Dipanwita Mazumdar
Economist

Bonds Wrap

Global yields traded in a wide range. For US, the narrative of softening bias in yields seen in Oct'25 changed significantly with recent release of private payroll numbers. In fact, after the Fed policy, 10Y yield of US have seen upward momentum as divergent commentaries of Fed officials and recent strengthening of few macro data points signal higher possibility of status quo in policy rate in Dec'25. The reverberation will be felt across yields of major economies. For India, some stickiness in its 10Y yield have been observed since Aug'25. However, now it is broadly rangebound as traders have factored in the impact on government finances due to the recent tax reform. It is expected to trade in the range of 6.48-6.58% in the current month. Some downward bias in yields may persist from higher FII flows on account of widening interest rate differential with the US and a favourable inflation print. On liquidity front, the trajectory of durable liquidity needs to be closely watched as it recently saw some moderation, on account of fall in foreign currency assets.

Global yields: a divergent trajectory:

- Global yields showed varied movements weighing risk on and risk off sentiments. US 10Y yield has moderated sharply with most of the decline seen ahead of the monetary policy where markets were anticipating dovish tones to be predominant. However, in the run up to the Fed policy, the dynamics have changed with some pickup in 10Y yield. Fed Chair's hawkish tone on inflation and ruling down the prospects of deterioration in labour market has decreased market expectation of another rate cut in Dec'25. As per CME Fed watch tool, the probability is 62.5% (current) compared to 90.5% as on 28 Oct 2025 (before Fed's policy). Among major macro releases, JOLTS job openings and ADP private payroll data showed some optimism, ISM manufacturing data, Conf. Board consumer confidence disappointed and inflation expectations index (U. of Michigan Index) showed de-anchoring to some extent. Oct'25 beige book data also suggested higher input cost pressure from elevated tariff rates. The narrative of this month will be guided by commentaries of Fed officials where conflicting signals on trajectory of policy rate is reflected. Fed Governor Losa Cook spoke of greater risks to labour market conditions. Fed Governor Stephen Miran also spoke of monetary policy being too restrictive in recent times. While Chicago Fed Bank President spoke of incorporating rising risks to inflation in decision making. We expect some upward bias on yields to persist.
- In the UK as well, yields softened at a steeper pace following weaker CPI print and PPI data. This also led to growing expectations of rate cut by BoE. Going forward, we expect some correction in the run up to the budget amidst increased anticipation of an inflation-friendly budget tracking recent comments from the UK Treasury Chief.
- Among EMs as well, the trend has differed across economies. For Indonesia, there has been a sharp drop in its 10Y yield as muted demand pressures have opened doors for monetary policy

support albeit a weakening currency. Other countries where 10Y yields witnessed significant momentum were Thailand and S. Korea, where inflation data remained supportive.

- **Domestic 10Y yield** softened in Oct'25 and traded in the range of 6.48-6.57% compared to 6.47-6.59 in Sep'25, thus hardly witnessing any monthly volatility. Currently it is rangebound at 6.5%.

Table 1. 10Y Yields movement globally

Countries	10Y sovereign yield, 31 Oct 2025	10Y sovereign yield, 5 Nov 2026	Change in 10Y yield, Oct/Sep, bps	Change in 10Y yield, 5 Nov/31 Oct, bps
Thailand	1.70	1.71	28	0
Korea	3.06	3.13	12	7
Japan	1.67	1.66	2	-1
Singapore	1.90	1.83	0	-7
India	**6.53**	**6.53**	**-4**	0
US	**4.08**	**4.16**	**-7**	**8**
China	1.80	1.80	-7	0
Germany	2.63	2.67	-8	4
Indonesia	6.08	6.18	-29	10
UK	4.41	4.46	-29	5

Source: Bloomberg, Bank of Baroda Research

The gap between 3M and 30Y paper remained contained at 185bps in Oct'25, broadly stable as seen in Sep'25. Currently, it is 188bps. Thus, India's yield curve remained well aligned. Only some stickiness was seen in shorter part of the curve due to transient pressure on liquidity seen towards end of Oct'25. Going forward the same condition is likely to persist if rupee volatility persists and RBI intervention sees some domestic drain out of liquidity. However, fine tuning operation will continue to lend support.

Table 2: Evolution of India's yield curve

Dates	Yield curve, 30 Sep 2025	Yield curve, 31 Oct 2025	Yield curve, 04 Nov 2025
3M	5.40	5.44	5.43
6M	5.51	5.58	5.55
5Y	6.20	6.18	6.16
10Y	**6.58**	**6.53**	**6.53**
12Y	6.82	6.81	6.81
40Y	7.25	7.29	7.31

Source: Bloomberg, Bank of Baroda Research

What do auctions in the domestic market reflect?

In Oct' 25, the cut off yield for State government securities softened. The latest auction of central government securities was interesting as RBI did not accept any bids for 6.28% GS 2032 security.

Table 3. Cost of borrowing

Type of Papers	Avg. Cut off yield, Sep 2025	Avg. Cut off yield, Oct 2025
Central Government Securities	6.74	6.75**
State Government Securities	7.38	7.23*
Tbills	5.58	5.53
91-day	5.50	5.45
182-day	5.60	5.57
364-day	5.65	5.57

Source: Bank of Baroda Research, Note: Auction dates differ, Note: The cut off yield for the current auction was 7.3%, **since for 6.28% GS 2032 RBI did not accept any bids, hence not included in the average cut off yield calculation

Liquidity to be supported by last tranche of CRR cut:

- The average system liquidity surplus declined to Rs 0.86 lakh crore in Oct'25 compared to Rs 1.5 lakh crore seen in Sep'25. Currently the 4-day run rate is higher at Rs 1.5 lakh crore. The current month will also get the support from two CRR cuts (one has already happened on 1 Nov 2025). The last one scheduled on 29 Nov 2025 is expected to further add ~Rs 530bn liquidity (calculated on NDTL of 17 Oct 2025). Further Rs 98,178 crore of securities (nomenclature: 5.15% GS 2025) are due to be matured on 9 Nov 2025. This will further lend support to liquidity.
- One important development that has happened is that net durable liquidity has moderated to Rs 3.9 lakh crore as on 3 Oct 2025 compared to Rs 5.2 lakh crore as on 19 Sep 2025. Notably, between 26 Sep-24 Oct the foreign currency assets have fallen by US$ 15bn to support the rupee. The CIC accretion has also gained pace in Oct'25 seeing the usual festive related pull. Thus, going forward, one needs to keep an eye on the movement of durable liquidity which might come under pressure.
- The banking liquidity also mirrored some stickiness. The gap between incremental deposits and borrowings net of incremental credit and investment of SCBs went down to Rs 0.9 lakh crore far lower than the Rs 4 lakh crore level seen in Aug'25. This is led by momentum seen in bank credit.

Outlook on 10Y yield for the next 30days:

- India's yield curve has witnessed some degree of upward bias since Aug'25. However, during Oct'25, it broadly remained rangebound in absence of any fresh cues and supported by fine tuning of centre's borrowing calendar with proper allocation across maturity bucket (reducing share for the 10–20-year bucket to arrest any untoward pressure in this range). Oct'25 also showed renewed buying interest in FAR securities (Debt-FAR at US$ 1.7bn compared to US$ 1.1bn in Sep'25). With widening yield gap between US and India 10Y yield due to frontloading of rates by Fed, the debt inflows are expected to be higher, which will support yields.
- More importantly, traders have also assessed the government's revenue spending in the wake of recent tax reforms. The fiscal deficit percentage of Actuals to Budget Estimates is running at 36.5% compared to 29.4% in the same period as the previous year.

- Thus, weighing all these factors, we expect India's 10Y yield to trade in the range of 6.48-6.58% in the current month. Some downward bias may persist from higher FII inflows on account of widening interest rate differential with the US and a favourable inflation print.

Table 4: Corporate spreads broadly unchanged, OIS indicative of no immediate change in policy rate by RBI

	As on 30 Sep 2025	As on 31 Oct 2025	As on 5 Nov 2025
OIS Rates			
1M	5.46	5.53	5.55
2M	5.44	5.49	5.50
9M	5.43	5.46	5.47
Corporate Spreads-10Y			
AAA	51	56	53
AA+	100	105	101
AA	145	156	149

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

For further details about this publication, please contact:
Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com