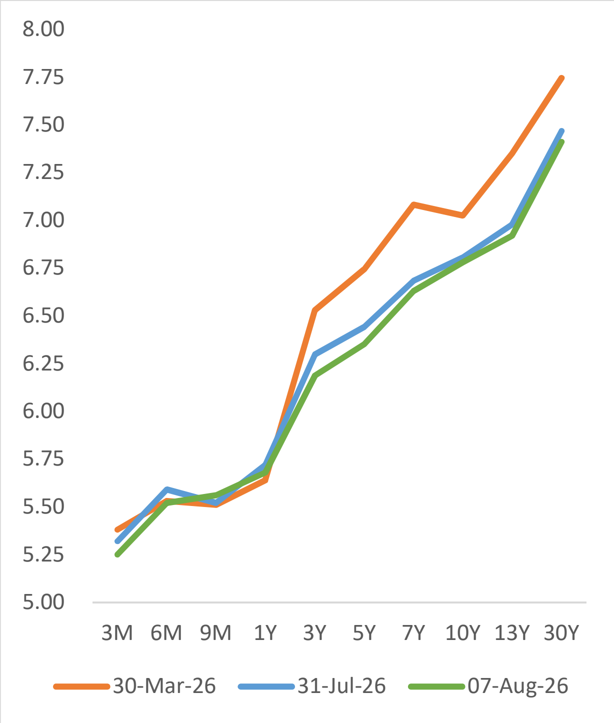
10th AUG 2026

Fig.1: Yield Curve - Downward shift across tenure



Source: Bloomberg, UBI research

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The global fixed-income market remained driven by a combination of US monetary-policy expectations, elevated Treasury yields, geopolitical risks and oil Price volatility during the week. US Treasury yields continued to remain elevated, with the 10-year US Treasury yield trading around the 4.6-4.7% region before closing at 4.66%. The relatively high level of US yields continues to act as a global floor for sovereign bond yields, particularly across emerging markets. Indian government bonds continued to trade in a relatively tight range before closing lower at 6.77%, with domestic factors providing support while global yields and currency movements capped the upside. A dovish MPC relatively contained crude prices apart from improved liquidity by on account of FCNR(B) inflows were the key drivers of Indian bond yield.

Yield Curve downward shift across tenure (Fig 1): The G-sec yield curve witnessed a broad-based decline across maturities with 3Y to 5Y tenure declined by 9-11 bps; maximum across all tenures. The decline reflects reflecting improved inflation dynamics, comfortable liquidity conditions and the repricing of monetary-policy expectations. With 10Y Yield declined moderately by 2 Bps and 13Y to 30Y declined by 6 Bps the longer-duration segment remains relatively steep, indicating that investors continue to demand a higher term premium for assuming duration risk amid elevated global yields, government borrowing requirements and geopolitical uncertainty. The steepness at the long end suggests that while the domestic backdrop remains supportive, investors remain selective in extending duration aggressively.

Oil recover from recent lows: The oil market continues to be dominated by developments around Iran, the Strait of Hormuz and regional shipping disruptions. Market sentiment has improved on continued diplomatic efforts towards a negotiated resolution, coupled with recovering OPEC production and higher crude oil prices. While traffic through the Strait of Hormuz remains limited, the market is increasingly pricing in a gradual normalization of flows rather than a confirmed reopening. This expectation has helped ease the geopolitical risk premium in crude prices, although the situation remains highly headline-sensitive. Any meaningful deterioration in negotiations or further disruption to shipping could quickly reverse the recent decline in oil prices.

RBI MPC; Policy pause reinforces data dependency: The RBI, at its August MPC meeting, maintained the repo rate at 5.25% and retained its neutral stance, broadly in line with our and market expectations. The MPC revised its FY27 CPI inflation forecast lower to 5.0% (same as UBI projections) from 5.1% projected in June, risks being evenly balanced. The higher inflation is mostly on account of food and fuel inflation with little sign of generalisation so far. The downward revision in core inflation forecast from 4.7% to 4.3% is reassuring of the benign underlying price pressures. With the RBI comfortable with the current policy setting, the near-term direction of bond yields is likely to be driven more by inflation data, global rates, liquidity and currency movements rather than expectations of an immediate policy-rate change.

CPI in focus for this week: Both India and the US will release their July CPI data on 12 August, making inflation the key macro trigger for global and domestic fixed-income markets. The US CPI will be closely watched for its impact on Fed rate expectations and US Treasury yields, while India's July CPI will provide further clarity on the domestic inflation trajectory and the RBI's policy outlook. The July inflation number will be closely watched and important in determining whether the recent rise in inflation is temporary or signals a more persistent trend. We expect India CPI to move slightly up in July to 4.44% from 4.38% in June'26 amidst evolving weather conditions and persisting West Asia Crisis.

Liquidity is surplus but not excessive, as per MPC: The RBI Governor did not express any concern over the incremental liquidity surplus on account of capital flows from FCNR(B)/ECB swap facilities with the amount likely to total USD 80-100bn (RS 8-10 lac Cr.) in our view by end Sept'26. He believes that a part of the excess liquidity to be naturally absorbed through the seasonal increase in currency in circulation and the maturity of the RBI's forward positions. The central bank further indicated that the liquidity injected through FCNR(B) inflows would also be absorbed over the medium term. MPC also noted that; through its conduct of two-way operations, the RBI will proactively ensure sufficient liquidity in the banking system. However, our analysis shows that the current system liquidity has risen from near-neutral levels in the third week of June to ₹3.48 lakh crore as of 9th Aug 2026, already exceeding 1% of Net Demand and Time Liabilities (NDTL). In our view if the system gets $80-100bn of flows by end Dec'26, core liquidity may rise from Rs 5.36 lac Cr. as of 15th of July to double-digits in H2-FY27. We believe RBI is likely to use market neutral tools like VRRR (long/short term), forward maturities and reverse FX swaps rather than using market sensitive tools like OMO sales, CRR hike etc. We firmly believe that proactive policy approach may be require as persistent liquidity surplus of more than 1.5% of NDTL could be inflationary. As per RBI report on currency and finance, one percentage point exogenous increase in liquidity surplus above this threshold value could push up inflation by 60 bps on an average in a year.

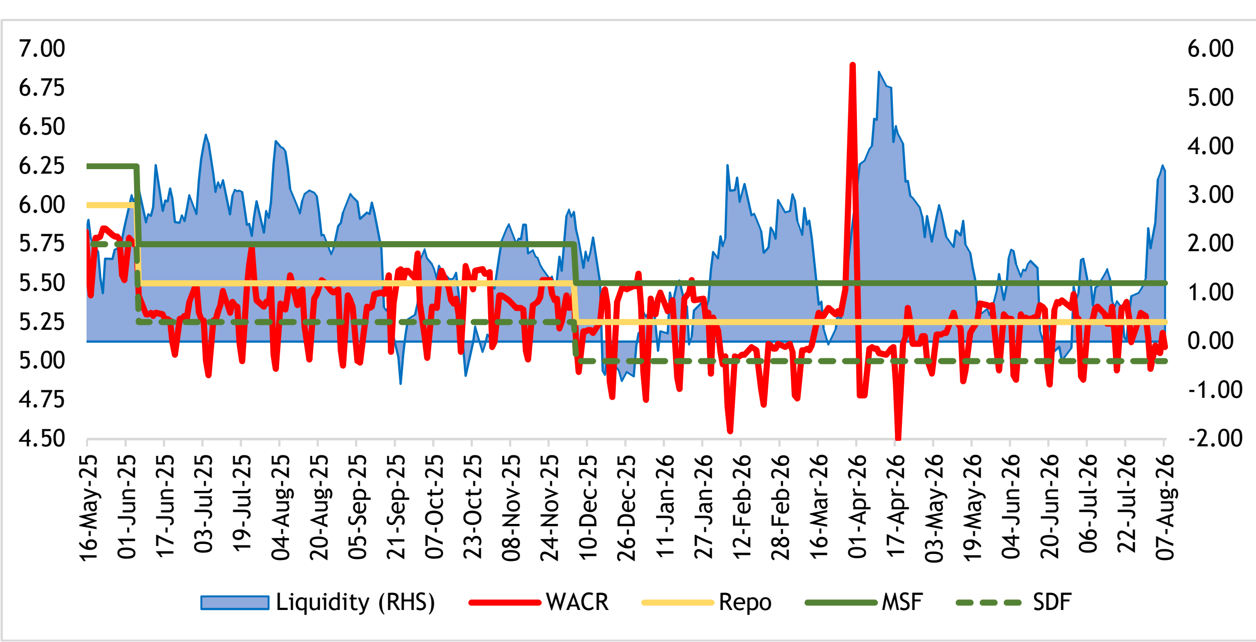
Rupee gained with strong flow under Swap facility: Rupee gained during the week closing at 95.22 against last week close of 95.38 on account of strong flow under swap facility supporting market sentiments. RBI intervention and strong foreign-currency inflows have also helped limit volatility. RBI Governor highlighted that capital-flow measures introduced earlier have attracted more than $41 billion of inflows, while lower oil prices and RBI dollar sales have also supported the currency.

Outlook: Going into the coming week, India and US CPI will be the most important macro events, while movements in US Treasury yields, crude oil and the rupee will remain the key external variables. The RBI's decision to remain neutral, combined with its lower inflation forecast and higher growth projection, suggests that the central bank is comfortable waiting for clearer evidence before change in any rate calibration. However, renewed tensions in West Asia which are disruptive of global supply chains, volatility in international financial markets, and weather-related shocks, pose downside risks to growth, as stated by RBI Governor. In the near term, we expect benchmark yield to trade in the range of 6.70-6.80 zone and is likely to remain important for the 10-year benchmark, with a sustained move outside this range likely to require a significant shift in either oil prices, global yields or currency dynamics. While the fundamental backdrop remains supportive of Indian bonds, the combination of elevated global yields, geopolitical risks and uncertainty around the inflation trajectory argues for a cautious approach to duration.

Table 1: Market Snapshot Instrument	Yield (7th Aug 26)	Weekly Change	Commentary
10 Year G-Sec (6.94% GS 2036)	6.77%	-07 Bps	Balanced market forces with MPC in sight
1 Year T-Bill	5.69%	-02 bps	Yield down marginally
US 10 year Yield	4.75%	-09 bps	Poor NPF data fading rate hike expectation.
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 July'26)	500	-10 bps	

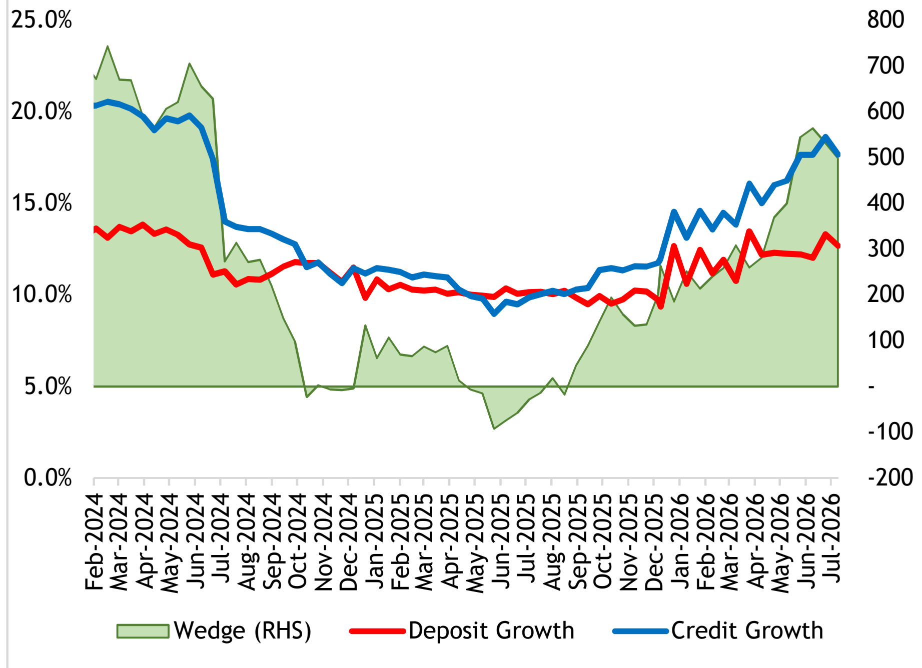
Source: RBI, CCIL, UBI Research

Fig.2: Alignment of WACR to Repo amid surplus liquidity



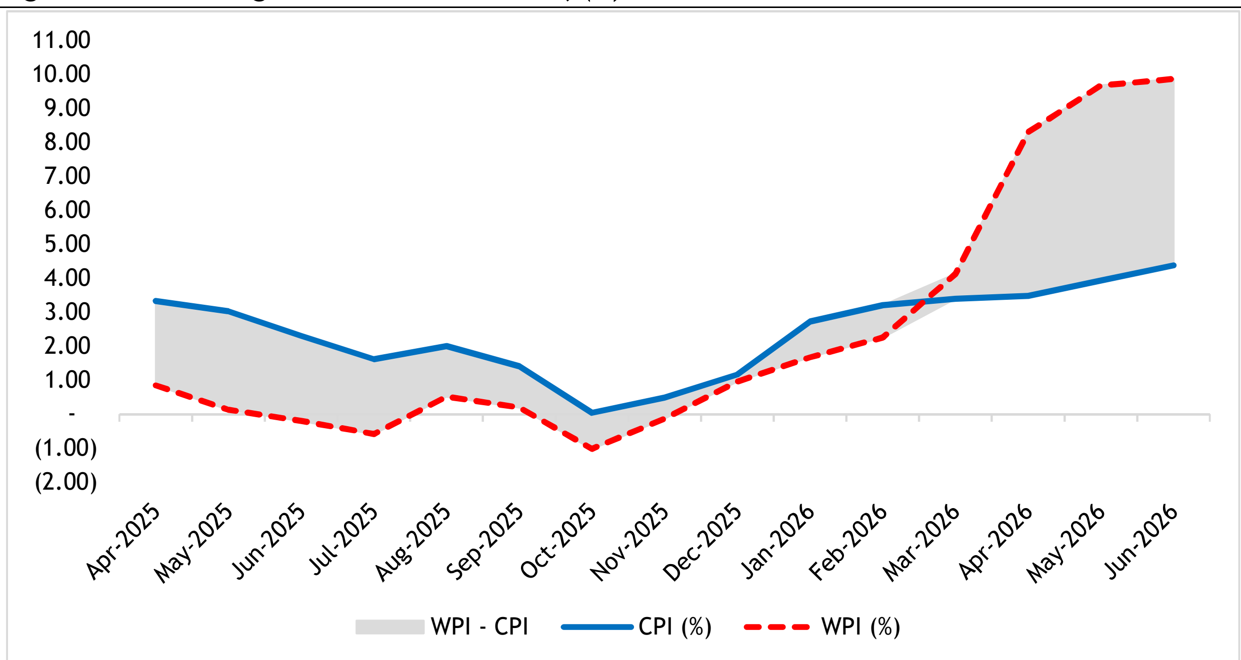
Source: RBI, CEIC, UBI Research

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



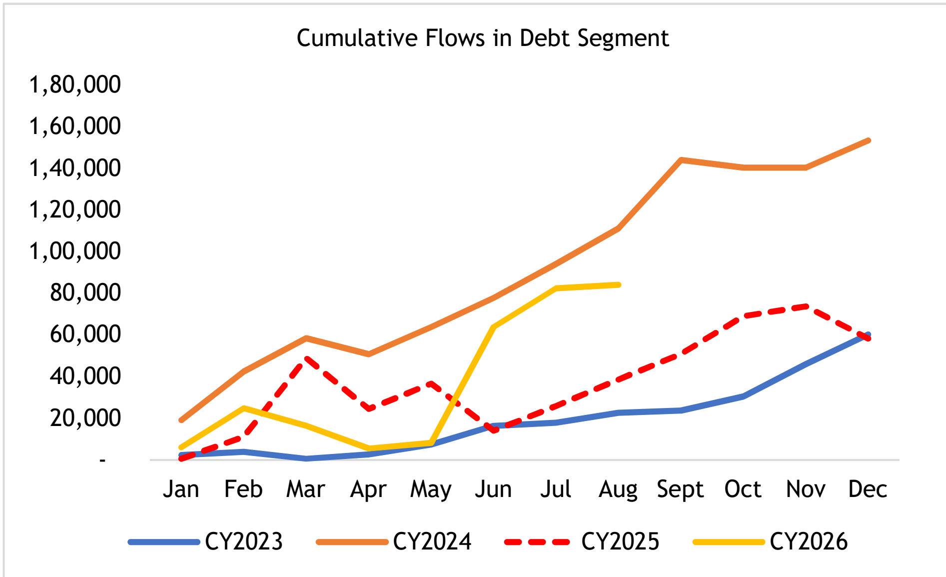
Source: CEIC, UBI Research

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 1: 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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