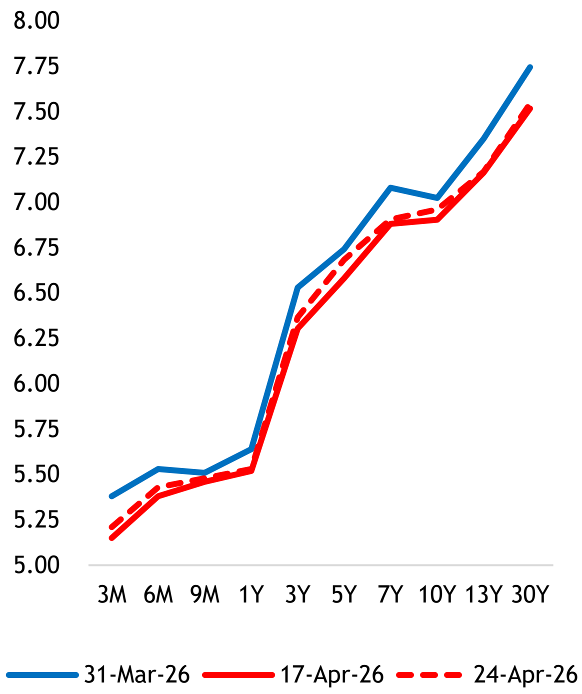
FI Weekly: Oil, Rates & Rupee – Managing through volatility

27th Apr 2026

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



Source: Bloomberrg, UBI research

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Global markets remain sensitive to geopolitical developments, with US-Iran tensions staying unresolved after failed ceasefire talks and keeping crude oil elevated in the ~$95-107/bbl range. This has reinforced inflation concerns, keeping US 10-year yields steady around ~4.30-4.35% and supporting the dollar, while markets are fully priced for a status quo at the upcoming FOMC amid a continued "higher-for-longer" policy outlook. In India, the INR remains under pressure after depreciating ~10% in FY26, currently near 94.30/USD, though earlier RBI actions helped contain volatility despite renewed weakness following geopolitical setbacks. Domestic bond markets continue to show divergence, with G-Sec yields range-bound but edging higher, as weak demand persists at the short end while the 5-14 year segment sees relatively better support from FAR-driven flows and domestic investors. Overall, while liquidity remains actively managed, markets are increasingly focused on how sustained oil prices, fiscal implications for FY27, and post-election clarity on fuel pricing will shape both inflation and bond market trajectory ahead.

Gulf tensions keep market on edge: Oil elevated, yields and dollar supported

- US-Iran tensions remain fragile, with last week's failed ceasefire talks reigniting uncertainty. This has kept geopolitical risk premiums elevated, particularly around the Strait of Hormuz, where supply disruption concerns persist. Markets continue to price in a prolonged phase of instability rather than a quick resolution.
- Crude oil prices remain firm in the ~$95–107/bbl range after earlier spikes toward $120/bbl. While some supply has resumed, the market continues to factor in disruption risks and reduced production in parts of the Gulf. This keeps inflation expectations elevated globally.
- US 10-year Treasury yields are holding around ~4.30–4.35%, reflecting oil-led inflation concerns and fading expectations of near-term rate cuts. Safe-haven demand is offering some support, but the dominant driver remains inflation repricing. US Dollar Index continues to stay supported on risk aversion and higher yields. However, gains are not runaway, as intermittent de-escalation headlines and policy uncertainty keep positioning cautious.

FOMC in focus: Status quo expected amid leadership transition

- Markets are pricing in an 100% probability of no rate change at the upcoming FOMC meeting. This reflects broad consensus that the Fed will stay on pause while assessing inflation risks, particularly those stemming from higher energy prices.
- The Fed's communication is likely to remain cautious, balancing sticky inflation against emerging growth concerns. Any shift in tone, especially around inflation persistence, will be closely tracked by markets.
- Leadership transition remains a key overhang, with Kevin Warsh's expected entry reinforcing a more hawkish bias. His preference for tighter inflation control and reduced forward guidance is gradually being priced in.
- Overall, the "higher-for-longer" narrative remains intact. Rate cut expectations continue to be pushed out, with markets preparing for a prolonged pause rather than a near-term easing cycle.

INR under pressure but supported

- The INR has depreciated sharply by ~10% in FY26, significantly higher than the historical average of ~3%. This reflects sustained external pressures, including elevated crude prices, strong dollar, and capital outflows.
- RBI's measures to curb speculative positioning have helped stabilize the currency, leading to a recovery of ~2.2% after the initial phase of volatility. These actions improved market confidence and reduced disorderly movements.
- However, the currency has weakened again by ~1.3% following the breakdown of US–Iran ceasefire talks. The INR is currently trading near 94.30/USD, reflecting renewed external pressure.

G-Sec Market: Auction signals divergent demand

- India's 10-year G-Sec yield is trading in the ~6.89–7.00% range, with an upward bias driven by global cues and crude-led inflation risks. Domestic demand has provided some stability, preventing a sharper sell-off.
- The latest weekly auction highlighted weak demand for short-duration bonds. The 6.03% 2029 bond saw a cut-off price of INR 99.30, significantly below expectations of ~99.46, indicating cautious investor appetite. Banks absorbed the supply but demanded higher yields. The mid-segment (5–14 year) continues to see relatively better demand, supported by flows into FAR-eligible securities. The 6.68% 2033 bond, in particular, witnessed stronger acceptance given attractive spreads close to the 10-year benchmark.
- Key positives for the G-Sec market include continued foreign and domestic flows into FAR securities, especially in the belly of the curve, along with Domestic investors supporting the bonds.
- Key risks stem from elevated crude prices, with investors closely assessing the impact on inflation and the fiscal deficit for FY27. Additionally, clarity post the May 4 election results will be critical, particularly on fuel price pass-through, as OMC under-recoveries remain a key uncertainty for bond markets.

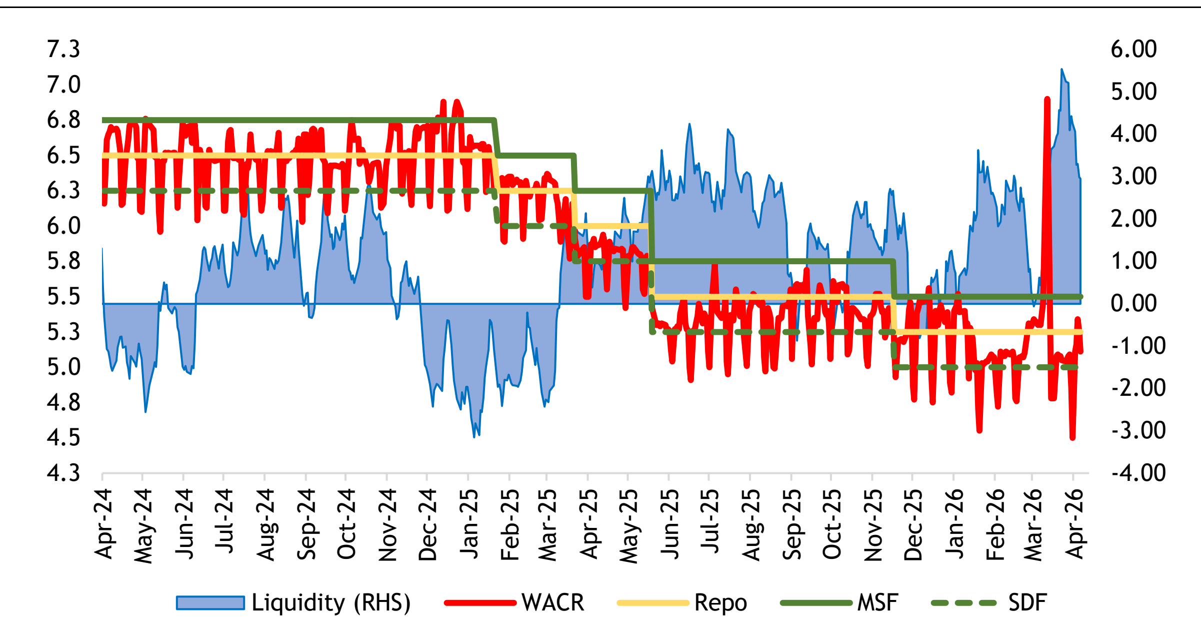
Liquidity: Rate defence back in play

- Banking system liquidity remains dynamic influenced by FX intervention, tax outflows and government balances. RBI continues to manage liquidity actively to keep overnight rates aligned with the policy corridor.
- Persistent FPI outflows and strong corporate dollar demand are exerting pressure on the INR. This has revived discussions around using an "interest rate defence" to attract capital and stabilize the currency.
- Market participants are advocating for higher short-term rates, either through liquidity tightening or tools like Operation Twist. These measures could improve carry attractiveness while curbing speculative positioning.
- Additional steps under consideration include FCNR deposit schemes, managing outward corporate flows and targeted FX interventions such as special windows for oil importers. A calibrated mix of liquidity tightening and rate signalling, similar to past stress episodes, may be required if external pressures persist.

Table 1: Market Snapshot Instrument	Yield (Apr 24)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	6.94%	+ 4 bps	Failed Cease Fire talks between US & Iran
1 Year T-Bill	5.53%	+ 1 bps	Liquidity in surplus
US 10 year Yield	4.31%	+ 6 bps	Inflation expectations increased due to crude oil shocks
Credit Growth (%) (as of 31st Mar'26)	16.1%	+224 bps	Credit & Deposit growth increased lower on fortnight basis with gap widening
Deposit Growth (%) (as of 31st Mar'26)	13.5%	+271 bps	
Credit Deposit Wedge (bps) (as of 31st Mar'26)	261	-47 bps	

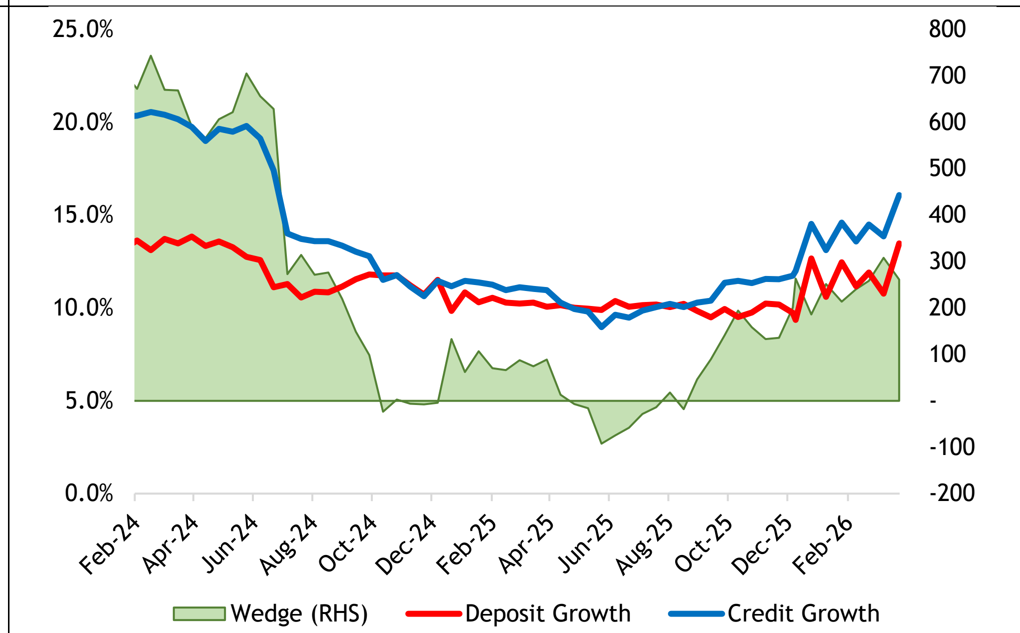
Source: RBI, CCIL, UBI Research

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



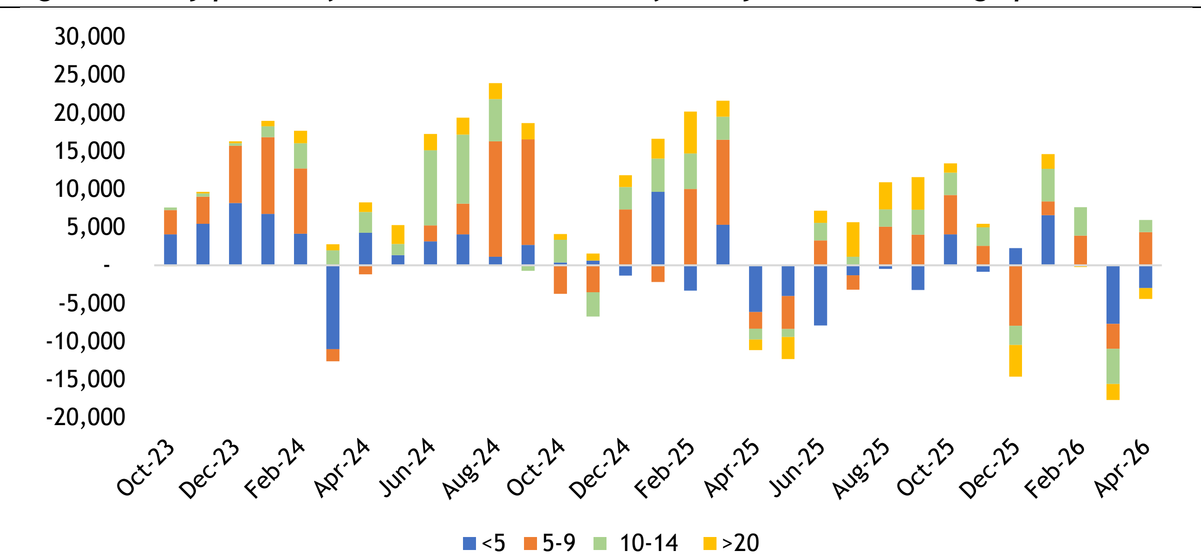
Source: RBI, CEIC, UBI Research

Fig.3: Credit Deposit Gap widened to ~261 bps in fortnight ending 31st Mar 2026



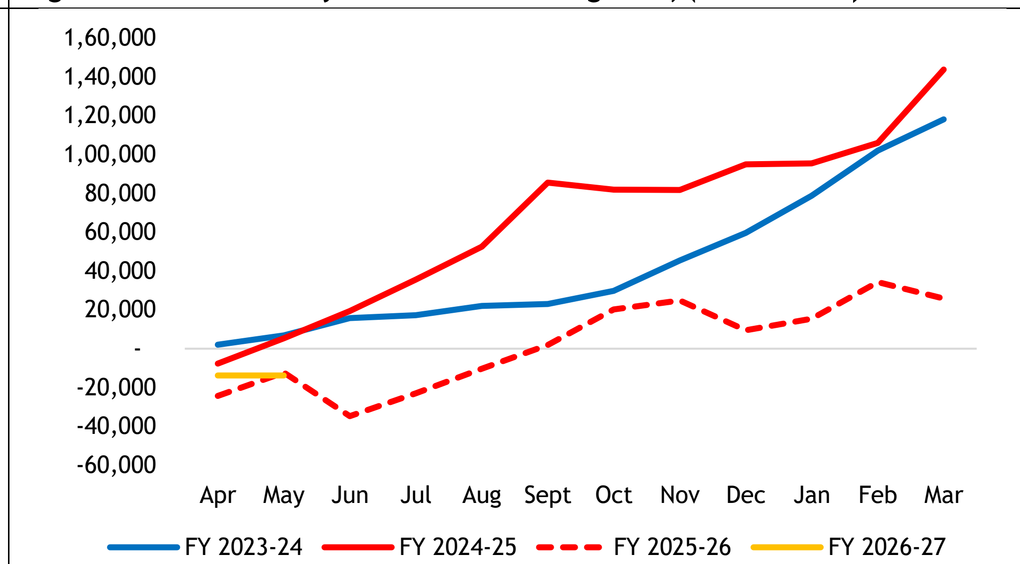
Source: CEIC, UBI Research

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
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	55.90
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	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)	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	0.86	-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	17.09	
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		
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

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