SBI Research

Prelude to MPC Meeting: Feb 4 to 6, 2026

February meeting a status-quo

Issue # 38, FY26 Date: 04 February 2026

February Policy Meet…..RBI to maintain Status Quo

- Since the last policy, one of the major policy changes is the EU-India and US-India trade deal resulting in reduction in tariffs on India to 18% from 50% earlier. Clearly, India has now one of the lowest tariffs among Asian countries which will help in improving our export competitiveness

- However, global economy continues to remain uncertain..Our Geo-Economics Stress Index reveals heightened uncertainty leads to economic stress with a lag of 3-4 months

- Elsewhere, metal prices have recovered after witnessing a significant sell-off last week

- Slack in labour market, stagnant real disposable incomes alongside reduced inflationary impact might lead to US Fed rate cuts

- Against this backdrop, Indian currency see-sawed between 89-92 per dollar for the past two month and has depreciated by 5.8% against USD (most amongst the major economies) since 02 Apr'25, when US announced sweeping tariff hikes across economies, though it appreciated significantly (more than Re 1) after the India-US trade deal reducing the tariffs to 18%

- New CPI weights with unchanged index domestic inflation indicates increase in overall CPI marginally by 20-30 bps. While, in the months when food inflation is higher, the new CPI will be lower by 20-30 bps

- We observe that despite policy rate easing, government bond yields have exhibited persistent hardening in recent periods. **We believe that the choice of eligible securities itself may influence the effectiveness of OMO operations, even when the aggregate quantum of liquidity injection is unchanged**

- RBI is thus likely to maintain status quo in the upcoming policy

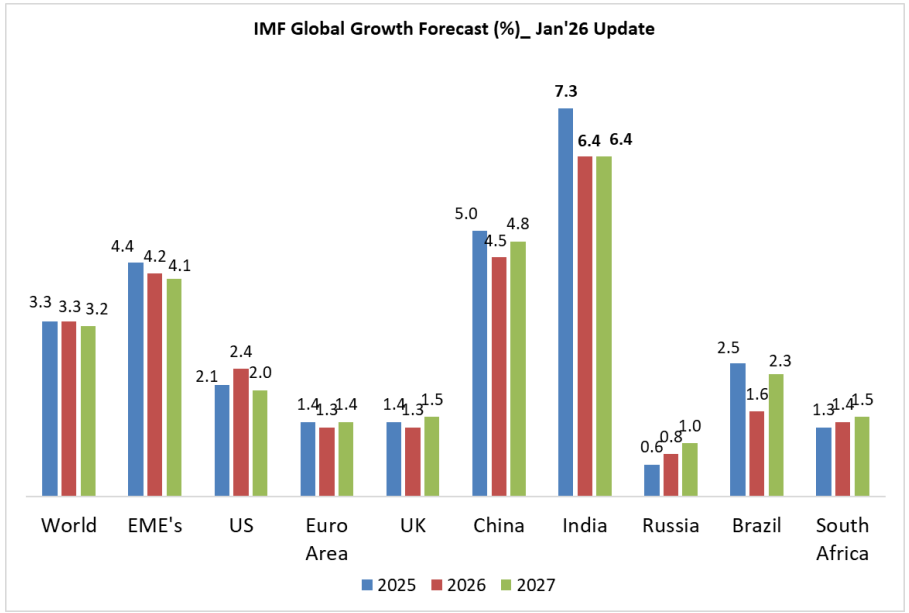
GLOBAL MACROS

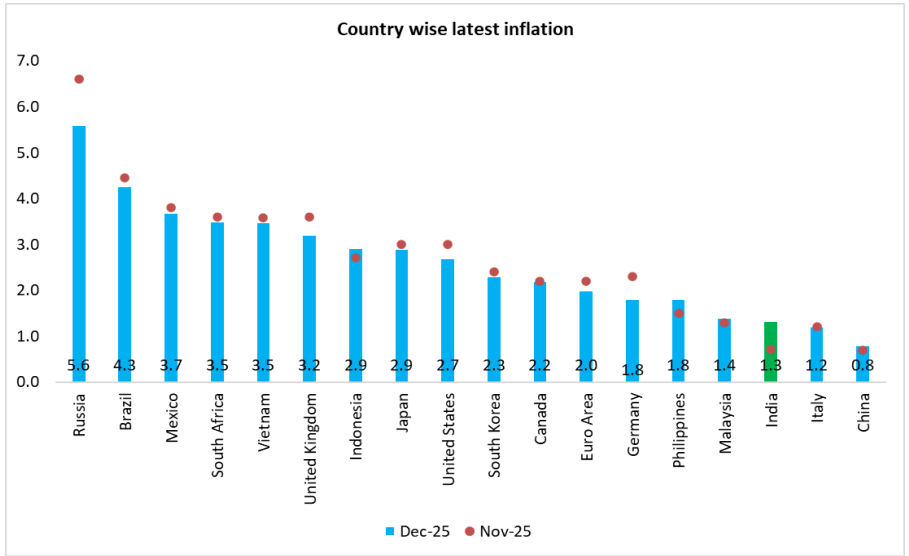
Rapid pace and unhinged intensity of unfolding events make the landscape near opaque questioning the very efficacy of policies

Global economy moderating due to trade wars, geopolitics and uncertainty

- **Global GDP is forecasted at 3.3%in 2026 on unchanged from the growth in 2025**
  - ✓ The US growth is projected flat at 2.4%
  - ✓ The growth in developing economies is also projected to slow with China expected to grow at 4.2% and India at 6.4%

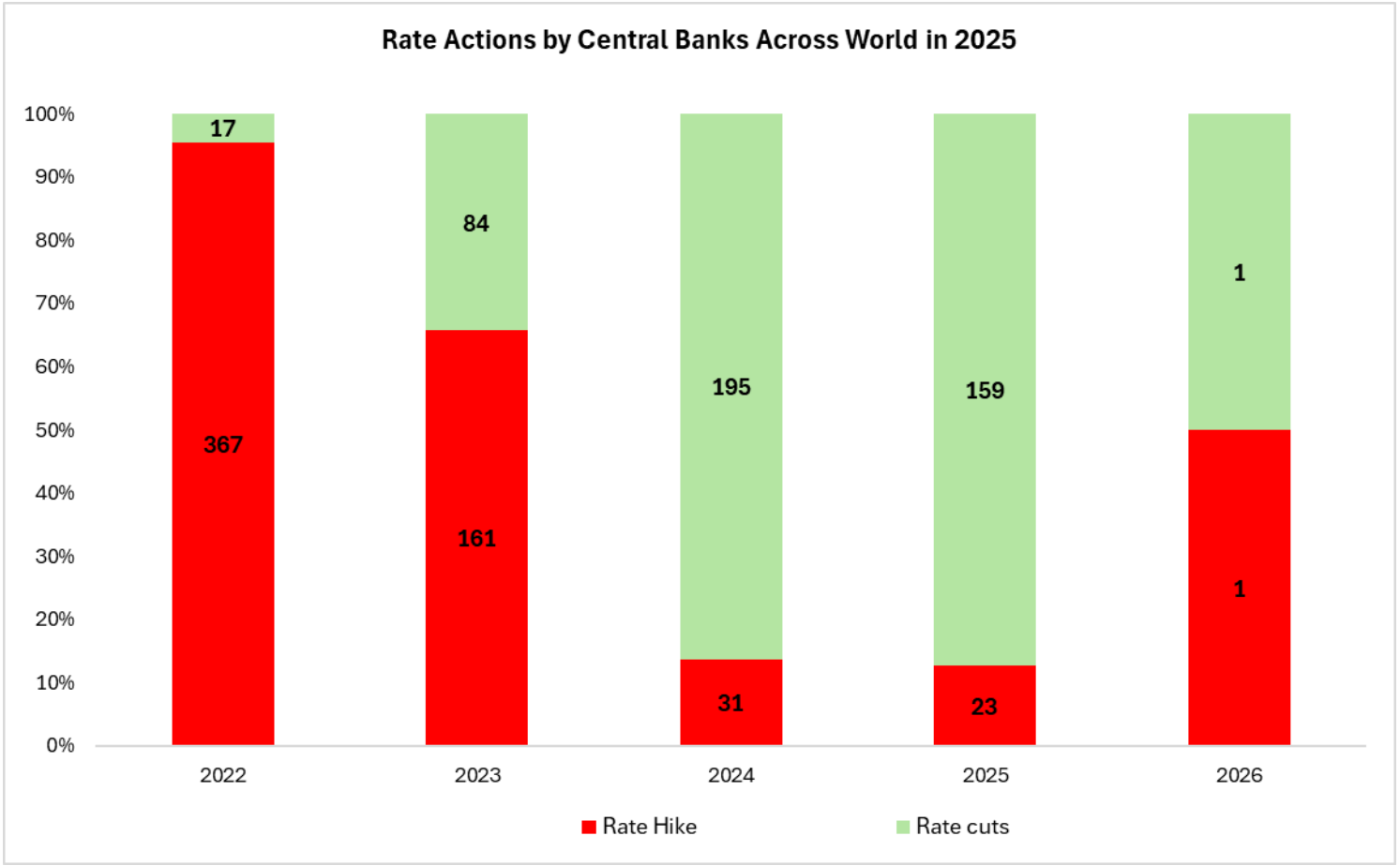
- **Inflation is projected to continue to decline globally, but US inflation will return to target more gradually**
  - ✓ Softening demand and lower energy prices remain key drivers
  - ✓ Inflation to stay above target in the United States
  - ✓ Inflation in emerging economies is expected to moderate



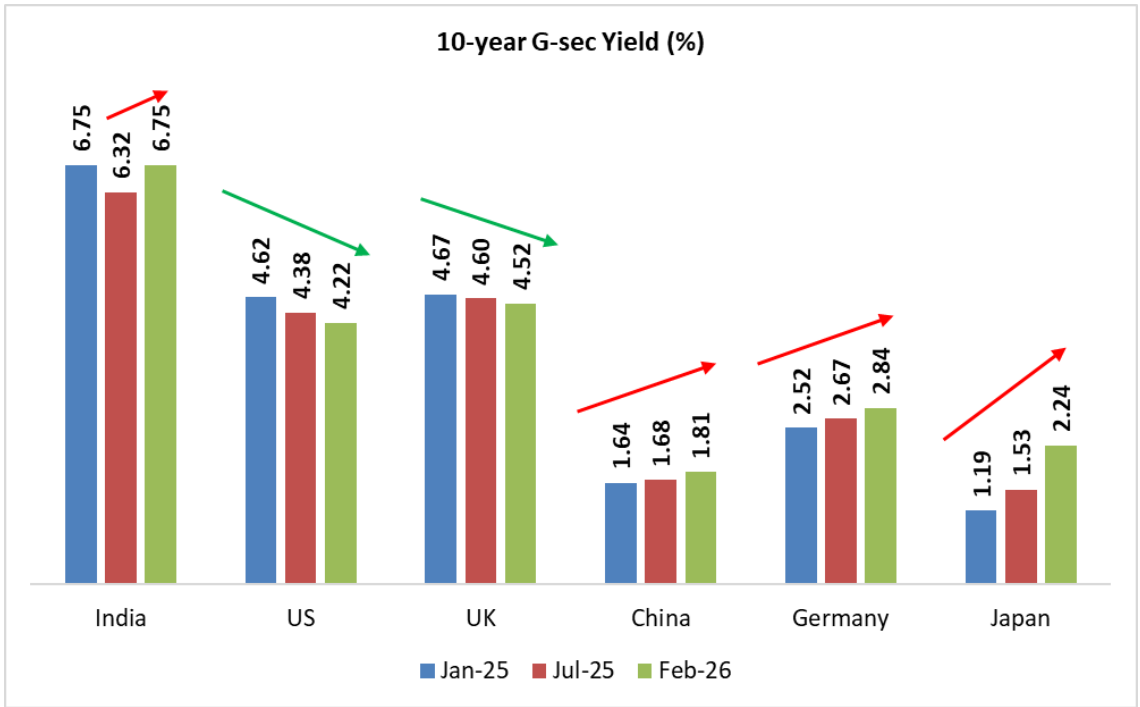


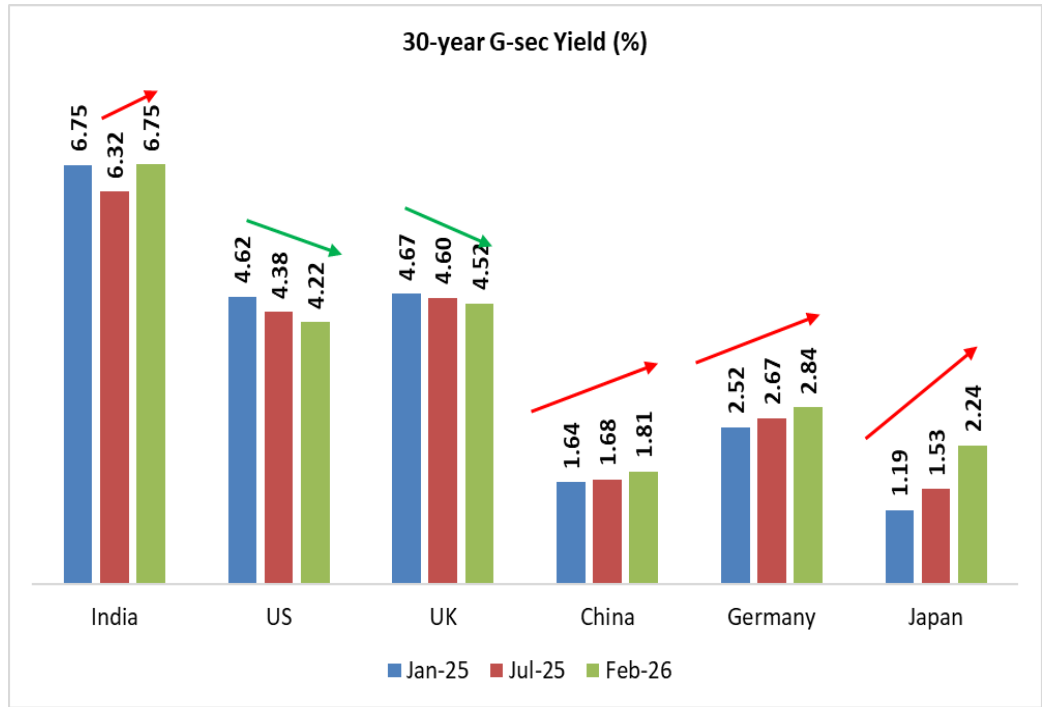
Broader rate cut trends show dominating preference for a pause

- Rate decisions measured as cut or hike show declining trend
- **A broader trend is that monetary policy has entered a phase of pause with differences across geographies**



Global Yields: Divergent Trends across regions





Source: SBI Research; Monthly average of daily observations

Disinflation to persist in 2026…Seven factors that compel US Fed to cut rates

1. Slack in labour market	• Unemployment rose from an average of 3.6% in 2023 to 4.% in 2024 and further to 4.4% in Dec'25 • The ratio of part-time to full-time household jobs in Dec'25 over Dec'24 has broadly remained unchanged implying lesser full time job creation
2. Stagnant real disposable personal income	• Real disposable income increased marginally from $17890 in Jan'25 to $18040 in Dec'25. This indicates that that US consumers enter in 2026 with very weak financial health
3. Fragile Monetary Conditions	• The yearly growth of Commercial and Industrial Loans in US is still in negative territory. For entire 2025 growth rate was in negative mode
4. Reduction in Federal Budget	• The budget deficit has declined from $2.7 trillion in 2021 to $1.7 trillion in 2025
5. Decline in capacity utilization	• Since 2022, when it was at peak, capacity utilization of US has heading southward and in Dec'25 it was at 76.26%
6. Tariffs: Reinforce the path to a lower inflation in US	• While general perception is that tariffs are inflationary for US, Fed research indicates that higher tariffs lead to lower economic activity and more unemployment, which ultimately leads to downward pressure on prices. However, the same research said that tariff increases may introduce uncertainty, reduce confidence, and cause asset price declines
7. Disinflationary effects of AI	• As companies shifts from labour to AI, it is widely considered to be disinflationary. However, AI may also set sliding pressure on wages and prices which ultimately lead to weak economic growth

Source: SBI Research; Hoisington Investment Management Company – Quarterly Review and Outlook (Fourth Quarter 2025)

US tariffs: Now India has one of the lowest tariff among Asian countries

- After month of negotiation and among heightened uncertainty India and US has announced trade deal last night
- As per the announcement India now face tariff rate of 18% significantly lower than the earlier imposed tariff rate of 50%
- With this tariff rate, India has now one of the lowest tariff among key Asian economies (even lower than the Vietnam which is US one of the major trading partners)
- **Indian exports have regained competitiveness vis-à-vis other major Asian exporters**

Major countries trade with US- Summary

	Tariff post negotiation	Share of Exports to recepient country in total US Export CY25 Till Nov	Share of Imports from partner country in total US Imports CY25 Till Nov	US Trade balance with country $ bn CY25 Till Nov
Bangladesh	20	0.1	0.3	-7
Cambodia	19	0.0	0.4	-14
China	37	4.9	9.2	-189
India	18	2.1	3.0	-53
Indonesia	19	0.5	1.0	-22
Japan	15	3.8	4.3	-58
Malaysia	19	1.3	1.7	-28
Philippines	19	0.4	0.5	-8
South Korea	15	3.1	3.6	-50
Taiwan	20	2.5	5.6	-127
Thailand	19	0.9	2.6	-64
Vietnam	20	0.7	5.6	-161
Laos	40	0.0	0.1	-2
Brazil	50	2.5	1.2	13
Canada	50	15.2	11.2	-47
Myanmar	40	0.0	0.0	-1
South Africa	30	0.3	0.5	-10
Pakistan	19	0.1	0.2	-2
UK	10	4.4	1.9	29
EU	15	19.0	18.7	-205
Switzerland	15	3.4	3.2	-34

Source: US international Trade administration, Reed Smith Tariff tracker 2,SBI Research

Metalonomics

Sharp run up in commodities sub-sets, with a spiraling catch-up effect, are stoking inflationary risks, a déjà vu of 2022

Buyers' Remorse: Commodities on-the-run as a Distinct asset class?

- The year 2025 belonged to the commodities on the run, the one-way rally driven first by the precious metals, and followed in toe by base metals even as strong performances in these sub-sets were offset by energy/Oil… While **crude** did the balancing act more due to a 'supply glut' owing to higher production flowing more on water (not storage) from OPEC+ to USA, even Live stocks delivered strong returns (grains/agri/softs were the only laggards and that can fuel a catch-up rally in 2026!)…. In comparison, stocks of larger firms like Rio Tinto (miner) or Glencore (trader) are not showing investors' frenzy and that nudges us to factor if the current rally is a more a reflection of long-term structural changes, reflective of simmering tensions across jurisdictions, once knitted closely

2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Q4 '25
Growth 3.5%	Small cap 13.3%	MSCI EM 37.8%	Global Agg -1.2%	Growth 34.1%	Growth 34.2%	Global REITs 32.6%	Cmdty 16.1%	Growth 37.3%	Growth 26.2%	MSCI EM 34.4%	Cmdty 5.9%
Global REITS 0.6%	Value 13.2%	Growth 28.5%	Global REITS -4.9%	DM Equities 28.4%	MSCI EM 18.7%	Cmdty 27.1%	Value -5.8%	DM Equities 24.4%	DM Equities 19.2%	Value 21.6%	MSCI EM 4.8%
Small cap 0.1%	Cmdty 11.8%	Small cap 23.2%	Growth -6.4%	Small cap 26.8%	DM Equities 16.5%	Value 22.8%	Global Agg -16.3 %	Small cap 16.3%	Value 12.3%	DM Equities 21.6%	Value 3.5%
DM Equities -0.3%	MSCI EM 11.6%	DM Equities 23.1%	DM Equities -8.2%	Global REITs 24.4%	Small cap 16.5%	DM Equities 22.4%	DM Equities -17.7%	Value 12.4%	Small cap 8.6%	Growth 21.3%	DM Equities 3.2%
Global Agg -3.2%	DM Equities 8.2%	Value 18.0%	Value -10.1%	Value 22.7%	Global Agg 9.2%	Growth 21.4%	Small cap -18.4%	Global REITs 10.9%	MSCI EM 8.1%	Small cap 20.4%	Small cap 2.9%
Value -4.1%	Global REITS 6.5%	Global REITS 8.0%	Cmdty -11.3%	MSCI EM 18.9%	Value -0.4%	Small cap 16.2%	MSCI EM -19.7%	MSCI EM 10.3%	Cmdty 5.4%	Cmdty 15.8%	Growth 2.8%
MSCI EM -14.6%	Growth 3.2%	Global Agg 7.4%	Small cap -13.5%	Cmdty 7.7%	Cmdty -3.1%	MSCI EM -2.2%	Global REITs -23.7%	Global Agg 5.7%	Global REITs 2.8%	Global REITs 8.4%	Global Agg 0.2%
Cmdty -24.7%	Global Agg 2.1%	Cmdty 1.7%	MSCI EM -14.2%	Global Agg 6.8%	Global REITs -10.4%	Global Agg -4.7%	Growth -29.1%	Cmdty -7.9%	Global Agg -1.7%	Global Agg 8.2%	Global REITs -0.8%

Base Metals performance in 2025

Source: JP Morgan / Bloomberg / SBI Research

Shifting Sands of zealotry Exceptionalism: The Domino Effect unshackles Europe

- The Great shift towards exercising absolute control, Direct or in proxy, over jurisdictions that offer resources security or strategic competitive advantage snowballs into a race to no finish line, with increased expenditure on Defense and misguided trusts checkmating capital flows

Venezuela with USA

Germany with Russia

Images solely for representative purposes only and not to be inferred / referred in any whatsoever

From Conflict to Commerce???

Today, there is a palpably increasing tension between the inherently conflictual nature of states (and blocs of states) and the intellectual recognition of many of their leaders and citizens that while ***war is a zero-sum encounter by nature****,* ***commercial relations need not be and indeed rarely have been****. The outcome of that tension within the principal countries and blocs will determine the degree to which we will live in a geo-economic world.*

Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce
Edward N. Luttwak
The National Interest , Summer 1990, No. 20 (Summer 1990)

Geopolitics to Geo-Economics

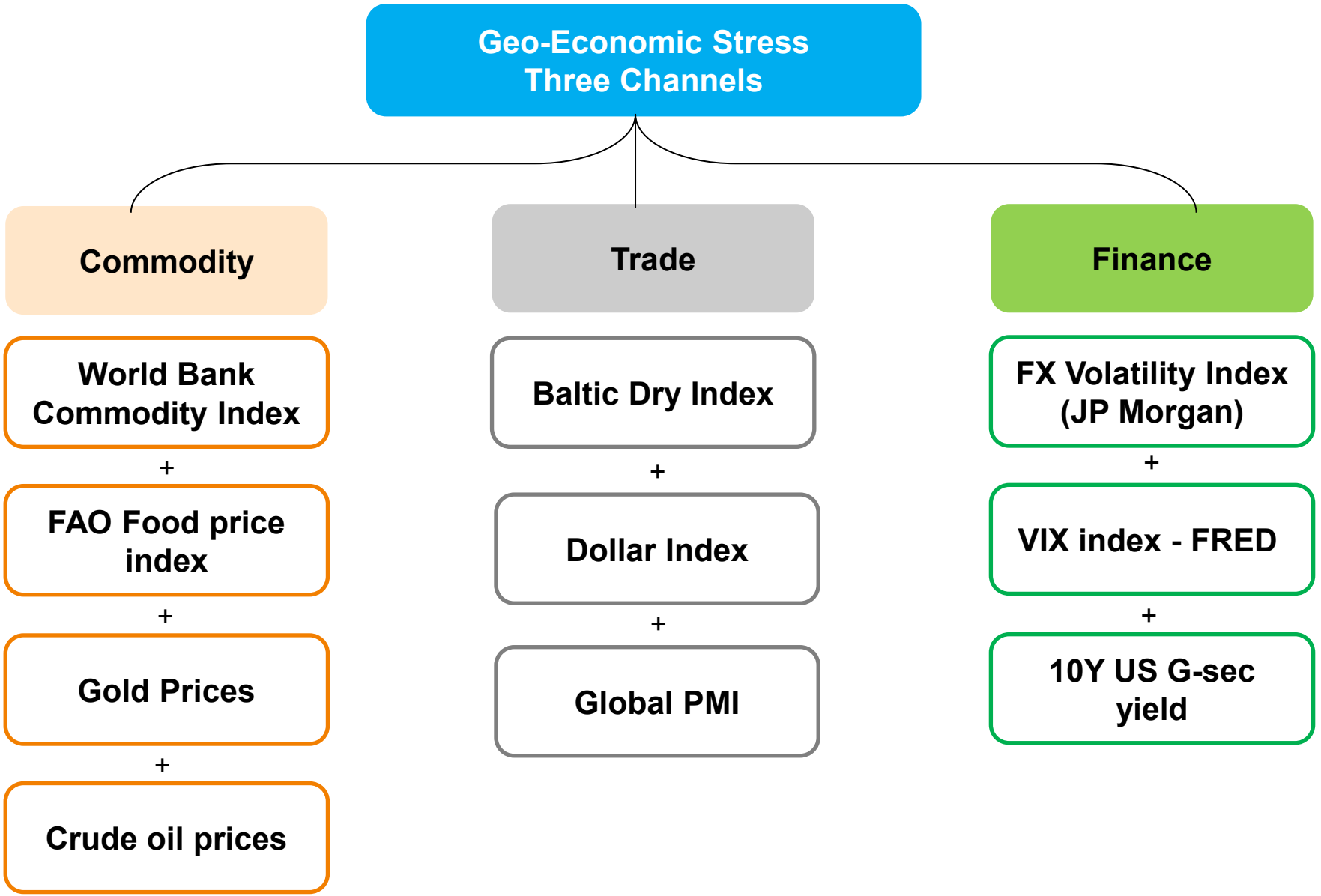
- Geopolitics is always a driving force. Nations' political interest are paramount

- However, nations are now searching stable grounds in Geo-economics

- As mentioned by Edward N. Luttwak that war is a zero-sum encounter….countries are moving from conflict to commerce….more emphasis are given to protect the domestic economy instead of plunging into any geo-political conflict that will result into increasing geo-economic stress

- Against this backdrop, we have endeavored to construct a Geo-Economics Stress Index, which is a comprehensive index covering all aspects of economy. Based on 10 important existing indices or variables (which indicate stress in isolation), we have constructed our Index from January 2023 onwards

How Geo-Economic Stress is Percolating: Indicators used



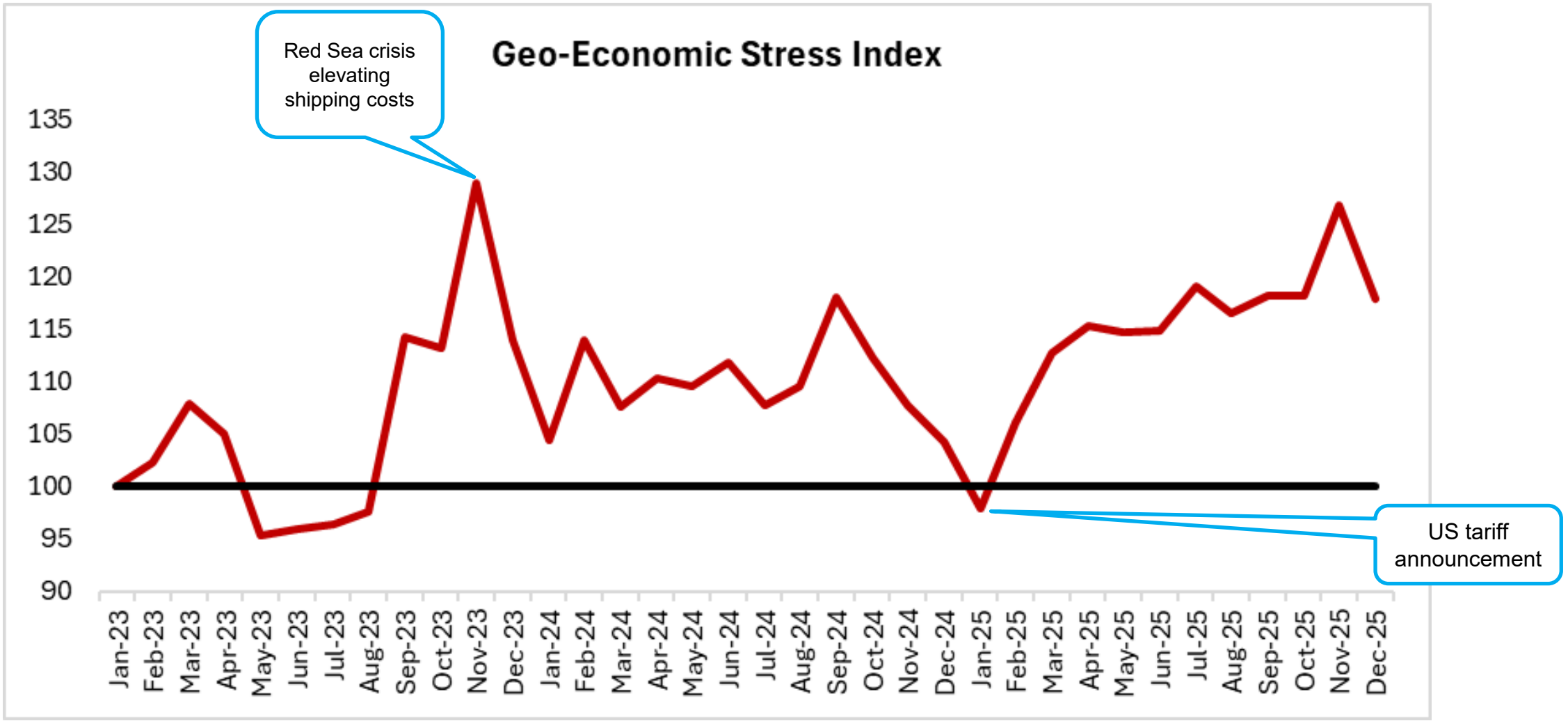
Methodology for Index construction

- We construct the Global Geo-Economic stress Index by aggregating monthly indicators spanning key geo-economic transmission channels such as commodity markets, global trade and logistics and Finance
- We orient each series such that higher values consistently represent elevated geo-economic stress. In case of Global PMI we take the deviation from 50 reflecting expansion or contraction in global trade while for Crude oil prices we take 6-months rolling standard deviation delineating volatility
- Each series is first transformed into a dimensionless base-period index using classic index-number methodology ensuring the first value equals 100 and subsequent movements capture relative changes over time. We take Jan-23 as our base for index construction

$$I_{j,t} = 100 * \frac{x_{i,t}}{x_{i,0}}$$

- This base-period normalization preserves temporal dynamics, mitigates excessive volatility associated with standardization methods such as z-scores, and ensures intuitive index behavior. The composite Geo-Economic Index is then computed as the unweighted arithmetic mean across N indicators, thereby allowing each geo-economic channel to contribute symmetrically
- ***By construction, values of the index above 100 indicate a deterioration in global geo-economic conditions relative to the base period, yielding a transparent measure of global geo-economic stress***

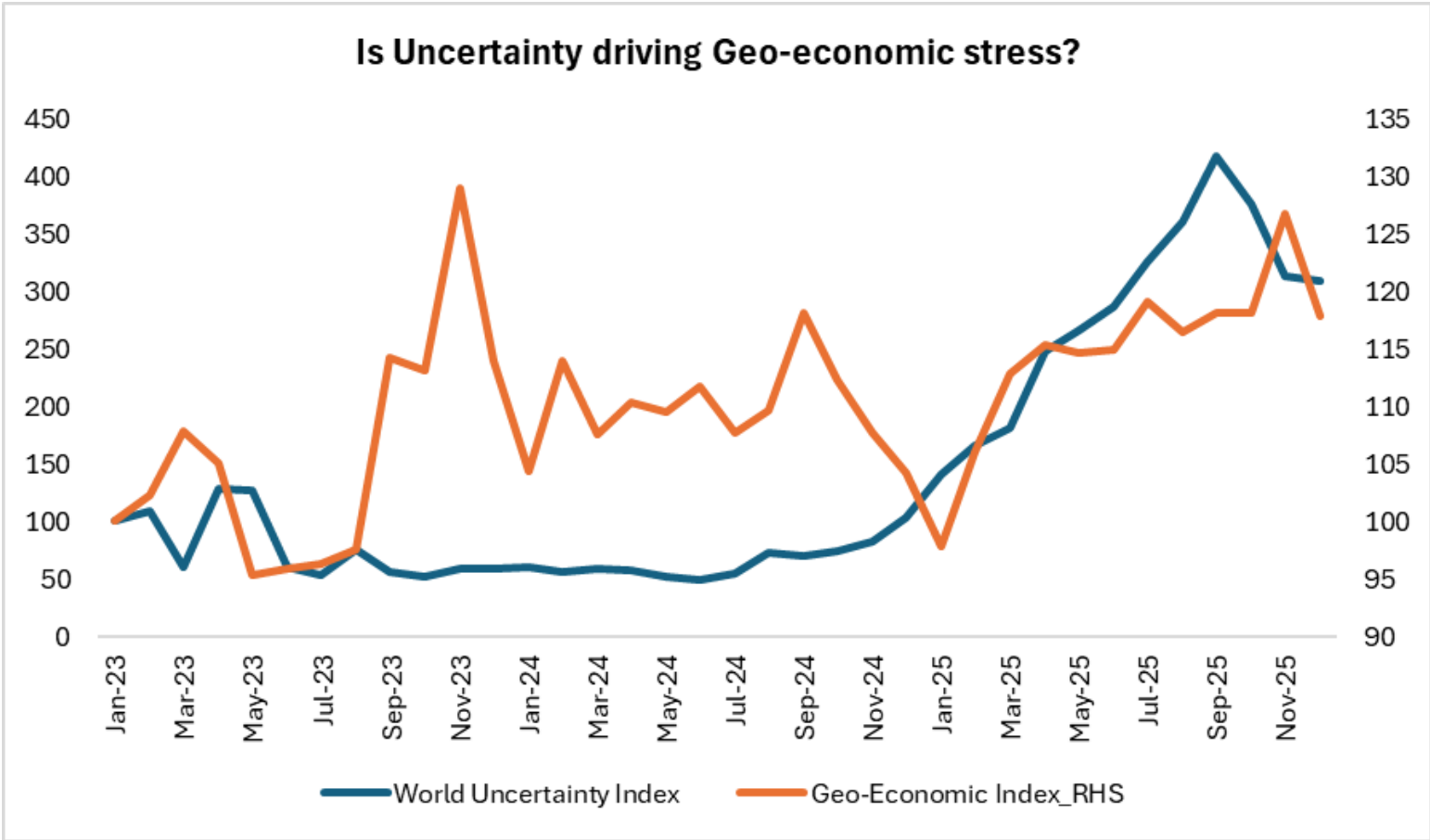
Geo-Economics Stress Index



Source: SBI Research

Is Uncertainty driving Geo-economic stress?

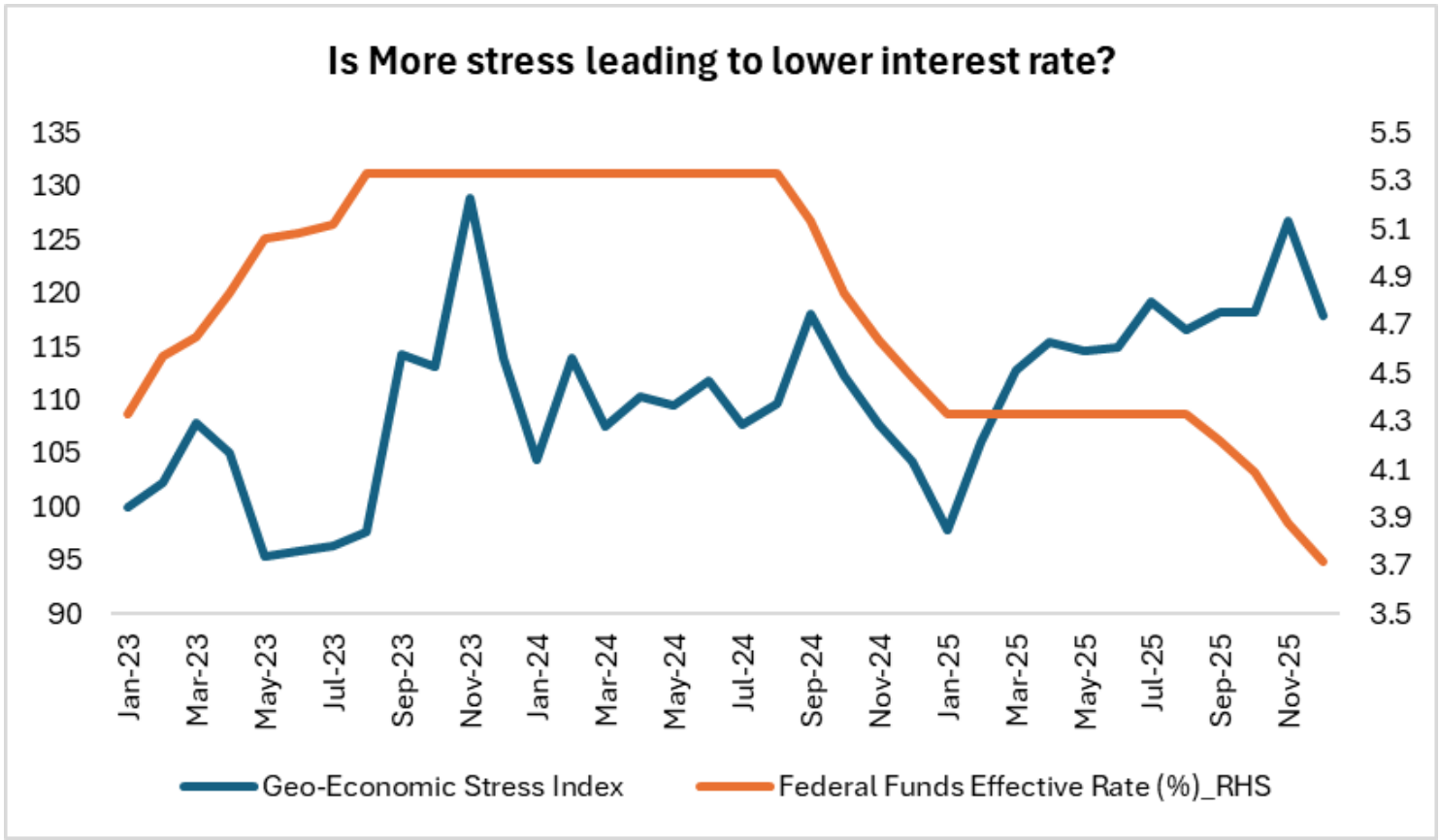
- When we plot our stress index with uncertainty index, we found a strong positive correlation indicating that heightened uncertainty leads to economic stress with a lag of 3-4 months
- Economic indicators take time to respond to uncertainty



Source: SBI Research; https://www.policyuncertainty.com/

Relationship between stress and interest rates is dubious

- While it is difficult to fathom the exact relationship between stress and interest rates, we can safely say that stress is not getting properly reflected in the interest rates



Source: SBI Research; https://fred.stlouisfed.org/series/FEDFUNDS

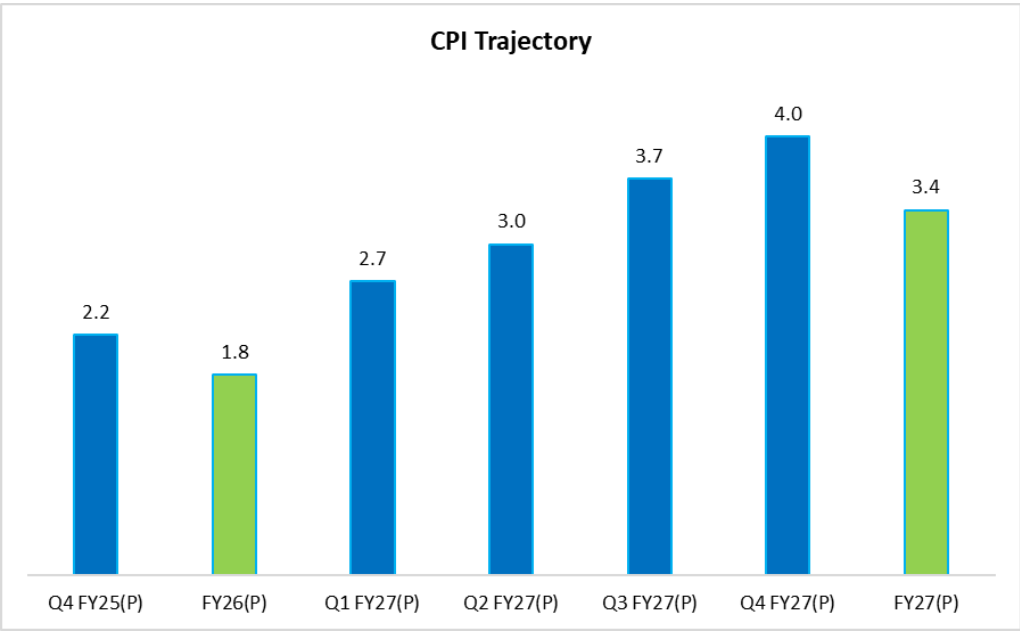
February Policy…..towards a longer status-quo

CPI FY27 numbers could have an upward bias..

- As MOSPI will release CPI data of Jan'26 (on 12 Feb'26) with a new base year of 2024 it is expected that inflation will go up marginally to 2.4-2.5% in March 2025 and FY average stands at 1.8 %

- The December inflation data reveals that for the first time in the history of current series food inflation is in negative territory for consecutive seven months (in Aug'25 it was near to zero)

- **By considering the new weights on unchanged index we have calculated New CPI with old indices and found that overall CPI will increase marginally by 20-30 bps. While, in the months when food inflation is higher, the new CPI will be low by 20-30 bps**



CPI All India (Combined) Weights: Old_2012 Series vs New_2024 Series		
Groups	Old Weight	New Weight
Food and beverages	45.86	36.75
Pan, tobacco and intoxicants	2.38	2.99
Clothing and footwear	6.53	6.38
Housing, water, electricity, gas and other fuels	16.91	17.66
Furnishings, household equipment and routine household maintenance	3.80	4.47
Health	5.89	6.10
Transport, Information and Communication	8.59	12.41
Recreation, sport and culture	1.68	4.86
Education services	4.46	3.33
Personal care, social protection and miscellaneous goods and services	3.89	5.04
Total	100.00	100.00
Source: MOSPI, SBI Research		

Liquidity is in surplus again

- System liquidity turned to Surplus mode on 31st Dec'25 and averaged to Rs 0.6 Lakh cr in Jan'26 Vs Rs 0.8 lakh cr average in Dec'25. The surplus increased in Feb'26

- RBI continues to intervene through VRR auctions

- Even as the RBI has cut repo rate by 125 basis points and has proactively injected / announced Rs 6.6 lakh crore in the current fiscal as part of OMO, yields are refusing to budge down. This is unprecedented as this is the largest OMO in the history of monetary management. Factoring in the CRR injection, term Repo, the buy/sell swap, the currency leakage, total liquidity injection is around Rs 6.6 lakh crore

Net Injection in FY26 Till date

Indicators	Rs lakh crore
Forex Sale (till Nov'25)	-3.8
CRR cut	2.5
Buy sell swap	2.3
OMO	6.6
CIC circulation	-2.6
VRR	1.6
Total	**6.6**

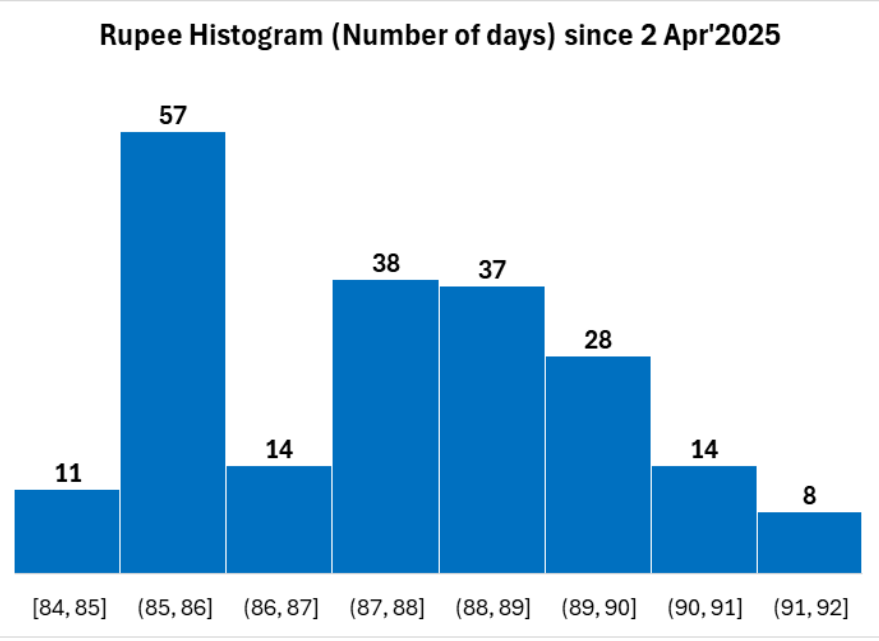
Average outstanding Liquidity Position (Rs lakh crore)

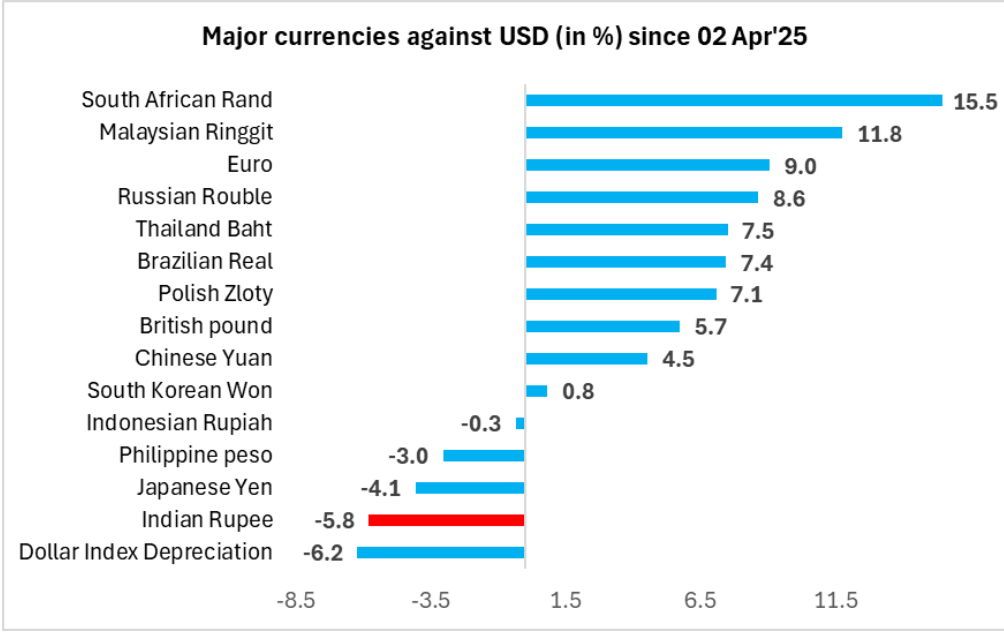
Indicator	FY26 Average	03-Feb-26
Total Repo Outstanding	0.40	1.37
Reverse Repo Total	0.62	0.00
SDF	1.75	3.65
Net LAF (-absorption)	-1.74	-2.17
Government Cash Balance *	2.32	1.15
Net durable liquidity [surplus (-)]**	-4.40	-3.45

Source: SBI Research, RBI,* estimated from previous fortnight core liquidity, **fortnight outstanding

Rupee see-saw between Rs 89-92 per dollar

- Rupee see-sawed between 89-92 per dollar for the past two months
- Since 02 Apr'25, when US announced sweeping tariff hikes across economies, Indian rupee (INR) has depreciated by 5.8% against USD (most amongst the major economies) though it appreciated significantly (more than Re 1) after the India-US trade deal reducing the tariffs to 18%. While INR is the most depreciated currency, it is not the most volatile
- **Enhanced offshore trading in NDF exacerbates the volatility and provides direction in choppy times**

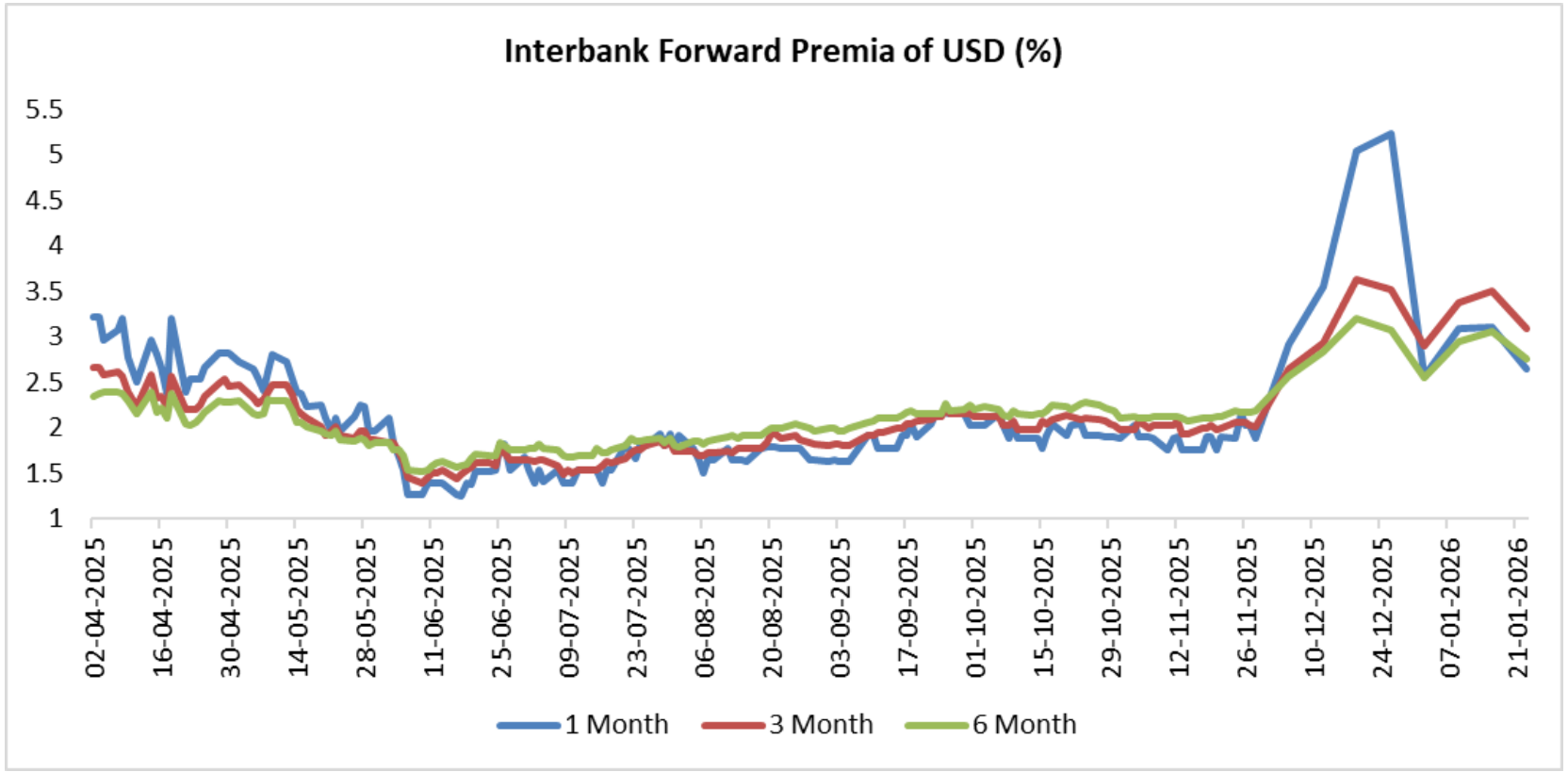




Source: RBI; SBI Research

Forward Premia indicates Rupee may depreciate further

- Interbank forward premia of USD indicate that rupee may depreciate further as it is ~2.5% for 1/3/6 months period from mid Jan'26
- **However, 6-month premia are lower than 3-month premia**



Source: RBI; SBI Research

OMO and Yields

Open Market Operations by the RBI

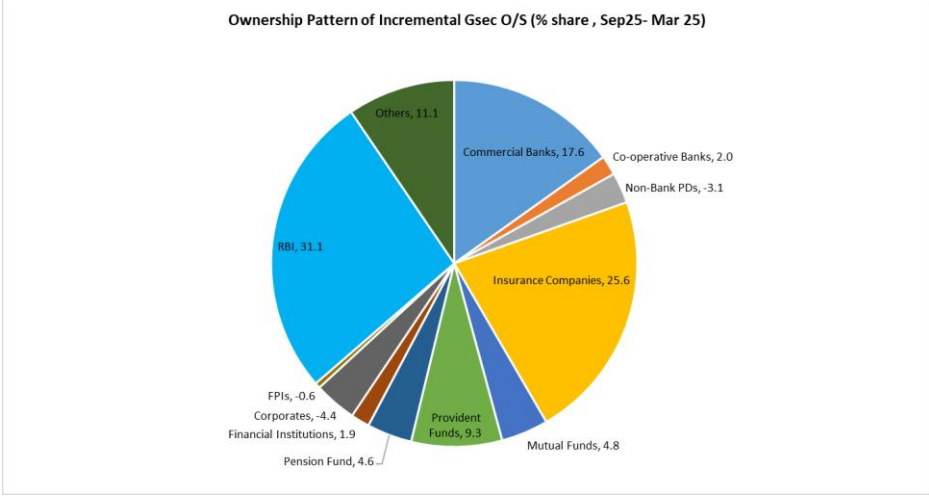
- OMOs net purchase worth Rs 6.16 lakh crore has already been done and given the current global uncertainties, we believe RBI may have to go up to Rs 50,000 crore further OMOs purchase in the remaining part of FY to support durable liquidity quest amidst credit growth

OMO response by broader markets…. led by PSBs

Recent OMO Purchase by RBI							
	Jan 29, 2026	Jany 22, 2026	Jan 12, 2026	Jan 05, 2026	Dec 29, 2025	Dec 18, 2025	Dec 11, 2025
Aggregate Amount (Face value) notified by RBI Rs cr	50000	50000	50000	50000	50000	50000	50000
Total amount offered (Face value) by participants Rs cr	80780	98568	122525	132887	142663	139140	111615
Total amount accepted (Face value) by RBI Rs Cr	50000	50000	50000	50000	50000	50000	50000
Amount offered vs amount Accepted (X TIMES)	**1.62**	**1.97**	**2.45**	**2.66**	**2.85**	**2.78**	**2.23**

RBI ownership of Gsec (%)	
Mar-16	13.5
Mar-17	14.7
Mar-18	11.6
Mar-19	15.3
Mar-20	15.1
Mar-21	16.2
Mar-22	16.6
Mar-23	14.3
Mar-24	12.3
Mar-25	12.8
Jun-25	14.2
Sep-25	13.5

RBI has led the incremental accumulation as FPIs tapered



Time for a targeted OMO?

- RBI's OMOs have inserted the communication gap which is quite visible within the behaviour of Indian banks. In the Indian markets, it is common to find debt market players behaving differently. For example, if one set of players acts pro-cyclically with the RBI monetary policy stance, the other set of players acts counter-cyclically and sometimes both the players act combatively. An analysis of recent month-wise G-sec trading since Jan'25 indicates that out of 13 months only 3 times the activity (buy/sell of G-sec bonds) of one set of banks and another set of banks have been on same side of the market. In the remaining 10 months both have dealt in G-sec market in opposite direction

Activity in G-sec Trading in India (Jan-25 to Jan-26)

Number of Months (Total: 13 months)		One set of Banks	
		Buy	Sell
Another set of Banks	Buy	2	5
	Sell	5	1

Source: SBI Research

- **This compel us to think that is it possible to rethink on how OMOs should be done in current circumstances? Can we have some thought on the paper selection while conduction OMOs? We observe that despite policy rate easing, government bond yields have exhibited persistent hardening in recent periods. We believe that the choice of eligible securities itself may influence the effectiveness of OMO operations, even when the aggregate quantum of liquidity injection is unchanged**

Yields hardening: A game theoretic perspective….

- We begin our analysis by considering a regime in which the RBI has already implemented a policy rate cut and injected liquidity through OMOs, reflecting the current easing stance. Despite abundant liquidity, long-term G-sec yields are observed to harden, which appears counter-intuitive
- To explain this, we model a two-player game between the RBI and the aggregated debt market (banks), where the RBI has two strategies a liquidity-only stance, which injects cash, and a duration-supportive stance, which systematically communicates market stability
- RBI's payoff function is defined as

$$u^R = \alpha T - \beta V$$

Where T= effectiveness of monetary transmission and V represents yield volatility

- Bank's payoff function is then defined as

$$u^B = \mathrm{R} - \gamma D$$

Where R= Expected Returns from holding bonds and D refers to risk perceived by the banks

- Banks respond to the rate cut by choosing between pro-cyclical behavior (buying long bonds) or counter-cyclical behavior (selling long bonds) based on their perceived risk. Here, duration risk serves as an illustrative mechanism showing how the RBI's choice of OMO papers can affect yields

Yields hardening: A game theoretic perspective….

- We construct a normal-form table of payoffs incorporating these strategies, where ***the observed equilibrium under a liquidity-only stance leads banks to behave counter-cyclically, causing yield hardening***. This outcome is a stable Nash equilibrium but sub-optimal because it leaves monetary easing ineffective in transmitting to long-term yields. (L,CC) is Nash equilibrium because banks perceive risk and central bank's deviation is costly due to credibility concerns
- A duration-supportive OMO strategy, by absorbing duration risk and providing credible communication, can shift the equilibrium toward pro-cyclical bank behavior, reducing long-end yields and achieving a first-best outcome. **Thus, (D, PC) is a pareto-superior outcome.** Thus, we believe that there is a need to look at the choice of papers selection for OMOs
- ***The choice of OMO thus acts as a coordination device that determines whether easing transmits easily or gets trapped in a sub-optimal equilibrium***

Strategic Interaction between Banks and Central Bank			
P1: Central Bank	P2: Banks		
	Strategies	Pro-Cyclical	Counter-Cyclical
	Liquidity Injection	(L,PC)	(L,CC)
	Duration Supportive	(D,PC)	(D,CC)
I: Liquidity improves so funding improves but duration risk remain			
PC: Trust easing cycle, buy more bonds			
D: Signals orderly markets, duration risk falls			
CC: Avoids risk, sell bonds			
(L, CC): Nash Equilibrium with the outcome of yields hardening which is suboptimal			
(L,CC): Banks sell bonds despite rate cuts due to risks associated with the choice of paper such as duration risk			
(D, PC): Optimal strategy as banks expectations are in line with RBI			

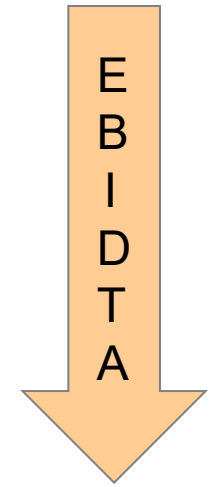
Corporate Earnings

Corporate results - early trends suggest 7% growth in revenue, declining EBIDTA

- Early trends, with around 1109 listed entities, reported 7% revenue growth with modest EBIDTA growth, while profit after tax (PAT) growth of around 4.6% respectively in Q3FY26 as compared to Q3FY25
- Further, Corporate, ex BFSI, represented by around 926 listed entities reported 8% growth in revenue, with EBIDTA and PAT growth at 4.4% and 1.8% in Q3FY26 respectively as compared to 5% and 9% growth in in Q3FY25
- As per early trends, sector such as Steel, IT software reported negative growth in both EBIDTA and PAT, while Cement and Textile witnessed negative PAT
- Sectors such as FMCG, Cement, Consumer Durables, Auto, etc. reported positive revenue growth in Q3FY26 as compared to Q3FY25 with improved consumption supported by tax and GST rationalisation

Corporate result - growth in key parameters (%)			
Sector	**Net Sales**	**EBIDTA**	**PAT**
Refineries	3%	26%	40%
IT - Software	8%	-9%	-5%
Automobile	23%	7%	2%
Auto Ancillaries	15%	13%	16%
Steel	8%	-6%	-16%
Consumer Durables	8%	-4%	13%
Cement	16%	16%	-38%
FMCG	13%	11%	23%
Retail	12%	15%	15%
Textiles	5%	3%	-7%
All Sectors	**7%**	**3%**	**5%**

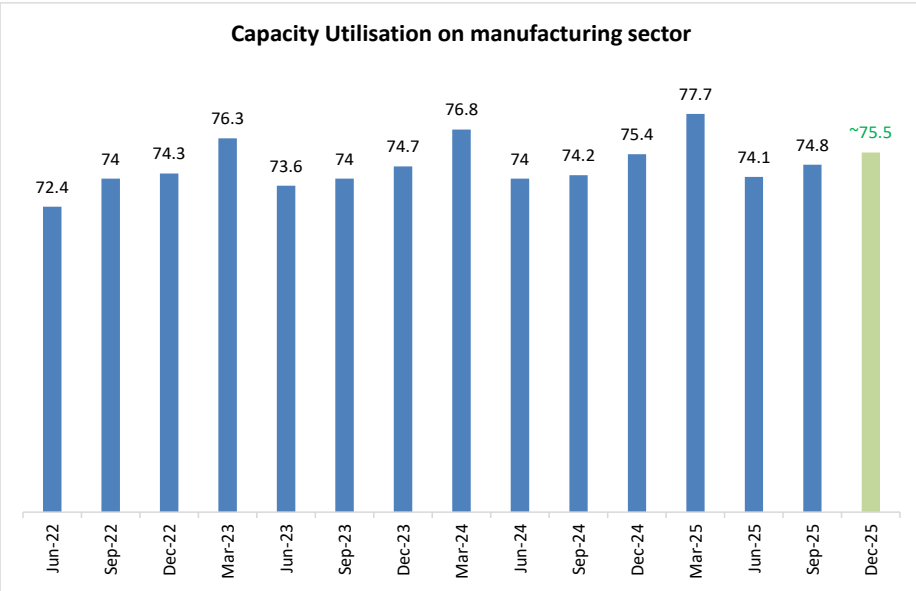
Growth % (YoY)			
Qtr ended	Net Sales	EBIDTA	PAT
Q3FY24	3	26	42
Q4FY24	5	14	3
Q1FY25	6	-1	3
Q2FY25	4	-2	6
Q3FY25	5.4	5	9
Q4FY25	5	6	23
Q1FY26	3	9	14
Q2FY26	7	10	50
Q3FY26	7	3	5
Source: Cline; SBI Research			



Corporate Investment : High on intent, execution needs to catch up….

- With capacity utilization level at above 75%, Corporate investment intent appears to be very high with announcements crossing Rs 50 trillion in first nine months of current financial years with more than 70% coming from the private peers
- Power sector contributes to the maximum (33%) of announcements powered by ambitious announcements in renewable sector. Followed by manufacturing sectors, which contributed around 27% of the new announcements from across industry i.e. Metals, Electronics, Chemicals, Automobiles, Cement, Food, textiles, Defense etc.
- **With both direct and indirect tax rationalization boosting demand, we believe the investment cycle will peddle fast in the coming year**

New Investment Announcements Sectorwise (major sector) 9MFY26		
Sectors	**Number of Projects**	**Amount Rs Crore**
Manufacturing	2,217	13,95,824
Oil & Gas	114	1,24,209
Mining	104	38,949
Power	1,635	17,47,906
Building Infrastructure	7,245	9,40,978
Transport Infrastructure	2,914	7,65,201
Water & Irrigation	1,168	1,70,320
All Sectors	**15,397**	**51,83,387**
Source: Projects Today; SBI Research		



Source: RBI; SBI Research; estimated for Dec-25

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