

MONTHLY MARKET OUTLOOK:

» India's Economic Snapshot:

India's Growth Momentum Remains Strong Despite Global Headwinds:

India continues to be the world's fastest-growing major economy, with real GDP expanding by **7.7%** in FY26 and **7.8%** in Q4FY26, supported by resilient domestic consumption, strong government-led infrastructure spending, and a sustained recovery in private capital expenditure.

Manufacturing and services remained the key engines of growth, while public capex continued to crowd in private investment. Reflecting confidence in the economy's resilience despite global uncertainties, the Reserve Bank of India (RBI) has revised its FY27 GDP growth forecast upward to **6.7%**, while maintaining a neutral monetary policy stance.

India's external sector also demonstrated resilience despite elevated global trade and geopolitical uncertainties. While the merchandise trade deficit widened to **US\$30.43 billion** in June, driven by imports of **US\$70.84 billion** against exports of **US\$40.41 billion**, robust services exports and steady remittance inflows continued to cushion the external balance. India had earlier recorded a current account surplus of **US\$7.1 billion** (0.7% of GDP) in the March quarter, underscoring the strength of its services-led external sector and reducing vulnerability to higher commodity prices and supply chain disruptions.

Inflationary pressures remain a key area of monitoring, although the RBI expects price pressures to moderate over the coming quarters. Consumer Price Inflation (CPI) stood at **4.38%** in June, while Wholesale Price Inflation (WPI) remained elevated at 9.87%, largely reflecting higher food, fuel, and energy costs amid geopolitical tensions. Even so, improving supply conditions, stable domestic demand, healthy corporate balance sheets, sustained public investment, and an expanding private capex pipeline continue to support India's favourable medium-term economic outlook

» Inflation Strikes Back: Price Pressures Return to the Fore:

Inflation re-emerged as a key macro concern during July, following a sharp acceleration in price pressures in June. Retail inflation rose to **4.38%** in June from **3.93%** in May, moving above the RBI's **4%** medium-term target for the first time in 17 months, while food inflation accelerated to **5.32%**. Wholesale inflation remained considerably more elevated, with WPI inflation rising to **9.87%**, driven by a 27.4% increase in fuel & power prices, reflecting the impact of elevated global energy and commodity costs. This creates an important divergence in India's macro environment: economic growth remains resilient, but inflation risks have increased materially. Persistent wholesale price pressures could gradually feed into consumer prices and compress corporate margins, particularly for energy- and commodity-intensive sectors.

Going forward, crude oil prices, food inflation and the progress of the monsoon will be critical. Sustained inflation could restrict the RBI's room for further monetary easing and keep bond yields elevated. Consequently, July's inflation readings will be important in determining whether the recent spike is temporary or signals a more persistent inflationary cycle.

» Industrial Momentum Strengthens as Manufacturing Leads:

India's industrial economy demonstrated strong momentum, with Index of Industrial Production (IIP) growth accelerating to **7.3% YoY** in June 2026, indicating a healthy start to the new fiscal year. The improvement was broad-based, led by manufacturing output growth of **7.8%**, while electricity and gas supply expanded by **10.6%**, reflecting robust demand across industrial and infrastructure-linked activities.

The strength in manufacturing is particularly encouraging as it points towards improving capacity utilisation, sustained domestic demand and the continued revival of India's investment cycle. Government-led infrastructure spending, rising private-sector capital expenditure and policy support for domestic manufacturing continue to provide structural tailwinds to industrial activity.

Overall, the June IIP print reinforces the view that India's underlying growth momentum remains resilient despite elevated inflation and global uncertainties. Sustained manufacturing activity and infrastructure investment should remain important drivers of economic growth through FY27, although higher energy and input costs remain key risks to monitor.

► Trade Deficit Widens, but Export Momentum Remains Encouraging:

India's merchandise trade deficit widened to **\$30.43 billion** in June 2026, as imports remained elevated at **\$70.84 billion**, compared with exports of \$40.41 billion. The widening deficit largely reflected India's continued dependence on energy and other key imports amid elevated global commodity prices. However, the underlying export picture remained encouraging. Merchandise exports increased strongly from **\$34.98 billion** in June 2025, indicating resilient overseas demand despite an uncertain global trade environment. Importantly, the improvement was supported by higher-value manufactured exports, with electronic goods exports rising nearly **19% YoY** and chemical exports growing around **19.4%**.

The continued expansion of electronics and other manufactured exports highlights the gradual diversification of India's export basket beyond traditional sectors. While elevated energy prices could keep the merchandise deficit under pressure in the near term, strong services exports, remittance inflows and improving manufacturing exports should continue to provide an important buffer to India's external position.

► GST Collections Signal Resilient Domestic Activity:

India's gross GST collections reached approximately **₹2.11 lakh** crore in July 2026, registering a robust **15.4% YoY** increase, supported by healthy domestic transactions and stronger tax collections from imports. The sustained strength in GST revenues provides an important high-frequency indicator of underlying economic activity, reflecting resilient consumption, improving compliance and the continued formalisation of the economy.

The July collection also reinforces the broader picture of healthy domestic momentum. Alongside IIP growth of **7.3% YoY** in June, strong GST receipts suggest that manufacturing, consumption and investment activity remain relatively resilient despite elevated inflation, geopolitical uncertainty and volatility in global commodity markets.

For the government, sustained double-digit GST growth also provides greater fiscal flexibility by strengthening indirect tax revenues. Overall, the combination of robust tax collections and accelerating industrial production indicates that India's domestic growth engine remains firmly intact, providing an important cushion against a more challenging external environment.

► Services Growth Moderates, but Remains in Expansion:

India's services sector showed signs of moderation in July, with the preliminary HSBC India Services PMI declining sharply to **53.1** from **57.4** in June, marking its weakest expansion since early 2022. Growth in new business and overall activity softened during the month, while firms also faced increasing input-cost pressures, indicating that higher operating costs are beginning to weigh on business conditions.

Despite the decline, the headline PMI remained comfortably above the 50-point threshold separating expansion from contraction. The July reading therefore signals a moderation in the pace of services growth rather than an outright deterioration in activity. This distinction remains important given the services sector's significant contribution to India's overall economic growth.

The softer PMI reading contrasts with strong industrial production and GST collections, suggesting some divergence across different segments of the economy. Going forward, domestic demand, employment trends and input-cost pressures will be important indicators to monitor. While services momentum has clearly cooled, continued expansion alongside resilient manufacturing activity suggests that India's broader domestic growth environment remains supportive entering the coming months.

► India's Farm Economy Leans Further on Global Fertiliser Markets:

India's fertiliser market showed increasing dependence on imports, with urea imports surging **83%** to 10.4 million tonnes, while DAP imports rose 36% to 6.2 million tonnes. The sharp increase in imports came alongside a 4% decline in domestic urea production to **29.3** million tonnes, highlighting supply-side constraints despite continued efforts to expand domestic fertiliser capacity.

In contrast, DAP production increased **4%**, providing some improvement in domestic availability. However, the widening gap between domestic production and agricultural demand has increased India's reliance on global fertiliser markets.

The trend is important from both a food-security and fiscal perspective. Higher import dependence exposes the fertiliser system to global prices, freight costs and geopolitical disruptions, while elevated subsidy requirements could place additional pressure on government finances. Going forward, strengthening domestic production capacity and securing stable import supplies will remain important for ensuring timely fertiliser availability, particularly ahead of the kharif and rabi seasons.

► Foreign Investors Return as Market Sentiment Improves:

After four consecutive months of net selling, Foreign Portfolio Investors (FPIs) returned as net buyers of Indian equities during July, marking an important shift in foreign investor sentiment. By July 12, foreign investors had already invested more than **₹15,000** crore into domestic equities, reversing part of the sustained outflows witnessed during the preceding months. The improvement in flows was supported by India's resilient economic growth, stronger industrial activity, improving global risk appetite and greater currency stability. Robust GST collections and industrial production data further reinforced confidence in India's domestic growth story, while easing global uncertainty encouraged investors to increase exposure to emerging markets. The return of foreign capital is particularly significant after persistent FPI selling had weighed on market liquidity and valuations earlier in the year. However, the sustainability of these inflows will depend on global interest rates, crude oil prices, corporate earnings and the rupee's trajectory. Overall, renewed FPI participation provides a supportive backdrop for Indian equities, particularly when combined with continued strong domestic institutional investor flows.

► Monsoon Under Watch: Rainfall Becomes a Macro Risk:

India's monsoon season began on a significantly weaker footing, with the country recording a **40%** rainfall deficit during June, making it the fifth-driest June since 1901. Rainfall remained subdued during the first half of July, with cumulative precipitation since June 1 still approximately **23%** below normal by July 15, raising concerns over agricultural activity and reservoir replenishment. Rainfall activity subsequently improved across several regions during the latter half of July, providing some relief. However, the large early-season deficit remains important, particularly given the dependence of kharif crops on timely and well-distributed rainfall.

A prolonged rainfall shortfall could have broader macroeconomic consequences through lower agricultural output, higher food prices and weaker rural consumption. This is particularly relevant at a time when food inflation has already begun to accelerate. Consequently, the distribution and intensity of rainfall during August will be critical. A sustained recovery could support crop production and ease food inflation concerns, while renewed weakness would represent an important downside risk to India's otherwise resilient domestic growth outlook.

» The Power Pulse: A High-Frequency Signal of Growth

India's power generation recorded a strong **10.4%** YoY increase in July 2026, extending the robust growth seen across the electricity sector. Cumulative power generation during April-July FY27 rose **9%** YoY, indicating sustained growth in electricity demand as industrial, commercial and infrastructure activity remained firm. The July increase was supported by both thermal generation and renewable energy, highlighting the broad-based nature of the expansion. Stronger electricity consumption is an important high-frequency indicator of economic activity, particularly when viewed alongside 7.3% IIP growth in June and robust GST collections in July. The acceleration also underscores the continued need for investments in generation capacity, transmission infrastructure and grid modernization, particularly as India's manufacturing and electrification requirements expand. While higher thermal generation reflects strong underlying demand, the increasing contribution from renewables remains encouraging from a long-term energy-transition perspective.

Overall, robust power generation growth reinforces the view that India's domestic economic activity remains resilient entering FY27, despite external uncertainties and elevated commodity prices.

» Wheels Turn Faster as Consumption Strengthens:

India's automobile retail sales remained robust in July 2026, with vehicle registrations rising **25.9%** YoY to **2.59** million units, signalling continued strength in domestic consumption. The broad-based improvement indicates that discretionary spending remains resilient despite elevated inflation and global economic uncertainty.

Strong two-wheeler and passenger-vehicle demand, supported by improving rural conditions, favourable financing availability and healthy consumer sentiment, provided an important boost to the overall auto market. The recovery in rural demand is particularly significant, as it points towards improving household purchasing power and could support consumption across other discretionary categories.

The strong July performance also complements the broader macro picture, with GST collections, industrial production and power generation all pointing towards resilient domestic activity. However, higher input costs, financing conditions and commodity prices remain key factors to monitor.

CAPEX UPDATE

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

- Cabinet approves **₹840.8 bn** 'Samudra Manthan' offshore exploration programme .
- Cabinet approves **₹1.3 tn** Semicon 2.0 and ₹62.5 bn mobile schemes .
- Govt creates **₹400 bn** corpus for scientific coal mine closures .
- Govt invites bids for **₹181 bn** ACC PLI, boosting domestic BESS mfg .
- India raised diesel export duty to **₹24/litre**, ATF to **₹22/litre** and petrol to **₹3.5/litre** .
- India plans **₹145.3 bn** strategic petroleum reserve expansion under a PPP model .
- Centre waives customs duty on Liion cell inputs & electronics components until March 31, 2029 .

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

- Gabriel India to acquire stakes in HL Mando Anand & HL Klemove India for **₹31.7 bn** .
- M&M sells truck & bus business to SML Mahindra for **₹5.3 bn**. Aims to create a unified CV platform for trucks and buses .
- Maruti Suzuki hikes vehicle prices up to **₹30,000** from August .
- IKEA to double India investment to **₹210 bn** by 2030 .
- Sun Pharma receives S.Africa and Brazil approval for generic semaglutide .
- ONGC to build 1.75 MTPA strategic petroleum reserve in Mangalore .
- IndiGo signs MoU with CFM Intl. for 1,000+ LEAP - 1A engines for 510 Airbus aircraft .

GLOBAL MARKET OUTLOOK:

» **U.S. Economy: Inflation Eases, but Financial Conditions Remain Tight.**

The U.S. economy remained resilient through the first half of 2026 and into July, supported by steady consumer activity and continued economic expansion. However, the outlook has become more challenging as inflation remains above target, long-term borrowing costs have increased and trade-policy uncertainty has intensified.

The key positive development was the moderation in inflation. Headline CPI eased to **3.5% YoY** in June 2026, while prices declined **0.4% MoM**, providing relief after the sharp energy-driven inflation seen earlier in the year. However, inflation remains above the Federal Reserve's 2% target, limiting the scope for aggressive monetary easing.

The Federal Reserve held policy rates at **3.50%–3.75%** in July and dropped explicit forward guidance, moving toward a fully meeting-by-meeting, data-dependent approach. The decision highlighted growing disagreement within the FOMC, with three members voting for a 25 bps rate hike, reflecting concerns over persistent inflation.

Meanwhile, financial conditions tightened at the long end of the curve, with the 30-year U.S. Treasury yield climbing above **5.2%**, its highest level since 2007. Elevated yields could weigh on housing, corporate borrowing and equity valuations.

The external sector provided some support as the June trade deficit narrowed **5.6% to \$73.3 billion**, with imports falling **1.8%**, faster than the **0.9%** decline in exports. Meanwhile, the U.S. announced a 15% tariff and price floors on polysilicon imports, reinforcing its protectionist industrial strategy. Overall, the U.S. economy remains resilient, but sticky inflation, elevated bond yields, protectionism and geopolitical uncertainty could keep financial conditions tighter for longer. For global markets, U.S. inflation and Treasury yields will remain critical drivers of capital flows and emerging-market valuations.

► Europe: Inflation Rebounds, Limiting Policy Flexibility

Europe's macro environment weakened in July as Eurozone inflation rose to **2.9%**, driven by higher energy prices. Core inflation increased to **2.5%**, while services inflation remained elevated at **3.3%**, pointing to persistent underlying price pressures.

The ECB held its deposit rate at 2.25% but kept the door open to further rate hikes if inflation remains elevated. Similarly, the Bank of England maintained rates at **3.75%**, warning that energy-price risks remain tilted to the upside. The renewed inflation pressure could therefore limit the scope for aggressive monetary easing. Geopolitical risks also remained elevated, with the EU approving its 21st sanctions package against Russia, tightening restrictions on its banking sector and cryptocurrency networks.

Overall, sticky inflation, higher energy costs and geopolitical uncertainty could delay monetary easing and keep European financial conditions relatively tight.

► China's Manufacturing Strength Offsets Weak Domestic Demand:

China's economic momentum moderated further in Q2 2026, with GDP growth slowing to **4.3%** YoY from **5.0%** in Q1, falling below the government's 4.5%–5.0% full-year growth target. The slowdown highlights persistent weakness in domestic demand and reinforces pressure on policymakers to provide additional support to consumption and investment.

The PBOC kept the 1-year LPR unchanged at **3.00%** and the 5-year LPR at **3.50%** in July, suggesting a cautious approach to monetary easing. At the same time, authorities intensified efforts to stabilise financial markets. The CSRC and Hong Kong's SFC announced measures to deepen cooperation between mainland and Hong Kong capital markets, while state-backed investors were mobilised to support domestic equities. The CSRC also engaged directly with investors and signalled continued support from the state's "national team" to bolster market confidence.

On the consumption front, China unveiled its first consumption-focused five-year plan, targeting CNY60 trillion in annual retail sales by 2030.

Authorities also pledged to raise household incomes and significantly increase household consumption as a share of the economy.

Overall, China is increasingly shifting policy emphasis from export- and investment-led growth toward consumption, but the Q2 slowdown suggests that achieving this transition will require stronger policy support and sustained improvement in household confidence.

INDIA'S ECONOMIC DATA

Economic Indicator	Jun'26	May'26	June'25
WPI Inflation (%)	9.9	9.7	-0.1
CPI Inflation (%)	4.4	3.91	2.1
Trade Deficit (in bn\$)	30.4	28.2	18.8



Core sector growth was led by Iron ore (43.9%), Electricity (9.8%), Cement (9.8%), Steel (4.6%) offset by -ve growth in crude oil, natural gas, refinery products, and fertilisers

Economic Indicator	Jul'26	Jun'26	Jul'25	MoM	YoY
GST Collection (in ₹tn)	2.1	1.9	1.8	8.4%	15.4%
AVG USD INR	95.9	95.0	86.1	1.5%	11.4%
Forex Reserves (\$ bn)	692.9	666.9	688.9	3.9%	0.6%