

# Market Insight – Fixed Income

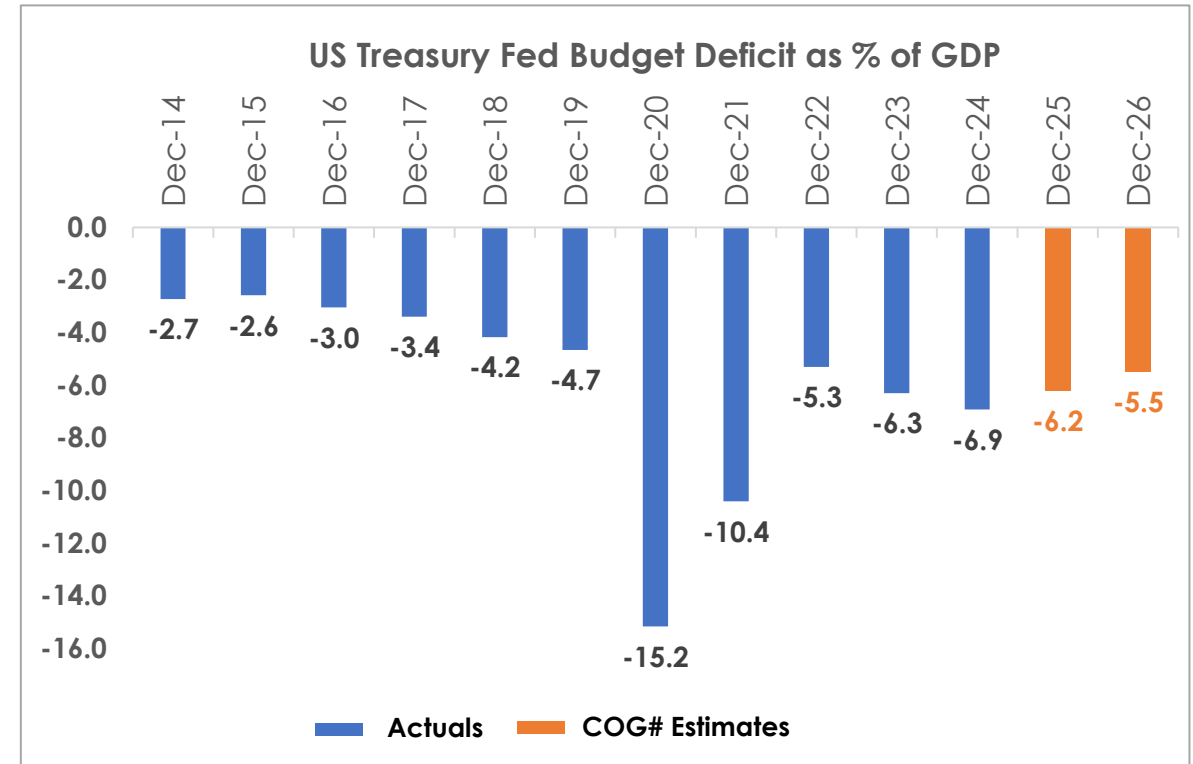
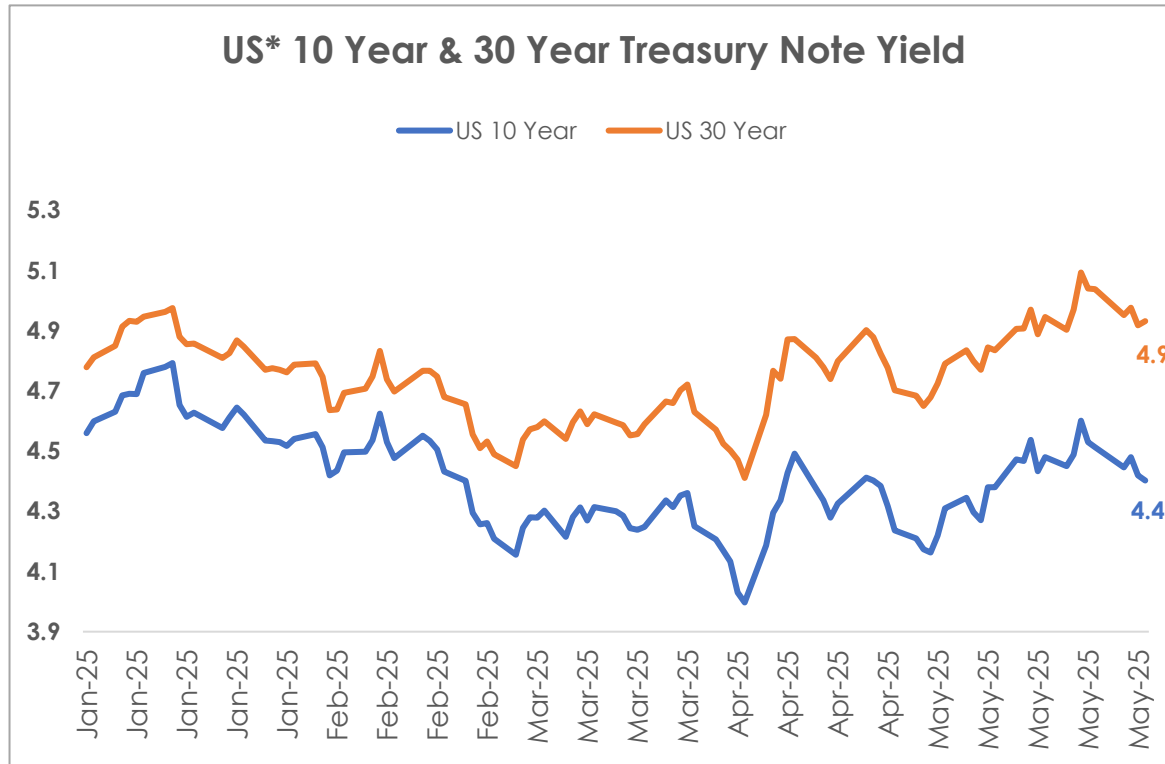
An Overview and Outlook on the Fixed Income Market

June 2025

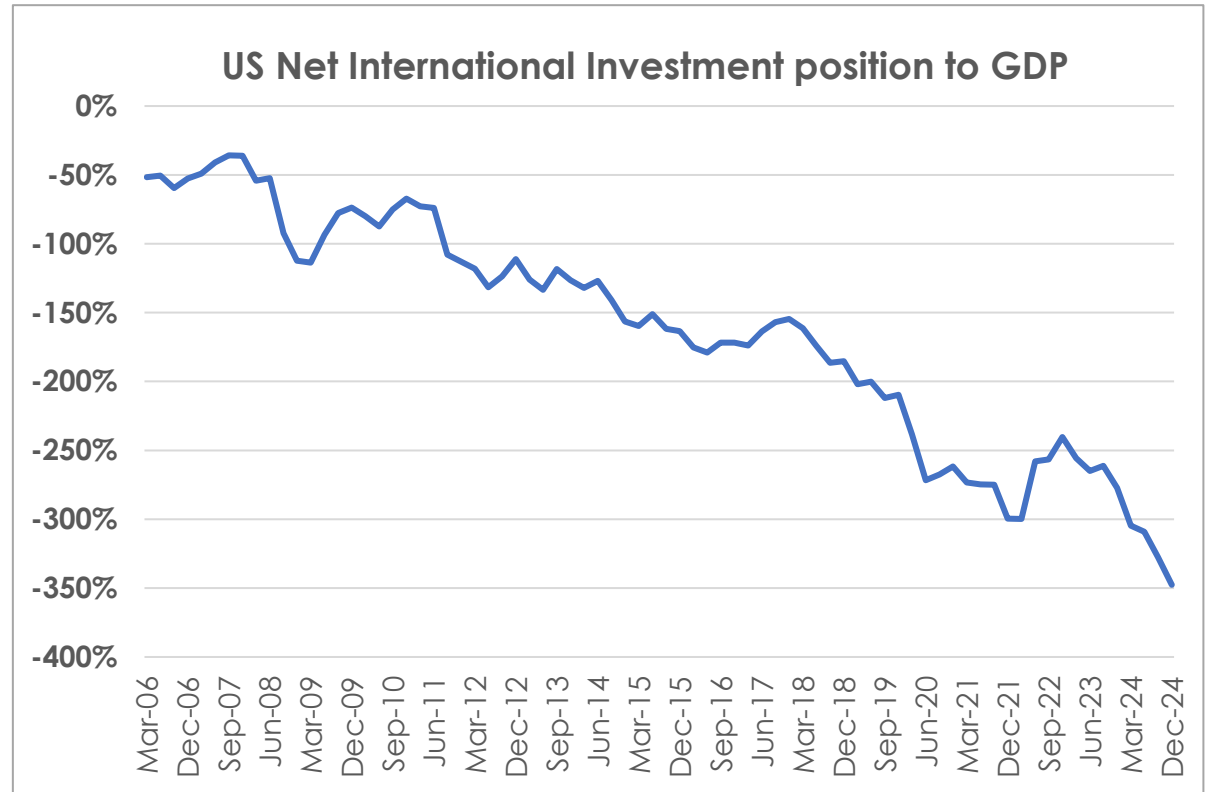
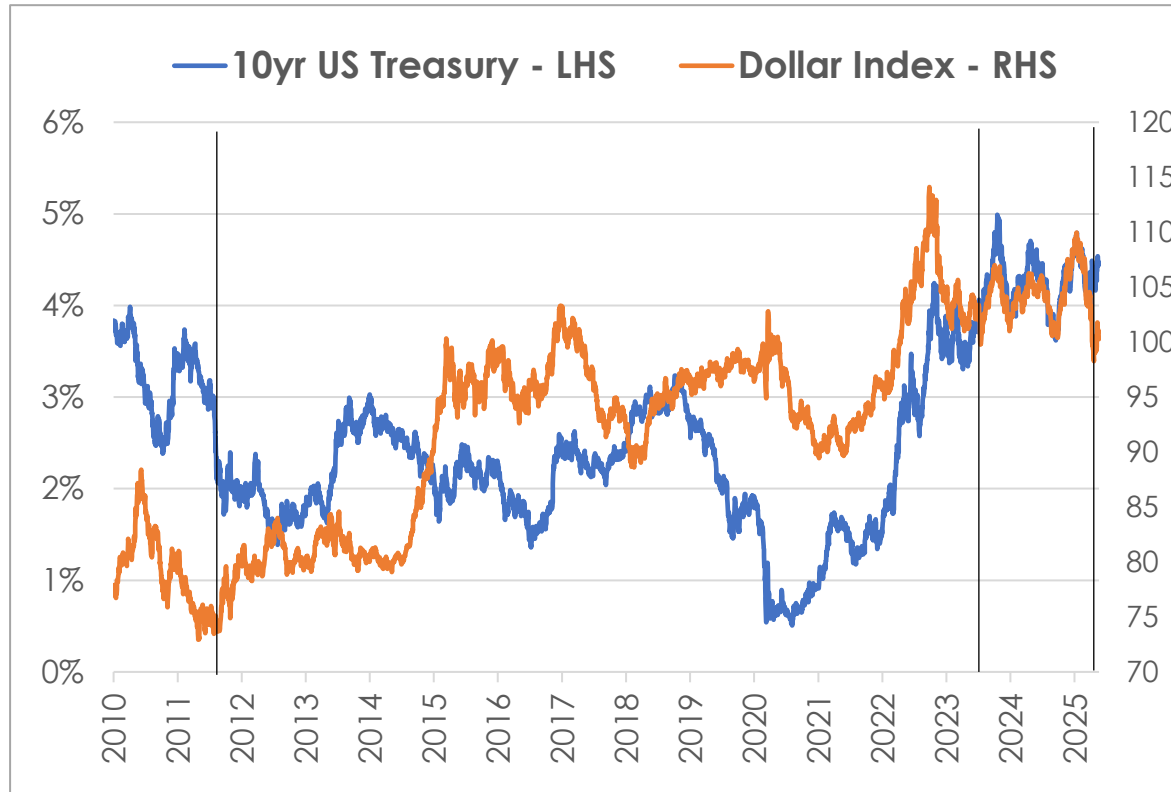


# Global Trends

- **Tariff Readjustment** - US and China announced a provisional reduction in their bilateral trade-weighted tariff to ~40% from ~155% contingent on their 90-day negotiation outcomes
- **Judicial Intervention** - The US Court of International Trade (USCIT) flagged overreach of executive authority under the Emergency Economic Powers Act. A temporary federal stay has prevented immediate implementation, but final ruling may lower the average effective tariff from around 13.5% to 5-6%.
- **Policy signals:** Tariffs continue to be a core lever of trade policy despite the legal and structural ambiguities. May remain an overhang on market participants
- **Macro impact:** No material change is expected in the near term growth outlook – Elevated corporate margins and strong balance sheets should buffer the sentiment shock
- **EM policy implications:** EM central banks likely to maintain easing bias amidst subdued demand and still high real rates. As dollar status becomes more volatile, EM risk premia to US risk premia may reduce in the near to medium term

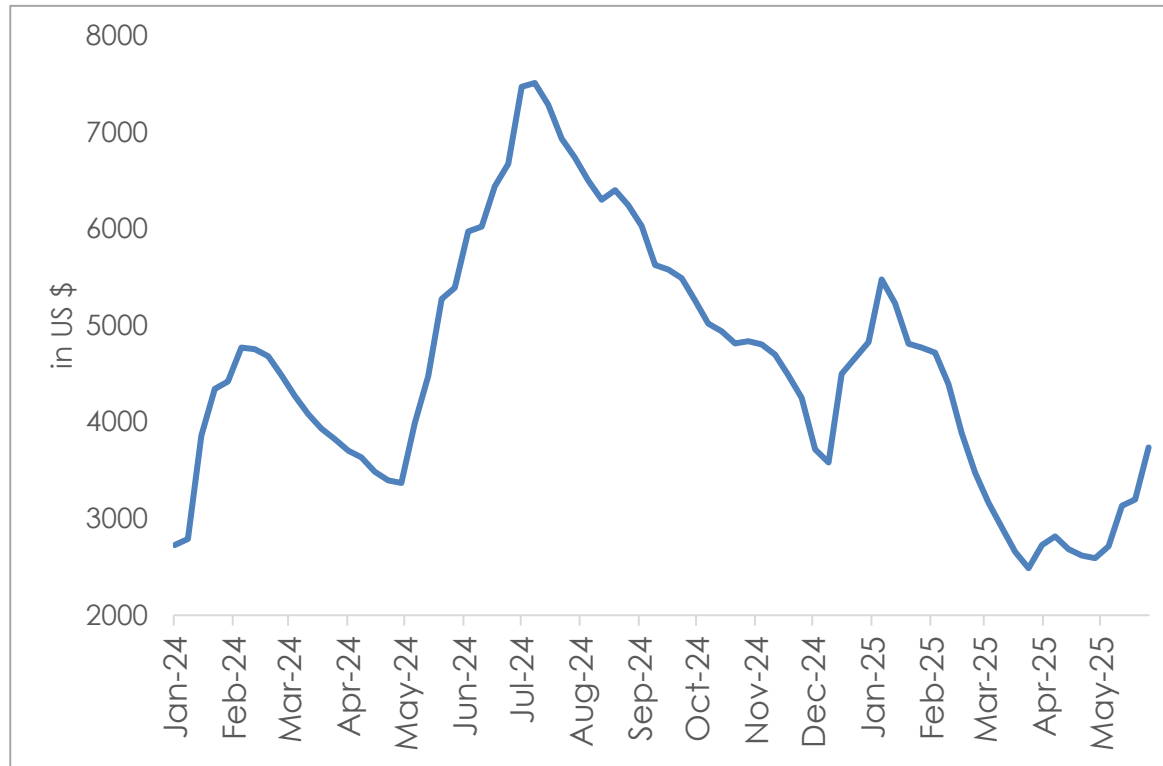


- Moody's downgraded US sovereign rating from AAA (negative) to Aa1 (stable) in line with the ratings of S&P & Fitch
- Market participants concerned over persistent weakness in US macro (higher fiscal deficit) and greater policy uncertainty
- Elevated bond yields for an extended period may create a negative feedback loop of weaker fiscal and debt position



- The prior S&P and Fitch one-notch downgrades to the US sovereign credit rating may not offer a similar template
- The major difference from prior ratings downgrades is the current theme of fading US exceptionalism and potential re-allocation away from US assets

## Shanghai to Los Angeles Container Freight Benchmark








## Bloomberg commodity index



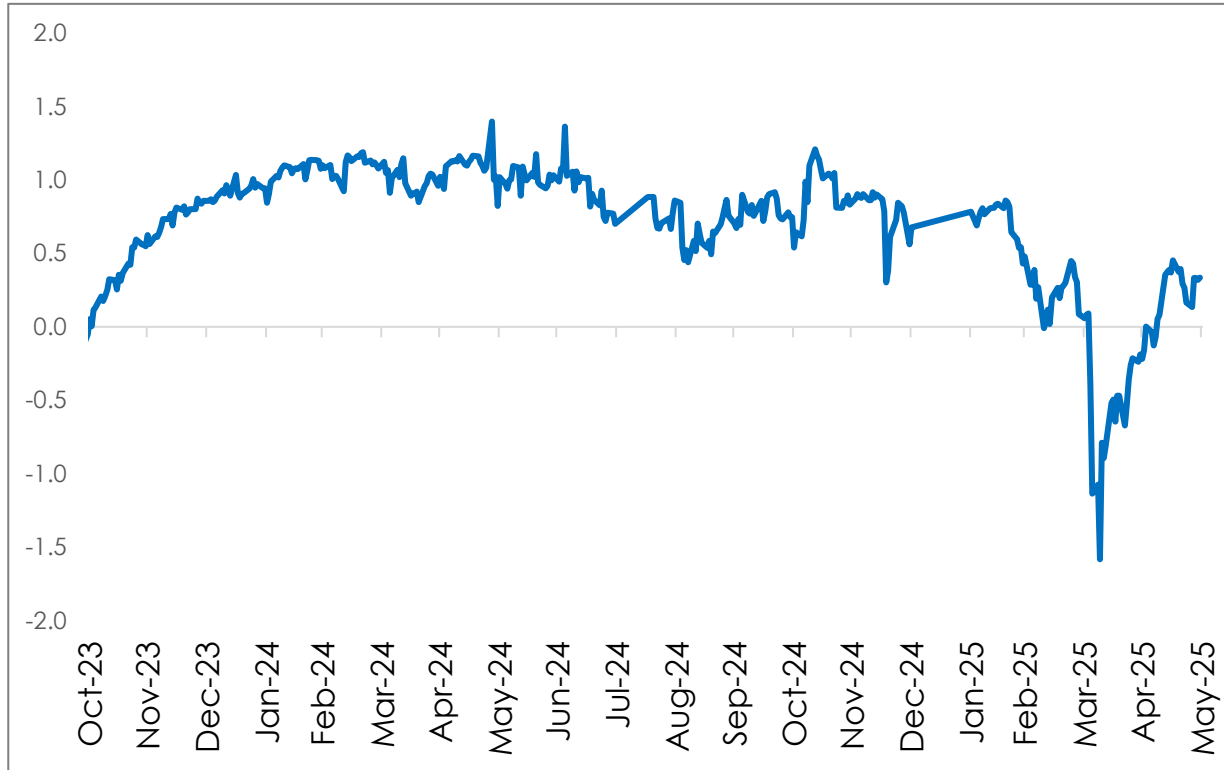
- Shipping rates going up as trade getting normalized
- Broader commodities index saw decline on lower energy prices and correction in gold/silver prices from record highs

## Movement in 10-year Sovereign benchmark yields

Region	Country	Yield (%)													Change (bps)		Trend
		May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	MoM	YoY	
US & EUROPE	US	4.68	4.50	4.03	3.90	3.78	4.28	4.17	4.57	4.54	4.21	4.21	4.16	4.40	24	-28	
	UK	4.35	4.32	3.97	4.02	4.00	4.45	4.24	4.57	4.54	4.48	4.68	4.44	4.65	21	30	
	GERMANY	2.58	2.66	2.30	2.30	2.12	2.39	2.09	2.37	2.46	2.41	2.74	2.44	2.50	6	-8	
LATAM	BRAZIL	11.85	11.89	11.88	12.22	12.43	12.79	13.41	15.16	14.80	15.26	15.08	14.07	14.02	-5	217	
	MEXICO	9.96	9.75	9.77	9.66	9.34	10.07	10.01	10.42	10.08	9.48	9.35	9.34	9.32	-2	-64	
ASIA PACIFIC	JAPAN	0.87	1.06	1.05	0.89	0.85	0.94	1.04	1.09	1.24	1.37	1.49	1.31	1.49	18	61	
	AUSTRALIA	4.42	4.41	4.12	3.97	3.97	4.50	4.34	4.36	4.43	4.29	4.38	4.16	4.26	9	-16	
	SOUTH KOREA	3.65	3.57	3.07	3.09	2.99	3.10	2.76	2.85	2.86	2.71	2.77	2.56	2.79	23	-86	
	CHINA	2.31	2.32	2.15	2.18	2.21	2.15	2.03	1.68	1.63	1.78	1.82	1.63	1.71	8	-61	
	INDONESIA	7.22	6.91	6.89	6.62	6.44	6.77	6.85	6.97	6.97	6.90	6.99	6.86	6.83	-3	-39	
	SINGAPORE	3.43	3.35	2.87	2.69	2.60	2.81	2.75	2.85	2.91	2.73	2.68	2.47	2.43	-4	-101	
	INDIA	7.19	6.98	6.93	6.86	6.75	6.85	6.74	6.76	6.70	6.73	6.58	6.36	6.29	-7	-90	

- Market participants scaled back expectations of aggressive rate cuts by the US federal reserve on potential de-escalation in trade tensions
- Commentary remained cautious from Fed officials on waiting for impact of tariffs before undertaking monetary easing

## Bloomberg US Financial Conditions Index



## Market Implied Policy Rate Forecasts



- US Financial conditions worsened on balance due upward pressure from higher bond yields
- Participants repriced their rate cut expectations as the Fed signaled that the bar for cuts is higher during a tariff shock
- Moody's downgrade of US rating led to higher fiscal concerns





# India Trends

- The MPC voted 5-1 to change the policy repo rate by 50bps to 5.5% against consensus expectations of 25bps
- Stance changed to “neutral” from “accommodative”
- CPI inflation estimates were lowered from 3.7% from 4.0% for FY26
- Growth projections for FY 2026 were retained at 6.5% on account of global trade uncertainties
- Liquidity remains a priority for RBI to ensure transmission. RBI cut CRR by 100bps in tranches from September. Will release Rs. 2.5 trillion of liquidity
- We expect RBI to remain on extended pause till we reach close to the “aspirational” growth of 7%
- We expect RBI to provide adequate liquidity to ensure availability of capital for banking system

## Inflation & Growth Assessment

### RBI's estimates for CPI inflation across policies (%)

		Feb-25	Apr-25	Jun-25
FY26	1Q	4.5	3.6	2.9
	2Q	4	3.9	3.4
	3Q	3.8	3.8	3.9
	4Q	4.2	4.4	4.4
	<b>FY26 Avg</b>	<b>4.2</b>	<b>4</b>	<b>3.7</b>

### RBI's estimates for Real GDP growth across policies (%)

		Feb-25	Apr-25	Jun-25
FY26	1Q	6.7	6.5	6.5
	2Q	7	6.7	6.7
	3Q	6.5	6.6	6.6
	4Q	6.5	6.3	6.3
	<b>FY26 Avg</b>		<b>6.5</b>	<b>6.5</b>

# Monsoon trends and MSP Outlook for Kharif 2025-2026

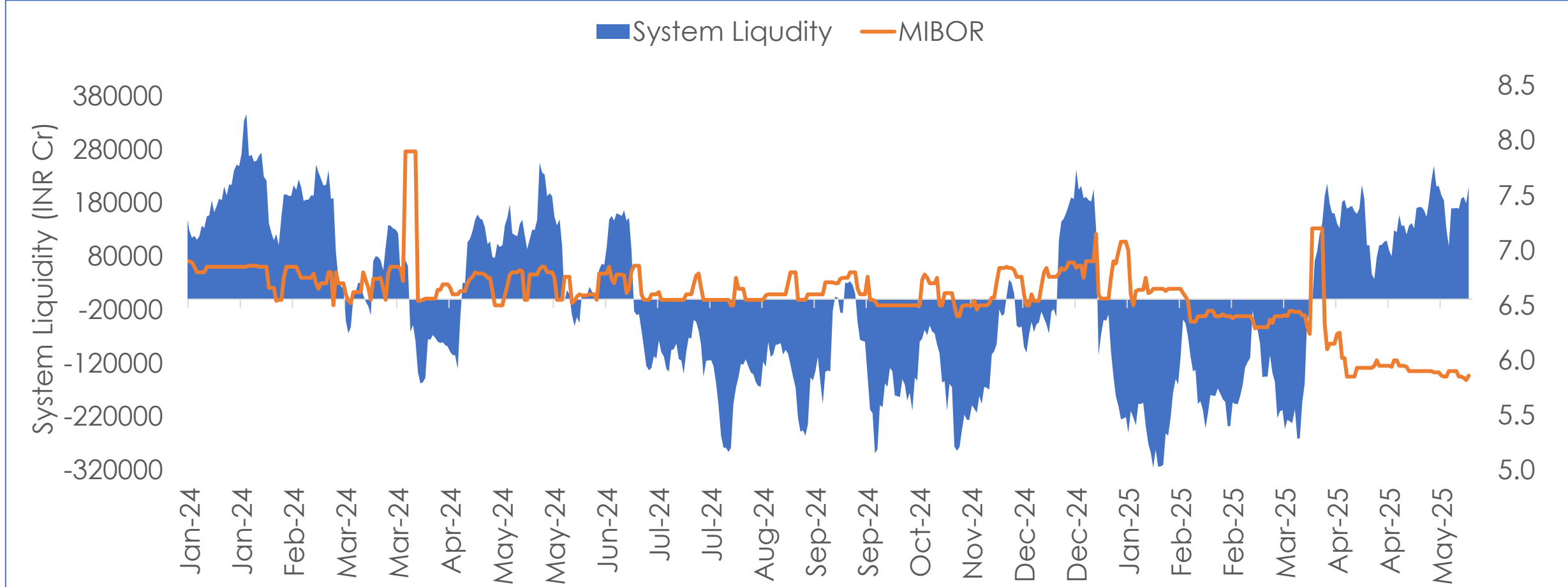
## Historical trend of IMD forecast vs actual rainfall

Year	Southwest monsoon in mm		Deviation
	Forecast	Actual	
2015	765.6	765.8	0.00%
2016	922.2	864.4	-6.30%
2017	904.8	845.9	-6.50%
2018	904.8	804.1	-11.10%
2019	835.2	968.3	15.90%
2020	887.4	957.6	7.90%
2021	904.8	867	4.20%
2022	904.8	918.4	1.50%
2023	835.2	821	-1.70%
2024	922.2	925.8	0.40%

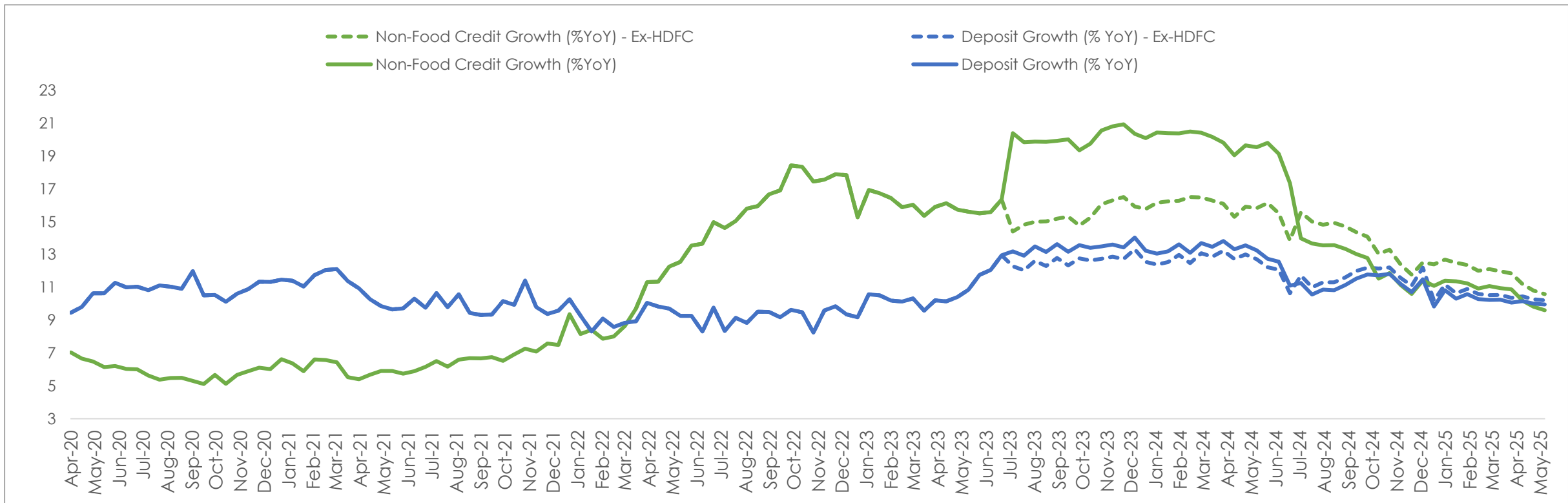
## Minimum support for Kharif 2025-26

Commodity	Variety	2024-2025	YOY %	2025-2026	YOY %	10-yr CAGR %
Paddy	Common	2.3	5%	2,369	3%	5%
	Grade - A	2,320	5%	2,389	3%	5%
Jowar	Hybrid	3,371	6%	3,699	10%	9%
	Maldandi	3,421	6%	3,749	10%	9%
Bajra		2,625	5%	2,775	6%	8%
Maize		2,225	6%	2,400	8%	6%
Ragi		4,290	12%	4,886	14%	11%
Tur (Arhar)		7,550	8%	8,000	6%	6%
Moong		8,682	1%	8,768	1%	6%
Urad		7,400	6%	7,800	5%	5%
Cotton	Medium Staple	7,121	8%	7,710	8%	7%
	Long Staple	7,521	7%	8,110	8%	7%
Groundnut-in-shell		6,783	6%	7,263	7%	6%
Sunflower seed		7,280	8%	7,721	6%	
Soyabean	Black	NM	NM	NM	NM	NM
	Yellow	4,892	6%	5,328	9%	7%
Sesamum		9,267	7%	9,846	6%	8%
Nigerseed		8,717	13%	9,537	9%	10%

- The southwest monsoon is forecasted to be 106% of the Long Period Average (LPA) compared to 104%, previously
- Most parts of India are likely to receive normal to above normal rainfall, except for some areas in southern Peninsular India, Northwest, and Northeast India
- Restrained MSP increase : Weighted average MSP increase based on CPI weights is 4.5%YY for FY26 vs 5.4%YY in FY25



- RBI liquidity management has focused on effective and faster transmission of rate cuts by injecting liquidity through OMO, Dividends and RBI FX Buy/Sell swaps. Dividend payment has taken Core liquidity in excess of Rs. 6 lakh crores
- RBI may lower Forward book further by USD 20 to 25 billion which may reduce inter-bank liquidity but Durable liquidity should still be comfortable



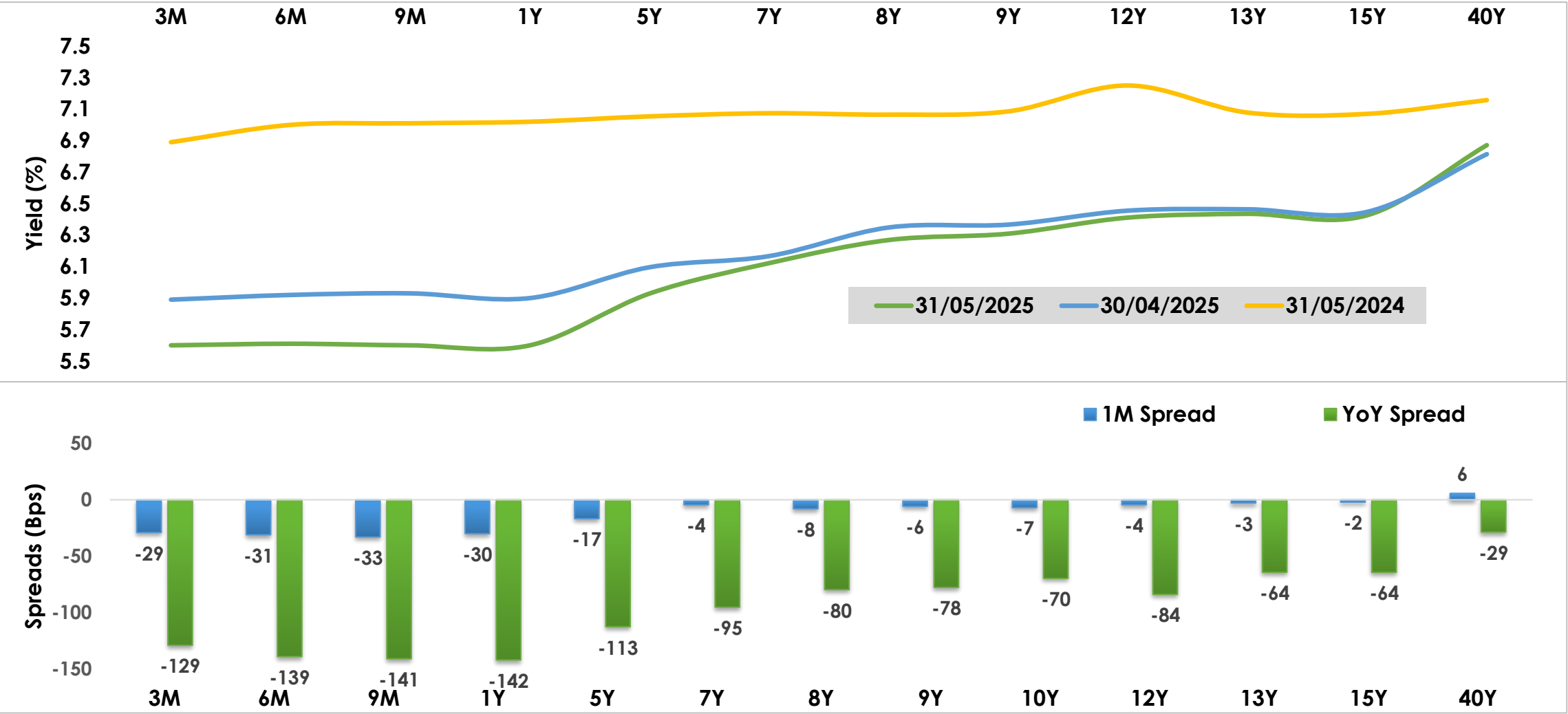
- Headline non-food credit growth has slipped below 10% (9.6% YoY) as per the latest available data (May 16, 2025) vs 10.2% YoY in Apr'25. Further, the deposit growth at 10% YoY as on May has outpaced credit growth. Excluding the merger, the non-food credit growth was 10.6%
- Segment-wise, retail growth improved marginally to 14.5% in Apr'25 (vs 14% in Mar'25), while the trend of moderation across Agri, Services and Industry continued. Infra growth continues to be soft and witnessed degrowth in Apr'25.
- Credit to services fell 1.6% MoM due to moderation in credit to NBFCs, Trade and Other Services. Unsecured Personal Loans and Credit card growth continues to be subdued (below 10% YoY), though sequential growth in credit card rebounded after falling for two consecutive months.

# Trade deficit widened ahead of reciprocal tariffs

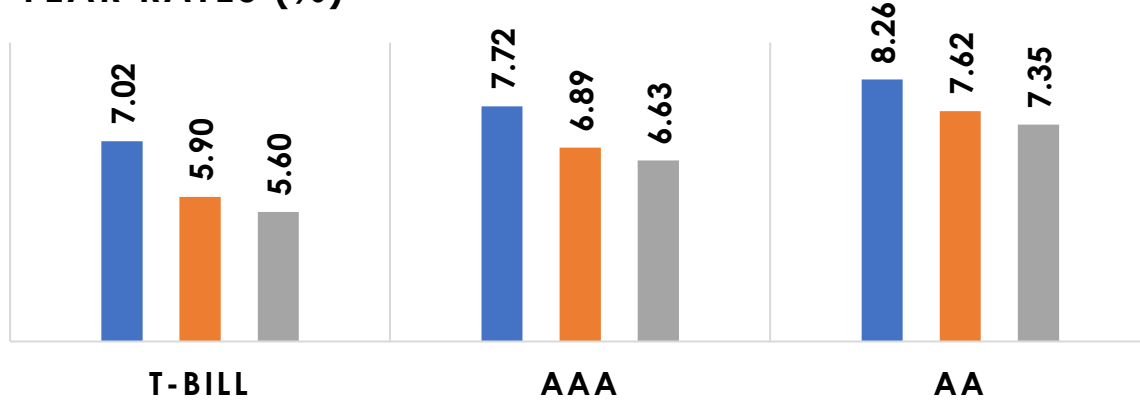
	USD Bn				% Growth YOY	
	Apr-24	Feb.25	Mar-25	Apr-25	Mar-25	Apr-25
<b>Trade balance</b>	<b>-19.2</b>	<b>-14.1</b>	<b>-21.5</b>	<b>-26.4</b>		
<b>Exports</b>	<b>35.3</b>	<b>36.8</b>	<b>42.0</b>	<b>38.5</b>	<b>0.7</b>	<b>9.0</b>
-Non-oil exports	28.3	31.1	37.1	31.1	2.2	10.1
-Oil exports	7.0	5.7	4.9	7.4	-9.5	4.8
<b>Imports</b>	<b>54.5</b>	<b>51.0</b>	<b>63.5</b>	<b>64.9</b>	<b>11.4</b>	<b>19.1</b>
-Oil imports	16.5	11.9	19.0	20.7	16.3	25.5
-Non-oil non gold imports	35.0	36.7	40.0	41.1	2.2	17.3
-Gold imports	3.0	2.3	4.5	3.1	192.1	4.9
<b>Services surplus</b>	<b>13.4</b>	<b>17.1</b>	<b>18.1</b>	<b>17.8</b>		
<b>Exports</b>	<b>30.2</b>	<b>31.6</b>	<b>35.6</b>	<b>35.3</b>	<b>18.6</b>	<b>17.0</b>
<b>-Imports</b>	<b>16.7</b>	<b>14.5</b>	<b>17.5</b>	<b>17.5</b>	<b>5.3</b>	<b>4.7</b>

- Goods trade deficit widened to 5-month high mainly due to frontloading ahead of expected reciprocal tariffs in April
- Higher export growth was witnessed in engineering goods, electronics and pharma in March 2025 which saw a decline in April
- 32% of India's exports to the US have been excluded from bilateral tariffs such as automobiles, pharmaceuticals, semiconductors, fuels and certain ores and minerals, smartphones etc. This may reduce the direct impact on India although indirect impact of policy uncertainty may sway investment sentiment

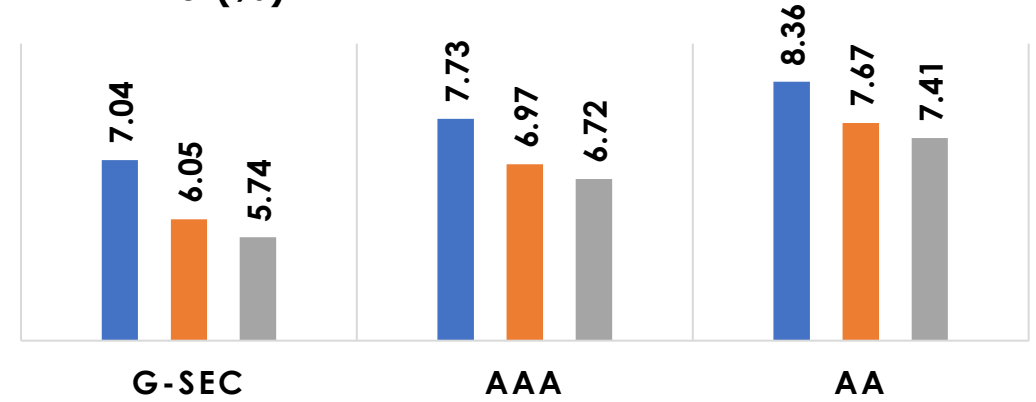
# India Sovereign Curve – Steepened on expected lines



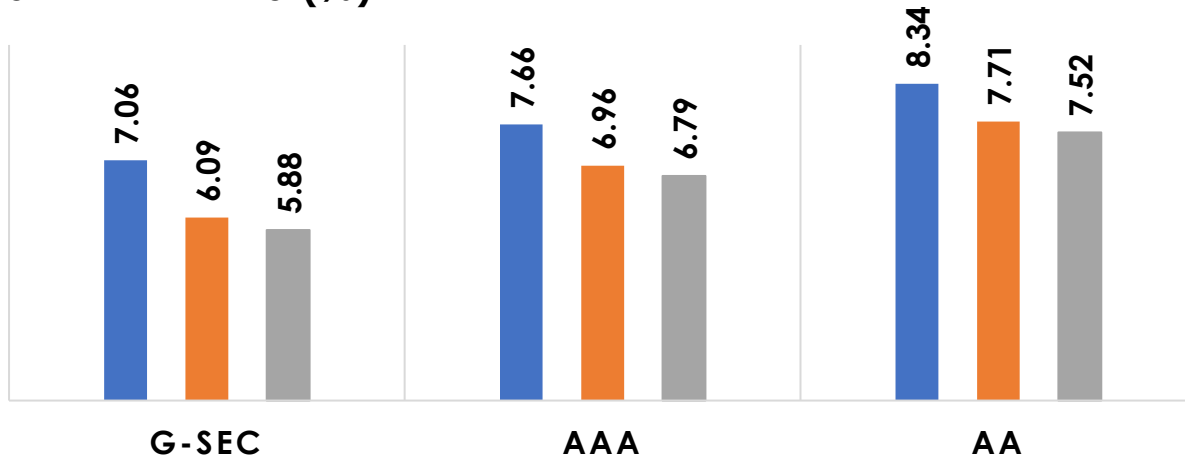
### 1 YEAR RATES (%)



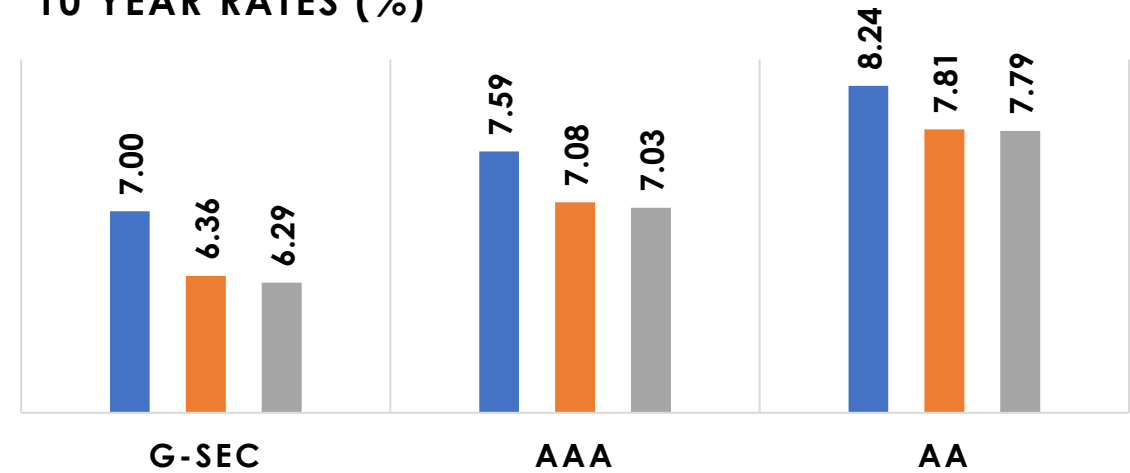
### 3 YEAR RATES (%)



### 5 YEAR RATES (%)



### 10 YEAR RATES (%)



■ May-24   ■ Apr-25   ■ May -25



- ❑ The RBI now has greater confidence in a durable alignment of inflation with its 4% target over the next 12 months
- ❑ From a medium-term perspective, global growth momentum continues to weaken reinforcing a constructive fixed income environment
- ❑ Easing food inflation and cyclical moderation in domestic growth should help RBI maintain current policy rates for extended period of time
- ❑ RBI is committed to providing easy liquidity. assurance of long-term liquidity by future CRR cuts creates asymmetric incentives that should compel more active deployment in short to medium end of the curve
- ❑ **Moderate duration products** possibly provide the optimal risk adjusted returns in a scenario of a sustained low rate environment
- ❑ Given the considerable gap between overnight rate and money market rates (up to 12 months), investors with a 6–12-month horizon can consider allocation to low duration/ money market strategies
- ❑ We recommend moderate duration (one-to-four year) categories given the reasonable accrual and prospects of mark-to-market gains on these strategies for investors with more than 12 months investment horizon.

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