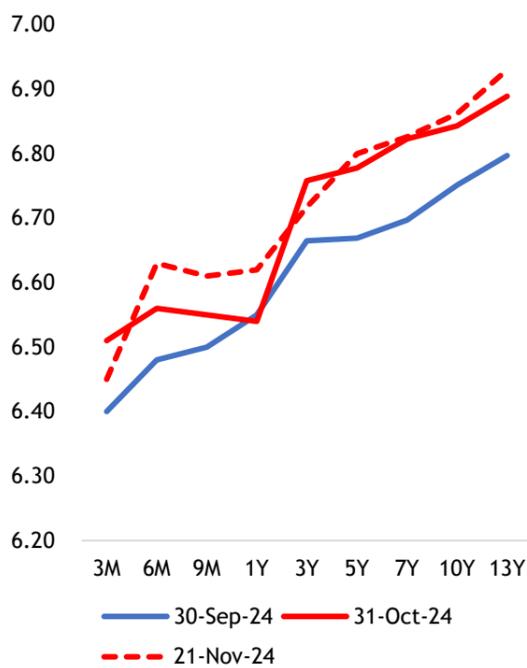
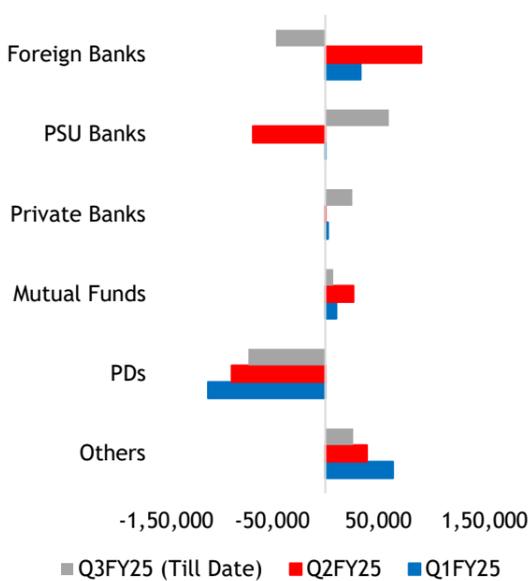


Fig 1: India yield curve movement ; (%)



Source: Bloomberg, UBI Research

Fig 2: In Q3FY25 Foreign Banks Sell and PSU & Private Banks bought IGBs; (Rs.in Crore)



Source: Bloomberg, UBI Research

This week speeches from FED Chair and RBI Governor took centre stage. Fed Chair Jerome Powell indicated that they are in no hurry to cut rates as US economy has been “remarkably good”. These comments sent US 10 year yield flying upto 4.50%. In India, RBI Governor Shaktikanta Das said that Indian economy and financial sector are well placed to handle any kind of spillovers from global events. IGBs which looked insulated from global volatility has started to show momentum as they consolidated near to 6.85-86% levels. Further, market awaits Q2FY25 GDP print hoping that a weaker GDP may preload rate cut expectations. RBI in its monthly bulletin has said that the private consumption is back driven by festive spending and the slackness observed in second quarter is “behind us”. However, inflation biting into urban consumption demand and corporates earnings & capex may undermine the prospects of real economy.

**Jerome Powell Speech showing signs of slowdown in rate cut**

- Fed Chair Jerome Powell said the recent performance of the US economy has been “remarkably good” giving central banker room to lower interest rates at a careful pace. “The economy is not sending any signals that we need to be in a hurry to lower rates” Powell said, “The strength we are currently seeing in the economy gives us the ability to approach our decisions carefully.”
- Reacting to this, the markets have lowered the probability of 25bps rate cut in Dec meeting from 80% to 52% during the previous week. Further, market may be muted as no major data is due for release in current week. Market participants await speeches by US Fed policymakers and shall assess to get more cues on the future interest rate decisions by the Fed.

**India bonds awaiting cues**

- The movement in 10-year benchmark yield has been limited to 5bps (6.82%-6.87%) whereas the US 10-year yield has moved up to 4.50%. It is favorable demand supply dynamics helping bonds and keeping India yields muted.
- India October WPI jumped to 2.36% (in line with our expectations) versus 1.84% in prior month on pickup in food (mainly vegetables and edible oils) and manufacturing.
- Merchandise Trade Deficit widened sharply in Oct’24 to \$27.14bn vis-a vis our estimate of \$21.7bn (Market consensus: \$22.0bn), after marginally cooling off in Sep’24 to \$20.8bn. However, deficit narrowed from \$30.43bn on a YoY basis. Trade deterioration led by oil (deficit hit record highs), gold (on festive effects) while non-oil non-gold (deficit slipped to 6 month lows) partly offset some impact.
- The weekly G-Sec auctions received good response in 5 & 15 year segment from domestic banks whereas 30 year paper received demand from insurance companies thereby coupon of new 15 year paper was set at 6.92%. Market participants now hope for a weaker GDP print which can pre-load expectations of rate cut in India. RBI in its monthly bulletin has said that the private consumption is back driven by festive spending and the slackness observed in second quarter is “behind us”. However, inflation biting into urban consumption demand and corporates earnings & capex may undermine the prospects of real economy.
- The selling spree of Foreign Banks have continued from Oct-24 to Nov-24 also. Market Activity showing consistent selling by Foreign Banks amounting to Rs. 15,224 Crore in Nov-24 which were bought by PSU Banks amounting to Rs.15,217 Crore. On quarterly basis, the Foreign Banks bought in Q1 and Q2 FY25, whereas PSU Banks sold during the same period. In the current quarter (Q3FY25), PSU banks were joined by Private Banks as well in buying G-Secs.
- Net FII flows which turned positive in FY2021-22 on yearly basis (except for meagre selling in FY2022-23), the monthly data have shown consecutive selling in FY2024-25 during the month of Oct-24 & Nov-24. The rise in US 10 year yield post Sep-24 FOMC rate cut decision may be the reason for shift in FII from India to US.

**Liquidity buoyant, Forex may spoil the show**

- FPIs outflows from equity market and sustained Dollar strengthening post Powell’s commentary has led to Rupee depreciate to record highs. However, our Central Bank is likely curtailing volatility through utilization of Fx Reserves which dropped to \$675.65 Bn. Today’s Fx data will show a much sharper fall in reserves.
- Currently, the system liquidity is in surplus of -Rs.1.0 lakh crore which is getting reflected in Call WAR at 6.50% remaining close to repo rate. However, the T-Bills cut off came in at 91D-6.45%, 182D-6.65% and 364D-6.62% which is 1-3bps up as compared to previous week cut-off.
- As per RBI weekly data, the government balance been reduced to Rs.0.98 lakh crore during the week ended 08<sup>th</sup> Nov’24 due to month end govt expenditure. It is first time since May-Jun 2023 that the govt balance has gone below 1 lakh crore.
- As per statement of position released by RBI deposits growth of 11.8% and credit grew by 11.9% bringing narrowing the credit-deposit wedge to 8bps for the fortnight ended 01<sup>st</sup> Nov-24 turning positive from negative of 23bps in previous fortnight.
- With Credit-Deposit wedge returning to positive due to festive season effect, the funding issues for the banking system is continuing, with the 1 year CD rates near to 7.50%, as the spread over the 1 year T-Bill rate is close to 95bps. The outstanding CDs is Rs.4.65 lakh crore with issuances in fortnight ended 01<sup>st</sup> Nov-24 dropping to Rs.0.09 lakh crore.

Fig.3: Net FII flows in Debt Segment on yearly basis; (Rs.in Crore)

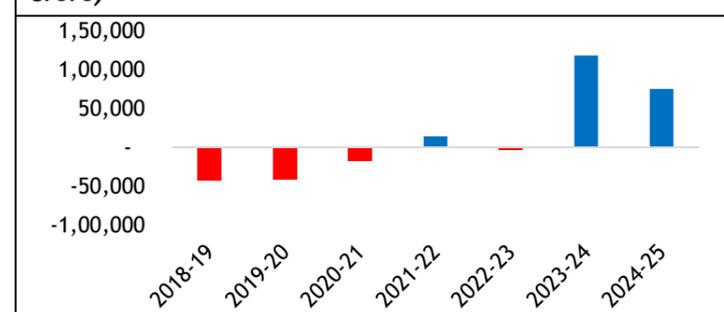
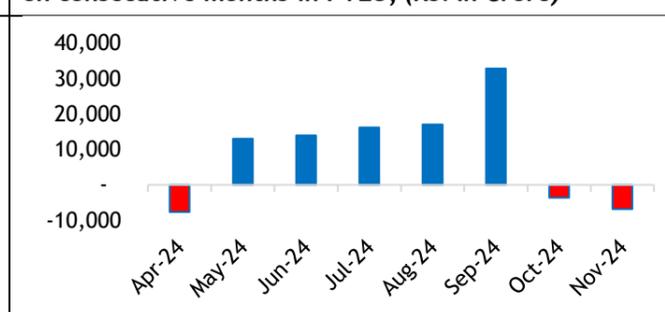


Fig.4: net FII flows in Debt Segment turning negative on consecutive months in FY25; (Rs. In Crore)



Source: NSDL, UBI Research

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