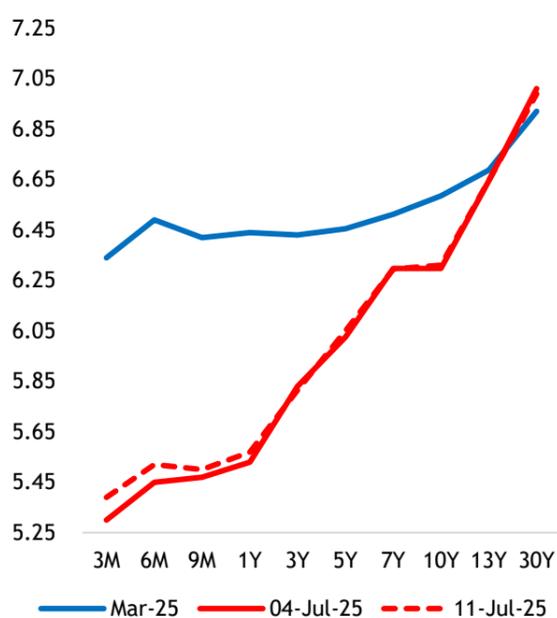


Fig. 1: Money Market curve (below 1 Yr) moved up (%)



Source: RBI, UBI Research

India's bond market stayed steady amid abundant liquidity, with a surplus nearing Rs. 3 lakh crore. The RBI's active use of Variable Rate Reverse Repo (VRRR) auctions successfully kept short-term rates close to the repo rate, prompting banks to shift away from passively parking funds in the SDF. This drove the Weighted Average Call Rate above the repo level to 5.55%, traded above repo rate while it settled at 5.45% on Friday. Meanwhile, the 10-year G-Sec yield held firm around 6.31%, buoyed by strong demand at recent auctions and cautious optimism as investors awaited clarity on US-India trade negotiations and the RBI's ongoing liquidity operations. On the global front, rising trade tensions pushed US Treasury yields up, as expanded tariffs stoked fresh inflation fears despite resilient economic data and the Fed's steady policy stance. The 30-year Japanese government bond yield climbed above 3% for the first time since 2000 amid mounting fiscal worries ahead of the upper house election and speculation about further fiscal stimulus.

Tariff Announcements and Fed Signals Push US Yields Higher; Japan's 30-Year JGB Breaks 3%:

- Last week, US 10-year Treasury yields hovered near 4.36%, amid heightened volatility driven by escalating trade tensions and shifting monetary policy expectations. President Trump's announcement of a 35% tariff on Canadian imports from August 1, along with 15-20% tariffs on multiple global partners and 50% tariffs on copper and Brazilian goods, fueled inflation fears and pushed yields higher, especially in the 3- to 5-year segment.
- Despite trade concerns, economic data remained strong. Initial jobless claims fell below expectations for the fourth consecutive week, and a robust non-farm payrolls report underscored a resilient labor market. On the policy side, Chicago Fed President Austan Goolsbee emphasized the Fed's focus on inflation and employment rather than fiscal pressures, signaling no immediate rate cuts despite borrowing cost debates.
- Later in the week, Treasury yields eased following a strong 10-year note auction, with the 10-year yield dipping about 7 basis points to 4.33%. Meanwhile, the delay of tariff hikes to August 1 was seen not as a de-escalation but confirmation of ongoing trade risks, reigniting inflation worries and driving a global repricing of yields.
- Japanese government bond yields moved higher across the curve, as political and fiscal uncertainties weighed on sentiment ahead of the July 20 Upper House election. Investors demanded a risk premium amid concerns over the minority Ishiba government's hardline stance on auto tariffs and fears of a weak electoral outcome. The 2-year JGB yield rose to 0.75%, while the 10-year yield climbed to 1.49% by July 10, later peaking at 1.52%—its highest level in over a month. The 30-year yield jumped 10.5 basis points to 3.145%, nearing its record high of 3.185%.

VRRR auction held twice in this week which anchored call rate near Repo:

- System liquidity remains ample, with a surplus of Rs. 2.94 lakh crore as of July 13. The government's cash balance fell from Rs. 2.92 lakh crore (June 27) to Rs. 1.46 lakh crore (July 4), while overall liquidity increased from Rs. 3.01 lakh crore to Rs. 4.25 lakh crore, mainly due to month-end government spending.
- Funds parked in the SDF plunged sharply to Rs. 1.32 lakh crore from Rs. 3.32 lakh crore (July 4), reflecting banks' growing preference for actively bidding in Variable Rate Reverse Repo (VRRR) auctions to earn better returns and align with overnight call rates.
- During the week, RBI conducted a 2-day VRRR auction on July 9, receiving offers of Rs. 0.97 lakh crore against Rs. 1 lakh crore allotted, with a cut-off rate of 5.49%. This was followed by a 7-day VRRR on July 11 for Rs. 2.5 lakh crore, with Rs. 1.51 lakh crore offered and the same cut-off rate. Lower bids at the 7-day auction were partly due to fortnightly reporting pressures.
- These VRRR operations pushed short-term rates higher, with the Weighted Average Call Rate (WACR) rising from 5.26% early in the week to 5.45% by Friday, and further to 5.55% after the announcement of large 7-day VRRR auction—trading above the repo rate.
- Looking ahead, markets expect RBI to continue short-tenor (2-7 day) VRRR auctions for flexible liquidity management, with speculation of larger auctions (Rs. 2-3 lakh crore) to keep surplus liquidity close to 1% of Net Demand and Time Liabilities (NDTL). Daily VRRR activity is anticipated to prevent overnight rates from slipping below the SDF rate, supporting smooth monetary transmission. That said, given that the liquidity management framework fundamentally calls for WACR aligning with call rate (even if the RBI Governor has hinted that it may slip lower in periods of surplus liquidity), we will keep a close eye on further VRRR announcements.
- Separately, the RBI's proposed Secured Overnight Rupee Rate (SORR) benchmark, introduced in December 2024 to strengthen the interest rate derivatives market, is now published daily by Financial Benchmarks India Pvt. Ltd. on its website. During the week of July 7-11, SORR rose from 5.16% to 5.39%.

10 year G-Sec remained range bound, all eyes on US India trade deal:

- The 10-year (new) benchmark closed the previous week at 6.31%. From the past few weeks, 6.33% in new benchmark and c.6.40% to old benchmark has acted as support to bond markets. Market is looking for more cues as the range for last week was limited to 5bps (6.28%-6.33%).
- Auction on Friday of Rs.25,000 Crore were on better than expected. Demand for both the new 2032 bond and the 7.09%, 2074 bond was robust, as banks picked up the 2032 bond for their asset and liability management, while insurance companies and provident funds picked up the long-term paper. The RBI set a coupon of 6.28% on the 2032 bond, against expectation of 6.29%. The cut-off price on the 2074 bond was set at INR 99.12, higher than INR 98.91 market estimates. Gains during the day were capped, however, as some traders trimmed positions ahead of the weekend, and due to persistent fears that overnight borrowing rates could rise further due to the RBI's VRRR auctions.
- Trump had pushed back his reciprocal tariff deadline of Jul. 9 to Aug. 1 for many countries earlier this week, to allow more time for negotiations. However, he escalated the trade war by coming up with new tariff rates for a number of countries, including Japan and South Korea, along with a 50% tariff on copper. With Trump's latest barrage of tariffs on countries, market participants have turned cautious, with most awaiting further developments on the India-US trade deal.

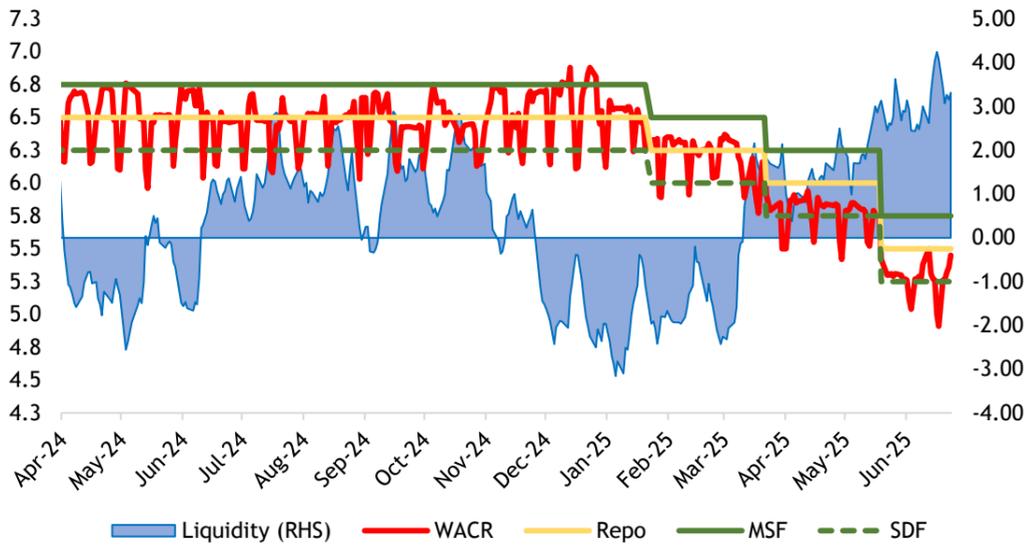
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Table 1: Market Snapshot Instrument	Yield (Jul 11)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.31%	+1 bps	Range bound awaiting cues
1 Year T-Bill	5.57%	+4 Bps	Follow up VRRR announcement brought T-Bill rates above Repo rate
US 10 year Yield	4.41%	+6 bps	Tariff fears pushed up long-term yields
Credit Growth (%) (as of 27 th Jun'25)	9.5%	-16 bps	Credit & Deposit growth lowered on fortnight basis, while negative gap narrows
Deposit Growth (%) (as of 27 th Jun'25)	10.1%	-31 bps	
Credit Deposit Wedge (bps) (as of 27 th Jun'25)	(60)	+15 bps	

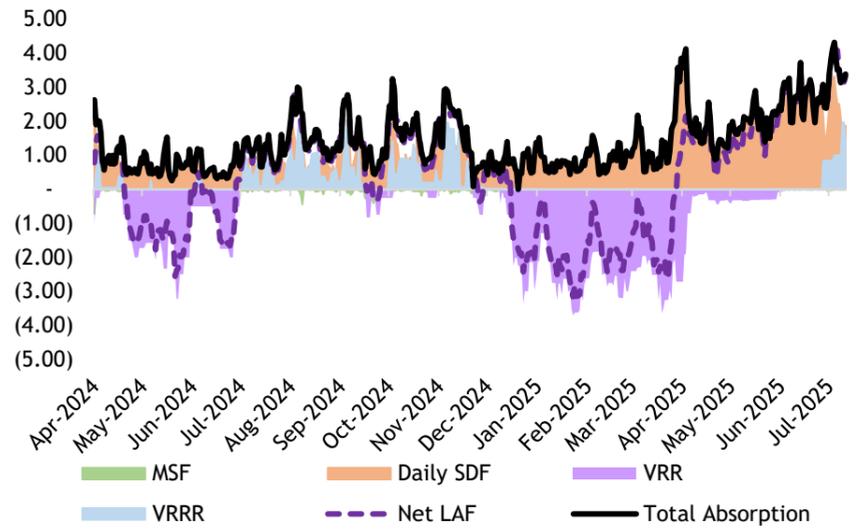
Source: RBI, CCIL, UBI Research

Fig.2: WACR stayed in the lower band of LAF, while moving closure to Repo rate as follow up VRRR are announced; (%)



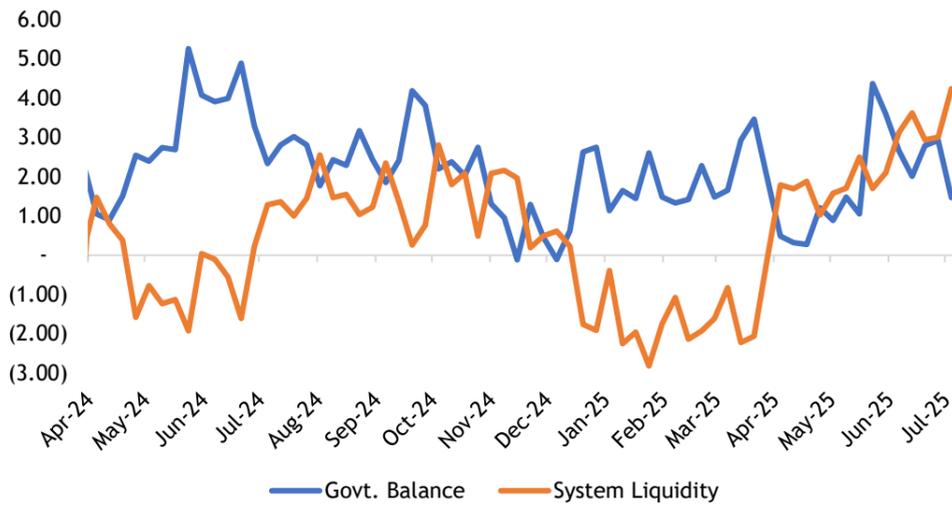
Source: Bloomberg, CEIC, UBI Research

Fig.3: Parking of liquidity is now being divided between SDF and high yielding VRRR; Amount in Rs. Lakh Crore



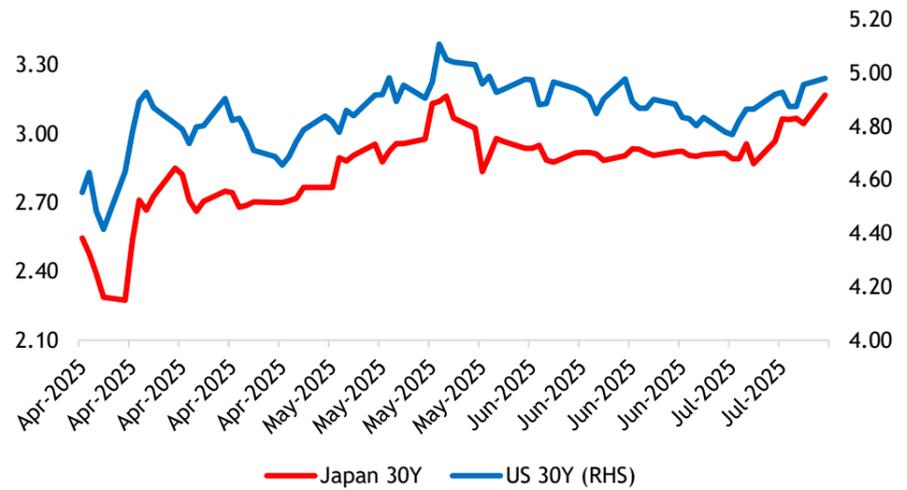
Source: CEIC, UBI Research

Fig.4: Dip in Govt. Balance kept the system liquidity buoyant on account of month end spending; Amount in Rs. Lakh Crore



Source: RBI, UBI Research

Fig.5: Japan 30 year yields moved above 3%; (%)



Source: Refinitive, 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
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
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
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
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	
Vehicle registrations (% y/y)	26.72	3.17	1.82	14.33	3.52	-7.56	35.42	13.92	-10.67	7.20	-5.86	0.50	3.57	5.87	5.29
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	9.02	-2.18	
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	
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	12.53	12.26	11.03	10.09	8.96	9.46
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	10.05
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	79.20
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	
WALR Fresh Rupee Loans (%)	9.55	9.39	9.32	9.40	9.41	9.37	9.54	9.40	9.25	9.32	9.40	9.35	9.26	9.20	
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	
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	
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

Source: CEIC, UBI Research

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