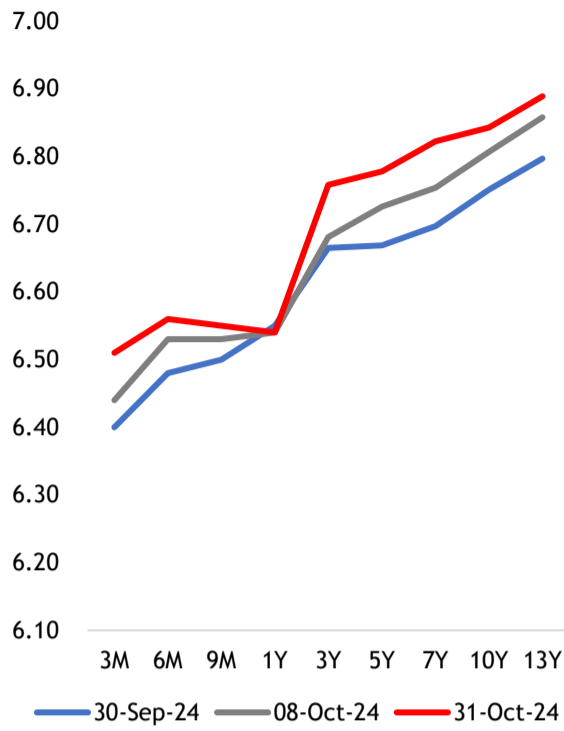
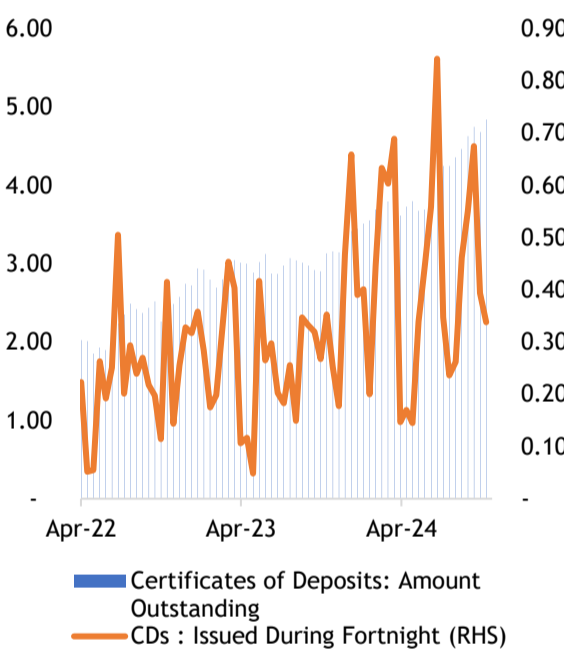


Fig 1: India yield curve move during Oct-24 (pre and post policy); (%)



Source: Bloomberg, UBI Research

Fig 2: O/s CDs at all time high even with incremental issuances dropping; (Rs. In Lakh Crore)



Source: CEIC, UBI Research

Global markets have seen a sustained sell-off pressures as "Trump trade" gets priced in recent weeks, even as spillover impact on domestic markets has been relatively limited. Since the September FOMC 50bps jumbo rate cut, US 10-year yield is up more than 60bps while India 10-year is up close to 15bps. As Trump has declared victory in the Presidential elections, global markets will brace for more volatility in the coming weeks even as we believe that in a fragile world, "economics trumps politics" which may deter the President from staying completely true to all his promises like fiscal expansion, steep trade tariff hikes on countries like China. Back home, while market moves may stay relatively subdued, factors on watch will be FPI flows (post sharp USD 11.5bn outflow in October including USD 0.4bn in Debt), next inflation print tracking 6% handle and growth indicators with slowdown visible yet festive season sales provided some hope. Liquidity dynamics stay favorable with credit-deposit growth wedge turning negative for the first time in 2½ years though sustainability on watch.

**Uncertainty kept yields and DXY up**

- The US Non-Farm Payroll (NFP) data showed that the economy added 12k fresh payrolls, significantly lower than estimates of 113k and the formerly release of 223k which was revised downwards from 254k in September. The initial reaction from the US Yield and Dollar was negative, however, it rebounded strongly with the US Dollar Index returning back to 104 levels.
- US Presidential Elections results underway and FOMC due on 7<sup>th</sup> Nov increased the volatility in financial markets. The Ice BofA Move index, a metric closely watched to track futures moves in US Treasury market, is up almost 40% in October and hit its highest level in more than a year earlier this week.
- At the time of writing, Donald Trump was leading White House race with 267 vs 270 required making it almost certain winning the US Presidential Elections. The markets have already started factoring the impact with US 10-year yield jumping to 4.45% and DXY trading above 105 levels.
- Further, FED meeting due in the same week, markets are pricing in 99% probability of 25bps rate cut.

**India bond selling absorbed by PSU Banks**

- The Indian G-Sec yield curve has been shifting upwards post release of H2 Borrowing Calendar and RBI MPC meet in early October (however, believe that RBI Governor's hawkish comments in BBG credit forum were a mover). It is the long duration (beyond 5 year segment) which is showing greater hardening. In previous weekly reports, we have suggested shifting higher allocation to lower end of the curve.
- The Indian 10-year benchmark yield has been insulated from global volatility due to US presidential elections and FOMC meeting. The movement in 10-year benchmark yield has been limited to 7bps (6.80%-6.87%) whereas the US 10-year yield has moved 30bps (4.17% to 4.47%) during 24<sup>th</sup> Oct to 06<sup>th</sup> Nov-24 (till date).
- From the market activity during Oct-24, it is observed that the Foreign Banks were on selling spree and PSU Banks on buying side. This was last observed in the month of Apr-24. For the month of Oct-24, Foreign Banks have sold Rs. 31k Crore of G-Secs whereas PSU Banks bought Rs.44k Crore of G-Secs.
- FPI outflows in debt is very limited despite Rupee clocking record low. The Debt segment has witnessed outflows amounting to Rs.3,632 Crore during Oct-24. However, it is miniscule compared to the equity segment, with outflows hitting a record high of Rs.94,017 Crore, breaching Mar-2020 outflows of Rs.61,973 Crore with USD/INR depreciating to record levels.
- The USD/INR pair has been under pressure during Oct-24 depreciating from 83.7550 to 84.1200 levels. Post breaking above 84 levels, the sale of dollars likely from central bank has aggravated as the day trading range narrowed to 5-7 paise curbing volatility. However, with signs of Donald Trump taking charge of US, the INR depreciated to 84.25/\$ levels today.

**Liquidity continued to remain buoyant**

- The system liquidity is in surplus at Rs.2.83 lakh crore which is getting reflected in Call WAR dropping to 6.31%. Further, the T-Bills cut off came in at 91D-6.44%, 182D-6.62% and 364D-6.59% which is 2-7bps down as compared to previous week cut-off.
- As per RBI weekly data, the currency in circulation has increased by Rs.16,039 Crore during the week ended 25<sup>th</sup> Oct'24. The government balance which got swollen to more than Rs.4 lakh crore during mid Sep-24 has been reduced to Rs.2.03 lakh crore during the week ended 18<sup>th</sup> Oct'24 and elevated to Rs.2.75 lakh crore during the week ended 25<sup>th</sup> Oct'24. This must be due to GST collections and elevated govt expenditure.
- The Credit - Deposit wedge has turned negative currently for latest fortnight ended 18<sup>th</sup> Oct-24., however, we would watch out for sustainability of this trend during the busy season. The switch seen for the first time in close to 2½ years is in line with the analysis in the RBI's Financial Stability Report that during high growth phases, typically the credit-deposit growth wedge corrects in 2 to 4 years, with credit growth converging towards deposit growth.
- The funding issues for the banking system is also showing signs of easing, with the 1 year CD rates hovering below 7.50%, as the spreads over the 1 year T-Bill rate has come off to 90bps from greater than 100bps. However, the sign of worry is the outstanding CDs which is at all time high of Rs.4.84 lakh crore even when the issuances in fortnight ended 18<sup>th</sup> Oct-24 dropped to Rs.0.34 lakh crore.

Fig.3: Buying in G-Secs switched from Foreign Banks to PSU Banks in Oct-24; (Rs.in Crore)

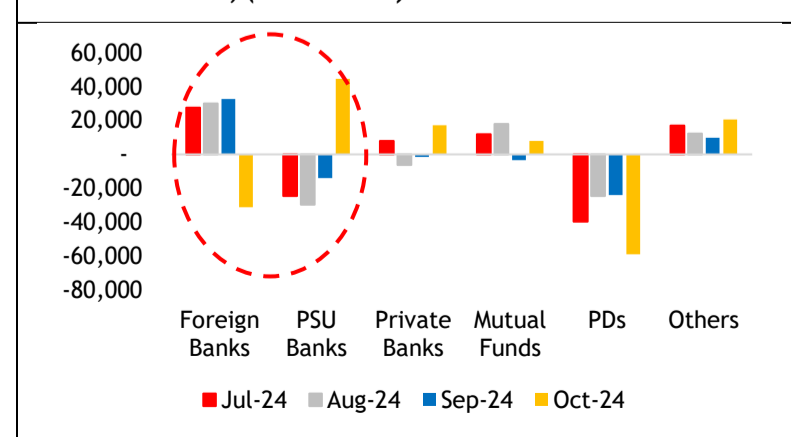
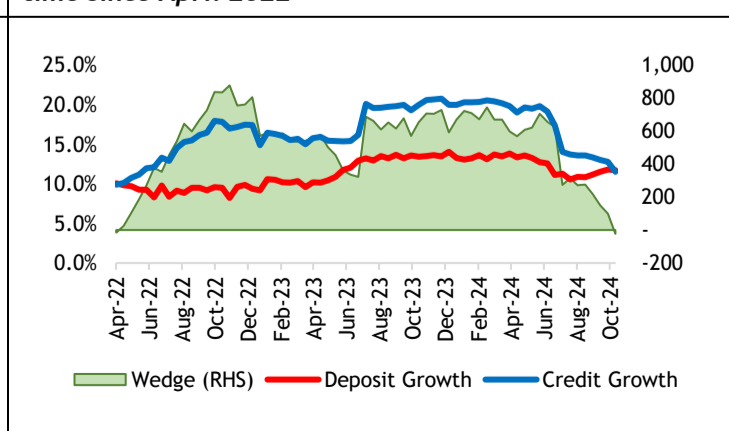


Fig.4: Credit-Deposit Wedge turned negative for first time since April 2022



Source: Bloomberg, NSDL, UBI Research

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