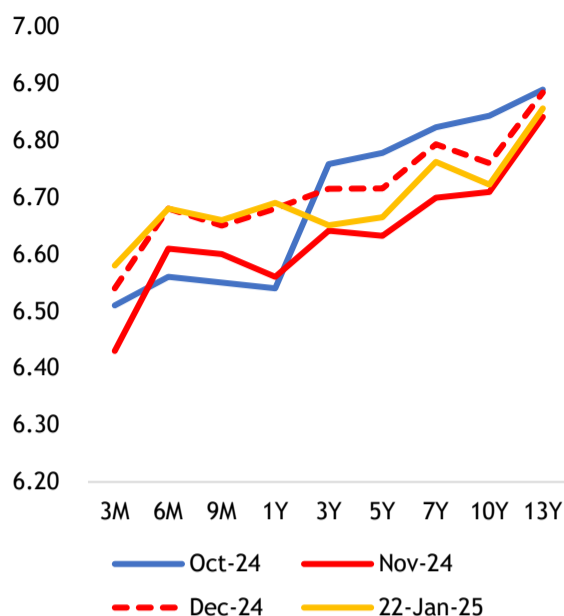
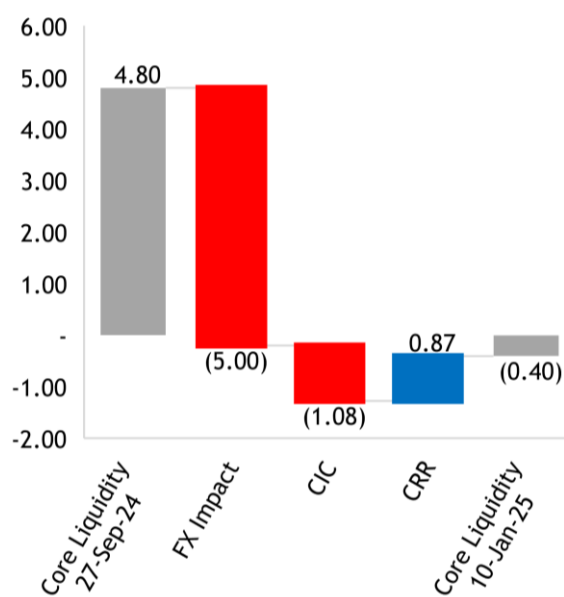


Fig.1: India yield curve movement ; (%)



Source: Bloomberg, UBI Research

Fig.2: Core Liquidity in deficit; (Rs.in Lakh Crore)



Source: RBI, CEIC, UBI Research

Financial markets globally were kept on tenterhooks with fear of tariff and sanctions to hamper global growth. The Trump 2.0 version came out to be Gradual approach rather than aggressive (Read: Trump 2.0 Inauguration on 20th Jan'25 markets remain on tenterhooks) soothing global market fears with DXY easing. The Dollar Index lost 1.1% following Trump refraining from imposing tariffs measure on his first day in the office. US 10 year too fell by more than 10bps as Trump pivot away from a full-blown trade war. In the current week, Bank of Japan is likely to go ahead with a 25bps rate hike on 24<sup>th</sup> Jan'25 with probability standing at 87% up from 60% a week ago. In India, 10 year yields have softened from 6.85% to 6.73% as Central Bank announced Daily VRR auctions amid deficit liquidity. We see a combination of CRR cut, OMOs and buy-sell swaps from Central Bank to address the liquidity deficiency.

**US 10-year yields softened with Trump taking over Presidential seat**

- The US Dec'24 CPI came in line with market expectations at 2.9% y/y while core CPI came in softer than expected at 3.2% y/y against estimate of 3.3% y/y and below 3.3% y/y in Nov'24. The FOMC meeting as of 29<sup>th</sup> Jan'25 looks a non-event with c.99.5% probability of holding rates. However, expectations for the year 2025 is having two rate cuts with first cut in Nov'25.
- On Monday, the 20<sup>th</sup> Jan'25, Donald J. Trump took over the US Presidency. The initial remarks from Trump were softer leading to further easing of US yields post inflation data gave comfort. With more narratives coming in from US president volatility is bound to increase.

**FPIs turned sellers of IGBs in 2025**

- FPIs under Fully Accessible Route (FAR) category have increased their holdings from Rs.1.30 lakh crore as on 31<sup>st</sup> Dec-23 to Rs.2.53 lakh crore as on 31<sup>st</sup> Dec-24 as index inclusion flows kicked in from end of Jun-24.
- However, as the year 2025 started, FPIs holding of FAR category has decreased to Rs.2.51 lakh crore as on 21<sup>st</sup> Jan-25, thereby showing a sell off amounting to Rs.2,023 Crore. It is to be noticed that the incremental activity of FPIs under FAR category has been volatile during the previous quarter (Q3FY25) and further expected to continue.

**Durable Liquidity measures need of the hour**

- Banking system liquidity has turned to deficit during Q3FY25 and recovery has been short-lived. It is INR depreciation that has eaten away the durable liquidity putting pressure on domestic financial conditions.
- During Q3FY25 the core liquidity has moved from Rs.4.80 lakh crore (as of 27<sup>th</sup> Sep-24) to Rs.(0.40) lakh crore (as of 10<sup>th</sup> Jan-25) due to estimated Fx impact of Rs.5.00 lakh crore. During the month of Dec-24, the 50bps CRR cut being implemented had released Rs.1.16 lakh crore, however, the Fx impact was much higher setting-off the same.
- The erosion of durable liquidity has led to liquidity pressure amongst Banks which raised the WACR (Weighted Average Call Rate) during Jan 2025.
- During the last week, RBI announced daily VRR auctions, the details of which till date is as under:

Daily VRR	Notified Amount	Amount Allotted	Cut-off
16-Jan-25	50,000	30,760	6.51%
17-Jan-25	50,000	33,467	6.51%
20-Jan-25	1,25,000	75,772	6.51%
21-Jan-25	1,50,000	71,900	6.51%
22-Jan-25	1,25,000	1,25,009	6.51%

- Post daily VRR announcement the Call rates and TREPS levels came to 6.5%-6.6%. Buybacks were announced for securities maturing within 1 year, thereby, injecting liquidity into the banking system. Going forward, we see a combination of CRR cut, OMOs and buy-sell swaps from Central Bank to address the liquidity deficiency.

**Fx Reserves drop, all eyes on Budget FY26**

- The Forex Reserves has fallen by \$79 Bn from peak of \$705 Bn to \$626 Bn (as of 10<sup>th</sup> Jan-25), whereas, during the same period the INR has depreciated by 2-3% even it is likely that the Fx Reserves were utilized to curb volatility.
- On the backdrop of transient measures taken, the cut-off of T-Bills came in at 91D - 6.6089%, 182D - 6.7068% and 365D - 6.6789% which is marginally lower in comparison to previous week auction cut-off.
- Banks have again resorted to Certificates of Deposits (CDs), as outstanding CDs touched an amount of Rs.4.94 lakh crore with incremental CDs of Rs.0.60 lakh crore during the fortnight ending 27<sup>th</sup> Dec-24.
- With Budget coming up on 01<sup>st</sup> Feb'25, market participants are confident of fiscal consolidation and look forward to gilt supply for FY26.

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Fig.3: Inconsistent monthly flows during Q3FY25 in FAR securities; (Rs. in Crore)

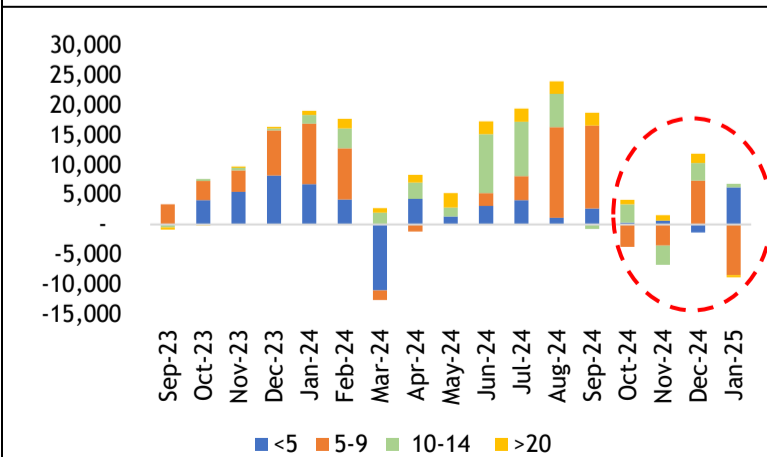
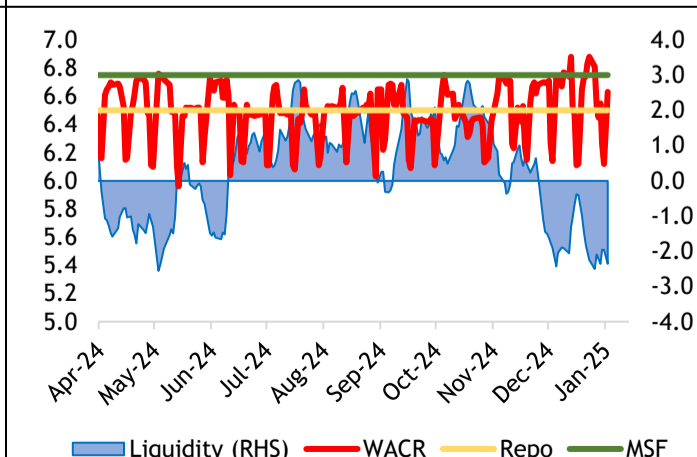


Fig.4: Call rates (WACR) movement while liquidity remains in deficit in Jan-25; (%), (Rs.in Crore)



Source: CEIC, NSDL, RBI, UBI Research

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