

MONTHLY MARKET OUTLOOK:

» India's Economic Snapshot:

Commodity Shock Reshapes India's Fiscal Outlook for FY27

The surge in global crude and commodity prices has significantly altered India's fiscal outlook for FY27, increasing pressure on both government finances and corporate profitability. Fertilizer subsidy is estimated at **₹2.17 trillion** in FY26, 17% above revised estimates, and is projected by CRISIL to exceed **₹2.2 trillion** in FY27, roughly 25% higher than budgeted levels. Food subsidy is also expected to surpass **₹2.5 trillion**, exceeding budget estimates by **₹200 billion**. On the revenue side, direct tax collections in FY26 fell short by ₹810 billion, achieving only about 96.7% of the revised estimate.

In the energy sector, Indian fuel retailers are reportedly incurring losses of around ₹100 per litre on diesel and ₹20 per litre on petrol, while oil marketing companies could face under-recoveries of nearly **₹800 billion** on LPG sales in FY27, according to ICRA. If crude oil averages \$100 per barrel, India's current account deficit could widen to **1.9%-2.2%** of GDP, significantly above the government's estimate of 0.7%-0.8%. Additionally, a potential ₹10 per litre cut in excise duty on petrol and diesel could lead to an annual fiscal loss of approximately ₹1.5 trillion.






Rising input costs are also weighing on corporate margins, with every \$10 per tonne increase in petcoke reducing EBITDA by around ₹70 per tonne, a 10% rise in diesel prices impacting EBITDA by ₹30 per tonne, and cement bag shortages potentially adding ₹20 per tonne of pressure. Overall, the conflict-driven rise in energy prices is reshaping India's fiscal math, raising subsidy burdens, widening external deficits, and compressing profitability across key sectors.

» **India Maintains Strong Growth Momentum as GDP Outlook Improves:**

Rising input costs are increasingly being passed through to end consumers across a broad range of industries. Reliance Industries has raised PVC prices by **₹2,000 per metric tonne**, with Low K grade prices increased by **₹4,000 per metric tonne**, while PET prices were also increased by ₹2,000 per metric tonne effective May 1, 2026. Indian Oil Corporation has similarly increased polymer prices by **₹2,000-₹9,000 per metric tonne**. In the consumer segment, Asian Paints and Berger Paints India announced multiple price hikes of 3-5%, while Pidilite Industries increased Fevicol prices by 12-15%.

Energy-related costs have also surged sharply. Commercial LPG prices were raised by 48% to **₹3,071** per cylinder, marking the third consecutive monthly increase since February.

International ATF prices were increased by a further **5%**, following a 100% hike in April, pushing aviation turbine fuel to account for 55-60% of airline operating costs, compared with 30-40% previously. Overall, these widespread price increases indicate mounting cost pressures across industrial, consumer, and transportation sectors, with implications for both corporate margins and inflation.

Pressure Points		
 <p>Rupee down 3% since Iran war</p>	 <p>Freight costs up 2-5x, also due to war surcharge</p>	 <p>Aluminium & Copper prices volatile</p>
 <p>Crude derivatives such as plastic cost more</p>	 <p>Higher lead times for raw material supplies</p>	

▶ **Industrial Growth Moderates as Manufacturing Momentum Softens:**

India's industrial activity moderated in March 2026, with the National Statistical Office reporting IIP growth of **4.1%** year-on-year, down from **5.1%** in February. The slowdown was primarily driven by softer manufacturing and electricity output. Manufacturing growth eased to **4.3% YoY** from **5.9%** in the previous month, suggesting some moderation in factory momentum after a stronger February print. Electricity generation growth also slowed sharply to **0.8% YoY from 2.3%**, reflecting lower seasonal demand and softer industrial usage.

On the positive side, mining activity accelerated to **5.5% YoY, up from 3.1%** in February, indicating continued strength in coal and mineral production. Overall, the data points to a steady but moderating industrial recovery, supported by resilient mining output, though softer manufacturing and electricity growth suggest that broader industrial momentum remains uneven. Going forward, sustained public capex and improving domestic demand will be critical to support a stronger industrial upcycle.

▶ **Retail Inflation Edges Higher as Travel and Fuel Costs Rise:**

India's retail inflation edged up to 3.4% in March 2026, compared with 3.2% in February, but remained comfortably within the Reserve Bank of India's target band of 2%-6%. The increase was driven primarily by a sharp rise in travel and household fuel costs. Airfare inflation surged to 14.2% year-on-year, reversing from a contraction of 7.0% in February, reflecting higher aviation turbine fuel prices and stronger travel demand. Inflation in LPG and piped gas also accelerated to 5.3%, up from 1.6% in the previous month, indicating the pass-through of higher global energy prices.

Despite these pressures, headline inflation remains relatively benign, supported by moderating food prices and stable core inflation. However, the recent uptick in energy-related costs suggests that imported inflation risks are beginning to build. Overall, the inflation trajectory remains manageable, but sustained increases in crude oil and utility prices could limit the scope for further monetary easing and put pressure on household budgets in the coming month.

► **Corporate India Prioritizes Balance Sheet Discipline and Efficiency:**

India's corporate sector is showing a clear shift toward balance sheet prudence and operational efficiency. External commercial borrowings (ECBs) declined sharply to **\$37.5 billion** in FY26, down from **\$50.1 billion** in FY25, as rupee depreciation and elevated global interest rates reduced the attractiveness of overseas funding. This moderation suggests that companies are becoming more cautious in leveraging foreign currency debt amid increased exchange rate volatility and higher hedging costs.

At the same time, cost optimization is becoming a broader theme across large employers. Indian Railways has set a target to rationalize its workforce by **2%** in FY27, while several Indian banks are also trimming employee numbers as digital adoption, automation, and branch optimization improve productivity. Together, these developments indicate a stronger focus on efficiency, tighter capital allocation, and preserving profitability in an environment marked by rising costs and slower investment activity.

► **Wholesale Inflation Rises as High-Frequency Indicators Show Mixed Signals:**

India's wholesale inflation accelerated to **3.9%** in March 2026, driven primarily by higher crude oil and commodity prices, indicating rising input cost pressures across sectors. This increase in WPI, alongside the recent uptick in CPI inflation, suggests that imported inflation risks are beginning to filter through to producers and consumers alike. At the same time, several high-frequency indicators point to a moderation in select sectors. Smartphone shipments from India declined **3%** year-on-year in Q1 CY2027, marking the weakest quarterly performance in six years and reflecting softer domestic demand and inventory adjustments.

In the energy sector, coal production fell **0.5% in FY26 and declined 4%** year-on-year in March, the first annual contraction since the pandemic, which may pose challenges for power generation and industrial supply chains if demand accelerates. Meanwhile, pharmaceutical exports dropped **23%** year-on-year to \$2.8 billion in March, with shipments to the United States falling 10%, highlighting pressure from pricing normalization and regulatory factors. Overall, while inflation remains manageable, these data points suggest that pockets of weakness are emerging in manufacturing, exports, and commodity production.

▶ **RBI's Record Forward Book Signals Active Currency Management:**

The Reserve Bank of India's outstanding short dollar forward position rose to a record **\$104.2 billion** in March 2026, highlighting the central bank's active intervention to manage rupee liquidity and smooth currency volatility. By selling dollars in the forward market, the RBI is able to support the rupee without immediately reducing its spot foreign exchange reserves, while also influencing domestic liquidity conditions.

The sharp build-up in forward positions suggests that the RBI has been increasingly using derivatives as a tool to offset pressure from higher crude prices, foreign portfolio outflows, and global risk aversion. While this strategy helps contain near-term currency fluctuations, it also creates future obligations that will need to be rolled over or settled. Overall, the record forward book underscores the RBI's commitment to maintaining orderly market conditions, even as external risks to the rupee and India's balance of payments continue to rise.

▶ **Real Estate Inflows Surge as Investor Confidence Strengthens:**

India's real estate sector attracted strong investor interest in Q1 CY2027, with capital inflows surging **72%** year-on-year to **\$5.1 billion**, reflecting renewed confidence in the sector's growth prospects. Developers accounted for the largest share of capital deployment at 42%, underscoring continued expansion activity across residential, commercial, and mixed-use projects. Meanwhile, Real Estate Investment Trusts (REITs) contributed nearly 40% of total investments, highlighting sustained institutional participation and stable demand for income-generating assets.

The sharp increase in inflows suggests improving sentiment toward India's real estate market, supported by healthy property demand, stronger balance sheets among large developers, and growing acceptance of REIT structures. Overall, the data points to a robust investment environment for the sector, with both developers and institutional investors playing a significant role in driving capital formation.

➤ **Geopolitical Shock to Energy Markets Elevates Supply Concerns:**

India and Russia are set to deepen their strategic partnership in the fertilizer sector through a proposed urea joint venture expected to be completed over the next two years. The project entails an estimated investment of around ₹200 billion (₹20,000 crore) and will create manufacturing capacity of approximately 2 million tonnes per annum (MTPA). The initiative is aimed at securing long-term urea supplies for India, reducing dependence on imports, and improving fertilizer self-sufficiency amid rising global input costs and supply chain disruptions. Given India's large and structurally significant fertilizer subsidy bill, the project could help moderate procurement costs over time and strengthen supply security for the agriculture sector. It also reflects India's broader strategy of building overseas partnerships to secure critical commodities and reduce vulnerability to global price volatility.

➤ **E85 and E100 Norms Mark a Major Step in India's Clean Energy Journey:**

India has taken a significant step in its energy transition by proposing fuel standards for E85 and E100 blends, paving the way for wider adoption of flex-fuel vehicles and expanding the country's ethanol blending programme beyond conventional petrol. This move builds on India's successful achievement of its target of 20% ethanol blending in petrol in 2025, compared with just around 1.5% in 2014, highlighting one of the fastest scale-ups of biofuel adoption globally. The blending programme has helped reduce dependence on imported crude oil, generated additional income for sugar mills and grain processors, and lowered carbon emissions.

The introduction of E85 and E100 norms is expected to encourage greater investment in distillation capacity, fuel infrastructure, and vehicle technology. India's ethanol production capacity has expanded rapidly to over 1,700 crore litres annually, supported by feedstocks such as sugarcane, maize, and damaged food grains. According to government estimates, the ethanol blending programme has already helped save billions of dollars in foreign exchange and reduced greenhouse gas emissions materially.

Going forward, the policy is likely to strengthen India's energy security, support rural incomes, and create long-term opportunities across the agriculture, biofuel, and automotive sectors.

CAPEX UPDATE

► Public Spending Surge: Centre's Aggressive Capex Fuels Economic Growth:

- NHPC to invest **₹300 bn** for 3GW hydro project in Arunachal.
- Govt to set up 4 processing parks in Mah, Odisha, Guj & AP, allocates **₹5 bn**.
- Adani Energy to invest **₹220 bn** capex in FY27 with focus on transmission sector & smart metering.
- Cabinet approves **₹129.8 bn** maritime insurance pool to cut reliance on global insurers.
- India approves **₹415.3 bn** P&K fertiliser subsidy for kharif 2026.
- Cabinet to approve **₹375 bn** incentive scheme for coal gasification projects.
- Cabinet approves credit guarantee scheme of **₹2.6 tn** to MSME, non-MSME, airlines.

► Private Capex in Focus: A Tale of Caution and Strategic Investment:

- Adani to invest **₹1 tn** in Mumbai's Motilal Nagar redevelopment over 7 years
- Eveready commissions **₹2 bn** alkaline battery plant India's first alkaline battery mfg facility, aims to increase its market share to ~25%.
- Sun Pharma will acquire Organon at **\$14/share** in an all-cash deal, valuing the company at EV of **\$11.75 bn**.
- GAIL to borrow **₹50-60 bn** in FY27, buys 3 LNG cargoes amid shortages.
- L&T signs **0.3 mtpa** green ammonia supply deal with ITOCHU Corp.
- Wipro bags **\$1 bn** contract from Singapore's Olam Group.

GLOBAL MARKET OUTLOOK:

» U.S. Economy Moves Toward Soft Landing Amid Sticky Inflation:

The U.S. economy remained resilient in May 2026, although higher energy prices and persistent inflation continue to cloud the outlook.

Manufacturing activity improved further, with the Institute for Supply Management Manufacturing PMI rising to **52.7** in April, up from **52.3** in March, marking the fourth consecutive month of expansion. Consumer demand also remained healthy, supported by a 0.6% month-on-month increase in retail sales in February, led by autos, apparel, electronics, and e-commerce.

The labor market remains relatively stable, with the economy adding **115,000 jobs** in April, while the unemployment rate held steady at **4.3%**, suggesting gradual normalization rather than a sharp slowdown. Wage growth has moderated but remains supportive of household spending. On the policy front, the Federal Reserve kept interest rates unchanged and maintained a cautious, data-dependent stance. While the Fed's median projection still points to one rate cut in 2026, several market participants have pushed back expectations as inflation remains elevated, driven in part by higher oil prices.

Meanwhile, the U.S. Department of the Treasury has intensified discussions with insurance regulators regarding rising exposures to private credit, highlighting growing concerns around leverage in non-bank financial institutions.

Overall, the U.S. economy continues to move toward a soft-landing scenario, supported by resilient consumption and expanding manufacturing activity. However, sticky inflation, elevated energy prices, and emerging financial stability risks remain key factors to monitor.

▶ Eurozone Faces Growth Slowdown Amid Renewed Price Pressures:

The euro area economy showed signs of renewed weakness in April 2026 as higher energy prices and softer business activity weighed on growth. According to Eurostat, eurozone GDP expanded by just 0.1% quarter-on-quarter in Q1 2026, down from **0.2%** in the previous quarter, while annual growth slowed to 0.8%. At the same time, inflation accelerated to 3.0% in April, the highest level since September 2023 and well above the European Central Bank's **2%** target, driven primarily by a sharp rise in energy prices.

Business sentiment deteriorated materially, with the S&P Global Eurozone Composite PMI falling to **48.8** in April from 50.7 in March, slipping below the 50-mark that separates expansion from contraction and indicating the first decline in private-sector activity in over a year. The slowdown was led by weakness in services, while manufacturing remained relatively resilient.

Overall, the eurozone faces a more challenging macro environment, with slowing growth, rising inflation, and elevated energy costs complicating the ECB's policy outlook and increasing the risk of stagflationary pressures.

▶ China's Industrial Output Remains Resilient Amid Uneven Recovery:

China's industrial sector remained relatively resilient in March 2026, with industrial production expanding 5.7% year-on-year, highlighting continued support from policy stimulus and export-oriented manufacturing. Growth was broad-based across key sectors: mining output increased 5.7%, manufacturing rose 6.0%, and utilities (electricity, gas, and water) grew 3.5%. The stronger manufacturing print suggests that targeted measures to support infrastructure, consumer spending, and industrial activity are beginning to gain traction.

The data indicates that China's production base remains stable despite ongoing challenges from weak property markets, subdued domestic demand, and persistent deflationary pressures. Export-oriented industries and government-led investment continue to provide support, while authorities maintain a measured approach to stimulus, balancing growth objectives with efforts to contain financial risks and local government debt.

Overall, the March industrial production data points to a gradual but uneven recovery, with manufacturing and infrastructure activity offsetting weakness in the property sector and consumer confidence.

▶ INDIA ECONOMIC DATA

Economic Indicator	Mar'26	Feb'26	Mar'26
WPI inflation (in%)	3.9	2.1	2.3
CPI inflation (in%)	3.4	3.2	3.3
Trade Deficit (in bn\$)	20.7	27.1	21.7



Core sector decline was led by fertiliser (-24.6%), crude oil (-5.7%) & coal (-4.0%), partly offset by growth in natural gas (6.4%), cement (4%) & steel (2.2%)

Economic Indicator	Apr'26	Mar'26	Apr'25	MoM	YoY
GST Collection (in ₹tn)	2.1	1.8	2	18.50%	7.30%
AVG USD INR	93.4	92.9	85.6	0.50%	9.10%
Forex Reserves (\$ bn)	698.5	688.1	688.1	1.50%	1.50%