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Bonds Wrap

Global yields showed stickiness in Jul'26 as war situation worsened and impact was immediately seen on international oil prices which erased most of its decline seen in Jun'26. Inflationary concerns and expected tightness of monetary policy for global central banks remained in hindsight for investors. Major impact was felt in the 10Y yields of Germany and UK. For US, 10Y yield did not show much momentum as inflation is showing only modest increase. For India, the major downward correction in 10Y yield that happened in Jun'26 is remaining. The impact of increase in international oil prices in Jul'26 on yields is not yet visible. But if war situation escalates, and global yields firm up, India's 10Y yield will also not be insulated. System liquidity is also far below 1% NDTL level. Inflation outlook hinges on the progress and spatial distribution of monsoon, which can further weigh on outlook of yield, going forward.

Weighing all the factors, we expect India's 10Y yield to trade in the range of 6.70-6.85% in the remaining part of Jul'26, with risks tilted to the upside.

Global yields exhibiting upward bias:

- Global yields showed considerable stickiness in Jul'26 (till 21 Jul). This is following escalating tensions between US and Iran with reports of back-and-forth fresh military attacks. Even there are reports of fresh attacks in Kuwait, Jordan and Bahrain by Tehran. International oil price after showing -20.8% downward correction in Jun'26 over May'26 (point on point change) has again reversed its trajectory. In Jul'26 (21-Jul), oil prices again rose by 24.8% (point on point comparison over 30 Jun), with investors also pricing in further aggravated supply disruptions due to a naval blockade of Saudi Arabia. The stickiness in global yields is likely to continue unless the war situation de-escalates.
- Among major yields, sharpest increase was seen for Germany's 10Y yield. It is to be noted that ECB was one of the first central banks to go ahead of the curve of rate hike compared to majority of its peers. Bundesbank President in his recent commentary highlighted that vigilant stance is likely to be maintained under the current scenario of major risks to the underlying projections. The upcoming policy on 23 Jul of ECB remains crucial as investors will be looking for forward guidance from ECB President, which is expected to be on hawkish lines. Other macro data of Germany showed growth indicators are broadly stable which has further supported yields.
- 10Y yield in S.Korea also firmed up. Bank of Korea raised its policy rate for the first time since Jan'23 stressing that it was essential for financial stability under the current scenario. Further Governor of Bank of Korea highlighted that future policy move would continue to focus on bringing down inflation to the targeted level. The recent CPI reading of S.Korea also showed stickiness in both headline CPI and core CPI.
- UK's 10Y yield also hardened keeping an eye on the political situation of the country and anticipation about the impact on its economic and fiscal policies**.** On the other hand, BoE

officials are still downplaying the risks of a spike in inflation and its second-round effect on wage and price setting. The high frequency macro data of the region showed moderation.

- The pace of increase in US 10Y yield was much restrained compared to other economies as retail sales, PPI and CPI data softened. However, in the last two session with reports of likely disruption in the Red Sea Strait, yield has shown stickiness (between 17 Jul-21 Jul, US 10Y yield rose by 8bps). Fed Chair in his congressional testimony again hinted at aligning inflation to the targeted level. Hence if the war situation does not get controlled, yields are likely to be elevated. We expect one rate hike by Fed in CY26. CME Fed watch tool is attaching a higher probability of 54% for a rate hike in Sep'26 which was 44% a week earlier.

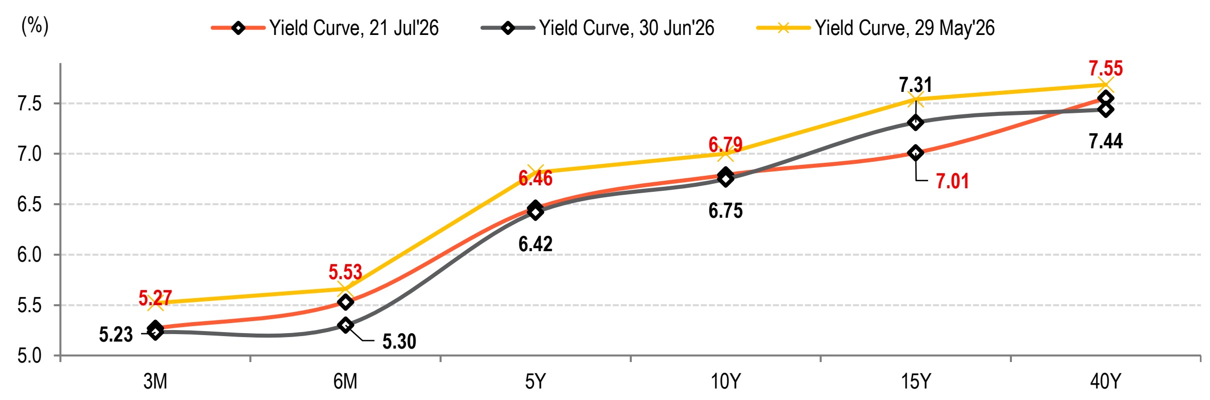
Domestic 10Y yield after softening by 25bps in Jun'26 on account of policy measures adopted by the government and RBI to attract foreign capital, reversed its trajectory and showed minor upward correction. This is in line with stickiness in international oil prices. India's 10Y yield in Jul'26 (first 21 days) traded in the range of 6.69-6.79%.

Table 1. 10Y Yield movement globally

Countries	10Y sovereign yield, 29 May 2026	10Y sovereign yield, 30 Jun 2026	10Y sovereign yield, 21 Jul 2026	Change, 21 Jul/30 Jun, bps
Germany	2.94	2.86	3.16	30
UK	4.81	4.76	5.03	27
S. Korea	4.07	4.07	4.33	26
Singapore	2.02	2.02	2.22	20
US	4.44	4.47	4.63	16
Indonesia	6.72	7.16	7.29	13
Japan	2.67	2.68	2.73	5
India	7.00	6.75	6.79	4
China	1.72	1.73	1.74	1
Thailand	2.31	2.04	2.02	-2

Source: Bloomberg, Bank of Baroda Research

Fig 1: Evolution of India's yield curve



Source: Bloomberg, Bank of Baroda Research

Yield curve as on 21 Jul 2026 has shown some upward momentum. 15Y part of the curve witnessed considerable softening due to measures aimed at expanding FAR to include new issuances in this bucket. The gap between 10Y and 3M paper was stable at 152bps same as seen on 30 Jun 2026. The short-end part of the curve exhibits stickiness as system liquidity showed some degree of tightness. Going forward we might see steepness of yield curve to continue unless war situation resolves and international oil prices show some downward correction.

What do auctions in the domestic market reflect?

Both in the months of Jun’26 and Jul’26, cut-off yields softened for Central and State government securities. Considerable softening of cut-off yields were observed for central government securities. T-bill still showed comparatively less change in cut-off yields.

Table 2. Cost of borrowing

Type of Papers	Avg. Cut off yield, Apr'26	Avg. Cut off yield, May'26	Avg. Cut off yield, Jun’26	Avg. Cut off yield, Jul'26#
Central Government Securities	7.28	7.26	7.06	6.80
State Government Securities	7.77	7.80	7.68	7.54
		Tbills		
91 days	5.25	5.43	5.33	5.28
182 days	5.49	5.63	5.49	5.49
364 days	5.62	5.87	5.77	5.66

Source: Bank of Baroda Research, Note: Average cut off yield of auctions for the month have been accounted for, Jul is average till 21 Jul 2026

System Liquidity is far below the 1% NDTL level:

- Average system liquidity surplus inched up to Rs 1.1 lakh crore in Jul’26 (first 21-days) compared to Rs 0.8 lakh crore surplus in Jun’26. In Jun’26, liquidity remained considerably tighter primarily due to seasonal factor of advance tax outflows. However, RBI’s fine tuning through the LAF window ensured that there is no untoward pressure on liquidity and it remains adequate for effective transmission of credit. On the other hand, durable liquidity which was showing moderation has improved to Rs 4.9 lakh crore as on 30 Jun 2026 which was Rs 3 lakh crore as on 30 Apr’26.
- Government has also finely managed its debt profile through conduct of buyback and switches at frequent intervals.
- Banking liquidity i.e. the difference between deposits and borrowings net of investment and credit stands at -Rs 3.2 lakh crore in Q1FY27. This is on account of faster pace of accretion in incremental credit. However, going forward we expect deposits to pick up at a sharper pace due to higher inflows from FCNR (B) deposits. Already US$ 17.4bn has been mobilized between 8 Jun-17 Jul. Hence the pressure on liquidity from leakage of credit is likely to be contained.
- Currently the system liquidity is at 0.4% of NDTL (Jul average pegged to NDTL as on 30 Jun 2026). However, we believe liquidity to come back slowly back to the 1% level in the near term buoyed by RBI’s measures.

Outlook on India's 10Y yield in the current month:

- India's 10Y yield is expected to remain in the range of 6.70-6.85% in the remaining part of Jul'26, with risks tilted to the upside. The trajectory of India's 10Y yield is now contingent on international oil prices. Other key upside risks to domestic yield emerge from the outlook for inflation which has also an upward bias due to deficient monsoon and moderate pace of sowing. Only coming months will tell us about the actual impact.
- Regulatory measures have attracted capital flows especially through the FAR route. Net inflows through the FAR route in Jun'26 was at US$ 2.3bn and by another US$ 864mn in Jul'26 (upto 21 Jul). If similar run rate continues the upside pressure on yields will be largely contained.

Table 3: OIS rates

	As on 29 May 2026	As on 30 Jun 2026	As on 21 Jul 2026
OIS Rates			
1M	5.41	5.33	5.40
2M	5.46	5.35	5.43
9M	5.93	5.61	5.85

Source: Bloomberg, Bank of Baroda Research, Note: data as on the mentioned time point

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