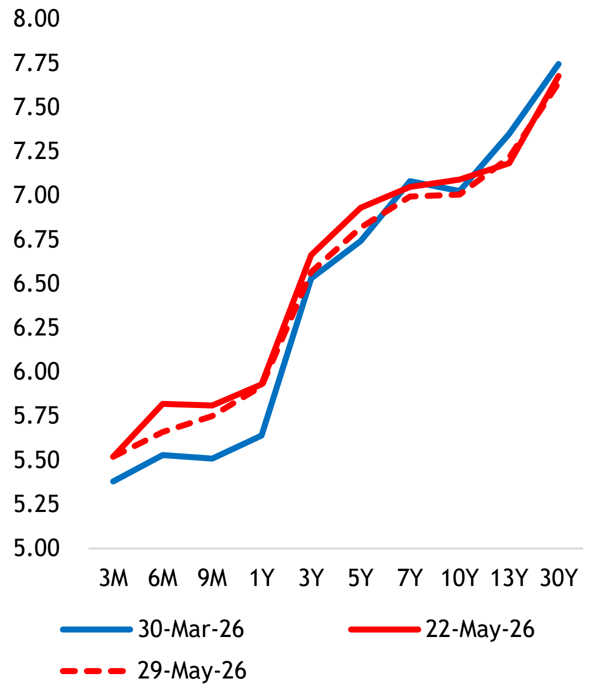
01st Jun 2026

Fig.1: Yield Curve turning flat; (%)



Source: Bloomberg, UBI research

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Global fixed-income markets remained under pressure during the week as the Federal Reserve's "higher-for-longer" policy narrative, elevated US Treasury yields and lingering geopolitical risks in West Asia continued to weigh on investor sentiment. While Brent crude oil moderated below USD 95/bbl toward the end of the week, periodic price spikes kept inflation concerns alive and reinforced the challenging backdrop for emerging market assets. Against this backdrop, global central banks remained focused on currency stability, with Bank Indonesia's surprise rate hike underscoring the policy challenges posed by persistent dollar strength and elevated global yields. Domestically, Indian bond markets remained resilient despite external headwinds. Benchmark 10-year government bond yields consolidated around the 7.00% level, supported by strong auction demand and continued participation from long-term institutional investors. The RBI's successful USD 5 billion FX swap auction provided an important liquidity bridge, injecting nearly INR 47,600 crore into the banking system and helping ease funding pressures amid tight liquidity conditions. Looking ahead, market attention is firmly focused on the June MPC meeting, where we expect the RBI to maintain policy rates and reiterate its "wait-and-watch" approach. While inflation risks have increased due to elevated crude prices and emerging El Niño concerns, the central bank is likely to continue relying on liquidity management and FX interventions rather than immediate policy tightening. In this environment, carry-oriented strategies and selective duration exposure remain preferred as the yield curve continues to exhibit a flattening bias.

Global Markets: Higher for longer keeps yield pressure elevated

- Global fixed-income markets remained influenced by the Federal Reserve's "higher-for-longer" policy narrative as sticky inflation and resilient economic data kept US Treasury yields elevated above 4.60%. The resulting rise in global risk-free rates continued to pressure emerging market assets and compress sovereign yield differentials.
- Crude oil markets remained volatile amid ongoing geopolitical tensions in West Asia. Although Brent crude moderated below USD 95/bbl toward the end of the week, periodic price spikes continued to keep inflation concerns alive across global markets.
- Emerging market central banks remained focused on currency stability. Bank Indonesia's surprise rate hike highlighted the policy challenges posed by elevated US yields and persistent dollar strength, reinforcing market attention on the RBI's upcoming policy decision.

Domestic Bond Market Auctions remain resilient despite Volatility

- Indian government bond yields remained range-bound during the week as markets balanced easing crude prices and RBI liquidity support against elevated global yields and policy uncertainty. The benchmark 10-year G-Sec yield continued to trade around the 7.00% mark, with investors largely avoiding aggressive duration positioning ahead of the June MPC meeting.
- The sovereign yield curve maintained a flattening bias. Shorter-tenor yields remained under upward pressure due to tight liquidity conditions and repricing of policy expectations, while longer-tenor bonds found support from insurance companies, provident funds and other long-term investors.
- Government bond auctions continued to witness healthy investor participation. The 15-year and ultra-long 53-year securities were absorbed comfortably, reflecting resilient institutional demand despite volatile secondary market conditions. Stable auction outcomes reinforced confidence that domestic demand for sovereign bonds remains intact even as markets navigate elevated global uncertainty.

Liquidity and Currency: RBI builds a bridge through market stress

- The RBI successfully conducted its USD 5 billion buy-sell swap auction, attracting bids worth nearly twice the notified amount. The swap settlement injected approximately INR 47,600 crore into the banking system, helping offset liquidity absorption caused by FX intervention and higher currency circulation.
- While banking system liquidity remained significantly tighter than levels prevailing at the start of the year, conditions showed signs of improvement toward month-end. Headline liquidity surplus recovered from around Rs. 52,000–67,000 crore during 21-28 May to approximately INR 1.04 lakh crore on 29 May and further to around INR 1.40 lakh crore by 31 May. Core liquidity remained relatively comfortable at around INR 2.65 lakh crore as of 15th May, indicating that the tightening was largely driven by temporary liquidity absorption factors. Market participants expect liquidity conditions to gradually improve as government spending linked to the RBI's dividend transfer gains momentum and the impact of recent liquidity measures flows through the system.
- The INR remained sensitive to global yield movements, crude oil prices and foreign capital flows. While RBI intervention and easing oil prices helped stabilize the currency, markets continue to monitor exchange-rate developments closely given their implications for inflation and policy expectations.

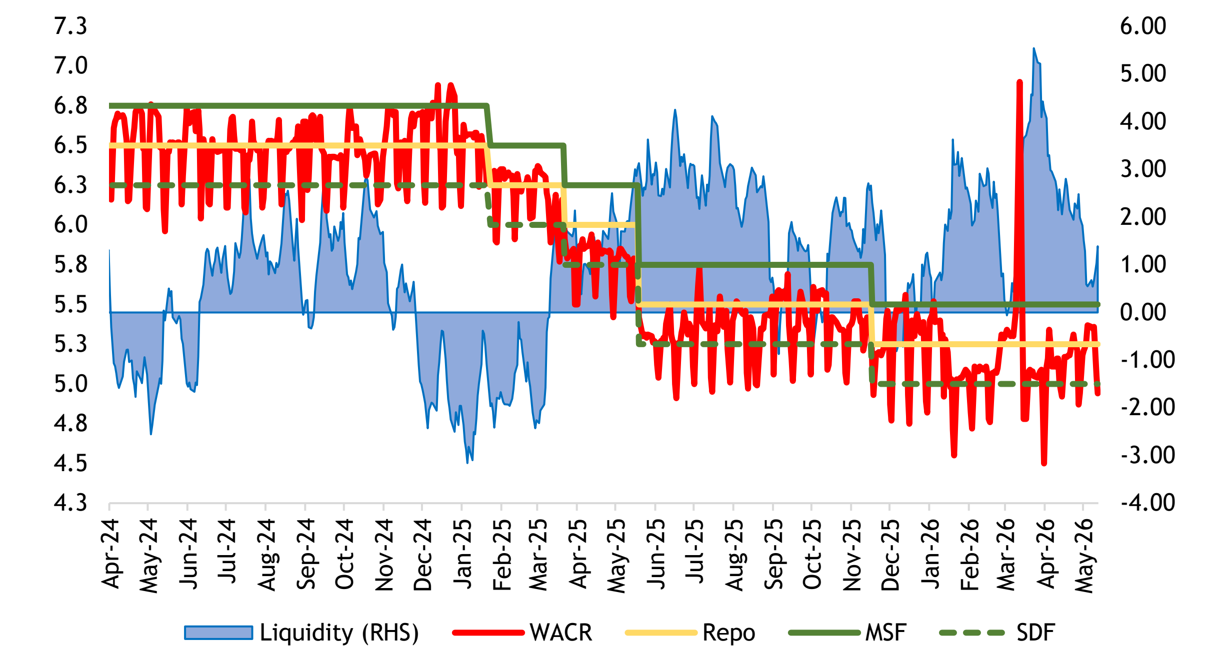
MPC Outlook and strategy

- We expect the RBI to keep policy rates unchanged at the upcoming MPC meeting and retain its "wait-and-watch" approach. Consistent with its recent communication, the MPC is likely to reiterate that monetary policy has limited ability to address supply-driven inflation shocks and would become relevant only if second-round inflationary effects begin to emerge.
- While inflation risks have increased due to elevated crude oil prices and the growing probability of El Niño conditions, CPI inflation remains relatively contained. We expect the RBI to acknowledge these risks and potentially revise its FY27 inflation outlook modestly higher as compared with the RBI's current forecast of 4.6%. The MPC's tone and forward guidance will remain under close scrutiny, with any hawkish signals likely to attract significant market attention.
- The RBI is likely to note that domestic economic activity remains resilient, although sustained high oil prices could pose downside risks to growth and corporate profitability. At the same time, the central bank is expected to reaffirm the principle of policy separability, whereby interest rates are used to manage inflation and growth dynamics, while exchange-rate volatility is addressed through FX reserves, liquidity operations and other regulatory measures.
- The yield curve continues to exhibit a flattening bias, with short-end yields reflecting liquidity tightness and policy uncertainty while longer-duration bonds remain supported by institutional demand. In this environment, carry-oriented strategies remain preferable to aggressive duration positioning. High-quality corporate bonds and short-tenor money market instruments continue to offer attractive accrual opportunities, while investors may selectively add duration through long-term government securities during periods of market volatility.

Table 1: Market Snapshot Instrument	Yield (May 29)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	7.01%	- 8 bps	Crude moves down, eyeing US-Iran agreement
1 Year T-Bill	5.92%	- 1 bps	Surplus Liquidity reduced
US 10 year Yield	4.44%	- 12 bps	US-Iran Cease fire led to cooling of Crude Oil prices
Credit Growth (%) (as of 15th May'26)	16.2%	+23 bps	Credit & Deposit growth decreased on fortnight basis with gap widening
Deposit Growth (%) (as of 15th May'26)	12.2%	- 7 bps	
Credit Deposit Wedge (bps) (as of 15th May'26)	400	+30 bps	

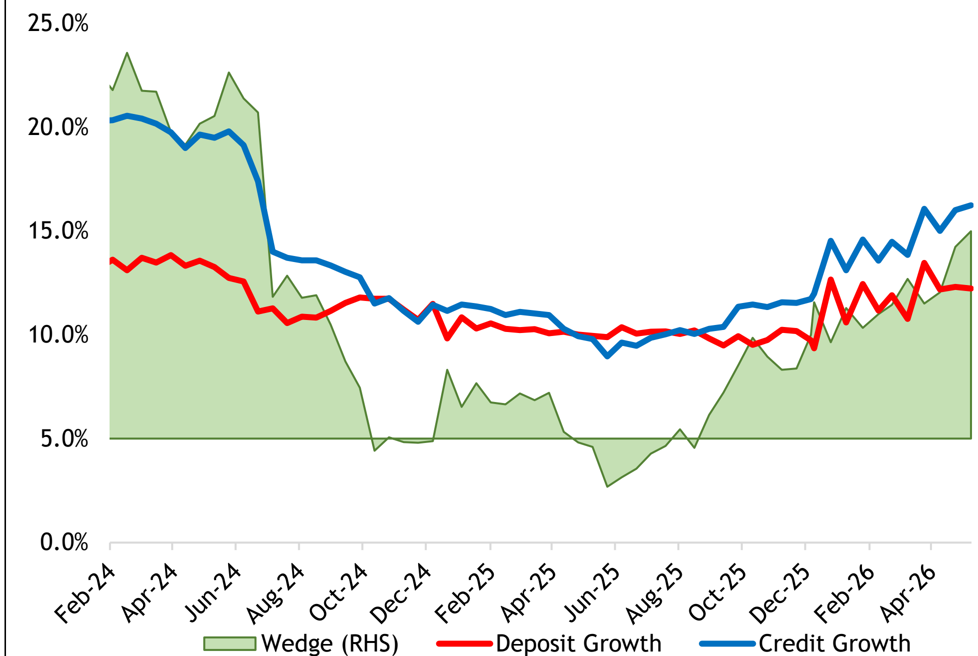
Source: RBI, CCIL, UBI Research

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



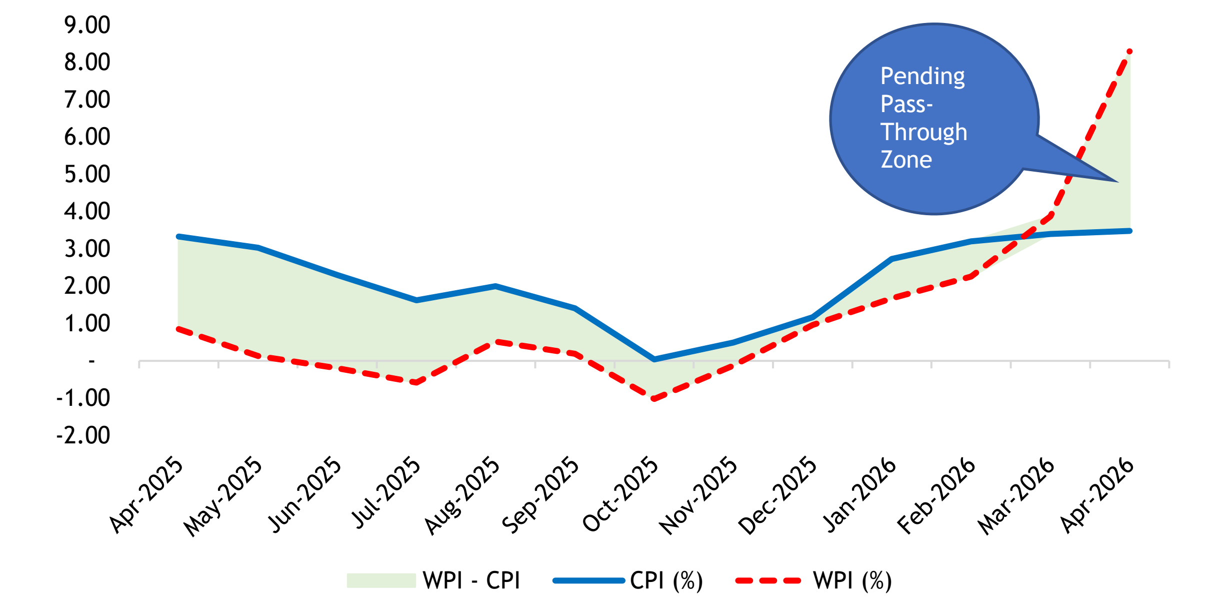
Source: RBI, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to ~400 bps in fortnight ending 15th May 2026



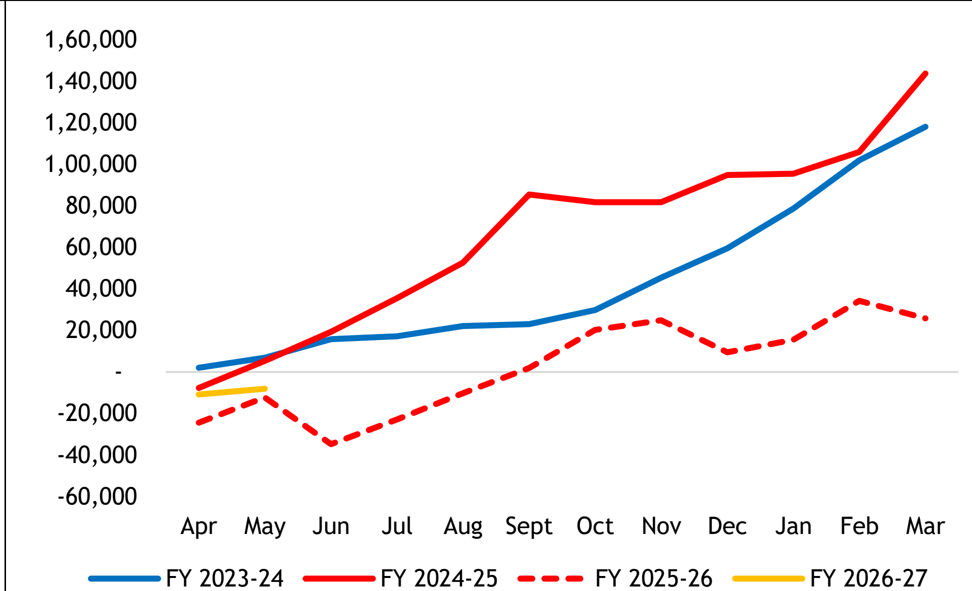
Source: CEIC, UBI Research

Fig.4: WPI at 42-month High Vs Anchored CPI; (%)



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	May-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	55.00
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	58.90
GST Revenue (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)	24.55	4.99	3.20	14.75	5.24	-4.24	33.57	10.59	-7.34	8.56	-2.42	3.50	5.68	10.84	9.83	1.78	8.44	11.47	45.95	7.30	19.84	17.14	24.12	25.40	13.49	10.56
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	-1.32	13.27	5.72	6.03	-12.50	18.59	1.15	0.37	-0.79	-7.44	13.78	
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	12.13	19.99	-1.33	-3.43	9.10	-9.54	17.67	17.92	-1.48	10.26	19.85	25.01	-6.17	10.03	
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	3.48	
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	3.67	3.70	3.66	3.70	
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	16.45	
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	13.26	
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	82.30	
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	8.98	
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	8.50	
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	6.59	
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	5.77	
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	8.65

Source: CEIC, UBI Research

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