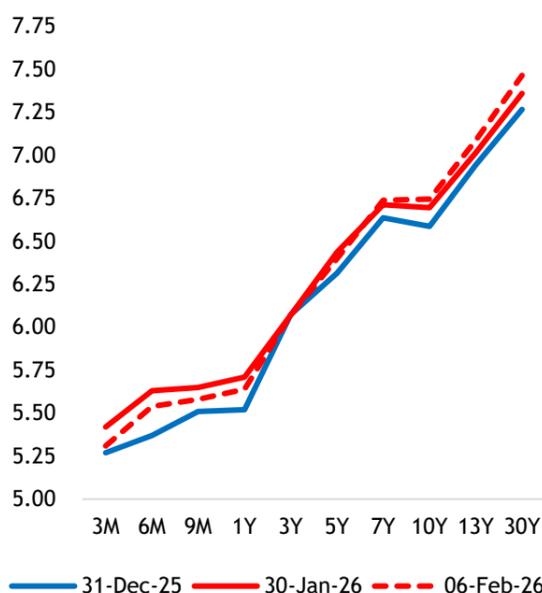


Fig. 1: Yield Curve moved up since Dec 2025



Source: Bloomberg, UBI Research

The Indian bond market witnessed a sharp shift in tone this week, moving from trade-led optimism to policy- and supply-driven caution. Early gains, fuelled by the announcement of an India-US trade agreement and supportive overnight liquidity conditions proved short-lived as the RBI's post-policy messaging disappointed a market positioned for clearer liquidity reassurance. The 10-year G-Sec rallied early in the week, supported by foreign inflows and improved risk sentiment but reversed sharply after the MPC maintained status quo and refrained from announcing fresh liquidity measures. The RBI's emphasis on net supply, against the backdrop of a record FY27 gross borrowing programme, unsettled investors and triggered aggressive unwinding of pre-policy long positions, resulting in the sharpest single-day rise in yields since August. While overnight rates remained comfortable and system liquidity stayed in surplus, concerns grew over the limited scope for further OMO support. These worries were compounded by weak long-end demand at the weekly gilt auction, where subdued participation, particularly from pension and provident funds, exposed growing supply impact. The India-US trade deal remained a key narrative driver, providing early-week support through improved sentiment and foreign inflows and later offering medium-term structural positives following the formal announcement on Saturday. However, near-term bond market dynamics continue to be dominated by domestic factors with heavy central and state bond supply and cautious policy signalling keeping yields under pressure.

10 year G-Sec from trade led rally to policy led sell off:

- Government bond yields ended the week sharply higher after an initial decline, as disappointment over the RBI's post-policy liquidity commentary triggered heavy selling on Friday. The 10-year benchmark 6.48%, 2035 bond closed at ₹98.19, down from ₹98.81 on Thursday. The benchmark yield surged 9 bps in a single session to 6.7363%, marking its steepest daily rise since August, as traders aggressively unwound pre-policy long positions.
- Earlier in the week, yields had softened to around 6.65% following the India-US trade deal announcement, which improved risk sentiment and drew foreign banks and investors into the market. The sharp reversal highlighted that the sell-off was driven more by expectations and positioning than by the MPC's rate decision, which was widely anticipated.

Liquidity movement - Rate Comfort Liquidity Caution:

- RBI maintained overnight money market rates at or below the lower end of the LAF corridor (5.00-5.50%), allowing the weighted average call rate (WACR) to slip below the corridor and touch a three-year low of 4.98% during the week.
- Governor Sanjay Malhotra reiterated that the RBI would endeavour to keep the WACR aligned with the policy repo rate of 5.25%, even if short-term deviations occurred. While the Governor highlighted the RBI's full toolkit, including variable rate reverse repo (VRRR) operations, traders viewed these as liquidity-absorbing rather than supportive for bonds.
- Despite a system liquidity surplus exceeding ₹2 trillion, concerns grew that OMO purchases are nearing an end in FY26, limiting further downside in yields.

RBI MPC - Rate hold, messaging misses market expectations:

- The MPC unanimously held the repo rate at 5.25% and retained a neutral stance, a decision that was fully priced in by the market. Traders were disappointed by the absence of new liquidity measures or explicit reassurance on managing elevated supply pressures.
- Market unease was exacerbated by the Governor's emphasis on net supply, while investors remain focused on the record gross borrowing of ₹17.20 trillion for FY27, up sharply from FY26 levels. The commentary was interpreted as signalling limited urgency to address supply-related risks, prompting a reassessment of yield comfort levels.

Friday Auction: Weak Long-End Demand Amplifies Sell-Off

- The ₹290 billion weekly government bond auction witnessed subdued demand, particularly at the long end, reinforcing bearish secondary market sentiment. The 40-year benchmark 6.90%, 2065 bond cleared at a cut-off price of ₹92.53 (7.4917%), well above market expectations, reflecting aggressive defensive bidding.
- Bids for the long bond totalled ₹243.35 billion for ₹130 billion on offer, resulting in a bid-to-cover ratio of below 2x, significantly weaker than historical averages. Lower-than-expected participation from pension and provident funds forced traders to trim positions in liquid benchmarks such as the 6.48%, 2035 and 6.68%, 2040 bonds.

India-US Trade Deal: From Market catalyst to structural positive

- The initial announcement early in the week of an India-US trade agreement framework supported bond markets, as easing tariff uncertainty improved risk sentiment and attracted foreign inflows of nearly ₹90 billion between Tuesday and Thursday. This trade-led optimism helped push the 10-year yield lower ahead of the MPC meeting and supported the rupee, encouraging tactical duration additions.
- The formal agreement announced on Saturday, 07 February, outlined reductions in US tariffs on Indian exports to 18%, phased tariff cuts by India on select US imports, and deeper cooperation across energy, defence, and critical supply chains. While the deal is structurally positive for growth and external stability, increased US energy imports could raise structural dollar demand, keeping the rupee and liquidity conditions in focus; near-term bond market impact remains neutral.

Supply Overhang: State Loans Add to Pressure

- Sentiment weakened further after the RBI announced that 14 states will raise ₹486.15 billion in the upcoming SDL auction, exceeding earlier indications.
- With both central and state bond supply continuing through March, traders expect yield pressure to persist despite pockets of valuation-led buying.
- As per 16th Finance Commission recommendations states actively use debt reprofiling tools such as switch auctions and buybacks, similar to the Union Government, to smoothen redemption pressures in peak maturity.

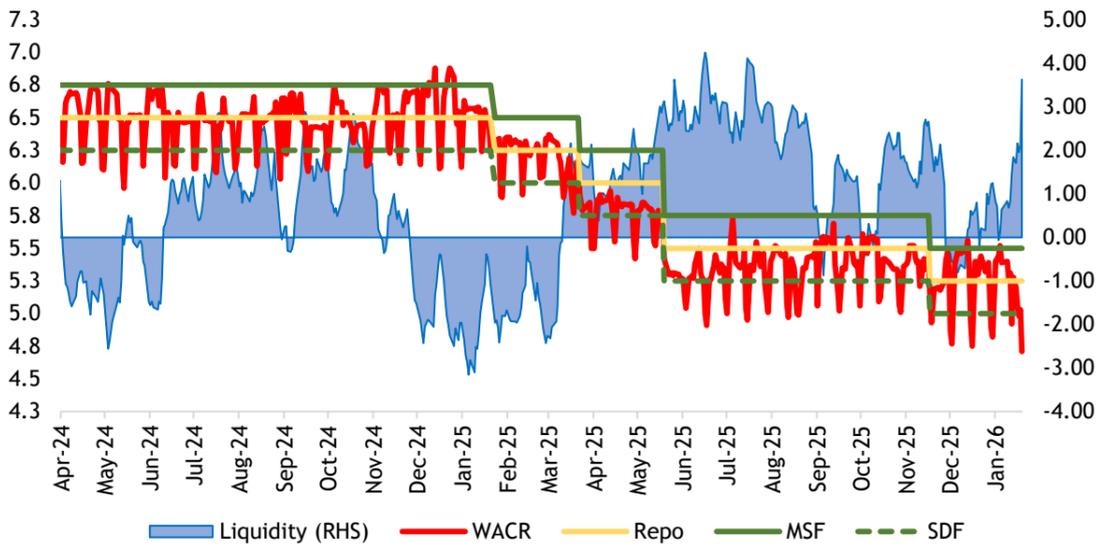
By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Table 1: Market Snapshot Instrument	Yield (Feb 06)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.76%	-1 bps	India-US trade news rally fizzled out post MPC
1 Year T-Bill	5.64%	-7 Bps	Liquidity in surplus
US 10 year Yield	4.21%	-3 bps	Labour market data and shutdown triggered buying in Bonds
Credit Growth (%) (as of 15 th Jan'26)	13.1%	-142 bps	Credit & Deposit growth increased on fortnight basis with gap widening
Deposit Growth (%) (as of 15 th Jan'26)	10.6%	-206 bps	
Credit Deposit Wedge (bps) (as of 15 th Jan'26)	250	+64 bps	

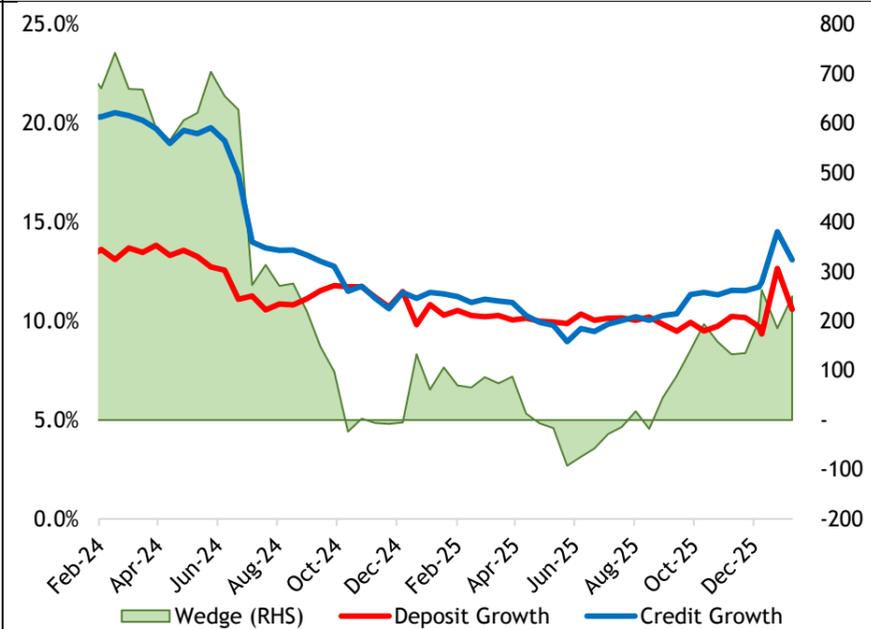
Source: RBI, CCIL, UBI Research

Fig.3: WACR moved to lower band liquidity conditions eased; (%)



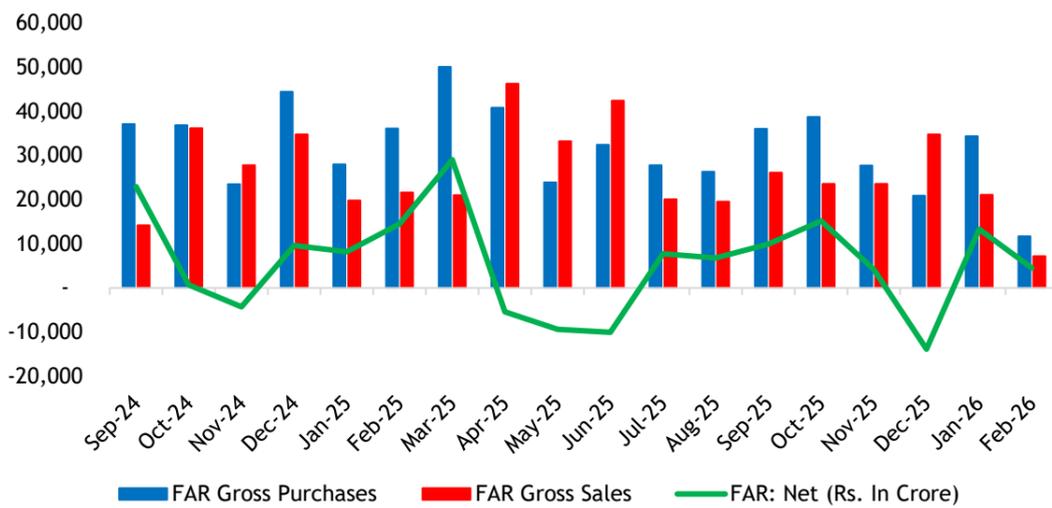
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap widened to ~250 bps in fortnight ending 15th Jan 2026



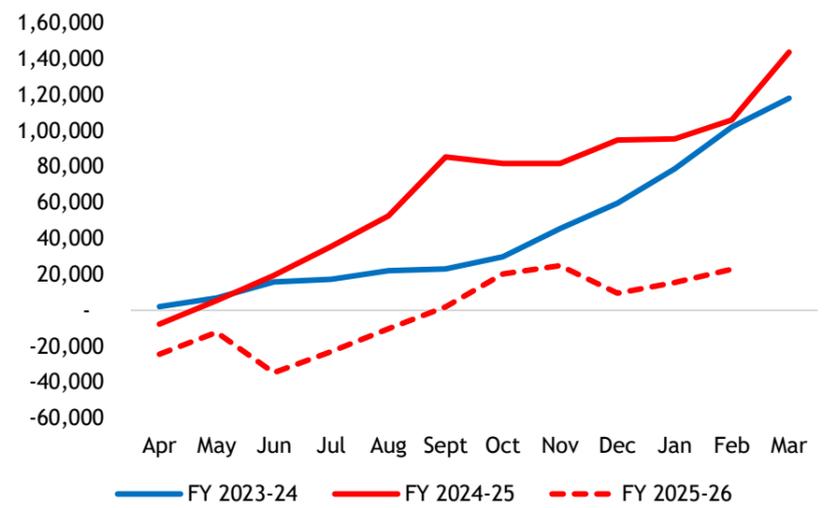
Source: CEIC, UBI Research

Fig.5: Flows in FAR securities turned positive in Jan 2026; (Rs. In Crore)



Source: CEIC, UBI Research

Fig.6: 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
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
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
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	0.65	-0.20	4.59	9.09	9.89	12.58	16.39	6.20	7.50	6.49	9.11	4.59	3.56	6.07	6.20
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	
Vehicle registrations (% y/y)	25.10	4.48	2.96	14.64	4.83	-4.93	33.50	10.68	-8.20	4.64	-4.99	1.15	2.54	6.22	5.88	-2.18	4.32	7.23	42.14	2.03	14.80	15.83
Exports (% y/y)	14.97	10.95	3.27	-5.25	-14.09	-0.96	16.60	-5.34	-1.54	-2.64	-10.86	0.85	-3.82	-1.23	-1.34	13.27	5.75	6.08	12.37	19.33	1.88	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.75	2.66	10.66	-14.81	12.13	19.99	-1.33	-3.41	9.10	-9.54	17.67	16.97	-1.98	8.76	
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	
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	
Transmission																						
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.53	14.53	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.19	12.67	
C-D Ratio (%)	79.90	79.90	79.70	79.70	78.80	79.60	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.50	80.80	82.00	
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	9.68	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	
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	
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	
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	
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

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

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.