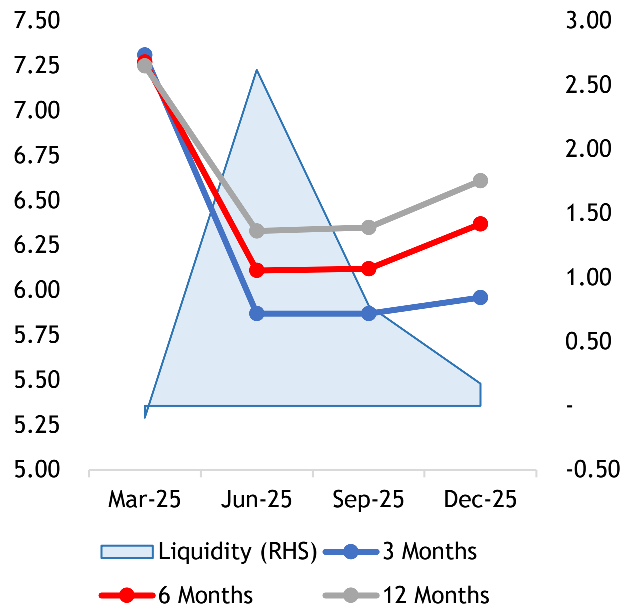
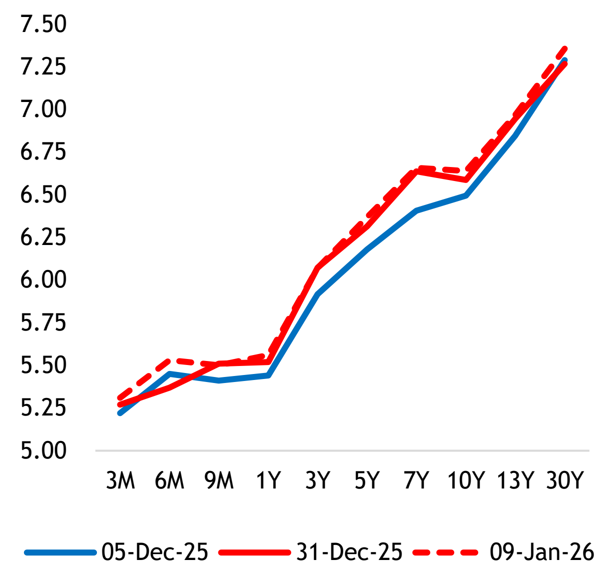
12th Jan 2025

Fig.1: CD rates moved up in Dec-2025 with liquidit deficit; (%, Rs. In Lakh Crore)



Source: FBIL, UBI Research

Fig.2: Yield Curve movement since Dec 2025 MPC; (%)



Source: Bloomberg, UBI Research

The domestic fixed income market remained calm yet watchful this week, with the 10-year G-Sec trading in a narrow 6.61%-6.65% range amid persistent supply pressures and global uncertainties. Despite modest weekly yield movements of 2-3 bps, the market displayed strong range discipline, supported by proactive RBI liquidity operations and ongoing OMO absorption. Inflation edged slightly higher, with headline CPI at 1.33% and core inflation rising to a 28-month high of 4.6%, driven by record gold and silver price inflation, while food inflation remained in deflation. The December print marks the final release under the 2012 base year series, with a new CPI series scheduled for February 12, 2026. System liquidity remains supportive but tightly balanced. The structural credit-deposit gap persists despite RBI measures, with one-year CD rates staying elevated at 6.75%-6.90%. Redemption of the 7.59%, 2026 gilt brought INR 907.86 billion into the system, offering temporary relief, while the market awaits the RBI's $10 billion three-year USD/INR buy-sell swap on January 13, 2026.

G-Sec Benchmark traded in narrow trading range:

- The domestic fixed income market moved through a calm but watchful week, with the benchmark 10-year G-Sec remaining notably stable despite persistent supply concerns and global headwinds. Market participants largely stayed on the sidelines ahead of the heavy state borrowing calendar, while steady liquidity support from the RBI helped prevent any sharp volatility
- The yield opened near 6.61%, briefly tested levels close to 6.65%, and later benefited from today's rally. By week-end, the benchmark settled around 6.636%, marking a modest weekly increase of 2–3 bps. Daily moves remained confined within a 3-4 bps range, underscoring strong range discipline. Overall, the bond traded within a 6.61%–6.65% corridor, highlighting resilience despite supply pressures.
- Key Factors Weighing on Sentiment
  - Elevated incremental credit-deposit ratio continues to limit banks' ability to deploy funds into bonds.
  - Firm global commodity prices keep inflation risks in focus.
  - Trade-related uncertainties, despite today's optimism, remain an overhang until formal agreements are signed.
  - Heavy government and state borrowing continues to cap aggressive yield declines.
- Supportive Forces Providing a Floor
  - Active RBI liquidity operations have stabilised funding conditions and curve dynamics.
  - OMO absorption of supply has created tactical buying opportunities.
  - Potential global bond index inclusion remains a key medium-term structural positive.
- Given that global yields are moving upwards on the longer end, domestic yields have also seen a mild hardening. Factors weighing on sentiment such as heavy borrowing, elevated credit-deposit ratios, and commodity price pressures, have outpaced supportive forces, though the lower end of the yield curve continues to show relative comfort due to RBI liquidity operations and OMO absorption.

Inflation Update: Mild uptick still comfortably benign:

- India's retail inflation edged up marginally to 1.33% in December, according to the Ministry of Statistics, broadly in line with expectations (UBI Estimate: 1.66%). By comparison, CPI was 0.71% in November and 0.25% in October, the lowest-ever recorded by the government.
- Core inflation rose to a 28-month high of 4.6% in December from 4.4% in November. The increase was largely led by record-high gold inflation at 68.66% and silver inflation at 97.07%, which pushed overall core inflation higher (Core inflation ex-gold has actually come down to 2.55% from 2.59% last month). While core inflation rose, food inflation remained in deflation, printing -2.71% in December compared with -3.91% in November, reflecting continued subdued price pressures in essential commodities.
- December is also the final CPI release under the 2012 base year series. The statistics ministry will release a new CPI series with 2024 as the base year on February 12, which may alter historical comparisons for both headline and core measures.

Banking System Liquidity: RBI actions supportive yet Fx related pressures capping the impact:

- Despite substantial liquidity measures over the past year, system liquidity remains finely balanced. Since January 2025, the RBI has infused nearly INR 8 trillion via OMOs, conducted USD 35 billion of 3-year buy/sell FX swaps and implemented a cumulative 100 bps CRR cut.
- However, continued USD/INR depreciation and Fx impact has prevented a durable surplus. System liquidity is currently around neutral, and while this week's OMO and FX swap could temporarily lift liquidity by about INR 1.4 trillion, this may not sustain. Given this backdrop, market participants are expecting an infusion of an additional ~INR 1.5 - 2 trillion of liquidity over the next month.
- The 7.59%, 2026 Gilt, which matured on Sunday, brought INR 907.86 billion into the banking system on Friday itself. This helped ease liquidity for segments such as primary dealers and mutual funds holding the bond. Market participants now await the RBI's scheduled 3-year, $10 billion USD/INR buy-sell swap auction, to be held on January 13, 2026, which could provide further liquidity support.
- Structurally, Credit growth of 14.5% (as of Dec 31, 2025) has outpaced deposit growth of 12.7%, creating a credit-deposit gap of 186 bps, which has narrowed from 263 bps over the past fortnight. This indicates that structural liquidity continues to remain in deficit.
- To manage the credit-deposit mismatch, Certificate of Deposits (CDs) have been actively utilized. The higher demand for CDs was particularly evident in December, following the RBI's rate cut on December 5, 2025. With both structural and systemic liquidity in deficit, CD rates moved up during the quarter ending December 2025. Typically, CD rates tend to ease after the quarter-end, but in January 2026, one-year CD rates have remained elevated at 6.75%–6.90%, reflecting continued tightness in system liquidity.

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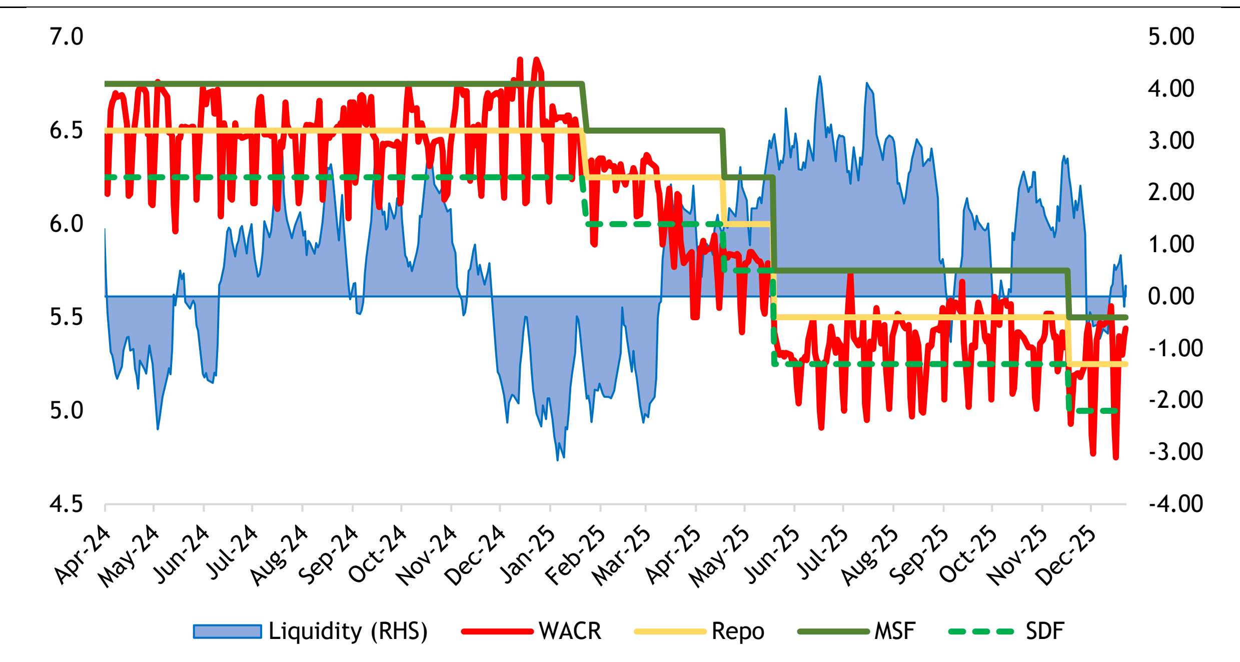
Table 1: Market Snapshot Instrument	Yield (Jan 09)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.64%	+3 bps	Markets worried on higher SDL supply
1 Year T-Bill	5.56%	+5 Bps	Liquidity tightened due to Fx impact as Rupee volatility widens
US 10 year Yield	4.17%	-2 bps	NFP data and Geo-politics pushed yields higher
Credit Growth (%) (as of 31st Dec'25)	14.5%	+255 bps	Credit & Deposit growth increased on fortnight basis and the gap widened
Deposit Growth (%) (as of 31st Dec'25)	12.7%	+332 bps	
Credit Deposit Wedge (bps) (as of 31st Dec'25)	186	-77bps	

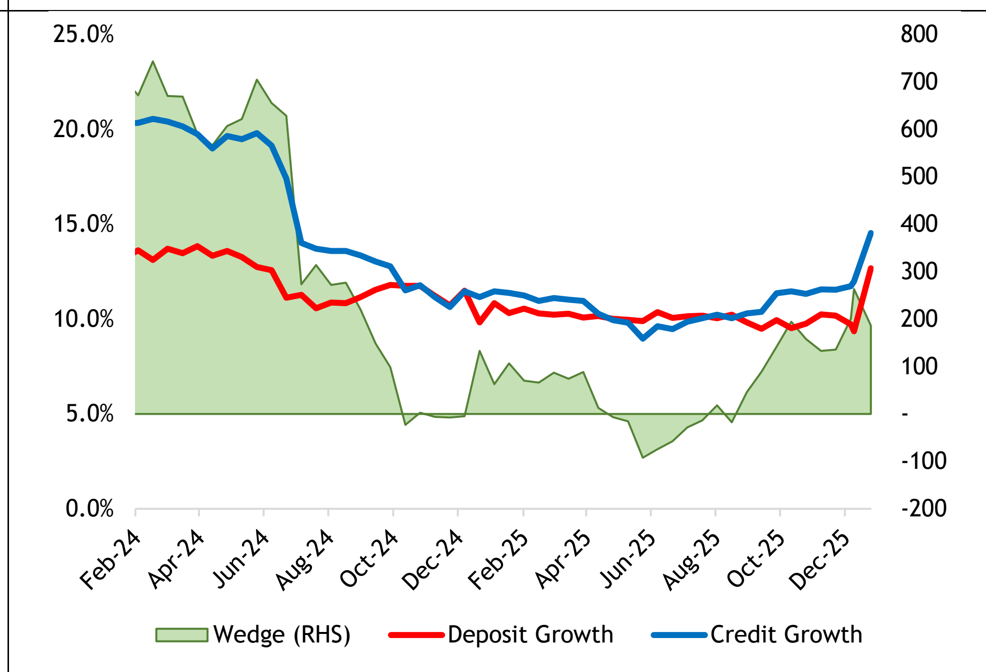
Source: RBI, CCIL, UBI Research

Fig.3: WACR moved up amid tight liquidity conditions; (%)



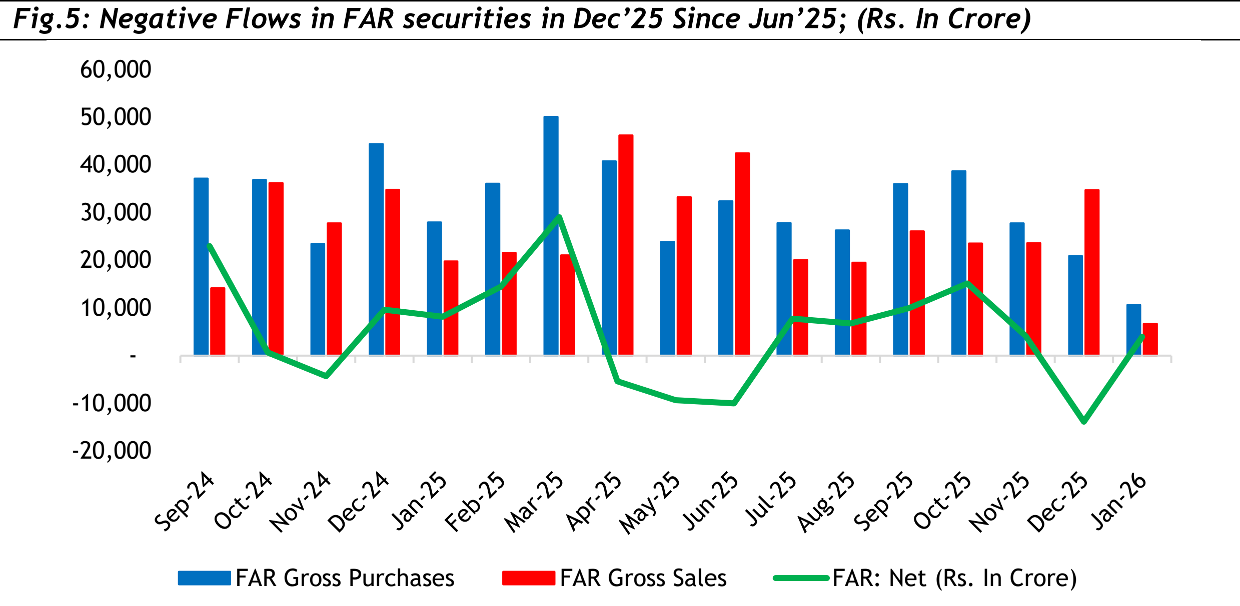
Source: Bloomberg, CEIC, UBI Research

Fig.4: Credit Deposit Gap widened at ~186 bps in fortnight ending 31st Dec'25



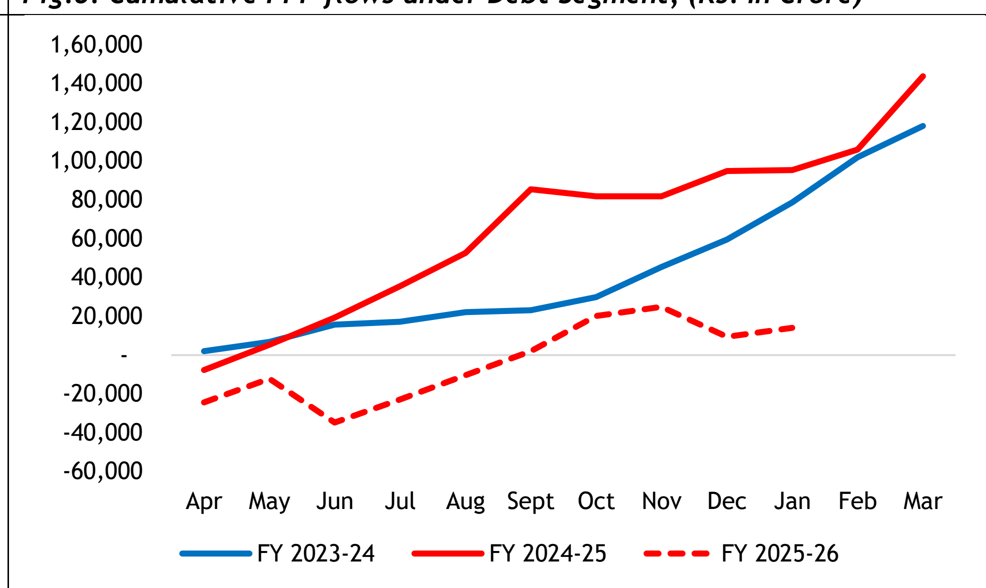
Source: CEIC, UBI Research

Fig.5: Negative Flows in FAR securities in Dec'25 Since Jun'25; (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
	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
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
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	0.65	-0.20	12.29	9.09	9.89	12.58	16.39	6.20	7.50	6.49	9.11	4.59	3.56	6.07
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	
Vehicle registrations (% y/y)	25.22	4.38	2.80	14.51	4.58	-5.29	33.50	10.54	-8.65	6.32	-4.91	1.17	2.61	6.13	5.70	-2.48	3.94	6.72	41.95	1.36	13.57
Exports (% y/y)	14.97	10.95	3.27	-5.25	-14.09	-0.96	16.60	-5.35	-1.53	-2.64	-10.86	0.85	-3.82	-1.23	-1.34	13.34	5.81	6.19	-11.87	19.38	
Imports (% y/y)	11.08	7.35	5.25	11.91	10.44	8.29	3.22	16.65	2.75	10.66	-14.81	12.13	20.00	-1.33	-3.41	9.10	-9.54	18.01	16.89	-1.89	
	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	
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	
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	
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	
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	
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	
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	
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

Source: CEIC, UBI Research

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