

India Macro Round-Up

17th October

WEALTH, YOUR WAY

Sep CPI inflation lowest since Jun'17, core shoots on precious metals

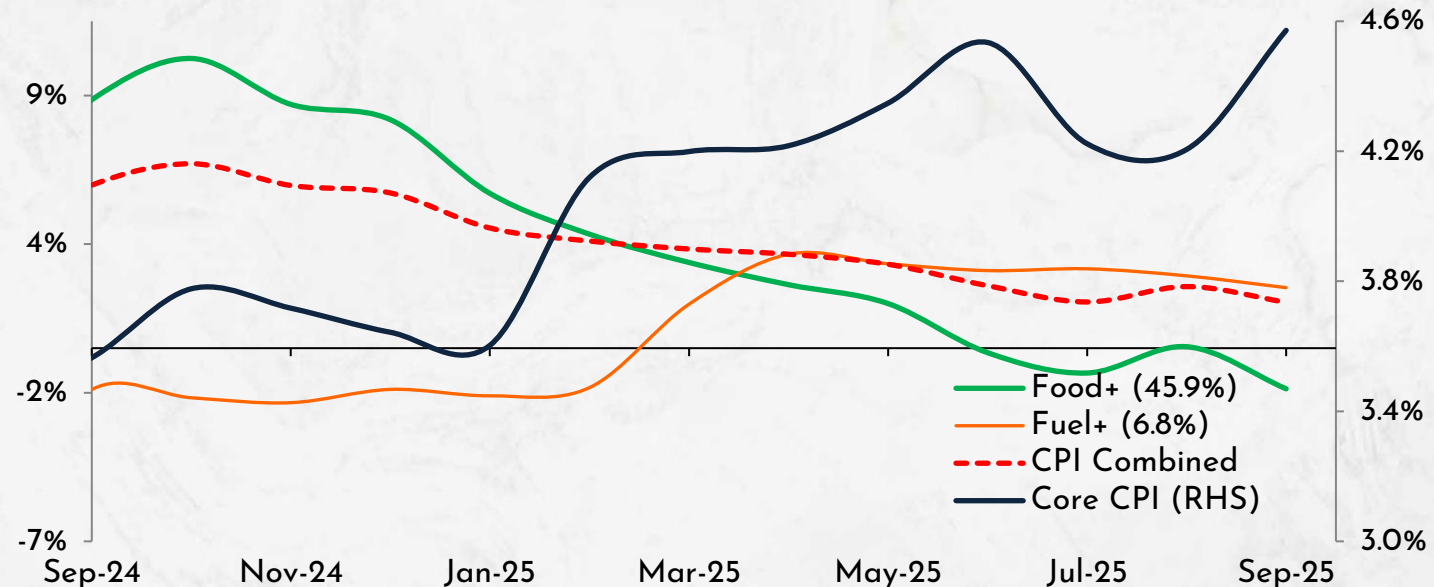
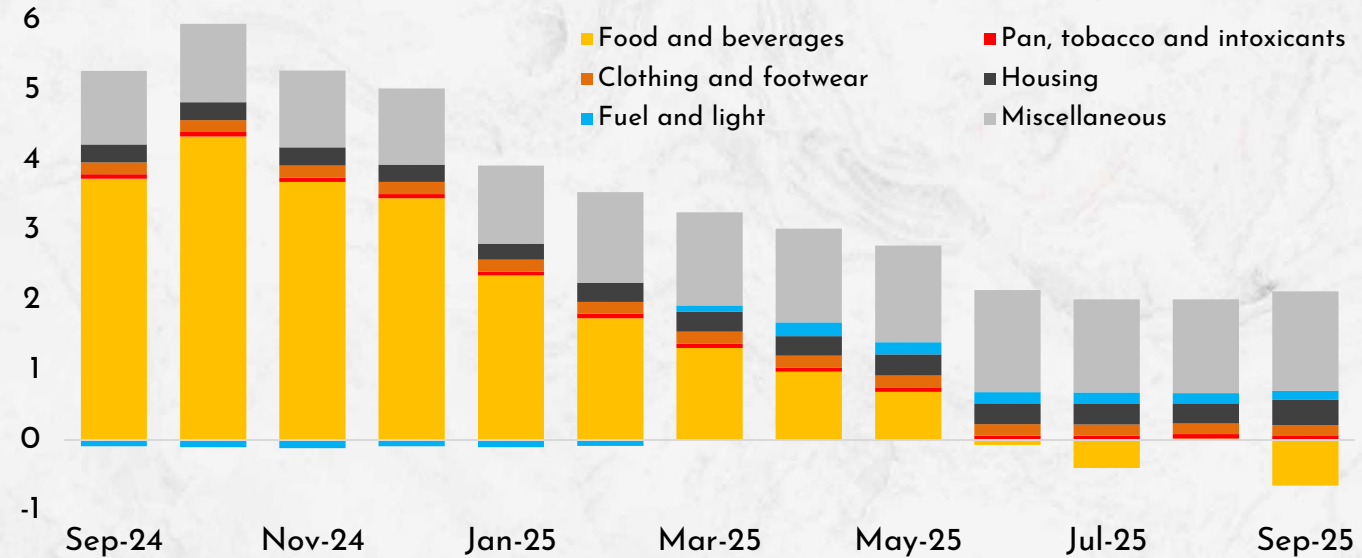
India September CPI inflation came slightly lower than expected at 1.54% YoY vs 2.07% in Aug, and ~1.5-1.6% market consensus. This was said to be on account of a negative contribution from food and beverages driven by steeper deflation in vegetables and pulses. Inflation in other food items like cereals, eggs, dairy, fruits, non-alcoholic beverages, and prepared meals also moderated.

The core inflation (excluding food, fuel & tobacco) shot up to 4.6% - mainly on account of a sharp rise in housing component as well as on continued rise in personal care and effects segment (gold & silver prices). **After excluding the impact of personal care and effects segment, the core inflation was around 3.1%.**

Despite the headline CPI coming mildly lower than expected, G-sec yields edged higher likely on concerns around a sharp rise in core inflation.

Markets will now watch developments around ongoing trade negotiations with the US, and the pace of INR depreciation to gauge the timing for a potential rate action. In addition, the passage of GST should help Oct inflation print even lower (below 1%).

Item wise contribution to headline inflation %



Sep merchandise trade deficit widens on seasonal demand for precious metals

(All numbers in USD bn)

Imports	Sep-25	Aug-25	Δ Sep-25	Apr-Sep FY26	Apr-Sep FY25	Δ Apr-Sep FY26
Petro & products	14.03	13.27	0.77	92.14	93.05	(0.91)
Gold, Silver & Stones	12.72	7.31	5.42	39.40	40.83	(1.43)
Imports ex petro & precious	41.77	41.02	0.75	242.61	225.01	17.59
Of which, Electronics	9.82	9.73	0.09	56.16	48.10	8.05
Total	68.53	61.59	6.94	374.15	358.90	15.25

Exports	Sep-25	Aug-25	Δ Sep-25	Apr-Sep FY26	Apr-Sep FY25	Δ Apr-Sep FY26
Petroproducts	4.96	4.48	0.48	31.41	34.93	(3.52)
Gems & Jewellery	2.84	2.31	0.52	14.20	13.94	0.26
Exports ex petro & precious	28.59	28.31	0.28	175.47	162.86	12.62
Of which, Engineering goods	10.11	9.90	0.21	59.35	56.32	3.02
Of which, Electronics	3.12	2.93	0.19	22.22	15.64	6.58
Of which, Chemicals	2.38	2.42	(0.04)	14.54	14.07	0.48
Of which, Pharma	2.62	2.51	0.11	15.37	14.44	0.93
Total	36.38	35.10	1.28	221.09	211.73	9.35

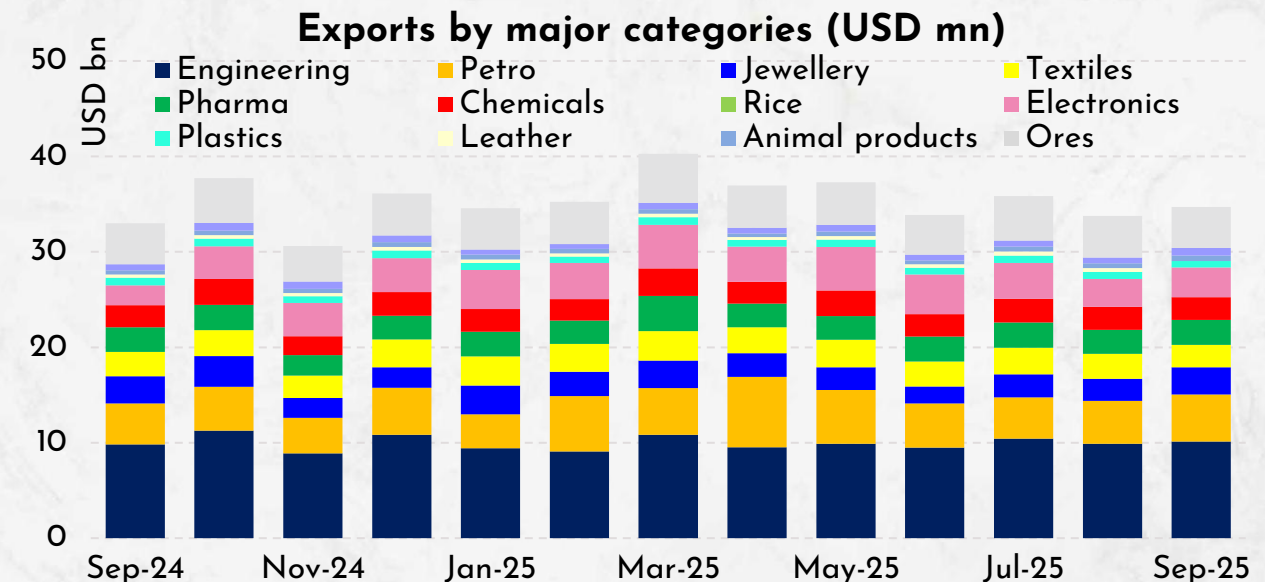
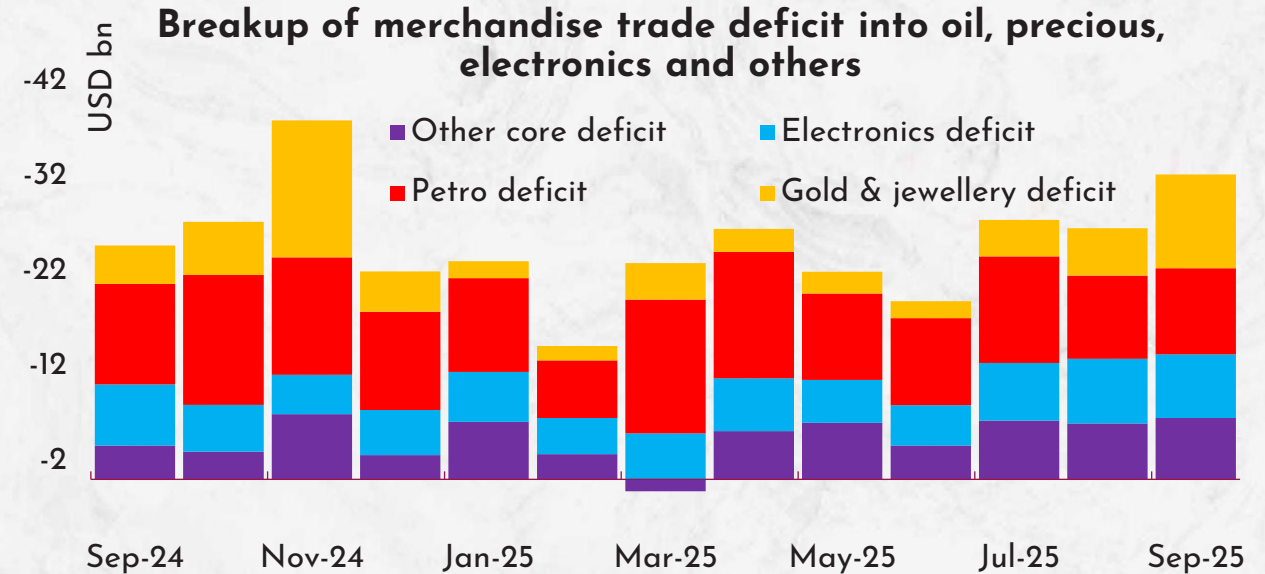
Deficit led by gold & silver imports, headline exports rise across categories

During the month, gains were seen across items except for chemicals as well as textiles (likely on account of the impact of 50% tariffs).

A widening of headline deficit was majorly on account of gems & jewellery (seasonal demand ahead of festivities).

While the sharp jump in the imports of precious metals appears short-lived (signalling some comfort around overall merchandise deficit), the exports of services have been muted over the past few months - which will keep overall trade deficit elevated, and also widening the current account deficit.

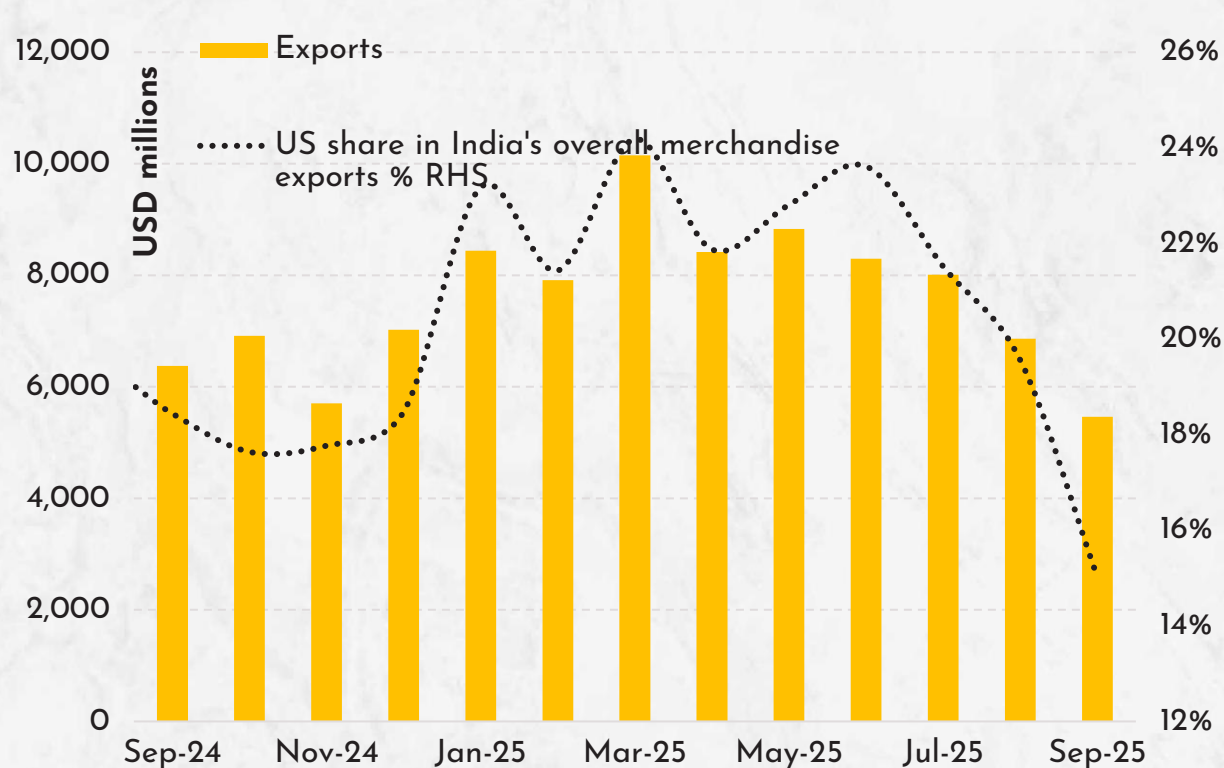
It will be crucial to watch to what extent the FPI flows in equities pick up (especially given moderation in economic growth in H2FY26) - as this would help gauge the comfort around Balance of payment financing, and the INR.



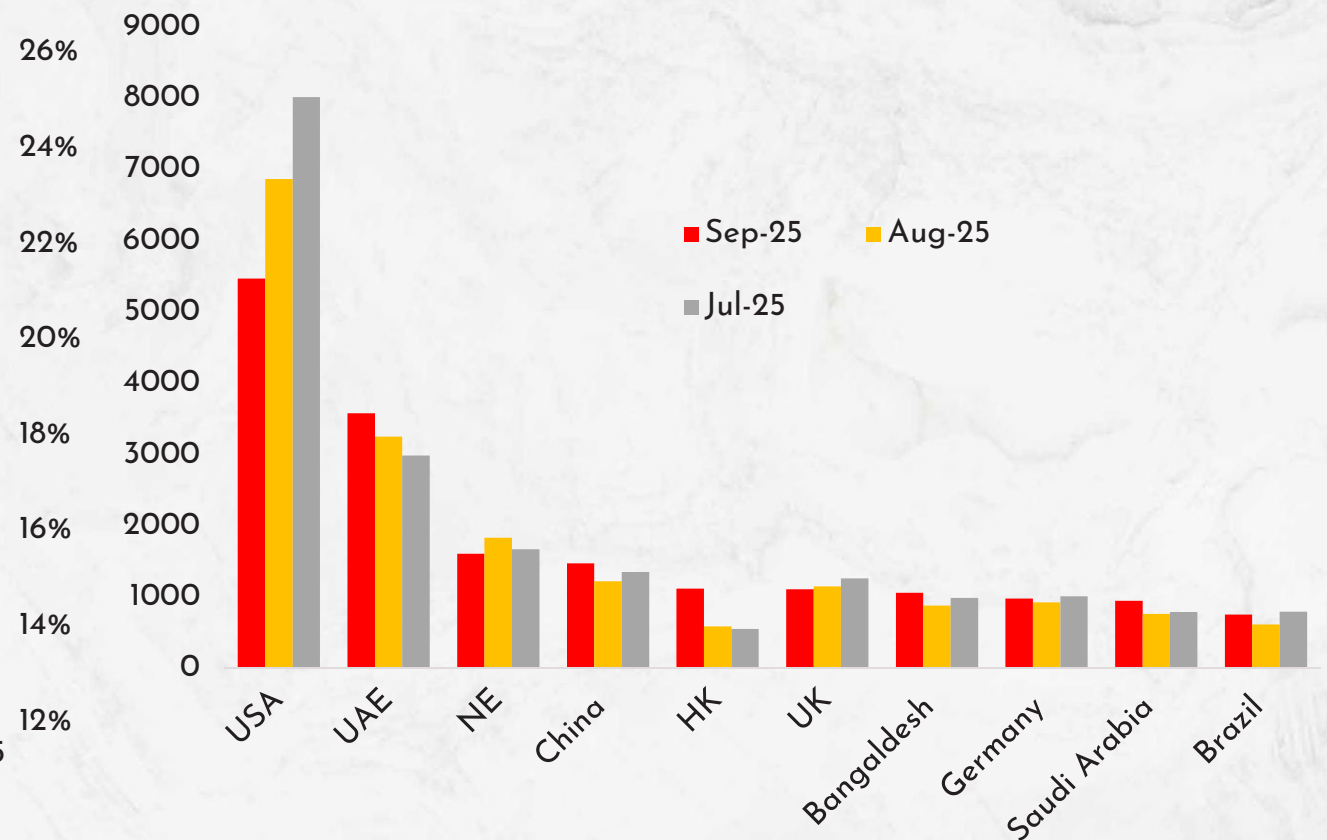
India's exports to US fell further in Sep, but picks up across ASEAN

The month of Sep witnessed further moderation in exports to the US. However, Sep'25 witnessed a rise in exports - both on a monthly and annual basis. Reduced exports to the US has been matched by a pickup in exports to countries like UAE, China, Hong Kong and Saudi Arabia.

India merchandise exports to USA



India's exports to select countries (USD mn)



RBI MPC minutes for Oct hint discomfort around potential change in stance

The minutes of the Oct policy meeting were largely along expected lines, with members pausing on rates given elevated global uncertainty, while awaiting the impact of synchronised policy easing announced so far. Two external members who voted for a shift in stance made a strong case for cutting rates in the forthcoming meeting/s on downside risks to growth from spillovers in delayed trade negotiations, with one of them calling for a pre-emptive easing.

RBI members who voted for a pause cited that a rate cut in the backdrop of heightened global uncertainties may be less effective. **They also cautioned against changing the stance to refrain from explicitly hinting that the rates may only move lower.** These members believed that policy easing may happen even with ongoing neutral stance.

One external member was mildly hawkish and noted that moderation in inflation was not a compelling reason for a rate cut. He noted that the monetary policy has to address multiple and conflicting trade-offs, and he was not inclined towards easing policy at this point.

While most of the members acknowledged space opening up for policy easing, one rate cut in the current cycle appears likely, though the committee is less likely to move to an accommodative stance unless growth conditions deteriorate markedly.

RBI members also noted that given elevated global uncertainty, while also waiting for the impact of past easing policies, committing a stance at this point looked difficult. Bond market participants have started to price in a 25 bps rate cut in the Dec policy meeting, though prospects of a change in stance appears less likely.

India's headline inflation was mildly lower than expected, while the core inflation jumped on account of continued rise in precious metals. We believe that RBI will mostly look through this surge in core inflation. The core inflation excluding the impact of gold & silver stands around 3.1%, and this gives comfort to the monetary policy committee in terms of controlling inflation, and anchoring inflation expectations.

While merchandise exports seem less impacted by the 50% US tariffs, recent slowdown in services exports may result in a wider current account deficit. The pace of FPI flows in domestic equities will be closely watched.

RBI MPC minutes were largely along the lines of policy statement, with most members agreeing upon space opening up for policy easing - aided by benign inflation outlook. The internal members expressed discomfort around changing the policy stance - to prevent markets from misreading rates coming lower faster.

On the markets front, anecdotal evidence show pickup in RBI's FX intervention to limit sharp depreciation in the INR. RBI's defence appears to have picked up since the Oct policy meeting after the statement explicitly noted adopting "appropriate steps as warranted" to limit excess volatility in the currency. Domestic liquidity surplus has moderated on account of RBI's FX intervention along with a pickup in currency in circulation (around festivities), with further tightness likely ahead of monthly GST outflows.

Markets will watch global flash PMIs in the forthcoming week, while India markets are likely to remain ranged as participants might be away for local festivities.

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