यूनियन बैंक ऑफ इंडिया अच्छे लोग, अच्छा बैंक Union Bank of India Good people to bank with

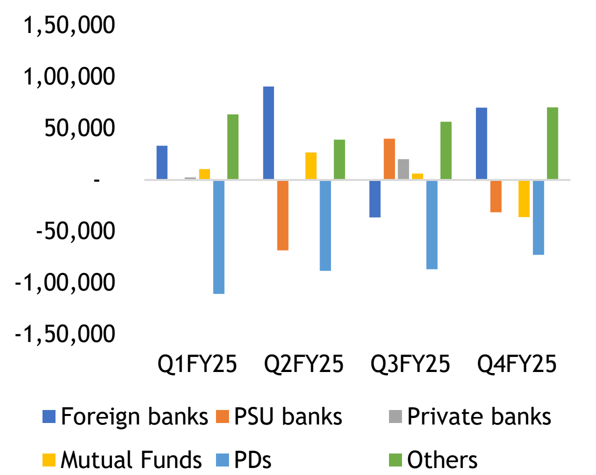
05th Apr 2025

Fig.1: FEDWatch Tool shows 3 rate cuts in 2025

	CME FEDWATCH TOOL - AGGREGATED MEETING PROBABILITIES						
MEETING DATE	275-300	300-325	325-350	350-375	375-400	400-425	425-450
5/7/2025	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	31.28 %	68.72 %
6/18/2025	0.00 %	0.00 %	0.00 %	0.00 %	16.83 %	83.17 %	0.00 %
7/30/2025	0.00 %	0.00 %	0.00 %	0.00 %	99.50 %	0.50 %	0.00 %
9/17/2025	0.00 %	0.00 %	0.00 %	81.91 %	18.09 %	0.00 %	0.00 %
10/29/2025	0.00 %	0.00 %	37.50 %	62.50 %	0.00 %	0.00 %	0.00 %
12/10/2025	0.00 %	2.50 %	97.50 %	0.00 %	0.00 %	0.00 %	0.00 %
1/28/2026	0.00 %	33.50 %	66.50 %	0.00 %	0.00 %	0.00 %	0.00 %
3/18/2026	0.00 %	73.81 %	26.19 %	0.00 %	0.00 %	0.00 %	0.00 %
4/29/2026	0.00 %	94.50 %	5.50 %	0.00 %	0.00 %	0.00 %	0.00 %
6/17/2026	16.53 %	83.47 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
7/29/2026	31.50 %	68.50 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
9/16/2026	0.00 %	81.36 %	18.64 %	0.00 %	0.00 %	0.00 %	0.00 %
10/28/2026	0.00 %	72.50 %	27.50 %	0.00 %	0.00 %	0.00 %	0.00 %
12/9/2026	72.55 %	27.45 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %

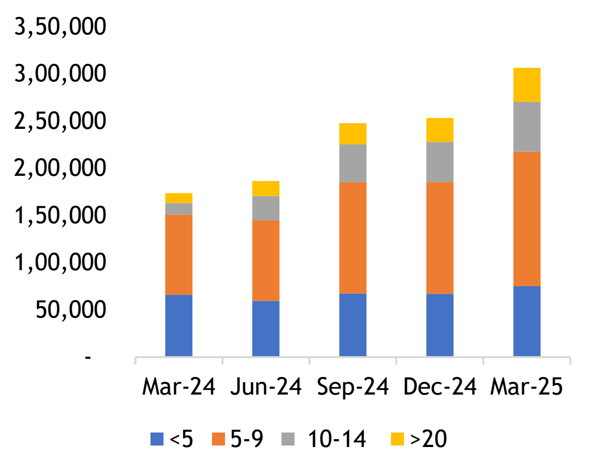
Source: CME, UBI Research

Fig.2: Foreign Banks were net buyers along with others in Q4FY25



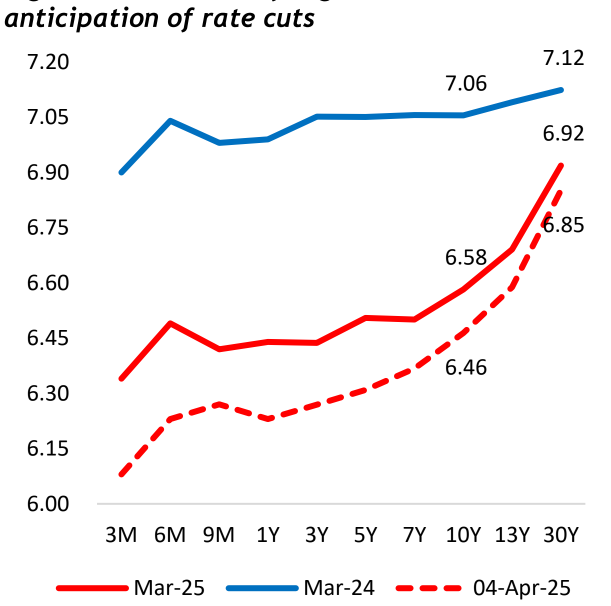
Source: Bloomberg, UBI Research

Fig.4: FAR holdings increased in FY2024-25



Source: NSDL, UBI Research

Fig.3: Yield curve shifting downwards in anticipation of rate cuts



Source: Bloomberg, UBI Research

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Trump's "Liberation Day" tariff announcement exceeded market expectations sending tremors across asset classes globally. The tariffs so announced were based upon trade balance with respective countries rather than being on reciprocal basis. Trump declared National Emergency in order to increase US competitive edge, protect sovereignty and strengthen economic security. Post tariff announcement, the equities fell with investors finding solace in US treasuries. The weakness in US Dollar despite spike in risk aversion globally was a surprise. It seems markets are more focused on the US growth impact of Trump's tariff hikes, with US equities deep in red for two consecutive sessions. For India, the impact may not be deep as anticipated given the size of trade balance with US. Weakness in USD may support INR in short run, however, bleak foreign flows may adversely impact BoP and Fx dynamics. Bond markets have started to discount widely anticipated rate cut in April-25 MPC with a stance change to "accommodative".

Trump's Turbulent Tariffs, China retaliates, Powell uncertain

- US president Donald Trump has announced tariffs on 180 countries exceeding market expectations. They are not reciprocal tariffs rather estimated on trade balance basis. Trump declared National Emergency in order to increase US competitive edge, protect sovereignty and strengthen economic security. (Read our Report: World-bracing-for-Turbulence-on-Trumps-beautiful-Tariff-hikes)
- Post tariffs announcement, the financial markets across the globe felt the tremors as equities, DXY & commodity (oil) prices fell while bond markets rallied. The fall in Dollar as risk aversion took over shows market is worried for US growth due to Trump's tariff hikes.
- IMF Managing Director Kristalina Georgieva said that Trump's tariff pose a significant risk to the global outlook at a time of sluggish growth. She has appealed to US and its trading partners to work constructively to resolve tensions and reduce uncertainty.
- The UST-10 year has gone below 4% reaching 6 months low as concerns grew that aggressive tariffs and potential retaliation could trigger a global recession which made investors ramping up bets for more rate cuts. As per CME FEDWatch Tool, probability of 3 rate cuts during 2025 has increased to 82%.
- China has retaliated with 34% tariff on imports from all US products beginning April 10, matching the US "reciprocal" tariff of 34%. This move made stocks of US companies who do more business with China, fell sharply. Beijing too announced that it filed a lawsuit with the WTO over tariffs issue.
- Fed Chair Jerome Powell in his speech yesterday said that tariff increases are expected to raise inflation in the coming quarters. Powell also said it remains difficult to assess the full effects of the tariffs due to uncertainty over what goods are affected, the tariff levels, and possible retaliation.

RBI easing liquidity leading to downward shift in yield curve

- RBI has injected Rs.7.85 lakh crore (Incl. OMOs announced on 01st Apr'25) since Jan-25 into the banking system through various combinations of OMO purchases, long tenor VRRs and forex Swaps.

Measure	Mode	Date	Amount in Lakh Crore
OMO Purchases	NDS OM	Jan-25	0.39
OMO Purchases	Auction	30-Jan-25 13-Feb-25 20-Feb-25 12-Mar-25 18-Mar-25 25-Mar-25 01-Apr-25*	0.20 0.40 0.40 0.50 0.50 0.45 0.80
Term Repo Auction	56-Day VRR 49-Day VRR 45-Day VRR	07-Feb-25 14-Feb-25 21-Feb-25	0.50 0.75 0.58
USD/INR Buy/Sell SWAP	6 Month 3 Years 3 Years	31-Jan-25 28-Feb-25 24-Mar-25	0.44 0.88 0.86
		Total	7.65

**To be conducted*
Source: RBI, UBI Research

- System liquidity as on 03rd Apr'25 is in surplus of Rs.2.16 lakh crore in line with our expectations. It is pertinent to note that this surplus is inferring from surplus parked of worth Rs. 4.05 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 the money market segment, the WACR has majorly remained within the policy corridor. Banks continue to rely on CDs to meet their funding requirements on account of persisting gap in credit and deposit growth (89bps as of 07th 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.
- RBI Governor is focused on providing liquidity with the latest OMO announcement a positive surprise probably to facilitate transmission of rate cut into lending and deposit rates.

Are Bond Markets discounting April MPC cut?

- During the FY2024-25, the yield curve has shifted downwards with 40-60 bps softening of yields across the curve, on account of positive flows due to Bond index inclusion and rising growth concerns leading to a 25bps rate cut in Feb'25 with further anticipation of a rate cut in April policy.
- In addition to downward shift in Fy25, the curve has steepened as the long short end gap increased (10Y Vs 1 Y) from 6 bps as on 31st Mar'24 to 14 bps as on 31st Mar'25. The FAR holdings during the year has increased from Rs.1.73 lakh crore to Rs.3.06 lakh crore, showing a jump of 76% with 5-9 year segment as their favorite.
- The Indian 10-year benchmark yield softened from to 6.46% on account of liquidity support by RBI in addition to softening of US yields post tariff announcements.
- It seems more likely that the rate cut of April MPC is discounted by the market since the liquidity support has continued in FY26 as well. We believe with inflation moderating and growth risks persisting, we see scope for another 50-75 bps rate cut by the RBI led MPC by August 2025.

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