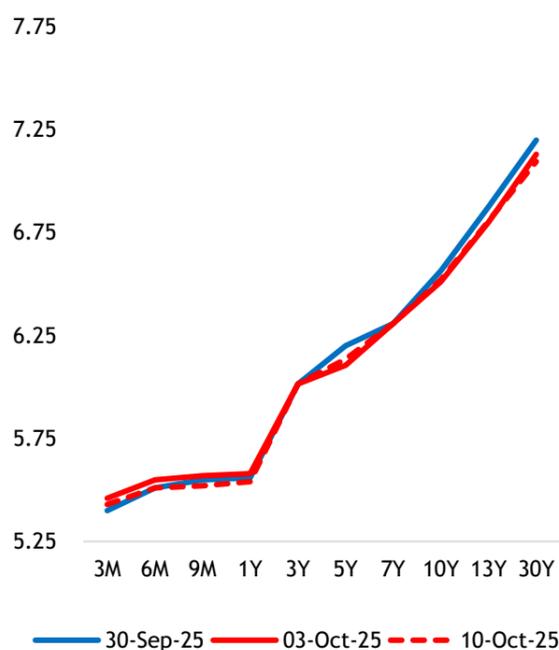


Fig. 1: Yield curve movement on W-o-W basis; (%)



Source: Bloomberg, UBI Research

Global bond markets firmed as US Treasury yields eased around 14 bps to 4.03%, due to non-release of economic data, ongoing trade tensions, and rising expectations of a Fed rate cut later this month, while Japanese yields followed mildly lower amid global risk aversion. In India, sentiment remained buoyant after September CPI printed at 1.54%, reinforcing expectations of a 25 bps RBI rate cut in December. The benchmark 10-year G-Sec traded in a narrow range around 6.50-6.53%, as auction-related supply was comfortably absorbed amid surplus liquidity and strong institutional demand. Notably, long-duration bonds outperformed, with the 2065 gilt rallying sharply post-auction on robust insurer and pension fund buying, leading to a flatter yield curve. Overall, the combination of soft inflation, steady liquidity, and firm demand continues to anchor yields, with the market poised for a dovish policy bias in the coming months.

**US Treasuries ease, Japan follows mildly:**

- US 10-year Treasury yields declined by roughly 14 basis points, settling near 4.03 %. Heightened trade tensions between the US and China weighed on investor sentiment, while weak economic data, exacerbated by the continuing US government shutdown, reinforced demand for safe-haven Treasuries. At the same time, markets increasingly priced in a 25 bps Fed rate cut later this month and additional cuts by year-end, which bolstered bond demand. Inflation data remained tame, reducing upside risks to yields and contributing to the downward pressure.
- In Japan, the 10-year Japanese Government Bond (JGB) yield also moved, though in a more muted fashion. As of October 14, the JGB 10-year yield stood at about 1.68 %, down marginally from recent peaks. The modest pullback partly reflects the interplay of global bond market trends and domestic expectations around the Bank of Japan’s (BOJ) policy stance.

**India Sep’25 CPI print of 1.5% along with Oct’25 tracking sub 0.5% may bring Dec rate cut on table:**

- India’s headline CPI inflation eased sharply to 1.54% y/y in September 2025, its lowest level since June 2017, down from 2.07% in August. The print came broadly in line with our below-consensus estimate of 1.49% (consensus: 1.70%) as food prices continued to moderate while gold prices surged. The decline was primarily driven by a sharp correction in food prices, with food inflation slipping back into the negative zone at -1.37% compared to 0.05% a month earlier.
- Vegetable prices remained a key drag, registering deflation for the eighth consecutive month and touching a four-year low of -21.4% y/y. The high base effect from last year’s elevated prices and a lag in seasonal firming have contributed to this sharp moderation. OTG data from the Department of Consumer Affairs also point to muted price pressures across most food segments. Meanwhile, core inflation rose to 4.48% (from 4.11%) on account of a strong rally in gold prices, though the underlying core (ex-gold) edged only modestly higher to 3.17%.
- Looking ahead, inflation is expected to dip further in October 2025, tracking below 0.5%, as the high base, softer food prices (*impact of floods on food inflation has been muted till now probably due to adequate stocks*) and the full impact of GST reforms play out. We expect food inflation to remain negative through the winter months. Consequently, our full-year FY26 CPI projection is around 2%, well below the MPC’s revised estimate of 2.6% released in its October meeting.
- With headline inflation undershooting the RBI’s target band and demand conditions still soft, we believe the case for a 25 bps policy rate cut in the December MPC meeting has strengthened. While unseasonal rains or global commodity volatility may pose limited upside risks, the overall inflation trajectory remains comfortably benign, allowing policy space for a calibrated easing to support growth.

**Yields stay range bound; firm demand for long bonds strengthen rate cut expectations:**

- During the week, the benchmark 10-year government bond yield traded in a narrow range. The movement reflected a balance between auction-related supply pressures and continued support from easy liquidity and soft macro data. Despite mid-week volatility around G-Sec and SDL auctions, surplus system liquidity and healthy investor demand kept yields well-anchored. Liquidity in the banking system remained in modest surplus through the week, with the RBI actively fine-tuning through variable rate repo and reverse repo operations.
- Demand for longer-tenure bonds was particularly strong, led by pension funds and life insurers. The RBI accepted only 24 bids for the 2065 bond against 241 bids received, leaving several investors short of allocation. This scarcity drove a sharp secondary market rally, pushing the bond’s yield down to 7.13% intraday, its lowest since early August. The yield curve flattened further after the auction cut-off for the 6.90%, 2065 bond came in roughly 7.5 bps below the previous auction two weeks ago. Demand was also firm for the 6.68%, 2040 bond, which drew buying interest from domestic and foreign banks, largely for HTM books.
- Traders noted the attractive spread over the 10-year benchmark, which itself remained largely unaffected by the auction outcome. With long-term supply absorbed smoothly, most dealers expect the 10-year yield to remain capped near 6.53%, supported by stable demand and limited fresh triggers. However, attention now shifts to next week’s large Rs.30,000 Crore state bond auction, which could briefly test market appetite.
- Market sentiment remains constructive amid likelihood of a 25 bps policy rate cut in the December MPC meeting. The combination of softening inflation, stable liquidity, and strong auction performance continues to anchor yields across the curve with long-end bonds likely to outperform given reduced supply and strong institutional demand, as evident in our trade call.

Underlying	Levels (before beginning of rate cycle in Feb-25)	Levels (03-Sep-25)	Levels (14-Oct-25)
30 Year G-sec	6.99	7.26	7.07
10 Year SDL	7.08	7.55	7.07
Long-term bond yields have returned to levels last seen before the rate-cutting cycle began in February 2025. This steepening of the yield curve underscores the significant dislocation currently evident in the bond market.			The trade has been bearing fruit, we recommended taking partial profits.

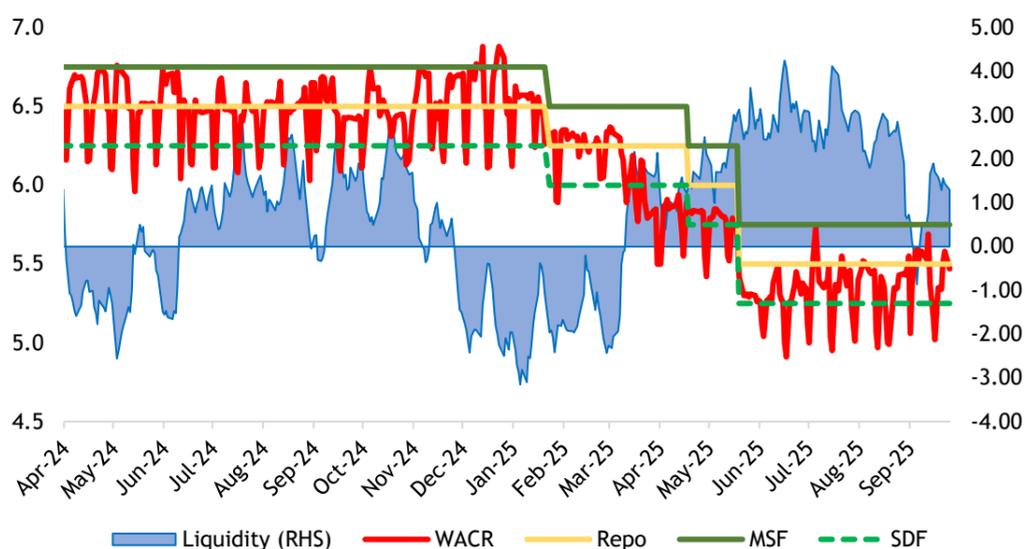
By:  
Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Dhiraj Kumar  
[dhirajkumar@unionbankofindia.bank](mailto:dhirajkumar@unionbankofindia.bank)

Table 2: Market Snapshot Instrument	Yield (Oct 10)	Weekly Change	Commentary
10 Year G-Sec (6.33% GS 2035)	6.52%	+1bps	Volatile range bound trade
1 Year T-Bill	5.54%	-4 Bps	System liquidity back to surplus with RBI support
US 10 year Yield	4.03%	-9 bps	Fed cuts rate and shutdown making market cautious
Credit Growth (%) (as of 19 <sup>th</sup> Sep'25)	10.4%	-35 bps	Credit & Deposit growth increased on fortnight basis, and positive gap thrives
Deposit Growth (%) (as of 19 <sup>th</sup> Sep'25)	9.5%	+09 bps	
Credit Deposit Wedge (bps) (as of 19 <sup>th</sup> Sep'25)	90	+44 bps	

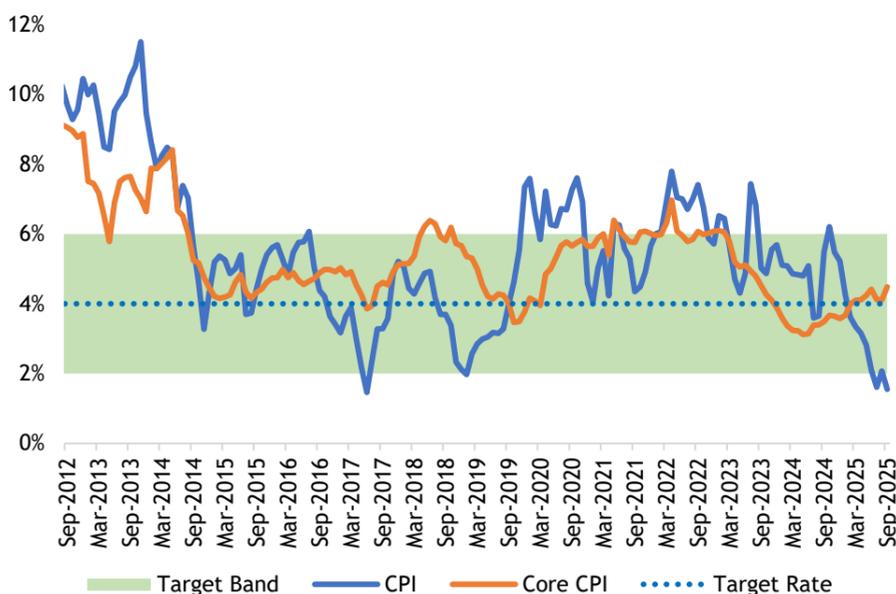
Source: RBI, CCIL, UBI Research

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



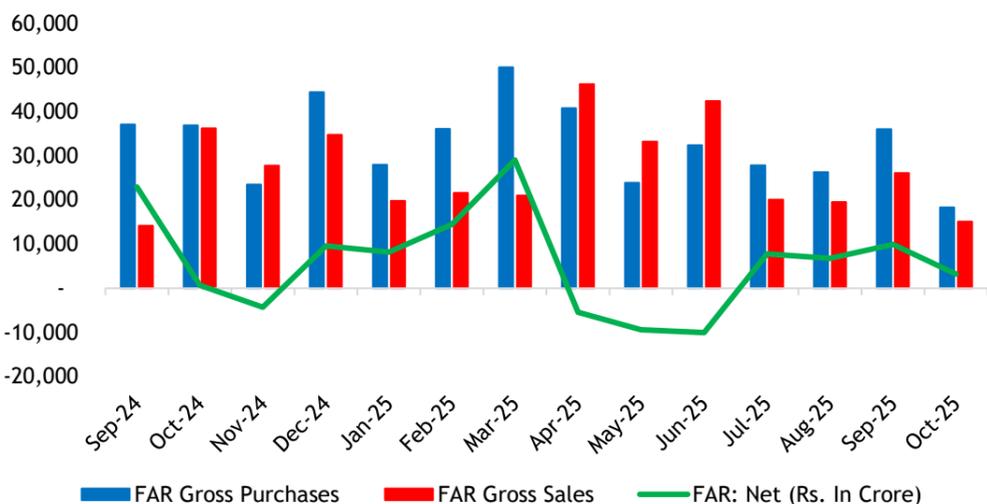
Source: Bloomberg, CEIC, UBI Research

Fig.3: CPI turning heads towards Dec'25 rate cut



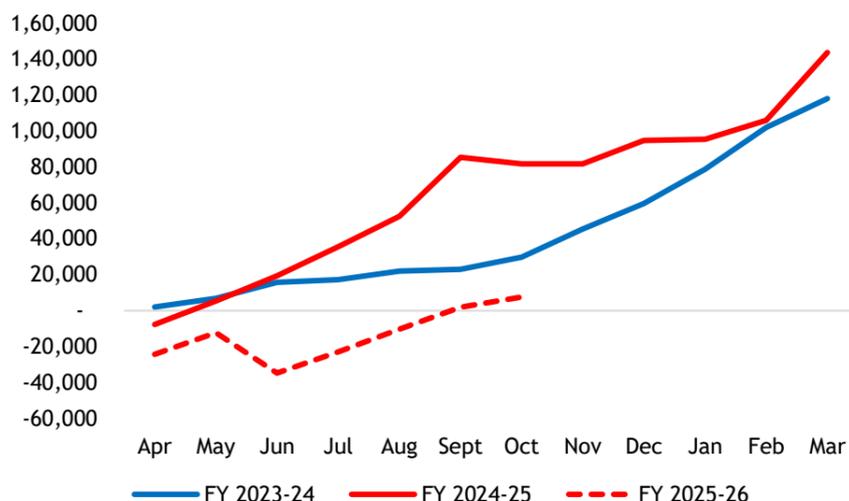
Source: CEIC, UBI Research

Fig.4: FAR securities flows positive in Q2 & Oct 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
<b>Growth</b>																		
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	57.70
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	60.90
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	9.11
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	3.48	1.61	14.20	3.37	-7.37	33.66	13.88	-11.43	7.75	-5.33	0.70	3.44	6.10	5.41	-3.49	3.21	5.16
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	
<b>Inflation</b>																		
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	1.54
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	4.48
<b>Transmission</b>																		
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	13.59	11.76	11.80	11.16	11.16	12.54	12.26	11.03	10.09	8.96	9.48	10.04	10.04	10.38
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	10.83	9.16	11.50	11.25	9.83	12.06	12.01	10.28	9.79	9.89	10.06	10.17	10.22	9.49
C-D Ratio (%)	79.90	79.90	79.70	79.70	79.80	80.00	79.80	79.90	80.80	80.70	80.80	81.10	80.10	79.30	79.30	79.60	79.70	80.60
WALR O/s Rupee Loans (%)	9.81	9.81	9.89	9.89	9.89	9.88	9.88	9.87	9.86	9.87	9.80	9.77	9.68	9.67	9.44	9.38	9.32	
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	8.81	8.75	
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	6.87	
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	5.56	
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	8.60

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

**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.*