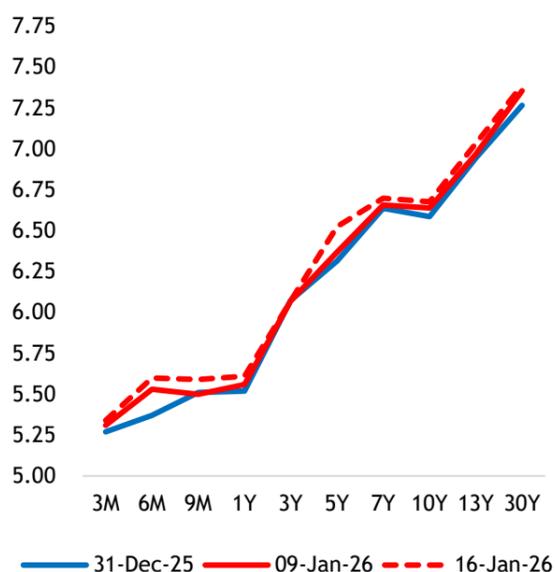


Fig.1: Yield Curve movement during the week; (%)



Source: Bloomberg, UBI Research

Global bond markets remain firm despite policy easing, as fiscal supply, inflation uncertainty, and higher term premia keep long-end yields elevated. In the US, the 10-year Treasury trades around 4.15-4.25%, supported by heavy issuance, persistent inflation above target, and political risks. Japan's 10-year JGB yield has surged to ~2.20-2.25%, the highest in over two decades, reflecting policy normalization and fiscal uncertainty. In India, the 10-year G-Sec yield rose ~6bps to 6.66% amid the Bloomberg index deferral and a 57-paise rupee fall, though public-sector bank buying and benign CPI at 1.33% YoY helped limit losses. Auctions held firm with strong demand for the 6.01%, 2030 bond (bid-cover ~3x) and the 50-year bond at 7.43%, while SDL supply came in ~INR 260bn lower than indicated. Liquidity improved via RBI OMOs and FX swaps, but 1-year CD rates stayed above 7%, reflecting cautious bank funding. Overall, the market remains range-bound, supported by domestic demand and liquidity, yet sensitive to global yields, FX moves, and upcoming policy cues.

Global Yields - Fiscal Dominance Trumps Policy Easing:

- Global bond markets in early 2026 continue to show a sharp divergence between the front end and the long end of the curve. Despite aggressive rate cuts by the Federal Reserve, long-term yields remain elevated, reflecting fiscal supply dominance, inflation uncertainty, and higher term premia. Markets have made it clear that monetary policy can guide short rates, but structural factors are now anchoring the long end.
- US 10-year Treasury yield has stayed range-bound around 4.15-4.25%, edging higher in recent sessions. Heavy Treasury issuance, elevated debt levels, persistent inflation above the Fed's 2% target, and renewed tariff-related risks have limited downside. At the same time, political pressure on the Fed has raised concerns around central-bank independence, adding a risk premium to long-dated bonds.
- In contrast to global easing trends, the 10-year JGB yield has climbed to around 2.20-2.25%, the highest in over two decades, as the Bank of Japan continues policy normalization. Reduced bond purchases, improving wage dynamics, and fiscal uncertainty have driven a sharp repricing, adding to global term premia.

G-Sec under pressure - Index Delay, Fx volatility take Center stage:

- Government bond yields hardened over the week, with the 10-year benchmark rising ~6bps to 6.66%, largely driven by the deferral of India's inclusion in the Bloomberg Global Aggregate Index. The announcement triggered unwinding of pre-positioned trades, removing a key near-term demand catalyst.
- Sharp rupee weakness added to pressure, with the currency depreciating by 57 paise on Friday, its worst single-day fall in nearly two months. The FX move heightened risk aversion and pushed bond yields higher during the session.
- Losses were partially capped by public-sector bank buying, which emerged once the yield on the 6.48%, 2035 bond crossed the 6.68% level towards the close, helping stabilise prices.
- Benign inflation continued to act as a counterbalance. December CPI at 1.33% YoY remained well below the RBI's target, limiting the extent of the sell-off despite global and currency-related headwinds.

Auction hold firm, SDL supply eases:

- At the weekly gilt auction, the government sold INR 180bn of the 6.01%, 2030 bond and INR 130bn of the new 50-year bond, with outcomes better than feared amid volatile market conditions.
- Demand for the 5-year 6.01%, 2030 bond was notably strong, supported by buying from public- and private-sector banks for liability matching, interest from mutual funds, and short covering by traders. A bid-cover of ~3x underscored firm appetite in the belly of the curve.
- The new 50-year bond saw selective but solid demand from long-term investors such as insurers and pension funds. The coupon was set at 7.43%, lower than expectations of ~7.45%, reinforcing confidence in ultra-long-end demand.
- State Development Loan issuance for the week came in ~INR 260bn lower than indicated in the borrowing calendar, easing near-term supply concerns and lending support to secondary market sentiment.

Banking System Liquidity: RBI support helps but short end stays sticky:

- System liquidity improved during the week, supported by RBI OMOs and FX swap operations, moving conditions closer to neutral/surplus and alleviating funding pressures.
- Market participants, however, were disappointed with the choice of securities in the latest OMO purchase, as several of the offered bonds were illiquid or out-of-the-money. Traders had expected inclusion of the 6.33%, 2035 bond, which could have capped yields more effectively.
- Despite improved liquidity, 1-year CD rates remained elevated above 7%, reflecting cautious bank funding behaviour, steady credit demand, and upcoming tax-related outflows.
- With the current OMO series nearing completion, expectations are building for a fresh liquidity injection of INR 1.0-2.0 trillion, though opinions remain divided on whether the RBI will act before or after the Union Budget.

Table 1: Drivers of Core Liquidity

INR Lakh Crore	Systemic Liquidity Balance	Govt. Balance with RBI	LTRO	Core Liquidity	Fx Impact	OMOs	LTROs	RBI Dividend	CIC	CRR
FY26 YTD	-0.10	3.53	-	3.44	-5.39	4.21	-1.83	2.69	1.99	-1.83
FY 26 Est.	2.73	0.75	-	3.48	-6.61	6.26	-1.83	2.69	2.75	-1.80

Source: RBI, UBI Research
FY 26YTD Data till 31st Dec'25
Assumptions for FY26 Est.:

Forward Cover o/s as of Nov'25 is \$66.05Bn of which \$16.8Bn matures during 1-3 Months, we have assumed \$12.6Bn to be rolled over. Redemptions during Jan'26 of ~Rs.0.45 lakh crore from Central Bank ownership shall reduce OMOs. Additional OMOs amounting to Rs.1.0 lakh crore has been assumed while estimating FY26 end liquidity. CIC may edge up in Q4FY26 due to seasonality effect

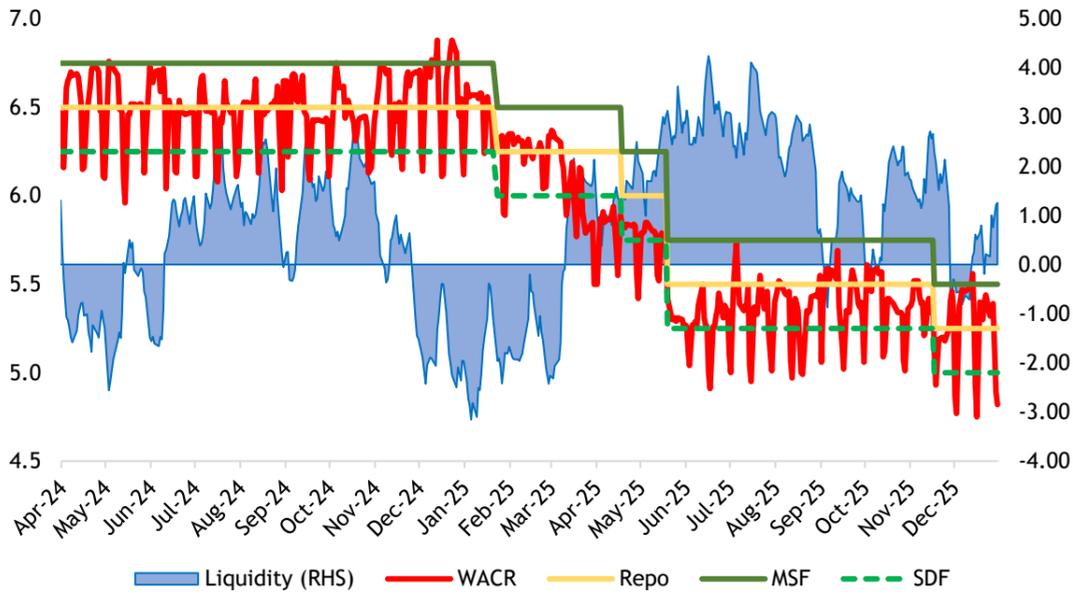
By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Table 1: Market Snapshot Instrument	Yield (Jan 16)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.68%	+4 bps	Deferment of Bloomberg Index Inclusion spoiled the market mood
1 Year T-Bill	5.61%	+5 Bps	Liquidity tightened due to Fx impact as Rupee volatility widens
US 10 year Yield	4.22%	+5 bps	Political & Economic concerns
Credit Growth (%) (as of 31 st Dec'25)	14.5%	+255 bps	Credit & Deposit growth increased on fortnight basis and the gap widened
Deposit Growth (%) (as of 31 st Dec'25)	12.7%	+332 bps	
Credit Deposit Wedge (bps) (as of 31 st Dec'25)	186	-77bps	

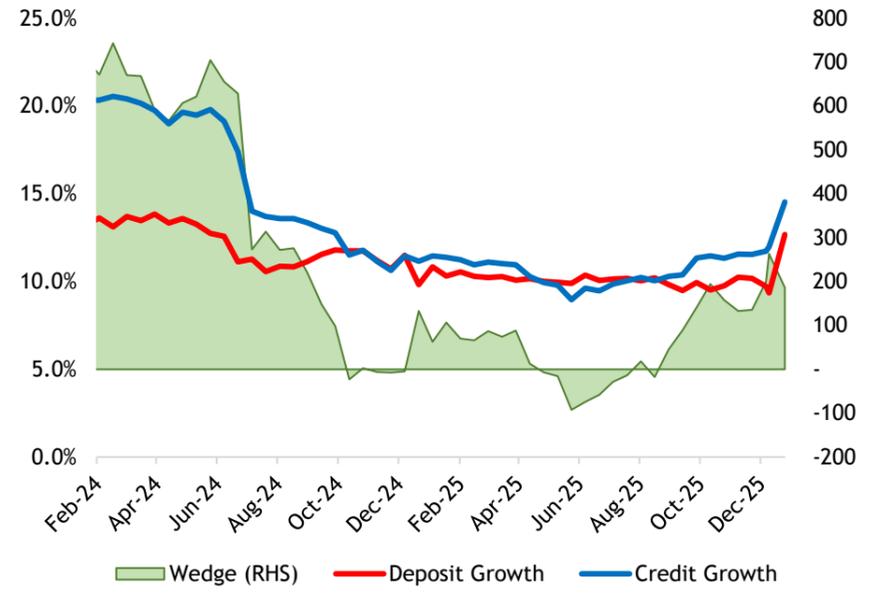
Source: RBI, CCIL, UBI Research

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



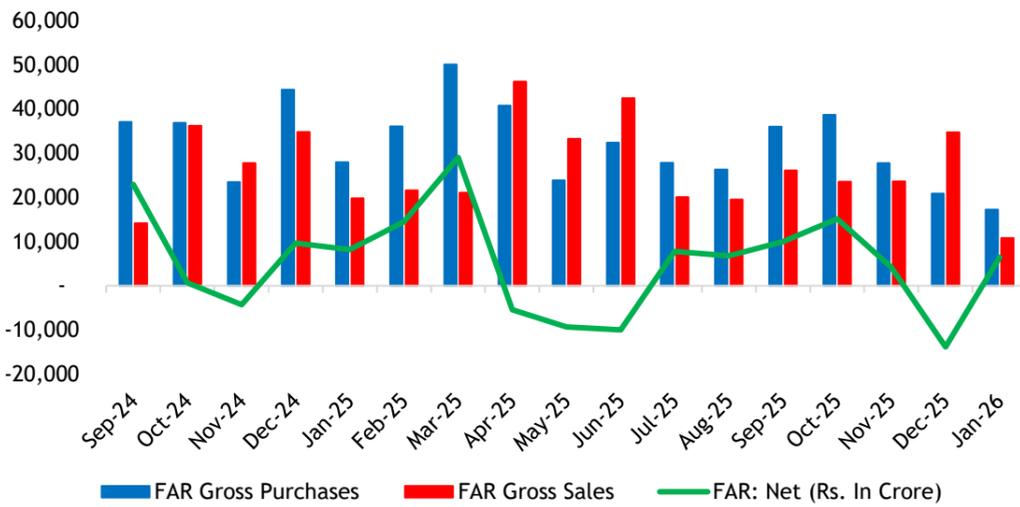
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap widened at ~186 bps in fortnight ending 31st Dec'25



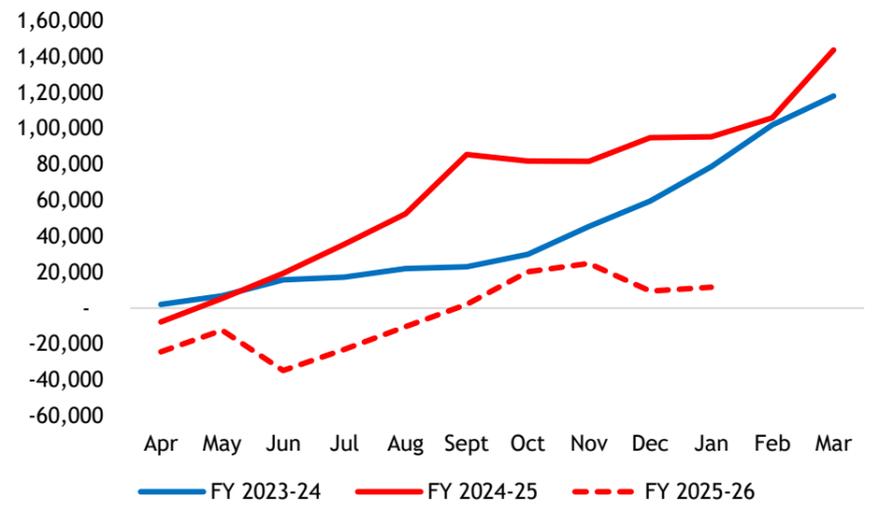
Source: CEIC, UBI Research

Fig.5: Negative Flows in FAR securities in Dec'25 Since Jun'25; (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
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	59.20	56.60	55.00
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
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	0.65	-0.20	12.29	9.09	9.89	12.58	16.39	6.20	7.50	6.49	9.11	4.59	3.56	6.07
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	
Vehicle registrations (% y/y)	25.22	4.38	2.80	14.51	4.58	-5.29	33.50	10.54	-8.65	6.32	-4.91	1.17	2.61	6.13	5.70	-2.48	3.94	6.72	41.95	1.36	13.57
Exports (% y/y)	14.97	10.95	3.27	-5.25	-14.09	-0.96	16.60	-5.34	-1.54	-2.64	-10.86	0.85	-3.82	-1.23	-1.34	13.27	5.75	6.08	-12.37	19.37	1.88
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.66	10.66	-14.81	12.13	19.99	-1.33	-3.41	9.10	-9.54	17.67	16.97	-1.98	8.76
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	1.44	0.25	0.71	1.33
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
Transmission																					
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.53	14.54
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.19	12.68
C-D Ratio (%)	79.90	79.90	79.70	79.70	78.80	79.60	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.50	80.80	82.00
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	
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	
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	
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	
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

Source: CEIC, UBI Research

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.