Ambitions Unleashed

THE PULSE

JULY 2025

INSIGHTS ON KEY MACROECONOMIC DATA AND EVENTS

"Global trade challenges remain, but the Indian economy holds bright prospects in the changing world order. We have taken decisive and forward-looking measures to support growth."

Sanjay Malhotra, RBI Governor

EXECUTIVE SUMMARY

July saw a lot of tariff deals being finalised with the rates, which were set at a lower level than the initial round in April, but still higher than the baseline of 10%. Tariff on India was surprisingly imposed at 25% plus a penalty for buying Russian crude oil, while for Japan and Korea, it turned out to be softer than expectations. The US Fed, on the other hand, continued with the pause as widely anticipated after the strong labour market data earlier this month. However, the non-committal forward guidance surprised the market that was anticipating rate cut resumption from September. Fed Chair Jerome Powell's statement reflected persistent uncertainty along with lack of any urgency on rate reduction. The Federal Open Market Committee continued to harp on its reading of economic parameters with similar terms used to describe inflation ("somewhat elevated"), unemployment ("low") and labour market ("solid"). The FOMC announcement resulted in higher front-end yields, as market participants dialled down the odds of a September rate cut. Dollar index on the other hand jumped to about 100 levels, rising more than 3% from July-lows on reduced bets for Fed rate cuts this year.

On the domestic front, US tariffs on India were surprising and market is still trying to ascertain the actual macro implications as it remains to be seen whether this will be negotiated down or will stick for longer. Broadly consensus view remains that this will likely be negotiated lower. On the policy front, the monetary policy committee (MPC) voted unanimously to hold policy rates with the stance remaining unchanged at 'Neutral'. Growth forecast remained same, while inflation forecast was revised lower. MPC noted uncertainties around current macroeconomic conditions as they wait for further transmission of front-loaded rate cuts. Market still anticipates rate cuts in the upcoming policies for the calendar year. Meanwhile, our domestic currency saw depreciation pressures on the back of stronger dollar and unfavourable tariff headlines. However, we believe RBI's currency buffers is still at comfortable level and sharp depreciation pressures will likely be met by central bank intervention.

INDIA'S RETAIL INFLATION MOVES CLOSER TO RBI'S LOWER TOLERANCE BAND, WHOLESALE INDEX REGISTERS DEFLATION

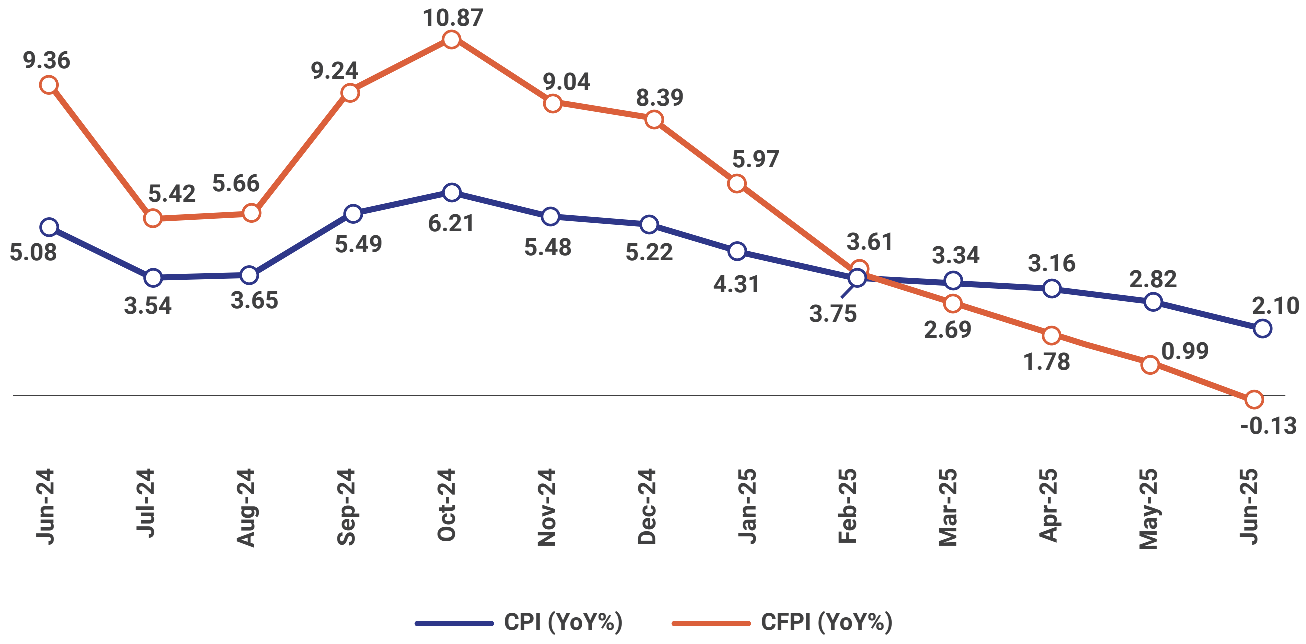
The retail inflation, measured by the change in the Consumer Price Index (CPI), decelerated to near 6.5-year low of 2.1% in June (72 bps MoM drop from 2.82% in May). The RBI's tolerance band for inflation in the medium-term is 2 to 6%. This happened as the food inflation plunged to an over 6-year low of 1.06% YoY in June, reflecting a significant drop of 205 bps from the previous month. The fall in prices of vegetables, cereals, pulses, meat and fish, sugar and confectionery, milk and products and spices attributed to the sharp decline in food inflation. However, core inflation, which excludes volatile sectors, stood at a near 2-year high of 4.43% YoY in June.

Wholesale Price Index (WPI), which measures the changes in prices of goods before reaching the customer, plunged to 20-month low of -0.13% YoY in June driven by deflation in two of the three main components - primary articles, and fuel and power, both accounting for ~35% of the total index. Primary articles index and fuel and power indices recorded a deflation for the third consecutive month in June by (3.38% YoY and 2.65%, respectively) led by fall in prices of food and crude oil. Moreover, the inflation for manufactured products softened to an 8-month low of 1.97% YoY in June, highlighting a subdued increase in prices of most of its components.

Analyst estimates suggest the downward trajectory of retail inflation to continue and decelerate further. The July inflation is expected to breach the RBI's lower band while the FY26 inflation is expected to come significantly below FY25 level (4.6%).

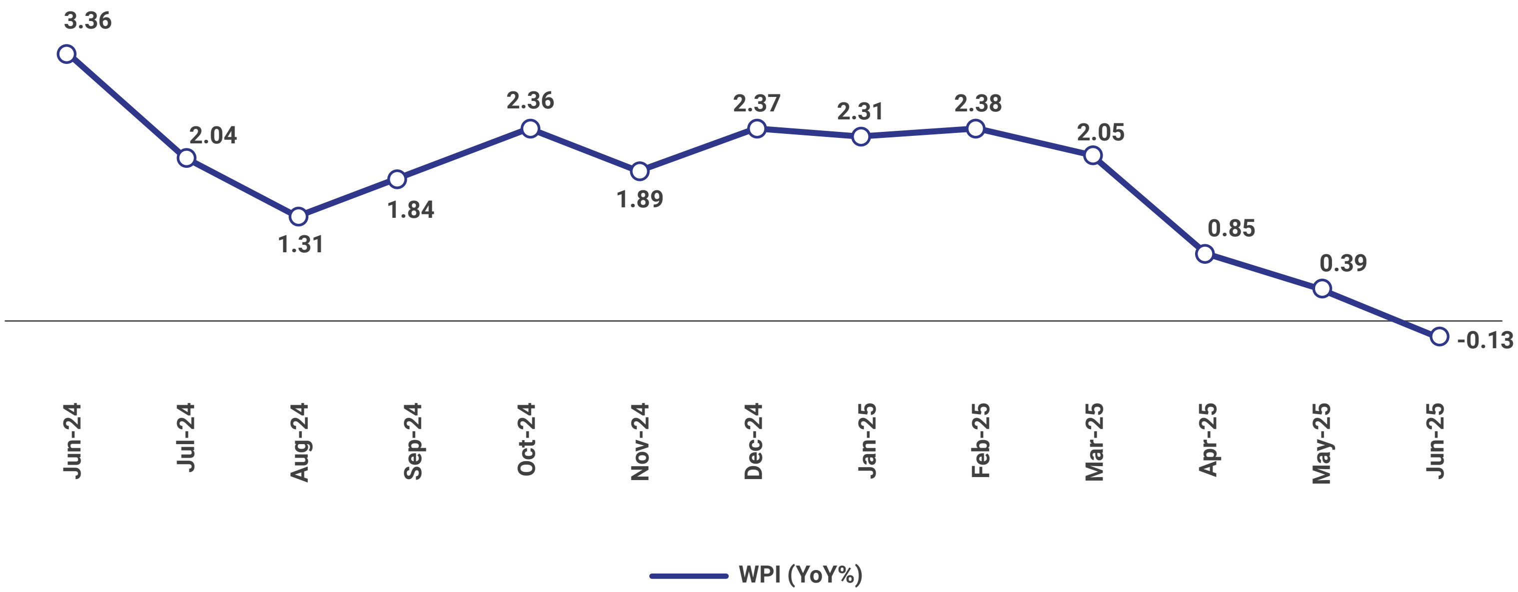
The softening of inflation is attributed to the exceptional foodgrain output in FY25, normal monsoon and higher kharif sowing, so far this year, well supported by moderation in interest rates by the central bank. The economists highlighted the need to monitor the increasing gap between the headline and core inflation to take informed policy measures. The uncertainty around trade and tariffs continue to weigh on the growth outlook.

Retail and Food Inflation (YoY %)



Source: MOSPI

Wholesale Inflation (YoY %)



Source: WPI - Ministry of Commerce and Industry

INDUSTRIAL OUTPUT GROWTH PLUNGES TO 10-MONTH LOW, MAY REMAIN SUBDUED

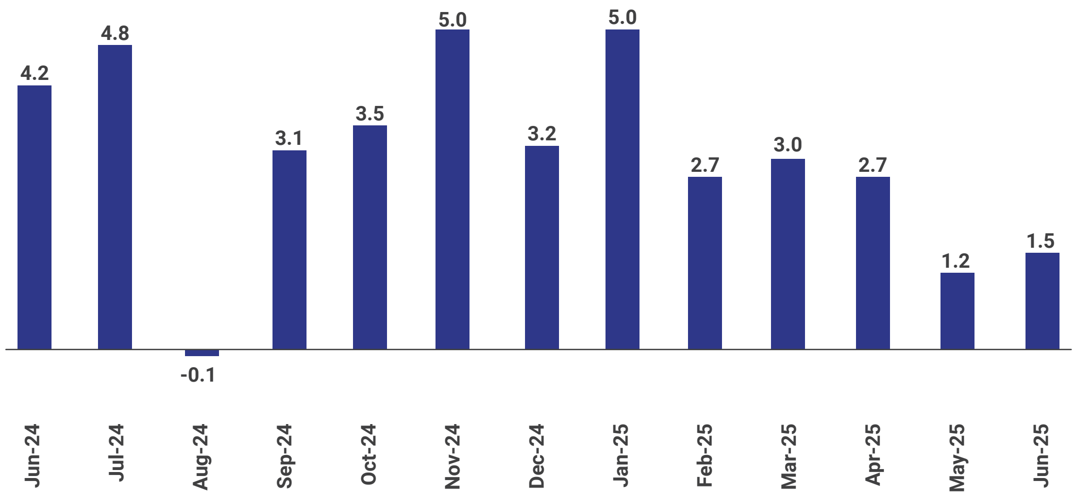
The growth in India's industrial output, which is measured by the Index of Industrial Production (IIP), dropped to a 10-month low of 1.5% YoY in June from an upwardly revised 1.9% in May. The June print came in below the market estimates of 2% and marks the lowest industrial growth since August 2024. This decline is driven by contractions in two of the three core sectors - mining and electricity — due to higher than normal rains in parts of the country.

Mining sector recorded a degrowth of 8.7% YoY, the lowest in nearly 5 years, which could be a seasonal phenomenon due to monsoons. Electricity sector output declined 2.6% YoY in June., which could be attributed to above-normal rainfall in the month.

The manufacturing sector, the largest in the IIP core sectors, recorded a moderate growth of 3.9% YoY in June, the highest in the past 5 months. Within the sector, 15 of 23 industry groups showed positive growth in June. Amid geopolitical uncertainty, manufacturing sector growth is likely to remain subduedin the near term.

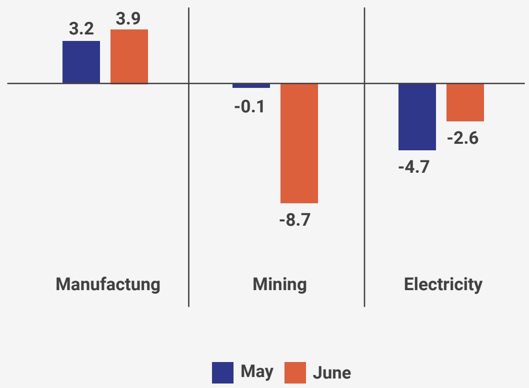
As per the use-based classification, consumer durables sector grew 2.9% in June versus a contraction of 0.9% in May while capital goods sector fell 3.5% in June compared to 13.5% in May. Consumer non-durables remained in the negative territory for the 5th consecutive month with a 0.4% fall in output due to muted demand in urban centres. The primary goods sector recorded its worst performance in 56 months with a 3% decline in June.

Index of Industrial Production, IIP (YoY %)

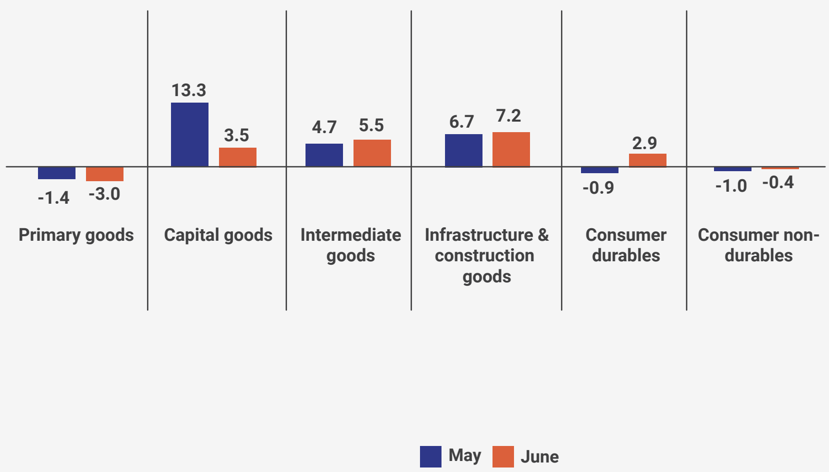


Source: MOSPI

IIP - Core sectors



IIP - by Use Based Classification



Source: MOSPI

US ECONOMY REBOUNDS IN Q2, NET EXPORTS ACT AS A BIG DRIVER

The US economy grew at an annualised rate of 3% QoQ (seasonally adjusted annual rate or SAAR) in Q2 2025 recovering from a contraction of 0.5% in the Q1 2025, as per the advance estimate released by the US Bureau of Economic Analysis. The increase in higher than the anticipated growth of 2.4%. The uptick is primarily driven by a sharp decline of 30.3% QoQ SAAR in imports in Q2 reversing the increase of 37.9% in Q1 and marking the highest non-recessionary decline since 1969 as businesses withdrew purchases due to higher tariffs.

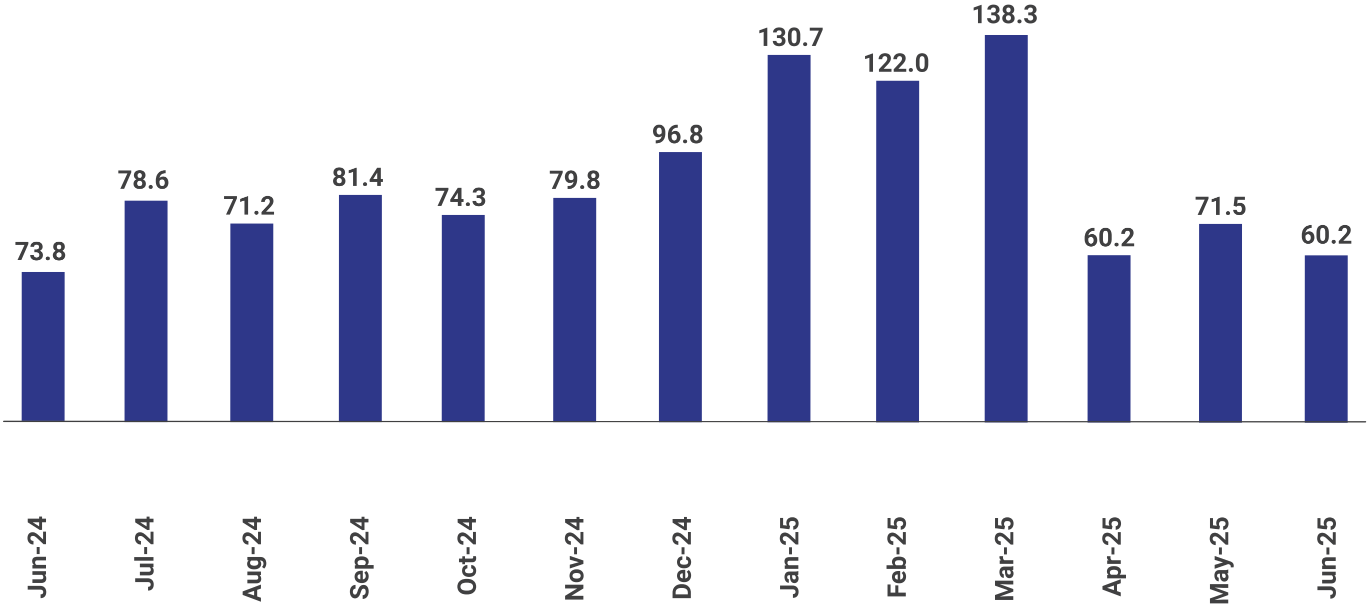
Exports declined at a much lower magnitude (1.8% QoQ vs 0.4% in Q1) than imports due to a fall in demand for cars, consumer products, food and industrial supplies in Q2. This resulted in net exports contributing significantly (5 percentage points) to the overall increase in GDP. Further, consumer spending increased 1.4% in Q2 vs 0.5% in Q1 while government expenditure rebounded to 0.4% in Q2 from -0.6% in Q1.

The sharp drop in imports caused the US trade deficit to fall to a 2-year low of US $60.2 billion in June. Exports fell 0.5% to US $277.3 billion, which was the lowest since January this year. Based on the tariff on imported goods, the trade deficit with China shrank to its lowest level in over 21 years, while the trade gap with EU decreased significantly.

US: Growth in Real GDP (annual rate, %)

Source: Commerce Department

Trade Deficit (US$ billion)



Source: Bureau of Economic Analysis (BEA)

US INFLATION ROSE TO 4-MONTH HIGH, TARIFFS POSE UPSIDE RISKS

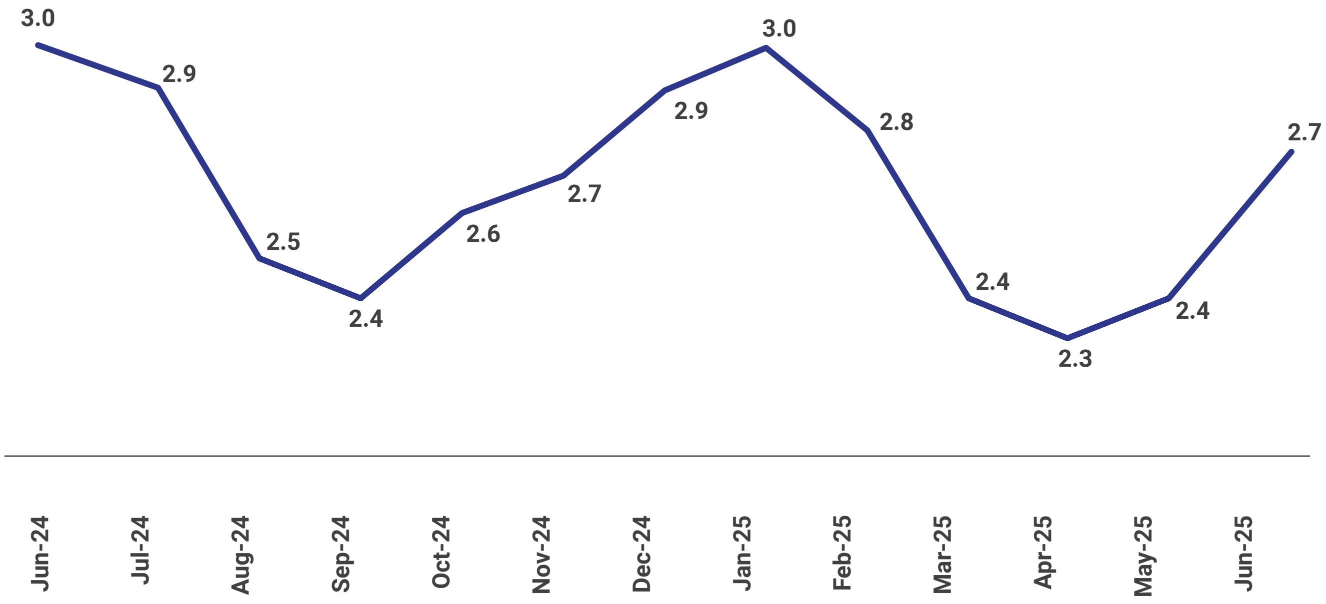
Consumer price inflation in the US quickened for the second consecutive month to a 4-month high of 2.7% YoY in June from 2.4% May and came in line with the consensus estimates. On a seasonally adjusted basis, the consumer price index rose 0.3% MoM in June, the largest increase in five months and in line with the market expectations. This acceleration can be attributed to the rise in prices for food (3% in June vs 2.9% in May), transportation services (3.4% vs 2.8%) and used cars and trucks (2.8% vs 1.8%).

The core inflation, which excludes volatile food and energy and is considered a better gauge of long-term trends by the US Fed, rose slightly to 2.9% in June from 2.8% in May, slightly below the consensus estimates of 3%.

The higher inflation reflected a moderate pass-through from tariffs. However, when new rounds of tariffs are implemented and corporates begin to pass-through on a full scale, inflation is expected to pick up sharply.

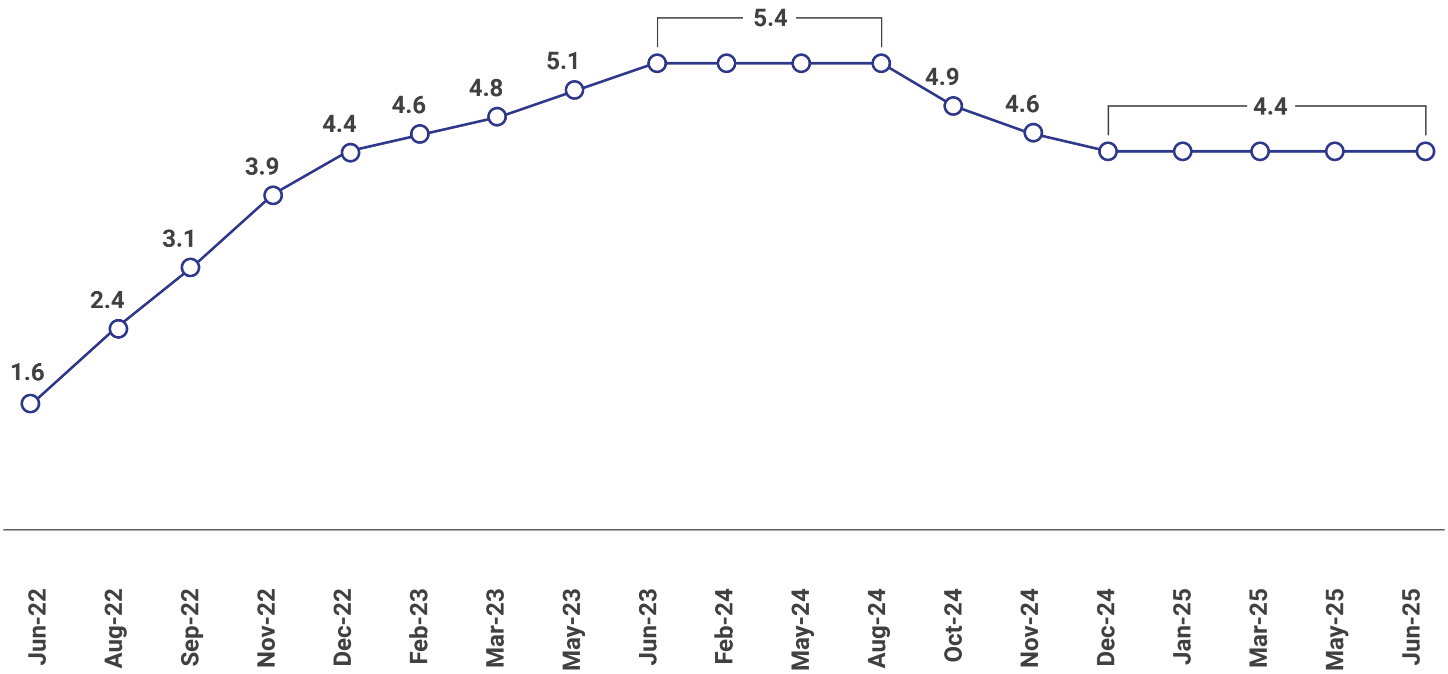
The US Federal Reserve has kept the repo rate steady in a range between 4.25%-4.5%, since December amid expectations of increase in inflation. The Fed Chair Jerome Powell, in his semi-annual testimony at the Capitol hill said, “For the time being, we are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance”.

US CPI (YoY %)



Source: U.S. Bureau of Labor Statistics

Fed Funds Rate (%)



Source: Federal Reserve

US IMPOSES STEEP TARIFFS ON INDIAN IMPORTS, WHAT LIES AHEAD?

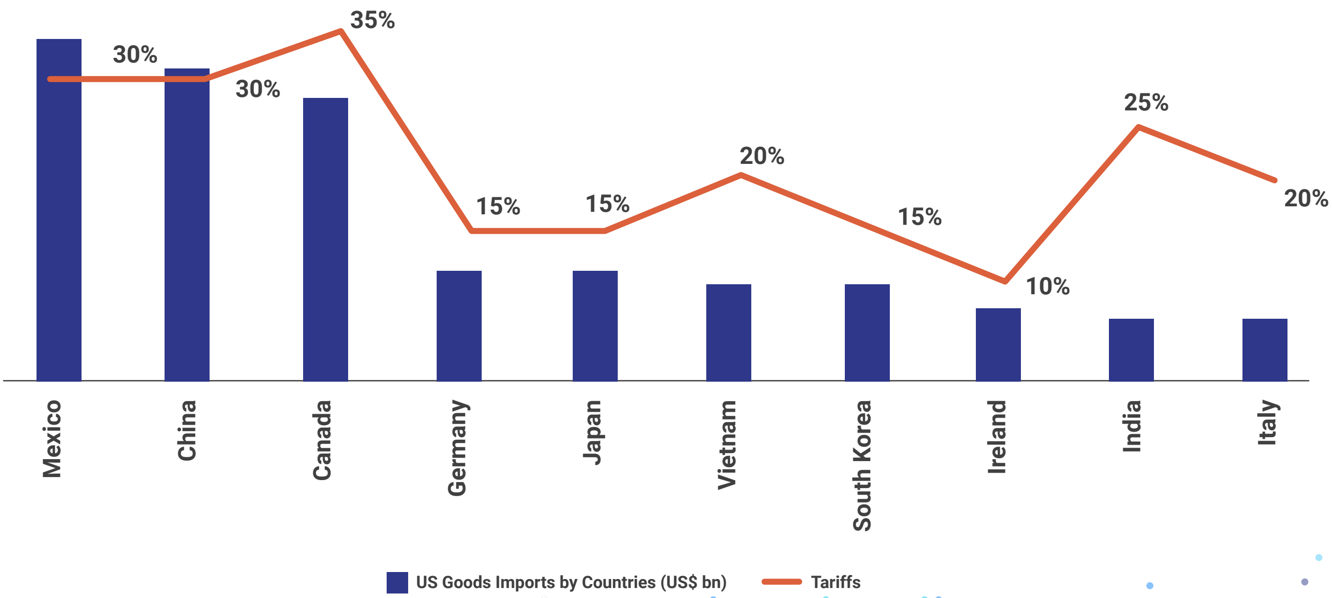
US President Donald Trump announced a steep 25% tariff on Indian imports with effect from August 7, 2025, while raising tariffs for over a dozen countries. He also mentioned imposing an unspecified 'penalty' on India's energy dealings and defence ties with Russia. While the imposition of higher tariffs may not last long un till both countries arrive at a negotiated trade deal, its impact on Indian exports to the US could be pronounced, partially offset by the recent depreciation of INR.

The US imported US$91 billion worth of goods in 2024, with electricals, gems and stones, and pharmaceuticals being the top product categories. In the first quarter of fiscal 2026, Indian exports to the US rose significantly by 22% YoY to US$4.7 billion, while non-US exports fell 2.9% YoY due to front-loading led by anticipation of higher tariffs.

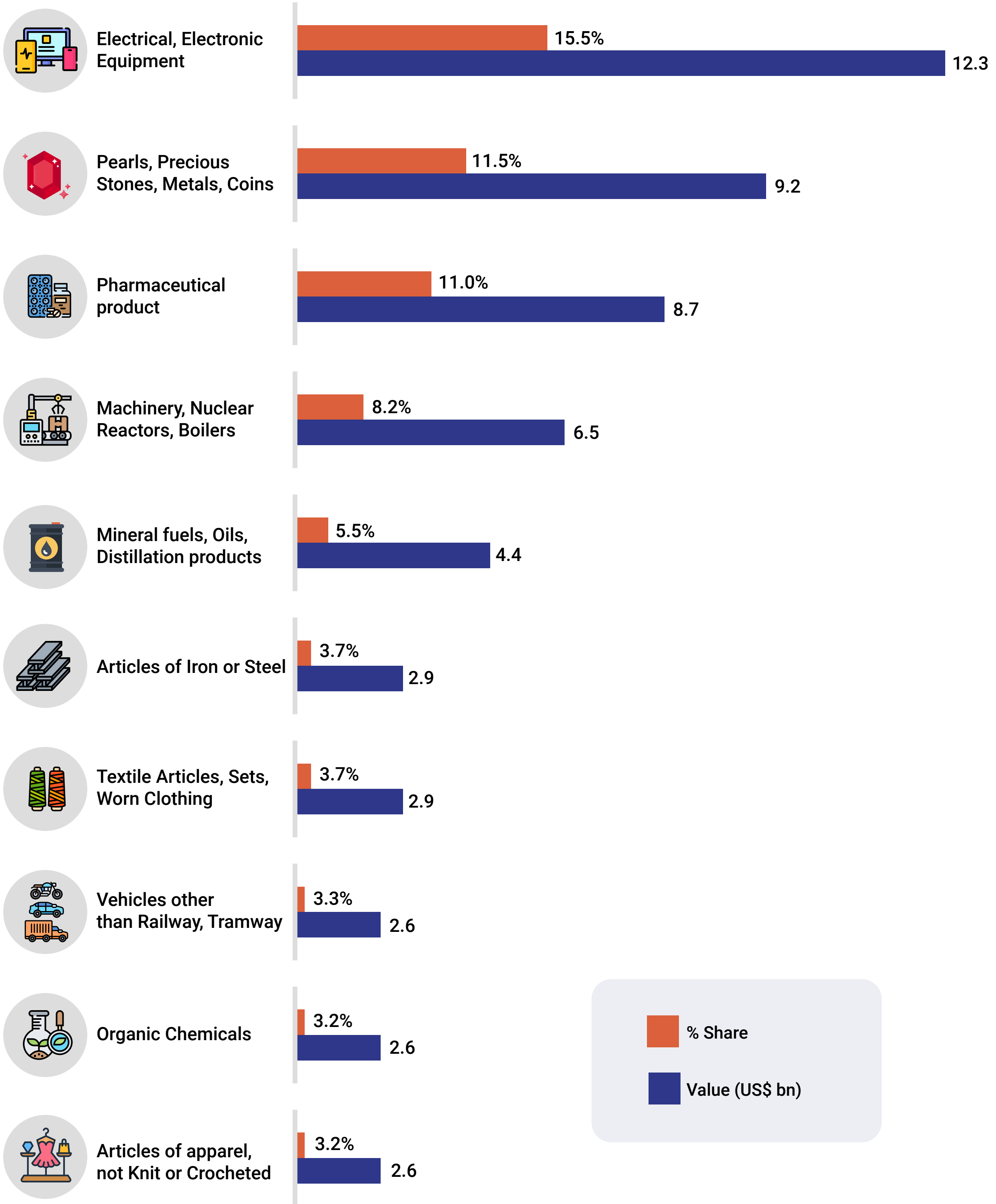
Except for Mexico, China, and Canada, other exporting countries to the US in the top 10 list now face lower tariffs than India, including Germany, Japan, Vietnam, South Korea, etc. Concerns for the sector, like Textiles, are higher as the export supply chains in the sector may move to competing countries with lower tariffs, like Pakistan, Bangladesh, and Vietnam. In total, about US$4 billion worth of textile exports may be hit due to higher tariffs.

With a hit in exports, India's GDP may get impacted, at least for the short term, as per think tanks across the world. Goldman Sachs reduced the growth forecast to 6.5% for 2025 (a 0.1 percentage point cut from the earlier estimate) and 6.4% for 2026 (down 0.2 percentage points YoY), due to US tariffs. Meanwhile, Nomura projected a 0.2% impact on GDP due to the same. The Reserve Bank of India, in its earlier monetary policy committee meeting, lowered the growth forecast for FY26 from 6.7% to 6.5% citing global uncertainties, prolonged geopolitical tensions, and volatility in global markets.

US Goods Imports & Tariffs (2024)



India: Top 10 Exported Goods to US (2024)



Purchasing Manager's Index

Manufacturing:

Countries	June 2025	May 2025
India	58.4 ↑	57.6
US	52.6 ↑	52.0
UK	47.7 ↑	46.4
Eurozone	49.5 ↑	49.4
China	50.4 ↑	48.3
Japan	50.1 ↑	49.4

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Services:

Countries	June 2025	May 2025
India	60.4 ↑	58.8
US	52.9 ↓	53.7
UK	52.8 ↑	50.9
Eurozone	50.5 ↑	49.7
China	50.6 ↓	51.1
Japan	51.7 ↑	51.0

Note: A reading below 50 indicates contraction and above indicates expansion in output.

Monthly Data Snapshot

Currencies

	31 Jul	30 Jun
EUR/USD	1.14	1.18
GBP/USD	1.32	1.37
USD/INR	87.50	85.69
USD/CNH	7.21	7.16
1y Forward Premia (%)	1.98	1.97

US Bond Yields (%)

	31 Jul	30 Jun
US 30-yr Treasury	4.89	4.78
US 10-yr Treasury	4.36	4.23
US 2-yr Treasury	3.95	3.72

Commodities (US$)

	31 Jul	30 Jun
Crude Oil (per barrel)	72.53	67.61
Natural Gas (per MMBtu)	2.99	3.26
Gold (per ounce)	3,290	3,304
Silver (per ounce)	36.76	36.10
Copper (per pound)	4.38	5.03

Source: Refinitiv