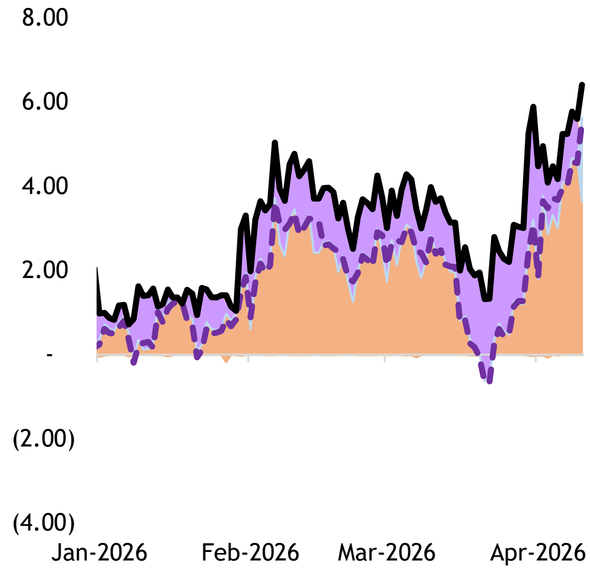
13th Apr 2026

Fig.1: VRRR took a piece away from surplus liquidity; (Rs. In Crore)



Source: CEIC, UBI research

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Global markets remain under the grip of a persistent geopolitical shock, with the Middle East conflict intensifying and pushing crude oil prices above the $100/bbl mark. This has reinforced the "global inflation premium," keeping global bond yields elevated, with US 10-year yields hovering near ~4.35%. Domestically, the key development was the MPC outcome, which delivered a hawkish pause, maintaining the repo rate at 5.25% while signaling heightened vigilance on inflation and a shift toward active liquidity management. The India 10-year benchmark yield has touched higher to ~7.14%, reflecting global pressures and policy stance. However, in contrast to the broader bearish tone, the 10-year G-Sec auction saw strong demand and triggered a sharp rally driven by short-covering and improved sentiment following a temporary geopolitical ceasefire. Liquidity remains in surplus, but the RBI's move toward absorption via VRRR has introduced tighter financial conditions at the margin. Overall, the market bias remains cautious, with yields likely to stay elevated amid inflation risks and policy uncertainty.

Middle East Conflict: Inflation risks dominates global markets

- The Middle East conflict has intensified, with disruptions now impacting key energy supply routes, pushing Brent crude toward $100-105/bbl levels. The surge in oil prices has reinforced global inflation concerns, shifting market dynamics away from traditional safe-haven flows toward inflation-driven bond repricing.
- US 10-year yields have firmed up to ~4.45–4.55%, supported by strong macro data and persistent inflation risks, limiting any meaningful rally in bonds. Japan's 10-year yields remain near multi-decade highs (~2.4–2.5%), highlighting the global nature of the inflation shock.
- The synchronized rise in global yields continues to pressure emerging market debt, including India, by raising the cost of carry and compressing risk appetite.

MPC Review: Hold with focus on liquidity normalization

- The RBI's MPC maintained the repo rate at 5.25%, emphasizing that "the job on inflation is far from over." Inflation projections (Q2FY27) were revised upward by ~20 bps, reflecting risks from elevated crude prices and imported inflation. This effectively pushes out expectations of any rate cuts in the near term.
- A key policy shift was the emphasis on active liquidity management, with the announcement of Variable Rate Reverse Repo (VRRR) auctions to absorb surplus liquidity. The RBI reiterated its stance of "withdrawal of accommodation," aiming to align short-term rates (WACR) closer to the repo rate and prevent premature easing in financial conditions.
- While the policy remains on hold, the forward guidance indicates a tightening bias, with future actions contingent on inflation trajectory—particularly oil-driven pressures.

RBI Dispenses with Investment Fluctuation Reserve: Capital Liberation and Treasury Flexibility

- RBI announced the removal of the Investment Fluctuation Reserve (IFR) requirement. Previously, banks had to maintain IFR at 2% of their AFS and FVTPL portfolios, transferring profits to this reserve to buffer against market losses. With this change, banks can rely on Basel III-aligned capital adequacy and modern MTM reporting to manage market risks without the structural drag of IFR contributions. RBI has issued draft amendment directions for public comments.
- The move strengthens banks' core capital by allowing IFR balances, previously counted as Tier 2, to be reclassified to Tier 1 / CET1. This directly boosts high-quality capital ratios and enhances financial stability.
  Impact at a Glance: Before vs. After

Feature	Under IFR (Sec 105-108)	Post-April 8 Proposal
Capital Quality	Tier 2 Capital	Tier 1 / Free Reserves
Mandatory Transfer	Lower of trading profit or net profit	None - full discretion
2% Portfolio Rule	Must maintain 2% of AFS/FVTPL	Removed
Usage Flexibility	Restricted below 2%	Full discretion by bank

India 10-Year Benchmark: Elevated but supported by tactical demand

- The India 10-year benchmark yield touched higher to ~7.14%, reflecting the combined impact of global yield pressures and the MPC's pause.
- The auction of the 10-year benchmark (6.48% GS 2035) delivered a strong outcome, with a cut-off price at INR 96.67, slightly above market expectations.
- Post-auction, the bond rallied sharply, with price rising to INR 97.03 and yield easing to ~6.91% (vs. ~6.96% prior), supported by aggressive short-covering and improved sentiment. The auction saw highly competitive bidding, with only a small fraction of bids accepted, indicating demand concentrated at aggressive price levels.

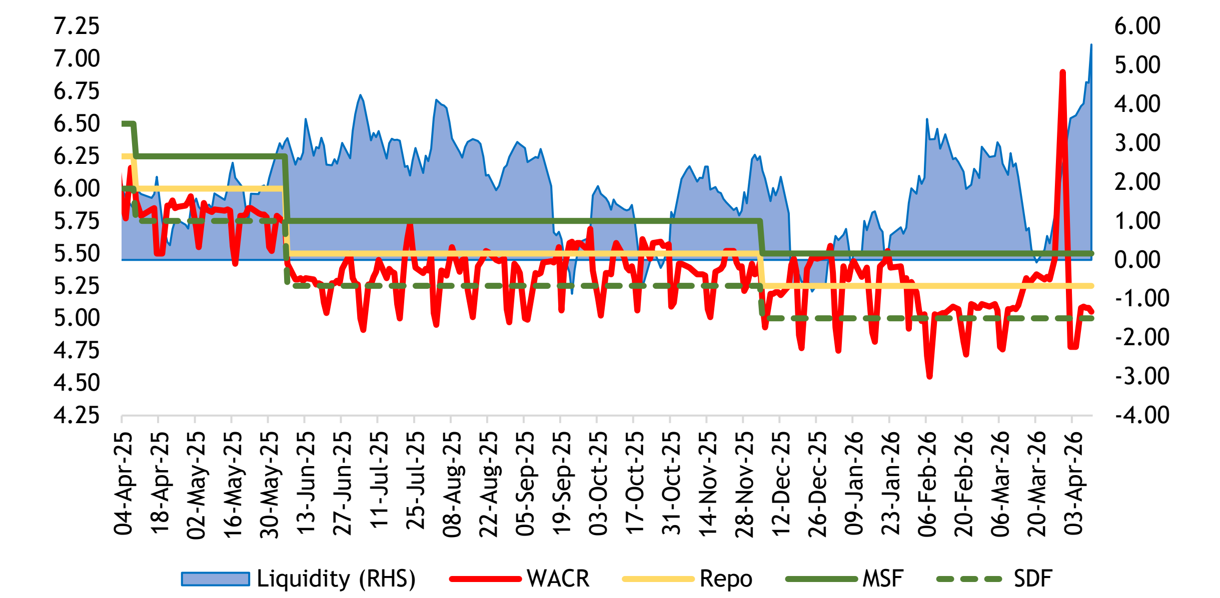
Liquidity: Surplus persists, but tightening bias emerges

- System liquidity remains in large surplus (~₹4.0–4.5 lakh crore), driven by government spending. However, the RBI's shift toward liquidity absorption via VRRR auctions is expected to gradually reduce surplus toward ₹2.0-2.5 lakh crore.
- The near-term outlook for fixed income remains cautious:
    - Elevated Crude
    - MPC Pause
    - Global yields remain high
- Going forward, markets will closely track inflation prints and crude price trends. The bias remains toward range-bound to higher yields, with intermittent rallies driven by positioning and tactical demand rather than a fundamental shift in outlook.

Table 1: Market Snapshot Instrument	Yield (Apr 10)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.91%	-22 bps	Cease Fire and hope of deal between US & Iran
1 Year T-Bill	5.60%	-9 Bps	Liquidity in surplus
US 10 year Yield	4.35%	-	Inflation expectations increased due to crude oil shocks
Credit Growth (%) (as of 15th Mar'26)	13.6%	-64 bps	Credit & Deposit growth increased lower on fortnight basis with gap widening
Deposit Growth (%) (as of 15th Mar'26)	10.8%	-114 bps	
Credit Deposit Wedge (bps) (as of 15th Mar'26)	308	+50 bps	

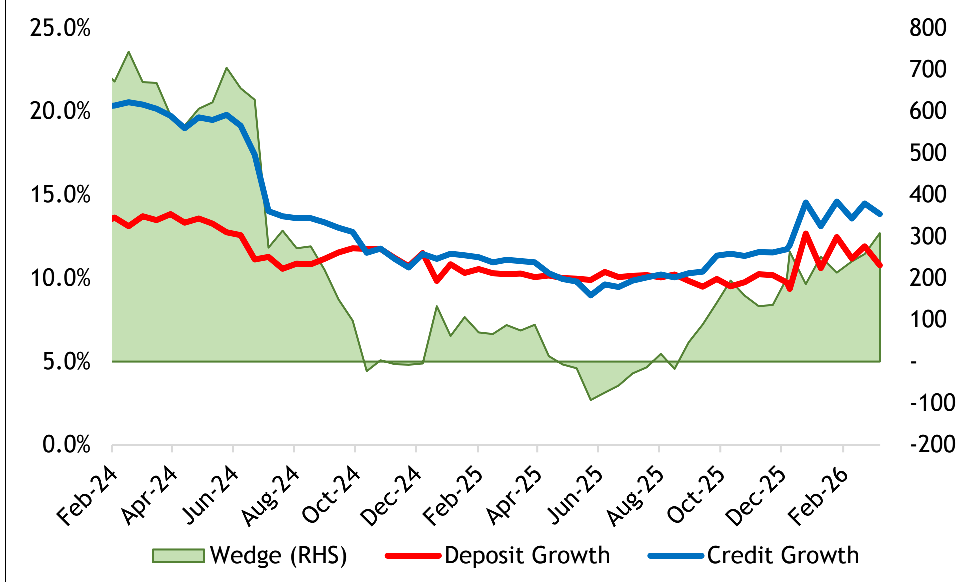
Source: RBI, CCIL, UBI Research

Fig.2: WACR eased due to surplus liquidity



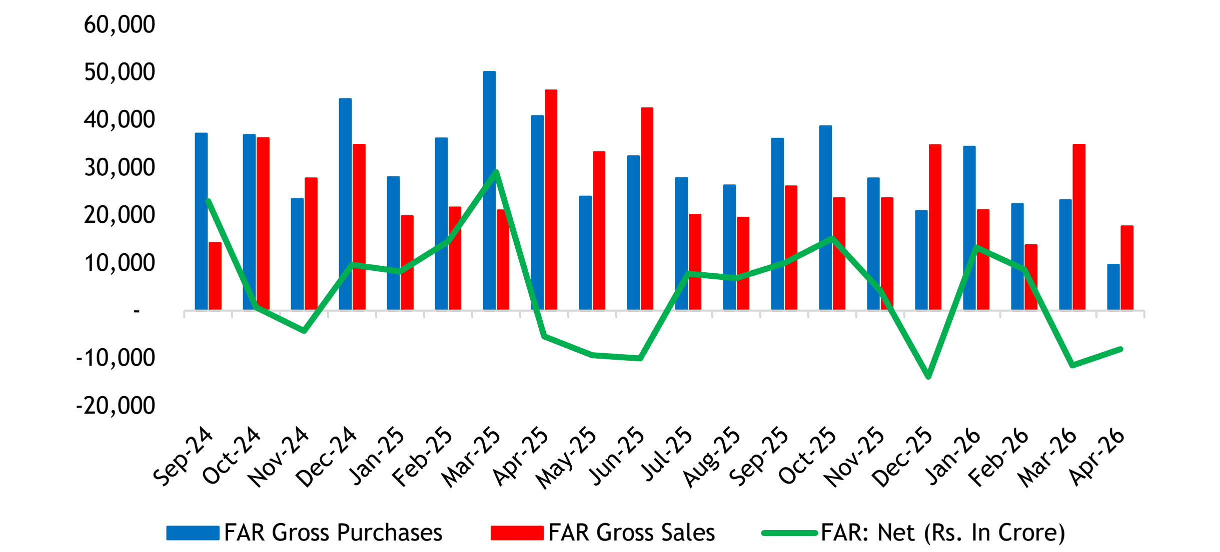
Source: RBI, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to ~348 bps in fortnight ending 15th Mar 2026



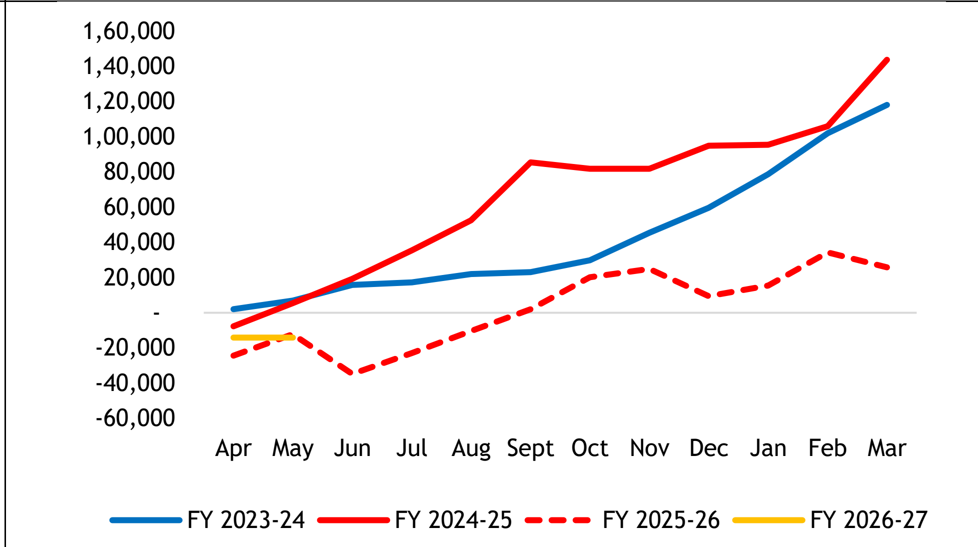
Source: CEIC, UBI Research

Fig.4: Negative flows continues in FAR securities



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
	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
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
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)	26.69	3.45	1.56	14.14	3.60	-7.02	33.95	13.73	-10.15	6.97	-5.21	0.77	3.26	6.07	5.40	-3.25	3.52	6.10	42.27	2.90	14.25	18.86	25.49	26.88
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	5.72	6.03	-12.51	18.66	1.29	0.57	-0.81	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.75	10.66	-14.20	12.13	19.99	-1.33	-3.43	9.09	-9.54	17.67	16.94	-1.94	8.67	19.85	24.12	
	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	
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	
	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	
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	
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	82.50	82.60	
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	9.71	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	9.04	9.00	
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	
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	
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	
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

Source: CEIC, UBI Research

Banking Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank**
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank