

Economic Round-up: Jun 2026

The major highlight of the month has been the Jun'17 MoU between US and Iran centering 60-day negotiation period. This has resulted in major downward correction in international oil prices (declined by -21% in Jun'26 over May'26 and in Jul'26 as well trading at similar levels) with the resumption in traffic flows in the Strait of Hormuz. On macro front, US economy showed some stress from supply related disruption and higher inflation impinging on consumer demand. Labour market conditions also remained weaker. Elsewhere in Eurozone, macro indicators still held ground, in Japan and China, it remained mixed. Global central banks broadly adopted wait and watch data dependent approach in their recent policies. New Fed Chair however reiterated its commitment towards bringing inflation back to the targeted 2% level. On domestic front, government and RBI took concerted effort to encourage foreign capital flows. The measures were holistic from tax rationalisation to FPIs, expanding the scope of FAR to encouraging flows through the FCNR (B) and ECB route. This has supported flows through the FAR which went up to US\$ 2.3 bn (net inflow) in Jun'26 and in Jul'26 as well the momentum is maintained at US\$ 301mn (upto 3rd Jul'26). However, monsoon holds the key how major economic activities will shape out in the coming days. Jun'26 has been a deficit situation, but the Jul situation is changing. Thus, the spatial distribution holds the cue for prices of major vegetable items especially Tomato, Onion and Potato, amongst other which are the most volatile items in the CPI basket.

Global central banks: Recent central bank official commentaries suggest a more data dependent wait and watch approach. ECB has been ahead of the curve in its Jun'26 policy meeting and went for a rate hike in anticipation of any second order impact of war related shocks. Fed, BoE and RBI stayed put. Fed policy tone remained hawkish with new Fed Chair emphasising on bringing back inflation to the targeted 2% level. He however, refrained from participating in the dot plot projections. The forward rates are not pricing in any rate action on Fed's part in the next 3-months at least. On domestic front, RBI's policy backdrop has changed completely as during the time of policy announcement crude was trading at US\$ 110/bbl (on 5 Jun 2026) and now there is considerable decline in crude prices to ~US\$ 72/bbl. Thus, coming few months are crucial. Any undershooting of RBI's inflation projection will further make RBI cautious before taking any call on rates. Only upside risks emanate from El Nino conditions which have already developed in the tropical Pacific as per World Meteorological Organisation (WMO) 3 Jul 2026 update.

Monsoon to be closely watched: The cumulative rainfall so far (5 July 2026) has been 24% below LPA. From 1st Jun to 5th Jul 2026, 52% of subdivisions have received deficient rainfall, while 44% have received normal rainfall. The storage level for 166 reservoir as % of total capacity stands at 26% as on 2 July 2026 (42.5% last year).

Macro developments

Global financial markets showed some correction

Global equity indices showed some optimism under the backdrop of 60-day negotiation window between US and Iran. However, rigidities remained with regard to uranium/enrichment discussions and service fees for traffic through Strait of Hormuz by Iran. Within equity indices, Nikkei rose at the sharpest pace following a weaker yen. Dow Jones showed considerable upward momentum in Jun'26 over May'26. Hang Seng was dragged down amidst AI-related concerns. Sensex managed to hold ground and rose compared to majority of its peers.

Global currencies continued to trade weaker amidst a stickier dollar. DXY rose by 2.3% in Jun'26 over May'26 as Fed policy hinted cautious approach to tackle elevated inflation. JPY and EUR fell by 2% each. INR was supported by regulatory measures to improve foreign capital flows.

Global bond yields remained mixed. US showed slight upward bias due to a hawkish policy. UK and Germany's 10Y yield softened in line with decline in international oil prices. India's 10Y yield was an outlier showing sharp downward bias supported by recent regulatory reforms.

Global commodity prices softened in line with fall in international oil prices which alone declined by -21% in Jun'26 over May'26. The prices of Gold, Copper and aluminium all showed decline in Jun'26 over May'26.

State of the global economy

US high frequency indicators showed some signs of stress. Factory orders declined by -11.3% in May'26 compared to previous level of 5.3% increase, on MoM SA basis. Durable goods order declined by -4.5% as per final estimate of May'26, on a MoM SA basis. Core capital goods orders non-defence excluding air however, picked up by 1.4% slightly lower than previous level of 1.6%. ISM manufacturing data also moderated to 53.3 in Jun'26 compared to earlier month's level of 54. Both new orders and employment index edged down. Conference Board Consumer Confidence also moderated to 91.2 led by deteriorating present situation index. New home sales edged down to 580K (lowest level since beginning of CY26) against previous level of 626K, amidst elevated mortgage rates (~9-month high) and inflationary concerns. Advance goods exports declined by -5.4% on MoM SA basis. Imports picked up by 3.6%. Labour market conditions also showed softening momentum as change in nonfarm payroll has increased at a softer pace by just 57K in Jun'26. The May print has also been revised downward from 172K to 129K. The two-month payroll net revision indicates decline by 74K. Average hourly earnings on the other hand remained sticky rising by 0.3% on MoM basis. Labour force participation rate has also moderated to 61.5% from 61.8% earlier. Unemployment rate was at 7.9%. ADP employment change data also moderated to 998K from previous level of 122K in Jun'26. JOLTS Layoffs Level has also increased to 1708K from previous level of 1667K. On inflation front, core PCE index, a widely gauged index by Fed, on a QoQ basis remained firm at 4.4% for Q1 third estimate. Retail sales also remained buoyant picking up by 0.9% in May'26 compared to previous level of 0.4%, on a SA MoM basis.

In case of **Eurozone**, labour market remained buoyant. The **euro area** SA unemployment rate was stable at 6.2%, compared with Apr'26. **EU** unemployment rate was also stable at 5.9%. Growth indicators showed mixed performance. House prices in Q1 of CY26 rose by 4.7% in the **euro area** and by 5.1% in **EU** compared to Q4 of CY25. The highest increase was seen in Portugal, Bulgaria and Slovakia. Eurozone Manufacturing PMI came in at its 4-month low of 51.4 in Jun'26. Cost pressures have also eased in Jun'26 following moderation in oil prices. On the other hand, services PMI index rose to its 3-month high of 50 in Jun'26, with considerable expansion seen in services activity in Italy, Spain and Ireland. **Euro area** inflation is expected to be 2.8% in Jun'26, lower compared to 3.2% in May'26 as per flash estimate. Energy component is expected to have the highest contribution in inflation.

PPI data in the Eurozone has risen by 5.9%, YoY in May'26, higher than previous month's level of 5%. Retail sales also picked up at faster pace by 1.6% YoY in May'26, compared to previous month's level of 0.9%.

In **Japan**, housing starts firmed up by 33.9% in May'26 compared to previous level of 11.4%. Industrial production declined by -1.7%, on YoY basis but was stable at 0.5% on MoM basis, as per provisional estimate of May'26. Retail sales noted MoM pickup of 1.9% in May'26. CPI data firmed up to 1.7% in Jun'26 compared to previous level of 1.4%. Core CPI (excl. food and energy) also inched up to 1.9%

In **China**, high frequency indicator showed mixed signals. Manufacturing PMI was slightly higher at 50.3 in Jun'26. Non-manufacturing PMI was at 50.2. Industrial profits on a YTD YoY basis picked up by 18.8% in May'26 compared to previous level of 18.2%. Property investment on YTD YoY basis in May'26 have declined by -16.2% compared to previous level decline of -13.7%. Retail sales declined by -0.6% in May'26, on YoY basis compared to previous level of 0.2%. Industrial production on a YTD YoY basis picked up by 5.4%, slightly slower pace compared to previous level of 5.6%. On inflation front, PPI remained elevated at 3.9% in May'26 compared to previous level of 2.8%, on YoY basis. CPI was at 1.2%.

Indian Economy

High frequency indicators signalling mixed growth trends

Early indicators are pointing towards slight slowdown in economic activity in Q1FY27. This is also reflective of the impact of the Iran war. Manufacturing PMI in Q1 averaged 54.5 compared with 55.7 in Q4FY26. In Jun'26 alone the index eased further (54.2 versus 55), dragged by sub-index of output and new orders. Capital goods orders fell the most, in contrast with increase registered by consumer and intermediate goods makers. In case of services as well, in Jun'26 the index slipped to 57.4 (lowest since Jan'25), as impact of higher fuel prices was clearly visible. New orders eased to lowest in over 2.5 years due to challenging market conditions. Vehicle registration growth also moderated in Q1 to 15.4% (YoY), versus 23.6% in Q4. Passenger air traffic fell by (-) 0.7% in Q1 following flat growth (0%) in Q4. E-way bill generation growth in Apr-May'26 has averaged 11.4%, down from 15.8% in Q4. On the other hand, bank credit and government expenditure has maintained momentum, thus providing a thrust to long-term investments. Credit growth has risen by 17.7% as on 15 Jun. Central government's total expenditure was up by 18.1% in Q1 (19.7% in Q4).

Monsoon a key risk this year

India's South-west monsoon has begun to advance across different states. The cumulative rainfall so far (5 July 2026) has been 24% below LPA. The storage level for 166 reservoir as % of total capacity stands at 26% as on 2 July 2026 (42.5% last year). In terms of acreage, kharif sowing has been much slower at 16.5% (as on 26 Jun 2026) of normal area sown against 21.6% for last year. The fall is due to lower sowing of rice, coarse cereals and pulses. However, since the monsoon had just begun, acreage is expected to pick up in the coming months, supported by the current week El Nino and neutral IOD conditions.

RBI Financial Stability Report.

RBI Financial Stability reported highlighted two key risks to the financial system 1) geopolitical fragmentation and 2) technological disruption with the advent of AI. It has flagged that global financial risks have remained elevated albeit domestic financial system showing resilience. This is on account of “healthy balance sheets of financial and nonfinancial firms, and ample buffers” as pointed out in the report. The capital and liquidity position of Banks have remained strong, apart from healthy profitability, lower NPA levels and buoyant credit demand. Micro level data also suggested improvement in the asset quality of consumer segment loan with slippages from SMA-2 declining and loans getting upgraded. Results of macro stress tests indicated that GNPA ratio of SCBs will be 1.9% under baseline scenario compared to Mar’26 level of 1.8% and at 3.8% and 4.1% under shock 1 and shock 2, respectively. System level CRAR is likely to be 15.6% under baseline scenario compared to 17.5% in Mar’26 and at 13.3% and 13%, under shock 1 and shock 2, respectively. Thus, even under adverse scenarios, Banks are well positioned to absorb shocks. Even NBFCs remained sound marked by strong capitalisation, healthy profitability, and improving asset quality. For NBFCs as well, stress test results indicate that the sector’s aggregate capital position would remain comfortably above regulatory requirements even under adverse scenarios.

Government measures to bring back foreign capital

To retain durable capital flows at a time when FPI flows were volatile, government stepped in at the opportune time to bring about structural changes aimed at enhancing ease of doing business in capital markets. The measures range from 1) Liberalisation of investment by individual Persons Resident Outside India under the Foreign Exchange Management (Non- Debt Instrument) Rules, 2019, which was earlier available only to NRIs/OCIs. The investment limit has been increased from 5% to 10%, with an overall investment limit of 24%. This is likely to expand the investor base 2) Expanding the scope of FAR by including new issuances in GSec in tenors of 15, 30 and 40 years as also Sovereign Green Bonds and 3) tax rationalisation by exempting interest and capital gains on G-Secs from income tax w.e.f. 01.04.2026.

What has driven the rupee of late?

INR appreciated by 0.4% in Jun’26, after falling successively in each of the last three months. Interestingly, DXY rose by 2.3% in the same period. The reversal in INR’s fortunes was driven by a decline in global oil prices and a comeback in FPI inflows. Easing tensions in the US-Iran turmoil led to a significant correction in global oil prices. Brent crude prices declined by ~21% in Jun’26 to trade at ~US\$ 70-75/bbl levels. At the same time, FPI flows too witnessed a turnaround. After pulling out cumulatively US\$ 24bn from the Indian markets between Mar-Jun’26, FPI’s investment turned positive in Jun’26 at US\$ 531mn (net inflows). While the magnitude of inflows is still low, the signs are encouraging, especially in the debt segment. Debt inflows picked up strongly in Jun’26 supported by measures announced by the government and RBI. In the near-future, INR is likely to trade with an appreciating bias.

Where are yields headed

India’s 10Y yield has shown significant downward correction of 25bps in Jun’26 in line with decline in oil prices by 21% during the same period. Apart from the oil factor, reforms on part of the government to widen Gsec participation among foreign investors, making FAR popular by including new issuances across different tenors has also supported yields. Apart from this, RBI’s measures such as attracting more deposits through the FCNR (B) route though not directly to do with impacting yields has targeted at improving banking liquidity. Hence India’s 10Y yield got considerable support (sharpest fall compared to major economies, only next to Thailand). The momentum of softening is continuing in Jul’26 as well. The cut off yield for the 6.94% GS 2036 paper has fallen by 24bps to 6.73% in the current auction compared to previous auction, hinting at softer yields and buoyant demand. System liquidity

has moderated to Rs 0.8 lakh crore surplus in Jun'26 compared to Rs 1.6 lakh crore in May'26. Currently as well, the surplus is ~ Rs 1.4 lakh crore (first 5-days of Jul average). We expect that the risks for India's 10Y yield have become more balanced which were on the upside earlier. In Jun'26 alone, net debt inflows through the FPI route have been US\$ 5.8bn, of which US\$ 2.3bn is attributable to FAR inflows. The Jul momentum of FAR is also maintained at US\$ 301mn (only first 3 days of Jul).

Key Data releases of the month

Industrial production in May'26 improved

Industrial production registered a growth of 5.1% in May'26 against 3.4% growth in May'25. Compared with previous year (May'25), higher growth was noted primarily in manufacturing and electricity generation. Mining growth declined, while water supply, sewage and electricity output noted deceleration. Manufacturing growth came in at 5.5%, supported by manufacture of textiles, basic metals, fabricated metals, and motor vehicles. These are based on new base year which have been revised from 2011-12 to 2022-23. Output of consumer durables improved further, as heatwave and uneven monsoon distribution is keeping demand high. Going forward, as tensions have eased in the West Asia, production will get support from decline in oil and other commodity prices. Firms will also get some relief from re-opening of the Strait of Hormuz. However, complete normalisation of supply chains will take months, hence we maintain cautious view on our full year IIP growth forecast.

Trade data yet to show the impact of West Asia crisis:

Trade deficit was at US\$ 28.2bn in May'26 same as in Apr'26 and US\$ 22.6bn in May'25. Exports of goods grew at a higher pace by 18% in May'26 to US\$ 45.2 bn, led by high growth in petroleum products. The high growth comes against a negative base of -1.2% seen in May'25. Imports grew by 20.6% in May'26 to US\$ 73.4bn, led by crude and petroleum products. Forex reserves were at US\$ 666.9bn as on 26 Jun 2026 compared to US\$ 682.3 bn, as on 29 May 2026. Since the start of the war (27 Feb 2026), forex reserves have fallen by US\$ 61.6bn till date.

WPI debuts with new series

Ministry of Commerce and Industry has revamped the wholesale inflation series. Apart from revising the base for WPI series from 2011-12 to 2022-23, the Ministry has also provided additional datasets which measure PPIs (output, input and services). The idea is to gradually phase out the WPI series (after 5 years) and adopt PPI as the measure to gauge wholesale inflation, in line with international best practices. For May'26, headline WPI (2022-23=100) has risen to 9.7% from (-) 0.2% in May'25. At the same time, output PPI indicates that headline index rose by 9.4% versus 0.1% last year. In the latest WPI series, all major group heads (food, fuel and manufactured products) have contributed to the elevated inflation print. Similar trends can be noted in output PPI as well. In contrast, input PPI shows that upside pressure (MoM) was visible in only 8 of the 21 manufactured product indices (food, beverages, textiles, electrical equipment, etc.). Services PPI will be made available on quarterly basis and data for Mar'26 indicates that there was an increase on account of securities transactions and railways, while there was considerable downside pressure on account of banking, insurance, telecom and management of pensions.

What's new:

1. Ministry of Commerce has released WPI with new base of 2022-23 and has discontinued the series with base year 2011-12.
2. For the new the WPI series (2022-23=100):
3. Number of items tracked has been increased from 697 to 957.
4. Under electricity index, renewable energy has also been added (solar, wind, nuclear).
5. Crude petroleum & natural gas index has been shifted from 'primary articles' to 'fuel and power'.
6. To determine the new weights of each component, Gross Value of Output (GVO) has been used this time instead of using Net traded Value earlier (GVO + Imports - Exports).
7. In case of missing data, now 'targeted mean imputation' method will be used instead of 'carry forward' method used in the old series.
8. The current WPI series (2022-23) will be discontinued after 5 years and only PPI series will be made available after that.
9. WPI, Output PPI and Service PPI are being compiled on the basis of Basic Price (which excludes Net Tax and Trade & Transport Margin).
10. Input PPI is being compiled using Purchaser's Price since industries purchase input from market.

CPI showing impact of higher food and fuel prices

CPI inched up in May'26 bearing the impact of higher food and fuel inflation. The May'26 petrol, diesel and cylinder price hike was reflected in higher inflation in the transport component of CPI and in the inflation of restaurant and accommodation services component. Food inflation rose to 4.8% and core inflation is also heading the 4%-mark, with likely narrowing of the gap between core and food inflation in the near term. The inching up of core is still attributable to some degree of volatility in precious metals. Excl. gold silver and precious metals, core has inched up a tad to 2.2% in May'26 from 2.1% in Apr'26. Going forward, we believe that upside risks to core will intensify as firms might pass through some degree of higher input costs to consumers amidst stable demand conditions. The risks on food inflation are also likely to intensify in the coming days. As per WMO 3 Jul 2026 update "El Niño conditions have developed in the tropical Pacific and are forecast to strengthen rapidly over the coming months, increasing the likelihood of heatwaves, droughts, heavy rainfall and other extreme weather events in many parts of the world". This was against the earlier update of WMO of an 80% likelihood of El Niño event during June–August 2026 and a 90% probability till Nov.

Our BoB ECI in Jun'26 is showing increase of 2.4%-highest in the past 17-months.

Central bank actions

Federal Reserve in its Jun'26 policy kept rates unchanged by a 12-0 vote. This was the first policy of new Fed Chair Kevin Warsh. The Fed dot plot showed that 9 FOMC members voted for higher rates in 2026 while other 8 members voted for status quo and 1 member for lower rate in CY26. However, the Fed Chair refrained from participating in the dot plot as highlighted in the post policy conference. The median projection for Federal fund rate has been higher at 3.8% in CY26 compared to earlier forecast of 3.4%. The underlying rationale for higher trajectory of Fed fund rate hinges on the inflation outlook which is likely to be impacted due to supply constraints from West Asia crisis. Thus, the PCE and core PCE projection was higher at 3.6% and 3.3%, respectively, in CY26 compared to earlier estimate of 2.7% for both. Fed Chair also highlighted the need to bring back inflation to the 2% target level. The projection of real GDP in CY26 has been revised lower to 2.2% from its Mar'26 policy projection of 2.4%. Unemployment rate projection has been a tad lower at 4.3% from its earlier estimate of 4.4%.

It is to be noted that CME Fed watch tool also hints at status quo in Fed rate till Sep'26. Post which some probability is attached for a rate hike. SOFR (Secured Overnight Financing Rate) 1-month is trading at 3.66% and 3-month at 3.75%, as on 1 Jul 2026. Thus, signalling no major rate action on Fed's part.

Bank of England (BoE) had held its policy rate steady at 3.75% in its Jun'26 meeting, eyeing the recent downward correction in oil prices from the discussion centering the peace deal between US and Iran. However, two out of nine policy members voted for a 25bps increase in policy rate amidst concerns over price outlook. Governor Andrew Bailey has also hinted about the unpredictability of the war situation and its likely impact on the energy costs. In the post policy conference, he also highlighted that proper assessment of reversion of energy prices to its pre-war levels is required. The status quo in policy rate signals a calibrated move to maintain a balance between inflation and demand conditions which has been mentioned to be weaker amidst loosening labour market conditions. The projection of CPI inflation is expected to be a little under 3% in Q3CY26 Q3 and 3.25% in Q4, based on the oil prices data just before the policy date. Hence these projections are also likely to change based on the evolution of oil prices trajectory going forward. The projected path of inflation is, however, lower than the previous forecast of BoE. Thus, explaining the rationale for status quo in policy rate.

European Central Bank (ECB) went ahead of the curve and raised its policy rates by 25bps, embarking on the rate hike cycle for the first time since Jun'24 (end of the previous rate hike cycle). The policy document highlighted that the main rationale of rate hike emerged from scenarios mapping evolution of inflationary shocks over the medium term. The Eurosystem staff projection for headline inflation has been revised upward to 3.0% in CY26 compared to Mar'26 projection of 2.6%, on account of higher path for energy prices. Economic growth has been revised downward to 0.8% in CY26 compared to Mar'26 projection of 0.9%. The impact of war is likely to be more pronounced and is likely to persist through CY27 as projections for inflation and growth have been revised upward (+30bps) and downward (-10bps), respectively.

Bank of Japan (BoJ) in its latest meeting raised its policy rate by 25bps to 1%. This is the highest level in past 31 years. The latest decision was passed through 7-1 majority voting. The policy highlighted that the pass through of elevated energy costs on inflation is progressing at a rapid pace in business-to-business transactions, which might be reflected in the consumer prices which is still remaining below 2% targeted level (due to government measures to maintain price stability). The medium to long term inflation expectations have also firmed up. For future guidance, BoJ highlighted that given underlying CPI approaching the targeted level, there remains scope for further policy tightening and adjusting the degree of monetary accommodation. On growth front, BoJ have highlighted that the downside risks from West Asia crisis is likely to be downplayed by buoyant corporate profits and an improvement

in the employment situation. The projection for Real GDP has been revised downward to 0.5% for FY26 in its Apr'26 meeting from 1% projected in its Jan'26 meeting. For CPI, the projection was revised upward to 2.8% for FY26 compared to earlier estimate of 1.9%. It is to be noted that these are Apr'26 projection. Thus, the new projections might further bear the impact of the war on growth and inflation respectively.

RBI policy was set against the backdrop of elevated domestic fuel price. This was the first policy after phased implementation of domestic fuel price hikes in May'26. However, RBI chose to be cognisant about the impact of these hikes on headline CPI print which is still below the targeted 4% level. Hence the decision to stand pat on rates was more of a data dependent approach under the backdrop of elevated geopolitical risks. The regulatory measures were more welcoming and spoke of a prudent move at times when attracting foreign capital remained crucial for Indian economy. Measures such as bearing full hedging cost for raising fresh 3–5-year FCNR (B) deposits will help in bringing higher NRI deposits through this route. Real GDP for FY has been revised downward to 6.6% from its earlier projection of 6.9%. The major impact of war is likely to be felt in Q1FY27 GDP print as per the forecast-trajectory. For CPI, the May'26 spike in retail fuel price, and its second order impact has been incorporated in the projection. Accordingly, CPI for FY27 has been revised higher at 5.1% compared to earlier forecast of 4.6% in its previous policy. The forecast signals CPI to be peaking in Q3FY27. However, one thing is to be noted, that oil prices were trading at US\$ 110/bbl on 5 Jun 2026 (RBI Policy announcement date) and now there is considerable decline in crude prices to US\$ 72/bbl. Thus, there remains considerable risks to how the forecasts emerge in the coming months.

Key takeaways from ECB forum on central banking

ECB President highlighted that vigilance is required for second round effect of war on inflation and growth outlook of the economy. Estonian Central Bank Chief also reiterated similar tone in line with ECB Chief hinting at least one more rate hike to be reasonable. However, other officials are of the divided opinion over sharp downward correction in oil prices following peace efforts between US and Iran. To conclude all officials agreed that the upside risk to inflation and downside risks to growth is more balanced than before the peace talks were in place.

BoE Governor cautioned that rate cut is off the table as threat to inflation persists as pass through of higher energy costs to inflation has not yet materialised. This is on account of the UK energy price cap which has limited suppliers to fully pas through higher costs to households. Hence recent commentaries of BoE officials suggest that the future policy move is likely to be a data dependent wait and watch one.

Fed Chair hinted that inflation risks are coming off and expectations have realigned accordingly, in the past four weeks. Though he directly refrained from any commentaries on future course of Fed Fund rate and committed on bringing down inflation to the 2% targeted level.

Thematic studies of the month (For more reports refer to <https://bankofbaroda.bank.in/economic-scenario>)

Relation of Equity Index, INR and FIIs

Theoretical frameworks across the globe have weighed in on the interdependence of different variables of financial markets. In order to understand the same and capture any possible relation, the study investigates the volatility spillover effects of various macroeconomic variables including stock indices return, exchange rate and movement of FIIs flow through a range of econometric models. The study spans a 26-year period, including various market conditions, during this timeline. The analysis underscores the importance of predicting the volatility of different

parameters of financial markets and spillover effects. The results based on empirical evidence imply that certain variables are interdependent on each other, with their past outcomes playing a role in shaping their future outcome. Moreover, there is spillover impact of these variables on other variables, such as the interconnection of equity indices with FIIs flow and exchange rate.

The major conclusions are:

1. There exists a positive correlation between the Sensex and other macroeconomic variables namely, exchange rate and movement of FIIs flow.
2. Additionally, INR and FII flows also reflect a positive correlation. Notably, higher level of positive correlation has been noted in the post covid series, between each of the variables.
3. In terms of causality, it has been noted, there is firm relation between Sensex and INR, as well as between Sensex and movement of FIIs flow.
4. Out of 3 series, 2 of them have been estimated to have the presence of ARCH effects on the residuals. The post covid series (Apr'22-Mar'26) have been noted to not have any ARCH effects present or volatility clustering.
5. Out of different GARCH models estimated, majority of them for ARCH (alpha) and GARCH (beta) coefficients have turned out to be significant, and alpha+beta is nearing 1 for the significant models.
6. Given the presence of volatility clustering, it has been observed that there is a spillover effect between the changes in the past Sensex returns to their future outcome.
7. The same can also be said for FIIs but might not be true for INR as one of the coefficients in the mean equation for INR was not significant.
8. Furthermore, spillover effect has been noted with changes in Sensex return can sometimes lead to changes in exchange rate, since one model validates this result.

ECBs in FY26

ECB registrations moderated to US\$ 42.9bn in FY26 from US\$ 61.2bn in FY25. More recently, in Apr'26, there has been a further moderation in ECB registrations to US\$ 3.8bn compared with US\$ 5.4bn in Mar'26. Heightened currency volatility and lower spread with the US can explain some part of the decline in ECB registrations. NBFCs remain the largest borrowers in the ECB market, accounting for over 39% of total registrations. Further, most borrowers in the market preferred using ECBs for on lending and refinancing of earlier ECBs. However, there was a pickup in ECB mobilization for the purchase of capital goods and infrastructure, which suggests traction in the domestic capex cycle. Further, while other commercial banks are the main sources of financing for ECBs, IFSC has emerged as another new avenue. Overall, while ECB registrations have come down in FY26, we expect an improvement this year led by RBI's announcement of dollar-rupee swap facility for PSU borrowers. This will help in supporting India's overall balance of payment at a time when the current account deficit is poised to increase.

How global commodity prices fared during the war

Since the outbreak of war between US and Iran at the end of Feb'26, global commodity prices have risen notably till May'26. Apart from war related concerns, we observe that adverse weather conditions have also impacted prices of grains and raw materials like cotton and rubber. Strong demand for renewable fuels, metals is also adding to price pressures. In this note we have explored how commodity prices have moved between Feb and May'26 this

year, compared with last year. Going forward, we believe that prices may remain elevated even in the next few months as it will take some time for supply chains to completely normalise even after the war ends. For India, the impact will be felt on WPI, which is expected to average between 7-8% in FY27.

Is India Inc reducing its import dependence or not?

The centre-point of discussion surrounding the West Asia crisis has been the cost push factor. From oils to metals, the rising input cost is a cause of concern especially for industries which are highly import intensive in nature. Here we have used the imports to net sales ratio of sample of 1,372 companies (excl. banks and financial companies) across sectors, to see which sectors might be vulnerable on account of increase in oil and metal prices. The study shows that:

1. India Inc's import to net sales ratio has broadly remained flat.
2. Over the years, imports to net sales ratio of certain sectors such as chemicals, consumer durables, electricals and capital goods have come off, which is a relief especially under the current scenario.
3. For others such as Industrial gases and fuels, non-ferrous metals and crude oil, it is elevated on account of their nature and input-output dynamics.
4. Import intensity of India Inc is concentrated in certain sectors and companies, and it is not broad based. Hence any disruption from global supply shock will also not be extensive and can be controlled with sector specific policies in place.

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