

Fig.1: Sensitivity of India's macros to Indian Crude Basket (ICB) prices

Economic variables	Every USD 10/bbl increase in crude oil prices
GDP growth [^] , bps	-15
CPI inflation [^] , bps	+30bps ^{^^}
Combined fiscal deficit impact, % of GDP*	-0.3 to -0.4
C/A deficit, % of GDP*	-0.4
Indian rupee (INR)	Weaker

[^] as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions; ^{^^} assumes no cut in excise duty; *negative sign indicates widening deficit; Source: RBI, UBI research

Global markets during the week were driven by escalating US-Israel-Iran tensions, which triggered a risk-off move and pulled US 10-year yields toward the 3.95-4.00% zone even as oil prices surged sharply on supply disruption fears. Elevated crude has emerged as the key transmission channel for India, pressuring USD/INR (toward 91+), inflation expectations and the long end of the G-Sec curve, while persistent SDL supply and auction dynamics have capped meaningful yield softening. Domestically, the new GDP series has lowered the nominal denominator, mechanically pushing FY26 fiscal deficit optics from 4.4% to ~4.5%, though January CGA data indicates underlying fiscal control. Banking liquidity remains broadly manageable despite seasonal pressures, with the RBI's partial ₹250 billion switch acceptance (₹137.88 billion) reinforcing calibrated maturity management amid external volatility.

US 10 year yield: Geopolitical risk dominates

- US 10-year Treasury yield declined sharply during the week amid escalating US-Israel military strikes on Iran. Heightened geopolitical tensions triggered a strong risk-off move, pushing yields toward the 3.95-4.00% zone, down from recent highs near 4.02%.
- Safe-haven demand dominated trading as investors rotated out of equities and into Treasuries, gold and defensive assets. The move came despite stronger-than-expected US January PPI (+0.5%), underscoring that geopolitical risk temporarily outweighed inflation concerns.
- Volatility remains elevated, with oil price movements and US macro data likely to determine the near-term direction of long-end yields.

Oil price surge: Implications for India G-Secs

- Brent crude surged up to 13% intraday, briefly moving toward USD 82/bbl, amid fears of supply disruptions through the Strait of Hormuz. Prices later stabilized but remained elevated on persistent conflict risk.
- For India, which imports ~80% of crude requirements, higher oil prices translate into:
 - Wider Current Account Deficit (CAD)
 - Imported inflation pressures
 - Fiscal risks via subsidy burden
 - Potential upward bias to bond yields tail.
- For India, the oil price shocks heightens macroeconomic vulnerability at a time when fiscal and monetary policy headroom appears limited. According to RBI estimates, a 10% increase in crude oil could raise inflation by 30bps and reduce GDP growth by 15bps.
- USD/INR weakened toward the 91+ zone, reflecting higher oil import demand and risk aversion. Historically, oil spikes raise dollar demand and exert depreciation pressure on the rupee.

India 10 year yield: Movement and auction dynamics

- The India 10-year benchmark (6.48% 2035) traded in a relatively narrow band of 6.66-6.73%, closing near 6.69-6.70%. Yields edged marginally higher on oil concerns but were supported by adequate liquidity and long-term investor demand.
- Last Friday's auction (~₹320 bn of the benchmark 2035 bond) saw steady demand, though pricing reflected caution amid geopolitical and supply overhang concerns. Cut-offs were largely in line with market expectations.
- Elevated State Development Loan (SDL) issuances remain a key supply-side risk. Above-average weekly SDL borrowings (=₹400-450 bn range) compete directly with Central G-Secs for institutional demand.

New GDP series: Fiscal implications of denominator change

- MoSPI has shifted the GDP base year from 2011-12 to 2022-23, integrating expanded administrative datasets including GST filings, corporate data and transport registries. The revised framework improves sectoral granularity and formal sector capture. GDP data underlines growth resilience and trend growth of ~7% as per real GDP.
- While real GDP growth estimates have been revised modestly upward, the absolute nominal GDP level has been lowered relative to Budget assumptions. FY26 nominal GDP is now estimated at approximately ₹345.5 trillion, versus ₹357.1 trillion assumed in the Union Budget, a reduction of ~3.3%.
- With the updated GDP series, the FY26 fiscal deficit, originally budgeted at 4.4% of GDP, now effectively prints closer to 4.5% under the new denominator. This represents a statistical slippage rather than an actual fiscal expansion.
- The implication is that to maintain the medium-term consolidation path toward 4.3% in FY27, the government may need either stronger nominal growth (estimated 13-14% for FY27) or tighter expenditure control to offset the denominator impact.
- For bond markets, the new GDP series changes fiscal ratios and debt metrics without impacting actual supply, but headline optics may influence sentiment; we maintain our view of a prolonged MPC rate pause amid global uncertainty.

January CGA Budget Data - Fiscal Position Remains Controlled

- The Centre's fiscal deficit stood at ₹9.8 lakh crore at end-January, equivalent to 63% of the FY26 target, improving from 74.5% in the same period last year.
- Total receipts reached ₹27.08 lakh crore (79.5% of RE), supported by robust tax collections. Net tax revenue remained strong despite global volatility. Total expenditure stood at ₹36.9 lakh crore (74.3% of RE), including: Interest payments: ₹9.88 lakh crore, Subsidies: ₹3.54 lakh crore and Capex: ₹8.42 lakh crore.
- Jan fiscal data is signaling that expenditure trends lagging RE target even as tax numbers may surprise on the upside. Hence, despite the 10-15bps hit on fiscal deficit as % of GDP on drop in nominal GDP numbers, we see the central government comfortably achieving RE target of 4.4% of GDP this year.

Banking System Liquidity

- Banking system liquidity remained somewhat uneven during the week. While system liquidity averaged a surplus of ~1.1% of deposits in recent weeks—above the RBI's 1% comfort threshold and keeping overnight call rates near 5% (below repo)—near-term pressures emerged from advance tax outflows, currency leakage, and a widening credit-deposit gap (Credit growth: 13.1% vs Deposit growth: 10.7%).
- In this backdrop, the RBI conducted a ₹250 billion switch auction to smooth the government's maturity profile and manage FY27 redemption pressures. Of the notified amount, ₹137.88 billion were accepted, reflecting selective participation. Notably, no offers were accepted in the proposed switch of the 8.24% GS 2027 into the 2062 bond.

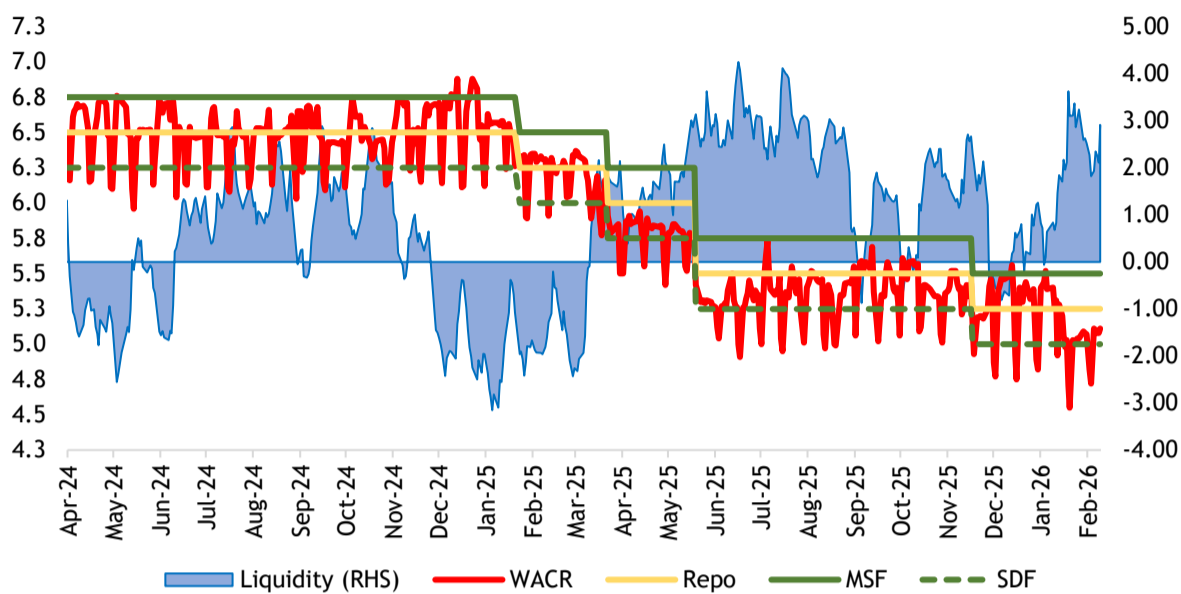
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Table 1: Market Snapshot Instrument	Yield (Feb 27)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.68%	-4 bps	Demand matching supply gave positive pullback to yields
1 Year T-Bill	5.51%	-4 Bps	Liquidity in surplus
US 10 year Yield	3.94%	-15 bps	Geopolitical risks led to safe haven buying
Credit Growth (%) (as of 15 th Feb'26)	13.7%	-85 bps	Credit & Deposit growth increased on fortnight basis with gap widening
Deposit Growth (%) (as of 15 th Feb'26)	11.0%	+149 bps	
Credit Deposit Wedge (bps) (as of 15 th Feb'26)	278	+64 bps	

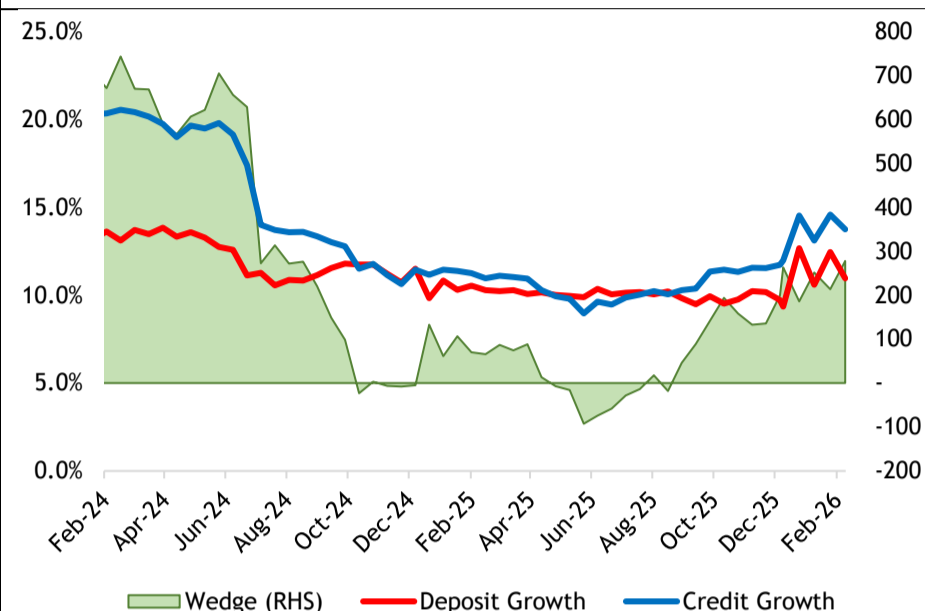
Source: RBI, CCIL, UBI Research

Fig.2: WACR moved to lower band liquidity conditions eased; (%)



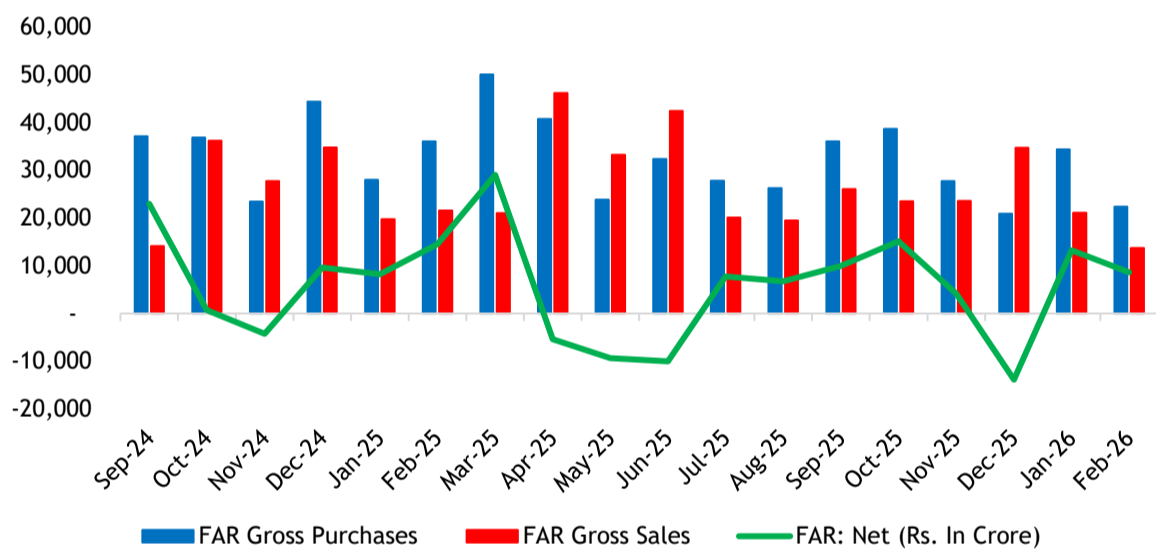
Source: Bloomberg, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to ~278 bps in fortnight ending 15th Feb 2026



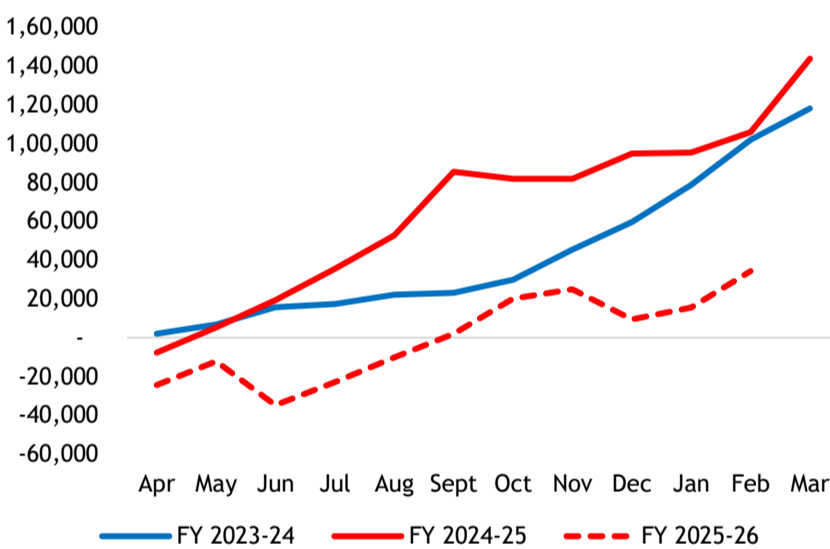
Source: CEIC, UBI Research

Fig.4: Flows in FAR securities turned positive since Jan 2026; (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	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	56.90
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	8.54	7.26	12.29	0.86	9.89	6.18	8.93	-1.56	0.54	-0.48	2.38	0.42	-6.58	-1.30	-1.09	8.15
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	-8.52	
Vehicle registrations (% y/y)	25.67	4.01	2.44	14.63	4.47	-5.58	33.56	12.76	-8.70	5.29	-6.02	0.73	2.73	6.22	5.86	-2.40	4.31	7.18	41.97	1.88	15.30	17.75	23.79
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	9.04	
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	8.67	
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	6.64	
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	5.66	
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	8.45

Source: CEIC, UBI Research

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