

Economic Research | Macro and Markets Flash

What direction is the next India rate move?

Monthly thoughts | September 18, 2025

India high-frequency indicators appear to be showing some improvement, with the GST shifts also likely to support growth longer term while rest of FY26 credit growth also appears supported by sanctions taken in the past year. Weak inflation this year is creating a low base, with stronger prints next year implying that the next move in rates might eventually be up. Globally, signs all point towards longer term steepening of yield curves with weakening of currencies, though China might not fit with this trend. With global conditions becoming more predictable, macro developments will likely be driven by the above trends.

Exhibit 1: OIS markets beginning to price in a hike in 2 years' time?



Source: Bloomberg, Axis Bank Research

India: Recovery with consumption, is the next move in rates up?

High-frequency activity indicators are now showing signs of bottoming out, with better prints related to transportation, urban retail sales and the rural sector being seen. The GST redesign is also seen as growth positive but fiscally neutral (for the current FY). With a US trade deal remaining the base case, albeit with a higher than initially thought average tariff rate, we continue to see potential GDP growth around 7% - with hope for investments as a consequence of transfers of knowhow along with FDI as a result of the deal. Inflation has likely begun a slow move higher (Fig 2), with reversion lower in vegetable prices creating an even lower base (Fig 3). We watch for impacts of improving consumption across indicators including core inflation and the current account, though we also note that steady outflows of savings (Fig 4) might mean neutral rates are too low. With this, we ask if the next move in India rates is up (Fig 1).

China macro diverging from the rest of the world

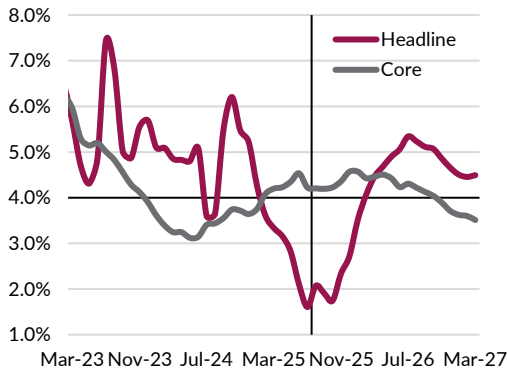
US prints have lately cooled (Fig 5), with evidence of tariffs fading (Fig 6) from the inflation pipeline as well. This brings Fed caution this year in focus, with catch-up rate cuts amid indications of political polarisation also being justifiable from a classical central banking point of view. Along with this, the ECB appears to have turned more hawkish, with fiscal and political risks also building. The BOE budget is in focus (Fig 7), and can be a catalyst driving a historical adjustment in UK macro/markets, while Japanese politics can also bring up widely differing outcomes. However, all of these developments are likely to bring some form of steepening. This is in contrast to China where anti involution, unlikely rate cuts, a strong CNY bias and an uncertain US relationship are likely to keep the Chinese curve lower.

Macro/market developments shifting away from uncertainty to above trends

Policy uncertainty was the defining factor of macro and markets developments for the year so far. However, with some form of resolution and predictability coming in, it is likely that evolution of the above trends will once again take precedence in the macro/markets space.

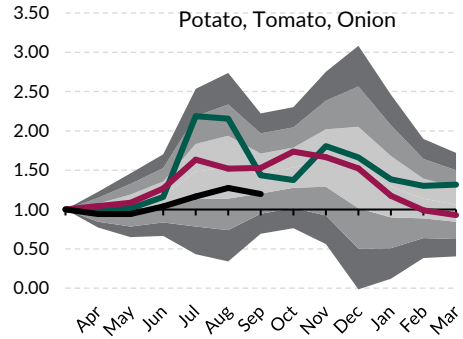
Tanay Dalal
Tanay.Dalal@axisbank.com

Exhibit 2: Inflation beginning to move higher



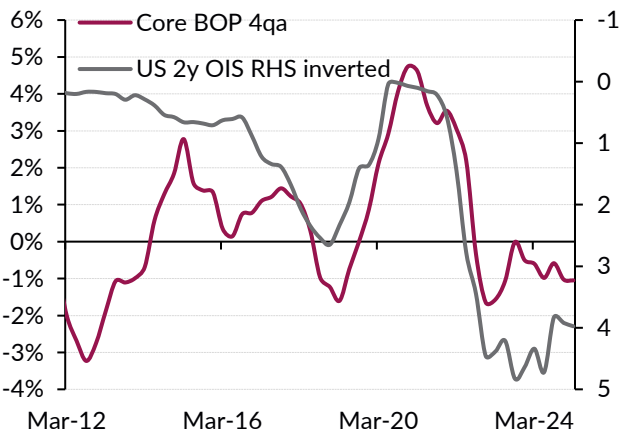
Source: MOSPI, Axis Bank Research

Exhibit 3: Headline POT prices back at -1 SD



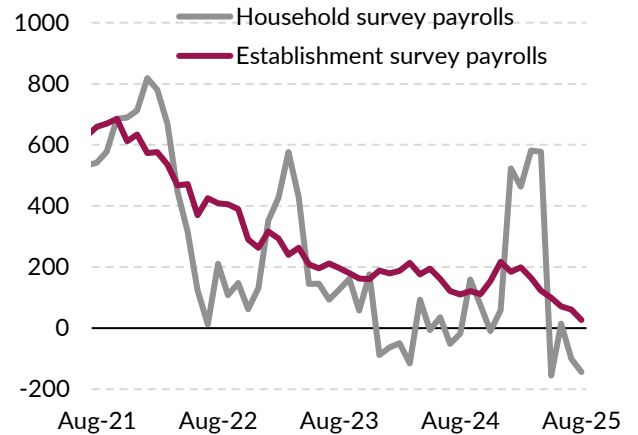
Source: DCA, Axis Bank Research

Exhibit 4: India core BOP – savings flowing out



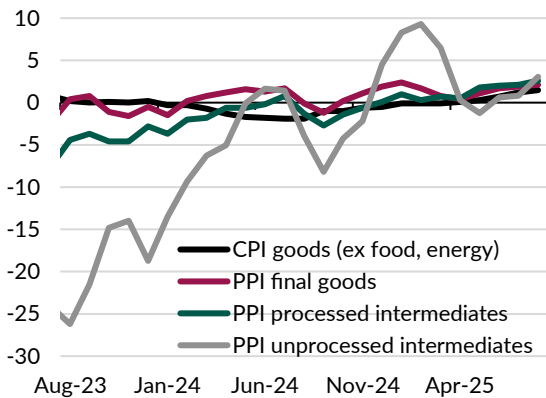
Source: RBI, Bloomberg, Axis Bank Research

Exhibit 5: US payrolls (rolling 4m) have slowed



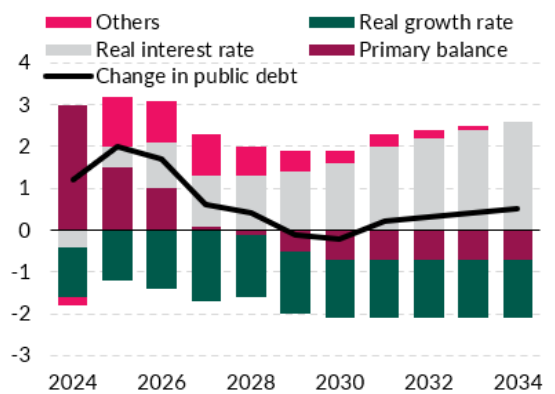
Source: Bloomberg, Axis Bank Research

Exhibit 6: Pipeline tariff inflation limited



Source: Bloomberg, Axis Bank Research

Exhibit 7: UK needs spending cuts to avoid debt trap



Source: IMF, Axis Bank Research

India: Recovery with consumption, is the next move in rates up?

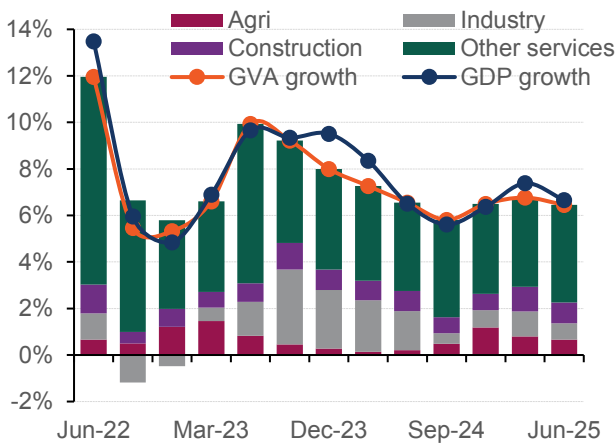
High-frequency activity indicators are now showing signs of bottoming out, with better prints related to transportation, urban retail sales and the rural sector being seen. The GST redesign is also seen as growth positive but fiscally neutral (for the current FY). With a US trade deal remaining the base case, albeit with a higher than initially thought average tariff rate, we continue to see potential GDP growth around 7% - with hope for investments as a consequence of transfers of knowhow along with FDI as a result of the deal. Inflation has likely begun a slow move higher, with reversion lower in vegetable prices creating an even lower base. We watch for impacts of improving consumption across indicators including core inflation and the current account, though we also note that steady outflows of savings might mean neutral rates are too low. With this, we ask if the next move in India rates might be up.

Growth beginning to improve as seen in leading indicators likely also to be boosted by GST redesign

After stronger than expected Q1 India GDP growth came out, some improvement in high-frequency trends has become noticeable. This is foremost in numbers for PMI, but also seen in a survey of retailers, pickup in Fastag payments and e-way bills (signalling transportation), while seasonally low number of individuals applying for work under MNREGA and good tractor sales also indicate positive rural trends driven by the good monsoon, improvement in the water table, and good sowing. Numbers that were weak – GST collections, port cargo, air traffic, and credit still remain weak, though recovery in electricity production (with the base falling YoY on a good monsoon last year) will likely help support IIP numbers going ahead.

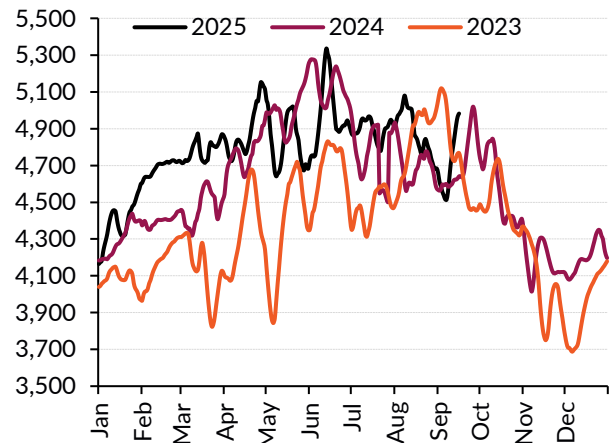
The GST redesign is broadly seen as a stimulus of around 0.5% of GDP towards consumption, even though in practice the full quantum of rate cuts might not be passed on the end consumer. As covered in past notes, the package is fiscally neutral for this year.

Exhibit 8: India Q1 growth stronger than expected



Source: CSO, Axis Bank Research

Exhibit 9: Electricity (mn units) finally higher



Source: Bloomberg, Axis Bank Research

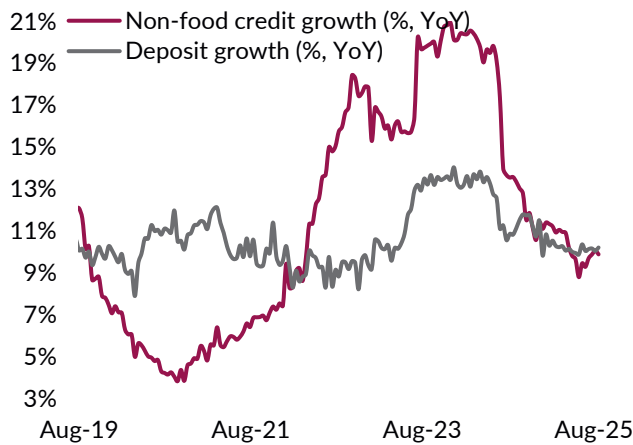
given ample balances in the GST compensation fund that are to be shared evenly between the centre and states. However, there might going ahead be shifts within states given their individual consumption patterns. Increased consumption and compliance are also likely to reduce the drag on the fiscal in coming years – this is only an extension of the trend showing steadily lower average GST rates over the years.

Continuing with trend growth estimates around 7%, US trade deal remains the base case

Looking forward, we continue to assume a US trade deal as the base case – with this being the path of least resistance – with an average reciprocal tariff rate between 20% and 25%. With this, we continue to peg India trend growth at around 7%, with scope for investments in nuclear energy and defence adding onto current thrusts in real estate, renewables, and the nascent push to electronics. Absence of a trade deal would affect India directly through trade flows, but also indirectly through confidence and investment channels. A deal would allow financial flows and knowhow to be channelled, boosting India’s growth from capital stock, labour quality and TFP alike. This actually presents an upside risk to trend growth over the longer term.

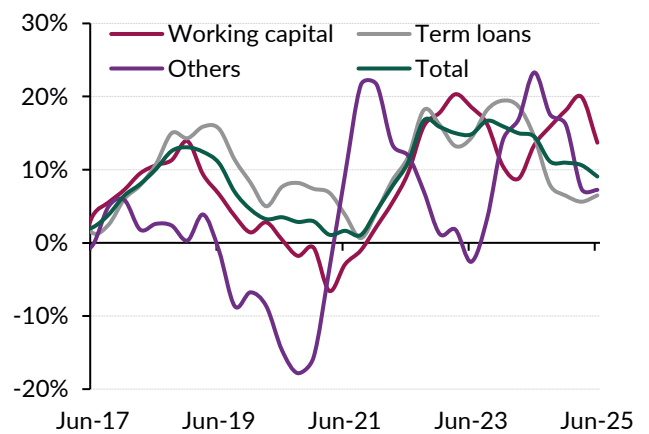
Lastly, we remain watchful for a recovery in credit growth – there are early signs of improved lending, with drivers seen in capex sanctions by banks as well as low disbursals

Exhibit 10: Credit growth improving?



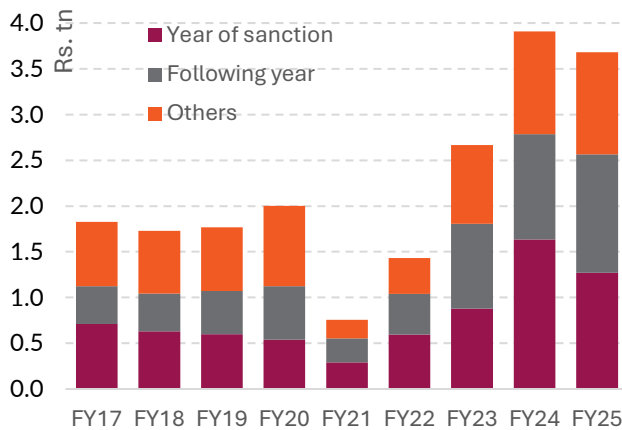
Source: RBI, Axis Bank Research

Exhibit 11: Q1 saw weak credit across the board



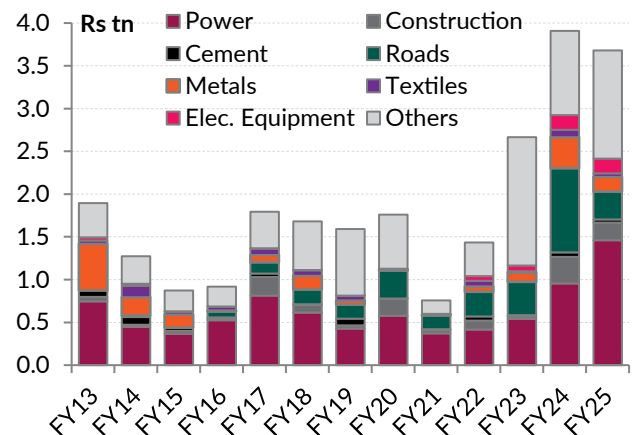
Source: RBI, Axis Bank Research

Exhibit 12: Phasing capex shows planned lending



Source: RBI, Axis Bank Research

Exhibit 13: Sanctions by industry



Source: RBI, Axis Bank Research

in Q1. Taking these into account, good trends QTD do not appear to be an accident, and can likely continue for the rest of the year as a consequence of easier financial conditions, but higher corporate bond spreads owing to pressure in SDL issuances. Stronger credit growth, likely so far in retail lending, is likely to push consumption to grow in the medium term, seen in a number of consumer goods and services.

Exhibit 14: India extract of high-frequency leading indicators – mild improvement

Leading Indicator	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Gol Spends (Ex. Interest) (INR value)	-3%	25%	4%	31%	5%	30%	19%	-26%	17%	26%	11%	80%	
GST collections (value in INR)	10%	10%	6%	9%	9%	7%	12%	9%	10%	13%	16%	6%	8%
Port Cargo (weight)	6%	7%	6%	-3%	-5%	3%	6%	8%	12%	7%	4%	6%	4%
Passenger traffic: All airports	8%	8%	8%	10%	13%	10%	13%	11%	9%	10%	2%	4%	
Cargo traffic: All airports	18%	12%	18%	15%	8%	8%	7%	-5%	4%	11%	5%	0%	
Hotel revenue per room	3%	8%	12%	10%	23%	8%	10%	15%	14%	20%	5%	9%	
PMI Services	60.7	60.5	57.7	57.9	58.4	60.8	56.5	59.0	57.7	59.1	58.8	60.7	60.5
Tourist arrivals	-1%	-4%	0%	-1%	0%	-7%	0%	-9%	-14%	-4%			
Non-food credit growth YoY%	14%	14%	14%	12%	11%	11%	11%	11%	12%	10%	9%	9%	10%
Credit to industry YoY%	11%	10%	10%	6%	6%	5%	6%	6%	7%	7%	5%	4%	
Credit to wholesale & retail trade YoY%	23%	26%	24%	17%	19%	18%	18%	15%	16%	14%	11%	10%	
Credit to NBFCs YoY%	11%	10%	8%	4%	5%	7%	8%	6%	6%	4%	0%	4%	
Unsecured Household credit	18%	17%	16%	12%	14%	12%	10%	9%	9%	9%	9%	9%	
CV registrations (FADA) (units)	10%	-3%	-8%	10%	-3%	-3%	11%	13%	4%	4%	-9%	38%	-5%
Diesel Consumption (volume)	4%	-3%	-2%	0%	8%	6%	4%	-1%	0%	4%	2%	2%	2%
Petrol Consumption (volume)	10%	9%	3%	9%	10%	11%	7%	4%	6%	5%	9%	7%	6%
Electricity Consumption (units)	5%	-5%	1%	1%	0%	6%	3%	3%	7%	2%	-5%	-2%	5%
Tractor Sales (TMA) (Volume)	2%	-6%	4%	22%	-1%	14%	11%	36%	25%	8%	9%	10%	8%
All India retail sales (RAI) YoY%	2%	2%	5%	7%	7%	5%	5%	4%	6%	4%	5%	8%	
Vehicle Registrations (VAHAN) (volume)	15%	4%	-9%	33%	12%	-12%	8%	-6%	0%	4%	6%	6%	-4%
PV registration (FADA) (units)	13%	-2%	-17%	36%	-11%	0%	18%	41%	9%	4%	0%	6%	3%
2-Wh registration (FADA) (units)	18%	7%	-8%	37%	16%	-17%	5%	6%	-1%	-8%	8%	5%	-6%
Total Exports (Ex Oil, Gold)	11%	4%	12%	25%	20%	13%	13%	3%	3%	13%	8%	6%	7%
Total Imports (Ex Oil, Gold)	10%	6%	9%	11%	12%	7%	18%	18%	-2%	15%	9%	5%	6%
Cement Prodn (weight)	5%	-3%	8%	3%	13%	10%	14%	11%	12%	6%	10%	9%	
Steel Prodn (weight)	7%	4%	2%	6%	11%	7%	5%	7%	10%	4%	7%	9%	
Coal Prodn (weight)	7%	-8%	3%	8%	7%	5%	5%	1%	2%	3%	3%	-7%	
IIP (Index)	5%	0%	3%	4%	5%	4%	5%	3%	4%	3%	2%	2%	
IIP capital goods	12%	0%	3%	3%	9%	11%	10%	8%	4%	14%	13%	4%	
PMI Manufacturing	58.1	57.9	56.5	57.5	56.5	57.4	56.4	56.3	57.6	58.4	57.6	58.4	59.1
Core IIP YoY%	6%	-1%	2%	4%	6%	5%	5%	3%	5%	1%	1%	2%	
FASTag Payments	12%	8%	10%	10%	14%	13%	19%	18%	14%	22%	20%	18%	20%
E-way Bills No.	19%	13%	19%	17%	16%	18%	23%	23%	20%	23%	19%	19%	25%
MNREGA - Persons Demanded Work (Cr)	2.28	1.90	1.89	1.99	2.16	2.58	2.71	2.66	2.36	2.73	3.79	3.55	2.02
Naukri Jobspeak Index	12%	-3%	-4%	10%	2%	9%	4%	4%	-1%	9%	0%	11%	7%
UPI (value)	35%	31%	31%	37%	24%	28%	28%	20%	25%	22%	23%	20%	22%

Source: Multiple data sources available on request, Axis Bank Research

Inflation not yet exhibiting impact of stronger growth – but is a lagged indicator

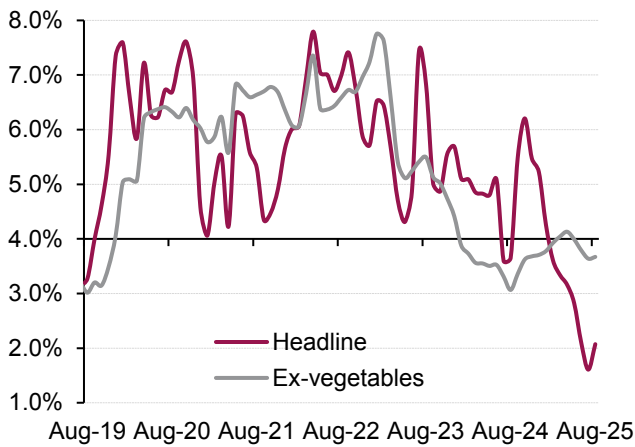
India CPI inflation has begun to rise along expected lines, with the base of vegetable prices in the previous year dipping. Regular readers will remember that Falling inflation since Oct'24 was largely on account of a much stronger than seasonal drop in vegetable prices, so much so that prices for Aug'25 remained lower than those for Aug'23. This is also seen in CPI ex-vegetables inflation having risen every month since Apr'25. While this metric has fallen back, it remains around 4%, rather than the -2% level seen in headline inflation lately.

Vegetables prices were modelled to be rising along largely seasonal levels going ahead. Even with muted increases in prices of cereals and pulses owing to the strong expected harvest, vegetables is expected to drive inflation back higher above 4.5% in the coming year. Notably, this also includes recovery in core inflation metrics, which for now are driven largely by increases in gold prices. Ex gold, core inflation is also weak, with trends showing very mixed performance. Being a lagging indicator, core inflation likely reflects past consumption weakness, but can pick up in the coming year with consumption positive policy steps like the GST shift. We see impact of 20-30 bps of GST shifts on headline inflation – this might in practice also be smaller given distribution of lower rates between producers and consumers.

Trade deficit including services still narrow, pickup in consumption watched here too

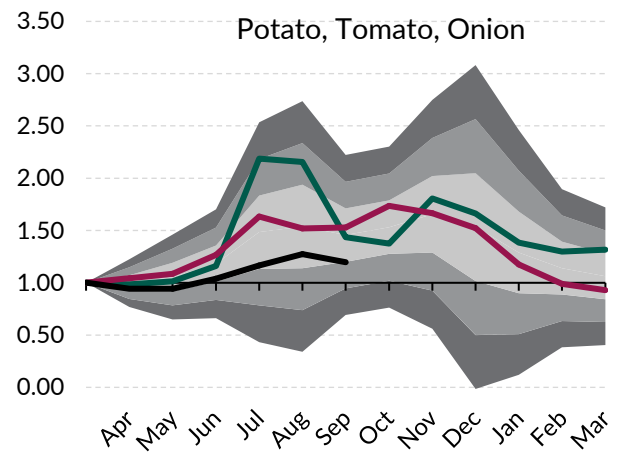
The current account deficit for Q1 was at just 0.2% of GDP, coming in at the lowest level in years on a seasonal as well as rolling basis. This is not surprising, given that the current account balance can also be thought of as the difference between savings and investments, or crudely, the deficit of consumption and investment over income (given that income = consumption + savings). Lower consumption trends seen in core inflation have therefore also been seen in the lower current account over the past few months and quarters. The past two months have seen the merchandise trade deficit widen, with

Exhibit 15: Inflation very different seen ex-vegetables



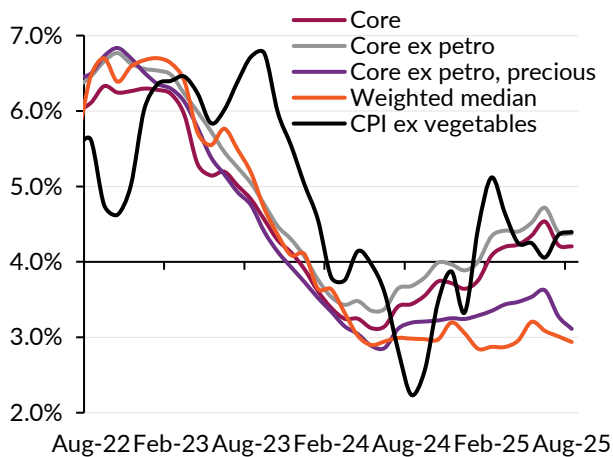
Source: MOSPI, Axis Bank Research

Exhibit 16: Headline POT prices back at -1 SDv



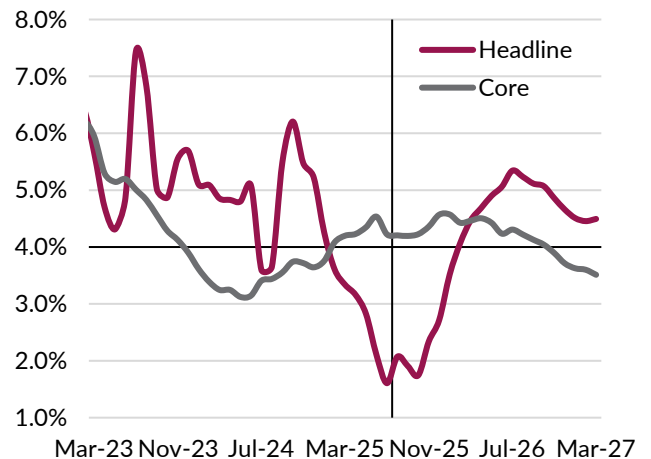
Source: DCA, Axis Bank Research

Exhibit 17: Core ex gold also lower



Source: MOSPI, Axis Bank Research

Exhibit 18: Low base can push headline up next year



Source: MOSPI, Axis Bank Research

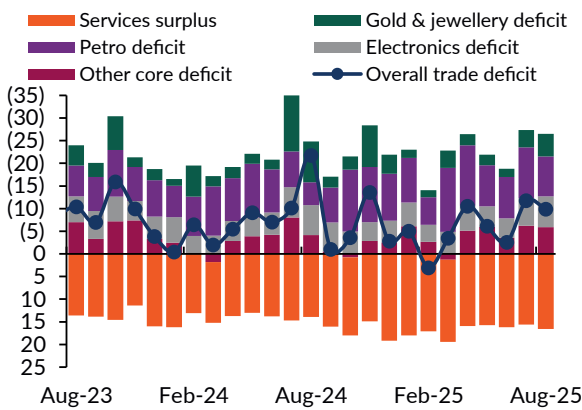
increase in imports ex petro and precious items being seen. While these are so far driven by fertilisers, electronics, and others, a part offset also exists in exports of engineering goods and electronics. Despite all this, the numbers taken together imply an annualised current account deficit of around 1.4% of GDP – a step up from the 0.6% figure for FY25.

A larger current account deficit would be a more concurrent indicator of activity than inflation, which noted above, is a lagged indicator. These trends will be watched closely to understand developments in the growth cycle. Pickup in the current account deficit while inflation remains stable would indicate an increase in the potential growth.

After months of weak labour trends, Aug shows some recovery

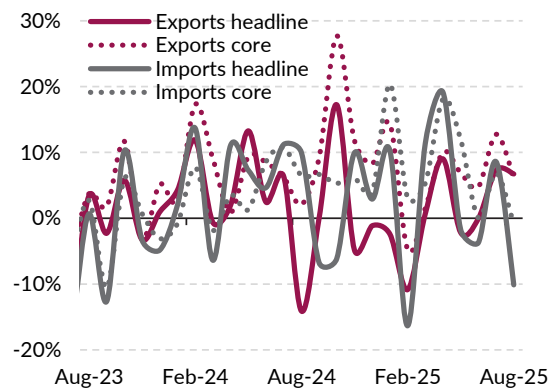
The start of monthly PLFS reporting adds a high-frequency layer to limited information from hard data provided by the EPFO, ESIC, NPS and other narrow survey data. These numbers showed unemployment rising in the year so far, driven by apparent job losses among urban males – with the worker population ratio declining. However, August numbers have shown a reversal, with worker population rising back and the unemployment rate falling, while conditions for female workers also improved. This is seen in improving worker participation ratio.

Exhibit 19: Trade deficit stable on seasonal basis



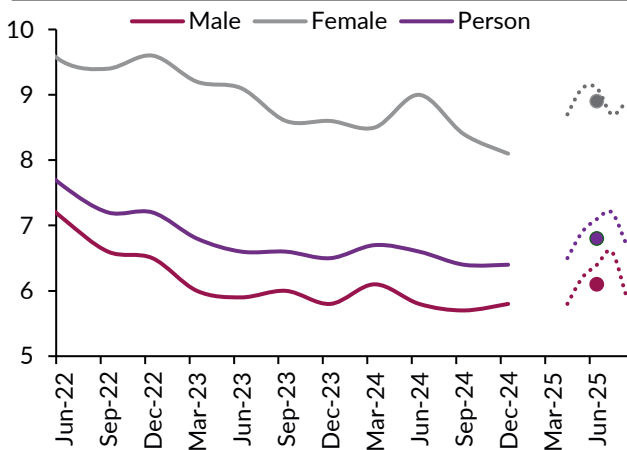
Source: Commerce Ministry, Axis Bank Research

Exhibit 20: With exports growth performing



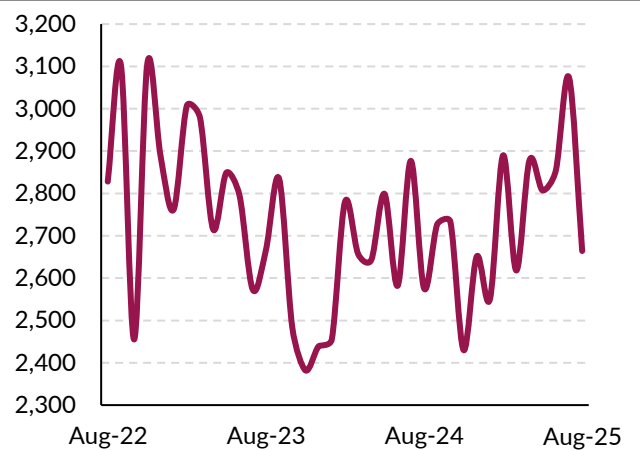
Source: Commerce Ministry, Axis Bank Research

Exhibit 21: Unemployment rate falls back fast



Source: MOSPI, Axis Bank Research

Exhibit 22: Does this reflect strong hiring in Jul?



Source: Naukri.com, Axis Bank Research

The increase perhaps stems from good hiring in July, seen in the very narrow Naukri Jobspeak survey – though trends for September are watched given weaker Naukri hiring trends for August. Increased hiring growth is also associated with income increases, and tends to lead to pickup in consumption.

Fiscal numbers show slowing tax take, cosmetic expenditure increases:

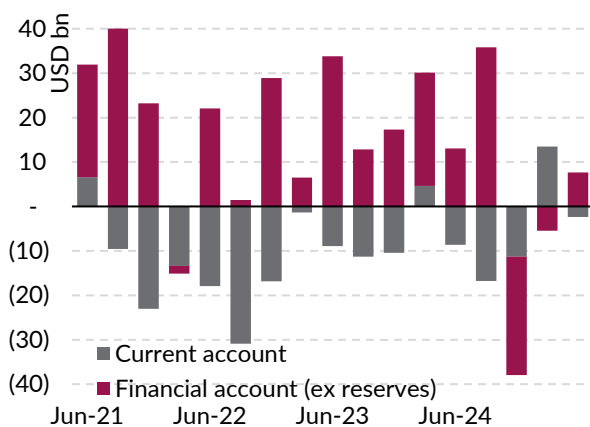
Apr-Jul central fiscal numbers out show a 4.3% YoY drop in direct tax collections, largely with lower income taxes, with below-median growth seen also in corporation tax. This was partly offset by still-strong gross GST collections, but this is likely to fall in the months ahead on lowering of GST rates. With higher transfers to states, tax collections have been even lower. At the same time, expenditure numbers appear strong at first blush, with capex up 33% YoY and revenue expenditure up 17%. While these numbers are partly higher on a low base given election dynamics last year, capex numbers might be overstated as seen in the capex as part of FCI WMA as well as defence capex on emergency procurement and telecom related to one-off payments. Taking these out, actual capex growth might be around 14%.

For states, revenue receipts grew slowly despite the stronger central transfers, with state own tax revenue at just 5% YoY (slow GST growth, lower oil volumes, limited real estate transactions). Capex growth here was also strong at 18%, but is again driven by a low base. The difference has resulted in higher net SDL issuance, with net borrowing higher on the year, but not too far from longer term trends when gross borrowing is taken into account. However, risks remain of the end of fiscal consolidation in the coming year, coinciding with the end of long-term gross supply consolidation.

India’s BOP problem – are neutral rates too low?

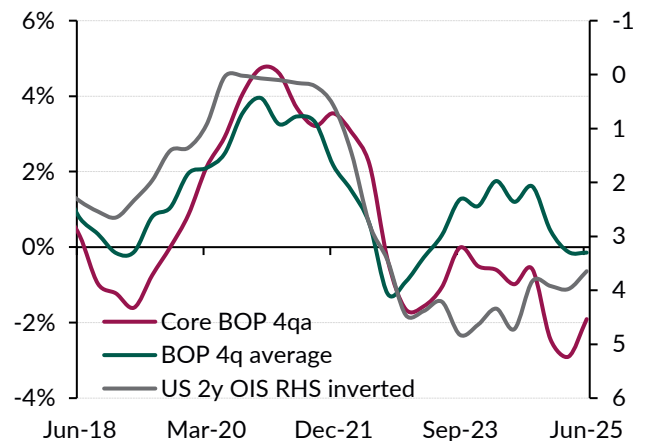
Even though the current account deficit has been very mild over the past years, the INR has weakened with significant financial outflows. While this is not seen clearly in unadjusted data, our version of core BOP shows weakness coinciding with the Fed rate hike cycle. While Fed rate cuts in theory might be able to restore some financial flows, lower global savings – as covered in the sections on the peace dividend and fiscal dominance in the last edition of this note – might make benefits relatively limited.

Exhibit 23: Unemployment rate falls back fast



Source: RBI, Axis Bank Research

Exhibit 24: Core BOP (4q rolling) negative since 2023



Source: RBI, Bloomberg, Axis Bank Research

suggests a real neutral rate of 1.4-1.9%, the level assumed by markets of 5.50% has been driving outflows – even though this historically matched domestic demand with foreign

supply of funds. With neutral rates not fully independent, much depends on the level of global neutral rates. These may be suppressed by fiscal dominance, but application of risk premium and effects on long-term neutral rates on domestic parameters will also need to be monitored.

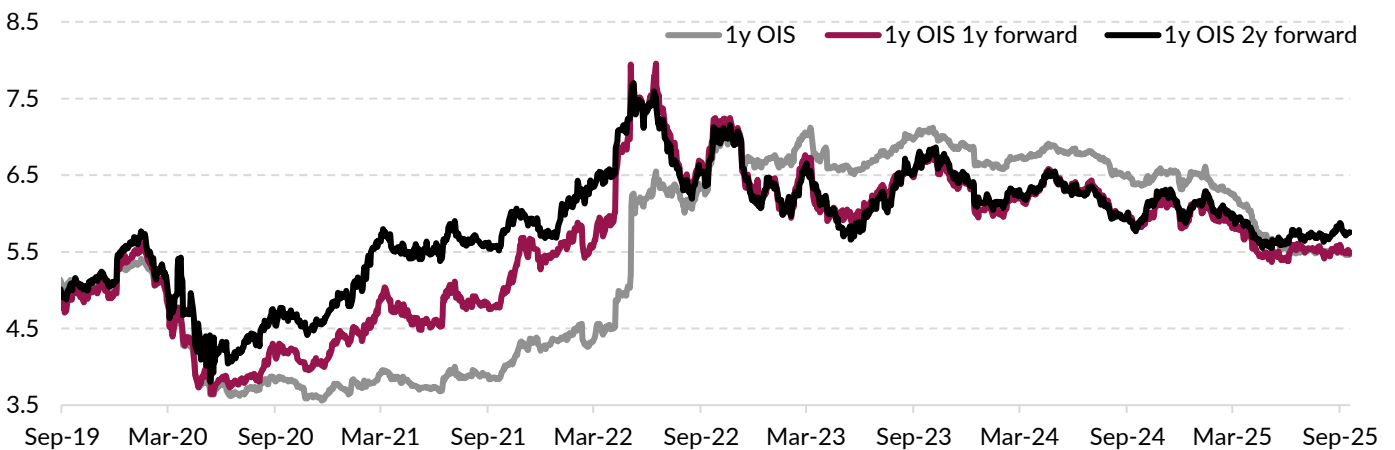
A too-low neutral rate might also be reflected by moves in 10y G-sec yields. We noted much earlier this year that term premia were being suppressed by OMO purchases, and would return to more normal levels of around 75 bps above neutral rates. Stability of benchmark levels at 6.50% indicate neutral rates somewhere between 5.50-6.00%.

Is the next rate move up (eventually) rather than down?

With growth appearing to be supported by consumption, leading to a wider current account deficit amid potentially higher inflation, and with expectations of faster credit growth, we continue to ask whether some in markets are misjudging the direction of monetary policy. While a section of the market does believe in further MPC rate cuts, OIS markets price in a 25 bps rate hike in 2 years' time after a prolonged hold.

A rate hike might also have other consequences. Steady financial outflows and intervention to defend the INR, coupled with faster than expected demand for currency notes as a consequence of the good monsoon have led deposit growth to once again fall below credit growth. If financial outflows were slowed, deposit growth could once again be supported, alleviating ALM pressures on banks. Improvement in the financial flow position with higher interest rates will also likely reduce pressure on the INR, and allow flexibility in other policies where currently demand measures directly weaken the INR. This also ties in with a shift globally to fiscal rather than monetary policy globally.

Exhibit 25: 1y OIS 2y forward, a reliable metric of cycle turning points, now at 5.71% pricing in a rate hike



Source: Bloomberg, Axis Bank Research

China macro diverging from the rest of the world

US prints have lately cooled, with evidence of tariffs fading from the inflation pipeline as well. This brings Fed caution this year in focus, with catch-up rate cuts amid indications of political polarisation also being justifiable from a classical central banking point of view. Along with this, the ECB appears to have turned more hawkish, with fiscal and political risks also building. The BOE budget is in focus, and can be a catalyst driving a historical adjustment in UK macro/markets, while Japanese politics can also bring up widely differing outcomes. However, all of these developments are likely to bring some form of curve steepening. This is in contrast to China where anti involution, unlikely rate cuts, a strong CNY bias and an uncertain US relationship are likely to keep the Chinese curve lower.

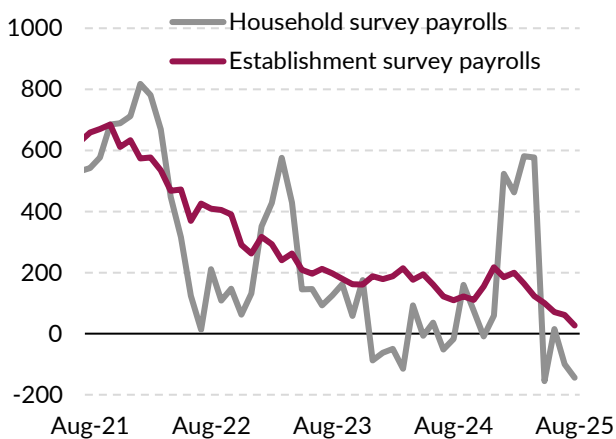
US labour and inflation data cool off

The past two months have seen US data cool off – with non-farm payrolls having come lower for two consecutive months, along with hefty revisions to past data and corroborating evidence from the household survey, JOLTs, and lately, jobless claims. University of Michigan consumer confidence was also weaker, with internals pointing at worries around job losses. At the same time, evidence of tariff-driven inflation seen in CPI and PPI inflation prints appears to have vanished. Not only is inflation in goods relatively muted, but indications of pipeline pressures in the various categories of PPI inflation also have come lower. Indications of service inflation however, remain, though it is uncertain whether these can sustain going ahead, with weaker consumption limiting pricing power. Other activity numbers have been mixed – with stronger retail sales and durable goods orders, but weaker prints for industrial production and associated PMIs.

Fed politicisation: Are aggressive cuts now justifiable?

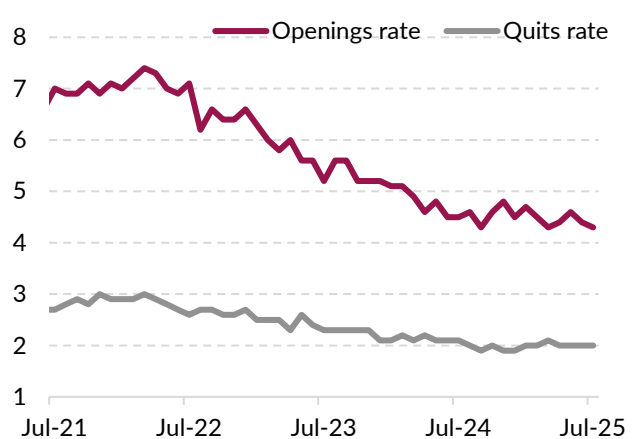
With weaker data on labour markets and fading of pipeline inflation numbers, rapid near term rate cuts might begin to make sense. For one, the Fed lagged global markets in cutting rates this year citing tariff impacts. With these fading away, and with weaker

Exhibit 26: US payrolls have slowed down



Source: Bloomberg, Axis Bank Research

Exhibit 27: JOLTs data have also softened



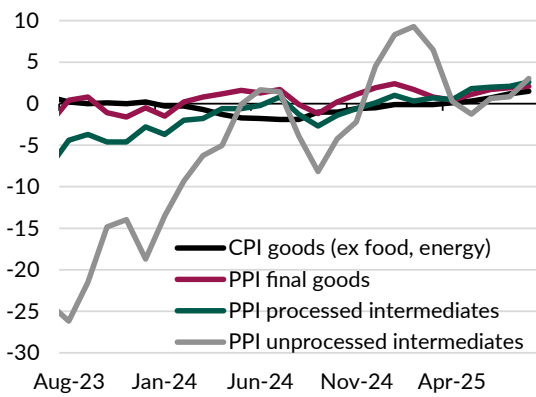
Source: Bloomberg, Axis Bank Research

numbers, catch up in terms of rate cuts might make sense. This might be true even in the lens of broader Fed politicisation with a more government-friendly FRB.

These cuts might make sense upto levels of neutral (around 3.5%?) or even slightly below. However, cuts well below this might create some of the same issues as before so long as growth remains weak. These include steepening of yield curves and weakening of the currency – with resumption of bond purchases given the move to ample from abundant reserves likely to exacerbate the latter. Were high-frequency prints to recover, as can be seen in past years where there has existed residual seasonality around the Aug-Oct period, aggressive these problems might even be exacerbated.

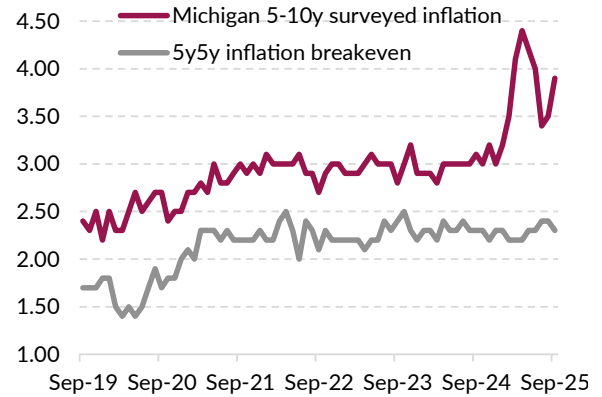
As of writing, the FOMC cut rates by 25 bps and lowered dotplot projections by 25 bps across, citing recently weaker labour market conditions despite higher growth and inflation projections. However, this meeting saw only one dissent for a 50 bps move, fewer than the 3 expected by markets. For a time at least, this can pause concerns around Fed politicisation. However, these concerns are likely to return with the FRB governor Cook case yet not decided, and the next Fed chair not yet nominated.

Exhibit 28: Pipeline tariff inflation in PPI also limited



Source: Bloomberg, Axis Bank Research

Exhibit 29: Inflation expectations also anchored?



Source: Bloomberg, Axis Bank Research

European numbers mixed, but is inflation subject to upside risks?

Global markets were for a long time driven by moves in Fed rates, with moves by other major central banks largely choreographed and carried out over time. This was true for the ECB as well, with rate cuts to a deposit rate of 2% driven by mixed indications on growth as well as continued disinflation including in services. However, near-term trends might indicate that the disinflation problem has ended. This is seen in recovery in negotiated wage rates, as well as indications of increased fiscal spending amid mixed political trends. ECB speakers have of late also begun to turn more hawkish in their comments, speaking of upside risks.

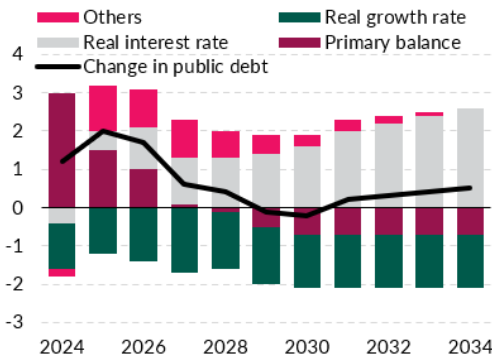
This might indicate the eventual start of ECB rate hikes, with rates currently at real negative levels. The combination of catch-up Fed rate cuts and ECB rate hikes might continue to be negative for the USD and support the EUR. Developments might also impact fiscal metrics, with political uncertainty in France likely to continue and keep yields high, along with continued pressure on Europe to manage the ongoing Ukraine war.

Upcoming UK budget can go wrong in many ways

The UK budget has been announced for 26 Nov, but is fraught with political risks. For one, the deputy PM – the link between PM Starmer and labour backbenchers resigned, making take hikes or spending cuts difficult to legislate upon. If fiscal expansion were pursued, worries around UK debt sustainability might grow. However, if effective consolidation is followed, the shock to demand will likely see inflation fall and rates come off. Both these events would likely see the gilts curve steepen and the USD fall.

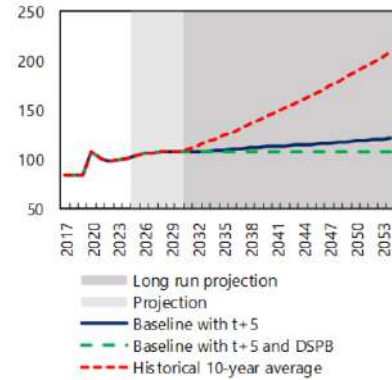
The path to maintaining market stability is therefore fairly limited, and is driven by the unsustainable UK welfare state – which is the driver of heavy fiscal spending, resulting in a high current account deficit and the accumulation of foreign currency liabilities. This during the time of near-zero productivity growth within a heavily financialised economy has forced pressure on the GBP over the long term as a way to counterbalance all these contradictions (the weaker GBP allows foreign liabilities to be devalued while foreign assets gain, keeping NIIP in balance). However, the magnitude of the problem continues to expand, leaving a painful future adjustment either in deflation and lower interest rates, or vheavy GBP weakening on the cards.

Exhibit 30: UK fiscal consolidation depends on primary surplus or heavy rate cuts



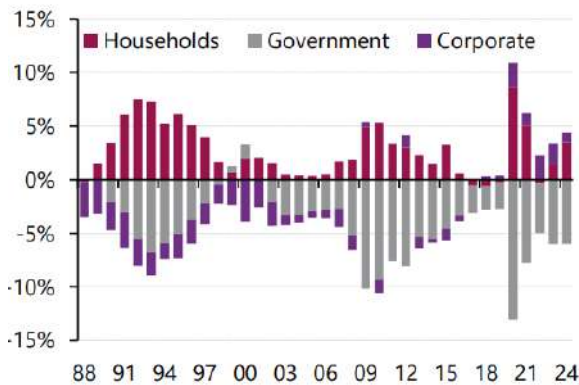
Source: IMF, Axis Bank Research

Exhibit 31: Large uncertainty on fiscal path, with study indicating 40% chance of debt non-stabilisation



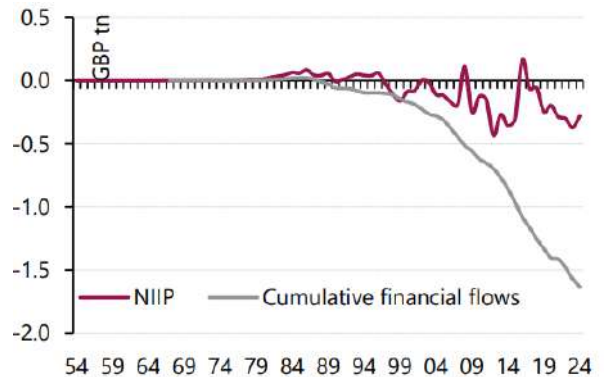
Source: IMF, Axis Bank Research

Exhibit 32: Net savings – government dissaving (welfare state) the driver of high CAD



Source: Bloomberg, Axis Bank Research

Exhibit 33: NIIP kept stable by GBP depreciation, as opposed to heavy inflows necessitated by CAD



Source: Bloomberg, Axis Bank Research

Japan: Politics here too driving longer term shifts

The announced resignation of PM Ishiba as leader of the LDP this month was largely as expected, after losing majorities in both houses of the Diet, resignation of allies from the government, and completion of the US trade deal. While the shifts have been shepherded by party elders, the choice of the next leader is not yet known. Among candidates is LDP member Koizumi, who is seen as a continuity candidate that will preserve existing policies and allow BOJ rate hikes to proceed while attempting to repay the party's standing among the electorate. The other candidate is LDP member Takaichi, who is in favour of VAT cuts as well as monetary stimulus. The VAT cut would effectively lower inflation and raise the long end of the yield curve, ruling out near-term BOJ hikes, with the preference for stimulus also in this direction. The net result here would also be steeper curves and a weaker currency.

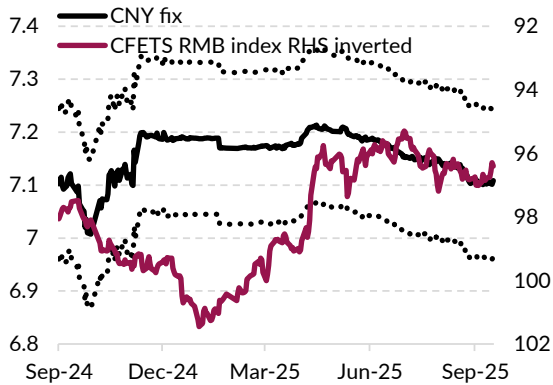
Of late, Mr. Koizumi appears to be in the lead, allowing the JPY to appreciate. This has also come with the BOJ having indicated its preference for continued rate hikes, despite lack of political consensus for now. This has also prevented the long-end of the JGB curve from selling off further, but scope for weakness remains.

China: Anti-involution, US engagement in focus

Recent Chinese numbers on industrial output and fixed asset investment have cooled off, largely in industries where excess capacity is present – this is not entirely unexpected, with the Chinese looking to close excess capacities that were exerting a disinflationary impact, similar to actions taken in the past decade under the guise of pollution measures. However, offsetting this at the time was an engineered property bubble, which appears to be missing now.

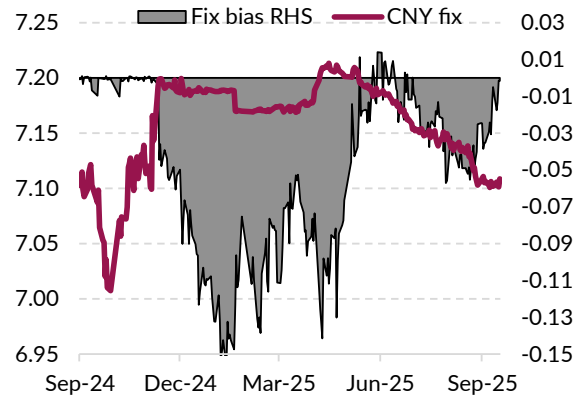
At the same time, engagement with the US has been a defining feature of Chinese developments over the past few months. In this light, there are indications that momentum is slowing down. There has been limited movement in China buying more US farm goods (as the US has not started lifting fentanyl tariffs yet), with the US side also threatening sanctions on the Chinese relationship with Russia. Foreign policy observers have been watching for a meeting between US president Trump and Chinese president Xi – whether this will be a presidential visit or a bilateral meeting on the sidelines of a multilateral forum. On a bilateral visit, no advance teams have been sent to China.

Exhibit 34: CNY fix being biased lower, CFETS too



Source: Bloomberg, Axis Bank Research

Exhibit 35: Fix bias closing at 7.10



Source: Bloomberg, Axis Bank Research

Is China signalling an end to the CNY appreciation cycle at 7.10?

As noted in the past, the Chinese have also been looking to allow the CNY to strengthen –with increasingly stronger PBOC/SAFE fixes over cycles. For now, this appears to have halted at 7.10, but halts have been seen in the past. Appreciation of such a limited extent (when the REER remains weak and inflation driving future REER also low) appears to be inconsistent with stated goals of PBOC leadership to prepare the CNY for a future of multiple reserve currencies. With anti involution and CNY appreciation, this makes rate cuts unlikely. However, in contrast to other nations, boxing in of Chinese savings will likely lead the yield curve to remain flat. This is also consistent with Chinese fiscal policy being near limits, given weak tax inflows as well as rising liabilities from a social point of view around states, local areas, and real estate.

Exhibit 36: India extract of high-frequency leading indicators – mild improvement

Leading Indicator	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25
Gol Spends (Ex. Interest) (INR value)	-3%	25%	4%	31%	5%	30%	19%	-26%	17%	26%	11%	80%	
GST collections (value in INR)	10%	10%	6%	9%	9%	7%	12%	9%	10%	13%	16%	6%	8%
Port Cargo (weight)	6%	7%	6%	-3%	-5%	3%	6%	8%	12%	7%	4%	6%	4%
Passenger traffic: All airports	8%	8%	8%	10%	13%	10%	13%	11%	9%	10%	2%	4%	
Cargo traffic: All airports	18%	12%	18%	15%	8%	8%	7%	-5%	4%	11%	5%	0%	
Hotel revenue per room	3%	8%	12%	10%	23%	8%	10%	15%	14%	20%	5%	9%	
PMI Services	60.7	60.5	57.7	57.9	58.4	60.8	56.5	59.0	57.7	59.1	58.8	60.7	60.5
Tourist arrivals	-1%	-4%	0%	-1%	0%	-7%	0%	-9%	-14%	-4%			
Non-food credit growth YoY%	14%	14%	14%	12%	11%	11%	11%	11%	12%	10%	9%	9%	10%
Credit to industry YoY%	11%	10%	10%	6%	6%	5%	6%	6%	7%	7%	5%	4%	
Credit to wholesale & retail trade YoY%	23%	26%	24%	17%	19%	18%	18%	15%	16%	14%	11%	10%	
Credit to NBFCs YoY%	11%	10%	8%	4%	5%	7%	8%	6%	6%	4%	0%	4%	
Unsecured Household credit	18%	17%	16%	12%	14%	12%	10%	9%	9%	9%	9%	9%	
CV registrations (FADA) (units)	10%	-3%	-8%	10%	-3%	-3%	11%	13%	4%	4%	-9%	38%	-5%
Diesel Consumption (volume)	4%	-3%	-2%	0%	8%	6%	4%	-1%	0%	4%	2%	2%	2%
Petrol Consumption (volume)	10%	9%	3%	9%	10%	11%	7%	4%	6%	5%	9%	7%	6%
Electricity Consumption (units)	5%	-5%	1%	1%	0%	6%	3%	3%	7%	2%	-5%	-2%	5%
Tractor Sales (TMA) (Volume)	2%	-6%	4%	22%	-1%	14%	11%	36%	25%	8%	9%	10%	8%
All India retail sales (RAI) YoY%	2%	2%	5%	7%	7%	5%	5%	4%	6%	4%	5%	8%	
Vehicle Registrations (VAHAN) (volume)	15%	4%	-9%	33%	12%	-12%	8%	-6%	0%	4%	6%	6%	-4%
PV registration (FADA) (units)	13%	-2%	-17%	36%	-11%	0%	18%	41%	9%	4%	0%	6%	3%
2-Wh registration (FADA) (units)	18%	7%	-8%	37%	16%	-17%	5%	6%	-1%	-8%	8%	5%	-6%
Total Exports (Ex Oil, Gold)	11%	4%	12%	25%	20%	13%	13%	3%	3%	13%	8%	6%	7%
Total Imports (Ex Oil, Gold)	10%	6%	9%	11%	12%	7%	18%	1%	-2%	15%	9%	5%	6%
Cement Prodn (weight)	5%	-3%	8%	3%	13%	10%	14%	11%	12%	6%	10%	9%	
Steel Prodn (weight)	7%	4%	2%	6%	11%	7%	5%	7%	10%	4%	7%	9%	
Coal Prodn (weight)	7%	-8%	3%	8%	7%	5%	5%	1%	2%	3%	3%	-7%	
IIP (Index)	5%	0%	3%	4%	5%	4%	5%	3%	4%	3%	2%	2%	
IIP capital goods	12%	0%	3%	3%	9%	11%	10%	8%	4%	14%	13%	4%	
PMI Manufacturing	58.1	57.9	56.5	57.5	56.5	57.4	56.4	56.3	57.6	58.4	57.6	58.4	59.1
Core IIP YoY%	6%	-1%	2%	4%	6%	5%	5%	3%	5%	1%	1%	2%	
FASTag Payments	12%	8%	10%	10%	14%	13%	19%	18%	14%	22%	20%	18%	20%
E-way Bills No.	19%	13%	19%	17%	16%	18%	23%	23%	20%	23%	19%	19%	25%
MNREGA - Persons Demanded Work (Cr)	2.28	1.90	1.89	1.99	2.16	2.58	2.71	2.66	2.36	2.73	3.79	3.55	2.02
Naukri Jobspeak Index	12%	-3%	-4%	10%	2%	9%	4%	4%	-1%	9%	0%	11%	7%
UPI (value)	35%	31%	31%	37%	24%	28%	28%	20%	25%	22%	23%	20%	22%

Source: Multiple data sources available on request, Axis Bank Research

Exhibit 37: US high-frequency activity indicators – decent numbers

Growth	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
GDP QoQ saar	30-Jun-25	3.3	3.3	(0.5)	(0.5)	2.4	3.0
Personal consumption	30-Jun-25	1.6		0.5	0.5	4.0	2.8
Goods	30-Jun-25	2.4		0.1	0.1	6.2	3.0
Services	30-Jun-25	1.2		0.6	0.6	3.0	2.7
Fixed investment	30-Jun-25	3.3		7.6	7.6	(1.1)	2.3
Nonresidential	30-Jun-25	5.7		10.3	10.3	(3.0)	3.9
Residential	30-Jun-25	(4.7)		(1.3)	(1.3)	5.5	(2.8)
Government	30-Jun-25	(0.2)		(0.6)	(0.6)	3.1	3.1
Exports	30-Jun-25	(1.3)		0.4	0.4	(0.2)	1.0
Imports	30-Jun-25	(29.8)		37.9	37.9	(1.9)	7.6
ISM Manufacturing PMI	31-Aug-25	48.7	49.0	48.0	48.5	50.3	47.5
New orders	31-Aug-25	51.4	48.0	47.1	47.6	48.6	45.6
ISM Non-manufacturing PMI	31-Aug-25	52.0	51.0	50.1	49.9	53.5	51.6
New orders	31-Aug-25	56.0	51.1	50.3	46.4	52.2	53.2
Markit manufacturing PMI	31-Aug-25	54.5	55.4	55.7	53.7	51.0	55.7
Markit services PMI	31-Aug-25	53.0	53.3	49.8	52.0	52.7	47.9
Factory orders	31-Jul-25	(1.3)	(1.3)	(4.8)	(3.9)	0.3	2.6
Durable goods orders	31-Jul-25	(2.8)	(2.8)	(9.4)	(6.6)	0.2	4.3
ex auto	31-Jul-25	1.0	1.1	0.4	0.0	0.3	(0.4)
Cap goods nondef ex air	31-Jul-25	1.1	1.1	(0.6)	(1.5)	1.8	(0.2)
Industrial production	31-Aug-25	0.1	(0.1)	(0.4)	0.0	1.0	0.5
Manufacturing	31-Aug-25	0.2	(0.2)	(0.1)	0.1	1.1	0.6
Capacity utilisation	31-Aug-25	77.4	77.4	77.4	77.5	77.9	77.9
Retail Sales	31-Aug-25	0.6	0.2	0.6	(0.8)	0.0	(0.2)
ex auto	31-Aug-25	0.7	0.4	0.4	(0.1)	0.4	(0.2)
Personal income	31-Jul-25	0.4	0.4	0.3	0.8	0.5	0.2
Disposable income	31-Jul-25	0.4		0.3	0.8	0.4	0.1
Personal consumption expenditure	31-Jul-25	0.5	0.5	0.4	0.2	(0.2)	0.6
Atlanta Fed GDP Nowcast	17-Sep-25	3.3	0.0		3.5	(1.8)	

Source: Bloomberg, Axis Bank Research

Exhibit 38: US high-frequency labour indicators – slowdown

Labour	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
Non farm payrolls	31-Jul-25	79.0	105.0	(13.0)	158.0	111.0	88.0
Unemployment rate	31-Jul-25	4.2	4.2	4.1	4.2	4.0	4.2
U6 broad unemployment rate	31-Aug-25	8.1		7.9	7.8	8.0	7.8
Average hourly earnings MoM	31-Aug-25	0.3	0.3	0.3	0.4	0.2	0.5
JOLTS job openings	30-Jun-25	7,357.0	7,500.0	7,712.0	7,200.0	7,508.0	7,412.0
Openings rate	31-Jul-25	4.3		4.4	4.4	4.7	4.5
Hire rate	31-Jul-25	3.3		3.3	3.5	3.4	3.4
Seperations rate	31-Jul-25	3.3		3.3	3.3	3.3	3.4
Quits rate	31-Jul-25	2.0		2.0	2.0	2.0	2.1
Initial jobless claims	12-Sep-25	231.0	240.0	234.0	246.0	225.0	222.0
4 week ma	12-Sep-25	240.0		226.0	245.8	228.8	228.0
Continuing claims	29-Aug-25	1,927.0	1,950.0	1,942.0	1,951.0	1,851.0	1,845.0

Source: Bloomberg, Axis Bank Research

Exhibit 39: US high-frequency housing indicators – unsurprisingly weak

Housing	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
Existing home sales	31-Jul-25	2.0	(0.3)	(2.7)	(0.5)	(4.7)	1.3
New home sales	31-Jul-25	(0.6)	0.5	4.1	7.0	(7.8)	5.8
Pending home sales	31-Jul-25	(0.4)	(0.2)	(0.8)	(6.3)	(4.6)	(3.9)
Housing starts	31-Aug-25	1,307.0	1,365.0	1,429.0	1,282.0	1,490.0	1,391.0
Building permits	31-Aug-25	1,312.0	1,370.0	1,362.0	1,394.0	1,454.0	1,476.0
NAHB homebuilder confidence	31-Aug-25	32.0	34.0	33.0	34.0	42.0	39.0
MBA mortgage applications	12-Sep-25	29.7		9.2	(2.6)	9.4	14.2
FRM 30y	12-Sep-25	6.4		6.5	6.8	4.5	6.2
FRM 15y	12-Sep-25	5.6		5.7	6.1	3.5	5.4
ARM 5y	12-Sep-25	5.7		5.8	6.1	3.1	5.7

Source: Bloomberg, Axis Bank Research

Exhibit 40: US high-frequency confidence indicators – labour markets bring softness

Sentiment	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
University of Michigan consumer confidence	30-Sep-25	55.4	55.4	58.2	60.7	57.0	70.1
Current conditions	30-Sep-25	61.2	62.0	61.7	64.8	63.8	63.3
Expectations	30-Sep-25	51.8	56.2	55.9	58.1	52.6	74.4
Conference board consumere confidence	31-Aug-25	97.4	96.5	98.7	98.4	100.1	105.6
NFIB small business optimism	31-Aug-25	100.8	100.5	100.3	98.8	100.7	91.2
Conference board LEI	31-Aug-25	(0.5)	(0.2)	0.1	0.0	(0.2)	(0.3)

Source: Bloomberg, Axis Bank Research

Exhibit 41: US high-frequency inflation indicators – fading tariff impacts

Inflation	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
CPI inflation YoY	31-Aug-25	2.9	2.9	2.7	2.4	2.8	2.5
ex food and energy	31-Aug-25	3.1	3.1	3.1	2.8	3.1	3.2
PPI inflation YoY	31-Aug-25	2.6	3.3	3.1	2.7	3.4	2.1
ex food and energy	31-Aug-25	2.8	3.5	3.4	3.2	3.7	2.8
ISM manufacturing prices	31-Aug-25	63.7	65.0	64.8	69.4	62.4	54.0
ISM non-manufacturing prices	31-Aug-25	69.2	69.5	69.9	68.7	62.6	57.7
Import price index YoY	31-Aug-25	0.0	0.0	(0.6)	(0.4)	1.7	0.8
ex petroleum	31-Aug-25	0.9		0.6	1.3	1.9	1.4
Export price index YoY	31-Aug-25	3.4	2.5	2.4	1.9	2.7	(0.7)
PCE deflator YoY	31-Jul-25	2.6	2.6	2.6	2.2	2.6	2.5
ex food and energy	31-Jul-25	2.9	2.9	2.8	2.6	2.7	2.7
University of Michigan inflation exp 1y	30-Sep-25	4.8	4.8	4.8	5.0	5.0	2.7
University of Michigan inflation exp 5-10y	30-Sep-25	3.9	3.4	3.5	4.0	4.1	3.1
GDP deflator YoY	30-Jun-25	2.5		2.6	2.6	2.4	2.6
US 5y5y breakeven yield	18-Sep-25	2.3		2.3		2.4	

Source: Bloomberg, Axis Bank Research

Exhibit 42: China high-frequency activity indicators – Anti-involution holding back

Growth	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
China GDP YoY	30-Jun-25	5.2	5.1	5.4	5.4	5.4	4.7
Primary	30-Jun-25	3.8		3.5	3.5	3.7	3.6
Secondary	30-Jun-25	4.8		5.9	5.9	5.2	5.6
Tertiary	30-Jun-25	5.7		5.3	5.3	5.8	4.2
Industrial production YTD YoY	31-Aug-25	6.2	6.2	6.3	6.3	5.9	5.8
Electricity production YTD YoY	31-Jul-25	4.5		3.7	3.1		7.7
Fixed assets investment ex rural YTD YoY	31-Aug-25	0.5	1.5	1.6	3.7	4.1	3.4
Freight traffic	31-Dec-24	5,140.0		5,087.0	4,958.0	4,811.0	
Old economy index	31-Jul-25	1.1		(0.0)	0.6	(0.7)	(1.1)
New economy index	31-Jul-25	6.6		7.2	8.0	6.0	9.1
Li Ke Qiang index	30-Jun-25	3.5		3.5	4.3	4.0	5.3
Markit manufacturing PMI	31-Jul-25	49.5	50.2	50.4	50.4	50.1	49.8
Markit services PMI	31-Jul-25	52.6	50.4	50.6	50.7	51.0	52.1
NBS Manufacturing PMI	31-Aug-25	49.4	49.5	49.3	49.5	50.2	49.1
NBS nonmanufacturing PMI	31-Aug-25	50.3	50.2	50.1	50.3	50.4	50.3
China electricity grid investment CNY bn	31-Jul-25	331.5		291.1	140.8		294.7
China floor space under construction YTD YoY	31-Aug-25	(9.3)		(9.2)	(9.2)	(9.1)	(12.0)
Retail Sales YoY	31-Aug-25	3.4	3.8	3.7	6.4		2.1
Industrial profits YTD YoY	31-Jul-25	(1.5)		(4.3)	3.0		4.1
State owned and state shareholding	31-Jul-25	(7.5)		(7.6)	(4.4)		1.0
Private sector	31-Jul-25	1.8		1.7	4.3		7.3
New Yuan loans (CNY bn)	31-Aug-25	588.7		(49.0)	622.5	1,008.7	903.0
Credit/GDP ratio	31-Mar-25	201.9		198.1	198.1	199.5	199.9

Source: Bloomberg, Axis Bank Research

Exhibit 43: China high-frequency housing indicators – is the worst past?

Housing	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
China house price index 70 city	31-Aug-25	(3.0)		(3.4)	(4.1)	(5.2)	(5.7)
First tier	31-Aug-25	(0.9)		(1.1)	(1.7)	(3.0)	(4.3)
Second tier	31-Aug-25	(2.3)		(2.7)	(3.4)	(4.7)	(5.1)
Third tier	31-Aug-25	(3.8)		(4.3)	(5.0)	(6.0)	(6.4)
Average price per square meter 30 city	31-Aug-25	(1.0)		(1.7)	(0.0)	(1.6)	(2.2)

Source: Bloomberg, Axis Bank Research

Exhibit 44: China high-frequency inflation indicators – deflation fading

Inflation	Period	Reading	Expected	Previous	3m ago	6m ago	1y ago
CPI inflation YoY	31-Aug-25	(0.4)	(0.2)	0.0	(0.1)	(0.7)	0.6
ex food and energy	31-Aug-25	0.9		0.8	0.6	(0.1)	0.3
Services	31-Aug-25	0.6		0.5	0.5	(0.4)	0.5
PPI output inflation YoY	31-Aug-25	(2.9)	(2.9)	(3.6)	(3.3)	(2.2)	(1.8)
Input prices	31-Aug-25	(4.0)		(4.5)	(3.6)	(2.3)	(0.8)

Source: Bloomberg, Axis Bank Research

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