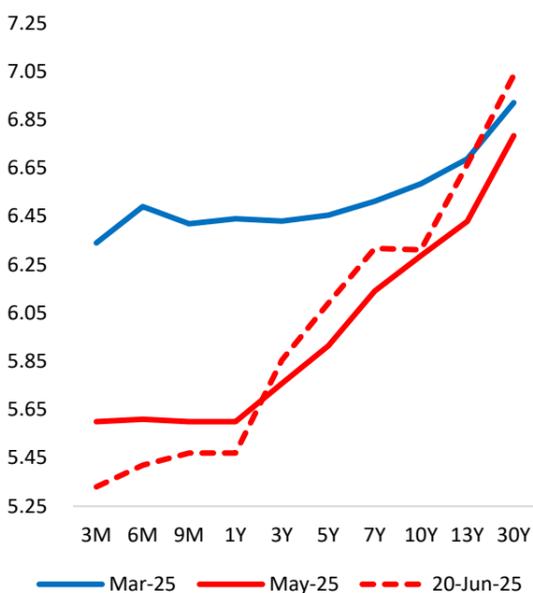


Fig.1: Yield curve steepening continues



Source: Bloomberg, UBI Research

Fig.2: Sensitivity of India's macros to Indian Crude Basket (ICB) prices

Economic variables	Every USD 10/bbl increase in crude oil prices
GDP growth <sup>^</sup> , bps	-15
CPI inflation <sup>^</sup> , bps	+30bps <sup>^^</sup>
Combined fiscal deficit impact, % of GDP*	-0.3 to -0.4
C/A deficit, % of GDP*	-0.4
Indian rupee (INR)	Weaker

<sup>^</sup> as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions; <sup>^^</sup> assumes no cut in excise duty; \*negative sign indicates widening deficit; Source: RBI, UBI research

Global macro is entering a turbulent new chapter—where central banks must balance prudence with agility, inflation control with growth revival, and domestic priorities with global shocks. The Fed and RBI signal flexibility, but their room to maneuver is narrowing. With oil markets volatile and geopolitical tensions rising, 2025 will be defined less by the timing of rate cuts and more by the challenge of maintaining stability amid uncertainty. During the week, Fed kept rates steady at 4.25-4.50% for the fourth meeting, lowering GDP growth forecasts to 1.4% for 2025 (from 1.7%) while raising inflation projections to 3.0% (from 2.7%). US strikes on Iranian nuclear sites have pushed Brent crude prices to \$78-80/bbl with a \$10/bbl geopolitical premium, risking spikes above \$120 that could cut global GDP by up to 1%. The recent oil price spike currently have limited impact on India's macros while CAD may widen by 0.3-0.4% of GDP, inflation could rise and growth may slow with every \$10 increase in oil prices. The RBI's front-loaded 50 bps rate cut and Rs.2.5 lakh crore liquidity injection may provide some cushion, but further easing is limited.

**Fed kept the rates steady amid escalating geopolitical tensions in West Asia:**

- The Federal Reserve kept the federal funds rate unchanged at 4.25-4.50% for the fourth straight meeting, aligning with market expectations. Policymakers emphasized a cautious approach as they continue assessing the broader economic impact of past policy decisions, particularly around tariffs, immigration, and taxation. While some uncertainty has eased, the Fed noted that risks to the outlook remain elevated. Despite this, it maintained projections for two rate cuts in 2025, with a more measured pace expected in 2026 and 2027—just one 25 bps cut in each of those years.
- The Fed revised its GDP growth forecast downward, projecting 1.4% for 2025 (down from 1.7%) and 1.6% in 2026 (vs 1.8%), while keeping the 2027 forecast unchanged at 1.8%. Inflation projections were revised upward, with the PCE inflation rate now seen at 3.0% in 2025 (vs 2.7%), moderating to 2.4% in 2026 (vs 2.2%) and 2.1% in 2027 (vs 2.0%). Chair Jerome Powell emphasized that the rate path is not fixed and reflects prevailing expectations amid considerable global and domestic uncertainty.
- Tensions in the Middle East added a layer of caution to market sentiment. Over the weekend, the US launched strikes on three Iranian nuclear facilities, escalating involvement in the Iran-Israel conflict. This raised fears of retaliation from Tehran, including potential threats to oil shipments through the Strait of Hormuz. In response, US 10-year Treasury yields fluctuated between 4.36% and 4.45% before ending the week nearly flat, as investors balanced rate expectations with geopolitical risk.

**Oil shockwaves reshaping macro outlook for India and the World**

- The deepening Israel-Iran conflict has raised alarm over potential disruptions in the Middle East—a region responsible for over 40% of global crude reserves and the transit of ~20 mbpd through the Strait of Hormuz. Oil markets have already factored in a \$10/bbl geopolitical risk premium, lifting Brent to \$78-80/bbl. In a full-blown escalation, prices could spike to \$120/bbl, potentially shaving 100 bps off global GDP and pushing global inflation toward 5%.
- A sharp oil shock would intensify inflation risks globally, likely forcing central banks like the Fed, ECB, and others to delay or reconsider expected rate cuts in late 2025. Bond markets could reprice higher terminal rates, steepening yield curves amid elevated sovereign borrowing. Governments may resort to fiscal stimulus or subsidy support, further pressuring public finances and raising long-end yields.
- For India, if oil prices stay in the \$75-80/bbl range, macro impact should remain contained, largely absorbed by oil marketing companies (OMCs). Direct exposure to Iran is minimal, and reduced sensitivity to oil shocks—thanks to strong FX reserves, services exports, and remittances—provides added resilience. A \$10/bbl increase (from a \$70 baseline) could widen the current account deficit by 0.3-0.4% of GDP (-\$16-17 billion), lower GDP by 15 bps, and raise CPI by 30 bps. However, a sharp spike may compel the government or consumers to bear part of the burden, especially with limited fiscal and monetary space. Since 2022, the government has shielded retail fuel prices via excise duty adjustments and OMC margin compression. A Rs.1/litre excise duty cut costs the Centre ~Rs.16,000-17,000 crore. If prices rise further, LPG under-recoveries may grow, and further excise/VAT relief could be needed before costs are passed to consumers.

**MPC minutes re-confirms on providing certainty in times of uncertainty**

- RBI's June MPC minutes confirmed a bold, front-loaded monetary easing, with a 50 bps repo rate cut and a 100 bps CRR reduction, injecting around Rs. 2.5 lakh crore into the banking system. This policy move was anchored in a supportive inflation outlook—CPI fell to 3.2% in April and is projected at 3.7% for FY26, well below the 4% target, giving the central bank confidence to act decisively.
- While all six MPC members backed a rate cut, Saugata Bhattacharya advocated for a more cautious 25 bps cut, citing the limited remaining room for further easing. Governor Malhotra reinforced this caution, noting that after cumulative cuts totaling 100 bps since Feb, the policy space to support growth had become very limited. This remains aligned, in our view, with the Governor's latest media interview, asserting that policy space may open up if inflation is below the 3.7% projection for full year FY26.
- Prof. Ram Singh highlighted that real interest rates remain high (~1.65%) and, with inflation trending lower, justified the 50 bps front-loaded move. However, he also cautioned that, following earlier cuts, the scope for further easing is restricted to just 15-25 bps unless inflation undershoots.

**Liquidity may face pressure if tensions escalate**

- The 10-year (old) benchmark faced volatility as it rose to touch 6.40% on spike in oil prices due to geopolitical tensions in Middle East. Indian Rupee too touched a high of Rs.86.90/\$ during the previous week.
- Currently, the system liquidity is in surplus of Rs.2.46 lakh crore (as of 22<sup>nd</sup> Jun'25) with WACR aligned to lower end of the corridor close to SDF rates. The govt. balance has moderated from Rs.4.37 lakh crore (as of 23<sup>rd</sup> May'25) to Rs.2.01 lakh crore (as of 13<sup>th</sup> Jun'25) while the system liquidity moved from Rs.1.70 lakh crore to Rs.3.62 lakh crore in the same period showing govt. expenditure pick up post RBI dividend payout.
- Rising Middle East tensions may trigger FPI outflows from India, weakening the rupee and raising market volatility. RBI interventions to stabilize the currency could tighten liquidity and lift short-term rates. To offset this, the central bank is likely to deploy OMOs, term repos, and USD/INR Swaps. With \$699 billion in reserves (~11.5 months of import cover), the RBI has room to act swiftly to preserve financial stability amid external shocks.

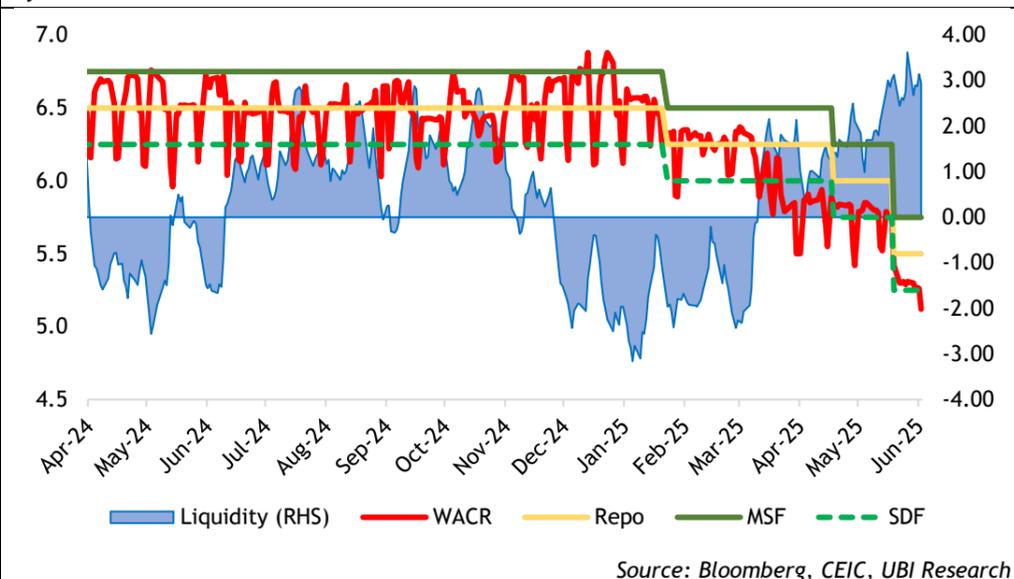
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Table 1: Market Snapshot Instrument	Yield (Jun 20)	Weekly Change	Commentary
10 Year G-Sec (6.79% 2034)	6.31%	-5 bps	Yields softened due to global factors
1 Year T-Bill	5.47%	-1 bps	Liquidity still in surplus
US 10 year Yield	4.38%	-2 bps	Fed outlook muted amid West Asia tension
Credit Growth (%) (as of 30 <sup>th</sup> May'25)	9.0%	-83 bps	Credit Deposit wedge closure continues with credit slow down
Deposit Growth (%) (as of 30 <sup>th</sup> May'25)	9.9%	-7 bps	
Credit Deposit Wedge (bps) (as of 30 <sup>th</sup> May'25)	(92)	-76 bps	

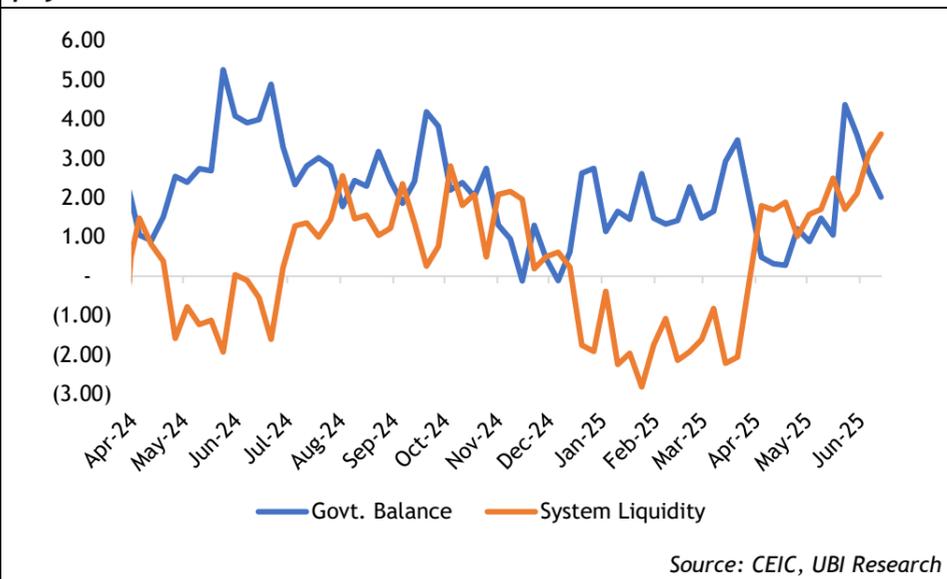
Source: RBI, CCIL, UBI Research

Fig.3: WACR is aligned closer to SDF rate as liquidity returned to surplus by end of Mar-25



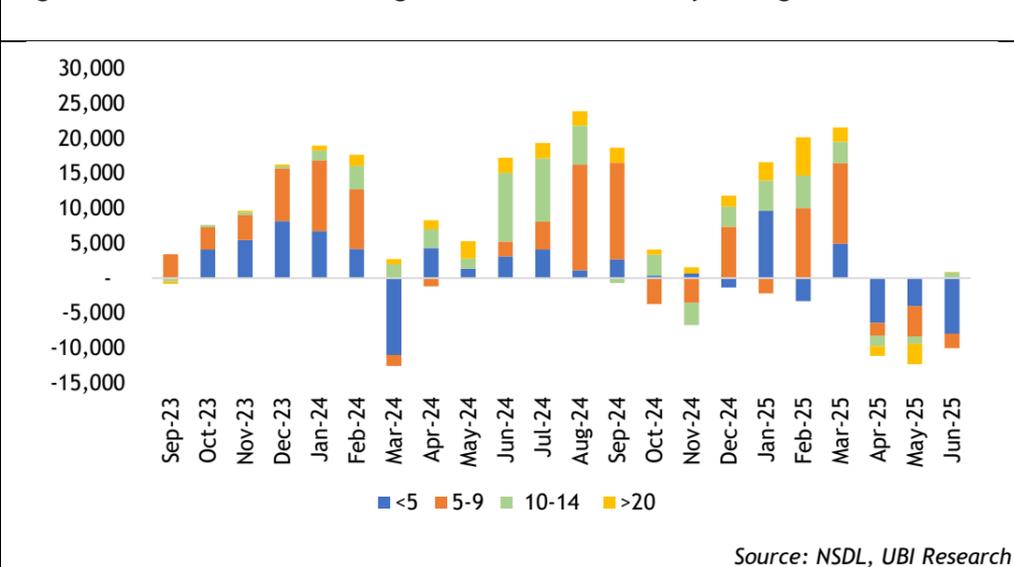
Source: Bloomberg, CEIC, UBI Research

Fig.4: Govt. Balance falls as system liquidity picks up post RBI dividend payout



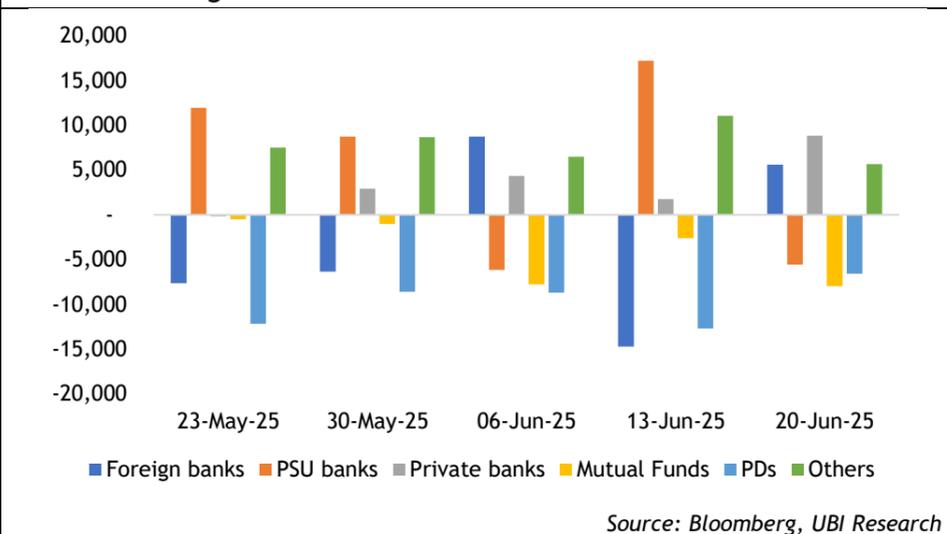
Source: CEIC, UBI Research

Fig.5: FAR securities witnessing 3 continuous months of selling



Source: NSDL, UBI Research

Fig.6: On weekly basis, Private Banks & Foreign Banks turned buyers in the last week ending 20<sup>th</sup> Jun'25



Source: Bloomberg, UBI Research

Table 2: Fixed Income tracking Heatmap

Fixed Income Heatmap	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
<b>Growth</b>															
PMI Manufacturing (YoY Gr%)	58.80	57.50	58.30	58.10	57.50	56.50	57.50	56.50	56.40	57.70	56.30	58.10	58.20	57.60	58.40
PMI Services (YoY Gr%)	60.80	60.20	60.50	60.30	60.90	57.70	58.50	58.40	59.30	56.50	59.00	58.50	58.70	58.80	60.70
GST Collection (YoY Gr%)	12.42	9.96	7.63	10.28	9.99	6.47	8.92	8.54	7.26	12.29	9.09	9.89	12.58	16.39	
Govt Expenditure (YoY Gr%)	39.26	-37.87	-18.42	0.12	20.94	2.63	31.65	3.63	22.15	12.43	-17.66	9.65	9.95		
Vehicle registrations (% y/y)	26.90	3.49	1.64	14.11	3.50	-7.46	33.58	13.85	-11.46	7.69	-5.38	0.66	3.30	5.52	
Exports (% y/y)	1.98	13.26	2.44	0.63	-9.93	-0.30	16.57	-5.30	-1.53	-2.62	-11.08	0.66	9.03	-2.17	
Imports (% y/y)	11.07	7.31	4.64	11.19	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.13	-1.73	
<b>Inflation</b>															
CPI (Y-o-Y Gr%)	4.83	4.80	5.08	3.60	3.65	5.49	6.21	5.48	5.22	4.26	3.61	3.34	3.16	2.82	
Core CPI (Y-o-Y Gr%)	3.23	3.12	3.14	3.39	3.40	3.49	3.67	3.64	3.58	3.67	3.99	4.10	4.11	4.17	
<b>Transmission</b>															
Bank Credit (YoY Gr%)	19.21	20.72	17.40	13.71	14.03	12.34	11.80	11.16	11.16	12.53	12.26	11.03	9.93	8.97	
Bank Deposits (YoY Gr%)	12.56	14.02	11.12	10.57	12.72	10.38	11.50	11.25	9.83	12.12	12.01	10.28	9.89	9.89	
C-D Ratio (%)	79.90	80.00	79.70	79.70	78.80	79.60	79.80	79.90	80.80	80.60	80.80	81.10	79.90	79.30	
WALR O/s Rupee Loans (%)	9.81	9.81	9.89	9.89	9.89	9.88	9.88	9.87	9.86	9.85	9.78	9.75	9.68		
WALR Fresh Rupee Loans (%)	9.55	9.39	9.32	9.40	9.41	9.37	9.54	9.40	9.25	9.32	9.40	9.35	9.26		
WADR O/s (%)	6.91	6.92	6.91	6.92	6.93	6.95	6.96	6.98	7.00	7.02	7.02	7.04	7.01		
WADR Fresh (%)	6.48	6.47	6.46	6.48	6.46	6.54	6.44	6.47	6.58	6.57	6.49	6.65	6.30		
MCLR 1 Year - Median	8.85	8.79	8.85	8.85	8.93	8.95	8.95	9.00	9.00	9.00	9.05	9.00	9.00	8.95	

Source: CEIC, UBI Research

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