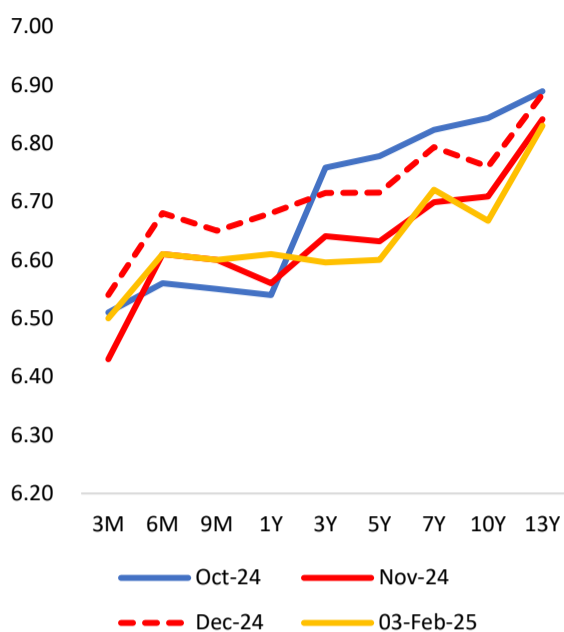
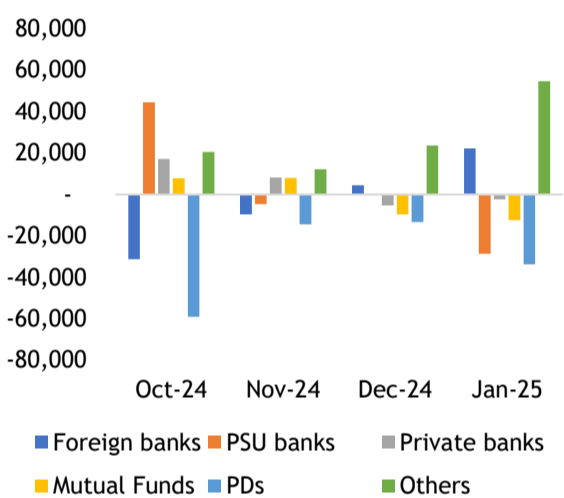


Fig.1: India yield curve movement ; (%)



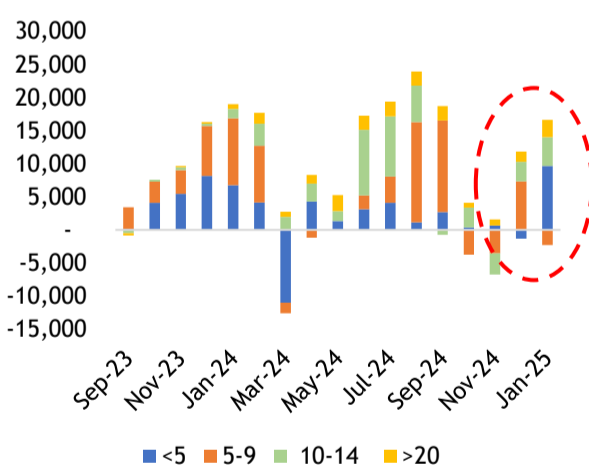
Source: Bloomberg, UBI Research

Fig.2: Market Activity of G-Sec segment shot up in Others category in Jan-25; (Rs.in Crore)



Source: Bloomberg, UBI Research

Fig.3: Monthly flows during Jan'25 in FAR securities switched to below 5 year securities; (Rs. in Crore)



Source: Bloomberg, UBI Research

Financial markets globally were jolted to wake up to Trump tariffs over the weekend. The White House said to implement 25% duties on imports from Mexico and Canada, and 10% levy on Chinese goods, which became effective on February 4th. The Canadian PM has retaliated with 25% tariff on imports from the US and Chinese ministry responded with new 10% tariff. However, on Monday, Trump confirmed that both Mexico & Canada have reached an initial agreement with US to pause the tariffs for a month. Domestically, in India, in the Budget for FY26 fiscal deficit was budgeted at 4.4% of GDP versus 4.8% in FY25 Revised est. (RE) vs 4.9% Budgeted (BE). New income tax bill introduced with steep reduction in tax rates upto slab of Rs 24 lakhs entailing tax loss of Rs 1 lakh crore coming as a gift to "Common Man". Growth boost from income tax cuts likely to be at least 0.3-0.4% of GDP using tax multiplier of ~1.

Dollar Index jumped as White House announced Tariffs

- The DXY continues its strength on the backdrop of Trump announcing trade tariffs on Canada, Mexico and China to be implemented from 04th Feb'25 and on worries that the global growth may be lower. In response, Mexico & Canada has immediately retaliated tariffs against the US announcing the same over the weekend.
- In effect, the Dollar Index has approached 110 level mark, its highest since Nov'22. The US dollar surge has led to Canadian Dollar (low made on Mar'2003) and Mexican peso touched to multi year low as both these nations are top two trading partners of US.
- However, on Monday, Trump confirmed that Mexico & Canada have reached an initial agreement with US to pause the tariffs for a month. This is on back of arrangements that both Mexico & Canada took measures to address Trump's concerns regarding border security & drug trafficking.

FPIs buyers of IGBs in Jan-25

- FPIs under Fully Accessible Route (FAR) category have increased their holdings from Rs.2.53 lakh crore as on 31st Dec-24 to Rs.2.67 lakh crore as on 31st Jan-25, showing an incremental flow of Rs.14,336 Crore.
- The incremental activity of FPIs under FAR category has been volatile during the previous quarter (Q3FY25), however, during Jan-25 the focus on buying has returned especially in below 5 years segment.

FY26 Budget - The 3D's - Demand, Deregulation and Development

- FY26 fiscal deficit budgeted at 4.4% of GDP versus 4.8% in FY25 Revised est. (RE) vs 4.9% Budgeted (BE)
- The Finance Minister gave a gift to "Common Man" by introducing new income tax bill with steep reduction in tax rates upto slab of Rs 24 lakhs entailing tax loss of Rs 1 lakh crore. The income tax cut will be non-inflationary as output gap is negative and likely to be at least 0.3-0.4% of GDP using tax multiplier of ~1.
- We compliment the government as it seeks to address the core issue of weak demand affecting the Indian economy (as highlighted in our 2025 outlook report) despite the strict fiscal constraints.
- Gross borrowings are budgeted at Rs.14.8 lakh crore, higher than expectations, whereas, net borrowings remained flat at Rs.11.5 lakh crore. Meanwhile, borrowings in T-bills taken as NIL vs redemption of Rs. 1.2 lakh crore in FY25.
- The RBI holds government bonds worth around Rs. 1 lakh crore maturing next year. Unlike previous years, where such bonds were switched for longer-term debt to reduce gross borrowings, the government has decided to treat these bonds at par with the market. As a result, the gross borrowings for FY26 are projected at Rs. 14.8 lakh crore, up from Rs. 14.0 lakh crore in FY25.

All eyes on MPC decision

- As per RBI data for the week ended 24th Jan'25, OMO purchases to the tune of Rs.20,850 crore has been undertaken by the Central Bank which is in addition to OMO purchases of Rs.10,175 in the previous week.
- The Forex Reserves has shown revival of \$5 Bn from 11-month low of \$623.98 Bn (till 17th Jan'25) to \$629.56 Bn (till 24th Jan'25). This may be due to retracement of DXY to 106.97 levels, however, we expect further downfall in Fx Reserves as DXY jumped near to 110 levels along with USD/INR closing at Rs.87.1950/\$ amidst tariff announcements by White House.
- On the backdrop of liquidity measures taken, the cut-off of T-Bills came in at 91D - 6.5625%, 182D - 6.6691% and 365D - 6.6345% which is softer in comparison to previous week auction cut-off.
- Even the Central Bank is doing the heavy weight lifting in terms of liquidity outstanding CDs touched an amount of Rs.4.99 lakh crore with incremental CDs of Rs.0.30 lakh crore during the fortnight ending 24th Jan'25.
- RBI on 27th Jan'25 has announced various measures to manage liquidity and further steps are contingent on Fx outflows. Market participants awaits the MPC decision in this week with consensus of 25bps. We shall be watching out for guidance on new LCR norms implementation, liquidity management and financial stability measures along with supporting growth.

Fig.4: Net Dated Borrowing kept flat while short term borrowing switched to NIL in FY26; (Rs.in Crore)

Rs lakh crore	2023	2024	2025 BE	2025 RE	2026 BE
External	0.4	0.6	0.2	0.3	0.2
Market borrowings	12.2	12.3	11.1	10.4	11.4
- Dated	11.1	11.8	11.6	11.6	11.5
- Short Term	1.1	0.5	-0.5	-1.2	0.0
Small savings	4.0	4.5	4.2	4.1	3.4
State provident funds	0.1	0.1	0.1	0.1	0.1
Others (incl. Public A/c)	0.8	-0.9	-0.8	0.3	0.4
Draw Down of Cash Balance	0.0	0.0#	1.4	0.5	0.0
Total Financing	17.4	16.5	16.1	15.7	15.7

Number revised from Rs.(1.72) lakh crore initially, with adjustment made with Public Accounts.

Fig.5: FY26 Gross borrowing surprised on the upside; (Rs.in Crore)

Rs lakh crore	2025 RE	2026 BE
Market Borrowings - Dated	11.63	11.54
Redemptions (as on 27 th Jan'25)	3.62	3.96
Net Redemptions	3.62	3.96
o/w: funded by GST Compensation cess fund	1.24	0.55
Gross Borrowings	14.01	14.82*

* Balance to be funded via G-Sec Buybacks / Switches

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