INDIA: RBI GOES FOR A BIGGER CUT

Jun 09, 2025

INDIA: RBI GOES FOR A BIGGER CUT

RBI's policy decision announced on Friday was on unexpected lines. The MPC unexpected delivered few surprises including a larger than expected immediate repo rate cut of 50 bps and a 100 bps deferred CRR reduction. Simultaneously, the stance was reversed back to Neutral from Accommodative, thereby suggesting an end to the rate easing cycle. The rapid reduction in the last three consecutive meetings amounts to a total of 100 bps. Since February 2025, the RBI has lowered the policy repo rate by a total of 100 basis points. As a result, most banks have adjusted their repo-linked external benchmark-based lending rates (EBLRs) and marginal cost of funds-based lending rates (MCLR), making loans cheaper for borrowers. A reduction in the repo rate typically leads to lower EMIs for both retail and corporate borrowers.

Despite global uncertainties, India's growth projection for FY26 has been retained at 6.5%, with quarterly estimates unchanged. The RBI also retained its quarterly GDP growth projections for FY2025-26 at 6.5% for Q1, 6.7% for Q2, 6.6% for Q3, and 6.3% for Q4- unchanged from its previous estimates.

Citing a sustained decline in price pressures, the RBI cut its inflation forecast for FY25–26 to 3.7%, down from the 4% projected in April. The latest quarter-wise estimates are: 2.9% in Q1, 3.4% in Q2, 3.5% in Q3, and 4.4% in Q4. The central bank maintained that risks to inflation out.

The CRR will be reduce by 100 bps in steps of 25 bps each. This will free up Rs. 2.5 Lakh crores for the banking system. This will be done in a staggered manner through the course of the year in four equal tranches of 25 basis points each, coming into effect the fortnight beginning September 6, October 4, November 1, and November 29 of this year.

Following the announcements, the domestic equity markets rose sharply. As a result, on a weekly basis, the benchmark indexes gained about 1% from the previous week. Indian rupee witnessed choppy trading, but ended a tad weaker at 85.64 per dollar. The reaction in the bond markets were however muted, as the RBI governor had indicated that the RBI may be at the end of the easing cycle and the MPC could not do more to support growth. Benchmark 10Y GOI Bond yield closed at 5.238%.

During the week, the Mfg. and Services PMI for May showed continued expansion in both the sectors. Mfg. PMI was revised down to 57.6 in May from 58.2 in April, below the preliminary estimate of 58.3. Services PMI was revised lower to 58.8 in May 2025 from 61.2 in the preliminary estimates. However, it remains above April's reading of 58.7.

WEEK AHEAD FOR INDIAN MARKETS

In the week ahead, there are no major domestic news, barring the CPI based inflation data release on Thursday. The data does not assume any major significance since the RBI has already front ended its rate cuts last week. The FX markets will follow the trends in global markets. The rupee is expected to trade in the range between 85.20-86.10 during the week with an upward bias.

HEDGING STRATEGY: -

For Imports: Hedge for payables up to end August 2025 near or below 84.80.

For Exports: Hedge partial exports above 85.70 levels.

GLOBAL SCENARIO						Jun 09, 2025	
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	99.41	99.42	98.35	99.19	99.11	96.50-103	Neutral
USD/INR	85.54	86.02	85.30	85.64	85.22	84.95-85.95	Neutral
EUR/USD	1.1346	1.1495	1.1341	1.1397	1.1362	1.1200-1.1600	Neutral
GBP/USD	1.3463	1.3616	1.3452	1.3528	1.3537	1.3400-1.3675	Neutral
USD/JPY	143.99	145.09	142.38	144.85	142.56	135.75-148.00	Negative

INTERNATIONAL MARKETS

US

US Dollar traded range bound last week with two key data (trade deficit and non-farm payrolls data) on board. The much-awaited May Non-farm payrolls report showed that employers added 139K jobs over the month, while gains beat consensus forecasts for jobs growth with the three-month average up to 135K, the combined 95K downward revisions to March and April months took the sheen out of the May's outperformance. Further, inside details showed that jobs growth was not broad based with gains only in leisure, hospitality and health care services. The household survey showed the unemployment rate stayed flat at 4.2%, but digging a bit deeper, it rose 0.06 percentage points to 4.24% on an unrounded basis. Overall, the data showed that labour market has been moderating.

Jobs openings data released earlier in the week similarly showed a labour market that is cooling. April's JOLTS data showed job openings edged higher but remain on a downward trend. The quits rate fell and layoffs ticked up, pointing to a cautious hiring environment. Overall, labour demand is gradually softening, and this is reinforcing a "wait-and-see" stance for the Fed.

The impact of tariffs continues to distort the economic data, contributing to significant volatility—a trend that was evident from the trade data. Trade deficit swelled through the past three months due to inventory building which appeared to be cooling off. April Trade deficit narrowed to $61.6 bn. from $138.4 bn. in March – the biggest monthly drop on record due to a 16% or $68.9 bn. fall in imports as companies cut back on import of consumer goods, vehicles and equipment. Some of this drop likely reflects firms front-loading the import of extra goods in March to avoid new tariffs. This development could potentially fuel optimism among investors, leading to increased investment in U.S.-based assets and further strengthening the USD.

Soft indicators—including the Beige Book and ISM indexes—suggest the economy is beginning to feel the effects of trade uncertainty. Both the manufacturing and services ISM indexes are now in contractionary territory, while the price subcomponents of both have been trending higher, indicating rising inflationary pressures due to ever changing changes in trade policies.

The Beige Book also noted that economic activity has declined slightly since the previous report, and that contacts expect prices and costs to rise at a faster pace going forward. Layoffs were mentioned 15 times, up from 10 in March and 6 in January. We continue to expect policy uncertainty to exact a toll on the real economy, but rate cuts are looking further away.

EUR

Last week, the ECB lowered its deposit rate by 25 bps to 2.00%. Its accompanying statement had some dovish elements amid some constructive information. The ECB cited uncertain conditions while citing decelerating in underlying inflation pressures and wage growth. While the ECB offered limited policy guidance for the meetings ahead,

In the post meeting press conference, ECB President Lagarde stated that the Central Bank was getting to the end of the monetary cycle. Meanwhile, the ECB's updated economic projections—which forecast underlying inflation at 1.9% in 2026 and 2027 (slightly below the central bank's inflation target. This gives a feeling that the ECB is maintaining a modest easing bias with a likely pause in July and a rate by September.

Latest inflation news was very favourable for the European Central Bank. Headline inflation slowed to 1.9% y/y in May, just the second time since mid-2021 that it has printed below the central bank's 2% inflation target. Perhaps even more significant, there were also signs of an ebbing in underlying price pressures. Core inflation slowed more than expected to 2.3%, while services inflation also slowed sharply to 3.2%. With Q1 wage growth also decelerating (Q1 compensation per employee slowed to 3.8% y/y), the outlook remains for a further ebbing of inflation pressures over time.

For the Mfg. New orders stabilized after nearly three years of declines, while the rate of backlog depletion eased to its slowest since June 2022. On the downside, employment levels continued to fall, though at the mildest rate since September 2023. On the price front, input costs declined for the second straight month, marking the fastest drop in 14 months, while output prices were reduced for the first time since February. Looking ahead, business confidence improved to its highest level in over three years.

For the Eurozone PMI numbers continued to remain mixed. While there was a modest uptick in Mfg. PMI it yet remained below the crucial 50 level. Services PMI dipped below 50 level to 49.7 in May, the first time it has dipped below 50 since November 2024. For the Mfg. sector both the input and output prices declined, it was the opposite for the Service sector. Employment registered a decline in the Mfg. sector while it improved for the service sector. National surveys were diverse with Spain showing up above 50 while Germany was mixed.

GBP

The British Pound rose past 1.36 level to a dollar, nearing its three-year high as investors digested strong UK economic data and new defence plan. However, it ended a bit lower below 1.3550 level as investors digested the US labour data.

On the data side, the UK manufacturing sector declined less than expected in May, and house prices rose 3.5% y/y, helped by buyers rushing to beat tax changes. Also, the Services sector PMI edged higher to 50.9 from 50.2 preliminary estimates. Investors now expect only a small chance of further interest rate cuts by the Bank of England this year. Despite global economic worries, UK assets remain attractive as the British economy seems better protected from trade risks. Meanwhile, the UK government unveiled a new defence strategy, including £15 billion in spending to expand its attack submarine fleet and nuclear warhead program under the AUKUS pact with the US and Australia, aiming to counter Russia. The GBPUSD has been advancing for four months in a row and is now looking stretched. The UK also seems vulnerable if the final version of the US budget proposal contains Section 899, which retaliates against companies operating in the US whose home country pursues policies that the US does not like, such as a digital tax or implementing the OCED's Pillar Two, (sets15% minimum corporate tax rate on large companies and allows others to top it off if it is under-taxed at home).

JPY

USDJPY traded between 142.40 and 144.40 last week. Japan's household spending was a major disappointment. Rather than rise 1.5% as the economists projected, it fell by 0.1%. The average year-over-year gain in Q1 of 0.8% was the best quarterly performance since Q3 22. Yet in GDP terms consumer spending rose by 0.2% in Q1 25 after a 0.3% increase in Q4 24. The Q1 GDP estimate of a 0.2% contraction quarter-over-quarter will be updated early Monday. In addition, Japan's May composite PMI slipped to 50.2 indicating that the overall activity is stalling. Both the Services and Mfg. PMI registered contraction last month.

Real wages in Japan fell by -1.8% y/y in April, marking the fourth consecutive month of decline as persistent inflation continued to erode household purchasing power. While nominal wages rose 2.3% y/y, slightly below the expected 2.6%, gains were outpaced by a still-elevated consumer inflation rate of 4.1%, driven by rising food and energy costs. The inflation metric used by the labour ministry has remained near 4% for five straight months, keeping real income in negative territory.

On the positive side, base salaries rose 2.2% y/y, the fastest increase in four months and well above March's 1.4% y/y gain. This also marked the 42nd consecutive month of growth in regular pay. Overtime pay rebounded with a modest 0.8% y/y rise, while special payments grew 4.1% y/y.

The soft reading adds to the list of factors the Bank of Japan is monitoring as it assesses the timing of its next interest rate hike. Still, BOJ Governor Kazuo Ueda reaffirmed earlier this week that the central bank stands ready to raise rates if economic and inflation forecasts are met, reinforcing expectations of a cautious but steady policy tightening path.

As the US economic picture is not clear at the moment, we expect the BoJ to hike rates again and lead to the JPY appreciation.

CRUDE OIL

Crude oil prices climbed higher at the end of the week on better-than-expected US jobs report and resumption of trade talks between the US and China. The oil market continued to swing with news on tariff negotiations and data showing how trade uncertainty and the impact of the U.S. levies are flowing through into the global economy. Both the benchmarks settled with weekly gains after declining for two straight weeks. Brent has advanced 5.9% last week while the WTI gained about 6.23%.

WEEK AHEAD

In addition to the ongoing uncertainty surrounding US tariff negotiations, investors will be closely monitoring how the growing rift between President Trump and Elon Musk unfolds On the economic front, it will be a relatively quiet week with attention turning to CPI and PPI reports, along with the University of Michigan's consumer sentiment survey. China is set to release consumer and producer price data, as well as foreign trade figures. In Europe, Germany will publish wholesale price data, while the UK releases a batch of figures including labour market statistics, April GDP growth, the goods trade balance, and industrial production.

Mecklai Financial
WHERE RISK MEETS ITS MATCH

MARKETS LAST WEEK			
	Clsng as per 06-06-25	Clsng as per 30-05-25	Change
Mibor 3M	5.61	5.82	-0.21
Mibor 6M	5.57	5.68	-0.11
Swap 1 Y	5.54	5.63	-0.09
G-sec 1 Y Yield	5.444	5.597	-0.15
G-sec 10Y Yield	6.238	6.227	0.01
US 2Y Yield	4.036	3.893	0.14
US 10Y Yield	4.505	4.397	0.11
Ger 10Y Yield	2.581	2.574	0.01
Jap 10Y Yield	1.461	1.5	-0.04
Gold	3310.42	3289.25	21.17
Silver	35.98	32.98	3.00
Brent Crude	66.47	62.78	3.69
WTI Crude	64.58	60.79	3.79
Nifty 50	25003.5	24750.7	252.80
BSE Sensex	82188.99	81451.01	737.98
DXY	99.19	99.33	-0.14

4th Floor, Cecil Court | Mahakavi Bhushan Marg | Colaba | Mumbai 400 001 | India

TELEPHONE +91-22-61940202 EMAIL mumbai@mecklai.com WEBSITE www.mecklai.com

REGISTERED OFFICE Mecklai Financial Services Private Limited | 101 Mahatma Gandhi Road | Mumbai 400 023 | India