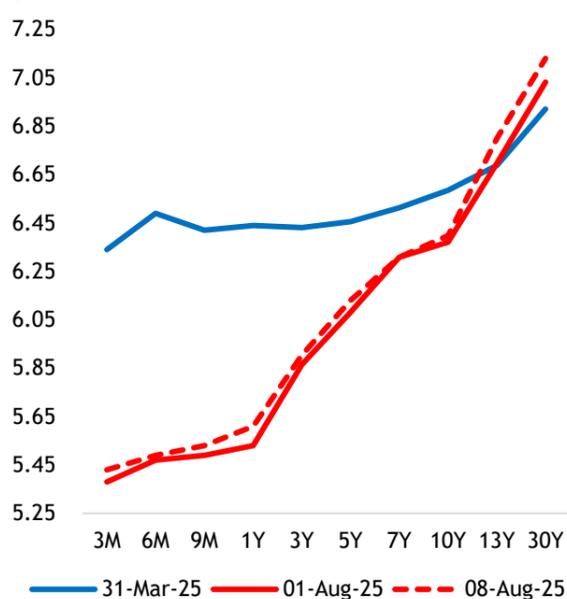


Fig.1: Movement of Yield curve W-o-W (%)



Source: Bloomberg, UBI Research

US 10-year Treasury yields held steady around 4.23% as weak labour data and downward revisions strengthened expectations of Fed rate cuts, though lingering inflation concerns and policy uncertainty from President Trump, including tariff moves and a new Fed nomination, kept markets cautious. On the domestic front, the RBI left the repo rate unchanged at 5.50% in its August policy, maintaining a neutral stance while policy guidance was balanced with hawkish streaks. This led the spike in G-Sec yields post MPC 10-year G-Sec yields rising to 6.40%, with mixed auction demand and a slight reversal in FAR flows in early August. Meanwhile, despite ample system liquidity, the overnight triparty repo rate briefly spiked to 6.00% due to late-day demand from banks, reduced lender participation and reporting Friday pressures.

US 10-Year Yield Holds Steady Amid Soft Data and Policy Uncertainty

- US 10-year Treasury yield stayed broadly unchanged around 4.23% during the week ending August 8, 2025, remaining close to a three-month low of 4.19% touched earlier in the week. Investors are becoming more confident that the US economy is starting to lose momentum, especially after weaker labour data and downward revisions to past job numbers. Expectations of rate cuts by the Federal Reserve gained strength, while the Treasury's move to increase bond buybacks also helped keep yields under control.
- At the same time, inflation concerns have not completely gone away, as seen in the relatively weak response to the latest 10-year bond auction. Overall, market sentiment remained cautious, waiting for more clarity on inflation trends and the Fed's next steps.
- During the week, Donald Trump made several announcements that added uncertainty to the markets. Early on, he announced a trade deal with the EU that included tariff reductions, but soon after, he announced new tariffs on countries that did not have trade agreements with the US. This back-and-forth created confusion among investors. He also dismissed the head of the Bureau of Labor Statistics, claiming the jobs data was being influenced politically, which raised questions about the reliability of future data. Other announcements included a proposal to combine Fannie Mae and Freddie Mac under a new government-backed entity and the nomination of economist Stephen Miran (a known dove) to the Federal Reserve Board. These moves made markets a bit cautious and kept investors alert to possible changes in economic policy.

Domestic Markets: Yields Steady, Auction Sentiment Mixed:

- India's benchmark 10-year G-Sec yield ended at 6.40%, up by 3 bps from the previous week. No rate cut at Aug'25 MPC has dampened hopes of those positioned saw softening of rates.
- At the Friday G-Sec auction (Rs.25,000 crore) the govt. sold Rs.11,000 Crore of 6.28% GS 2.32 and Rs.14,000 Crore of 7.09% GS 2074. RBI set a cut-off price of Rs.98.78 on the long term bond with a weighted average price of Rs.98.94. Banks picked up stock of the 6.28%, 2032 gilt. The central bank set a cut-off price of Rs. 99.64 on the gilt, a tad lower than a poll estimate of INR 99.65. Mutual funds also may have bid for the paper. The 2032 bond ended 30 paise down at Rs.99.54, and at a yield of 6.36%. Post auction in the last hour of trade, G-Sec were sold off across the tenures as a large investor likely exited its heavy position in long term bonds.
- Flows into FAR securities turned positive in July, with net inflows of Rs.7,750 Crore after three months of net outflows. However, August first week FAR securities witnessed an out flow of Rs.773 Crore.

India August MPC: Done "for now", yet space may open up for cuts later:

- The Reserve Bank of India's MPC kept the repo rate unchanged at 5.50% in its August 2025 meeting, held from August 4 to 6. This pause follows a total of 100 basis points of rate cuts since February this year. The policy stance was maintained as neutral, consistent with the shift made in the June meeting. The MPC indicated that while no immediate action is required, future rate decisions will be guided by incoming data on inflation and growth.
- The CPI inflation forecast for FY26 was lowered from 3.7% in June to around 3.1%, reflecting the continued disinflationary momentum in the economy. At the same time, the central bank retained its real GDP growth forecast at 6.5%, suggesting that domestic economic activity remains on track.
- The central bank has acknowledged the easing inflation trend but remains cautious given lingering global uncertainties and the need to monitor the transmission of earlier rate cuts.
- We continue to expect another 25-50bps rate cut in final leg of easing cycle to support the economy amid rising uncertainty post US-India trade deals stalemate. In this context, longer tenure bonds offer an opportunity to lock in yields since it is relatively stable supported by easing inflation expectations. Investors may consider gradually increasing duration, especially in the 10-year and beyond segment, as the risk-reward appears more favourable compared to the shorter end under current conditions.

TREPS Repo Rate Rises to 6.00% Amid Late-Day Liquidity Crunch:

- System liquidity surplus carried through July into August, touching Rs.2.46 lakh crore on 10th August. Government cash balances decreased from Rs.3.07 lakh crore (July 25) to Rs.1.44 lakh crore (Aug 01), widening the surplus slightly.
- To manage liquidity:
 - On Aug 06, RBI conducted a 2-day VRRR, absorbing Rs.67,755 crore at 5.49%, maturing August 8.
 - On Aug 07, a 1-day VRRR drew bids worth Rs.0.49 lakh crore at the same cut-off and same maturity date.
 - On Aug 08, RBI conducted a 6-day VRRR and a 3-day VRRR absorbing Rs.1,46,044 and Rs.13,045 respectively at 5.49% cut-off.
- The overnight TREPS rate surged to 6.00% after 2:30 PM IST on August 7, breaching the RBI's MSF rate of 5.75% for only the second time since June. The spike was driven by strong demand from banks, who had locked funds in recent VRRR auctions, and limited late-day lending from mutual funds, which typically deploy cash earlier in the session. The situation was further strained by upcoming Friday reporting, tightening short-term funding and pushing rates sharply higher. Though temporary, the move underscores the impact of timing mismatches in an otherwise surplus liquidity environment.

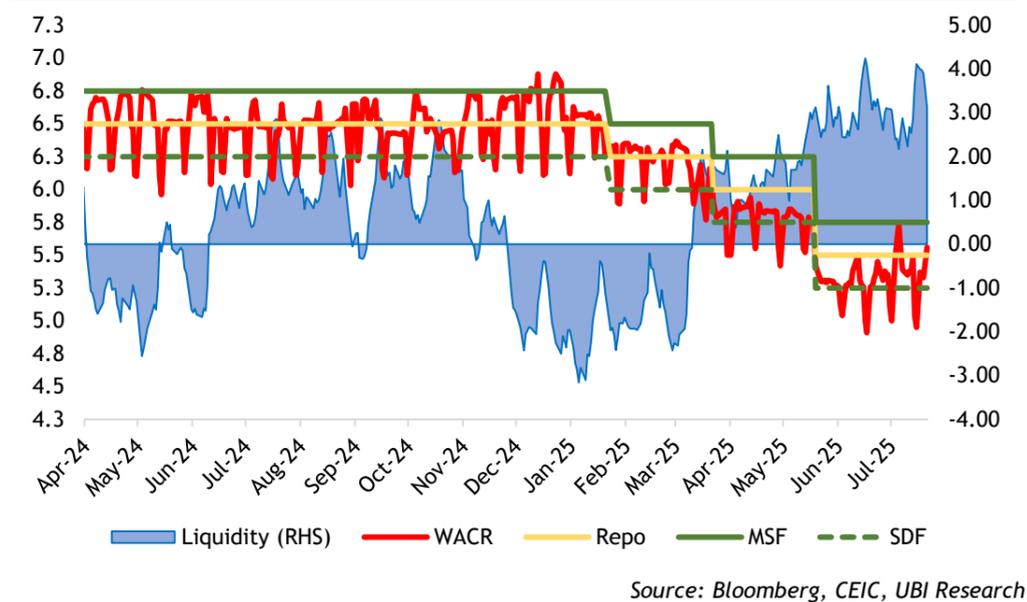
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Table 1: Market Snapshot Instrument	Yield (Aug 08)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.40%	+3 bps	Imposition of additional 25% tariff and lower demand kept yields elevated
1 Year T-Bill	5.61%	+8 Bps	T-Bills steepen
US 10 year Yield	4.28%	+7 bps	Policy uncertainty kept US yields up
Credit Growth (%) (as of 25 th Jul'25)	10.0%	+18 bps	Credit & Deposit growth increased on fortnight basis, while negative gap narrows
Deposit Growth (%) (as of 25 th Jul'25)	10.2%	+03 bps	
Credit Deposit Wedge (bps) (as of 25 th Jul'25)	(13)	+15 bps	

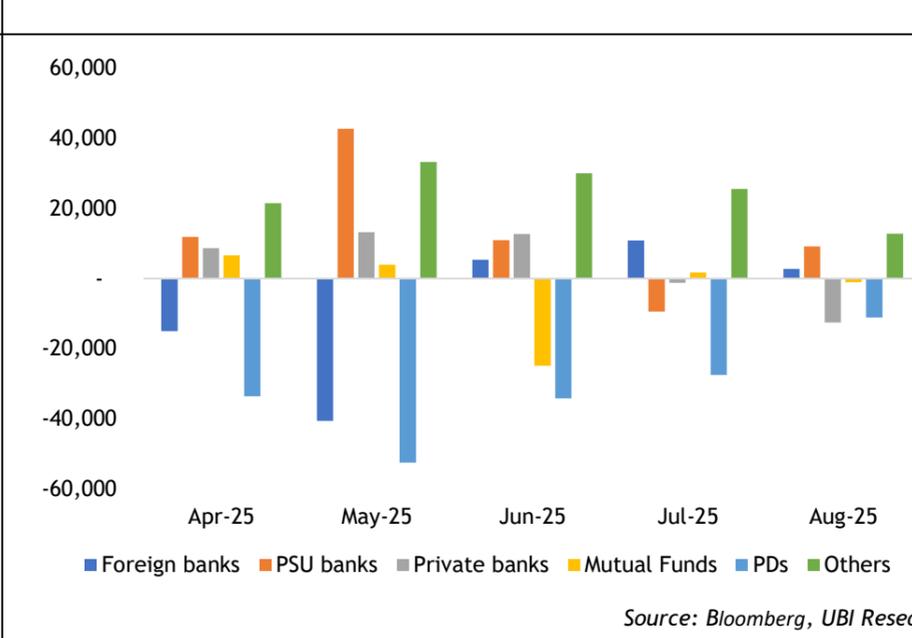
Source: RBI, CCIL, UBI Research

Fig.2: WACR managed to stay in the corridor, while intermittently spiked above repo rate; (%)



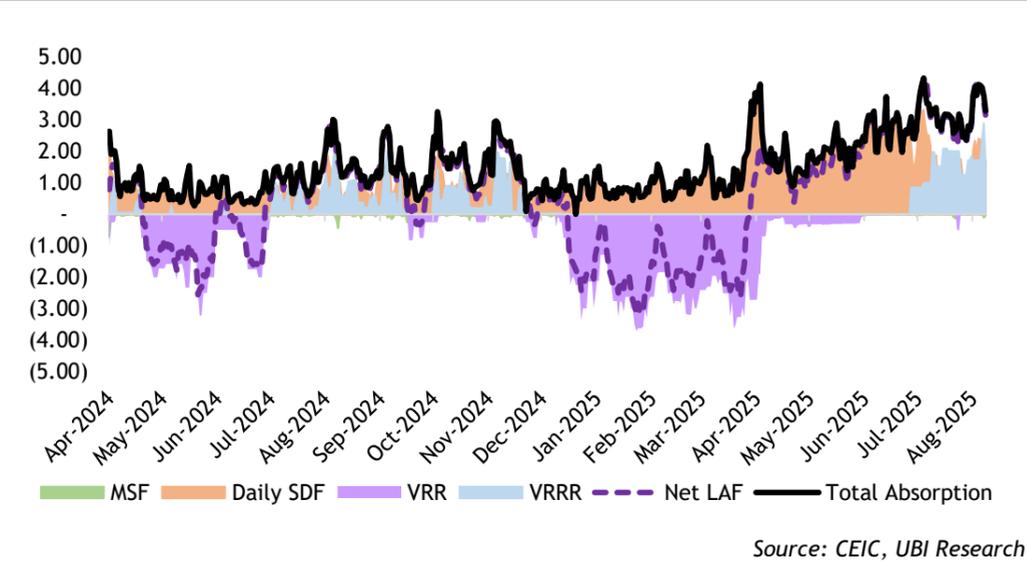
Source: Bloomberg, CEIC, UBI Research

Fig.3: Foreign Banks and PSU Banks are buyers in Aug'25; Rs. in Crore



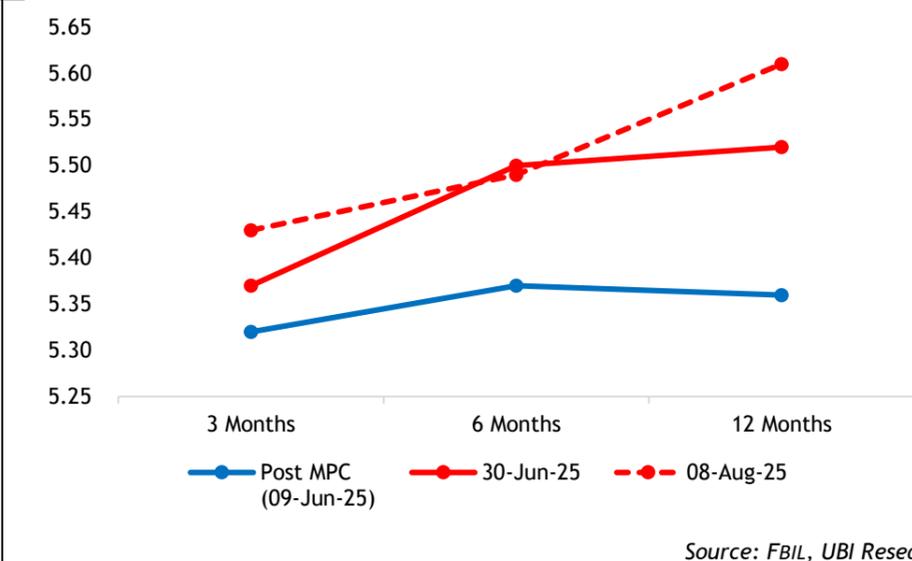
Source: Bloomberg, UBI Research

Fig.4: Surplus liquidity primarily absorbed through VRRR ; (Rs. In lakh Crore)



Source: CEIC, UBI Research

Fig.5: T-Bill curve steepening in Aug'25; (%)



Source: FBIL, 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
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
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
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	9.89	12.58	16.39	6.20	7.50
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	
Vehicle registrations (% y/y)	27.01	3.42	1.63	14.22	3.55	-7.38	33.85	13.89	-11.64	7.76	-5.34	0.71	3.44	6.00	5.32	-3.87
Exports (% y/y)	1.98	13.27	2.44	0.63	-9.93	-0.30	16.57	-5.30	-1.53	-2.62	-11.08	0.66	8.60	-2.28	-0.06	
Imports (% y/y)	11.07	7.30	4.64	11.19	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.13	-1.73	-3.71	
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	
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	4.43	
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
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	10.05	10.17
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
WALR O/s Rupee Loans (%)	9.81	9.81	9.89	9.89	9.89	9.88	9.88	9.87	9.86	9.85	9.78	9.75	9.68	9.67	9.45	
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	
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	
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	
MCLR 1 Year - Median	8.85	8.79	8.85	8.85	8.93	8.95	8.95	9.00	9.00	9.00	9.05	9.00	9.00	8.95	8.90	8.75

Source: CEIC, UBI Research

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