

MONTHLY MARKET OUTLOOK:

» India's Economic Snapshot:

India's Growth Momentum Remains Resilient Amid Rising External Risks:

India continues to be among the world's fastest-growing major economies, with real GDP growth of **7.8%** in Q1 (April – June) FY27, supported by resilient consumption, manufacturing, services and investment. While growth moderated from 8.6% in Q4 FY26, the performance highlights the underlying strength of domestic demand. The RBI retained its FY27 growth forecast at **6.7%** and kept the repo rate at 5.25%, maintaining a neutral policy stance.

High-frequency indicators remain encouraging. IIP growth accelerated to **8.0%** YoY in August, with manufacturing expanding 9.0% and electricity and gas output rising **12.3%**, signalling continued industrial momentum. September GST collections rose 14.7% YoY to ₹2.04 lakh crore, while net collections increased **18.1% to ₹1.77 lakh crore**, reinforcing evidence of strong formal economic activity and domestic demand.

The external sector also remained relatively robust. August merchandise exports increased 26.1% YoY to US\$43.8 billion, taking cumulative April-August merchandise exports to US\$215.9 billion, up **17.9%**. However, imports rose faster, keeping the merchandise trade deficit elevated at US\$26.9 billion in August.

Inflation remains an important monitor. August CPI rose to 4.82%, while food inflation reached **5.95%**. WPI inflation also increased to **9.92%**, driven partly by elevated fuel and power prices.

Overall, India's strong domestic demand, industrial momentum, investment cycle and healthy tax collections support the medium-term growth outlook. However, elevated commodity prices, trade tensions, rupee pressure and stretched valuations warrant a selective, earnings-focused investment approach.

» Inflationary Pressures Re-emerge, Challenging the Growth–Rate Balance:

India's inflation outlook has become less comfortable, with August CPI inflation rising to **4.82%, from 4.45%** in July, while food inflation climbed sharply to 5.95%. Core inflation also increased to around 4.2%, indicating that price pressures are becoming broader beyond food.

Meanwhile, WPI inflation remained elevated at **9.92%**, driven partly by higher fuel and power prices, highlighting rising pressures across the production chain. If sustained, these input costs could weigh on corporate margins, particularly across manufacturing, transportation and commodity-sensitive sectors.

The inflation outlook remains vulnerable to elevated crude oil prices, geopolitical tensions, currency movements and food-price volatility. A sustained rise in inflation could limit the RBI's flexibility to pursue further monetary easing and keep borrowing costs elevated.

For equity markets, higher inflation could pressure household purchasing power, consumption and corporate earnings, while elevated bond yields may weigh on valuations. Overall, India's strong domestic growth provides a cushion, but the renewed inflationary pressures warrant closer monitoring.

» Crude Oil Surge Raises External and Inflation Risks:

The Indian crude basket has moved above **\$100/bbl**, creating a significant risk for India's external and inflation outlook. Given India's high dependence on imported crude oil, a sustained rise in global oil prices could substantially increase the country's import bill and widen the merchandise trade deficit. Higher crude prices could also put downward pressure on the rupee as demand for dollars rises to finance energy imports. A weaker rupee, in turn, could amplify imported inflation by increasing the domestic cost of crude and other commodities. This creates a challenging combination of higher inflation, weaker currency and tighter external balances.

The impact could extend to corporate profitability as well, particularly for oil marketing companies, airlines, transportation, chemicals and other energy-intensive sectors. At the same time, higher fuel costs could reduce disposable income and weigh on discretionary consumption.

Overall, crude oil above \$100/bbl represents a key macro risk for India. If elevated prices persist, they could constrain monetary-policy flexibility, pressure the rupee and increase the vulnerability of the current account and inflation outlook.

► Foreign Flows Reverse as Crude, Yields and Rupee Weigh on Sentiment:

After strong buying in July and August, **foreign portfolio investors (FPIs)** turned heavy sellers in September 2026, with equity outflows exceeding **₹25,000 crore** during the month. The reversal came amid a combination of rising crude oil prices, higher US bond yields, rupee weakness and renewed global risk aversion.

The shift in foreign flows is significant because FPIs had briefly returned to Indian equities in August, suggesting improving global investor sentiment. The September reversal therefore highlights the sensitivity of Indian markets to changes in global liquidity conditions.

For India, sustained FPI selling could put additional pressure on the rupee and equity valuations, particularly in large-cap stocks where foreign ownership is relatively high. However, strong domestic institutional and retail participation provides an important counterbalance.

The sharp reversal in FPI flows highlights that global macro factors remain a key near-term risk for Indian equities, even as domestic fundamentals remain relatively strong. Going forward, crude prices, US interest rates, the rupee and global liquidity will be critical variables for market direction.

► India: MSME Credit Growth Signals Manufacturing Strength Amid Sectoral Divergence:

Credit to India's micro, small and medium enterprises (MSMEs) rose **12.5% YoY to ₹47.4 trillion** as of June 2026, reflecting continued demand for business financing. Growth was led by manufacturing, where credit expanded **17.4%**, followed by trading at **12.7%**. In contrast, services-sector credit grew by just **0.2%**, highlighting uneven borrowing momentum across the economy.

The strong expansion in manufacturing credit suggests increased financing requirements for working capital, capacity expansion and business investment. Growth in trading credit also points to continued activity across domestic commerce and distribution networks. However, the near-stagnation in services lending warrants attention, potentially reflecting subdued credit demand or weaker activity in certain segments.

Overall, rising MSME credit supports the outlook for domestic economic activity and manufacturing investment. However, the divergence across sectors highlights the importance of monitoring credit quality, borrowing costs and lending sustainability to determine whether expanding credit translates into durable business growth.

► India: Proposed UPI Charges Could Reshape the Digital Payments Landscape:

The reported introduction of a **0.4%** merchant discount rate (**MDR**) on person-to-merchant (**P2M**) UPI transactions above **₹2,000** from October 15 could mark a significant change in India's digital payments landscape. If implemented as reported, the charge may increase payment-processing costs for merchants, particularly businesses handling high-value transactions.

The impact will depend on the final policy, including which payment instruments and merchant categories are covered and whether the charge applies universally. Higher transaction costs could encourage some merchants to reconsider payment acceptance practices, potentially affecting adoption among smaller businesses. Payment service providers could benefit from additional revenue, although competitive pressures may limit how much of the cost can be passed on.

Important: This reported change should be verified against an official NPCI or government announcement before inclusion in an investor-facing outlook. UPI transactions have historically benefited from a zero-MDR framework for prescribed payment methods, making confirmation of the new rule and its scope essential.

► Monsoon Deficit Raises Risks for Agriculture and Food Inflation:

India's monsoon ended **12.6%** below the long-period average (**LPA**), marking the lowest seasonal rainfall since 2015 as El Niño conditions strengthened. The regional distribution was particularly concerning: East and Northeast India received just **74%** of LPA, or **1,016.3 mm**, the lowest seasonal rainfall for the region since 1901. The rainfall deficit is beginning to reflect in agricultural activity, with Kharif sowing down **1% YoY**. Paddy acreage declined **4%**, **maize 3%** and **castor 8%**, according to the CWWG data provided. Lower sowing in key crops could constrain production and increase the risk of higher food prices, particularly if reservoir levels and soil moisture remain inadequate.

For the broader economy, weaker agricultural output could affect rural incomes, farm-linked consumption and demand for consumer goods. Higher food inflation could also complicate the RBI's monetary-policy outlook, especially alongside elevated crude oil prices.

Overall, the deficient monsoon increases the risk of food-price volatility and uneven rural demand. The eventual impact will depend on crop yields, irrigation availability, reservoir levels and the persistence of El Niño conditions.

► Credit Card Spending: Signs of Moderation in Consumer Activity:

Credit card spending declined **2.8% MoM** to approximately **₹2 trillion** in August 2026, reflecting a moderation in card-based consumption, led by a drop in online payments during the month. The decline suggests some cooling in discretionary spending, although a single month's movement does not necessarily indicate a broader slowdown in consumer demand.

The trend warrants monitoring alongside other high-frequency indicators, including automobile sales, GST collections and UPI transactions, to assess whether the moderation is temporary or reflects a wider shift in household spending. A sustained decline in digital and card-based payments could signal softer demand for discretionary purchases, particularly in e-commerce and lifestyle-related categories.

Overall, the August decline is a signal to watch rather than definitive evidence of weakening consumption. The direction of spending in subsequent months will help determine whether domestic demand remains resilient heading into the festive season.

► Forex Reserves: Record Weekly Decline Raises Rupee Concerns:

India's foreign exchange reserves fell by **US\$18.3 billion** to **US\$747.6 billion** in the week ended September 25, 2026, marking a record weekly decline. Although reserves remain substantial, the sharp reduction warrants attention amid elevated crude oil prices, foreign portfolio outflows and pressure on the rupee.

A decline in reserves can reflect several factors, including RBI intervention to smooth currency volatility, changes in the dollar value of foreign-currency assets and movements in gold prices. Therefore, the entire fall should not automatically be attributed to intervention in the foreign exchange market.

Nevertheless, sustained pressure on the rupee could increase imported inflation, particularly if crude oil prices remain above US\$100 per barrel. This could also complicate the RBI's monetary-policy decisions and affect investor sentiment towards Indian assets.

Overall, India's external buffers remain an important source of resilience, but the sharp weekly decline highlights rising external-sector risks. The subsequent direction of reserves, rupee movements and capital flows will be important indicators to monitor.

» Oil Demand: Consumption Softens as Russian Imports Decline:

India's oil demand fell **2.8%** in August, with LPG consumption declining sharply by **17.1%**. At the same time, imports of Russian crude dropped **16.5%** to 2.1 million barrels per day (mbpd), indicating a shift in the country's crude procurement mix amid evolving trade and geopolitical dynamics. The decline in oil demand could reflect softer consumption in certain fuel categories, although one month's data is insufficient to establish a sustained slowdown. The sharp fall in LPG demand also warrants monitoring to determine whether it reflects seasonal factors, supply conditions or changes in consumption patterns. Meanwhile, lower Russian crude imports could increase the importance of alternative suppliers, depending on overall import requirements and refinery demand. With the Indian crude basket above **US\$100** per barrel, any shift towards more expensive supplies could raise the import bill and add pressure to the trade balance. Overall, weaker oil demand may offer some relief to India's energy-import requirements, but elevated crude prices and changing sourcing patterns remain key external-sector risks. Subsequent demand and import data will help clarify whether these movements are temporary or signal a broader trend.

» Tax Collections: Strong Revenues Signal Economic Resilience:

India's tax collections remained robust in September, reflecting sustained formal economic activity and continued revenue growth. Net direct tax collections rose **13%** to **₹12.1 trillion** through September 17, supported partly by higher advance-tax payments. The increase suggests continued corporate tax contributions and income-tax buoyancy, although advance-tax receipts can fluctuate with payment schedules and profitability trends. Meanwhile, September GST collections increased **14.7%** year-on-year to approximately **₹2.0 trillion**, indicating resilience in consumption, domestic transactions and formal-sector activity. Strong GST receipts complement other encouraging indicators, including industrial production and manufacturing credit growth. Together, robust direct-tax and GST collections provide a positive signal for government revenue mobilisation and economic momentum. They also offer some fiscal support by strengthening the revenue base, although expenditure trends and the quality of tax growth will determine the overall fiscal impact. Overall, healthy tax collections reinforce the resilience of India's formal economy. However, they should be assessed alongside inflation, rural demand, corporate earnings and external-sector pressures to determine whether revenue growth reflects broad-based economic strength or is concentrated in specific sectors.

CAPEX UPDATE

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

- Cabinet approves eight **₹208 bn** railway projects across nine states .
- Modified UDAN targets 100 airports & 120 destinations over decade with **₹288.4 bn** outlay.
- Cabinet raises EPF and EPS wage ceiling from **₹15k to ₹25k** .
- India plans **600** offshore wells over four years, including 60 deepwater wells, says MoPNG .
- IRDAI proposes to reimpose commission caps and tighten insurers' expense .
- Govt extends **RoDTEP and RoSCTL** to 31 Dec, keeping export tax refunds in place for another quarter .

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

- Adani Group plans over **₹1 tn** investment in West Bengal across ports, energy, logistics and data centres by 2035.
- Raymond enters aircraft structures through wing and fuselage assembly programme .
- RPG Life Sciences plans **₹5 bn** acquisitions to expand manufacturing and API capabilities .
- Chalet Hotels advances talks to acquire Dehradun's Six Senses Vana for **~₹6 bn** .
- Blackstone sells **25%** of Knowledge Realty Trust via **₹120 bn** OFS, India's largest REIT unit sale .
- ITC acquires remaining shares of Yoga Bar parent Sproutlife for **₹6.5 bn**, making it wholly owned .
- Solar Industries to acquire Omnia for **₹129.5 bn**, expanding mining explosives and blasting solutions globally .

GLOBAL MARKET OUTLOOK:

» **U.S. Economy: Inflation Risks and Rising Bond Yields Cloud Outlook:**

The U.S. economy remained resilient through September 2026, supported by domestic demand and continued investment. However, the outlook has become more uncertain as inflationary pressures, rising borrowing costs and trade tensions challenge the prospect of a smooth economic landing. August CPI remained at **3.4% YoY**, unchanged from July, but increased **0.4% MoM**, the strongest monthly rise in three months. Core CPI eased to **2.4% YoY**, although the monthly increase accelerated to **0.3%**. Rising energy and gasoline prices contributed to the headline increase, suggesting that disinflation remains vulnerable to commodity-price shocks. September CPI is due on October 14.

The Federal Reserve raised its policy rate by **25 bps to 3.75%–4.00%** at its September meeting. Its updated projections indicate that policymakers expect inflation to remain elevated, with median PCE inflation at 3.7% for 2026. The dot plot points to a median federal funds rate of approximately **4.1%** at year-end 2026 and in 2027, suggesting limited near-term scope for monetary easing and the possibility of another hike before year-end. Bond markets have faced renewed pressure. The 30-year Treasury yield climbed above **5.5%** on September 29, reaching its highest level since 2002, as investors reassessed inflation, fiscal sustainability and the outlook for interest rates. Treasury buybacks have so far failed to reverse the sell-off in long-duration bonds, keeping financing costs elevated and increasing pressure on equity valuations.

Trade tensions remain another headwind. U.S. tariffs and potential further restrictions on Chinese imports risk raising input costs, disrupting supply chains and complicating the inflation outlook. Meanwhile, the widening U.S. trade deficit highlights continued dependence on imports despite protectionist measures.

Overall, the U.S. economy remains resilient, but persistent inflation, restrictive monetary policy, elevated Treasury yields and trade uncertainty pose risks to global liquidity and asset valuations. Investors should monitor upcoming inflation data, Fed guidance and bond-market movements for signals affecting global capital flows and emerging markets.

► Eurozone: Growth Holds Up, but Inflation Rebounds:

The Eurozone economy has shown greater-than-expected resilience, prompting the ECB to raise its 2026 growth forecast to **0.9%**. However, rising inflation and fiscal uncertainty cloud the outlook. On September 10, the ECB raised all three key interest rates by **25** basis points, taking the deposit rate to **2.5%**, as inflationary pressures limited the scope for monetary easing. Eurozone flash inflation surged to **3.8%** in September, a three-year high, driven by an **18.8%** increase in energy prices. Higher energy costs threaten household purchasing power and corporate margins, complicating the ECB's policy outlook. Meanwhile, the euro fell to a 17-month low against the U.S. dollar amid concerns over France's fiscal position. Persistent deficits and political uncertainty could raise French borrowing costs, widen spreads over German bonds and tighten financial conditions across the region. Overall, the Eurozone faces rising inflation alongside uneven growth and fiscal risks. Energy prices, French bond spreads and ECB policy will remain critical indicators for European markets and global capital flows.

► China: Industrial Recovery Amid Weak Consumption:

China's economic recovery remains uneven, with industrial production strengthening while domestic consumption continues to disappoint. August retail sales grew just 0.4% YoY, missing forecasts, while automobile sales contracted 18.5%, highlighting persistent weakness in household demand. Industrial output rebounded to 5.2%, led by electronics production growth of 17.2% and a sharp 57.2% increase in lithium-ion battery output. However, contractions in cement and steel suggest that property-sector weakness and subdued construction activity continue to weigh on traditional industries. Energy security has also become a priority. Chinese refiners suspended oil-product exports for October as Beijing seeks to preserve domestic inventories amid war-related supply disruptions. Export restrictions have fluctuated since March, with shipments now subject to monthly approvals and limited to Hong Kong and Macau, potentially tightening global fuel markets. Meanwhile, global investor sentiment toward China has improved, with BofA analysis indicating that international funds have moved from a four-year underweight to benchmark-neutral positioning since June. China's gold reserves also rose to 77.5 million ounces at the end of September, marking the 23rd consecutive monthly increase. Overall, China faces a widening divide between industrial strength and weak domestic demand. Consumption recovery, property stabilisation and energy-market disruptions will remain critical determinants of its economic outlook and global market implications.

INDIA'S ECONOMIC DATA

Economic Indicator	Aug'26	Jul'26	Aug'25
WPI Inflation (%)	9.9	9.8	-0.8
CPI Inflation (%)	4.8	4.5	2.1
Trade Deficit (in bn\$)	26.9	32.0	27.2



Core sector growth dragged by fertilisers (-12.4%) and gas (-4.9%), offset by cement (+12.5%) and electricity (+11.6%)

Economic Indicator	Sep'26	Aug'26	Sep'25	MoM	YoY
GST Collection (in ₹tn)	2.0	2.0	1.8	2.9%	14.7%
AVG USD INR	95.5	95.4	88.3	0.0%	8.1%
Forex Reserves (\$ bn)	747.6	740.8	700.2	0.9%	6.8%