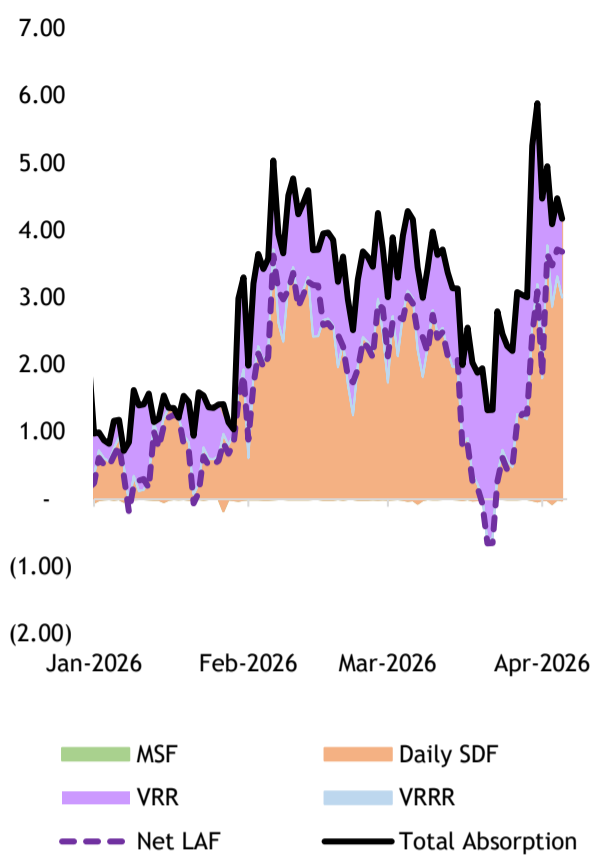


Fig.1: Liquidity turned positive in year end with SDF hitting Rs.5.9 lakh crore; (Rs. In Crore)



Source: CEIC, UBI research

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Global markets continue to grapple with a persistent geopolitical shock, as the ongoing Middle East conflict keeps oil prices elevated and drives a broader inflation-led repricing across bond markets. US yields remain range-bound but biased higher, with similar upward pressure visible globally, including Japan, reflecting a growing “global inflation premium.” Domestically, the INR stabilized after sharp RBI intervention, though underlying pressures from crude and external balances remain. The India 10-year yield continues to harden toward ~7.10-7.14%, driven by global cues and supply dynamics, while the first FY27 auction saw higher cut-offs, highlighting cautious investor demand and elevated risk premia. Liquidity conditions have improved, returning to surplus, but rising crude prices, FPI outflows, and evolving rate expectations have added complexity to the outlook. While markets are pricing in the possibility of a rate hike, the MPC is likely to remain on hold in the near term, with the RBI’s inflation guidance emerging as the key trigger for policy direction.

Middle East Conflict: Inflation risks dominate safe haven flows

- The Middle East conflict remains intense, with continued US-Israel vs Iran confrontation and disruptions to key energy routes, keeping geopolitical risk premium elevated. Oil prices remain volatile at elevated levels, sustaining global inflation concerns and uncertainty across markets.
- Global bond markets are increasingly reflecting inflation-led repricing rather than pure risk-off sentiment. While safe-haven demand persists, it is being offset by rising inflation expectations driven by energy shocks.
- US 10Y yield remained range-bound with a mild upward bias (~4.30-4.45%), supported by strong US macro data and oil-led inflation concerns, limiting the extent of any flight-to-safety rally.
- Notably, the impact is visible beyond the US—Japan’s 10-year bond yield surged to a 27-year high (~2.4%), as oil-driven inflation and a weaker yen pushed expectations of further rate hikes by the Bank of Japan.
- Overall, global yields are moving higher in sync, highlighting a shift toward a “global inflation premium”, reducing the traditional diversification benefit of bonds and keeping EM debt markets under pressure. Interestingly, the evolving “global endgame” narrative has so far had a more visible impact on equities, with FX and rates markets remaining relatively anchored to inflation and policy expectations.

INR Weakness: RBI measures brought back stability

- The INR, which had depreciated sharply to ~95/USD levels, saw a meaningful recovery during the week, supported by RBI’s aggressive and targeted intervention measures.
- Actions including caps on bank FX positions, restrictions in NDF markets, and active dollar sales triggered a sharp rebound, with the rupee appreciating toward ~93 levels, marking one of the strongest single-day moves in recent years.
- While the measures have effectively curbed speculative positioning and stabilized near-term volatility, underlying pressures from high crude prices and external imbalances persist.

India 10-Year Benchmark: Repricing continues

- The India 10-year benchmark yield moved higher to ~7.10-7.14%, reflecting continued repricing driven by global cues, elevated oil prices, and supply pressures.
- The recent move marks a sharp rise in yields over the past few weeks, with the market embedding a higher inflation and risk premium following the February-end conflict escalation.
- Despite improved liquidity conditions, the long end remains under pressure, indicating that global and supply factors are dominating domestic liquidity support.

First auction of FY 27 - Higher cut-offs reflect cautious demand

- The government raised the notified ₹29,000 crore in its first G-Sec auction of FY27, but cut-offs came in higher than market expectations, indicating cautious demand amid elevated global risks. The 6.68% 2040 bond cleared at ~7.53% and the 7.43% 2076 bond at ~7.88%, both ~3 bps above median estimates.
- Investors demanded higher yields given the prevailing geopolitical uncertainty and risk of further MTM losses, reflecting a defensive stance despite improved liquidity conditions.
- Demand dynamics remained mixed—banks absorbed the 15-year segment via HTM, while mutual funds rotated portfolios to pick up the 2040 paper for attractive yields. In contrast, long-term investors like insurers and pension funds showed limited participation, having already deployed funds in high-yielding SDLs (>8%) during March.
- The 50-year bond saw relatively better absorption, aided by a conscious reduction in ultra-long supply (now <25% in H1 FY27 vs ~29-35% earlier), which helped ease duration pressure and supported auction stability.
- Overall, the auction signals that while supply is being absorbed, investors are demanding higher risk premia, and sustained demand will hinge on liquidity support and easing global uncertainties.

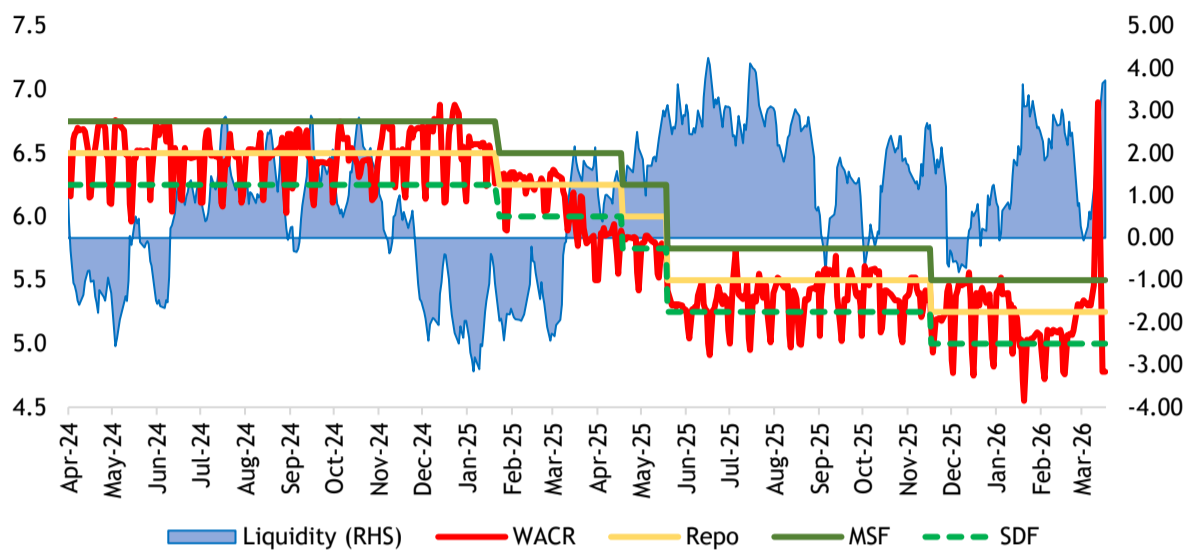
Liquidity and MPC Outlook: Surplus returns, Policy uncertainty builds

- System liquidity improved meaningfully, shifting back into surplus (~₹3.68 lakh crore as on 05th Mar 2026) after March-end tightness, supported by government spending and easing of year-end pressures. This helped anchor short-term rates, with WACR drifting closer to the repo rate, providing near-term relief to money markets.
- However, the macro backdrop has turned more complex. Elevated crude prices, driven by disruptions such as the effective closure of key energy routes, are expected to push inflation higher in coming months raising the possibility of a shift in RBI’s policy stance. OIS markets are pricing in a ~25 bps rate hike in the near term, though consensus expectations still lean toward a pause.
- Most market participants expect the MPC to remain on hold in the upcoming policy, given growth risks from weaker exports and higher energy costs. The RBI’s CPI inflation forecast will be a key signal guiding the policy stance going forward.

Table 3: Market Snapshot Instrument	Yield (Apr 02)	Weekly Change	Commentary
10 Year G-Sec (6.48% GS 2035)	7.13%	+10 bps	Geo-politics, INR depreciation led to pressure in yields
1 Year T-Bill	5.69%	+5 Bps	Liquidity back in surplus
US 10 year Yield	4.35%	-	Inflation expectations increased due to crude oil shocks
Credit Growth (%) (as of 15 th Mar'26)	13.6%	-64 bps	Credit & Deposit growth increased lower on fortnight basis with gap widening
Deposit Growth (%) (as of 15 th Mar'26)	10.8%	-114 bps	
Credit Deposit Wedge (bps) (as of 15 th Mar'26)	308	+50 bps	

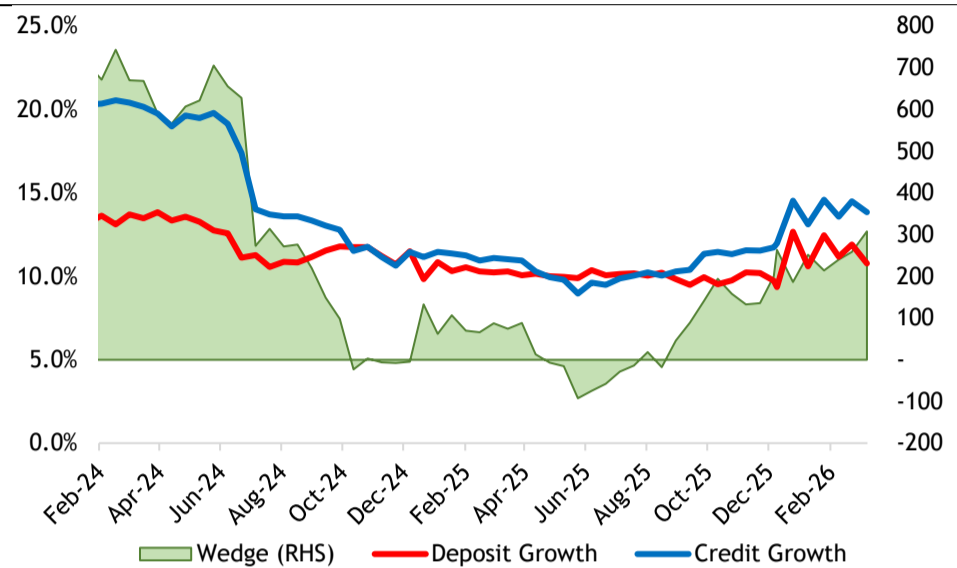
Source: RBI, CCIL, UBI Research

Fig.2: WACR shot up on year end, now below SDF as liquidity eased



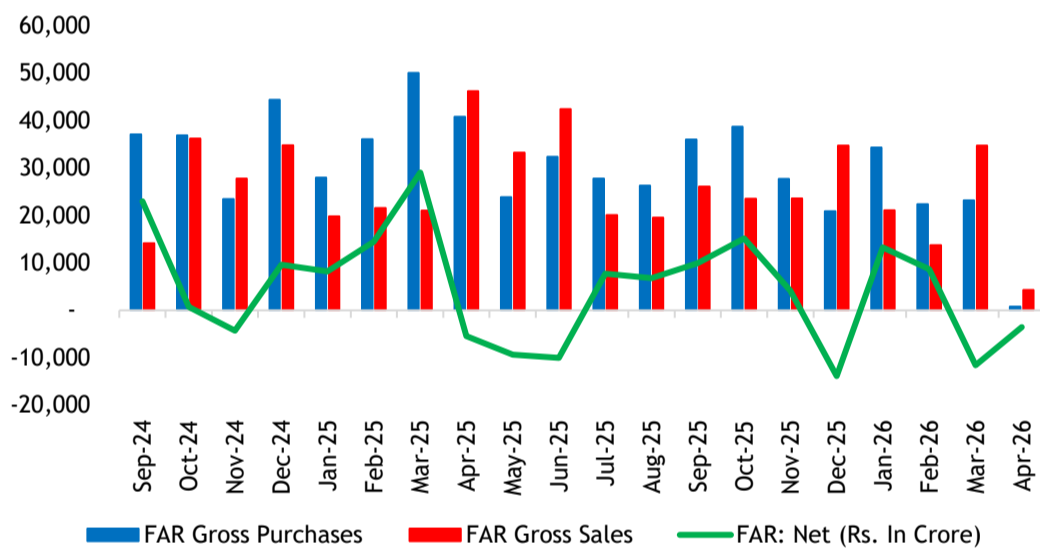
Source: RBI, CEIC, UBI Research

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



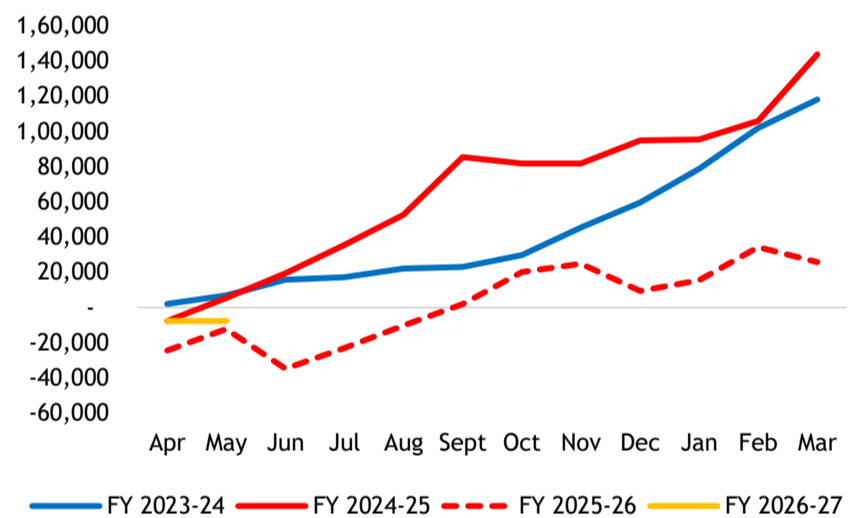
Source: CEIC, UBI Research

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	57.20
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)	26.80	3.41	1.74	14.32	3.62	-7.11	33.70	13.61	-10.39	7.26	-5.24	0.55	3.34	6.04	5.48	-3.30	3.47	5.98	41.94	2.85	14.54	18.92	25.02	
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

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