MONTHLY MACRO-INSIGHTS

JUNE- 2025

Baroda BNP PARIBAS MUTUAL FUND

Together for more

Global Economy

What we cover this month?

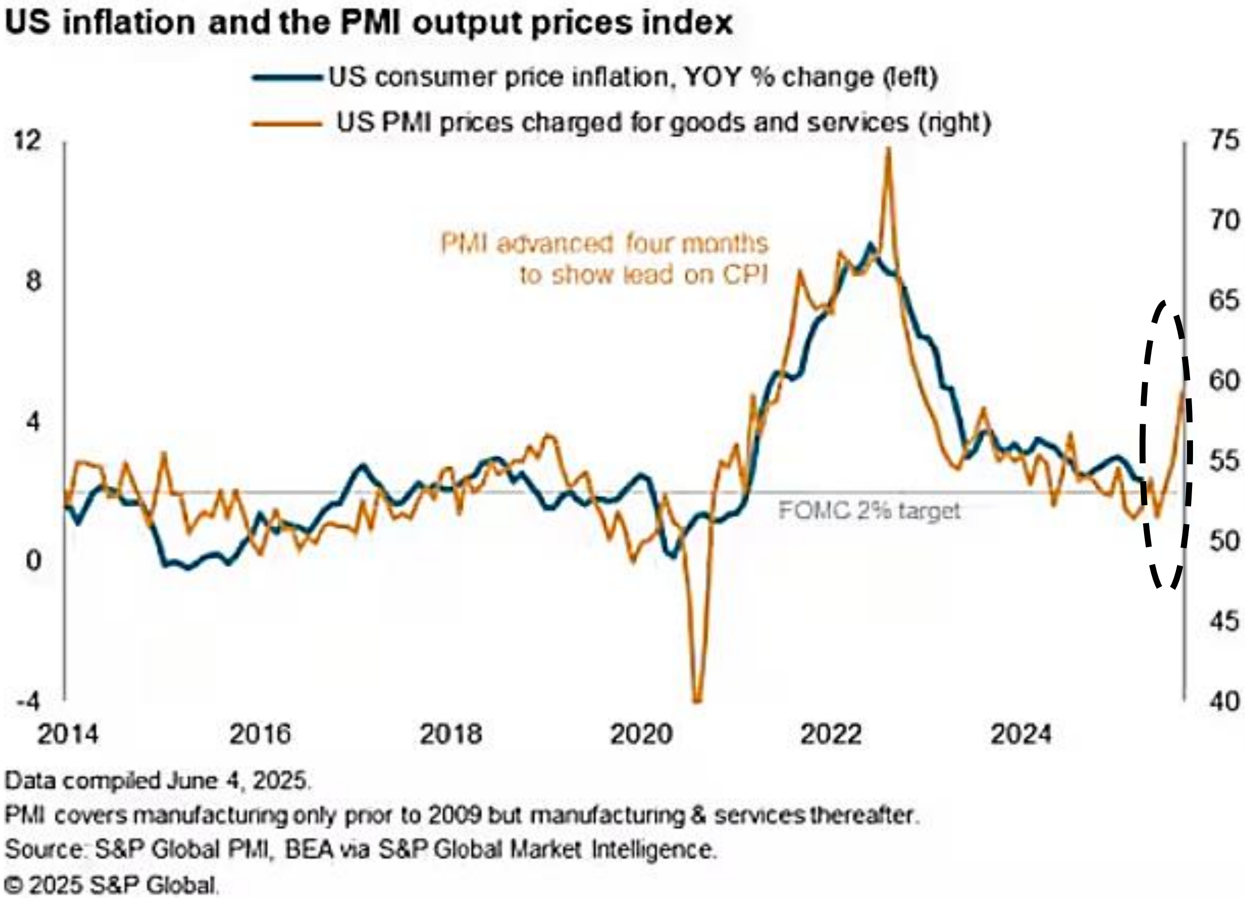
- ❑ US Inflation – A key watch!
- US Yields – A see saw of growth and inflation
- ❑ India – Liquidity, Growth and Inflation
- ❑ RBI Rates and Liquidity
- Outlook!

Key Events in May- June-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.
- ❑ Geopolitical tensions lead to jump in crude prices to ~74$/bl.
- ❑ US Fed meeting delivered a pause after the uncertainty around US inflation and US tariffs.
- ❑ RBI on cumulative basis infused ~2.45 trn in FY26 through liquidity measures.
- ❑ India's 10-year benchmark yield softened lower than 6.3% led by RBI's rate cutting cycle and durable liquidity infusion.
- ❑ India Inflation has softened further to 2.8% in May-25 led by declining food prices.

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

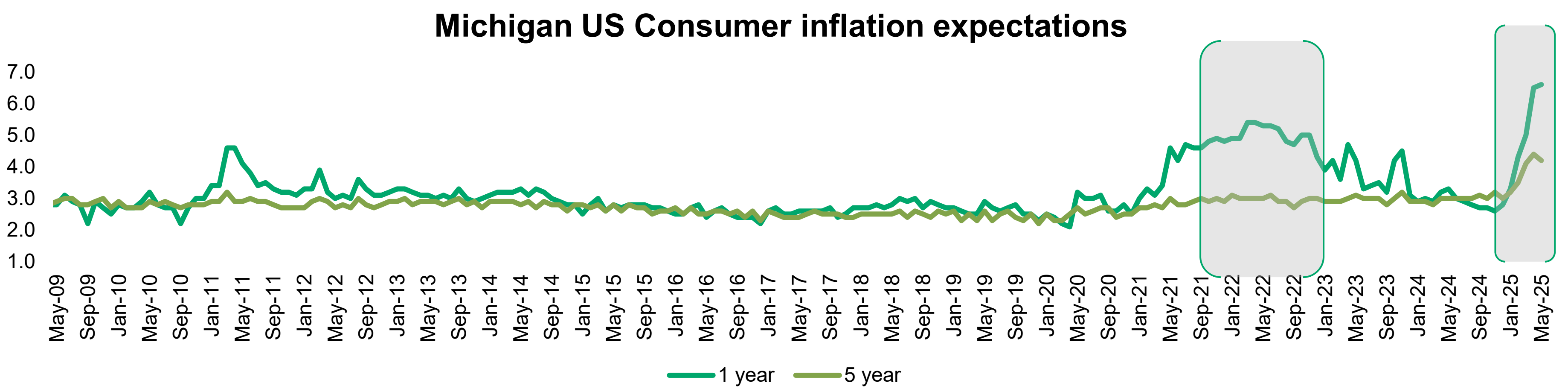
Impact of US tariffs in variables…….Input prices and activity!



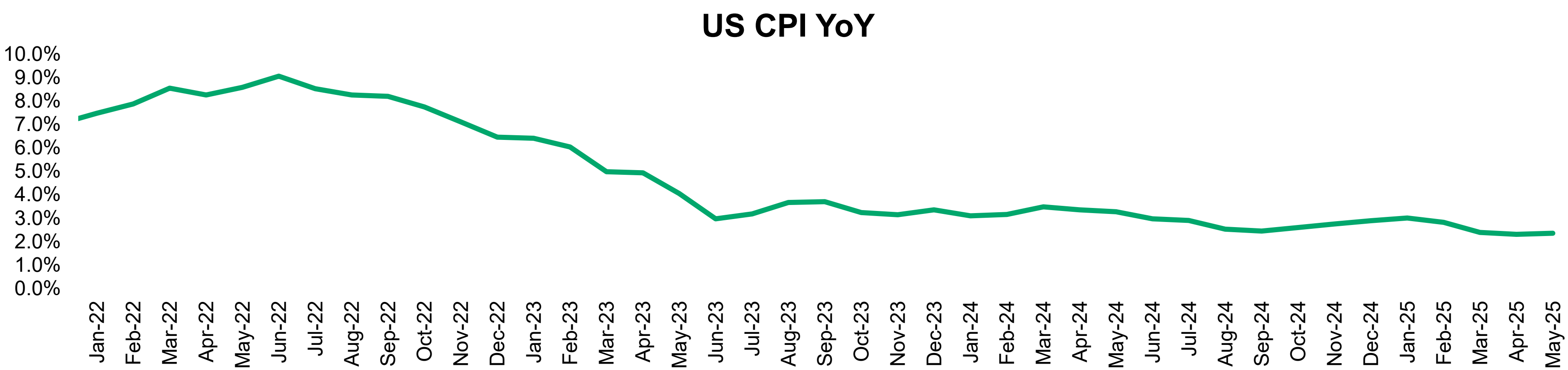
- PMI survey respondents in the US have noted how suppliers are hiking prices due to tariff-related supply shortages as well as the direct tariff price rise.
- This led to the largest rise in prices charged by US companies for their goods and services since September 2022.
- It is important to note that the input cost pressures is expected to be visible in the headline inflation with a lag.
- Fed is expected to closely monitor the input prices and remain data dependent in approaching policy decisions.

Inflation updates for the US will be under close scrutiny !

US Inflation expectations witness jumps…..will CPI be next?



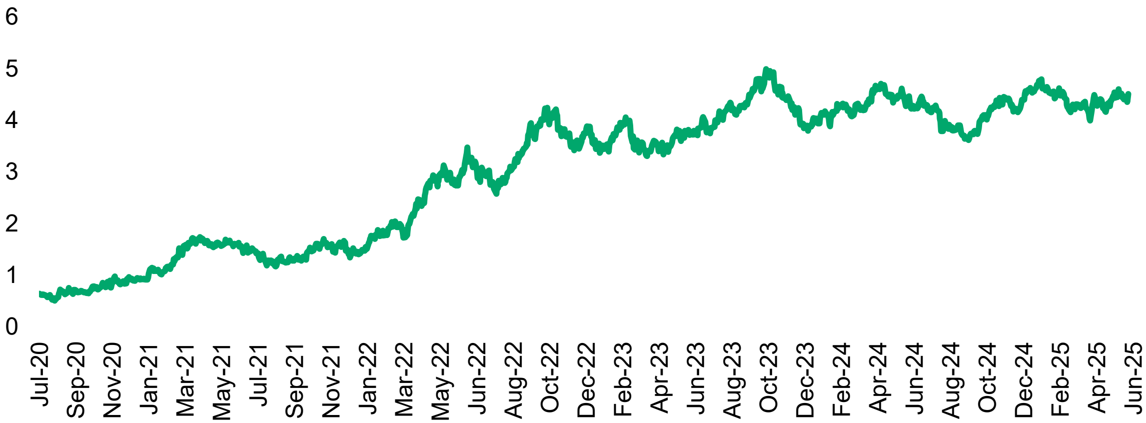
- The year-ahead inflation expectations in the United States increases sharply in May-25 led by concerns over trade tariffs, whereas the five-year outlook too jumped to its decadal high of 4.2%.
- US CPI remained muted at 2.4% y/y in May-25. Any input pressures from tariff hikes are yet not visible in the US CPI numbers.



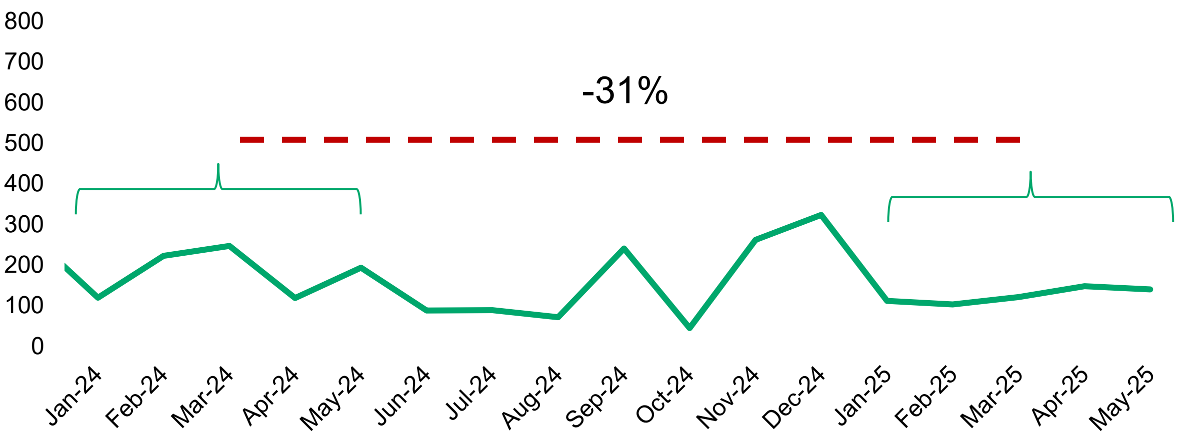
Source: Bloomberg, Data as on May 2025

US inflation pressures reflected in the yield?

US 10 year benchmark yield



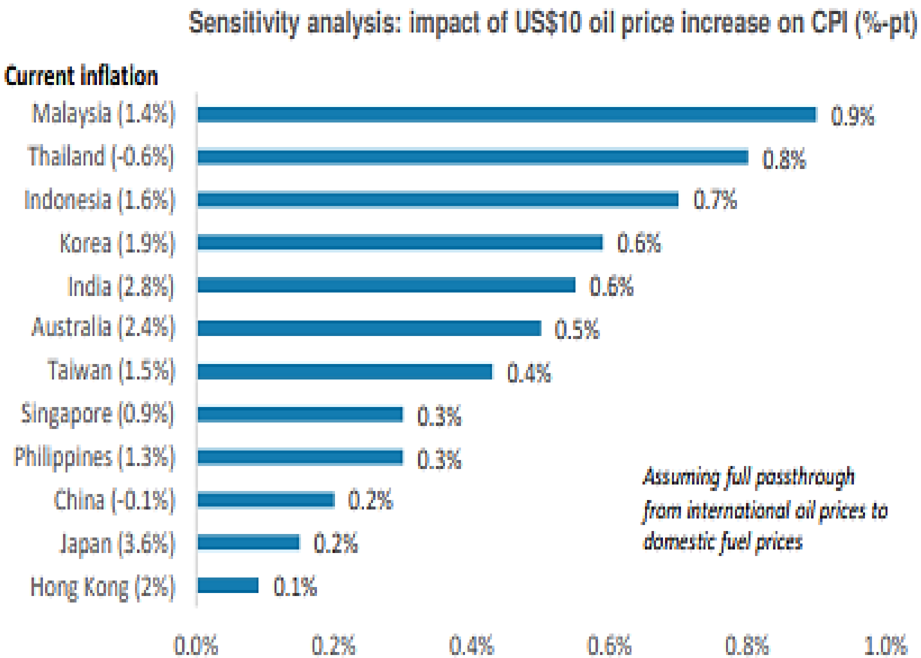
US Non farm payroll monthly change

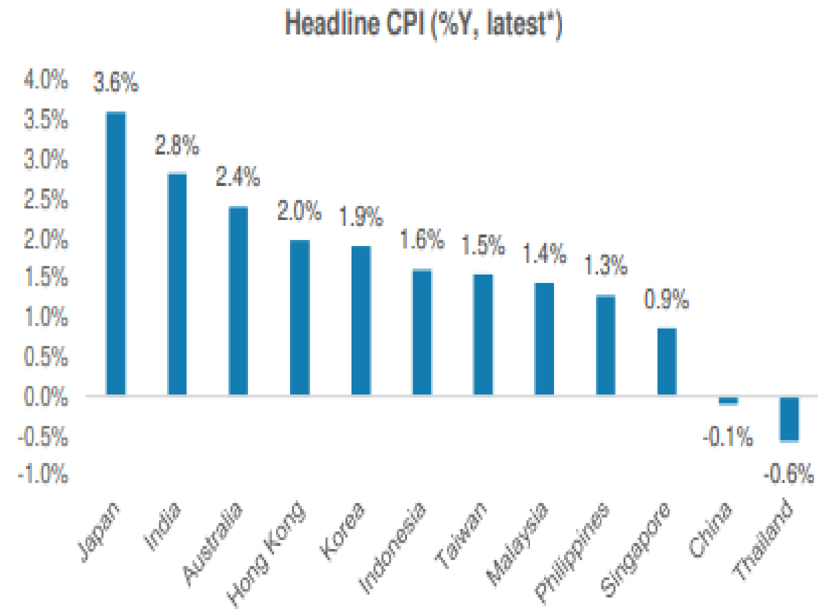


- US yields remained above 4.3% tracking the uncertainty around US monetary policy and tariffs.
- Looking closely at the payroll numbers, the average increase in monthly payrolls in 2025 has been lower by 31% from the first five months of 2024.
- US yields reflect more concerns on US inflation then growth.

Source: Bloomberg, Data as on June 05, 2025

Disinflationary pressures over Asia……space to absorb crude shocks!





- A sustained US$10/bl rise in oil prices is expected to increase the region's aggregate headline CPI inflation by 0.4pp.
- Overall disinflationary pressures across Asian economies reflect significant space to absorb crude shocks.

Source: Morgan Stanley, Data as on May 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.
- ▪ Quantum of rate cut to come down and even the possibility of no cut if inflation heats up further.
- ▪ The actual impact on growth and inflation is yet to pan out and will be a key watch.
- ❑ 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–

- ▪ High US Debt calls for a weak dollar
- ▪ US CPI – watchful on any transmission of tariff hikes

Source: BBNPP Research, Data as on June 16, 2025

Domestic Economy

RBI June-2025 Monetary Policy

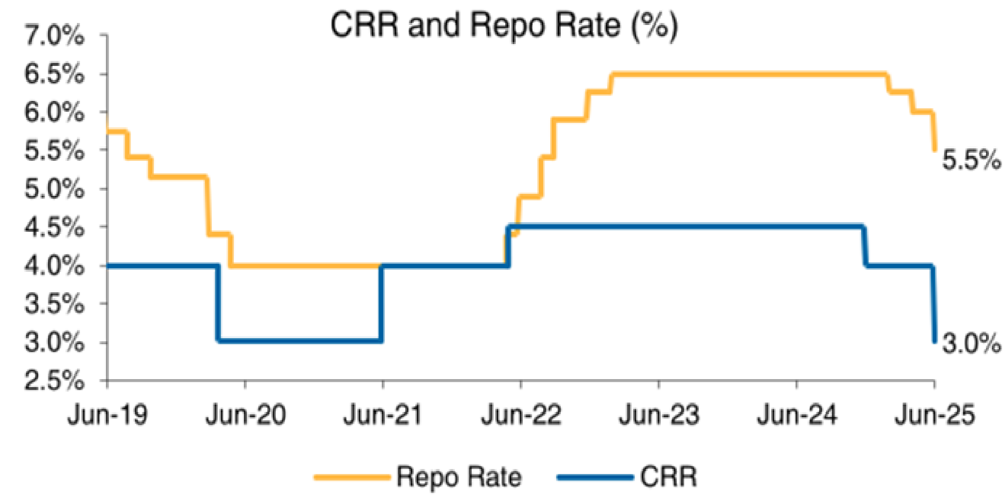
- RBI in its June-2025 policy included a series of announcements starting from a rate cut of 50bps (market expected 25bps as consensus), to **shift in stance from 'accommodative' to 'neutral'** and then a surprise CRR rate cut of 100bps in four tranches of 25bps each.

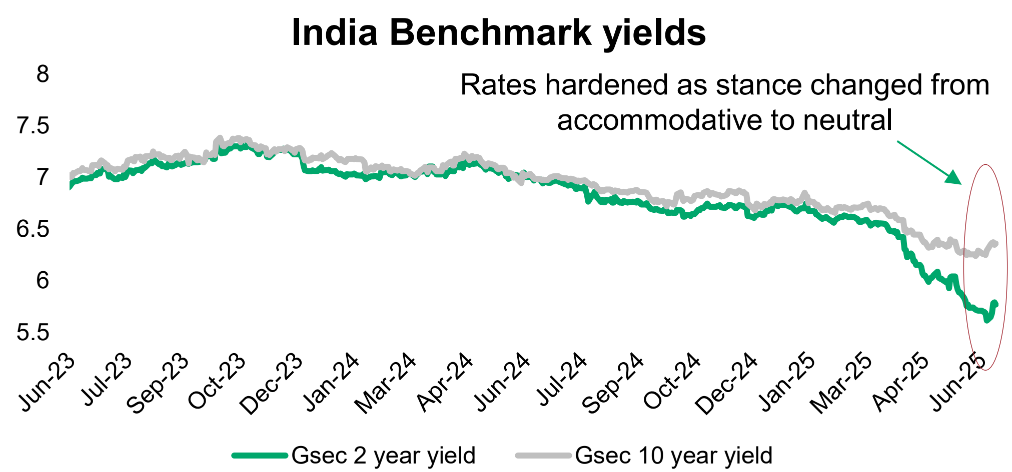
- **Changing the stance to neutral indicates the market that the operational overnight rate may remain closer to repo rate hence market factoring an operational rate to be around 5.40-5.50% instead of previously expected 5.25%.**

- This has hardened the short end of the curve by 10-15bps compared to pre policy.
- **The change in stance also signals no further rate cuts.**

- The CRR rate cut indicates that the liquidity conditions will remain encouraging for the transmission of rate cuts.

CRR and Repo Rate Trends (%)





Source: RBI, Bloomberg, Data as on June 06, 2025

RBI June-2025 Monetary Policy

RBI FY26 Estimates	Apr-25 Policy	June -25 Policy	Change
CPI - Inflation	**4**	**3.7**	**-0.3**
GDP Growth	**6.5**	**6.5**	**0**
RBI GDP growth	**Apr-25 Policy**	**June -25 Policy**	**Change**
Q1	**6.5**	**6.5**	**0**
Q2	**6.7**	**6.7**	**0**
Q3	**6.6**	**6.6**	**0**
Q4	**6.5**	**6.3**	**-0.2**
CPI Inflation	**Apr-25 Policy**	**June -25 Policy**	**Change**
Q1	**3.6**	**2.9**	**-0.7**
Q2	**3.9**	**3.4**	**-0.5**
Q3	**3.8**	**3.9**	**0.1**
Q4	**4.4**	**4.4**	**0**

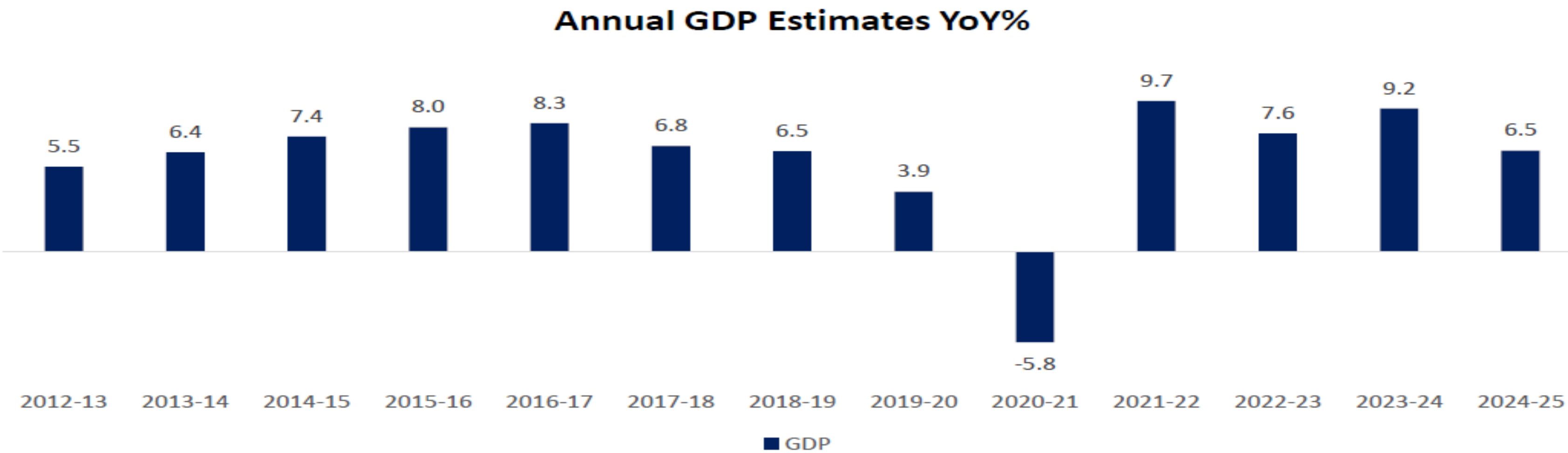
Recent crude shocks do not carry a significant risk to headline inflation as the space to absorb such shocks remains.
Current food inflation trajectory aligns with RBI's inflation projection with food shocks under control this monsoon.

Inflation projections support the 50bps cut-

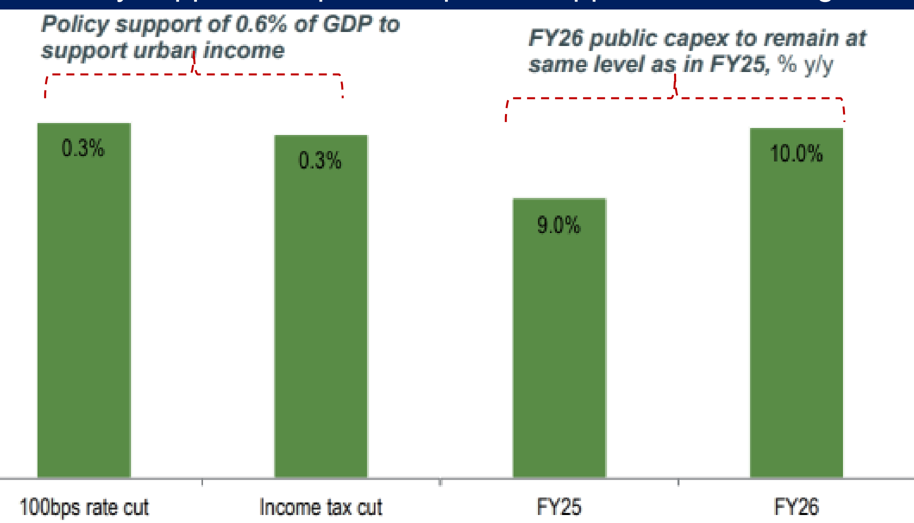
- RBI has revised down the inflation projections to 3.7% for FY26, from previous estimates of 4%, implying RBI is expecting inflation to soften below the target range of 4%.
- The softening is led by a decline in food prices and a favorable base effect in FY26.
- Lower inflation levels give RBI the bandwidth to remain supportive of growth.
- RBI GDP estimates now stand at 6.5% for FY26, which is much lower than the potential output growth.

Source: RBI, Data as on June 06, 2025

India Policy Support …… A growth-oriented outlook!



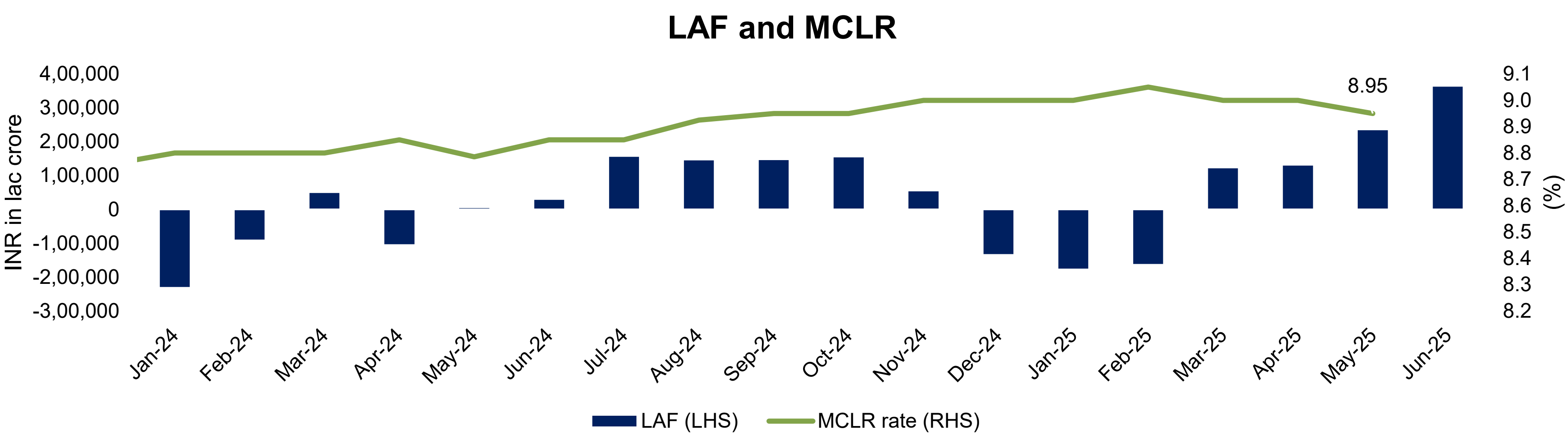
Policy support and public capex to support FY26 GDP growth



- ❑ FY25 GDP and GVA growth slowed to 6.5% and 6.4%, respectively, from 9.2% and 8.6% in FY24.
- ❑ The internals indicate that the GDP growth was supported by stronger growth in gross fixed capital formation, led by thrust from government.
- ❑ Whereas consumption growth in FY25 moderated.
- ❑ Both fiscal and monetary policy measures are expected to boost consumption in the economy.

Source: MOSPI, Data as on June 06, 2025

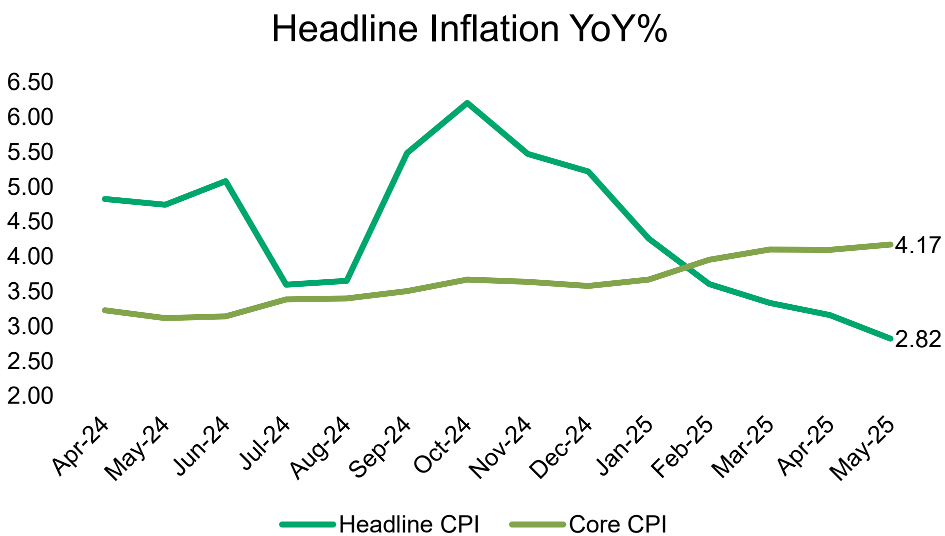
Liquidity Bonanza from RBI !

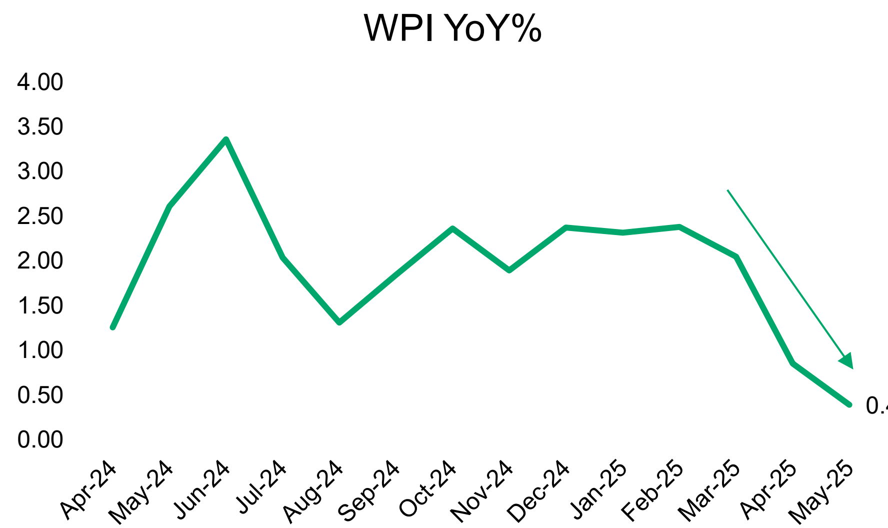


- Banking and durable liquidity are currently comfortable, and financial conditions have significantly eased in past four months.
- RBI delivered a CRR rate cut of 100bps in four tranches of 25bps each, bringing the CRR rate to 3%.
- The move has been a liquidity bonanza with the CRR cut expected to provide a liquidity boost of ~2.5 lac crore by December-2025.
- 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 13th, 2025

Domestic Inflation softens to a multi year low!

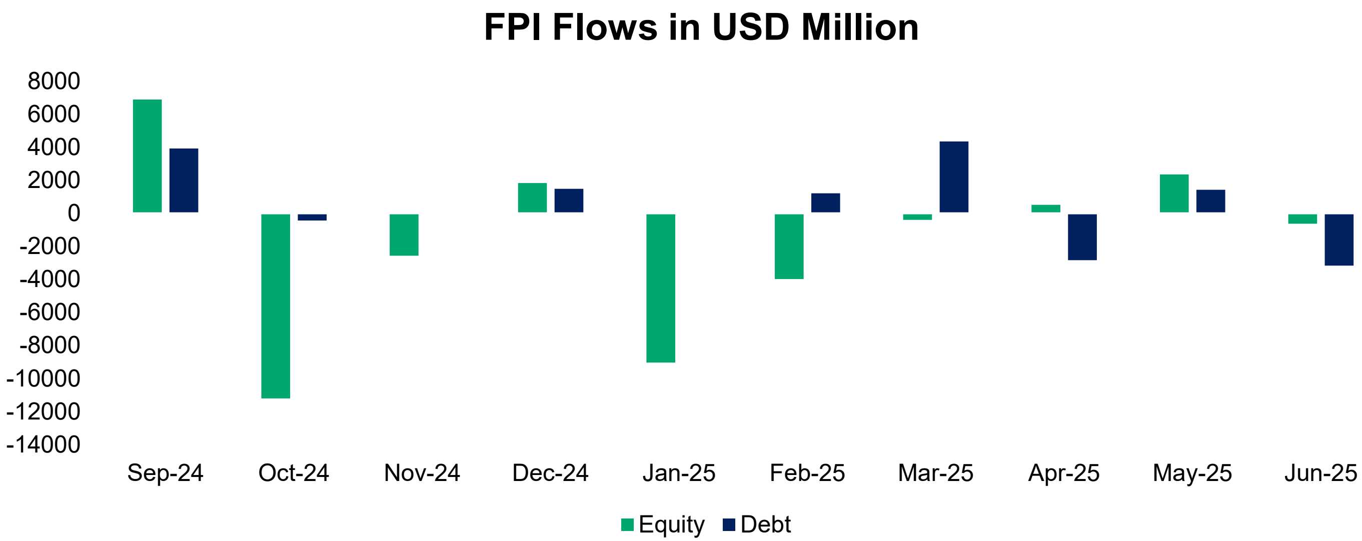


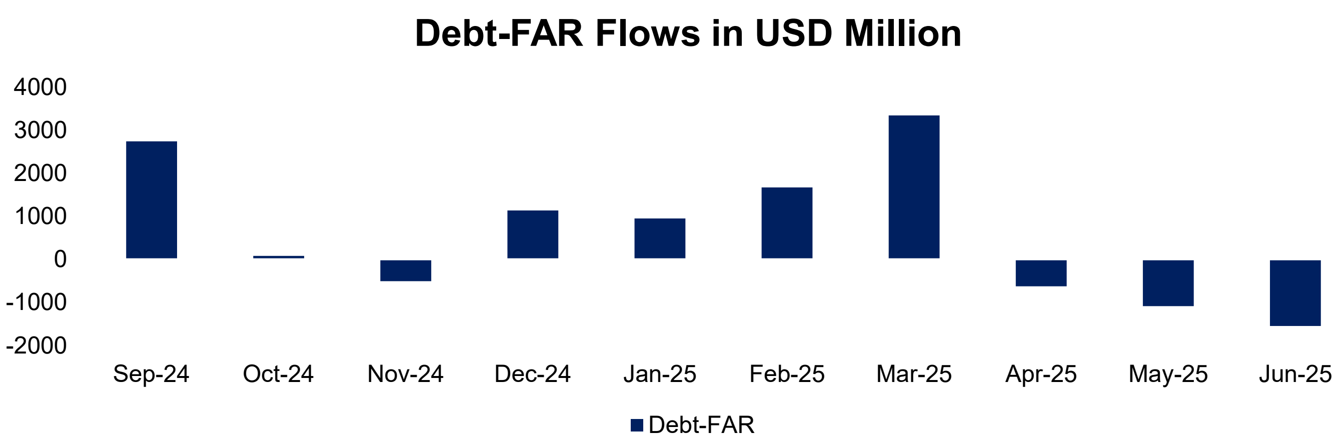


- Headline CPI slowed further to 2.8% YoY in May from 3.2% in April, the lowest since Mar-19.
- Food CPI hit a 43-month low of 1% YoY in May (vs. 1.8% in April), partly due to base effect and sharper-than-anticipated moderation in food prices.
- While the trend in high-frequency food prices for June (MTD) remains mixed on a sequential basis, food prices remain benign at the aggregate level – especially compared to the previous year.
- We expect this trend of benign inflation readings to continue supported by favorable outlook for crop production and lack of upside pressures from nonfood inflation.

Source: Bloomberg, Data as on June 13, 2025

Debt FPI Flows





- Debt markets witnessed net outflows in the month of June-2025.
- Overall, the impact of the same on the yields remained muted.
- Reflecting domestic variables like low inflation and growth dynamics in support of lower yields.

Source: NSDL, Data as on June 12, 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 3.7% 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 13.06.2025

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 17.06.2025

Fixed Income Outlook

Our View

- We see value in the fixed income market due to a) Despite recent 100basis point of rate cuts, real rates (1yr TBILL 5.50 less full year CPI forecast 3.7%) may remain in reasonable positive zone going forward.
- b) An inflation forecast of 3.7% (below the mandate of 4% and GDP forecast at 6.5% (below the near 8% aspirations as per RBI's statements) indicates a continuity of pro growth-oriented policy mindset.
- c) External factors such as dollar index (on weaker trajectory), UST (to eventually fall as unemployment numbers goes up) and oil in an acceptable range (despite recent rise) providing macro stability.
- d) Recent sell off despite 50bps rate cuts and CRR cut provide attractive spread on 5–15-year curve vs overnight levels and
- e) 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. The performance details provided above for Hybrid Funds are for regular/distributor plan and the performance for Debt Funds are for direct plan.

Source – Bloomberg, RBI, Data as on 17.06.2025

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