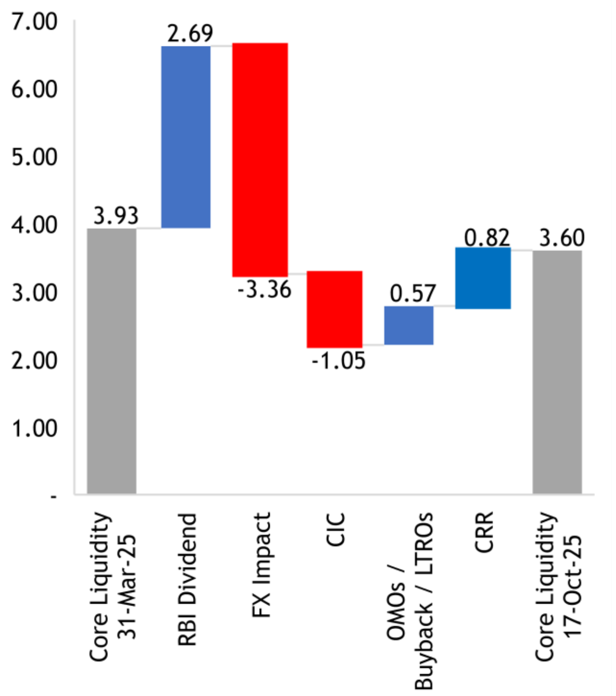
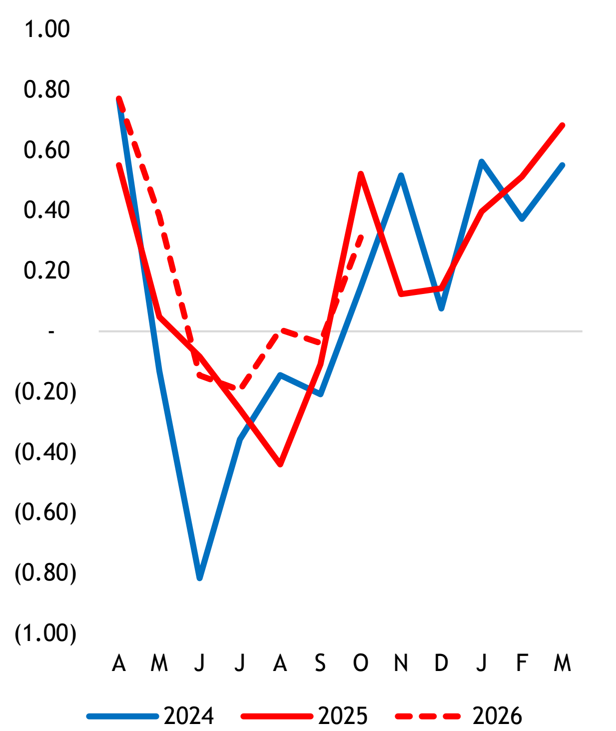
Fig.1: Drivers of Liquidity during FY26TD; (Rs. In Lakh Crore)*



**Data available till 17th Oct'25*
Source: RBI, UBI Research

Fig.2: CiC change turned positive during Oct'25 (till 17th Oct) on seasonality effect; (Rs. In Lakh Crore)



Source: RBI, UBI Research

The Indian bond market held steady this week amid tight post-Diwali liquidity and ongoing domestic and external developments. Banking system liquidity slipped into deficit, peaking at Rs.70,169 crore, driven by festive cash withdrawals, GST and advance tax outflows, FX actions, and credit growth outpacing deposits. RBI's VRR operations helped stabilize short-term rates, though core liquidity remained constrained. The 10-year G-Sec yield closed the week at 6.53%, reflecting a balance between cautious optimism and structural liquidity pressures. India-US trade negotiations continued to create market uncertainty, with repeated "flip-flops" from the US administration shaping sentiment. Reports in October suggested a near-final deal is within reach, boosting confidence while investors weighed potential impacts on the RBI's rate easing path. Globally, US 10-year Treasury yields remained around 4.0%, as markets priced in a likely Fed rate cut following softer inflation data and resilient economic indicators.

US bond market poised for Fed easing amid stable yields:

- US 10-year Treasury yield traded in a tight range around 4.0%, reflecting moderate volatility and balanced sentiment as investors weighed softer inflation data against signs of economic resilience. Yields briefly dipped to 3.97-3.98% mid-week, driven by dovish Fed commentary and robust auction demand, before rebounding to 4.02% by week-end. Overall, the market appears to be pricing in that policy rates have likely peaked, setting the tone for a steady near-term outlook.
- Strong inflation data helped shape market expectations: September CPI rose only +0.3% MoM (3.0% YoY) compared with consensus of +0.4%; core CPI came in at +0.2% MoM / 3.0% YoY. Fed officials including Waller, Barr and Bowman took a cautious, data-dependent tone—recognising progress on inflation but giving no strong signal of imminent hikes. Meanwhile, solid auction demand for Treasury issuance, steady consumer sentiment, and resilient PMI and housing numbers kept risk of a sharp yield rise in check.
- Turning to policy expectations, the CME FedWatch Tool shows that markets are now assigning a very high probability (~99% or more) to a 25 bp rate cut at the October 29, 2025 FOMC meeting. In this context, the market is also pricing in a first policy move from the Fed being a cut rather than a hike. Looking ahead, much will depend on incoming inflation, employment and growth data—if inflation remains stubborn or the labour market proves stronger than expected, the cut could be postponed; if data soften, the Fed may deliver as anticipated.

India 10 year yield steady amid tight liquidity:

- The Indian Bond Market experienced a muted yet balanced week, as trading volumes remained soft in the post Diwali period and banking system liquidity slipped into deficit. The benchmark 10-year G-Sec yield traded range-bound up 1 bps from the previous week. The uptick was primarily driven by short-term liquidity tightness rather than fundamental shifts. Profit taking on the trade given for 30 year bond was done at right inflexion point, post which 30 year has seen a sell off.
- SDL auctions worth Rs.17,800 Crore have been announced against indicative state borrowings of Rs.30,900 Crore, which could provide positive support to govt. bonds. Although GST cut is expected to reduce state revenues and might lead to higher borrowings, the fact that states are borrowing less is a positive sign.
- Liquidity in the banking system shifted into deficit territory for the first time since late September, persisting for four consecutive days through October 23. The deficit peaked at Rs.70,169 crore, and overnight rates rose above the repo rate. The seasonal surge in cash withdrawals around Diwali, along with GST and advance tax outflows, drained liquidity. Additionally, FX market actions stabilizing the rupee absorbed domestic liquidity, while structural factors such as credit growth outpacing deposits and muted government capex exacerbated the squeeze.
- **Key drivers of Liquidity Deficit:**
  - Festive season currency leakage: Diwali (October 20) triggered a surge in cash withdrawals, with currency in circulation rising ~Rs.20,000 – Rs.25,000 crore week-on-week.
  - GST and Tax Outflows: Monthly GST payments (due October 20) siphoned ~Rs.1.8 lakh crore, while advance tax deadlines added frictional drains.
  - FX Impact: To stem rupee depreciation (USD/INR touched 88.8050), dollars were likely sold in spot market, absorbing an equivalent rupee liquidity hit. Maturing FX forwards ($14.45 billion in Oct-Nov) further exacerbated the squeeze, offsetting gains from the phased CRR cut (50 bps implemented since September, injecting liquidity ~Rs.1.2 lakh crore and another phase of 25bps due from 01st Nov'25).
  - Broader Structural Factors: Credit growth outpacing deposits (11.4% YoY vs. 9.9%) and muted government capex compounded the issue. Average Oct liquidity now stands at a surplus of just Rs.1.03 lakh crore, down from Sept's Rs.1.50 lakh crore. Trade-related rupee volatility added FX swap drains.

(Rs. In Lakh Crore)

Change in Core Liquidity (from 05th Sep'25 to 17th Oct'25)	Drivers of Core Liquidity (From 05th Sep'25 to 17th Oct'25)		
	Fx Impact	CiC	CRR
(1.06)	(2.08)	(0.14)	1.16

- In response, the RBI conducted a 1-day VRR auction on October 22 and a 3-day VRR auction from October 23-25, injecting a total of around Rs.31,225 crore, which stabilized marginal rates but did not fully reverse the core deficit. While these measures were effective in the short term, tools like OMOs may be needed if deficits persist.

US India Trade Deal "flip-flop" continue to hamper yields:

- Alongside domestic liquidity pressures, the India-US trade negotiations continued to influence the bond market. The talks, aimed at doubling bilateral trade to $500 billion by 2030, have been marked by repeated "flip-flops" from the US administration, alternating between optimism and punitive tariff announcements. Each shift impacted market sentiment and 10-year yields. Early optimism in February 2025 led to a modest yield dip, while the imposition of reciprocal tariffs in April-May and the collapse of interim deals in July-August pushed yields higher. A reset in September and renewed talks in early October tempered these moves, with yields stabilizing.
- In October, reports suggested that India and the United States were "very near" to finalizing a trade agreement, with negotiations focusing on specific details and no new hurdles emerging. The prospect of a near-term deal boosted investor confidence, supporting equities and domestic market sentiment. However, the bond market remained cautious, as investors factored in the potential impact on the RBI's rate easing trajectory, with the possibility that a concluded deal might limit future cuts. By late October, Commerce Minister Piyush Goyal noted that the talks were approaching a near-final agreement, while stressing that India would not rush into a deal or accept terms under pressure, reaffirming a cautious and deliberate approach, the 10-year yield closed the week at 6.53%, reflecting cautious optimism while participants awaited resolution on trade deal.

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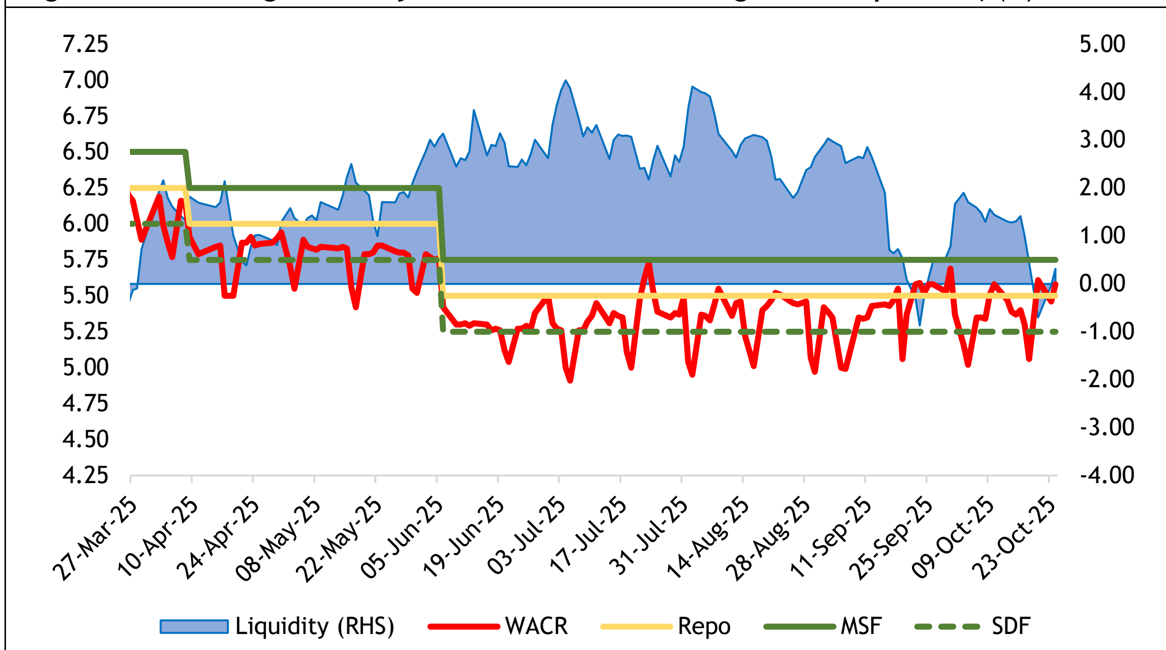
Table 1: Market Snapshot Instrument	Yield (Oct 24)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.53%	+1 bps	Volatile range bound trade
1 Year T-Bill	5.54%	-1 Bps	System liquidity returned from deficit supported by RBI
US 10 year Yield	4.00%	-1 bps	Fed cuts rate and shutdown making market cautious
Credit Growth (%) (as of 03rd Oct'25)	11.4%	+100 bps	Credit & Deposit growth increased on fortnight basis, and positive gap thrives
Deposit Growth (%) (as of 03rd Oct'25)	9.9%	+45 bps	
Credit Deposit Wedge (bps) (as of 03rd Oct'25)	144	+55 bps	

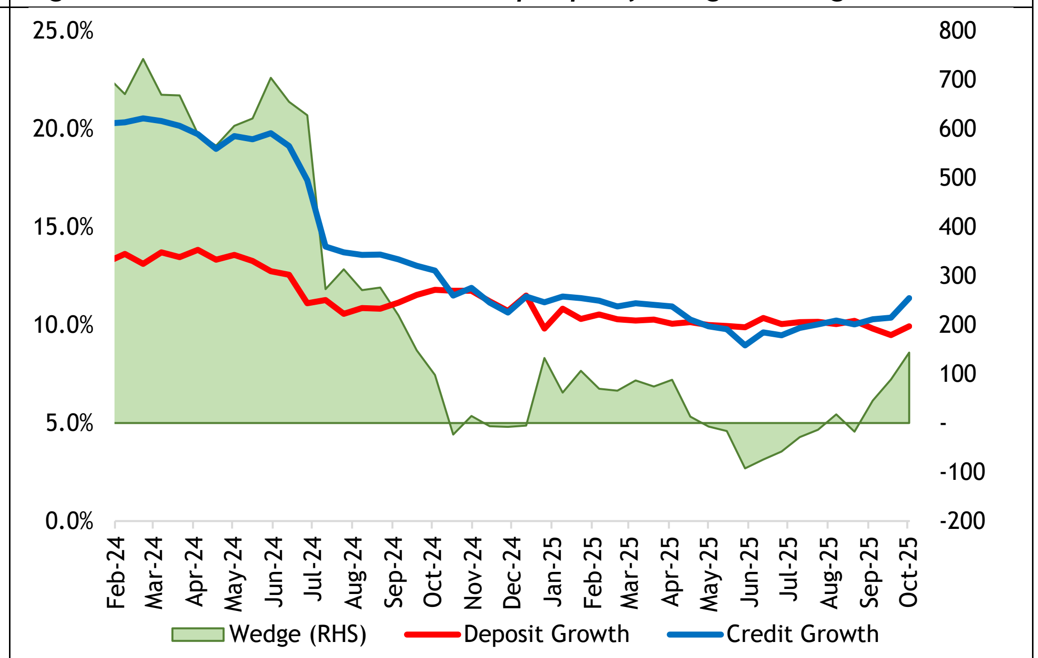
Source: RBI, CCIL, UBI Research

Fig.3: WACR managed to stay in the corridor more aligned to Repo Rate; (%)



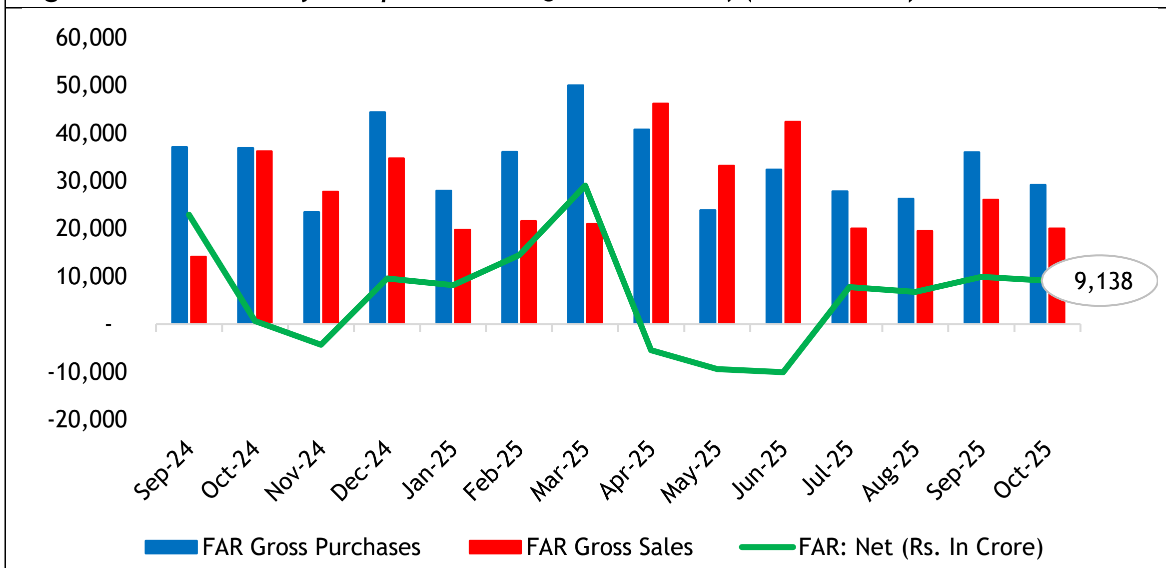
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Growth more than 100bps up in fortnight ending 03rd Oct



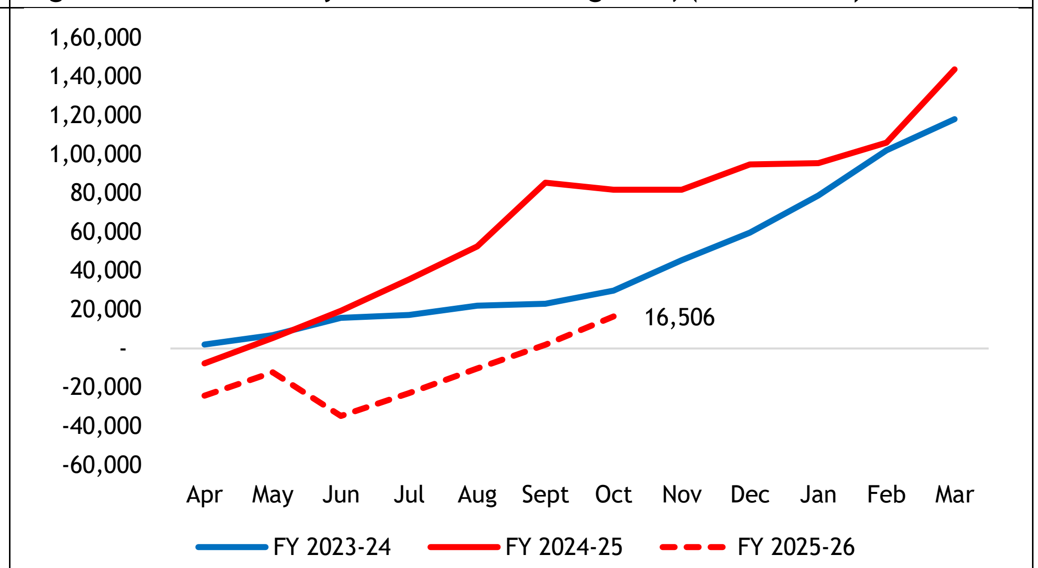
Source: CEIC, UBI Research

Fig.5: FAR securities flows positive in Q2 & Oct 2025; (Rs. In Crore)



Source: CEIC, UBI Research

Fig.6: Cumulative FPI flows under Debt Segment; (Rs. In Crore)



Source: NSDL, UBI Research

Table 2: Fixed Income tracking Heatmap

Fixed Income Heatmap	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25
	Growth																		
PMI Manufacturing (YoY Gr%)	58.80	57.50	58.30	58.10	57.50	56.50	57.50	56.50	56.40	57.70	56.30	58.10	58.20	57.60	58.40	59.10	59.30	57.70	58.40
PMI Services (YoY Gr%)	60.80	60.20	60.50	60.30	60.90	57.70	58.50	58.40	59.30	56.50	59.00	58.50	58.70	58.80	60.40	60.50	62.90	60.90	58.80
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	8.54	7.26	12.29	9.09	9.89	12.58	16.39	6.20	7.50	6.49	9.11	
Govt Expenditure (YoY Gr%)	39.26	-37.87	-18.42	0.12	20.94	2.63	31.65	3.63	22.15	12.43	-17.66	9.65	9.95	40.26	37.39	3.35	-9.88		
Vehicle registrations (% y/y)	26.93	3.48	1.61	14.20	3.37	-7.37	33.66	13.88	-11.43	7.75	-5.33	0.70	3.44	6.10	5.41	-3.49	3.21	5.16	
Exports (% y/y)	14.97	10.95	3.27	-5.25	-14.09	-0.96	16.60	-5.34	-1.53	-2.64	-10.86	0.85	-3.80	-1.23	-1.32	13.49	6.65	6.75	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.75	10.66	-14.81	12.13	20.02	-1.32	-3.41	8.69	-10.10	16.71	
	Inflation																		
CPI (Y-o-Y Gr%)	4.83	4.80	5.08	3.60	3.65	5.49	6.21	5.48	5.22	4.26	3.61	3.34	3.16	2.82	2.10	1.61	2.07	1.54	
Core CPI (Y-o-Y Gr%)	3.23	3.12	3.14	3.39	3.40	3.49	3.67	3.64	3.58	3.67	3.99	4.10	4.11	4.24	4.41	4.12	4.11	4.48	
	Transmission																		
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	13.59	11.76	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.04	10.38	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	10.83	9.16	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	10.22	9.49	
C-D Ratio (%)	79.90	79.90	79.70	79.70	79.80	80.00	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.70	80.60	
WALR O/s Rupee Loans (%)	9.81	9.81	9.89	9.89	9.89	9.88	9.88	9.87	9.86	9.87	9.80	9.77	9.68	9.67	9.44	9.38	9.32		
WALR Fresh Rupee Loans (%)	9.55	9.39	9.32	9.40	9.41	9.37	9.54	9.40	9.25	9.33	9.40	9.35	9.26	9.20	8.62	8.81	8.75		
WADR O/s (%)	6.97	6.99	7.00	7.00	7.01	7.04	7.04	7.06	7.08	7.09	7.10	7.11	7.11	7.07	7.00	6.92	6.87		
WADR Fresh (%)	6.49	6.49	6.49	6.51	6.49	6.57	6.47	6.47	6.60	6.62	6.55	6.72	6.34	6.11	5.75	5.61	5.56		
MCLR 1 Year - Median	8.85	8.79	8.85	8.85	8.93	8.95	8.95	9.00	9.00	9.00	9.05	9.00	9.00	8.95	8.90	8.75	8.60	8.60	

Source: CEIC, UBI Research

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