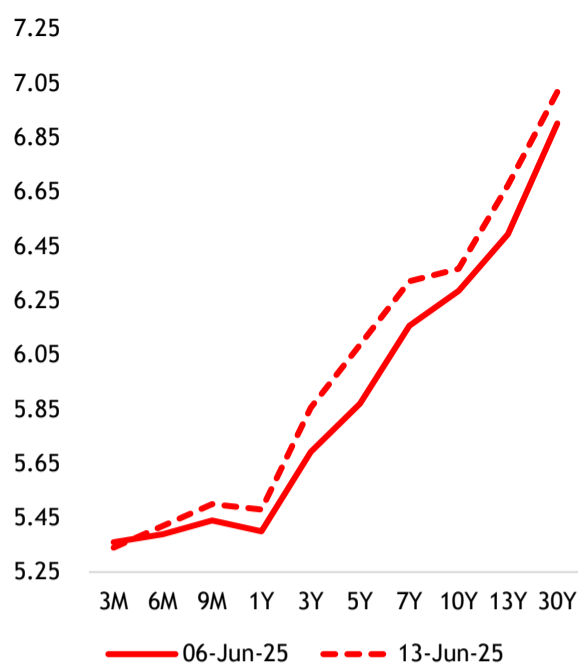


Fig.1: Yield curve steepens further



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 [^] , bps	-15
CPI inflation [^] , bps	+30bps ^{^^}
Combined fiscal deficit impact, % of GDP [*]	-0.3 to -0.4
C/A deficit, % of GDP [*]	-0.4
Indian rupee (INR)	Weaker

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

The week after the MPC meeting decision on 6th June 2025 saw a threshold shift upward in the yield curve, with a spike in yields of 10-20bps above 2-year tenors. The move was at a departure from the potential reaction seen post a larger than expected 50bps repo rate cut, 100bps CRR cut in tranches from Sep'25, lower than expected inflation reading at sub-3% and slip in US bond yields. However, the fixed income markets were caught off guard from [media reports](#) signalling the potential use of liquidity tools in order to align weighted average call rate with the repo rate. The case for latter deserves more merit in order to respect the liquidity management framework and as per the shift to "neutral" policy stance even as the Governor was non-committal on where he sees the call rate (after it has traded at lower end of corridor since April) in the post policy media conference. The discontinuation of VRR, 14-day liquidity operations and spike in oil prices on flaring of Israel-Iran conflict all added to market worries driving rates north. Hence, any [communication](#) from the RBI on liquidity management and trend in oil prices will be key drivers for the fixed income markets in the near term.

US 10Y cooling down with Inflation:

- The US 10 year yield began the week elevated after robust May non farm payrolls (+139k jobs, unemployment steady at 4.2%), which reinforced expectations that the US Federal Reserve would keep rates unchanged. However, as the week progressed, yields eased, with the 10-year ending near 4.36%, down from the week's peak of 4.51%, as softer private sector job growth (39,000) and higher jobless claims (248,000) signaled potential economic cooling.
- 30 year yield too followed a similar path, peaking at 4.97% before retreating alongside the 10-year, reflecting shifting risk sentiment and a focus on long-term fiscal risks.
- The US CPI rose just 0.1% in May, below the expected 0.2%, with the annual inflation rate at 2.4%. This modest increase suggested that consumer price pressures remain contained, easing concerns of an imminent inflation resurgence and helping pull yields lower midweek. The PPI, measuring wholesale inflation, also rose by a mild 0.1% in May, with an annual increase of 2.6%. Excluding food and energy, the PPI was up 0.1% month-on-month and 2.7% year-on-year. The subdued PPI reading reinforced the view that inflationary pressures at the producer level remain moderate, further supporting the midweek rally in Treasuries.

India May'25 CPI cooled more than expected to 2.82%

- CPI inflation for the month of May'25 has fallen sharply to 2.82%, its lowest since Apr'19 vis-à-vis 3.16% in Apr'25. The key source of data surprise has come from sharper than expected cooling in food inflation especially cereals and pulses while vegetables inflation has seen a first uptick after six months of continued correction. Core CPI has however edged up to 4.18% in line with our projection from 4.10% in April'25.
- Uncertainty over global tariffs and geo-political tensions have contributed to the sharp rally in gold prices which has been instrumental in pulling up the core inflation in recent months: core inflation has gone up by almost 106 bps from 3.12% in May'24 to 4.18% in May'25. Interestingly, core-ex gold has continued to remain flat at 3.3%.
- Despite the slight uptick in core CPI, overall inflation dynamics stay comfortable. While consensus expectation is shifting towards possibility of a small 25-50bps rate cut window opening up in H2-FY26, we would wait out before assessing our call, to watch out for the impact of monsoon (quantum & distribution) and trends in commodity prices in the coming months.

Further Yield Curve steepening underway

- As per the RBI Governor in post MPC press conference, "We have not really given it a thought on that, so we'll decide and you'll come to know in the coming few days - I will not be able to give you a very precise answer. But having the policy (rate) at 5.5% and the stance now going to neutral, all that will come in the picture - we will take a call on where we will try to have the call rate."
- Post Monday, RBI stopped conducting the daily VRR auctions of Rs.25,000 Crore. Soon after that media [reported](#) that the intent of Central Bank is to bring Call rate around the repo rate and may start conducting VRRR auctions to suck out surplus liquidity as and when required. Kindly note that call rate has been trading at the lower end of the policy corridor i.e. at SDF for last 2 months (Fig 3), as the RBI has refrained from conducting any large sized VRRR auctions.
- The fear of introduction of liquidity tools like VRRR to align the call rate with repo rate on shift in stance to neutral led to sharp sell off in the Indian bond market especially in 5-year segment.
- The 10-year (old) benchmark too faced volatility as it touched 6.13% on MPC date and rose to 6.40% last Friday on spike in oil prices due to geopolitical tensions in Middle East. That said, it is trading 7bps lower today at 6.33% levels.
- We will be closely watching over any [communication from RBI](#) since the liquidity remained which is at an average surplus of Rs.2.70 lakh crore in the previous week with call rate mostly close to SDF rate.

Spurt in Crude oil prices rose inflation expectations

- Crude oil prices saw a sharp rally this week, with Brent rising over 13% to \$78.25/bbl and WTI climbing to \$77.21/bbl – the steepest weekly gain since Feb'22 and the largest single-day jump in over two years. The surge was triggered by renewed Middle East tensions, following Israeli strikes on Iranian military and nuclear facilities. This geopolitical escalation reintroduced a risk premium in global oil markets, pushing up inflation expectations and adding volatility to global fixed income markets.
- For India, which imports around 85% of its crude needs, the rally heightens macroeconomic vulnerability at a time when fiscal and monetary policy headroom appears limited. According to RBI estimates, a 10% increase in crude oil could raise inflation by 30bps and reduce GDP growth by 15bps. However, the inflation impact does not assume any excise duty cut to limit impact on retail petrol & diesel prices and / or letting the oil marketing companies absorb the impact. This cushion is likely to be re-used this time round as well. That said, we will stay on close watch in terms of any flare up of geopolitical tensions and its impact on macros via direct spike in oil prices and / or via other channels like rupee weakness etc.

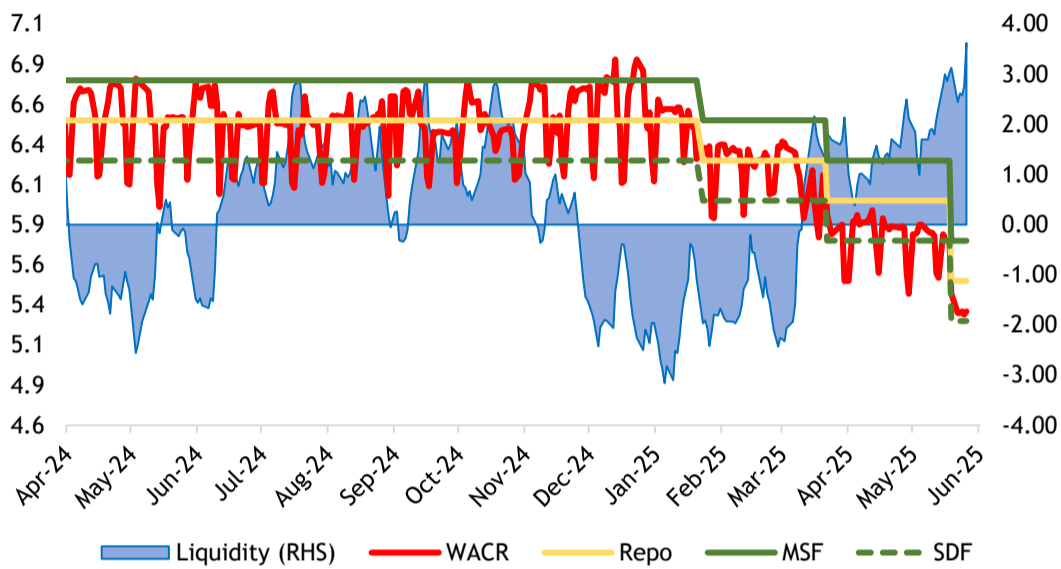
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Table 1: Market Snapshot Instrument	Yield (Jun 13)	Weekly Change	Commentary
10 Year G-Sec (6.79% 2034)	6.37%	+8 bps	Yields jumped due stance shifting to "Neutral" & VRRR expectations
1 Year T-Bill	5.48%	+8 bps	Rate cut along with VRRR expectations squeezed Repo & T-Bill spread
US 10 year Yield	4.40%	-11 bps	Soft CPI, PPI data along with safe haven demand due to geopolitical tension in Middle East
Credit Growth (%) (as of 16 th May'25)	9.8%	-5 bps	Credit Deposit wedge closure continues with credit slow down
Deposit Growth (%) (as of 16 th May'25)	9.9%	-14 bps	
Credit Deposit Wedge (bps) (as of 16 th May'25)	(16)	-9 bps	

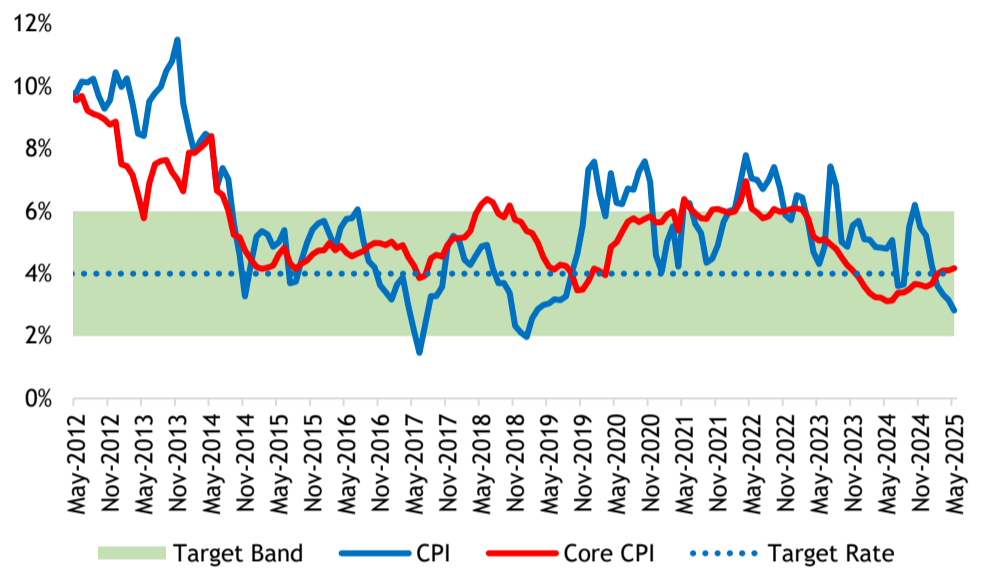
Source: RBI, CCIL, UBI Research

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



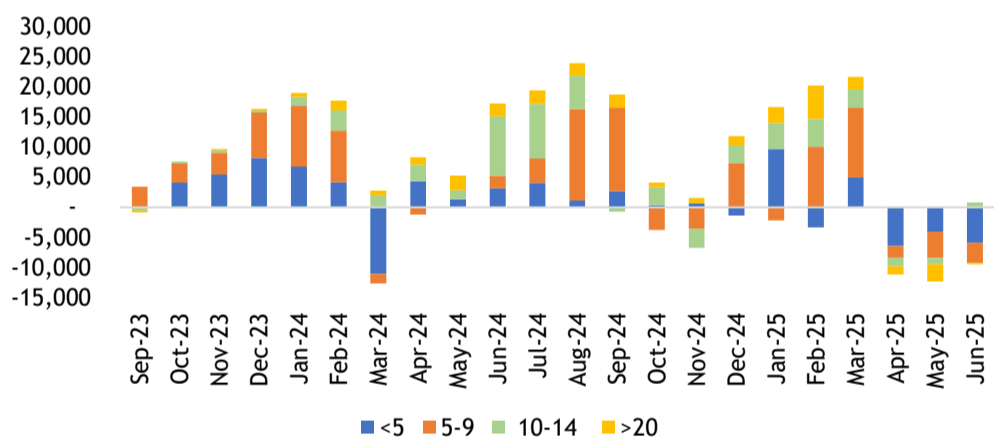
Source: Bloomberg, CEIC, UBI Research

Fig.4: Sequential uptick in Core CPI made the market worried



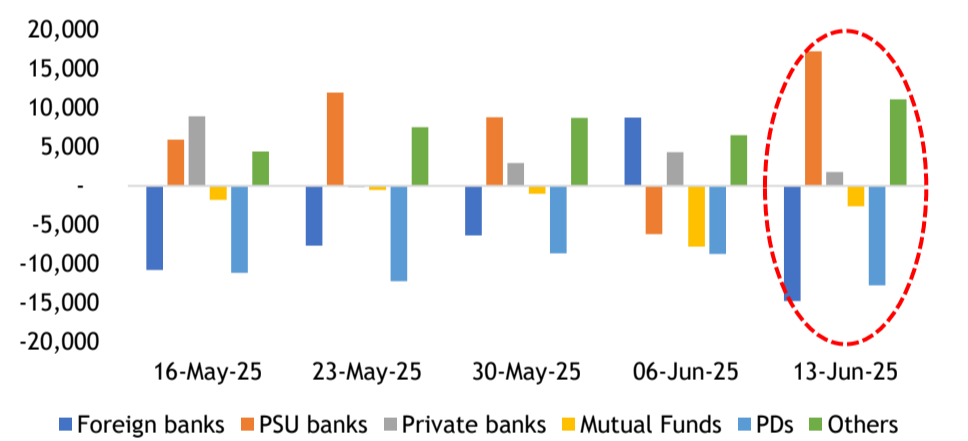
Source: CEIC, UBI Research

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



Source: NSDL, UBI Research

Fig.6: On weekly basis, PSU Banks turned to be buyers in the last week ending 13th 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
Growth														
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
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
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	13.27	2.44	0.63	-9.93	-0.30	16.57	-5.30	-1.53	-2.62	-11.08	0.66	9.03	-2.18
Imports (% y/y)	11.07	7.30	4.64	11.19	9.97	7.77	1.89	16.10	2.32	10.31	-16.34	11.36	19.13	-1.73
Inflation														
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
Transmission														
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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