



Everything we hear is an opinion, not a fact.
Everything we see is a perspective, not the truth - Marcus Aurelius



Navigating the New Normal

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Outline

- Evolving trends in Globalisation
- Global Economy : Current Narrative
- Rising Yields : Structural Shift
- US Economy
 - Impact of Tariffs
 - Artificial Intelligence and Productivity Gains
 - Fed outlook
- European Economic Outlook
 - Competitiveness Compass
 - Fiscal Reboot
- Chinese Economic Outlook
 - Impact of Slowbalisation and Leverages
 - Involution
- India
 - Macro Backdrop
 - USDINR Dynamics
- Key Takeaways
- Interaction

Executive Summary

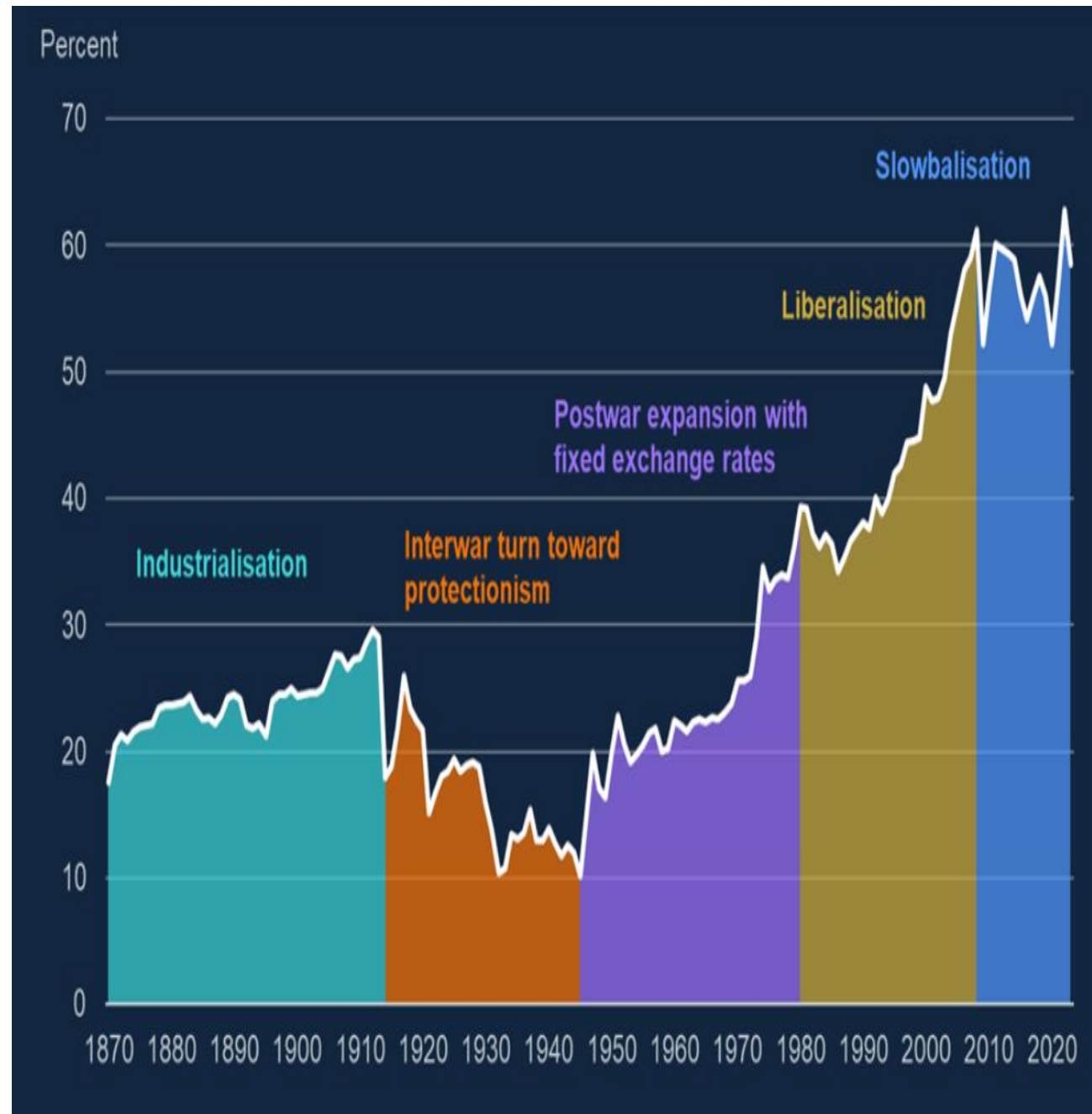
- After decades of efforts to pursue global economic integration, the process is beginning to reverse.
- Slowbalisation and the probability of consequent Geo-economic fragmentation to impact the economy through trade linkages, foreign investment and access to commodities and renders the operating environment of central banks significantly less predictable. Gold serves as a strategic asset in the face of geopolitical fragmentation.
- The continued scale of government deficits and the determination of central banks to prevent a downturn : Rarely have we witnessed such pro-cyclical policy at this stage of the cycle: lower interest rates, easier credit conditions, an improving money multiplier and looser fiscal policy when the global unemployment rate is still around the lowest level for at least past 35 years.
- No longer solely a tech buzzword, AI has gone mainstream -U.S. declaration of an AI supremacy race marks a turning point in global affairs - how the world responds – whether by accepting a new tech “hegemony” or building a shared digital future – will define not only this very technopolar era, but also the global order that follows.
- Rising real yields reflect structural shifts. Besides all other conventional reasons such as Fiscal deficit and Issuances , AI may be driving an increase in equilibrium interest rates, by increasing productivity

1. Hyper Globalisation to Fragmentation

- Global economic integration is beginning to reverse
- Key forces Behind transition
- Outcomes
- Slowbalisation
- Measure of transition

Evolution

- The recent era of relentless globalisation (characterised by unfettered cross-border trade, mass migration, and ubiquitous cultural homogenisation) has had ebbs and flows over the years.
- Looking back over a century and a half of data, the IMF argues that the main phases of globalisation are visible using the trade openness metric – the sum of exports and imports of all economies relative to global GDP.



Deciphering the Waves

- The first two waves of globalisation shared several common features. In particular, the central feature of both was an increase in the trade of goods.
- The third wave of globalisation – which started with the fall of the Berlin Wall in 1989 and was accelerated by China's accession to the WTO in 2001 – was also characterised by a large increase in global goods trade. Between 1990 and 2010, global goods exports increased from 20% to 30% of world GDP.
- But, unlike in the first two waves, integration went beyond just the trade of goods. Services exports doubled as a share of global GDP – from around 3.5% in 1990 to over 7% in 2022. And, most importantly, the third wave of globalisation contained a significant financial component.
- Between 1990 and 2022, there was a five-fold increase in cross-border bond and equity flows and a seven-fold increase in foreign direct investment flows. While the external assets of the world's leading economies rose in the first two waves of globalisation, the increase was modest.
- In contrast, during the third wave of globalisation the external assets of advanced economies rose from around 30% to over 100% of global GDP. In addition to the globalisation of production, we also experienced the globalisation of finance.

Evolution

- Globalisation was driven - since the end of the cold war in the early 1990s - by optimising the cost side of production, by the global division of labour and by reaching out to new sales market. This led to an ever-growing chase for suppliers with cost advantages based on cheap labour costs, and to optimising supply chains, e.g. by replacing warehousing through 'Just-in-Time delivery' and cheap transport costs. Decades of increasing economic integration have led to the unprecedented expansion of Global Value Chains (GVC) —that is, international interconnected production process networks.
- The financial crisis of 2008-2009 marked a peak in the globalisation boom, and was followed by a slowdown, or retreat of overseas direct investments, trade, bank loans and supply chains. While Trade in goods peaked in 2008, the trade in services and digital work now make up more than a fifth of export earnings globally .
- These new forms of globalisation are often not included or underreported in common measures of openness.
- The impact of deeply interconnected supply chains became obvious during the COVID-19 pandemic and the Russian aggression against Ukraine. 'Just-in-time' availability across supply chains is no longer a given.

Key forces behind the Transition

- Increasing protectionism and trade tensions between major economies have prompted businesses to reassess the risks of relying on far-flung supply chains, leading to a renaissance of local manufacturing and sourcing.
- Companies increasingly prioritise resilience over efficiency, seeking to minimise exposure to geopolitical volatility and supply chain disruptions.
- Three key forces are driving the slowdown of globalisation and change in global supply chains and production networks.
 - First, geopolitical tension and related trade conflicts are leading to increased protectionism in parts of the world (e.g. Brexit, US-China trade war, WTO negotiations).
 - Countries and regions are rethinking which critical R&D and production would be better located locally, to improve resilience (e.g. EU Chips Act, Made in China 2025).
 - Crises experiences (such as the impact of pandemic and Geo Political Conflicts) are driving the new realisation and need for re-prioritisation.

Outcomes

- First, selective decoupling of trade is already visible, accompanied by lengthening of supply chains
- Second, China is a key supplier of critical inputs for a significant share of manufacturing firms, and supply disruptions would have sizeable albeit heterogeneous effects
- Third, tit-for-tat trade barriers would not eliminate interdependencies but would cause severe output losses and higher inflation.
- Fourth, fragmentation may entail larger and more frequent supply shocks, making sectoral price change more significant for aggregate inflation.
- Rising South-South trade is further leading to a regionalisation of global supply chains.

Slowbalisation

- However ,Globalisation is a complex trade phenomenon that cannot be captured with one simple macroeconomic indicator. That's why the receding intensity of globalisation is called as “Slowbalisation” characterized by a prolonged slowdown in the pace of trade reform, and weakening political support for open trade amid rising geopolitical tensions.
- Slowbalisation, rather than being a temporary phenomenon, reflects a fundamental economic and political realignment.
One particularly prominent catalyst for slowbalisation has been the erosion of confidence in the traditional model of global interconnectedness.



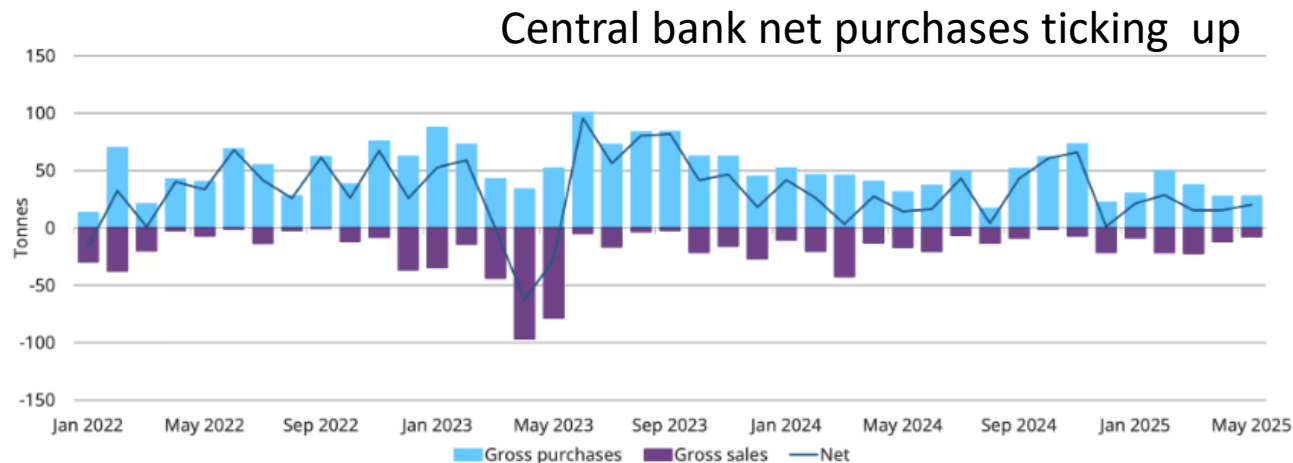
- Slowbalisation and the subsequent Fragmentation of the global economy would lead to the strengthening of regional economic areas, or globalisation of like-minded countries, and not to a 'de-globalisation'.
- Global trade however will continue to remain an important pillar.

Impact on Monetary Policy

- In the face of growing slowbalisation leading to geo-economic fragmentation, traditional economic policy tools are losing their effectiveness as the conventional levers of economic policy have been weakened.
- Central banks face a particularly intense challenge: to keep inflation expectations anchored without compromising financial stability.
- As an economy becomes more open, measured by export share, the optimal weight on the upstream inflation rises relative to that on the final stage inflation.
- If we have to choose among aggregate price indicators, targeting PPI inflation yields a smaller welfare loss than targeting CPI inflation alone. As the production chain becomes longer, the optimal weight on PPI inflation in the policy rule that targets both PPI and CPI inflation will also rise.
- A trade cost shock such as a rise in the import tariff can alter the optimal weights on different inflation variables.
- The complex reshuffling of trade patterns currently in progress doesn't tell us what the end story is.

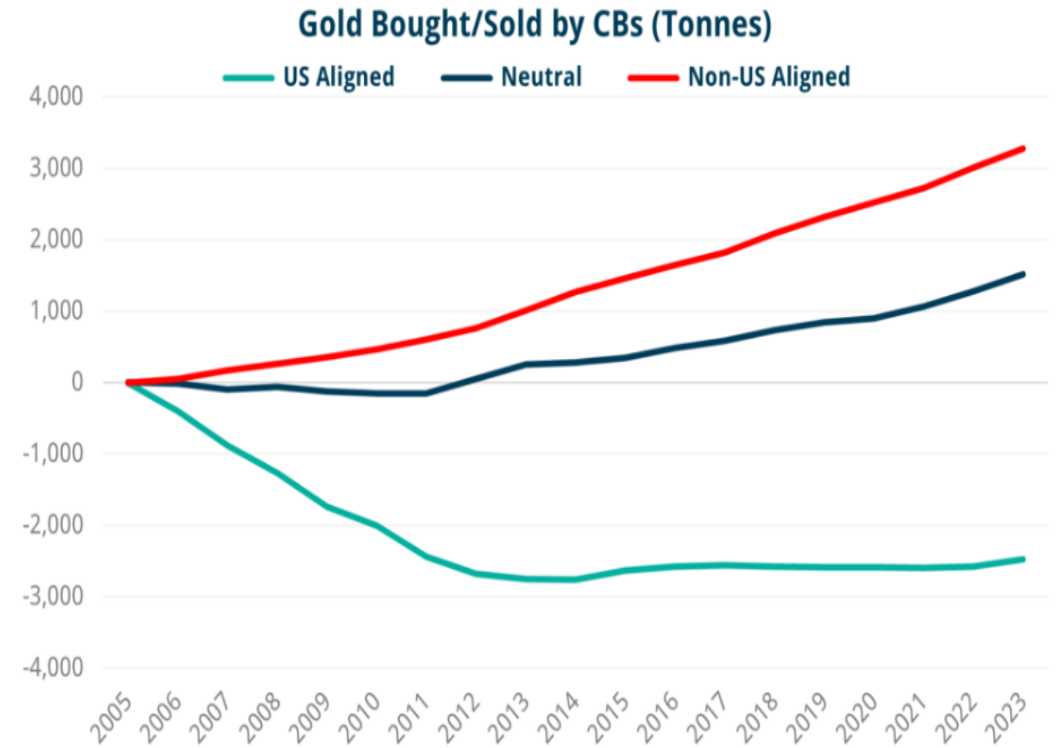
Measure of the Intensity of Transition

- Gold and silver have been used as a store of value for thousands of years and we can use the same to measure the intensity of transition from globalisation towards slowbalisation
- Particularly during periods of higher tariffs, such as under President Hoover around 1930, gold was used to secure government finances.
- This even led to a ban on private ownership of gold.
- It is therefore likely that central banks will continue to buy gold as a foreign exchange reserve.



*Data to 30 May 2025 where available.

Source: IMF, respective central banks, World Gold Council



However, In 2025, purchases from central banks are expected to fall by 8% from last year's record high of 1,086 tons.

Another Factor worth knowing ...

- Another critical driver behind the strong performance of gold over the past several years had been the introduction of Basel III regulations, which were long flagged but that came into effect between June 2021 for European banks and January 2022 for UK banks.
- Under Basel III, gold is classified as a very low-risk/risk-free asset, with some conditions equivalent to top-rated sovereign bonds, meaning banks are not required to allocate capital against it.
- This has made gold far more appealing as a safe asset on balance sheets, driving increased demand from financial institutions.

Navigating the new Normal

- This is however not a retreat from globalisation, but the end of its uniformity.
- Strategy can no longer be one-size-fits-all and predominantly efficiency-driven.
- The winners of globalisation may not be the winners of multipolarity.
- Success now depends on navigating divergent systems, balancing regional, global imperatives, and acting decisively in a volatile world — without losing sight of cost discipline.
- Whether this marks the end of the globalists or just one stage in a more complex realignment remains to be seen.
- What is clear is that companies, governments and investors need to prepare for a more volatile, less predictable world - with new risks, but also new opportunities.

2. Global Economy

- Resilience amidst Uncertainty
- Structural Shift in Yields

Global Economy

- Global growth is projected at 3.0 percent for 2025 and 3.1 percent in 2026
- Trade tariffs and related uncertainty contributed to strong fluctuations in economic activity during the first half of 2025, with frontloading of activity in most of the world.
- The unwinding of these factors in the second half of the year is expected to entail further volatility, blurring signals of the underlying momentum.
- The last business cycle lasted more than 10 years, from 2009 until early 2020, and it was hampered by episodes of price collapse, government shutdowns and war.
- The current cycle has been with us for only five years and has already weathered a health crisis, labor shortages, a logistics crisis, war and inflation besides the tariff turmoil.
- From our point of view, this business cycle looks sturdy. The turmoil seen after Liberation day in the financial markets can be charitably characterized as a midcycle correction.
- The experience of the past 30 years shows there is a reason for optimism.

Global Economy: Resilience amid Uncertainty

- A year full of geopolitical, economic and financial challenges is now two-thirds done.
- The threat of tariffs has brought globalization under extreme pressure. Countries and companies are scrambling to reduce their exposure to tariffs, greatly accelerating a new cycle of deglobalization. However, equity prices at all-time highs, the markets have largely discounted a future with a fairly benign inflation, growth and trade environment.
- For now, investors are focusing on what is in front of them, which is stronger-than-expected earnings growth, a durable AI secular theme and a still-firm economic backdrop. Still, the path forward remains clouded by unresolved trade issues, the risk of rising inflation pressures and a high degree of uncertainty around overall impacts on the macroeconomic environment. For now, investors appear comfortable reserving judgment on these unknowns
- Economic resilience, rather than the tariffs themselves, means that inflation ought to be the main concern of monetary policy, and that interest rates may not fall dramatically in the months immediately ahead.

Rising yields : Structural Shift

- The long period of very weak productivity growth, from 2007 – 2020, and low yields, has been explained by zero rates “zombifying” economies, pushing the cost of capital well below the marginal product of capital, and distorting the allocation of capital.
- Global savings-investment imbalance tightening: Post-GFC changes, like reduced capital mobility, mean countries are increasingly reliant on domestic savings to fund investment and deficits—requiring higher interest rates.
- What has made this cycle particularly unusual is that the private sector has de-levered into a recovery and falling unemployment rates. The implication is that households and corporates are less sensitive to rate hikes. That is a reason why global growth has only slowed modestly below the average rate of the past 20 years. The implication is that the neutral interest rate in major developed economies may be higher than most assume.
- The notion of a new capex cycle may seem counterintuitive as interest rates reach multi-decade highs. However, a multitude of structural factors have come together to drive this cycle, including the drive towards net zero, efforts to enhance supply chain resilience, growing geopolitics, government stimulus and infrastructure expansion across the developed and developing world

3. US Economy

- Return of Exceptionalism
- Artificial Intelligence
- Current Backdrop

US Exceptionalism

- In the years following the pandemic, the US has stood out among global economies, with its rapid recovery fueling the narrative of “US Exceptionalism.”
- This outperformance was driven by an unprecedented wave of fiscal stimulus, including major legislative packages such as the CARES Acts, the Infrastructure Investment and Jobs Act, the CHIPS Act, and the Inflation Reduction Act, along with robust productivity gains.
- Together, these measures injected trillions of dollars into the economy, bolstering consumption, investment, and job creation at a time when many other advanced economies maintained a more cautious fiscal stance.
- The US also benefited from a flexible labor market, dynamic private sector innovation, and a strong consumer base, all of which helped it recover faster and stronger.

Tariff Turmoil

- Economic statecraft involves the use of economic means to attain foreign policy ends.
- There has been a marked change in US policy, with the focus shifting from international free trade agreements to revenue from import tariffs.
- The policy goal is to strengthen the national budget without raising domestic taxes. Ideally, income taxes would even be reduced in exchange for tariff revenues. At the same time, the aim is to protect domestic industry and improve the trade balance.
- The US is thus returning to a trade policy strongly reminiscent of earlier protectionist approaches.
- Import tariffs are no longer used solely as a political lever, but are being established as a permanent pillar of government financing.
- This has far-reaching consequences: supply chains change, imports become more expensive and domestic suppliers become more competitive - at least in the short term.

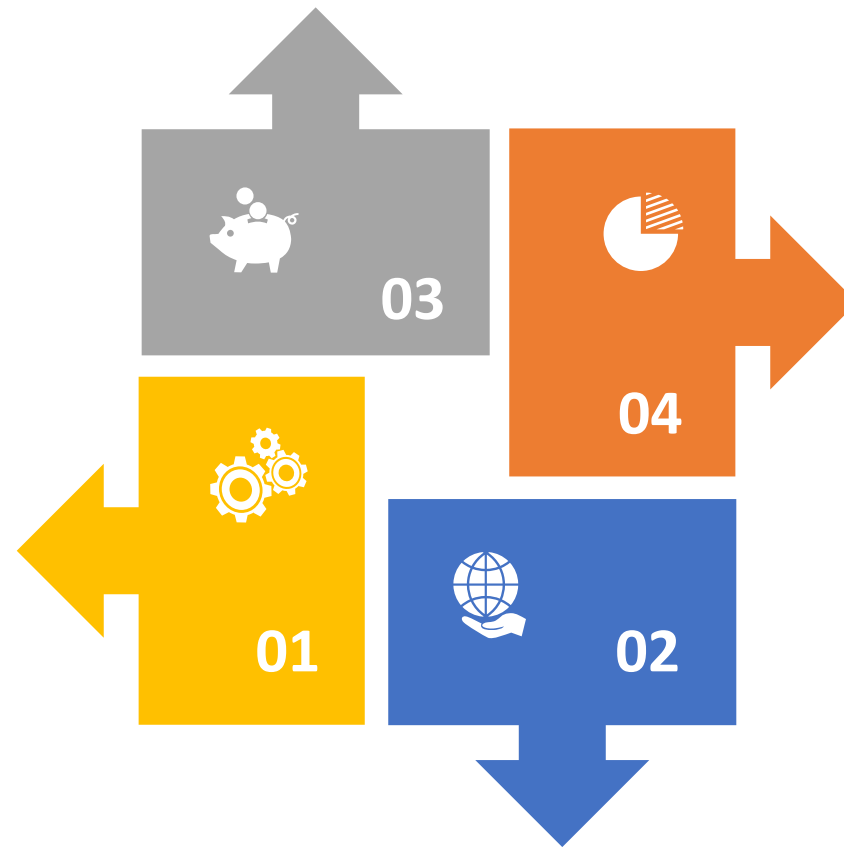
Stagflationary Head Fake

- Yield curves have been steepening at the long end across global markets. Historically, steeper yield curves align with periods of robust, investment-led economic growth.
- Looking ahead, drivers such as reshoring, climate-related infrastructure spending, and AI innovation are set to fuel this trend.
- Now add NATO countries in Europe committing to 5% defense spending (up from 2% for the most part), with many countries becoming more fiscally active.
- In such an environment, growth-sensitive assets like equities tend to outperform more defensive fixed income instruments, which must contend with rising yields and inflation expectations.
- Meanwhile, another round of deregulation under the Trump administration is just beginning, and like most Trump 2.0 initiatives, it is likely to run at a feverish pace. This could provide additional support to a continued widening of US productivity versus other developed market peers as early as 2026.
- Beyond a likely stagflationary “head fake” in the second half of 2025, in 2026 and beyond we expect the industrial policy being replaced with a more private-sector-driven form of US exceptionalism.
- In short, we expect US exceptionalism to return, with a reboot in 2026.

US Macro Headwinds

- Economic resilience is holding, but growth appears to be moderating
- Geopolitical risks are elevated but have had limited and manageable effects on markets

- US Fiscal Deficit and Debt
- Policy Uncertainty
- Some one has to pay for tariffs



- US Exceptionalism led by AI
- Productivity Boost
- Higher growth than rest of the world
- Technological Supremacy


- FED Independence – Basic Premise for global capital in to US

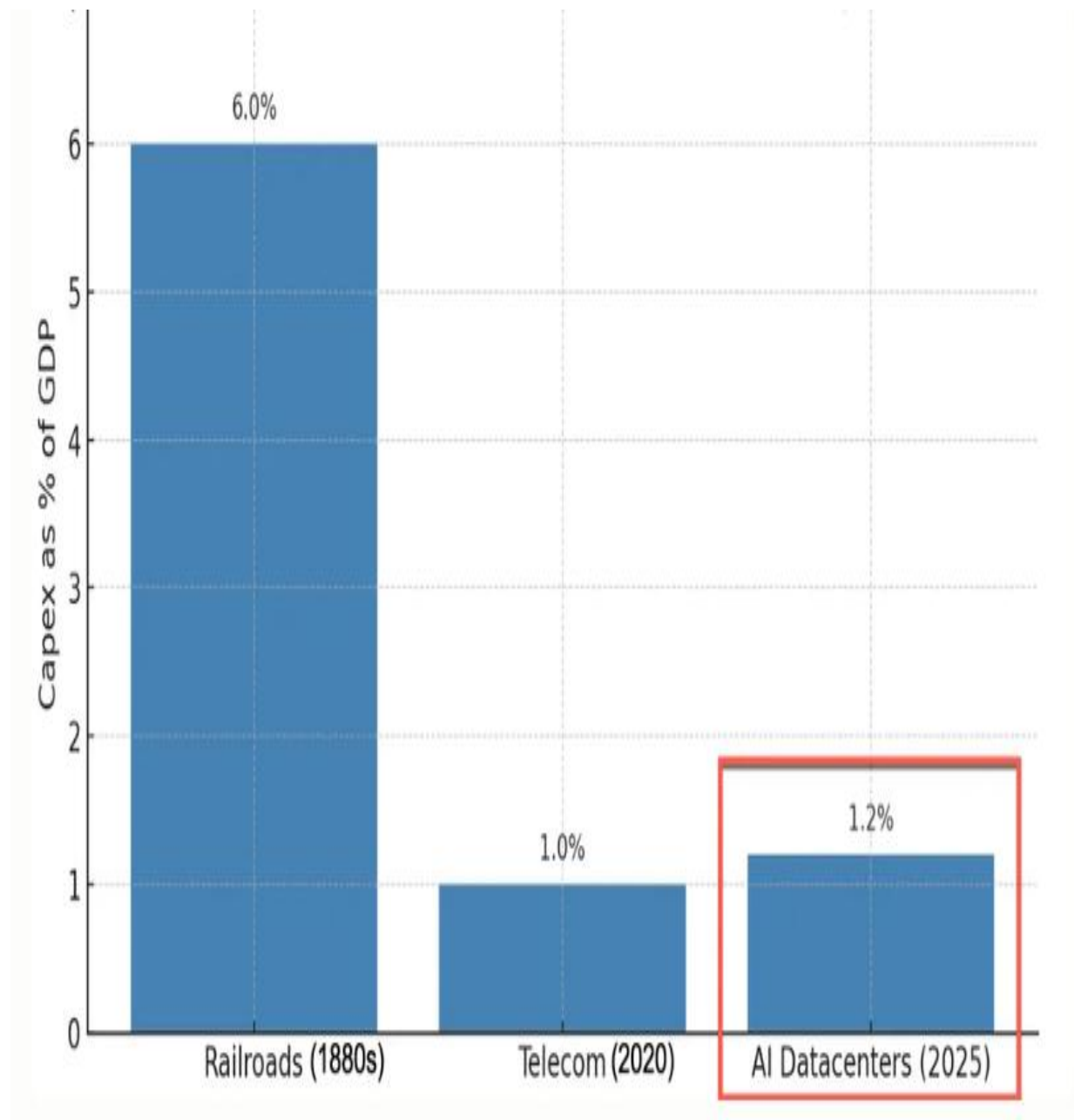
AI underpins US Exceptionalism

- Markets continue to cheer at AI's potential to improve global economic growth. The widely anticipated productivity gains are likely to represent a net positive for the economy.
- Many tech players are already seeing AI-related productivity gains flow through to margins. In fact, markets still underappreciate the degree to which the operating leverage inherent in AI will be accretive to margins.
- But as has been the case with other stages of the ongoing digital revolution, some companies, through thoughtful strategy, will find themselves on the winning side of AI, while others will fail to grasp the magnitude of this sea change and find their business models vulnerable.
- This bifurcation is playing out today within the tech sector as hyperscalers compete for the most potent models.
- Over the next several years it will spread to all corners of the global economy and broader society. But there will be a cost in the form of the “creative destruction” that Joseph Schumpeter foresaw nearly a century ago.
- Given the breadth of change afoot – and the scale of the economic stakes – the markets remain both excited about AI's promise and clear-eyed about its ability to upend myriad business models, industries, and economic paradigms.

Digital Economy : Real or Hype

- The official birthday of the Internet is January 1st, 1983. Since then, the size of the global digital economy has exploded and is projected to reach \$16.5 trillion by 2028.
- AI builds on the success of the Internet and like the Industrial Revolution is projected to dramatically reshape the global economy in the coming decades. The Artificial intelligence (AI) is not a futuristic possibility – it is already reshaping daily life, the economy, and governance structures. Has potential to drive non-inflationary growth for a sustained period of time.
- In contrast to pandemic crisis-driven investment, the US AI investment wave is being driven purely by the private sector
- AI has contributed over \$400 billion to the US economy as of 2024, with projections suggesting a \$4.4 trillion impact by 2030. So much money is chasing the artificial intelligence boom that it has an outsize effect on economic growth, but it could also be having negative side effects on other sectors.
- Corporate spending on AI has grown rapidly and is expected to explode over the next decade – from an already meaningful baseline of \$140B to \$1.3T by 2032.
- From a corporate IT budget perspective, GenAI alone is expected to rise from 3% of budgets to 12% over the same period.

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<input type="checkbox"/>	Item	Value	Notes
1	U.S. 2025 GDP	\$30	Nominal GDP estimate (in trillions)
2	Nvidia data center revenue (annual)	\$156	FY2026 annualized (in billions)
3	Nvidia share of AI infra capex	50%	From industry figures (combining GP
4	Implied total AI infra capex	\$312	
5	Raw capex as % of GDP	1.0%	
6	GDP multiplier (low)	1.5	
7	GDP multiplier (high)	2	
8	GDP impact (low)	\$468	In billions
9	GDP impact (high)	\$624	In billions
10	GDP impact % (low)	1.6%	
11	GDP impact % (high)	2.1%	

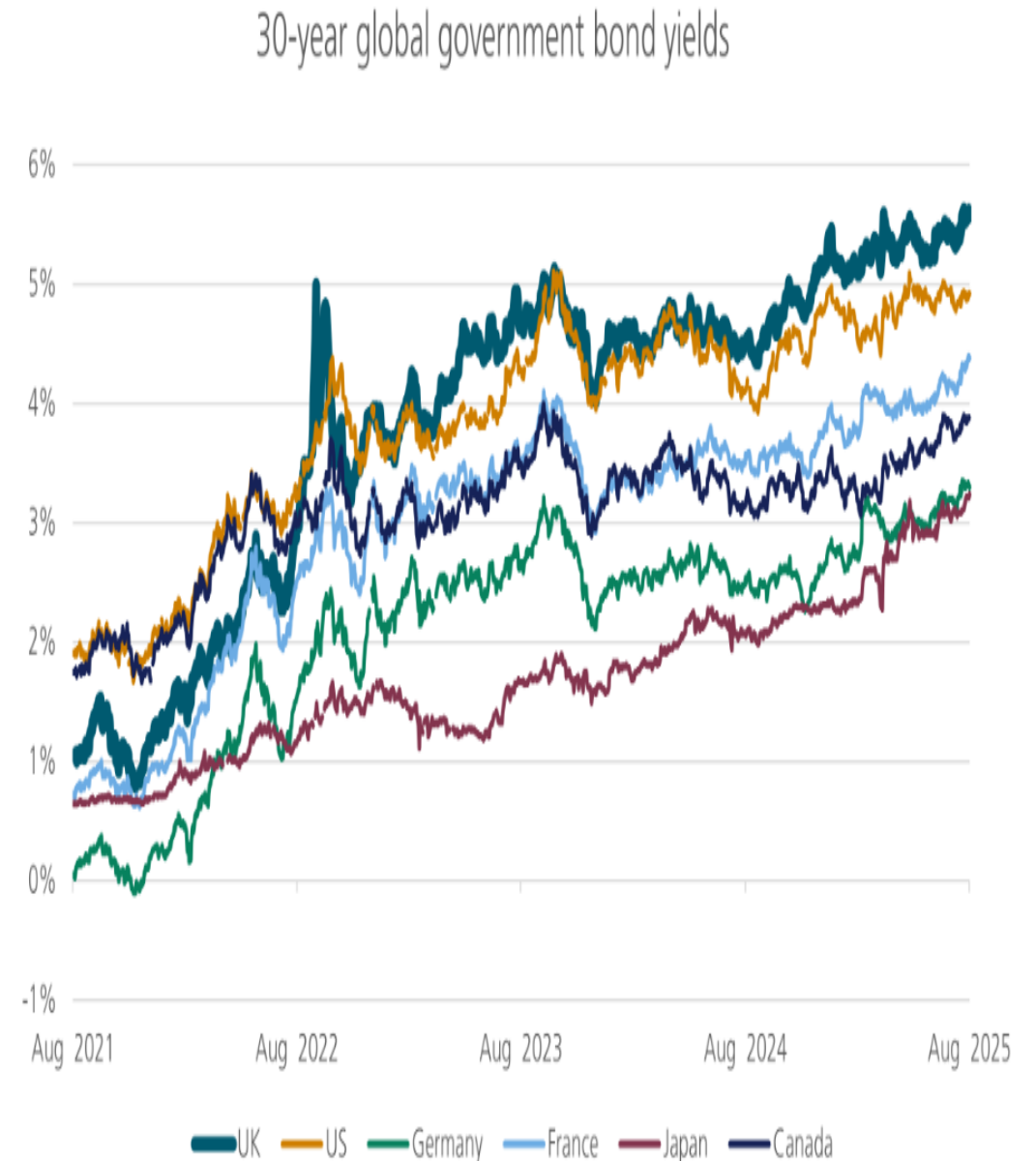


Convergence of Spending...

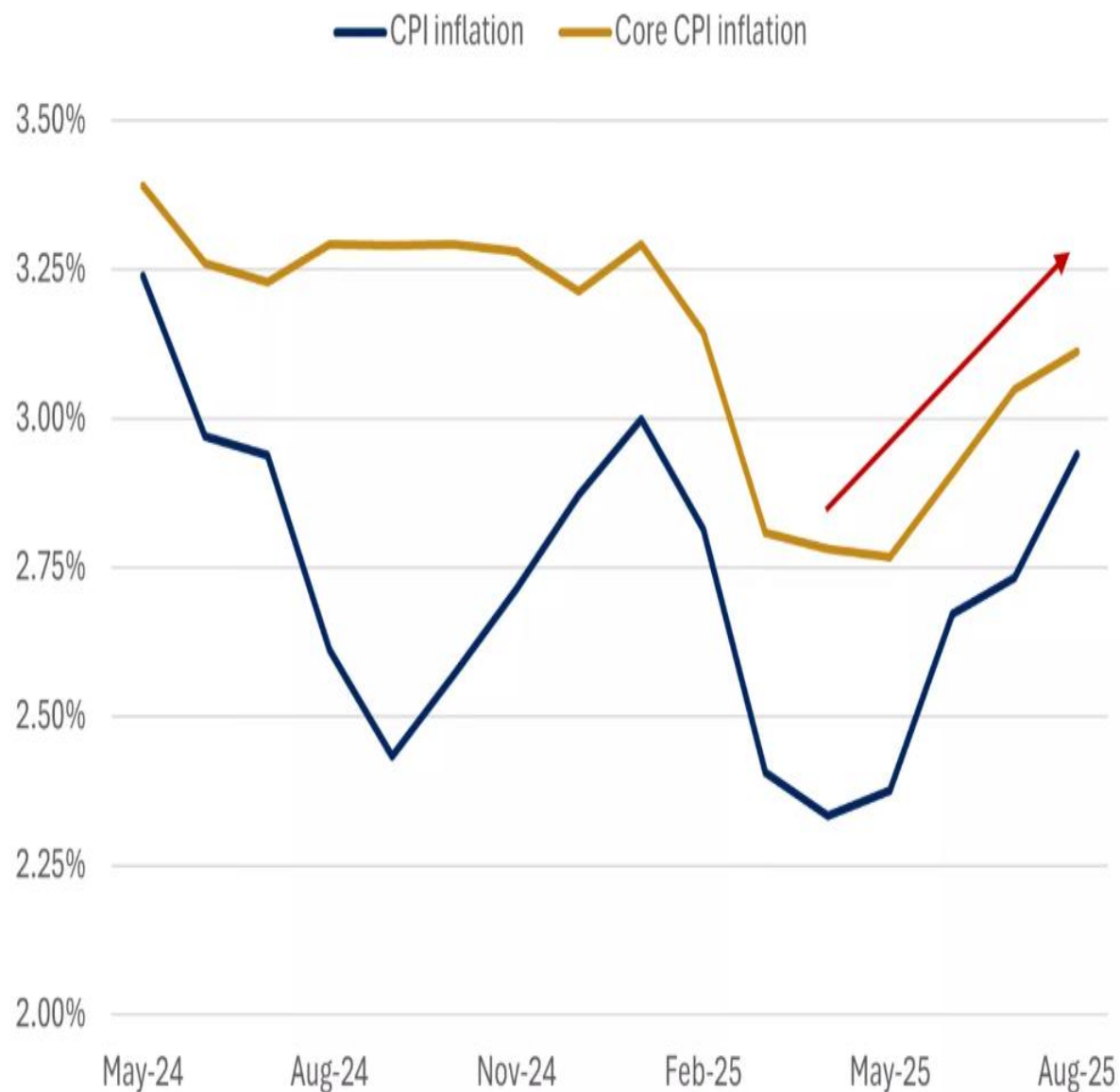
- Unprecedented capital expenditure boom in Artificial intelligence (AI) infrastructure has reshaped how investors allocate capital.
- The world's largest cloud providers will spend over \$350 billion on AI in 2025. Microsoft alone is allocating \$80 billion to expand Azure's AI capabilities, while global AI infrastructure spending could reach \$900 billion annually in 2028.
- This massive capital reallocation signals a structural shift toward higher long-term growth expectations. Total spending on AI infrastructure is contributing an estimated 0.75-1.5% to US GDP growth in 2025. This makes holding long-dated government bonds less attractive.
- Unlike traditional investment cycles, AI spending appears largely decoupled from interest rate sensitivity, making it harder for central banks to manage future policy. Compounding this global shift is the resurgence in defence spending. NATO's commitment to 5% of GDP defence spending adds further pressure to government debt. This is exemplified by Germany's €1 trillion defence and infrastructure package.
- The **convergence of massive private capex and rising defence spending** creates unprecedented competition for global savings.
- This in turn has driven term premiums – the extra return investors demand for holding long-term government bonds compared to short-term government bonds – higher as governments and corporations bid for the same investment pool.

... and the net outcome

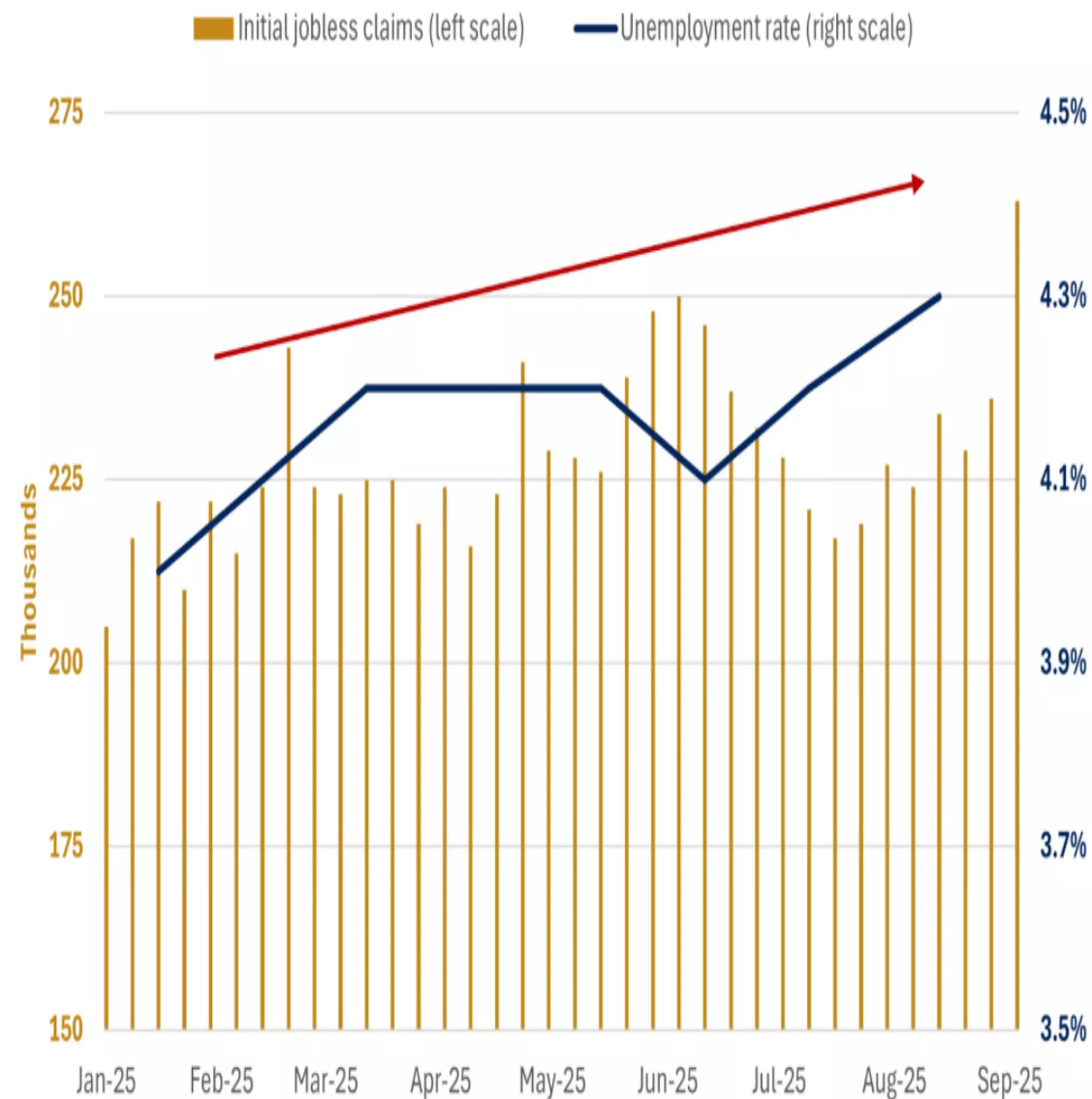
- The result is a fundamental shift where government spending – rather than monetary policy – drives economic activity. Mounting fiscal pressure, inflation and market volatility have broken the link between short- and long-term yields, with maturities over five years holding far less appeal. This has created a disconnect that has bond managers rethinking duration risk.
- **Rising long-term yields now happen alongside strong equity markets, indicating that markets price persistent growth and higher equilibrium rates rather than monetary policy expectations.**
- This environment favours risk assets but penalises duration, particularly in fiscally vulnerable markets.
- One gauge that often gets attention is the yield curve. Typically, yields across the curve respond to market expectations of interest rates. But today that relationship is weakening, with fiscal uncertainty, rising debt and global market shifts pushing long-dated yields in a different direction.



CPI inflation has reaccelerated in recent months



Rising jobless claims and unemployment reflect softening labor market

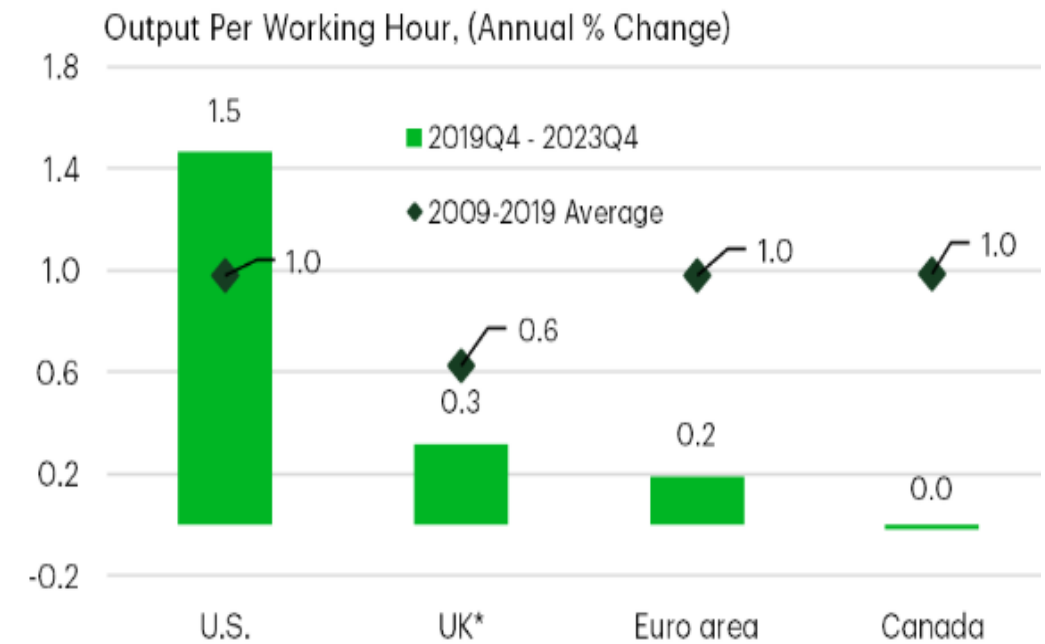


Fed's relevance in this cycle is limited

- At the best of times, the combination of weaker growth and higher inflation would present a policy dilemma for the Federal Reserve (Fed).
- But with Fed facing significant political pressure, the policy environment is even more challenging.
- We expect the Fed to cut interest rates by 25 basis points (0.25%) in September and again in December, with a further 75bps of reductions next year
- A big picture risk is the extent to which the administration is attempting to influence interest rates, which could lead to a profound restructuring of the conduct of monetary policy.
- The president has couched his argument for lower rates in terms of reducing government funding costs. This increases our concerns about fiscal dominance.
- So even as rates come down for bonds with shorter tenors, this could trigger a bond market rout in which longer-maturity bonds sell off.

Productivity : Overwhelming US Positive

- Since the end of 2019, productivity in the US has cumulatively outgrown other advanced economies by around 5 percentage points, or around 1.25 points on a four-year annualized basis.
- Returning US productivity to its long-term trend of 2.2 percent annual growth would add \$10 trillion in cumulative GDP over the next ten years.
- This is equivalent to every US household seeing a cumulative income gain of \$15,000 over that period.
- Other things being equal, it would also boost stagnating median incomes and encourage labor participation.



Source: Bureau of Economic Analysis, Statistics Canada, Australian Bureau of Statistics, Office for National Statistics, Eurostat, TD Economics.

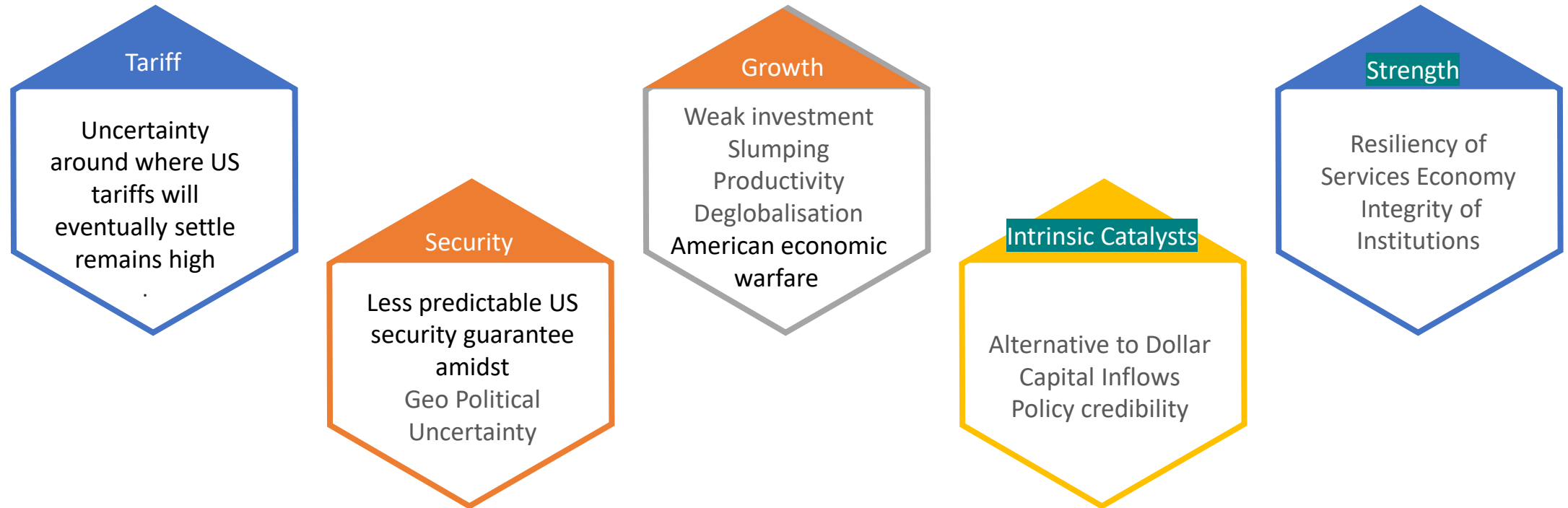
Notes: Asterisk (*) denotes that the 2023Q4 UK data point is based on the ONS productivity flash estimate.

- With excitement building over continued new developments and wider adoption in the space, it is plausible that labor productivity growth may rise to at least a little bit above its long-run average in the coming years.
- This in turn would help boost real GDP growth even despite the headwinds from sluggish labor force growth.

4. Europe Economy

- Competitiveness Compass
- Fiscal reboot by Germany

Europe : Macro headwinds



Competitiveness Compass

- The Competitiveness Compass is Europe's attempt to implement the Draghi recommendations. It identifies the actions needed to boost the EU's competitive standing on the global stage.
- Europe's productivity has been lagging behind other major economies over the last 20 years. Action is urgently needed to revive Europe's competitiveness.
- That is why, in the November 2024 Budapest declaration, EU leaders stressed the urgency of implementing a new European competitiveness deal, anchored in a fully integrated single market.
- The Compass focuses on three core areas: innovation, decarbonization and security.
- We lean skeptical about Europe's ability to achieve these reforms, yet are open-minded about the impetus created by the emerging new world order in both trade and military matters.



*Business as usual is no longer an option.
The Budapest declaration*

Germany's fiscal reboot

- In Europe, Germany's debt brake has been a drag on growth ever since the financial crisis, when the private sector was naturally retrenching and could have benefited from governments taking the opposite tack.
- Germany is now loosening the fiscal purse strings to rearm. The electorate slowly began to contemplate removing the debt brake to revive Germany's military and infrastructure assets.
- This marks a seismic shift for a country traditionally wary of debt, signaling a new willingness to use fiscal policy as a tool for both economic renewal and national security.
- Germany's fiscal reboot has medium-term growth implications, and while it is primarily a German story, there is some spillover into the rest of Europe, especially now that NATO members in Europe are considering raising their annual defense expenditures to 5% (from close to 2% at present).
- Yet this form of "brute force" deficit-driven growth is fairly low-quality in nature, and unlikely to raise medium-term potential in the absence of reforms that reduce over-regulation

5. Chinese Economy

- Tariff Impact
- Rare earth Leverage
- Involution

Tariff Impact

- China has been diversifying its export markets since the first Trump administration and has made progress over the past six years – though less than generally acknowledged, since meaningful new exports to Global South countries merely end up being rerouted to the US or are finished and go to the US as Vietnamese or Mexican products.
- China would clearly prefer not to be locked in a trade war with the US at a time when it has been struggling to fix its own considerable economic pains ,after years of a real estate crisis, overblown regional debt and persistent youth unemployment.
- Directly and indirectly, the US remains significant and difficult to replace as a trading partner to China. A good portion of Chinese imports into the US are likewise hard to replace.
- Given this, we do expect an eventual détente between China and the Trump administration that alleviates what is now effectively an embargo between the two, yet the direction of travel remains toward more decoupling. Countries such as Vietnam are caught in between.

China's Leverage of Rare earths

- REEs (Rare Earth Elements) have become one of the most crucial and sought-after resources in the modern economy. As geopolitical tensions intensify and trade dependencies come under scrutiny, rare earths have become a flashpoint in international policy and economic planning. Due to their unique magnetic, luminescent, and electrochemical properties, this group of 17 elements have become indispensable in a broad range of industry settings, from electric vehicles and wind turbines to oil refinery, medical imaging, and advanced military systems.
- Through sustained investment across the entire value chain—from mining and refining to downstream manufacturing—China has built a comprehensive and highly integrated REE industry. Today, it accounts for the majority of global REE production and processing, and is the leading exporter of critical REE-based products such as permanent magnets. According to CSIS, China extracts around 60% of the world's rare earths, and although that is down from around 90% in 2008, the country remains firmly ahead of anywhere else, with very few signs that that will change in the near future.
- The current supply shock is likely to accelerate global efforts to establish alternative supply chains, particularly in Australia, Canada, the US, and parts of Africa. Nonetheless, building redundancy in these critical supply networks will take time, and for the foreseeable future, China will remain an indispensable supplier.

China : Involution risk

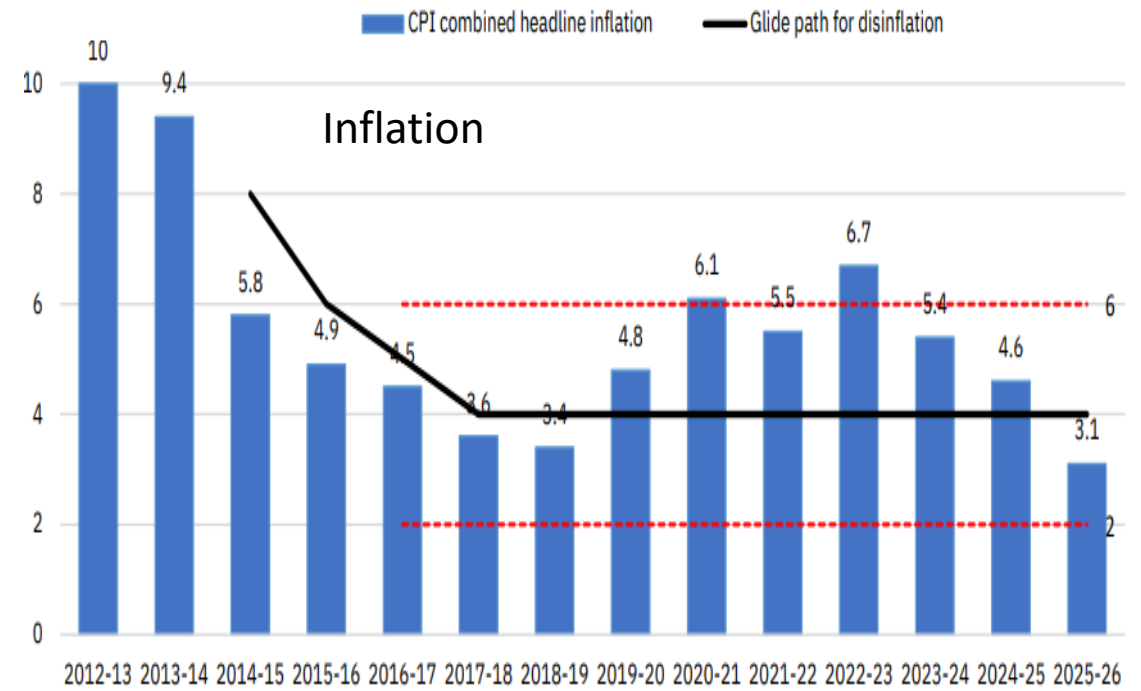
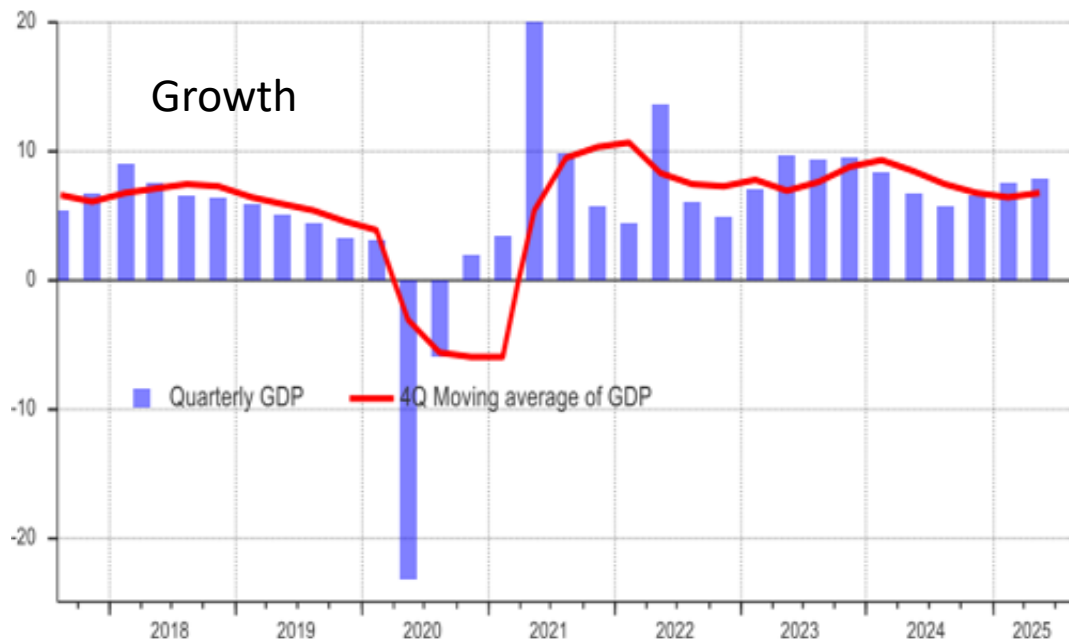
- In economic policy documents, Beijing's leadership used the term “involution”, neijuan in Chinese, in efforts to combat excessive competition in market segments such as photovoltaics and lithium batteries. It has been one of the most commonly used Chinese words of 2020, and has been deployed to describe many things.
- The crux of the economic problems is the supply-expansion growth model in which economic agents build, invest, and produce first to expand supply to create jobs and, thus, demand. Chinese manufacturers and suppliers have been vastly more competitive than others in making high-quality and reasonably priced products for global consumers. However, Chinese businesses tend to expand production in spite of financial losses.
- The anti-involution campaign by Chinese government has revived some investors' confidence for a few sectors with deep overcapacity. However, it remains unconfirmed whether these efforts will pay off with the challenge of weak demand caused by China's unbalanced national income distribution and economic structure. De-involution succeeds where institutions recalibrate incentives and expectations at scale. The goal is to redirect entrepreneurial energy away from zero-sum price battles and toward higher-value, more sustainable forms of innovation. For China, the challenge is not to transplant foreign models wholesale, but to adapt their underlying logic to domestic institutions.

5. Indian Economy

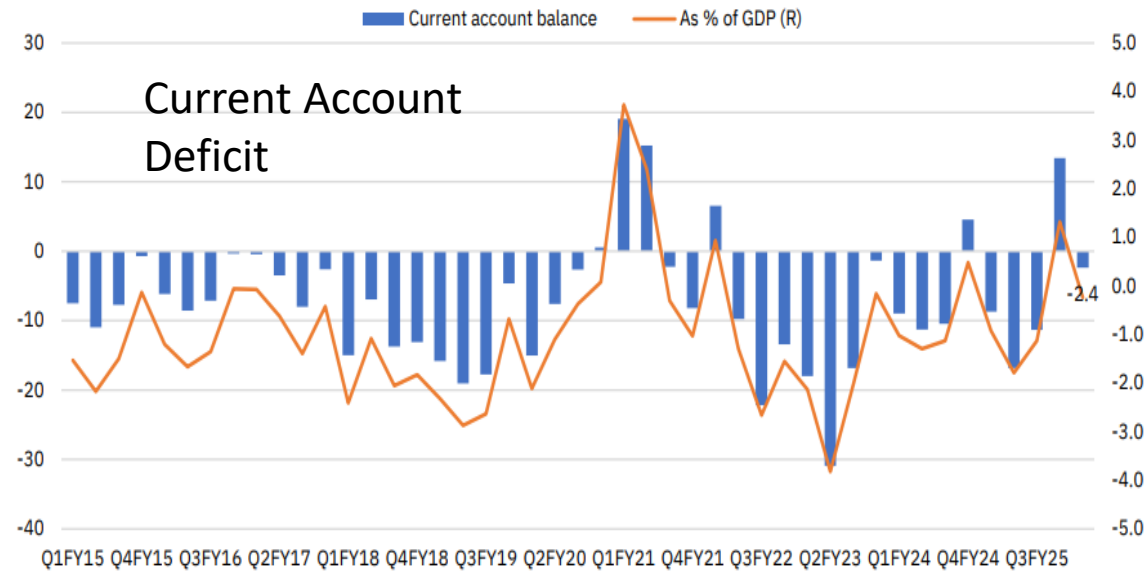
- Macro Back drop
- USDINR Dynamics

Broadly Stable Macros

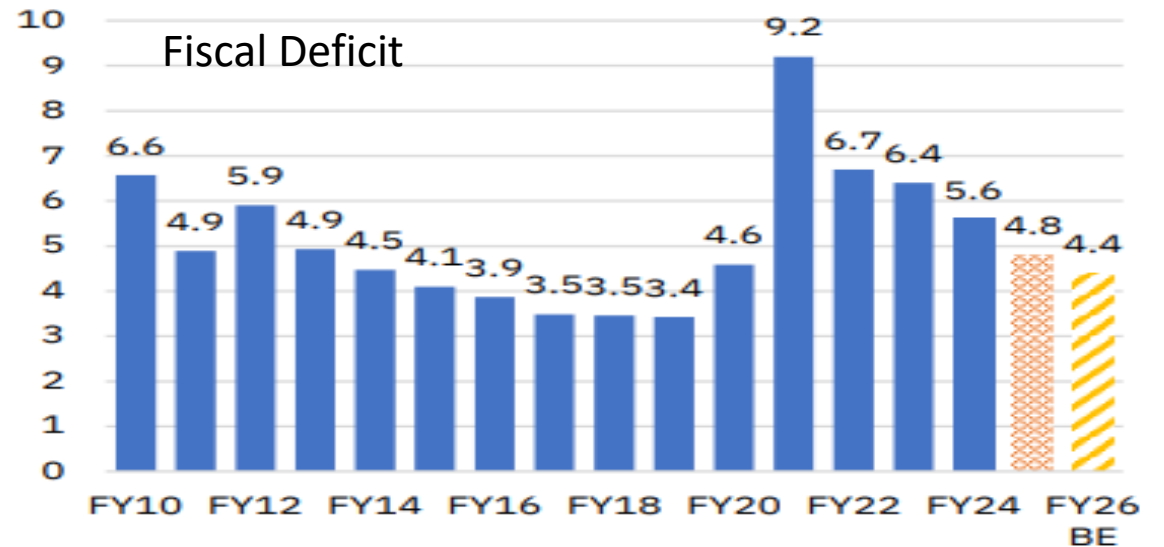
- India's macro indicators are mixed but broadly stable.
- GDP growth for Q1FY26 printed at 7.8%, ahead of expectations, confirming the resilience of domestic demand and a low deflator too, with nominal growth at 8.8%.
- The balance of payments benefitted from a surplus capital account, even as widening of trade deficit shifted current account balance into deficit in Q1 (0.2% of GDP)—with headwinds looming from tariff uncertainty on exports.
- Simplified GST rates, designed to ease compliance and boost consumption, underlined the government's focus on efficiency gains, with near-term fiscal impact likely to be limited and nullified over time with increasing economic activity
- Meaningful recovery in corporate profits, supported by margin tailwinds even as topline growth remained modest.
- A sovereign rating upgrade and easing inflation provided some support to macroeconomic conditions



Source: Ministry of Statistics and Program Implementation (MOSPI) and RBI staff, NSE EPR.



Source: CMIE Economic Outlook, NSE EPR.

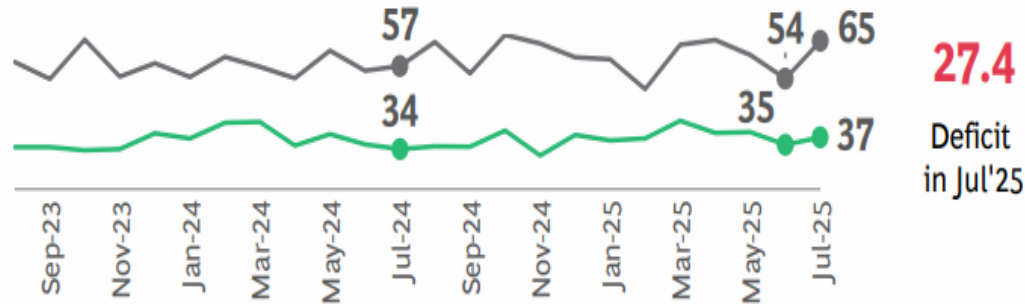




Merchandise Trade (\$ Bn)

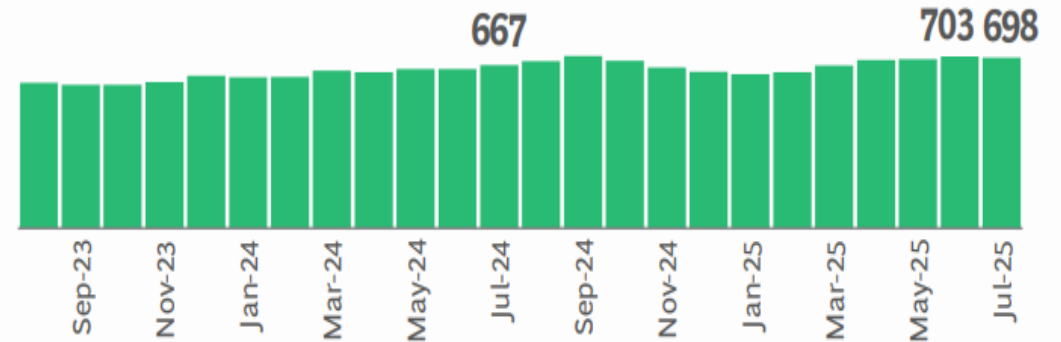
Merchandise trade deficit climbed to an 8-month high in Jul'25 due to an increase in the import of petroleum products and gold

— Merchandise Exports — Merchandise Imports



Forex Reserves (\$ Bn)

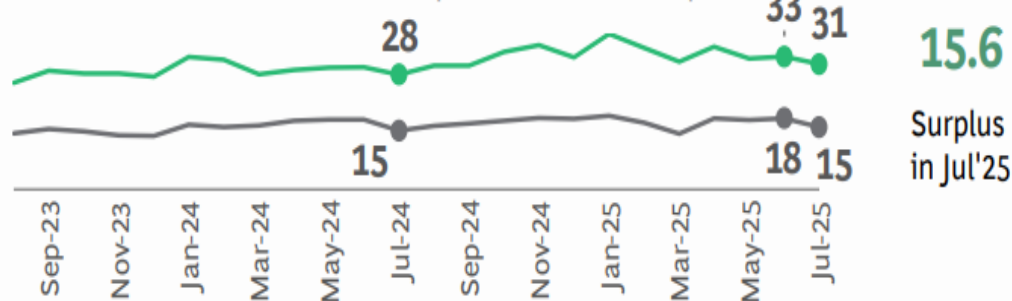
Forex reserves slightly declined in Jul'25 due to a fall in foreign currency assets



Services Trade (\$ Bn)

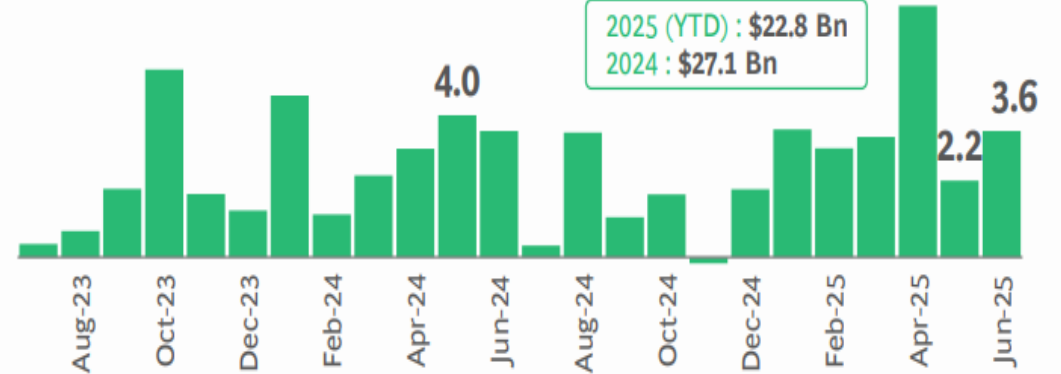
Services trade surplus was broadly unchanged in Jul'25 vs Jun'25, even as imports fell slightly faster than exports

— Services Exports — Services Imports

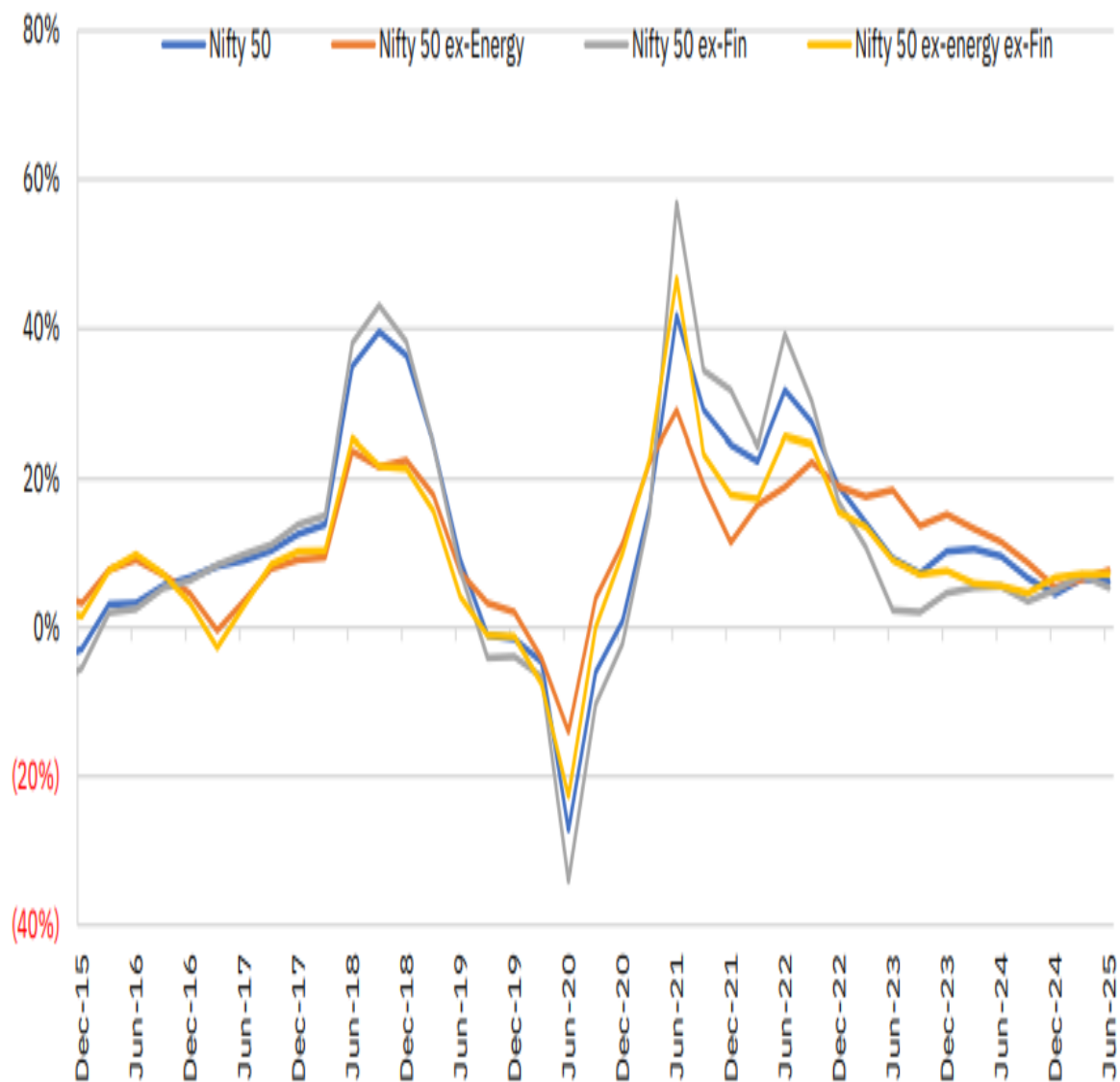


FDI (\$ Bn)¹

FDI inflows rebounded in Jun'25 due to higher equity investments, especially via Government and RBI channels



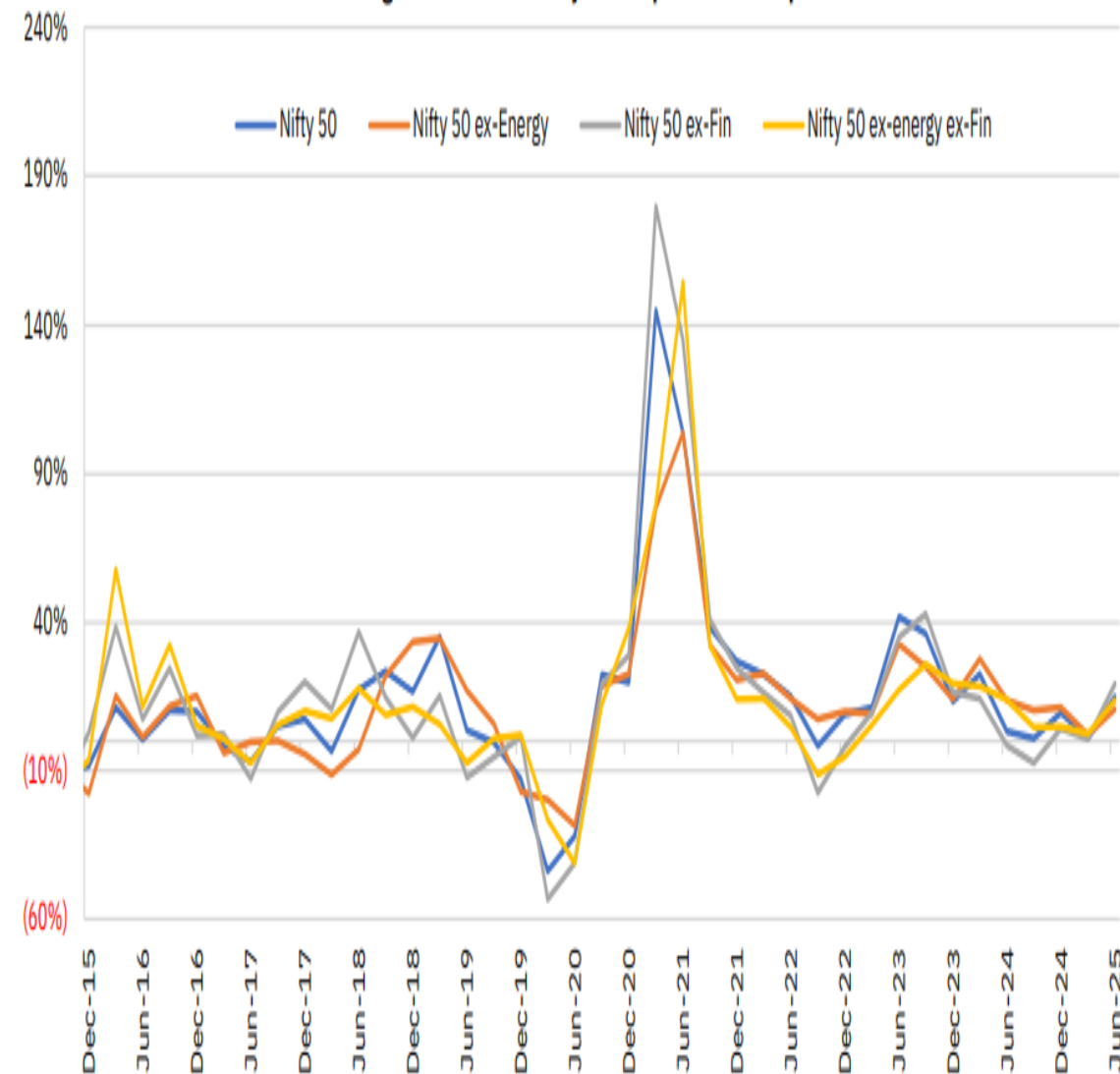
Net sales growth trend for Nifty 50 companies across quarters



Source: CMIE Prowess, LSEG Workspace, NSE

Note: The above chart includes companies in the Nifty 50 index as at the end of respective quarters.

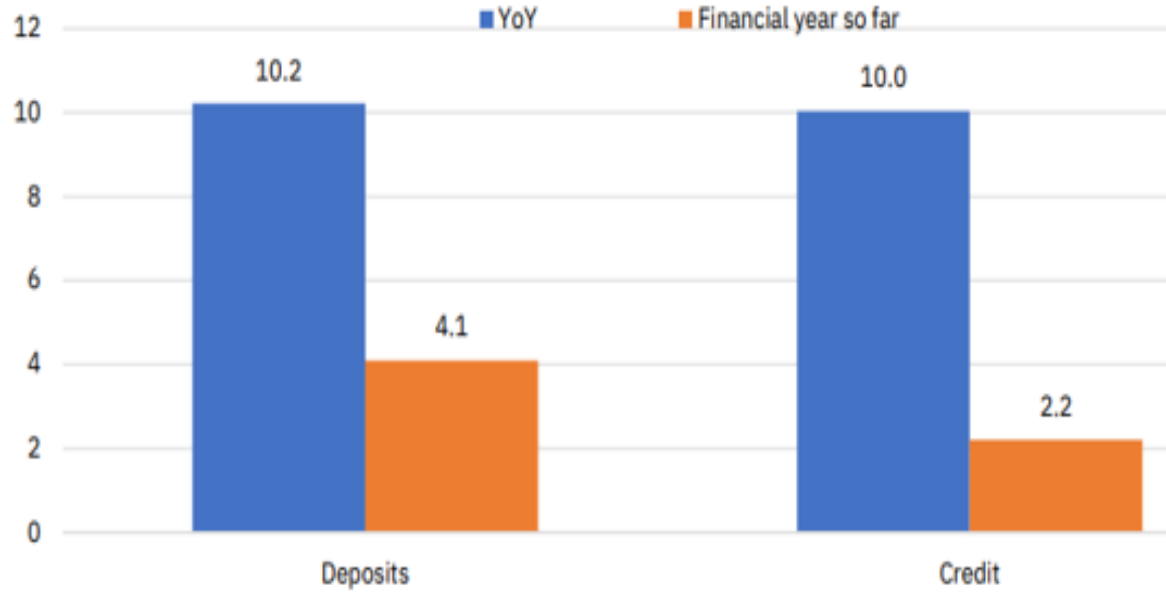
PAT growth trend for Nifty 50 companies across quarters



Source: CMIE Prowess, LSEG Workspace, NSE

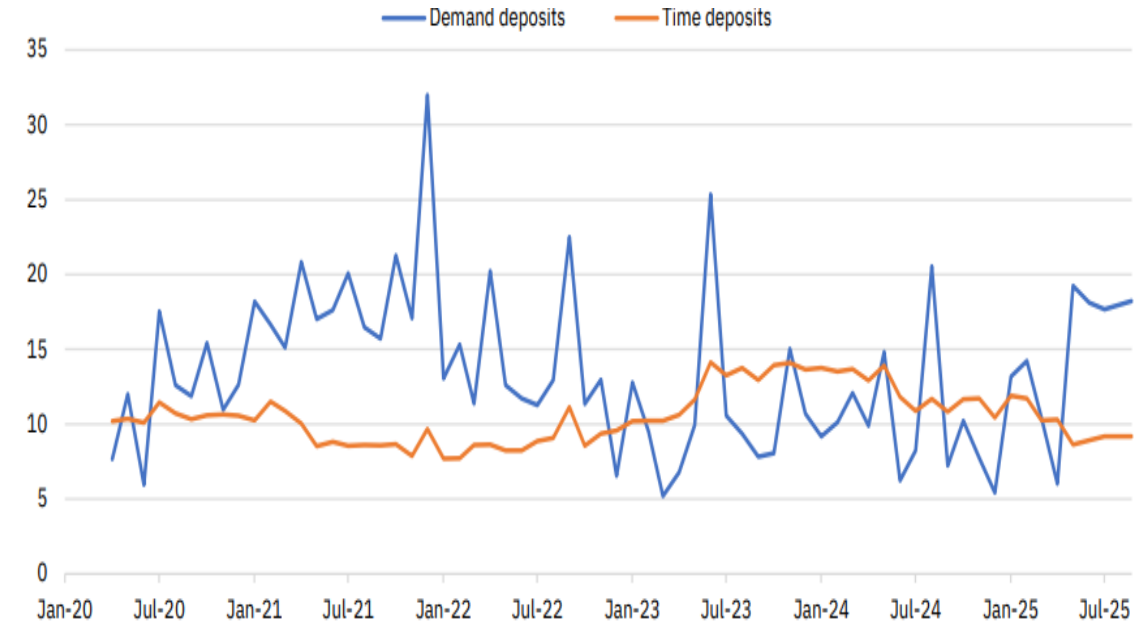
Note: The above chart includes companies in the Nifty 50 index as at the end of respective quarters.

Deposit and Credit Growth



Source: CMIE Economic Outlook, RBI, NSE EPR. Note: Data is as of August 22nd, 2025 from the Weekly Statistical Statement of RBI

Segment wise Deposit Growth



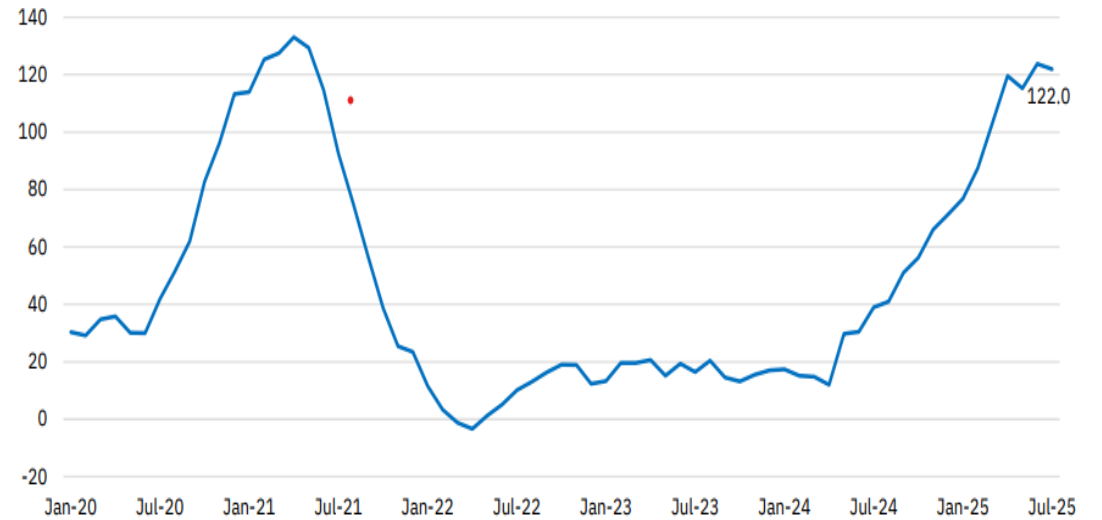
Source: CMIE Economic Outlook, RBI, NSE EPR. Note: Data is as of August 22nd, 2025 from the Weekly Statistical Statement of RBI

Credit Deposit Ratio



Source: CMIE Economic Outlook, RBI, NSE EPR. Note: Data is as of August 22nd, 2025 from the Weekly Statistical Statement of RBI

Gold loans -Growth Rate Y/Y



Source: CMIE Economic Outlook, NSE EPR.

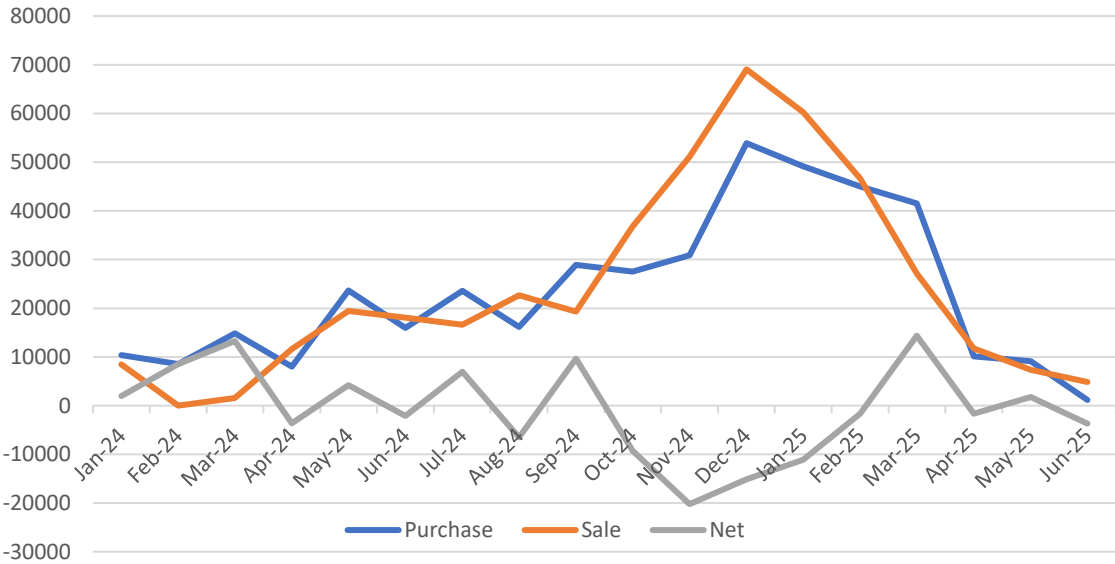
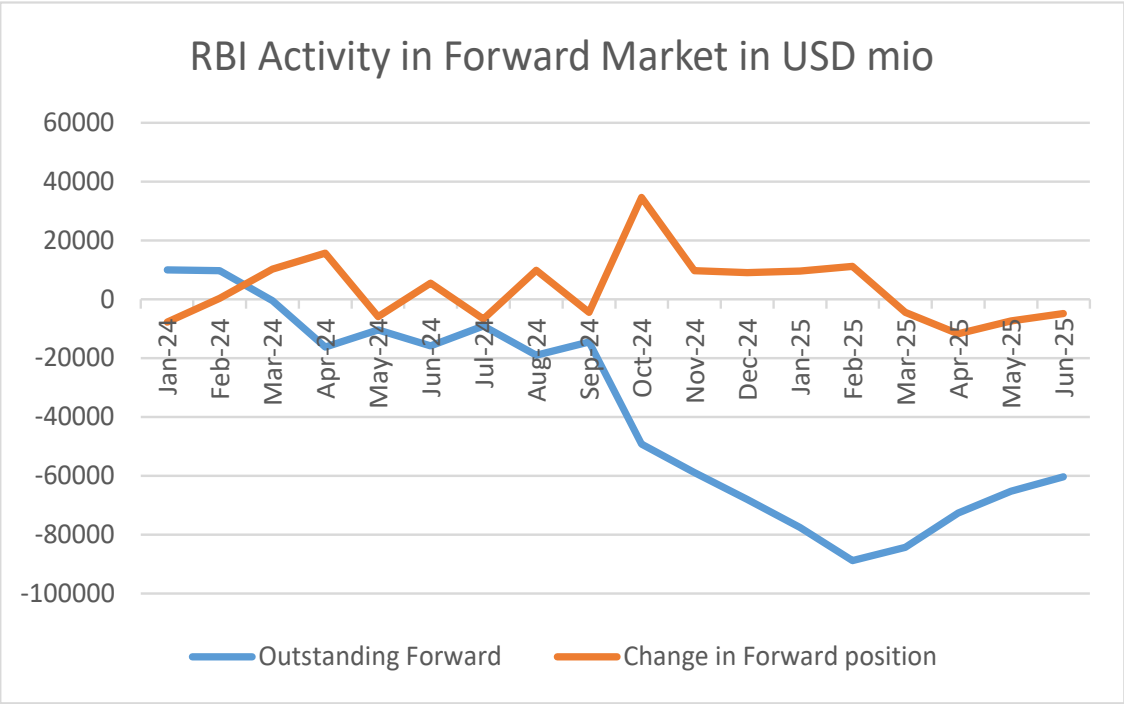
USDINR Dynamics

FY	Open	High	Low	Close	Open to Close percentage change	Exchange rate used to possibly Anchor
2019-20	69.23	76.23	68.29	75.665	9.30%	
2020-21	75.96	76.91	72.26	73.11	-3.75%	
2021-22	73.42	76.9825	72.32	75.7925	3.23%	
2022-23	75.7	83.2325	75.3075	82.17	8.55%	Monetary Policy
2023-24	82.46	83.45	81.61	83.405	1.15%	Fiscal Buffer
2024-25	83.37	87.9575	83.03	85.475	2.53%	
2025-26	85.675	88.46	83.7525	88.275	3.23%	

Rupee on a Leash: RBI's Dictated Depreciation Strategy

The rupee's path is less about macro forces and more about RBI's silent hand, steering it lower while guarding stability with tight control.

RBI Activity in Spot Market



Key Takeaways

- Adapt or perish. That's the operative phrase in FX markets today.
- Investors and analysts must accept that the old models are growing obsolete.
- Saving a macroeconomic cheat sheet from 2005 won't help you much in a 2025 playbook.
- Instead, here's what you should consider:
 - Integrate Geopolitical Analysis: Treat political developments as critical elements of currency forecasts—not afterthoughts.
 - Monitor CBDC Rollouts: These will dramatically shift liquidity flows and affect medium- to long-term valuations.
 - Embrace Volatility: Prudent hedging strategies and multi-asset diversification are essential in navigating the new FX normal.
 - Stay Agile: Algorithms can only do so much. Human intuition, backed by rigorous data, has never been more valuable.