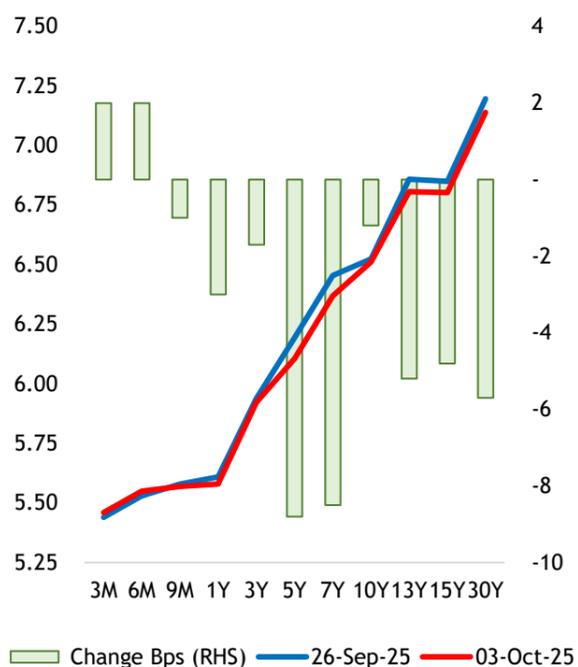


Fig.1: Yield curve movement on W-o-W basis; (%)



Source: Bloomberg, UBI Research

Table 1: SDL Borrowings Calendar Announced

| SDL Borrowings (Rs. In Lakh Crore) | H1-FY26 (actual) | Q3-FY26 (announced) |
|------------------------------------|------------------|---------------------|
| Gross Issuance                     | 5.00             | 2.82                |
| Redemption*                        | 1.41             | 1.01                |
| Net Issuance                       | 3.59             | 1.81                |

\*As per our Estimates  
Source: RBI, UBI Research

US 10-year Treasury yields held steady near 4.1%, navigating mixed economic signals and political uncertainty, including fears of a government shutdown. In India, the MPC kept rates unchanged citing heightened global and domestic uncertainty, yet sounded dovish, signaling that slip in inflation projections open up space for further policy easing (laying ground for a December rate cut). Against this backdrop, the RBI's announcement of a measured Q3 FY26 State Development Loan program helped calm bond market nerves, with India's 10-year government bond yields oscillating between 6.51% and 6.60%, initially rising on growth optimism and G-Sec borrowing plans before easing on dovish guidance and expectations of rate cuts ahead. Given that SDLs and long term Gsecs are fungible for investors, this further supports our long duration trade call which continues to perform well, while the 10-year trade was under pressure due to SDL supply and belly-heavy issuance, it is currently expected to gain as new 10 year benchmark was priced at 6.48%. We continue to stick to our positional & trading calls as market starts to discount expectations of rate cut in Dec'25.

**US 10-Year Yield stable -4.1% despite economic and political headwinds:**

- US 10-year Treasury yields hovered around 4.10% during the week with minor fluctuations. Yields began at 4.18% (Sep 29), dipped to 4.10% (Oct 2), and ended near 4.13% (Oct 3), reflecting subdued momentum amid mixed macro data.
- Economic indicators sent conflicting signals: Pending Home Sales rose 4.0% MoM in August (vs. 0.2% expected), briefly lifting yields. However, ISM Manufacturing PMI softened to 49.1 (vs. 49.0), ADP Nonfarm Employment unexpectedly declined by -32K (vs. +52K), and job openings dropped to 8.6 million. Consumer Confidence also weakened to 100.1 (Sep), down from 108.7 in August.
- Market sentiment remained cautious amid signs of economic cooling and political uncertainty. Concerns over a US government shutdown weighed on risk appetite and supported safe-haven demand for Treasuries, helping to keep yields anchored. Fed officials' comments and softer labor data further reinforced expectations of policy easing later in the year.

**RBI MPC: A dovish pause as 'space for easing has opened up':**

- In our previous weekly reports, we have pointed out (Read: [Oct25-RBI-MPC-operation-transmission-and-credit-via-macro-prudential-steps-preceding-another-rate-cut-likely-in-dec](#)) that a dovish pause that incorporates a downward CPI revision, while holding off on revising GDP forecasts, would provide stronger support for bonds, especially if accompanied by forward guidance indicating a potential rate cut in December 2025. As we've previously stated, communication will be more critical than the policy action itself.
- It has been panning out as per expectations with RBI revising the inflation projections lower for Q2 and Q3 FY26 to 1.8% (from 2.1% and 3.1% earlier) while Q4 FY26 now seen at 4.0% (from 4.4%). FY26 inflation projection was revised dramatically lower to 2.6% from 3.1% with risks evenly balanced. FY26 growth forecasts were revised upwards from 6.5% to 6.8%, with Q2 at 7.0%, Q3 at 6.4% and Q4 growth seen at 6.2% respectively. It is to be clearly noticed that H2FY26 GDP forecasts were revised lower, thereby acknowledging slow down in growth amid tariff related uncertainty.
- Not only the forecasts were revised, RBI announced a slew of macro prudential steps as key positive in boosting transmission and credit on large exposure framework, Acquisition financing, IPO financing, limits over lending against debt securities, along with relaxation of risk weights on mortgage & loans extended to real estate and infrastructure financing by NBFCs. It needs to be noted that for the first time the RBI Governor indicated that the central bank will introduce steps to address Rupee depreciation pressures.
- We still retain our view of the final leg of rate cut cycle of 25-50bps in H2 FY26, given our view of further downside surprise in inflation (by at least 30-50bps) and downward pressure on growth outlook in H2-FY26 even as GST reform softens the blow on tariff hike led growth impact. Given the surprise in current MPC, we maintain our view of a 25bps rate cut in December.

**Q3FY26 SDL borrowing calendar signals stability amid dovish policy outlook:**

- RBI announced the indicative State Development Loan (SDL) borrowing calendar for Q3 FY26 (Oct-Dec 2025), with gross issuance set at Rs. 2.81 lakh crore, including redemptions worth approximately Rs.1.01 lakh crore. The borrowing will be conducted via auctions under the half-yearly indicative framework.
- Market were expecting a gross borrowing of Rs. 3-3.5 lakh crore., hence, it has been positively received by markets, as it reflects moderate supply following heavy front-loading in H1 FY26 (Rs.5 lakh crore raised vs. Rs.5.6 lakh crore indicated). This supply moderation is expected to ease pressure on SDL yields, particularly with rising redemptions offering partial offset to gross issuance.
- Yield outlook remains constructive, with 10-year SDLs trading at 7.06%-7.08%, and the spread over 10-year G-Secs (~6.53%) at 50-60 bps. Improved sentiment follows the RBI's GDP growth upgrade to 6.8% and CPI inflation forecast cut to 2.6%, reinforcing investor appetite for SDLs, especially among insurers and banks seeking higher yield pickups.

**India 10-year yield softens:**

- During the week, the 10 year yield fluctuated between 6.51% and 6.60%. The yield peaked near 6.60% supported by RBI's decision to maintain the repo rate at 5.50%, coupled with an upward revision of FY26 GDP growth to 6.8% and a lower inflation forecast of 2.6%. These signals of robust economic growth and borrowing plans initially pushed yields higher. The government's increased share of 10-year bonds in the borrowing calendar also kept yields elevated, reflecting supply concerns.
- RBI Governor Sanjay Malhotra noted that current macroeconomic conditions provide room for growth-supportive policy measures, signaling that rate cuts remain on the table. Dr. Poonam Gupta added that while Q1 growth was strong, multiple factors will be considered before deciding on December's policy action, indicating a cautious approach. Post initial volatility, the RBI's dovish commentary during the press conference helped longer-term bond yields soften back to around 6.52% by the end of the day.
- The long duration (30y) paper softened by 6 bps during the week whereas the shorter end 5y & 7y softened by 9bps each on the expectations of rate cut in Dec 2025.

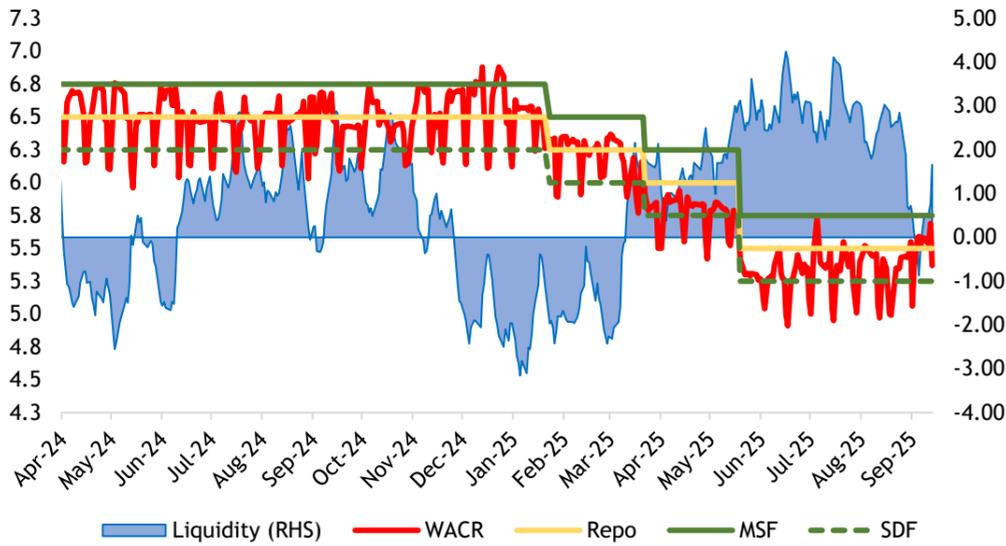
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| Table 2: Market Snapshot Instrument                        | Yield (Oct 04) | Weekly Change | Commentary   |
|--|----------------|---------------|--|
| 10 Year G-Sec (6.33% GS 2035)                              | 6.51%          | +2bps         | Fiscal worries benign post GST rationalization clarity                         |
| 1 Year T-Bill  | 5.58%          | -3 Bps        | System liquidity back to surplus   |
| US 10 year Yield   | 4.12%          | -6 bps        | Fed cuts rate and shutdown making market cautious                              |
| Credit Growth (%) (as of 19 <sup>th</sup> Sep'25)          | 10.4%          | -35 bps       | Credit & Deposit growth increased on fortnight basis, and positive gap thrives |
| Deposit Growth (%) (as of 19 <sup>th</sup> Sep'25)         | 9.5%           | +09 bps       |  |
| Credit Deposit Wedge (bps) (as of 19 <sup>th</sup> Sep'25) | 90             | +44 bps       |  |

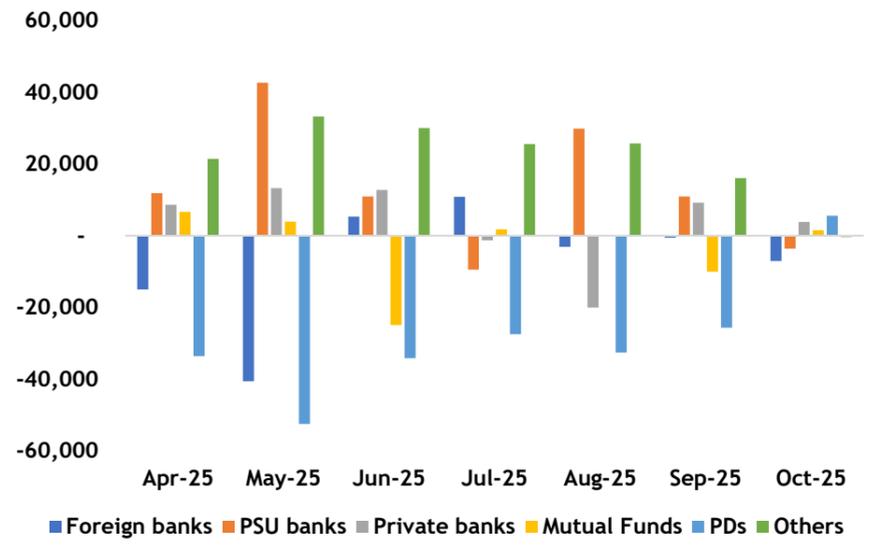
Source: RBI, CCIL, UBI Research

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



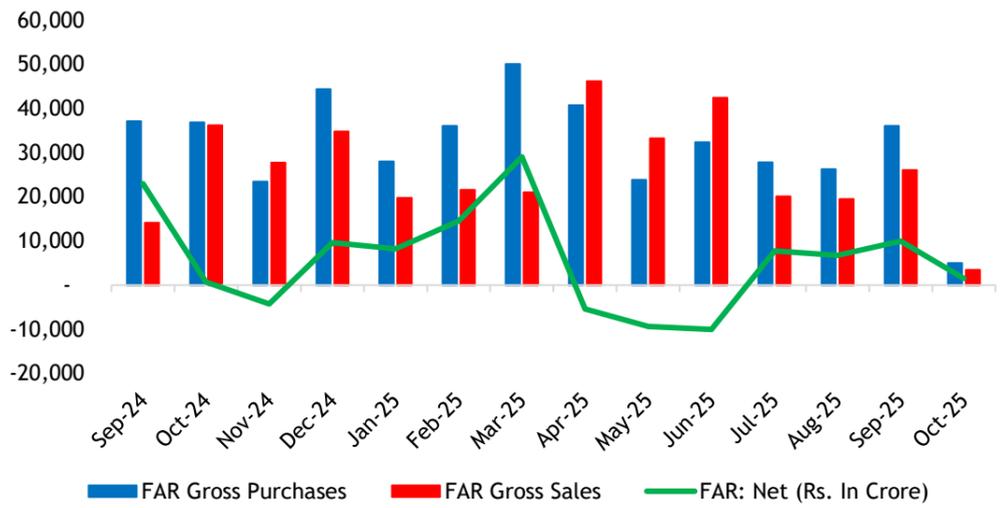
Source: Bloomberg, CEIC, UBI Research

Fig.3: Market activity benign in Sep'25; Rs. in Crore



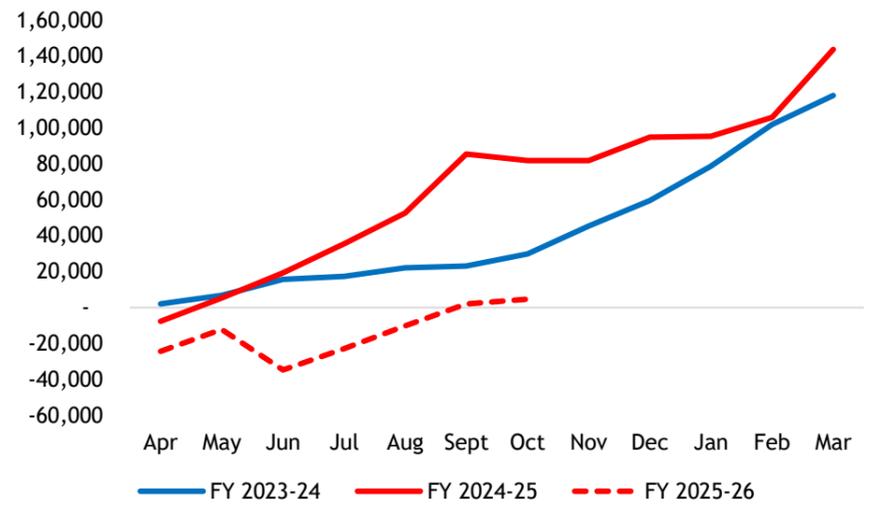
Source: Bloomberg, UBI Research

Fig.4: FAR securities flows positive in Jul, Aug & Sep 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 |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| <b>Growth</b>                 |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 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  |
| 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  | 61.60  |
| 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   | 6.49   | 9.11   |
| 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  |        |
| Vehicle registrations (% y/y) | 26.93  | 3.47   | 1.61   | 14.20  | 3.37   | -7.34  | 33.66  | 13.88  | -11.43 | 7.75   | -5.33  | 0.69   | 3.43   | 6.09   | 5.40   | -3.51  | 3.16   | 4.58   |
| Exports (% y/y)               | 1.98   | 13.27  | 2.44   | 0.63   | -9.93  | -0.30  | 16.57  | -5.30  | -1.53  | -2.62  | -11.08 | 0.66   | 8.59   | -2.79  | -0.05  | 7.29   | 1.79   |        |
| Imports (% y/y)               | 11.07  | 7.30   | 4.64   | 11.20  | 9.97   | 7.77   | 1.89   | 16.10  | 2.32   | 10.31  | -16.34 | 11.36  | 19.12  | -1.74  | -3.72  | 8.60   | -10.10 |        |
| <b>Inflation</b>              |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 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   |        |
| 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   |        |
| <b>Transmission</b>           |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |        |
| 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   |        |
| 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   | 8.75   |        |
| 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   |        |
| 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   |        |
| 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   | 8.60   |

Source: CEIC, UBI Research

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