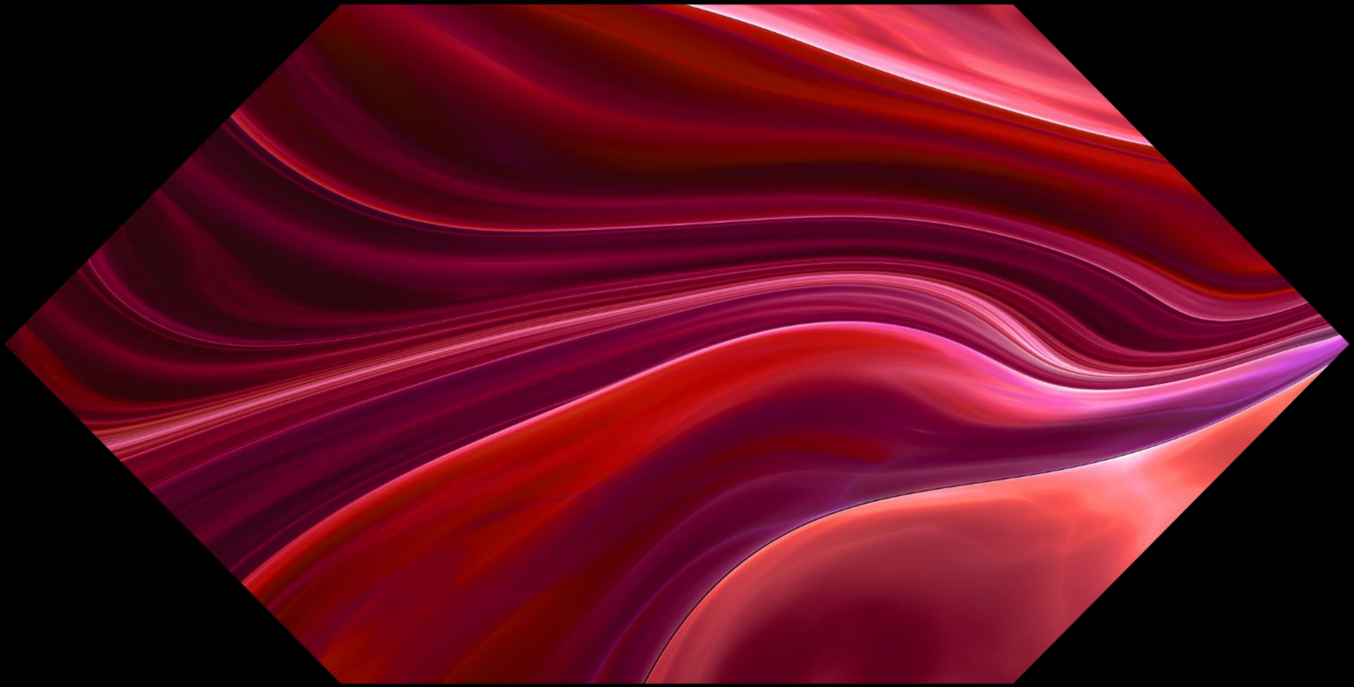
The Macro Sphere

India Macro – The (liquidity) see-saw



HSBC Asset Management

RBI’s policy dilemma amid external headwinds and domestic tailwinds

What are markets watching out for?

1. Will liquidity conditions lead to another round of OMO Purchases in FY26?
2. Will the RBI-MPC cut rates at the December policy?

Deeper dive into how domestic factors evolved and likely RBI policy choices

For illustration purposes only. Source – Bloomberg, information as of 17-Nov’25 14:00 hours IST. **Past performance may or may not be sustained in the future.**
Note: RBI => Reserve Bank of India; OMO => Open Market Operations MPC => Monetary Policy Committee

Outflows & dollar gains weighed on currency…

Chart 1: Dollar index strengthened

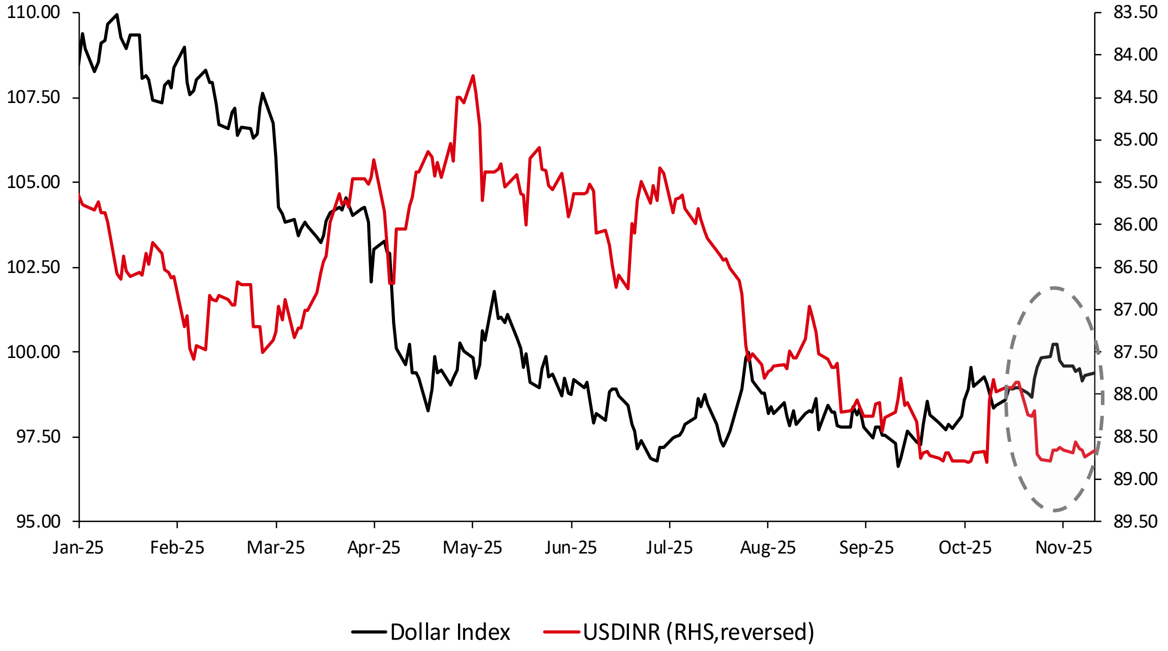
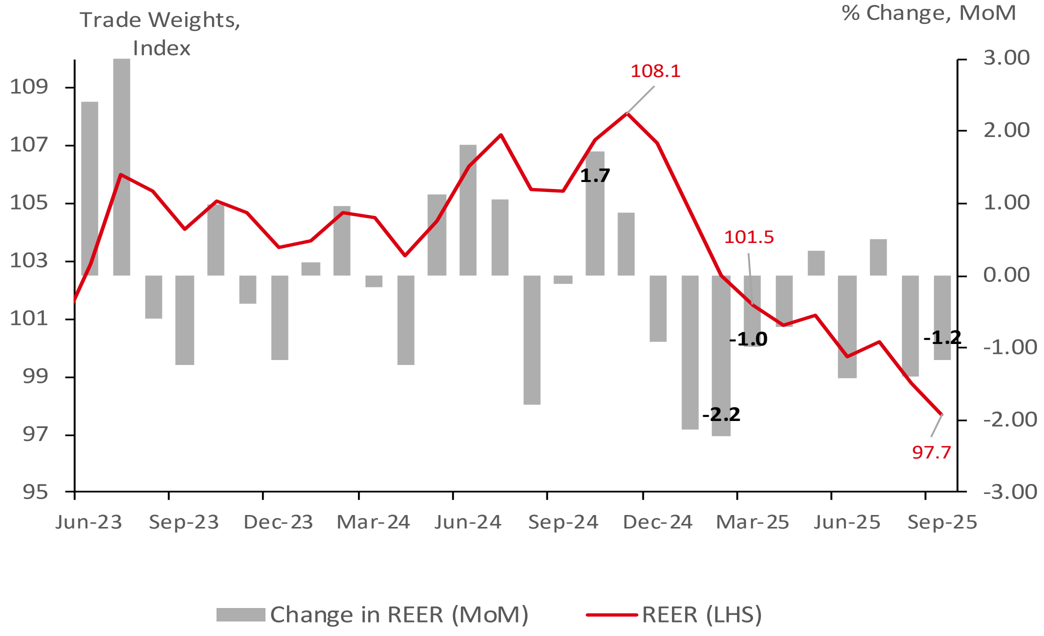


Chart 2: INR weak vis-à-vis its trading partners



- US trade tariffs tracking at 50% for India have soured sentiments since Aug'25
- Dollar strength and capital outflows weighed on USDINR; A trade weighted currency measure corrected sharply
- RBI appears to have accelerated its FX interventions to curb the volatility; esp. during Oct25

Weaker currency leads to RBI's FX intervention, esp. in Oct'25

Source – RBI Bulletin, Bloomberg, Currency chart data as on 17 Nov 2025, 14:00 hours IST
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INR volatility increased & in sync with peers

Chart 3: INR volatility increased…

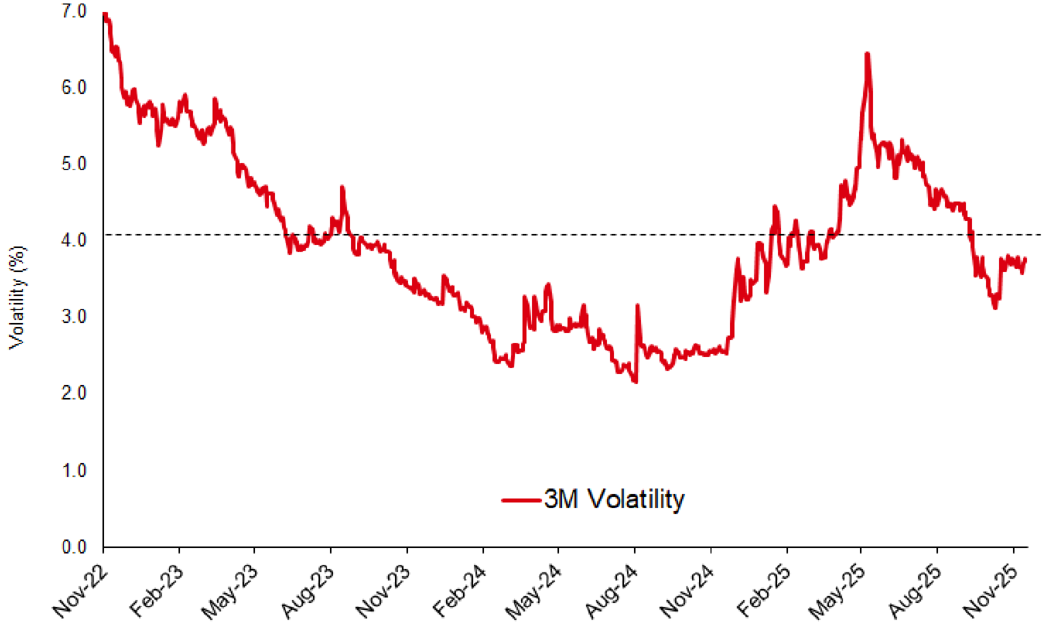
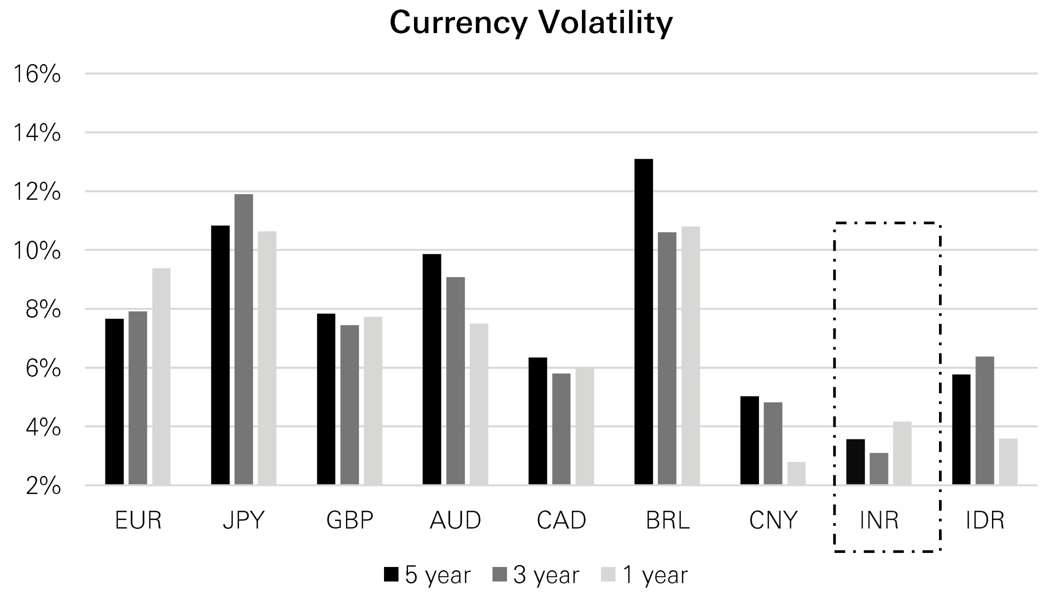


Chart 4: … near term volatility increased in-line with peers



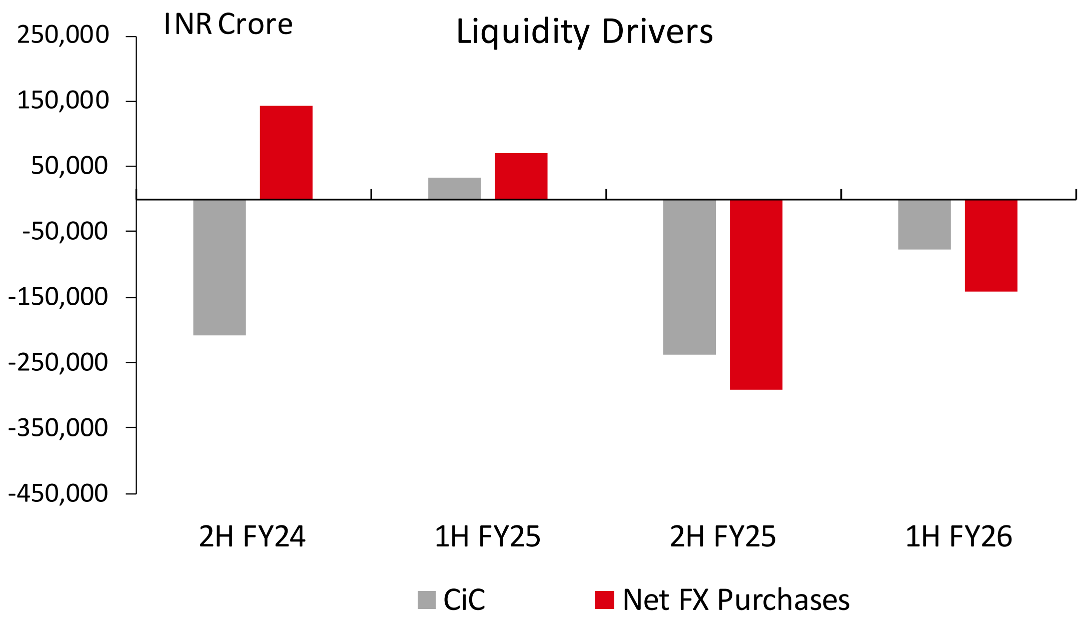
- Uncertainty around tariffs and capital outflows increased currency volatility in USDINR; Oct'25 did see volatility increase
- When compared to the EM peers INR currency volatility remains low
- Intermittent strength in USDINR likely, but basis our external sector outlook, we expect the currency to see a gradual depreciation from previous year

Currency volatility returned in Oct/early Nov

Source – RBI Bulletin, Bloomberg, Data for India as on 17-Nov'25 14:00 hours IST; Cross-country comparison is monthly, data as of end-Oct
For illustration purposes only. **Past performance may or may not be sustained in the future.**

FX interventions impact on liquidity evident

Chart 5: FX intervention & currency leakage a drag; offset effects of CRR cuts



- In 1HFY26 all key drivers weighed on system liquidity; the drag was somewhat offset by CRR cuts
- **RBI's FX ops drained out system liquidity, again albeit to a lesser extent when compared to 2HFY25; Oct'25 however, was a larger drag**
- In March-quarter currency leakage tends to be higher; and in Q4 FY26 higher CiC is likely to remain a drag on system liquidity

FX intervention in 1HFY26 & more so in Oct to have tightened System Liquidity

Source – Bloomberg, RBI Press Release, RBI WSS & RBI DBIE Database, Data/information available till as on end-Sep 2025 and build-up over Mar/Sep, respectively
For illustration purposes only. **Past performance may or may not be sustained in the future.**

The tale of two-halves in CY25

Chart 6: Loaded monetary actions in 1H CY25

INR Crore	Liquidity here to stay		Ad-hoc/Fine-tuning Ops		Policy Rate Action
	CRR cut Impact	OMO Purchases	FX USD Swap	Term Repo > 14-Days	Repo Rate
Dec'24	120,000	0	0	0	6.50%
Jan'25	0	58,835	44,000	182,964	6.50%
Feb'25	0	80,000	88,000	0	6.25%
Mar'25	0	144,551	88,000	0	6.25%
Apr'25	0	120,000	0	25,731	6.00%
May'25	0	119,203	0	0	6.00%
Jun'25 (announced CRR)	0	0	0	0	5.50%
Total in 1H CY25	**120,000**	**522,589**	**220,000**	**208,695**	**-1.00%**
Total Liquidity Injection in 1HCY25*			**1,071,284**		

Chart 7: Not much by RBI in 2H CY25*

INR Crore	Liquidity here to stay		Ad-hoc/Fine-tuning Ops		Policy Rate Action
	CRR cut Impact	OMO Purchases#	FX USD Swap	Term Repo > 14-Days	Repo Rate
Jul'25	0	0	0	0	0.00%
Aug'25	0	0	-44,000	0	0.00%
Sep'25	60,000	0	0	0	0.00%
Oct'25	66,000	0	0	0	0.00%
Nov'25^	133,000	**12,470**	0	0	0.00%
Dec'25	**0**	**?**	**?**	**?**	**?**
Total in 2H CY25	**259,000**	**12,470**	**-44,000**	**0**	**0.00%**
Total Liquidity Injection in 2HCY25*			**227,470**		

Note: ^Nov'25 data includes the CRR cuts of 1st & 29 Nov too;# on-screen RBI purchases

- After a massive liquidity infusion in 1H, the same moderated substantially in 2H with the RBI relying on the CRR cuts to come through
- The increase in currency in demand as well as active FX intervention in Sep and more so in Oct to the tune of ~INR 1.5tn drained system liquidity
- As of early Nov, liquidity conditions improved; but given the FX drain of ~INR 1.5tn the expectations of OMO Purchases have increased

Liquidity infusion persisted in 2H, but is getting offset by FX activity

Source – Bloomberg, RBI Press Release & Database, Data/information available till as on 10 Nov'25; Note: *RBI WSS Weekly with data as of 9-Nov
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Liquidity conditions tighter; Outright OMO Purchases watched

Chart 8: Trend in system liquidity and the OMOs

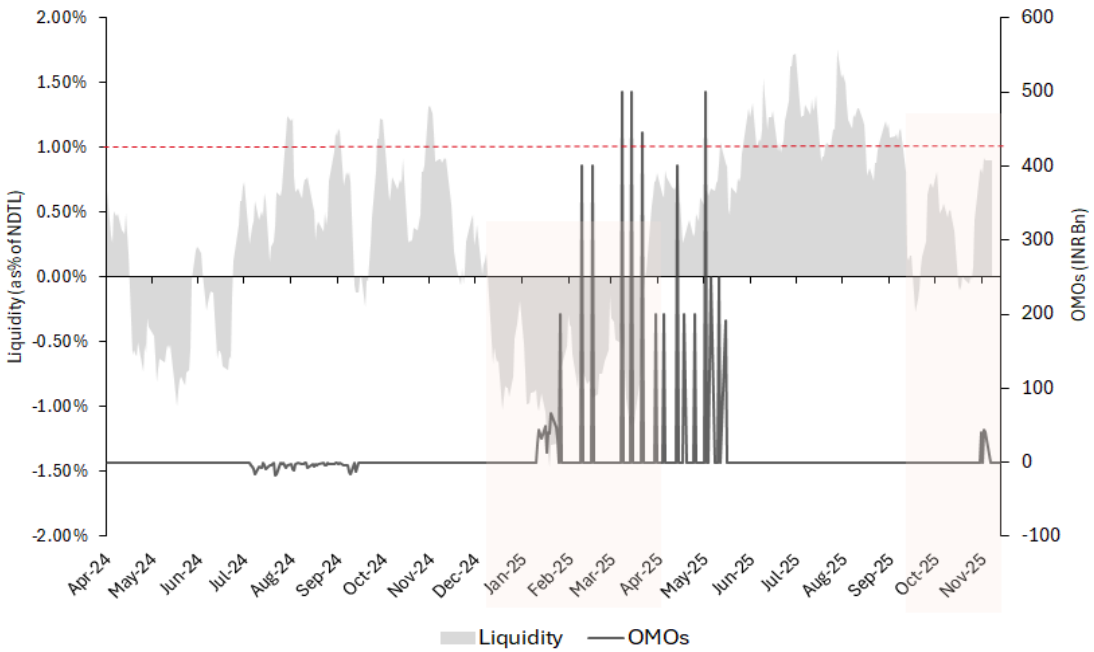
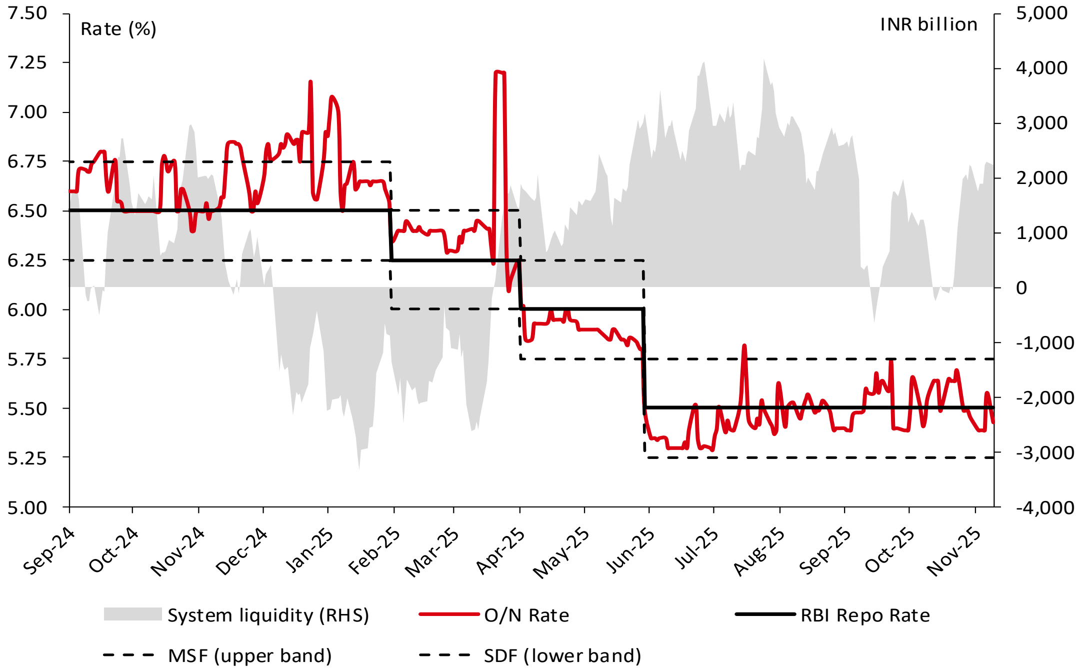


Chart 9: Liquidity gyrations swung o/n rates



- In the past, when the liquidity has persistently stayed below 0% and slipped into deficit of ~1.0-1.5% of NDTL resulting in OMO Purchases (chart 8)
- After the October FX intervention related drain, liquidity dipped below 1% of NDTL; increasing expectations of OMOs. VRRRs have been largely absent
- The current and the projected liquidity path by Mar'26, we think there could be a need for OMO Purchases to the tune of INR 1.0-2.0 lakh crore

RBI likely to step-in with OMO Purchases; anchoring o/n rates

Source – Bloomberg, RBI Press Release & Database, Data/information available till as on 17 Nov'25 13:30 Hours IST, Variable Rate Reverse Repos (VRRR) auctions to absorb excess liquidity
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Liquidity estimated to be modest in rest of FY26; Reserve Money growth moderate

Chart 10: Liquidity estimates* basis macro drivers

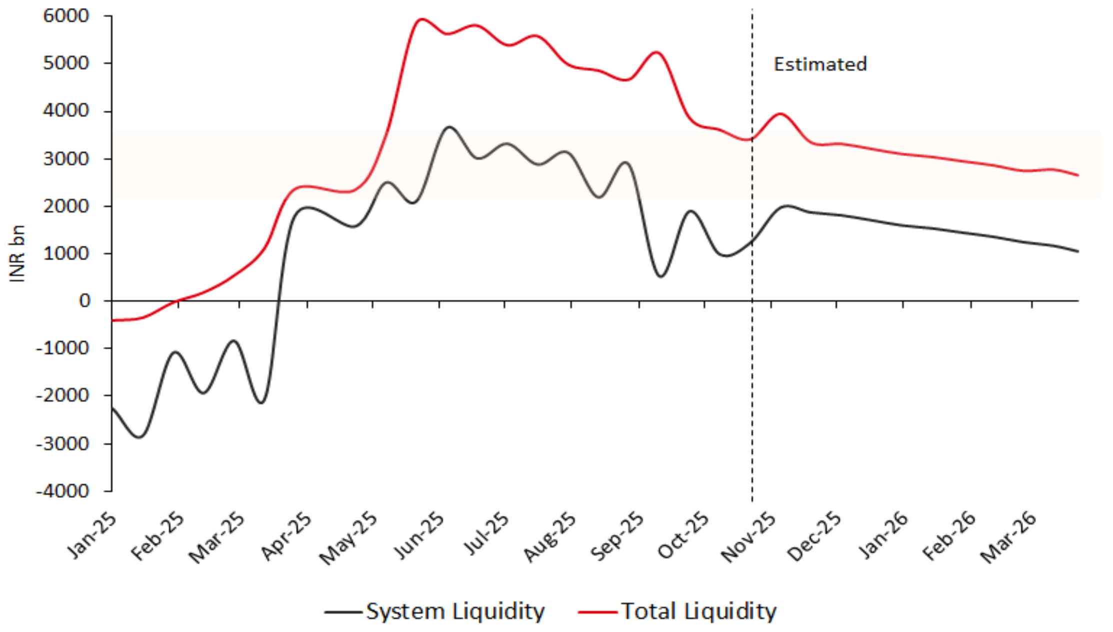
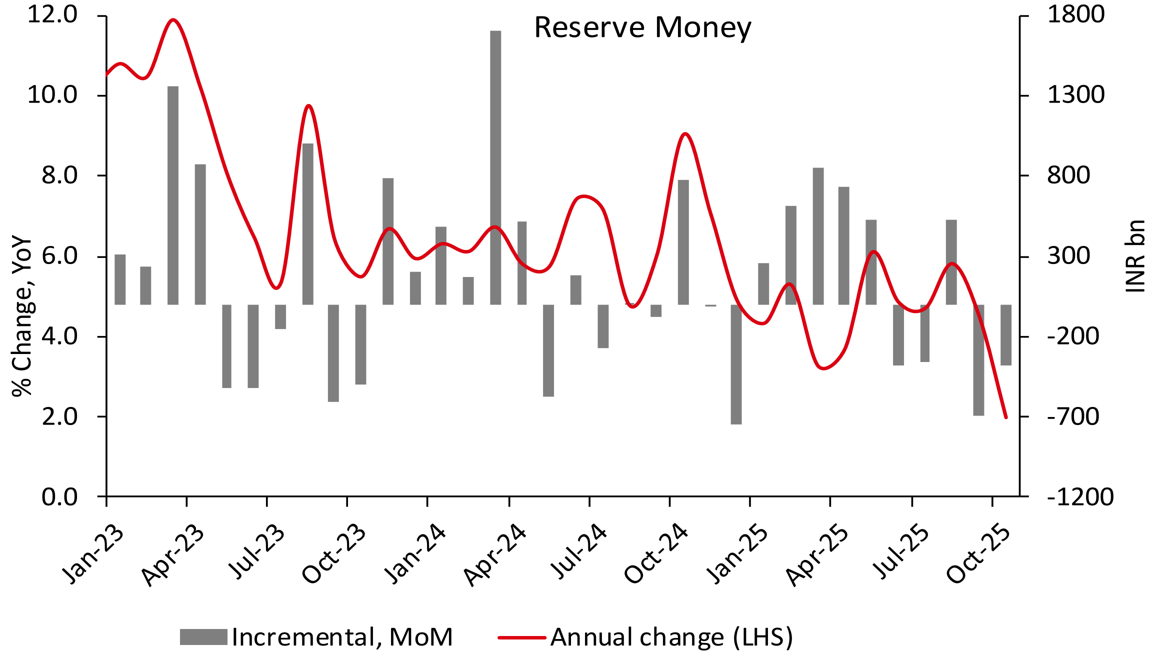


Chart 11: Incremental Reserve Money creation down



- Liquidity tightened considerably during Oct'25 with total system liquidity also moderating.
- After the October FX intervention related drain, liquidity dipped below 1% of NDTL and through Mar'26 it is likely to remain in weak-to--sticky at current levels
- Reserve Money* growth moderated; increasing the need for OMO Purchases amid FX outflows

Total system liquidity might hover ~INR 3tn levels; increasing the scope for OMO Purchases in Q4FY26

Source – Bloomberg, RBI Press Release & Database, Data/information available till as on 10 Nov'25 14:00 Hours IST, Note: *Estimates are based on our assumptions & forecasts of each component;
*Reserve Money growth is taken as reported by the RBI in its WSS; it averaged 4.8% YoY in Apr-Oct FY26 & 3.8% since the CRR cuts
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Transmission improving, but incomplete…

Chart 12: Transmission via the banking channel

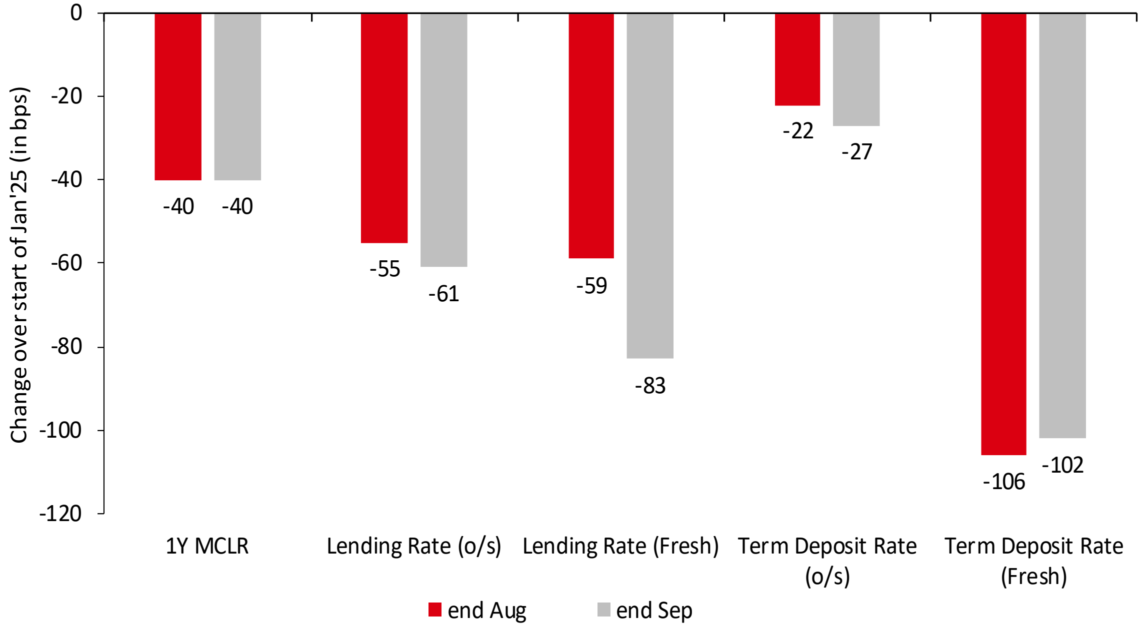
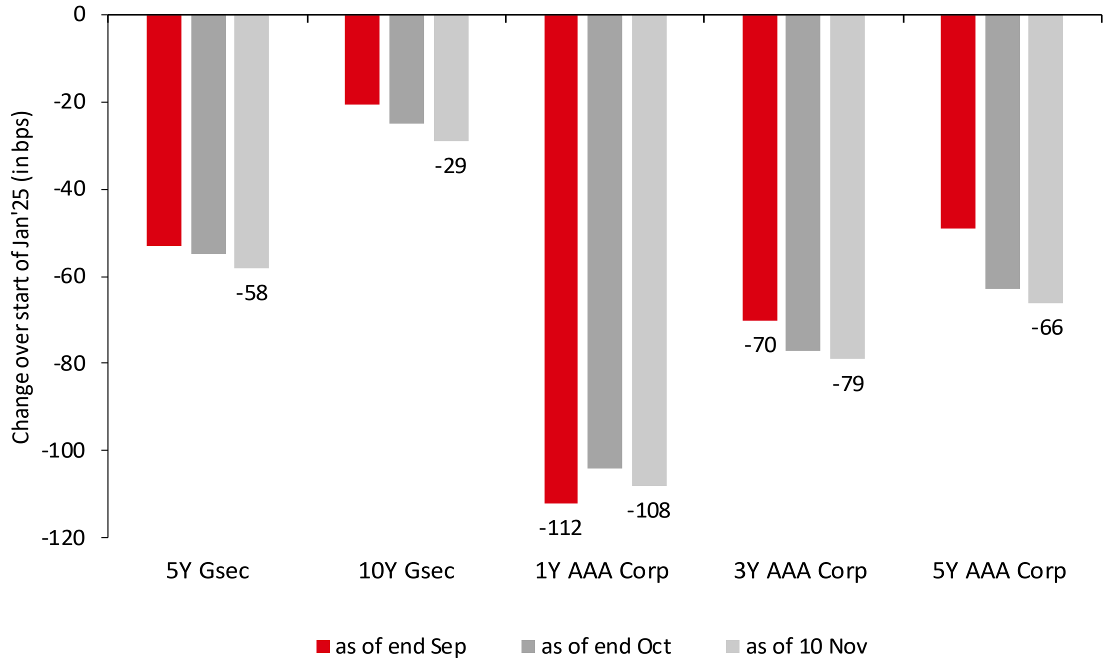


Chart 13: Transmission via the rates channel



- Transmission is visible and quicker for fresh deposits and fresh loans;
- MCLR transmission has been the weakest and for that to continue to moderate, RBI would require to step-up on liquidity measures …
- …as transmission via rates channel is partial to weak

For transmission to permeate further, RBI might have to step-up liquidity support

Source – Bloomberg, RBI Press Release & Database, Data/information available till as on 10 Nov'25 14:00 Hours IST; o/s =. Outstanding; Note: AAA PSU Corp yield is FIMMDA Bloomberg data
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Softer inflation provides the degrees of freedom to further support Growth in 2H FY26

Chart 14: Growth-Inflation outlook; Sharply lower inflation..

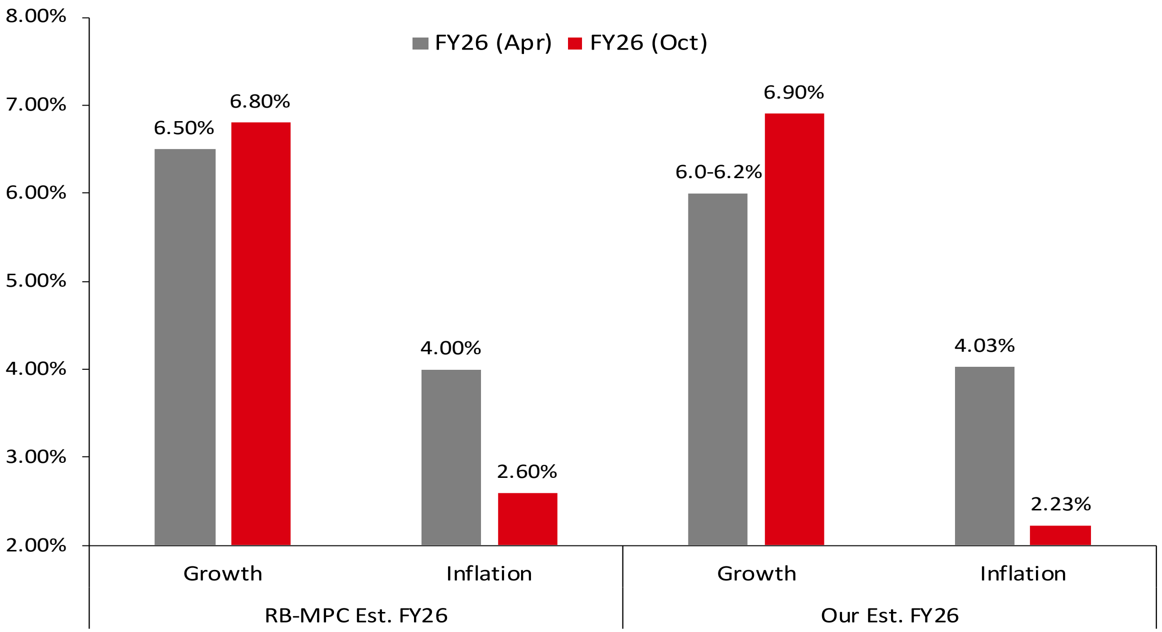
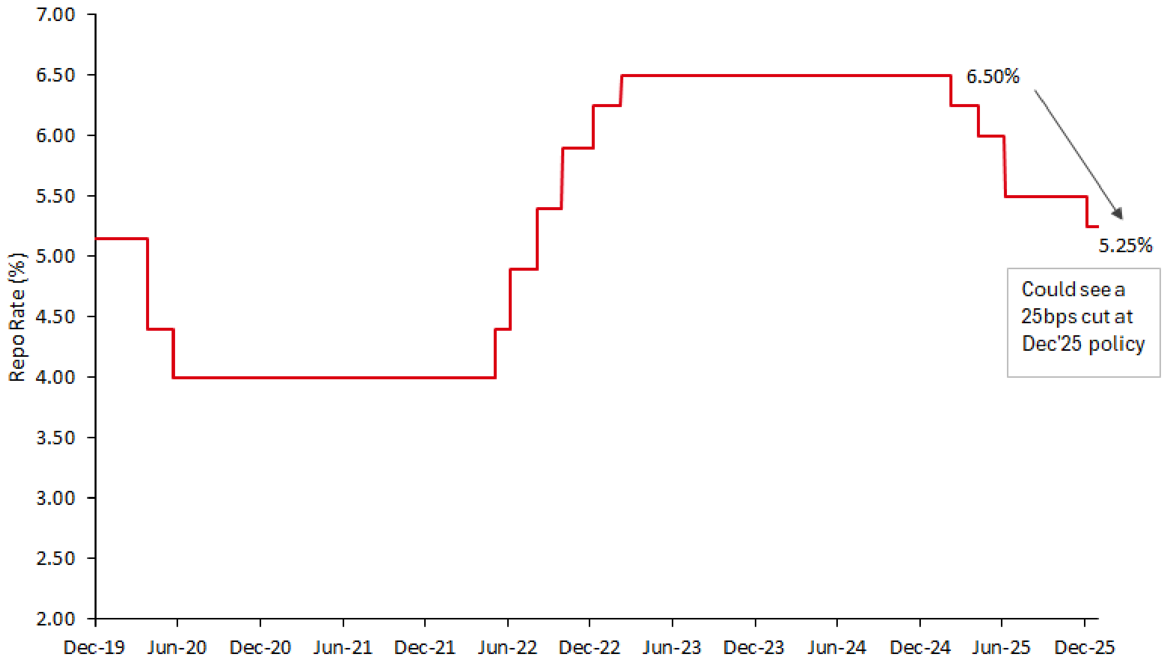


Chart 15: …re-opens space to lower rates; Dec'25 cut alive



- CPI inflation has seen sharp revisions since Apr'25; as of today, the FY26 number is forecasted at the lower bound of the FIT*
- Growth estimates too have surprised, with upside risks of it touching a 7% print in FY26 too; however, most of it the growth was in 1HFY26
- Low inflation rates open up the space for another rate cut or two; the external developments and trade deal to shape the Dec'25 MPC policy .

Growth to take front-seat; Flexible inflation target will give the degrees of freedom to cut the Repo Rate

Source – RBI DBIE, RBI Bulletin, Bloomberg; FIT => Flexible Inflation Targeting framework of India RBI MPC
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In Summary…

Liquidity	Policy Rates
Why OMO Purchases are back on the table	**How the space to cut has re-opened?**
- System liquidity sharply lower, esp. in Oct'25	- Almost a deflation-like environment & soft inflation levels at least for next two-quarters
> Most autonomous liquidity drivers were a drag > In March quarter total liquidity is likely to moderate, with usually higher currency leakage	> Food-led rapid disinflation; > GST rate cuts effects visible in some items
- Reserve Money growth has moderated	GDP growth robust in 1HFY26; Outlook for 2HFY26 clouded
- Transmission through banking and rates channel improving, but incomplete	> risks tilted on the downside, esp. if trade deal with the US falters
What we think	
Above trends increase the scope of OMO Purchases to the tune of INR 1-2 lakh crore; esp. by Mar'26	1-2 more rate cuts likley; Dec'25 policy cut on cards
Risks to the monetary policy choices	
- INR & RBI FX ops likely to influence the use of liquidity tools	- US-India trade deal that limits downside to India growth might delay the rate cut

For illustration purposes only. Source – Bloomberg, information as of 17-Nov'25 14:00 hours IST. **Past performance may or may not be sustained in the future.**

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HSBC Asset Management (India) Private Limited, 9-11 Floors, NESCO IT Park, Building no. 3, Western Express Highway, Goregaon (East), Mumbai – 400 063, India. investor.line@mutualfunds.hsbc.co.in | Website: www.assetmanagement.hsbc.co.in

CL 3437