Nippon India Mutual Fund

Wealth sets you free



Fixed Income

Market Outlook

November 2026

Nippon India Mutual Fund, MF/022/95/1

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Fixed Income Market Update and Outlook

Market Update

High Crude, High Inflation and RBI's Rate Hike

October'26 saw elevated crude prices and UST, strong dollar and rising inflation concerns globally. Back home, the inflation crossed 5% mark and start of rate hike cycle by RBI.

India

Inflation:

September'26 CPI inflation rose to 5.54%y/y (Aug 2026: 4.83%y/y; Consensus: 5.58%y/y). With this, 1H (Apr-Sep) CPI inflation stood at 4.44% y/y. The rise in monthly print (0.69% m/m) was driven mainly by further pick up in food prices (seasonality & lower rains), restaurant, clothing, furnishings and recreation prices. Core inflation (excludes food, fuel, petrol and diesel) rose to 4.33%y/y (Aug 2026: 4.17%y/y; Avg Apr-Sep 2026 ~4% y/y). Core-core inflation (excludes petrol, diesel gold) rose to 3.2% y/y (Aug 2026: 2.9%; Avg Apr-Sep 2026 ~2.64% y/y).

Fiscal:

During Apr-Sep 2026 Fiscal deficit rose to ~50% of BE FY27 (~Previous year). This was primarily due to buoyant expenditure growth (revenue expenditure and capex), while revenue receipts growth was muted. That said, the non-debt capital receipts (Read: Disinvestment) continued to accelerate with the government already achieved 2/3rd of budgetary target. On sources of funding fiscal deficit, YTD small savings and Others' collections continued to remain robust.

Foreign Trade:

In Sep 2026, the trade deficit continued to remain elevated at ~US$30 bn (Lower than Sep 2025: US$33 bn). While exports (Oil and core) have been robust since start of the current fiscal, imports (oil and core imports) have also accelerated. During Apr-Sep 2026, both exports (oil & core) and imports (oil and core) grew double digit on the annual basis. During similar period, the net services exports were modest at ~6%y/y (Previous year similar period: ~17%y/y).

Liquidity:

After accelerating to monthly avg ~ Rs. 7.8 trn (~3% of NDTL) in September, the banking system liquidity moderated to avg ~Rs. 2.5 trn (~1% of NDTL) in October. This was primarily due to RBI's FX intervention, festive season demand and OMO sale auction. Core system liquidity has moderated from peak of ~Rs. 14 trn mid-Sep to ~Rs. 8 trn by mid-Oct.

Foreign Flows:

After three consecutive months of positive flows, September and October witnessed FPI outflows (US$6 bn in Sep and US$2.5 bn in Oct)), driven by global cues (escalating geopolitical uncertainties, elevated U.S. bond yields, higher crude oil prices). YTD FPI outflows in the calendar year 2026 stood at US$24 bn driven primarily by equity (~US$31 bn) as against overall outflow of US$12bn in CY25.

Currency:

After appreciating in August'26, INR moved sideways in September-October on rise in geo-political uncertainty, elevated crude & UST and strong dollar. YTD Calendar year 2026 INR has depreciated by ~6% driven primarily by the war and strong dollar (~4% YTD appreciation).

Fixed Income Market Update- Yield Levels & Spreads:

G-sec yields continued to harden during October on elevated US treasury yields (UST), high crude prices, OMO sales, hawkish outlook in early October policy and rising inflation concerns. 10 yr G-sec yields moved in the range of 7.19-7.48% (Sep range: 6.94%-7.19%). It closed the month higher at 7.41% (Aug 2026: 6.95%; Sep 2026: 7.19%).

Taking cues from G-sec, the SGS (State Govt Securities) yields moved up during the month. The monthly primary supply remained robust (~Rs. 1trn). 10-year SDLs moved in the range of 7.88%-8.12% (Prior month: 7.62%-7.87%). It closed the month higher at 8.07% (Aug 2026: 7.64%; Sep 2026: 7.85%). The average spread between 10 yr SDL over G-sec stood at 65 bps during the month (Aug 2026: 63 bps; Sep 2026: 68 bps).

Similarly, 10-year AAA bond yields moved higher in the range of 7.93%-8.32% (Prior month: 7.75%-7.95%) and closed the month higher at 8.30% (Aug 2026: 7.77%; Sep 2026: 7.94%).



Global

Financial Markets:

After rising sharply in Sep'26, the UST yields remained elevated in Oct'26 on hawkish US Federal Reserve Policy, high crude oil prices and rising inflation concerns. That said, the yields came off from highs in second half of the month on dovish US Fed policy and ahead of US mid-term elections. 10 yr UST moved in the range of 4.94%-5.31% (Sep 2026: 4.77%-5.29%) and close the month lower at 4.94% (Aug 2026: 4.75%; Sep 2026: 5.29%).

In October, DXY appreciated by avg ~2.4% m/m (Sep 2026: -ve 1.1%), on global risk-averse environment. Calendar year till date the DXY has appreciated by ~3.6%.

After appreciating sharply by 8.7% m/m and ~25% m/m in August & September respectively, the crude oil continued to rise further by ~9% m/m in Oct 2026. The average crude oil rose to ~US$124/ barrel (bbl) (Sep 2026: 114/bbl).

Market View

- Inflation may be expected to remain high on super El Nino, monsoon deficit, high crude, commodity and input prices. In Oct'26 MPC meeting, the RBI upwardly revised the FY27 inflation outlook.
- While the US mid-term elections results have led in easing of U.S. Treasury (UST) yields, the UST might expected to remain elevated on higher fiscal deficit, AI related corporate borrowing and inflation concerns.
- High UST, global risk off related foreign outflows and high crude prices may likely to put pressure on Indian Rupee and G-sec. That said, the expectations of resolution of Iran war might have increased post US mid-term election result.
- With cash and credit demand seasonally up in second half of financial year, we expected banking system liquidity may likely to remain ~ neutral.
- That said, we expect the government spending, hereon, likely to pick up thereby, supporting the liquidity.

Common Source:

RBI, CCIL, CSO, FAO, CEIC, NSO, US Federal Reserve, US Treasury department, Commerce Ministry of India, Finance Ministry of India, Mospi, NIMF Internal Research

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