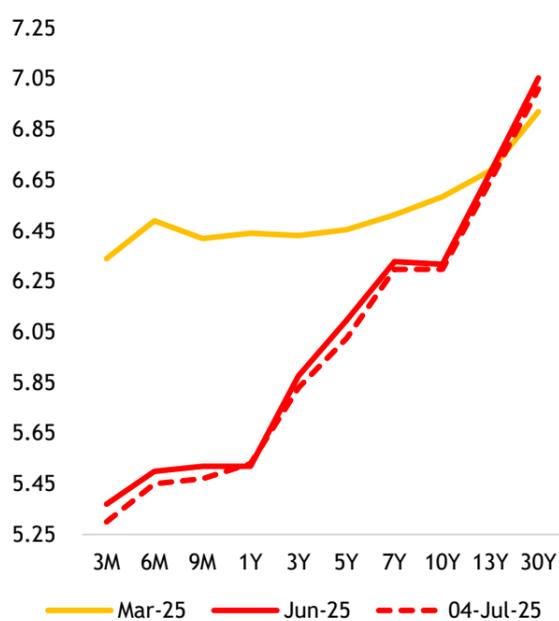


Fig.1: Yield curve steepening halts as 30Y-10Y spread stagnates



Source: RBI, UBI Research

Robust US payrolls (147k vs. 110k est.) and a dip in unemployment to 4.1% sent the 10Y Treasury yield to 4.35%, as markets priced out a July Fed cut and trimmed expectations for 2025 easing. Sentiment was further buoyed by Trump's proposed "One Big Beautiful Bill," boosting fiscal optimism. Powell remained non-committal on rate cut as early as July but stressing data dependence amid tariff-related risks. In India, a mini trade deal with the US is expected shortly, aiming to preserve export access and avoid fresh tariffs—key for FX dynamics and trade flows. Despite a surplus of Rs.4.08 lakh crore, RBI rolled over only Rs.1.0 lakh crore via VRRR, signaling intent to anchor WACR near SDF rather than shift stance. G-Sec yields stayed range-bound (~6.30%) amid solid auction demand and early FPI interest in FAR bonds.

US 10 year climb on strong data and fading cut hopes:

- US Treasury yields rose sharply last week, with the 10-year yield hitting 4.35% by July 3, driven by a stronger-than-expected June payrolls report (147k vs. 110k forecast) and a drop in unemployment to 4.1%. The data signaled a resilient labor market, prompting markets to scale back expectations for near-term Fed rate cuts and reprice the policy path.
- Rate cut odds for July fell to near zero, with September also in question, as the Fed's guidance now implies only two cuts in 2025. Beyond the data, markets were also buoyed by Trump's proposed "One Big Beautiful Bill", fueling fiscal optimism. Persistent Treasury supply and rising geopolitical risks, including tariff concerns, added to upward pressure on yields, especially at the long end, even as inflation shows signs of easing.
- At the ECB forum on July 1, Fed Chair Powell struck a cautious tone, open to a rate cut as early as July but emphasizing a data-dependent approach. He noted that without tariff risks, policy could have been more accommodative. The combination of strong data, fiscal expectations, and Powell's measured stance has reinforced elevated yields and persistent rate volatility in the near term.

India - US Mini Trade Deal on close watch given the impact on Fx market dynamics:

- As per media reports, India and US are set to finalize a mini trade deal, with an official announcement expected within the next 24 to 48 hours. The agreement is intended to prevent a tariff escalation ahead of the July 9 deadline, when a suspended 26% US tariff on Indian goods could be reinstated. Under the deal, India will receive annual tariff quotas with average duties around 10% on select exports. This will primarily benefit labor-intensive sectors such as textiles, leather, and gems by improving access to the US market.
- In exchange, India is expected to lower tariffs on a narrow set of US agricultural products, including pecan nuts and blueberries. However, it has held firm on protecting sensitive categories such as wheat, rice, maize, dairy, and genetically modified crops. These exclusions reflect India's longstanding concerns about food security and rural livelihoods. Both countries have agreed that broader agriculture and dairy issues will be addressed in the next phase of negotiations.

VRRR auction only rolled over amount thereby keeping call to SDF:

- Currently, the system liquidity is in surplus of Rs.4.08 lakh crore (as of 06th Jul'25). The govt. balance has increased from Rs.2.79 lakh crore (as of 20th Jun '25) to Rs.2.92 lakh crore (as of 27th Jun'25) while the system liquidity moved from Rs.2.94 lakh crore to Rs.3.01 lakh crore in the same period.
- While in our recent research we see VRRR as trend shift (Read our Report: [We see VRRR as a trend shift](#)), given the VRRR auction amount was lower than expected despite liquidity surplus rising above Rs.4.0 lakh crore we acknowledge that it is probably not a trend shift rather RBI defending WACR slipping below SDF. 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.
- A rollover VRRR was conducted on 04th Jul'25 where total offers received were Rs.1.70 lakh crore against the announced/accepted amount of Rs.1.00 lakh crore with a cut-off of 5.47%. Markets were fearing that RBI may conduct an auction of Rs.1.50 lakh crore or more as liquidity spurted to more than Rs.4.0 lakh crore.
- The WACR jumped to 5.50% at the start of the week and softened to 5.00% on Friday. The new timings for the call money market became effective from 1st July 2025. Following this, the volume under the call segment rose to Rs. 0.17 lakh crore on 3rd July, compared to Rs.0.13 lakh crore on 30th June 2025. However, the average call money volume over the past three months has remained around Rs. 0.13-0.14 lakh crore, a trend that has continued in July 2025 so far.

10 year G-Sec remained range bound:

- The 10-year (new) benchmark closed the previous week at 6.30%. 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.32,000 Crore were on expected lines. However, the bid-cover ratio at the auction, at three times the notified amount, was better than expected and reflected firm demand. Few banks bid for a large quantum of the new 2040 bond to add to their available-for-sale portfolios. Issued at par at a coupon of 6.68%, the 2040 bond ended at Rs. 100.35. Some banks missed out on the new bond and aggressively bought it in the secondary market. This led to a spurt in short-covering in the 15-year benchmark 6.92%, 2039 bond, and helped it to recover all losses by the end of the day.
- Traders had expected insurers would demand higher yields to pick the 40-year benchmark gilt at the debt sale. With the cut-off price slightly better, traders were caught on the wrong foot as they had expected long-term bond prices to continue to fall. Some foreign banks likely bid for the 6.90%, 2065 gilt on the view that its spread over the 10-year benchmark, at around 80 basis points, was lucrative.
- Foreign Portfolio Investors (FPIs) have largely remained on the sell side in the debt segment during two out of the three months in FY26 so far. In particular, June 2025 saw net outflows, with selling pressure concentrated in FAR (Fully Accessible Route) securities, especially in maturities below 5 years, while an uptick is visible in the first week of July 2025 with buying in FAR securities.

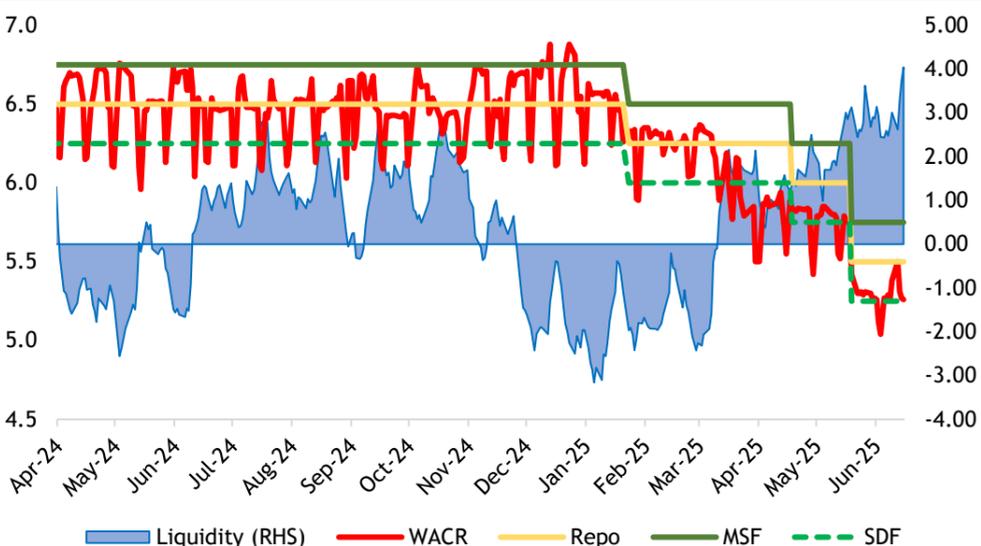
By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Table 2: Market Snapshot Instrument	Yield (Jul 04)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.30%	+1 bps	Post VRRR stable yet sensitive
1 Year T-Bill	5.53%	-	VRRR announcement brought up T-Bill rates close to Repo rate
US 10 year Yield	4.35%	+8 bps	A shift in sentiment after June's payroll data beat forecasts (147k vs. 116k expected)
Credit Growth (%) (as of 13 th Jun'25)	9.6%	+48 bps	Credit & Deposit growth up on fortnight basis, while negative gap continues
Deposit Growth (%) (as of 13 th Jun'25)	10.4%	+66 bps	
Credit Deposit Wedge (bps) (as of 13 th Jun'25)	(74)	+18 bps	

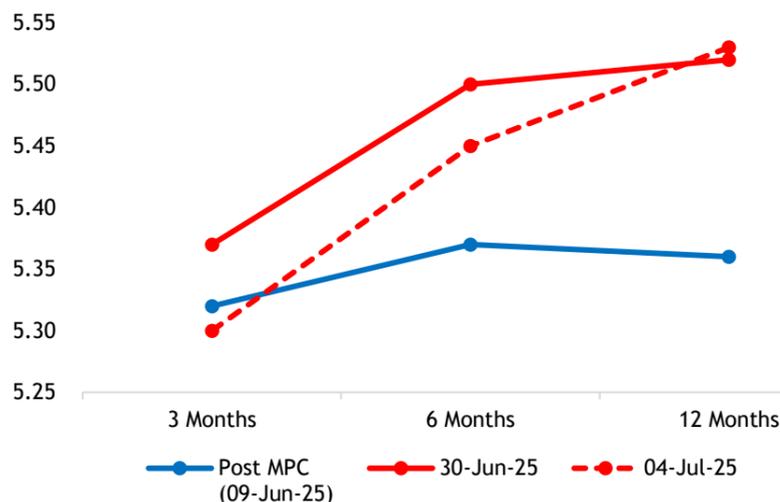
Source: RBI, CCIL, UBI Research

Fig.2: WACR stayed in the lower band of LAF



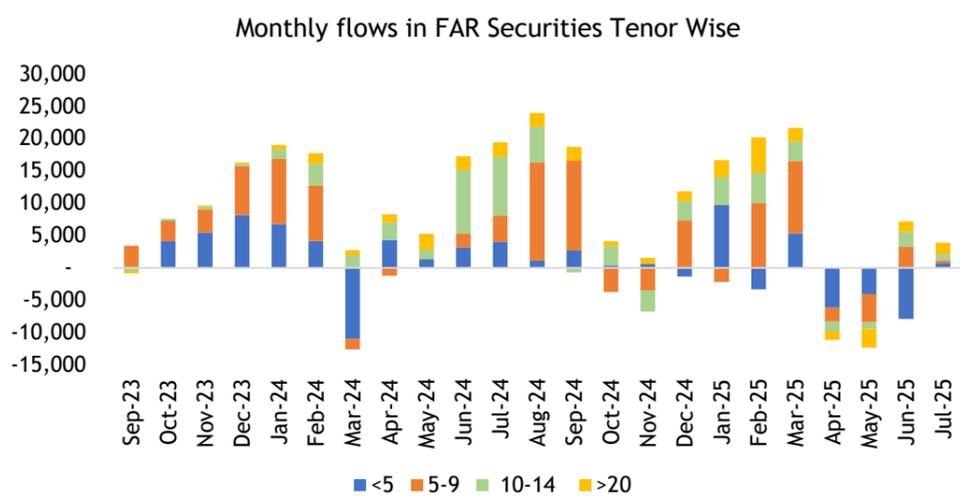
Source: Bloomberg, CEIC, UBI Research

Fig.3: T-Bill curve moved upwards due to VRRR auction announcement and its roll over



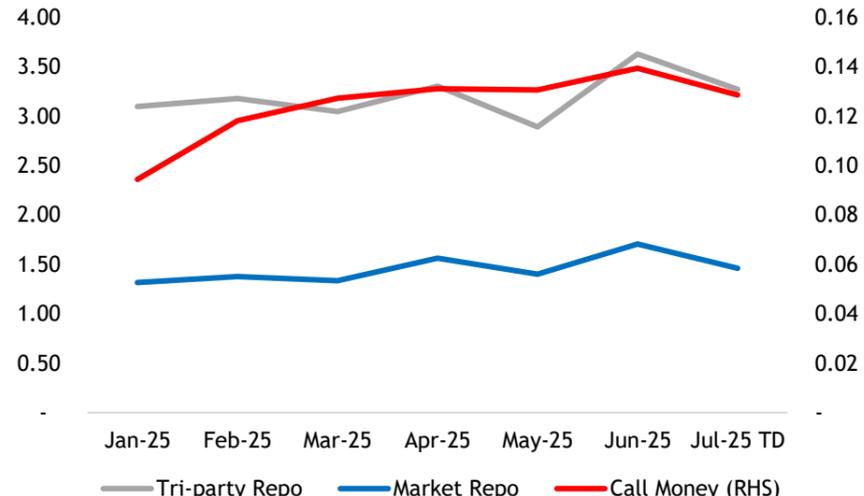
Source: FBIL, UBI Research

Fig.4: FAR securities witnessing selling in selective maturity (below 5 years) in Jun'25; Amount in Rs.Crore



Source: NSDL, UBI Research

Fig.5: Average Call Money and TREPS volume increased slightly with the increase in timings wef 01st Jul'25



Source: CEIC, UBI Research

Table 3: 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	1.83	14.32	3.52	-7.56	35.42	13.92	-10.67	7.19	-5.87	0.50	3.55	5.81	4.80
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	
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	4.17	
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	
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	
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	
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
R Gunaseelan	gunaseelan@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.