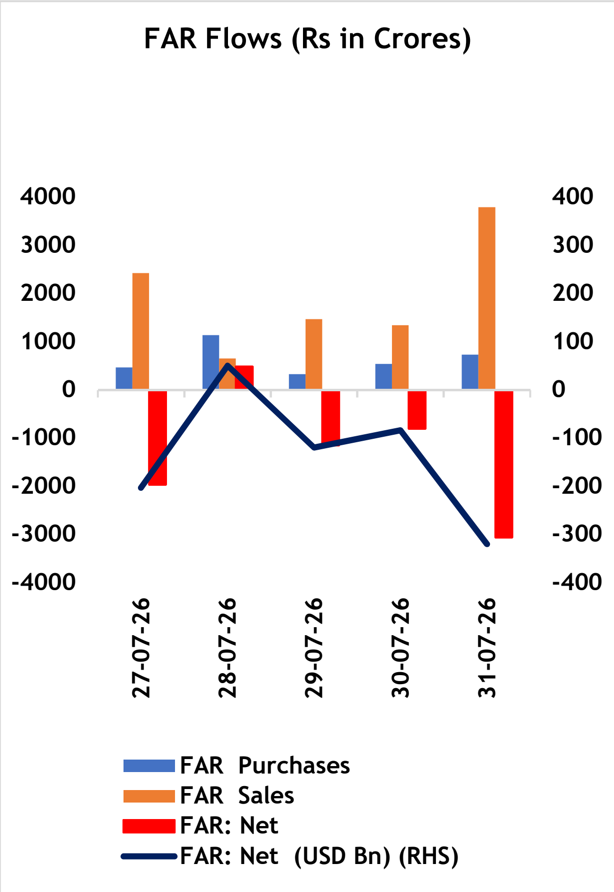
FI Weekly: Bonds stay volatile mapping global trends; all eyes on MPC this week

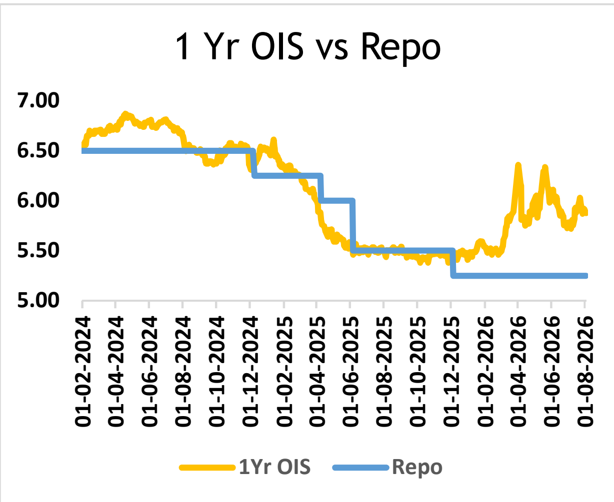
04th AUG 2026

Fig.1: FAR Flows turned negative for the week



Source: CEIC, UBI research

Fig.2: 1-Yr OIS factoring 2 Rate hikes



Source: Cogencis, UBI research

1yr OIS remains well above the current policy repo rate. The elevated pricing primarily reflects concerns over the continuing West Asia crisis and persistently higher crude oil prices, both of which pose upside risks to inflation.

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The eventful week came to an end with market sentiment remained dominated by the continuing West Asia crisis and monetary policy decisions from major central banks. Although key central banks-maintained policy rates, their communication turned relatively hawkish, with an increasing number of policymakers indicating support for further rate hikes should inflation remain elevated. US Treasury yields continued to move higher as investors questioned the pace of inflation moderation and reassessed expectations for Federal Reserve policy. Indian fixed income markets experienced a volatile week as favourable domestic macroeconomic conditions were offset by external headwinds and rising global bond yields. The benchmark 10-year Government Security yield ended broadly unchanged at 6.84%, with the correction in crude prices providing support. However, ***foreign portfolio investors (FPIs) turned net sellers in Fully Accessible Route (FAR) eligible government securities after a prolonged period of strong inflows with net outflow of Rs. 6488 Crores*** *with Bloomberg Index Services Limited (BISL) deferring the inclusion of Indian government bonds into its flagship Global Aggregate Index, citing that recent market reforms need more time to be tested in daily practice*

Crude Oil Retreats but Risks Remain Elevated: Global crude oil prices corrected during the week after easing from highs of USD 100/bbl, supported by reports that the United States and Iran had paused hostilities over last weekend. Sentiment improved further after US President Donald Trump stated that the US was engaged in "good talks" with Iran aimed at resolving the conflict, raising hopes of diplomatic de-escalation and uninterrupted oil flows through the Strait of Hormuz. While global demand expectations remained broadly stable, crude prices continue to trade at elevated levels, reintroducing inflation risks across global markets and posing a significant challenge for oil-importing economies such as India. Although prices moderated towards USD 90/bbl by the end of the week, market direction in the near term is likely to be driven more by geopolitical developments than underlying demand-supply dynamics.

Rupee Recovers on Softer Brent Prices: The Indian Rupee delivered one of its strongest weekly performances in recent months, appreciating by more than 2% to close at 95.6800 against the US Dollar, compared with the previous week's close of 96.5725. The recovery was supported by a combination of lower crude oil prices, robust foreign currency inflows- FCNR(B) and broad-based weakness in the US Dollar. Although the Rupee ended July weaker on a month-on-month basis due to earlier geopolitical tensions, the final week of the month marked a decisive improvement in sentiment and significantly reduced immediate depreciation concerns. Nevertheless, the currency remains highly sensitive to developments in global energy markets and evolving macroeconomic conditions, making external factors the key determinant of its near-term trajectory.

Liquidity to continue to be in surplus: System liquidity remained firmly in surplus throughout the week. Average surplus liquidity remained above ₹1 lakh crore, reflecting comfortable funding conditions despite credit growth continuing to outpace deposit mobilisation. According to the RBI's Weekly Statistical Supplement, commercial bank credit expanded by 17.7% year-on-year during the fortnight ended 15th July, compared with deposit growth of 12.7%. In addition, strong FCNR(B) inflows of approximately USD 36.7 billion have further strengthened banking system liquidity. FCNR(B) deposits have accelerated sharply, moreover RBI is expecting near to USD 100 Bn Fx inflow by the Sept'26 in RBI special scheme.

RBI Policy Expectations : The Monetary Policy Committee meets on 3-5 August 2026. Market participants largely priced in no change in the RBI's policy repo rate at the August MPC meeting. In our RBI MPC Preview We expect the RBI to keep rates unchanged for August policy, while maintaining balanced, data dependent guidance amid continuing external risks. With inflation continuing to remain within the RBI's tolerance band despite recent upside risks, policymakers are expected to maintain a neutral policy stance while closely monitoring evolving global developments. Consequently, market attention may shift away from the policy decision itself towards the RBI's forward guidance on liquidity management and future policy direction. Given that banking system liquidity has expanded to nearly ₹2 lakh crore, the RBI's commentary on liquidity management and its assessment of inflation risks will be closely watched by market participants.

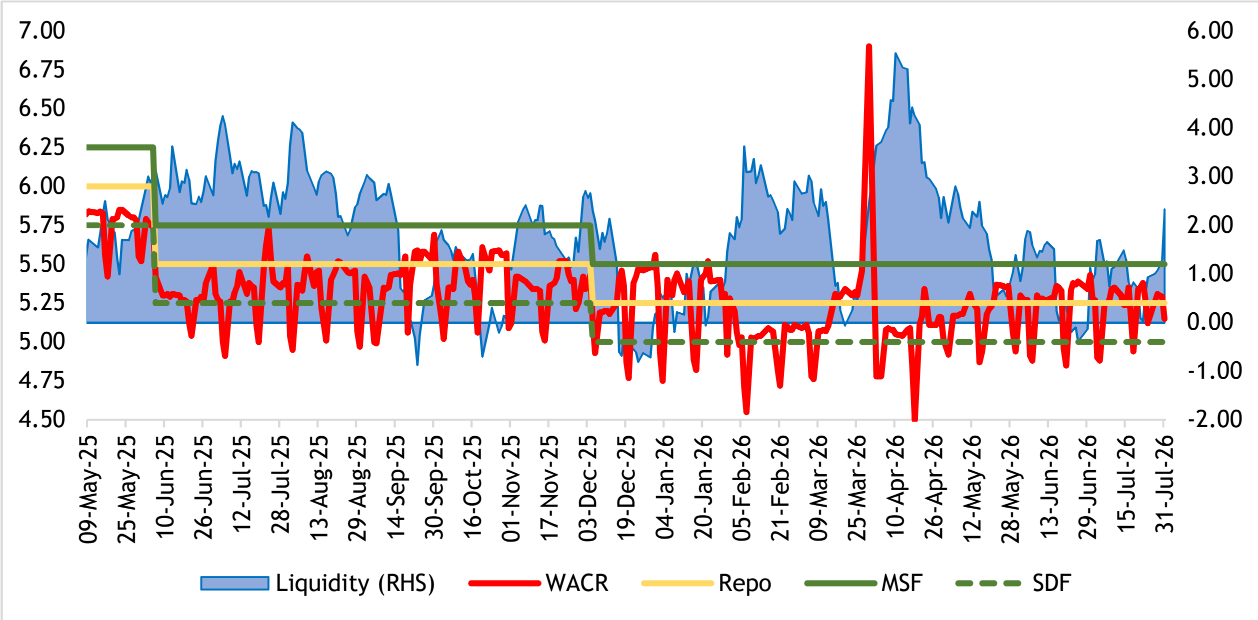
1-Year OIS Rate Eases, but Markets Continue to Price in Rate Hikes: The 1-year Overnight Indexed Swap (OIS), a key market indicator of future policy rate expectations, is currently trading around 5.88%. Market is now expecting about 2 rate hikes down from 3-4 Rate hikes two months back. Rate hike expectation by markets primarily reflects concerns over the continuing West Asia crisis and persistently higher crude oil prices, both of which pose upside risks to inflation. Consequently, market participants remain cautious and expect the RBI to retain a tightening bias should inflationary pressures intensify over the coming quarters.

Outlook: The near-term outlook for the Indian fixed income market remains balanced. Supportive domestic factors include comfortable banking system liquidity, resilient macroeconomic fundamentals and expectations of policy continuity from the RBI. However, several external risks continue to warrant caution, including elevated crude oil prices, rising global bond yields, foreign portfolio outflows, delayed inclusion of Indian government securities in global bond indices and the possibility of a more hawkish RBI stance should inflationary pressures re-emerge. Accordingly, government bond yields are expected to remain broadly range-bound in the near term, with market direction likely to be driven by the outcome of the upcoming RBI policy meeting, geopolitical developments, movements in crude oil prices and the evolving global interest rate environment.

Table 1: Market Snapshot Instrument	Yield (31st July 26)	Weekly Change	Commentary
10 Year G-Sec (6.94% GS 2036)	6.84%	-	Balanced market forces with MPC in sight
1 Year T-Bill	5.71%	-04 bps	Yield down with improved liquidity
US 10 year Yield	4.75%	+06 bps	Hawkish Fed tone led to upward yield movement.
Credit Growth (%) (as of 15th July'26)	17.7%	-70 bps	Credit growth continued to outpace Deposit growth
Deposit Growth (%) (as of 15th July'26)	12.7%	-60 bps	
Credit Deposit Wedge (bps) (as of 15th June'26)	500	-10 bps	

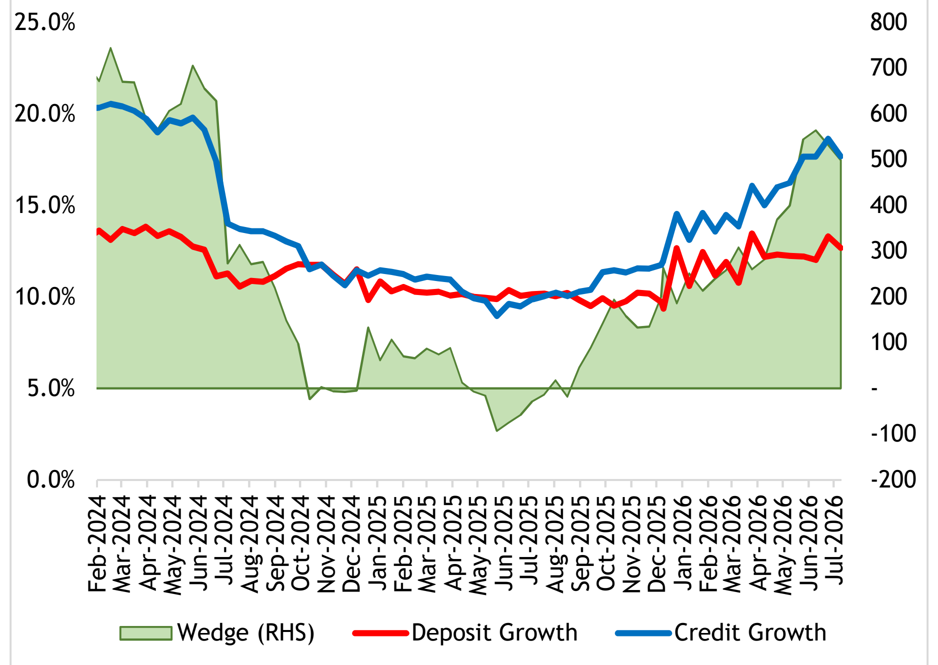
Source: RBI, CCIL, UBI Research

Fig.3: Alignment of WACR to Repo amid surplus liquidity



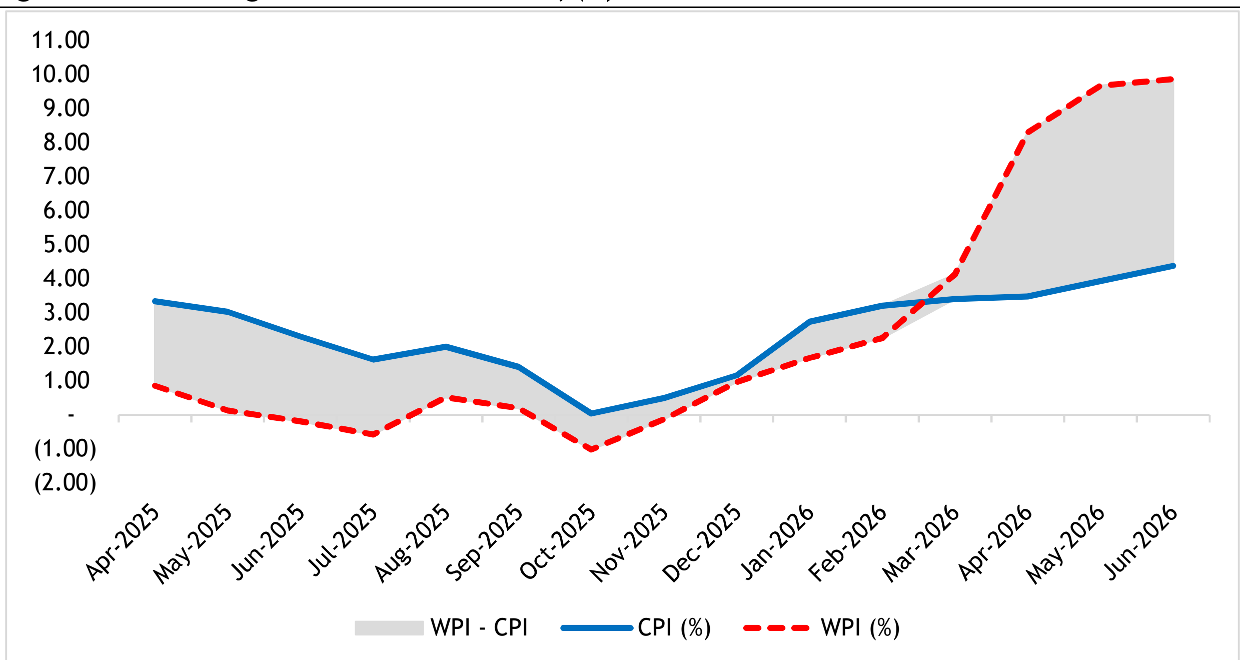
Source: RBI, CEIC, UBI Research

Fig.4: Credit continued to outpace Deposit Gap of ~500 bps in fortnight ending 15th July 2026



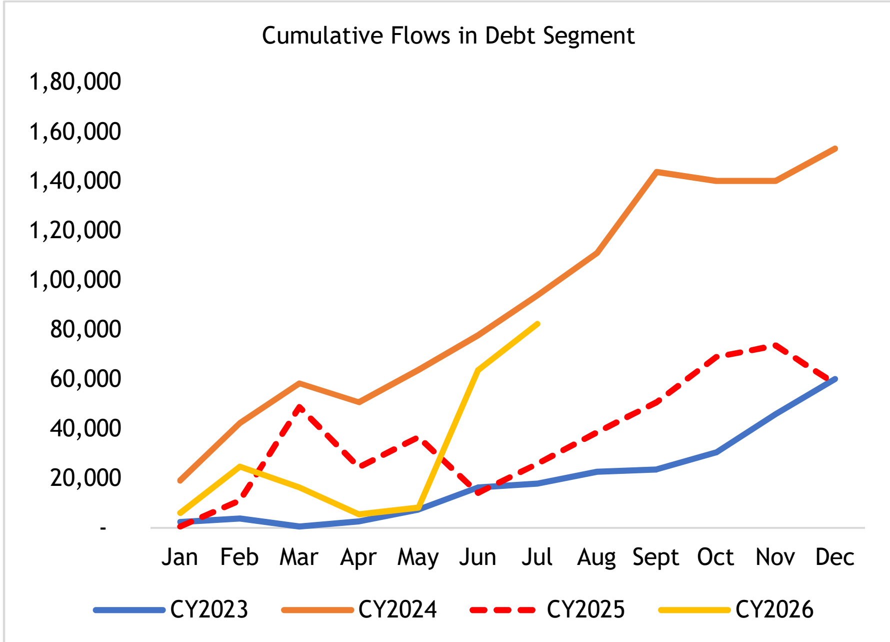
Source: CEIC, UBI Research

Fig.5: Persistent high WPI Vs Anchored CPI; (%)



Source: CEIC, UBI Research

Fig.6: Cumulative FPI flows under Debt Segment; (Rs. In Crore)



Source: NSDL, UBI Research

Table 2: Fixed Income tracking Heatmap

Fixed Income Heatmap	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	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Growth																								
PMI Manufacturing (YoY Gr%)	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	59.20	56.60	55.00	55.40	56.90	53.90	54.70	55.00	54.20	53.50
PMI Services (YoY Gr%)	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	58.90	59.80	58.00	58.50	58.10	57.50	58.80	59.80	57.40	53.10
GST Revenue (YoY Gr%)	9.99	6.47	8.92	8.54	7.26	12.29	9.09	9.87	12.58	16.39	6.20	7.50	6.49	9.11	4.59	-3.97	1.27	1.95	2.82	2.08	2.56	-3.39		
Govt Expenditure (YoY Gr%)	20.94	2.63	31.65	3.63	22.15	12.43	-17.66	9.27	9.95	40.26	37.39	3.35	-9.88	-7.99	-11.07	12.42	-7.33	-8.52	9.69	13.28	23.49	9.10	0.01	
Vehicle registrations (% y/y)	3.17	-6.42	32.94	14.41	-8.60	5.89	-6.09	-0.20	2.96	6.16	4.82	-3.24	3.53	5.87	41.11	2.74	15.95	18.24	25.04	26.89	13.93	12.08	22.13	18.77
Exports (% y/y)	-14.09	-0.96	16.60	-5.34	-1.53	-2.64	-10.86	0.85	-3.82	-1.23	-1.31	13.27	5.72	6.03	-12.50	18.59	1.15	0.37	-0.79	-7.44	14.21	17.86	15.52	
Imports (% y/y)	10.44	8.29	3.22	16.75	2.67	11.29	-14.20	12.54	19.99	-1.33	-3.42	9.10	-9.54	17.67	17.92	-1.48	10.34	19.17	24.12	-6.51	10.02	20.62	30.99	
Inflation																								
CPI (Y-o-Y Gr%)	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	1.44	0.25	0.71	1.33	2.73	3.21	3.40	3.48	3.94	4.38	
Core CPI (Y-o-Y Gr%)	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	4.27	4.41	4.34	4.63	3.67	3.70	3.66	3.70	3.90	3.89	
Transmission																								
Bank Credit (YoY Gr%)	14.03	12.34	11.80	11.16	11.16	12.53	12.26	11.03	10.09	8.96	9.48	10.04	10.12	10.79	12.00	11.54	14.54	13.41	14.00	17.08	16.45	17.65	18.63	
Bank Deposits (YoY Gr%)	12.72	10.38	11.50	11.25	9.83	12.12	12.01	10.28	9.79	9.89	10.06	10.17	9.31	9.36	10.84	10.18	12.67	10.64	11.31	16.16	13.26	12.21	13.31	
C-D Ratio (%)	78.80	79.60	79.80	79.90	80.80	80.60	80.80	81.10	80.10	79.30	79.30	79.60	79.30	80.50	80.60	80.80	82.00	82.60	82.60	81.70	82.30	83.00	82.90	
WALR O/s Rupee Loans (%)	9.89	9.88	9.88	9.87	9.86	9.87	9.80	9.77	9.71	9.67	9.44	9.38	9.32	9.26	9.24	9.21	9.06	9.04	9.00	8.99	8.98	8.97	8.96	
WALR Fresh Rupee Loans (%)	9.41	9.37	9.54	9.40	9.25	9.33	9.40	9.35	9.26	9.20	8.62	8.81	8.72	8.39	8.61	8.71	8.28	8.49	8.44	8.40	8.50	8.51	8.53	
WADR O/s (%)	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	6.82	6.78	6.73	6.68	6.64	6.62	6.62	6.59	6.57	6.58	
WADR Fresh (%)	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	5.61	5.57	5.59	5.67	5.66	5.65	6.07	5.79	5.83	5.99	
MCLR 1 Year - Median	8.90	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	8.55	8.50	8.45	8.40	8.45	8.40	8.55	8.65	8.50	

Source: CEIC, UBI Research

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