

India

Higher inflation and a wider trade deficit in June

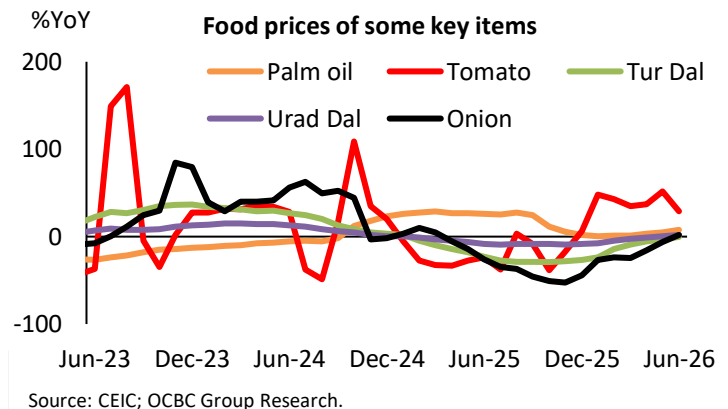
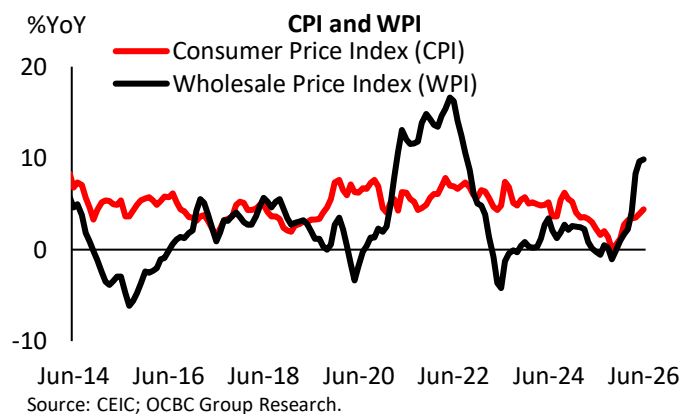
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- June data showed that inflationary and external pressures remain elevated. Headline CPI rose 4.4% YoY versus 3.9% in May while the wholesale price index (WPI) inflation rose 9.9% YoY versus 9.7% in May.
- The June trade deficit widened to USD30.4bn from USD28.2bn in May, as export growth slowing to 15.5%YoY from 18% in May, while import growth rising 31.0% from 20.6% in May. We forecast that the current account surplus will narrow to USD3.8bn (0.7% of GDP) in 2Q26 from USD7.1bn (0.4%) in 1Q26.
- We maintain our forecast for the Reserve Bank of India (RBI) to raise its policy rate by a cumulative 50bp in FY27. The timing of the hikes will largely depend on inflation pass-through risks and external pressures. RBI's moves to attract portfolio inflows on 5 June and support the balance of payments have been yielding results, mitigating the need for policy rate hikes at its 5 August meeting.

The data mix for June showed higher price pressures and a modest deterioration in the trade deficit.

Specifically, headline CPI rose 4.4% YoY in June compared to 3.9% in May, above the mid-point of the Reserve Bank of India's (RBI) 2-6% target range. Food CPI picked up to 5.3% YoY versus 4.8% in May, driven by higher prices for items such as tomatoes, onions and palm oil. The trajectory for food prices remains uncertain in the coming months considering that the monsoon deficit stood at 19.4% (as of 13 July) and many parts of the country have experienced a significant shortfall, likely impacting the sowing season for the kharif crop. Transportation CPI also rose sharply to 7.3% YoY from 3.1% in May, following the upward adjustment of retail fuel prices, along with utilities inflation (1.8% versus 0.8% in May). Core CPI remained unchanged at 3.9% in June, while CPI excluding precious metals and fuels picked up slightly to 2.5% YoY from 2.4% in May (by our estimates).

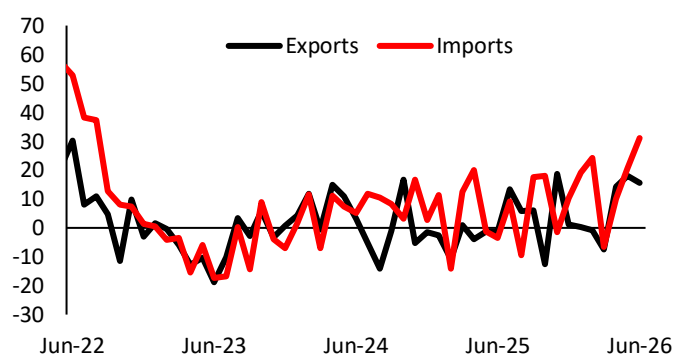
RBI forecasts headline CPI to average 5.1% in FY27, which implies higher inflation in the coming months. Our forecast for headline CPI is similar at 5% YoY and at the upper end of the RBI's 2-6% target range. The fragile situation in the Middle East, volatile global oil prices, persistent food price pressures and elevated wholesale price inflation suggest that inflation risks remain skewed to the upside. Headline WPI inflation rose 9.9% YoY in June from 9.7% in May, remaining elevated across utilities, wholesale food prices and manufactured product prices.



Meanwhile, the trade deficit widened to USD30.4bn in June from USD28.2bn in May, driven by stronger import growth of 31% YoY from 20.6% in May and slower export growth of 15.5%, compared with 18% in May. Import growth was driven by higher coal and coke (16.6% from 9.5%), chemicals (59.9% from 3.3%) and fertilizers (201.3% from 28% in May). Gold import growth slowed to 7.1% from 34% in May, while petroleum product imports increased by 40.1% compared with 53.8% in May. Export growth was mixed across most key products including labour intensive exports such as textiles and clothing (-0.6% YoY versus -5.5% in May), petroleum and energy (10.7% from 49.2%), agriculture products (14.3% from 6.4%) and electronics (20.2% from 20.4%).

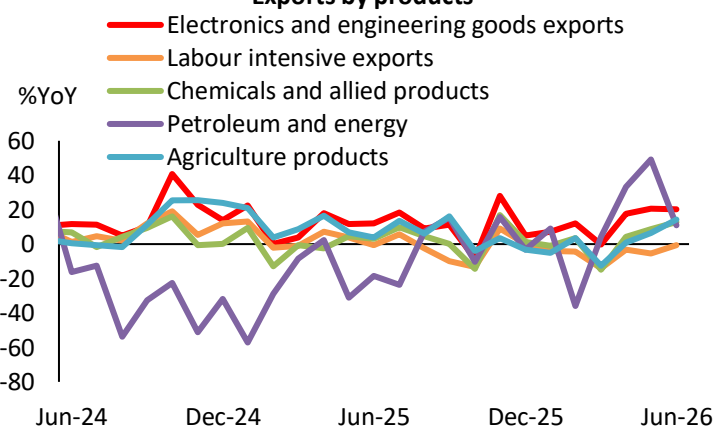
The trade deficit for 2Q26 widened to USD86.8bn from USD82.5bn in 1Q26. On the back of this, we forecast that the current account surplus will narrow to USD3.8bn (0.4% of GDP) in 2Q26 from USD7.1bn (0.7% of GDP) in 1Q26. Nonetheless, this should provide a degree of comfort to RBI, as near-term twin deficit pressures remain contained, and the basic balance could likely remain in a surplus. Moreover, portfolio flows turned positive in July supported by the RBI's effort to attract FCNR-B inflows, following its announcement of the facility on 5 June (see *India: RBI on hold; authorities unleash FX support*, 5 June 2026). Recent conversations suggest that FCNR-B inflows have amounted to USD5-6bn, with UAE being the largest contributor to fund mobilisation¹. RBI has allowed all commercial banks to offer up to nine times leverage. Several large commercial banks, such as SBI, HDFC, Axis Bank, among others, are offering NRI customers 9X leverage for FCNR-B deposits of up to USD1mn. These measures should help generate additional inflows in the coming months.

%YoY **Export and import growth**



Source: CEIC; OCBC Group Research.

Exports by products



Source: CEIC; OCBC Group Research.

While near-term sentiment will likely be driven by developments in US-Iran relations, we expect external pressures to remain manageable, supported by an improving outlook for portfolio inflows. Indeed, the INR has depreciated by around 0.5% against the USD over the past month, broadly consistent with most regional peers. For monetary policy, evolving inflation risks will be the crucial factor and we maintain our forecast for the RBI to raise its policy rate by a cumulative 50bp in FY27, likely in the second half of the fiscal year once there is greater clarity on the inflation outlook.

¹ RBI set to meet banks' top brass; slow FCNR-B inflows likely to dominate talks, sources say, moneycontrol, 14 July 2026. Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

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