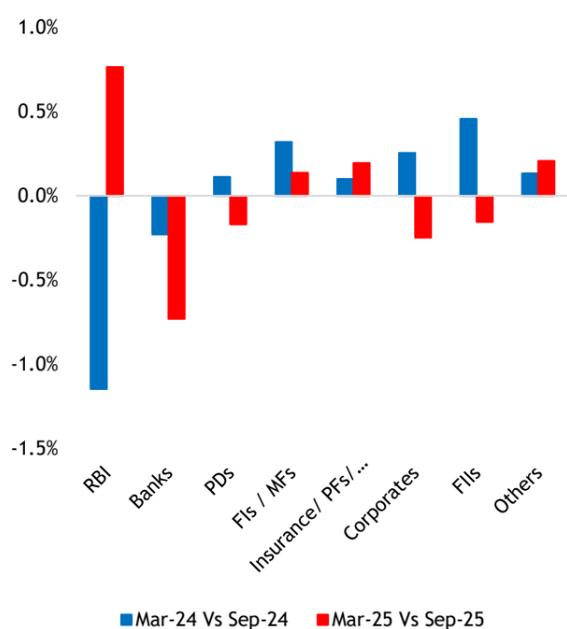


Fig. 1: Incremental G-Sec ownership change Sep over Mar (%)



Source: RBI, UBI Research

Global bond markets remained cautious through the week, with the U.S. 10-year Treasury yield firming toward 4.08-4.09% as sticky core PCE inflation and resilient labour data offset softer Q4 GDP, while renewed tariff actions and broader policy volatility kept term premiums elevated. Ongoing reshuffling of trade measures, alongside concerns over AI-led disruption, added to uncertainty and sustained a higher risk premium in long-term yields. In India, the 10-year benchmark yield rose to 6.72-6.73%, pressured by a heavy central and state supply pipeline despite firm demand in the belly at the weekly auction. The long end remained cautious amid expectations of elevated issuance, limiting duration appetite. The February MPC minutes of the Reserve Bank of India reflected confidence in growth and comfort on inflation, with the repo rate held at 5.25% and a neutral stance maintained, though one member favoured a shift toward accommodation. Upward GDP revisions and benign CPI under the new base year supported the pause, while members signalled a preference to await clearer data from revised GDP and inflation series. Meanwhile, GST-related outflows narrowed systemic liquidity, nudging money market rates higher and compressing the surplus. Markets expect the RBI to deploy tools such as VRR or OMOs if liquidity tightens materially, to keep overnight rates aligned within the policy corridor.

US Treasuries: Growth Slows, Inflation Persists, Tariff Uncertainty Lingers

- The U.S. 10-year Treasury yield edged higher to around 4.08-4.09%, as persistent inflation and policy uncertainty outweighed softer growth data. Although Q4 2025 GDP slowed to 1.4% annualised (vs 2.8% consensus), firm core PCE inflation at 3.0% YoY and resilient labour markets reinforced expectations of a higher-for-longer Fed stance, limiting downside in long-end yields and keeping rate-cut expectations to roughly two 25-bps moves in 2026.
- In a 6-3 ruling, the Supreme Court of the United States struck down broad emergency tariffs imposed under Donald Trump, citing executive overreach. However, the administration's subsequent move to pursue alternative tariff measures – including temporary global levies under Section 122 of the Trade Act of 1974 – reintroduced uncertainty. Potential refunds exceeding \$175 bln may offer short-term stimulus, but renewed protectionism carries medium-term inflation risks, keeping Treasury term premiums elevated.
- Markets dislike uncertainty almost as much as negative outcomes. The current phase is defined by “twin disruptors” – turbulence in tariff headlines and anxiety over AI-driven disruption. With trade policy repeatedly reset and measures reshuffled, investors are pricing not only macroeconomic direction but also the volatility and sequencing risk of the policy process itself, embedding uncertainty into bond yields.
- Beyond tariffs, AI's potential to disrupt industries has added another layer of unease highlighting the possibility of financial shocks stemming from rapid AI adoption. Together, trade instability and technological disruption are sustaining a higher risk premium in long-term Treasuries, anchoring the 10-year yield near the 4% mark despite mixed growth signals.

India Gilts: Auction Support Offset by Heavy Supply

- India's 10-year benchmark yield hardened to around 6.72-6.73%, reflecting global cues and persistent supply concerns. Traders remained cautious ahead of the INR 250 bln switch auction and next week's INR 320 bln sale of the 10-year 6.48%, 2035 bond.
- At the INR 330 bln weekly auction, demand was firm for the 6.68%, 2033 and 6.03%, 2029 papers. The 2033 bond cleared at a cut-off yield of 6.7080% (price INR 99.84), broadly in line with expectations, easing fears of an upside tail. Banks were active buyers, deploying the seven-year into HTM books and the shorter tenor for ALM positioning.
- The long end remained under pressure. The 7.24%, 2055 bond cleared at INR 97.06, slightly weaker than expected, reflecting investor caution amid expectations that the upcoming state bond auction (indicated at INR 442.21 bln) could see higher-than-signalled supply. Attractive SDL spreads continued to draw relative preference.
- Weighted average yields near cut-off levels suggested limited bidding aggression. With sustained central and state issuance ahead, investors showed little urgency to add duration exposure despite supportive demand in the belly of the curve.

MPC Minutes: Growth Optimism with Measured Caution

- Minutes of the Feb 4-6 meeting of the Reserve Bank of India showed a unanimous decision to hold the repo rate at 5.25%, retaining a neutral stance following cumulative 125 bps of easing in 2025. Governor Sanjay Malhotra underscored buoyant growth and benign inflation as grounds for maintaining the status quo.
- The RBI raised GDP projections to 6.9% for Q1 FY27 and 7.0% for Q2 FY27, citing improved external prospects following trade engagement with the US and an FTA with the EU, alongside supportive Union Budget measures. The Finance Ministry projects FY27 growth in the 6.8-7.2% range. Base revision impact on both CPI (seen in data release on 12th) and GDP (awaited on 27th) is on close watch.
- External member Ram Singh favoured shifting to an accommodative stance, arguing that potential growth may exceed 7.5% without generating price pressures and that a stance change would aid transmission to bond and money markets.
- Inflation remains well contained, with January CPI at 2.75% under the new 2024 base year. The RBI projects inflation at 3.2% for Q4 FY26 and 2.1% for FY26. Deputy Governor Poonam Gupta noted limited external risks from oil, commodities or exchange-rate pass-through. Most members preferred to await clearer signals from the new GDP and CPI series before recalibrating policy.

Liquidity: GST Outflows Narrow Surplus

- The overnight call rate closed at the Standing Deposit Facility rate of 5.00%, while the weighted average call rate edged up to 5.11% (from 5.07%) due to GST-related outflows. The tri-party repo rate firmed to 4.94%.
- Net liquidity absorbed by the RBI declined to INR 2.45 trln from 2.52 trln, the lowest since Feb 6. GST payments, estimated at INR 1.5-1.8 trln, are expected to compress the surplus toward INR 1 trln or lower in the coming days.
- RBI-administered markets were shut on Thursday for Shivaji Jayanti, limiting activity late in the week.
- Market participants expect the RBI to consider a 7- or 11-day variable rate repo (VRR) or OMO if liquidity tightens materially or if USD/INR approaches the 91 level, in order to keep overnight rates aligned with the policy corridor.

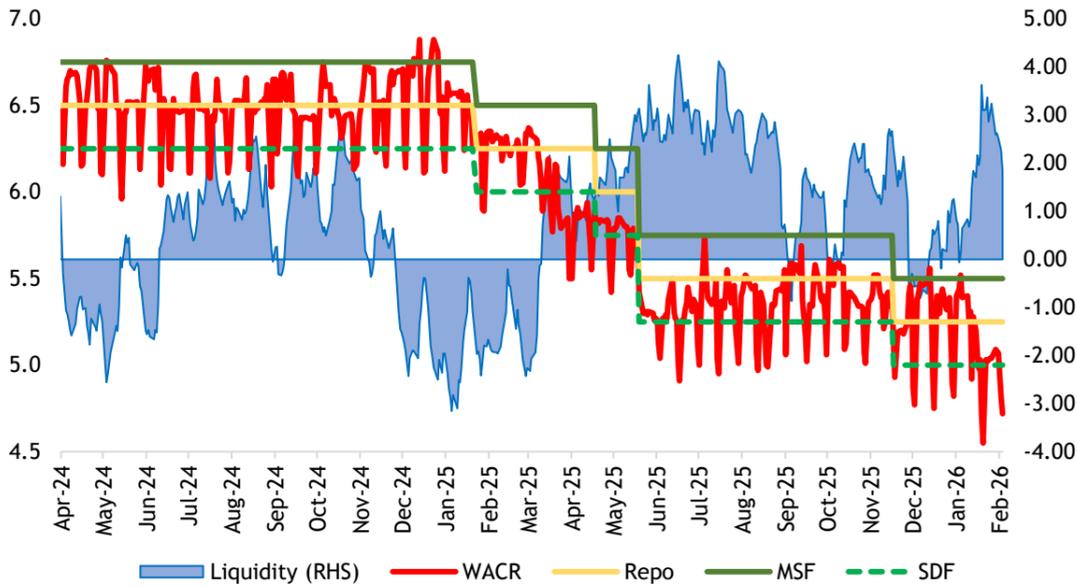
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Table 1: Market Snapshot Instrument	Yield (Feb 20)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.72%	+4 bps	Hardened due to supply overhang
1 Year T-Bill	5.55%	+2 Bps	Liquidity in surplus
US 10 year Yield	4.08%	+3 bps	Sticky inflation coupled with tariff uncertainty
Credit Growth (%) (as of 31 st Jan'26)	14.6%	+147 bps	Credit & Deposit growth increased on fortnight basis with gap narrowing
Deposit Growth (%) (as of 31 st Jan'26)	12.5%	+185 bps	
Credit Deposit Wedge (bps) (as of 31 st Jan'26)	214	-38 bps	

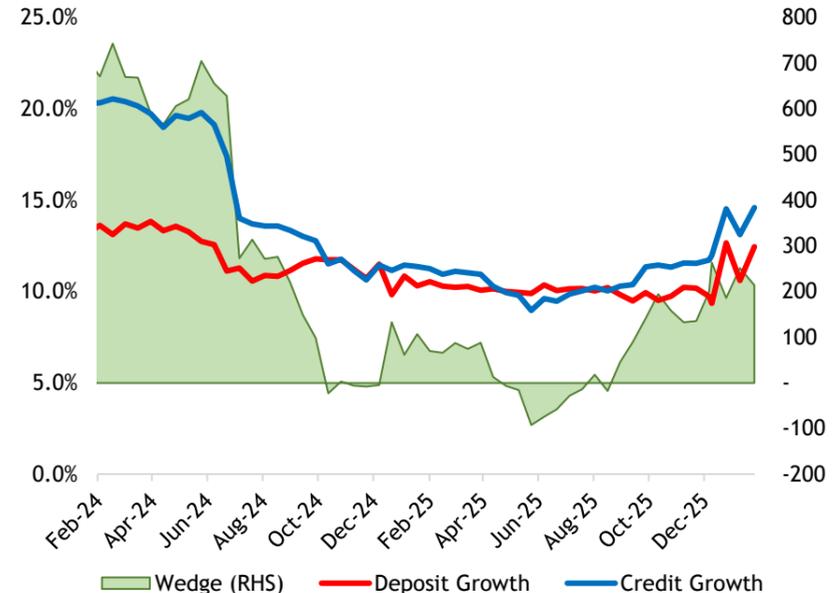
Source: RBI, CCIL, UBI Research

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



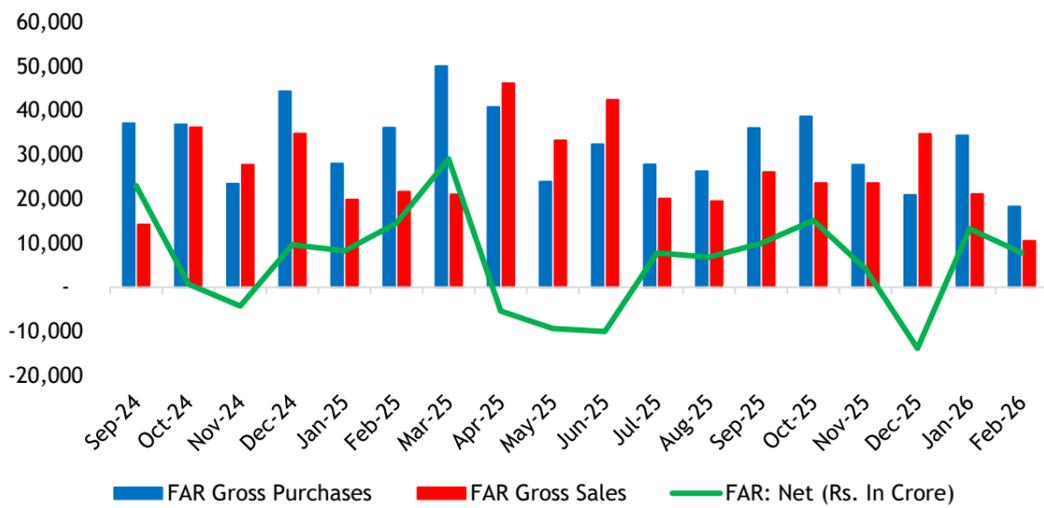
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap narrowed to -214 bps in fortnight ending 31st Jan 2026



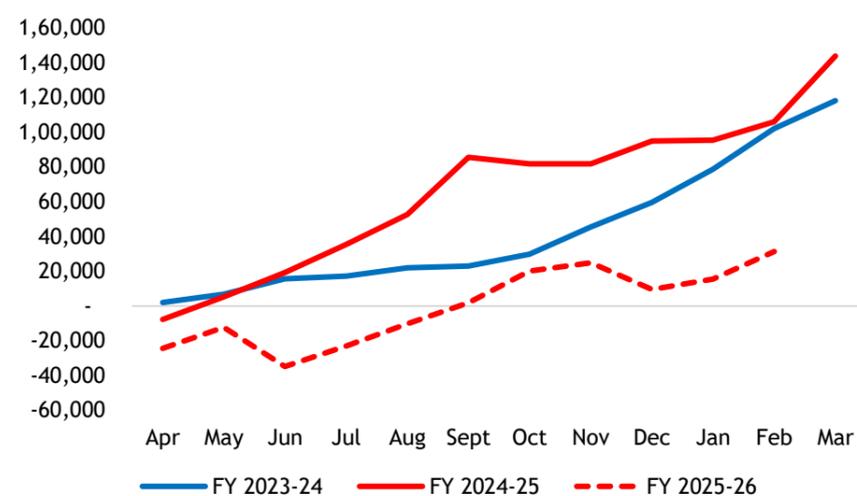
Source: CEIC, UBI Research

Fig.5: Flows in FAR securities turned positive since 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	Feb-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	57.50
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	58.50	58.40
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	-7.33		
Vehicle registrations (% y/y)	25.09	4.49	2.96	14.64	4.85	-4.91	33.50	10.69	-8.17	4.56	-4.99	1.14	2.54	6.22	5.88	-2.17	4.33	7.25	42.14	2.06	14.83	16.39	
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	-3.82	-1.23	-1.34	13.27	5.73	6.03	-12.51	18.97	1.79	0.61	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.75	11.29	-14.81	12.13	19.99	-1.33	-3.41	9.10	-9.54	17.67	16.97	-1.94	8.67	19.19	
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	2.74	
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	3.37	
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	11.54	14.53	13.40	
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	10.18	12.67	10.69	
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	80.60	80.80	82.00	82.50	
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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