5yr) spreads remain at the higher end of the range may provide an opportunity on risk reward basis.

Source – Bloomberg, RBI, Data as on 20.08.2025

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