

**CANARA ROBECO**

# **Macro Review & Fixed Income Market Outlook - July 2025**

- **Global Macro Review**
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# Global Economy Update:

## Macro Backdrop:

- The global economy is in a state of flux, reeling from the twin shocks of trade policy uncertainties and a spike in geo-political tensions.
- The OECD (Organization for Economic Co-operation and Development) and World Bank reports released in June have reaffirmed the possibility of a marked deterioration in the medium-term global economic prospects amidst rising trade barriers and restrictions.
- **Purchasing Managers' Index (PMI):**
  - **United States:** The S&P Global US Composite PMI for June 2025 is 52.9. This indicates a solid, though slightly slower, increase in overall private sector activity compared to May. The manufacturing sector saw a return to growth after a three-month decline, while the service sector experienced a slightly slower expansion.
  - **Eurozone:** The HCOB Eurozone Composite PMI rose to 50.6 in June 2025, up from both May's reading and the preliminary estimate of 50.2. While the latest figure indicated only modest overall growth, it marked the strongest expansion in three months, driven by faster output increases across both the manufacturing and services sectors.
  - **China:** The Caixin China General Composite PMI rose to 51.3 in June 2025 from 49.6 in the previous month, marking the highest reading since March. Underlying data revealed that a renewed increase in manufacturing production had offset a softening of services activity growth.
- **Unemployment Trends:**
  - **United States:** The U.S. unemployment rate remained at a low 4.1% in June 2025.
  - **Eurozone:** In May 2025, the euro area seasonally adjusted unemployment rate was 6.3%, up from 6.2% in April 2025 and down from 6.4% in May 2024.
- **Monetary Policy:**
  - **European Central Bank (ECB):**
    - Since February, the ECB (European Central Bank) slashed rates thrice by 25 bps, now at 2.00%, with one more cut likely to 1.75%; signaling forceful action against persistent supply shocks.
    - ECB likely to continue gradual easing, capping ahead of next strategy review in 2030.
  - **U.S. Federal Reserve:**
    - The Federal Reserve held rates at 4.25–4.50% in June, emphasizing a data-dependent approach amid stagnant and sticky inflation and trade-related risks.
    - Fed expected to begin easing in Sept–Dec, targeting a terminal rate near 3.50% by 2026.

## Inflation Trends:

### Global:

- Recent readings of inflation point to diverging trajectories in AEs (Advanced Economies) as well as EMEs (Emerging Market Economies).
- Inflation in the Euro area moderated to below target in May supported by lower energy prices.
- Inflation in the UK edged up while that in Japan and the US continued to remain sticky and above the target due to pressures from inflation in the services sector.
- Among EMEs, while CPI inflation in Brazil and Russia remained elevated above the target rate, China continued to experience deflation amidst weak domestic demand and persistent employment uncertainty.
- Inflation in South Africa remained below target.

# Indian Economy Update:

## Macro Backdrop:

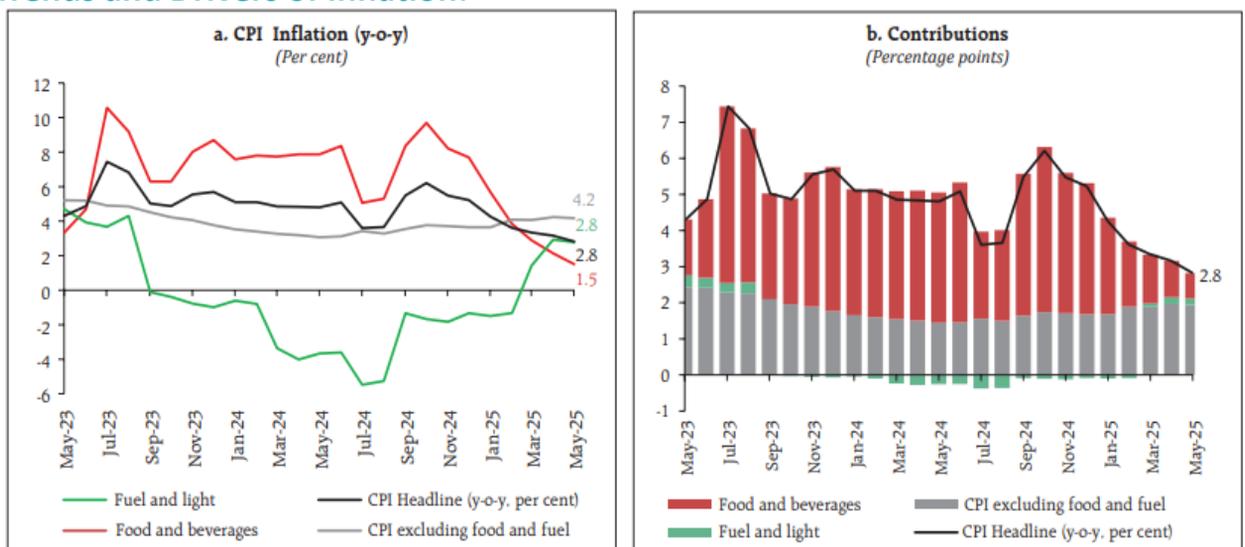
- Amidst elevated global trade uncertainty, the Indian economy remained resilient, registering the highest growth among the world’s major economies, with the latest estimates for Q4:2024-25 indicating a sharp pick-up in momentum.
- **Purchasing Managers' Index (PMI):**
  - The HSBC India Composite PMI stood at 61.0 in June 2025, matching the flash estimate and marking the highest level since April 2024. The reading was up from 59.3 in May, reflecting strong momentum across the economy as services activity expanded at the fastest pace in ten months and manufacturing output grew at the quickest rate in 14 months.
- **Employment Trends:**
  - As per monthly Periodic Labour Force Survey (PLFS), the all-India unemployment rate rose to 5.6 per cent in May from 5.1 per cent last month, with a sharper increase in rural vis-à-vis urban areas.
  - Increase in unemployment was partly driven by seasonal agricultural patterns and extreme heat in some regions, limiting outdoor work.
  - Organised job listings, as per the Naukri JobSpeak Index, moderated – dragged down by information technology (IT), retail, and banking and financial services – while sectors like insurance, real estate, oil and gas and emerging technologies recorded growth.

## Inflation Trends:

### Domestic:

- Headline CPI in India moderated to 2.8 per cent in May 2025 (the lowest since February 2019) from 3.2 per cent in April.
- Food inflation (y-o-y) decelerated to 1.5 per cent in May, the lowest in 73 months. Fuel and light inflation softened marginally to 2.8 per cent in May from 2.9 per cent in April.
- Core CPI inflation remained steady at 4.2 per cent in May, same as in April.
- An increase in inflation in its subgroups, such as pan, tobacco and intoxicants, housing, transport and communication, and personal care and effects, was offset by a moderation in household goods and services, and recreation and amusement.
- Inflation in clothing and footwear, and health remained steady. In terms of regional distribution, rural and urban inflation eased to 2.6 per cent and 3.1 per cent, respectively, in May 2025.

### Trends and Drivers of Inflation:



Sources: National Statistical Office (NSO); and RBI staff estimates.

## Bond Yields & Spreads:

- Indian yields rose in June, post monetary policy, as despite an unexpected rate cut of 50bps (against expected 25bps), RBI Monetary Policy committee (RBI MPC) shifted stance to 'neutral'.
- RBI MPC stance change was based on the members noting limited room for further policy cuts, as inflation projections by RBI were at 4.5% for FY2027 (after projecting 3.7% for FY2026).
- Members noted that frontloaded rate cuts are likely to support growth going forward.
- RBI further cut CRR by 100bps, starting from September 2025 onwards.
- Iran and Israel war added to volatility in the markets.
- US 10Y yield slipped lower in June as tariffs were postponed and trade deals were reached between US-UK and US-China.
- US FED policy remained status quo with the FED maintaining a wait and watch attitude on likely US tariff impact on inflation.
- Corporate bonds moved in tandem with sovereign with overall yields rising across the curve. Short term bonds yields rose more as further rate cuts expectations were dashed.

## Outlook:

- US FED rate cut expectations have gone up on growth slowdown in wake of tariff wars, though rate cuts may get delayed with no clarity on tariff situation.
- After pumping liquidity in past few months, RBI chose to start weekly variable reverse rate repo (VRRR) auctions to withdraw short term liquidity from the system, indicating end of further liquidity enhancing measures like OMO (Open Market Operation) purchases.
- Withdrawal of liquidity may lead to flattening of curve in the short end as short term rates react more to liquidity changes.
- FII flows remained negative in June as geo-political situation continued to plague markets.
- We expect RBI to remain on a long pause, if growth remains on track. Any change in momentum in growth trajectory may push RBI to respond, if inflation remains within target of 4%.
- Markets may remain rangebound in near term on RBI neutral stance. Liquidity remains ample and is likely to support markets. Debt Market sentiments are more likely to be influenced by geo-political tensions, and US tariff situation.

Source: RBI, MOSPI, PIB, CMIE, NSDL, S&P Global, Ministry of Commerce and Industry, Reuters, Bloomberg, Internal Research. Note: Data updated as available in the beginning of the month.

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