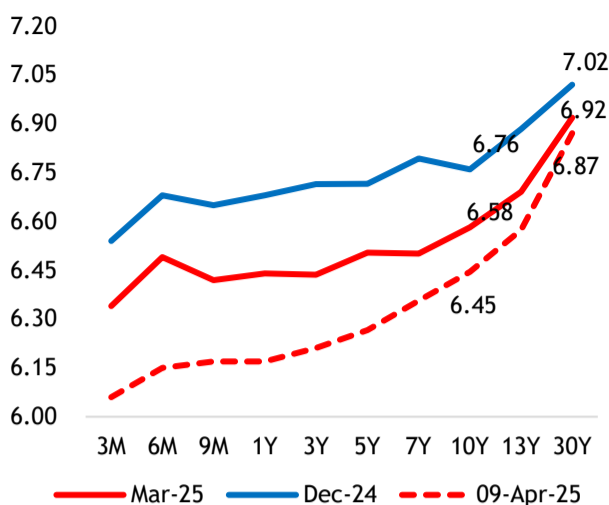
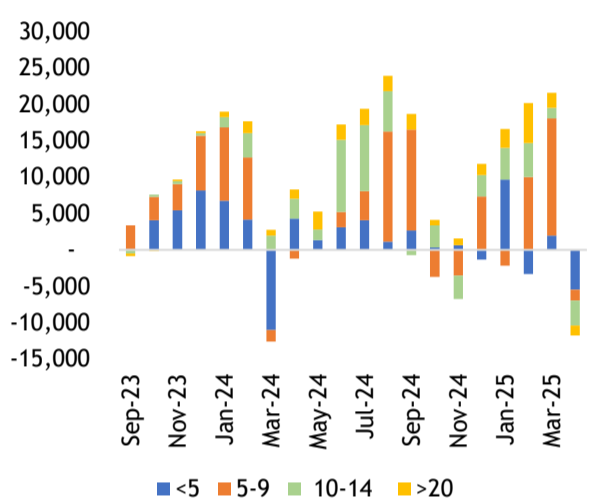


Fig.1: Yield curve shifting downwards on dovish policy stance



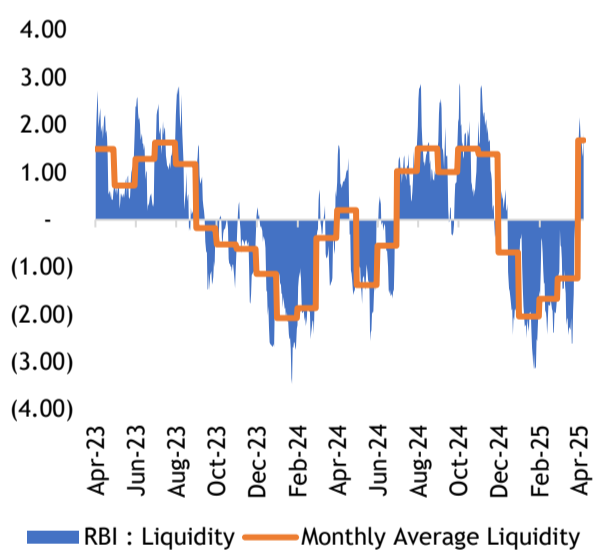
Source: Bloomberg, UBI Research

Fig.2: Monthly flows in FAR Securities Tenor Wise, with 5-9 year segment attracting higher flows



Source: NSDL, UBI Research

Fig.3: Liquidity turned to positive by the end of Mar-2025 shall help in transmission



Source: RBI, UBI Research

Table 1: Assumptions as laid out in the MPR April 2025

Indicator	MPR Oct 2024	MPR Apr 2025
Crude Oil (Indian Basket)	US\$ 80 per barrel during H2: 2024-25	US\$ 70 per barrel during 2025-26
Exchange Rate	83.50/US\$ during H2: 2024-25	86/US\$ during 2025-26
Monsoon	Normal for 2025-26	Normal for 2025-26
Global growth	3.2% in 2024; 3.3% in 2025	3.1% in 2025; 3.0% in 2026
Fiscal deficit (per cent of GDP)	To remain within BE 2024-25 Centre: 4.9 Combined: 7.3	To remain within BE 2025-26 Centre: 4.4 Combined: 7.1
Domestic macroeconomic/ structural policies during the forecast period	No major change	No major change

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The RBI's Monetary Policy Committee has implemented a 25 basis point reduction in the repo rate and, importantly, transitioned its stance from "Neutral" to "Accommodative." This is the second rate cut in the year 2025, reflecting a decisive commitment to growth as inflation wanes and global uncertainties mount. The shift in stance is as vital as the rate reduction itself, as it creates opportunities for further cuts. We commend the Central Bank for its proactive approach, taking measures to protect India from impending global challenges before they arise. On the market front, the 10-year benchmark has moved to a low of 6.429% during the day. Even the T-Bills cut off came in at 6.03%-6.09%, lowered from 6.30% zone in last week auction. Additionally, the CD-T-bill spreads have also squeezed to 75bps from more than 100 bps in Mar'25 since the system has been flushed with a liquidity surplus averaging Rs.1.6 lakh crore in Apr'25. The Global tariff turmoil where "Revenge Tariffs" has started taking the front seat, the UST-10 year has moved up to 4.45% from below 4% demanding risk premium. This pressure on global yields may limit the downward trajectory of Indian benchmark yields.

Trump flip-flop continues, while sparring with China

- Post tariffs announcement for 180 countries, China retaliated with an equivalent 34% tariffs on the US. In response to the same, US President Donald Trump threatened China with an additional 50% duty on imports entering the US unless the Asian giant removes its 34% retaliatory tariff, which would bring total import charges to 104%.
- On Wednesday, Trump announced a temporary halt on new tariffs affecting numerous countries for a period of 90 days. However, he has escalated pressure on Beijing by increasing tariffs on Chinese imports to 125%. This new rate follows a 20% duty that was implemented earlier this year, which was justified by claims regarding China's role in the fentanyl supply chain. Consequently, the cumulative tariffs imposed by Trump on Chinese goods this year have reached 145%, in addition to the tariffs established by previous administrations.
- Today, China revealed its plan to elevate tariffs on US goods to 125%, exacerbating the existing trade tensions between the two largest economies globally. Additionally, China indicated that it would overlook any further tariff increases from the United States, claiming that American products would no longer be economically viable for importers.
- The UST-10 year which was trading below 4% has gone up touching 4.45% as concerns grew due aggressive tariffs and counter retaliation led investors demanding risk premium. The DXY fell over 1% to below 100, three year low, due to escalating trade tensions and over the broader economic fallout particularly for the US have weighed heavily on sentiment.

RBI MPC has been dovish on all fronts

- Highlights of MPC:
 - Repo Rate reduced to 25bps to 6%
 - Liquidity Adjustment Facility (LAF) rates - SDF reduced to 5.75% and MSF reduced to 6.25%
 - All 6 members voted for rate cut by 25bps with change in stance to "accommodative"
- Market Reactions:
 - The money market rates dropped with WACR trading at 5.92% against previous day level of 6.15%. The TREPS also dropped to 5.76% against previous day level of 6.06%.
 - The 10 year benchmark marked a low of 6.4291%, with softening across the curve.
- Compared to Feb'25 MPC, RBI has eased real GDP growth by 20 bps to 6.5% and inflation estimates for FY26 by 20bps to 4.0%. These estimates are based on the assumptions as laid out in the MPR April 2025.
- System liquidity as on 08th Apr'25 is in surplus of Rs.1.32 lakh crore. It is pertinent to note that this surplus is inferring from surplus parked of worth Rs. 1.39 lakh crore under SDF with RBI showing the divide between 'Haves' and 'Have nots'. (Read our Report: [India-RBI-going-full-throttle-on-liquidity-what-is-hindering-transmission](#))
- In line with our expectations from RBI for liquidity assurance, the RBI Governor assured to provide sufficient liquidity c.1% of NDTL which is a game changer and may facilitate some transmission even if structural issues remain (shift in household savings profile and Just-in-Time effects).
- In the money market segment, the WACR has majorly remained within the policy corridor. Even the T-Bills cut off came in at 6.03%-6.09%, lowered from 6.30% zone in last week auction.
- Further, Banks continue to rely on CDs to meet their funding requirements on account of persisting gap in credit and deposit growth (77bps as of 21st Mar'25). The funding pressure to bridge that gap in financial year end for 'Have nots' drove the pricing upwards keeping the funding rates & spreads elevated.

Dovish policy paved way for further easing

- The policy was clear and crisp in terms of RBI's stands on prevailing global and domestic conditions. With easing inflationary estimates and lower GDP forecasts, RBI Governor communicated the change in stance is to provide an intended direction to policy rates going forward.
- As per RBI [research paper](#), estimate of natural rate is at 1.4%-1.9%. When the policy rate is set below the natural rate, the stance is regarded as accommodative, and the converse signifies a restrictive stance. Post MPC stance moved to "accommodative", in order land the real policy rates in the lower end of the 1.4%-1.9% range, implies a terminal rate of 5.50%, we continue with our call of expecting further 50bps cut by August 2025.
- Additionally, RBI has been on toes to provide sufficient liquidity to ensure swifter policy transmission, we continue to expect further steps to inject liquidity as & when required. RBI's dividend payout shall also add to liquidity surplus.
- In tandem with dovish policy outlook, we continue to expect yields to move lower with bull-steepening of the yield curve with high conviction on 5-9 year segment as FPIs flock that segment.

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