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Bonds Wrap

Global yields showed mixed performance in May'26 and is exhibiting stickiness in Jun'26 as there are constant back and forth surrounding a formal peace agreement between US and Iran. On top of that, reports of fresh conflict have also aggravated investor sentiments. 10Y yield in UK and Germany which showed some downward correction in May'26 reversed its trajectory in Jun'26. So, for global yields, the fear of inflationary pressure is likely to keep yields higher for longer. On domestic front, India's 10Y yield hovered around the 7% mark in Jun'26. Post RBI policy and government measures on tax benefits to FIIs, 10Y yield has dipped below the 7% to close at 6.98%. We expect India's 10Y yield to trade in the range of 6.95-7.05% in the current month, with risks tilted to the upside. Any upside shock in the May inflation print along with delayed formal negotiation between US and Iran to end the war, will continue to exert pressure on yields in the near term. RBI's policy has also hinted at possibility of future rate hike contingent on the evolution of inflation trajectory.

Global yields remained mixed:

- Global yields showed varied momentum in May'26. Among major economies, 10Y yields in UK and Germany showed a softening bias. This is on account of uncertainty on future trajectory of policy rates. BoE Governor in his recent speech has attributed the overshooting of inflation to West Asia crisis, albeit hinting a pause. The UK 1-month forward rate is not indicative of immediate rate action. However, the 12-month rate is signaling 50bps hike. For Germany, despite growing expectation of a 25bps hike in Jun'26, 10Y yields largely remained capped as CPI and PPI data did not yet show the impact of West Asia crisis.
- 10Y yield of S. Korea, Japan and Thailand showed considerable upward momentum. For S. Korea, the stickiness in inflation and hawkish undertone by central bank remained the main driver. For Japan, the expectation of a 25bps rate hike in Jun'26, has impacted yields. For Thailand, 10Y yield was elevated on account of a higher inflation print.
- For US, 10Y yield firmed up as inflation remained elevated (core PCE, QoQ edged up). Other growth indicators of the region also remained broadly stable. For example, ISM new orders firmed up, durable goods orders picked up, JOLTS job opening and non-farm payroll inched up. Hence risk alignment led to modest increase of US 10Y yield. As per CME Fed watch tool data, higher probability is attached to no rate action from Fed in H1CY26.
- **Jun'26** showed stickiness in yields as there arose uncertainty over the 60-day ceasefire agreement between US and Iran. This is in the wake of US and Iran offering different accounts over the conflict in Lebanon and reports of fresh attack on Kuwait, Bahrain and Hormuz. The major upward correction in Jun'26 was for Germany and UK, which were showing a softening bias in May'26. Going forward, we expect upward momentum of yields to continue until a formal peace deal has arrived.

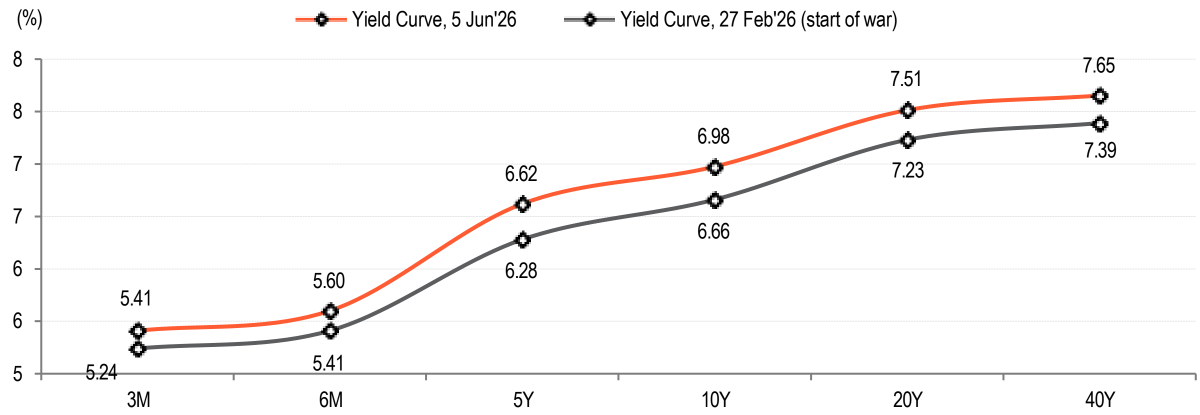
Domestic 10Y yield traded in the range of 6.92-7.13% in May’26. In Jun’26 it is trading in the range of 6.98-7.02% (first 5 days of the month). Post RBI policy, 10Y yield has dipped tad below the 7% mark as policy decision broadly remained along anticipated lines.

Table 1. 10Y Yields movement globally

Countries	10Y sovereign yield, 30 Apr 2026	10Y sovereign yield, 29 May 2026	10Y sovereign yield, 5 Jun 2026	Change, 30 May/Apr, bps
S. Korea	3.92	4.07	4.25	15
Japan	2.53	2.67	2.67	14
Thailand	2.18	2.31	2.21	13
US	**4.37**	**4.44**	**4.53**	**6**
India	**7.02**	**7.00**	**6.98**	**-1**
China	1.75	1.72	1.72	-3
Singapore	2.09	2.02	2.07	-7
Germany	3.04	2.94	3.04	-10
Indonesia	6.85	6.72	6.88	-13
UK	5.01	4.81	4.90	-20

Source: Bloomberg, Bank of Baroda Research

Table 2: Evolution of India’s yield curve



Source: Bloomberg, Bank of Baroda Research

Yield curve comparison reveals that the entire yield curve noticed considerable shift post the West Asia crisis. Yields across all tenor rose in the range of 30-54bps. The gap between 10Y and 3M paper is at 147bps as on 3 Jun 2026 which was 142bps as on 27 Feb 2026. The short-end part of the curve, which was earlier rangebound, is exhibiting stickiness lately as system liquidity showed moderation. RBI’s recent policy has allowed all new issuances of 15Y, 30Y and 40Y government securities under the fully accessible route (FAR). Yields across this tenor softened slightly after the announcement (3-4bps). Thus, some moderation in long end yields might be seen in the coming days and India’s yield curve may see some flattening bias.

What do auctions in the domestic market reflect?

In May’26, cut-off yields exhibited stickiness. But major change was visible in the cut off yields for Tbills. The cut off yield for 364-day Tbill rose at the sharpest pace by 25bps in May’26 over Apr’26. For

91-day Tbill it rose by 18bps and for 182-day by 14bps. It must be noted that for the past few months, we haven't noticed much momentum in the cut-off yields of Tbill. Hence the stickiness in short term papers needs to be watched carefully.

The 6.94 GS 20236 after the RBI policy had a lower cut off rate at 6.97%.

Table 3. Cost of borrowing

Type of Papers	Avg. Cut off yield, Apr'26	Avg. Cut off yield, May'26	Avg. Cut off yield, Jun'26#
Central Government Securities	7.28	7.26	6.97
SDL	7.77	7.80	7.80
	Tbills		
91 days	5.25	5.43	5.56
182 days	5.49	5.63	-*
364 days	5.62	5.87	-*

Source: Bank of Baroda Research, Note: Average cut off yield of auctions for the month have been accounted for, *Bid was not accepted, latest auction date for Jun'26

System Liquidity is below the 1% NDTL level:

- Average system liquidity surplus moderated to Rs 1.6 lakh crore in May'26 compared to Rs 3.8 lakh crore surplus in Apr'26. In Jun'26 (first 5-days), the surplus is on average at Rs 1.4 lakh crore which is 0.5% of NDTL, based on the NDTL data as of 15 May'26. On the other hand, durable liquidity has also shown moderation to Rs 2.7 lakh crore as on 15 May 2026 which was Rs 3 lakh crore as on 30 Apr'26. Government cash balance is also moderating, maybe on account of higher spending. This is likely to support liquidity in the near term.
- Further, RBI has ensured that liquidity will be comfortable for effective transmission of credit. The transfer of the RBI surplus to the government will add to liquidity once the money is spent. Thus, we do not expect any untoward pressure on liquidity. Any strain might be addressed with more durable liquidity measures in the near term.
- Further, RBI's finetuning through the LAF window would ensure that liquidity remains in the 1% NDTL surplus level.

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

- India's 10Y yield is expected to remain in the range of 6.95-7.05% in the current month, with risks tilted to the upside. Major risk emerges from the continued back and forth surrounding a formal negotiation between US and Iran.
- Another upside risk persists from the May'26 inflation print which is also crucial as it would incorporate the petrol diesel and CNG hike that has taken place. We expect CPI to be in the range of 3.9-4.1% in May'26. Any upside shock in the number will also drive yields higher. RBI has also revised its inflation projection upward by 50bps in FY27. Thus, pressure on 10Y yield remains from an elevated inflation in the near term which might call for rate action in the future.
- The announcement effect of status quo (as anticipated) is policy saw India's 10Y yield dipping tad below the 7%-mark. Further, reports of government measures of exempting capital gains

tax and withholding tax on interest income of debt instruments of FIIs, have impacted yield positively.

- It is to be mentioned that the net FPI debt flows have started improving. From a net outflow of US$ 1.2bn in Apr'26, it has turned into net inflow of US$ 425mn in May'26 and Jun'26 till date. The gap between US and India 10Y yield is broadly maintained. We believe some resumption in flows might be likely with the recent policy initiatives. This will lend support to India's 10Y yield.

Table 4: OIS rates and corporate spreads inched up

	As on 30 Apr 2026	As on 29 May 2026	As on 5 Jun 2026
OIS Rates			
1M	5.33	5.41	5.39
2M	5.38	5.46	5.40
9M	5.80	5.93	5.86
Corporate Spreads 10Y, bps			
AAA	49	59	67
AA+	91	103	112
AA	135	144	154

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

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