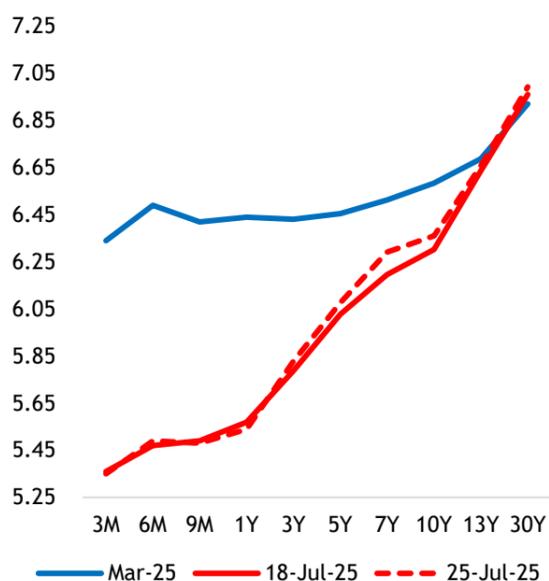


Fig.1: Movement of Yield curve W-o-W (%)



Source: Bloomberg, UBI Research

Global trade tensions eased as the U.S. finalized major trade deals with both the EU and Japan, helping stabilize the U.S. 10-year Treasury yield at 4.39%. The pacts, which reduce previously threatened tariffs and secure large-scale energy and investment commitments from allies, have lowered near-term volatility but introduced medium-term inflation concerns. Market attention now shifts to the upcoming FOMC meeting, where the Fed is expected to hold rates steady amid evolving price dynamics. In India, RBI Governor Malhotra signaled a neutral policy stance backed by data-driven decision-making, prompting a mild hardening in 10-year G-Sec yields to 6.36%. Liquidity remains in surplus but is being actively managed via VRRR/VRR operations to smooth short-term imbalances. Meanwhile, renewed inflows into FAR securities signal steady long-end demand, hinting at a potential flattening of the yield curve. Markets remain watchful on Liquidity Management Framework to be released.

Trade deals finalized with EU and Japan, FOMC eyed

- The US 10-year Treasury yield closed slightly lower from 4.42% to 4.39%, stabilizing after sharp swings earlier in the week as investors digested ongoing trade developments and looked ahead to next week's Federal Reserve policy decision. On the monetary policy front, the Fed is widely expected to leave rates unchanged as it evaluates the inflationary impact of these new tariffs. Meanwhile, President Donald Trump softened his stance on Fed Chair Jerome Powell following a historic visit to the Federal Reserve's headquarters, stating he has no plans to dismiss him. Markets are currently pricing in 43 basis points of rate cuts by the end of 2025, with reductions expected in both September and December.
- On July 22-23, 2025, US and Japan finalized a comprehensive trade and investment agreement. Under the deal, Japanese exports—including automobiles and industrial goods—will face a 15% reciprocal tariff, down from the previously threatened 25%-27.5% rate. At the same time, Japan commits to a \$550 billion investment vehicle, with 90% of returns earmarked for American stakeholders
- The US and EU have announced a framework trade agreement averting a major tariff escalation, with the U.S. imposing a 15% tariff, down from a proposed 30%, on most EU exports including autos and semiconductors, while retaining 50% duties on steel and aluminium. In return, the EU has committed to \$750 billion in U.S. energy purchases and \$600 billion in US investments. Strategic sectors like aircraft and generics are exempt under a zero-tariff pact. While the deal reduces near-term trade tensions and supports transatlantic stability, it introduces medium-term inflationary risks due to elevated import costs and leaves key sectors unresolved—factors that could impact eurozone growth, trade balances, and sovereign credit spreads.

RBI Governor said Bar is higher for further easing

- Governor Malhotra emphasized that the RBI's monetary policy stance has shifted decisively from one of tight control to a more flexible and responsive posture. With headline CPI inflation easing significantly—from a peak of 7.8% in April 2022 to 2.1% as of mid-2025—the central bank has been able to implement a cumulative 100 basis point cut in the repo rate, signaling a clear change in policy direction. He noted that the stance has officially moved to 'neutral', giving the RBI scope to either ease or hold rates based on future developments. However, the Governor was careful to underline that while the "battle" against inflation may be temporarily won, the "war" is not over. Maintaining price stability remains the RBI's foremost objective, and the central bank will continue to assess risks carefully in its inflation outlook.
- Governor Malhotra reiterated that future interest rate decisions will remain data-dependent, guided not just by current inflation and GDP data but also by forward-looking projections and global macroeconomic risks. The RBI's approach is evidence-based and consultative, with regular stakeholder engagement built into its policy process. Importantly, the Governor emphasized that the central bank retains enough policy ammunition, including both conventional and unconventional tools, to manage the trade-offs between sustaining growth and containing inflation. He also noted that the monetary transmission mechanism is functioning effectively: new loan rates have already dropped by around 50 bps in response to the policy easing, reflecting improved alignment between RBI guidance and bank-level credit pricing.

10-Year G-Sec hardened at close

- India's 10-year benchmark yield closed at 6.36%, as traders who were betting on rate cut in August unwound their positions post RBI Governor indicated that MPC would look more to the outlook for next 6 to 12 months than at current inflation and GDP data to base its policy rate decisions.
- At the Friday G-Sec auction, Rs.36,000 crore of securities were successfully issued. The 5.91% 2028 bond cut-off came in little higher than market expectations due to strong demand from PSU banks. Also, the 10 year benchmark, 6.33%, 2035 bond whose cut off came in at Rs.99.95 where bids were put from PSU Banks, Foreign Banks, insurance and pension funds.
- On the FAR securities, during Jul'25, net flows have improved to positive of Rs.6,035 crore while remaining negative in past 3 months consecutively. As the flows during Jul'25 are more inclined to tenure beyond 10 year, we expect yield curve to flatten as the long tenure bonds demand remains intact from Insurance and pension funds (Read our Report: [We see VRRR as a trend shift](#)).

Liquidity Surplus Continues with VRRR and VRR both active in previous week

- System liquidity remains ample, with a surplus of Rs.2.88 lakh crore as of July 25. The government's cash balance dropped from Rs.2.22 lakh crore (July 11) to Rs.2.11 lakh crore (July 18), while overall surplus liquidity narrowed from Rs.3.32 lakh crore to Rs.3.10 lakh crore during the week.
- During the week ending 25th Jul'25, RBI conducted back-to-back VRRs, Rs.50,000 crore each for 2-day and 1-day tenors, following a Rs.2.0 lakh crore VRRR on 18th Jul (reversed on 25th). Despite overall surplus liquidity, temporary tightness from GST outflows and funds locked in VRRRs pushed WACR to 5.73%, near the MSF rate. The RBI's dynamic use of VRR operations helped manage short-term liquidity mismatches and stabilize overnight rates. Going ahead, we need to watch out on the Forex swap due for expiry on 04th Aug'25 of \$ 5.1 Bn and Liquidity Management Framework to be released.

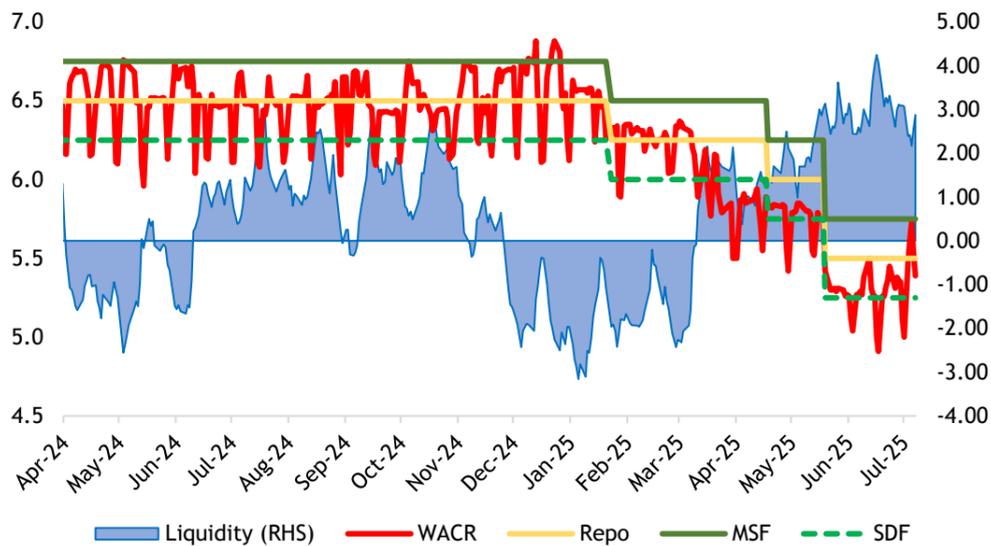
By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Table 1: Market Snapshot Instrument	Yield (Jul 25)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.36%	+6 bps	Hardened post RBI Governor said MPC to consider outlook of 6 to 12 months hence for its decision
1 Year T-Bill	5.54%	-3 Bps	VRR announcement made T-Bill curve flatten
US 10 year Yield	4.39%	-3 bps	Digesting trade deals and awaiting FOMC decision
Credit Growth (%) (as of 11 th Jul'25)	9.8%	+34 bps	Credit & Deposit growth increased on fortnight basis, while negative gap narrows
Deposit Growth (%) (as of 11 th Jul'25)	10.1%	+09 bps	
Credit Deposit Wedge (bps) (as of 11 th Jul'25)	(33)	+25 bps	

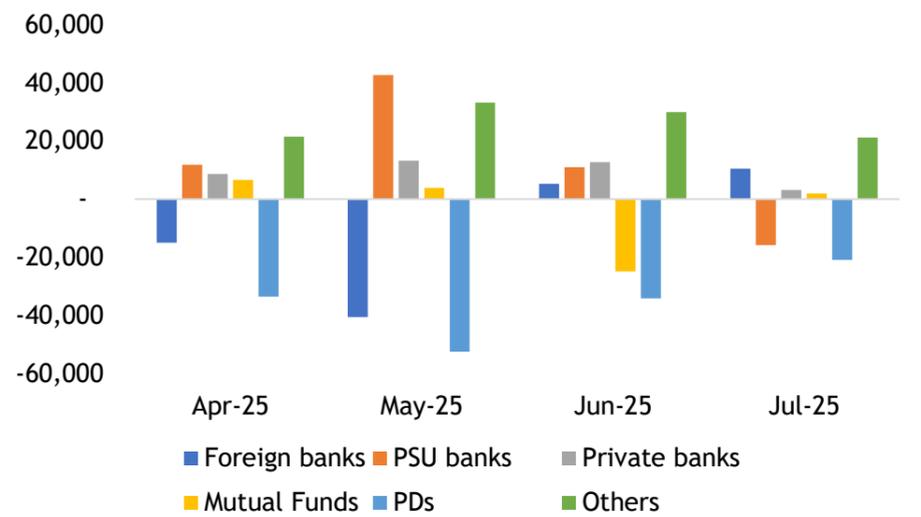
Source: RBI, CCIL, UBI Research

Fig.2: WACR stayed moved closure to Repo rate as VRR are announced; (%)



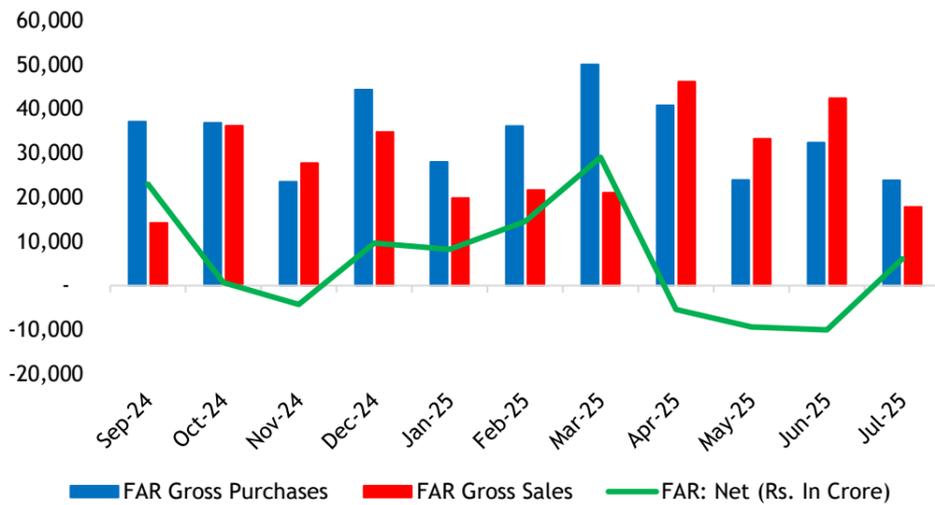
Source: Bloomberg, CEIC, UBI Research

Fig.3: Foreign Banks and Private Banks have turned buyers in last two months; Rs. in Crore



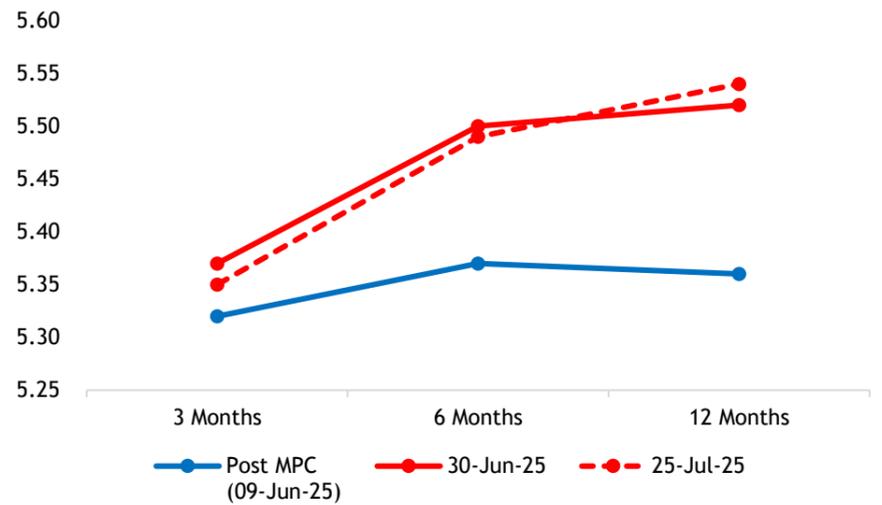
Source: CEIC, UBI Research

Fig.4: FAR securities flows turned positive in Jul'25 since Mar'25 ; (Rs. In Crore)



Source: CEIC, UBI Research

Fig.5: T-Bill curve continues to steepen in Jul'25; (%)



Source: RBI, 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	59.20
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	59.80
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	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	
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	
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	
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

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

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