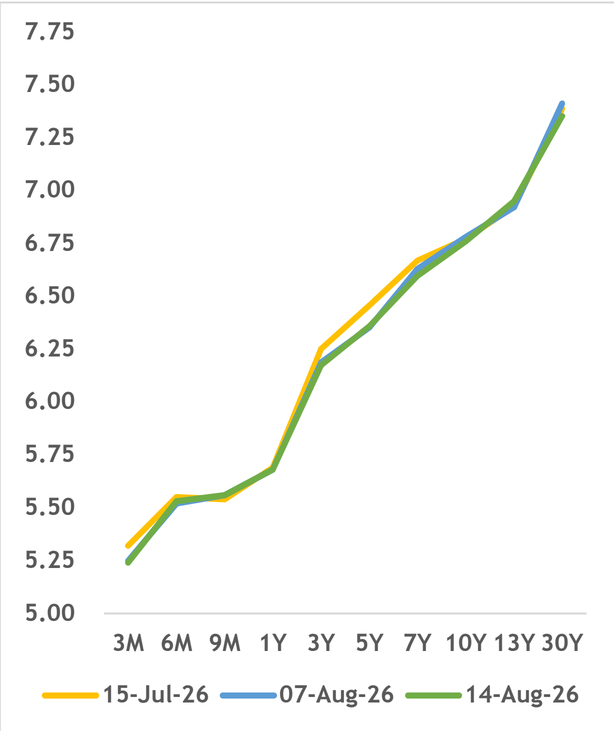
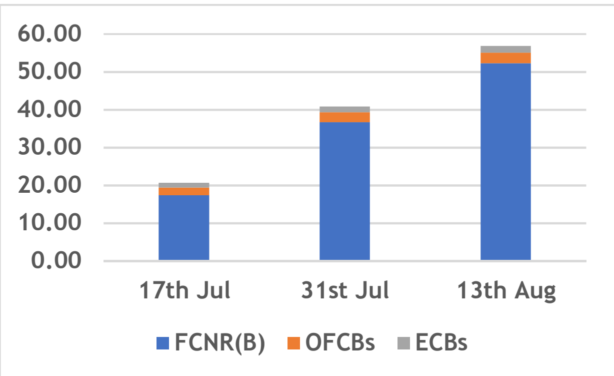
17th AUG 2026

Fig.1: Yield Curve - Downward shift over past one month



Source: Bloomberg, UBI research

Table 1: Deposits Mobilised under Fx-swap facility (Amt in $ Bn)



Source: RBI, UBI research

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The week of 10–14 August 2026 was characterised by a tug-of-war between softer near-term inflation signals and persistent concerns around long-end inflation, fiscal borrowing and government bond supply. In the U.S., the July CPI print provided some relief to the front end of the Treasury curve, reducing expectations of further monetary tightening. However, long-duration Treasuries remained under pressure as elevated oil prices, heavy government borrowing requirements and higher term premia continued to weigh on the long end. The U.S. 30-year Treasury auction on 13 August cleared at around 5.22%, highlighting the continued challenge of absorbing large-duration supply. Indian government bonds were comparatively resilient, with the benchmark 6.94% 2036 closing at around 6.76%, marginally lower from the previous week's close of 6.77%, supported by fading domestic rate-hike concerns and improved demand for longer-duration securities. Longer-end yields declined by around 5-7 bps during the week.

Easing of yield across the maturities.

Although the curve remained largely stable during the week across most maturities, yields have soften across the curve over the past month. The front end remained relatively stable, reflecting limited change in near-term policy expectations, while the decline in intermediate and long-term yields suggests improving demand for duration amid expectations of stable domestic rates and supportive liquidity conditions. Steepening of curve is observed in longer duration reflecting higher term premium amid ongoing geopolitical risk.

Indian Bonds traded narrow in absence of any major domestic catalyst:

Indian government bonds traded in a relatively narrow range of 6.75% to 6.79% during the week in the absence of any major domestic catalyst. Crude oil remained elevated, trading broadly in the USD 85–90/bbl range, keeping imported inflation and external-sector risks in focus. At the same time, India's external buffers remained comfortable, with FX reserves rising to USD 707 billion as of 7 August, following a weekly increase of around USD 14.1 billion.

CPI On expected lines for both India and US:

On the inflation front, India's July CPI inflation increased to 4.45% YoY from 4.38% in June, primarily driven by food inflation, which rose to 5.52%. However, MPC's metric of core inflation which excludes auto fuels remained broadly stable at 3.90% for the third consecutive month. In the U.S., July CPI moderated to 3.4% YoY from 3.5% in June, broadly supporting expectations of a less restrictive Fed stance. The softer U.S. inflation reading, coupled with weaker U.S. employment data, helped reinforce expectations of a less restrictive Fed policy path and reduced the likelihood of further rate hikes, with market pricing only 30% rate hike probability in September FOMC according to CME FedWatch although its impact on longer-duration securities remained limited because fiscal concerns, elevated term premia and Treasury supply continue to dominate the long end.

RBI Decided to close FCNR(B) window on account of front loading of fund.

A key domestic development during the week was the RBI's decision to prematurely close the FCNR(B) deposit swap window. In its notification dated 14 August 2026, the RBI announced that the swap facility would be available only for FCNR(B) deposits mobilised up to 31 August 2026, with the associated swaps available with the RBI until 11 September 2026. The schemes for ECBs and OFCBs will continue until 31 December 2026. According to RBI data, banks had received around USD 56.8 billion by 13 Aug, 2026, including approximately USD 52.3 billion through FCNR(B) deposits. The strong response to the facility suggests that the RBI has already achieved a substantial part of its objective of attracting foreign-currency inflows. Our analysis shows, given the pace of mobilisation, cumulative FX inflows under the scheme could potentially reach USD 80–100 billion by the effective closure of the window, materially strengthening India's external liquidity buffer and providing additional support to the rupee. Surplus Banking system liquidity has also helped lowering CD rate with biggest beneficiary being shorter end of the curve. 3M CD has fallen around 40 bps in one months as compared to 25 to 30 bps in 6M and 12M CD.

Liquidity Management key for RBI:

Even though RBI governor has not shown any concern on liquidity in Aug MPC, liquidity management remains an important theme. The RBI has been actively managing the system surplus through VRRR operations, at times conducting operations more than once a day, indicating close monitoring of evolving liquidity conditions. Net system liquidity has moved from being close to neutral in the third week of June to a surplus of almost ₹4 trillion by 14 August 2026. While the RBI has emphasised the need to maintain adequate liquidity in the system, a persistent and growing surplus could eventually require additional liquidity-absorption measures. In our view, the RBI is likely to prefer market-neutral instruments, such as VRRR operations of different tenors, forward maturities and reverse FX swaps, before resorting to more market-sensitive measures such as OMO sales or a CRR increase. This approach would allow the RBI to manage excess liquidity without creating unnecessary disruption in the government bond market.

Indian Rupee remained under pressure:

The Indian rupee remained under pressure during the week as elevated crude prices and geopolitical uncertainty increased dollar demand from oil importers. The rupee closed downward at ₹95.43/USD compared to last week close of ₹95.20/USD, with oil-related dollar demand partly offsetting support from foreign inflows and India's comfortable external liquidity position.

Credit-deposit continuing double digit growth, wedge shrinking:

Weekly bulletin published by RBI shows, commercial banks' credit growth accelerated to 19.3% year-on-year in the fortnight ended July' 27, still outpacing deposit growth of 15.4%. Credit growth was highest since may 2024 whereas deposit growth was at its highest level since December 2016. On fortnight basis banks extended ₹3.4 trillion in loans and mobilised ₹6.61 trillion in deposits.

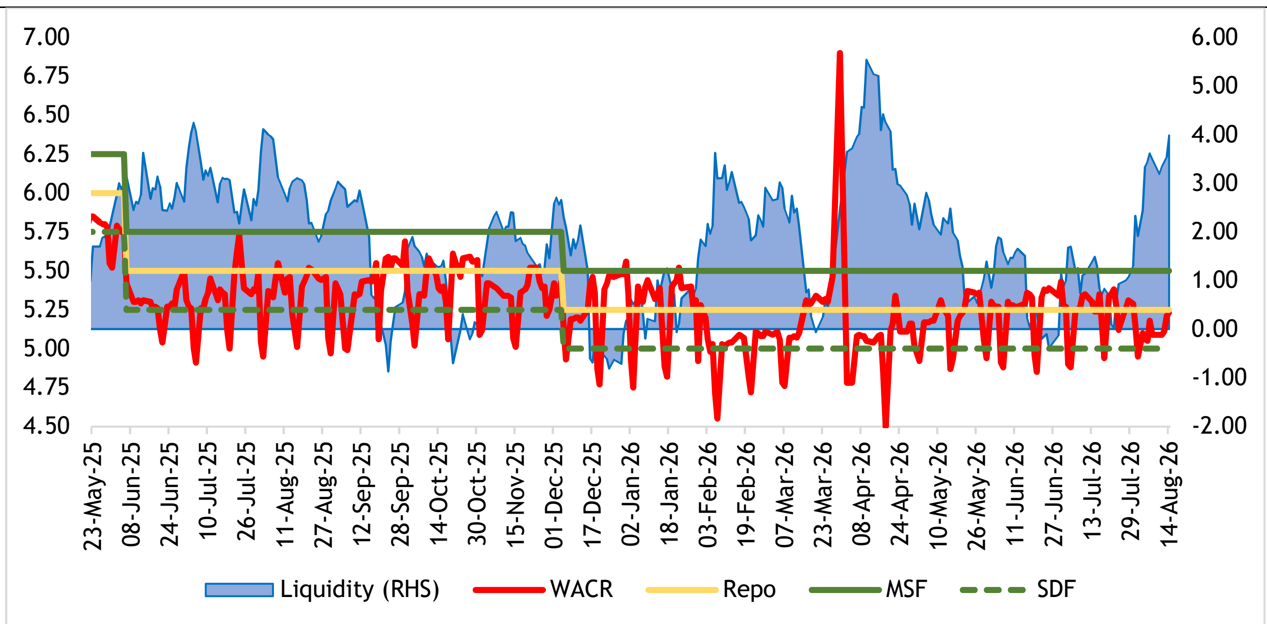
Outlook:

For India Fixed income outlook, stable domestic inflation, strong FX reserves, expected foreign-currency inflows and the RBI's preference for market-neutral liquidity management provide a supportive backdrop. However, elevated crude prices, INR weakness remains key risks. We therefore expect the 10-year G-sec to remain broadly range-bound between 3.70% to 6.80% in the near term, till the next major event i.e. India and US GDP which is scheduled in last week of the month. Till then market will be closely watching data on US Oil inventories, US employment and tone of the FOMC meeting minutes among others. We also propagate a Steepener Trade.

Table 2: Market Snapshot Instrument	Yield (14th Aug 26)	Weekly Change	Commentary
10 Year G-Sec (6.94% GS 2036)	6.76%	-01 Bps	Balanced market forces with no major event impetus
1 Year T-Bill	5.71%	+02 bps	Yield up marginally
US 10 year Yield	4.66%	-	With inflation on expected lines, market in wait and watch mood
Credit Growth (%) (as of 31st July'26)	19.3%	+70 bps	Credit growth continued to outpace Deposit growth with wedge shrinking
Deposit Growth (%) (as of 31st July'26)	15.4%	-207 bps	
Credit Deposit Wedge (bps) (as of 31st July'26)	500	-137 bps	

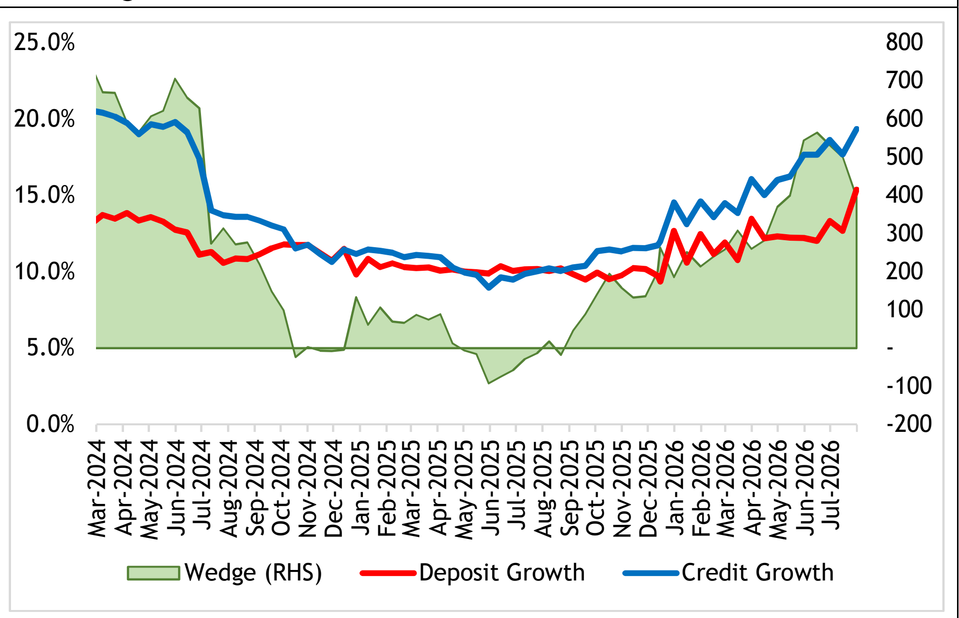
Source: RBI, CCIL, UBI Research

Fig.2: Alignment of WACR to Repo amid surplus liquidity



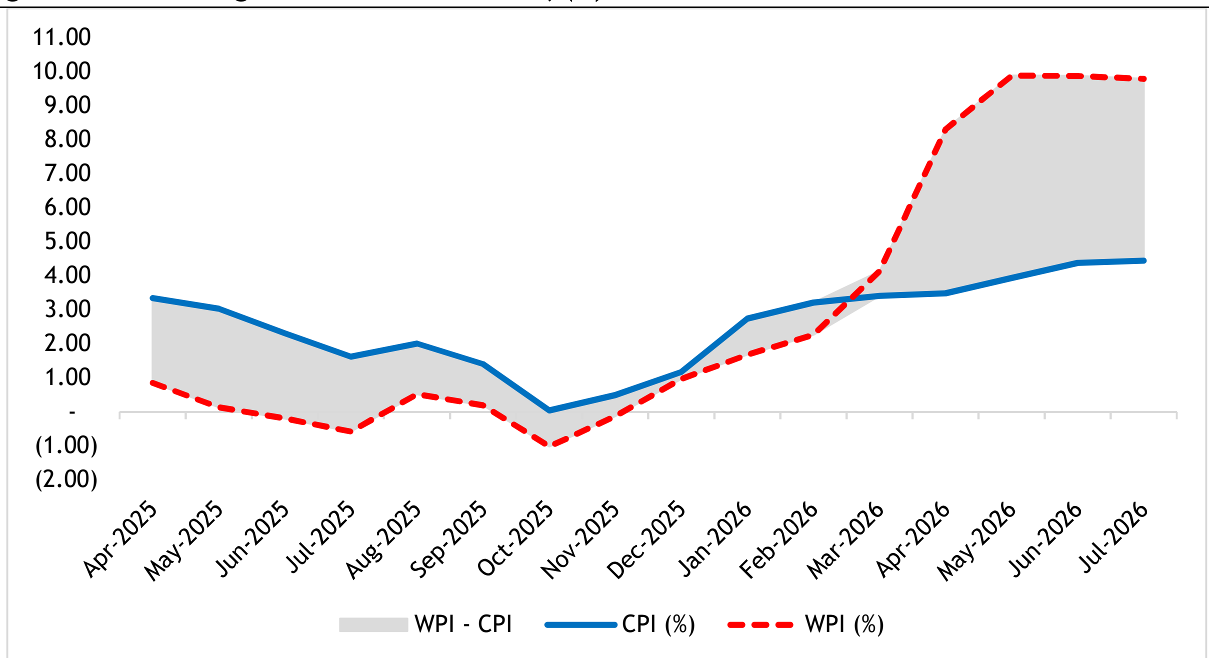
Source: RBI, CEIC, UBI Research

***Fig.4:* Credit-deposit continuing double digit growth, wedge shrinking**



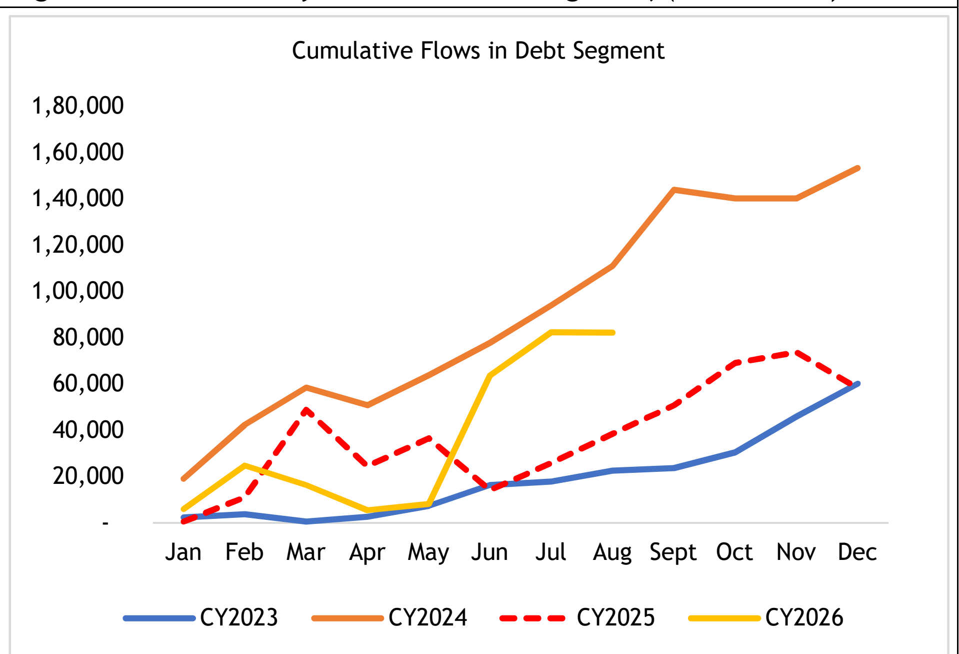
Source: CEIC, UBI Research

Fig.5: Persistent high WPI Vs Anchored CPI; (%)



Source: CEIC, UBI Research

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



Source: NSDL, UBI Research

Table 1: Fixed Income tracking Heatmap

Fixed Income Heatmap	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	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
													Growth											
PMI Manufacturing (YoY Gr%)	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	56.90	53.90	54.70	55.00	54.20	53.50
PMI Services (YoY Gr%)	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	58.10	57.50	58.80	59.80	57.40	53.30
GST Revenue (YoY Gr%)	9.99	6.47	8.92	8.54	7.26	12.29	9.09	9.87	12.58	16.39	6.20	7.50	6.49	9.11	4.59	-3.97	1.27	1.95	2.82	2.08	2.56	-3.39		
Govt Expenditure (YoY Gr%)	20.94	2.63	31.65	3.63	22.15	12.43	-17.66	9.27	9.95	40.26	37.39	3.35	-9.88	-7.99	-11.07	12.42	-7.33	-8.52	9.69	13.28	23.49	9.10	0.01	
Vehicle registrations (% y/y)	3.05	-6.74	32.93	14.72	-10.47	6.46	-5.91	0.08	3.40	6.31	5.13	-3.71	3.50	5.76	41.08	3.05	14.83	18.44	25.18	27.15	14.05	12.11	22.46	25.71
Exports (% y/y)	-14.09	-0.96	16.60	-5.34	-1.53	-2.64	-10.86	0.85	-3.82	-1.23	-1.31	13.16	5.72	6.03	-12.50	18.59	1.15	0.37	-0.79	-7.44	14.21	17.86	15.52	19.63
Imports (% y/y)	10.44	8.29	3.22	16.75	2.67	11.29	-14.20	12.54	19.99	-1.33	-3.42	9.06	-9.54	17.67	17.92	-1.48	10.34	19.17	24.12	-6.51	10.02	20.62	30.99	17.51
													Inflation											
CPI (Y-o-Y Gr%)	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	2.73	3.21	3.40	3.48	3.94	4.38	4.44
Core CPI (Y-o-Y Gr%)	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	3.67	3.70	3.66	3.70	3.90	3.89	3.86
												Transmission												
Bank Credit (YoY Gr%)	14.03	12.34	11.80	11.16	11.16	12.53	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.54	14.54	13.41	14.00	17.08	16.45	17.65	18.63	19.33
Bank Deposits (YoY Gr%)	12.72	10.38	11.50	11.25	9.83	12.12	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.18	12.67	10.64	11.31	16.16	13.26	12.21	13.31	15.38
C-D Ratio (%)	78.80	79.60	79.80	79.90	80.80	80.60	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.60	80.80	82.00	82.60	82.60	81.70	82.30	83.00	82.90	82.20
WALR O/s Rupee Loans (%)	9.89	9.88	9.88	9.87	9.86	9.87	9.80	9.77	9.71	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	9.04	9.00	8.99	8.98	8.97	8.96	
WALR Fresh Rupee Loans (%)	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	8.49	8.44	8.40	8.50	8.51	8.53	
WADR O/s (%)	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	6.64	6.62	6.62	6.59	6.57	6.58	
WADR Fresh (%)	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	5.66	5.65	6.07	5.79	5.83	5.99	
MCLR 1 Year - Median	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	8.45	8.40	8.55	8.65	8.50	8.60

Source: CEIC, UBI Research

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