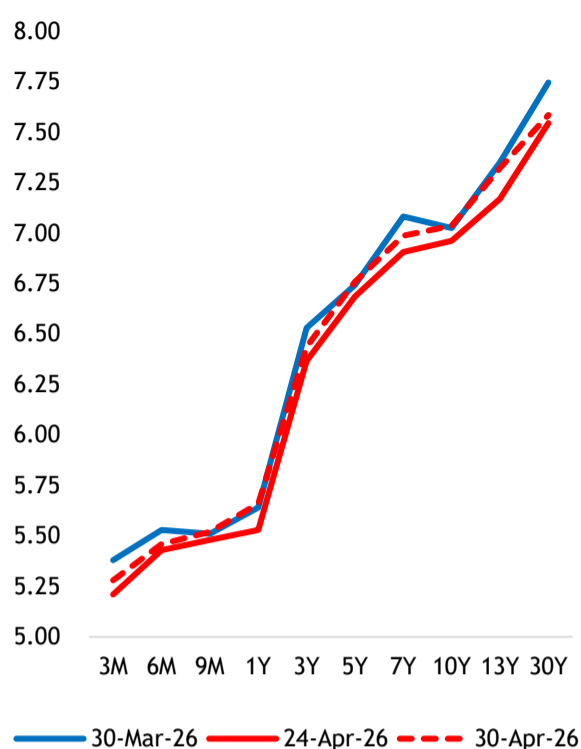


Fig. 1: Yield Curve moved downwards post Mar-26; (%)



Source: Bloomberg, UBI research

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Markets remained under pressure from persistent global risks during the week, with escalating tensions in West Asia pushing crude oil prices sharply higher into the \$100-\$120 range. This has kept inflation concerns elevated and added strain on India's external position. The rupee reflected these pressures, weakening to record lows near 95.3/USD, as higher oil import demand and a strong dollar continued to dominate. On the global front, the US Federal Reserve's "higher for longer" stance kept financial conditions tight and US yields elevated, continuing to influence capital flows and emerging market sentiment. Domestically, these factors translated into firmer bond yields, with the India 10-year G-Sec moving above the 7% mark. While auction demand remained steady, investors turned more selective, seeking higher yields amid uncertainty. At the same time, strong system liquidity, expected surplus transfer and consistent demand from long-term investors should help contain sharp spikes in yields.

#### Gulf tensions keep market Oil elevated and INR under pressure

- Geopolitical tensions in West Asia remained unresolved, with continued uncertainty around key trade routes sustaining a risk premium in global crude oil prices. While there has been no major supply disruption yet, markets continue to price in potential escalation risks.
- Brent crude traded broadly in the \$100 to high \$120 range during the week, supported by geopolitical concerns. For India, this keeps inflation risks elevated and external balances under pressure, making oil a critical variable for both macro stability and bond markets going ahead.
- The impact has been clearly visible in currency markets, with the Indian rupee depreciating to fresh record lows near 95.3/USD, driven by higher oil import demand and persistent dollar strength. Earlier policy actions aimed at discouraging excessive speculative positioning and stabilising sharp moves in the currency had helped contain volatility to some extent. However, in the current phase, intervention appears to be more selective and calibrated, allowing the exchange rate to adjust more closely to underlying external pressures.

#### FOMC signals "Higher for Longer"

- The US Federal Reserve maintained policy rates and reiterated a data-dependent but cautious stance, reinforcing the "higher for longer" narrative amid sticky inflation. Expectations for early rate cuts have been pushed out, keeping global financial conditions tight.
- The US 10-year Treasury yield remained elevated but broadly range-bound (around ~4.4-4.6%), rather than moving sharply higher, reflecting a balance between inflation concerns and growth expectations. This has continued to support the US dollar and keep pressure on emerging market currencies and bond flows

#### India 10 year yield at 7%: Auction sees tactical demand

- Domestic bond yields hardened during the week, with the benchmark India 10-year G-Sec moving above the 7.00% mark. The rise has been driven by a combination of high crude oil prices, firm US yields and a weaker rupee, all of which have increased inflation concerns and pushed investors to demand higher yields. Fiscal concerns have also added to caution, particularly around the potential impact of recent fuel duty cuts on government revenues.
- The weekly G-Sec auction saw steady but selective demand. The RBI set cut-off prices of INR 93.59 for the 6.68% 2040 bond and INR 96.33 for the 7.43% 2076 bond. Demand for the 50-year paper was relatively strong, supported by long-term investors such as pension funds and insurance companies. In contrast, the 2040 bond saw post-auction short covering, which supported prices in the secondary market. Overall, the auction suggests that while demand remains present, investors are seeking higher yields to absorb supply.
- At the same time, a few factors could help limit further upside in yields. The expected large surplus transfer to the government may ease borrowing pressures, while ongoing inflows linked to global bond index inclusion continue to provide a steady demand base. The current policy stance also remains supportive, with no immediate signal of rate hikes.
- In parallel, evolving discussions around the monetary framework remain relevant. There is increasing focus on better measurement of core inflation and regional inflation trends, along with plans to include core inflation projections in regular policy communication. While the 4% inflation target ( $\pm 2\%$  band) remains unchanged, risks are seen as tilted to the upside, keeping the outlook cautious.
- Outlook: The 7% level is likely to act as a key near-term anchor. While yields may remain volatile in the short term, especially if crude prices stay high, supportive liquidity and steady demand should help contain sharp spikes. The 10-year yield is expected to trade in a 6.90%-7.15% range, with a slight downward bias if external pressures ease.

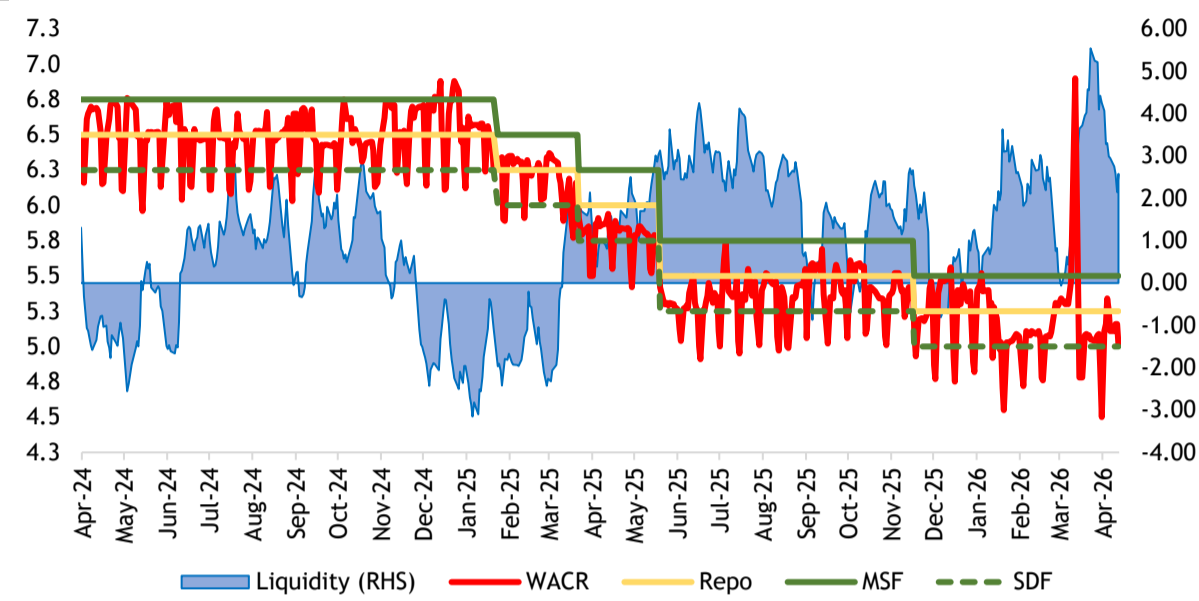
#### Liquidity surplus with RBI fine tuning via VRR

- System liquidity remained in surplus, supported by government spending and durable liquidity flows. In April 2026, it averaged Rs.3.84 lakh crore vs Rs.1.57 lakh crore in March 2026.
- Against this backdrop, the RBI conducted Variable Rate Repo (VRR) operations to inject liquidity, reflecting its focus on fine-tuning. The move aimed to stabilise short-term rates and keep them aligned with the policy corridor. This reflects an approach of maintaining orderly money market conditions while supporting effective transmission.
- Looking ahead, liquidity conditions could receive an additional boost from the expected central bank surplus transfer to the government, with market estimates for FY27 in the range of ₹2.7-3.1 lakh crore, following last year's record payout. Strong earnings, supported by higher global interest rates on foreign exchange reserves and gains from dollar sales, are likely to underpin this transfer.

Table 1: Market Snapshot Instrument	Yield (Apr 30)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	7.04%	+ 7 bps	Brent Crude oil hit \$126 and uncertainty on peace talks
1 Year T-Bill	5.66%	+ 13 bps	Liquidity in surplus, VRR conducted
US 10 year Yield	4.37%	+ 7 bps	Inflation expectations increased post FOMC and oil shocks
Credit Growth (%) (as of 15 <sup>th</sup> Apr'26)	15.0%	-105 bps	Credit & Deposit growth decreased on fortnight basis with gap widening
Deposit Growth (%) (as of 15 <sup>th</sup> Apr'26)	12.2%	-128 bps	
Credit Deposit Wedge (bps) (as of 15 <sup>th</sup> Apr'26)	283	+23 bps	

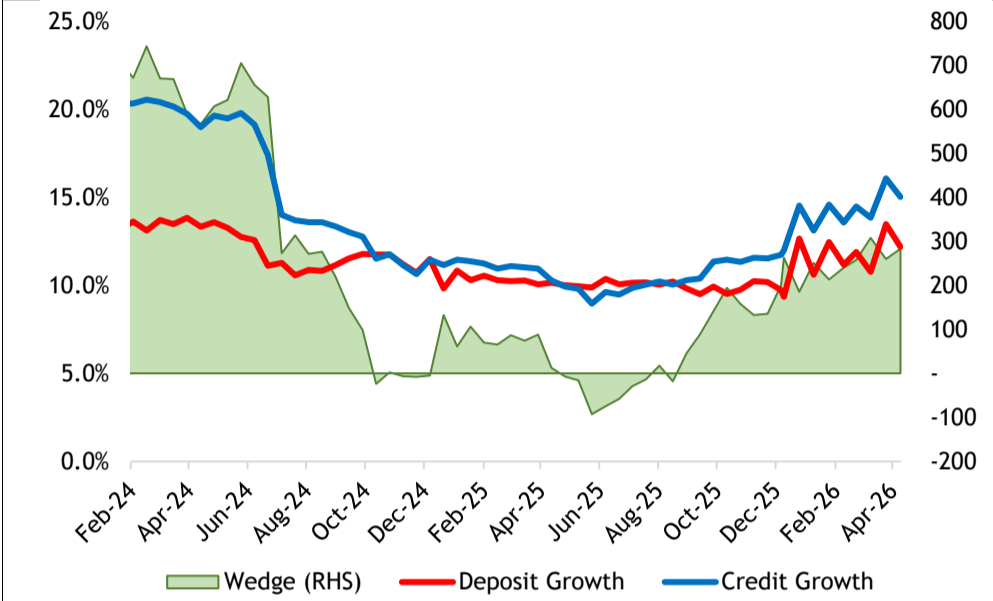
Source: RBI, CCIL, UBI Research

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



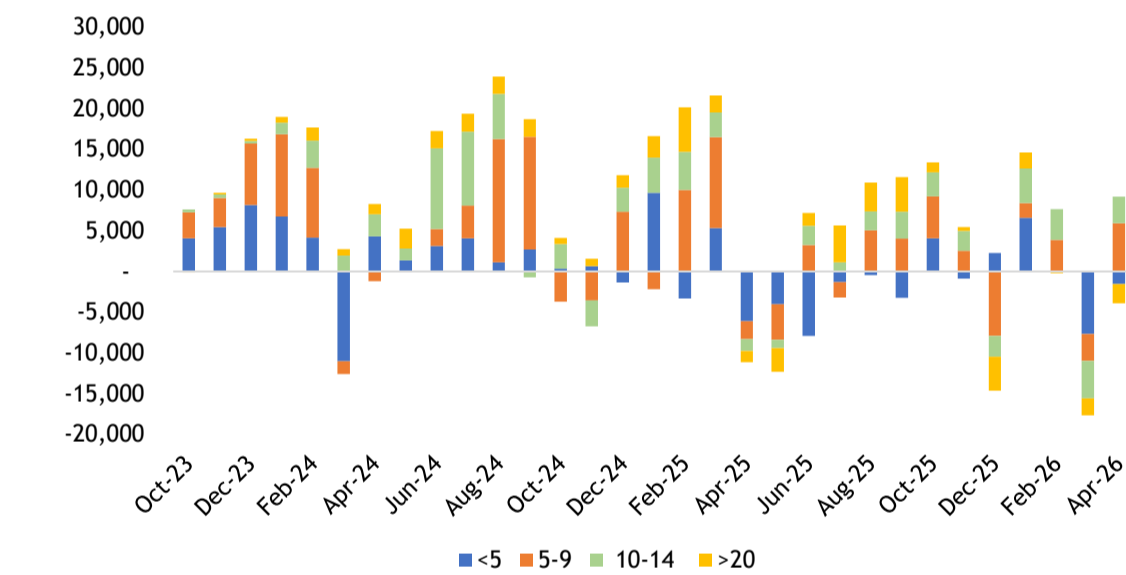
Source: RBI, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to -283 bps in fortnight ending 15<sup>th</sup> Apr 2026



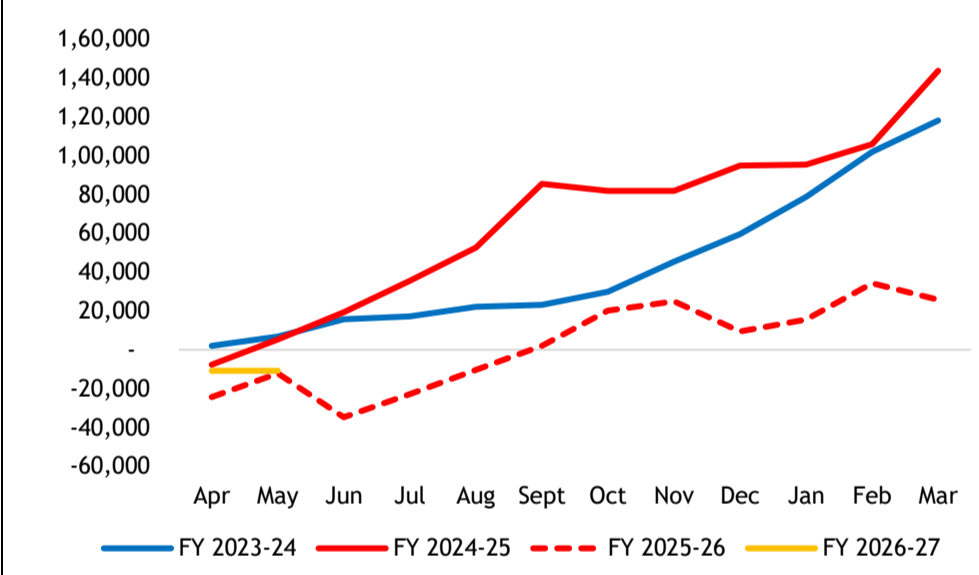
Source: CEIC, UBI Research

Fig.4: Monthly positive flows in FAR securities of 5-14 years tenor during April



Source: NSDL, 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
<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	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	57.90
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)	24.17	4.37	3.01	14.77	5.18	-4.48	33.69	10.84	-7.65	4.83	-5.65	-0.07	2.26	6.11	5.93	-1.95	4.67	7.75	42.43	2.62	15.61	17.56	24.41	25.70	
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	
<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	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	
<b>Transmission</b>																									
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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