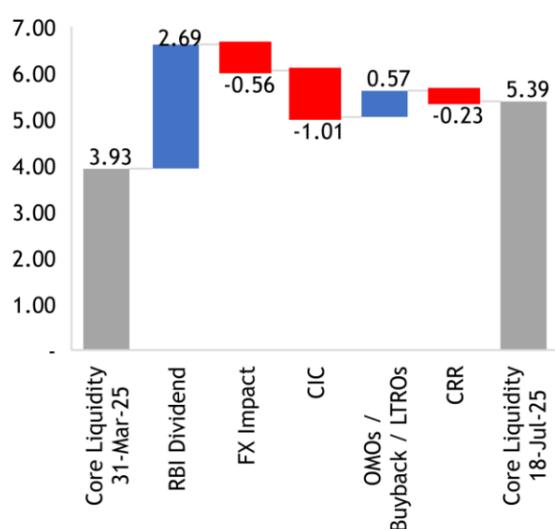


Fig.1: Core Liquidity remains buoyant due to RBI dividend (Rs.in Lakh Crore)



Source: RBI, UBI Research

Global bond markets swung between data and dovishness as the U.S. 10-year yield spiked to 4.49% mid-week on strong retail sales—reviving inflation concerns—before easing back to 4.43% after the Dallas Fed struck a dovish tone. Market pricing now implies a gradual Fed easing cycle, with around 114 bps of rate cuts expected by October 2026, though a July cut remains highly unlikely with just a 5% probability. Meanwhile, Trump’s announcement of 19% tariffs on Indonesian imports and renewed geopolitical tensions with Russia kept safe-haven demand intact. Back home, India’s bond market held firm with the 10-year yield steady at 6.30%, as June CPI fell to 2.1%—the lowest in over six years—and WPI turned negative. RBI Governor Sanjay Malhotra reinforced a data-dependent approach, indicating room for rate cuts if inflation continues to moderate or growth weakens. He affirmed comfort with the WACR remaining below the repo rate to aid transmission and announced that a revised liquidity management framework will be unveiled by July-end. A robust Rs.27,000 crore G-Sec auction, with strong participation from FPIs and insurers, alongside these dovish policy signals, kept market tone constructive. Despite VRRR operations, system liquidity remained in surplus with more than 1% of NDTL, keeping short-term rates elevated and WACR hovering around 5.35%, aligned with the policy corridor. While markets have adapted to the VRRR regime, any ramp-up in size or tenor could provoke volatility.

Global sentiment mixed; US 10 year react to data and Fed Commentary

- Global bond markets experienced choppy price action this week, as markets digested mixed macro signals. The US 10-year Treasury yield rose slightly from 4.41% to 4.43%, after spiking to 4.49% mid-week following strong US retail sales data, which suggested resilient consumer demand and renewed inflation concerns. However, yields reversed course later in the week after a dovish statement from Dallas Fed officials, which reaffirmed the Fed’s wait-and-watch stance, calming markets and reinforcing the likelihood of a rate cut later this year. Markets are firmly pricing a gradual Fed easing cycle starting later this year, with 114 bps of cuts expected by Oct 2026. However, a rate cut in July remains highly unlikely, with only a 5% probability, reflecting the Fed’s cautious stance amid still-resilient US data.
- Geopolitical tensions also contributed to market caution. President Trump’s announcement of a 19% tariff on Indonesian imports raised concerns over global supply chain disruptions, while the US issued a 50-day ultimatum to Russia and NATO warned of secondary sanctions on countries supporting Russia. Additionally, brief volatility followed Trump’s remarks on potentially dismissing Fed Chair Powell—though later downplayed as “highly unlikely.” These developments kept safe-haven demand intact, helping sovereign yields stabilize.
- Meanwhile, China’s Q2 GDP growth came in at 5.2% YoY, marginally lower than Q1’s 5.4% but above the 5.1% consensus. Sequentially, GDP grew 1.1% QoQ, down from 1.2% in Q1. Key contributors included industrial production (+6.8%) and manufacturing output (+7.4%), partly boosted by front-loading of exports. However, retail sales slowed to 4.8%, and property sector investment declined 11.2% in H1, indicating persistent weakness in domestic demand.

RBI Governor Signals Data-Driven Policy, Scope for Further Easing

- In a recent interview, RBI Governor Sanjay Malhotra indicated that further rate cuts remain on the table if inflation moderates or growth falters, emphasizing the central bank’s data-dependent approach. With CPI inflation easing to 2.1% in June, the lowest since January 2019, monetary policy space has widened meaningfully.
- Malhotra reaffirmed the RBI’s neutral stance, enabling flexibility to pivot either way. Transmission of past rate cuts continues, with 24 bps passed to new loans and 16 bps to outstanding loans. On liquidity, he emphasized that the call money rate remains the operative target, supported by variable rate reverse repo (VRRR) operations showing tight correlation with the repo rate. He added that the RBI is comfortable with the Weighted Average Call Rate (WACR) hovering slightly below the repo rate, as it aids smoother transmission of monetary policy. He also stated that the RBI will unveil a revised liquidity management framework by the end of July.
- The 1% CRR cut was characterized as a calibrated liquidity adjustment. Malhotra noted April-June inflation averaged 2.7% vs. 2.9% projected, and July CPI could fall further, possibly below 2%. He described the neutral real rate as a “fuzzy blur,” aligning with global central banking views, and hinted at regulatory reforms including allowing foreign banks up to 26% stakes in Indian banks—a move aimed at clarifying FDI norms.

10-Year G-Sec Holds Firm Despite Inflation Easing Sharply

- India’s 10-year benchmark yield closed at 6.30%, with recent trading anchored in a narrow 4-bps band (6.29%-6.33%). Strong technical support persists around 6.33% on the new benchmark and -6.40% on the old.
- June CPI came in significantly lower at 2.1% vs. 2.82% in May and below consensus of 2.3%, driven by food inflation slipping to -0.2%. Core CPI was steady at 4.43%, while headline inflation excluding vegetables eased further to 3.8%. WPI also surprised on the downside at -0.13% YoY, well below expectations and down from 0.39% in May, with food WPI at -0.26%. The broad-based disinflation trend, especially in food and fuel, reinforces the potential for policy easing.
- At the Friday G-Sec auction, Rs.27,000 crore of securities were successfully issued with a bid-cover ratio of 4.06x. The 7.09% 2054 bond cut-off came in below market expectations due to strong demand from state-owned and private insurers, pension funds, and foreign banks, with FPIs likely participating via forward rate agreements (FRAs). In the new 5-year 2030 bond, PSU banks were active buyers, driven by replacement demand following the government’s Rs.199.25 billion buyback of 2026-27 maturities.

Liquidity Surplus Continues; Short-Term Rates Stay Elevated

- System liquidity remains ample, with a surplus of Rs.3.10 lakh crore as of July 18. The government’s cash balance rose from Rs.1.46 lakh crore (July 4) to Rs.2.22 lakh crore (July 11), while overall surplus liquidity narrowed from Rs.4.25 lakh crore to Rs.3.22 lakh crore during the week.
- RBI conducted two VRRR auctions during the week:
 - 3-day VRRR on July 15 for Rs.1 lakh crore received bids worth Rs.0.57 lakh crore (cut-off: 5.49%)
 - 7-day VRRR on July 18 for Rs.2.0 lakh crore saw full subscription, with Rs.2.07 lakh crore bid (cut-off: 5.49%)
- These operations kept short-term rates elevated, with the Weighted Average Call Rate (WACR) hovering near 5.35%, maintaining alignment with the policy corridor. The markets have now aligned to the new reality to co-exist with VRRR, it may react adversely if RBI announces further VRRR auctions with increased amount or tenor.

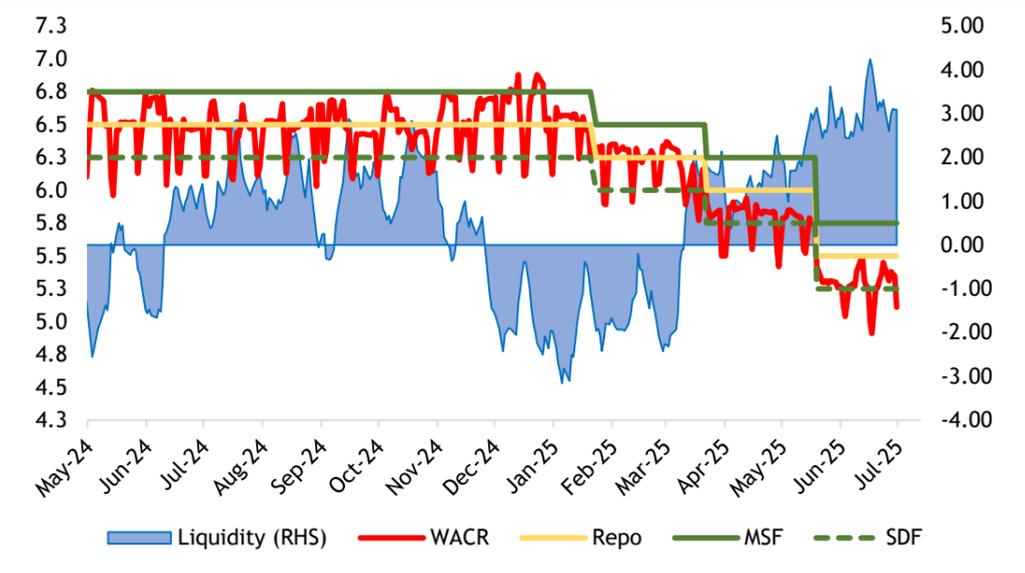
By: Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Table 1: Market Snapshot Instrument	Yield (Jul 18)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.30%	-1 bps	Range bound awaiting cues
1 Year T-Bill	5.57%	0 Bps	Follow up VRRR announcement made T-Bill curve steeper
US 10 year Yield	4.42%	+1 bps	Mixed sentiment brought yields back post mid-week spike
Credit Growth (%) (as of 27 th Jun'25)	9.5%	-16 bps	Credit & Deposit growth lowered on fortnight basis, while negative gap narrows
Deposit Growth (%) (as of 27 th Jun'25)	10.1%	-31 bps	
Credit Deposit Wedge (bps) (as of 27 th Jun'25)	(60)	+15 bps	

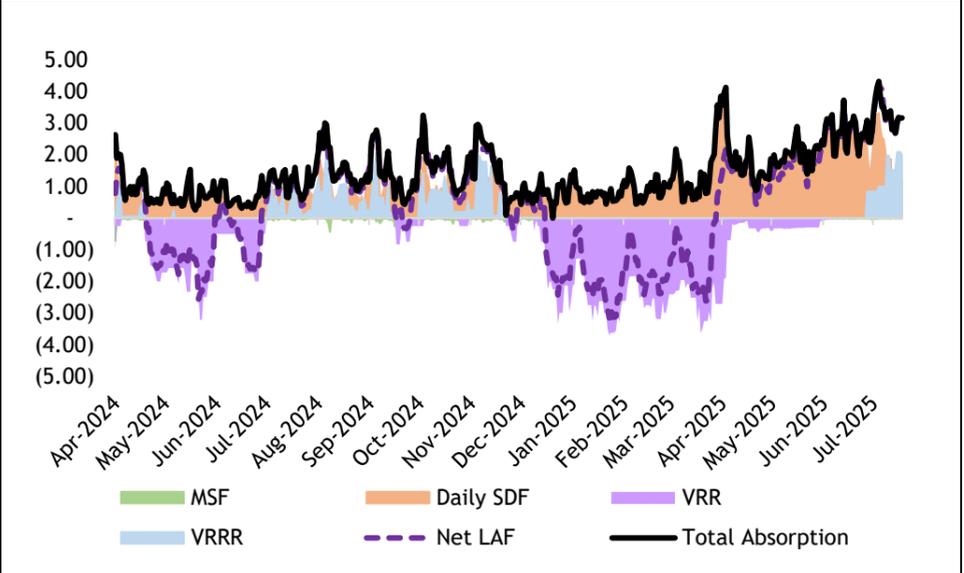
Source: RBI, CCIL, UBI Research

Fig.2: WACR stayed in the lower band of LAF, while moving closure to Repo rate as follow up VRRR are announced; (%)



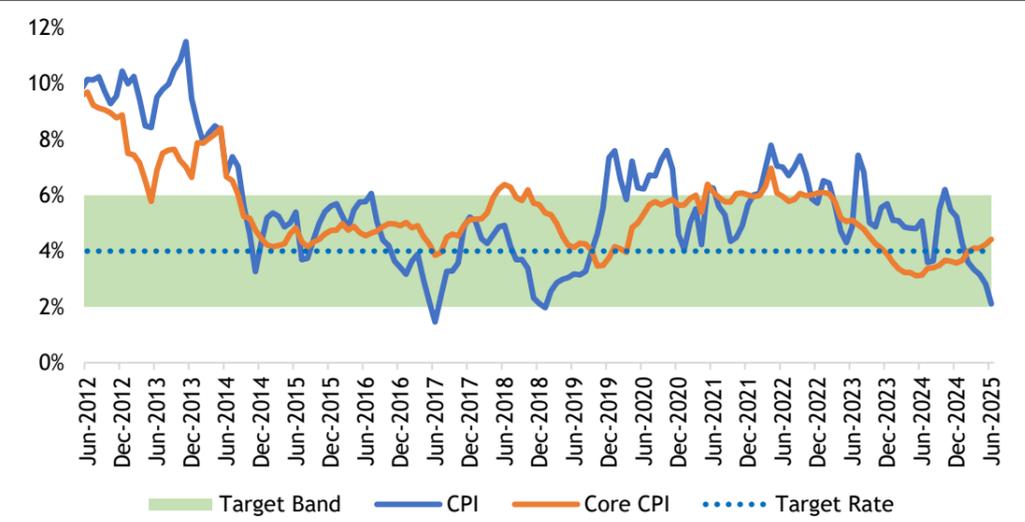
Source: Bloomberg, CEIC, UBI Research

Fig.3: Parking of liquidity is now being divided between SDF and high yielding VRRR; Amount in Rs. Lakh Crore



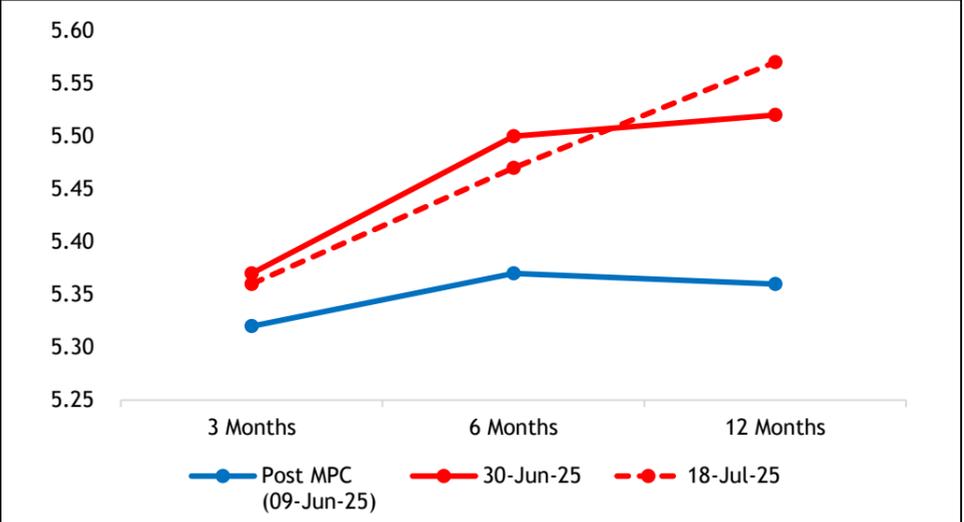
Source: CEIC, UBI Research

Fig.4: Headline CPI lower, while Core CPI remained steady; (%)



Source: CEIC, UBI Research

Fig.5: T-Bill curve continues to steepen in Jul'25; (%)



Source: RBI, 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
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
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
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
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	
Vehicle registrations (% y/y)	26.72	3.17	1.82	14.33	3.52	-7.56	35.42	13.92	-10.67	7.20	-5.86	0.50	3.57	5.87	5.29
Exports (% y/y)	1.98	13.27	2.43	0.63	-9.93	-0.30	16.57	-5.30	-1.53	-2.62	-11.08	0.66	9.02	-2.18	-0.06
Imports (% y/y)	11.07	7.30	4.65	11.19	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.13	-1.73	-3.71
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
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	4.43
Transmission															
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	12.53	12.26	11.03	10.09	8.96	9.46
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	12.12	12.01	10.28	9.79	9.89	10.05
C-D Ratio (%)	79.90	79.90	79.70	79.70	78.80	79.60	79.80	79.90	80.80	80.60	80.80	81.10	80.10	79.30	79.20
WALR O/s Rupee Loans (%)	9.81	9.81	9.89	9.89	9.89	9.88	9.88	9.87	9.86	9.85	9.78	9.75	9.68	9.67	
WALR Fresh Rupee Loans (%)	9.55	9.39	9.32	9.40	9.41	9.37	9.54	9.40	9.25	9.32	9.40	9.35	9.26	9.20	
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	
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	
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

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.