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MARKETS

Sensex	72,472	+0.8%
Nifty 50	22,520	+0.4%
₹ per $	96.82	+0.6%
Brent	104.72	+2.4%
Gold	4,216	+1.3%

The RBI raises rates for the first time since 2023

The repo rate goes up a quarter point to 5.50 per cent and the neutral stance is dropped. The central bank now expects inflation to average almost 5.8 per cent over the next three quarters.

BY ARNAV GOEL



The Reserve Bank of India, Mumbai. SAILKO / CC BY 3.0

The Reserve Bank of India raised its repo rate, the rate at which it lends to banks, by a quarter of a percentage point to 5.50 per cent on Wednesday. It was the first increase since February 2023. The monetary policy committee, which met from October 5 to 7 under Governor Sanjay Malhotra, voted unanimously for the rise and changed its stance from "neutral" to "calibrated tightening". The standing deposit facility rate, which banks earn on spare cash left with the RBI, went up to 5.25 per cent. The marginal standing facility rate, at which they borrow in an emergency, and the bank rate both rose to 5.75 per cent.

The rise ends a cycle of easing that took the repo rate from 6.50 per cent to 5.25 per cent in 2025. Markets had expected it. The wording mattered more than the quarter point. The committee said inflation is "no longer as benign" as it was last year, and that higher food and fuel prices are spreading to other goods and services. Rate cuts are now off the table: the next move can only be another rise or a pause. The committee next meets from December 2 to 4, and the minutes of this meeting are due on October 21.

THE FORECASTS BEHIND THE DECISION

The RBI's new projections explain why it acted. It expects consumer price inflation to average 5.2 per cent in the financial year ending in March 2027, with core inflation, which leaves out food and fuel, at 4.4 per cent. The quarterly path is the worrying part: 4.9 per cent in July–September, 6.0 per cent in October–December, 5.7 per cent in January–March and 5.6 per cent in April–June 2027. The last three average about 5.8 per cent, far above the 4 per cent target.

Against that path the new rate is not especially tight. Inflation was 4.82 per cent in August, so the real policy rate today, the repo rate minus inflation, is about 0.7 of a percentage point. Against the 6.0 per cent the RBI itself expects for October–December, it would be about minus 0.5. A central bank that forecasts prices rising faster than its own lending rate is, in real terms, still easy.

GROWTH GIVES IT ROOM

The committee raised its growth forecast for the year to 7.1 per cent: 7.2 per cent in July–September, 6.9 per cent in October–December and 6.8 per cent in January–March. The economy grew 7.8 per cent in April–June, beating the RBI's own forecast of 7.0 per cent, on strong consumption and a near 12 per cent rise in private investment. That strength is what let the committee act on prices without waiting for growth to soften.

The risks it listed are mostly beyond its reach: tension in West Asia, volatile crude oil, a deficient monsoon, El Niño and tighter global financial conditions. Brent crude closed the week at $104.42 a barrel. A higher repo rate will not bring down either the price of oil or the price of vegetables. Its job is narrower: to stop a rise in prices driven by supply from turning into an expectation that households and firms write into wages and contracts.

ECONOMISTS EXPECT MORE

Most forecasters read the new stance as a signal of further rises. ICRA expects one more quarter point. Axis Mutual Fund sees up to 75 basis points more, and SBI Research expects the repo rate to reach 6 per cent. Economists quoted by Business Today expect at least another quarter point in December.

The rate was only one of the levers pulled. Mr Malhotra said at his press conference that the large surplus of cash in the banking system is unlikely to last beyond this financial year, and the RBI has scheduled a sale of government bonds on Tuesday to absorb some of it. He described a rise in banks' cash reserve ratio as among the least preferred tools. On Saturday the RBI also opened a dollar window for the three state oil companies. Those moves are covered elsewhere in this issue. Taken together they show a central bank working with rates, liquidity and foreign exchange at once, because none is enough on its own.

The minutes will show how much the members disagreed. One report says that two of them, Nagesh Kumar and Ram Singh, preferred to keep the stance neutral. If so, the bar for a December rise may be higher than the new wording suggests, and the September and October inflation figures will decide it.

Reserves fall $51 billion in a month as the rupee nears its low

The RBI has spent about 6.5 per cent of its record reserve pile holding the rupee near 97 to the dollar. The rate rise has not changed the pressure, which comes from oil, American yields and foreign selling.

BY ARNAV GOEL

India's foreign exchange reserves fell for a fourth week in a row, by $12.95 billion to $734.6 billion in the week ended October 2. They had reached a record $785.71 billion on September 4, when India held the fourth-largest reserves in the world. In four weeks the Reserve Bank of India has lost about $51 billion, roughly 6.5 per cent of the pile. Bloomberg linked most of the fall to the central bank's sales of dollars to support the rupee.

The rupee has barely moved in return. On Wednesday, the day of the rate rise, it touched 96.84 to the dollar and closed near 96.77. On Thursday it was about 0.2 per cent from its record low of 96.96, set on May 20. It has lost more than 7 per cent this year.

WHERE THE PRESSURE COMES FROM

Three forces are pushing the rupee down, and none starts in India. The first is oil. India imports most of its crude and pays for it in dollars, and Brent has stayed above $100 a barrel; it closed Friday at $104.42. The second is American interest rates. The yield on the 30-year Treasury bond reached 5.70 per cent on Wednesday, making dollar assets more attractive to the same global funds that hold Indian ones. The third is foreign selling of Indian shares. Foreign portfolio investors sold ₹35,861 crore of equities in September and ₹25,126 crore more in the first seven days of October. Their sales this year come to about ₹2.85 lakh crore, close to $30 billion.

A rate rise should help a currency, because it raises the return on holding it. Economists at HDFC Bank, writing after the decision, called it "a weak defence" in the short run, since it changes none of those three forces. They now expect the rupee to trade between 96 and 98 to the dollar in the second half of the financial year, against 95 to 96.50 before. Mecklai Financial Services, quoted by Bloomberg, said a break through 97 could take it towards 98.50.

WHAT THE DEFENCE COSTS

The RBI has sold dollars in the spot market and used sell/buy swaps in the forward market. In June it also opened a special window under which banks raised dollar deposits from non-resident Indians, through FCNR(B) accounts, and swapped them with the RBI for rupees. Banks raised a record $132.98 billion, far more than expected, and the RBI shut the window a month early. A second window, for external commercial borrowings and overseas bonds, remains open until December 31. By September 30 each route had brought in about $5.3 billion.

Continued

The RBI will sell dollars straight to the state oil companies

From Monday a dedicated window will meet the full daily dollar needs of Indian Oil, Hindustan Petroleum and Bharat Petroleum. It takes the largest regular buyers of dollars out of the open market.

BY ARNAV GOEL

The Reserve Bank of India said on Saturday that from Monday, October 12, it will meet the entire daily dollar requirement of Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum. The dollars will be sold through designated banks, and the window will stay open "until further notice". The RBI has not said how many dollars it expects to supply or how they will be priced. It described the step only as a response to prevailing market conditions.

WHY THREE COMPANIES MATTER TO A CURRENCY

The three state companies buy crude oil abroad in dollars and sell petrol, diesel and cooking gas at home in rupees. Every working day their treasuries buy dollars, and the amounts are large and do not change much with the price. When the rupee is already weak, that steady buying adds to the pressure. Moving it off the open market and onto the RBI's own books takes out one of the biggest sources of demand, so that the market rate reflects a smaller imbalance between buyers and sellers.

India has tried this before. In August 2013 the RBI opened a similar window. At the time the state oil companies were the biggest buyers of dollars in the market, needing $8 billion to $8.5 billion a month to import about 7.5 million tonnes of crude. The circumstances now are different. India's reserves are far larger, but they are also falling: every dollar the RBI hands to an oil company comes from the same $734.6 billion it is using to support the rupee.

THE LOSSES BEHIND THE BUYING

The companies are also losing money on what they sell. ICRA estimated their combined losses on fuel at about ₹530 crore a day, with the marketing margin at minus ₹8 a litre on petrol and minus ₹9 on diesel, when the Indian basket of crude cost $117.4 a barrel on September 21. A government source quoted by the Press Trust of India put the losses absorbed since the Middle East conflict escalated in late February at about ₹1 lakh crore. Pump prices were raised by ₹3 a litre, the first rise in more than four years, but ICRA's figures show the gap has not closed.

The arithmetic is unforgiving. When each litre costs ₹8 or ₹9 more than it earns, and the companies sell many crore litres a day, losses run to hundreds of crores daily. Someone pays in the end: the companies through weaker balance sheets and more borrowing, the government through compensation or smaller dividends, or motorists through higher prices. With inflation already above target, the government has been reluctant to choose the last.

OIL STAYS ABOVE $100

Brent rose 2.4 per cent in the week, touched $105.92 and closed Friday at $104.42. Shipping agencies reported a series of attacks on tankers near the Strait of Hormuz, and a storm threatened American offshore production in the Gulf. On Thursday President Donald Trump said he would not order a resumption of military strikes on Iran before the American midterm elections on November 3. That removed one risk for the next three weeks, but not the attacks on ships.

The window does not change what India pays for oil. It changes who supplies the dollars, and how visibly. Two numbers will show whether it works: the weekly reserve figure, which the market will watch for a slower fall, and the volume of dollars the RBI eventually admits to supplying. Without the second, investors cannot tell how much of the window is relief for the rupee and how much is simply a transfer from the reserves to the oil companies.

India

Reserves fall $51 billion in a month as the rupee nears its low

Continued

So why have reserves fallen so fast? Bloomberg reported that more than a third of the FCNR(B) money had already left the reserve pile. Some economists question whether the window was needed at all. "There was no forex issue this time," said Prasanna Tantri of the Indian School of Business. He estimated that reserves would still be $500 billion to $600 billion even after subtracting the RBI's forward positions, the dollars it has promised to deliver in future.

THE GOVERNOR'S VIEW

Mr Malhotra says reserves remain adequate, at about 11 months of import cover. The rupee, he said, "is not overvalued. It may be undervalued" on several measures, including the real effective exchange rate, which adjusts for inflation at home and among trading partners. Markets can behave irrationally in the short term, he added, and the RBI will keep the currency's movements orderly. But he accepted that oil prices and foreign flows are largely outside its control.

That is the tension. Each dollar the RBI sells slows the rupee's fall, but it also comes out of the cushion that makes the currency credible. At about $13 billion a week, the recent pace, the cushion would shrink quickly. That is why the RBI has now opened a direct dollar window for the state oil companies, the biggest regular buyers of dollars, which is described in our story on fuel. Friday's reserve figure will show whether the losses are slowing.

India in brief

Trent jumps on store growth. Trent, which runs the Zudio and Westside chains, said standalone revenue rose 23 per cent in July–September to ₹5,788 crore from ₹4,724 crore. It opened its 1,000th Zudio store in the quarter. The shares rose 13.1 per cent in the week.

Jio listing nears. Jio Platforms, which received approval from SEBI on August 28 for a share sale, is expected to file its final offer documents soon. Its draft prospectus describes a fresh issue of up to 27 crore shares. Dates of October 21 to 23 have been reported but not confirmed by the company.

Two issues open this week. HD Fire Protect's initial public offering is due to open on October 13 at ₹258–271 a share, raising up to about ₹712 crore. Fusion CX follows on October 14 at ₹275–289, seeking ₹702 crore.

Wholesale inflation near 10%. Economists polled by Reuters expect wholesale price inflation to have risen to 10.18 per cent in September from 9.92 per cent in August.

SEBI rates debt risk. The market regulator introduced a "Credit Risk-o-Meter" on October 7, an additional disclosure that shows the credit risk of debt securities. It also eased the need to appoint a merchant banker for some privately placed debt issued by listed companies.

Rate path forecasts. After Wednesday's rise, ICRA expects one more increase of a quarter point, Axis Mutual Fund up to 75 basis points more, and SBI Research a repo rate of 6 per cent.

Auto shares lag sales. Shares of Maruti Suzuki, Tata Motors' passenger vehicle arm and Mahindra & Mahindra have fallen by as much as 32 per cent this year, despite record sales.

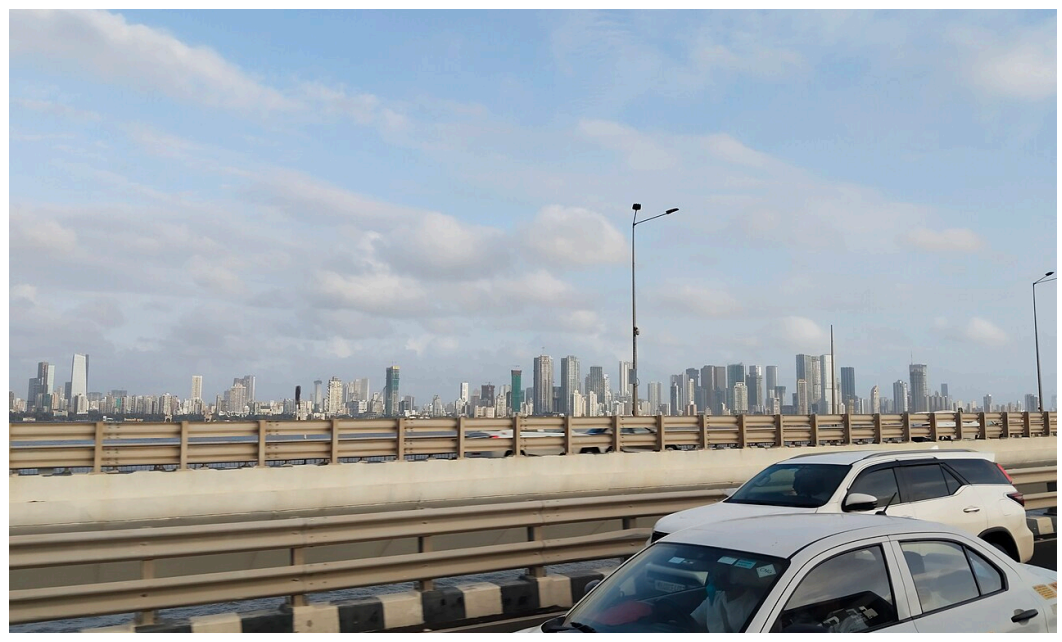
Dollar borrowing window. Indian companies have raised $5.3 billion through external commercial borrowings, and banks a similar amount through overseas borrowing, under an RBI window that stays open until December 31.

Talks with Mexico. India will begin trade negotiations with Mexico next week, commerce minister Piyush Goyal said, and the trade ministers of Britain and Canada are due to visit.

Shares end an eight-week losing run, just

The Nifty hit its lowest level of the year on Thursday, then gained 1.3 per cent on Friday. Consumer and bank shares led; property and metals fell hardest.

BY ARNAV GOEL



The Mumbai skyline, August 2025. CREATER903A / CC BY 4.0

Indian shares ended a week of losses with a week of gains, barely. The Nifty 50 rose 98.50 points, or 0.4 per cent, to close on Friday at 22,520.45. The BSE Sensex gained 562.63 points, or 0.8 per cent, to 72,472.33. That broke a run of eight weekly declines, the longest in 25 years according to one count. Only 2001 produced a longer streak.

Almost all the gain came on the last day. On Thursday the Nifty fell 371.25 points and the Sensex 1,045.46 as crude oil rose, taking the Nifty to its lowest close of 2026. On Friday the Sensex rose 879.09 points, or 1.23 per cent, and the Nifty 288.65 points, or 1.3 per cent. Analysts credited a steadier oil price, results from Tata Consultancy Services and the news that the United States would not resume strikes on Iran before its midterm elections.

WINNERS AND LOSERS

The pattern across sectors followed the week's news. Fast-moving consumer goods shares rose 2.5 per cent, the strongest sector. Public sector banks gained 2.4 per cent and the broader bank index 1.5 per cent. A rate rise tends to help banks in the short run, because many loans are linked to the repo rate and reset quickly, while deposit rates move more slowly. Information technology rose 1 per cent despite an American move to suspend several Indian software firms from a green-card programme.

The losers were the sectors most exposed to borrowing costs and commodity prices. Property shares fell 3.7 per cent, since higher home-loan rates weigh on demand. Metal shares also fell 3.7 per cent. Carmakers lost 2.1 per cent, despite strong September sales, and defence and pharmaceutical stocks fell 1.5 and 1.3 per cent.

Among Nifty companies, Trent, which runs the Zudio and Westside stores, gained 13.1 per cent after reporting that standalone revenue in July–September rose 23 per cent from a year earlier to ₹5,788 crore. It opened its 1,000th Zudio store in the quarter. The BSE rose 7.9 per cent and Kotak Mahindra Bank 5.4 per cent. Adani Enterprises fell 6.5 per cent, Max Healthcare 6.1 per cent and JSW Steel 5.3 per cent.

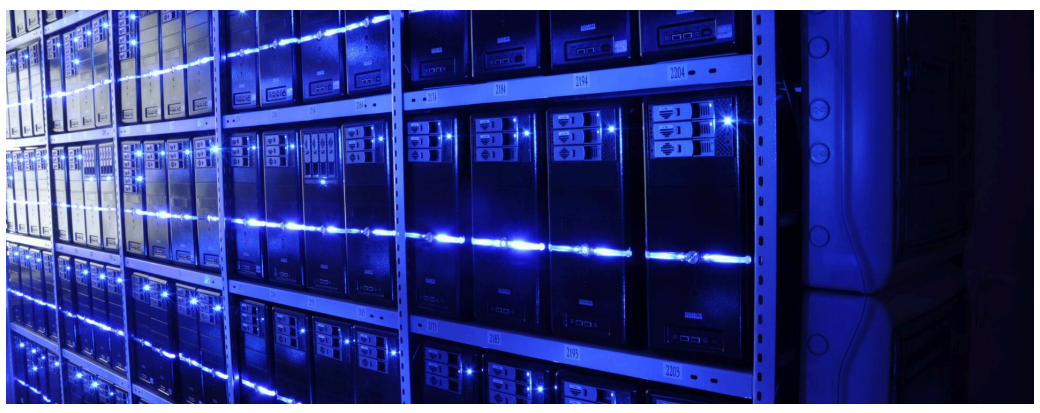
THE FOREIGN MONEY PROBLEM

The background is the steady exit of foreign investors. They sold ₹35,861 crore of Indian shares in September and another ₹25,126 crore in the first seven days of October, for a total of about ₹2.85 lakh crore this year. Domestic institutions have absorbed a large part of that selling, which is why the market has drifted rather than collapsed.

Three things keep the foreign money moving out. American bond yields are high, with the 10-year Treasury above 5.2 per cent, so investors can earn more at home with less risk. The rupee is near its weakest level, which cuts the dollar value of Indian returns. And oil above $100 a barrel squeezes the profits of Indian companies that depend on fuel. A rate rise at home adds a fourth: higher borrowing costs for companies and a higher rate against which share valuations are judged.

WHAT COULD CHANGE IT

The India VIX, a measure of expected volatility, fell 0.6 per cent in the week, a sign that traders are not panicking. The coming week brings September inflation figures on Monday and results from HCLTech, Wipro and Tech Mahindra. For the run of losses to stay broken, oil probably needs to fall below $100 and foreign selling to slow. Neither looked likely on Friday, when Brent closed at $104.42.



A data-centre server room. BALTICSERVERS.COM / CC BY-SA 3.0

TCS grows its profit 15 per cent, but margins slip

India's largest software company earned ₹13,884 crore in July–September. Revenue rose 11.2 per cent from a year earlier, and its artificial-intelligence business is now worth more than $3 billion a year.

BY ARNAV GOEL

Tata Consultancy Services opened the results season for India's software industry on Thursday with a quarter that was better than feared but not strong. Net profit for July–September was ₹13,884 crore, up 14.9 per cent from ₹12,075 crore a year earlier and about 4 per cent from ₹13,349 crore in April–June. The June quarter had included an exceptional loss of ₹668 crore linked to the settlement of a legal claim, which flatters the comparison with the previous three months.

Revenue from operations was ₹73,188 crore, up 11.2 per cent on the year and 1.3 per cent on the quarter. The board declared an interim dividend of ₹12 a share. Investors liked the numbers more than analysts did: the shares rose 5.46 per cent to ₹2,187.60 on Friday, helping lift the information technology index for the week.

PROFIT BEAT, MARGIN MISSED

Whether the quarter beat expectations depends on which number you look at. Net profit was ahead of a CNBC-TV18 poll estimate of ₹13,673 crore. But the operating margin, which measures how much of each rupee of revenue is left after running costs, came in at 23.98 per cent, missing forecasts. Earnings before interest and tax were about ₹147 crore short of the ₹17,700 crore analysts expected. Net profit as a share of revenue was about 19 per cent.

The margin matters because it shows pricing power. Software companies sell mostly time: the hours of engineers working on clients' systems. When clients cut back on large projects and ask for discounts, revenue can still grow through volume, but margins narrow. Business Standard described the quarter as modest, pointing to weak momentum in large deals and subdued growth in North America, the industry's biggest market.

ORDERS AND ARTIFICIAL INTELLIGENCE

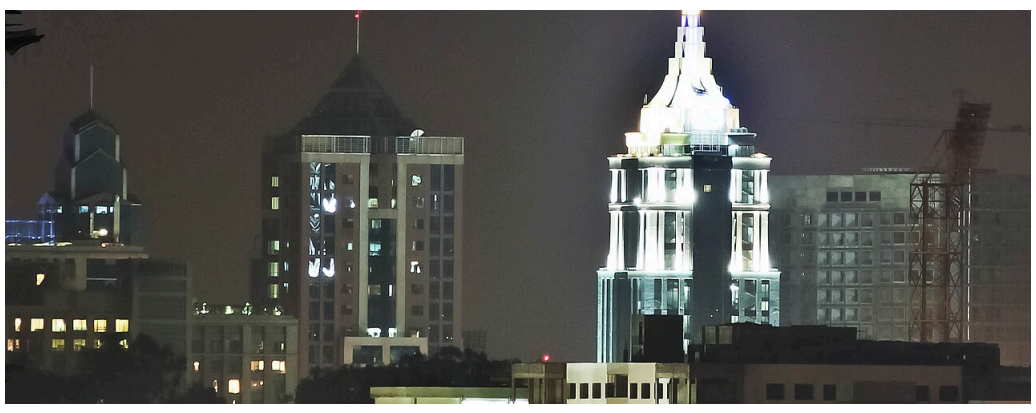
The total value of new contracts signed in the quarter was $9.6 billion, slightly more than the $9.5 billion in April–June. Order intake is the best guide to revenue a year ahead, and a flat figure suggests growth will stay steady rather than pick up.

The figure investors focused on was artificial intelligence. TCS put its annualised revenue from AI work at more than $3 billion, with one report giving $3.1 billion. That is still a small part of a company whose revenue in a single quarter was ₹73,188 crore, but it is growing as clients move from experiments to deploying AI tools in their operations. The question for the industry is whether AI adds work, by creating new projects, or removes it, by automating the coding and testing that Indian firms have long been paid to do.

THE AMERICAN PROBLEM

The results came on the same day that the United States Department of Labor suspended TCS and seven other companies from its PERM programme, the first step in sponsoring foreign workers for green cards. TCS said the decision would not affect its American workforce strategy. The story is covered on another page.

The next tests come quickly. HCLTech reports on Monday, Wipro and Tech Mahindra on Thursday, and Infosys on October 23. Analysts expect a muted quarter for the large companies, with smaller mid-sized firms doing better. If the large firms report similar numbers, with steady deals, slipping margins and growing AI revenue, the picture will be of an industry holding up rather than accelerating.



UB City, Bangalore. SAAD FARUQUE / CC BY 2.0

America shuts eight tech firms out of its green-card process

The Labor Department will neither accept nor process permanent-residence applications involving Infosys, TCS, Wipro, HCLTech and four others. Existing H-1B visas are not affected, but the route to staying for good is frozen.

BY ARNAV GOEL

The United States Department of Labor said on Thursday that it had suspended eight technology and outsourcing companies from its Permanent Labor Certification programme, known as PERM. The list includes four of India's largest software companies, Infosys, Tata Consultancy Services, Wipro and HCL Technologies, along with Cognizant, Capgemini, Microsoft and Adobe. The department said it would neither accept new applications nor process pending ones involving the companies. It gave no end date.

Labor Secretary Keith Sonderling announced the decision with Vice President JD Vance at a White House press conference. He tied the action against Infosys, TCS and Wipro to a criminal investigation led by the department's Inspector General, and said Microsoft and Adobe were suspended because of several active federal investigations. He said the companies had requested almost three million foreign workers since 2009, and received more than 230,000 approvals for H-1B visas and more than 100,000 permanent labour certifications.

WHAT PERM DOES

PERM is the first step when an American employer sponsors a foreign worker for a green card, which gives permanent residence. The employer must show the Labor Department that no qualified and willing American worker is available, and that hiring the foreigner will not harm the wages or conditions of similar American workers. The whole green-card process can take years.

The suspension does not cancel anyone's H-1B status. Engineers already working in America on temporary visas can carry on working. What changes is the path from temporary to permanent. For employees of these eight firms, that path is now closed until the suspension is lifted. One analysis noted that the announcement did not address the final step of a green-card application, leaving cases further along in some doubt.

THE COST FOR INDIAN FIRMS

For the companies, the immediate cost is in hiring and keeping staff rather than in revenue. Engineers who want to settle in America may move to employers that can still sponsor them. Firms may have to rely more on local hiring in America, which is more expensive, or on work done from India. TCS said the decision would not affect its American workforce strategy.

The markets were calm. The Nifty IT index rose 1 per cent in the week, helped by TCS's results.

THE POLITICS

The government in New Delhi has formally expressed its dissatisfaction with the decision and with the language used by American leaders. One report quoted the administration's argument that companies must hire American workers. The timing is awkward. The two countries are in the final stage of drafting a trade agreement, and commerce minister Piyush Goyal said on Saturday that the deal would be finalised in light of "changed circumstances".

The decision is part of a wider campaign against the use of visa programmes that the administration says disadvantage American workers. A Labor Department inspector general investigation into H-1B and PERM fraud was announced in July. Whether the suspension lasts weeks or years will depend on where that investigation goes, and on whether India raises it in the trade talks.



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

September inflation is expected to break 5 per cent

Economists polled by Reuters expect consumer prices to have risen 5.4 per cent in the year to September, up from 4.82 per cent. The figure is due on Monday, and the RBI's own forecast implies much the same number.

BY ARNAV GOEL

India's consumer price inflation for September is published on Monday, and economists expect it to cross 5 per cent. A Reuters poll of 41 economists, taken from October 5 to 7, gave a median forecast of 5.40 per cent, up from 4.82 per cent in August. The forecasts ranged from 4.90 to 5.90 per cent. If the median is right, it would be the fourth month in a row that inflation has been above the Reserve Bank of India's 4 per cent target.

The poll blamed higher prices for food and crude oil. Some economists added a third factor: the rupee, which has lost about 7 per cent against the dollar this year and is close to its weakest level ever. A weaker currency raises the rupee price of everything India imports, from oil and edible oils to electronics.

WHAT THE RBI ALREADY ASSUMES

The RBI has in effect told us what it expects. On Wednesday it projected inflation of 4.9 per cent on average for July–September. Inflation was about 4.45 per cent in July and 4.82 per cent in August. For the three months to average 4.9 per cent, September has to come in at about 5.4 per cent, by our arithmetic. That is exactly where the economists' median sits. A figure close to 5.4 per cent would confirm the RBI's path rather than surprise it. A figure near the top of the range, 5.9 per cent, would make a second rise in December much more likely.

The path after that is steeper. The RBI expects inflation to average 6.0 per cent in October–December. Part of the reason is arithmetic, and part is the poor monsoon, which the committee listed among its risks. When prices in the base period are low, the same monthly rise produces a higher annual rate. ICRA had warned that the base effect would turn unfavourable from September, pushing inflation above 5 per cent.

CORE IS THE NUMBER TO WATCH

The poll expects core inflation, which leaves out food and fuel, to reach 4.3 per cent. Core inflation matters because it reflects pressures the central bank can influence: wages, rents, services and the cost of goods whose prices are set by companies rather than harvests. Food prices can fall as quickly as they rise once a new crop arrives. Core prices, once they climb, tend to stay up. The RBI's forecast for core inflation this year is 4.4 per cent, and the committee said this week that price rises have become more broad-based.

WHOLESALE PRICES ARE WORSE

The same poll expects wholesale price inflation to rise to 10.18 per cent in September from 9.92 per cent in August. Wholesale prices measure what businesses pay for goods, including fuel, metals and raw materials. A gap that wide between wholesale and consumer inflation usually means companies are absorbing part of their higher costs and have not yet passed them on to shoppers. If they do pass them on in the coming months, consumer inflation will rise further.

For households the number that matters most is food. In August food inflation was 5.95 per cent, up from 5.52 per cent in July, and it was higher in villages, at 6.13 per cent, than in towns, at 5.64 per cent. With the monsoon ending about 13 per cent below normal and El Niño expected to last into early 2027, the price of vegetables, pulses and cereals over the winter will depend on how much of the rabi crop can be sown on dry land. Monday's release will be the first test of how quickly the shortfall is reaching the market.



The Peechi Dam, 22 km outside Thrissur in Kerala, India. LIJOVKLM / CC BY-SA 4.0

The weakest monsoon in a decade leaves half of India dry

Rain from June to September was about 13 per cent below normal. More than half the country was in dry or drought conditions by mid-September, and El Niño is expected to last until February.

BY ARNAV GOEL

The south-west monsoon has ended as the weakest in more than a decade. Reports of the India Meteorological Department's final figures put the season's rainfall at about 759 mm, against a long-period average of 868.6 mm, a shortfall of roughly 13 per cent. It is the poorest monsoon since 2015. As late as September 22, the deficit had stood at 15 per cent: 706.9 mm of rain against a normal of 832.4 mm for the season to that date. Late rain narrowed the gap but did not close it.

A 13 per cent shortfall sounds modest. It is not, because the national number hides how unevenly the rain fell. By September 22 only 42 per cent of the country's area had received normal rain for the season, and 41 per cent was deficient. By September 20 the deficit was 43 per cent in Rayalaseema, 37 per cent in coastal Andhra Pradesh, 36 per cent in Marathwada, 32 per cent in north and south interior Karnataka and 28 per cent in Kerala.

DROUGHT SPREADS

The India Drought Monitor, run by IIT Gandhinagar, found that 52.5 per cent of the country was under dry or drought conditions on September 16, up from 38.9 per cent a month earlier. Western India was worst affected, with 79 per cent of its area dry, followed by the south at 67 per cent. Some areas had reached the "extreme" and "exceptional" categories. Karthikeyan Lanka of IIT Bombay said the drought "looks worse than the 2015-16 drought", though he described the comparison as qualitative.

The pattern makes it harder to manage. Spells of rain have been followed by dry weeks, so soil moisture has been replenished and then lost again. IIT Bombay's agricultural forecast for September 7 to October 4 showed persistent drought in parts of Andhra Pradesh, Tamil Nadu, Karnataka, Maharashtra and western Madhya Pradesh.

WHAT IT MEANS FOR CROPS

The summer crop has been planted on a little less land than last year. By September 11, kharif sowing covered 1,096.49 lakh hectares, against 1,112.54 lakh hectares a year earlier, a fall of 16.05 lakh hectares, according to the agriculture ministry. Paddy was hit hardest: 426.81 lakh hectares, nearly 17 lakh hectares less than last year. The biggest declines were in Karnataka, down 4.54 lakh hectares, Telangana, down 4.46 lakh, and Andhra Pradesh, down 1.90 lakh.

The bigger risk is the winter crop. Between 55 and 60 per cent of India's net sown area depends on rain rather than irrigation. Sowing of the rabi crop depends on the moisture left in the soil and on water stored in reservoirs. If the soil is dry, farmers either sow less or see weaker germination. In June the agriculture ministry and the Indian Council of Agricultural Research flagged 315 districts as vulnerable to El Niño-related distress. Of those, 111 were made high priority because less than a quarter of their land is irrigated.

EL NIÑO STAYS

The World Meteorological Organization says El Niño, the warming of the Pacific that weakens the Indian monsoon, is firmly established and should persist through February 2027. The India Meteorological Department expects below-normal rain over most of the country from October to December, though it forecasts normal rain for the southern peninsula, including Tamil Nadu, Kerala and coastal Andhra Pradesh.

The economic effects travel through prices. A smaller harvest raises the cost of food, which makes up a large part of what poorer households spend, and food inflation was already 5.95 per cent in August. The RBI cited the deficient monsoon and El Niño among the reasons for raising rates this week. A central bank cannot make it rain. What it fears is that higher food prices push up what people expect inflation to be, and so the wages they demand. How the rabi season goes over the next two months will decide how much of that fear is realised.



The Gateway of India, Mumbai. AASHISH3000 / CC BY-SA 3.0

Bond yields climb to a three-year high

The 10-year government bond yield touched 7.31 per cent on Friday. The RBI is now draining cash from the banks as well as raising its rate, a double tightening that the bond market is pricing in.

BY ARNAV GOEL

The yield on India's benchmark 10-year government bond rose to 7.29 per cent on Friday and touched 7.31 per cent during the day, its highest level in three years. It has risen 0.32 of a percentage point in a month and 0.77 of a point in a year. Bond prices move in the opposite direction to yields, so investors holding government debt have taken losses as the Reserve Bank of India has turned from cutting rates to raising them.

TWO KINDS OF TIGHTENING

The quarter-point rise in the repo rate to 5.50 per cent was the headline. For the bond market the other half of the story is cash. Banks have been sitting on a large surplus of money, which they park with the RBI at the standing deposit facility rate. When the system has more cash than it needs, the overnight rate at which banks lend to each other sinks towards that lower rate, now 5.25 per cent, rather than the repo rate.

The RBI wants to end that. Governor Sanjay Malhotra said on Wednesday that he did not expect such a large surplus to last for long, and that it should be absorbed within the current financial year. Three things will do it, he said: people withdrawing more cash, the RBI's own sales of dollars to support the rupee, which take rupees out of the system, and open market operations, in which the RBI sells bonds and collects cash. One such sale is scheduled for Tuesday, October 13. Market participants estimate the RBI could drain nearly ₹1 lakh crore in the coming weeks.

The effect is that the rate banks actually pay for overnight money can rise by more than the quarter point announced on Wednesday, as it moves from the bottom of the corridor towards the repo rate. That is why the bond market has reacted more than the size of the rise might suggest.

HOW FAR YIELDS COULD GO

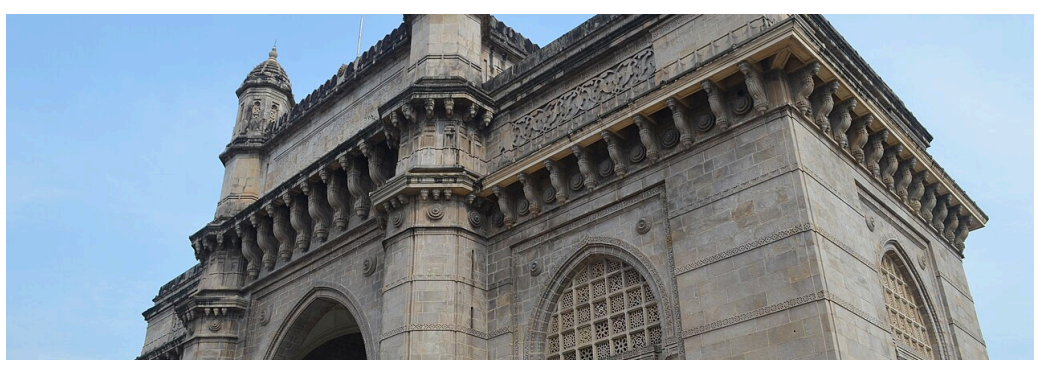
The gap between the 10-year yield and the repo rate is now about 1.8 percentage points. That spread reflects what investors expect the policy rate to average over the next decade, plus a premium for the risk of holding long-term debt. Economists expect the repo rate to peak at 6 per cent or more, and the RBI forecasts inflation of about 6 per cent in October–December. Both point to higher, not lower, yields.

Supply adds to the pressure. The government plans to borrow ₹7.86 lakh crore through dated bonds between October and March, in 23 weekly auctions of mostly ₹33,000 crore to ₹36,000 crore. The 10-year segment accounts for 26.3 per cent of that. Each auction must find buyers at a time when foreign investors are selling Indian assets and the RBI is selling bonds too.

THE WORLD'S INFLUENCE

Indian yields have also tracked a global rise. The 10-year American Treasury yield was about 5.27 per cent on Wednesday and the 30-year about 5.70 per cent. When safe American bonds pay that much, Indian bonds need to offer more to keep foreign money. Oil above $100 a barrel adds an inflation risk premium.

Forecasts vary. Trading Economics' models see the 10-year at about 7.25 per cent by the end of the quarter, while another analysis expects 7.3 to 7.4 per cent by the end of the financial year. For borrowers the direction is clear. Banks, companies and state governments that raise money in the bond market will pay more, and the government's interest bill will rise with each auction.



The Gateway of India, Mumbai. TEJAS98 / CC BY-SA 3.0

Subsidies push the deficit ahead of last year's pace

The Centre used 41.9 per cent of its full-year deficit target in the first five months, against 38.1 per cent a year earlier. Higher subsidies and faster investment spending explain the gap; dearer borrowing will add to it.

BY ARNAV GOEL

The central government's fiscal deficit, the gap between what it spends and what it collects, was ₹7,10,249 crore in April–August, according to the Controller General of Accounts. That is 41.9 per cent of the target of ₹16.96 lakh crore for the year to March 2027. In the same five months last year the government had used 38.1 per cent of its target, with a deficit of ₹5.98 lakh crore.

Running ahead of last year's pace is not by itself a sign of trouble. The question is why spending is faster, and whether the reasons will fade or grow.

TWO REASONS FOR FASTER SPENDING

The first is subsidies. Total subsidy payments in April–August rose 24.4 per cent from a year earlier to ₹1.87 lakh crore. The published

Continued



An automated teller machine. ELPH / PUBLIC DOMAIN

Bank lending grows at its fastest pace in years

Bank credit rose 19.4 per cent in the year to the end of September, against 11.4 per cent a year earlier. Deposits kept up only because of a special dollar scheme, and that help is now ending.

BY ARNAV GOEL

Indian banks lent more in the past year than at any time in recent memory. Bank credit grew 19.4 per cent in the year to the end of September, according to business updates and RBI data, while deposits grew 17.8 per cent. A year earlier credit had grown 11.4 per cent and deposits 9.9 per cent. The ratio of loans to deposits stood at 81 per cent.

Governor Sanjay Malhotra cited a slightly lower figure, 18.1 per cent credit growth as of September 15, in his statement this week.

WHERE THE DEPOSITS CAME FROM

For most of the year deposits lagged. In June, credit was growing at 16.5 per cent and deposits at only 11.3 per cent, which pushed the loan-to-deposit ratio to a record 83.3 per cent. A bank that

Continued

Subsidies push the deficit ahead of last year's pace

Continued

figures do not break down the increase. But the pressures are visible: a poor monsoon, and oil above $100 a barrel, with state oil companies losing an estimated ₹530 crore a day on fuel sales.

The second is investment. Capital expenditure, on roads, railways and other assets, rose 18 per cent to about ₹5.1 lakh crore in the five months. That is the kind of spending that adds to the economy's capacity, and the RBI cited strong investment this week as one reason growth can withstand a rate rise.

THE BORROWING PLAN

The government finances the deficit mainly by selling bonds. On September 25 it said it would borrow ₹7.86 lakh crore through dated securities between October and March, in 23 weekly auctions, mostly of ₹33,000 crore to ₹36,000 crore each. That brings gross borrowing for the year to ₹15,99,506 crore, below the budget figure of ₹17.2 lakh crore. The cut is mainly the result of a debt switch: the government exchanged ₹1,14,286 crore of bonds due for repayment this year for longer-dated ones, so it does not need to raise new money to repay them. One report says the net amount of new borrowing is unchanged from the budget.

RISING INTEREST COSTS

The rate rise changes the arithmetic. The 10-year bond yield touched 7.31 per cent on Friday, up 0.77 of a percentage point from a year ago. Each auction from here on locks in a higher interest rate for the life of the bond. A rise of 0.5 of a point on ₹7.86 lakh crore of new bonds would add about ₹3,900 crore a year to the interest bill, by our arithmetic, and that cost lasts for as long as the bonds are outstanding.

Revenue is holding up. Gross goods and services tax collections rose 14.7 per cent in September to ₹2.04 lakh crore, and 11.6 per cent in the first half of the year. Strong growth in nominal income, which includes inflation, raises tax receipts. That is the cushion. The risk is on the spending side: if oil stays above $100, the monsoon's effects deepen and interest rates keep rising, subsidies and interest could both run above budget at the same time. The deficit target is still within reach. It is less comfortable than it was.

Bank lending grows at its fastest pace in years

Continued

lends much more than it raises in deposits must borrow the difference in the market, usually at a higher cost, or slow its lending.

The gap closed because of the RBI's special window for foreign currency deposits. Under the FCNR(B) scheme, banks raised dollar deposits from non-resident Indians and swapped them with the RBI for rupees on concessional terms. They raised $133 billion, far more than expected, and many large banks named the scheme as the main reason for the rise in their deposits. Time deposits, the kind that are locked in for a fixed period, accounted for ₹36.3 lakh crore, or 84.5 per cent of the growth in deposits over the year.

That help is now over. The RBI closed the window a month early. Without it, deposits are likely to go back to growing more slowly than loans, at a time when the RBI is also draining surplus cash from the banking system.

WHAT THE RATE RISE DOES TO BANKS

In the short run, a higher repo rate helps banks' margins. Many loans, especially home loans and loans to small businesses, are linked to an external benchmark such as the repo rate, and their rates reset within weeks or months. Deposit rates move more slowly, because existing fixed deposits keep their rate until they mature. Public sector bank shares rose 2.4 per cent this week.

The effect fades. To keep deposits growing without the special scheme, and with surplus cash being drained, banks will have to offer higher rates on new deposits. Analysts expect pressure on funding costs.

THE RISK OF FAST LENDING

Fast credit growth is a sign of a strong economy, and the RBI cited it as evidence of resilience. It is also when bad loans tend to be made. Loans written when money is cheap and growth is strong are tested when rates rise and growth slows. The RBI expects growth to slow from 7.2 per cent in July–September to 6.8 per cent in January–March. Rates are rising. The quality of the past year's lending will be judged over the next two.

The September-quarter results will offer the first signs. HDFC Bank and Axis Bank were due to report on October 17, according to a September preview. Investors will look at net interest margins, the growth in deposits without the special scheme, and any rise in loans that borrowers have stopped repaying.



An apartment building. RENE BIEDER / CC0

What the rate rise means for your home loan

For a ₹50 lakh loan over 20 years, a quarter-point rise adds about ₹800 a month. Borrowers can pay more each month or keep the payment and pay for longer.

BY ARNAV GOEL

Through 2025, Indian borrowers had good news from the Reserve Bank of India. The repo rate was cut by 1.25 percentage points in 2025, from 6.50 to 5.25 per cent, and most floating-rate loans became cheaper. Wednesday's rise to 5.50 per cent reverses a fifth of that, and the RBI has said the next move can only be another rise or a pause.

WHO IS AFFECTED

Floating-rate loans are the ones affected. Many are linked to an external benchmark such as the repo rate and reset at intervals set out in the loan agreement. When the repo rate goes up, the higher rate applies from the next reset date, and the effect on each borrower depends on the lender's reset process.

Fixed-rate loans, including fixed-rate car loans, should not change. New borrowers will pay more from the start.

THE NUMBERS

The extra cost depends on the size of the loan, the rate and the years left to run. Take a loan with 20 years remaining whose rate rises from 8.50 to 8.75 per cent. On ₹30 lakh, the monthly instalment, or EMI, rises from about ₹26,035 to ₹26,511, an increase of ₹477. On ₹50 lakh it rises from about ₹43,391 to ₹44,186, or ₹794 more. On ₹1 crore it rises by about ₹1,589. These are our own calculations using the standard formula and assume the whole rise is passed on.

A quarter point sounds small, and month by month it is. Over the full 20 years, on the ₹50 lakh loan, it adds up to about ₹1.9 lakh. If economists are right that the repo rate will reach 6 per cent, the rise from here would be twice as large again.

PAY MORE, OR PAY LONGER

Borrowers usually have a choice. They can let the EMI rise and keep the end date of the loan the same. Or they can keep the EMI unchanged and let the bank extend the tenure.

The second option looks painless and is not. When the rate rises and the payment stays the same, a larger share of each instalment goes to interest, so the loan is repaid more slowly. On a long loan, a small rise in the rate can add many months, and the extra interest paid over the life of the loan is usually higher than it would be by paying a slightly bigger EMI now. Borrowers who can afford a higher payment generally save money by choosing it. Those who extend the tenure should check that the new end date is one they can live with, especially if they are older.

WHAT ELSE TO WATCH

Deposits may move up too. The RBI has closed a special foreign currency deposit scheme that swelled banks' deposits, and they will need to compete for savings, so fixed deposit rates may rise. For savers, that is the other side of the same decision. For borrowers, the most useful step is a simple one: find out when the loan next resets and what option the bank will apply, rather than discovering it in a statement months later.



A car dashboard on a factory assembly line. MAREK ŚLUSARCZYK / CC BY 3.0

Factories grow 9 per cent ahead of the festive season

Industrial output rose 8 per cent in August and manufacturing 9 per cent, the third month in a row above 8 per cent. Mining shrank. The strength helps explain why the RBI felt able to raise rates.

BY ARNAV GOEL

India's factories had a strong August. The index of industrial production rose 8.0 per cent from a year earlier, up from a revised 7.4 per cent in July, according to data released on September 28. Manufacturing, which makes up most of the index, grew 9.0 per cent. It was the third month in a row in which manufacturing expanded by at least 8 per cent. Electricity and gas supply rose 12.3 per cent. Mining and quarrying was the weak spot, shrinking 5.6 per cent after growing 15.8 per cent in August last year.

The figures come from the new series of the index, which uses a more recent base year. Comparisons with older figures should be made with care, and some reports give different numbers for the cumulative growth from April to August.

WHY AUGUST WAS STRONG

Factories make goods before they are sold, and reports linked August's rise to production ahead of the festive season, when shops and dealers stock up. Car companies are a clear example. Passenger vehicle makers sent about 21 per cent more vehicles to dealers in September than a year earlier, and Maruti Suzuki's domestic dispatches rose 36.9 per cent. That kind of demand requires steel, components and electricity weeks in advance.

THE BIGGER PICTURE

The factory figures fit a strong economy. Gross domestic product grew 7.8 per cent in April–June, beating the 7.3 per cent median forecast in a Bloomberg survey and the RBI's 7.0 per cent. Private consumption grew 7.1 per cent, against 6.8 per cent a year earlier, and private investment grew nearly 12 per cent, against 5.8 per cent. Growth in January–March was revised up to 8.6 per cent from 7.8 per cent, the highest in the current data series, which uses 2022-23 as its base year.

That strength is why the RBI felt able to raise rates. Its new projection is 7.2 per cent growth in July–September, slowing to 6.9 per cent and then 6.8 per cent in the following two quarters. The central bank thinks the economy can absorb a quarter-point rise without much damage.

WHAT COULD SLOW IT

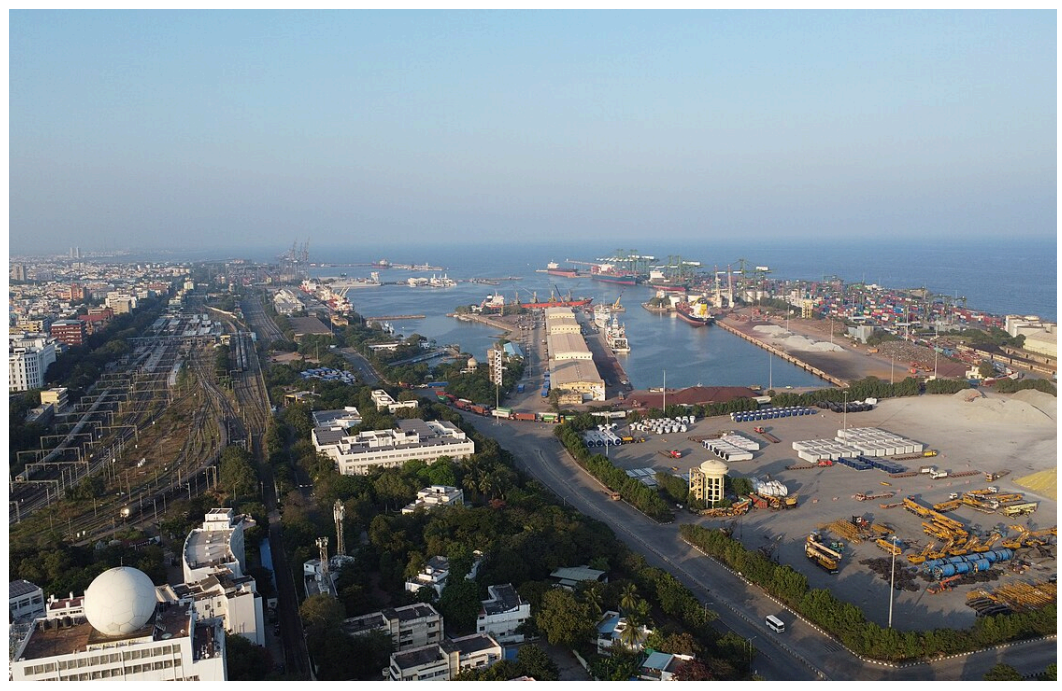
Three things could change the picture. The first is the cost of money: higher interest rates raise the cost of working capital and of loans for machinery, and cool demand for goods bought on credit, such as cars and homes. The second is the monsoon, which cuts farm incomes where the rain failed. The third is oil, which raises the cost of fuel and freight for almost every factory.

The September figure, due around the end of October, will show whether the momentum held into the festive season itself. The fall in mining should be read with its base in mind: a year earlier, mining output had grown 15.8 per cent.

Exports jump 26 per cent and the trade gap narrows

Goods exports reached $43.81 billion in August as electronics, iron ore and refined fuel sold strongly abroad. Lower gold imports cut the deficit to $26.86 billion, the narrowest in five months.

BY ARNAV GOEL



An aerial view of Chennai Port and the Chennai Port Trust Centenary Building. SAIPHANI02 / CC BY-SA 4.0

India's goods exports rose 26 per cent in August from a year earlier to $43.81 billion, according to data from the Department of Commerce. Imports grew more slowly, by 14 per cent to $70.67 billion. The merchandise trade deficit, the gap between the two, narrowed to $26.86 billion, from $31.98 billion in July and $27.22 billion in August last year. It was the narrowest gap in five months.

The figures, released in mid-September, are the latest available. September's numbers should follow around the middle of this month. They will matter more than usual, because the size of the trade gap is one of the forces behind the rupee's weakness.

WHAT SOLD ABROAD

The growth came from a few large items. Exports of iron ore rose 126 per cent. Electronic goods rose 89.8 per cent. Petroleum products, which Indian refineries make from imported crude and sell abroad, rose 63.3 per cent; with oil prices high, every barrel of refined fuel earns more.

Part of the strength reflects the base. Last year the United States raised tariffs on Indian goods to as much as 50 per cent, which hurt exports. The interim trade framework agreed in February cut the rate to 18 per cent. Comparisons with August 2025 therefore look flattering. Even so, the level of exports is high. From April to August they totalled $215.91 billion, nearly 18 per cent more than a year earlier. Goods exports were equal to 14 per cent of GDP in April–June, the same share as in 2022-23, the year of record merchandise exports, and up from 11.3 per cent in the last financial year.

WHY THE DEFICIT SHRANK

Imports fell from July, and gold was the main reason. Gold imports were about $2.3 billion in August, down from about $4.16 billion in July, a fall of roughly 45 per cent. A weaker rupee raises the price of gold in India, which tends to hold buying back.

Oil is the other big import, and it works the other way. With Brent above $100 a barrel since September, India's crude import bill is rising. The narrowing in August may not last if oil stays high and gold buying recovers.

THE BIGGER GAP

The goods deficit is only part of the picture. India earns a surplus on services, which offsets much of the goods gap. Including services, the combined trade deficit for August was about $9.41 billion, narrower than $11.62 billion a year earlier. That implies a services surplus of about $17 billion in the month, by our arithmetic. From April to August, however, the goods deficit came to about $147 billion.

That gap has to be financed by money flowing in from abroad. This year foreign investors have instead sold about $30 billion of Indian equities, and the RBI's reserves have fallen. Stronger exports help directly: every extra dollar earned abroad is a dollar the RBI does not have to sell. Whether September keeps up the pace, with oil higher and the trade talks with Washington still unfinished, will be watched closely when the figures are published.



The container ship NYK Themis at the Port of Los Angeles. DOWNTOWNGAL / CC BY-SA 4.0

Goyal says the American trade deal will reflect "changed circumstances"

The commerce minister says the pact with Washington is in its final stage, but its terms are being reworked. India wants a tariff advantage over its Asian competitors before it signs.

BY ARNAV GOEL

India's trade agreement with the United States is in its final stage, but it will be finished "in light of changed circumstances", commerce minister Piyush Goyal told the PHDCCI industry chamber on Saturday. He did not say what had changed. Officials are now working on the legal text and the details of how the agreement would be put into effect, according to reports of his remarks. No date has been given for signing.

In February the two countries announced a framework for an interim agreement. Under it, the reciprocal tariff on Indian goods was cut from 50 per cent to 18 per cent, and a range of farm products, including spices, tea, coffee, cashew nuts, bananas, mangoes and papaya, would enter the United States without duty. Mr Goyal met the United States Trade Representative, Jamieson Greer, in early October on the sidelines of a meeting of G20 trade ministers in Milwaukee, where the agreement was discussed.

WHAT INDIA WANTS

India's core demand is relative, not absolute. In September Mr Goyal said India would finalise the deal once Washington gave Indian exporters a preferential tariff advantage over competing countries. Reports name the rivals as manufacturing economies such as Vietnam, Thailand and Bangladesh.

The logic is simple. An American retailer choosing between a shirt made in India and one made in Vietnam cares about the final price. If both countries face an 18 per cent tariff, India gains nothing from the deal relative to its rivals. If India pays less than its competitors, orders move. A tariff advantage of a few percentage points can decide where a factory is built.

WHAT HAS CHANGED

American tariff policy has moved since February. One report linked the reworking to changes in American tariffs following a ruling by the Supreme Court, though Mr Goyal did not confirm that. Exporters also say that the expiry of some tariff surcharges and new duties under Section 301 of American trade law, focused on labour practices, have complicated their arithmetic.

Relations have also been strained this week. On Thursday the American Labor Department suspended four of India's largest software companies, along with four other firms, from the process used to sponsor foreign workers for green cards, and India formally expressed its dissatisfaction.

OTHER PARTNERS

India is pursuing several deals at once, which strengthens its hand. Mr Goyal said negotiations with Mexico would begin next week, and that the trade ministers of Britain and Canada were expected in India. More markets reduce the cost of a long wait for any one of them.

For exporters the stakes are clear in the numbers. Goods exports rose 26 per cent in August, helped by a recovery from last year's tariff shock. A deal that locks in lower tariffs, and an edge over rivals, would make that recovery durable. A deal that leaves India level with Vietnam would be worth much less.

Car sales surge, but carmakers' shares do not

Passenger vehicle makers sent about 21 per cent more cars to dealers in September than a year earlier, led by sport-utility vehicles. Their shares have fallen up to 32 per cent this year.

BY ARNAV GOEL

September was a strong month for India's carmakers. Industry dispatches of passenger vehicles to dealers rose about 21 per cent from a year earlier. Maruti Suzuki, the market leader, sold 2,36,013 vehicles including exports, 24.4 per cent more than the 1,89,665 it sold in September 2025. Its domestic passenger vehicle sales rose 36.9 per cent to 1,81,838, and exports edged up to 44,219 from 42,204.

The rest of the market grew too. Tata Motors' passenger vehicle business sold 70,210 vehicles, up 15 per cent from 60,907, with domestic sales of 68,810. Hyundai sold 77,916, up 10.8 per cent. Kia's wholesale dispatches rose 41 per cent to 32,017. Toyota sold 28,218, of which 3,191 were exported.

BIGGER CARS, MORE ELECTRIC ONES

The shape of demand keeps shifting towards larger vehicles. Maruti sold 78,911 utility vehicles, a category dominated by sport-utility vehicles, up 62 per cent from 48,695 a year earlier. Utility vehicles now make up a third of Maruti's total sales, by our arithmetic.

Electric cars are growing from a small base. Tata Motors sold 15,384 in September, up from 9,191 a year earlier, a rise of about 67 per cent. That is more than a fifth of its domestic sales.

A CAUTION

These are wholesale figures: vehicles sent from factories to dealers, not cars bought by customers. In September, ahead of the festive season, dealers stock up, so wholesale numbers run ahead of retail sales. Registrations at regional transport offices give the better picture of real demand and will come later.

WHY INVESTORS ARE WARY

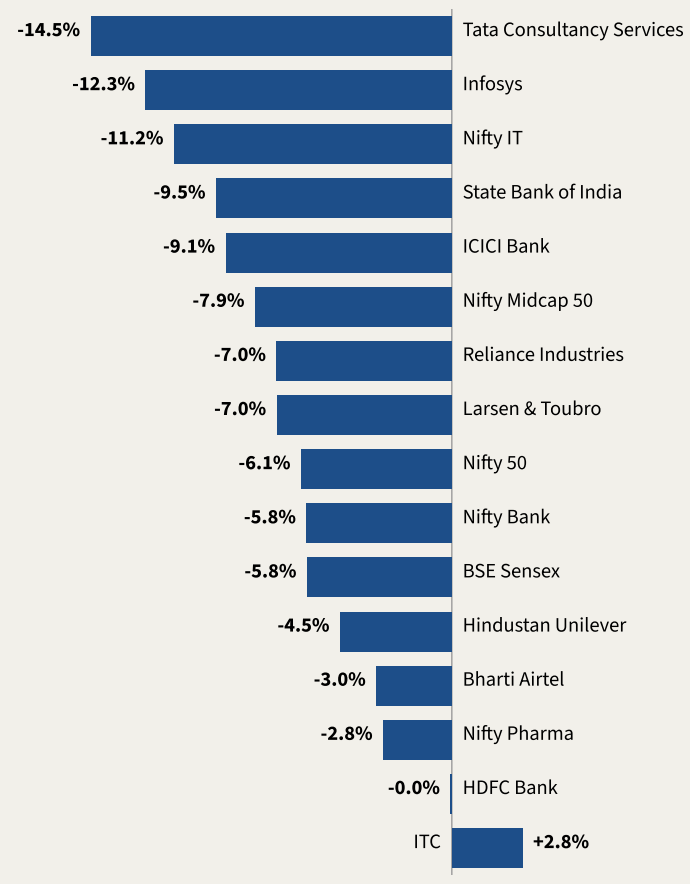
The stock market has not shared the excitement. Shares of Maruti Suzuki, Tata Motors' passenger vehicle business and Mahindra & Mahindra have fallen by as much as 32 per cent this year despite record sales and the tax cut, and the Nifty Auto index fell 2.1 per cent this week.

Investors are looking ahead rather than back. The Reserve Bank of India has started raising interest rates, and many cars are bought with loans. A rise of a quarter point adds little to a car loan's monthly payment, but the RBI has signalled that more may follow. Fuel is the second worry. Oil above $100 a barrel has pushed up pump prices once and squeezed state oil companies, and further rises would raise the cost of running a car.

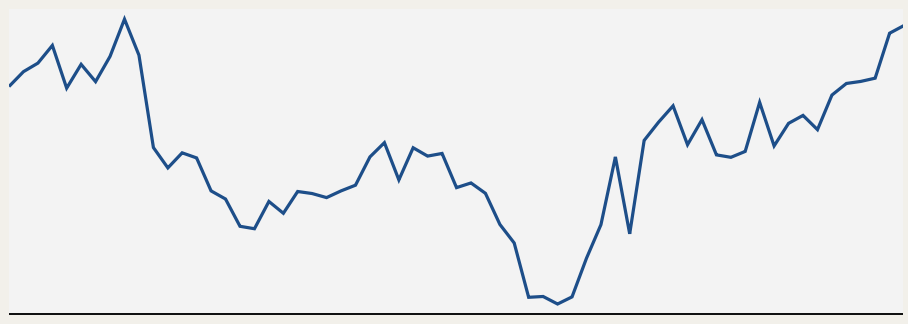
The festive season will decide whether the September dispatches turn into sales. If dealers are left with stock, factories will cut production in the winter. If buyers come in as hoped, the sales will vindicate the companies and perhaps change investors' minds.

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



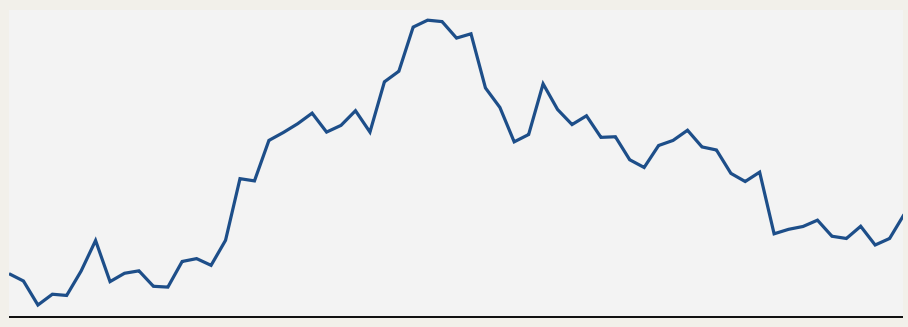
14 Jul: 96.30 · High 96.88 · Low 94.43 · 9 Oct: 96.82

Brent crude, $/bbl, last three months



14 Jul: 84.73 · High 108.75 · Low 79.36 · 9 Oct: 104.72

Gold, $/oz, last three months



14 Jul: 4,070 · High 4,698 · Low 3,992 · 9 Oct: 4,216

UPI passes 800 million payments a day, days before merchant fees begin

The payments system handled 24.07 billion transactions worth ₹29.37 lakh crore in September. From Thursday, larger payments to bigger merchants will carry a fee of 0.4 per cent.

BY ARNAV GOEL

India's Unified Payments Interface processed 24.07 billion transactions in September, worth ₹29.37 lakh crore, according to the National Payments Corporation of India, which runs it. Both figures were slightly lower than in August, by 1.8 per cent in number and 1.5 per cent in value, but only because September has one day fewer. Measured per day, it was a record month. UPI handled an average of 802 million payments a day, the first time it has passed 800 million, up from 791 million in August. The average daily value rose to ₹97,913 crore from ₹96,205 crore.

Growth over the year remains fast. The number of transactions was 23 per cent higher than in September 2025 and their value 18 per cent higher. In the first half of the financial year, from April to September, UPI handled nearly 145 billion transactions worth about ₹177 lakh crore, against 114 billion a year earlier. A total of 756 banks were live on the system.

SMALLER PAYMENTS, MORE OFTEN

The gap between the growth in number and the growth in value says something about how UPI is used. When the number of payments grows faster than their value, the average payment is getting smaller. In September the average transaction was about ₹1,220, by our arithmetic. That is a sign that UPI is being used for more small, everyday payments.

THE NEW FEE

From Thursday, October 15, a merchant discount rate, the fee a shop pays to accept a digital payment, will apply to some UPI transactions for the first time. Under the framework set out by NPCI in a list of questions and answers on September 15, eligible person-to-merchant payments above ₹2,000 will carry a fee of 0.4 per cent. The fee is capped at ₹300 a transaction, the amount reached on a payment of ₹75,000. A merchant receiving ₹3,000 would pay ₹12.

Consumers will not pay. NPCI says merchants cannot pass the fee on to customers, and transfers between individuals remain free. Small merchants, who receive payments under the person-to-merchant framework, will continue to pay nothing.

WHY CHARGE NOW

Running a payment system at 800 million transactions a day costs money, and until now merchants have paid nothing towards it. The design charges those most able to pay: larger merchants receiving larger payments. Payments of ₹2,000 or less, and payments to small shops, stay free. The test will be whether larger merchants try to steer customers to cash or to split bills below ₹2,000. In June 2025 the finance ministry had called reports that a fee would be charged on UPI "baseless". The new framework is narrower than what it denied then, but the principle that UPI is free for everyone has gone.



Aerial view of a new housing development. CHARLES O'REAR / PUBLIC DOMAIN

Two counts of the housing market disagree on direction

Anarock says home sales in seven big cities rose 3 per cent in July–September. PropEquity says sales in nine cities fell 6 per cent. Both agree that prices are rising and that a rate rise is unwelcome.

BY ARNAV GOEL

How is India's housing market doing? It depends whom you ask. Anarock, a property consultancy, says sales in the seven largest cities rose 3 per cent in July–September from a year earlier, to 1,00,220 units from 97,080. PropEquity, a data firm, says sales in its nine cities fell 6 per cent to 1,03,170 units, and were 4 per cent lower than in April–June.

The difference is partly one of coverage. PropEquity counts Thane separately and covers more cities, and the two firms use different methods. Where they agree is more telling than where they differ.

THE CITY PICTURE

Anarock's figures show a market split by city. The Mumbai Metropolitan Region sold 31,750 homes, up 5 per cent. Bengaluru sold 16,670, up 12 per cent, and Hyderabad 12,970, up 15 per cent. Mumbai and Bengaluru together accounted for 48 per cent of all sales. Sales fell in Pune, by 6 per cent to 15,690, in Chennai, by 10 per cent to 5,395, in Kolkata by 4 per cent and in Delhi-NCR by 1 per cent.

PropEquity tells a similar story at the edges. It also has Hyderabad rising, by 11 per cent, and Bengaluru slightly up, by 1 per cent. It has Pune down 16 per cent and Chennai down 17 per cent. The disagreement is mainly over Mumbai: Anarock has the wider region up 5 per cent, while PropEquity has Mumbai down 8 per cent and Thane down 11 per cent.

MORE EXPENSIVE HOMES, MORE SUPPLY

Prices are rising faster than volumes. Anarock puts the rise in average prices at about 7 per cent over the year. The total value of homes sold rose only 2 per cent, to ₹1.55 lakh crore from ₹1.52 lakh crore. By our arithmetic, the average home sold was worth about ₹1.55 crore, slightly less than the ₹1.57 crore of a year earlier. If prices per square foot rose 7 per cent while the average ticket fell, buyers were taking smaller homes or buying in cheaper areas.

Developers are also building more. Anarock counted about 1,14,320 new units launched in the quarter, up 18 per cent from 96,690. When launches outrun sales, unsold stock builds up. PropEquity, by contrast, says launches fell 15 per cent from April–June, a sign that some developers are being cautious.

WHAT THE RATE RISE DOES

Many homes are bought with loans, and the cost of those loans has just gone up. The repo rate rise of a quarter point adds about ₹800 a month to a ₹50 lakh, 20-year home loan, and the RBI has signalled that more rises may follow. Property shares fell 3.7 per cent this week, the joint worst sector on the stock market.

Developers remain hopeful about the festive season. Anuj Puri of Anarock said "the upcoming festive season is expected to boost residential demand". Builders in Bengaluru point to steady demand from professionals and wealthier buyers.

The market at the top end may indeed hold up: buyers with high incomes are less sensitive to a quarter point on their loan. The risk is in the middle, where buyers stretch to afford a home at today's prices and a rising EMI can make the difference. With prices up 7 per cent, rates rising and supply growing, the next two quarters will show whether the surge in launches finds buyers.



The Mumbai skyline with sailboats. IMAHESH / CC BY-SA 4.0

GST collections pass ₹2 lakh crore for a third month

Gross collections rose 14.7 per cent in September to ₹2,03,521 crore. Tax on imports grew faster than tax on domestic sales, partly because the rupee is weaker.

BY ARNAV GOEL

Goods and services tax collections rose 14.7 per cent in September from a year earlier to ₹2,03,521 crore, according to provisional government data released on October 1. It was the third month in a row above ₹2 lakh crore. In September 2025 the figure was ₹1,77,365 crore.

For the first half of the financial year, from April to September, gross collections reached ₹12.46 lakh crore, up 11.6 per cent from the same period last year.

IMPORTS DRIVE THE GROWTH

Gross collections come from two sources: tax on goods and services sold within India, and integrated GST charged on imports at the border. In September, domestic revenue was ₹1,37,996 crore and revenue from imports was ₹65,525 crore. Domestic revenue grew about 10 per cent. Business Today attributed the overall growth largely to a sharp rise in collections from imports.

There is a simple reason import taxes are rising fast. GST on imports is charged on their value in rupees. When the rupee weakens and oil and other import prices rise, the rupee value of the same goods goes up, and so does the tax collected on them. Part of the strength in collections may therefore reflect higher prices rather than more buying. That is good for the budget but not necessarily a sign of stronger demand.

By component, central GST brought in ₹37,762 crore, state GST ₹45,363 crore and integrated GST, which covers sales between states as well as imports, ₹1,20,396 crore.

NET COLLECTIONS JUMP

The net figure, after refunds, grew faster than the gross. Refunds fell 3 per cent to ₹27,001 crore, so net collections rose 18.1 per cent to about ₹1.77 lakh crore. Net collections are what the governments actually keep, and the September figure will help the Centre's accounts after a first five months in which the fiscal deficit ran ahead of last year's pace.

WHAT IT TELLS US

Tax collections reflect the economy in nominal terms, which means output plus inflation. Both are rising. Industrial output grew 8 per cent in August, and carmakers sent 21 per cent more vehicles to dealers in September. Inflation is above 4 per cent and expected to rise. A tax system that grows with nominal income benefits when inflation rises, at least for a while.

That cushion has limits. Higher prices raise government spending too, on subsidies, and higher interest rates raise the cost of servicing debt. Collections in October and November, when festive spending is at its height, will show how much of the growth comes from real demand and how much from prices.

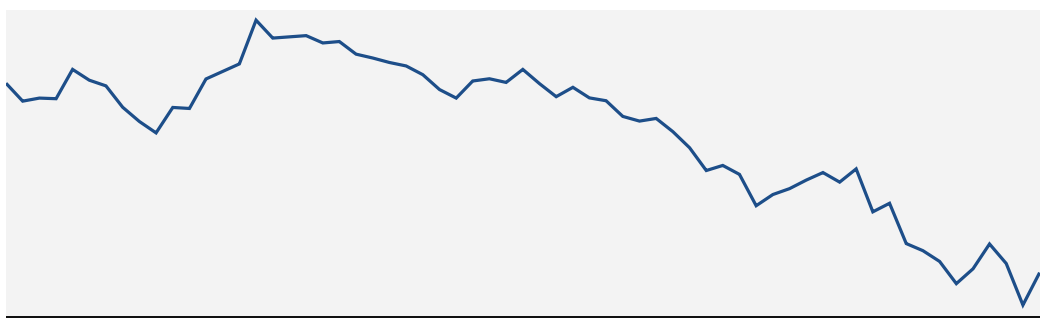
Indian Markets

Closing levels to Friday, October 9, 2026. Changes over five and 21 trading sessions. Source: Yahoo Finance.

	Last	Week	Month
INDICES			
BSE Sensex	72,472	+0.8%	-4.1%
Nifty 50	22,520	+0.4%	-4.7%
Nifty Bank	55,257	+1.5%	-2.7%
India VIX	14.38	-0.6%	+28.0%
SECTORS			
Nifty IT	28,575	+1.0%	-4.4%
Nifty Pharma	25,962	-1.3%	-3.4%
Nifty Midcap 50	16,787	-0.3%	-7.2%
RUPEE			
Rupee per dollar	96.82	+0.6%	+1.8%
Rupee per euro	108.45	+0.2%	-1.2%
Rupee per pound	127.97	+0.8%	-0.7%

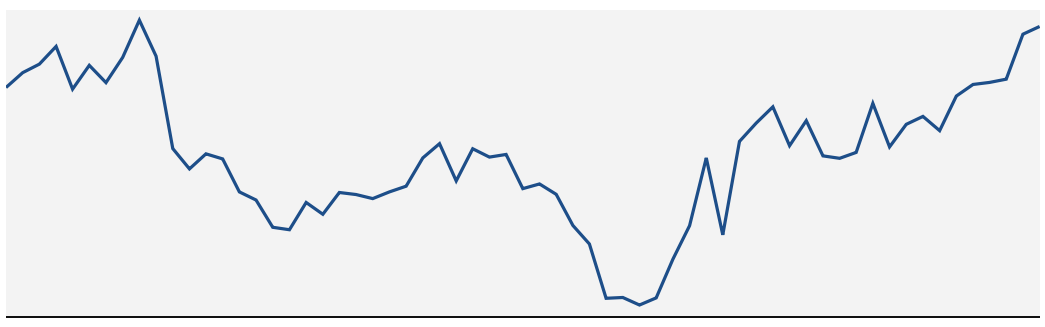
	Last	Week	Month
LEADING SHARES, ₹			
Reliance Industries	1,170	+0.2%	-9.6%
HDFC Bank	707.25	-1.9%	+0.6%
ICICI Bank	1,355	+3.4%	-3.2%
Bharti Airtel	1,805	+3.7%	-2.1%
Tata Consultancy Services	2,156	+3.9%	-4.4%
Infosys	1,023	-1.1%	-5.4%
State Bank of India	959.10	+0.5%	-4.9%
ITC	266.00	+3.9%	+0.9%
Larsen & Toubro	3,703	+0.3%	-6.2%
Hindustan Unilever	1,857	+1.1%	-6.2%

Nifty 50, last three months



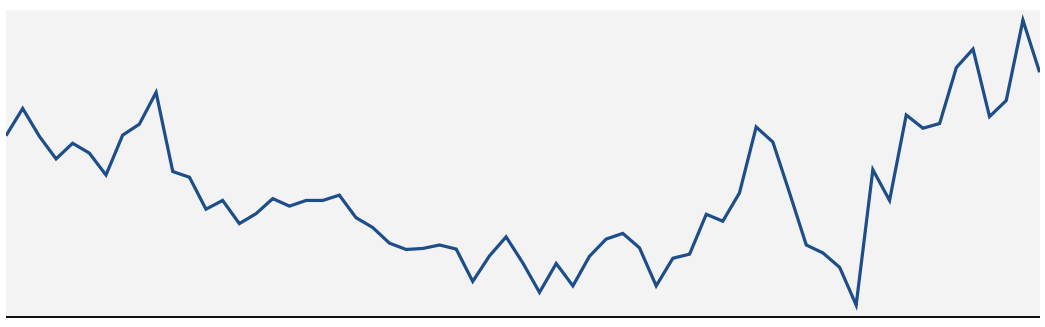
13 Jul: 24,211 High 24,774 · Low 22,232 9 Oct: 22,520

Rupee per dollar, last three months



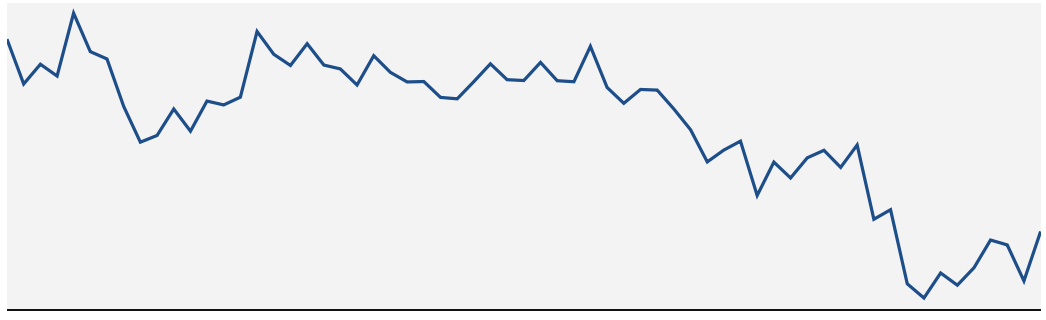
14 Jul: 96.30 High 96.88 · Low 94.43 9 Oct: 96.82

India VIX, last three months



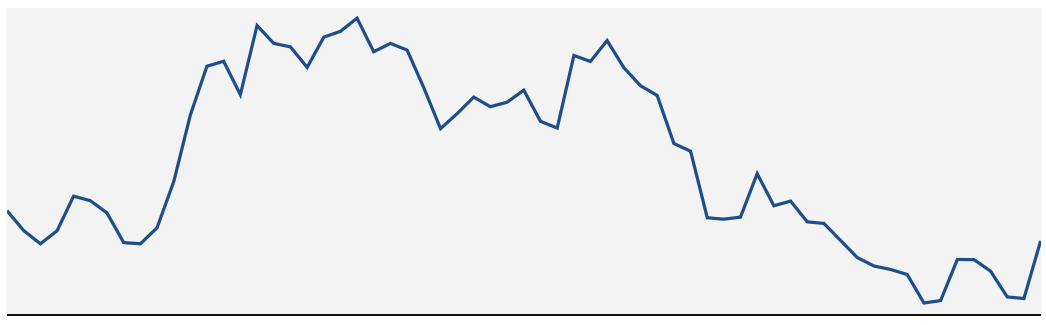
13 Jul: 13.28 High 15.28 · Low 10.35 9 Oct: 14.38

Nifty Bank, last three months



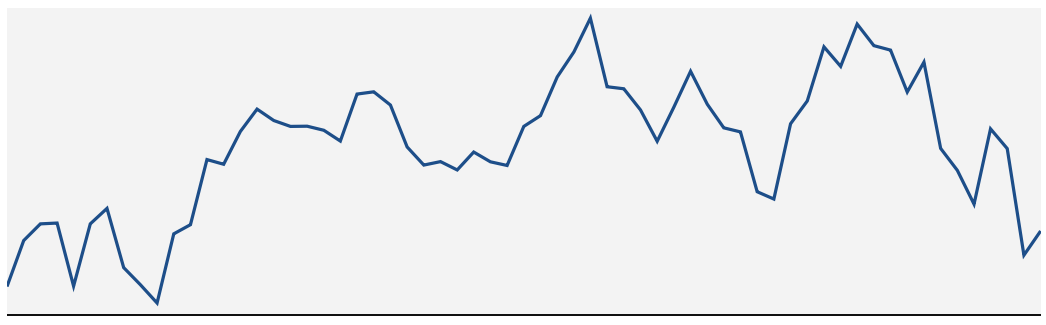
13 Jul: 58,131 High 58,521 · Low 54,260 9 Oct: 55,257

Nifty IT, last three months



13 Jul: 29,016 High 31,823 · Low 27,670 9 Oct: 28,575

Nifty Pharma, last three months



13 Jul: 25,643 High 27,186 · Low 25,548 9 Oct: 25,962

Opinion

Don't tighten twice by accident

The RBI raised its rate and is draining cash at the same time. It should say how much tightening it intends in total.

The Reserve Bank of India did the right thing on Wednesday. Inflation was 4.82 per cent in August and the central bank itself expects it to average about 5.8 per cent over the next three quarters. Core prices, which leave out food and fuel, are rising. A quarter-point rise in the repo rate to 5.50 per cent, the first since 2023, was a modest response to a real risk. The economy, which grew 7.8 per cent in April–June, can bear it.

Our worry is not the rise. It is that the RBI is tightening in several ways at once without saying how much tightening it wants in total.

Look at what has happened in a week. The repo rate went up a quarter point. Governor Sanjay Malhotra said the large surplus of cash in the banking system should be absorbed within the year, and the RBI scheduled a bond sale for Tuesday to drain some of it; traders estimate nearly ₹1 lakh crore could leave the system in the coming weeks. The RBI has also been selling dollars to defend the rupee, about $51 billion in four weeks, and every dollar it sells takes rupees out of the banks. And the special foreign currency deposit scheme that swelled banks' deposits has been closed.

Each of these is defensible. Together they add up to more than a quarter point. When cash is plentiful, the overnight rate that banks actually pay sits near the floor of the RBI's corridor, now 5.25 per cent. As the surplus disappears, that rate moves up towards the repo rate. So the effective rise in the cost of money can be double the announced one. The bond market has noticed: the 10-year yield touched 7.31 per cent on Friday, a three-year high, and has risen 0.32 of a point in a month.

The danger is of tightening more than intended, by accident. The RBI expects growth to slow from 7.2 per cent this quarter to 6.8 per cent by January–March. Bank credit is growing at about 19 per cent, but much of the deposit growth that funded it came from a one-off scheme. A policy that squeezes liquidity just as banks lose that source of funds could slow lending faster than anyone planned.

The answer is not to stop. Inflation is above target and rising, and the RBI's credibility depends on acting. The answer is to be clear. The committee should say, in its minutes on October 21 and in December, where it wants the overnight rate to sit relative to the repo rate, how much of the surplus it intends to remove, and how its rupee operations fit into that plan. Markets can price a known path. What they cannot price is a central bank that tightens through three channels and reports only one.

The new stance is called "calibrated tightening". Calibration requires a measure. The RBI should publish its own.

Plan for a dry winter now

Half of India was in drought by mid-September and El Niño will last until February. The rabi season is where the damage can still be limited.

The monsoon is over, and it failed. Rain from June to September was about 13 per cent below normal, the weakest season since 2015. By mid-September 52.5 per cent of the country was in dry or drought conditions, up from 38.9 per cent a month earlier, according to the India Drought Monitor. In Rayalaseema the shortfall was 43 per cent, in Marathwada 36 per cent. The World Meteorological Organization expects El Niño to last until February, and the India Meteorological Department expects below-normal rain over most of the country through December.

The kharif crop is largely what it is. The area sown was only slightly smaller than last year, though paddy lost nearly 17 lakh hectares. The question now is the winter crop, and there is still time to act on it.

Between 55 and 60 per cent of India's net sown area depends on rain. Rabi sowing relies on moisture left in the soil and water held in reservoirs, and both are short where the monsoon failed. The government already knows where the risk lies. In June the agriculture ministry and the Indian Council of Agricultural Research identified 315 districts as vulnerable to El Niño, and 111 of them as high priority because less than a quarter of their land is irrigated. That list should now drive policy.

Three things are needed. The first is information. Farmers in those districts need guidance, district by district, on what to sow and when, including crops that need less water. That advice is worth most before sowing, not after it. The second is water. States should publish reservoir levels and decide early how water will be shared between drinking, irrigation and industry, instead of rationing in a crisis in February. The third is income. Where crops fail, rural employment schemes and crop insurance claims should be paid quickly. Delay turns a bad harvest into debt.

The case for acting early is also macroeconomic. Food inflation was 5.95 per cent in August, and the Reserve Bank of India expects overall inflation to reach 6 per cent in October–December. The RBI raised its rate this week partly because of the monsoon. Every rise in food prices that sound planning prevents is one less reason for the RBI to raise rates again. Monetary policy is a blunt tool against a drought. Agricultural policy is a sharper one.

The temptation is to manage a drought after it arrives, once prices have already risen. This year the warning is unusually clear. The rabi season has not yet been lost. Whether it is depends on what is done in the next six weeks.

Free UPI was always paid for by someone

A fee of 0.4 per cent on larger merchant payments ends the idea that digital payments cost nothing. It is the right change, if it stays narrow.

On Thursday India's most successful piece of public digital infrastructure starts charging some of its users. From October 15, merchants receiving payments of more than ₹2,000 through UPI will pay a fee of 0.4 per cent, capped at ₹300. Consumers pay nothing, transfers between people stay free, and small merchants are exempt. A shop receiving ₹3,000 pays ₹12.

The change will be read by some as the end of free UPI. It is better read as an admission that UPI was never free. Every payment uses servers, fraud checks and the settlement of money between banks. Someone has always paid for that, and it has not been the merchant, who gains a cheap and instant way to be paid.

That arrangement worked while UPI was growing up. It is harder to defend at the scale it has reached. In September UPI handled 24.07 billion payments worth ₹29.37 lakh crore, and for the first time more than 800 million a day. A system that size needs constant investment in capacity and security. It is reasonable to ask the businesses that benefit most to pay a small share.

The design is sensible. The threshold of ₹2,000 keeps everyday purchases, the tea and the vegetables and the auto fare, free. The average UPI payment in September was about ₹1,220, so the typical payment is well below it. The exemption for small merchants protects the street vendors who made UPI a mass habit. The cap of ₹300 limits the cost on very large payments. And the ban on passing the fee to customers keeps the consumer side simple.

The risks are about behaviour. A merchant facing a fee may nudge customers to split a ₹2,400 bill into two payments of ₹1,200, or to pay in cash. Larger shops may push customers towards other methods they prefer. NPCI should publish data on the share of payments just under ₹2,000 in the months ahead; a sudden bunching would show the threshold is being gamed. If it is, the answer is enforcement, not a lower threshold.

The bigger risk is that the fee grows. Once a charge exists, it is easy to raise. The finance ministry denied in June 2025 that any fee was planned, calling such reports baseless. The government now has a duty to say clearly what the fee is for, who receives it, and under what conditions it might change. UPI's success rests on trust that it is cheap and simple. A narrow, predictable fee preserves that. An open-ended one would not.

The week ahead

Monday, October 12. September consumer price inflation; a Reuters poll expects 5.40 per cent. The RBI's dollar window for Indian Oil, HPCL and BPCL opens. HCLTech reports July–September results.

Tuesday, October 13. The RBI sells government bonds to absorb surplus cash. HD Fire Protect's share sale opens. In America, JPMorgan Chase, Goldman Sachs, Citigroup and Wells Fargo report results.

Wednesday, October 14. American consumer prices for September; economists expect 3.6 per cent over the year. Fusion CX's share sale opens. China's September inflation figures.

Thursday, October 15. The 0.4 per cent merchant fee on larger UPI payments takes effect. Wipro and Tech Mahindra report results. America publishes producer prices and retail sales. Fed chair Kevin Warsh speaks with IMF chief Kristalina Georgieva in Bangkok.

Friday, October 16. Weekly foreign exchange reserves, the first figure to show whether the RBI's dollar sales are slowing.

Later this month. Minutes of the RBI policy meeting on October 21; Infosys results on October 23; the Federal Reserve's decision on October 28.

World

World in brief

American hiring stalls. Employers in the United States added only 29,000 jobs in September, far fewer than economists had forecast. August was revised down to 133,000 and July to a loss of 10,000. Unemployment rose to 4.2 per cent and annual wage growth slowed to 3.0 per cent, a five-year low.

October hike fades. After the jobs report, futures markets put the chance that the Federal Reserve holds rates at its October 27–28 meeting at about 83 per cent. The Fed raised its target range to 3.75–4.00 per cent on September 16, its first rise since 2023, and its minutes showed most officials expect one more by year-end.

Long yields stay high. The 10-year Treasury yield was about 5.27 per cent on October 7 and the 30-year reached 5.70 per cent. The average American 30-year mortgage rate rose to 7.40 per cent, according to Freddie Mac.

Oil holds above $100. Brent crude rose 2.4 per cent in the week to close at $104.42 a barrel after attacks on tankers near the Strait of Hormuz and a storm threatening American offshore output. President Trump said he would not order new strikes on Iran before the November 3 midterm elections.

Gold slips. Gold fell more than 8 per cent in September, according to the World Gold Council, though gold funds took in more than 70 tonnes. It traded near $4,121 an ounce on October 7 as the dollar and Treasury yields weighed on it.

Australia tightens. The Reserve Bank of Australia raised its cash rate by a quarter point to 4.60 per cent in September. Minutes of that meeting are due on Tuesday.

China's trade booms. China's goods trade rose 17.6 per cent in the first eight months of the year to 34.78 trillion yuan, with exports up 14.6 per cent. Exports of integrated circuits more than doubled in June.

The Fed gets two signals, and they disagree

A weak September jobs report argued for holding rates, while a jump in service-sector prices argued for raising them. The Fed has to decide which signal to believe before its October meeting.

BY ARNAV GOEL · PUBLISHED ONLINE OCTOBER 6



The Federal Reserve Bank of Cleveland. WARREN LEMAY / CC0

For a week at the start of October the bond market was sure of one thing: the Federal Reserve would raise interest rates again this month. On Friday the labour market took that certainty away. Employers added just 29,000 jobs in September, against forecasts of about 90,000, and the unemployment rate rose to 4.2 per cent from 4.1 per cent. Earlier months were revised down by a combined 60,000. Futures traders cut the odds of an October rise to about 14 per cent, from roughly 70 per cent earlier in the week.

Then, on Monday, a survey of service businesses pointed the other way. The Institute for Supply Management's prices index for the sector jumped to 74.0, its highest since July 2022. The Fed now has two pieces of evidence that argue for opposite policies, and the next few weeks will decide which one it believes.

A LABOUR MARKET LOSING PACE

The jobs report was weak almost everywhere a reader looked. July, first reported as a gain, now shows a loss of 10,000 jobs. August was cut to 133,000 from 162,000. Health care, which has carried hiring for two years, added 17,000 jobs, about half its 12-month average of 33,000. Financial firms shed 7,000. Construction and manufacturing added 11,000 and 9,000.

Pay told the same story. Average hourly earnings rose by 0.1 per cent in September, to $37.81, and by 3.0 per cent over the year. That is the slowest annual rate since May 2021. Wages growing at 3 per cent are hard to square with an inflation problem driven by workers bargaining for more.

There was one caveat. The rise in unemployment came partly from people joining the workforce. The labour force grew by 485,000 and participation rose to 61.8 per cent from 61.6 per cent. Household employment, a separate survey, rose by 406,000. A jobless rate that climbs because more people are looking for work is less alarming than one driven by lay-offs.

SERVICES THAT KEEP CHARGING MORE

Monday's survey of service businesses did not look like an economy heading for trouble. The headline index slipped to 54.9 from 55.4, slightly below forecasts but comfortably above 50, the line between expansion and contraction. It was the sector's 27th consecutive month of growth. New orders were 59.8. The employment index rose to 50.1 from 47.8, back into positive territory, which sits awkwardly beside Friday's payroll figure.

The prices index is the number that matters for the Fed. At 74.0, up from 72.6, it says a large majority of service firms are paying more for what they buy. Respondents named fuel as their most common problem, with tariffs and supply constraints also pushing up costs and delivery times. Supplier deliveries slowed, with that index rising to 53.2 from 51.3.

TWO MANDATES PULLING APART

The Fed is told to pursue both maximum employment and stable prices. Usually the two move together: a hot economy produces both strong hiring and rising inflation, so one policy serves both goals. What the past week showed is the less comfortable case, in which hiring weakens while costs keep climbing. That is the pattern of a supply shock, and oil above $100 a barrel this autumn is a textbook example.

Raising rates does nothing to the price of crude. What it can do is slow demand enough that firms find it harder to pass higher costs on to customers, and stop rising prices from feeding into expectations and wage claims. The cost is paid in jobs, which is why a central bank facing a supply shock with a softening labour market is reluctant to act. Friday's report made that cost more visible.

The rate is already 3.75 to 4.00 per cent after September's rise. Olu Sonola of Fitch Ratings said the combination of weak job growth, a slightly higher unemployment rate and contained wage gains argued against another increase in October. Traders agreed, but only up to a point: markets still put the chance of a rise at the December meeting at about 78 per cent. The weak report moved a hike back by a meeting rather than removing it.

WHAT THE BOND MARKET BELIEVES

Long-term Treasury yields were the clearest sign that investors see the jobs report as a pause, not a turn. The 10-year yield had risen above 5.34 per cent earlier in the week, its highest since 2002. After the report it fell by about 7 basis points, to roughly 5.18 per cent, as oil slipped below $100 a barrel. By the afternoon much of that fall had been reversed as crude recovered.

That reaction says the market is more worried about inflation and heavy government borrowing than about a weakening labour market. A bond investor who expected slower hiring to bring down inflation would have bought long-dated debt on Friday and held it. Few did.

WHAT TO WATCH

Wednesday brings the minutes of the Fed's September meeting, which will show how many officials were already worried about hiring when they voted to raise rates. September's consumer price figures follow later in the month. If service-sector costs show up in core inflation, the soft jobs report will look like a pause before a December rise. If they do not, the Fed may decide that a labour market adding 29,000 jobs a month needs no further squeezing.

Either way, the past week has narrowed the Fed's room. It cannot claim that the labour market is too strong to worry about, and it cannot claim that inflation is under control. It will have to choose which risk to take.



A Walmart Supercenter in Madison Heights, Virginia. BEN SCHUMIN / CC BY-SA 2.5

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 expensive. 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

Continued



The front of the Bureau of Engraving and Printing annex, showing its main entrance. G. EDWARD JOHNSON / CC BY 4.0

Why Treasury buybacks can't cap the 10-year

Buybacks change the mix of debt the Treasury owes, not how much it must sell. With the 10-year near 5.2 per cent, they cannot hold yields down.

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

Continued

The inflation drop that came from a rulebook

Continued

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

Continued

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 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 inflation 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 further. 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 Old U.S. Mint. JAYWALSH / CC BY-SA 3.0



Eschborn Süd S-Bahn station, with a class 423 train heading for Langen. X-ANGEL / CC BY-SA 4.0

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 exposure, 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 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 heavily 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 issuers 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 bond sell-off, explained

After the Fed's rate rise, investors raised their expectations for the policy rate and demanded more to hold long-term debt. Together they pushed the 10-year Treasury yield 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 expected 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.

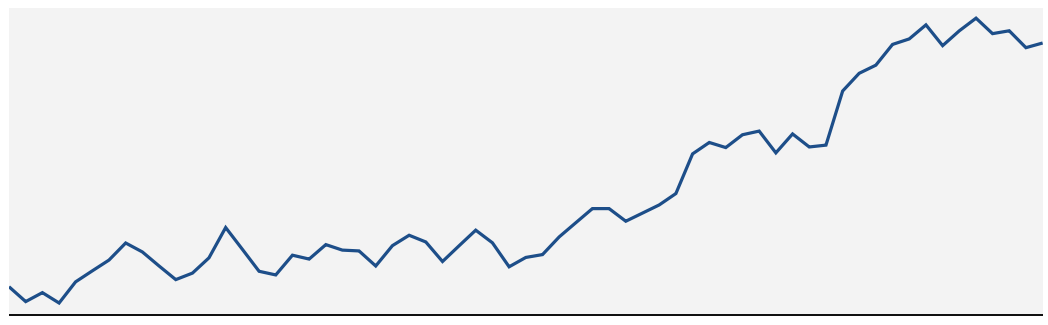
World Markets

Closing levels to Friday, October 9, 2026. Changes over five and 21 trading sessions. Source: Yahoo Finance.

	Last	Week	Month
GLOBAL STOCKS			
S&P 500	7,812	+1.2%	+2.9%
Dow Jones Industrials	51,655	+0.9%	-0.8%
Nasdaq Composite	27,366	+0.6%	+4.9%
FTSE 100	10,552	+0.9%	-0.5%
Nikkei 225	69,031	+1.1%	+4.0%
Hang Seng	24,211	+1.0%	-4.2%
COMMODITIES			
Brent crude, $/bbl	104.72	+2.4%	-2.7%
WTI crude, $/bbl	91.85	+0.8%	-10.4%
Gold, $/oz	4,216	+1.3%	-4.3%

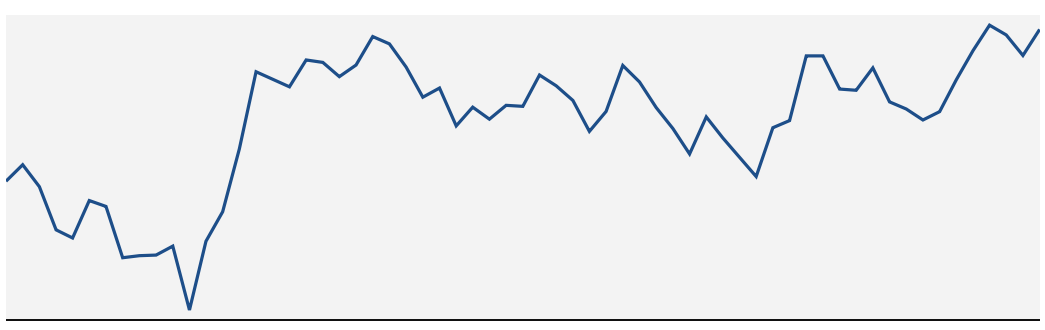
	Last	Week	Month
US RATES			
US 3-month bill, %	4.06	+6bp	+21bp
US 5-year Treasury, %	5.02	-3bp	+29bp
US 10-year Treasury, %	5.24	-3bp	+30bp
US 30-year Treasury, %	5.60	-3bp	+24bp

US 10-year Treasury, %, last three months



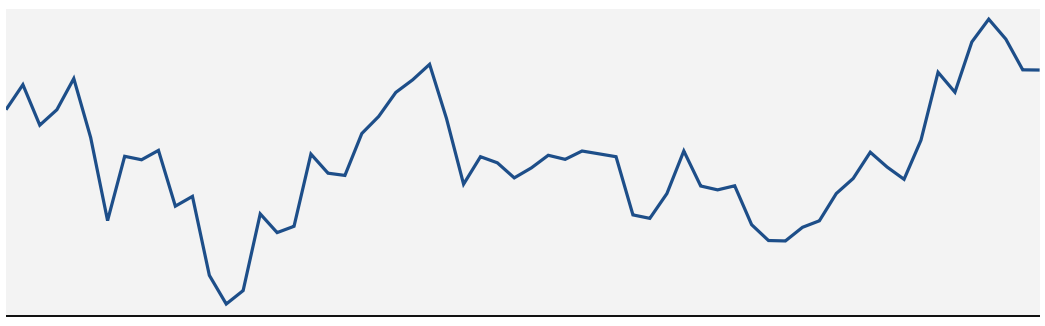
14 Jul: 4.59 High 5.31 · Low 4.54 9 Oct: 5.24

S&P 500, last three months



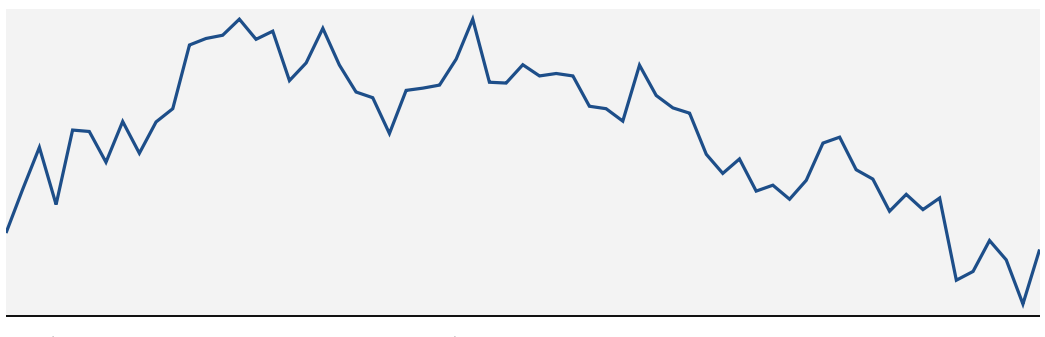
14 Jul: 7,544 High 7,819 · Low 7,316 9 Oct: 7,812

Nikkei 225, last three months



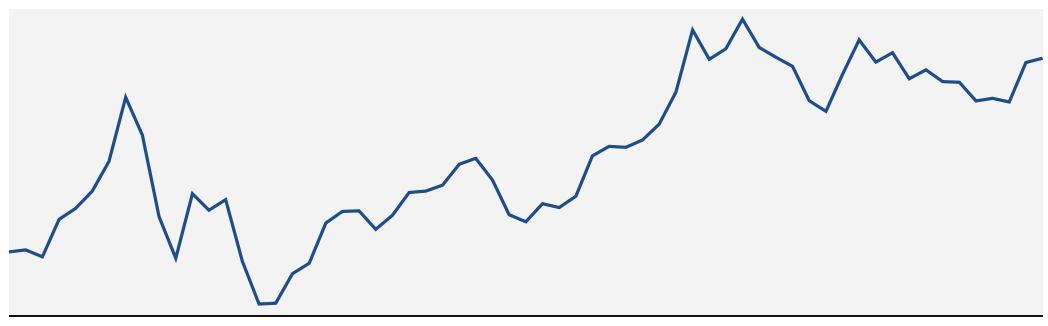
9 Jul: 67,744 High 70,684 · Low 61,434 9 Oct: 69,031

Hang Seng, last three months



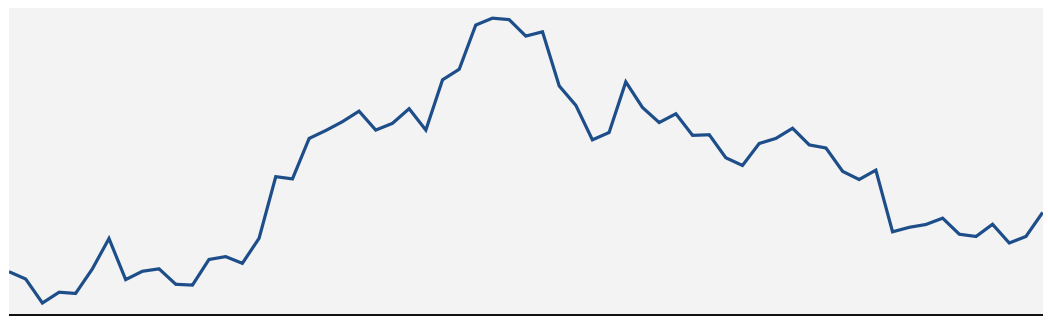
14 Jul: 24,341 High 26,009 · Low 23,786 9 Oct: 24,211

Brent crude, $/bbl, last three months



14 Jul: 84.73 High 108.75 · Low 79.36 9 Oct: 104.72

Gold, $/oz, last three months



14 Jul: 4,070 High 4,698 · Low 3,992 9 Oct: 4,216