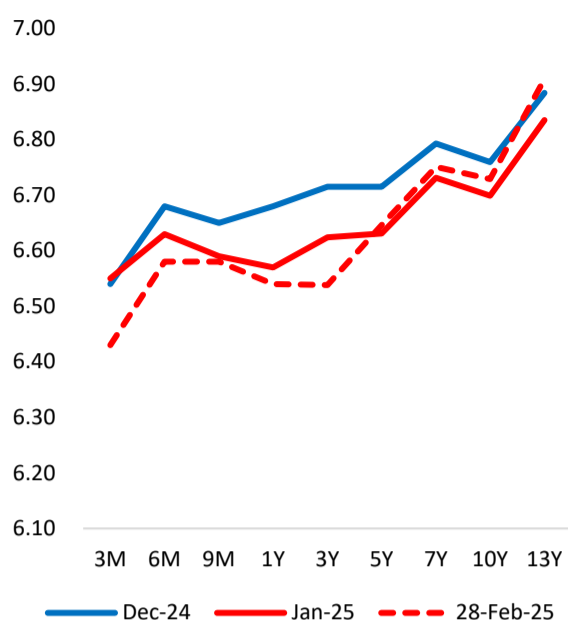
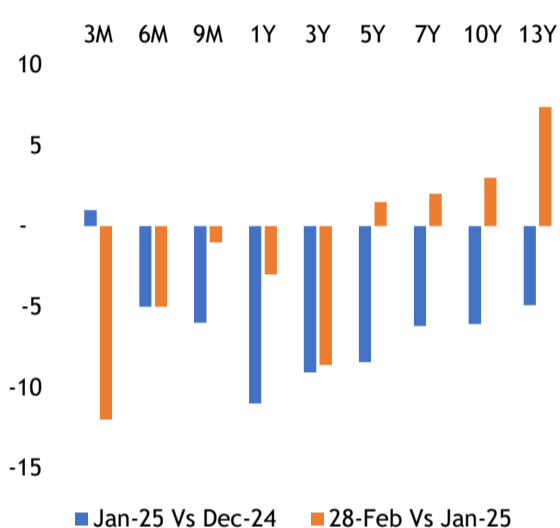


Fig.1: India yield curve movement ; (%)



Source: Bloomberg, UBI Research

Fig.2: India yield steepened during Feb'25 as lower end softened and longer tenure hardened; (bps)



Source: Bloomberg, UBI Research

US market became worry on the uncertainty of implementation of trade tariffs and how it may impact US economy. This has reignited question over US exceptionalism as impact of trade tariffs, fiscal expansion and deregulation are yet to be seen. The US 10-year yield has softened from 4.5% levels to 4.2% levels during the current week on account of weak retail sales and consumer confidence. Domestically, in India, the 10-year bond yields has moved away from 6.70% to close the week at 6.72%. India's GDP growth of 6.2% in Q3FY25 was in line with market expectations, signaling a bottoming out of economic activity as Q2FY25 and yearly FY24 numbers were revised significantly.

US outlook uncertainty looms under Trump 2.0 keeping USTs well bid

- Trump looks uncertain about tariffs as he contradictory answers about his plans to enact tariffs on Canada and Mexico, as well as the European Union. Trump's inconsistent messaging on the timing of tariff implementation and conditionalities around them have made markets more reluctant to position aggressively to these threats. If the US administration pursues higher tariffs, it will risk retaliation and a potential global trade war this could strengthen the dollar and push UST yields higher.
- The US 10 year yield has softened from 4.5% levels to 4.2% levels during the current week on account of weak retail sales and consumer confidence.
- Fed officials are meeting next on 19th Mar'25, while currently the market is expecting no rate cut with 96% probability in upcoming Fed policy, a total of 2 rate cuts of 25bps each of are expected during the calendar year.

India yield curve steepens

- During Feb'25, the MPC took decision to cut rate by 25bps points and RBI implemented slew of measures to tackle liquidity thereby impacting lower end of the curve.
- In our Budget FY26 report ([FY-26-Budget-Fiscally-Prudent-with-focus-on-the-3-Ds](#)), we have highlighted that near term impact on bond yields is slightly negative, however, with MPC expected to cut rates by 25bps and liquidity support via OMOs, we expect yield curve to steepen.
- The below 1 year segment i.e. T-Bills have seen softening which was spilled over upto 3 years tenor. The latest cut-off came in at 91D - 6.449%, 182D - 6.5989% and 365D - 6.5409%. In the previous T-Bill auction, the 91D and 182D auction was cancelled for liquidity demand and 364D cut off was higher at 6.5638%. However, it is to be noticed that during Feb'25 the 3M T-Bill have softened by 12bps and 6M T-Bill softened by 5bps.
- The 10 year benchmark moved 6.70% to 6.73% and 13 year G-Sec moved from 6.84% to 6.91% making the yield curve steeper in comparison to Jan'25. Going forward, we reemphasize our view of yield curve steepening to continue as RBI may need to persist with liquidity steps (with foreign flows yet to return to domestic markets).
- In the market activity, the participation has become dull in Feb'25 from majority of the players post OMO activity in Jan'25. The buying momentum from Foreign Banks has slowed down to Rs.9,912 Crore in Feb'25 against Rs.27,924 Crore in Jan'25. PSU Banks were net sellers in Jan'25 to the tune of Rs.28,072 Crore has turned to net buyers in Feb'25 amounting to Rs.3,339 Crore. The others category too faded from Rs.54,963 Crore in Jan'25 to 11,687 Crore in Feb'25.

India GDP growth slows to 6.5% in FY25 from 9.2% in FY24

- India's GDP grew by 6.2% in Q3FY25 after a 7-quarter low of 5.6% (revised upwards from 5.4%) in Q2FY25. The yearly FY25 is revised from 6.4% to 6.5%, thereby we expecting a 7.6% growth in Q4FY25 to achieve the same.
- GVA grew by 6.2% in Q3FY25 from 5.8% in Q2FY25, due to robust growth in agriculture and industry, especially manufacturing activities during the quarter.
- Q4FY25 growth shall be supported by sustained pick up in government spending and capex. There has been reasonable traction seen in consumption amid Maha-Kumbh and wedding season. RBI has been supportive to growth on all fronts - rate cut, liquidity provision, regulatory leeways and now reversal of macro prudential tightening via lowering of NBFC and MFIs risk weights. This factor combined with MSME CGTMSE scheme may provide a fillip to overall credit growth in coming months. However, downside risk remains on account of tariff wars and escalated geopolitical tensions as protectionism gains ground.

Core Liquidity turned positive - risk still looms

- The Core Liquidity has turned to positive to Rs.0.19 lakh crore as per the weekly data released till 21st Feb'25. The same may have brought some relief to Central Bank, however, it continued to implement its announced measures and executed USD/INR Buy/Sell Swap on 28th Feb'25 for 3 years thereby further injecting Rs.0.86 lakh crore of liquidity.
- The Forwards outstanding position (shorts) of RBI has increased from \$67.9 Bn as at end of Dec'24 to \$77.5 Bn as at end of Jan'25, within which the below 1M forwards share have reduced from 49% to 27% and beyond 3M have increased to 39% from 14%, showing intent to address deficit liquidity in the system.

Fig.3: Market Activity Foreign Banks buying momentum slowed down in Feb'25; (Rs. In Crore)

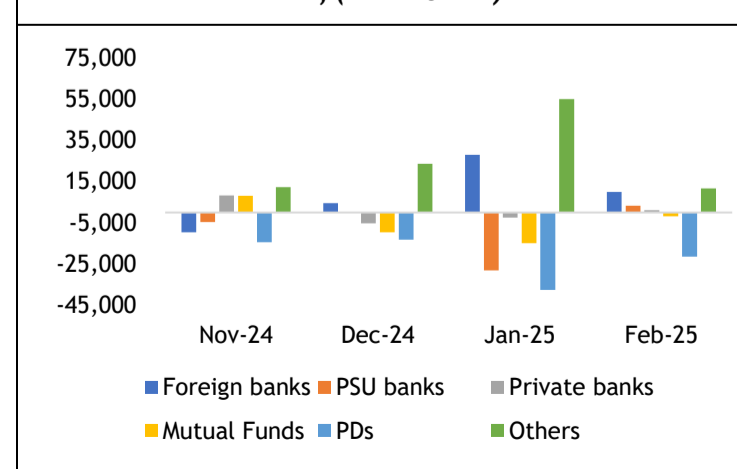
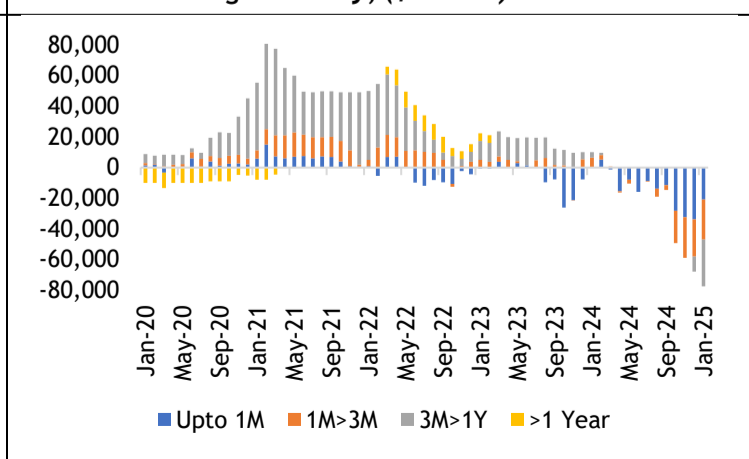


Fig.4: O/s Forward Book increased and elongated beyond 1 month reducing volatility; (\$ Billion)



Source: Bloomberg, CEIC, UBI Research

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