

India Rewind is a monthly update from DSP's Investment Desk.

It separates the alpha from the noise and aims to deliver key insights to readers, packed within a 2-minute reading time.

Trade uncertainty continues to remain elevated, though targeted resolutions have led to a modest reduction in specific areas. While the U.S. imposed broad-based 25% tariffs on Indian goods, it simultaneously advanced trade agreements with the EU, Japan, and ASEAN, which helped to ease global risk sentiment. In this environment, India's landmark FTA with the UK emerged as a key positive—enhancing export visibility amid a fragmented global trade landscape.

The US government's decision to impose a 25% tariff on Indian imports, effective August 7, could weigh on India's export performance, particularly across key sectors such as textiles, pharma, electronics, agri-products, and machinery. In FY25, India's export to US totaled ~\$87 billion, equivalent to ~2.5% of GDP. This direct exposure has a limited impact on GDP (refer chart of the month below), with a weaker INR potentially offsetting some of the effect by enhancing India's price competitiveness in global markets. Among EM peers, Vietnam, Indonesia and the Philippines have lower US tariffs rates (~20%) compared to India. Korea's tariffs are similar to India's at 25%, whereas Bangladesh (35%) and China (55%) face higher tariffs. Furthermore, ongoing policy efforts by the RBI to encourage investment, combined with India's relatively limited exposure to U.S. trade, could influence its positioning relative to other Asian counterparts as global trade policies continue to evolve.

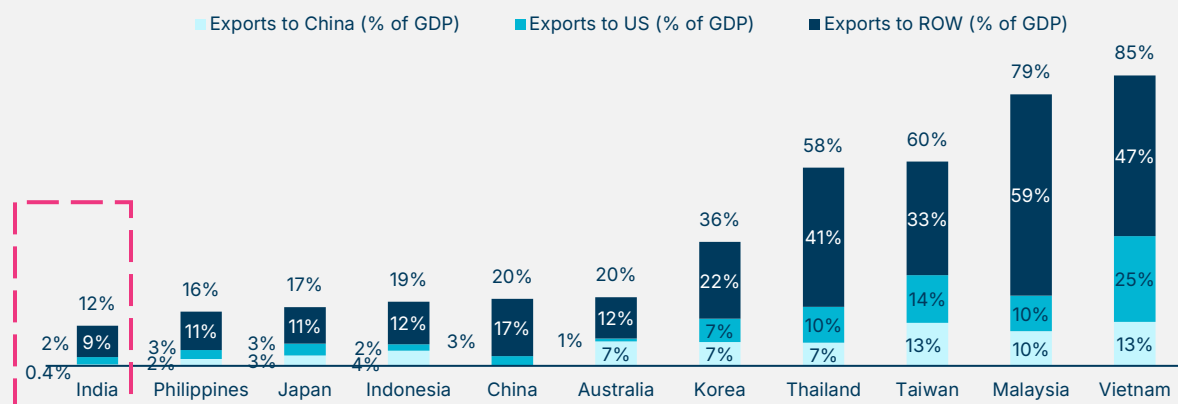
The India-UK FTA holds significant strategic importance, with an expected ~\$34.1 bn boost to bilateral trade. Textiles and apparel gain immediate duty-free access, enhancing competitiveness versus Bangladesh and Vietnam. Gems and jewellery exports (~\$941 mn in FY24) benefit from up to 4% duty removal, while processed foods secure over 95% tariff-free coverage, unlocking niche export opportunities. IT and business services also gain from social security relief, reducing costs for IT firms. While whisky and premium automobiles largely favour UK exporters, these measures deepen bilateral engagement and could support long-term EV and premium consumption linkages.

Beyond its sectoral gains, the FTA is a strategic pivot. It strengthens India's role in global supply-chain realignment and lays the foundation for future trade agreements with the EU and U.S. India's recent experience with Australia's FTA—where exports rose 1.5x—highlights the potential for similar diversification benefits in value-added exports.

India's domestic macro environment remains firmly supportive with the IMF raising India's FY2026 GDP growth outlook to 6.4% from 6.2%. Above-normal monsoon rainfall has improved kharif (summer crop) sowing and rural sentiment which bodes well for rural consumption, CPI inflation eased to a six-year low of 2.1%, and manufacturing PMI in Jun'25 surged to 59.2, a 17-year high. The government, in collaboration with the RBI, has implemented a series of policy measures, including rate cuts, income tax relief, liquidity support, and maintaining benign food inflation, to bolster the recovery of domestic demand. This combination of stable growth, disinflation, and supportive policy strengthens India's ability to withstand global trade frictions.

In YTD 25, MSCI India Index US\$ returned ~2.7% vs. MSCI EM ~15.6% and MSCI DM 9.9%. MSCI India's forward PE is at ~19.3, with the 2FY now trading at ~7% above its +1SD. FPIs have sold US\$ (7.7)bn YTD'25 (vs ~\$(0.8) Bn in 2024), while DIIs continue to buy at ~US\$ 48.5bn in CY25. Monthly SIPs hit fresh highs ~USD 3.2bn in India, suggesting the preferred form of investment for India's retail.

Chart of the Month: Goods exports to GDP (% of GDP, 12M trailing sum)



Info Sources: Nuvama, Morgan Stanley Research, MOFSL, Avendus Spark Research, Elara Securities, UBS. Data as of July 2025. MXASJ – MSCI Asia Ex-Japan, FPI – Foreign Portfolio Investor, DII – Domestic Institutional Investor, RBI – Reserve Bank of India, FY – Financial Year, CY – Calendar Year, YoY is Year over Year, YTD – Year to date, EM – Emerging Markets, DM – Developed Markets, NSO- National Statistics Office.



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Past Issues:

- India Rewind July 2025
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	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E
Economic Activity and Employment								
GDP, USD bn	2,701	2,871	2,668	3,176	3,390	3,568	3910	4310
GDP per capita, USD	2,036	2,141	1,969	2,321	2,451	2,554	2771	3029
Real GDP growth, %	6.5	4.0	-6.6	8.7	7.2	8.2	6.5	6.4
Prices, Interest Rates and Money								
CPI inflation, % y/y (average)	3.4	4.8	6.2	5.5	6.7	5.4	4.6	3.2
Repo rate, % (year-end)	6.25	4.4	4.0	4.0	6.50	6.50	6.25	5.50
10-year bond yield, % (year-end)	7.4	6.1	6.2	6.8	7.3	7.1	6.5	5.8
USDINR (year-end)	69.2	75.4	73.5	75.8	82.3	83.0	85.6	85.0
Fiscal Accounts								
General government budget balance, % GDP	-5.9	-7.8	-13.9	-9.5	-9.4	-8.5	-8.0	-7.4
Balance of Payments								
Trade balance, USD bn	-180	-158	-102	-189	-266	-243.2	-287.2	-318.8
Exports, USD bn	337	320	296	429	456	440.2	441.8	424.7
Imports, USD bn	518	478	398	619	720	683	729	744
Current account balance, USD bn	-57	-25	24	-39	-67	-25	-23	-35
Foreign direct investment (net), USD bn	30.7	43.0	44.0	38.6	35	18	1	10
Total FX reserves, USD bn	413	478	577	607	578	646	668	701
Total external debt, % GDP	20.1	19.5	21.4	19.1	18	18.1	17.1	16.5
Credit ratings								
Moody's	Baa2	Baa2	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Source: CEIC, Haver, UBS estimates; Note: Data is for FY ending March; E - Estimates

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