

# Economic Momentum Likely to Ease in H2-FY26; Expect a Policy Pause Unless Growth Outlook Deteriorates Sharply



- Heading into 2026, the global landscape is defined by global central banks shifting toward a neutral policy stance as 2026 nears, signalling an end to widespread rate cuts (barring some exceptions), while the global economic growth remains resilient despite US tariffs and the aftereffects of the H2-2021 to 2023 inflation surge.
- India's economic growth exceeded expectations with real GDP growth rising by a six-quarter high of 8.2% YoY in Q2-FY26, partly supported by technical factors including lower deflator and favourable base effect.
- With a stronger-than-expected outturn in Q2, we revise our real GDP projection for FY26 upwards to 7.4% from 6.8%.
- Looking ahead, economic momentum is expected to moderate in H2-FY26 as favourable base effects and deflators normalise, while the growth engine is expected to shift primarily toward private consumption and a tentative recovery in private investment, even as government spending moderates following front-loading in H1, especially amidst rising fiscal constraints.
- High-frequency indicators in early Q3 suggest the same, with a strong festive demand, while the government's expenditure contracted with deeper contraction in capital expenditure.
- Despite a significant jump in Indian exports seen in November, the trade outlook remains challenging, with the US-India trade deal still elusive, even though trade talks are in progress. The improvement in exports in November was partly due to the tariff exempted sectors.
- On the supply side, high frequency indicators for early Q3, suggest seasonal moderation in industrial activity while services and agriculture sector likely remained resilient.
- Headline CPI inflation edged up to 0.71% YoY in November due to unfavourable base effect and a seasonal rise in food prices. Meanwhile, the core inflation remained above 4% due to elevated gold prices. The near-term outlook for inflation remains favourable with FY26 inflation projected at ~2.1%.
- Supported by a benign inflation backdrop, the RBI cut the repo rate by 25-bps to 5.25% in the December policy meeting and announced durable liquidity measures. From the policy outlook perspective, we expect the RBI to focus on effective policy transmission and do not expect any additional rate cut in FY26 unless growth outlook deteriorates meaningfully.

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## **Global Economy Poised to Enter 2026 with Resilience, While Many Central Banks Pivot Towards Neutral**

As calendar year 2025 draws to a close, so too are global central banks' bias toward monetary easing. The past year has seen a large spectrum of central banks – in both advanced and developing economies – lower interest rates. In many developed countries – with Japan being a notable exception – central banks have eased policy due to a mix of some moderation of inflationary pressures and to help cushion against select downside risks (e.g. an undesirable weakening in employment). For developing economies, looser monetary policy primarily has been a function of sufficiently favourable inflation trends paving the way for lower policy interest rates.

In the most recent spate of central bank meetings, officials across much of the world have sounded a similar theme – namely, that prior monetary policy adjustments have policy in the vicinity of neutral and that their respective baseline macroeconomic outlook(s) for 2026 no longer leave policymakers with a clear easing bias. As US Federal Reserve Chair Powell put it in his December press conference, monetary policy is “well positioned.”

To be sure, idiosyncrasies exist across the policy spectrum. The Bank of Japan (BOJ) just hiked rates by 25-bps in December, boosting its policy rate to its highest level since September 1995. Further, with real interest rates in Japan still negative, while economic growth and inflation are running above trend and target respectively, additional BOJ monetary tightening is likely in 2026. Similarly, monetary conditions in Australia are trending toward a tightening, perhaps as soon as the Reserve Bank of Australia's (RBA) February policy meeting.

A separate defining characteristic of the global economy as it enters the new year is its resilience. US President Trump's so-called liberation day announcement of sweeping tariffs was an outsized exogenous shock to the global economy – even with Mr. Trump's reasonably quick pullback from the most severe import duties he announced. The average effective import duty on goods bound for the United States now is around 15%. That is the highest in the past 75 plus years and is up from a roughly 2¼% rate at the beginning of 2025. Nonetheless, the global economy has withstood this adverse shock and is entering the new calendar year on still solid footing. That's not to say there have not been adverse consequences of Mr. Trump's tariff regime: Economies facing the largest tariff rates have seen their exports adversely affected and China has responded in part by stepping up its industrial policy and export subsidies, resulting in a surge of (likely) underpriced goods flowing into economies besides the US.

Another aspect of resilience is the global economy's ability to continue to withstand the adverse aftereffects of the H2-2021 to 2023 inflation surge. While the rate of inflation has moderated worldwide from the high single-digits (and in some cases more than 10%) to a rate more centred around 3%, an aftereffect is an ongoing challenge to maintaining a standard of living for select households, especially those in the lower part of the income distribution. The sharp rise in the consumer price level – due to prior years' inflation – means that real purchasing power for many households is lower than it was four years ago. Yet, consumer spending in most countries has advanced at a solid pace and is poised to continue to do the same in early 2026.

While we expect continued solid economic growth for the global economy, it is our judgment that there will be quite a bit of differentiation across regions and individual countries in the year ahead. The US, for instance, is most likely to benefit from continued AI-related capital investment; growth also should be boosted by the after-tax income effects of this summer's large fiscal package. Japan's economy shows few signs of slowing down and is also likely to be supported by pro-growth fiscal and regulatory policies of PM Takaichi's government. The EU faces little in the way of imbalances but continues to lack dynamism and entrepreneurial spirit and likely will continue to muddle along at positive, yet uninspiring, growth. China's prospects will be shaped importantly by the spring policy meetings – on the one hand, China's investments in select advance technologies is paying off and producing notable value add but, on the other, the still unresolved property bust, stepped up regulation, sluggish labour market away from advanced tech and government-supported sectors all are headwinds for the economy as a whole.

## **Indian Economy: After a Robust H1, Growth Momentum Likely to Moderate in H2; Private Consumption to Lead**

The Indian economy recorded robust growth in H1-FY26, although a moderation in overall momentum is expected in H2-FY26. The anticipated slowdown in H2 reflects the likely normalisation of favourable base effects and GDP/GVA deflators (from Q4 onwards) that supported headline growth in H1. Importantly, the composition of economic growth is set to shift, with private consumption emerging as the primary driver, and very importantly, private investment also showing a moderate recovery, even as government spending normalises following front-loading in H1 amid revenue-collection constraints that limit fiscal space. Q2 data already show early signs of this transition.

External headwinds are likely to persist until greater clarity emerges on a potential US–India trade agreement, which if realized almost certainly would lower the 50% US tariff

imposed in late August. In the interim, policy support has been squarely targeted at reviving domestic demand, particularly private consumption, through tax cuts and cumulative monetary easing. These measures uplifted consumer sentiment and are beginning to yield results, reflected in a strong festive-season spending and a rebound in banking credit growth.

With real GDP growth averaging around 8% in H1-FY26, and a moderation expected in H2 (partly offset by policy support), **we revise our FY26 real GDP growth forecast up by more than half a percentage point to 7.4% from 6.8% earlier.**

From a policy perspective, with the RBI having delivered 125-bps of cumulative rate cuts so far since February 2025, the bar for further easing is now high. The RBI's near-term focus is likely to be on ensuring effective policy transmission of rate cuts already delivered, rather than additional easing. Furthermore, new GDP and CPI series with revised bases, and methodological enhancements are scheduled for release in February 2026. This will require careful reassessment of prevailing macro conditions for policy consideration. Factoring this in, the likelihood of additional rate cuts in FY26 appears low, unless economic growth surprises materially on the downside or the macro-outlook deteriorates meaningfully.

### **Economic Growth Surges to a Six-Quarter High in Q2, Aided by Low Deflators**

Economic activity exceeded expectations in Q2-FY26, with real GDP growth accelerating to 8.2% YoY, up from 7.8% in Q1, and well above both our and consensus expectations of ~7.2–7.3%. As anticipated, the outturn was supported by a favourable base (5.6% in Q2-FY25) and a sharply lower GDP deflator, which fell to 0.5% from 0.9% in Q1, providing a technical uplift to real growth. Nominal GDP growth eased to a four-quarter low of 8.7%, only marginally below 8.8% in Q1, pointing to relatively steady underlying momentum.

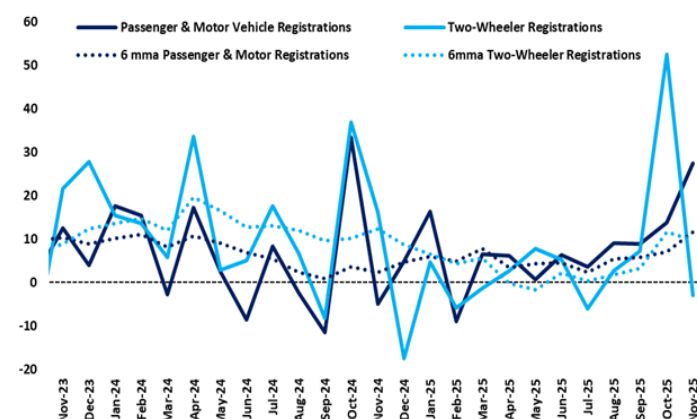
On the demand side, private consumption led the expansion, while investment growth moderated modestly. Government consumption contracted, reflecting fiscal normalisation, and net exports remained a drag, despite some front-loading of goods exports. Statistical discrepancies widened sharply in Q2, contributing nearly 4.1 percentage points (pp) to headline real GDP growth, likely reflecting data quality issues and unusually low deflators, complicating the assessment of underlying momentum.

### **Private Consumption: Early Signs of Post-Festive Normalisation; Incoming Data Need to Be Monitored to Gauge Momentum Beyond Seasonality**

Real private consumption grew 7.9% YoY in Q2-FY26, up from 7.0% in Q1, contributing an estimated 4.5 pp to real GDP growth. The pickup was supported by improving rural demand and a tentative recovery in urban consumption, aided by policy measures and a recovery in labour-market conditions.

High-frequency indicators point to a strong festive-season demand followed by a typical post-festive pullback. IIP sub-components show that consumer durables and non-durables output contracted in October, likely reflecting a pullback after inventory accumulation in the previous month. Vehicle registrations moderated sharply, from a three-year high of ~41.5% YoY in October to ~2.5% YoY in November. The moderation was largely led by the two-wheeler segment following robust festive purchases, while passenger vehicles (PV) continued to show acceleration. Importantly, total automobile registration growth over October–November remained robust at ~21%, broadly in line with last year. Early signals from OEM pipelines, including upgraded models, suggest demand could improve in December–January. Retail credit growth strengthened to 14% YoY in October, up from 11.7% in September. The pickup was led by credit card growth, vehicle loans and housing credit consistent with improving urban demand conditions during the festive period.

### **PV Registrations Show Signs of Continued Momentum in Private Consumption, Even If Two-Wheeler Registrations Showed Pullback**



Source: CMIE

Labour-market indicators showed a post-festive recovery in November, reversing the holiday-affected weakness seen in October. The unemployment rate eased to 6.5% (as per CMIE data), from a six-month high of 7.5%, partly reflecting a decline in labour-force participation. On an FYTD basis, unemployment has averaged 6.9%, an improvement from

8.1% in the same period last year. Both rural and urban labour markets have strengthened compared to the last year.

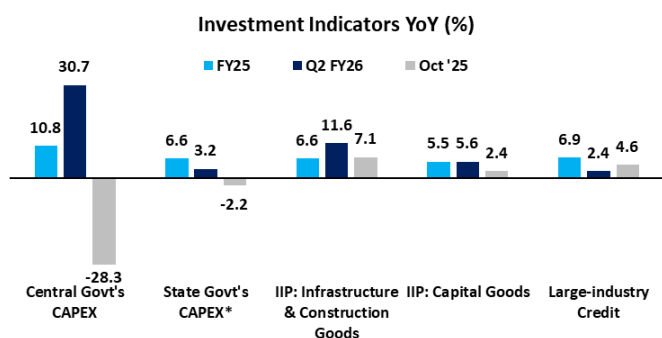
Formal sector hiring also rebounded sharply. After a festive-season dip in October, the Naukri JobSpeak Index rose 23.5% YoY in November, compared with a contraction in the previous month (due to seasonal impact). While part of the surge reflects base effects and seasonal normalisation, combined October–November growth of 6.2% YoY suggests that underlying hiring momentum remains intact.

Overall, we remain cautiously optimistic about a continued recovery in private consumption beyond the festive period, aided by tax cuts, cumulative monetary easing, low inflation, healthy agricultural activity, and improving labour-market conditions. That said, the sustainability of the recovery will hinge on a durable improvement in labour-market outcomes, particularly wage and salary growth, which will be critical for sustaining urban demand momentum.

### Government Capex Normalisation to Weigh in H2; Tentative Private Capex Recovery the Key Offset, if Sustained

Real investment (GFCF) growth moderated to 7.3% YoY in Q2-FY26, from 7.8% in Q1, reflecting slower (but still robust) government capex alongside tentative signs of improvement in private investment. Looking ahead, investment momentum is likely to face headwinds in H2, as government capex normalises after significant front-loading in H1 and tax collections trail budget assumptions, constraining fiscal space. GST rate cuts are also likely to weigh on revenues. That said, early signs of a pickup in private investment could provide partial relief, if sustained, as discussed in the report last month.

### Early Indication of Moderation in Government CAPEX while Other High Frequency Indicators Suggest Likely Revival in Private CAPEX



Source: CMIE; Note: State Govts' CAPEX is based on data of 19 states.

Fiscal pressures are becoming increasingly visible. The central government's fiscal deficit reached ~52.6% of the full

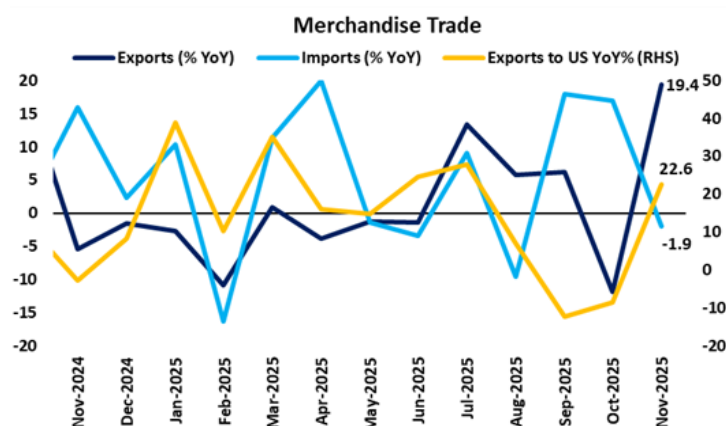
year Budget Estimate (BE) by October 2025, up from ~47.8% a year ago, driven by front-loaded capex and weaker net tax receipts. Central government total expenditure contracted by 11.1% YoY in October, with capital expenditure showing a deeper contraction, while revenue expenditure also declined. To meet the fiscal deficit target, the Centre's imputed capital expenditure would need to contract by around 14%, while revenue expenditure could still expand by 21.3% during the November–March period. However, given that revenue expenditure largely comprises of sticky components (wages, interest, etc.), the scope for meaningful saving and reallocation toward capital expenditure is likely to be limited.

Revenue trends remain a key constraint. Net tax receipts declined ~2.4% YoY in April–October, reflecting higher devolution to states, while softer income-tax and GST collections limited gross tax growth to ~4% YoY (FYTD). While strong non-tax revenues, supported by a higher-than-budgeted RBI dividend, have provided a partial offset, meeting full-year revenue targets appears challenging. As a result, risks of fiscal slippage have increased, limiting room for public capex in H2. States are facing similar pressures, with slower revenue growth weighing on expenditure, reflected in contractions in both revenue and capital spending in October.

### Trade Deficit Narrows on Gold Payback; Export Momentum Remains Uneven

The trade outlook remains challenging, with the US–India trade deal still elusive, despite reported progress in talks. That said, India's merchandise trade deficit narrowed sharply to a five-month low of USD 24.5 bn in November 2025, from a record high of USD 41.7 bn in October. The improvement was driven by a rebound in non-oil exports and a steep correction in gold imports, following pre-stocking in recent months ahead of the festive and wedding seasons.

### Exports Rebounded in November with Exports to the US Also Growing in Double Digit



Source: CMIE



Merchandise exports rebounded strongly, recording 19.4% YoY growth in November, a near three-and-a-half-year high, after contracting 11.9% YoY in October. While the rebound was partly supported by a favourable base (−5.3% YoY in November 2024), it also reflected a sharp recovery in non-oil exports. Within non-oil exports, engineering goods and electronics accounted for roughly half of export growth, likely benefiting from US 50% tariff exemptions in electronics and select engineering segments. That said, average export growth over October–November remained muted at 2.2% YoY, underscoring weakness amidst volatility.

Merchandise exports to the US staged a strong recovery in November, rising 22.6% YoY after sharp contractions in September and October. The rebound was partly aided by base effects and calendar-related disruptions, which likely amplified the October weakness and subsequent November normalisation as working days improved. Even so, average growth over October–November was modest at 5.5% YoY, compared with 11.4% during April–November, highlighting slower momentum. The recovery is likely concentrated in US 50% tariff-exempt categories such as electronics, pharmaceuticals, and energy products, though product-level export data for November is not yet available.

Total imports contracted 1.9% YoY in November, after a sharp increase in October, largely driven by the fall in gold imports to USD 4.0 bn, from USD 14.7 bn in October. The services trade surplus remained robust, helping narrow the overall trade deficit (goods + services) to USD 6.6 bn, from USD 24.3 bn in October.

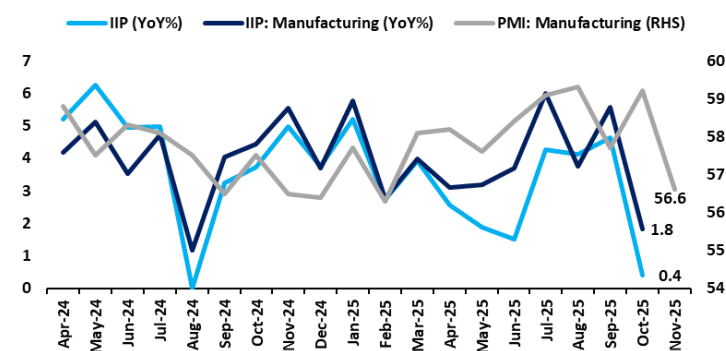
Trade policy risks remain a key overhang, even if US import duties are not hiked further. While downside risks from US tariffs persist, recent indications suggest progress toward a potential interim India–US agreement that could lower the current 50% US tariff; but timing of any such trade deal remains highly uncertain. At the same time, Mexico’s recent approval of higher tariffs (of up to 50%) on a wide range of products from non-FTA countries introduces a new layer of risk for India. While Mexico remains a relatively small export destination for India (accounting for 1.3% of total merchandise exports in FY25), higher tariffs could have a relatively larger impact on engineering goods (notably autos) and electronics exports, which together account for ~70% of India’s goods exports to Mexico. Moreover, Mexico joining the US with such elevated tariff rates could encourage other export markets to do the same.

### Real GVA Grew by an Eight-Quarter High of 8.1% in Q2; Moderation Expected in H2

On the supply side, stronger manufacturing activity and continued resilience in service led real GVA growth in Q2, offsetting softer agricultural growth. Looking ahead to H2,

recovery in domestic private demand, supported by policy measures, should help sustain industrial and services activity, although external headwinds are likely to continue weighing on growth prospects. Low deflators may continue to mechanically inflate real growth prints in Q3, but this effect should normalise by Q4. In addition, the fading of favourable base effects, alongside a slowdown in government capital expenditure and revenue spending (excluding interest payments and subsidies), is expected to dampen momentum in infrastructure-related sectors and parts of services. Agricultural activity is likely to remain healthy, although growth may moderate, primarily due to a high base from last year.

### Industrial Activity Shows Moderation in Early Q3



Source: CMIE

Early high-frequency indicators for Q3 point to a moderation in industrial momentum. The Index of Industrial Production (IIP) recorded muted growth of 0.4% YoY in October, a sharp slowdown from the revised 4.6% growth in September, and the weakest expansion since August 2024. The slowdown reflects a combination of external headwinds, weather-related disruptions, and a pullback following pre-festive inventory stocking in September. Sectorally, electricity output contracted sharply by 6.9% YoY, partly due to milder temperatures and extended rainfall in several regions. Mining output declined by 1.8%, while manufacturing growth eased to 1.8%, its weakest pace in 14 months.

Leading indicators also suggest some softening in manufacturing activity. The PMI Manufacturing index declined to 56.6 in November, its lowest level in nine months, from an average of 58.7 in Q2. The moderation was driven largely by weaker new orders, with export demand softening amid global uncertainties and the impact of US tariffs. That said, the PMI remains firmly in expansionary territory, indicating that while momentum has slowed, underlying manufacturing activity remains somewhat resilient.

Services sector activity remained robust in Q2, supported by sustained growth in financial, real estate, and professional services, as well as steady public administration, defence, and other services, which offset moderation in trade,

transport, and communication. High-frequency indicators suggest continued momentum in early Q3, with both domestic and international passenger traffic expanding faster than in Q2, alongside double-digit growth in port cargo volumes. The financial sector showed a pickup, reflected in an acceleration in banking credit growth. However, sharp moderation is visible in public administration activity, in line with a contraction in government revenue expenditure (excluding interest payments and subsidies). Despite this normalisation, broadly the services sector activity is showing resilience, as evidenced by strong e-way bill collections and a recovery in services exports following the dip in October. The PMI Services index remained robust at 59.8 in November, lower than the Q2 average of 61.4 but still well above its long-term average, underscoring continued resilience.

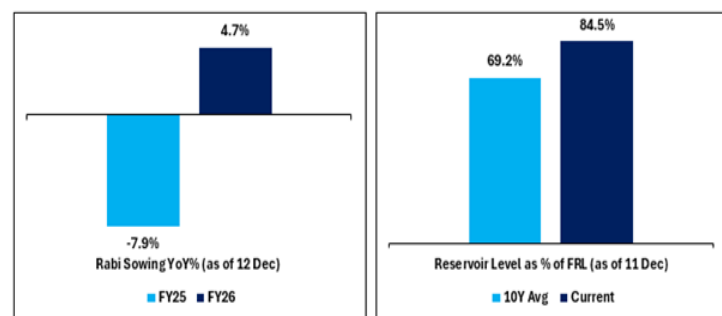
### Early High-Frequency Indicators for Q3 Point to Some Moderation in Services but Underlying Resilience Continues

High-Frequency Indicators	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25
PMI Services #	58.7	58.8	60.4	60.5	62.9	60.9	58.9	59.8
Domestic Air Passenger Traffic	9.7	2.6	3.7	-2.5	-0.5	-2.5	3.5	6.7
International Passenger Traffic	13.0	5.0	3.4	5.5	7.7	7.3	9.7	9.2
Port Cargo Traffic	7.0	4.3	5.6	4.0	2.5	11.5	11.9	14.6
GST E-way Bills	23.4	18.9	19.3	25.8	22.4	21.0	8.2	27.6
Services Exports	8.9	9.6	12.0	10.3	2.7	12.5	2.2	11.7
Banking Non-Food Credit	10.2	8.8	9.3	9.9	9.9	10.2	11.1	

Source: CMIE and RBI; Note: #PMI Services is level, while the rest of the indicators are YoY%.

Finally, the agriculture sector remained resilient in H1-FY26. First advance estimates point to a 2.3% increase in Kharif foodgrain production, reaching 173.3 million tonnes, compared with 169.5 million tonnes last year. Reservoir levels remain well above the 10-year average, supporting a favourable Rabi outlook, with 84.2% of the normal area already sown, higher than last year.

### Uptick in Rabi Sowing and Robust Reservoir Levels Bode Well for Agriculture Sector



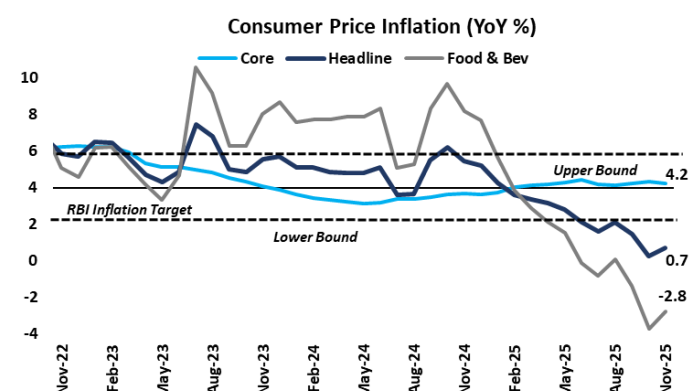
Source: CMIE; Note: FRL stands for Full Reservoir Level

### Inflation Remains Subdued, CPI Ex-gold Stays in Deflation in November

Inflation pressures remain muted. Headline CPI inflation edged up to 0.71% YoY in November, from a record low of 0.25% in October, but remained well below the RBI's 2–4% target band. The uptick primarily reflected unfavourable base effects and a narrowing of food-price deflation. CPI inflation excluding gold remained in deflation at -0.1% YoY.

Core inflation softened to 4.2% YoY in November, from 4.3% in October, reflecting the impact of GST rationalisation across most categories, though elevated gold prices continued to keep headline core inflation above 4%. Excluding gold, core inflation eased further to 2.5% YoY, from 2.6% in October and 3.0% in September. Disinflation remains broad-based, with 49% of the basket printed inflation below 2%. The near-term inflation outlook remains favourable, supported by WPI deflation, a positive Rabi crop outlook, and lower crude prices.

### Headline CPI Inched Up Marginally in November due to Unfavourable Base Effect



Source: CMIE

We expect headline CPI inflation to edge up modestly to around 1% in December, while remaining comfortably below the lower bound of the RBI's tolerance band. With inflation averaging 0.48% during October–November, we expect Q3-FY26 inflation at ~0.8%, before rising to ~3% in Q4. FY26 CPI inflation is projected at ~2.1%, broadly in line with the RBI's revised forecast.

### RBI Delivers a Double Bonanza in December: Repo Rate Cut and Durable Liquidity Infusion

In line with expectations, the RBI's MPC cut the policy repo rate by 25-bps to 5.25% in the December policy meeting, while maintaining the stance at "Neutral". This takes cumulative easing in the current cycle to 125-bps. The RBI also announced a durable liquidity infusion of ~Rs 1.45 lakh crore, comprising Rs 1 lakh crore of OMOs and a USD/INR 3-year buy–sell swap of USD 5 bn, to support seasonal liquidity needs and improve policy transmission. Additionally,

as anticipated, the RBI doubled down on supporting liquidity needs and announced additional measures yesterday (December 23), totalling ~Rs 2.9 lakh crores. This includes Rs 2 lakh crores of OMOs to be carried out in four tranches – one in December and the remaining in January, and a USD/INR 3-year buy–sell swap of USD 10 bn (to be held on January 13).

The rationale for easing stemmed primarily from the sharp moderation in inflation. The RBI revised its FY26 headline CPI projection down to 2.0% from 2.6%. The Governor also noted that around 50-bps of measured inflation reflects higher precious-metal prices, implying underlying inflation is even lower. On economic growth, the RBI acknowledged robust momentum in H1-FY26, describing the combination of benign inflation and strong growth as a rare “Goldilocks” phase. This evolving growth–inflation mix created policy space for the MPC to support activity.

While the dovish inflation trajectory suggests some flexibility, the unchanged “Neutral” stance points to a cautious, data-dependent approach moving forward. The Governor emphasised a focus on policy transmission and a meeting-by-meeting assessment, suggesting that liquidity management will remain a key focus area. In a recent interview, he also indicated that rates “should remain low for a long period of time”, suggesting a possible extended pause. Overall, we do not expect further rate cuts in FY26 unless growth outcomes materially disappoint or the macro-outlook worsens meaningfully but continue to expect further intervention to support liquidity and thereby aid policy transmission.

## Market Update

**Bond Market:** India’s benchmark 10-year G-sec yield eased marginally from ~6.53% at end-October to ~6.51% by end-November, supported by expectations of a policy rate cut and OMO announcements. However, yields rose sharply after the December policy meeting, despite the 25-bps rate cut and liquidity measures. The 10-year G-Sec yield rose to ~6.6% (December 23), as the expectations of the rate-cut cycle nearing its end, lower-than-expected OMO size, and persistent fiscal concerns (amid lagging revenue collections) weighed on market sentiment. However, the recent OMOs should also aid bond market sentiment in the near-term.

Looking ahead, yields could see some easing in Q4-FY26 if India’s G-secs secure inclusion in the Bloomberg Global Aggregate Bond Index and/or if the India–US trade agreement is concluded, both of which could support foreign debt inflows.

Meanwhile, systemic banking liquidity improved in November and the first half of December but tightened again

post mid-month largely due to advance tax outflows, rise in seasonal currency in circulation and possible RBI FX interventions. Indeed, the systemic liquidity turned into deficit on December 16 and is tracking at Rs -0.8 lakh crores as of December 23, while 7 day moving average is close to Rs -0.3 lakh crores. With that, the WACR, which had fallen to ~5.18% (December 12<sup>th</sup>), rose above the policy rate to 5.42% as of December 23. With the RBI announcing outsized intervention on liquidity yesterday, we could see additional support in Q4, depending upon the extent of FX intervention (to contain sharper volatility in the domestic currency) and evolving liquidity conditions.

**Equity Market:** After gaining 4.5% in October, Indian equities extended their momentum in November, with the NIFTY50 rising by 1.9%, supported by optimism around a potential US–India trade deal and a relatively resilient corporate earnings season. The rally was driven largely by domestic investors, as FPIs turned net sellers after inflows in October.

Markets remained volatile in December as investor sentiment weakened due to continued FPI outflows during the first half of the month. However, momentum improved in recent sessions following a reversal in FPI flows. With that, NIFTY50 declined only marginally by 0.1% (as of December 23) from its November-end level, primarily due to net FPI outflows till date, moderation in DII support, and delays in trade-deal finalisation. Mixed global cues, persistent rupee depreciation pressures, and likely stretched valuations are expected to weigh on near-term equity performance until greater clarity emerges on the trade front.

**Currency Market:** The rupee has continued to face depreciation pressures in December, after weakening by 0.8% in November to close at ~89.5 per USD. Accordingly, the rupee touched a historical high of 91.03 per USD (16<sup>th</sup> December) before improving to 89.7 by December 23, likely reflecting the impact of the RBI intervention. Overall, the domestic rupee has depreciated by 4.9% in FYTD, making it one of the weaker-performing Asian currencies, despite intermittent RBI intervention to curb excessive volatility.

The depreciation has been driven primarily by foreign capital outflows and sentiment impact from delays in the US–India trade deal, despite lower crude oil prices. Looking ahead, rupee pressures may persist amid uncertainty around the trade deal. However, an early conclusion of a US–India trade agreement and/or possible inclusion of Indian G-secs in the Bloomberg Global Aggregate Bond Index could offer some relief in Q4. The RBI is likely to continue intervening to smooth excessive volatility rather than defend any specific level.

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