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# Bonds Wrap

*Global bond yields broadly softened led by risk-off sentiments under the current scenario of volatile policy environment. However, for the US, decline has been largely capped eyeing day-day developments on tariff front, country and commodity basis. For India, the decline in its 10Y yield has been sharp, most of it being attributable to post RBI policy. The dovish policy hinting at further monetary easing and easier approach on liquidity, has also lent support. The entire part of India's yield curve remained considerably steepened and the bias for the same is expected to prevail in the near term. Liquidity is expected to remain comfortably in surplus. However, for a surplus of ~1% of NDTL, which generally market is eyeing, further conduct of OMOs by RBI will be required. This necessarily hints at India's yield heading southward. We expect it to trade in the range of 6.30-6.35% in May'25.*

**Risk off sentiments kept yields largely capped:**

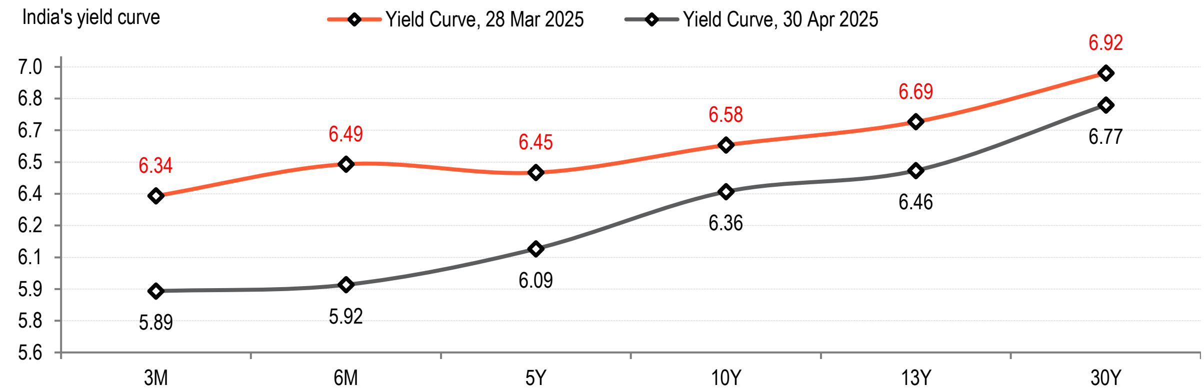
- Among major global yields, the US 10Y yield has fallen at a less sharp pace. This is bit of an anomaly considering that there is uncertainty in global space. The safe-haven demand for US treasury securities should have been higher. However, what could have acted against this usual norm may be the constant developments in tariff and trade negotiations that investors are pricing in their reaction function. Most macro data of the region (core retail sales, PCE index, ISM-manufacturing index, durable goods orders and employment conditions) have also hinted at loss of resilience. Going forward, we expect the US 10Y yield to trade sideways. If some degree of negotiation takes place between US- China and US-Japan, we can expect some upward momentum. Else, safe-haven demand might pull yields downward.
- In Germany, 10Y yield has fallen the most supported by falling PPI and CPI data (7-month low), muted ZEW survey expectations and softer GDP data. ECB officials have also hinted at "nearing completion" in terms of reaching the inflation goal of 2%. This has acted in favour of a lower yield.
- For UK as well, there has been 23bps decline in 10Y yield. Despite a higher public sector net borrowing, yields got the necessary handholding from a slower increase in average weekly earnings, CPI and benign consumer confidence data.
- For China, open market operation via reverse repos have lent support. In Japan, the downward correction in yields is expected to be sharper as BoJ hinted at upside risks to inflation and delay in further rate hikes.
- **Domestic 10Y yield** moderated significantly and traded in the range of 6.32-6.50% in Apr'25 compared to 6.58-6.75% seen in Mar'25. The monthly volatility rose to 0.55 in Apr'25 compared to 0.25 in Mar'25. Most of the decline is attributable to post RBI policy (since 9$^{th}$ Apr onwards). This is supported by a dovish policy where downward revision in inflation and growth forecasts hinted at more policy space in terms of easing. Secondly, a softer than expected inflation reading in Mar'25 also gave further breather to yields. Lastly, risk-off sentiments following Liberation Day announcement of hefty tariffs by the US on its major trading partners has also led to the south-bound movement of yields.

**Table 1. 10Y Yields movement globally**

| Countries | 10Y sovereign yield, 28 Mar 2025 | 10Y sovereign yield, 30 Apr 2025 | Change in 10Y yield, Apr/Mar, bps |
|---|---|---|---|
| US | 4.21 | 4.16 | -4 |
| Indonesia | 7.00 | 6.88 | -13 |
| Thailand | 2.05 | 1.88 | -17 |
| Japan | 1.49 | 1.32 | -17 |
| China | 1.82 | 1.63 | -19 |
| Korea | 2.77 | 2.57 | -20 |
| Singapore | 2.68 | 2.47 | -21 |
| India | 6.58 | 6.36 | -23 |
| UK | 4.68 | 4.44 | -23 |
| Germany | 2.74 | 2.44 | -29 |

Source: Bloomberg, Bank of Baroda Research

**Table 2: Evolution of India's yield curve**




Source: Bloomberg, Bank of Baroda Research

The gap between 3M and 30Y paper rose to 88bps as on 30 Apr 2025 compared to 58bps as on 28 Mar 2025. Major realignment occurred for 3-5Y part of the yield curve which declined significantly. Even 10Y yield showed considerable downward correction. What has contributed to the rising spread is the improvement in liquidity conditions and RBI's hinting of a further softer policy regime, going forward.

### What do auctions in the domestic market reflect?

In Apr'25, the cut off yield for the short-term papers remained comparatively lower. For Gsec, major holdings came from PSB and MFs.

**Table 3. Cost of borrowing**

| Type of Papers | Avg. Cut off yield, Apr 2025 |
|---|---|
| Central Government Securities | 6.57 |
| SDL | 6.76 |
| Tbills | 5.99 |
| 91-day | 5.97 |
| 182-day | 6.01 |
| 364-day | 6.00 |

Source: Bank of Baroda Research, Note: Auction dates differ

**Liquidity remains comfortably in surplus mode:**

- Average system liquidity went into a surplus of Rs 1.4 lakh crore in Apr'25 from a deficit of Rs 1.24 lakh crore in Mar'25. So, what has guided liquidity movement in Apr'25? RBI's measures such as continuation of daily VRR coupled with durable liquidity infusion through OMOs has supported overall system liquidity. Secondly moderation in the government cash balance has also supported system liquidity.

**Table 4. Liquidity measures by RBI in Apr'25**

| Liquidity injection Apr'25 (Rs crore) | Notified amount |
|---|---|
| **VRRs** | **10,75,000** |
| Less than equal to 14 days | 9,00,000 |
| **above 14 days** | **1,75,000** |
| **OMOs** | |
| Auction | 1,20,000 |
| Secondary | 40000 |

Source: Bank of Baroda Research

**Outlook on 10Y yield for the next 30days:**

- *India's 10Y yield is expected to soften and likely to trade in the range of 6.30-6.35% in the current month, with risks tilted to the downside*. The south-bound journey of yield will be more profound if FPI flows resume in May'25. In Apr'25, FPI debt outflows exacerbated to US$ 1.6bn due to uncertainty concerning global trade policies. Further, RBI's continued softer stance on liquidity will also keep 10Y yield broadly capped. The cut off yield of new benchmark 10Y has already been lower than the current security, thus hinting at softer yield going forward. Global rhetoric also supports higher demand for sovereign securities amidst risk alignment of portfolio. Domestic low inflation and growth duo also call for the same. The OIS curve also hint at softer yield in the near term.

**Table 5: OIS rates inched down while corporate spreads edged up**

| | As on 28 Mar 2025 | As on 30 Apr 2025 |
|---|---|---|
| | **OIS Rates** | |
| 1M | 6.14 | 5.90 |
| 2M | 6.13 | 5.87 |
| 9M | 6.04 | 5.66 |
| | **Corporate Spreads 10Y, bps** | |
| AAA | 41 | 49 |
| AA+ | 85 | 90 |
| **AA** | **133** | **137** |

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

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