

Table.1: Fiscal and Borrowings impact on yields

Parameter	Optimistic	Base Case	Pessimistic	Budget Outcome
Fiscal Deficit FY27	4.0-4.2%	4.3%	≥ 4.5%	4.3%
Gross Borrowings	< Rs. 16 Trn	Rs. 16.1 - Rs. 16.9 Trn	≥ Rs. 17 Trn	Rs. 17.2 Trn
Expected 10Y yield range	6.25% - 6.50%	6.50% - 6.70%	6.80% - 7.10%	6.70-6.80% (near-term)

Source: UBI Research

Table.2: CDs heavy maturity in Q4 shall move the money market rates

Period	Gross Issuance	WAY %	Maturity	Net Issuance
Q1	2.55	6.27%	2.67	(0.12)
Q2	2.62	6.00%	2.56	0.06
Q3	3.67	6.19%	3.05	0.62
Q4	1.48*	6.91%	4.84	(3.36)*

*Issuance of Q4 is upto 31st Jan 2026 and maturity upto 31st Jan 2026 is Rs.0.99 lakh crore.

Source: FTrac, UBI Research

Global bond markets provided a firm backdrop, with the US 10-year Treasury yield range-bound at 4.20-4.25% amid sticky inflation and a sustained higher-for-longer narrative. The Fed held rates at 3.50-3.75%, with markets pricing 1-2 cuts in 2026, likely in the second half. The nomination of Kevin Warsh as the next Fed Chair has added policy uncertainty and a modest risk premium to long-end global yields. Against this backdrop, Indian bonds faced Budget-driven supply pressure. The 10-year benchmark G-Sec (6.48% GS 2035) closed around 6.70%, after touching 10-12 month highs, as markets priced a 4-8 bps post-Budget repricing. The announcement of ₹17.2 lakh crore FY27 gross borrowings, well above expectations of ₹16.0-16.5 lakh crore, has reinforced a supply-led yield curve despite orderly auctions. Liquidity remained tight, driving a sharp repricing in money markets. Outstanding CDs rose to ~₹5.3-5.4 trillion, with 3-6 month CD rates at 6.60-6.90% and 1-year CDs above 7.00%, pointing to persistent funding stress. While confirmation of the US-India trade deal helped ease CD rates by 10-15 bps, the relief is likely to be temporary given heavy FY-end funding needs. The RBI responded with over ₹2 lakh crore of liquidity measures, including a \$10 billion USD/INR swap, ₹1 lakh crore of OMOs, and large 90-day VRRs, anchoring the WACR near the repo rate, though support remains largely tactical. While the Budget reaffirmed fiscal discipline with a FY27 fiscal deficit target of 4.3%, borrowings exceeding our Base Case ceiling tilt near-term risks higher. We expect the 10-year yield to test 6.75-6.85%, with RBI liquidity actions acting as the key anchor against a sustained move beyond 6.80%.

Global yields and Macro cues: External Headwinds persist

- US 10-year Treasury yield remained range-bound around 4.20-4.25%, ending near 4.22%, as markets balanced sticky inflation against expectations of gradual Fed easing. Yields stayed below recent highs, but the broader “higher-for-longer” narrative continues to cap downside.
- The Fed held rates at 3.50-3.75% at its January meeting, marking a pause after three cuts in 2025. Policy guidance remained data-dependent, with markets now pricing 1-2 rate cuts in 2026, likely skewed toward the second half of the year.
- Kevin Warsh was nominated as the next Fed Chair, set to succeed Jerome Powell in May 2026, subject to Senate confirmation. Viewed as supportive of lower rates but hawkish on balance sheet discipline, his nomination has added policy uncertainty and a modest risk premium to long-term global yields.

10 year G-Sec Supply concerns dominate:

- The benchmark 10-year G-Sec (6.48% GS 2035) ended the week around 6.70%, after touching 10-12 month highs intra-week.
- Post-Budget, yields moved higher, with markets pricing in a 4-8 bps upward adjustment, reflecting concerns over elevated FY27 borrowing. Despite decent auction demand (₹32,000 crore weekly issuance), secondary market selling by primary dealers signaled caution. Overall, the yield curve remains supply-led, with limited appetite for duration at current levels.

CD rates reprice sharply amid tight liquidity:

- Banking system liquidity remained under stress due to tax outflows, sustained currency leakage, and a widening credit-deposit gap. Banks increased reliance on wholesale funding, pushing outstanding CDs to ~₹5.3-5.4 trillion, near record levels.
- CD rates hardened meaningfully with 3-6 month CDs moving into the 6.60-6.90% range and 1-year CDs crossing 7.00%, up from ~6.65% earlier. Elevated CD rates indicate that liquidity tightness is becoming more persistent rather than episodic.
- While confirmation of the US-India trade deal has eased CD rates by 10-15 bps, near-term pressures persist. With ₹4.84 lakh crore of CD redemptions due and typical year-end seasonality, demand for funding is expected to remain strong. During Q4 FY26 (up to 31 January 2026), gross CD issuance stood at ₹1.48 lakh crore, resulting in net issuance of ₹0.49 lakh crore against maturities of ₹0.99 lakh crore. The remaining ₹3.84 lakh crore of maturities due in February-March 2026 are likely to keep money market rates under pressure.

RBI liquidity push:

- The RBI announced a multi-pronged liquidity support package totaling over ₹2 lakh crore. A \$10 billion USD/INR buy-sell swap (3-year tenor) scheduled for 4 February aims to inject durable rupee liquidity without impacting FX reserves. Additionally, OMO purchases worth ₹1 lakh crore will be conducted in two tranches (5 Feb and 12 Feb).
- 90 Day VRR, Tactical relief not structural:
 - Reflecting funding demand, the ₹25,000 crore 90-day VRR conducted today attracted bids of ₹95,062 crore, clearing at a cut-off of 5.34%.
 - In response, the RBI announced another 90-day VRR of ₹2 lakh crore, injecting ₹1.11 lakh crore at a lower cut-off of 5.26%, underscoring its commitment to smoothing near-term funding stress.
 - VRR operations helped stabilize the WACR, preventing it from drifting materially above the policy repo rate. However, VRR remains a tactical tool and does not fully offset structural liquidity pressures.

Union Budget 2026-27: Discipline with a supply shock

- The government announced gross market borrowings of ₹17.2 lakh crore for FY27, significantly higher than market expectations of ₹16.0-16.5 lakh crore. Fiscal deficit for FY27 was pegged at 4.3% of GDP, in line with the glide path (FY26 RE: 4.4%). Net borrowings stood at ~₹11.7 lakh crore, while capex rose to ₹12.2 lakh crore (-9% YoY). While fiscal credibility remains intact, the record borrowing program has emerged as the key bond market overhang.
- In our previous report, we outlined a scenario-based framework linking fiscal outcomes to yield direction. Budget numbers validate our Base Case, while borrowing levels push risks toward the upper end of that range.
- With Gross borrowings exceeding the Base Case ceiling, we expect the 10Y yield to test 6.75-6.85% in the near term. RBI OMOs and FX swaps are likely to act as an anchor, limiting an uncontrolled move into the pessimistic zone (>6.80%).

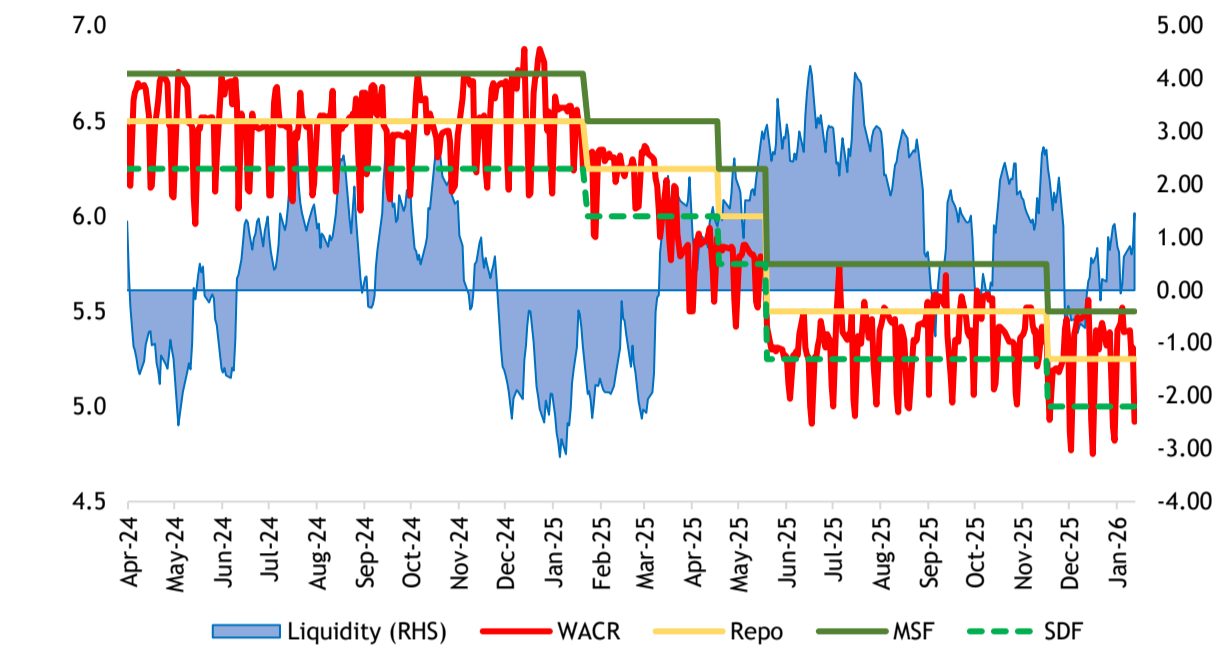
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Table 1: Market Snapshot Instrument	Yield (Jan 30)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.70%	+3 bps	Higher expected borrowings in Budget FY27
1 Year T-Bill	5.71%	+4 Bps	Liquidity tightened due to Fx impact as Rupee volatility
US 10 year Yield	4.24%	+2 bps	FED held rates & Warsh new Fed Chairman
Credit Growth (%) (as of 15 th Jan'26)	13.1%	-142 bps	Credit & Deposit growth increased on fortnight basis with gap widening
Deposit Growth (%) (as of 15 th Jan'26)	10.6%	-206 bps	
Credit Deposit Wedge (bps) (as of 15 th Jan'26)	250	+64 bps	

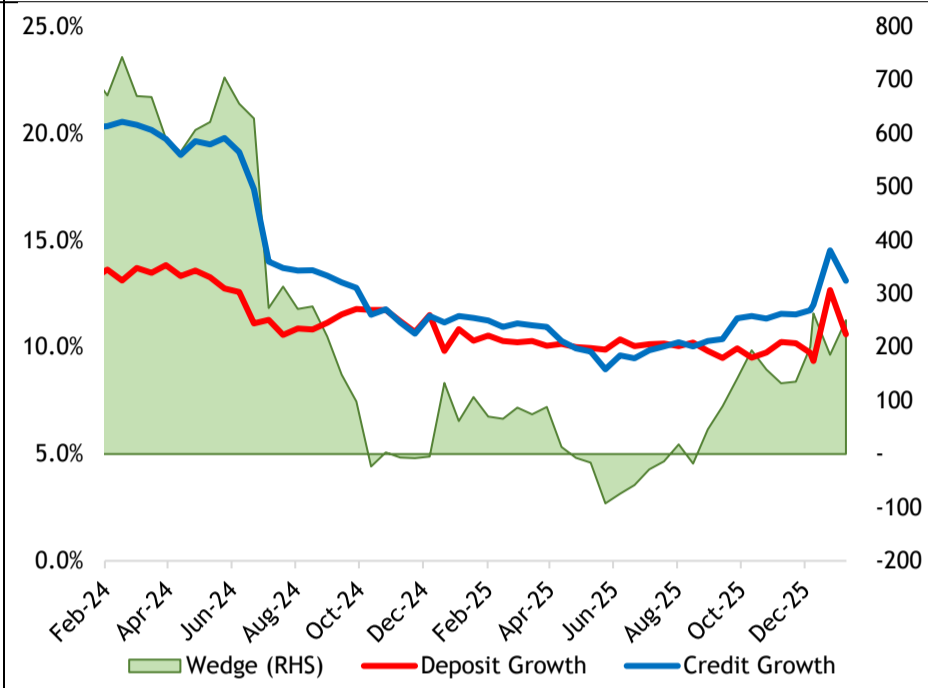
Source: RBI, CCIL, UBI Research

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



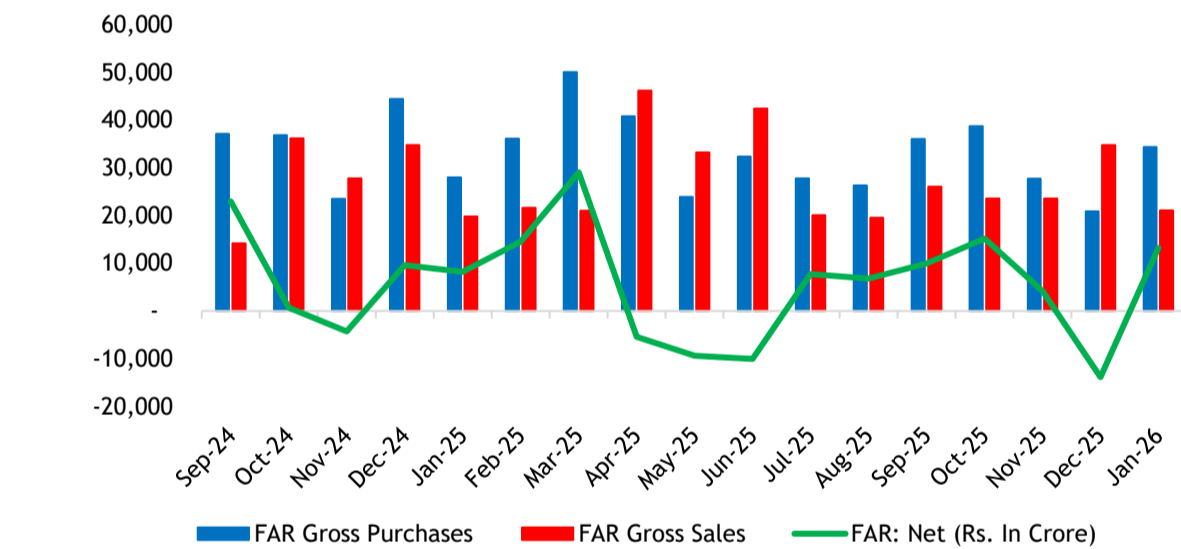
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap widened to ~250 bps in fortnight ending 15th Jan 2026



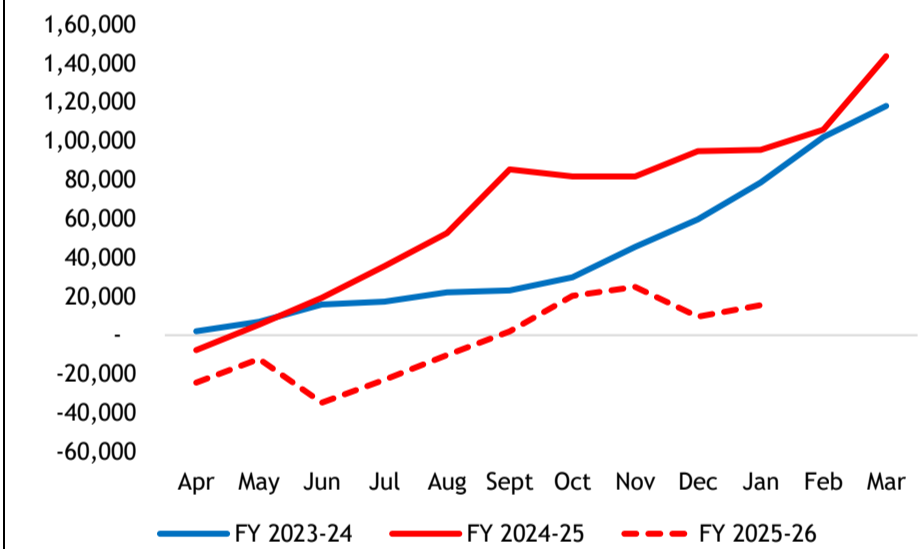
Source: CEIC, UBI Research

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
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	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	59.30
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		
Vehicle registrations (% y/y)	25.10	4.48	2.96	14.64	4.84	-4.93	33.50	10.68	-8.20	4.64	-4.99	1.15	2.54	6.22	5.88	-2.18	4.32	7.23	42.14	2.03	14.80	15.83
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	19.33	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	14.53	
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	12.67	
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	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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