

Table.1: H2FY26 Borrowing Calendar

H2FY26 Borrowings (Rs. In Lakh Crore)	H1-FY26 (actual)	H2-FY26 (announced)
Gross Issuance (Central Govt.)	7.95	6.77
Redemption	2.07	1.89
Net Issuance	5.88	4.88
H2FY26 Borrowings (Rs. In Lakh Crore)	H1-FY26 (actual)	Q3-FY26 (announced)
Gross Issuance (T-Bills)	7.71	2.47
Redemption*	8.07	3.57
Net Issuance	(0.30)	(1.10)
Gross Issuance (SDLs)	5.00	2.82
Redemption*	1.41	1.01
Net Issuance	3.59	1.81

*Redemption is as per our estimates
Source: RBI, UBI Research

Global FI volatility rises amid dovish hints by CBs while fiscal uncertainty weighs:

Emerging markets entered September 2025 navigating crosscurrents from both softer developed-market yields and uneven global growth. In the United States, the Fed's cut recalibrated market expectations toward a modest easing trajectory. Treasury yields remained volatile but gradually trended lower after the announcement. The 10-year yield closed near 4.13 %, and the 30-year at 4.72 %, both slightly off their early-month peaks. In Asia, central banks remained more measured. The Bank of Japan maintained its policy rate at 0.25%, while scaling back its bond purchases modestly (especially in shorter tenors) to allow more market pricing of longer maturities. Meanwhile, Japanese 30-year JGB yields in September climbed as high as -3.285 %, a level that underscores both structural pressures and changing political expectations. In addition to the ongoing exit from yield-curve control and weaker institutional demand (e.g. life insurers), a key catalyst has been shifting expectations about fiscal and monetary direction under a new Prime Minister. The incoming political leadership is widely viewed as more expansionary with ambitions for aggressive fiscal stimulus, infrastructure spending, which has heightened market concerns about higher future deficits and inflation. In effect, longer Japanese maturities are increasingly reflecting structural risks in debt sustainability and less central bank backstop, adding volatility to global fixed income markets. During September, several EM central banks seized the opportunity to ease policy amid contained inflation and weakening trade momentum. The Bank of Mexico, Central Bank of Brazil, and Reserve Bank of Australia each delivered 25bps cuts to support domestic demand, while China's PBOC continued to inject liquidity through targeted credit facilities instead of broad rate reductions. This measured wave of global easing encouraged selective investor rotation into higher-yielding EM assets, though capital flows remained sensitive to currency risk and fiscal stability.

Amid the global and regional shifts, the Reserve Bank of India (RBI) maintained its policy rate at 6.50%, choosing prudence over pre-emptive easing. Headline inflation remained within target, while core inflation continued to soften. The RBI cited resilience in domestic demand and external uncertainties, particularly global tariff negotiations and volatile commodity prices, as reasons to hold steady. However, policy guidance turned incrementally dovish, acknowledging that the balance of risks has tilted toward growth rather than inflation. Market participants now anticipate a rate cut in late 2025, aligning India's policy trajectory with the broader global easing trend but at a slower, data-dependent pace. India's 10-year government bond yield moved within a volatile range of 6.43% to 6.63% during September 2025, closing the month near 6.55%. A blend of easing inflation, fiscal reforms, and supply-side pressures influenced investor sentiment, keeping markets on edge throughout the month.

In our previous note, "[We Reassert Our Long-Duration Bonds Trade Post-GST & Fiscal Clarity](#)" (September 2025), we called for extending duration amid improving fiscal visibility, contained inflation, and a possibility of rate cut along with policy steps to address the dislocated market. Our trade idea has played out meaningfully, with the benchmark yield curve shifting lower by 4-20 bps across maturities, validating our long-duration positioning. We recommend booking partial profits after the recent rally while maintaining a constructive duration bias, as the next leg of the G-sec rally is likely to be driven by a likely rate cut in December, continued RBI liquidity support, and steady demand from long-term investors.

Volatility returns amid GST reforms, CPI and policy cues:

- September month began on a volatile note with the government announcing a landmark revamp of the GST framework on September 5. Key changes included rate rationalization and enhanced input tax credit mechanisms, aimed at boosting medium-term GDP growth and lowering inflation. However, the immediate market reaction was mixed. Bond markets reacted to concerns over short-term revenue impacts from tax exemptions, which led to fears of fiscal slippage. As a result, the 10-year G-Sec yield spiked nearly 15 bps, touching close to 6.60%, as near-term fiscal concerns briefly outweighed long-term optimism. Despite this, we maintained a constructive view on long-duration bonds, pointing to improved fiscal transparency and the reforms' growth-supportive nature.
- Market sentiment shifted sharply on September 12, following the release of August CPI inflation data, which came in at 3.2% YoY, well below both market expectations and the RBI's 4% target. The sharp decline was led by easing food inflation and stable core prices. This unexpectedly low inflation print reinforced expectations of future monetary easing, triggering a 10-15 bps drop in the 10-year yield, which fell to the 6.43%-6.45% range. The disinflationary trend was also in line with global patterns, strengthening the case for accommodative policy. Foreign Portfolio Investors (FPIs) responded positively, investing -Rs.10,000 crore into Indian government securities during the month, further anchoring yields.
- The calm in the bond market was briefly disrupted on Sep 26, when the government released its H2 FY26 borrowing calendar, announcing Rs.6.77 lakh crore in gross market borrowings through dated securities. While broadly in line with expectations, the higher supply estimate added pressure, particularly at the short to intermediate end of the curve, pushing the 10-year G-Sec yield back toward 6.63%. The market's reaction reflected near-term concerns about absorption capacity and auction dynamics. However, the long end remained relatively resilient, supported by expectations of an upcoming rate cut and continued confidence in the government's fiscal glide path, which targets a 4.4% deficit for FY26. Steady demand for long-duration bonds helped with the market recalibrated to the revised supply outlook.

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Fig.1: SDLs Dependence on greater than 15Y issuances increased over the decade

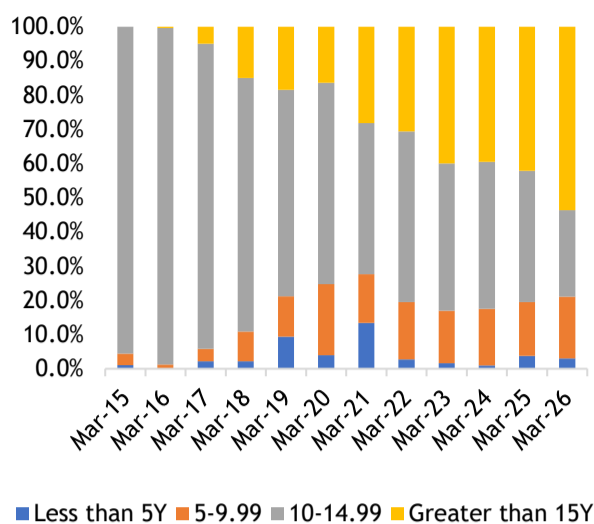
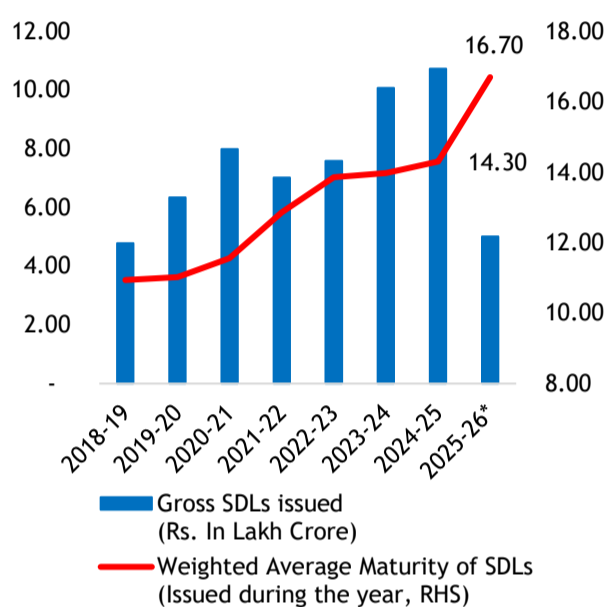


Fig.2: Weighted Average Maturity (WAM) showing uptick in 2025-26



➤ Toward the end of the month, market focus turned to the October MPC meeting, with positioning increasingly tilted toward a dovish outcome, including the possibility of a 25 bps policy rate cut. This view was underpinned by robust macro data, including Q1 FY26 GDP growth of 7.8% and sustained disinflation trends. These expectations helped cap further yield increases, with the 10-year benchmark ending September near 6.55%—off its mid-month lows but still below the peak reached post-GST announcement. Adding to the sentiment, RBI Governor Sanjay Malhotra noted that “the current macroeconomic conditions and the outlook have opened up policy space for further supporting growth,” which markets interpreted as a clear signal that rate cuts remain on the table. However, Dr. Poonam Gupta cautioned that while Q1 growth data was encouraging, “a number of other things will be taken into account before deciding the next action in December,” highlighting that the path ahead remains data-dependent and subject to evolving conditions.

Q3 FY26 SDL Calendar: Moderate Supply

- The RBI released the Q3 FY26 SDL borrowing calendar on October 3, 2025, projecting gross issuances of Rs 2.81 lakh crore for the October-December quarter. This figure aligns with market expectations and reflects a balanced supply outlook, especially considering scheduled redemptions of approximately Rs 1.2 lakh crore, which help offset net borrowing. Following heavy front-loading in H1 FY26 (-Rs 5 lakh crore), the measured Q3 supply has been welcomed by the market, especially amid a supportive macro backdrop with the RBI lowering inflation forecasts and upgrading GDP growth estimates.
- A key trend emerging from FY26 data is the structural shift toward longer SDL maturities. States have significantly increased the share of bonds with tenors exceeding 15 years, now accounting for over 30% of total issuances—up from just ~10% in FY19. Meanwhile, SDLs with less than 5-year maturities have nearly disappeared. This shift has driven the weighted average maturity (WAM) of SDLs to a record ~17 years, reflecting a conscious effort by states to lock in long-term funding and reduce refinancing risk, especially as capital expenditure needs grow.
- The near 10 year SDL cut-off yield slipped from 7.52% in auction as of 09th Sep to 7.27% levels in auction as of 07th Oct’25. Investor demand—particularly from banks, insurers, and pension funds—remains healthy, given SDLs’ SLR eligibility and relatively higher yields. Moreover, the extended maturity structure is helping smooth future redemption profiles, reducing rollover pressures, and deepening the SDL market across the curve.

Banking Liquidity: Mild Surplus with Seasonal Tightness Expected

Systemic liquidity is projected to stay in a moderate surplus zone during H2 FY26 (Oct 2025 - Mar 2026), supported by durable inflows from IPOs, CRR reductions, and ongoing fiscal spending. While the overall tone remains accommodative, seasonal and market-driven volatility—such as festive currency demand, advance taxes, and capital flows—will create intermittent tightness. The RBI’s calibrated toolkit (OMOs, variable rate operations, and USD/INR swaps) remains central to managing volatility without compromising monetary transmission.

H1 Liquidity Trends Set the Stage for H2:

- Liquidity moved into a consistent surplus through H1 FY26, averaging Rs.2.3-2.5 lakh crore in daily absorption by early October. This was driven by RBI’s phased CRR cuts (totalling 100 bps), large fiscal infusions, and market operations.
- A brief deficit in late September—caused by Rs.2.5-3.0 lakh crore in tax-related outflows—was quickly reversed. Key drivers of the recovery included the Rs.1.01 lakh crore tax devolution to states on October 1 and the completion of the second CRR tranche, injecting another Rs.1.5 lakh crore.
- The redemption of Rs.72,000 crore in government securities during the same period added to the liquidity rebound, further reinforcing the surplus condition as the quarter turned.
- These developments established a strong liquidity base entering H2, especially as large IPO-related inflows and government capex are expected to pick up during Q3 and Q4.

Seasonal and Structural Fluctuations to Watch:

- Festive and harvest seasons typically drive a spike in currency in circulation (CIC), leading to a liquidity drain of Rs.1-1.5 lakh crore across Q3-Q4. These flows are temporary but concentrated around mid-December and late March.
- Advance tax payments in December and March remain key pressure points, each capable of draining Rs.2-3 lakh crore, similar to the September pattern. However, continued CRR flexibility and RBI absorption operations provide offsets.
- Large IPOs, while structurally positive, will create transient outflows during subscription windows. With an estimated Rs.1-1.5 lakh crore in H2 IPOs, including names like Tata Capital and LG Electronics, the system may experience short-term strain, particularly during clustered issuances.
- Government cash balances and borrowing programs will also influence liquidity flows, but are expected to be more neutral to supportive in Q4, as capex spending ramps up closer to the fiscal year-end.

Key Drivers of Liquidity in H2 FY26:

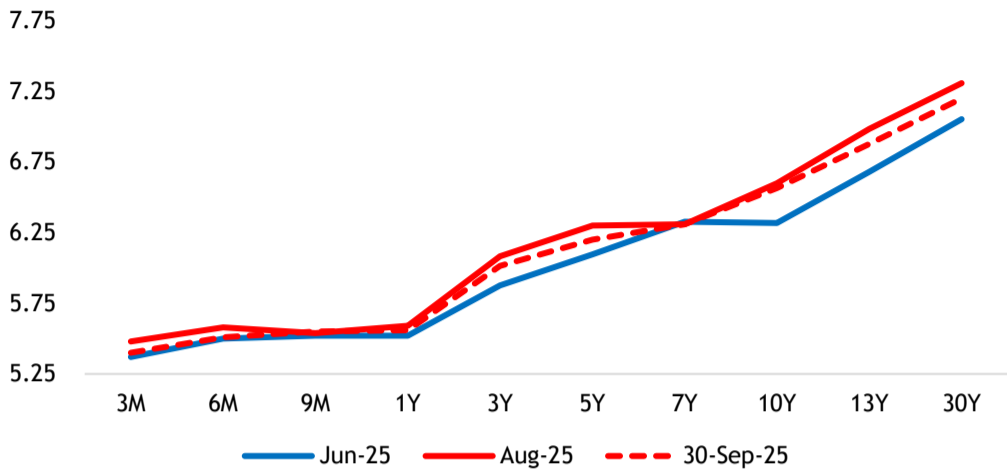
Driver	Trend/Impact in H1	Expected in H2 FY26
Govt. Cash Balances	Q2 moderation post RBI dividend boost	Rs.1.5-2.0 lakh crore drain in Q3, partial reversal in Q4
Currency in Circulation	+9% YoY, RBI absorbed impact	Rs.1-1.5 lakh crore seasonal outflow
IPO Activity	~Rs.80,000+ crore via IPOs	Rs.1-1.5 lakh crore from 50+ IPOs, short-term outflow, later rebound
FX Operations & Capital	Managed through swaps, no major drain	Management via SWAPs rather than spot
Advance Tax Collections	Rs.2.5-3.0 lakh crore in Sept	Similar drains in Dec and Mar, partially offset by inflows
RBI Liquidity Tools	Rs.2.65 lakh crore injected (Apr-May)	More OMOs and 7-day VRRRs likely; may resume FX swaps if needed

Banking system liquidity in H2 FY26 is likely to remain comfortably in surplus with manageable volatility. While tax payments, CIC expansion, and IPO-related flows may create short-term tightness, the RBI’s agile liquidity management framework and healthy systemic buffers ensure resilience. Transmission will remain supported as credit growth stabilizes and capital market activity stays elevated.

Table 2: Market Snapshot		Yield (30 Sep)	Monthly Change
10 Year G-Sec (6.33% GS 2035)		6.57%	-04 bps
1 Year T-Bill		5.56%	-03 bps
US 10 year Yield		4.15%	-08 bps
Credit Growth (%) (as of 19 th Sep'25)		10.4%	+34 bps
Deposit Growth (%) (as of 19 th Sep'25)		9.5%	-73 bps
Credit Deposit Wedge (bps) (as of 19 th Sep'25)		90	+104 bps

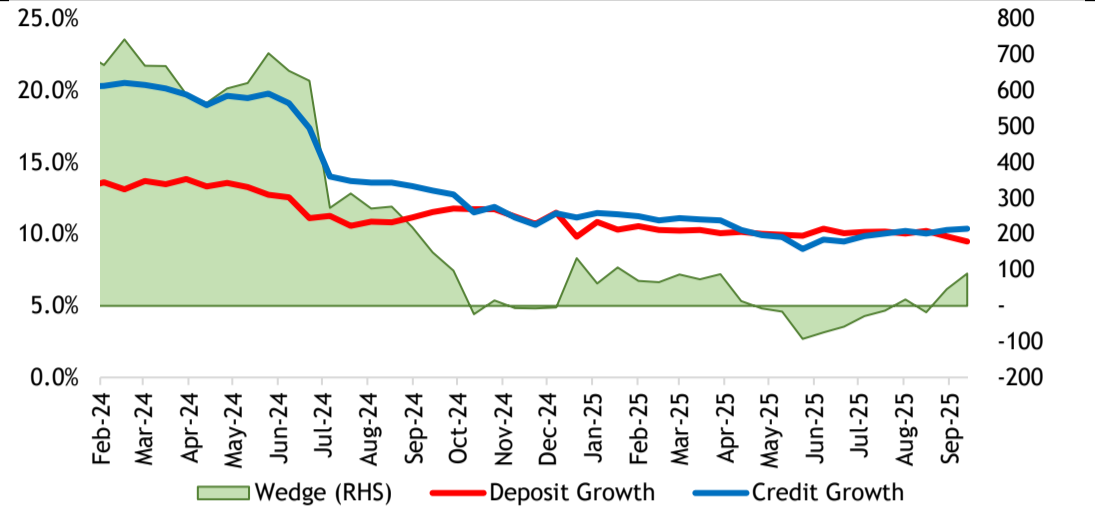
Source: RBI, CCIL, UBI Research

Fig.3: Yield curve shifted downwards during Sep'25



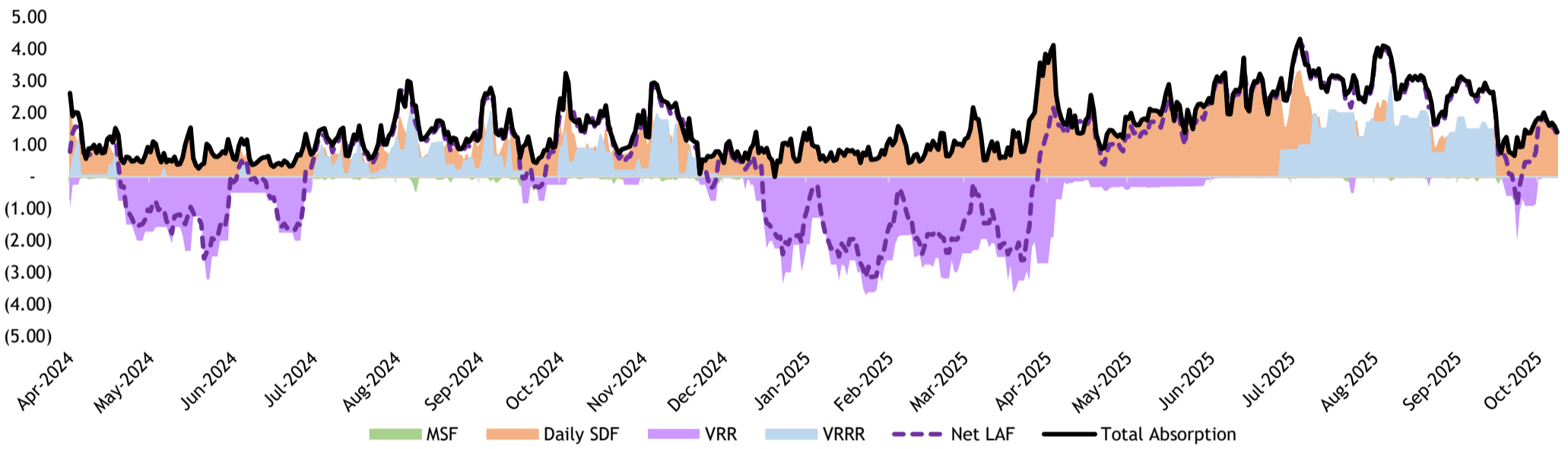
Source: Bloomberg, UBI Research

Fig.4: Credit Deposit growth gap turned positive



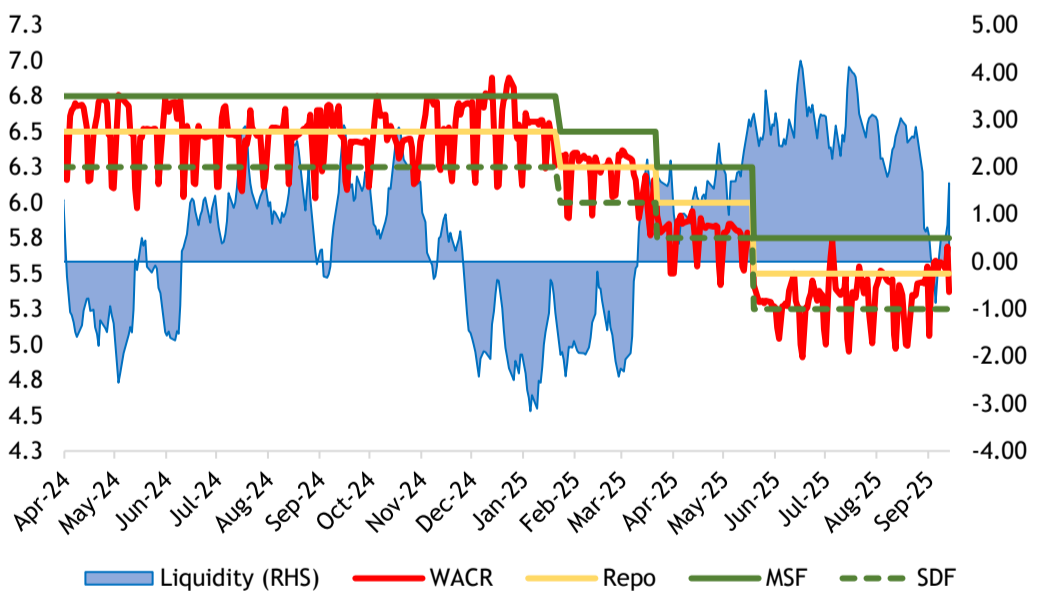
Source: RBI, CEIC, UBI Research

Fig.5: In Liquidity Components again placement of SDFs taking the center spot



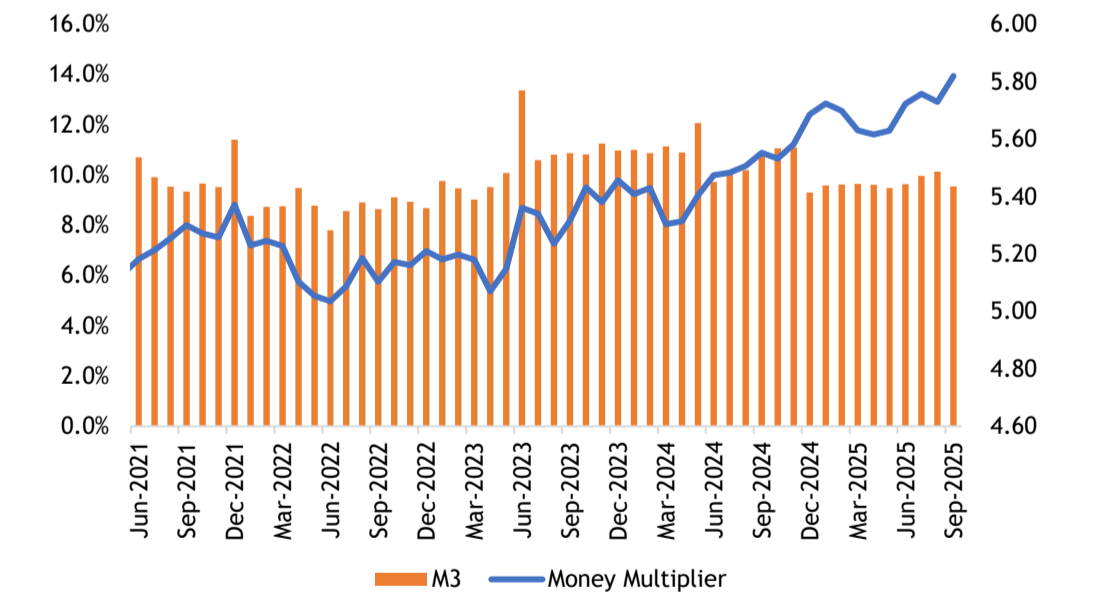
Source: RBI, CEIC, UBI Research

Fig.7: WACR aligned as per FIT recommendations



Source: RBI, CEIC, UBI Research

Fig.8: Money multiplier moved to 5.8 as CRR cut becomes effective



Source: CEIC, UBI Research

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