Monthly Round-up: India Macro Report (June 2026)

aranca

July 2026

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Executive Summary (1/2)

Growth stays resilient but normalising, with food inflation the key near-term risk

6.6% GDP growth projected for FY27 (RBI)

7.8% Estimated GDP expansion in FY26

5.25% Repo rate held steady by the RBI

Macro momentum

Softer PMI readings show activity normalising from elevated levels, not accelerating. Rising food inflation is the key macro risk, trimming the RBI's room to ease.

Markets & flows

Lower bond yields, a stable rupee and steady domestic institutional buying supported markets. But FPI outflows and YTD underperformance keep the recovery reliant on domestic liquidity.

Policy & reform

A broadly stable policy backdrop, with reforms targeting capital-market efficiency, foreign-investment access, renewable manufacturing, and energy transparency. Supportive medium-term, neutral near-term.

Sources: *Aranca Research*

Executive Summary (2/2)

Constructive with selectivity: sticky food inflation is the swing factor

INVESTMENT IMPLICATIONS & RISK:

Equities

CONSTRUCTIVE

Favour domestic cyclicals and financials on the index recovery and lower volatility, though elevated valuations warrant selectivity.

Fixed Income

MODERATELY CONSTRUCTIVE

Duration looks attractive as yields have eased, but persistent food inflation could delay further monetary accommodation.

INR

NEUTRAL

External buffers remain adequate; oil-price volatility, US-dollar strength and FPI outflows are the key risks to watch.

Key risks

- Persistent food inflation
- Weaker corporate earnings
- Oil-price volatility
- Renewed global risk aversion

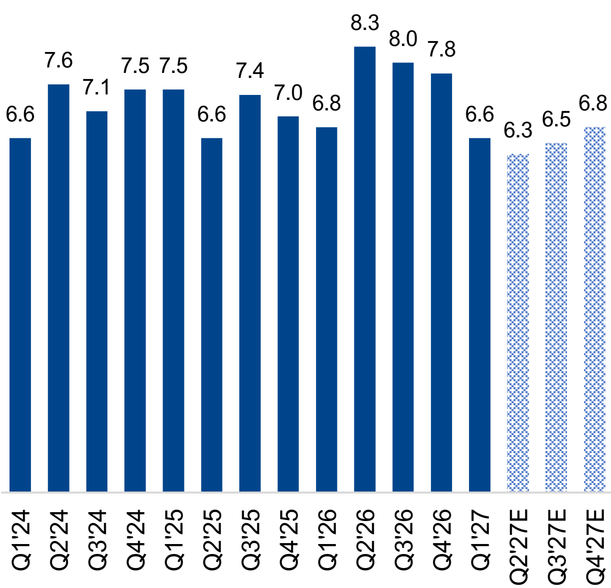
Sources: *Aranca Research*

Growth Remains Resilient, but Higher Food Inflation Narrows the Scope for Easing

- India's growth remains resilient, though softer PMIs point to a cooling from earlier strong momentum.
- CPI inflation increased to 4.38% in June from 3.93% in May, exceeding the RBI's 4.0% target, driven by higher food and fuel inflation.
- With activity still in expansion, the RBI is unlikely to react strongly to mild growth softness unless inflation eases meaningfully.

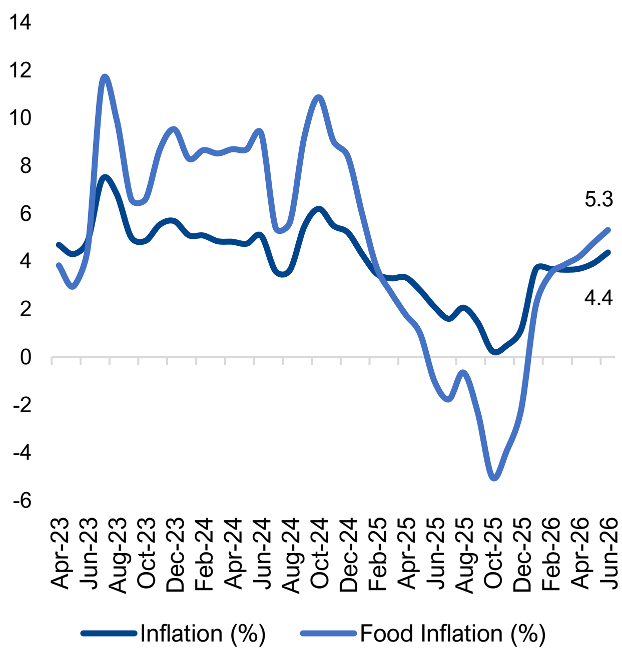
Investor implication: Rising food inflation **reduces the scope for near-term monetary easing**, although PMIs remaining above 50 continue to support the domestic earnings outlook.

Quarterly GDP Growth (%)

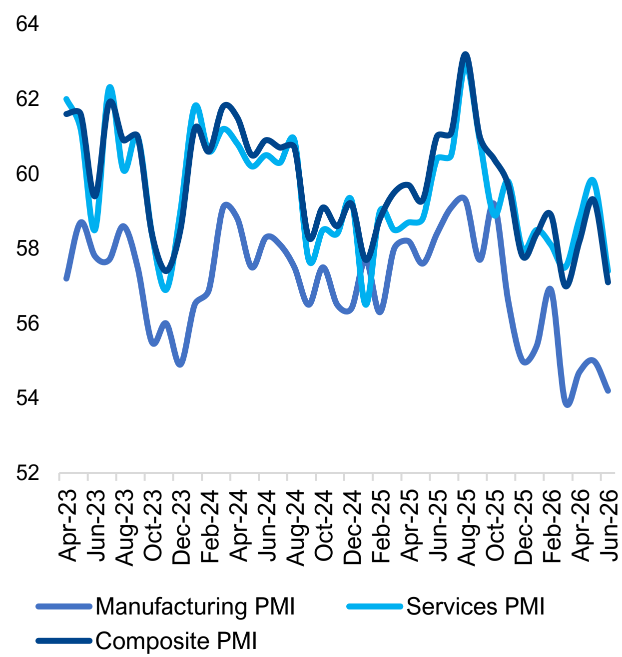


Latest release available as of 22nd July 2026

Consumer Price Index (CPI) Growth



Purchasing Managers' Index (PMI)



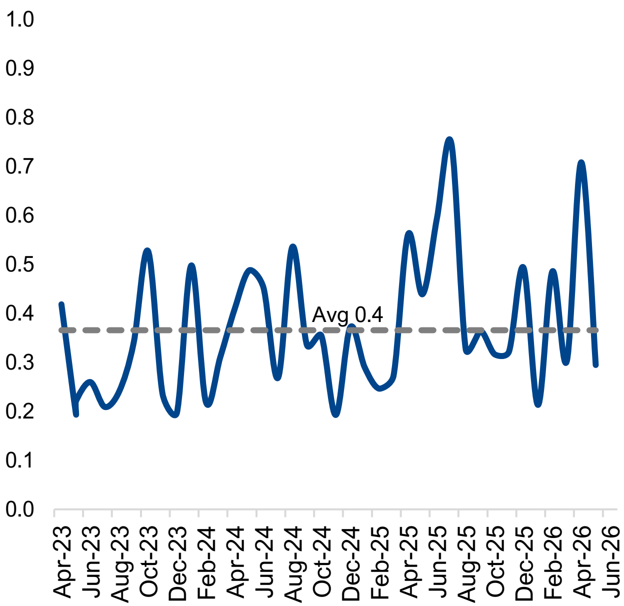
***Sources:** Aranca Research, MoSPI, RBI, IMF, Bloomberg*

External Buffers Remain Adequate Despite Softer Reserves and a Wider Goods Deficit

- Wider trade deficit driven by higher oil imports and strong domestic demand, not weaker external financing.
- Strong FX reserves buffer, while services exports, remittances, and capital inflows offset the structural goods deficit.

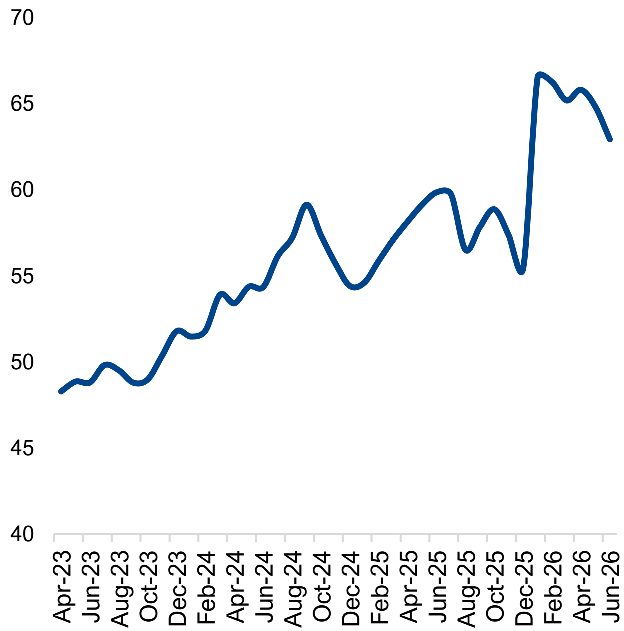
Investor implication: India's external position remains comfortable, but sustained oil-price strength or renewed foreign outflows **could increase pressure on the INR and domestic bond yields.**

Foreign Direct Investment - FDI Inflows
(INR lakh crore)



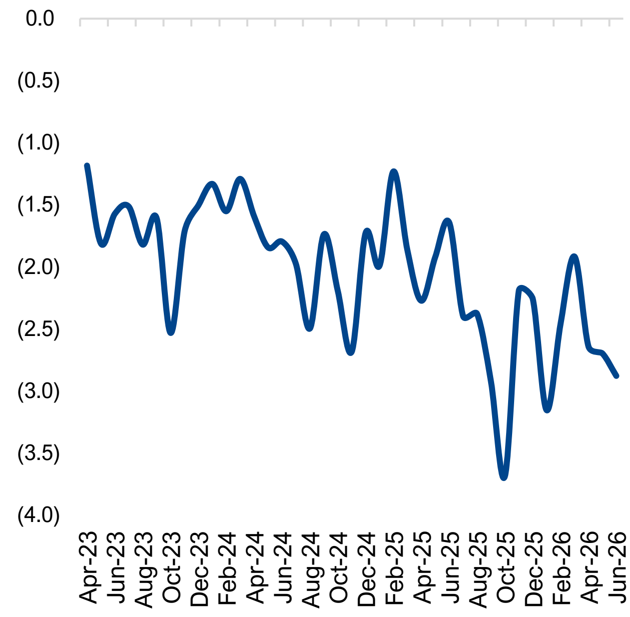
Latest available: May 2026

Foreign Exchange Reserves
(INR lakh crore)



Latest available: June 2026

Trade Balance
(INR lakh crore)



Latest available: June 2026

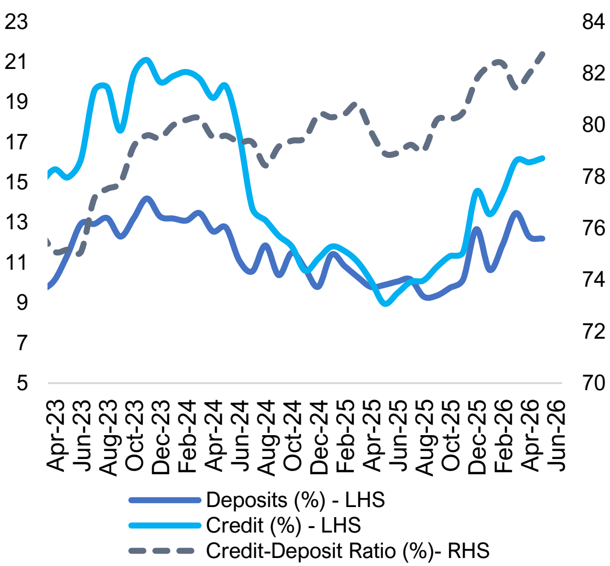
Sources: *Aranca Research, RBI, DEA, DPIIT*

Financial Conditions Remain Stable with Steady Credit Growth and Easing Yields

- Credit growth continues to outpace deposits, signaling strong loan demand but intensifying competition for funding.
- 10Y G-Sec yield fell to ~6.75% in June vs. 7.0% in May, reflecting softer inflation and policy expectations despite sticky food inflation.
- Banks face a mixed backdrop: strong credit demand and treasury gains support, but high CD ratios strain liquidity and margins.

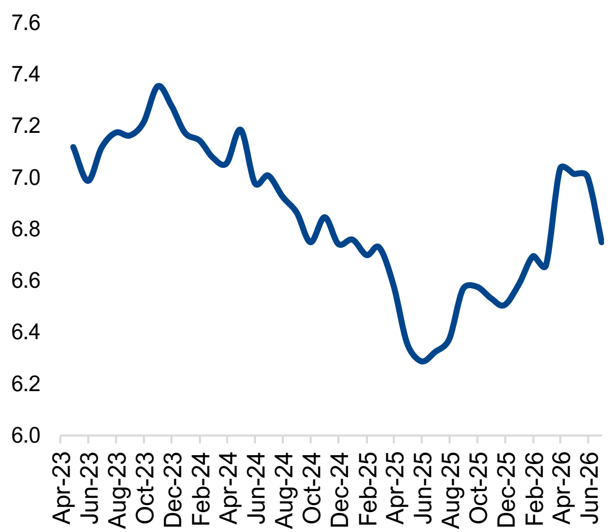
Investor implication: Lower yields are supportive for duration and rate-sensitive sectors, although the benefits for banks may be **partly offset by continued deposit competition.**

Deposits and Credit Growth (%)



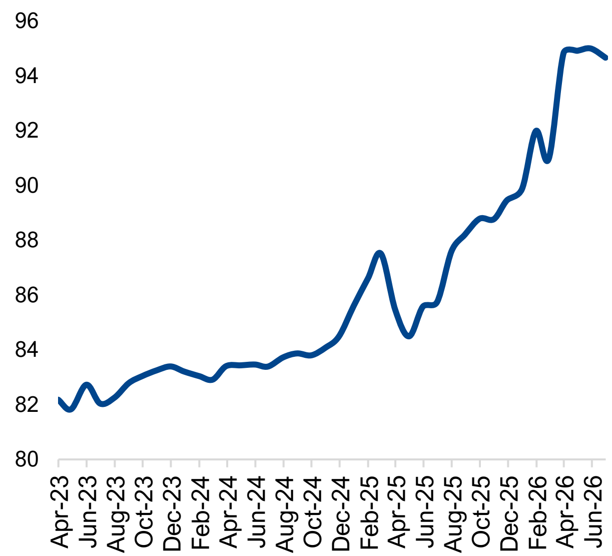
As of May 2026

India 10Y Government Bond Yield (%)



As of 16th July 2026

USD/INR Exchange Rate Trend



As of 16th July 2026

Sources: *Aranca Research, RBI, Bloomberg*

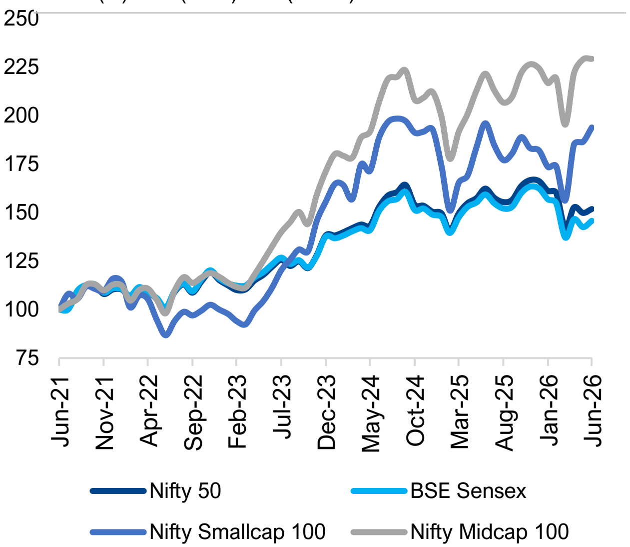
Indian Equities Recover as Volatility Eases and Market Breadth Remains Stable

- Indian equities recovered during the month as volatility eased, and domestic institutional liquidity remained supportive.
- Small caps outperformed, signaling renewed risk appetite, but mixed performance across caps suggests a selective recovery.
- India outperformed EM peers during the month but still lags sharply YTD, reinforcing the case for selective, not broad exposure.

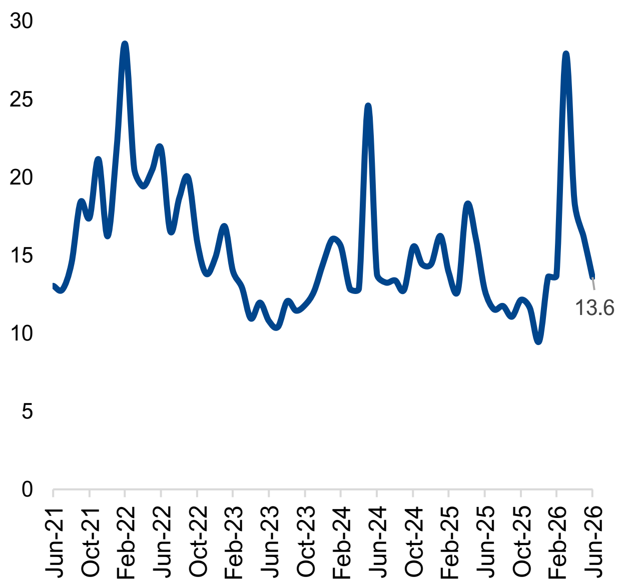
Investor implication: Domestic liquidity is supporting the recovery, but **sustained upside** will require stronger earnings delivery and a stabilization in foreign portfolio flows.

Equity Indices Performance

Metric	Nifty	Sensex	Midcap	Smallcap
1M (%)	1.4%	2.3%	4.0%	0.1%
YTD (%)	(8.7%)	(10.3%)	2.2%	6.5%

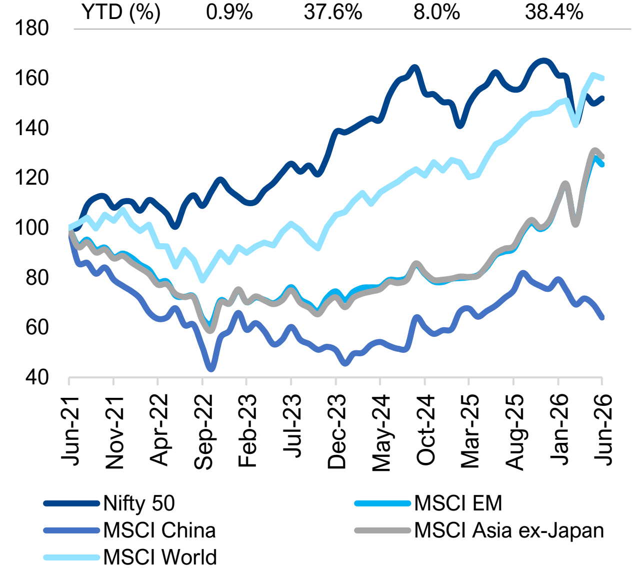


India VIX: Market Volatility



Global Equity Market Performance

Metric	Nifty 50	MSCI EM	MSCI China	MSCI Asia ex-Japan
1M (%)	1.4%	(1.7%)	(7.5%)	(1.5%)
YTD (%)	0.9%	37.6%	8.0%	38.4%



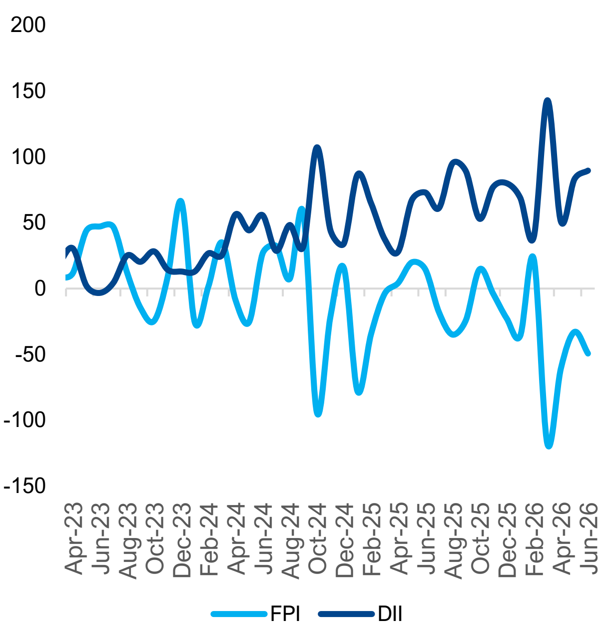
Sources: *Aranca Research, Bloomberg (as on 16th July 2026)*

Institutional Flows Reflect Continued Foreign Selling and Domestic Participation

- Domestic institutional buying reflects a deeper savings pool, but FPI outflows pressure large caps, currency, and EMs.
- Mutual fund outflows were mainly in liquid and short-duration debt, signaling liquidity rebalancing, not retail risk aversion.
- The moderation in IPO activity indicates that primary-market investors have become more selective amid volatile market conditions.

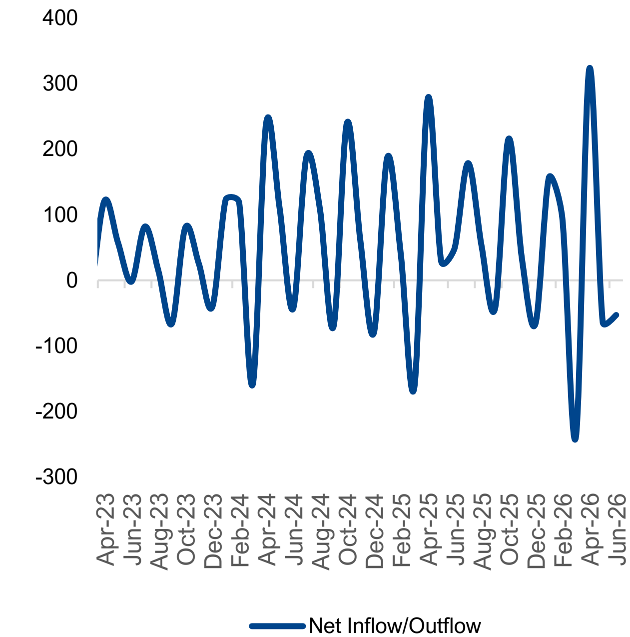
Investor implication: Domestic liquidity remains a strong market stabilizer, but continued FPI selling could **limit valuation expansion and increase sensitivity** to global risk conditions.

FPI/FII Equity Flows & DII
(INR 000's crore)

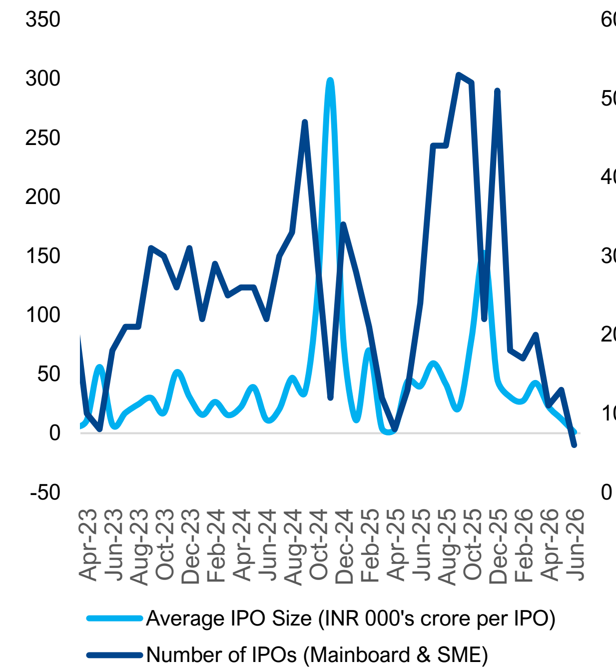


As of June 2026

Mutual Fund Net Inflows
(INR 000's crore)



Primary Market Activity: IPO Issuances and Avg IPO Size



Sources: *Aranca Research, SEBI*

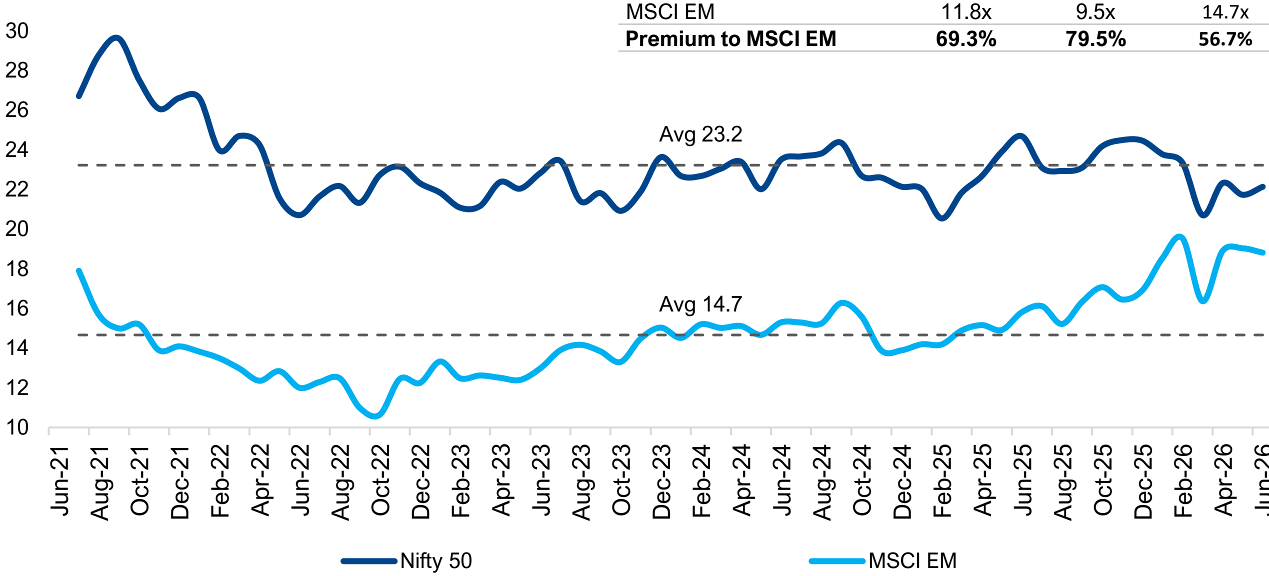
India Continues to Trade at a Premium Despite Modest Near-Term Earnings Growth

- Indian equities retain a steep EM valuation premium, broadly supported by stronger structural growth and domestic liquidity.
- Near-term earnings growth remains modest, while the acceleration expected in CY27 is essential to justify current valuation levels.
- Slightly negative four-week earnings revisions signal no broad upgrade cycle yet, raising the premium on earnings delivery.

Investor implication: India's valuation premium remains defensible, but the **margin for earnings disappointment is limited and stock selection is becoming increasingly important**.

P/E Valuation: Nifty 50 vs. MSCI EM

P/E Valuation	2026F	2027F	Historical Avg. Premium
Nifty 50	20.0x	17.0x	23.2x
MSCI EM	11.8x	9.5x	14.7x
Premium to MSCI EM	**69.3%**	**79.5%**	**56.7%**



Consensus Earnings Growth & EPS Revisions

Metric	Nifty 50
CY26E EPS growth	(0.4%)
CY27E EPS growth	17.0%
Four-week CY26E EPS revision	(1.9%)
Four-week CY27E EPS revision	(0.2%)

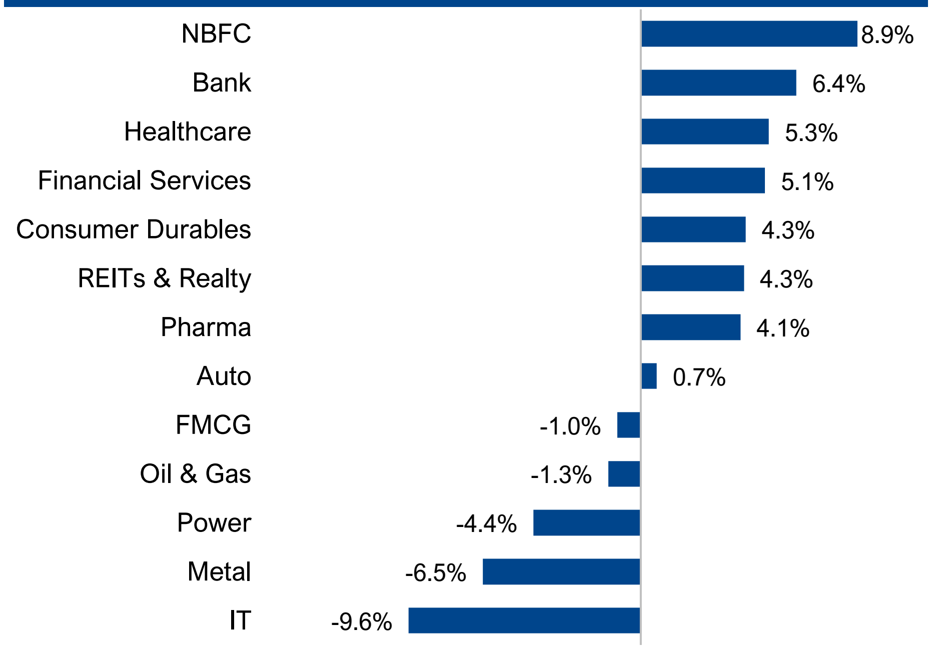
Sources: *Aranca Research, Bloomberg (as on 30th June 2026), Bloomberg Consensus Estimates (as of 22nd July 2026)*

Sector Performance Reflects Diverging Domestic and Global Drivers

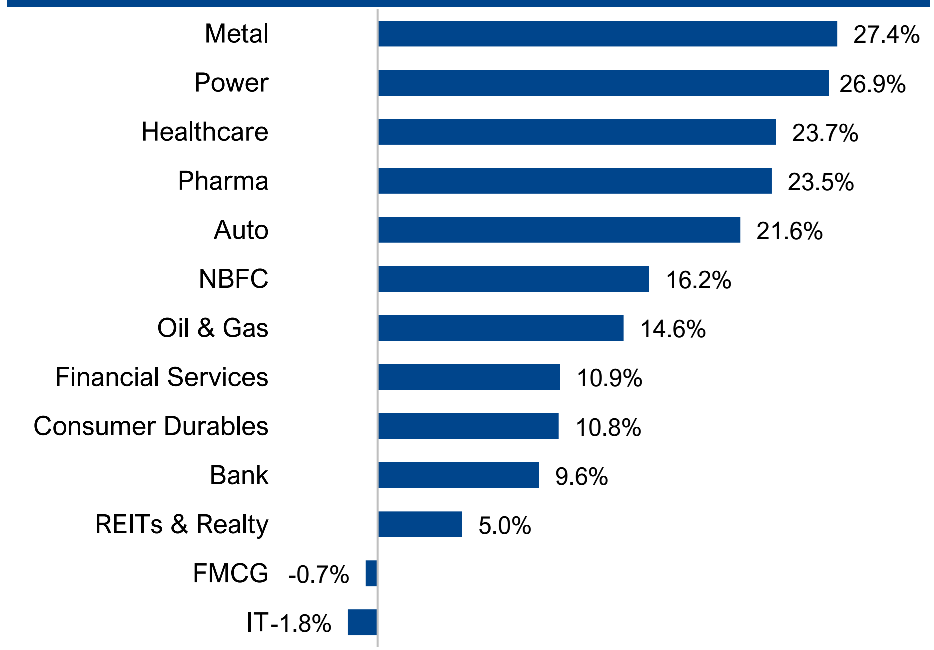
- Domestic and rate-sensitive sectors led, supported by easing yields, resilient credit growth, and stronger local risk appetite.
- Globally exposed sectors lagged amid uncertainty over external demand, commodity prices, and technology spending.
- The divergence between one-month and one-year returns points to tactical rotation, not a continuation of prior leadership.

Investor implication: Near-term positioning favours financials and domestic cyclicals, while **globally exposed sectors** may require greater evidence of external demand recovery.

Sectoral Indices: June 2026 Returns (%)



Sectoral Indices: 1-Year Returns (%)



***Sources:** Aranca Research, NSE*

Key Policy Developments Across Sectors in June 2026

BANKING & MONETARY

RBI Monetary Policy

Repo rate held at 5.25% with all policy rates unchanged; data-dependent stance as inflation stays within target.

CAPITAL MARKETS

SEBI Reforms

Transmission limits raised to ₹10L / ₹30L, AIF launches cut to 10 days, exchange buybacks reintroduced, MF intraday borrowing allowed.

FOREIGN INVESTMENT & TAX

I-T Ordinance & FEMA

FPIs exempted from tax on specified G-sec interest; FEMA ownership limits eased to <10% (individual) and 24% (aggregate).

POWER & RENEWABLES

ALMM-II for Solar Cells

From 1 June, most new solar projects must source cells from ALMM-II, boosting domestic manufacturing and energy security.

POWER INFRASTRUCTURE

Transmission Reforms

Interstate transmission timelines standardised and CEA technical standards updated to speed grid expansion and RE integration.

COAL & MINING

Coal Exchange Rules 2026

Regulated electronic coal exchanges notified to improve price transparency, competition and trading efficiency.

TRANSPORT & AVIATION

ATF Stabilization Fund

₹10,000-cr ATF Price Stabilization Fund over 36 months to curb fuel-price volatility and steady airline costs.

Sources: *Aranca Research, , RBI, SEBI, PIB, PRS India Monthly Policy Review (June 2026), MNRE, CEA, DoT, CDSCO, DFPD, EPFO*

Upcoming Events and Market Watchpoints

Date	Event	Watchpoints
6–8 Aug	RBI Monetary Policy Committee	Rate path, liquidity and bond yields
12 Aug	CPI Inflation (July)	Scope for further easing & inflation outlook
Mid-Aug	Merchandise Trade Data (July)	INR, current account & external stability
28 Aug	Industrial Production (June)	Manufacturing momentum & cyclical growth
End-Aug	MSCI Index Review	Passive fund flows & stock-specific volatility
31 Aug	GDP Growth (Q1 FY27)	Growth momentum & corporate earnings outlook
26 Sep	NSE / BSE Index Rebalance	Passive flows & constituent performance
Jul–Aug	Q1 FY27 Earnings Season	Earnings trajectory, guidance & valuations
Aug–Sep	Parliament Monsoon Session	Tax, reform & sector policy developments
Aug–Sep	Monsoon & Reservoir Levels	Food inflation, rural demand & farm output

Sources: *Aranca Research, RBI, MoSPI, MSCI, NSE*

2500+
Global clients

500+
Strong, professional team across multi-disciplinary domains

120+
Sectors and sub-sectors researched by our analysis

80+
Countries where we have delivered projects

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