MONTHLY MACRO-INSIGHTS

JULY- 2025

Baroda BNP PARIBAS MUTUAL FUND

Together for more

Global Economy

What we cover this month?

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

Key Events in June- July-2025

- ❑ RBI reduced the repo rate by 50bps to 5.50% from 6.00% in June-2025 meeting and changed the stance to neutral from accommodative.

- ❑ RBI reduced the CRR rate by 100 bps to 3% infusing liquidity of ~2.5 lac crore by Dec-2025.

- ❑ India headline softened to a 78-month low of 2.1% y/y.

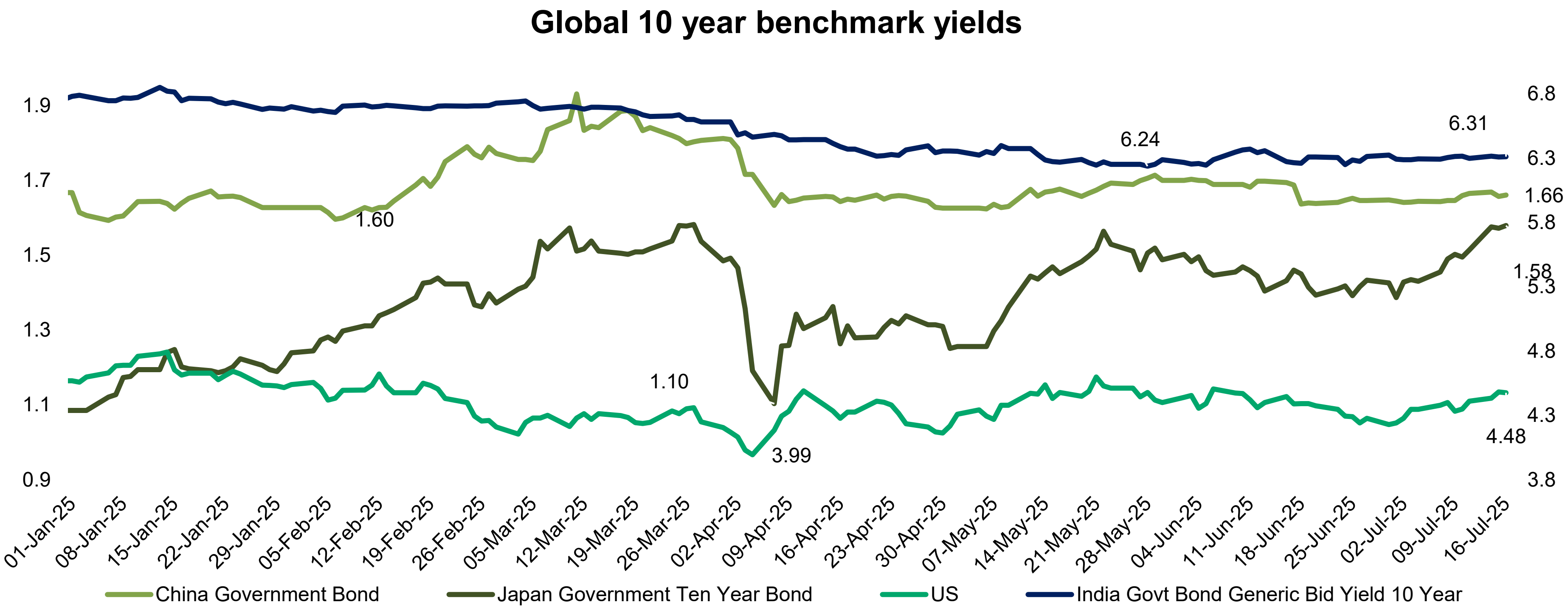
- ❑ US Fed in June-25 meeting delivered a pause after the uncertainty around US inflation and US tariffs.

- ❑ India's 10-year benchmark yield traded around 6.3% led by RBI's rate cutting cycle and durable liquidity infusion.

- ❑ As geopolitical tensions fade, brent prices declined to around 68$/bl

Source: RBI, Bloomberg, BBNPP Research, Data as on July 21, 2025

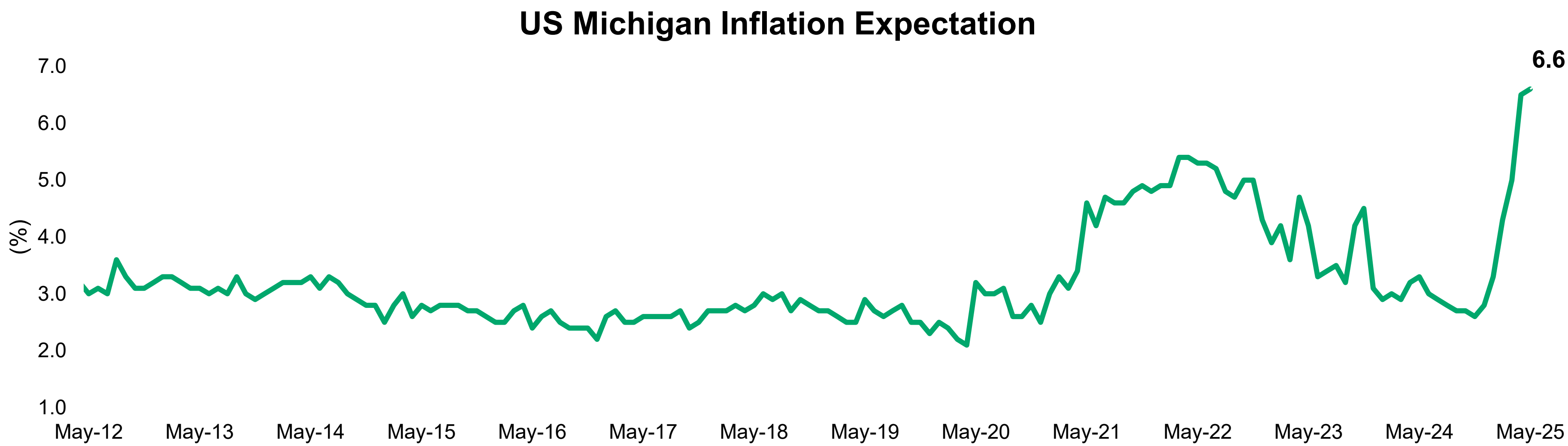
Global yields moved differently navigating economic uncertainty.

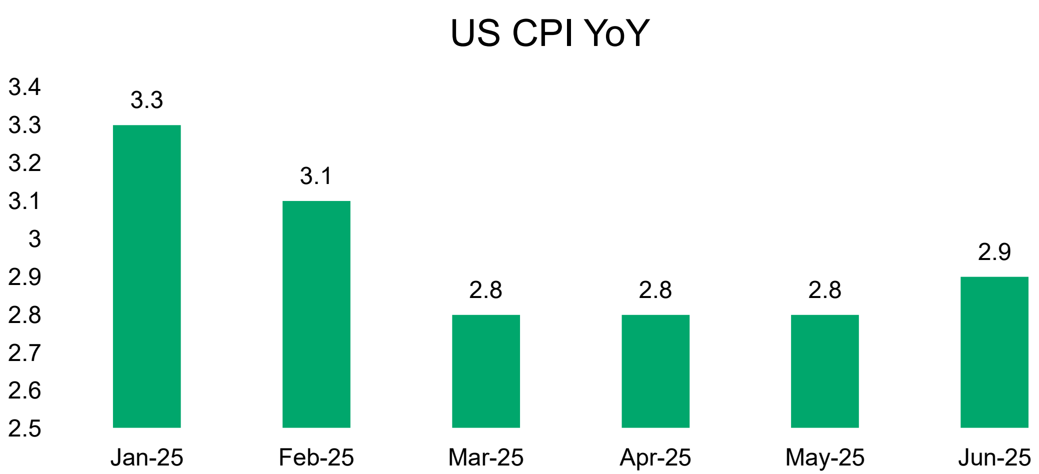


- China's year benchmark yield continued to remain at historically low levels driven by growth concerns and a deflated economy.
- The spread between Japanese 10-year benchmark yield and China 10-year yields have narrowed as yields in Japan rose on account of Bank of Japan policy outlook and inflation concerns.
- US yields inched closer to ~4.5% as tariffs uncertainty on inflation continue to keep the US FED hand tied on rate cuts.

Source: Bloomberg, Data as on July 16, 2025

US Inflation – First sign of worry





- As highlighted before US inflation expectations are at decadal high.
- US CPI in June-2025 provided evidence of tariff related transfers in headline inflation.
- Core goods inflation increased by 0.2% m/m, fastest seen in last 5 months.
- US inflation has started witnessing pass through of tariffs,.
- We expect FED to remain on hold until more clarity on inflation is achieved.
- The risk to our expectation arises from political changes in US and FED.

Source: Bloomberg, Data as on July 16, 2025

Fed Policy Meeting June 2025

US FOMC Economic Projections in %		2025	2026	2027
Change in real GDP	June-2025 Projections	**1.4**	**1.6**	**1.8**
	March-2025 Projections	1.7	1.8	1.8
Unemployment rate	June-2025 Projections	**4.5**	**4.5**	**4.4**
	March-2025 Projections	4.4	4.3	4.3
PCE Inflation	June-2025 Projections	**3.0**	**2.4**	**2.1**
	March-2025 Projections	2.7	2.2	2.0
Federal funds rate	June-2025 Projections	**3.9**	**3.6**	**3.4**
	March-2025 Projections	3.9	3.4	3.1

- Fed continues to stay on pause irrespective of a lower GDP projection as inflation concerns take prime spot.
- Current US inflation has seen some transfers of tariffs in the US inflation which could again keep FED on watch.

- ❑ Fed kept its policy rate unchanged at 4.25-4.5%, with the dot plot suggesting lesser cuts going forward as uncertainty remains high.
- ❑ Fed's communication reflected uncertainty on tariffs and its subsequent impact on inflation.
- ❑ We believe fed has understated the impact of tariffs on inflation which will be clear once clarity is achieved with actual transfer of tariffs.
- ❑ **The median rate cut remains two in 2025, but the margin has reduced to eight members.**

Source: Federal Reserve Board, Data as on July 09, 2025

Manufacturing activity slowing in 2025!

Manufacturing PMI Index	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
US	51.6	49.6	47.9	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2	52.0	52.9
China	49.5	49.4	49.1	49.8	50.1	50.3	50.1	49.1	50.2	50.5	49.0	49.5	49.7
India	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2	57.6	58.4
Japan	50.0	49.1	49.8	49.7	49.2	49.0	49.6	48.7	49.0	48.4	48.7	49.4	50.1
UK	50.9	52.1	52.5	51.5	49.9	48.0	47.0	48.3	46.9	44.9	45.4	46.4	47.7

- Global manufacturing activity has slowed further in 2025. Uncertainty on tariffs and trade polarization has impacted world manufacturing activity with China, UK, Japan manufacturing activity in contraction zone.
- Services activity do not seem to be impacted by the current trade war. The key question is with goods trade being impacted the spillovers of it is expected to reflect in the services economy with a lag.

Services PMI Index	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
US	55.3	55.0	55.7	55.2	55.0	56.1	56.8	52.9	51.0	54.4	50.8	53.7	52.9
China	50.5	50.2	50.3	50.0	50.2	50.0	52.2	50.2	50.4	50.8	50.4	50.3	50.5
India	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0	58.5	58.7	58.8	60.4
Japan	49.4	53.7	53.7	53.1	49.7	50.5	50.9	53.0	53.7	50.0	52.4	51.0	51.7
UK	52.1	52.5	53.7	52.4	52.0	50.8	51.1	50.8	51.0	52.5	49.0	50.9	52.8

Source: Bloomberg, Data as on July 07, 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

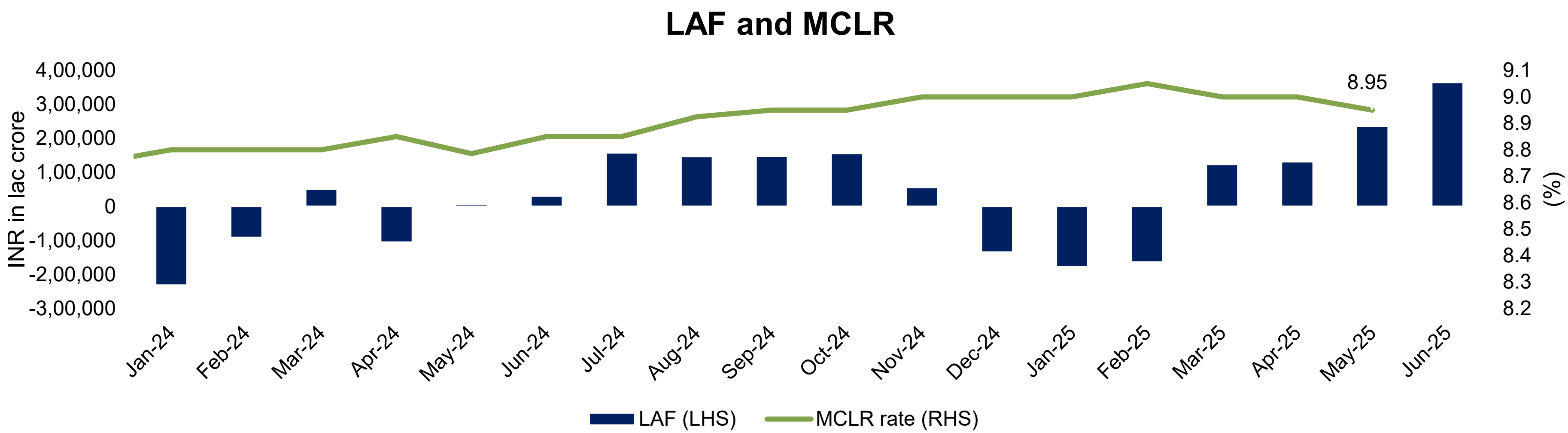
Our View-

- We expect dollar index to weaken further as high US debt calls for a weak dollar even though there is a case for retracement higher 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

Source: BBNPP Research, Data as on July 17, 2025

Domestic Economy

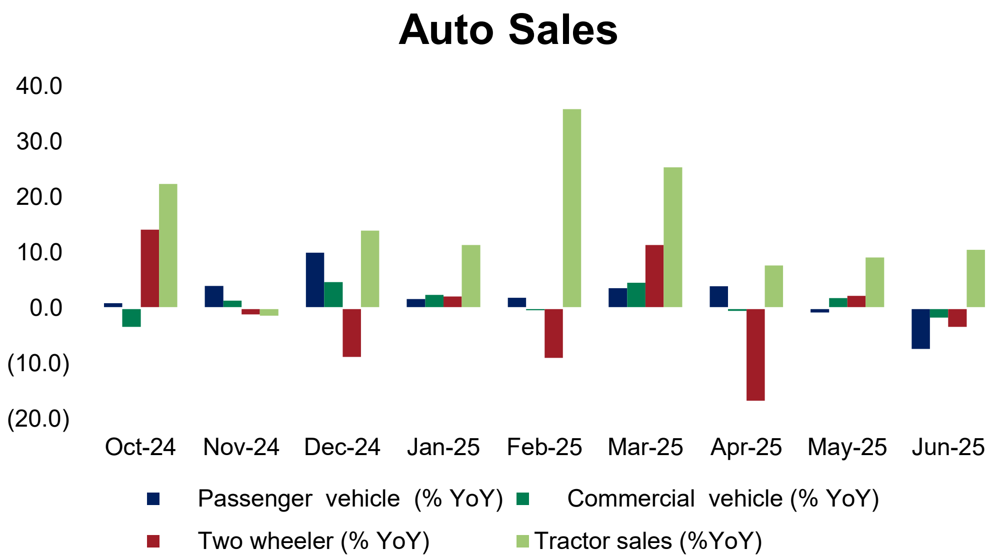
Liquidity continues to remain in surplus!

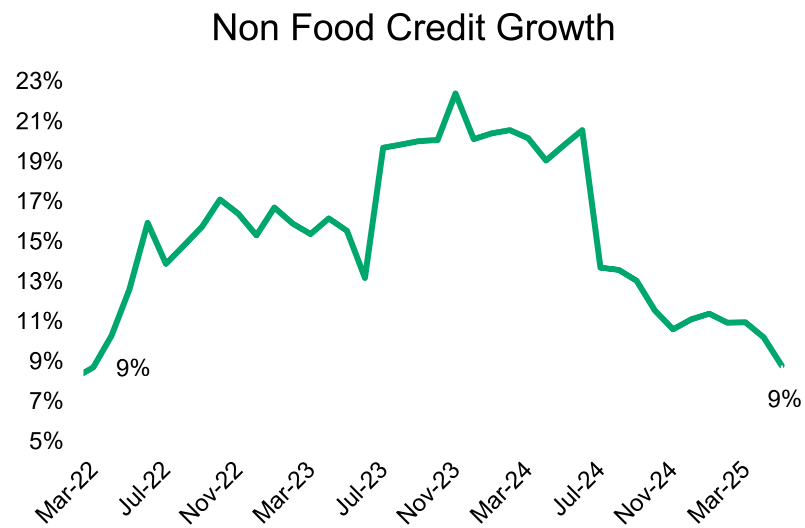


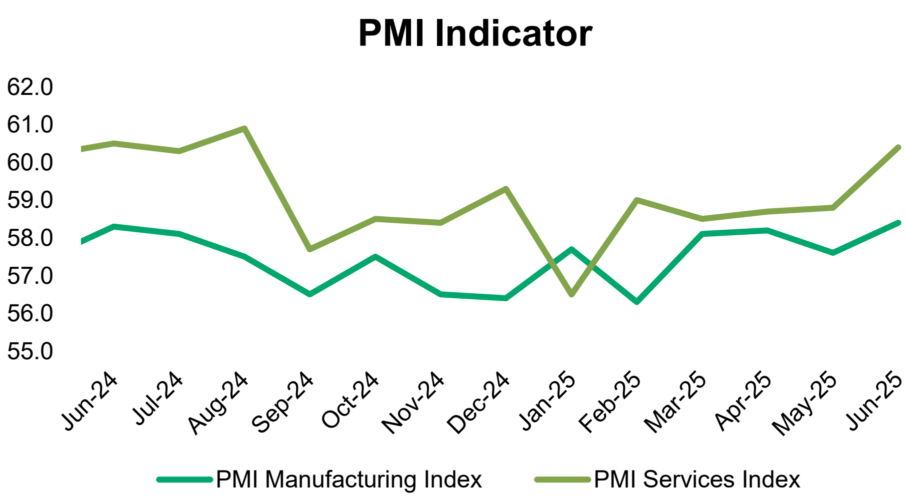
- Banking and durable liquidity are currently comfortable, and financial conditions have significantly eased in past four months.
- RBI delivered a CRR rate cut of 100bps in four tranches of 25bps each, bringing the CRR rate to 3%.
- The move has been a liquidity bonanza with the CRR cut expected to provide a liquidity boost of INR ~2.5 lac crore by December-2025.
- Going into June policy the core banking system liquidity was in surplus to the tune of INR 5-6 trn, still RBI decided to infuse further liquidity by CRR cut of 100 bps adding another INR 2.5 trn to the banking system liquidity.
- We believe this is largely to offset FX forward maturities, currency leakages during the festive season and advance tax outflows in Q2 FY26.
- Changing the stance to neutral indicates the market that the operational overnight rate may remain closer to repo rate hence market factoring an operational rate to be around 5.40-5.50% instead of previously expected 5.25%.
- This has hardened the short end of the curve by 10-15bps compared to pre policy levels.
- However, due to flush of liquidity provided by RBI the spreads post correction may remain anchored going forward.

Source: Bloomberg, RBI Data as on June 30th, 2025

India Growth indicators – A mixed outlook!



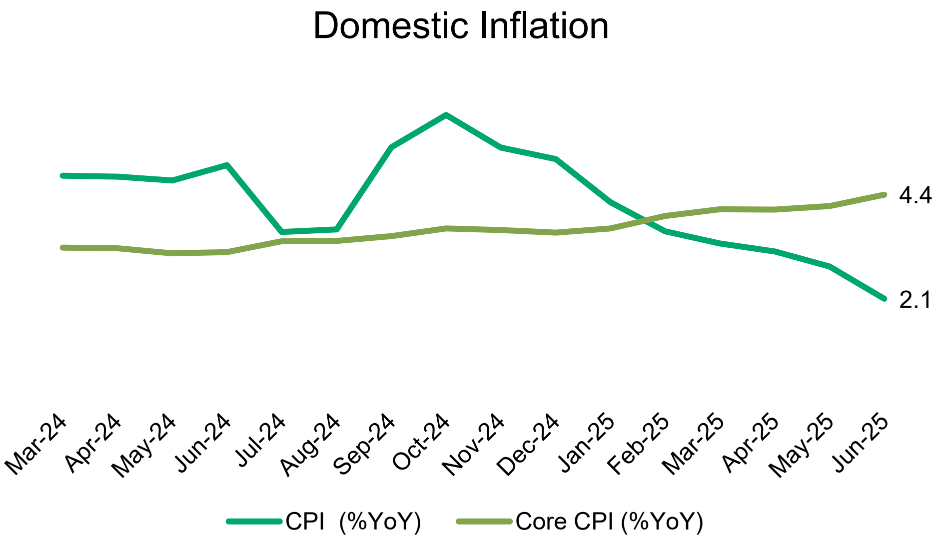


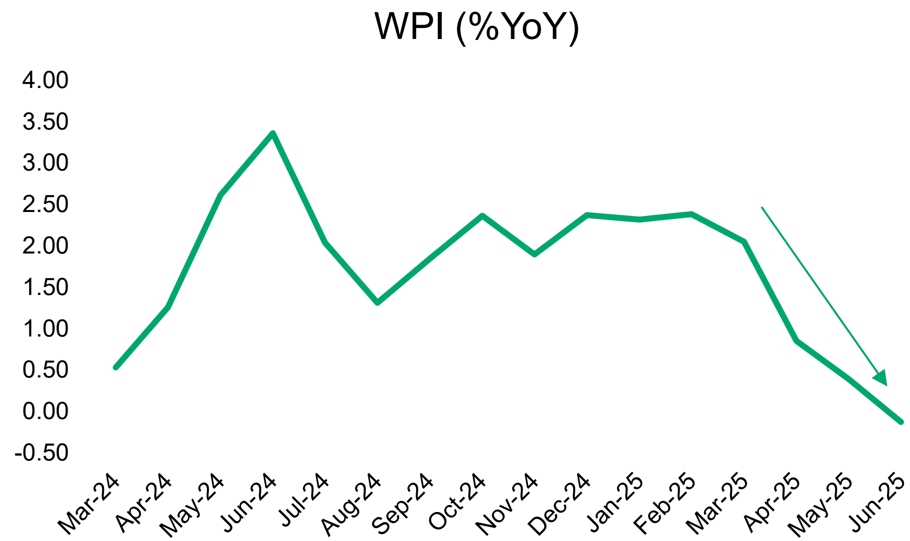


- Auto sales saw a sluggish month with respect to sales in June-2025.
- Looking deeper, passenger vehicle sales contracted by 7.4% y/y in June-2025, followed by two wheelers contracting by 3.4% y/y.
- Auto sales reflect a sluggish urban demand whereas rural demand continues to remain robust with tractor sales clocking in a 10.5% y/y growth in June-2025.
- Credit growth too witnessed a slow down. Credit growth has slowed to a 3-year low.
- RBI's support and government's fiscal push is expected to reflect with a lag with transmission of rate cuts.

Source: MOSPI, Data as on July 15th , 2025

Domestic Inflation softens to a multi year low!

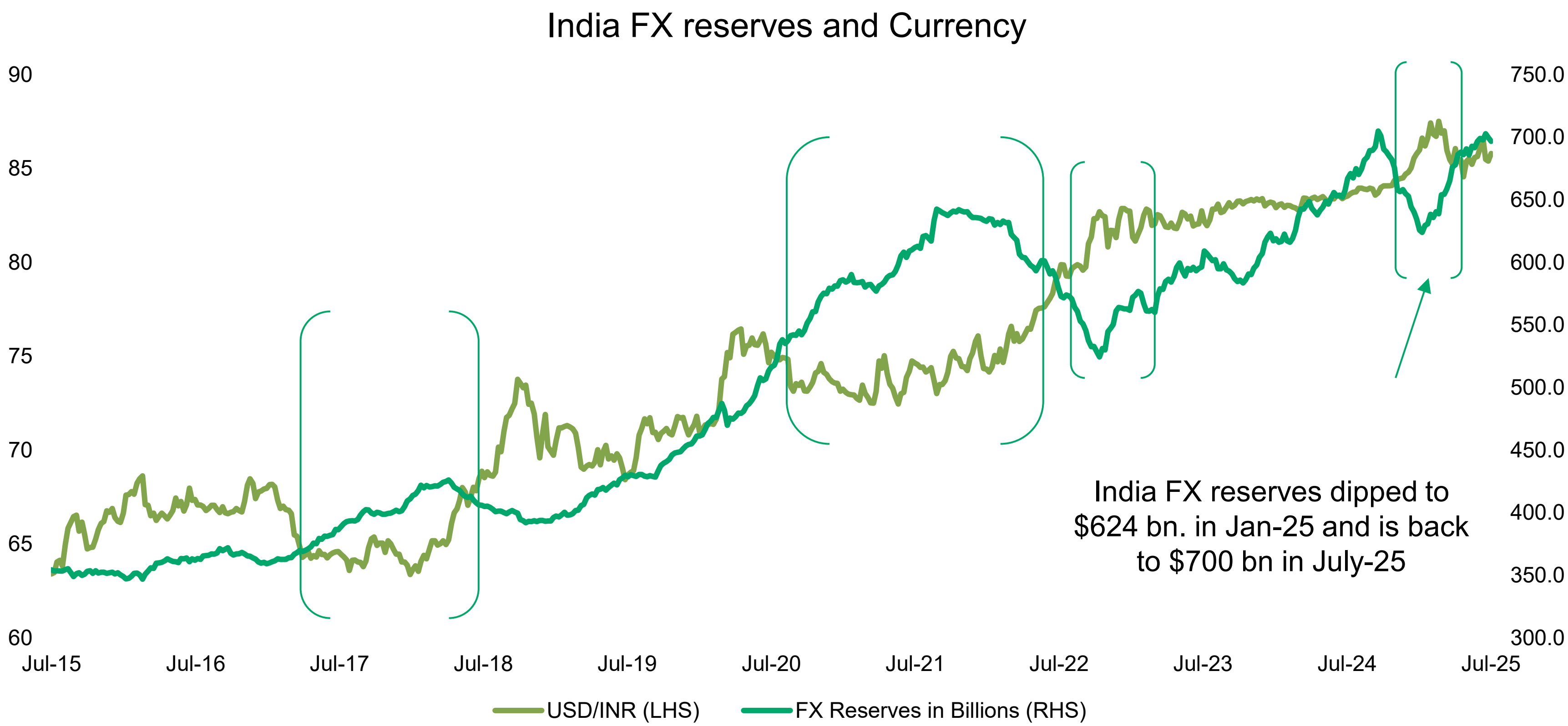




- Headline CPI slowed further in June-25, to 2.1% y/y from 2.8% y/y in May-25, lowest since Feb-19. The decline in headline inflation is led by lack of seasonal pickup in food prices and favorable base.
- Domestic inflation trajectory remains favorable, driven by moderating food price, timely monsoons and a healthy crop output, as well as benign commodity prices.
- We expect FY26 inflation to undershoot RBI's target of 3.7%.
- The favorable base effects are expected to fade in Q4 FY26, irrespective of that, we see space for one more rate cut with the presence of a negative output gap and benign inflation expectation.

Source: Bloomberg, Data as on July 14, 2025

India FX reserves - Building on the resilience



- India's FX reserves increased to $700 bn. in July-25 as INR stabilized and domestic liquidity concerns faded.
- USD/INR is hovering in the range of 85-86 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 July 11, 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 lower than 3% 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.	↓
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 21.07.2025

Fixed Income Outlook

- Geopolitical tensions have again begun to cloud the global economy.
- Trumps tariff threats and spillovers on currencies is the existing risk that is driving the markets volatile.
- The impact of uncertainty on US inflation and growth will be a key watch on global front.
- **On the domestic front, evolving growth dynamics have taken center stage.**
- RBI's forward guidance and the rate cut gives us the confidence on growth supported future policy expectations.
- **Recent softening in domestic inflations paves the way for RBI to take calibrated policy decisions.**
- Irrespective of the tools, liquidity measures are expected to have an impact on the short end of the curve.
- The spreads on the short end are elevated and current liquidity expectations make them attractive.
- **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.

Source – Bloomberg, RBI, Data as on 17.07.2025

Fixed Income Outlook

Our View

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

  a) Positive real rates (1yr TBILL 5.50 less full year CPI forecast 3.7%) post current (100 bps) rate cuts going forward.

  b) Benign inflation forecast of 3.7%, below RBI threshold of 4%

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

  d) Expectations of weaker dollar index (DXY) going ahead, downward pressure on US treasury (UST's) and stable crude to provide macro stability

  e) Multiyear high spread between benchmark and long Gsecs 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 and provide an opportunity on risk reward basis.

Past performance may or may not be sustained in future and is not a guarantee of any returns Returns do not take into account the load, if any. Returns are for growth option. Different plans shall have a different expense structure

Source – Bloomberg, RBI, Data as on 17.07.2025

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