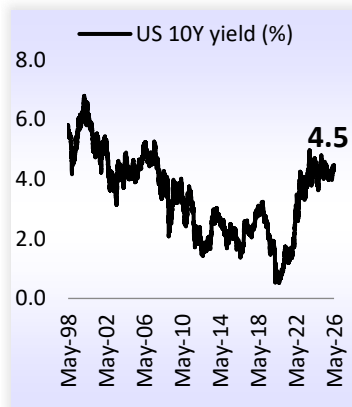


Global bond yields have risen sharply (%)

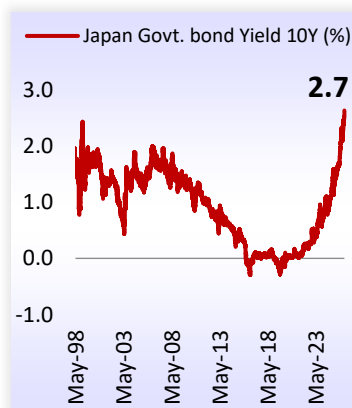
10Y Bond yield (%)	Yield (%)	Weekly change	Monthly change	CYTD change
US	4.5	0.18	0.22	0.37
UK	5.1	0.19	0.27	0.63
Japan	2.7	0.23	0.30	0.63
Germany	3.1	0.08	0.06	0.23
India	7.1	0.14	0.16	0.49



US 10Y yield rose to 4.5% in May'26



US 10Y yield rose to 4.5% in May'26



Global inflation, yields, and currency: Way forward

Global inflation and bond yield pressures re-emerge

- Global inflation pressures are re-emerging amid rising crude oil prices, geopolitical tensions, and war-led supply disruptions. Higher energy, freight, and commodity costs are beginning to rebuild pipeline inflation globally. As inflation risks resurface, major central banks are turning more cautious and hawkish, while global bond yields have hardened sharply across the US, Europe, Japan, and emerging markets amid expectations of a prolonged higher-for-longer interest rate environment.
- Producer prices are rising sharply across major economies. Historically, WPI/PPI inflation tends to feed into CPI inflation with a lag, suggesting that current pipeline price pressures could gradually begin reflecting in consumer inflation over the coming quarters, although headline CPI inflation across major economies has not risen sharply so far.

India: WPI pressures suggest inflation risks are building

- In India, wholesale inflation pressures have intensified sharply amid rising global commodity prices and geopolitical tensions. Headline WPI inflation surged to 8.3% YoY in Apr'26 - the highest since Oct'22 - driven by sharp increases in fuel, metal, and manufactured product inflation. Fuel and power inflation rose to a 42-month high of 24.7% YoY amid escalating US-Iran tensions and higher global crude oil prices, while core WPI inflation increased to a 43-month high of 5.0%, indicating broadening price pressures across manufacturing sectors.
- While India's CPI inflation remains relatively contained at 3.5% YoY in Apr'26 and below the RBI's 4% target, rising WPI inflation suggests that upstream price pressures could gradually feed into retail inflation over the coming quarters. **We expect CPI inflation to average around 5.2% in FY27 (considering the retail price hike of INR3 per liter announced on 15th May), with risks tilted to the upside** due to rising energy prices, weather disruptions, food-price pressures, and possible El Niño conditions. **We expect another round of price hikes if oil prices sustain at higher levels.**

US: Hot CPI and PPI prints raise higher-for-longer risks

- In the US, CPI inflation accelerated to 3.8% YoY in Apr'26 from 3.3% in Mar'26, while PPI inflation surged to 6.0% YoY from 4.8% in Mar'26 — the highest since late 2022.
- Rising energy, transportation, freight, and industrial input costs amid the ongoing oil shock are increasing concerns that inflation could remain sticky for longer and gradually spread across sectors over the coming quarters.

China: Producer price inflation turns positive again

- In China, inflation pressures are also beginning to re-emerge after a prolonged period of weak domestic demand and producer-price deflation. China's CPI inflation rose to 1.2% YoY in Apr'26 from 1.0% in Mar'26, while producer-price inflation surged sharply to 2.8% YoY from 1.6% in Mar'26 — the highest reading

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in nearly four years and well above market expectations. Rising global crude oil prices have led to a sharp increase in petroleum, chemical, metal, and industrial input costs, while higher transport and energy prices have also started feeding into consumer inflation.

- This is significant because China has been a major source of global goods disinflation over the past two years due to excess industrial capacity and weak domestic demand. The recent turnaround in producer prices suggests that China's prolonged deflationary phase may be ending, which could gradually add to imported inflation pressures globally.

IMF outlook: Inflation trajectory could become more challenging from 2026 onward

- IMF projections suggest that global inflation risks could rebuild again from 2026 onward, particularly due to rising energy prices, geopolitical tensions, and persistent producer-price pressures.
- Inflation in Advanced Economies is projected to rise from 2.5% in 2025 to 2.8% in 2026, while EMDE inflation is projected to increase from 5.2% in 2025 to 5.5% in 2026. Similarly, inflation in the US is projected to rise from 2.7% in 2025 to 3.2% in 2026. For India, the IMF projects inflation rising sharply to 4.7% in 2026.

Central banks likely to remain cautious

- The recent rise in global inflation and producer price pressures is likely to prompt major central banks to adopt a more cautious and hawkish stance going forward.
- In the US, stronger-than-expected CPI and PPI data have increased market expectations of another rate hike by the Fed later this year or in early 2027 if inflation continues to surprise on the upside.
- Similarly, the European Central Bank is likely to remain cautious amid persistent services inflation and rising energy prices linked to geopolitical tensions.
- **In India, despite headline CPI inflation remaining below the RBI's 4% target, the rise in WPI inflation, persistent food-price pressures, and elevated global commodity prices are expected to keep the central bank cautious. The RBI is likely to begin by tightening liquidity conditions before moving toward any benchmark rate hike. We expect the policy stance to gradually turn more hawkish, with the RBI potentially signaling the prospect of rate hikes by 4QCY26. A policy rate hike appears more probable by the February 2027 meeting, particularly if inflation readings move above the 6% mark during the December quarter, although the December 2026 policy meeting remains a close call. An active policy response as early as December would largely depend on crude oil prices sustaining above USD100/bbl for the next 1–2 months, which could push FY27 average headline inflation closer to 5.7%, with risks tilted upward. This scenario also assumes another round of retail fuel price hikes, alongside further increases in CNG, LPG, and kerosene prices.**

Global bond yields rise amid sticky inflation concerns

- Global bond yields have risen sharply across major economies amid renewed inflation concerns, rising crude oil prices, and expectations of a prolonged 'higher-for-longer' interest-rate environment. The 10-year US Treasury yield has

climbed to 4.54%, close to a year high, following stronger-than-expected CPI and PPI data.

- In Germany, the 10-year Bund yield has risen to 3.1%, near multi-year highs, while the UK 10-year gilt yield has risen to 5.1%, the highest since 2008, reflecting persistent inflation and fiscal concerns. Meanwhile, the Japanese 10-year government bond yield has climbed to 2.71%, close to a three-decade high, amid gradual policy normalization by the Bank of Japan.
- **In India, the 10-year government bond yield has risen to 7.06% amid higher WPI inflation, elevated crude oil prices, and imported inflation concerns. Overall, the synchronized rise in global yields suggests that markets are increasingly pricing in persistent inflation pressures and tighter financial conditions globally. Amid rising inflationary risks and expectations of tighter domestic liquidity conditions, we expect the Indian 10-year government bond yield to gradually move toward 7.5% by March 2027, as against the consensus market expectations of 7.2-7.3%. India's bond yields are impacted by both domestic and global factors. As discussed earlier, there is a synchronized rise in global bond yields impacting India as well. On the domestic side, bond yields are impacted by higher oil prices, rising inflation, higher inflation expectations, anticipation of monetary policy tightening, and increasing fiscal pressures. None of the listed factors is witnessing any reversal at this point in time.**

Emerging markets face added currency pressures

- Emerging markets are witnessing heightened stress as a stronger US dollar and elevated crude prices weigh on external balances, particularly for commodity-importing economies like India. At the same time, increased volatility in global bond markets is raising the risk of tighter liquidity conditions for EM economies. The combination of adverse terms of trade is amplifying risks of currency depreciation and sustained capital outflows across emerging markets.
- **Indian currency depreciated past the 96 level on 15th May, 2026, driven by a combination of global and domestic pressures. Higher global bond yields, deteriorating terms of trade (with April trade deficit widening to USD28.4b from USD20.7b in March and surpassing market expectations of USD25.9b), rising retail fuel prices, tighter restrictions on gold imports through an increase in customs duty from 6% to 15%, declining FX reserves (down to USD690b from a peak of USD728b in February 2026), and record FII outflows have all intensified pressure on the currency. With expectations of a policy rate hike deferred to 4QCY26, the rupee could continue to weaken toward the 98–99 per dollar range.**
- Amid subdued capital inflows, the government is exploring the possibility of lowering taxes on foreign investments in bonds, following the RBI's recommendations to curb arbitrage-led trades. Although these initiatives may not be sufficient to immediately reverse the ongoing trend, they reflect a broader policy effort by both the RBI and the government to gradually liberalize and rationalize the taxation framework governing capital flows. Until stronger inflows return, however, the rupee is likely to remain under pressure, with the RBI intervening intermittently to limit excessive volatility.

Exhibit 1: India CPI increased to 3.5% in Apr'26

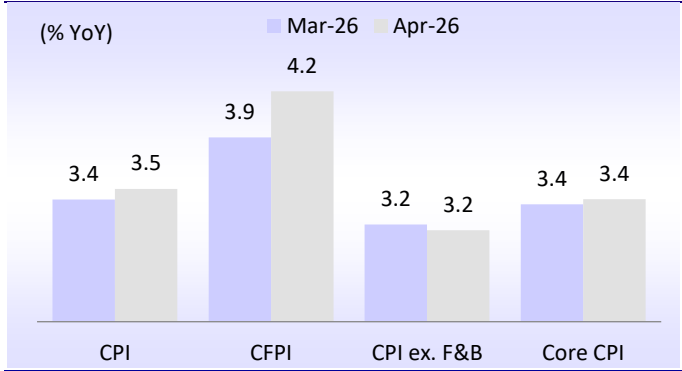
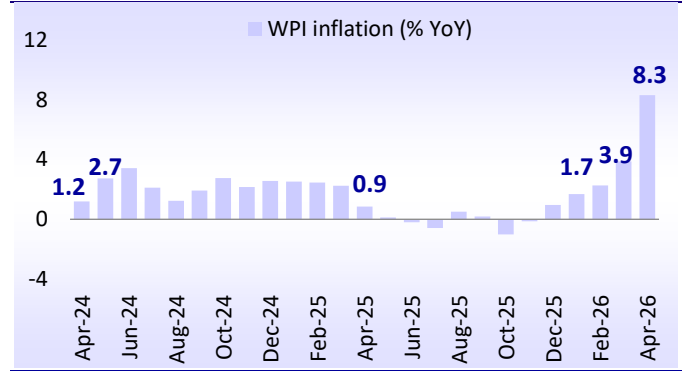


Exhibit 2: India WPI inflation rose to 8.3% in Apr'26



Source: Office of Economic Adviser, MOFSL

Exhibit 3: India's fuel and power inflation rose sharply

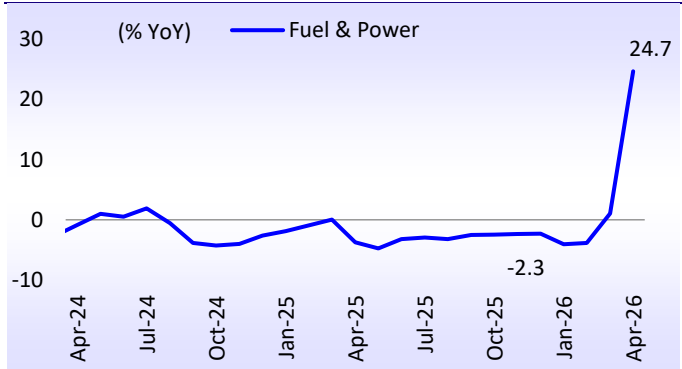
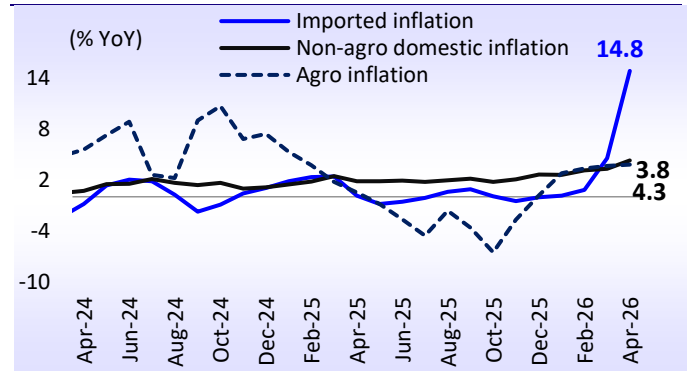


Exhibit 4: Imported inflation in India rose sharply to 14.8% in Apr'26



*Constituting ~41.8% weightage in the WPI basket
 **Constituting ~38.8% weightage in the WPI basket
 @Constituting ~19.4% weightage in the WPI basket

Exhibit 5: US CPI rose to 3.8% YoY in Apr'26

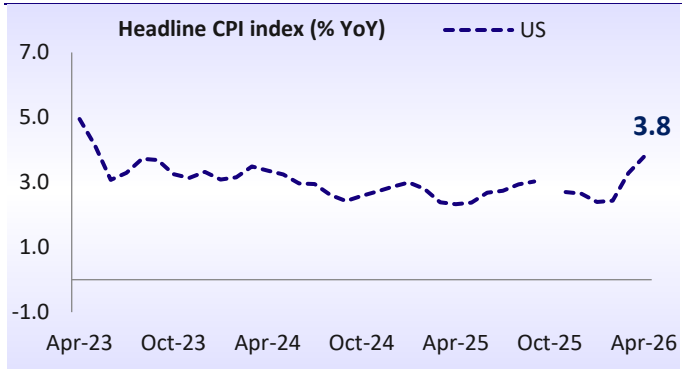
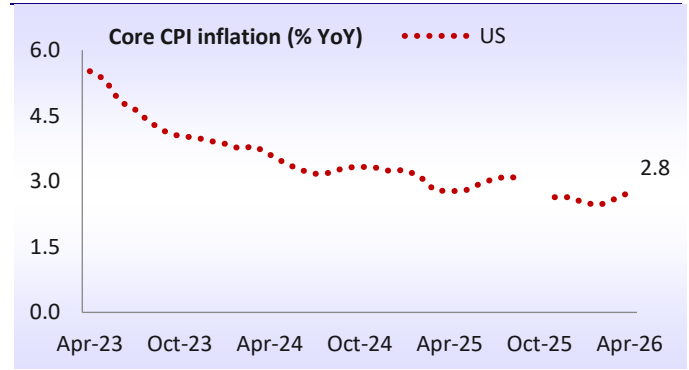


Exhibit 6: US core inflation increased slightly



Source: CEIC, MOFSL

Exhibit 7: US PCE inflation stood at 3.5% in Apr'26

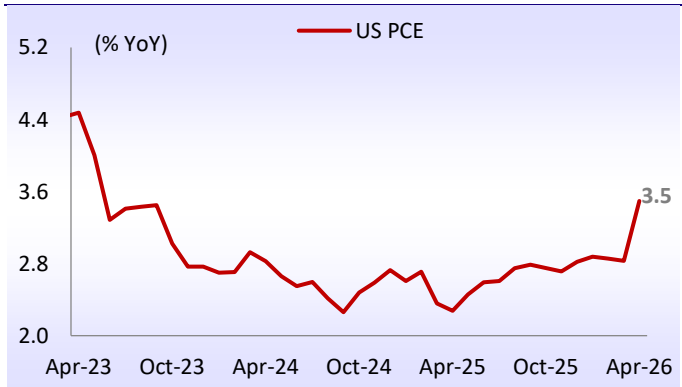
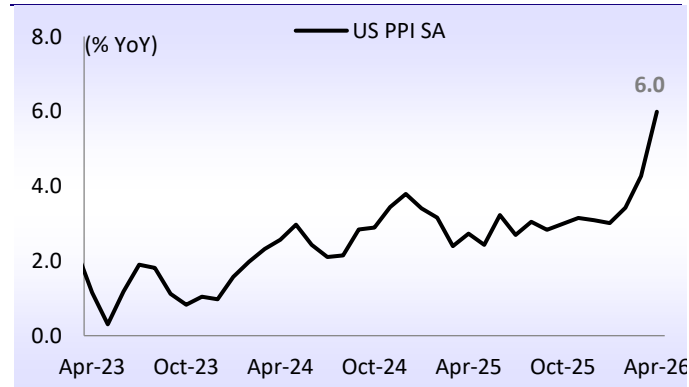


Exhibit 8: US PPI rose sharply to 6% in Apr'26



Source: CEIC, MOFSL

Exhibit 9: China CPI stood at 1.2% in Apr'26

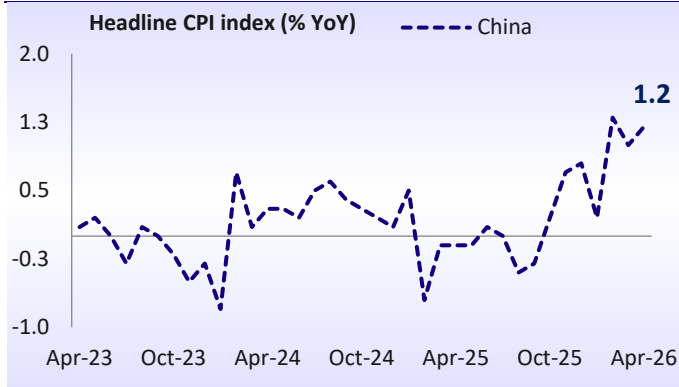
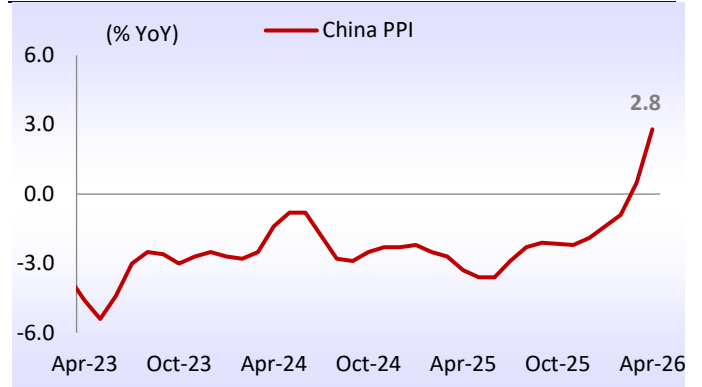


Exhibit 10: China PPI rose sharply to 2.8% in Apr'26



Source: CEIC, MOFSL

Exhibit 11: US 10Y yield rose to 4.5% in May'26

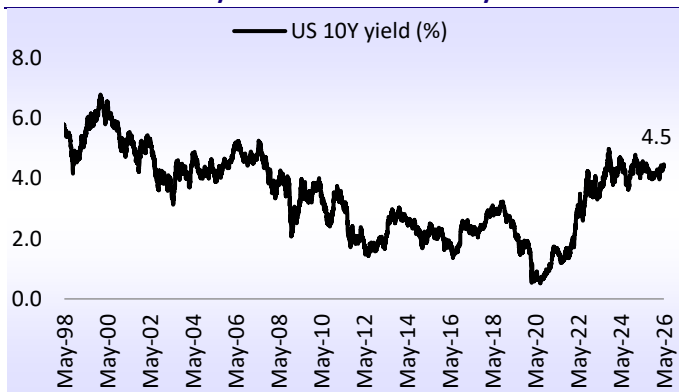
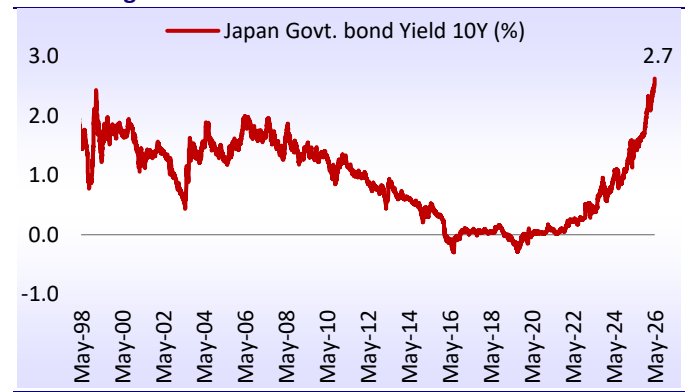


Exhibit 12: Japan 10Y gov. bond yield rose to a three-decade high of 2.7%



Source: CEIC, MOFSL

Exhibit 13: UK 10Y gov. bond yield rose to 5.1% in May'26, the highest since 2008

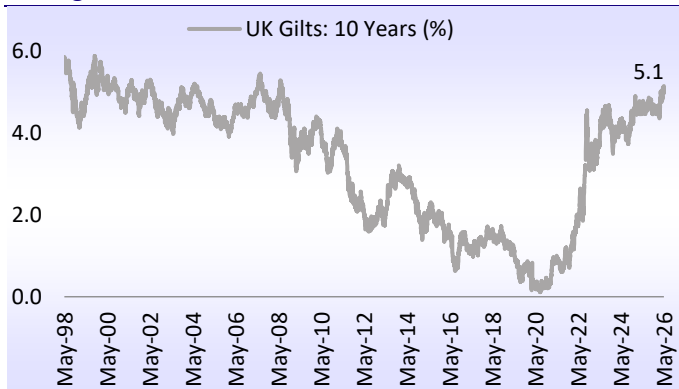


Exhibit 14: Germany 10Y gov. bond yield rose to 3.1% in May'26

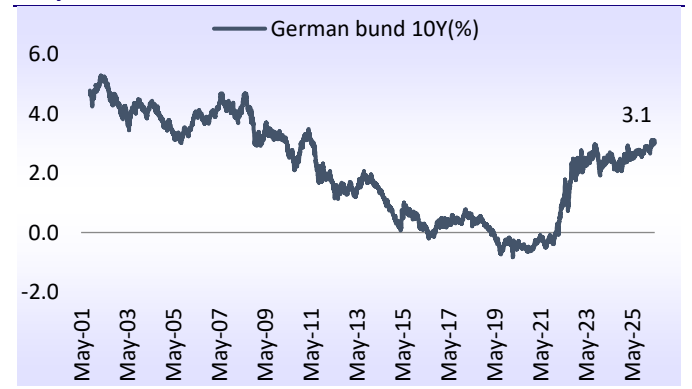


Exhibit 15: IMF inflation forecasts (% YoY)

Region / Economy	2008– 2017 Avg	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2031
Advanced Economies	1.5	2.0	1.4	0.7	3.1	7.3	4.6	2.6	2.5	2.8	2.2	2.1
United States	1.7	2.4	1.8	1.3	4.7	8.0	4.1	3.0	2.7	3.2	2.1	2.2
Euro Area	1.4	1.8	1.2	0.3	2.6	8.4	5.4	2.4	2.1	2.6	2.2	2.0
Japan	0.3	1.0	0.5	0.0	-0.2	2.5	3.3	2.7	3.2	2.2	2.3	2.0
Other Advanced Economies	2.0	1.9	1.4	0.6	2.6	6.6	4.9	2.4	2.3	2.6	2.1	1.9
Emerging Market & Developing Economies	5.7	4.9	5.2	5.3	5.9	9.7	8.2	8.0	5.2	5.5	4.6	3.9
Emerging & Developing Asia	4.2	2.7	3.3	3.2	2.3	3.9	2.3	1.9	1.1	2.6	2.5	2.8
Emerging & Developing Europe	7.7	6.3	6.6	5.2	9.2	25.7	17.4	17.2	13.5	10.5	8.2	6.5
Latin America & Caribbean	5.1	6.6	7.6	6.5	9.9	14.2	14.8	16.6	7.6	6.7	4.9	3.5
Middle East & Central Asia	7.8	9.5	7.4	10.4	11.9	13.3	15.5	13.9	11.2	11.9	9.1	6.0
Sub-Saharan Africa	9.1	8.7	9.6	12.4	12.3	16.1	19.4	20.7	12.5	8.8	8.8	6.5
Fuel Exporters	7.8	8.3	6.8	9.6	11.7	13.6	13.0	12.6	12.6	13.3	10.1	7.0
Nonfuel Exporters	5.4	4.5	5.0	4.8	5.2	9.2	7.7	7.4	4.4	4.7	4.0	3.5
Primary Product Exporters	6.8	7.9	9.1	15.9	15.8	17.6	17.2	15.9	9.0	6.2	5.8	4.4
Net Debtor Economies	6.8	6.0	5.9	6.5	7.8	13.2	12.2	11.1	7.2	7.0	6.0	4.7
Economies with Arrears/Rescheduling	11.2	14.1	12.5	14.9	16.1	21.4	25.1	25.5	15.1	9.9	9.1	5.7
European Union	1.5	1.8	1.5	0.7	2.9	9.3	6.3	2.5	2.5	2.8	2.4	2.1
Middle East & North Africa	7.6	10.5	7.7	10.9	12.9	13.5	14.8	14.1	12.9	13.5	9.6	6.2
Emerging Market & Middle-Income Economies	5.4	4.5	4.8	4.6	5.2	9.1	7.4	7.1	4.6	5.1	4.2	3.6
Low-Income Developing Countries	9.4	9.8	10.2	14.0	14.9	16.9	19.0	19.9	13.1	9.9	8.9	6.5
Median Inflation – Advanced Economies	1.6	1.7	1.4	0.3	2.5	8.1	5.3	2.4	2.5	2.7	2.3	2.0
Median Inflation – EMDEs	4.4	3.1	2.6	2.6	4.0	7.9	5.9	3.7	3.3	3.9	3.7	3.0

Source: IMF, MOFSL

Details:

Global inflation pressures re-emerge amid war-led commodity shock

Global inflation pressures are beginning to resurface after the broad-based disinflation trend seen during 2023–24. Recent consumer and producer price data across major economies indicate that pipeline inflation pressures are rebuilding due to rising energy prices, commodity costs, supply chain disruptions, and escalating geopolitical tensions. The ongoing US-Iran conflict and disruptions around the Strait of Hormuz have pushed crude oil prices sharply higher, leading to a broad-based increase in transportation, freight, fertilizer, and industrial input costs globally.

Importantly, producer prices such as PPI and WPI tend to feed into consumer inflation with a lag. As a result, the recent sharp rise in wholesale and producer inflation globally suggests that retail inflation pressures may strengthen further over the coming quarters.

India: WPI pressures suggest inflation risks are building

- In India, wholesale inflation pressures have intensified sharply amid rising global commodity prices and geopolitical tensions. Headline WPI inflation rose to 8.3% YoY in Apr'26, the highest since Oct'22, compared with 3.9% in Mar'26 and just 0.9% in Apr'25. The rise was largely driven by fuel and manufactured product inflation as higher crude oil, metal, and industrial input prices began feeding into domestic wholesale prices.
- Fuel and power inflation surged to a 42-month high of 24.7% YoY in Apr'26, while mineral oil inflation jumped sharply due to rising prices of aviation turbine fuel (ATF), naphtha, petrol, diesel, and furnace oil. International crude oil prices

rose sharply amid escalating tensions between the US and Iran and continued uncertainty surrounding disruptions in the Gulf region.

- Core WPI inflation also rose to a 43-month high of 5.0% in Apr'26 from 3.7% in Mar'26 and 1.2% in Apr'25. Manufactured products' inflation accelerated to 4.6%, led by basic metals, machinery and equipment, textiles, chemicals, pharmaceuticals, and electrical equipment. Rising global metal prices also contributed significantly to domestic manufacturing inflation.
- While headline CPI inflation remains relatively contained at 3.5% YoY and below the Reserve Bank of India's 4% target, the sharp rise in wholesale inflation suggests that upstream price pressures are beginning to build. Historically, sustained increases in WPI tend to pass through into CPI inflation with a lag through fuel, transportation, manufactured products, and services inflation.
- Going forward, upside risks to inflation remain significant due to rising global energy prices, weather-related disruptions, possible El Niño conditions, elevated edible oil prices, and potential fuel-price pass-through if geopolitical tensions persist. The sharp rise in wholesale inflation and building pipeline price pressures also suggest that retail inflation could gradually increase over the coming quarters. Against this backdrop, we peg CPI inflation at around 5% in FY27, with risks tilted to the upside. Consequently, the RBI is expected to remain cautious and maintain a wait-and-watch approach through 2026, keeping policy rates on hold amid persistent uncertainty surrounding global commodity prices and domestic food inflation.

US: Hot CPI and PPI prints raise higher-for-longer risks

- In the US, inflation has started moving in the wrong direction again. US CPI inflation rose to 3.8% YoY in Apr'26 from 3.3% in Mar'26, marking the strongest reading since May 2023 and remaining well above the Federal Reserve's 2% target. Higher price pressures were visible across housing, transportation, food, and energy categories. Energy inflation surged to 17.5% from 12.6% in Mar'26, while gasoline prices rose sharply due to the global oil shock.
- Producer price pressures have risen even more sharply. US PPI inflation surged to 6.0% YoY in Apr'26, the highest since late 2022, while monthly PPI increased 1.4%, marking the strongest increase since Mar'22. Freight, transportation, chemicals, and industrial input costs all increased materially amid higher oil prices and shipping disruptions linked to the Iran conflict.
- The stronger inflation data has significantly altered market expectations regarding US monetary policy. Markets are increasingly beginning to assign some probability to another Fed rate hike later this year or in early 2027 if inflation continues to surprise on the upside. CME FedWatch data now indicates roughly a 30% probability of a Fed rate hike by December 2026 following the stronger-than-expected CPI and PPI prints. Several Federal Reserve officials have also warned that repeated inflation shocks arising from wars, tariffs, energy prices, and supply chain disruptions could create more persistent and broad-based inflationary pressures, requiring policy rates to remain restrictive for longer.

China: Producer price inflation turns positive again

- In China, inflation remains relatively subdued compared with other major economies, although signs of stabilization are now emerging. China's CPI inflation accelerated to 1.2% YoY in Apr'26 from 1.0% in Mar'26, above market expectations. The increase was largely driven by higher energy and transport-related price pressures linked to the prolonged Middle East conflict.
- China's producer price inflation surged to 2.8% YoY in Apr'26, the highest reading in nearly four years and significantly above market expectations. This marks the second consecutive month of positive producer inflation after a prolonged deflationary phase. Rising global crude oil prices have increased petroleum, chemical, metal, and manufacturing input costs materially.
- This shift is important globally because China has been a major source of goods disinflation over the past two years due to weak domestic demand and excess industrial capacity. Stabilization in Chinese factory-gate prices could now reduce the global disinflationary impulse and contribute to imported inflation pressures worldwide.

IMF outlook: Inflation trajectory could become more challenging from 2026 onward

- According to the IMF's latest projections, global inflation moderated significantly from the 2022 peak through 2025, with inflation in Advanced Economies easing from 7.3% in 2022 to 2.5% in 2025, while EMDE inflation declined from 9.7% to 5.2% over the same period.
- However, from 2026 onward, the IMF expects inflationary pressures to begin rebuilding again. Inflation in Advanced Economies is projected to rise to 2.8% in 2026, while EMDE inflation is expected to increase to 5.5%. Similarly, inflation in the US is projected to rise from 2.7% in 2025 to 3.2% in 2026. For India, the IMF projects inflation rising sharply to 4.7% in 2026.
- Overall, the IMF projections suggest that rising energy prices, geopolitical tensions, and producer-price pressures could make the global inflation trajectory more challenging again from 2026 onward.

Central banks likely to remain cautious

- The recent rise in global inflation and producer price pressures is likely to make major central banks more cautious and hawkish going forward. In the US, stronger-than-expected CPI and PPI data have increased market expectations of another rate hike by the Fed later this year or in early 2027 if inflation continues to surprise on the upside.
- Similarly, the European Central Bank is likely to remain cautious amid persistent services inflation and rising energy prices linked to geopolitical tensions.
- In India, despite headline CPI inflation remaining below the RBI's 4% target, the rise in WPI inflation, persistent food-price pressures, and elevated global commodity prices are expected to keep the central bank cautious. The RBI is likely to begin by tightening liquidity conditions before moving toward any benchmark rate hike. We expect the policy stance to gradually turn more hawkish, with the RBI potentially signaling the prospect of rate hikes by 4QCY26. A policy rate hike appears more probable by the February 2027 meeting, particularly if inflation readings move above the 6% mark during the December

quarter, although the December 2026 policy meeting remains a close call. An active policy response as early as December would largely depend on crude oil prices sustaining above USD100/bbl for the next 1–2 months, which could push FY27 average headline inflation closer to 5.7%, with risks tilted upward. This scenario also assumes another round of retail fuel price hikes, alongside further increases in CNG, LPG, and kerosene prices.

Global bond yields rise amid sticky inflation concerns

- Global bond yields have moved sharply higher amid rising inflation pressures, higher crude oil prices, and growing expectations that central banks may need to keep policy rates restrictive for longer. Stronger-than-expected CPI and PPI data across major economies, alongside geopolitical tensions and war-led commodity shocks, have triggered a broad-based selloff in sovereign bonds globally.
- The US 10-year Treasury yield has risen to around 4.5%, near recent highs and close to the highest levels seen over the past year, after hotter-than-expected inflation data raised concerns around another potential Fed rate hike. Long-end yields have also surged, with the US 30-year yield moving above 5% for the first time since 2007.
- In Germany, the 10-year Bund yield has risen above 3.0%, touching its highest level in nearly 15 years amid rising oil prices and persistent inflation concerns across Europe.
- In the UK, 10-year gilt yields have surged above 5.1%, the highest since 2008, reflecting sticky inflation, elevated borrowing needs, and tighter financial conditions. Meanwhile, in Japan, the 10-year Japanese government bond yield has climbed toward 2.7%, close to a three-decade high, as markets continue adjusting to gradual normalization by the Bank of Japan and rising global yields.
- In India, the 10-year government bond yield has risen to 7.06% amid higher WPI inflation, elevated crude oil prices, and imported inflation concerns. Overall, the synchronized rise in global yields suggests that markets are increasingly pricing in persistent inflation pressures and tighter financial conditions globally. Amid rising inflationary risks and expectations of tighter domestic liquidity conditions, we expect the Indian 10-year government bond yield to gradually move toward 7.5% by March 2027, as against the consensus market expectations of 7.2-7.3%. India's bond yields are impacted by both domestic and global factors. As discussed earlier, there is a synchronized rise in global bond yields impacting India as well. On the domestic side, bond yields are impacted by higher oil prices, rising inflation, higher inflation expectations, anticipation of monetary policy tightening, and increasing fiscal pressures. None of the listed factors is witnessing any reversal at this point in time.

Emerging markets face added currency pressures

- Emerging markets are witnessing heightened stress as a stronger US dollar and elevated crude prices weigh on external balances, particularly for commodity-importing economies like India. At the same time, increased volatility in global bond markets is raising the risk of tighter liquidity conditions for EM economies. The combination of adverse terms of trade is amplifying risks of currency depreciation and sustained capital outflows across emerging markets.

- Indian currency depreciated past the 96 level on 15th May, 2026, driven by a combination of global and domestic pressures. Higher global bond yields, deteriorating terms of trade (with April trade deficit widening to USD28.4b from USD20.7b in March and surpassing market expectations of USD25.9b), rising retail fuel prices, tighter restrictions on gold imports through an increase in customs duty from 6% to 15%, declining FX reserves (down to USD690b from a peak of USD728b in February 2026), and record FII outflows have all intensified pressure on the currency. With expectations of a policy rate hike deferred to 4QCY26, the rupee could continue to weaken toward the 98–99 per dollar range.
- Amid subdued capital inflows, the government is exploring the possibility of lowering taxes on foreign investments in bonds, following the RBI's recommendations to curb arbitrage-led trades. Although these initiatives may not be sufficient to immediately reverse the ongoing trend, they reflect a broader policy effort by both the RBI and the government to gradually liberalize and rationalize the taxation framework governing capital flows. Until stronger inflows return, however, the rupee is likely to remain under pressure, with the RBI intervening intermittently to limit excessive volatility.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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