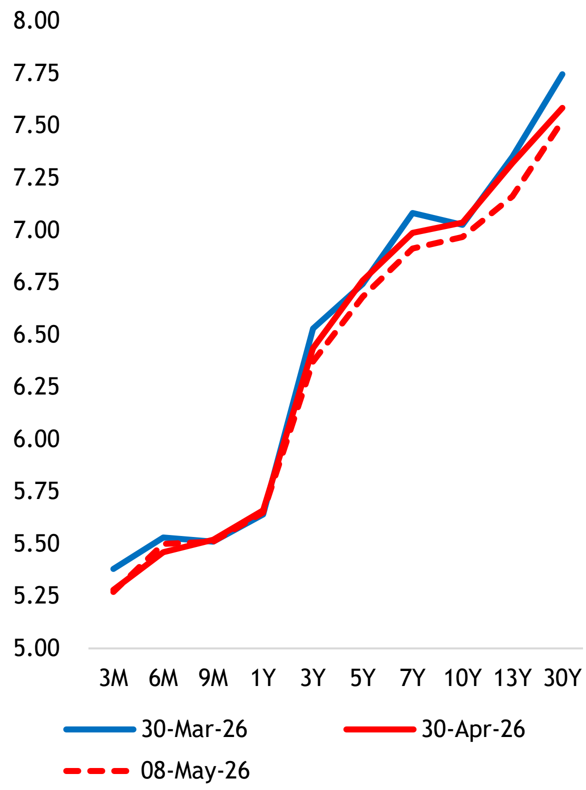
11th May 2026

Fig.1: Yield Curve moved downwards post Mar-26; (%)



Source: Bloomberg, UBI research

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Global fixed income markets remained driven by geopolitical tensions as the ongoing West Asia conflict kept crude prices elevated and risk sentiment cautious. The continued disruption around the Strait of Hormuz intensified concerns around imported inflation, weaker global growth, and tighter financial conditions. In the US, stronger-than-expected payroll data pushed Treasury yields higher and reinforced the "higher-for-longer" rate narrative, with markets largely pricing out near-term Fed cuts. Indian bond yields also remained under pressure amid rising crude prices and higher US yields, though strong demand at the RBI's new 10-year benchmark auction helped stabilise sentiment. Meanwhile, banking system liquidity remained in surplus even as banks increased CD issuance to support strong credit growth. On the domestic macro front, the government sharpened its focus on energy conservation and external stability as the rupee remained under pressure amid elevated oil prices.

West Asia conflict continues to drive global risk sentiment

- The conflict in West Asia remained the dominant macro theme during the week, with markets closely tracking developments between the US and Iran after weeks of military escalation and disruption to global energy trade. While a temporary ceasefire framework has been discussed, the situation remains highly fragile as the Strait of Hormuz continues to remain effectively shut, keeping oil supply risks elevated.
- On the diplomatic front, US President Donald Trump reportedly received a fresh ceasefire proposal from Iran during the week. However, the Trump administration has so far maintained a hardline stance, signalling that any agreement would require stronger guarantees around regional security and shipping access. At the same time, the US continues to maintain a naval blockade around Iranian waters, while Iran has refused to withdraw its own restrictions in the Persian Gulf, resulting in a prolonged standoff.

US Treasury yields reflect resilient growth and stick inflation concerns

- US Treasury yields remained volatile during the week as markets reassessed the likelihood of policy easing in light of stronger-than-expected economic data. The US 10-year Treasury yield moved higher during the week and traded near the 4.35–4.40% zone after the latest Non-Farm Payrolls report showed payroll additions comfortably above market expectations, reinforcing the resilience of the labour market. Wage growth also remained firm, supporting the view that underlying economic momentum continues to hold up despite restrictive financial conditions.
- As a result, market expectations for rate cuts continued to get pushed out further. Fed funds futures now largely price out any meaningful rate cuts in 2026, while markets have started assigning nearly a 20% probability of an additional rate hike by year-end if inflation remains sticky. The Dollar Index also recovered during the week after briefly softening earlier, while the "higher-for-longer" narrative kept upward pressure on Treasury yields across the curve, particularly at the long end.
- Market attention also shifted toward the expected transition in Federal Reserve leadership, with the Senate scheduled to vote on invoking cloture on Kevin Warsh's nomination to succeed Jerome Powell, whose term expires on May 15, 2026. Investors largely view Warsh as institutionally credible and market-friendly given his role during the 2008 financial crisis, though markets also expect him to strongly defend the Fed's independence and maintain a disciplined inflation-fighting stance initially despite his historically growth-supportive views.

Indian Bond market got new 10 year

- Indian government bond yields remained under pressure for most of the week as rising crude oil prices and higher US Treasury yields weighed on investor sentiment. The benchmark 10-year yield rose above the psychologically important 7% mark and touched an intraday high of 7.0451% on May 5 as markets reacted to renewed geopolitical tensions and imported inflation concerns.
- Despite the weak start to the week, sentiment improved meaningfully following the RBI's auction of the new 10-year benchmark security. The auction saw exceptionally strong demand, with bids of over INR 1.02 lakh crore against a notified amount of INR 34,000 crore, reflecting continued appetite from banks, insurance companies, and long-term investors despite elevated uncertainty. The cut-off yield of 6.94% provided some comfort to the market and helped establish an initial pricing anchor for the new benchmark paper.

Liquidity surplus with RBI fine tuning via VRR

- Banking system liquidity remained comfortably in surplus during the week, supported by RBI liquidity operations, government spending, and seasonal flows. Average liquidity surplus remained elevated at over INR 5.5 trillion during the first fortnight of April, helping stabilise short-term money market rates and easing funding costs across the system. Despite this comfortable liquidity backdrop, banks continued to actively access short-term funding markets as balance-sheet pressures persisted amid strong loan demand.
- CDs issuance rose to a seven-year high of INR 457 billion in April as credit growth continued to outpace deposit growth. The widening gap pushed credit-deposit ratios for several banks above the RBI's preferred range, prompting banks to mobilise additional funding to manage asset-liability mismatches. Public sector banks accounted for more than half of total issuance, while private sector participation also increased sharply.

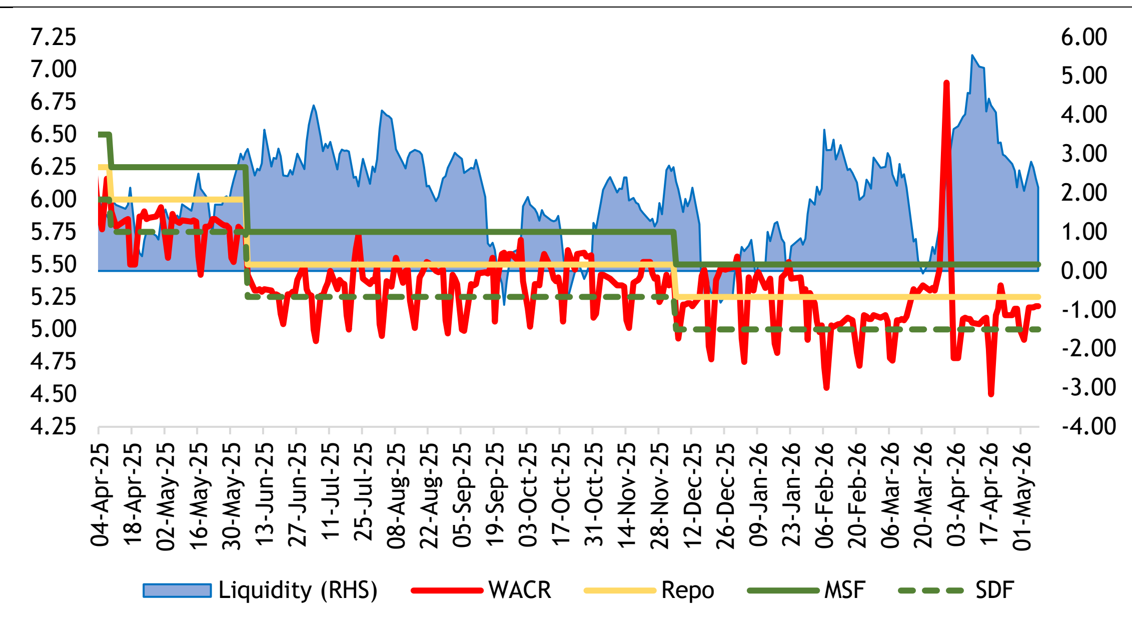
Government Focus shift towards energy conservation and external stability

- As the macro impact of the West Asia conflict deepened, the government stepped up its focus on energy conservation and external sector stability amid rising concerns over import dependence and pressure on foreign exchange reserves. The rupee has depreciated nearly 4.5% since the onset of the conflict and touched a fresh lifetime low of 95.4025 during the week, reflecting sustained strain from elevated crude prices and global dollar strength.
- PM have urged behavioural adjustments such as higher use of public transport, work-from-home, and virtual meetings to curb fuel demand, signalling growing macro caution. While this highlights intent to conserve forex reserves, markets are likely to place greater weight on potential FX-augmenting measures such as overseas fundraising by PSU banks and state-linked entities, as authorities increasingly prepare for a prolonged phase of elevated energy prices and external pressure.

Table 1: Market Snapshot Instrument	Yield (May 08)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.97%	- 7 bps	Positivity on peace talks progress
1 Year T-Bill	5.65%	- 1 bps	Liquidity in surplus
US 10 year Yield	4.35%	- 2 bps	Inflation expectations increased post FOMC and oil shocks
Credit Growth (%) (as of 15th Apr'26)	15.0%	-105 bps	Credit & Deposit growth decreased on fortnight basis with gap widening
Deposit Growth (%) (as of 15th Apr'26)	12.2%	-128 bps	
Credit Deposit Wedge (bps) (as of 15th Apr'26)	283	+23 bps	

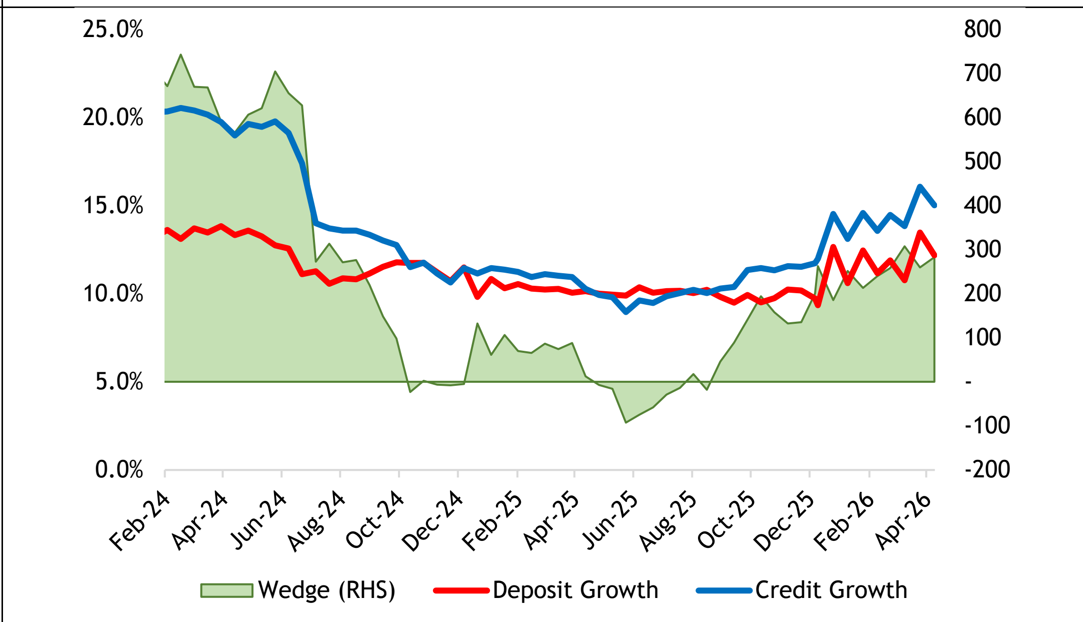
Source: RBI, CCIL, UBI Research

Fig.2: Alignment of WACR to Repo amid surplus liquidity



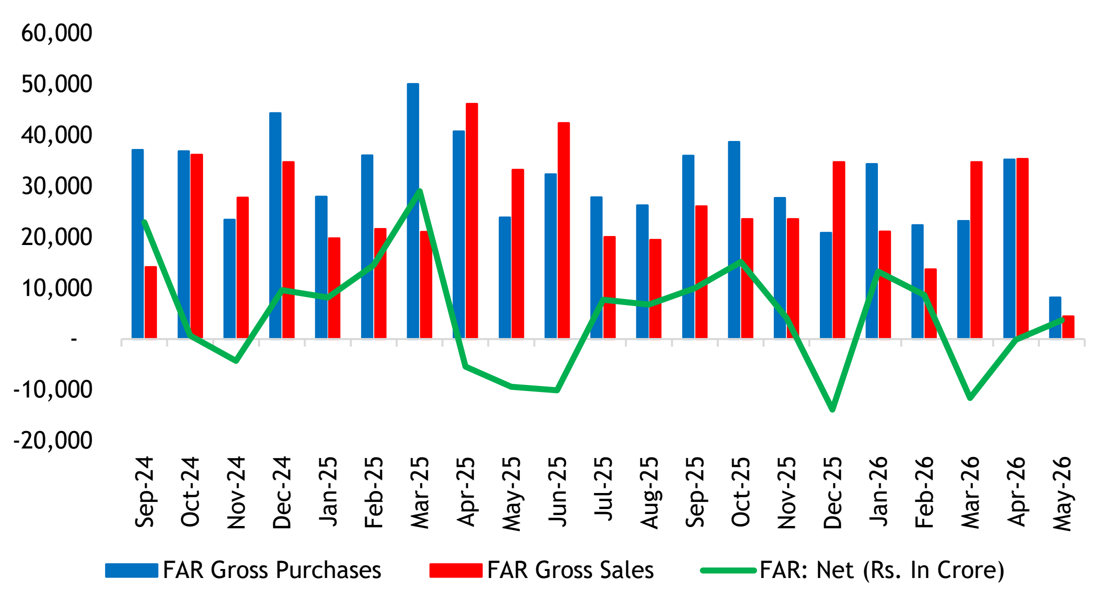
Source: RBI, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to ~283 bps in fortnight ending 15th Apr 2026



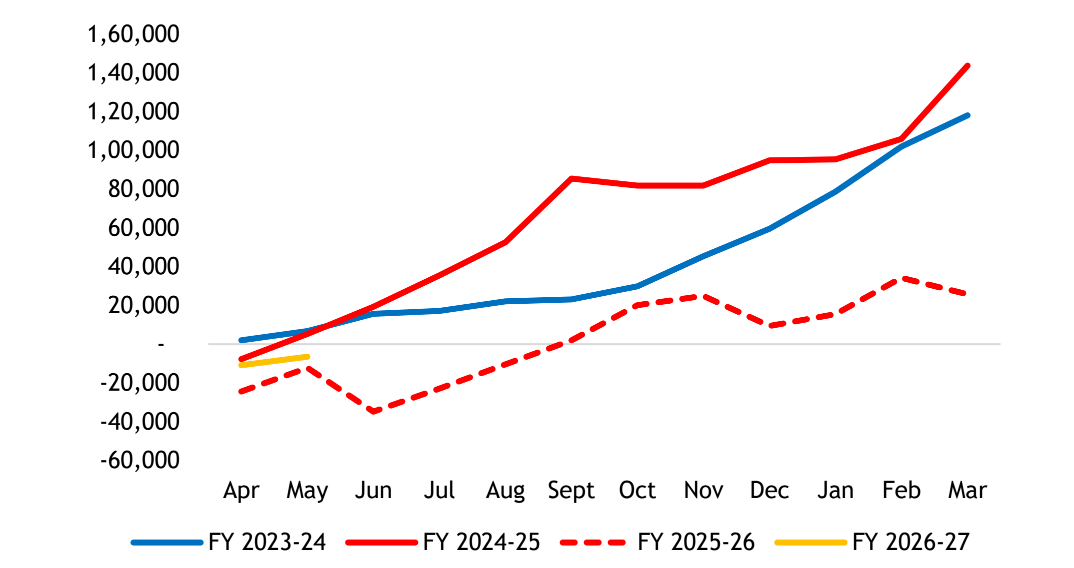
Source: CEIC, UBI Research

Fig.4: Monthly positive flows in FAR securities during May



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	Mar-26	Apr-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	53.90	54.70
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	60.90	58.90	59.80	58.00	58.50	58.10	57.50	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	9.87	12.58	16.39	6.20	7.50	6.49	9.11	4.59	-3.97	1.27	1.95	2.82	2.07	
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	9.69		
Vehicle registrations (% y/y)	26.29	3.92	2.69	15.38	4.47	-7.33	30.43	9.28	-10.32	6.57	-6.15	1.19	3.22	6.13	6.16	-2.91	4.02	7.12	41.11	1.71	16.02	-94.42	-96.78	-94.10	
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	0.86	-3.82	-1.23	-1.32	13.28	5.72	6.03	-12.51	18.66	1.25	0.40	-0.82	-7.44	
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	12.54	19.99	-1.33	-3.43	9.09	-9.54	17.67	17.92	-1.48	10.26	19.85	25.02	-6.51	
	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	2.73	3.21	3.40	
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	3.38	3.41	3.36	
	Transmission																								
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	12.53	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.54	14.54	13.41	14.00	17.08	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	12.12	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.18	12.67	10.64	11.31	16.16	
C-D Ratio (%)	79.90	79.90	79.70	79.70	78.80	79.60	79.80	79.90	80.80	80.60	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.60	80.80	82.00	82.60	82.60	81.70	
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	9.71	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	9.04	9.00	8.99	
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	8.49	8.44	8.40	
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	6.62	6.62	
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	5.65	6.07	
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	8.40	8.55

Source: CEIC, UBI Research

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