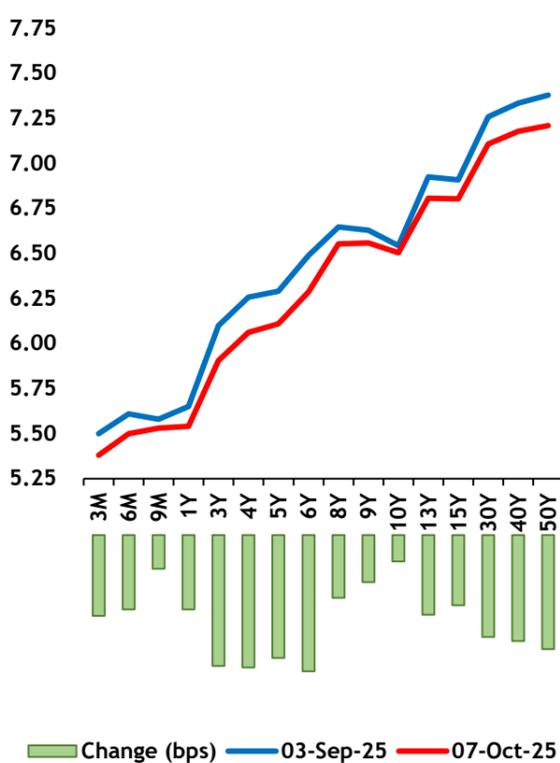


Fig.1: Yield curve has seen a downward shift across maturities; (%)



Source: Bloomberg, UBI Research

In our previous note, [“We Reassert Our Long-Duration Bonds Trade Post-GST & Fiscal Clarity”](#) (September 2025), we called for extending duration amid improving fiscal visibility, contained inflation, and a possibility of rate cut along with policy steps to address the dislocated market. Our trade idea has played out meaningfully, with the benchmark yield curve shifting lower by 4-20 bps across maturities, validating our long-duration positioning. **We recommend booking partial profits after the recent rally while maintaining a constructive duration bias, as the next leg of the G-sec rally is likely to be driven by a likely rate cut in December, continued RBI liquidity support, and steady demand from long-term investors.**

Duration Trade bears fruit:

➤ **The benchmark 10 year eased by 4bps to 6.50%, while the 30Y segment compressed 15-17 bps.** The rally was supported by benign inflation prints, improved fiscal signals and global yield stability. The belly and long segments continue to attract duration allocations amid expectations of a softer domestic and global rate environment.

Underlying	Levels before beginning of rate cycle in Feb-25	Levels (03-Sep-25)	Levels (07-Oct-25)
30 Year G-Sec	6.99	7.27	7.11
SDL	7.08*	7.55*	7.17

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.

*Using 10 yr SDL nearest auction cut-offs

Source: Bloomberg, FBIL, UBI Research

What could drive the next phase: We believe the next leg of the rally will hinge on the following catalysts:

- Rate Cut Expectations:** The market has not fully priced in a potential RBI rate cut in December. As upcoming inflation prints is expected remain subdued, expectations of monetary easing should build further. With core CPI at 4.2% and food inflation risks lowered, we forecast a dovish plot.
- RBI Support via OMOs:** Should the easing bias persist, RBI may conduct OMOs to manage liquidity and yield levels, indirectly supporting duration. In the WSS data of 26th Sep’25 a Rs.10 Crore OMOs purchases has been reported by RBI, while the amount is small, it is crucial from signalling perspective in order to support bond market.
- Favourable Demand-Supply Dynamics:** Central Government gross issuance of dated G-Sec amounted to Rs.7.95 lakh crore in H1FY26, having a weighted average maturity (WAM) of 19.56 years. With the issuance of H2FY26 calendar the WAM of issuance dropped to 18.15 years. The issuance mix indicates a strategic shift from ultra long tenors (>20 years) towards the 10-14 year and 5-9 year maturity buckets, making a conscious move to modestly reduce the WAM. Long-term investors (insurance, pension, PFs) continue to display steady appetite, especially as the duration of fresh supply (both central and state government securities) shifts slightly towards the shorter end of the curve.
- Global yield dynamics are supportive:** US 10 year stabilized below 4.2% despite shutdown uncertainty, markets are pricing in a 25bps rate cut later in October meeting with nearly 80% odds of another in December this year. Brent Crude at \$66 provide a favourable environment extending the case for duration holdings.

Risks to our view:

- INR depreciation: A sharp INR depreciation beyond Rs.90/\$ could constrain the RBI’s easing flexibility.
- Delayed or smaller than expected rate cuts if inflation or current account pressures re-emerge
- A sudden upswing in US or global yields or heavier supply could limit the gains.

SDLs vs. G-Secs: Yield Advantage, Risk Trade-offs, and Strategy Outlook:

- State Development Loans (SDLs) currently offer a significant yield premium over long-term G-Secs, with the spread on the 10-year segment often exceeding 100 basis points—a multi-year high. This widening differential stems from increased SDL supply and some moderation in institutional demand. While SDLs remain attractive for their carry potential, they entail slightly higher credit and liquidity risk since they are backed by individual state governments rather than the sovereign centre.
- In contrast, G-Secs continue to be the preferred vehicle for duration exposure, supported by their negligible credit risk, deep liquidity, and policy backing from the RBI. Given the current macroeconomic environment—marked by easing inflation, stable growth prospects, and the possibility of rate cuts—long-end G-Secs appear compelling from a duration standpoint, especially if the RBI resumes open market operations (OMOs) to manage liquidity.
- The demand-supply dynamics are evolving. SDL yields have firmed up as states front-load borrowings, while some long-term investors have recalibrated portfolios amid regulatory changes and shifting risk appetite. Conversely, G-Secs continue to enjoy steadier demand, underpinned by statutory liquidity ratio (SLR) requirements and the central bank’s consistent support, which enhances their resilience during periods of volatility.

India’s bond market is entering the transition phase from “carry with caution” to “policy-led duration gains.”

- The first leg of the rally was technical and confidence-driven; the next will be policy-validated. With inflation under control, fiscal metrics stable, and a credible central bank trajectory, the medium-term risk-reward for holding duration remains favourable.
- The prudent course is to lock in partial profits now but maintain structural long duration exposure, anticipating that the December policy could formalise the easing narrative.**

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