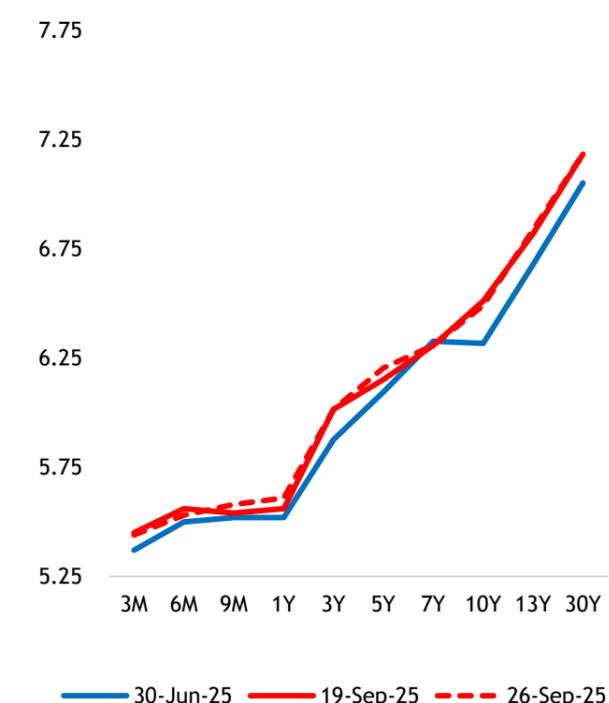


30th Sep 2025

Fig.1: Yield curve movement on W-o-W basis; (%)



Source: Bloomberg, UBI Research

In India, the 10-year yield climbed to 6.55% as markets reacted to supply concerns ahead of the H2FY26 borrowing calendar, which showed a tilt towards mid-tenor bonds. Liquidity tightened amid advance tax outflows, while FPI flows under Debt segment moderated on rupee weakness. Looking ahead, the October 1 MPC outcome will be critical for near-term yield direction. We believe a dovish pause, accompanied by a downward CPI revision and cautious growth guidance would offer stronger support to bonds than a hawkish cut (similar to FOMC outcome). Communication will be the key and reiterating phrases like “the bar for easing remains high” could blunt the effectiveness of any dovish intent. Our long-duration [trade call](#) continues to perform well, while the 10-year trade remains under pressure due to SDL supply and belly-heavy issuance. We remain watchful of MPC communication on CPI & GDP outlook and potential liquidity for the bond market segment to address yield curve distortion.

US 10-Year Yield edges higher on strong data, capped by dovish Fed tone:

- During U.S. 10-year Treasury yield trended modestly higher during the week, as a series of strong economic indicators reinforced expectations of resilient growth. The yield began the week around 4.15% and moved up toward 4.20% by midweek, before easing slightly on Monday as dovish Fed commentary tempered market sentiment.
- Early in the week, yields dipped slightly on softer-than-expected PMI data and cautious Fed speak. However, Wednesday’s upside surprise in August new home sales – which surged to 800K vs 650K expected – signaled housing market strength, pushing yields higher. A well-received 5-year Treasury auction helped absorb some of the pressure, but the underlying tone remained firm.
- Thursday saw the most notable rise in yields as Q2 GDP was revised up to 3.8%, while durable goods orders and jobless claims also beat expectations. This combination of solid growth and labor market data led markets to reassess the likelihood of near-term rate cuts, sending the 10-year yield toward weekly highs around 4.20%.
- On Monday, September 29, pending home sales data extended the housing strength, but dovish remarks from Fed officials, including Governor Waller and NY Fed’s Williams, helped cap further yield upside. By the end of the period, the 10-year yield had settled just below its highs, wrapping up a week driven largely by economic resilience balanced by a cautious central bank tone.

India 10-year yield rises on supply concerns and caution ahead of MPC decision:

- The India’s 10-year benchmark yield rose steadily over the week ended September 26, 2025, as markets positioned ahead of the government’s second-half borrowing calendar. The move was driven by expectations of increased bond supply, global yield pressures, and cautious sentiment around fiscal dynamics.
- During the week of September 22-26, the 10-year yield moved from around 6.49% to close at 6.52% – its highest in over three weeks. Traders reacted to signals of elevated supply risk, with auction cut-offs and issuance expectations weighing on sentiment. Rising U.S. Treasury yields and external trade uncertainties added to the cautious tone, prompting demand for higher term premiums in the domestic market.
- On September 29, the government announced it would raise the weekly auction size to ₹320 billion and increase the share of 10-year bonds to over 28% of total borrowings for H2 FY26. The market reacted swiftly, pushing the 10-year yield up to 6.55%, reflecting concerns over duration supply and the absorption capacity of the market in the weeks ahead.
- System liquidity fell to a three-month low of Rs.0.55 lakh crore due to advance tax outflows, pushing overnight money market rates higher as Sep-25 average liquidity has dropped. RBI through variable rate repo (VRR) auctions and government spending may ease liquidity pressures by month-end.
- Government cash balances increased to Rs.2.33 lakh crore as of Sept 12, from Rs.2.08 lakh crore on Sept 05, while the system liquidity decreased in the same period from Rs.2.88 lakh crore to Rs.2.64 lakh crore.
- Foreign investment in Indian bonds slowed in September, with net inflows under the Fully Accessible Route (FAR) at Rs.6,665 crore, down from Rs.10,470 crore in August, as rupee depreciation made overseas investors cautious.

RBI MPC: A dovish pause is better than a hawkish cut :

- In the previous week, we have pointed out (Read: [G-secs-at-an-inflection-point-ahead-of-too-close-to-call-mpc-decision-we-see-dovish-cut](#)) that the market will be focused on two immediate events 1) Borrowing Calendar 2) MPC outcome on 1st Oct . Both are expected to shape the direction of yields and investor positioning across the curve.
- The government has announced Rs.6.77 lakh crore in gross borrowings via dated securities for H2 FY26, in line with the full-year budgeted target. Importantly, the issuance pattern marks a strategic shift away from ultra-long bonds (>20 years) toward the belly of the curve (5-14 years). As a result, the weighted average maturity (WAM) has been reduced to 18.15 years, reflecting the government’s intent to contain duration risk and align more closely with auction demand dynamics – consistent with our earlier view (Read: [H2FY26 Borrowing Calendar - A Measured Tilt Towards Lowering Long Duration](#)).
- Looking ahead to the MPC, we believe a “hawkish cut” could trigger a bear steepening in the yield curve, particularly if global risk sentiment remains stable. Conversely, a dovish pause that incorporates a downward CPI revision, while holding off on revising GDP forecasts, would provide stronger support for bonds, especially if accompanied by forward guidance indicating a potential rate cut in December 2025. As we’ve previously stated, communication will be more critical than the policy action itself. (Read: [India-MPC-we-see-dovish-rate-cut-communication-more-important-than-policy-action](#))
- Our long-duration strategy has started to deliver, but pressure on the 10-year point persists due to a larger-than-expected SDL auction and the increased supply concentration in mid-tenor buckets. We are closely watching for how the MPC may address yield curve distortions, either through explicit commentary or subtle policy signalling. Any clarity in this regard will be key to shaping near-term curve dynamics and trading strategy.

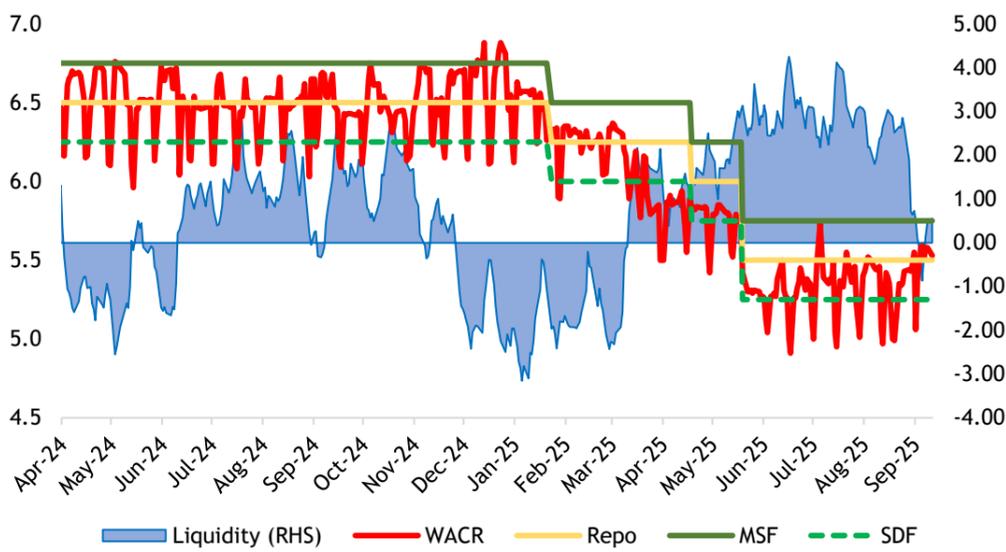
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Table 1: Market Snapshot Instrument	Yield (Sep 26)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.49%	-2bps	Fiscal worries benign post GST rationalization clarity
1 Year T-Bill	5.61%	+5 Bps	System liquidity went into deficit for few days
US 10 year Yield	4.18%	+5 bps	Fed cuts rate, while data driven approach made market cautious
Credit Growth (%) (as of 05 th Sep'25)	10.3%	+25 bps	Credit & Deposit growth increased on fortnight basis, while negative gap closes
Deposit Growth (%) (as of 05 th Sep'25)	9.8%	-39 bps	
Credit Deposit Wedge (bps) (as of 05 th Sep'25)	46	+63 bps	

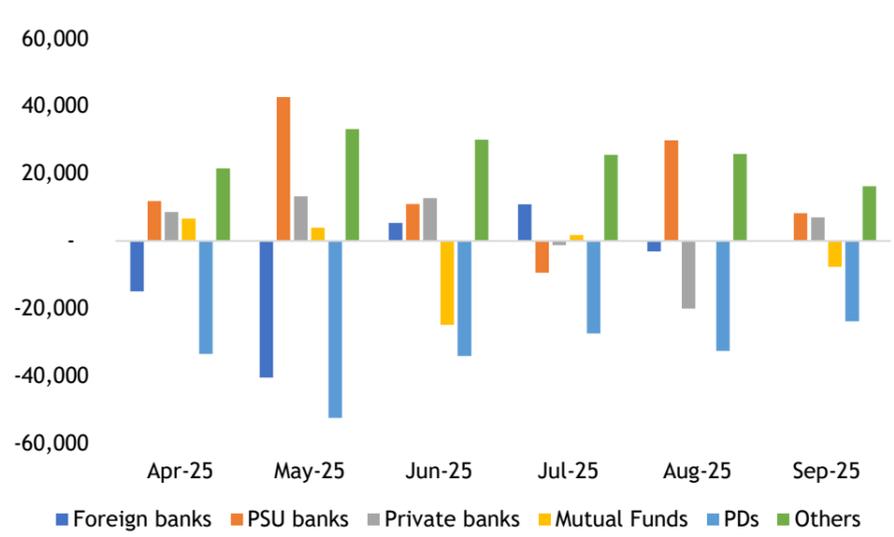
Source: RBI, CCIL, UBI Research

Fig.2: WACR managed to stay in the corridor more aligned to Repo Rate; (%)



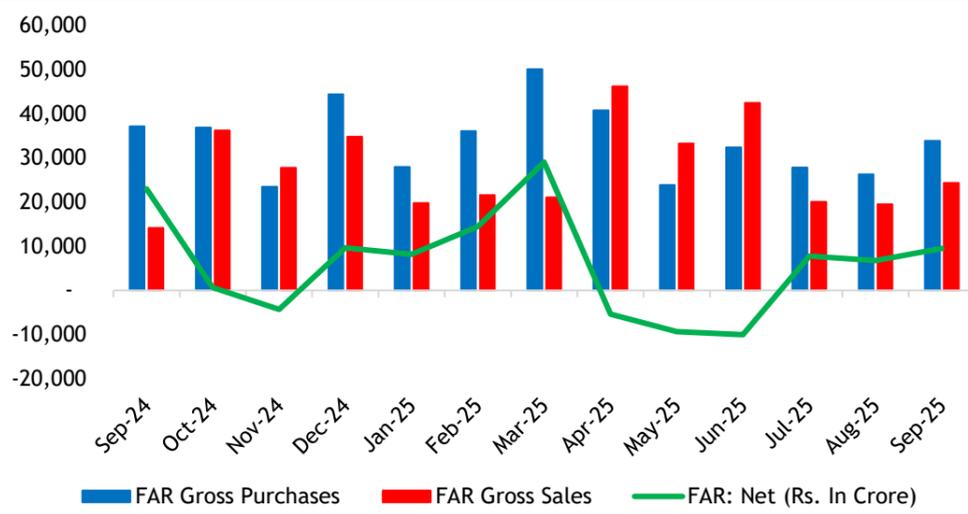
Source: Bloomberg, CEIC, UBI Research

Fig.3: Market activity benign in Sep'25; Rs. in Crore



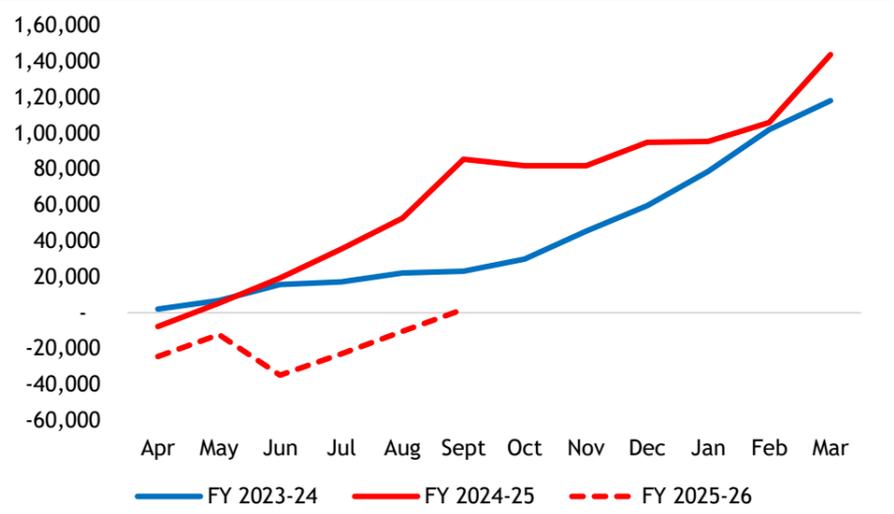
Source: Bloomberg, UBI Research

Fig.4: FAR securities flows positive in Jul, Aug & Sep 2025; (Rs. In Crore)



Source: CEIC, UBI Research

Fig.5: 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
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	58.50
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	61.60
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	6.49	
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	
Vehicle registrations (% y/y)	26.93	3.49	1.62	14.21	3.40	-7.45	33.66	13.88	-11.44	7.75	-5.33	0.70	3.44	6.10	5.40	-3.53	2.88	
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	8.59	-2.79	-0.05	7.29	1.79	
Imports (% y/y)	11.07	7.30	4.64	11.20	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.12	-1.74	-3.72	8.60	-10.10	
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	
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	
Transmission																		
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	13.59	12.34	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.04	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	10.83	10.38	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	10.22	
C-D Ratio (%)	79.90	79.90	79.70	79.70	79.80	79.60	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.70	
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		
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	8.80		
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		
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		
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	8.60	

Source: CEIC, UBI Research

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