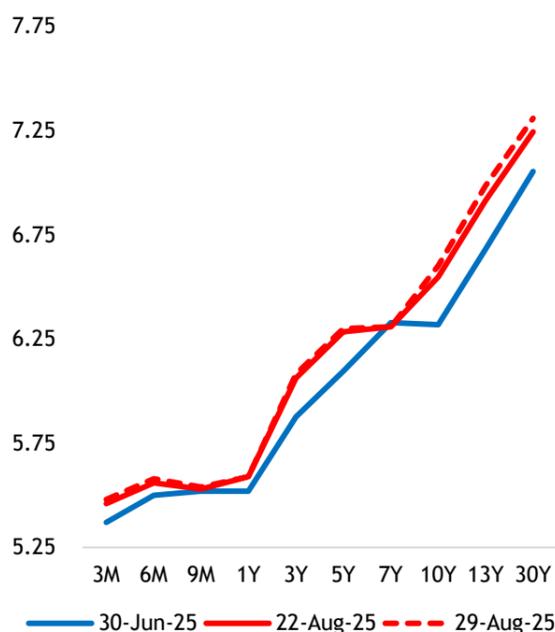


Fig.1: Yield curve W-o-W slowing moving up; (%)



Source: Bloomberg, UBI Research

U.S. 10-year Treasury yields declined over 10 basis points last week, driven by softer inflation data (Core PCE at 2.9% YoY), weak consumer sentiment, and strong demand in Treasury auctions, despite an upward Q2 GDP revision to 3.3% and improved Q3 growth forecasts. The CME FedWatch Tool now shows an 87.6% probability of a Fed rate cut in September, with markets awaiting key labor and inflation data for confirmation. In India, the 10-year G-Sec yield rose marginally by 2-3 basis points to close around 6.61%, due to a sharply weaker rupee, tighter liquidity conditions and greater than expected SDL auctions. Mixed auction results and cautious investor sentiment along with global tariff concerns also contributed to the upward pressure on yields. Market currently awaits relief measures from the regulator on the longer end of the curve.

US 10-Year Yield - Rate cut expectations:

- During the previous week, US Treasury yields declined with the 10-year yield falling by more than 10 basis points. Treasury auctions saw strong demand across maturities, reinforcing investor confidence that interest rates may have peaked.
- Economic data presented a mixed picture. While second-quarter GDP was revised higher to 3.3% and the Atlanta Fed raised its third-quarter growth estimate to 3.5%, other indicators pointed to slowing momentum. Housing data remained weak, consumer confidence declined, and regional manufacturing activity contracted. Although core durable goods orders showed strength, the broader tone remained cautious.
- According to the CME FedWatch Tool, there is now an 87.6% probability that the Federal Reserve will cut rates at its September meeting with 125 bps priced in by the of FY26. Upcoming labor market and CPI data will be key in guiding rate outlooks going forward.

Q1-FY26 GDP 'front' loaded, yet 'back'ward looking & unsustainable:

- India's GDP growth for Q1 FY26 surged to 7.8%, well above our estimate of 7%. The upside was driven by one-off factors such as a sharp drop in the GDP deflator, a rise in manufacturing GVA despite weak earnings (RBI data), and a jump in public administration growth due to election base effects. In addition, discrepancies contributed 1.8 ppt to overall growth, while the recovery in consumption and trade GVA appears inconsistent with mixed lead indicators and weak agriculture performance, raising the likelihood of future data revisions. While capex contribution to GDP growth was nearly flat, that for consumption spiked and has been a source of data surprise. We believe that this kind of growth is unsustainable in coming quarters, hence, we hold on to our rate cut call of 25bps.
- Chief Economic Adviser (CEA) V Anantha Nageswaran commented on the data, retaining his FY26 GDP growth forecast at 6.3-6.8%, asserting that US tariffs would have "no major downside" and are likely short-lived. He emphasized that domestic consumption growth could offset external shocks, with potential GST rate cuts boosting demand further. However, he acknowledged downside risks to manufacturing in Q2 due to tariffs.

G-Sec in a whipsaw mode:

- The benchmark 10-year government security (G-Sec) yield started the week at approximately 6.59% on August 25, reflecting stability from the prior close. It rose marginally to 6.62% on August 26 amid initial market reactions to RBI Governor Sanjay Malhotra's speech at the FIBAC conference. Yields then eased to 6.538% on August 27, possibly on profit-taking and softer global cues, before rebounding to 6.588% on August 28. By August 29, the yield climbed further to 6.609%, driven by rupee depreciation and anticipation of the Q1 FY26 GDP data. Overall, the yield ended the week up by about 2-3 basis points from the start, with trading volumes subdued as investors awaited clarity on US tariffs and their inflationary impact.
- On August 25, RBI Governor Sanjay Malhotra delivered the inaugural address at the FIBAC 2025 conference in Mumbai, themed "Charting New Frontiers." In his speech, the Governor emphasized the RBI's unwavering commitment to monetary policy focused on price stability while supporting sustainable growth. He highlighted a balanced, principle-based regulatory approach to foster innovation in banking and financial inclusion. Notably, Malhotra stated that the RBI has not lost sight of its growth objective amid global headwinds and expressed openness to supporting sectors impacted by US tariffs. He urged India to seize growth opportunities despite external challenges.
- The recent bond auction exceeded expectations, with the 6.92%, 2040 bond avoiding devolvement, though secondary market prices adjusted post-auction. Demand for both the 15-year and 6.90%, 2065 bonds was weaker than anticipated, with state-owned banks showing mixed interest in the 2040 bond and cautious bidding for the 40-year gilt. The lower cut-offs reflected concerns over rising gilt yields, with insurers and pension funds showing stronger demand for longer-duration bonds. Overall, investor sentiment remains cautious amidst heavy supply this week. SDL auctions showed sharp spike in yields due to fresh round of supply which kept longer G-Secs elevated.
- Weighted average call rate more aligned with RBI's repo rate. This tightening stemmed from GST-related government outflows and central bank liquidity absorption via VRRR (Variable Rate Reverse Repo) auctions, with funds locking in ahead of maturing on Friday.
- System liquidity remained in surplus, averaging Rs.3.01 lakh crore in August. Government cash balances increased to Rs.2.84 lakh crore as of August 22, from Rs.1.66 lakh crore on August 15, while the system liquidity dropped in the same period from Rs.3.08 lakh crore to Rs.2.19 lakh crore.
- To manage liquidity:
 - On Aug 28, RBI conducted a 1-day VRRR, withdrawing Rs.49,515 crore at 5.49%, maturing August 29.
 - On Aug 22, a 7-day VRRR withdrew Rs.0.75 lakh crore at the 5.49% cut-off and maturity date of August 29.
- The Indian rupee depreciated sharply during the week, closing at around Rs.88.20/\$ by August 29, marking an all-time low amid escalating US tariff concerns. Starting the week near 87.77 (from prior trends), the USD/INR pair rose by about 0.65% on August 29 alone, driven by trade tension fears and capital outflows. Over the week, the rupee weakened by approximately 0.5-1%, exacerbating imported inflation risks. This depreciation contributed to upward pressure on bond yields.
- Under FAR securities buying is witnessed in Aug'25, especially the long duration securities, hence we remain [positive on long duration 30 year bond](#).

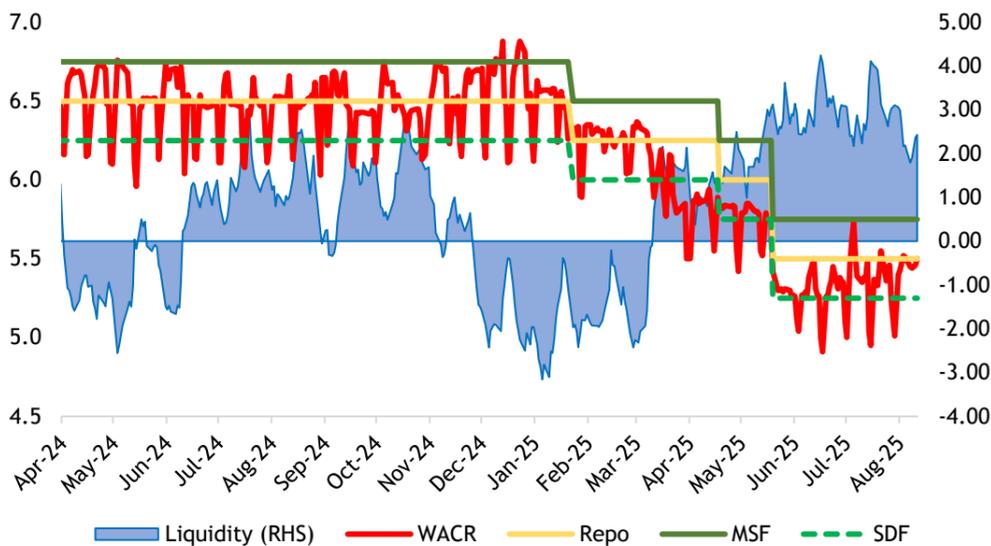
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Table 1: Market Snapshot Instrument	Yield (Aug 29)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.60%	+5 bps	Fiscal worries on GST rationalization moved yields up
1 Year T-Bill	5.59%	- Bps	System liquidity in surplus cushioning the fiscal worries impact on short term yields
US 10 year Yield	4.23%	-3 bps	Fed rate cut expectations at 87.6% as per CME Fedwatch tool
Credit Growth (%) (as of 08 th Aug'25)	10.1%	-12 bps	Credit & Deposit growth increased on fortnight basis, while negative gap narrows
Deposit Growth (%) (as of 08 th Aug'25)	10.2%	+19 bps	
Credit Deposit Wedge (bps) (as of 08 th Aug'25)	17	+31 bps	

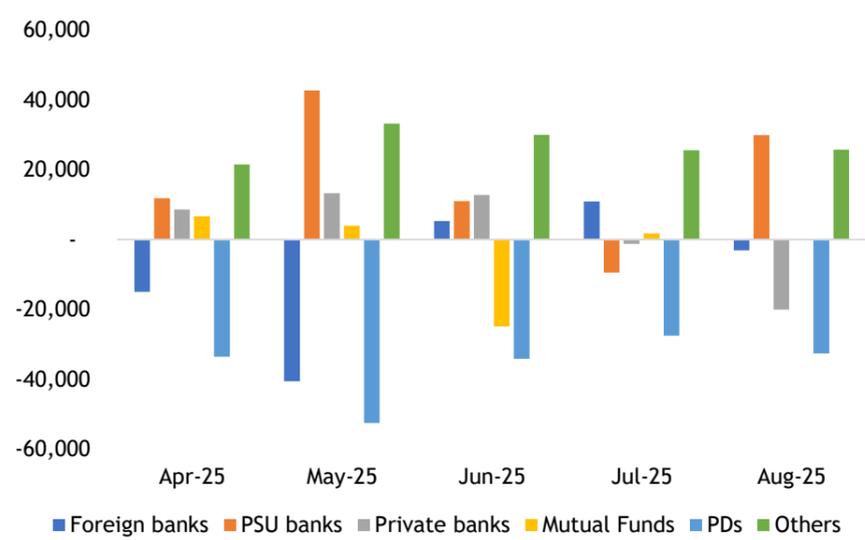
Source: RBI, CCIL, UBI Research

Fig.2: WACR managed to stay in the corridor more aligned to Repo Rate; (%)



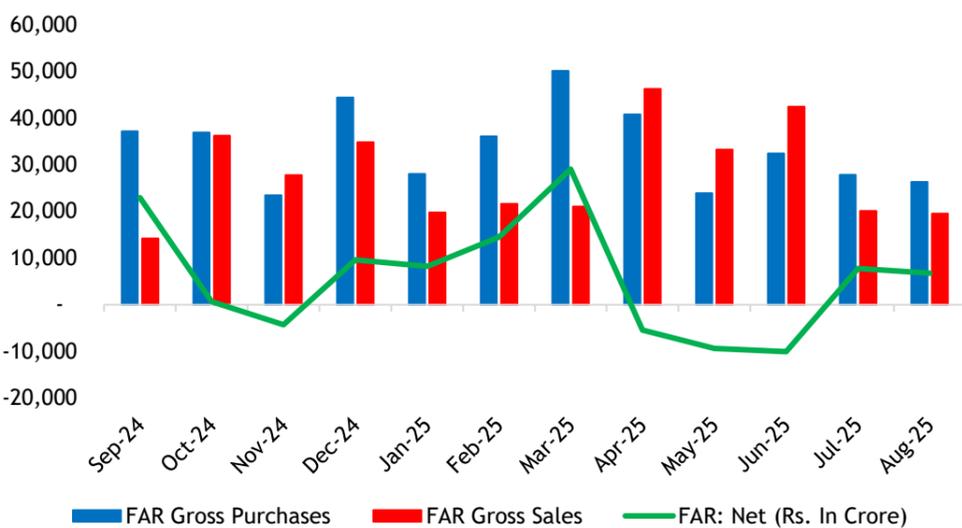
Source: Bloomberg, CEIC, UBI Research

Fig.3: PSU Banks are buyers in Aug'25; Rs. in Crore



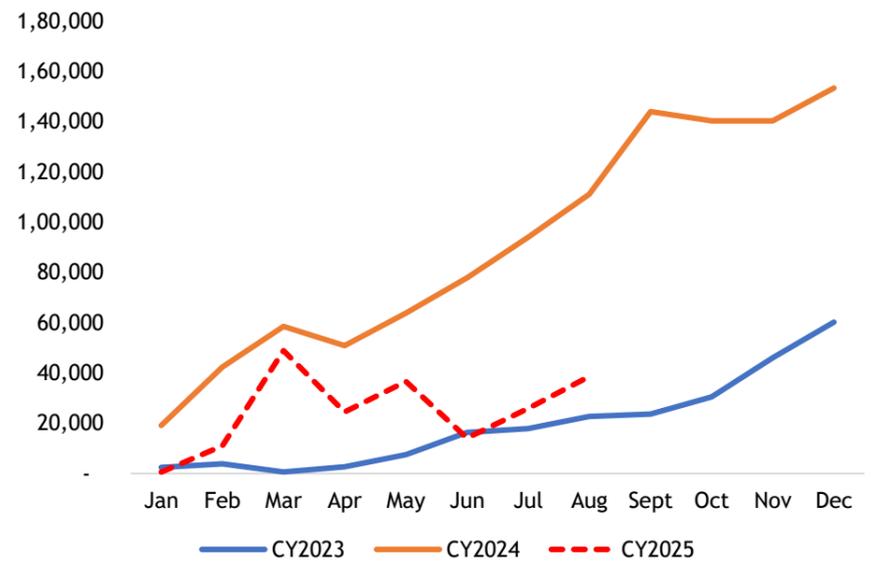
Source: Bloomberg, UBI Research

Fig.4: FAR securities flows positive in Jul & Aug 2025; (Rs. In Crore)



Source: CEIC, UBI Research

Fig.5: 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
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	59.80
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	65.60
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	
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	
Vehicle registrations (% y/y)	27.01	3.42	1.63	14.22	3.55	-7.38	33.85	13.89	-11.64	7.76	-5.34	0.71	3.44	6.00	5.32	-3.87	
Exports (% y/y)	1.98	13.27	2.44	0.64	-9.93	-0.30	16.57	-5.30	-1.53	-2.62	-11.08	0.66	8.59	-2.79	-0.05	7.29	
Imports (% y/y)	11.07	7.30	4.64	11.21	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.12	-1.74	-3.72	8.59	
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	1.55	
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	
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	
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	10.05	10.17	
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	
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	
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	8.80	
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	
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	
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

Source: CEIC, UBI Research

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