

**WHAT TO WATCH OUT FOR?**

RBI's take on broad-based inflation, inflation expectations, and headline vs core dynamics amid renewed war tensions, persistent rise in oil prices.

RBI's assessment on downside risks to growth, even as high-frequency indicators stay robust and Q1 GDP is expected to surpass 7%.

With massive FCNR inflows coming in, comments on managing liquidity inflows, impact on core liquidity, and use of temporary tools like VRRR to fine-tune conditions.

RBI to assess lagging impact of June capital inflow measures before any fresh structural intervention

The Governor's comments on INR strength reflecting rupees relative outperformance versus emerging market peers, and the pick-up in FCNR flows into September

RBI likely to sound cautious on the global backdrop flagging West Asia oil volatility, tight financial conditions, and trade/tariff uncertainty.

June industrial production grows 7.3% YoY, a 24-month high, driven by manufacturing and electricity segments

Monthly % Y/Y	Apr-26	May-26	Jun-26
Index of Industrial Production	4.9	5.0	7.3
IIP Manufacturing	6.1	5.2	7.8
IIP Mining & Quarrying	-3.8	-1.4	1.0
IIP Electricity & Gas Supply	4.6	10.3	10.6
Infrastructure Output	2.7	3.2	5.0
PV	12.2	23.2	28.6
2W	13.0	7.5	21.2
3W	7.2	3.6	16.2
CV	15.0	5.3	16.9

PMIs showed moderation in June on softer demand while India's GST collections up 15% in July, driven by strong growth in import duties

Monthly % Y/Y	Apr-26	May-26	Jun-26
PMI Manufacturing	54.7	55.0	54.2
PMI Services	57.5	58.8	59.8
GST Collections	8.7	3.2	13.9

IN HOUSE VIEW

In its June meeting, the MPC held the repo rate steady at 5.25% while maintaining a neutral stance. The RBI governor introduced a series of measures to shore up capital inflows into the country, such as the inclusion of ultra-long bonds under the FAR, hedging cost support for FCNR-B deposits, a concessional swap window for ECB undertaken by PSU banks, etc. **We expect the policy repo rate to remain unchanged in its August policy at 5.25%, alongside a neutral stance. RBI is likely to take balanced approach with hawkish caution, we expect MPC to retain a data dependent approach closely watching geopolitical risks, commodity prices, broad based inflationary pressures.**

US yield curve steepened, the 2Y-30Y spread widened from ~83 bps to ~98 bps post FOMC pointing to waning long term inflation confidence. With crude pushing back toward \$95/b amid renewed Middle East tensions, and rising inflation, Indian yields have remained under pressure in recent sessions on RBI rate-hike concerns. As banks brace for surplus liquidity and the MPC stays on hold, expect further curve steepening, short to medium tenors like the 3Y,5Y easing faster than the 30Y.

STICKY INFLATION ACROSS DEVELOPED MARKETS KEEPS US, EURO AREA, JAPAN LOCKED IN TIGHTENING MODE

West Asia tensions, supply-chain disruptions, high commodity prices, rising Treasury yields and trade related uncertainties are keeping global financial conditions tight. Inflation continues to stay elevated across major developed economies. US Fed held rates steady at 3.5%-3.75% but persistent inflation focus and internal dissent keep a September hike on the table. Bank of Japan stays on hold at 1%, leaves room for future tightening amid rising inflation risks. ECB keeps rates unchanged at 2.25%, but September hike firmly in play.

INFLATION AND GROWTH

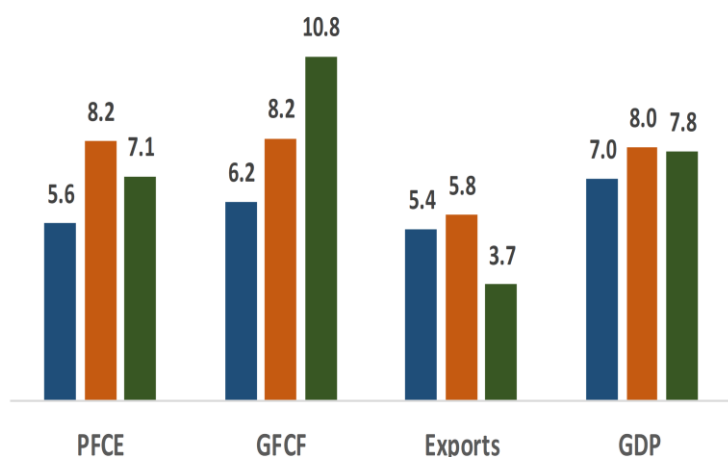
Since the rise in inflation stems from supply-side pressures, the MPC is likely to wait and watch before it broadens into generalized inflation or shifts inflation expectations. Governor Malhotra's "premature to raise rates" comment reinforces this. **We don't expect any major changes in the FY27 inflation forecasts, though the RBI will remain wary of rising crude prices and a deficient monsoon.** On the growth front, India's economy has stayed resilient amid global challenges, High-frequency indicators point to broad-based improvement across sectors, credit growth has remained strong. **We don't expect any major changes in the FY27 growth forecasts,** yet remaining vigilant to global developments, trade disruptions and middle east conflict potentially hurting exports and raising input costs.



Growth was resilient despite West Asia conflict. India's Q4FY26 GDP grows 7.8%, full-year FY26 at 7.7%, GVA up 7.9% on resilient trade, hotels, manufacturing.

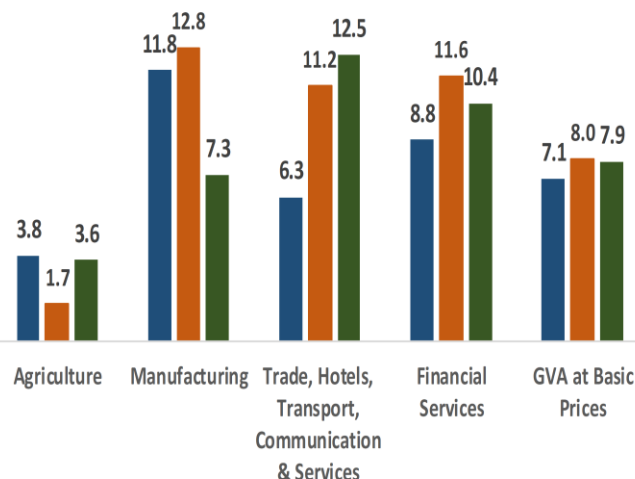
GDP COMPONENTS % Y/Y

■ 2024-2025 Q4 ■ 2025-2026 Q3 ■ 2025-2026 Q4



GVA COMPONENTS % Y/Y

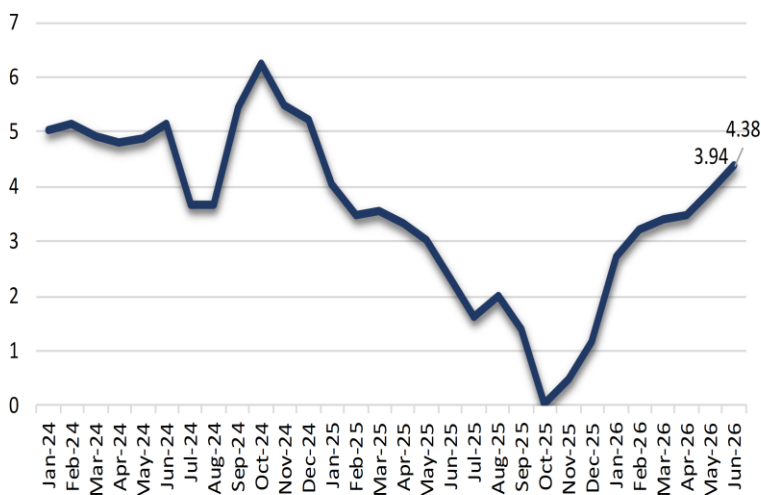
■ 2024-2025 Q4 ■ 2025-2026 Q3 ■ 2025-2026 Q4



Retail inflation, while exceeding market expectations, undershot the RBI's Q1 estimate, coming in at 3.9% versus 4.2% (RBI est) with core inflation excluding precious metals remaining subdued and signaling contained underlying pressures.

In its June policy review, the RBI meaningfully revised its FY27 projections versus April cutting growth estimates and raising inflation forecasts across the board. We do not expect major changes to these FY27 forecasts at the upcoming policy.

CPI Inflation (YoY %)



RBI Growth Projections (%)

	FY27	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27
April Policy	6.9	6.8	6.7	7	7.2
June Policy	6.6	6.6	6.3	6.5	6.8
change in bps	-30	-20	-40	-50	-40

RBI Inflation Projections (%)

	FY27	Q1 FY27	Q2 FY27	Q3 FY27	Q4 FY27
April Policy	4.6	4	4.4	5.2	4.7
June Policy	5.1	4.2	5.1	5.9	5.4
change in bps	50	20	70	70	70

Sources: Reserve Bank of India, Reuters, MOspi, FADA, Government of India

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and is for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company makes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. Nothing contained in this publication shall constitute an offer to sell/purchase or an invitation/ solicitation to do so for any Government Security, Currency, Security, and Equity. LKP Securities Ltd. accepts no liability whatsoever for any loss, howsoever arising, from any use of this document, its contents or otherwise arising in connection therewith.

For any queries contact -

LKP Securities Ltd. Ph.: (91-22) 62501149

E Mail: FixedIncomeResearch@lkipsec.com