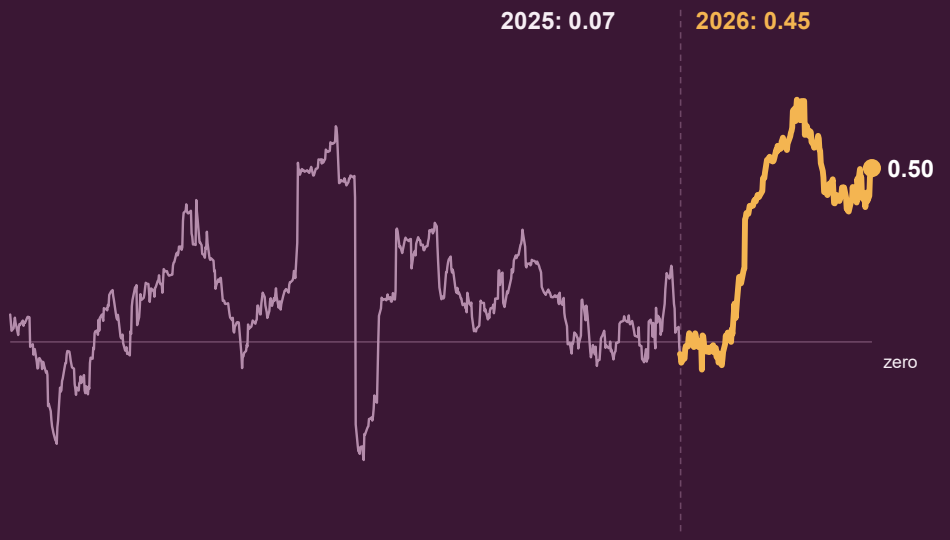
MARKETS RESEARCH DESK ILLUSTRATIVE BANK

India Markets Monthly

October 2026 Issue 1 Data to 16 October 2026

Bonds have stopped hedging equities

The 10 year G-sec index and the Nifty 50 now fall together, the RBI has turned to hikes and USD/INR trades close to its May high. The usual cushion in an Indian balanced portfolio has gone.



Rolling 60 day correlation of daily returns, Nifty 50 and 10 year G-sec index, March 2023 to 16 October 2026

01

Bonds no longer cushion falls in equities.

The correlation of daily returns is 0.45 this year against 0.07 in 2025. On all 5 days since July when the Nifty 50 fell more than 1%, the bond index fell too.

02

Growth is the bright spot.

The IMF raised India's FY27 growth forecast to 7.0% from 6.4% on 13 October, the fastest of the large economies, citing domestic demand and services.

03

The RBI is tightening with the rate and with liquidity.

It raised the repo rate 25 bps to 5.50% on 7 October and is selling bonds to drain the rupees its swap window added.

04

USD/INR is close to its May high.

It was 96.61 on 9 October, up 7.4% this year, as foreign investors sold ₹3.1 lakh crore of Indian equities.

05

The balance of payments is funded, with borrowed dollars.

The swap window raised $136.4 bn to 31 August, more than three times our deficit estimate. Most comes due from 2029.

INSIDE

2 Dashboard 3 Our view 4 Macro 5 Rates 6 FX 7 Flows 8 Equities 10 Balance of payments 13 Scenarios 14 Calls

Source: NSE Indices, FBIL, NSDL, IMF World Economic Outlook (Oct 2026). Desk calculations in the backup workbook.
Illustrative work sample prepared from public information. Not investment research or advice.

Dashboard: rupee rates sit at the top of their range

Where each market sits in its one year range, with the change in October and this year. Rupee rates and USD/INR are near their highs. The Nifty 50 sits in the bottom quarter of its range.

Market	Date	Level	1 month	This year	One year range: low, latest, high			Rank
RATES								
3 month T-bill	9 Oct	5.38	−12	+11	5.15		5.55	57
Overnight MIBOR	9 Oct	5.33	+5	−34	4.91		6.98	20
3 month bank CD	9 Oct	6.39	−20	+43	5.84		7.74	29
1 year OIS	9 Oct	6.25	+7	+80	5.42		6.32	92
5 year OIS	9 Oct	6.73	+10	+81	5.60		6.86	90
2 year G-sec	9 Oct	6.59	+3	+79	5.64		6.69	90
5 year G-sec	9 Oct	7.04	+10	+63	6.18		7.07	97
10 year G-sec	9 Oct	7.37	+18	+70	6.46		7.37	100
30 year G-sec	9 Oct	7.74	+6	+46	7.09		7.82	89
FX								
USD/INR	9 Oct	96.61	+0.7%	+7.4%	87.71		96.84	97
12 month forward premium	9 Oct	3.60	+27	+99	2.14		3.79	89
EQUITIES								
Nifty 50	16 Oct	23,146	+2.3%	−11.4%	22,232		26,329	22
GLOBAL								
US 10 year	15 Oct	5.10	−19	+92	3.97		5.31	84
Brent	14 Oct	126.55	+9.2%	+106.3%	59.93		138.21	85
Broad dollar index	9 Oct	121.60	+0.5%	+1.6%	117.44		121.92	93

Rank: where the latest level sits between the one year low (0) and high (100). Darker is higher. Changes in bps for rates, % for prices.

What stands out

1. **At the top of the range:** 10 year G-sec, USD/INR, 5 year G-sec, Broad dollar index, 1 year OIS, 2 year G-sec.
2. **Equities near the bottom.** The Nifty 50 ranks 22 of 100, down 11.4% this year.
3. **A higher, flatter curve.** The 2 year is up +79 bps this year and the 10 year +70 bps.
4. **The rupee story in one row.** USD/INR at 96.61 is close to its one year high, and the cost of hedging it, the forward premium, is up +99 bps this year.

Source: FBIL (to 9 Oct), NSE Indices (16 Oct), FRED. One year to the latest date. Backup workbook, sheet MonthEnd.

Illustrative work sample prepared from public information. Not investment research or advice.

Our view: slower growth, a winter peak in inflation, one more hike

Draft desk forecasts against the RBI (7 Oct) and the IMF (13 Oct). The biggest difference is the current account: about 1.0% of GDP in our base case against the IMF's 1.5%.

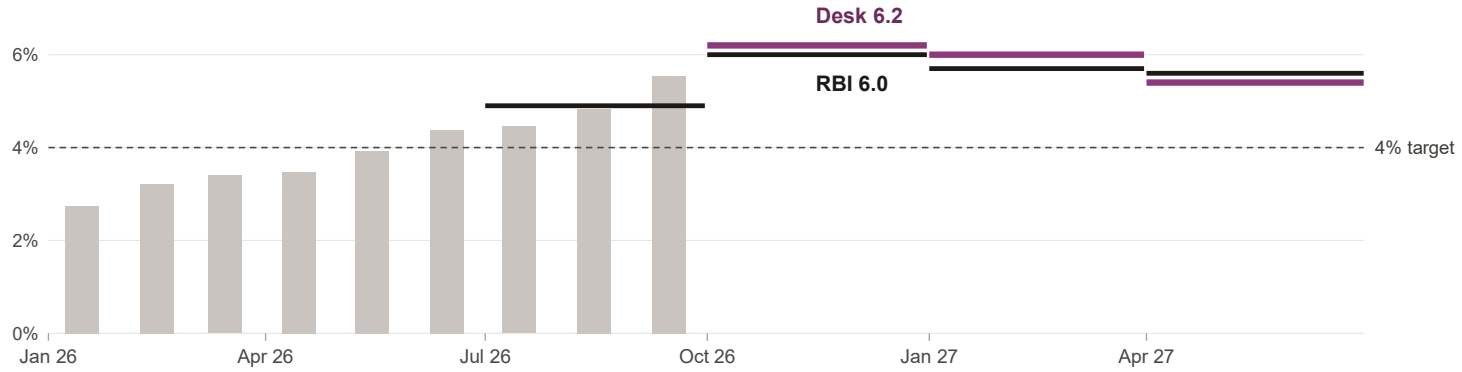
Our forecasts against the RBI and the IMF

FY27 unless stated. Desk figures are drafts.

	Desk	RBI	IMF	Latest
Real GDP growth, %	6.9	7.1	7.0	7.8 (Q1)
CPI inflation, %	5.3	5.2	5.0	5.54 (Sep)
Current account, % of GDP	−1.0		−1.5	−0.5 (Q1)
Repo rate, end March 2027, %	5.75			5.50
10 year G-sec, end March 2027, %	7.25			7.37
USD/INR, end March 2027	97.5			96.61
Nifty 50, end March 2027	23,500			23,146
Brent, FY27 average, $	106			127 (Oct)

Inflation: the desk sees a higher winter peak than the RBI

CPI, % year on year: monthly actual (bars) and quarterly paths



Where we differ

1. **Growth.** 6.9%, 0.2 points under the RBI. Oil near $127 in October and tighter money take a little off a strong economy.
2. **Inflation.** 5.3% for the year, with a 6.2% peak in October to December against the RBI's 6.0%.
3. **The RBI.** One more hike in December, to 5.75%, then a long hold. One year OIS at 6.25% prices more.
4. **The current account.** 1.0% of GDP, below the IMF's 1.5%, because the surplus outside oil keeps growing (slide 10).

Source: desk (backup workbook, sheets Forecasts and Scenarios), RBI statement 7 Oct 2026, IMF WEO October 2026, MoSPI, FBIL, NSE Indices, EIA via FRED.

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Macro: India grows fastest, and pays for it in inflation

The IMF raised India's FY27 growth forecast to 7.0% on 13 October, from 6.4% in July. The RBI raised the repo rate to 5.50% on 7 October with CPI inflation at 5.54% in September.

Growth, inflation and the current account against peers

IMF projections for 2026, %. India on a fiscal year basis (FY27).

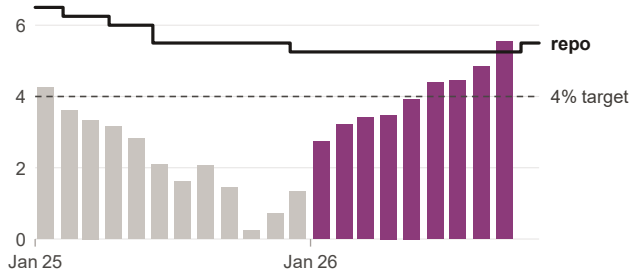
	Real GDP growth	CPI	Current account
India	**7.0**	**5.0**	**−1.5**
Indonesia	5.1	3.3	−1.6
China	4.5	1.0	+4.0
Brazil	2.2	4.4	−2.4
Mexico	1.5	3.8	−0.3
South Africa	1.0	4.4	−0.7
Emerging markets	3.7	5.7	
World	3.1	4.7	

What it means

1. **Demand is doing the work.** The IMF said India's growth was “underpinned by domestic demand and services, despite higher oil prices”. The RBI credits private consumption and investment.
2. **Inflation is the price.** The IMF puts India's 2026 CPI at 5.0%, above Indonesia, Mexico and China. The RBI sees a 6.0% peak this quarter.
3. **So the RBI is tightening.** A 25 bps hike, a hawkish stance and bond sales to drain surplus cash. We expect one more hike, in December.

CPI against the repo rate

%, CPI year on year (bars) and the repo rate



Source: IMF World Economic Outlook, October 2026 (Table 1.1, Statistical Appendix A4, A7, A12), RBI policy statement 7 Oct 2026, MoSPI. Current account in % of GDP.

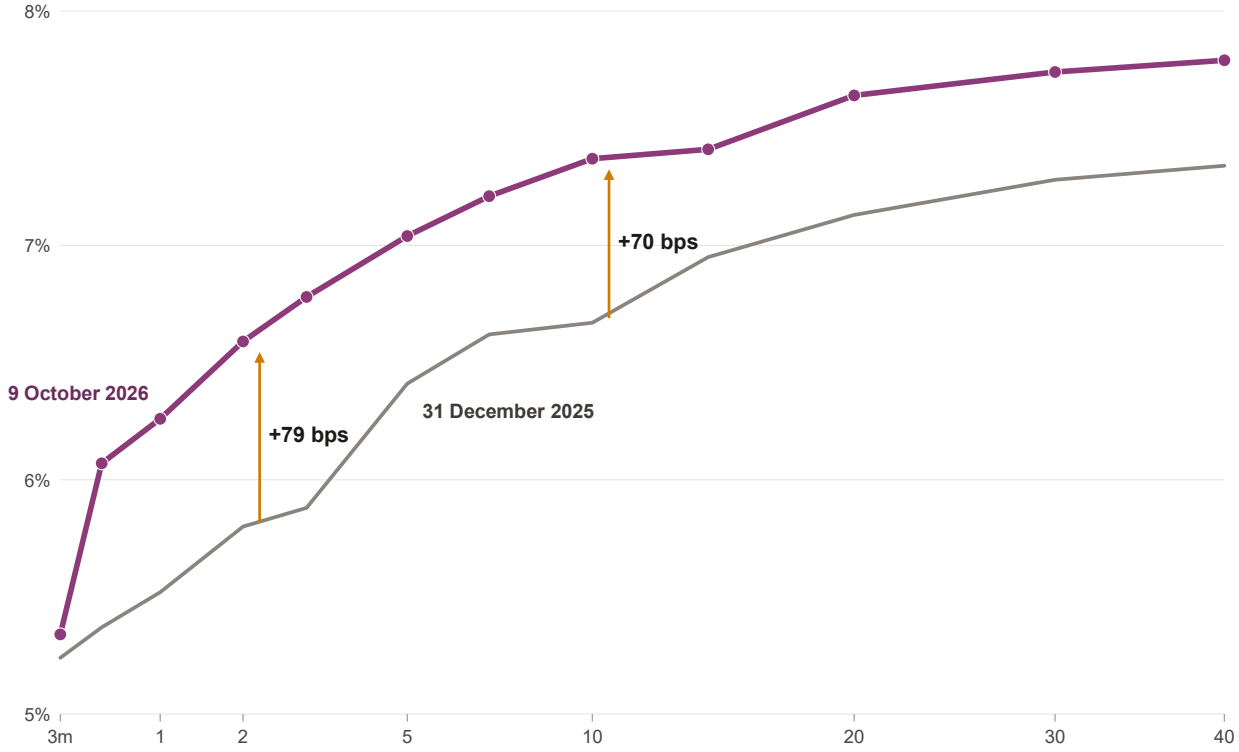
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Rates: the 10 year yield is back at the top of its range

FBIL's 10 year par yield reached 7.37% on 9 October, 70 bps above the end of 2025. The 2 year rose more, so the curve is higher and slightly flatter.

The whole curve sits higher than at the end of 2025

FBIL par yields by tenor in years, %



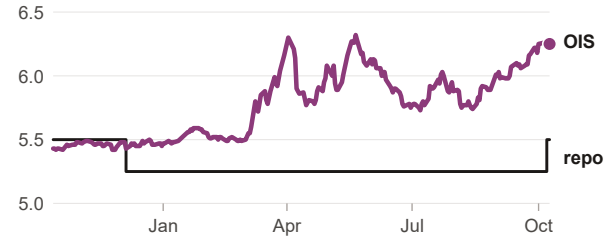
	3m	1	2	5	10	20	30	40
Since 31 Dec, bps	**+10**	**+74**	**+79**	**+63**	**+70**	**+51**	**+46**	**+45**
In October, bps	−12	+9	+3	+10	+18	+5	+6	+7

What it means

1. **The front end moved most.** The 2 year is up 79 bps this year against 70 bps for the 10 year, as the market priced the RBI's turn.
2. **OIS prices more than one hike.** One year OIS at 6.25% sits 75 bps above the new 5.50% repo rate.
3. **Global yields set the ceiling.** The US 10 year reached 5.31% on 5 Oct, the highest in our data (FRED), and Brent is up 106% this year.

One year OIS against the repo rate

%, daily, 13 Oct 2025 to 9 Oct 2026



TRADE OF THE MONTH (DRAFT)

Receive 1 year OIS at 6.25%

Target 6.00% **Stop** 6.45% Full note in mid November

Source: FBIL G-sec par yields and MIBOR OIS (to 9 Oct 2026), FRED, RBI. Tenor axis on a square root scale. Backup workbook, sheet ChartData.

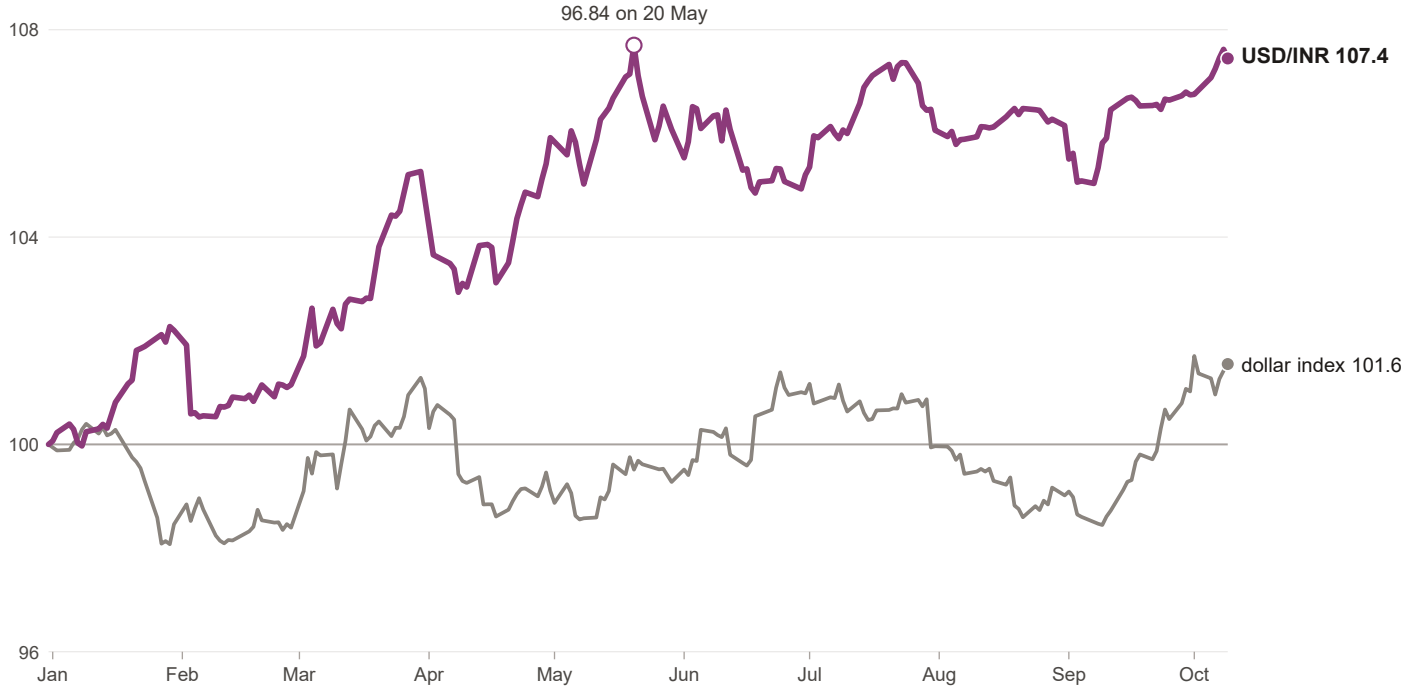
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FX: the rupee is paying for the oil shock

USD/INR has risen 7.4% this year while the broad dollar index rose 1.6%, so most of the move is about India. Hedging has become dearer as well.

The rupee fell while the dollar barely moved

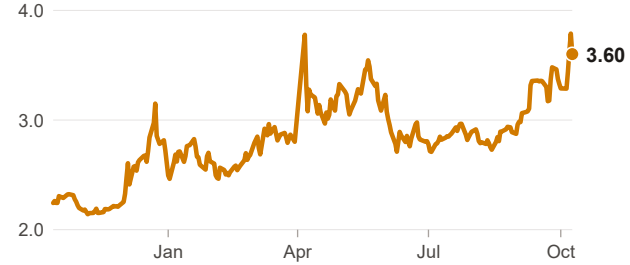
Rebased to 100 at the end of 2025. A higher USD/INR is a weaker rupee.



What it means

1. **Mostly an Indian story.** Oil, equity outflows and a wider current account deficit explain most of the 7.4%.
2. **The RBI is smoothing the fall.** Reserves are $59.7 bn below their 4 September record (slide 12).
3. **Hedging costs more.** The 12 month forward premium is 3.60%, up +99 bps this year.

12 month forward premium, %



Source: FBIL USD/INR reference rate and forward premia (to 9 Oct), FRED DTWEXBGS, RBI via The Economic Times. Our rebasing.

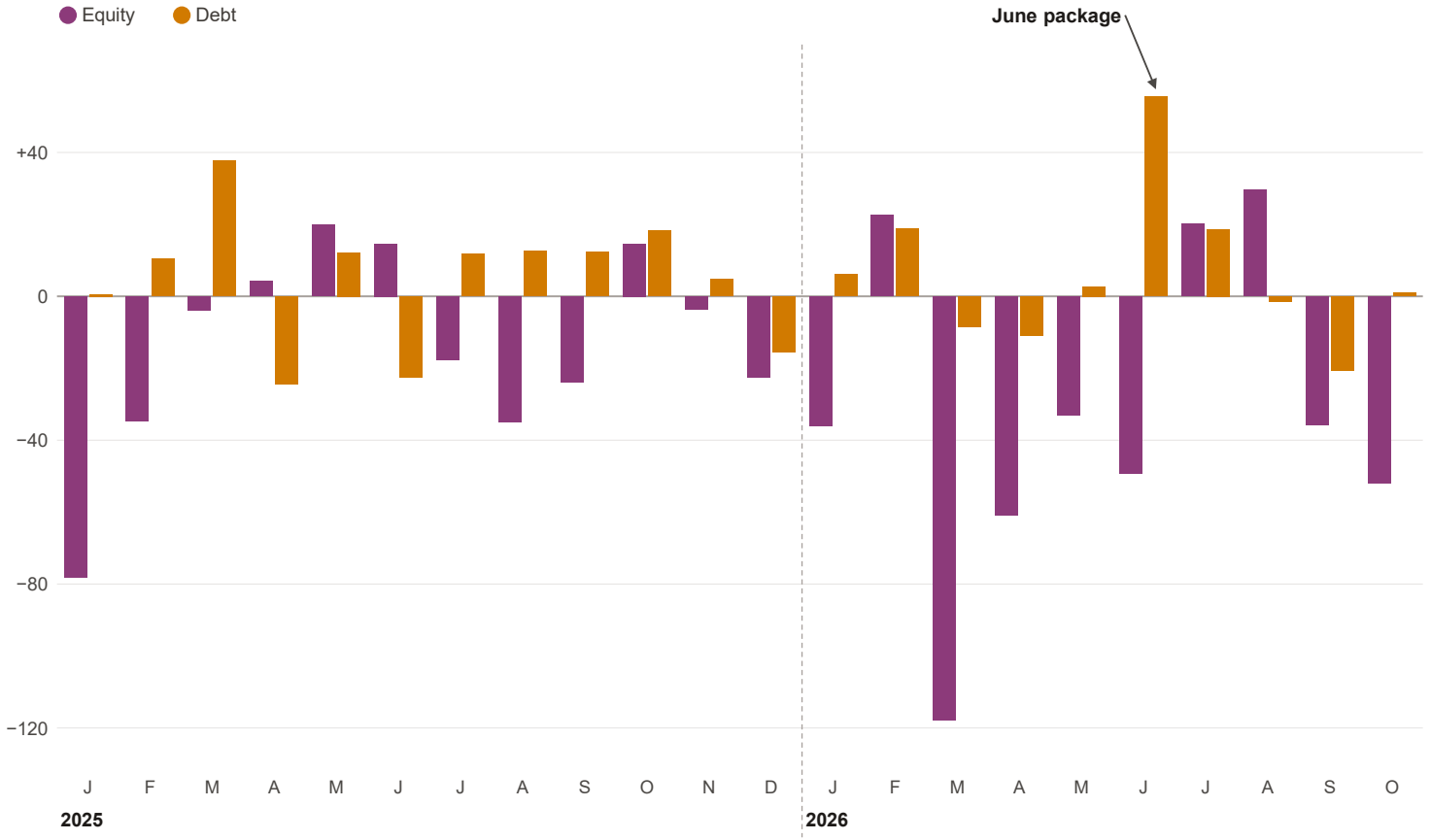
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Flows: foreign investors bought bonds and sold equities

USD/INR is up 7.4% this year against 1.6% for the broad dollar. Foreign investors bought bonds after the June package and kept selling equities.

Foreign investors bought bonds after the June package and kept selling equities

FPI net investment by month, ₹ thousand crore. October 2026 is to 16 October.



What it means

1. **Mostly an Indian story.** USD/INR rose 7.4% this year, the broad dollar 1.6%. Oil, equity outflows and a wider current account deficit did the rest.
2. **The June package worked for bonds.** No tax on G-sec gains for FPIs and open access to long bonds brought ₹55,518 crore of debt buying in June. It faded as yields rose.
3. **Gold is now a BoP issue.** About 17 fund houses paused new money into gold ETF funds of funds on 15 and 16 October, after SEBI instructions passed on through AMFI.

Hedging cost

12 month forward premium 3.60%, +99 bps this year (FBIL).

Source: NSDL FPI monitor (read 18 Oct 2026), FBIL, FRED DTWEXBGS, Business Standard (5 Jun 2026), angelone.in and businesstoday.in (16 Oct 2026). Backup workbook, sheet D_Macro.

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Equities: bonds no longer cushion the falls

The Nifty 50 is 11.4% down this year. On all 5 days since July when it fell more than 1%, the 10 year G-sec index fell too, so a balanced portfolio lost its cushion.

The bond index is flat this year while the Nifty is down 11%

Nifty 50 and the NSE 10 year benchmark G-sec index, rebased to 100 at the end of 2025



The five falls since July

Day	Nifty 50	G-sec index
8 Jul	−2.14%	−0.46%
15 Sep	−1.20%	−0.35%
24 Sep	−1.65%	−0.43%
28 Sep	−1.57%	−0.45%
8 Oct	−1.66%	−0.34%
Average	**−1.64%**	**−0.41%**

Daily log returns. A 0.4% fall in the bond index is roughly a 6 bps rise in yield.

October leadership

IT rose 15.2% on the weaker rupee. Metals fell 4.9% and realty 2.5% (NSE Indices, 30 Sep to 16 Oct).

Source: NSE Indices. Our rebasing and daily log returns. Backup workbook, sheets D_NSE, EqBond and ChartData.

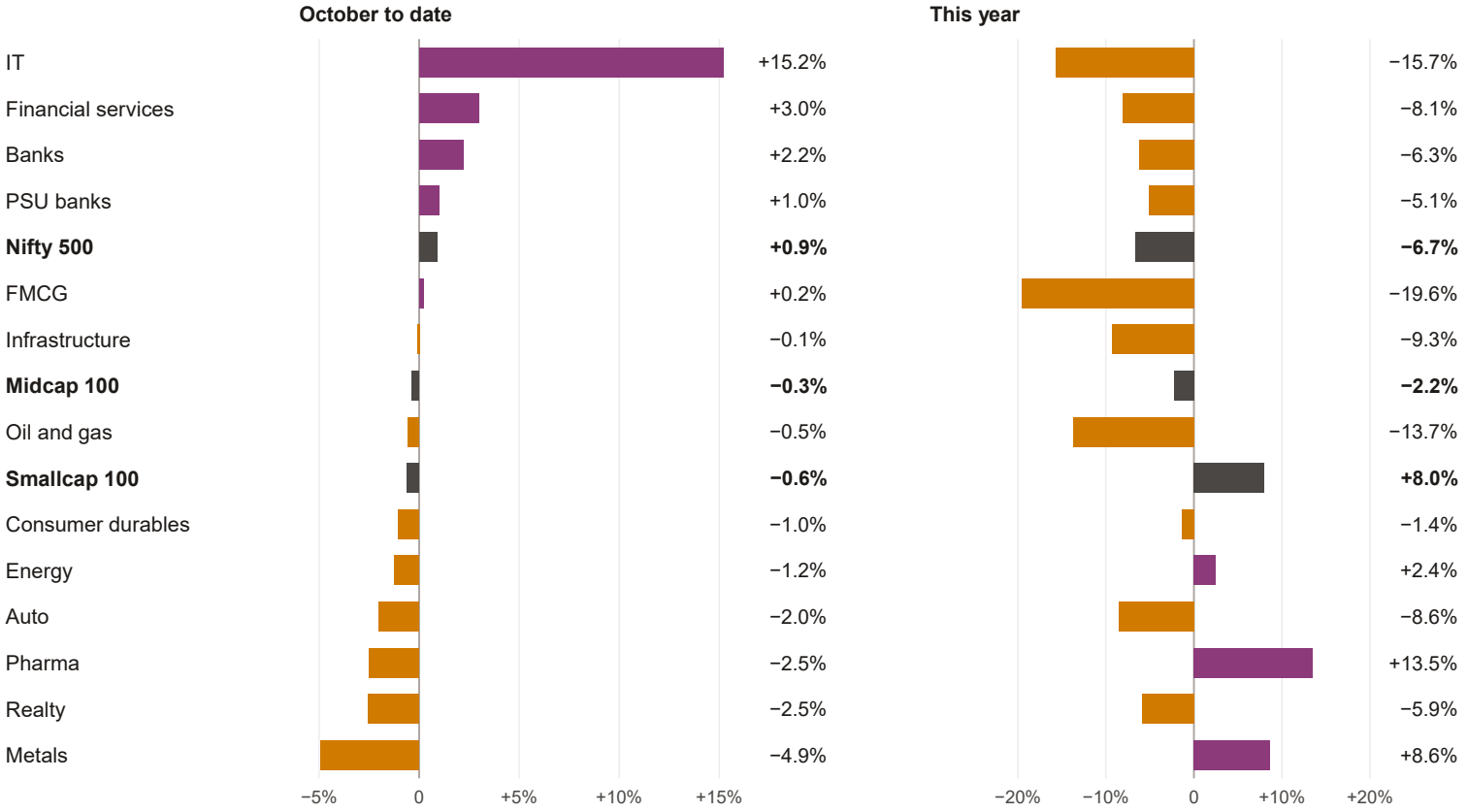
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Sectors: IT led October on the weaker rupee

IT rose 15.2% from 30 September to 16 October. Metals and realty fell. Over the year, smaller companies have held up better than the Nifty 50.

October to date and this year, price return by index

%, NSE Indices. Broad indices in bold. Sorted by October.



What it means

1. **A rupee trade.** IT exporters earn in dollars, so a weaker rupee lifts their rupee earnings. IT led October with +15.2%.
2. **Rate sensitive sectors lag.** Realty fell 2.5% in October while rupee rates rose.
3. **The year so far.** Pharma leads at +13.5%. FMCG trails at −19.6%.

Source: NSE Indices closes, 31 Dec 2025, 30 Sep and 16 Oct 2026. Backup workbook, sheet ChartData.

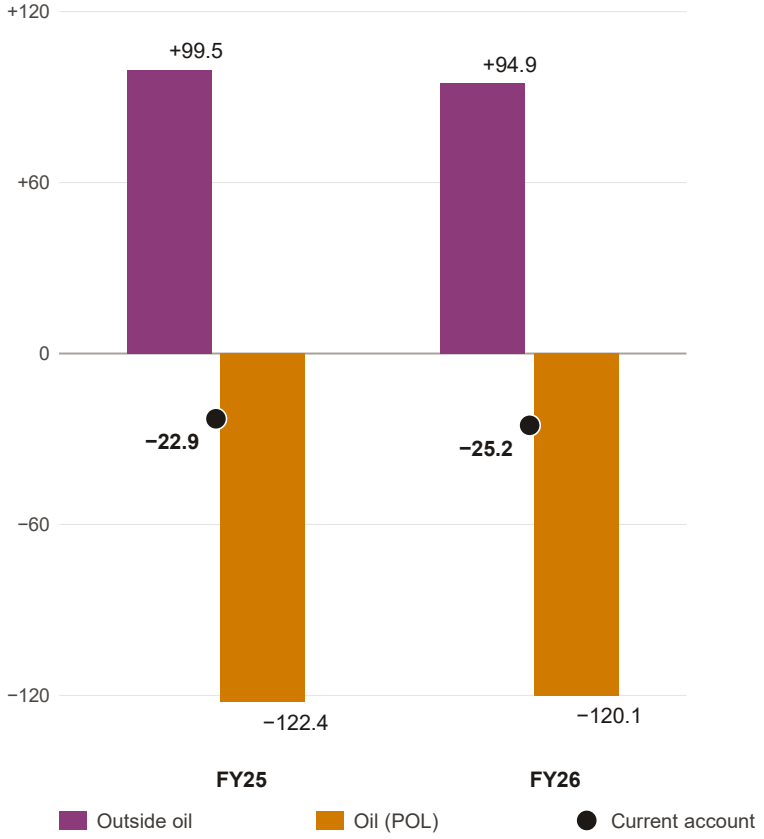
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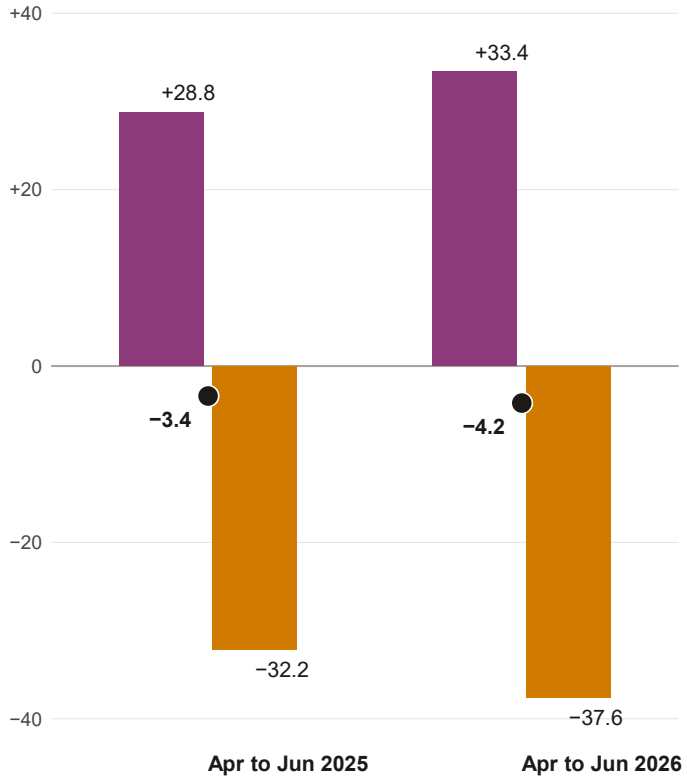
Balance of payments: the deficit is an oil bill

Outside oil India earns a current account surplus of about $95 bn a year. Each $10 on Brent for a year adds about $14.7 bn to the deficit, 0.36% of GDP.

Current account: oil against everything else

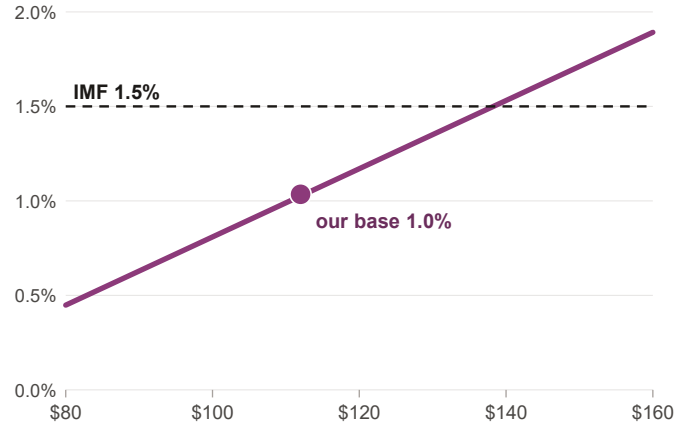
US$ bn. Full years on the left, April to June on the right.





The IMF's 1.5% needs Brent near $138

FY27 deficit, % of GDP, against average Brent from October to March, $



The arithmetic

1. **Our base case:** $42.0 bn for FY27, 1.0% of GDP.
2. **The IMF's oil looks low.** Applied to Brent, its assumption implies about $108 for the rest of 2026, against $127 in October.

Source: RBI balance of payments releases (8 Jun and 1 Sep 2026), IMF WEO October 2026 (GDP, current account, oil), EIA via FRED, desk calculation. Backup workbook, sheets D_BoP and BoP.

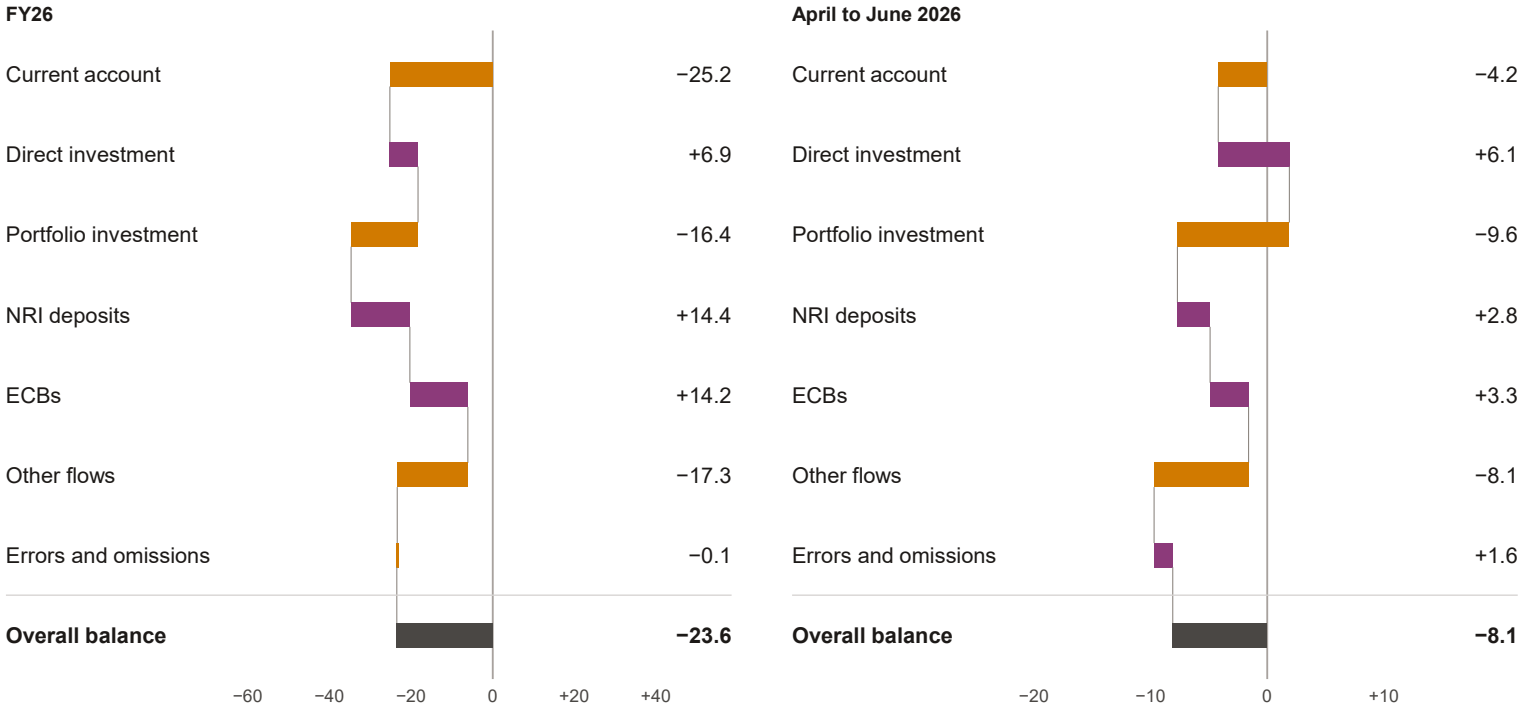
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Balance of payments: investors left, and the RBI borrowed dollars

Portfolio outflows drained $23.6 bn of reserves in FY26. The June swap window answered with $136.4 bn of deposits and loans to 31 August, about five times the 2013 window.

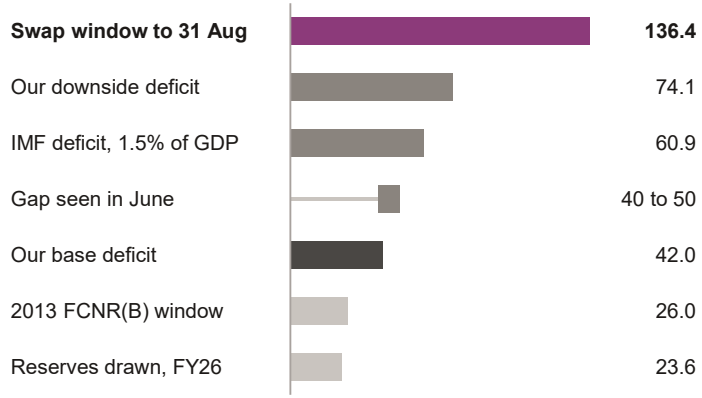
From the current account to the overall balance

US$ bn. A negative overall balance is met from reserves.



The window raised more than three times our deficit estimate

US$ bn



How

1. **Deposits did it.** FCNR(B) deposits paying 6% to 7% brought $127.2 bn. The RBI shut the deposit window a month early.
2. **Was it needed?** ISB's Prasanna Tantri says no. Abheek Barua says the rupee might have reached 100 without it (Business Today).

Source: RBI (BoP releases 8 Jun and 1 Sep, swap data 2 Sep 2026), IMF WEO Oct 2026, desk, Business Standard (5 Jun), Business Today (22 Sep). Other flows: rest of the capital account.

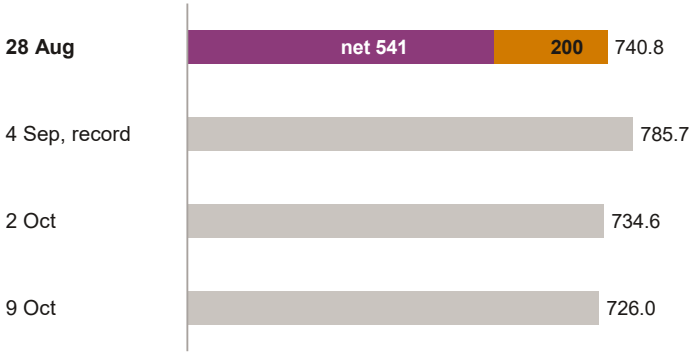
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Reserves: more than a quarter is already promised back

The RBI's net forward sales reached $200.1 bn at the end of August, 27% of reserves. Most fall due after a year, as the FCNR(B) deposits mature from 2029.

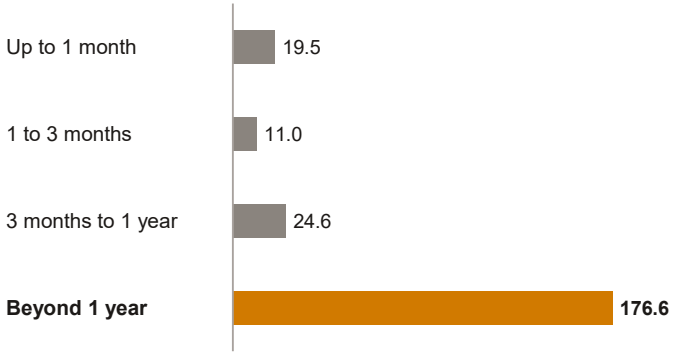
Net of the forward book, $541 bn

Reserves, US$ bn



Most forward sales fall due after a year

Short positions at end August, US$ bn



What it means

1. **Liquidity.** Banks swapped the deposit dollars for rupees, so the RBI is selling bonds to drain them. That adds to bond supply.
2. **Cost.** The RBI bears the hedging cost, estimated at 2.5% to 3.5% a year (Business Today).
3. **2029.** About half the deposits are five year and about 42% three to under four, so repayments run from 2029 to 2031.
4. **Our answer.** India can fund this year: $136 bn against a deficit of $42 bn in our base case. It has swapped a funding problem now for a repayment problem later.

The RBI's toolkit since June

Measure	When	What it does
Repo rate to 5.50%	7 Oct	First hike since February 2023, stance now calibrated tightening
Bond sales (OMO)	Sep, 13 Oct	₹1 lakh crore in September and ₹25,000 crore on 13 October drain the rupees the window added
Reverse repo auctions	Sep to Oct	₹2.4 lakh crore absorbed on 17 September, and three day auctions in October
Cash reserve rule	16 Oct	Banks must keep 99% of the daily CRR, up from 90%
FCNR(B) deposit swap	8 Jun to 31 Aug	RBI bears the hedging cost on new deposits: $127.2 bn raised
ECB and OFCB swap	8 Jun to 31 Dec	Discounted hedge on borrowing abroad by state run firms and banks: $9.2 bn to 31 August
G-sec tax break for FPIs	5 Jun	No tax on interest or gains, more bonds in the Fully Accessible Route
Gold ETF pause	15 and 16 Oct	About 17 fund houses stop fresh money into gold ETF funds of funds

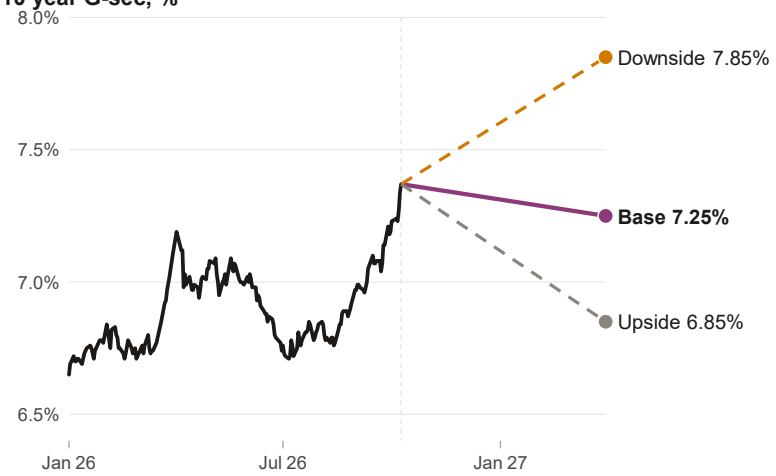
Source: RBI data via Reuters (11 Sep), The Economic Times (17 Oct) and Business Standard (30 Sep), RBI, Business Today (22 Sep), caalley.com, freepressjournal.in, angelone.in.

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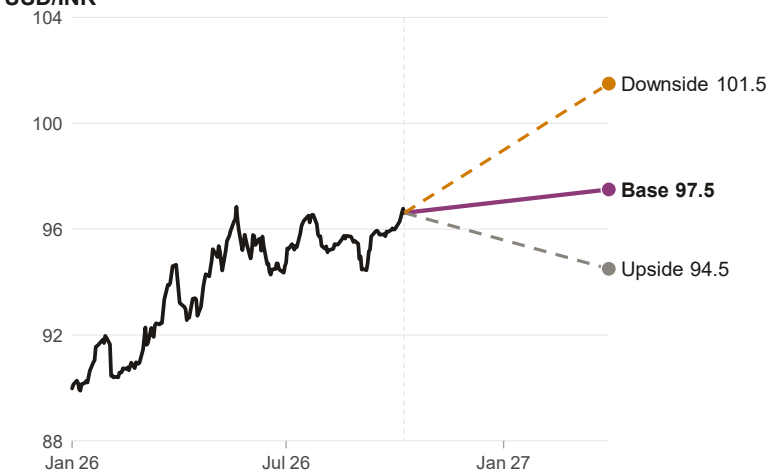
Scenarios: oil decides the path to March 2027

Base case 55%: the Strait of Hormuz reopens in March, as the IMF assumes. Upside 20%: an early ceasefire. Downside 25%: a longer closure with a firmer Fed, which takes USD/INR past 100.

10 year G-sec, %



USD/INR



	Base, 55%	Upside, 20%	Downside, 25%	Weighted
Brent, Oct to Dec / Jan to Mar, $	120 / 105	100 / 85	140 / 135	
FY27 current account, % of GDP	−1.0	−0.7	−1.8	−1.2
Repo rate, end March, %	5.75	5.50	6.00	5.76
10 year G-sec, end March, %	7.25	6.85	7.85	7.32
USD/INR, end March	97.5	94.5	101.5	97.9
Nifty 50, end March	23,500	25,500	20,500	23,150

Signposts we watch

	Upside	Downside
Hormuz shipping	Steady tanker transits	A new attack or mines
Brent	Below $100 for a month	Above $140 for a month
Fed, 28 Oct	A pause	Another hike
FPI equity flows	Two months of buying	Selling above ₹50,000 crore a month
October CPI	Below 5.5%	Above 6.5%

Oil sets each path. The current account follows from the oil arithmetic (slide 10). Rates, the rupee and the Nifty are desk judgements for each path.

Source: FBIL (to 9 Oct), desk scenarios (illustrative), backup workbook sheets Scenarios and BoP.

Illustrative work sample prepared from public information. Not investment research or advice.

Calls: five ranges for 30 November

Each call is a range set before the month starts. The December issue scores every one, hits and misses alike. These are drafts on data to 16 October and are reset on 30 October.

Market	Level	Call for 30 Nov	Why	What would change our view
10 year G-sec, %	7.37	**7.20 to 7.55**	Supply cut and higher yields already price most of the RBI and US move	A second hike signalled in the minutes, or US 10 year above 5.5%
1 year OIS, %	6.25	**6.00 to 6.35**	One year OIS sits far above overnight MIBOR. We expect one more hike at most	CPI above 6% in October or an unscheduled RBI move
USD/INR	96.61	**95.50 to 98.50**	RBI defends the record low with reserves and forward sales	FPI equity outflows above ₹50,000 crore a month again
Nifty 50	23,146	**21,800 to 24,200**	Valuations reset but earnings revisions still negative	Brent back below $100 with FPI buying
Brent, $ a barrel	127	**105 to 140**	West Asia supply risk keeps a high floor	A ceasefire that reopens shipping

Scoring rule. A call is a hit if the 30 November level is inside the range. The backup workbook scores each call by formula and the next issue opens with the scorecard.

Where each call sits in the past year's range

Thin rule: one year low to high. Plum band: our range for 30 November. Dot: latest level.



Levels from FBIL (9 Oct), NSE Indices (16 Oct) and EIA via FRED (14 Oct). Backup workbook, sheet Calls.

Illustrative work sample prepared from public information. Not investment research or advice.