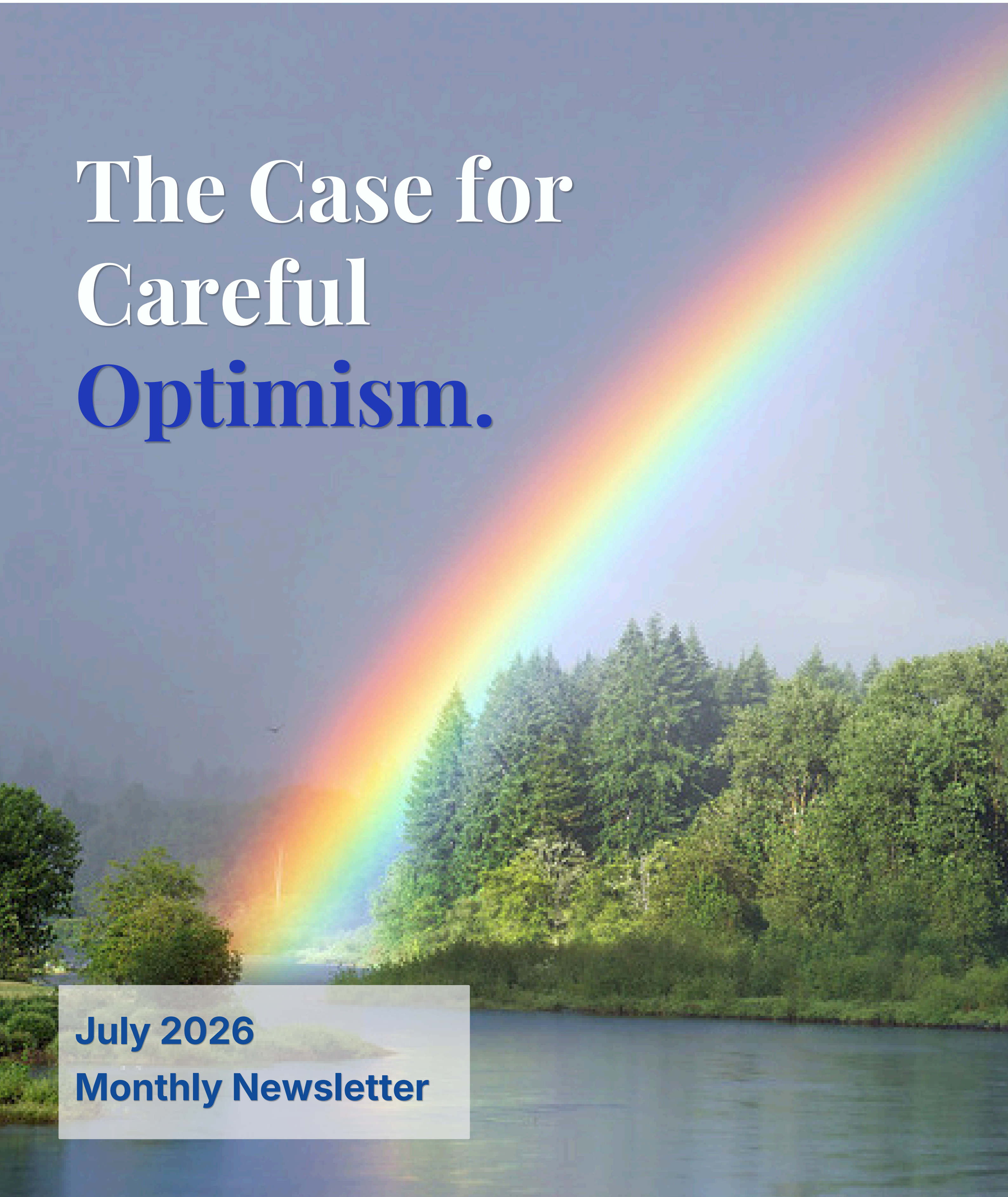
uti Investments
India Expertise, Global Presence

The Case for Careful Optimism.



July 2026
Monthly Newsletter

For three weeks in June, the pressure on India began to ease. Oil fell back toward $70, the rupee recovered from its lows, and foreign capital quietly started returning to Indian markets - first through bonds, and then through equities.

For the past six editions, we have led with the risks facing India. This time, the evidence has shifted enough for the positives to come first. That does not mean the risks have disappeared: the geopolitical backdrop remains fluid, and India's external vulnerabilities still deserve close attention. But it would be equally misleading to understate how much the domestic and market backdrop has improved.

01 What Changed After the Ceasefire: *and what it revealed*

On June 19, a peace agreement was announced in Switzerland, ending a 107-day conflict that had closed the Strait of Hormuz, pushed Brent above $120, and driven the rupee to a record low of 96.96. In the weeks that followed, oil fell, the rupee recovered, and foreign capital began returning - faster than most expected. The situation remains fluid, but the direction of the response was unambiguous.

What those weeks proved is that the underlying economy was ready the moment pressure lifted. That speed of recovery is the more durable data point. The figures below describe what happened - read them as evidence of the base case, not a forecast.

Brent Crude
$120 peak → $70s → still evolving

From a peak of $120–125 in late April, oil fell sharply on the ceasefire and OPEC's quota increase before partially reversing. Hormuz traffic is resuming. Every $10 fall in crude improves India's import bill by ~$12–13bn annually - oil remains an important macro variable for India.

Indian Rupee
~94.6 at its post-peace peak

From 96.96 in May to 94.60 following the peace announcement - the strongest level since early May. The rupee has since given back some of that recovery as the conflict resumed. The direction of travel when pressure eases remains clearly constructive.

Energy Security Exposure
Tail Risk Receding

India sources ~50% of crude, ~70% of LPG, and ~90% of LNG from West Asia. The three-week window showed the supply chain held through the entire conflict without breaking - a structural resilience point that remains valid regardless of how the geopolitics resolve.

Fiscal & CAD Pressure
Easing

The CAD stress-tested toward 2% of GDP at $110+ crude. With oil having pulled back from its peak, the arithmetic is moving in the right direction. The fiscal cost of holding domestic fuel prices through the conflict period remains - but it is no longer compounding.

Source: Bloomberg, GTRI, Business Standard, The Federal. Data as of early July 2026.

02 The Most Interesting Data Point of the Quarter

While equity investors debated when foreign money would return to India, it quietly started returning - through a different door.

FPI Debt Flows- June 2026

+$5.8bn
Into Indian Debt

Source: NSDL

In June, FPI inflows into Indian debt exceeded FPI outflows from Indian equity - the first month in this cycle where the net foreign position turned positive. The drivers: expectations of rupee appreciation, sharply lower Indian yields, the government's removal of capital gains and interest taxes on government securities for foreign investors (retroactive to April 1), and rising odds of Indian bonds entering the Bloomberg Global Aggregate Index - an inclusion that analysts estimate could bring $25-30Bn over the following year.

Debt flows are not equity flows - but they are rarely unrelated. Foreign debt investors are making a judgment about currency stability, fiscal credibility, and macro direction. Historically, sustained debt inflows have preceded equity flow reversals rather than followed them. The equity door remains shut for now - H1 2026 saw $29.0Bn of FPI equity selling, more than the whole of 2025. But the debt door is open, and money is walking through it.

The equity signal is turning too. After net outflows of $6.7bn in the first half of June, FPIs bought $1.5bn in the second half - led by financial services, construction, and consumer services. June still closed as a net outflow month, but the direction had shifted within it. July has confirmed that shift, with FPIs turning net buyers at ~$1.6bn in the first fortnight - the longest consecutive buying streak since the West Asia conflict began. The two consecutive fortnights of inflows is no longer a single data point. It is an early-stage pattern worth tracking through Q2 FY27.

03 The Defence Was Rebuilt in Real Time: *the June measures*

In early June, the RBI and government launched the most aggressive external-account support package since the 2013 taper tantrum - a combination of measures aimed at stabilising the rupee, attracting foreign capital, and closing the balance of payments gap.

June 5–8	**FCNR(B) special swap window - the 2013 playbook, revived** RBI bears the full FX hedging cost for banks raising fresh 3-5 year FCNR(B) deposits until September 30. Dollar deposit rates jumped from 3-4% to 6-7.1%. In 2013, the same mechanism attracted $26Bn within months. Analysts estimate $40-60Bn in combined inflows this time, though the narrower US rate spread (US CDs now yield ~4.5% vs near-zero in 2013) tempers the comparison.
June 5–8	**FPI tax removal on government securities - retroactive** Capital gains and interest taxes on G-secs removed for foreign investors, applied from April 1, 2026. Combined with the expansion of the Fully Accessible Route to longer-tenor securities, this materially improves the case for Bloomberg Global Aggregate Index inclusion by end-2026.
June 5–8	**Concessional swap facility for PSU external borrowings** A parallel channel to bring dollars in through state-owned enterprises raising ECBs at lower hedging cost. MUFG estimates the totality of measures could bring ~$40Bn in FY27 - roughly closing the estimated balance of payments gap.

Source: RBI circulars (June 2026), MUFG Research, Emkay Global, Motilal Oswal estimates. FCNR window: June 8 – September 30, 2026.

The Honest Footnote

These measures are not free. The RBI is effectively taking on the currency exposure from three-to-five-year FCNR(B) inflows, potentially running into tens of billions of dollars. If the rupee is materially weaker when the swaps mature, the cost will show up on its balance sheet. It is a reasonable bridge - but still a bet on India's external position being stronger by 2029–31.

04 Credit Is Not Behaving Like a Crisis: *the leading indicator*

If the war had genuinely broken India's economic momentum, the first place it would show is credit. It hasn't. FY26 closed with the strongest broad-based credit expansion in years- and the composition matters as much as the headline. This is not retail leverage. It is industry, Micro, Small, and Medium Enterprises (MSME), and commercial funding-the financing that precedes capacity creation.

Non food credit growth	Micro & Small Industries Credit	NBFC credit growth	Gold loan growth
17.4% YoY	**26.2% YoY**	**+33.7% YoY**	**+105.5% YoY**
Led by Services, Industry & Retail	*vs 13.7% a year ago*	*Fastest pace since Dec'22*	*Retail lending against gold*

Source: RBI, Avendus Spark Research. Data as of May'26

Why this matters for the recovery case: credit is the connective tissue between the capex intentions covered in earlier editions and actual economic activity. Companies do not borrow at 26% growth rates to sit on cash. The honest caveat: the RBI's Q4 FY26 Bank Lending Survey showed the war dented banker confidence for the June quarter. The question for Q1 FY27 is whether that sentiment recovers as conditions improve - and with oil off its highs and the rupee stabilising, the conditions for it to do so are in place.

05 What the Street Says: *and what it hasn't updated yet*

Wall Street's read on India is turning constructive. Morgan Stanley, in a note dated July 6, set a June 2027 Sensex target of 89,000 - implying ~15% upside - arguing India's de-rating is cyclical and set to reverse as growth accelerates. Jefferies remains overweight with a Nifty target implying ~17% upside, anchored by an expected FY27 earnings acceleration. Goldman Sachs sees the Nifty headed to 26,500, noting that $30bn of FII selling is nearing an end - a signal that the tide may be turning for Indian equities.

India's valuation premium over EM has compressed to a historic low of 18% in June'26, against a long-term average of 73% *(Source: Motilal Oswal Financial Services Ltd, as of Jun'26)* - a level the Street increasingly reads as a trough. Taken together, the Street's message is less "India is booming" and more "the reasons to be cautious are fading faster than the targets have caught up"- which, for a market this size, tends to be how re-ratings begin.

06 The Careful Part: *what still argues for restraint*

Optimism earns the adjective "careful" only if the risks get their full weight. Here's where that weight sits this quarter

Monsoon Deficit · June
-42%
The new number one risk

The IMD has forecast below-normal southwest monsoon rainfall. The all-India deficit widened from 28.4% to 42.2% of the long-period average within a single week in June. The RBI's June bulletin flagged the risk directly, noting an adverse monsoon "may weigh on the domestic growth-inflation outlook."

Rate Direction · Inverted Debate
Hikes?
The conversation has flipped

The RBI held rates at 5.25% in June with a neutral stance, cut its FY27 growth forecast to 6.6%, and raised its inflation forecast to 5.1%. CPI rose to 3.9% in May. Several fixed income desks now expect 50-75bps of rate hikes in H2 FY27, likely from October.

FPI Equity Flows · H1 2026
-$29.0Bn
The equity door is still mostly shut

Foreign investors sold more Indian equity in the first six months of 2026 than in all of 2025, with $5.2Bn of net selling in June alone. Within June, outflows in the first half gave way to roughly $1.5bn of net buying in the second half.

Growth Trajectory · FY27
6.6%
Lower than where this year began

The RBI's FY27 forecast has been cut twice - from 6.9% to 6.6% - with Q2 projected at just 6.3%. Against the 7.6% delivered in FY26, this is a genuine step down. The war's damage to the growth path is done and will show up in the coming quarters' data regardless of the peace.

Source: IMD, RBI June Bulletin, RBI MPC (June 5, 2026), NSDL. Data as of June 30, 2026.

Bottom Line

Through a prolonged period of conflict, a sharp oil spike, a record-low rupee, and the largest FPI equity selling on record, the domestic economy's core indicators did not break. GST collections crossed $24bn in March. SIP inflows held at record levels throughout. DII ownership of the Nifty 50 moved above FII ownership for the first time in history. Credit expanded at its fastest broad-based pace in years. These are resilience data points, not recovery data points - evidence of what the economy was doing while the market was pricing something much worse.

Some conditions have eased since: oil has pulled back from its highs, the rupee has recovered off its low, and foreign capital has started returning through the debt market. The geopolitical situation continues to evolve and warrants watching. But at least for now, the negative sentiment that weighed on India through the first half of 2026 appears to be lifting. The monsoon deficit is large and widening, the rate debate has shifted from cuts to possible hikes, the equity flow reversal has not been confirmed, and FY27 growth will be slower than FY26. The case for optimism is real. It remains a careful one.

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