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# THE PULSE

September 2025

INSIGHTS ON KEY MACROECONOMIC DATA AND EVENTS



Gold is money. Everything else is credit.



J.P. Morgan

## EXECUTIVE SUMMARY

The US FOMC reduced the policy rate by 25 basis points (bps), resuming its rate cut cycle after the 100-bps reduction last year. This came on the back of weaker labour market conditions as the Fed juggles with its dual mandate. It is noteworthy that inflation pressures are currently higher compared to a year ago, and long-term interest rates have seen sharp selloffs as well. Resumption of the rate cut cycle has its own risk, which was highlighted by the Chair Powell in his statement when he mentioned that it is not obvious what needs to be done currently. Broadly, all members are aligned on two more rate cuts this year, while the view for next year was not so unanimous. Markets were quick to price three more cuts next year with the terminal rate at 3% post-policy. There are still risks owing to a series of government policies on inflation, the labour market, tariffs, immigration crackdown, and tax cuts. The impacts of all these policies are yet to be seen in real headline prints, and the US Fed is likely to be mindful before moving in aggressively. Elsewhere, the European Central Bank (ECB) paused after eight rate reductions of 200-bps in this cycle, signalling that the economy is in a state of equilibrium. The Bank of England (BoE) also held rates in line with market expectations.

On the domestic front, the Reserve Bank of India (RBI) Monetary Policy Committee (MPC) unanimously held rates as widely expected and maintained its neutral stance (two members dissented for a change in stance to 'Accommodative'). The RBI Governor highlighted the opening of space for further monetary easing; however, he held back currently to see the impact of front-loaded easing, the fiscal situation on the back of GST cuts, and the uncertain trade environment with respect to tariffs. There were numerous other announcements on easing regulations as the RBI prioritised ease of doing business to support growth, with measures welcomed by the market. Benign inflation continues to be supportive for RBI policy; however, macroeconomic environment uncertainty is a dampener with currency facing the heat on wobbly sentiment and capital outflow. The upcoming policy certainly has space for cuts; however, MPC will be data-dependent, and growth risks will be closely watched in the months ahead.

## INFLATION IN INDIA REBOUNDS, CPI QUICKENS, WPI RISES TO A 4-MONTH HIGH

India's retail inflation, which is measured by the change in the Consumer Price Index (CPI), rose to 2.07% YoY in August from 1.55% in July. This is the first time since November 2024; inflation accelerated on a monthly basis driven by fading base effects. Even with the uptick, inflation remained below the RBI's medium-term target of 4% for the seventh consecutive month. The average inflation for FY26 till date stood at 2.34%, down 203 basis points from the same period in FY25.

Food inflation, the largest component of the Consumer Price Index (CPI) and the driving force behind the fall in retail inflation, recorded the third consecutive month in a negative territory. However, the deflation narrowed to -0.69% YoY in August from -1.76% in July, accelerating retail inflation. Within the food basket, the prices for tomatoes increased sharply by 16% YoY in August. Other food items that contributed towards an uptick are oils and fats (21.24% YoY), meat and fish (1.48%), and eggs (3.12%). Core inflation, which excludes volatile prices of food and energy, remained steady at 4.1% YoY in August.

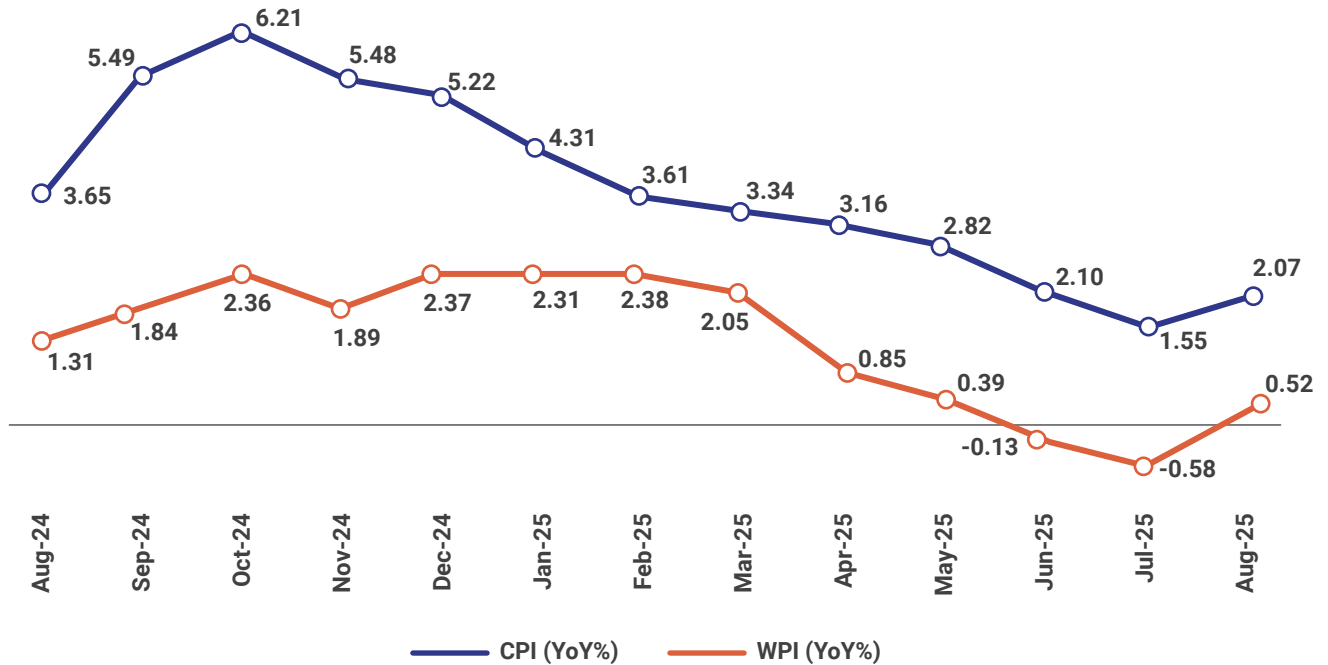
The uneven and above normal monsoon can drive up the prices of vegetables, fruits, cereals, and pulses leading to an increase in inflation in September. However, this will likely be offset by the rationalisation in GST which is expected to reduce the prices of food items such as milk products, oil products, bread, packaged meals, and some non-alcoholic beverages.

Wholesale inflation rose to a 4-month high of 0.52% in August marking a move out of two consecutive months of deflation. The positive inflation print can be attributed to an increase in prices of food products, other manufacturing, non-food articles, other non-metallic mineral products, and other transport equipment. The average inflation for FY26 till date stood at 0.19% compared to 2.1% during the same period in FY25.

Inflation for manufactured products, the largest component in the WPI basket, increased to 2.55% YoY in August from 2.05% YoY in July. While primary article index decelerated for the fifth consecutive month to -2.1% YoY in August from -4.95% YoY in July. Inflation for fuel and power decelerated to -3.17% YoY in August from -2.43% YoY in July driven by decrease in prices of mineral oils (-4.72% YoY) and electricity (to a 6-month low of -1.1% YoY in August).

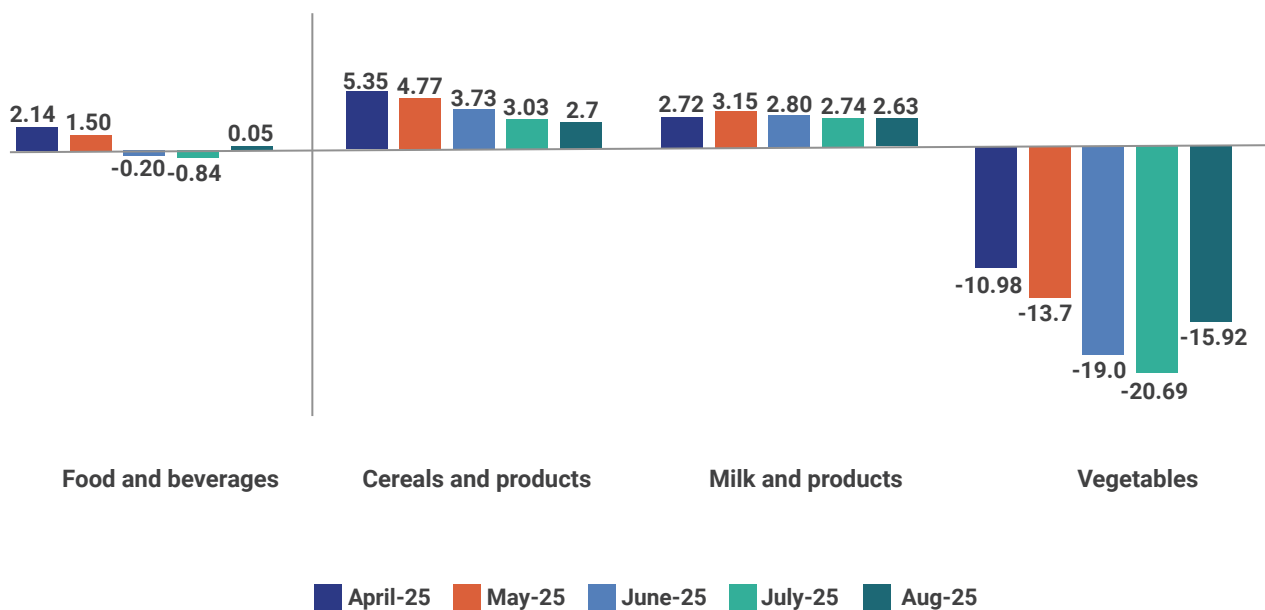


### Retail and Wholesale Inflation



Source: CPI – MOSPI; WPI - Ministry of Commerce and Industry

### Retail inflation - Food Inflation and its Sub-Components



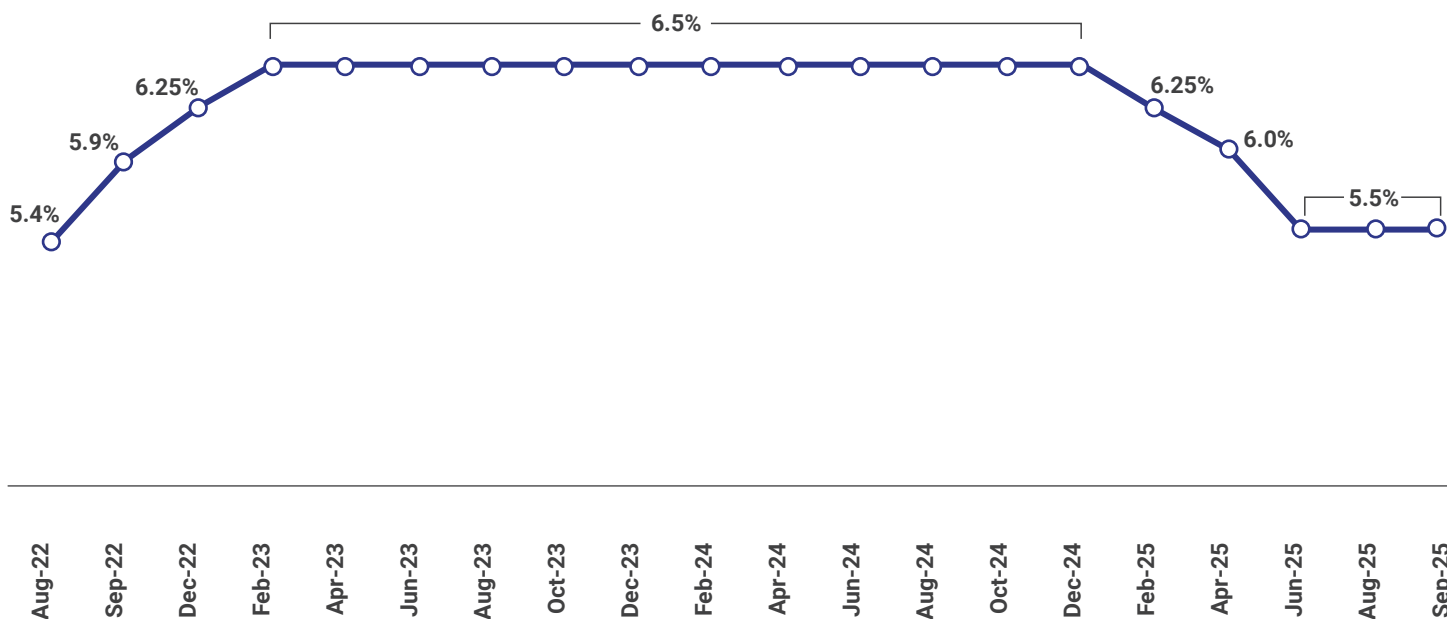
Source: CPI – MOSPI

## RBI MAINTAINS STATUS QUO, ANNOUNCES MEASURES FOR BANKS

While there is slight uptick in inflation, the Reserve Bank of India, unanimously decided to keep the policy rate unchanged at 5.5% in September for the second consecutive time following a cumulative 100-basis point rate cut earlier this year, in its fourth bi-monthly monetary policy committee meeting. To monitor the evolving economic conditions while supporting growth, the MPC decided to retain the 'Neutral' stance.

The central bank has increased the GDP forecast for FY26 to 6.8% in September from 6.5% earlier. While the inflation forecast has been reduced to 2.6% in September from the previous estimate of 3.1%. The quarterly revisions in real GDP growth and Inflation forecasts announced by the RBI Monetary Policy Committee are as follows.

**RBI Repo Rate Trajectory**



Source: Minutes of monetary policy committee meetings, RBI

### GDP Forecast

| Period | Previous | Current |
|--------|----------|---------|
| Q2FY26 | 6.7%     | 7.0% ↑  |
| Q3FY26 | 6.6%     | 6.4% ↓  |
| Q4FY26 | 6.3%     | 6.2% ↓  |
| FY26   | 6.5%     | 6.8% ↑  |
| Q1FY27 | 6.6%     | 6.4% ↓  |

### Inflation Forecast

| Period | Previous | Current |
|--------|----------|---------|
| Q2FY26 | 2.1%     | 1.8% ↓  |
| Q3FY26 | 3.1%     | 1.8% ↓  |
| Q4FY26 | 4.4%     | 4.0% ↓  |
| FY26   | 3.1%     | 2.6% ↓  |
| Q1FY27 | 4.9%     | 4.5% ↓  |

RBI also proposed few key measures to enhance the competitiveness of the banking sector, which includes:

- **Corporate buyouts:** The central bank has allowed banks to finance acquisitions by Indian corporates, a segment which is served by non-banking financial companies (NBFCs), private equity firms, private credit funds, etc. Banks have earlier urged the central bank to allow the financing as credit as credit flow to the industry has been sluggish lately.
- **Capital market lending:** RBI will lift the regulatory ceiling on loans against listed debt securities. The limit will rise from INR 20 lakh to INR 1 crore per person, while the same for IPO financing will increase from INR 10 lakh to INR 25 lakh per person.
- **Withdrawal of 2016 framework:** RBI has withdrawn the 2016 framework that restricted bank from lending to a borrower beyond a certain threshold (above INR 10,000 crore), due to concerns on concentration risk from aggregate credit exposure to a single large corporate. However, the large exposure framework will continue that set limits on credit exposure of individual banks to a single borrower or a group of connected borrowers.
- **Infrastructure financing:** RBI has reduced the risk weights for NBFCs for lending to operational and high-quality infrastructure projects, aimed at lowering financing costs.

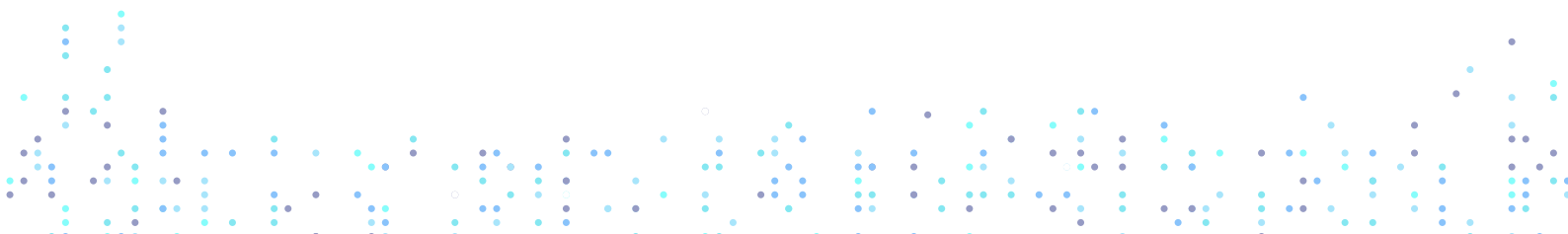
Other measures include applying the Expected Credit Loss (ECL) framework to all scheduled commercial banks and All India Financial Institutions (AIFIs) and revised Basel III norms for commercial banks from April 1, 2027, as well as rationalising key provisions related to External Commercial Borrowing under FEMA regulations.

## INDIA'S INDUSTRIAL OUTPUT GROWTH MODERATES DUE TO MANUFACTURING-LED SLOWDOWN

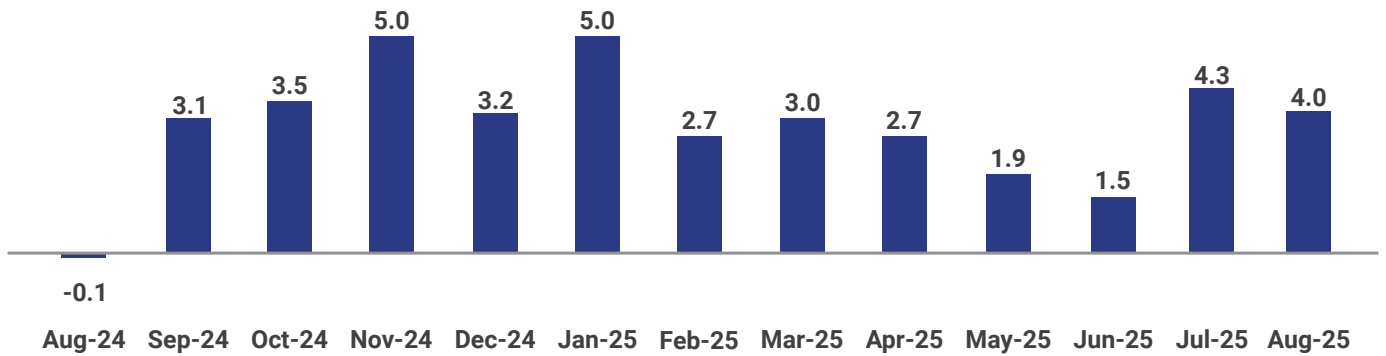
The growth in India's industrial output, which is measured by the Index of Industrial Production (IIP), eased to 4% YoY in August from an upwardly revised 4.3% in July. This slowdown can be attributed to slowdown in manufacturing sector, and deceleration in growth of consumer durables/non-durables, capital goods, intermediate goods, and infrastructure goods. The average IIP growth for FY26 till date stood at 2.9% compared to 4.3% during the same period in FY25.

The growth in manufacturing sector, the largest in the IIP basket, fell sharply to 3.8% YoY in August from 6% in July due to decline in the output of 13 out of 23 industry groups. On the other hand, electricity output growth rose to a 5-month high of 4.1% YoY in August and mining sector output grew to 6% YoY in August, recording its first positive growth in four months. By use-based classification, primary goods reported the strongest growth of 5.2% YoY in August, which was a 7-month high.

Looking ahead, the manufacturing output is expected to rebound in September – October driven by consumption demand during festive season resulting from GST rationalisation.

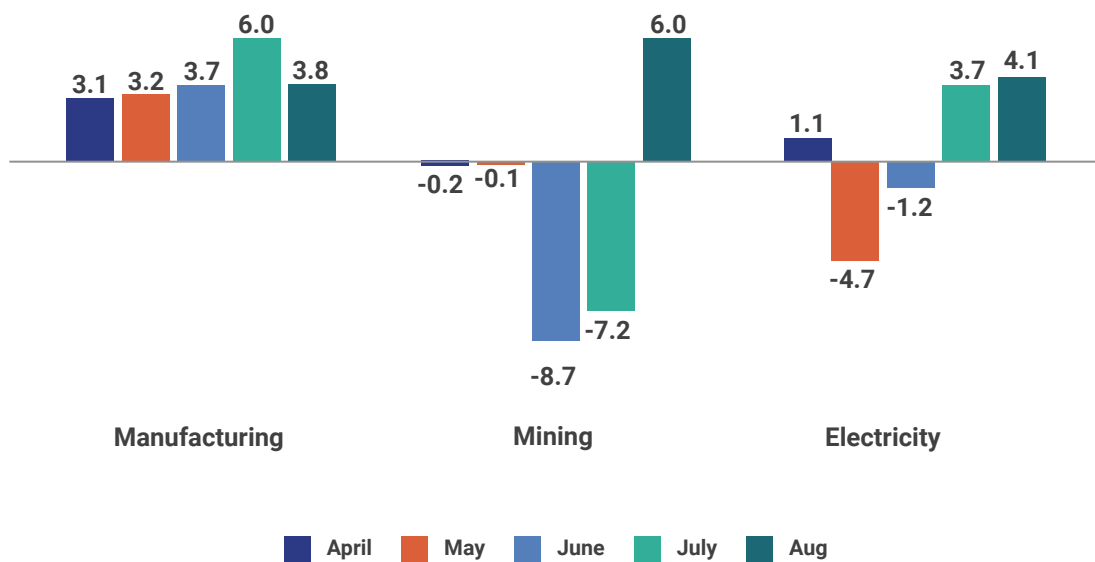


## Index of Industrial Production, IIP (YoY %)



Source: MOSPI

## IIP Core sectors



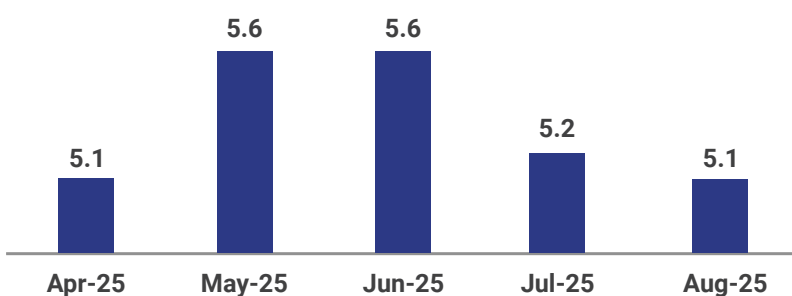
Source: MOSPI

## UNEMPLOYMENT RATE IN INDIA AT A 4-MONTH LOW

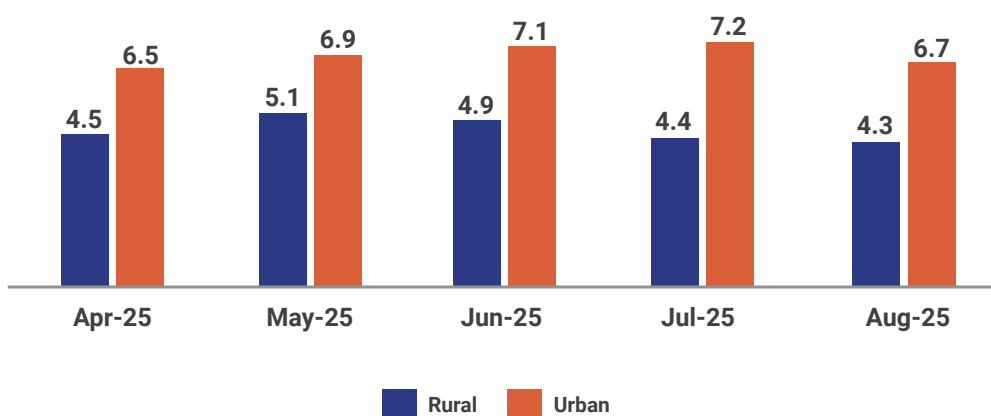
The unemployment rate in India declined to a 4-month low of 5.1% in August according to the Periodic Labour Force Survey Monthly Bulletin for August 2025, marking the second consecutive month of decline. Rural unemployment fell to its lowest in FY26 till date at 4.3% while urban employment declined to a 4-month low of 6.7%. The Periodic Labour Force Survey (PLFS) was revamped and moved from quarterly to monthly estimates with an aim to provide more granular and timely data using Current Weekly Status (CWS) approach where a person is considered unemployed if he/she did not work during the reference week.

However, the labour force participation rate (LFPR), which is measured as a percentage of people in the labour force i.e., the people who are working, seeking or are available for work, grew marginally to 55% in August from 54.9% in July driven by various employment initiatives by the Centre

**Overall Unemployment Rate (%) - Current Weekly Status (CWS) Approach**



**Unemployment Rate (%) - Current Weekly Status (CWS) Approach**

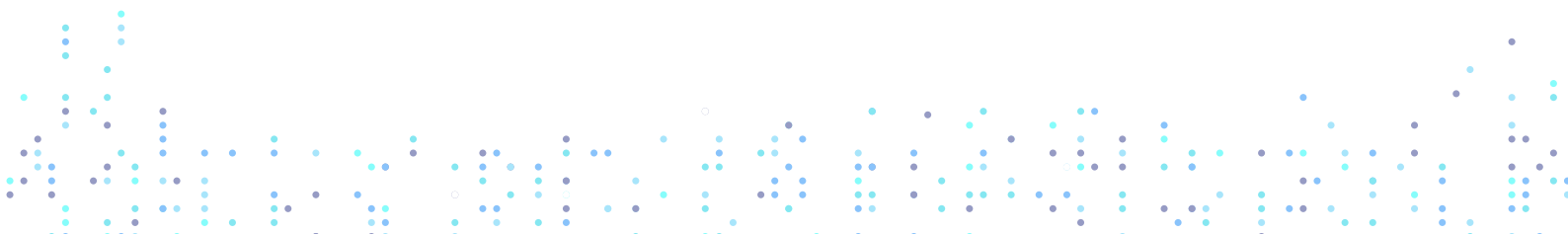




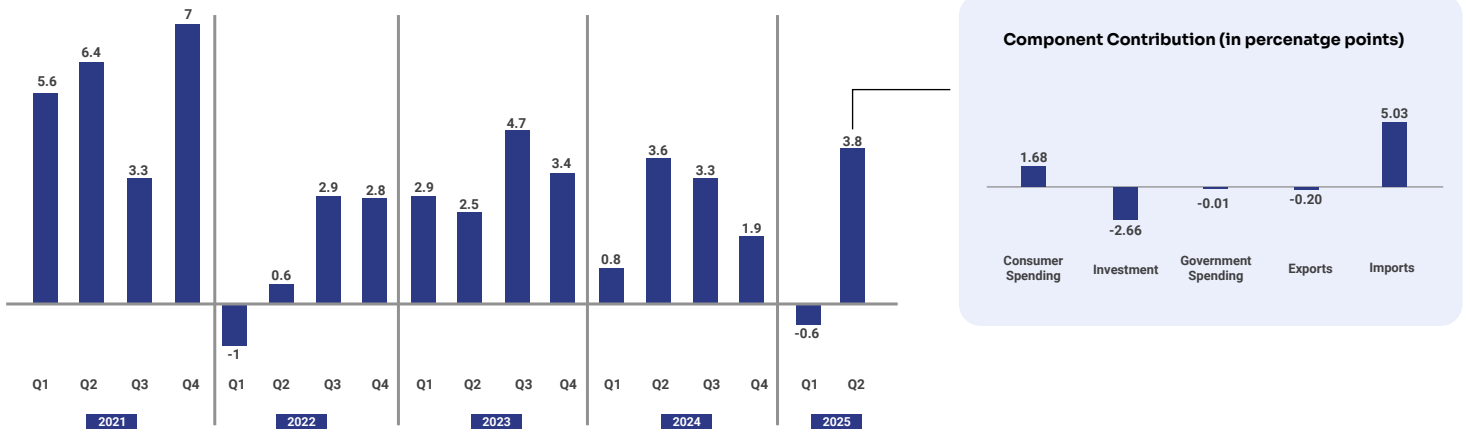
## US ECONOMY GREW AT THE QUICKEST PACE IN SEVEN QUARTERS

The US GDP increased at an annualized rate of 3.8% QoQ in Q2 2025 recovering from a contraction of 0.6% in Q1 2025 and came in above the previous estimates of 3.3% and 3%, respectively. This marks the strongest growth in GDP since Q3 2023 driven by an increase in consumer spending that accounts for nearly two-third of the economic output. Personal consumption expenditure grew at an annualized pace of 2.5% followed by spending on services that increased to 2.6%.

However, there is a slowdown in the US labour market, and the consumer sentiment is declining. The unemployment rate in the US grew to a near 4-year high of 4.3% in August. The labour force participation rate increased to 62.3%. The U-6 unemployment rate, which includes inactive workers currently not seeking employment and those working part-time for economic reasons, rose to 8.1% in August from 7.9% in July. The US Federal Reserve, for the first time in 2025, voted for a rate cut by 25 basis points in the Federal Open Market Committee (FOMC) meetings in September and indicated further rate cuts before the year ends. The benchmark interest rate has been lowered to 4.00%-4.25% range. Economists expect the US economy to slowdown in the second half of the year citing trade policy uncertainty.

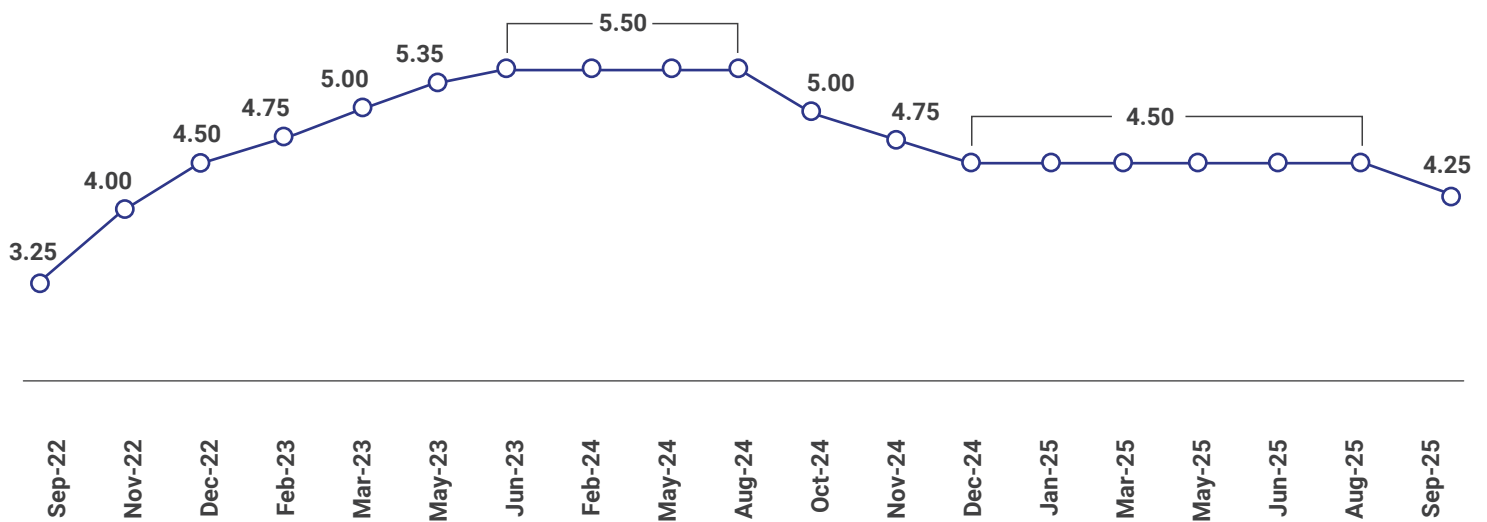


### US: Growth in Real GDP (annual rate, %)



Source: Commerce Department

### Fed Funds Rate (%)



Source: Federal Reserve

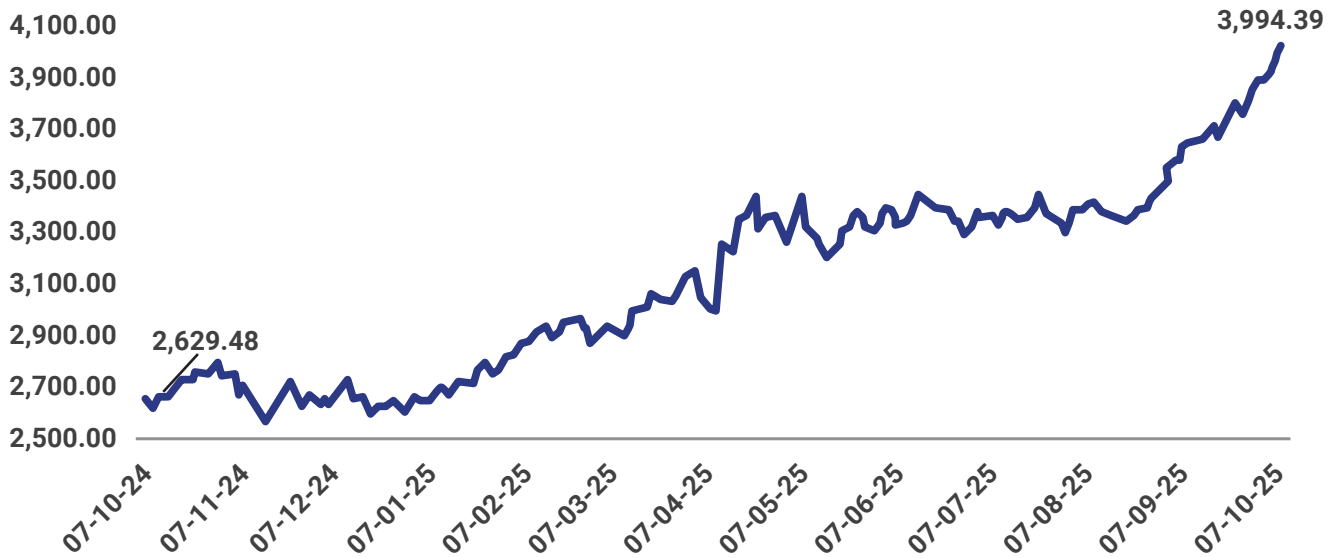
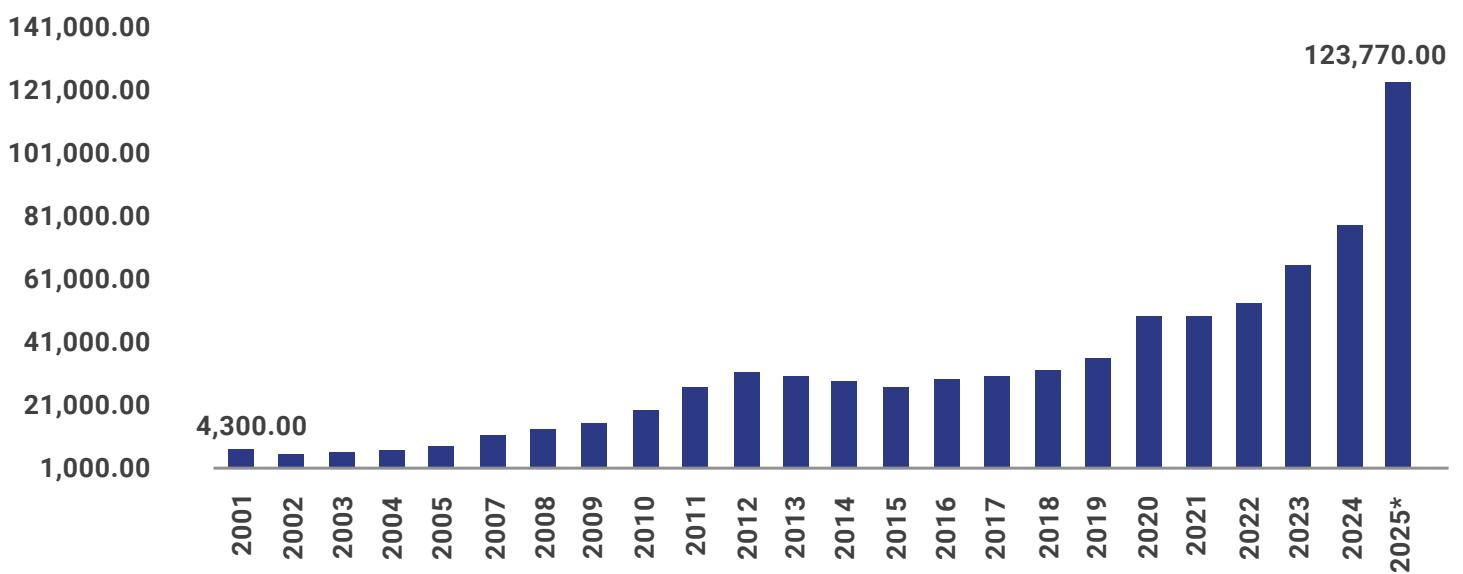
## GOLD PRICES HIT CONTINUOUS RECORD HIGHS, RALLY EXPECTS TO CONTINUE

Gold prices have been hitting record highs and are on track to record a third straight year of double-digit gains. This year, the yellow metal rallied the most since the 1970s due to a continuous upswing since April clocking a year-to-date rise of ~49% while hitting over US\$4,000 (both spot & futures) on October 7. Broadly, there are three factors that are affecting the gold price movement at the global and local fronts –

- **US rate expectations:** The US Federal Reserve cut benchmark interest rates by 25 basis points in the September meeting to 4.0–4.25%, citing an unexpected slowdown in the labour market. It followed the hint for the beginning of a monetary policy easing cycle at the August Jackson Hole symposium. Gold prices and US interest rates have an inverse relationship. As a result, the rally led by the Jackson Hole symposium gained momentum with the September meeting outcome and with the majority of the US Fed hinting at two more rate cuts by the end of this year.
- **Speculative investor demand:** While gold is hoarded as a store of value at times of market uncertainty and for cultural reasons, mainly in China and India, this time western investors joined the bandwagon, but in gold-backed exchange-traded funds (ETFs). By the end of the third calendar quarter, global gold ETFs' total assets under management (AUM) jumped 23% QoQ to US\$472 billion as September witnessed the largest monthly inflow. As per World Gold Council trade association, a record US\$64 billion has been invested in gold ETFs so far this year. The momentum is expected to continue with strong fundamentals supporting the rally.
- **Indian gold prices:** At the home front, weakening of INR against USD is putting additional pressure on gold prices along with the rise in global prices. Higher prices increase the cost of imports. With the demand remaining firm, gold imports rose from US\$1.8 billion in June to US\$4 billion in July (however, it reduced ~57% YoY to US\$5.4 billion in August).

The uncertainty regarding global trade war has eased to some extent with the US agreeing to a trade deal with the EU and Japan, and Russia-Ukraine conflict waning at the margin. This might have resulted in a lower demand for gold as a safe-haven instrument. The upside risks owing to US monetary policy, recessionary concerns, and higher investor demand will continue to play as a tailwind for gold prices. The momentum might further gain if there is an escalation in geo-political tensions.



**Gold Spot Prices (XAU/US\$)****Domestic Gold Prices (INR-24 Karat per 10 Gm)**

\*2025 prices are as of Oct 7

## INDIAN RUPEE ON A FREEFALL, DOWNWARD BIAS PERSISTS

The Indian rupee recorded its 5th consecutive monthly fall against the U.S. dollar, hitting a record low at 88.7875, its weakest closing ever, on September 30. The downfall was inevitable as trade tensions between the US and India escalated, causing significant capital outflows. Till the end of September, foreign institutional investors (FII) pulled out approximately INR 60,000 crore from equity and debt markets, which led to more demand for dollars.

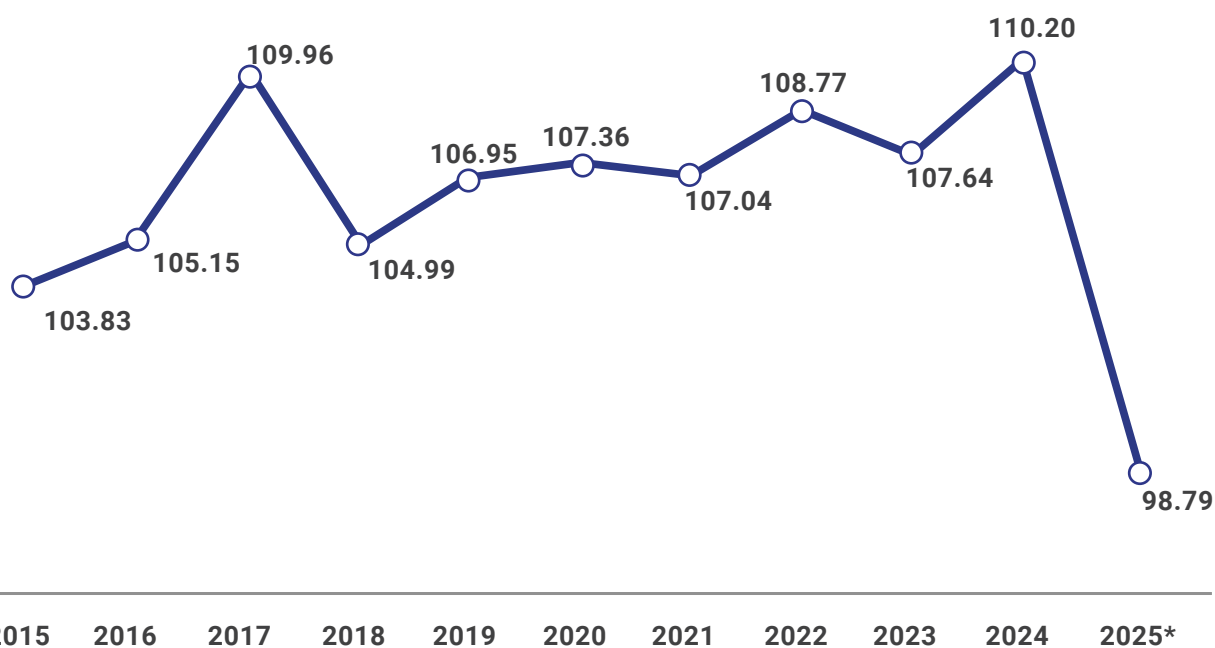
Secondly, elevated government borrowing due to escalating fiscal deficit puts upward pressure on the rupee. In August 2025, the fiscal deficit reached 38.1% of the full-year target, amounting to INR 5.98 lakh crore during April-August 2025, up from INR 4.35 lakh crore in the same period of the previous year, led by higher capital expenditure on infrastructure and a fall in net tax revenue.

The third factor is the country's trade deficit that remains higher, despite falling lately, due to higher reliance on imports of certain products like crude oil and it could escalate if the effects of the US tariffs are unfavourable. In August 2025, India's merchandise trade deficit stood at US\$26.49 billion, lower than US\$27.35 billion in July 2025.

Besides the dollar exchange rate, the fall in the rupee can be quantified using the Effective Exchange Rate (EER), which measures the value of the rupee (or any currency) against the weighted average of several foreign currencies divided by a price deflator or index of costs. There are two calculations of EER - **Nominal Effective Exchange Rate (NEER)**, which measures the value of the rupee against a basket of 6 key currencies (dollar, euro, yuan, pound, yen, and Hong Kong dollar), and another against a basket of 40 currencies that collectively account for nearly 88% of India's trade. An NEER above 100 indicates an appreciation, while a value below 100 indicates depreciation.

The second calculation of EER is the **Real Effective Exchange Rate (REER)**, which provides a true picture of the actual competitiveness of Indian goods in the global market. REER measures the rupee against a basket of 40 trading-partner currencies, adjusted for inflation. REER depicts the actual rate of over / under valuation because if the INR depreciates against foreign currencies but inflation in India is higher than that of its trading partners, then the rupee can appreciate in "real" terms. A REER above 100 denotes overvaluation and below 100 implies undervaluation. As of July, the REER of INR declined to 98.79, the lowest since February 2019.

The domestic inflation is a critical factor for assessing the rupee's value under REER. The retail inflation in India is hovering around 2% since June 2025, while the Reserve Bank of India refrained from lowering the repo rate due to a watchful outlook on the uncertainties related to tariff disputes and other global risks. However, the inflation forecast has been lowered to 2.6% for FY26 due to the expected positive impact of GST reduction, stabilizing foodgrain prices, favourable monsoon, among other factors.

**Real Effective Exchange Rate (INR)**

\*As of July 2025

## Purchasing Manager's Index

## Manufacturing:

| Countries | Aug 2025 | July 2025 |
|-----------|----------|-----------|
| India     | 59.3 ↑   | 59.1      |
| US        | 53.3 ↑   | 49.8      |
| UK        | 47.3 ↓   | 48.0      |
| Eurozone  | 50.7 ↑   | 49.8      |
| China     | 50.5 ↑   | 49.5      |
| Japan     | 49.7 ↑   | 48.9      |

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

## Services:

| Countries | Aug 2025 | July 2025 |
|-----------|----------|-----------|
| India     | 62.9 ↑   | 60.5      |
| US        | 54.5 ↓   | 55.7      |
| UK        | 54.2 ↑   | 51.8      |
| Eurozone  | 50.5 ↓   | 51.0      |
| China     | 53.0 ↑   | 52.6      |
| Japan     | 53.1 ↓   | 53.6      |

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

## Monthly Data Snapshot

## Currencies

|                       | 30-Sep | 29-Aug |
|-----------------------|--------|--------|
| EUR/USD               | 1.17   | 1.17   |
| GBP/USD               | 1.34   | 1.35   |
| USD/INR               | 88.81  | 88.14  |
| USD/CNH               | 7.13   | 7.12   |
| 1y Forward Premia (%) | 2.31   | 2.19   |

## US Bond Yields (%)

|                   | 30-Sep | 29-Aug |
|-------------------|--------|--------|
| US 30-yr Treasury | 4.73   | 4.92   |
| US 10-yr Treasury | 4.15   | 4.23   |
| US 2-yr Treasury  | 3.60   | 3.62   |

## Commodities (US\$)

|                         | 30-Sep   | 29-Aug   |
|-------------------------|----------|----------|
| Crude Oil (per barrel)  | 67.02    | 68.12    |
| Natural Gas (per MMBtu) | 3.12     | 2.88     |
| Gold (per ounce)        | 3,858.51 | 3,448.00 |
| Silver (per ounce)      | 46.70    | 39.69    |
| Copper (per pound)      | 4.81     | 4.50     |

Source: Refinitiv

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