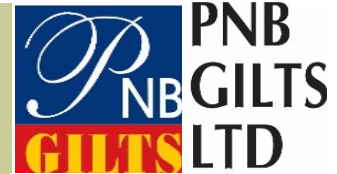


ECONOMY & GILT WATCH



(Subsidiary of Punjab National Bank)

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August MPC: RBI in a tough spot

RBI in previous monetary policy cut the repo rate by a jumbo 50 basis points along with a CRR cut. The move was aimed at giving all possible support to growth keeping in mind the inflation-growth dynamics. The markets were spooked by a flip-flop in stance change and inflation in almost free fall showing no signs of uptick in the backdrop of a healthy monsoon. Bonds yields as a result have surged and are locked in a very narrow range. It is in this context that the August MPC becomes all the trickier for RBI to manoeuvre. Factors that can determine the outcome can be outlined as below:

- **Lack of Easing options:** RBI has cut the repo rate by a total of 100 basis points in previous three MPCs and have further committed to 50 basis point CRR cut in Sept Oct. This leaves very few options with RBI for further easing. Further CRR cuts are practically impossible while policy rate cuts look unlikely given recent uptick in capital outflows and INR weakness. In this context, the most potent weapon, which is rate cut, is going to be used judiciously and not in the August Policy in all likelihood.
- **Inflation Trajectory:** Inflation has been trending downwards and with a healthy monsoon, there is low probability of reversal in the course of inflation. Tricky part is the consideration of inflation period, which might account for in policy measures. Near to medium term, inflation is likely to remain towards the lower end of RBI's target band with a possibility of undershooting it. On the other hand, as and when growth picks up and with it the prices, how much more the prices can pick from current multi-year lows. This confusion is likely to cause disagreement in the committee.
- **USD/INR Trading Levels:** Of late on the back of DXY reversal and tariff threats USD/INR has remain bid and as of now stands close to the all time high level of 88 per dollar seen earlier this year. Risks to upside-

August MPC:

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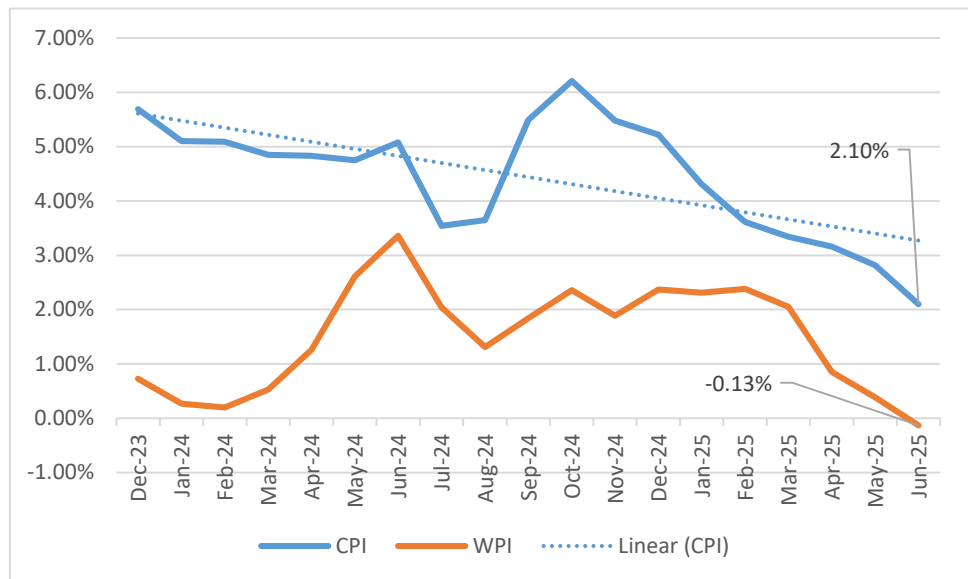
Rate cut unlikely in August

-arise from geopolitical tensions and CNH/INR levels inching towards a breakout. Oil levels have been slowly rising pricing in potential standoff in Ukraine Russia war leading to problems in commodities prices. Approaching winter in Europe can add further fuel to price spike in energy complex. A rate cut in such environment is going to put pressure on rupee and lead to sudden depreciation and imported inflation.

Inflation Update:

India’s consumer inflation continued to ease in June, hitting a lower-than-expected 2.10%, government data showed on Monday. Food inflation came in at -1.06% in June, compared with 0.99% in May. While particularly notable was the deflation observed in WPI, which came in at -0.13% for the month of June. A deflationary figure in WPI can indeed be concerning pointing towards cooling in economic activity.

WPI in negative territory



Fixed Income Outlook

Fundamental View

Indian bonds are expected to trade in range taking cues from concurrent developments be it on the domestic front or global front. MPC in August is unlikely to give a rate but the commentary is going to be closed watched and might take a couple of days for the market to digest RBI's bias and position accordingly. The 10 Year paper is likely to trade in a narrow range in yield terms. Fed out of the way, Globally yield spikes are likely to be watched particularly for the duration segment with Japan and German bond yields at risky levels which can trigger a global fixed income sell-off.

On the global front, pick up in oil prices seem to put pressure on INR along with tariff threats looming large. Spillover of INR risks onto government bonds has been visible lately and the process can accelerate really quickly with no rate cut on the horizon. On the equities side, IT is coming under pressure due to looming tariff threats and AI concerns and as such markets have turned cautious on Indian equities.

*All asset classes
to remain under
pressure*

SDL Overview

Last fortnight, CG benchmark 10 Yr traded in a range of 6.29% -6.39%, whereas, the 10Y SGS got dealt in the range of 6.82%-6.94% i.e. the sdl spreads vis-a-vis their CG counterpart widened and remained in the range of 55-60 bps. States ended Q1 with a gross borrowing figure of Rs.2,00,849 Cr vs the calendar amount of Rs. 2,73,255 Cr (~73.5% of calendar amount)

In Q2, States have tried to stick to the notified issuance calendar as they had borrowed a sum of Rs. 96,769 Crores against the notified sum of Rs. 1,02,900 Crores (~94% of calendar amount). Steepening of yield curve has been the order of play which is evident from widening of spreads in SGS over their CG counterparts. In the coming fortnight, we expect the spreads of 10 Yr SGS over CG to remain in the current range of 55-60 bps, and the spread of duration (20yr+) SGS to remain in the range of 80-85bps over the liquid 10 Yr CG.

*SDL spreads to
remain here*

Technical View

Technical Synopsis 6.33% GS 2035 Yield



Bearish bias persists

6.33% G Sec 2035 Yield settled at 6.3680% on Friday's session. Hardening of yield was witnessed as Benchmark Yield headed higher in passing Fortnight.

Momentum oscillator RSI is placed at 64 level and possible of its entering 70 zone seems quite higher till it is sustaining above 6.34% level. Going forward, with Benchmark making Higher High Higher Low formation indicates further hardening with immediate target of 6.42%, on lower side major support are now placed around 6.33-34% zone. 1D chart: 10 yr Source: Tickerplant

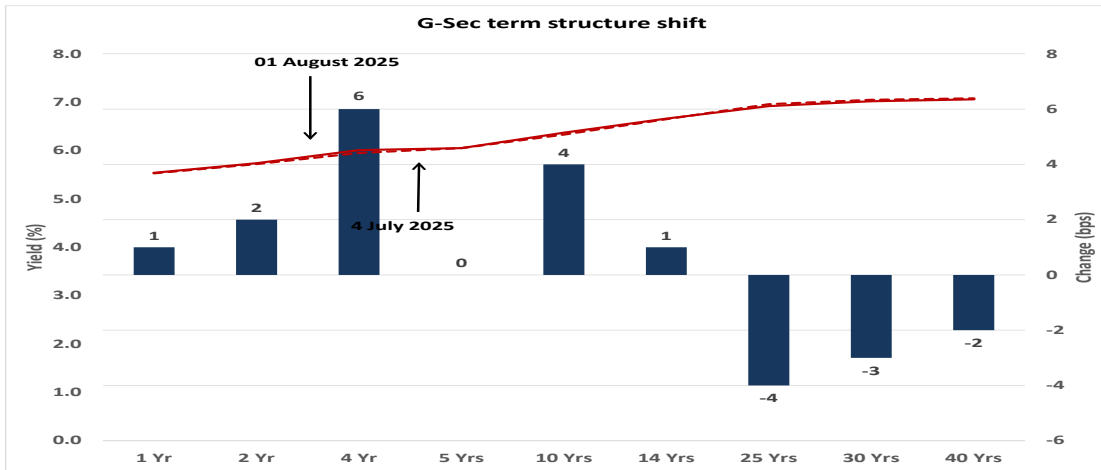
Liquidity

RBI is continuously monitoring the current and evolving liquidity conditions and conducting the Variable Rate Reverse Repo (VRRR) / Variable Rate Repo auction to align the WACR around the Repo Rate. WACR was around 5.46% for this week, while RBI withdrew nearly all of the maturing reverse repos on the first day of a seven-day VRRR auction, INR 1.72Tn was accepted at WAR of 5.49%.

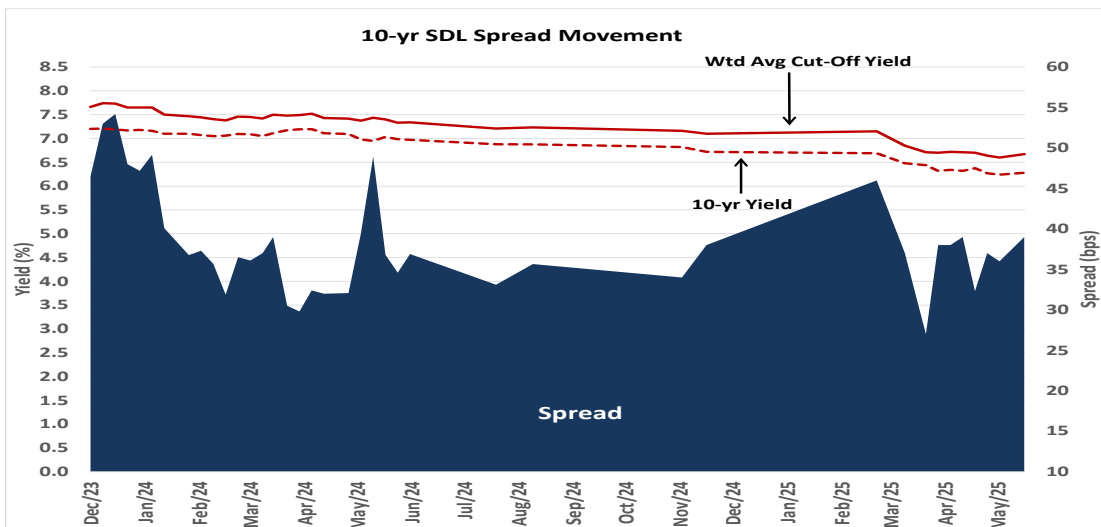
Liquidity remains abundant

Banking system liquidity as on 31 July 2025 was INR 2.86Tn, this amount would be 1.1 % of the Net Demand and Time liabilities (NDTL) of the Banking system, however average banking system liquidity surplus in July was 03 trillion rupees. In coming week, we may see increase in liquidity because of inflow of Government spending.

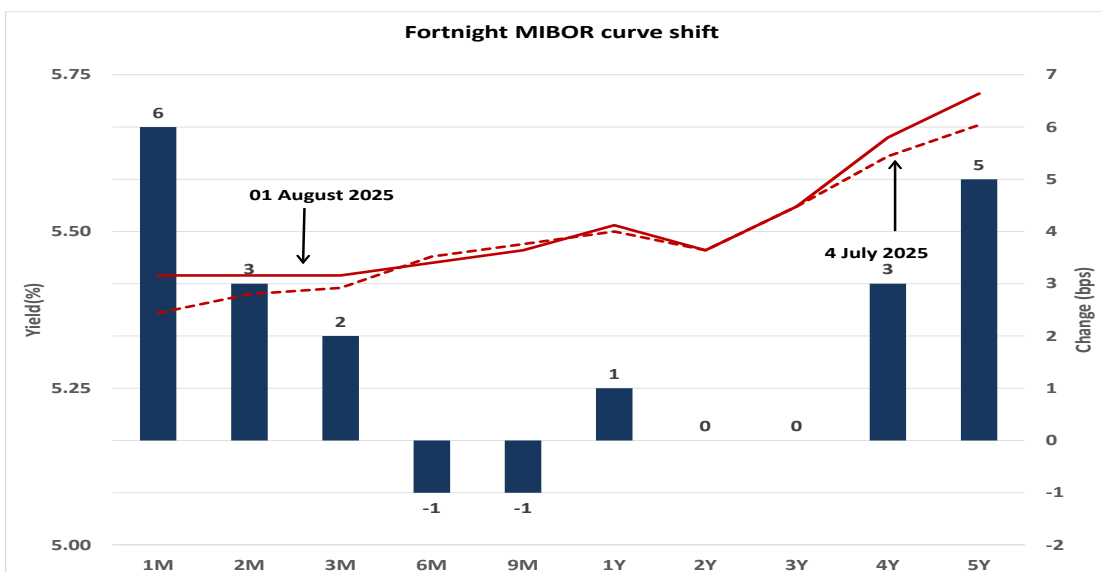
Spread Monitor



Curve remains unchanged



SDL Spreads to remain here



Paying pressure in OIS



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