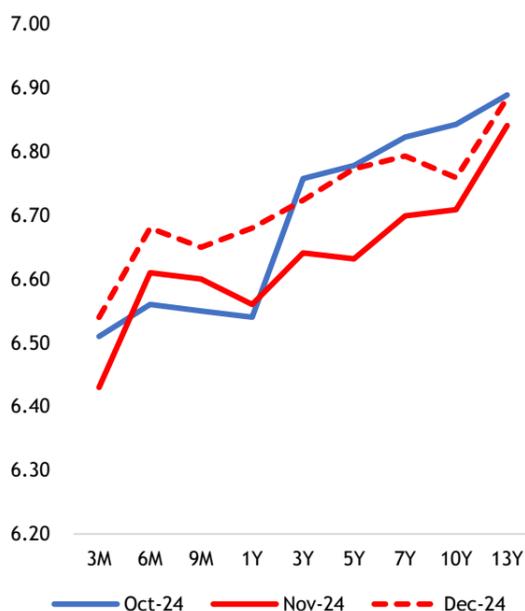
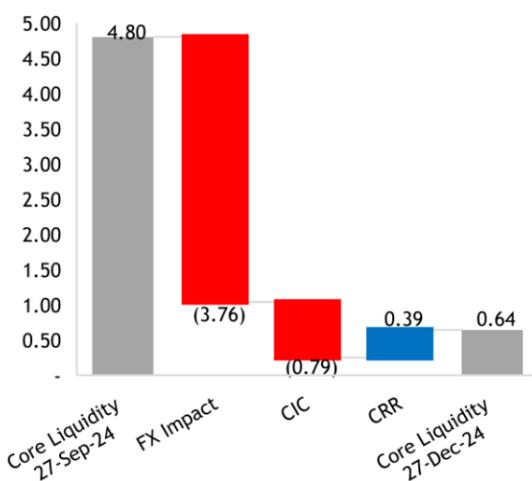


Fig.1: India yield curve movement ; (%)



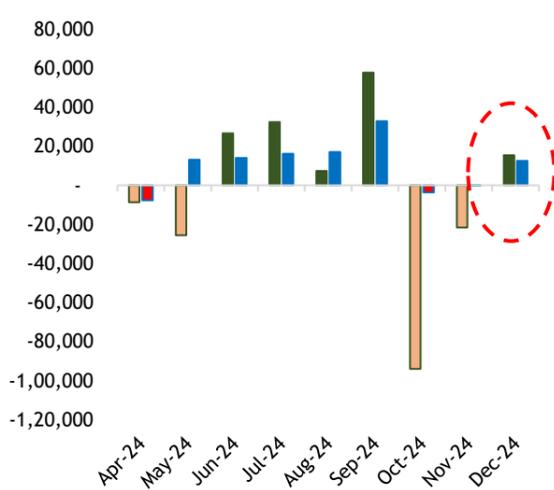
Source: Bloomberg, UBI Research

Fig.2: Drivers of Liquidity in Q3FY25; (Rs.in Lakh Crore)



Source: RBI, CEIC, UBI Research

Fig.3: FPIs flows in Equity and Debt Segment returned to positive in Dec-24; (Rs.in Crore)



Source: NSDL, UBI Research

During the calendar year 2024, the 10 year benchmark yield has softened by 42 bps, the highest softening since 2020 which clocked a fall of 66 bps. The major reasons for such fall are Government's fiscal discipline, positive flows due to inclusion of IGBs in Global Bond indices along with anticipation of rate cuts. In terms of FPI flows, India received Rs.1.52 lakh crore under debt segment in calendar year 2024 against Rs.0.60 lakh crore in 2023. The 10 year benchmark yield has remain rangebound in the last fortnight of Dec-24 (range of 6.75%-6.82%) awaiting cues from new RBI Governor & Govt. on the Budget. Liquidity deficit eased during the month end after hitting a high of Rs.2.43 lakh crore taking into effect of advance tax payment and GST outflows. US 10 year after touching a high of 4.63%, its highest since April eased close the year at 4.57% and still marked the 4th consecutive year of rise since 1980s.

US 10 year yield 4 year rising streak

- US 10 year yields closed year 2024 higher continuing its multi-year trend. It is the 4th consecutive year of rise and happening for the first time since 1980s.
- Post Sep-24 Fed rate cut, the US 10 year yield have risen by 78 bps in the Sep-Dec 2024 quarter alone being the highest quarterly increase since the 3rd quarter of 2022. Pricing of further rate cuts in 2025 have come down leading to sharp rise in US 10 year yield.
- The Fed has signaled a more cautious stance on policy easing in 2025 citing persistent inflation. Additionally, policy uncertainty surrounding Trump taking over US presidency in Jan-25 have driven safe-haven flows into the dollar.

FPIs remained buyers in IGBs in 2024

- IGBs have been included in JP Morgan Emerging Market Bond Index from 28th Jun-24 staggered over 10 months till 31st Mar-25, thereby bringing in ~\$24Bn flows to India.
- At the time of announcement of index inclusion (30th Sep-23), FPIs were holding Rs.0.96 lakh crore of government bonds under Fully Accessible Route (FAR) category. These holdings have increased to Rs.1.73 lakh crore as on 31st Mar-24 which further jumped to Rs.2.53 lakh crore as on 31st Dec-24 as index inclusion flows kicked in from end of Jun-24.
- Of the Rs.2.53 lakh crore holdings as on 31st Dec-24, Rs.1.18 lakh crore is part of 5-9 year segment which has more than doubled i.e. 2.23 times of Sep-23 holding of Rs.0.53 lakh crore. The FAR holdings in 10-14 year segment is Rs.0.42 lakh crore as on 31st Dec-24 which has grown 10 times of Sep-23 holding of Rs.0.04 lakh crore primarily due to 10 year benchmark holding.

Fiscal impulse improves in Nov'24, Capex to chase the run-up

- For Apr-Nov FY25, Fiscal Deficit touched 52.5% of Budget Estimate and 7% lower on y-o-y basis.
- The negative momentum seen under capex in the first half seems to have reversed in the third quarter with 21.3% YoY pick up seen in Nov'24. While capex was down by 14.7% during Apr Oct'24, the extend of negativity has lessened in Nov'24 (negative by 12.3% during Apr-Nov'24), with a further pickup expected in the coming months. A monthly run rate of Rs.0.64 lakh crore in 8 months and with 4 months to go, the govt. needs to step up the run rate to Rs.1.49 lakh crore which is more than double of what has been clocked till Nov-24. Undershooting the capital expenditure may lead to fiscal consolidation but also impact both growth and tax collections in the next fiscal.
- The Fiscal deficit financing has been done via market borrowings (47% of BE, net borrowings) while financing through small savings has declined on YoY basis from Rs 1.24 lakh crore in Apr-Nov'23 to Rs 1.03 lakh crore in Apr-Nov'24. Market expectations of market borrowings, however, are lower than Budgeted.

Rupee at record highs hurting liquidity and short term yields

- During the month of Dec-24 the liquidity touched a deficit of Rs.2.43 lakh crore due to Advance Tax & GST outflows. With full 0.50 bps CRR cut being implemented from 28th Dec'24 the system had released Rs.1.16 lakh crore to the Banks.
- The fall in Fx reserves continued in Dec'24 with USD 13.70 Bn fall (till 20th Dec-24) which brought the balance to USD 644.39 Bn as on the week ended 20th Dec-24. The depreciating rupee beyond Rs.85/\$ level and its impact on domestic liquidity during QFY25 may curb degrees of freedom of MPC in terms of rate cuts. We believe that more liquidity measures may be announced in order to manage system liquidity.
- During the Sep-Dec-24 quarter, T-Bills have hardened by 15-20bps as the liquidity went to deficit from surplus and the calendar for Q4FY25 of T-Bills is much heavier than expected.
- After two months of consistent selling by FPIs in equity, they have turned buyers in December 2024. Till 31st Dec-24 they have bought Rs.15,446 Crore of equity and Rs.12,512 Crore under debt segment.

Fig.4: T-Bills witnessing upward pressure in Q4FY25; (Change in bps)

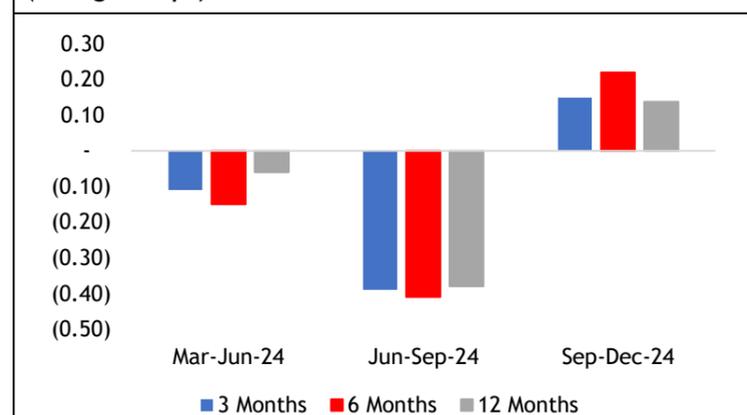
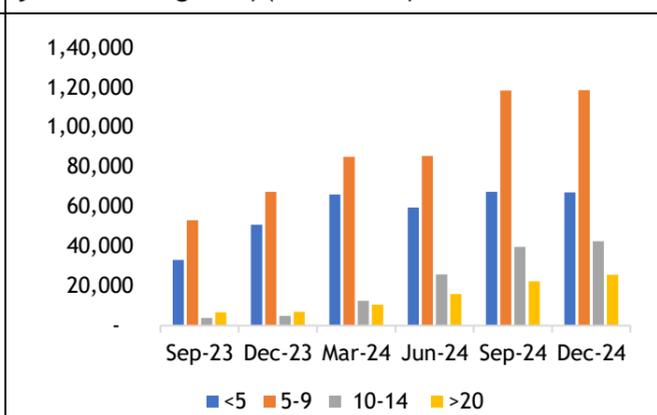


Fig.5: FAR holdings with highest investments in 5 to 9 year tenor segment; (Rs.in Crore)



Source: CEIC, NSDL, RBI, UBI Research

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