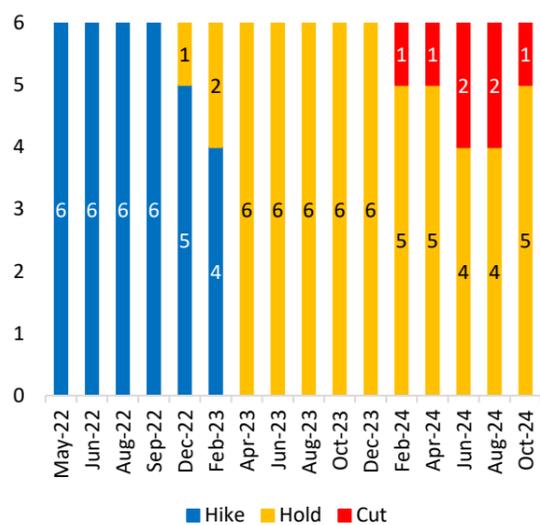
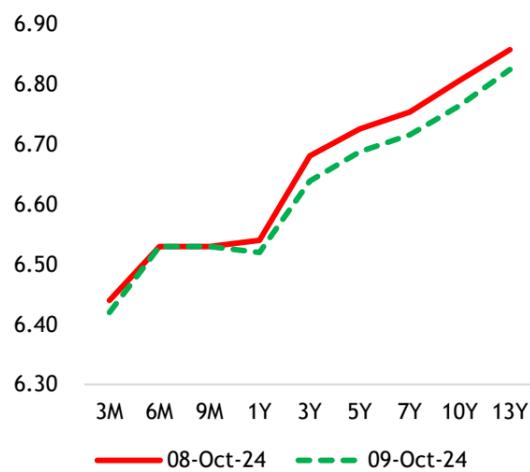


Fig. 1: MPC member Voting since May-2022; (No.s)



Source: RBI, UBI Research

Fig 2: India yield curve move post policy; (%)



Source: Bloomberg, UBI Research

The RBI MPC changed its stance from "withdrawal of accommodation" to Neutral and hence the yields softened to 6.74% yesterday. Previously, post first auction of H2FY25 borrowing calendar the 10-year benchmark got sold and hardened to 6.83%. The price discovery of new 10 year GS 2034 paper came in at 6.79%. RBI accepted 186 of 273 competitive bids for the new 10 year government security, thereby putting it in the hands of majority of traders. In the US, the NFP (Non-Farm Payroll) came in at 254k in Sept-24 which was well above expectation of 147k indicating that US labor market is in much better shape than expected, hence, the likelihood of 50bps rate cut by Fed in next meeting is reduced. The probabilities of another 25bps rate cut as per CME FEDWatch tool in November meeting is currently at 86.2% from 67.9% a week ago. Post NFP data the US 10-year yield jumped and currently trade above 4% even as the Fed's previous meeting minutes revealed a majority favored a significant 50bps rate cut, though there was consensus that future cuts would not follow a predetermined pace.

RBI MPC switched its stance to "Neutral"

- The RBI MPC voted 5:1 for keeping the repo rate unchanged. However, the MPC unanimously voted for a stance change from "withdrawal of accommodation" to "neutral". The governor said that the stance is changed as the future is full of uncertainties, whereas the guidance was finely balanced.
- Taking cues from the stance change and news of inclusion of IGBs in FTSE Emerging Markets Government Bond Index (EMGBI), starting in September 2025, the 10 year benchmark softened from previous close of 6.81% to 6.74% during the day.
- In our view, we see a shallow 50bps rate cut cycle starting Q4 FY25. Risks to inflation on close watch apart from growth concerns as significant downward revision in 7.2% growth forecast for FY25 is likely before starting rate cut cycle.

Liquidity continued to remain in surplus, with call rate aligned with repo rate

- The system liquidity was in surplus on an average of Rs.1.3 Lakh crore during Aug-Sep 2024 with a pick up in government spending and decline in currency in circulation. However, it briefly turned into deficit during latter half of September with the built up of government cash balances due to tax related flows. T-Bills weekly cut off further trade downwards (91D- 6.43%, 180D - 6.54%, 365D - 6.53%) indicating easing system liquidity.
- RBI in its monetary policy statement has said that it will continue to be nimble and flexible in its liquidity management operations. The Central Bank shall deploy an appropriate mix of instruments to modulate both frictional and durable liquidity so as to ensure money market interest rates evolve in an orderly manner.
- The RBI has discontinued its OMO sales for the first time since 05th Jul-24 during the week ended 27th Sep-24. However, it has notified Buyback of Rs.25,000 Crore worth of securities (on 10th Oct'24) which are due for maturity in 2025-26 adding to short term liquidity.
- We continue to remain *Positive* on long duration bonds as rate cut expectations have picked up post change in stance of MPC, even as we believe more allocation towards lower end of the curve (below 5 years) is likely to continue from FPIs. Since the liquidity is further expected to ease further as we look forward towards alignment of WACR (Weighted Average Call Rate) towards the benchmark repo rate.

US 10-year firms up on strong labor market data

- The US Bureau of Labor statistics declared Non Farm Payroll additions of 254K which was above against expectations of 147k and revised August number of 159K. The US unemployment rate fell to 4.1% which was below the 4.2% of August and 4.2% of expected.
- The strong labor market data jolted the rate cut expectations of Fed's Nov-24 meeting. As per CME FEDWatch tool the probability of 25bps rate cut raised to 86.2% from 67.9% a week ago.
- Minutes from the Sep-24 FED's meeting revealed a majority favored a significant half-point rate cut, though there was consensus that future cuts would not follow a predetermined pace. Market participants now look ahead to key economic data this week including CPI and PPI.

Positive Debt flows continues, whereas shift towards shorter maturity is noticed

- Foreign flows in Debt Segment under FAR category is Rs.0.74 lakh crore till 30th Sep'24, of which Rs.0.39 lakh crore is concentrated in 10 year & above segment. Since the start of FY2024-25, 10 year & above bucket was the favorite of FPIs under FAR category. However, they shifted to below 10 year category with heavy buying in Aug & Sep 2024 months.
- Even as Fed rate cut of 50bps has increased foreign flows due to favorable interest rate differential, the data is pointing debt flows shifting to shorter duration. This shall lead to Bull steepening of the yield curve in India.

Fig.3: Positive Debt Flows from FPIs continues; (Rs. in Crore)

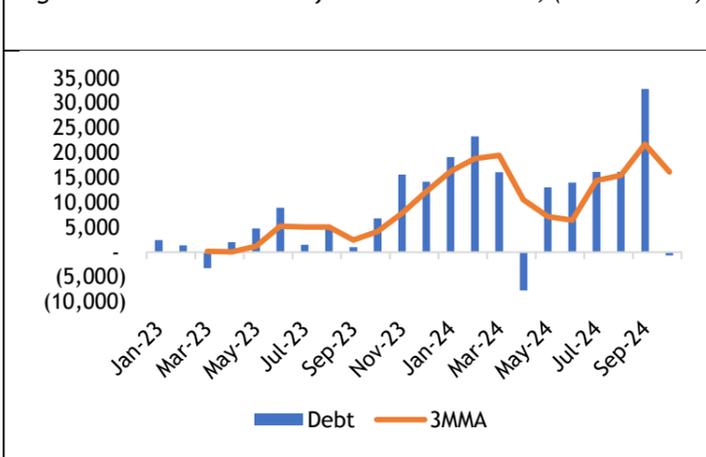
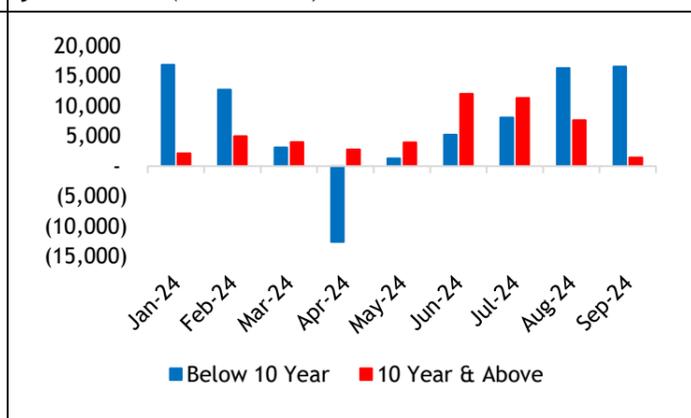


Fig.4: FPIs flows under FAR securities shifted to below 10 years bucket (Rs. In Crore)



Source: NSDL, UBI Research

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