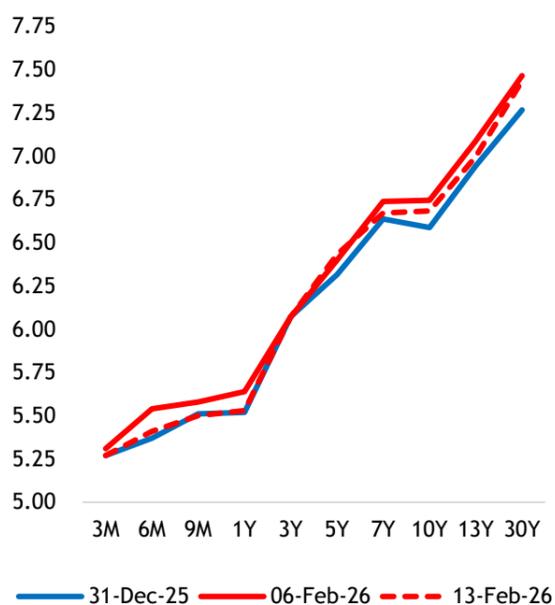


Fig. 1: Yield Curve movement since Dec 2025



Source: Bloomberg, UBI Research

India's 10-year G-Sec yields settled at 6.67-6.68%, hitting a three-week low as markets digested the first print under the new CPI series, which signalled broad-based moderation in inflation. The ₹755 billion RBI bond switch provided technical support, easing near-term redemption pressures, while auction activity reflected measured demand across short and long-tenor bonds. Liquidity remained in structural surplus, anchoring short-term rates and supporting orderly transmission. Overall, the backdrop reflects cautious optimism for G-Sec markets, with curve direction increasingly guided by demand quality, duration positioning, and evolving supply dynamics rather than headline borrowing alone.

#### 10 year G-Sec RBI switch and Supply dynamics in focus:

- The India 10-Year Government Bond Yield ended the week around 6.67-6.68%, marking a three-week low after a volatile start. Heavy state loan supply and positioning pressure early in the week pushed yields toward the 6.75-6.76% zone before sentiment improved in the latter half, aided by the benign first print under the new CPI series, which reinforced the view that inflation risks remain contained.
- A key catalyst was the ₹755 billion bond switch operation conducted by the Reserve Bank of India on behalf of the government. While the switch eased near-term redemption pressures and provided technical support, its curve impact was nuanced. The issuance of ₹694 billion of the 8.30% 2040 bond to the RBI in lieu of FY27 maturities led to expectations of relatively higher short-tenor supply next year, tempering the structural positive for longer-duration bonds.
- Auction dynamics reflected this balanced sentiment. The new 5-year 2031 bond was absorbed comfortably but without aggressive bidding, as banks preferred higher-yielding state loans. The ultra-long segment briefly weakened after the 50-year paper cleared at a slightly softer cut-off than expected, though losses were largely recovered by close. Overall, improved inflation optics and supply management supported the benchmark, but curve direction remains driven by demand depth and duration positioning rather than headline borrowing adjustments.
- Additionally, capital flows remain subdued post Budget and MPC, even as USDINR has stabilised. Markets are also watching developments in the India-US trade dialogue, which could influence foreign demand for G-Secs in the near term.

#### New CPI series - A structural reset in inflation measurement:

- India released the first inflation print under the revised CPI series (Base Year 2024=100), marking a significant methodological shift. Headline inflation for January printed at 2.75% YoY, comfortably within the RBI's 2-6% tolerance band. Rural inflation stood at 2.73%, while urban inflation was 2.77%, indicating broad-based moderation.
- The revised basket expands from 299 to 358 items and incorporates updated consumption weights from the 2023-24 Household Consumption Expenditure Survey. Food weight has been reduced, while housing (now including rural housing), services, digital subscriptions, and modern consumption categories have gained prominence. This modernization better reflects evolving spending patterns in the economy.
- Importantly, the lower food weight is expected to reduce volatility in headline prints, making inflation readings smoother and more representative of structural trends rather than seasonal shocks. However, the absence of a long back-series limits direct historical comparisons in the near term.
- The new baseline provides the RBI greater clarity and near-term comfort, though durable trends will require several months of data.

#### Tax Collections - Revenue momentum remains supportive:

- Data released around February 10 showed net direct tax collections at approximately ₹19.4 lakh crore for the April-February period, reflecting 9.4% YoY growth. Corporate tax growth outpaced personal income tax, while a decline in refunds supported stronger net realizations.
- While specific updated figures for net indirect taxes were limited during the week, broader GST trends remain stable, supported by compliance improvements and continued formalization. Revenue buoyancy strengthens the fiscal position and reduces concerns of excessive borrowing slippage.

#### Liquidity: Surplus conditions continue to anchor the curve

- Banking system liquidity remained firmly in surplus through the week, with the average daily surplus at ₹2.70 lakh crore (till 15 February), while gross absorptions under the Standing Deposit Facility were closer to ₹4.5 trillion on most days. The surplus reflects durable injections through earlier open market operations and FX swaps, alongside calibrated liquidity management by the Reserve Bank of India. Funding conditions therefore remain comfortable and well aligned with the policy corridor.
- The liquidity backdrop is clearly visible at the short end of the curve. Call money rates have largely printed around 5.0-5.1%, close to the repo rate, indicating orderly transmission. At the same time, collateralised segments such as TREPS and CROMS have firmed modestly from earlier lows, reflecting positioning and collateral dynamics rather than systemic tightness. While the WACR has eased close to the repo rate, certificate of deposit (CD) rates have not softened in line with the surplus liquidity, reflecting seasonal outflows and a widened credit-deposit wedge, indicating pockets of structural liquidity deficit in the system. Overall, ample liquidity has kept short-tenor yields compressed, while longer maturities continue to respond more to supply pressures and evolving rate expectations resulting in a mild curve divergence.
- The RBI's earlier 90-day Variable Rate Repo (VRR) conducted on 29 January 2026 adds further colour to the current conditions. Of the funds availed under that operation, around ₹9,000 crore has already been repaid by participants, signalling that banks are not reliant on term repo funding. This early repayment underscores the depth of surplus liquidity and reduces the need for fresh term injections at this stage.
- Recent communication from the RBI Governor suggests a preference for maintaining call rates around the repo rate, while allowing them to print marginally below it when transmission strengthens. In this context, there appears limited urgency to actively absorb liquidity via VRRR auctions.

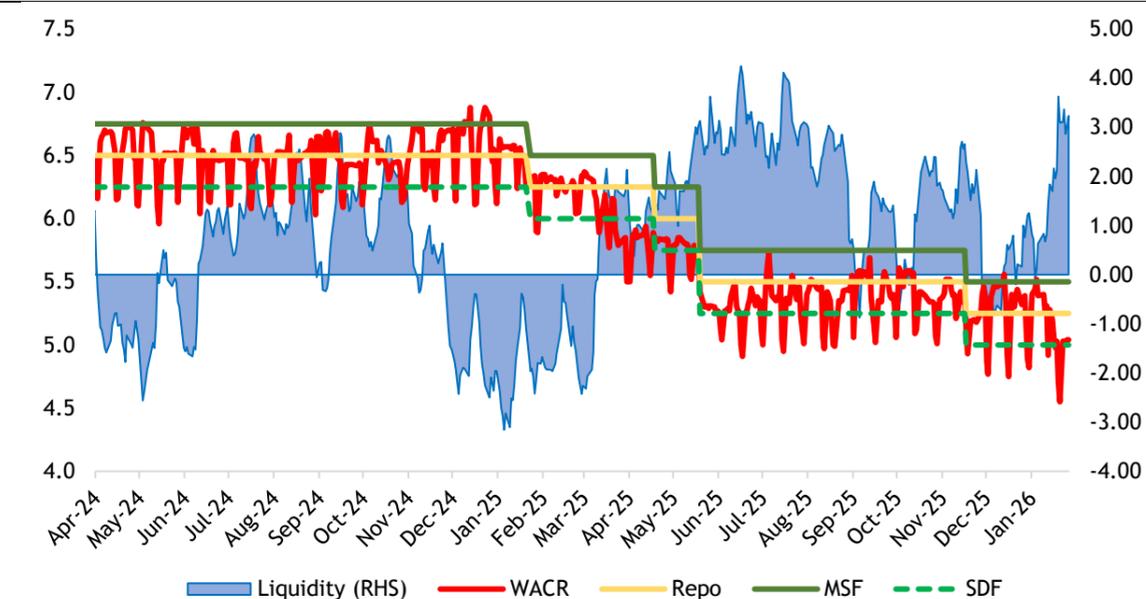
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Table 1: Market Snapshot Instrument	Yield (Feb 13)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.68%	-6 bps	Eased due to moderate new CPI series and surplus liquidity
1 Year T-Bill	5.53%	-11 Bps	Liquidity in surplus
US 10 year Yield	4.05%	-16 bps	Labour market data pushed probability of rate cuts higher
Credit Growth (%) (as of 31 <sup>st</sup> Jan'26)	14.6%	+147 bps	Credit & Deposit growth increased on fortnight basis with gap narrowing
Deposit Growth (%) (as of 31 <sup>st</sup> Jan'26)	12.5%	+185 bps	
Credit Deposit Wedge (bps) (as of 31 <sup>st</sup> Jan'26)	214	-38 bps	

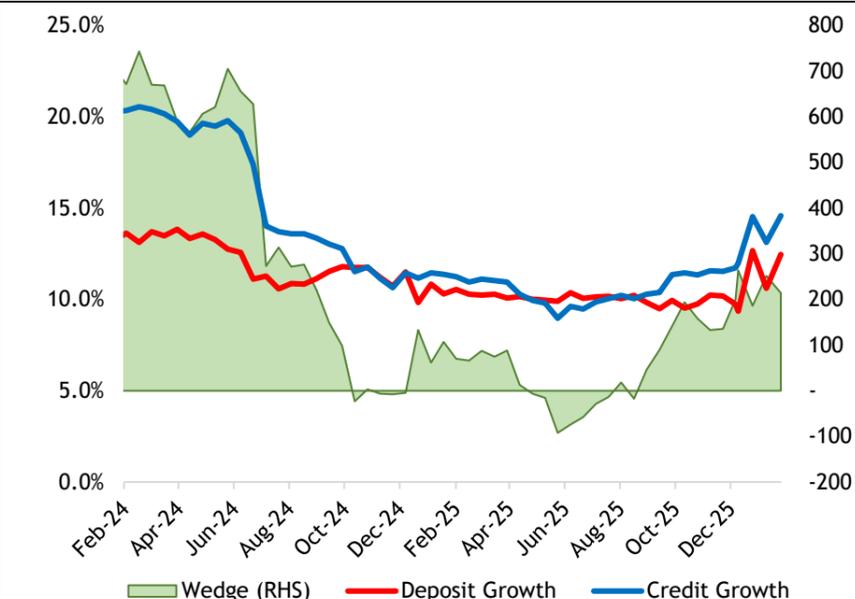
Source: RBI, CCIL, UBI Research

Fig.3: WACR moved to lower band liquidity conditions eased; (%)



Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap narrowed to ~214 bps in fortnight ending 31<sup>st</sup> Jan 2026



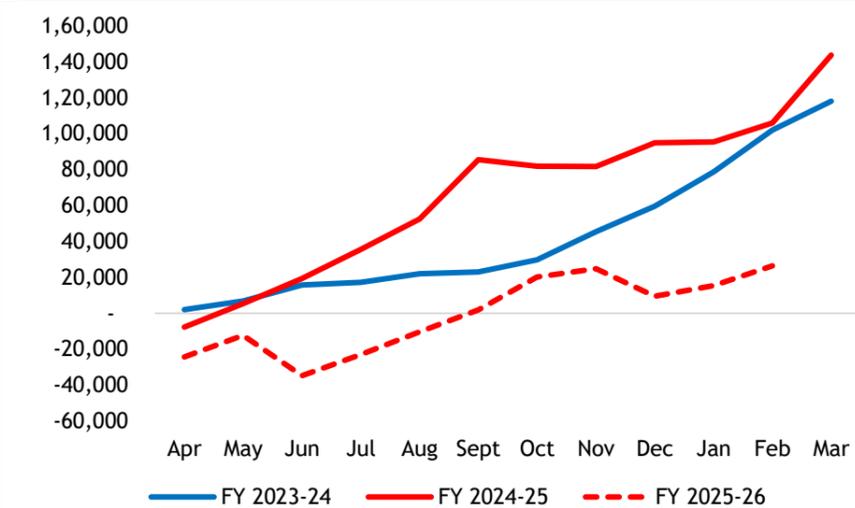
Source: CEIC, UBI Research

Fig.5: Flows in FAR securities turned positive in Jan 2026; (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	Nov-25	Dec-25	Jan-26
<b>Growth</b>																						
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	59.20	56.60	55.00	55.40
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	58.90	59.80	58.00	58.50
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	0.65	-0.20	4.59	9.09	9.89	12.58	16.39	6.20	7.50	6.49	9.11	4.59	3.56	6.07	6.20
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	-7.99	11.07	12.42	-7.33	
Vehicle registrations (% y/y)	25.09	4.49	2.96	14.64	4.85	-4.91	33.50	10.69	-8.17	4.56	-4.99	1.14	2.54	6.22	5.88	-2.17	4.33	7.25	42.14	2.06	14.83	16.39
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	-3.82	-1.23	-1.34	13.27	5.73	6.03	12.51	18.97	1.87	0.61
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.75	11.29	-14.81	12.13	19.99	-1.33	-3.41	9.10	-9.54	17.67	16.97	-1.94	8.67	19.19
<b>Inflation</b>																						
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	1.44	0.25	0.71	1.33	2.74
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	4.27	4.41	4.34	4.63	3.37
<b>Transmission</b>																						
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	11.37	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.53	14.53	14.59
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	10.31	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.19	12.67	12.45
C-D Ratio (%)	79.90	79.90	79.70	79.70	78.80	79.60	79.80	79.90	80.80	81.10	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.50	80.80	82.00	82.50
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	9.26	9.24	9.21	9.06	
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	8.72	8.39	8.61	8.71	8.28	
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	6.82	6.78	6.73	6.68	
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	5.61	5.57	5.59	5.67	
MCLR 1 Year - Median	8.85	8.79	8.85	8.85	8.90	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	8.55	8.50	8.45	8.40

Source: CEIC, UBI Research

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