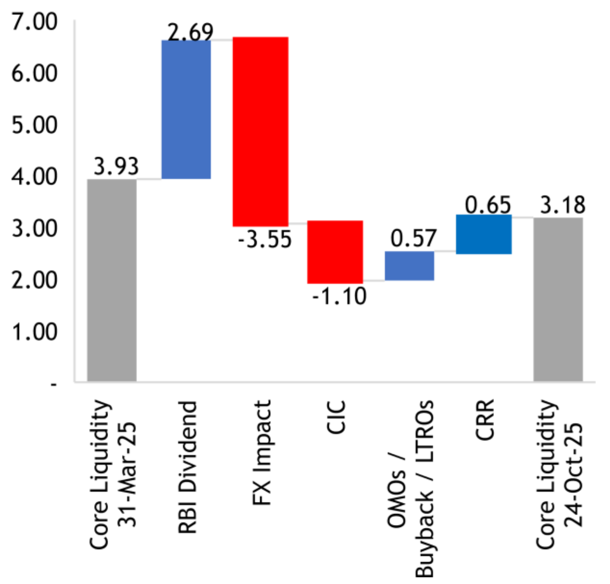
FI Weekly: Fed Cuts, India Liquidity strains keep markets on alert for OMOs

04th Nov 2025

Fig.1: Drivers of Liquidity during FY26TD; (Rs. In Lakh Crore)*



**Data available till 24th Oct'25*
Source: RBI, UBI Research

Table 1: Drivers of **Change in Core Liquidity since CRR cut became effective**

(Rs. In Lakh Crore)

Change in Core Liquidity (from 05th Sep'25 to 24th Oct'25)		***(1.48)***
Drivers of Core Liquidity (From 05th Sep'25 to 24th Oct'25)	***Fx Impact***	***(2.27)***
	CIC	***0.20***
	CRR	***(0.99)***

Source: RBI, UBI Research

Global bond markets saw mild volatility as US 10-year Treasury yields edged higher to** 4.08%, **reflecting cautious sentiment amid mixed economic data and Fed signals. The** FOMC held rates at 4.25-4.50%, **with dovish guidance pointing to a potential 25 bps cut in December and further easing in 2026. Markets are now pricing in a ~67% probability of a December rate cut. In India, the 10-year G-Sec yield remained largely stable around 6.53%, with selective demand at recent RBI auctions amid tight liquidity. Systemic pressures persisted due to FX interventions, seasonal CIC outflows, and a credit-deposit gap of 194 bps impacting liquidity structurally. <u>This liquidity tightness has raised market expectations for announcement of Open Market Operations (OMOs) with the market awaiting cues from</u> [RBI-PD meeting due on 06th Nov'25](). The cancellation of 7 year auction on Friday has also added to OMO expectations.

On the fiscal side, Sep'25 data showed 7.8% YoY growth in gross tax revenue, led by strong direct taxes and festive activity. However, expenditure growth outpaced receipts, pushing the fiscal deficit to 45.2% of the full-year target. For H1 FY26, the deficit widened 21% YoY to Rs.5.73 lakh crore, mainly due to higher capital outlay. Meanwhile, GST collections for October stood at Rs.1.96 lakh crore (+4.6% YoY) a solid performance despite recent rate cuts underscoring resilient consumption.

US Fed hold rates, signals gradual easing:

- US 10-year Treasury yield displayed mild volatility during the week. It started at 4.01% on October 27, fell slightly to 3.99% on October 28, and rebounded to 4.08% by October 29, where it remained through October 31. The weekly net rise of 7 bps reflected cautious market sentiment as investors digested mixed economic data and ongoing geopolitical developments. November 1 saw little movement, with yields consolidating near 4.08%, indicating that markets were waiting for fresh data and the outcome of the Fed's recent meeting.
- The FOMC held its October 28–29 meeting and decided to keep the federal funds rate unchanged at 4.25–4.50%. The committee noted that economic growth remains resilient while inflation is above the 2% target. Forward guidance indicated a potential 25 bps cut in December and two further cuts in 2026, reflecting a data-dependent approach. This cautious stance kept market expectations moderate.
- Chair Powell's post-meeting comments were dovish, highlighting softening labor market signals and downside risks to growth. This helped cap the rise in long-term yields and supported a temporary dip in the 10-year Treasury. Overall, markets are pricing in a ~67% probability of a December rate cut, suggesting that investors are moderately confident about gradual policy easing.

India 10 year yield stable with minor volatility:

- India's 10-year G-Sec yield moved in a narrow range, opening at 6.54% on October 27 and closing at 6.53% on October 31. The intraday high of 6.59% reflected global yield pressures and fading expectations of US rate cuts. Domestic liquidity dynamics also played a role in yield fluctuations, as tight money conditions kept short-term rates elevated. The RBI's auction on November 1 provided some relief, with yields easing slightly to 6.55%, showing that investor demand remained selective. On the other hand, the 30 year bond yields have risen by 7bps on w-o-w basis to 7.23% levels.
- The RBI conducted its 01st Nov G-Sec auction, but demand remained weak. A Rs.11,000 crore tranche was cancelled, while bids for a 7-year security were rejected as investors demanded higher yields. This followed the October 31 underwriting auction of Rs 32,000 crore, which attracted strong participation in the green bond segment. Post-auction, the 10-year G-Sec yield eased 7 bps to 6.53%, reflecting selective demand amid cautious liquidity conditions.

Liquidity tightness led to OMO expectations:

- Tight liquidity persisted in the banking system due to RBI's FX interventions and seasonal outflows, which limited available short-term funds. Since the effective date of CRR cut (06th Sep'25) the Fx impact (Rs.2.27 lakh crore) on liquidity has ousted the CRR cut infusion (Rs.1.88 lakh crore) with three tranches being implemented till 01st Nov'25.
- Structurally, the credit growth of 11.5% (as of 17th Oct'25) has been above deposit growth of 9.5% (as of 17th Oct'25) created a Credit-Deposit gap of 194 bps.
- Both the above pressures on structural and systemic liquidity leading to rising expectations of announcement of OMOs (Open Market Operations) while market awaits cues on the same from PDs meeting the Central Bank this week (as per [media reports]()).
- Banks competed for scarce funds, putting upward pressure on repo rates and reflecting tighter interbank conditions. The 3-month CD-T-Bill spread widened by 15–20 bps, reaching approximately 60 bps, even 6-month CD-T-Bill spread expanded closer to 100bps which was close to 80 bps earlier.

India Fiscal Data - Revenue Growth amid deficit pressure:

- In September 2025, gross tax revenue rose 7.8% YoY to Rs.2.15 lakh crore, supported by strong direct tax inflows and festive season activity. Net tax receipts stood at Rs.1.82 lakh crore (+6.5% YoY), while total expenditure increased 12% YoY to Rs.2.48 lakh crore, driven by higher welfare and infrastructure spending. Capital expenditure remained robust at Rs.0.92 lakh crore (+15.2% YoY), underscoring the government's continued focus on public investment. Consequently, the fiscal deficit reached 45.2% of the full-year Budget Estimate, higher than in August, suggesting front-loaded spending.
- For April-September FY26, the fiscal deficit widened to Rs.5.73 lakh crore (37% of BE), marking a 21% YoY increase from Rs.4.75 lakh crore (30% of RE) in the same period last year. The rise was mainly driven by higher capital expenditure, which outpaced revenue growth. Total expenditure grew 9% YoY, while receipts increased 5.7%, with lagging tax revenues raising challenges to achieving the 4.4% of GDP fiscal deficit target for FY26.
- GST collections for October 2025 came in at Rs.1.96 lakh crore, up 4.6% YoY, reflecting a festive season-driven rise in consumption across key sectors such as retail, autos, and FMCG. Net collections after refunds stood at Rs.1.69 lakh crore, signaling continued resilience in domestic demand. This performance comes amid recent GST rate cuts on select consumer goods and essential items, suggesting that strong consumption volumes helped offset the impact of lower rates.

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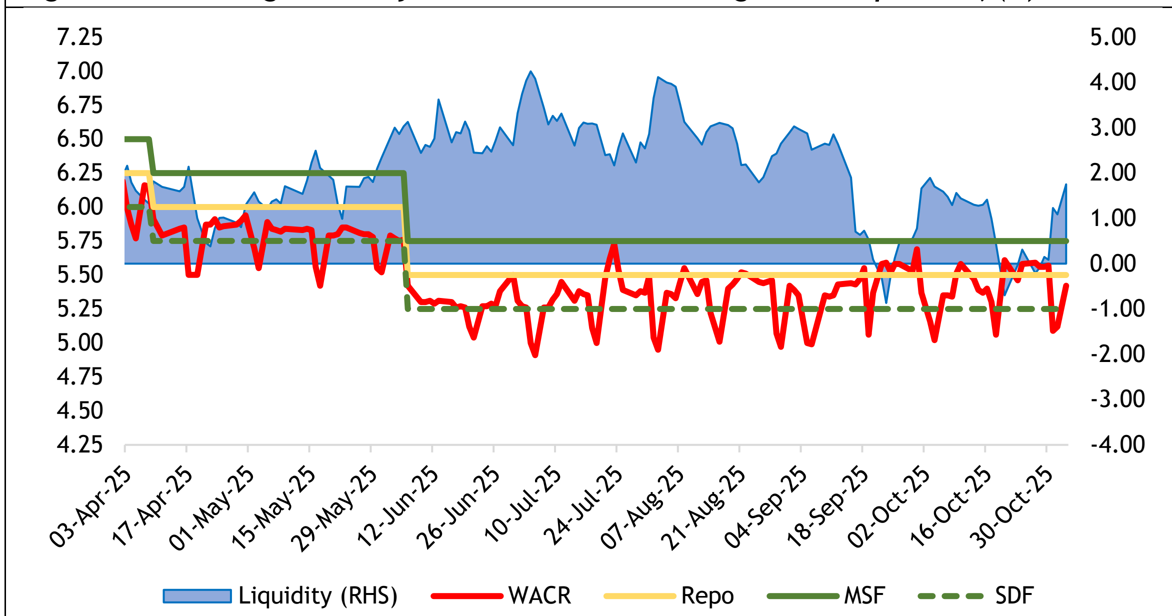
Table 1: Market Snapshot Instrument	Yield (Oct 31)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.53%	0 bps	Volatile range bound trade
1 Year T-Bill	5.58%	+4 Bps	System liquidity returned from deficit supported by RBI
US 10 year Yield	4.08%	+8 bps	Fed cuts rate while signals gradual easing forward
Credit Growth (%) (as of 17th Oct'25)	11.5%	+10 bps	Credit & Deposit growth increased on fortnight basis, and positive gap expanded
Deposit Growth (%) (as of 17th Oct'25)	9.5%	-42 bps	
Credit Deposit Wedge (bps) (as of 17th Oct'25)	194	+53 bps	

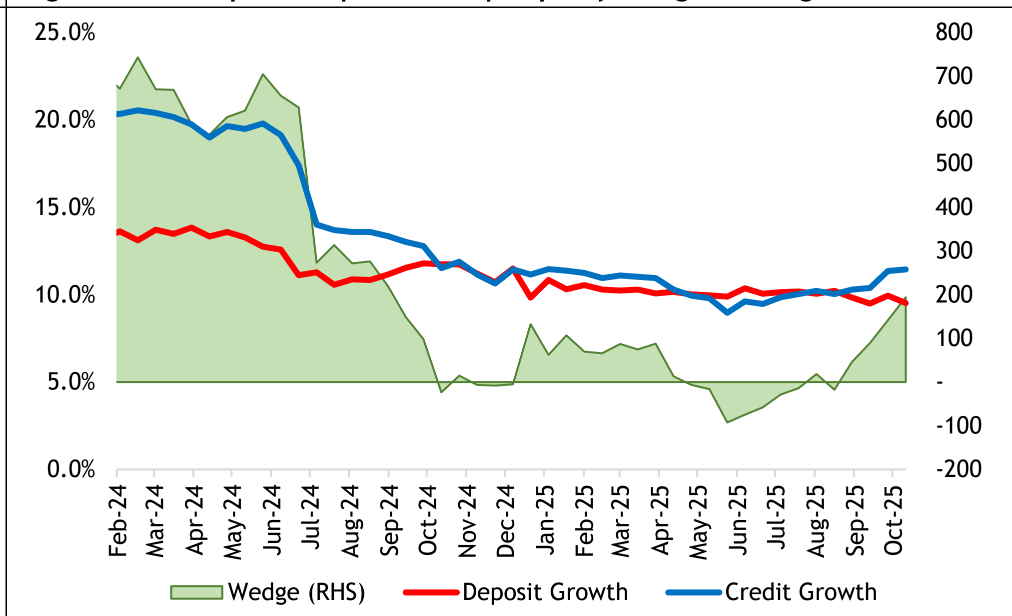
Source: RBI, CCIL, UBI Research

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



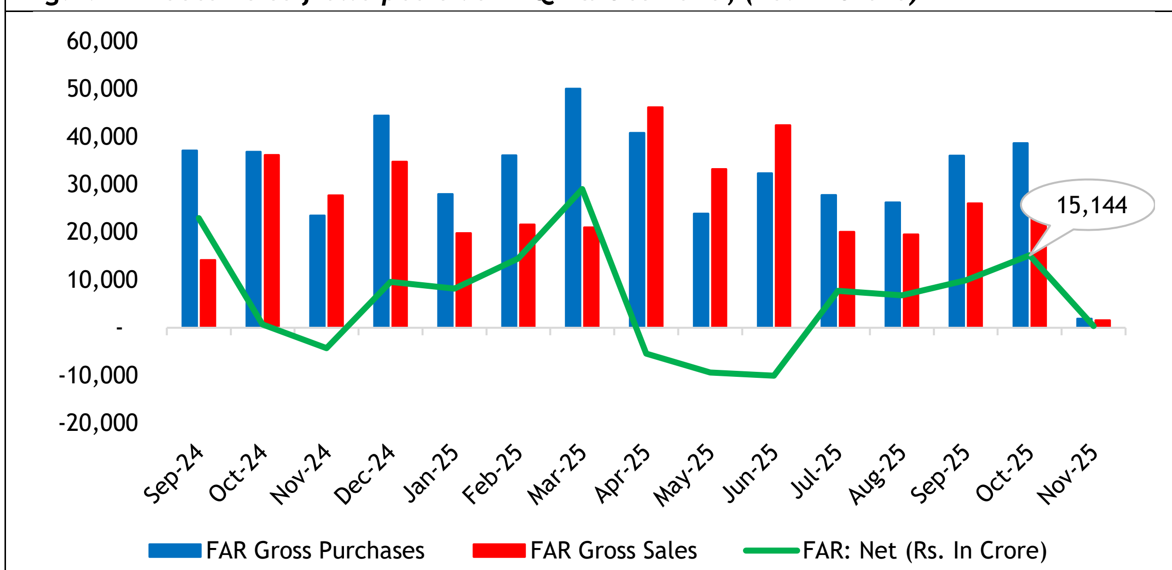
Source: Bloomberg, CEIC, UBI Research

Fig.3: Credit Deposit Gap at ~200bps up in fortnight ending 17th Oct



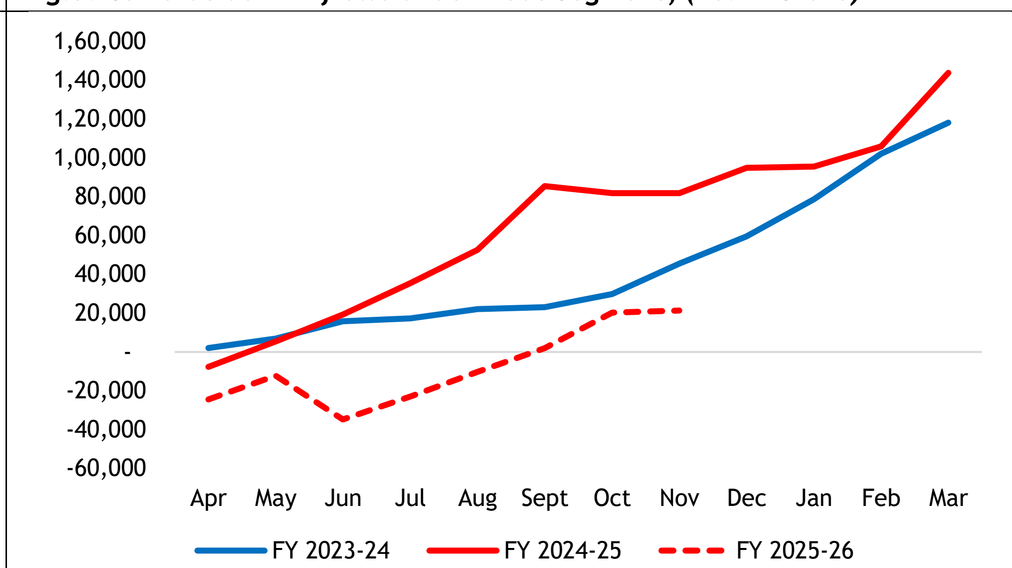
Source: CEIC, UBI Research

Fig.4: FAR securities flows positive in Q2 & Oct 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	Sep-25	Oct-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
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	58.80
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	6.49	9.11	4.59
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	
Vehicle registrations (% y/y)	26.93	3.48	1.62	14.21	3.37	-7.40	33.66	13.88	-11.43	7.75	-5.32	0.70	3.44	6.11	5.42	-3.47	3.27	5.59	40.27
Exports (% y/y)	14.97	10.95	3.27	-5.25	-14.09	-0.96	16.60	-5.34	-1.53	-2.64	-10.86	0.85	-3.80	-1.23	-1.32	13.49	6.65	6.75	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.75	10.66	-14.81	12.13	20.02	-1.32	-3.41	8.69	-10.10	16.71	
	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	1.61	2.07	1.54	
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	4.48	
	Transmission																		
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	13.59	11.76	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.04	10.38	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	10.83	9.16	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	10.22	9.49	
C-D Ratio (%)	79.90	79.90	79.70	79.70	79.80	80.00	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.70	80.60	
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	9.32	9.26	
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	8.74	8.50	
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	
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	5.60	
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

Source: CEIC, UBI Research

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