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Economic Round-up: March 2026

Economies across the globe have felt the economic shock following the outbreak of war between US and Iran. To give some perspective, crude oil prices have risen by ~50% since the war started (between 27 Feb and 2 Apr 2026), US 10Y yield has risen by 40bps and similar increase has been noted in Germany (+35bps), India (+47bps) and UK (+60bps). Equity markets have also suffered with Nikkei down by 9.7%, Dow Jones by 5%, and FTSE by 4.3%. DXY has surged by 2.5%, leading to significant pressure on other currencies. INR has also depreciated by 2.3% as of 2 Apr 2026, thereby trading close to 93/$ mark. On the macro front, inflationary pressures are beginning to build-up as is visible from price index in PMI surveys. Rise in energy prices and a weaker currency will double the pressure on inflation across countries. As a result, central banks of major advanced economies are expected to hike policy rates in the coming months. BoJ is likely to hike in Apr'26, following its last increase in Dec'25. BoE and ECB are also likely to follow the suit, but the timing remains unclear so far. US Fed may stay on hold for a prolonged period or hike rates towards the end of the year if inflation becomes more persistent. RBI will maintain status quo for a considerable period now. It may raise rates towards the end of FY27 if CPI crosses 6% mark.

Global Central Banks: In Mar'26, all major central banks (US Fed, ECB, BoE, BoJ) kept their policy rates on hold. Apart from BoE, all others were expected to maintain status quo even before the Iran war started, but BoE was expected to cut policy rate by 25bps. However, since the start of the war, oil prices surged and have increased the risk to domestic inflation across the globe. As a result, major central banks opted to maintain caution and stay on hold. Going forward, chances of rate hike by BoE, ECB, US Fed and BoJ have increased considerably. BoJ is expected to deliver a rate hike in its Apr'26 meeting, while BoE and ECB may wait until end H1CY26. US Fed is expected to move towards the end of CY26 if inflation shows sign of reflation. RBI this week is also likely to remain on a pause, while noting the impact of Iran war on our inflation and growth. We expect prolonged pause from RBI and a rate hike if inflation surpasses upper limit of RBI's tolerance band (6%) towards the end of FY27.

Key macro data releases: **CPI** inflation reading came in at 3.2% in Feb'26, on YoY basis, in line with our estimate of 3.3%. This was higher than Jan'26 print of 2.7%, led by higher food inflation of 3.5% in Feb'26 compared to 2.1% in Jan'26. **CPI excl. food and fuel** was stable at 3.4%. Among major items, personal care, social protection and miscellaneous goods recorded a significantly higher inflation rate of 19.7% in Feb'26 compared to 19% in Jan'26, on YoY basis. This was on account of increase in gold, platinum and silver prices. The ongoing geopolitical conflict has brought heightened volatility across financial markets. We expect that given the challenging global environment, **rupee** to trade in the range of **93-95/$** in the near term, with downside risks. We also expect **India's 10Y yield** to trade in the range of **6.9-7.10%** in the near term, with an upward bias.

Macro developments

March: A month of global volatility

Ever since the outbreak of US-Iran war towards the end of Feb'26, significant shock has been registered across all asset classes. Most direct impact is on oil prices which have risen by ~50% (since 27 Feb 2026) till 2 Apr 2026 to hover over US$ 105/bbl. In case of equity markets, Nikkei has fallen the most till the start of Apr'26 (-9.7% MoM), followed by Dow Jones (-5%), S&P500 (-4.3%), and FTSE (-4.3%). Indian equities have also suffered. In the debt market as well, US 10Y yields have risen by 40bps in over one month alone and are currently trading around 4.3% mark—levels seen last in Jul'25. 10Y bond yield in UK has hardened the most (60bps), followed by India (47bps), Germany (35bps), and Japan (27bps). On the currency front, DXY index has reached 100 mark as US$ has strengthened by 2.5% till 3 Apr 2026. This has led to deprecating pressure on other currencies such as EUR (-2.5%), GBP (-2.1%) and JPY (-2.3%). INR hit a record low of 94.83/$ at the end of Mar'26. However, it has recovered since then at the start of Apr'26, helped by measures announced by the RBI to support INR.

On the macro front, in the US, early indicators for Mar'26 are showing the negative impact of war on the economy. University of Michigan has recorded a decline in its consumer sentiment index to 53.3 in Mar'26 from 56.6 in Feb'26, led by steep dip in consumer expectation index to 51.7 from 56.6. Even flash services PMI has fallen to 11-month low of 51.1 in Mar'26 from 51.7 in Feb'26, following sharp rise in input cost and cost of living. Supply chain disruptions have also impacted business sentiments. Retail inflation is already sticky with CPI rising by 2.4% in Feb'26—unchanged from the previous month. Core inflation (less food and fuel) also remained stubborn at 2.5% in Feb'26, same as the previous month. In contrast, labour market and manufacturing sector appear to be steady. Initial jobless claims for the week ending 28 Mar 2026 fell by 9k from the previous week to 202k. Continuing jobless claims (4-week average) remain broadly steady at 1.84mn as of week ending 21 Mar 2026. ISM US manufacturing PMI also improved marginally, to 52.7 in Mar'26 from 52.4 in Feb'26, supported by higher production. However, new orders (including export) and employment fell. Input price index registered a steep rise.

In case of **Eurozone** as well, manufacturing activity as reflected by S&P Global PMI rose to 45-month high of 51.6 in Mar'26 from 50.8 in Feb'26. However, this increase masks the actual issue. The increase is mainly due to rise in supplier delivery times. Inverse of this is used in the calculation as higher delivery time signifies higher demand. However, in the current situation, the delivery times are higher due to ongoing war in the Middle East and closure of Strait of Hormuz. Another point to note from the PMI survey is that input prices have increased markedly to reach is highest since Oct'22. Energy prices, cost of transportation and raw materials have inched up. Gains in Eurozone were led by Germany, as activity in France remained broadly unchanged. For the year-ahead businesses are less optimistic about growth. Same is reflected in Germany's IFO business climate index. it has fallen from 88.4 in Feb'26 to 86.4 in Mar'26, dragged steep decline in expectations index (90.2 to 86). The sentiment is more negative across all major sub-heads (manufacturing, services, trade, and construction).

China's official manufacturing PMI rose in Mar'26 to 50.4 (est.:50.1) from 49 in Feb'26. This came on the back of pick-up in new orders and production. However, inventory of raw materials, employment remained in contraction. Apart from delivery times, the impact of war was visible in rise in input prices. Input cost index rose to 63.9 in Mar'26—highest since Apr'22. Non-manufacturing PMI also improved, to 50.1 from 49.5 in Feb'26. Services sector registered smaller than expected contraction in new export orders. Notable uptick was recorded in the input price index. Business expectations index fell to 54.2 (lowest in more than 3 years). Before the war started, industrial production data showed signs of revival as activity rose by 6.3% in Jan-Feb'26 period (YoY basis), up from 5.2% in Dec'25. In the same period, retail sales also rose by 2.8% (est.: 2.5%) from 0.9% in Dec'25. FAI rose by 1.8% between Jan-Feb'26, helped by infrastructure and manufacturing investments.

Indian economy: RBI to stay put

Globally, a lot has changed since the RBI announced its last policy in Feb'26. With the outbreak of Iran war, crisis in the Middle East has become a point of concern. Energy infrastructure of major oil exporting economies has been damaged. Strait of Hormuz is virtually closed. Oil prices continue to hover above US$ 100/bbl and global central banks are preparing for its impact on inflation. Market also remains highly volatile which has pressurised FPI outflows from India, equity markets, bond yields and INR. Given this backdrop, RBI is likely to announce its full year growth and inflation forecasts keeping in view the impact of war on India. RBI will remain vigilant and hold rates steady for the time being, without changing its stance from neutral. We also believe this to be the end of the rate cut cycle. Further, if oil prices remain above US$ 100/bbl for consistently long period of time and inflation breaches the upper tolerance band of RBI (6%), then there might be a chance of rate hike by the central bank towards the end of FY27. High frequency indicators are signalling some slowdown in momentum in Q4FY26 (Jan-Feb'26), as reflected by air passenger traffic (till Mar'26), port cargo traffic, and e-way bill generation. In contrast, diesel consumption, government spending, and bank credit (till Mar'26) growth have recorded some improvement.

Central bank actions

US Fed in its Mar'26 meeting, kept its policy rate unchanged at 25bp at 3.5-3.75%, as it noted that "uncertainty about the economic outlook remains elevated. The implications of developments in the Middle East for the U.S. economy are uncertain". The central bank also released its latest economic projections, which show that inflation this year (both PCE and core PCE) is expected to inch up to 2.7% from 2.4% (PCE) and 2.5% (core PCE) estimated earlier in Dec'25. GDP growth for the current year and next year was also revised upwards to 2.4% (2.3% earlier) and 2.3% (2% earlier) respectively. The dot plot indicates a divided house going forward, with some signalling status quo and some indicating a possibility of one more rate cut. However, as the war has accelerated since the last policy, markets are pricing in a prolonger pause by the Fed this year. Inflationary pressures due to surge in international oil is bound to keep a lid on rate cut expectations.

Bank of England (BoE) in its Mar'26 meeting held rates steady at 3.75%. Earlier in Dec'25, it had reduced its policy rate by 25bps to 3.75%. The latest decision was unanimous (vote of 9-0 versus est.: 7-2). Governor Andrew Bailey also cautioned that "CPI inflation will be higher in the near term as a result of the new shock (crisis in the Middle East) to the economy…The MPC is alert to the increased risk of domestic inflationary pressures through second-round effects in wage and price-setting, the risk of which will be greater the longer higher energy prices persist". Inflation is expected to rise to 3.5% in Q3. As a result, investors are now expecting 2 rate hikes from BoE. Earlier the possibility of rate hike was in Apr'26 meeting itself, however most recent remarks by BoE Governor suggests that the central bank may opt for status quo for now.

The **ECB** kept its policy rate unchanged in Mar'26 as well at 2%, after reducing it last by 25bps in Jun'25. ECB also warned that "the war in the Middle East has made the outlook significantly more uncertain, creating upside risks for inflation and downside risks for economic growth". Inflation projection was revised significantly upwards to 2.6% for CY26 from 1.9% estimated in Dec'25. Core CPI is also projected to be higher at 2.3% versus 2.2%. Noting the impact of war and higher energy prices on growth, GDP forecast for CY26 was lowered to 0.9% from 1.2% earlier. Markets are expecting a rate hike by ECB this year, but the timing remains unclear.

Bank of Japan in its Mar'26 meeting maintained its policy rate on hold at 0.75%, after increasing it by 25bps earlier in Dec'25. The latest decision was made through 8-1 majority voting. While the central bank agreed that currently "underlying inflation appears still to be below 2%, and this is not a situation where a sharp increase in inflation should be of concern, assuming that the rise in food prices will subside". However, the members also warned that "amid increased tension over the situation in the Middle East, there is concern that energy prices, which had been stable, may rise, leading to an increase in headline CPI once again…There is concern that the surge in crude oil prices and the depreciation of the yen will push up inflation significantly for an extended period, given factors such as (1) inflation expectations having risen to around 2%, (2) firms' active price-setting behaviour, and (3) supply shortages". Market participants are expecting 70% chance of rate hike by BoJ in Apr'26 meeting.

Data Releases

Performance of stock markets and other asset classes in FY26

In FY26, Sensex exhibited renewed volatility due to several factors including trade related disruptions, concerns surrounding stretched valuations, muted profit growth and geo-political tensions. This contributed to significant outflows from the domestic markets, ultimately leading to a 7.1% decline in the benchmark equity index. Equity outflows of around US$ 20bn in FY26, are the highest ever on record. Previously in FY22, FPIs had withdrawn US$ 18.5bn from domestic equities. Across sub-indices, losses were concentrated in FMCG, IT and real estate stocks. On the other hand, auto and metal index outperformed.

In terms of movement in global prices of metals, a clear uptrend was visible. Global metal prices have ended FY26 with significant gains. In particular, prices of precious metals such as gold and silver witnessed the maximum gains. In fact, gold prices rallied by close to 50% in FY26. This can be attributed to a number of factors such as low global interest rates, increased policy uncertainty as well as gold buying by global central banks. Apart from this, an increase in investment activity also pushed prices higher as there was a steady increase in demand for gold backed ETFs and gold bar and coins.

Performance of INR in FY26

The performance of INR this year has been interesting mix of upswing and downswing. The currency has depreciated by 9.9% this year against a 2.4% fall noted in FY25. For the same period, dollar index has weakened by 4.1% against a fall of 0.3% in the previous year. This is compared to steepest decline noted back in FY12, when the currency depreciated by 12.4% and that was on account of the taper tantrum and was more domestic led than the current one. Notably, not only INR but other Asian currencies have also weakened during the same period, with JPY and IDR down by 5.5% and 2.6% respectively from last year.

It is important to understand the major fall in the INR this year is largely on account of external factors rather than the domestic ones. There are various factors responsible for driving down the rupee, including the uncertainty on account of the possible US-India trade deal. The ongoing geopolitical conflict worsened the situation across the globe, bringing forth heightened volatility across financial markets and resulting in sustained foreign capital outflow. Going ahead, we expect that given the challenging global environment, rupee to trade in the range of 93-95/$ in the near term, with downside risks.

Bonds Wrap: The year that was

India's 10Y yield witnessed considerable volatility in FY26. The first half showed a softening bias supported by favourable inflation, easing monetary policy cycle and liquidity measures by RBI. However, towards the H2 of FY26, it has exhibited considerable stickiness. This was on account of concerns about the excess supply of securities. Now, with the ongoing West Asia crisis in place, the reverberation on India's yield has been significant as India is a major oil dependent economy. Thus, fiscal and inflationary concerns could not take a backseat albeit from the standpoint of a much comfortable macro fundamentals, yet in place.

We expect the stickiness in India's 10Y yield to persist for now, unless the war situation de-escalates. The OIS rates are indicative of a rate hike in the near term. For Apr'26, we do not expect any rate action by RBI as data dependent approach may be the preferred choice in a volatile global financial landscape. We expect India's 10Y yield to trade in the range of 6.9-7.10% in the near term, with an upward bias.

CPI showing some momentum led by food

CPI still below RBI's 4% target: CPI inflation reading came in at 3.2% in Feb'26, on YoY basis, in line with our estimate of 3.3%. This month's headline number is higher than Jan'26 print of 2.7%. This was led by higher food inflation of 3.5% in Feb'26 compared to 2.1% in Jan'26. The inflation rate of Potato (-18.5% in Feb'26 compared to -29% in Feb'26), Garlic (-31.1% in Feb'26 compared to -53% in Jan'26) is slowly retreating its deflation territory. Even for pulses such as Tur deflation trend is at a slower pace of -16% in Feb'26 compared to -24.9% in Jan'26, on YoY basis. It is important to mention that the arrival statistics of Tomato, Onion and Potato (TOP) vegetables are also falling. In Feb'26, it fell by -31.2% compared to same period of previous year (UPAJ data). Thus, the buildup of food inflation needs to be carefully monitored. CPI excl. food and fuel was stable at 3.4%. Among major items, personal care, social protection and miscellaneous goods recorded a significantly higher inflation rate of 19.7% in Feb'26 compared to 19% in Jan'26, on YoY basis. This is on account of increase in gold prices (World Bank data: 73.4%, YoY, Feb '26), platinum prices (World Bank data: 118.5%, YoY, Feb'26) and silver prices (World Bank data: 154.9%, YoY, Feb'26). This is albeit reduction in the weight of gold, silver and other ornaments in the new series. The volatility of metal prices will continue to pose some upside pressure to core inflation, going forward.

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