

In This Issue

INDIA

Growth is not India's problemA2

The oil bill that nobody is paying yetA2

Remittances hold the line against a record trade gapA2

Delhi borrows less, and the bond market gets some reliefA3

Deposits finally catch up with loansA3

Goyal goes to Washington looking for an edgeA3

A record month for listings in a falling marketA3

What a quarter-point rise would do to your EMIA3

TCS results will test the IT sell-offA4

Factories speed up as the core sector slowsA4

Capex and subsidies push up the deficitA4

Carmakers post strong September salesA5

UPI holds near its recordA5

Housing sales edge up, led by Mumbai, Bengaluru and HyderabadA5

SEBI rewrites the rules for portfolio managersA5

Exports jump a quarter as gold imports collapseA6

OPINION

Raise rates now, by a littleA8

Tell the truth about fuel pricesA8

The rupee at 96 is not 2013A8

WORLD

The inflation drop that came from a rulebookB1

Why Treasury buybacks can't cap the 10-yearB1

The 10-year hits 5.1%, its highest since 2007B1

The Fed hikes, and its chair skips the dot plotB2

The bond sell-off, explainedB2

The rate hike the Fed can't avoidB2

MARKETS

Sensex	71,910	-2.3%
Nifty 50	22,422	-2.8%
₹ per \$	96.22	+0.1%
Brent	102.25	-2.0%
Gold	4,162	-3.7%

The RBI weighs its first rate rise since 2023

Inflation has climbed for ten months, the rupee is past 96 and oil is above \$100. Growth is strong enough to absorb a rise. The question is whether a rate rise can fix what is pushing prices up.

BY ARNAV GOEL



The Reserve Bank of India headquarters, Mumbai. DESIBOY101 / CC BY 4.0

The Reserve Bank of India's monetary policy committee meets from Monday, and on Wednesday morning it will announce a decision that most of its members would rather not have to take. The repo rate, the rate at which the central bank lends to banks, has been 5.25 per cent since the easing of 2025, and the committee left it there in August. Since then nearly everything it watches has moved the wrong way. Economists are split on whether it will raise the rate by a quarter of a percentage point this week or wait until December. If it moves, it will be the first increase since February 2023.

PRICES ARE RISING MORE BROADLY

Consumer price inflation rose to 4.82 per cent in August from 4.45 per cent in July. It was the tenth month in a row that the annual rate had gone up, and the third in which it was above the RBI's 4 per cent target. Food inflation, which matters most to poorer households, reached 5.95 per cent. Prices rose faster in villages, at 5.23 per cent, than in towns, at 4.31 per cent.

The more worrying number is core inflation, which leaves out food and fuel and is the best guide to pressure the central bank can actually influence. According to a report by BNP Paribas, it rose to 4.3 per cent in August from 3.3 per cent

in March. Part of that came from metal prices. Part came from the cost of moving goods: the price of goods transport services rose by more than 14 per cent over the year, as diesel became dearer. Higher freight costs work their way into the price of almost everything sold in a shop. The RBI's own forecast, as reported in September, is for headline inflation of 5 per cent in the financial year ending in March.

OIL, THE RUPEE AND THE RESERVES

The biggest single pressure comes from outside the country. The Indian crude basket, the mix of oil grades the country's refiners buy, rose to \$117.4 a barrel on September 21, against an average of about \$66 in the last financial year. The confrontation between Washington and Tehran over shipping in the Gulf has kept supply routes in doubt, and India imports most of the oil it uses.

Dearer oil means more dollars leaving the country, and the rupee has paid the price. It ended September at about 96 to the dollar, having been around 95.4 at the end of August. The RBI has been selling dollars to slow the fall. Foreign exchange reserves reached a record of \$785.7 billion in the week to September 4, then dropped by \$14.88 billion to \$765.9 billion in the week to September 18, the

steepest weekly fall in almost two years, according to Bloomberg.

Foreign investors have also been leaving. They sold Indian shares worth ₹23,676 crore through the exchanges in September up to the 19th, according to depository data, after buying in July and August. American interest rates are part of the reason. The Federal Reserve raised its range to 3.75–4.00 per cent on September 18, and the yield on the 10-year US Treasury note rose to about 5.3 per cent last week. The extra return investors earn by holding rupee assets instead of dollar ones has narrowed, and a falling currency makes that gap smaller still.

GROWTH GIVES THE RBI ROOM

If inflation were the whole story, the decision would be easy. What makes it hard is that the economy is doing well. GDP grew 7.8 per cent in the April–June quarter, above the RBI's own estimate of 7 per cent and the 7.1 per cent forecast by economists polled by Reuters. Manufacturing output grew 9.2 per cent, and investment spending rose by 11.9 per cent. Bank lending was growing at about 18 per cent a year in mid-September.

Strong growth cuts both ways. It means a small rise in rates is unlikely to tip the economy into a slowdown, which weakens the argument for waiting. It also means

demand is not cooling on its own, which strengthens the argument for acting. With the repo rate at 5.25 per cent and inflation at 4.82 per cent, the real policy rate, after inflation, is less than half a percentage point. That is thin protection if inflation keeps rising.

THE CASE FOR WAITING

The argument against a rise this week is that most of the pressure comes from things interest rates cannot touch. A higher repo rate will not bring down the price of crude or make up for a monsoon that ended about 13 per cent short of normal. If the talks between the United States and Iran produce a deal, oil could fall quickly and take a large part of the inflation problem with it. Raising rates into a supply shock risks hurting borrowers for little gain on prices.

Those who favour waiting also point out that the government is helping. On September 30 the finance ministry cut its borrowing plan for the year to ₹15.99 lakh crore, from ₹17.2 lakh crore in the budget, which takes some pressure off bond yields. By December the committee will know more about the kharif harvest, the path of oil and whether core inflation has kept climbing.

WHAT WILL DECIDE IT

The weakness in the wait-and-see view is that inflation is no longer confined to food and fuel. Once transport costs, metal prices and a weaker rupee feed into core prices, they tend to stay there, and expectations among households and firms start to shift. Central banks that wait for proof that this has happened usually have to raise rates further later.

Investors will watch three things on Wednesday besides the rate itself: how the six members of the committee vote, how much the RBI raises its inflation forecast, and what the governor, Sanjay Malhotra, says about the rupee. A split vote with a higher forecast would suggest that a December rise is likely even if October passes without one. A unanimous hold with a calm tone on the currency would tell markets the central bank thinks the oil shock will pass. Given the data of the past two months, the second outcome now looks the harder one to justify.

Nifty has its worst September since 2018

Oil, American bond yields and a weak rupee drove foreign investors out. Technology shares took the heaviest losses.

BY ARNAV GOEL

Indian shares ended September with their worst performance for the month in eight years. The Nifty 50 fell from 24,080 at the end of August to 22,620 on September 30, a decline of about 6 per cent. The last time the index lost more in September was in 2018, when it fell 6.42 per cent. The BSE Sensex dropped by a similar margin, from 76,957 to 72,480.

The worst day came on Monday, September 28, after a setback in talks between the United States and Iran sent crude prices higher. The Sensex fell 1,124 points, or 1.52 per cent, to 72,771.72, its lowest close since March 30. The Nifty fell 1.56 per cent to 22,780.25, its lowest since April 2.

DRIVEN FROM OUTSIDE

Very little of the sell-off had to do with Indian companies. Foreign portfolio investors, who had been buying in July and August, sold ₹23,676 crore of shares through the exchanges in the first 19 days of September. Three things pushed them out at once.

The first was oil. The Indian crude basket rose above \$117 a barrel in the third week of September. India imports most of its crude, so expensive oil means a wider trade deficit, a weaker currency and higher costs for many companies.

The second was American interest rates. The Federal Reserve raised rates on September 18, and the yield on the 10-year US Treasury note climbed to about 5.3 per cent by the end of the month, its highest since 2007. When safe American government bonds pay more than 5 per cent, emerging-market shares have to offer much more to keep foreign money.

The third was the rupee, which slipped from about 95.4 to the dollar to about 96 over the month. For a dollar-based investor, a weaker rupee eats into returns even when share prices hold steady, and the fear of further falls encourages selling before they happen.

TECHNOLOGY TOOK THE BRUNT

The damage was uneven. The Nifty IT index fell about 11 per cent in September, roughly twice the fall in the wider market. Tata Consultancy Services lost about 14.5 per cent and Infosys about 12 per cent. The Nifty Bank index fell about 6 per cent, with ICICI Bank and State Bank of India each down around 9 per cent. Reliance Industries fell about 7 per cent. Drug makers held up best: the Nifty Pharma index slipped less than 3 per cent, and HDFC Bank ended the month almost exactly where it began.

Continued

The weakest monsoon in a decade reaches the kitchen

The rains ended 13 per cent short of normal. Food prices were already rising, and El Niño has not yet peaked.

BY ARNAV GOEL

India's south-west monsoon formally ended on September 30 as the weakest in more than ten years. The country received 759 millimetres of rain over the four-month season against a long-period average of 868.6 millimetres, a shortfall of about 13 per cent, according to the India Meteorological Department. It was the poorest monsoon since 2015.

The cause was El Niño, the warming of the eastern Pacific that tends to weaken the Indian monsoon. It strengthened through the season and is expected to peak in November before fading from March. The weather office expects below-normal rainfall in most of the country from October to December, apart from parts of the north-west and the southern peninsula.

A SEASON OF TWO HALVES

The damage to planting was smaller than the final rainfall figure suggests. The monsoon started weakly, and by early July sowing of kharif crops such as rice, pulses and oilseeds was about 20 per cent behind the previous year. July brought a run of active low-pressure systems, and by the end of the month the gap had narrowed to about 3 per cent. The rains then faded again in August and September, when crops already in the ground needed water to fill their grain.

That timing matters. A crop sown late but then starved of rain at the

flowering stage can produce lower yields even if the area planted looks normal. The first government estimates of kharif output, due in the coming weeks, will show how much of the shortfall has turned into lost harvest.

FOOD PRICES WERE ALREADY RISING

The monsoon arrives on top of food inflation that was already climbing. Food prices rose 5.95 per cent in the year to August, up from 5.52 per cent in July. Inflation in rural areas, at 5.23 per cent, was well above the 4.31 per cent recorded in towns. That gap reflects the larger share of food in rural household spending, and it means the burden of a poor harvest falls hardest on the people least able to bear it.

Two further pressures make this year different from earlier droughts. Fuel is dearer, because crude oil has risen above \$100 a barrel, so moving food from farms to cities costs more. And the rupee has weakened to about 96 to the dollar, which raises the price of imported edible oils and pulses that India buys to fill gaps in domestic supply.

WHAT THE GOVERNMENT CAN DO

Governments in India have a well-worn set of tools for poor monsoons: releasing grain from public stocks, cutting import duties on edible oils and pulses, limiting exports of crops such as rice and onions,

and capping the stocks traders can hold. Each has costs. Export curbs hurt farmers who would have earned more abroad, and stock limits can discourage the private storage that smooths prices over the year.

The rabi, or winter, crop offers some relief. Reservoirs filled partly during the strong July, and wheat depends more on irrigation than kharif crops do. A dry October to December, as the weather office expects, would however leave less moisture in the soil for winter planting.

WHY IT MATTERS FOR INTEREST RATES

Food price shocks have traditionally been something the Reserve Bank looks through, because higher interest rates do not make it rain. That argument is weaker this year. Core inflation, which excludes food and fuel, has also been rising, and households tend to judge future inflation by what they pay for vegetables and milk. If expensive food lasts into the winter and pushes up wage demands, the RBI will find it harder to treat the monsoon as a one-off. That is one reason the weak rains feature so heavily in the arguments ahead of this week's policy decision.

India

Nifty has its worst September since 2018

Continued

The fall in technology stocks is a reminder that India's large software companies earn most of their money in America and Europe. Investors are worried that higher interest rates there will make clients cut spending on technology

projects. The first real test comes on Thursday, when TCS reports its results for the July–September quarter.

WHAT COULD TURN IT

The case for a recovery rests on the domestic economy, which is still growing faster than almost any other large one. The economy expanded 7.8 per cent in the April–June quarter, and company fundraising

remains strong: September was one of the busiest months on record for new share listings. A deal between Washington and Tehran that brought oil prices down would remove the largest single weight on the market.

The case for caution is that none of the three external pressures has eased. American yields are still rising, oil remains well above last year's levels and the rupee has not found a floor. The Reserve Bank's decision on Wednesday adds a

fourth variable. A rate rise would help the rupee but hurt rate-sensitive sectors such as banks, property and cars. Until oil or American yields turn, foreign investors have little reason to come back in size.

India in brief

Gold slips abroad. International gold prices fell about 6.6 per cent in September, from about \$4,480 an ounce to about \$4,190, as rising American bond yields made non-yielding assets less attractive. A weaker rupee softened the fall for Indian buyers.

Mahindra sales up 15%. Mahindra & Mahindra sold 1,14,874 vehicles in September, including exports, 15 per cent more than a year earlier. Its sport-utility vehicle sales rose 14 per cent to 64,092.

GST collections rise. Gross goods and services tax collections rose 14.8 per cent in August to ₹1,99,853 crore. Revenue from imports jumped 29 per cent to ₹62,604 crore, while domestic revenue grew 9 per cent. Net collections after refunds rose 8.3 per cent to ₹1.68 lakh crore. September figures are due this week.

TCS opens results season. Tata Consultancy Services will report its July–September results on Thursday, October 8, and consider a second interim dividend, with October 14 as the record date. It reported a net profit of ₹13,349 crore in the April–June quarter.

Money supply accelerates. Broad money, M3, grew 16.6 per cent in the year to September 15, up from 14.2 per cent a month earlier, Reserve Bank data showed.

Dry months ahead. The India Meteorological Department expects below-normal rainfall in most of the country from October to December. El Niño conditions are expected to peak in November.

Green bonds. The government's borrowing plan for October to March includes ₹15,000 crore of sovereign green bonds, whose proceeds go to projects such as renewable energy and clean transport.

Cooking gas losses. State oil companies were losing about ₹300 on every cylinder of cooking gas sold in September, on top of losses on petrol and diesel.

Forex reserves. India's foreign exchange reserves stood at \$765.9 billion in the week to September 18, down from a record \$785.7 billion two weeks earlier.

Growth is not India's problem

The economy grew 7.8 per cent in the April–June quarter, beating forecasts. Factories and investment led the way.

BY ARNAV GOEL



The Bandra Kurla Complex business district, Mumbai. N. VIVEKANANTHAMOORTHY / CC BY 4.0

Whatever else is troubling Indian policymakers, a lack of growth is not on the list. Real GDP expanded 7.8 per cent in the April–June quarter of 2026–27 from a year earlier, the statistics office reported at the end of August. That was well above the 7 per cent the Reserve Bank had projected for the quarter and the 7.1 per cent median forecast of 58 economists surveyed by Reuters.

In nominal terms, before adjusting for inflation, output grew 10.3 per cent to ₹88.27 lakh crore, from about ₹80 lakh crore a year earlier.

FACTORIES AND INVESTMENT

Manufacturing was the standout. Gross value added in the sector rose 9.2 per cent, up from 7.9 per cent in the previous quarter. Services also grew strongly. On the spending side, gross fixed capital formation, which measures what companies and the government spend on new buildings, machinery and infrastructure, grew 11.9 per cent. Investment growing faster than the economy as a whole is the pattern economists have wanted to see for a decade, because it raises the economy's capacity to grow without overheating later.

The figures fit other evidence of strong activity. Bank credit was growing at about 18 per cent a year in mid-September. Gross collections of the goods and services tax rose 14.8 per cent in August to almost ₹2 lakh crore. Carmakers continued to report rising sales in September, with Mahindra & Mahindra's total sales up 15 per cent.

A STRONG QUARTER AT THE WRONG TIME

The April–June quarter now looks like a high point before conditions turned harder. Oil prices rose

sharply over the summer as tensions with Iran disrupted supply routes. American interest rates have risen, pulling foreign money out of Indian shares. The monsoon finished about 13 per cent short of normal, which will weigh on farm incomes and rural spending in the months ahead.

The gap between real and nominal growth also deserves attention. A difference of about 2.5 percentage points means the deflator, the broad measure of prices across the economy, was rising modestly in the first quarter. With consumer inflation since climbing to 4.82 per

cent in August, that gap is likely to widen in the second quarter. Faster nominal growth flatters tax revenues and government debt ratios, but it is a sign of rising prices, not extra output.

WHAT IT MEANS FOR POLICY

Strong growth changes the balance of the Reserve Bank's decision this week. A central bank facing rising inflation and a weak economy has to choose which problem to fight. A central bank facing rising inflation and a strong economy has an easier choice, because a modest rise in interest rates is unlikely to

cause much damage. That is why several economists now argue that the RBI can afford to raise rates in October, even if the main sources of inflation, oil and food, lie beyond its control.

The counter-argument is that growth will slow on its own as the oil shock and the poor monsoon take effect, and that tightening now would add to the slowdown just as it arrives. The data for the July–September quarter, due at the end of November, will show which view was right. By then the RBI will already have made at least one decision.



An IndianOil aviation fuel tanker at Indira Gandhi International Airport, New Delhi. SNAPMEUP / CC BY-SA 4.0

The oil bill that nobody is paying yet

State refiners are losing hundreds of crores a day selling fuel below cost. Someone will eventually have to pay.

BY ARNAV GOEL

India's state-owned oil marketing companies are selling petrol, diesel and cooking gas at a loss, and the losses are large. With retail prices held steady while crude climbed, the companies were losing an estimated ₹530 crore a day in September, according to figures reported by Business Today. Their marketing margins were estimated at minus ₹8 a litre on petrol and minus ₹9 a litre on diesel. On cooking gas, the under-recovery, the gap between cost and selling price, was about ₹300 a cylinder.

The government has since allowed a price increase, but it has not closed the gap. Even after the rise, the companies are losing about ₹600 crore a day, the government has said, because crude has kept climbing faster than pump prices.

HOW THE GAP OPENED

The cause is the price of crude. The Indian basket rose to \$117.4 a barrel on September 21, compared with an average of about \$66 in the 2025–26 financial year. The escalation of the conflict in West Asia and disruptions to shipping

routes through the Gulf have driven most of the increase. A weaker rupee makes it worse, because oil is priced in dollars and every fall in the currency raises the rupee cost of each barrel.

This is not the first time this year that fuel prices have been held down. A 76-day freeze on pump prices was lifted on May 15, after which prices rose four times in two weeks. In Delhi, petrol went from ₹99.51 to ₹102.12 a litre in that period, and diesel from ₹92.49 to ₹95.20.

THREE WAYS TO PAY

Losses of this size cannot be absorbed for long, and there are only three places they can go. The first is the companies' balance sheets. Indian Oil, Bharat Petroleum and Hindustan Petroleum can borrow to cover the gap for a while, but their shareholders, including the government, bear the cost, and the borrowing has to be repaid.

The second is the budget. The government can cut excise duty on fuel, as it has done in past oil shocks, or compensate the companies directly. That shifts the cost to

taxpayers and widens the fiscal deficit, at a time when the government has just reduced its borrowing plan for the year.

The third is consumers, through higher pump prices. That is the most direct route, but it pushes up inflation immediately and with a lag through transport costs. Goods transport inflation was already above 14 per cent in August. Each rise in diesel prices feeds into the cost of moving food, building materials and manufactured goods.

THE LINK TO INTEREST RATES

For the Reserve Bank, the choice matters as much as the size of the bill. If the government holds pump prices down, measured inflation will look lower than the underlying pressure, and the fiscal cost will rise instead. If prices are raised, inflation will jump in the short term and the case for higher interest rates becomes harder to resist. Either way, the money has to come from somewhere, and the longer oil stays above \$100, the bigger the eventual bill.



Indian 100- and 2,000-rupee banknotes. MONITO - MONEY TRANSFER COMPARISON / CC BY 2.0

Remittances hold the line against a record trade gap

Money sent home by Indians abroad kept the current-account deficit small in the first quarter. Oil is testing how long that can last.

BY ARNAV GOEL

India's current-account deficit, the broadest measure of its transactions with the rest of the world, widened to \$4.2 billion in the April–June quarter, or 0.5 per cent of GDP, according to the Reserve Bank. A year earlier it was \$3.4 billion, or 0.4 per cent. That looks like a modest change. The components underneath it moved a great deal more.

A MUCH BIGGER TRADE DEFICIT

The gap between what India imports and exports in goods widened to \$86.1 billion in the quarter, from \$68.9 billion a year earlier. Dearer oil explains much of the increase, along with strong domestic demand for imported machinery and electronics as investment picked up.

Two other flows covered most of the difference. Net receipts from services, led by software and business services, rose to \$51.6 billion from \$47.9 billion. Personal transfers, mostly remittances sent home by Indians working abroad, jumped to \$42.9 billion from \$33.2 billion, an increase of almost 30 per cent. Net payments of investment income to

foreign investors fell to \$10.5 billion from \$13.3 billion.

RESERVES WERE DRAWN DOWN

Even with those offsets, India's foreign exchange reserves fell by \$8.1 billion on a balance-of-payments basis in the quarter, compared with an increase of \$4.5 billion a year earlier. Capital inflows did not cover the deficit, so the central bank used its own dollars.

The pattern continued after the quarter ended. Weekly figures show reserves reaching a record \$785.7 billion in the week to September 4, then falling by \$4.92 billion the following week and by \$14.88 billion in the week to September 18, to \$765.9 billion, as the RBI sold dollars to support the rupee. The currency nonetheless weakened to about 96 to the dollar by the end of September.

WHY THE SECOND QUARTER WILL LOOK WORSE

The April–June figures cover a period before the sharpest rise in oil prices. The Indian crude basket climbed to \$117.4 a barrel in late September. Each sustained \$10 rise in the oil price adds several

billion dollars a quarter to the import bill, and the July–September figures will carry the full weight of the increase. Foreign investors also sold Indian shares in September after two months of buying, so the capital account is unlikely to help.

Remittances are the most stable line in the accounts, but even they carry a risk. A large share comes from Indians working in the Gulf, the region at the centre of the current conflict. A prolonged disruption there could slow the money they send home just when India needs it most.

NOT A CRISIS, BUT LESS ROOM

None of this amounts to a balance-of-payments crisis. Reserves of more than \$760 billion cover many months of imports, and a deficit of 0.5 per cent of GDP is small by India's historical standards. In 2012–13, the year before the taper tantrum, it exceeded 4 per cent. But the cushion is being used, and each week of support for the rupee leaves the RBI with a little less. That is one reason the central bank's decision on interest rates this week is also, in part, a decision about the currency.



The Reserve Bank of India, the country's central bank. ANURAG VIJAY 03 / CC BY-SA 4.0

Delhi borrows less, and the bond market gets some relief

The Centre will raise ₹7.86 lakh crore from October to March and has cut its full-year borrowing by ₹1.2 lakh crore.

BY ARNAV GOEL

The central government will borrow ₹7.86 lakh crore through dated securities in the second half of the financial year, from October to March, the finance ministry announced on September 30 after consulting the Reserve Bank. The total includes ₹15,000 crore of sovereign green bonds. For the full year, the government now expects to raise ₹15,99,506 crore through dated securities, against ₹17.2 lakh crore planned in the February budget, a reduction of about ₹1.2 lakh crore.

WHERE THE CUT COMES FROM

Most of the reduction reflects a debt-management decision, not lower spending. The government has switched ₹1,14,286 crore of securities due to mature this year into longer-dated bonds, so it does not need to raise fresh money to repay them. Switches like this smooth out the government's repayment schedule and reduce the amount of new paper the market has to absorb in a single year.

The borrowing will be carried out in 23 weekly auctions, with

maturities ranging from three to 50 years. The 10-year segment, the benchmark for the bond market, accounts for the largest share at 26.3 per cent, followed by 15-year securities at 17.6 per cent and five-year securities at 12.1 per cent.

TIMING THAT HELPS

The announcement could hardly have come at a better moment for the bond market. Government bond yields around the world have risen sharply, with the yield on the 10-year US Treasury note above 5.3 per cent at the end of September. Indian inflation has risen for ten months in a row, and the Reserve Bank may raise interest rates this week. A smaller supply of government bonds offsets some of that pressure, because fewer bonds have to find buyers.

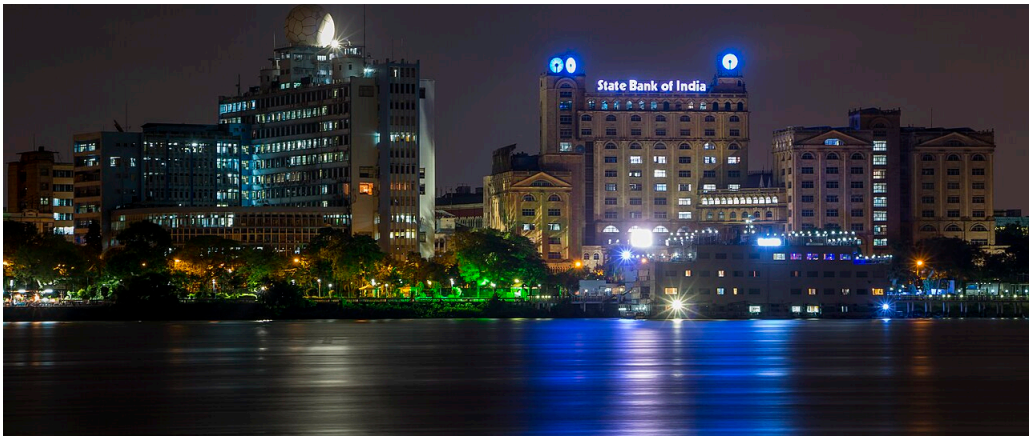
It also matters for the cost of credit across the economy. Government bond yields set the floor for what companies, banks and state governments pay to borrow. Lower central government issuance leaves more room for these borrowers, many of whom have

been raising money to fund the investment that drove growth of 7.8 per cent in the April–June quarter.

THE FISCAL TEST AHEAD

The cut does not mean the government's finances are free of risk. The largest threat is oil. State refiners are losing hundreds of crores a day selling fuel below cost, and if the government chooses to cut excise duty or compensate them directly, the money will have to come from somewhere. A weaker monsoon could also increase spending on food subsidies and rural support. Either could force the government to raise more later in the year through short-term treasury bills, which the second-half calendar does not cover.

For now, the message to investors is that the government is not adding to the pressure on interest rates. With the RBI and the bond market both bracing for higher inflation, that restraint is worth something.



The New Secretariat, left, and State Bank of India buildings at night, seen across the Hooghly River. DEEPANJANGHOSH / CC BY-SA 4.0

Deposits finally catch up with loans

For two years banks lent faster than they could raise deposits. In September the gap almost closed.

BY ARNAV GOEL

For most of the past two years, the biggest worry about Indian banks was not bad loans but the source of the money they were lending. Credit grew faster than deposits, and banks filled the gap by issuing certificates of deposit, borrowing and running down their holdings of government bonds. September brought a change.

Credit at scheduled commercial banks grew 18.1 per cent in the year to September 15, according to Reserve Bank data, while deposits grew 17.3 per cent. The gap between the two narrowed to 0.8 percentage points, from 3.6 points in August. Deposit growth in August was the fastest in 15 years, according to reports of the data.

WHY DEPOSITS PICKED UP

Several forces are probably at work. Banks short of funds have every reason to compete harder for deposits. A falling stock market makes the certainty of a fixed deposit more appealing next to equity funds. And faster growth in nominal incomes, with the econo-

my expanding 10.3 per cent in money terms in the April–June quarter, means more money flowing into accounts in the first place.

The broad money supply, M3, which includes bank deposits, grew 16.6 per cent in the year to September 15, up from 14.2 per cent a month earlier.

THE CREDIT-DEPOSIT RATIO

The measure regulators watch most closely is the credit-deposit ratio, the share of deposits that banks have lent out. It rose from 68.6 per cent in September 2021 to 82.2 per cent in March 2026. A higher ratio leaves banks with less room to absorb deposit withdrawals and makes them more dependent on expensive wholesale funding. The Reserve Bank has said the banking system remains sound despite the rise, but the ratio has become one of the main things analysts watch.

Faster deposit growth will not reverse the ratio quickly, but it stops it rising, which is what supervisors wanted to see.

WHAT A RATE RISE WOULD MEAN

If the Reserve Bank raises its repo rate this week, banks will face a familiar trade-off. Loans linked to external benchmarks, which now make up a large part of home and small-business lending, will reprice upwards within weeks. Deposit rates usually follow more slowly. That tends to widen banks' net interest margins in the short term, which is good for profits, before deposit costs catch up.

The bigger risk is to the pace of lending. Credit growth of 18 to 19 per cent, against nominal GDP growth of about 10 per cent, means debt is rising faster than incomes across the economy. Some of that reflects healthy investment. Some of it, particularly in unsecured personal loans, is the kind of lending that goes wrong when interest rates rise and growth slows. Bank shares fell about 6 per cent in September, as investors began to price in that possibility.



Jawaharlal Nehru Port (Nhava Sheva), India's largest container port. PRAMOD KARALE / CC BY-SA 4.0

Piyush Goyal, the commerce minister, is in the United States this week for talks that both governments hope will turn a framework agreement into a full trade deal. His meetings run from September 29 to October 5. India's position, which he set out in early September, is simple: it will sign once Washington offers tariff terms that give Indian exporters an advantage over their manufacturing competitors.

HOW FAR THINGS HAVE COME

A year ago, relations over trade were at a low. American tariffs on Indian goods reached an effective

peak of 50 per cent, including punitive duties. On February 2, President Donald Trump announced that the two countries had reached an understanding on a trade framework, and the United States cut its effective tariff on Indian goods to 18 per cent. The joint statement that followed set out the outline of a broader agreement, with commitments on both sides.

Turning that framework into a signed deal has proved harder. Since February, some tariff surcharges have expired and the United States has imposed new du-

ties under Section 301 of its trade law, aimed at labour practices. The arithmetic for exporters has become more complicated, not less.

WHY THE MARGIN MATTERS

India's demand for a preferential rate reflects how trade really works for products such as garments, footwear, furniture and electronics assembly. American buyers choose between suppliers in India, Vietnam, Thailand, Bangladesh and other countries on price, often by small margins. A tariff two or three percentage points lower than a rival's can decide where an order

goes. A tariff equal to everyone else's offers no advantage at all.

That is why Mr Goyal has framed the talks around competitors, not around the level of the tariff alone. An 18 per cent rate is a large improvement on 50 per cent, but if Vietnam or Bangladesh can secure a lower rate, Indian factories will still lose business to them.

WHAT INDIA HAS TO OFFER

The United States wants India to lower its own tariffs, buy more American energy, aircraft and defence equipment, and open markets that have long been protected, especially in agriculture and dairy.

Agriculture is the hardest area for any Indian government, because it employs a large share of the workforce and farmers are a powerful political force. Buying more American oil and gas is easier, and it has extra appeal this year, when supply from the Gulf has been disrupted.

WHY IT MATTERS NOW

The talks come at a delicate moment for India's external accounts. The trade deficit in goods widened to \$86.1 billion in the April–June quarter, and higher oil prices will push it wider still. The rupee has fallen to about 96 to the dollar, and

foreign investors sold Indian shares in September. A trade deal that improved access to India's largest export market would help on every count: more export earnings, more confidence in the rupee and a stronger case for foreign investment in Indian manufacturing.

A deal is not certain this week. Trade agreements usually take longer than ministerial visits suggest, and the final details tend to be settled by leaders, not negotiators. But the outcome of Mr Goyal's trip will show whether the February framework is moving towards a signed agreement or has stalled.

A record month for listings in a falling market

Companies raised close to ₹39,000 crore through IPOs in September, even as foreign investors sold. The pipeline is longer still.

BY ARNAV GOEL

September was a bad month for Indian shares and a remarkable one for companies selling new ones. While the Nifty 50 fell about 6 per cent, companies raised close to ₹39,000 crore through initial public offerings, by the counts of several market trackers. One tally of about 30 mainboard offerings made it the busiest month for Indian IPOs since 1996.

For the July–September quarter as a whole, listing proceeds crossed \$9 billion, about ₹86,500 crore, the highest ever for that period, according to figures reported by Business Today. That took total IPO fundraising in 2026 to more than \$13 billion, or about ₹1.24 lakh crore.

WHY THE TWO MARKETS DIVERGED

The contrast between falling share prices and booming new issues is less strange than it looks. Most IPOs are planned months in advance, and companies and their bankers are reluctant to abandon a deal once regulatory approval is in hand and investor meetings have begun. Many of the issues that listed in September were priced in a strong market over the summer.

Domestic investors have also become a much larger force. Indian mutual funds, insurers and retail investors now absorb a big share of new issues, so a deal no longer depends on foreign demand alone. That allowed companies to raise money even as foreign portfolio investors sold ₹23,676 crore of shares through the exchanges in the first 19 days of the month.

SUPPLY HAS A COST

A heavy calendar of new issues is not free for the rest of the market. Every rupee that goes into an IPO is a rupee not spent buying shares already listed. When the supply of new paper rises at the same time as foreign investors are selling, the pressure on existing share prices increases. Many IPOs also involve existing owners, such as founders and private-equity funds, selling their stakes, so the money goes to the sellers rather than into new investment by the company.

A LONG QUEUE

The pipeline is long. Around 121 companies hold valid approvals to raise about ₹2.34 lakh crore, according to figures published by Kotak Neo. Reports have



Indian banknotes. MONITO - MONEY TRANSFER COMPARISON / CC BY 2.0

What a quarter-point rise would do to your EMI

Most floating-rate home loans now track the repo rate directly. Here is what a rise would cost, and the choice borrowers have.

BY ARNAV GOEL

If the Reserve Bank raises its repo rate this week, millions of borrowers will feel it within months, not years. That is a change from a decade ago, when banks set loan rates against their own internal benchmarks and passed on changes in policy rates slowly and partially.

WHY THE LINK IS NOW DIRECT

Since October 2019, the RBI has required banks to link new floating-rate loans to individuals and small businesses to an external benchmark. Most banks chose the repo rate. A loan priced at the repo rate plus a fixed spread moves automatically when the repo rate moves, and the rules require the

rate to be reset at least once every three months. A rise announced on Wednesday would therefore reach most such loans by the next reset date.

Older loans linked to a bank's marginal cost of funds, and fixed-rate loans, behave differently. Fixed-rate borrowers are unaffected for as long as the fixed period lasts. Loans linked to internal benchmarks move more slowly and depend on each bank's own funding costs.

THE ARITHMETIC

The figures below are illustrative, assuming a home loan priced at 8 per cent before the change. Actual rates vary by lender and borrower.

A ₹50 lakh loan over 20 years at 8 per cent has a monthly instalment of about ₹41,822. A quarter-point rise to 8.25 per cent takes it to about ₹42,603, an extra ₹781 a month. A half-point rise, to 8.5 per cent, would take it to ₹43,391, or ₹1,569 more.

For a ₹30 lakh loan over 15 years, the instalment rises from about ₹28,670 to ₹29,104 after a quarter-point increase, an extra ₹434 a month. For a ₹10 lakh loan over five years, the kind used for a car, the increase is about ₹120 a month.

The longer the loan, the bigger the effect, because more of each

payment goes on interest in the early years.

EMI OR TENURE

Many banks do not raise the instalment at all when rates go up. They keep the EMI the same and extend the length of the loan instead. That is less painful each month and much more expensive over the life of the loan. On the ₹50 lakh, 20-year example, keeping the instalment at ₹41,822 after a quarter-point rise would add about a year to the loan.

Rules issued by the RBI in 2023 require banks to tell borrowers how a rate change affects their loan and to offer a choice between a higher instalment, a longer

Continued

Continued

A record month for listings in a falling market

Continued

identified Reliance's Jio and the renewable-energy company Avaada among the large issuers that could come to the market next.	How many of them proceed will depend on the next few weeks. If oil prices stay above \$100, the rupee keeps weakening and the	Reserve Bank raises interest rates, investors may demand lower prices, and some companies will choose to wait. A recovery in the	secondary market would bring them back quickly. Either way, the September figures show that India's capital markets can now raise very	large sums of money from domestic savers, which is a structural change from a decade ago, when a	foreign sell-off would usually have shut the IPO market altogether.
---	---	--	--	--	---

What a quarter-point rise would do to your EMI

Continued

tenure or a combination of the two, as well as the option to switch to a fixed rate. Borrowers who can afford a slightly higher EMI usually save a great deal by choosing it, be-	cause the extra payment reduces the outstanding principal faster.	to raise fixed-deposit rates after policy rises, though with a lag and not always by the full amount. Deposit growth has already picked up sharply this year as banks compete for funds. Savers considering a	long fixed deposit may find that waiting a few weeks after a rate rise gets them a better rate, while those who need certainty may prefer to lock in part of their money now.	None of this is a reason to panic. A quarter-point rise adds less than 2 per cent to a typical home-loan instalment. But borrowers should check which benchmark their loan follows, when it resets and what	their bank will do by default, before the decision on Wednesday makes the question real.
---	---	---	---	---	--



The Bangalore skyline. SAAD FARUQUE / CC BY-SA 2.0

TCS results will test the IT sell-off

Software shares fell twice as fast as the market in September. Thursday's numbers will show whether the fear is justified.

BY ARNAV GOEL

Indian software companies had a bruising September. The Nifty IT index fell about 11 per cent over the month, roughly double the fall in the Nifty 50. Tata Consultancy Services, the largest of them, lost about 14.5 per cent of its market value, and Infosys about 12 per cent. On Thursday, October 8, TCS reports its results for the July–September quarter, the first of the big companies to do so. Its board will also consider a second interim dividend, with October 14 set as the record date.	American interest rates rise, those clients tend to cut or delay discretionary technology projects first: new systems, consulting work and upgrades that can wait. The Federal Reserve raised rates on September 18, and the yield on the 10-year US Treasury note rose to about 5.3 per cent by the end of the month. Higher borrowing costs for American companies, combined with uncertainty about oil and the economy, are exactly the conditions in which technology budgets get squeezed.	rate effects, grew at all from the previous quarter. Slow growth has been the industry's main problem for some time, as clients have spent more cautiously and redirected budgets towards artificial intelligence. A weaker rupee offers some help. Because these companies earn in dollars and pay most of their staff in rupees, a fall in the currency lifts their margins when earnings are converted. The rupee weakened to about 96 to the dollar in September. But currency gains do not make up for weak demand, and investors tend to look past them.	management says about client spending in the United States, especially in banking and retail. The third is hiring: a fall in headcount would suggest the company expects slower growth. The fourth is any comment on how artificial intelligence is changing the kind of work clients buy, and the prices they pay for it. HCL Technologies and Infosys report later in October, and both are also expected to propose interim dividends. Together the three will set the tone for a sector that employs millions of people and accounts for a large share of India's services exports. A steady set of numbers from TCS could ease some of the fear priced into the shares. A weak one would confirm that the September sell-off was a warning, not an overreaction.
WHY INVESTORS SOLD The sell-off had little to do with anything TCS or its peers announced. It reflected worry about their customers. India's large IT companies earn most of their revenue from banks, retailers, manufacturers and insurers in the United States and Europe. When	WHERE THE QUARTER STARTS FROM TCS reported a net profit of ₹13,349 crore in the April–June quarter, lower than in the previous quarter. Investors will look first at whether revenue in constant currency, which strips out exchange-	WHAT TO WATCH Four things will matter more than the headline profit. The first is the value of new contracts signed, which shows how much work is in the pipeline. The second is what	

Factories speed up as the core sector slows

Business surveys point to the strongest manufacturing growth in seven months. Output in key industries tells a more mixed story.

BY ARNAV GOEL

Two sets of figures released in the past fortnight give different readings of Indian industry. One, based on surveys of purchasing managers, shows factories gathering pace. The other, which measures physical output in eight core industries, shows growth slowing to its weakest in four months. Both are probably right, because they measure different things.	The detail shows an economy building things and using more power. Cement production rose 12.5 per cent and electricity output 11.6 per cent. Iron ore output rose 5.5 per cent and steel 3.4 per cent. The weak spots were in energy and agriculture inputs: coal output fell 3.8 per cent, crude oil 3.6 per cent and natural gas 4.9 per cent, while fertiliser production dropped 12.4 per cent. For April to August as a whole, core output grew 4.3 per cent, compared with 2.4 per cent in the same period last year.
THE SURVEYS The flash HSBC India manufacturing purchasing managers' index, published by S&P Global, rose to 55.7 in September from 52.8 in August. Any reading above 50 means activity is expanding, and September's was the strongest improvement in seven months. New orders grew faster, and sales growth hit a seven-month high. The composite index, which combines manufacturing and services, rose to 56.5. The services index rose to 55.8 from 54.1. Surveys of this kind ask companies whether things are better or worse than a month earlier. They are quick and good at catching turning points, but they measure how widespread an improvement is, not how large it is.	READING THEM TOGETHER Strong cement and electricity growth fits the picture of rising investment that showed up in the GDP figures for the April–June quarter, when spending on new assets grew 11.9 per cent. The fall in fertiliser output deserves watching, because it comes just as a weak monsoon has put farm incomes under strain and the winter sowing season approaches. The surveys also carry a warning about prices. Companies have reported higher input costs, as oil and metal prices have risen and the rupee has weakened. If they can pass those costs on to customers, as strong demand suggests they can, inflation will keep rising. That is another reason the Reserve Bank's committee will find it hard to look past this month's data when it decides on interest rates on Wednesday.
THE HARD DATA The index of eight core industries, which make up about two-fifths of industrial output, grew 4.8 per cent in August from a year earlier, down from 5 per cent in July and the slowest in four months. In August 2025 the index had grown 6.2 per cent.	

Capex and subsidies push up the deficit

The Centre's fiscal deficit reached 41.9 per cent of the full-year target by August. Oil may make the rest of the year harder.

BY ARNAV GOEL



Connaught Place, B Block at night, Delhi. SLYRONIT / CC BY-SA 4.0

The central government's fiscal deficit reached ₹7.10 lakh crore in the five months from April to August, or 41.9 per cent of the target for the full year, according to data from the Controller General of Accounts released on September 30. A year earlier, the deficit at the same point stood at about 38 per cent of the budget estimate.	SPENDING RUNS AHEAD The government's total spending reached ₹20.78 lakh crore, or 38.9 per cent of the budget estimate. Two items drove the increase. Capital expenditure, on roads, railways, defence and other assets, rose 18 per cent from a year earlier. Spending on major subsidies, mainly food, fertiliser and petroleum, rose by almost 25 per cent, and the subsidy bill has al-	ready used up 46 per cent of its full-year budget. Revenue has grown more slowly. Net tax revenue, after the states' share is paid out, stood at ₹8.38 lakh crore at the end of August.	investment tends to draw in private investment and adds to the economy's productive capacity. The 18 per cent rise in capex is consistent with the strong growth in investment seen in the GDP figures. The subsidy bill is a different matter. Higher fertiliser and fuel costs are the direct result of the rise in global oil and gas prices, and they are likely to keep climbing for as long as crude stays above \$100 a barrel. A weak monsoon could add	pressure on food subsidies if the government steps up grain distribution to contain prices.	of crores a day selling fuel below cost, and if the government chooses to compensate them, or to cut excise duty, the deficit will widen further. The reduction in the borrowing plan for the second half of the year, announced on the same day, suggests the finance ministry still expects to meet its target. The next few months will show whether that confidence survives the price of oil.
	GOOD SPENDING AND BAD SPENDING Not all of the increase is a cause for concern. Front-loading capital spending early in the year has been a deliberate policy, because public			THE TARGET AT RISK The government has budgeted for a fiscal deficit of 4.3 per cent of GDP this year. Faster nominal growth helps, because it raises tax revenue and makes the deficit a smaller share of a larger economy. But the oil shock poses the clearest threat. State refiners are losing hundreds	



Connaught Place, Delhi. KUSHARED (MOHAMMED SARDAR) / CC BY-SA 4.0

Carmakers post strong September sales

Hyundai had its best month ever and Mahindra grew 15 per cent. Last year's tax cut flatters the comparison.

BY ARNAV GOEL

India's carmakers reported strong sales for September as the festive season began. Hyundai Motor India sold 77,916 vehicles in the month, including exports, its highest monthly total ever and 10.8 per cent more than a year earlier. Domestic sales rose 10.9 per cent to 57,166 and exports rose 10.4 per cent to 20,750.

Mahindra & Mahindra's total sales rose 15 per cent to 1,14,874 vehicles, with sport-utility vehicles up 14 per cent to 64,092. Smaller makers grew faster: Force Motors' sales rose 57.1 per cent to 4,101 vehicles, and SML Mahindra's 18 per cent to 1,124. Bajaj Auto's total sales rose 5 per cent.

A STRONG YEAR SO FAR

The September figures continue a strong run. In August, Maruti Suzuki's dispatches rose 35 per

cent to 1,76,971 units, and Tata Motors' sales of commercial vehicles rose 49 per cent to 44,411. Among two-wheelers, TVS Motor sold 5.91 lakh units in August, up 21 per cent, and overtook Hero MotoCorp as the country's largest seller that month.

THE BASE EFFECT

Part of the growth reflects a quirk in last year's numbers. GST rates on cars and two-wheelers were cut in late September 2025, and many buyers held off purchases in the weeks before the change. That depressed sales in the early part of September last year and makes this year's comparison look stronger than the underlying trend.

Even allowing for that, demand has held up well. Lower taxes have made cars more affordable, incomes have grown with the economy, and the festive season,

which runs through Navratri and Diwali, is traditionally the busiest time of year for vehicle purchases.

HEADWINDS AHEAD

The next few months carry three risks. Fuel prices have risen and may rise further, which matters most for buyers of small cars and two-wheelers. A weak monsoon could hit rural demand, where two-wheelers and tractors sell most. And if the Reserve Bank raises interest rates on Wednesday, car loans will become more expensive, though a quarter-point rise adds only about ₹120 a month to the instalment on a ₹10 lakh, five-year loan.

Maruti Suzuki and Tata Motors' passenger vehicle figures for September, along with those of the large two-wheeler makers, will give a fuller picture of the start of the festive season.



A server room run by Indian Railways. INDRAJIT DAS / CC BY-SA 3.0

UPI holds near its record

Indians made 24 billion digital payments in September, about 800 million a day.

BY ARNAV GOEL

Indians made 24.07 billion payments through the Unified Payments Interface in September, 23 per cent more than a year earlier, according to the National Payments Corporation of India, which runs the system. The value of those payments rose 18 per cent to ₹29.37 lakh crore. On an average day, UPI handled about 802 million transactions worth about ₹97,913 crore.

September's total was slightly below August's record of 24.51 billion transactions worth ₹29.82 lakh crore. On a daily basis, though, September was a little busier, because the month has one day fewer. The usage held steady despite controversy over new rules on the merchant discount rate, the fee charged on payments to businesses.

TEN YEARS ON

UPI was launched ten years ago and has become the world's largest

real-time payments system by number of transactions. It lets anyone with a bank account and a mobile phone send money instantly, usually by scanning a QR code, and it has largely replaced cash for small payments in Indian cities.

GROWTH IN NUMBERS, NOT IN SIZE

Volumes are growing faster than values, which means the average payment is getting smaller. That is a sign of UPI spreading to everyday purchases such as tea, vegetables and auto-rickshaw fares, where cash used to dominate. Small payments generate little revenue for banks and payment apps, which is why the question of who pays to run the system has become more pressing.

For most of its life, UPI has been free for both customers and merchants, with the government covering part of the cost through

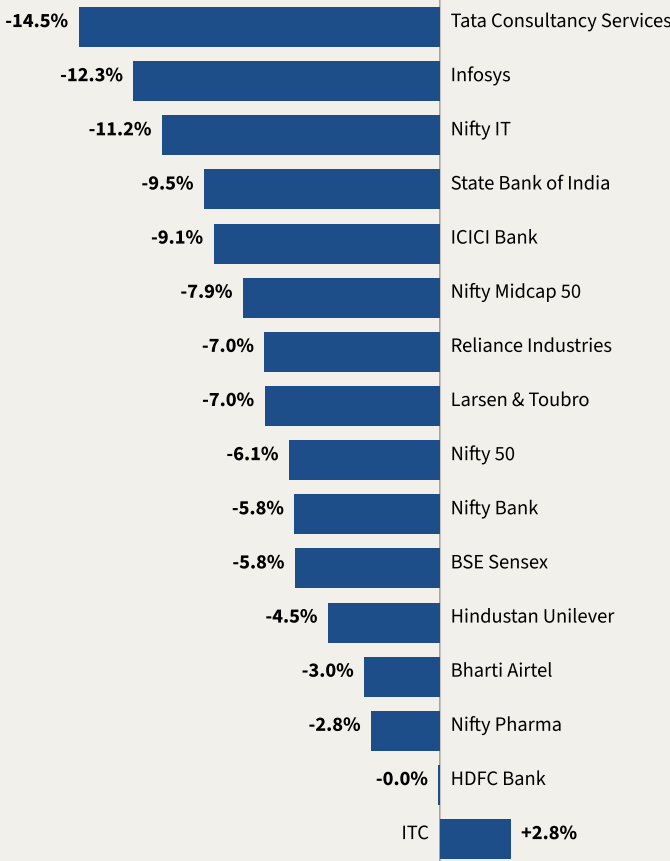
subsidies to banks and payment companies. As volumes approach a billion a day, the cost of running the system rises, and so does the pressure to find a sustainable way to fund it without discouraging the small traders who have done most to make it a success.

WHY IT MATTERS FOR THE ECONOMY

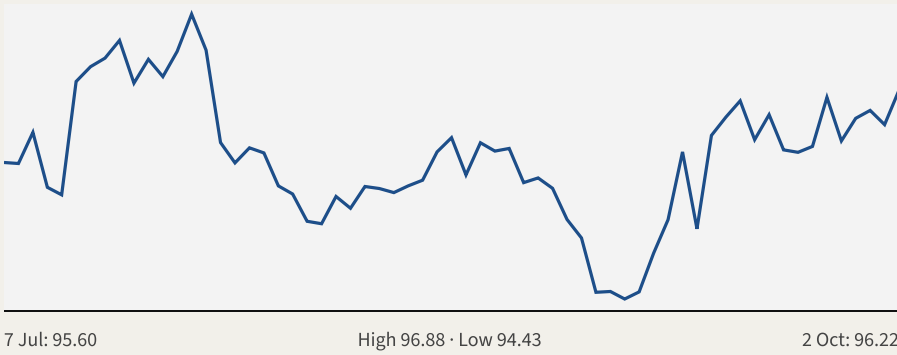
Digital payments leave a trail that cash does not. That has helped the government widen the tax base and given lenders the data to offer credit to small businesses that have no formal accounts. It also gives economists a near-real-time measure of spending. On that measure, consumer activity in September remained strong, in line with the business surveys and car sales figures, even as the stock market fell and the rupee weakened.

September in charts

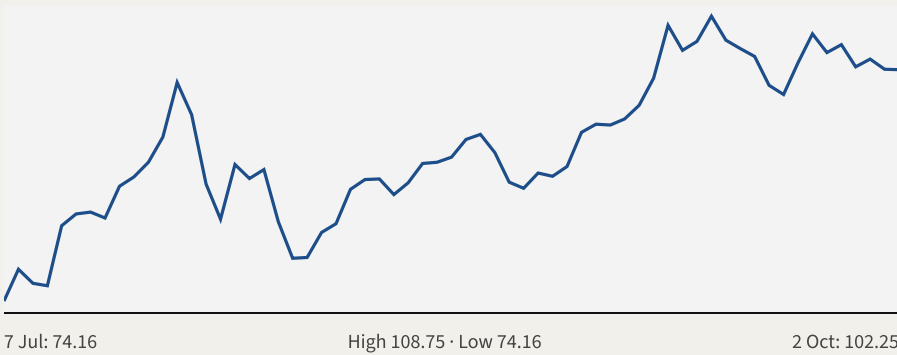
How Indian indices and leading shares moved over the month, and the rupee and oil prices behind them.



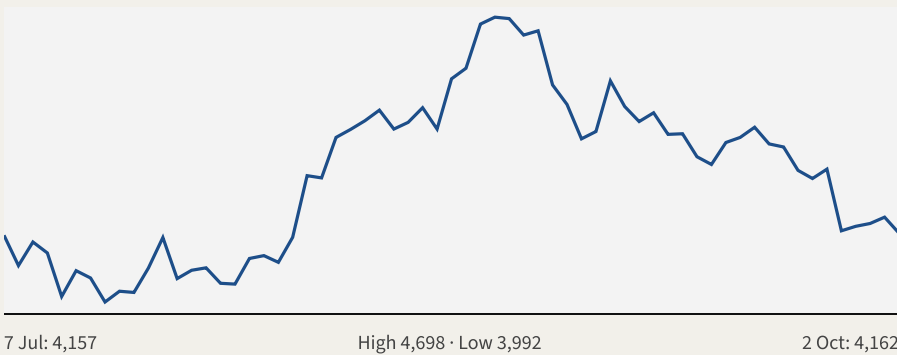
Rupee per dollar, last three months



Brent crude, \$/bbl, last three months



Gold, \$/oz, last three months



The Mumbai skyline, seen from the Haji Ali Causeway. RAKESH / CC BY-SA 2.0

Housing sales edge up, led by Mumbai, Bengaluru and Hyderabad

Sales in the seven largest cities rose 3 per cent in the July–September quarter. Higher interest rates are the next test.

BY ARNAV GOEL

Housing sales in India's seven largest cities rose 3 per cent in the July–September quarter from a year earlier, to 1,00,220 homes, according to Anarock, a property consultancy. A year earlier, 97,080 homes were sold. By value, sales rose 2 per cent to ₹1.55 lakh crore.

THREE CITIES UP, FOUR DOWN

The national figure hides wide differences between cities. Sales rose in the Mumbai Metropolitan Region, Bengaluru and Hyderabad and fell in Delhi-NCR, Pune, Chennai and Kolkata.

Hyderabad grew fastest, with sales up 15 per cent to 12,970 homes. Bengaluru rose 12 per cent to 16,670, and the Mumbai region 5 per cent to 31,750. Chennai fell 10 per cent to 5,395 and Kolkata 4 per cent to 3,980. Mumbai and Bengaluru together accounted for 48 per cent of all sales across the seven cities.

The cities that did well have one thing in common: large numbers of well-paid jobs in technology, finance and professional services. Demand there has been driven by buyers trading up to larger homes,

many of them at the expensive end of the market.

VALUE GROWS SLOWER THAN VOLUME

That sales by value grew more slowly than the number of homes sold is unusual after several years in which developers concentrated on luxury projects. It suggests that the mix of sales has shifted a little towards cheaper homes, or that price increases have slowed. Either would be a healthy development in a market where affordability has been stretched.

Continued



Nariman Point, Mumbai. MOHAMMADASNAF / CC BY-SA 4.0

SEBI rewrites the rules for portfolio managers

The market regulator's board approved new regulations for portfolio management, simpler settlement rules and net settlement for foreign investors.

BY ARNAV GOEL

The Securities and Exchange Board of India approved a broad set of changes at its board meeting on September 24, the most significant being a complete rewrite of the rules for portfolio management services. The new Portfolio Managers Regulations, 2026 replace those issued in 2020, with the aim of developing the industry, easing compliance and removing redundant provisions.

MORE ROOM FOR PORTFOLIO MANAGERS

Portfolio management services manage money for wealthy indi-

viduals and institutions through separate accounts, as opposed to pooled mutual funds. Under the new rules, portfolio managers will be able to invest in IPOs and in primary issues of debt securities. Discretionary portfolio managers, who make investment decisions on behalf of clients, will be allowed to put up to 10 per cent of a client's assets into unlisted, investment-grade non-convertible debt, with the client's consent. Investment in exchange-traded derivatives will be permitted up to 1.25 times client assets.

SEBI is also creating a new route, called PRIM, for portfolio managers to invest in mutual fund units, and a category of independent fund managers who can manage portfolios together with registered portfolio managers.

SIMPLER SETTLEMENTS

The board approved new regulations for settling enforcement cases, which allow people and companies accused of breaking securities rules to resolve proceedings by paying a sum without admitting or denying guilt. The number of provisos in the rules falls from 47

Continued

Housing sales edge up, led by Mumbai, Bengaluru and Hyderabad

Continued

THE RATE QUESTION

Housing is the part of the economy most sensitive to interest rates. Most home loans are now linked directly to the Reserve Bank's repo rate, so a

rise on Wednesday would feed into monthly instalments within three months. On a ₹50 lakh, 20-year loan, a quarter-point rise adds about ₹781 a month to the instalment, or about a year to the

loan if the bank extends the tenure instead.

That is not large enough on its own to deter most buyers. But it comes on top of higher construction costs, as cement and steel prices have risen,

and a stock market that has fallen sharply, which reduces the wealth of the investors who buy many expensive homes. Developers are entering the festive season, traditionally their busiest, with

less wind behind them than a year ago.

The more worrying sign for the industry is in the four cities where sales fell, which include two of the largest markets, Delhi-NCR and

Pune. A period of higher interest rates would make it harder for developers there to sell homes already built.

SEBI rewrites the rules for portfolio managers

Continued

to four, which should make the process quicker and more predictable.

NET SETTLEMENT FOR FOREIGN INVESTORS

For foreign portfolio investors, SEBI approved net settlement of trades in the

cash market. At present, foreign investors generally settle each trade separately, which means they must fund purchases in full even when they are selling other shares on the same day. Net settlement lets them offset buys against sells, reducing the amount of mon-

ey and foreign exchange they need to move.

The timing is notable. Foreign investors sold Indian shares worth ₹23,676 crore through the exchanges in the first 19 days of September. Making it cheaper and simpler to trade will not reverse

that by itself, because the selling has been driven by oil prices and American interest rates, but it removes one of the practical frictions that foreign funds have long complained about.

WHY IT MATTERS

Taken together, the changes continue SEBI's effort to widen the range of products available to Indian investors while simplifying the rules around them. The portfolio management reforms in par-

ticular could channel more wealthy investors' money into corporate bonds and new issues, deepening markets that are still small next to India's bank-dominated financial system.



The bulk carrier Nantor in the port of Chennai, India. ALEXEY SELEZNEV / CC BY 3.0

Exports jump a quarter as gold imports collapse

Goods exports rose about 26 per cent in August. A sharp fall in gold imports kept the trade deficit in check despite dearer oil.

BY ARNAV GOEL

India's merchandise exports grew by about 26 per cent in August from a year earlier, according to commerce ministry data released in mid-September, one of the strongest monthly increases in recent years. Imports grew more slowly, by about 14 per cent, and the trade deficit narrowed slightly to \$26.86 billion from \$27.20 billion in August 2025. It was the smallest monthly deficit in five months.

WHAT SOLD

The growth was broad. Engineering goods, chemicals, textiles and petroleum products all contributed, with the strongest demand coming from the United States, the European Union and the BRICS economies. Some categories grew spectacularly: iron ore exports more than doubled, up 126 per cent, electronic goods rose 89.8 per cent and petroleum products 63.3 per cent.

Electronics is the figure that matters most for the long run. A decade ago India exported few electronic goods and imported almost all of its phones. Government incentives tied to production, and the decision of large manufacturers to assemble phones in India for export, have turned it into one of the country's fastest-growing export lines. Petroleum products, by contrast, rise and fall with the price of crude: when oil is expensive, so is the diesel and

jet fuel that Indian refiners sell abroad.

THE GOLD EFFECT

The narrower deficit owed much to gold. Imports of the metal fell 57.8 per cent from a year earlier. Gold is usually one of India's largest imports, and demand for it is sensitive to price. With the international price near record highs over the summer and a weaker rupee raising the local cost further, buyers held back.

That is unlikely to last into the festive season. Gold buy-

ing traditionally rises around Dhanteras and Diwali, and international prices fell about 6.6 per cent in September, which could tempt buyers back. A recovery in gold imports would widen the deficit again.

OIL IS THE BIGGER WORRY

The August figures also predate the sharpest rise in oil prices. The Indian crude basket climbed to \$117.4 a barrel on September 21, and the September trade figures, due in mid-October, will show the

cost. India imports most of the crude it uses, and coal imports add to the energy bill.

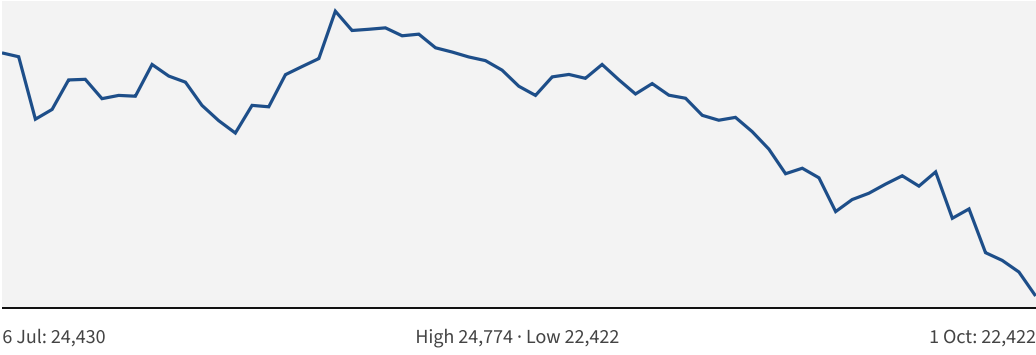
Strong export growth is the best defence against that pressure, and against a weaker rupee. If the trade talks under way in Washington this week give Indian goods a lower American tariff than competitors in Vietnam, Thailand and Bangladesh, the export story could get stronger still. If they stall, the August surge may prove a high point.

Indian Markets

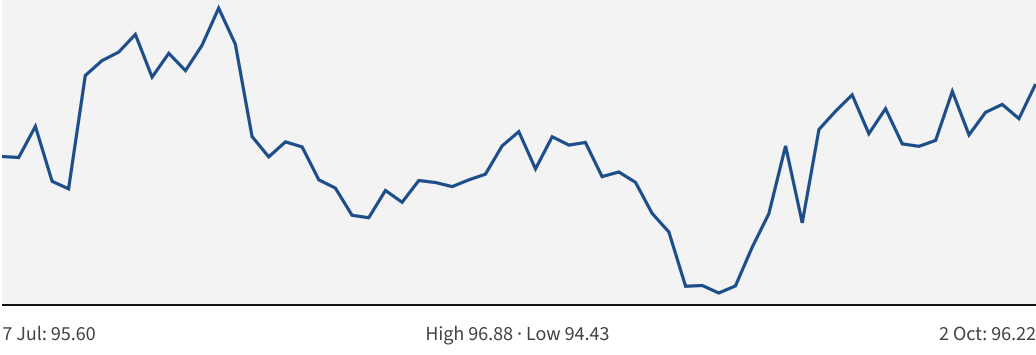
Closing levels to Friday, October 2, 2026. Changes over five and 21 trading sessions. Source: Yahoo Finance.

	Last	Week	Month
INDICES			
BSE Sensex	71,910	-2.3%	-6.5%
Nifty 50	22,422	-2.8%	-6.8%
Nifty Bank	54,451	-1.8%	-5.2%
India VIX	14.46	+13.9%	+25.8%
SECTORS			
Nifty IT	28,305	+0.3%	-10.1%
Nifty Pharma	26,312	-2.7%	-1.8%
Nifty Midcap 50	16,840	-3.9%	-7.7%
RUPEE			
Rupee per dollar	96.22	+0.1%	+1.8%
Rupee per euro	108.26	-0.6%	-2.0%
Rupee per pound	126.98	-0.0%	-0.3%

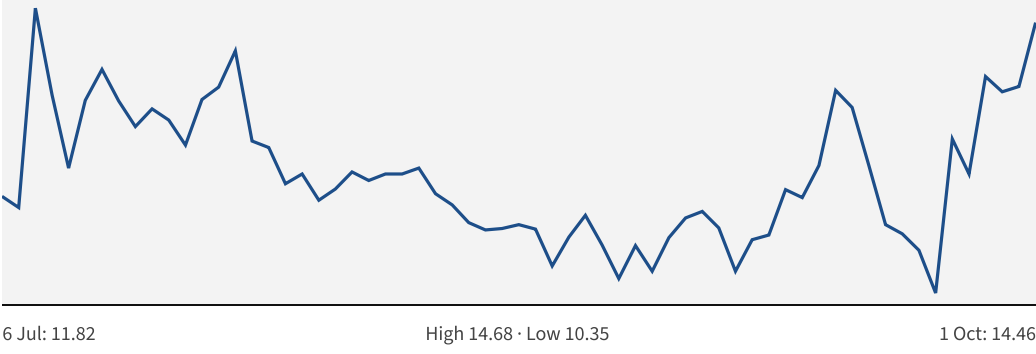
Nifty 50, last three months



Rupee per dollar, last three months

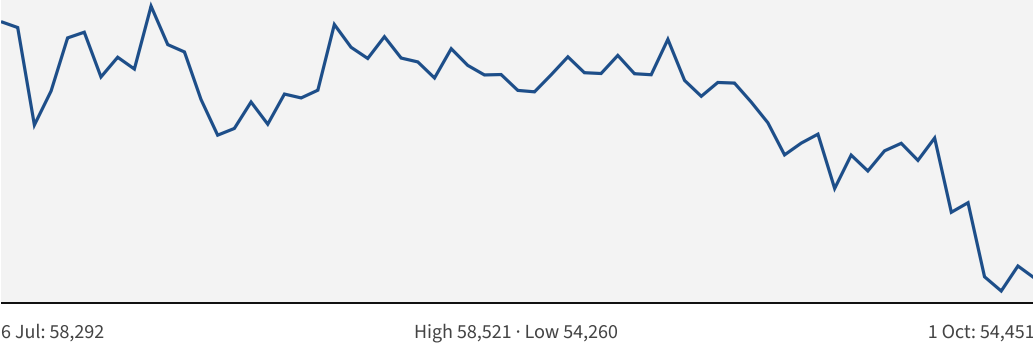


India VIX, last three months

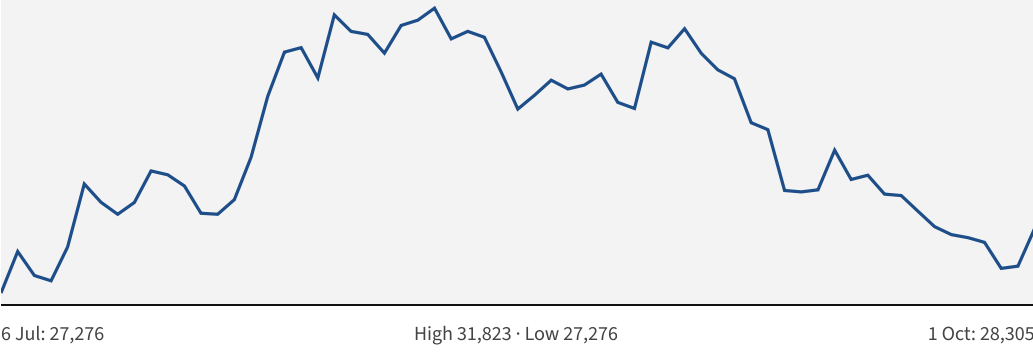


	Last	Week	Month
LEADING SHARES, ₹			
Reliance Industries	1,168	-4.2%	-11.1%
HDFC Bank	721.20	-1.1%	+2.9%
ICICI Bank	1,311	-1.8%	-8.1%
Bharti Airtel	1,741	-3.0%	-6.5%
Tata Consultancy Services	2,075	-0.6%	-11.6%
Infosys	1,035	+2.0%	-9.2%
State Bank of India	954.10	-2.5%	-6.5%
ITC	255.90	-4.5%	-3.9%
Larsen & Toubro	3,693	-4.3%	-7.2%
Hindustan Unilever	1,836	-5.0%	-7.0%

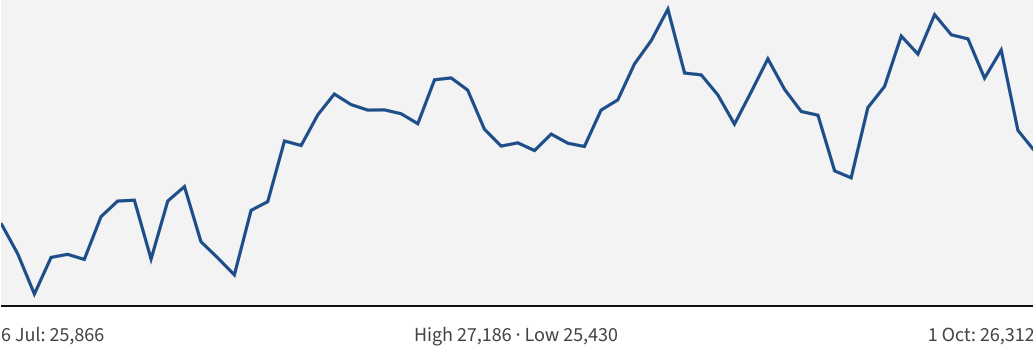
Nifty Bank, last three months



Nifty IT, last three months



Nifty Pharma, last three months



Opinion

Raise rates now, by a little

The RBI cannot fix oil or the monsoon. It can stop them becoming permanent inflation.

The Reserve Bank of India's monetary policy committee faces a choice this week that central banks usually try to avoid: whether to raise interest rates in response to a shock it did not cause and cannot reverse. Oil prices are high because of a conflict in the Gulf. Food prices are rising because the monsoon failed. A higher repo rate will change neither. The temptation to wait is understandable. It is also, in our view, a mistake.

The reason is that inflation has stopped being only about oil and food. Core inflation, which excludes both, rose from 3.3 per cent in March to 4.3 per cent in August. The cost of moving goods by road rose by more than 14 per cent in a year. The rupee has fallen to about 96 to the dollar, raising the price of

everything India imports. Headline inflation has risen for ten months in a row and is now well above the 4 per cent target. These are the signs that a supply shock is turning into something broader, the stage at which central banks are supposed to act.

The cost of acting is low. The economy grew 7.8 per cent in the April–June quarter. Bank credit is growing at about 18 per cent. Investment is rising faster than the economy. A quarter-point rise, to 5.5 per cent, would still leave the real policy rate below 1 per cent. That is not a policy that would choke growth. It is a policy that would tell households, businesses and investors that the central bank takes its target seriously.

The cost of waiting is higher than it looks. If the RBI holds and inflation keeps rising, it will have to raise rates by more, and later, when growth may be weaker. Meanwhile the rupee is under pressure. Foreign investors have been selling, American interest rates are rising and reserves have fallen by about \$20 billion in two weeks as the central bank sold dollars. Selling dollars can slow a currency's fall, but it cannot replace the signal that comes from interest rates. A modest rise now would ease the need to keep running down reserves.

The best argument for patience is that oil could fall quickly if Washington and Tehran reach an agreement. If that happens, the RBI can stop at one rise, or reverse it next year. Policy is not a one-way bet, and a central bank

that moves early has more room to change course than one that moves late.

The government has done its part by cutting its borrowing plan for the year. It should also be honest about fuel. Holding pump prices below cost while state refiners lose hundreds of crores a day hides inflation without removing it. The bill will come due either through the budget or at the pump. Better to decide how it will be paid now than to let it build up.

A quarter-point rise this week will not be popular with borrowers, and it will not bring down the price of vegetables. Its purpose is narrower: to keep a temporary shock from becoming a permanent one. That is the job the RBI was given, and this is the moment to do it.

Tell the truth about fuel prices

Holding pump prices below cost hides inflation without removing it.

India's state oil companies were losing an estimated ₹530 crore a day in September by selling petrol, diesel and cooking gas below cost. A price increase has narrowed the gap but not closed it, and with crude still above \$100 a barrel the losses continue at about ₹600 crore a day, the government says. Someone will pay this bill. The only questions are who, and when.

The habit of holding pump prices down during an oil shock is understandable. Fuel prices are politically sensitive, and a sharp rise feeds straight into the cost of transport and food. But the costs of the habit are real. Losses pile up on the balance sheets of companies that the government owns and that have to borrow to cover them. Investment in refining and distribution is put off. And measured inflation under-

states the pressure in the economy, which makes the Reserve Bank's job harder.

There are better ways to protect the people who most need it. Cooking gas for poorer households can be supported directly, through targeted subsidies to the accounts of those who qualify. Excise duty can be adjusted in a transparent way, with the cost shown in the budget, where Parliament can see it. Prices for everyone else can move closer to cost, in steps, so that the adjustment is gradual and predictable.

The government has shown discipline in cutting its borrowing for the year. It should apply the same honesty to fuel. A clear rule for how pump prices will follow crude, and a clear budget line for the cost of any support, would do more for confidence than another month of losses that nobody admits to.

The rupee at 96 is not 2013

The currency is under pressure, but India's defences are far stronger than in the last big scare. The RBI should use that strength wisely.

Every time the rupee falls sharply, comparisons with 2013 follow. That summer, the mere suggestion that the Federal Reserve would slow its bond purchases sent money flooding out of emerging markets, and India was among the worst hit. The rupee lost about a fifth of its value in a few months. The episode, known as the taper tantrum, left a lasting mark on Indian policymakers, and its lessons shaped much of what they have done since.

The rupee is under pressure again. It ended September at about 96 to the dollar, the Reserve Bank has been selling dollars, and reserves fell by about \$20 billion in two weeks. Foreign investors have pulled money out of Indian shares, oil is above \$100 a barrel and American bond yields are the highest since 2007. It is fair to ask whether India is heading for a repeat.

The answer, on the evidence, is no, and the differences are worth spelling out.

The first is the current account. In 2012–13 India's deficit was close to 5 per cent of GDP, among the largest of any big economy, and it had to be financed by foreign capital that could leave at any moment. In the April–June quarter of this year, the deficit was 0.5 per cent of GDP. Services exports and remittances, which together brought in more than \$90 billion in the quarter, cover most of the gap left by oil and other imports.

The second is reserves. In 2013 the RBI had less than \$300 billion, enough to cover only about seven months of imports. Today it has more than \$760 billion, even after the recent sales. That is a war chest few emerging-market central banks can match.

The third is inflation. In 2013 consumer prices were

rising by close to 10 per cent a year, which eroded confidence in the currency from within. Today inflation is 4.82 per cent. That is too high and rising, but it is not the double-digit inflation that made the rupee so vulnerable then.

None of this means the current pressure can be ignored. Indian government bonds now sit in global bond indices, so more foreign money tracks them and can leave quickly. India also imports more oil than it did then. And the factors driving the dollar higher, American interest rates and a conflict in the Gulf, are outside India's control and could last.

The lesson of 2013 is not that the rupee must be defended at any cost. It is that a country with weak fundamentals cannot defend its currency for long, while one with strong fundamentals does not need to defend it at

every level. India is in the second position. That gives the RBI a choice it did not have then.

The wise use of that choice is to smooth the rupee's fall without trying to stop it. A gradual depreciation helps exporters, discourages imports and lets the exchange rate absorb part of the oil shock. Spending reserves to hold a particular level, by contrast, invites speculators to test it and drains the buffer that exists for a genuine emergency. The right defence is the one the RBI controls most directly: credible monetary policy. A central bank that is seen to take inflation seriously gives investors less reason to fear for the currency.

The rupee at 96 is a warning, not a crisis. India's job is to make sure it stays that way.

The week ahead

Monday, October 5. The RBI's monetary policy committee begins its three-day meeting. Commerce minister Piyush Goyal ends his visit to the United States.

Wednesday, October 7. RBI policy decision, 10 a.m. Watch the vote, the inflation forecast and the governor's remarks on the rupee.

Thursday, October 8. TCS reports July–September results, the first of the large IT companies.

Through the week. September GST collections and vehicle sales from the remaining carmakers. Weekly foreign exchange reserves on Friday.

Mid-October. India's consumer price inflation for September, and in the United States the consumer price index for September.

World

World in brief

US inflation eases, on paper. The Fed's preferred inflation gauge rose 3.4 per cent in the year to August, below forecasts of 3.7 per cent. Core prices rose 3.0 per cent. Much of the improvement came from a change in how the figures are calculated.

Treasury yields climb. The yield on the 10-year US Treasury note rose to about 5.3 per cent on September 30, its highest since 2007. The two-year yield was about 4.9 per cent.

Fed signals patience. John Williams, president of the New York Fed, said he saw no urgency to raise rates again and suggested one more rise late in the year. Futures traders cut the odds of an October rise to about 35 per cent.

Oil stays high. Brent crude ended September above \$100 a barrel as talks between Washington and Tehran over shipping in the Gulf continued without a breakthrough.

The inflation drop that came from a rulebook

Most of August's fall in American inflation came from a change in how it is calculated, not from prices cooling. The bond market noticed.

BY ARNAV GOEL · PUBLISHED ONLINE OCTOBER 2

America's inflation figures for August looked like good news. The personal consumption expenditures price index, the measure the Federal Reserve targets, rose 3.4 per cent in the year to August, well below the 3.7 per cent economists had pencilled in. The core index, which strips out food and energy, rose 3.0 per cent against forecasts of 3.3 per cent. Futures traders cut the odds of a Fed rate rise in October to about 35 per cent, from around half the day before. The bond market did not join the celebration. The yield on the 10-year Treasury note rose by more than four basis points on Wednesday, to about 5.3 per cent.

There is a reason for the split. Most of the improvement in the headline numbers came from a change in how they are calculated, not from a change in how fast prices are rising.

A NEW RULER, APPLIED BACKWARDS

The Bureau of Economic Analysis, which compiles the figures, used Wednesday's release to change its methods for three categories of spending: portfolio management and investment advice, legal services, and computer software and accessories. The changes were applied to the data all the way back to

the start of 2021, so the history moved along with the latest month.

Each fix has a technical rationale. For investment advice, the bureau now estimates the quantity of services consumed from employment in the industry, which should stop swings in asset prices from showing up as swings in the price of advice. For legal services, it replaced unpublished consumer-price figures supplied by the Bureau of Labor Statistics, which the bureau said did not meet the statistical agency's own quality standards and had moved erratically, with an index built from producer prices. For software, it widened the set of prices it tracks to include video games and web hosting.

The combined effect was large. July's core inflation rate, first reported at about 3.35 per cent, was revised down to about 2.98 per cent. Headline inflation for July fell from 3.70 per cent to 3.36 per cent. The monthly rise in core prices for July was cut roughly in half, from 0.25 per cent to 0.12 per cent.

LIKE FOR LIKE, NOTHING FELL

Once the revisions are taken into account, August looks rather different. The core rate of 3.0 per cent is essentially the same as July's revised 2.98 per cent. The monthly increase in core prices, about 0.25 per cent, was double July's revised

pace. Annualised, a month like August works out at roughly 3 per cent, half as much again as the Fed's 2 per cent target.

The forecasts were the other part of the story. The consensus forecast of 3.3 per cent matched July's unrevised rate, which suggests many economists were still working with the old method. Measuring the outcome with the new ruler produced a "miss" that says more about the statistics than about the economy. Analysts at RBC made this point before the release, warning clients not to read a lower-than-expected number as a sign of disinflation ahead.

The Fed was not taken by surprise either. Its own economists had estimated in advance how much the software change alone would lower measured inflation. A revision that everyone at the central bank saw coming is a weak reason for the central bank to change course.

WHERE THE PRESSURE STILL IS

Beneath the totals, the mix is uncomfortable. Prices of core services, which reflect wages and rents and tend to move slowly, rose 3.35 per cent over the year. Core goods prices rose about 2 per cent. Energy prices were up 16.8 per cent from a year earlier, as tension with Iran over shipping through the Strait of Hormuz has kept oil ex-

pensive. Energy is excluded from the core measure, but it feeds into transport, airfares and the inflation that households expect, which the University of Michigan's survey showed rising sharply in September.

Fed officials sounded patient rather than relieved. John Williams, president of the New York Fed, said he saw no urgency to raise rates again and suggested one more increase late in the year, a hint that December is more likely than October. Michael Barr, a Fed governor, observed that in the past 20 months only two months of data had been consistent with 2 per cent core inflation, and pointed to energy prices and heavy investment in artificial intelligence as reasons for caution.

WHY LONG YIELDS ROSE ON SOFT DATA

The move in Treasuries makes sense in this light. The two-year yield, which tracks expectations for the Fed's next few decisions, was little changed at about 4.9 per cent. The 10-year yield rose. A market that thought inflation had genuinely broken would have pushed long yields down. Instead investors read the data as a slightly gentler path for short-term rates over a level of inflation that has not moved, and a

Fed less inclined to fight it hard. That is a recipe for a steeper yield curve, with more of the risk priced into the long end.

It is the same pattern this column described on Tuesday. The rise in long yields reflects a term premium, the compensation investors demand for holding long bonds, as much as it reflects the Fed. Large deficits, heavy Treasury issuance and an oil shock that has no clear end all argue for a higher premium. A change in how legal fees are deflated does nothing to any of them.

THE CASE FOR TAKING THE NUMBERS AT FACE VALUE

None of this means the new figures are wrong. The old legal-services data were, by the statisticians' own account, of poor quality, and a software price index that leaves out a large chunk of what people buy is not much of an index. If the revised series is the more accurate one, then inflation since 2021 has been somewhat lower than reported, and the Fed has been fighting a slightly smaller problem than it thought. On that reading, the three-month annualised rate of core inflation, which on the revised data is about 2 per cent, is a genuine sign that pressure is easing, and the Fed can afford to wait.

The weakness in that argument is timing. A lower level of inflation across five years of history does not mean inflation is falling now. The revisions lowered the starting point and the end point together. What matters for policy is the direction from here, and August's monthly reading pointed the wrong way.

WHAT TO WATCH

The September jobs report, due later this morning, is the next test. Strong hiring and firm wage growth would revive the odds of an October rise quickly, whatever the methodology. The consumer price index for September, out in mid-October, is calculated by a different agency and was not touched by this week's changes, so it offers a cleaner read on whether prices are still accelerating. Oil and the talks with Tehran remain the largest single source of risk to both measures.

Wednesday's report changed the measuring tape, not the thing being measured. Core inflation is running at about 3 per cent on the new basis, much as it was on the old one once the history is restated. Until the monthly figures start to fall on a like-for-like basis, the Fed is likely to keep its bias towards tightening, and the bond market is likely to keep asking to be paid for the risk.

Why Treasury buybacks can't cap the 10-year

The 10-year yield is near 5.2 per cent. Buybacks change the mix of debt the Treasury owes, not how much it must sell.

BY ARNAV GOEL · PUBLISHED ONLINE SEPTEMBER 29

The yield on the 10-year Treasury note rose to about 5.2 per cent on Monday, its highest level since July 2007, after closing last week at around 5.18 per cent. It is up 0.45 percentage points in a month and 1.06 points in a year. The Treasury has tried to lean against the move. Scott Bessent, the Treasury secretary, has stepped up the department's buybacks of older government bonds, and the bond market has so far paid them almost no attention.

WHAT A BUYBACK ACTUALLY DOES

A Treasury buyback is a swap, not a repayment. The Treasury buys back older, thinly traded notes and bonds, known as off-the-run issues, and pays for them by selling new debt, usually bills. The total the government owes barely changes. What changes is the mix: a little less long-dated paper in private hands, a little more short-dated paper, and better liquidity in corners of the market where dealers struggle to trade.

That last effect was the original point. When the Treasury restarted regular buybacks in 2024, it presented them as a tool for market functioning and cash management, not for steering yields. Using them to hold down the 10-year asks the programme to do a job it was not designed for. The operations are small next to the stream of new coupon debt the Treasury sells every month, and the securities they retire are the ones investors were least keen to hold anyway.

TWO ENGINES, NEITHER TOUCHED

The sell-off has two drivers, and buybacks reach neither. The first is the path of policy. The Fed raised its target range to 3.75–4.00 per cent on 18 September, and futures now put the odds of another rise in

October at roughly two in three. The data keep handing arguments to the hawks. New orders for core capital goods rose more than forecast in August, and the University of Michigan's September survey showed a sharp jump in the inflation that households expect.

The second driver is the term premium, the extra return investors demand for locking money into long bonds instead of rolling over bills. It has widened because the reasons to worry about holding duration have piled up. Federal deficits remain large at a time of low unemployment, which means heavy issuance with no recession to excuse it. Oil prices have been pushed up by the confrontation with Iran over the Strait of Hormuz, and talks between Washington and Tehran have produced no concrete progress. Each week without a deal keeps an inflation risk built into the price of long-dated debt.

Buybacks do nothing about either. They do not change what the Fed will do in October, and they do not change how much the government must borrow over the next decade. At best they shave a few basis points off the yields of the specific old bonds being bought.

WHAT HISTORY SUGGESTS

Governments have tried to bend the long end before. In September 2011 the Fed announced a \$400 billion programme to sell short-dated Treasuries and buy long ones, nicknamed Operation Twist after a 1961 predecessor. Long yields did fall in the months that followed, though the euro-zone crisis was driving money into Treasuries at the same time. In that episode the Fed was a large, price-insensitive buyer, inflation was low and investors were hungry for safe assets. The current buybacks

share none of those conditions. They are small, they are paid for with more borrowing, and they arrive while inflation expectations are rising.

The Treasury's earlier buybacks, between 2000 and 2002, are an even weaker guide. Washington was running budget surpluses then and was retiring debt it no longer needed. Today it buys back old bonds with the proceeds of new ones.

WHO PAYS AT 5.2 PER CENT

The damage spreads well beyond bond funds. Mortgage rates are priced off the 10-year with a spread on top, so buyers face borrowing costs that have shut many of them out of the housing market. Companies that locked in cheap funding in 2020 and 2021 are now rolling that debt at far higher coupons, the refinancing problem this column described on Friday. Banks that bought long securities in the low-rate years are watching their paper losses grow again.

The largest borrower of all is the Treasury itself. Every rise in yields feeds into the cost of new issuance and, over time, into the interest bill on the whole debt. That widens the deficit that helped push yields up in the first place, a loop that buybacks cannot break. The clear winners are savers in bills and money-market funds, who are earning around 4 per cent with no duration risk and little reason to move out along the curve.

THE CASE FOR A TURN

The best argument against further losses is that high yields eventually slow the economy they are pricing. Housing and small-business borrowing are already sensitive to rates at this level, and a weak jobs report could pull expectations for more Fed hikes back quickly. Pension funds and insurers, which



The Old U.S. Mint. JAY WALSH / CC BY-SA 3.0

The 10-year hits 5.1%, its highest since 2007

Yields were last this high just before the financial crisis. Companies with debt to refinance will feel it first.

BY ARNAV GOEL · PUBLISHED ONLINE SEPTEMBER 25

The benchmark 10-year US Treasury yield rose to 5.104 per cent on 25 September, its highest since the summer of 2007, just before the global financial crisis. The trigger was a very poor \$70 billion auction of five-year notes that tailed heavily, a sign that primary dealers have run out of room on their balance sheets.

DEALERS LEFT HOLDING THE NOTES

The Treasury put \$70 billion of five-year notes up for sale. Bids from end investors dried up, and primary dealers had to take an uncomfortably large share of the issue themselves. When that happens the message from the market is hard to miss, and it is that there is more US federal debt on offer than buyers want. At a benchmark yield of 5.10 per cent, investors at home and abroad are demanding ever higher returns to fund trillion-dollar deficits in peacetime.

READING AN AUCTION

An auction tails when the yield at which it clears is higher than the rate traders were quoting in the minutes before bidding closed, which means the Treasury had to pay more than the market expected to sell the full amount. Bids come from three groups: indirect bidders, a category that includes foreign central banks and many

fund managers; direct bidders, who bid for their own accounts; and the primary dealers, who are obliged to bid and absorb whatever others do not take. A large tail combined with a heavy dealer allocation is the clearest sign of weak end demand.

Dealers must then finance that inventory, usually in the repo market, and sell it on at a loss if prices keep falling. That makes them warier at the next auction, so weak demand at one sale can feed weakness at the next. The comparison with 2007 is uncomfortable for a different reason: the ten-year yield was last this high in the months before the credit crisis broke that August, when a rising cost of money exposed borrowers who had assumed it would stay cheap.

The five-year maturity matters to companies in particular. Much investment-grade corporate debt is issued in the five- to ten-year range, and bank loans and private credit are often priced over similar horizons, so a failed five-year auction raises the benchmark for the debt corporate treasurers are about to roll over. Foreign demand is the swing factor: official holders have grown more wary of adding to dollar reserves since Russia's were frozen in 2022, and private foreign buyers weigh the yield against the cost of hedging their currency ex-

posure, which rises with American short-term rates.

REFINANCING GETS EXPENSIVE

For corporate America, a risk-free rate of 5.1 per cent turns the coming wall of corporate debt maturities, worth several trillion dollars, into a real balance-sheet problem. Thousands of companies that borrowed at two and three per cent during the pandemic now have to refinance at benchmark rates above five per cent, before adding their own credit spreads.

The mechanics are unforgiving. When the Fed cut rates to near zero in March 2020, companies rushed to issue long-term bonds at the lowest coupons on record, and many pushed their maturities out several years. Those bonds are now coming due. A company replacing a bond with a three per cent coupon at a total cost of six or seven per cent doubles its interest bill on that debt, which lowers its interest coverage and can push a rating down a notch, raising the cost again at the next refinancing.

WHO CAN WAIT IT OUT

The squeeze is uneven. Large companies holding more cash than debt now earn more on their deposits than they pay on bonds issued years ago, and they can let debt mature without replacing it. Firms rated just above junk face

Continued

Continued

Why Treasury buybacks can't cap the 10-year

Continued

match long-dated liabilities, find government bonds yielding above 5 per cent far more attractive than they did at 2 per cent, and foreign reserve managers may take the same view. Those buyers will put a floor under prices at some point. For now none of them is in a hurry,

because inflation expectations are still drifting up and the Fed has not signalled it is done.

WHAT TO WATCH THIS WEEK

The calendar is heavy. August's personal consumption expenditures price index, the Fed's preferred in-

flation gauge, comes out this week alongside figures on personal income and spending. The ISM surveys of manufacturing and services follow, and the September jobs report lands on Friday. A hot inflation reading or strong payrolls would lift the odds of an October hike fur-

ther. Any movement in the Iran talks would show up first in oil and then in break-even inflation rates. Further out, the Treasury's next quarterly refunding statement, due in early November, will show whether it plans to lean more heavily on bills to relieve the long end.

That would be a far bigger lever than buybacks.

Buybacks are a plumbing tool being asked to do a policy job. They can make old bonds easier to trade, but they cannot change how much Washington borrows or what investors expect inflation to be.

Unless this week's inflation and jobs data give the Fed a reason to pause, the 10-year is more likely to test higher levels this autumn than to settle back below 5 per cent, and the Treasury's shopping list will not change that.

The 10-year hits 5.1%, its highest since 2007

Continued

the risk that a downgrade pushes them into a market where many investors are not allowed to follow. Leveraged borrowers with floating-rate loans have felt higher rates since the Fed began tightening, and a higher long-term rate removes their hope of refinancing into cheaper fixed-rate debt. Private credit funds, which have lent heav-

ily to such firms, are likely to find out how well their loans hold up.

Commercial property owners face the harshest version of the arithmetic. Their loans typically run for five to ten years and end with a large repayment, and many buildings, especially offices, are worth less than when the loans were made. A higher benchmark

raises the refinancing rate at the same moment as it lowers the building's value, leaving owners to inject equity, sell or hand the keys to the lender.

ROOM FOR RELIEF

The case against a wave of defaults is that companies have had years to prepare. Many investment-grade is-

suers have already refinanced, credit spreads have been narrow, and companies can cut buybacks, sell assets or draw on cash before they miss a payment. A yield of this level may also prove temporary if the economy slows and investors return to Treasuries. The weakest borrowers, however, cannot wait

for relief that may take a year or more to arrive.

The signs to watch are the results of the next two-year, five-year and seven-year auctions, credit spreads on bonds rated just above and below investment grade, and default rates reported by the rating agencies. At 5.1 per cent, the 10-year yield is at its highest since 2007,

and four years of rising rates have now reached the corporate balance sheet. Over the next couple of years, cash-rich companies should be able to roll over their debt, while heavily leveraged ones are likely to struggle and some will probably default.



The Federal Reserve Bank of Cleveland. WARREN LEMAY / CC0

The Fed hikes, and its chair skips the dot plot

The Fed raised rates by a quarter-point. Kevin Warsh's refusal to submit a projection said more than the vote.

BY ARNAV GOEL · PUBLISHED ONLINE SEPTEMBER 18

The Federal Open Market Committee raised the federal funds rate by 25 basis points to 3.75–4.00 per cent on 18 September. Wall Street was more startled by what was left out. Chairman Kevin Warsh chose not to submit his own rate projection to the quarterly Summary of Economic Projections, the dot plot, something no Fed chair has done before.

A DOT THAT SAYS A LOT

Since the Summary of Economic Projections began, no chair has held back a personal projection. Warsh's decision sends a clear and hawkish message. He regards the dot plot as a misleading exercise with a veneer of science that ties the central bank's hands. By keeping his dot to himself he has avoided committing to any path for rates, which leaves him free to tighten further whenever he chooses.

HOW THE DOTS CAME TO MATTER

The Fed began publishing its policymakers' projections for the funds rate in January 2012, adding them to economic forecasts it had released quarterly since 2007. Every participant submits a dot, voters and non-voters alike: the governors in Washington and all twelve regional bank presidents. The dots are anonymous, and the chart shows each participant's view of the appropriate rate at the end of each year, conditional on that person's own forecast for the economy.

Markets soon began treating the median dot as a promise. That was never the intention, since each dot reflects one official's guess and the median can shift with a single change of mind, but the chart became a focal point for traders trying to price the path of policy. Critics have long argued that it encourages the Fed to anchor on a path it has drawn itself, and that walking away from a published path looks like a policy error even when the data justify it.

16 OF 18 EXPECT MORE

Even without the chair's dot, the chart was hawkish. Sixteen of the eighteen committee members who submitted projections pencilled in further rate increases before the end of the year.

That count matters more than the missing dot. A chair can steer the committee through the statement, the press conference and private persuasion, but a chart in which almost every participant expects further rises shows where the centre of gravity already lies. With only two of the eighteen seeing no further move this year, a pause at the next meeting would require a sharp change in the data. The missing dot also changes the arithmetic. With eighteen projections rather than nineteen, the median becomes the average of the ninth and tenth dots rather than the tenth alone, which can move where it lands. Analysts used to assume the chair's dot sat near the median, since chairs rarely stray far from the consensus they build, and they have now lost their best clue to his thinking.

The rise itself passes through quickly. Banks' prime rates usually move the same day as the funds rate, lifting the cost of credit-card balances, home-equity lines and many small-business loans, while yields on money market funds and Treasury bills adjust within days. Savers gain at once, and borrowers on floating rates start paying more with their next statement.

FROM GUIDANCE TO SURPRISE

The Fed has tried the opposite approach before. Between June 2004 and June 2006 it raised rates at seventeen consecutive meetings in steps of 25 basis points, having told markets the pace would be measured. The predictability kept markets calm, but critics later argued it also encouraged the risk-taking that fed the housing bubble, since investors could borrow short and lend long knowing exactly what was coming. Warsh's approach bets that less certainty about the path of rates will make markets more cautious.

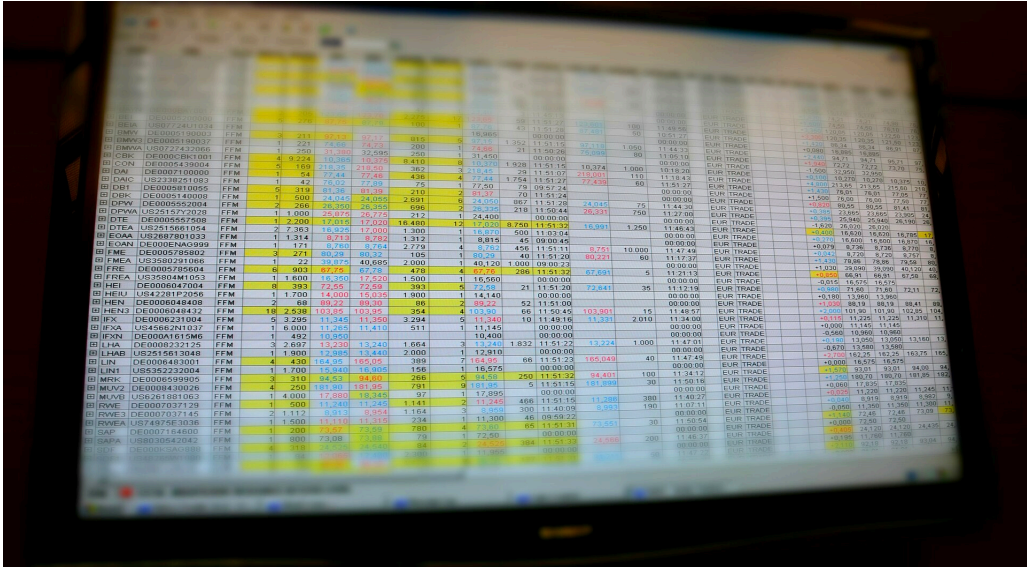
The cost of that bet falls on anyone who needs to plan. Without a clear path from the chair, every data release and every speech carries more weight, which raises volatility in short-term rates and tends to widen the term premium on longer bonds. Companies setting budgets and banks pricing loans will have to allow for a wider range of outcomes. Savers gain from rates that stay higher for longer, while floating-rate borrowers lose the ability to plan around a published path.

Other central banks already work with less guidance. The Bank of England publishes no individual rate projections from its policymakers, and the European Central Bank has decided meeting by meeting on the incoming data since 2022, declining to commit to a path. A Fed that withholds guidance would be moving closer to its peers, although none of them had published a chair's projection and then stopped.

THE CASE FOR MORE GUIDANCE

The strongest objection is that guidance works. When a central bank tells markets what it intends, long-term rates move ahead of policy, and the bank can achieve a given tightening with fewer actual rate rises. A chair who withholds his view may simply shift attention to the minutes, speeches and leaks, making communication noisier without making policy more flexible. The committee's other members also still publish their dots, so the market has a map, if not the chair's own route on it.

The minutes of this meeting, due three weeks after the decision, will show how the committee debated the chair's choice, and Warsh's speeches before the next meeting will fill some of the gap. Warsh has given up on steering markets with forward guidance. Investors will get less warning of each move, and with sixteen of eighteen officials expecting more hikes this year, they should brace for at least one more before December.



Market data screens at the Frankfurt Stock Exchange. ANK KUMAR / CC BY-SA 4.0

The bond sell-off, explained

Higher expected policy rates and a bigger term premium pushed the 10-year back to 5 per cent.

BY ARNAV GOEL · PUBLISHED ONLINE SEPTEMBER 22

The benchmark 10-year US Treasury yield jumped back to 5.0 per cent after the Federal Reserve's hawkish rate rise, handing heavy duration losses to portfolios around the world. Two forces drove the sell-off. Investors sharply raised their expectations for the path of the policy rate, and the term premium on government debt shot up on top of that.

WHY THE 10-YEAR HIT 5%

Desks that had bet on a single 'one-and-done' insurance hike were caught out by the FOMC's hawkish signals. Rate expectations moved quickly to price in several more increases stretching into 2027. More than half of the rise in the 10-year yield, however, came from a wider term premium. Investors now want more yield for holding long bonds because they worry about growing federal deficits, the Fed shrinking its balance sheet and inflation that keeps coming from the supply side.

SPLITTING THE YIELD IN TWO

The decomposition rests on models rather than direct observation. The expected path of short rates can be read from overnight index swaps and futures, and the residual between that path and the actual ten-year yield is the term premium. The New York Fed and the Fed Board each publish model-based estimates, and while they differ in level, they tend to agree on direction. When both show the premium rising alongside expected rates, the sell-off has two engines rather than one, and it is harder to reverse.

Each source of the rise carries a different message. A higher expected path says investors believe the Fed will do more. A higher premium says they are less sure of anything, including the Fed's success, the size of future deficits and the supply of bonds they will be asked to absorb. The second is the more worrying for the Treasury, because it raises the cost of every new bond it sells regardless of what the Fed does.

WHERE THE LOSSES LAND

Duration losses are simple to estimate. A ten-year note loses roughly eight per cent of its price for each percentage point rise in its yield, so even a modest move erases a year or more of coupon income. Bond funds, insurers marking assets to market and banks holding securities available for sale take the hit first. Foreign holders face the same losses, and many had already paid heavily to hedge their dollar exposure. Sell-offs of this kind also spread abroad, pushing up yields on German, British and Japanese government bonds, which tighten financial conditions far beyond America.

The Treasury feels the move most directly. Interest on the federal debt has become one of the largest items in the budget, exceeding defence spending in 2024, and as bills roll over and new notes are sold at higher yields the bill rises further, adding to the deficits that pushed the term premium up in the first place. That feedback loop is what bond investors mean when they talk about fiscal dominance.

Banks face a slower-burning version of the problem. Those holding Treasuries as liquidity buffers see the market value of those buffers fall, which does not threaten solvency while they can keep the bonds but reduces the cash they could raise quickly by selling them. That was the weakness that sank Silicon Valley Bank in 2023, and supervisors now watch unrealised losses more closely than they did then.

EVERYTHING ELSE REPRICES

A 10-year yield sitting at five per cent changes the arithmetic for every other asset. High-multiple growth stocks, commercial property and leveraged buyouts all have to be valued lower to compete with a risk-free return of five per cent.

Shares with high valuations are the most exposed, because more of their value rests on profits expect-

ed far in the future, which a higher discount rate shrinks the most. Companies with steady near-term earnings and dividends lose less, and in 2022, the last year of sharply rising real yields, value stocks held up far better than growth stocks. Mortgage borrowers meet the same arithmetic, since thirty-year home loans are priced off the ten-year yield plus a spread.

History suggests such episodes can run for months. In 1994 an unexpected Fed tightening set off a bond rout that lifted the ten-year yield by more than two percentage points within the year and helped push Orange County into bankruptcy. In 2013, hints that the Fed would slow its bond purchases sent the ten-year up by more than a percentage point in a few months. Both sell-offs were driven as much by the term premium as by the policy path.

HOW THE SELL-OFF COULD END

The counterargument is that term premia can collapse as fast as they rise. In the autumn of 2023 the ten-year yield briefly touched 5 per cent, then fell back by more than a percentage point within about two months after the Treasury leaned more on bills and the Fed signalled it had finished tightening. A similar shift in issuance, a sharp fall in oil prices or signs of recession could produce the same reversal. The difference this time is that the Fed is still raising rates, which leaves less room for the expected path to fall.

The indicators to watch are the Treasury's quarterly refunding announcement in early November, the results of the next long-bond auctions, model estimates of the term premium and the tone of the Fed's next statement. This sell-off looks set to last. Investors now want five per cent to lend to Washington, and as long as deficits stay large and the Fed keeps tightening, growth stocks, property and buyout firms will probably keep losing value against Treasuries.

The rate hike the Fed can't avoid

A weak buyback showed dealers are full of bonds while inflation refuses to fade. The Fed has little room left to wait.

BY ARNAV GOEL · PUBLISHED ONLINE SEPTEMBER 15

The benchmark 10-year US Treasury yield rose to 4.954 per cent on 11 September after a very weak Treasury debt buyback showed that liquidity in the bond market is thinning as inflation refuses to fade. The Federal Reserve now has little choice but to raise rates.

DEALERS STOP TAKING PAPER

The Treasury runs regular buybacks to improve liquidity in older, off-the-run issues. This time primary dealers put in very weak offers and would not tender bonds at sen-

sible spreads. That usually means their balance sheets are already stuffed with inventory and they have no appetite for more duration risk. In effect the bond market is telling the Fed to raise its policy rate and get inflation expectations back under control.

WHY BUYBACKS EXIST

The buyback programme is relatively new. The Treasury resumed regular buybacks in 2024, the first since the early 2000s, to support trading in older securities that change hands far less often than the

most recently issued notes and bonds. By buying back those older issues and financing the purchases with new debt, the Treasury aims to narrow the gap in pricing between on-the-run and off-the-run securities and give dealers an outlet for bonds that are hard to sell. A buyback that attracts poor participation suggests that outlet is not working as intended.

Dealer capacity is the constraint behind it. Primary dealers are the banks obliged to bid at every Treasury auction, and the government debt they hold counts against

the leverage limits imposed on them by regulators. As the stock of Treasuries has grown faster than dealers' balance sheets, their ability to absorb selling and make markets has shrunk relative to the size of the market.

Supply is the background to the strain. Federal deficits have kept the stock of marketable Treasury debt growing faster than the economy for years, and each quarter the Treasury must sell enough notes and bonds to refinance maturing debt and fund new borrowing. Every addition lands on a dealer

community whose capacity has not grown in step, which is why the market's plumbing now draws the attention once reserved for its prices.

Regulators have debated how much of the strain their own rules cause. The supplementary leverage ratio requires large banks to hold capital against all their assets, including Treasuries, regardless of risk, so a dealer bank that expands its holdings of government debt must hold more capital even though the bonds carry no credit risk. The Securities and Exchange

Commission adopted a rule in 2023 requiring central clearing of many Treasury trades, which is meant to free balance-sheet space over time, but the change is being phased in and does little for dealers today.

THE MEMORY OF MARCH 2020

The system has broken before. In March 2020, as the pandemic hit, investors around the world rushed to sell Treasuries for cash, dealers could not absorb the flow, and the market for the world's safest asset stopped functioning properly for several days. The Fed restored

Continued

The rate hike the Fed can't avoid

Continued

order by buying Treasuries in enormous volume and temporarily easing the leverage rule for banks. The lesson for today is that thin liquidity can turn a steady rise in yields into a disorderly one.

The costs are already visible. Wider bid-offer spreads raise trading costs for pension funds, insurers and asset managers, and they make Treasuries less useful as collateral and as a hedge. Every other borrower pays too, because corporate bonds, mort-

gages and municipal debt are priced against a Treasury market that now charges more for liquidity.

Some investors are better placed than others. Those with cash to deploy can buy long bonds at yields close to five per cent from sellers who need liquidity. The most vulnerable are leveraged funds running basis trades, which borrow in the repo market to hold cash Treasuries against futures contracts and can be forced to unwind when fi-

nancing dries up, as happened in March 2020.

HOW MANY HIKES, NOT WHETHER

With the 10-year yield close to five per cent and headline inflation picking up, the Fed's next meeting is no longer about whether to raise rates. The argument has moved on to how many further increases will follow.

The strongest objection is that a weak buyback is a plumbing problem, and

plumbing problems have plumbing solutions. The Fed and the Treasury could respond to poor liquidity with balance-sheet tools, changes to leverage rules or adjustments to the size of auctions and buybacks, without raising rates at all. That is fair as far as it goes. The yield rose because inflation is not fading, and liquidity measures cannot address that.

The Treasury has tools of its own. It can shift issuance towards bills, which money

market funds absorb readily, and away from long bonds that dealers struggle to hold, as it did in late 2023 when yields last approached 5 per cent. It can also resize or pause buybacks. Each option buys relief today at the price of more frequent refinancing later, since heavier reliance on bills leaves the government more exposed to future rises in short-term rates.

The signals to watch are the next auctions of ten-year and thirty-year debt, measures

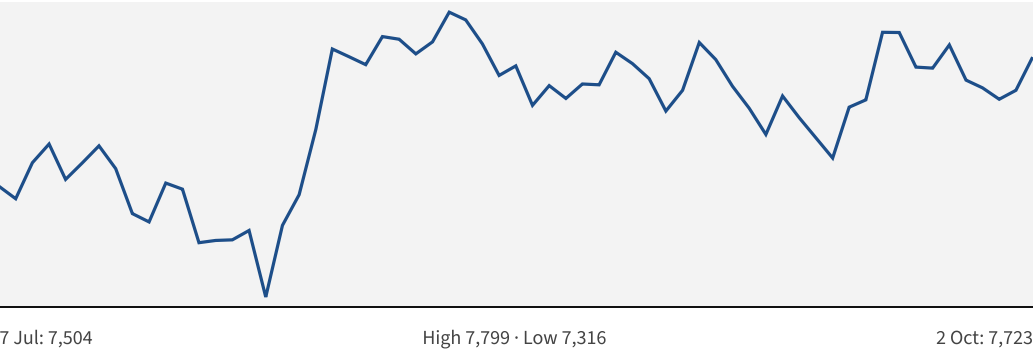
of bid-offer spreads and market depth, the Treasury's plans for future buybacks and the Fed's decision later this month. At 4.95 per cent on the 10-year, the Fed has run out of reasons to wait. It will very probably raise rates at its next meeting, and bondholders should expect more increases to follow before the year is out.

World Markets

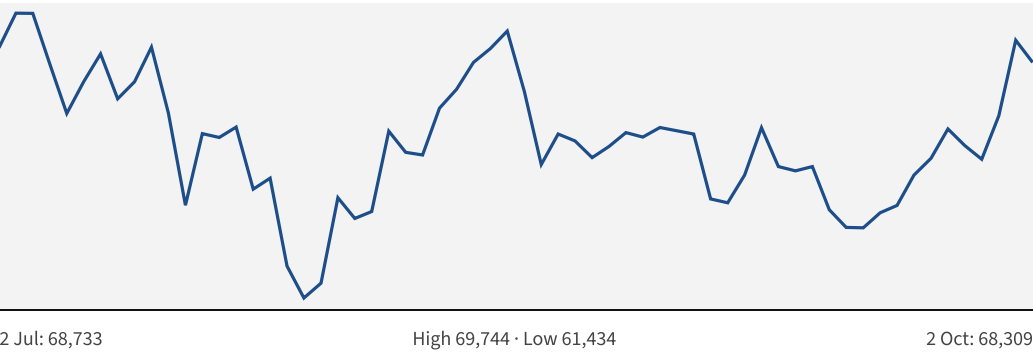
Closing levels to Friday, October 2, 2026. Changes over five and 21 trading sessions. Source: Yahoo Finance.

	Last	Week	Month
GLOBAL STOCKS			
S&P 500	7,723	-0.3%	+0.7%
Dow Jones Industrials	51,177	-1.3%	-3.6%
Nasdaq Composite	27,191	+0.5%	+3.7%
FTSE 100	10,462	-2.2%	-3.4%
Nikkei 225	68,309	+2.9%	+3.0%
Hang Seng	23,972	-3.2%	-5.3%
COMMODITIES			
Brent crude, \$/bbl	102.25	-2.0%	+6.9%
WTI crude, \$/bbl	91.11	-1.4%	+0.1%
Gold, \$/oz	4,162	-3.7%	-5.7%

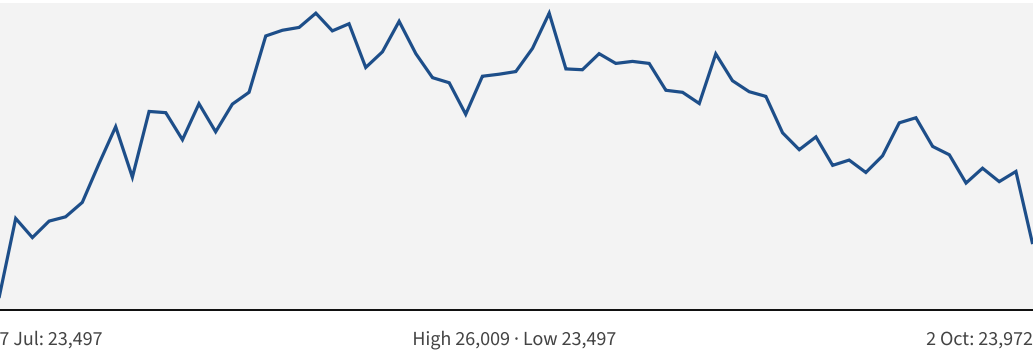
S&P 500, last three months



Nikkei 225, last three months

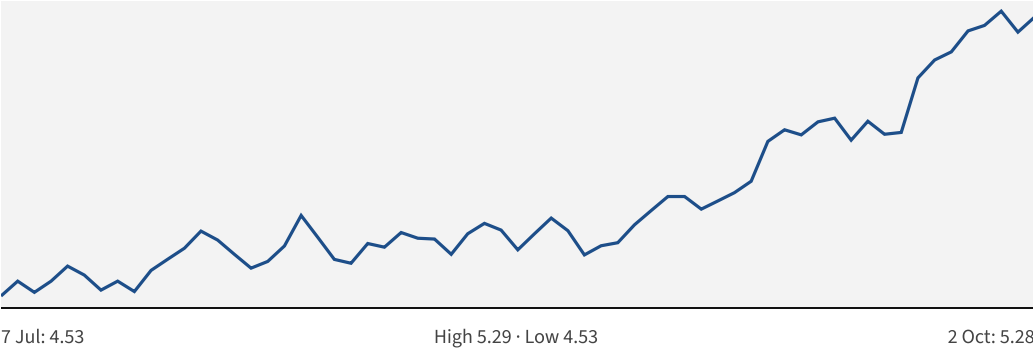


Hang Seng, last three months

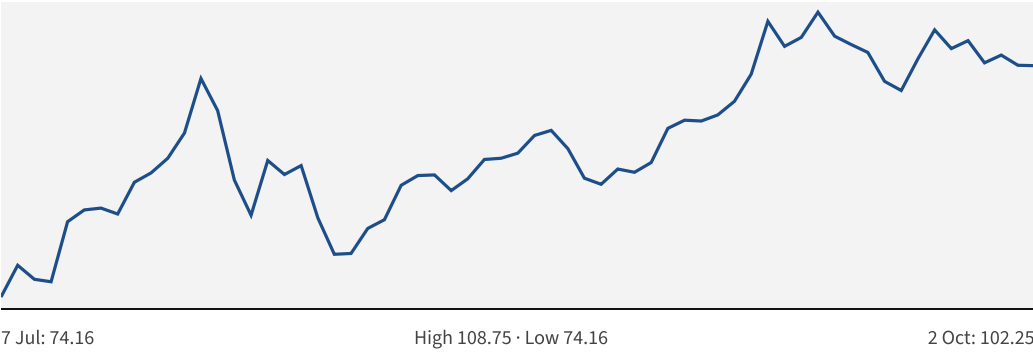


	Last	Week	Month
US RATES			
US 3-month bill, %	3.99	-8bp	+22bp
US 5-year Treasury, %	5.05	+5bp	+50bp
US 10-year Treasury, %	5.28	+9bp	+48bp
US 30-year Treasury, %	5.63	+13bp	+36bp

US 10-year Treasury, %, last three months



Brent crude, \$/bbl, last three months



Gold, \$/oz, last three months

