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Bonds Wrap

Global yields broadly tracked US yields where considerable softening was seen in Oct'26 as Fed kept policy rate on hold albeit resilient performance of the economy. However, the recent statement by Fed Chair hinted at inflationary concerns are to take the forefront. The rate hike probability for Dec'26 is also elevated (CME Fedwatch tool probability at 72.9%). Against this backdrop and with constant back and forth on war front, we expect global yields are likely to be elevated. However, the Nov'26 session started with a softening biased with some reports of peace negotiations. However, unless a formal deal is in place volatility will persist in global yields. This month a lot would be contingent on the outcome of US midterm elections and its repercussion on West Asia crisis. On domestic front, RBI's change in stance to calibrated tightening and hinting of a steeper rate cycle in the MPC minutes kept long end yield elevated. For short end part of the curve, correction in domestic liquidity conditions was the major factor. We expect India's yield curve is likely to show some reduction in gap between long and short end part of the curve as higher credit demand coinciding with festive months is likely to keep liquidity tighter to some extent.

Weighing all the factors, we expect India's 10Y yield to trade in the range of 7.25-7.35% in Nov'26, with risks tilted to the upside.

Global yields trading in a wide range:

- Global yields showed varied sentiments. 10Y yield in the US fell significantly by 36bps in Oct'26. Fed maintained status quo albeit resilience in high frequency macro indicators. GDP annualized QoQ for Q3 (Advance estimate) firmed up to 3.4% from previous reading of 2.2%. 4-week moving average initial claims softened marginally. Conf Board consumer confidence rose for the first time in past 4 months to 91.7 in Oct'26. Durable goods orders edged up as per Sep'26 provisional estimate. Retail sales data also maintained momentum. US manufacturing PMI (ISM) also registered an uptick to 55.5 in Oct'26. Inflation expectation (U. of Michigan 1-Yr and 5-10 Yr index) remained higher. Oct'26 Fed policy and especially Fed Chair's speech reiterated renewed concerns on inflation raising the probability of rate hike to 72.9% as per CME Fedwatch tool data. Now all eyes will be on the outcome of US midterm elections and whether there will be any consequences on the ongoing West Asia crisis or not?
- In line with the US, yields of major advanced and emerging market economies also softened. 10Y yield of S. Korea softened significantly as central bank held its policy rate unchanged after back-to-back rate hikes in its earlier meetings. However, going forward yield may come under pressure as inflation is likely to remain elevated since growth is robust driven by AI-led manufacturing boom. Exports also maintained strong growth in Oct'26. Central bank has also hinted at restrictive policy.
- Yield in Japan and Germany softened. For Japan, BoJ hinted that inflation has reached the 2% target. The recent softening of core CPI also signals the same. This has supported yields to some extent. However, the recent policy nudge was more towards central bank's equity

portfolio through accelerated pace of sales of ETFs. For Germany, yield broadly took cues from ECB policy decision with some dovish narrative going forward, as ECB embarked on the rate hike cycle much earlier. CPI print is also guiding towards similar direction.

- For UK, albeit a consumer centric Autumn Budget, yields have fallen. For BoE, rate action of 25bps is expected in Nov'26. Other high frequency indicators of the region showed mixed performance. Retail sales softened, net consumer credit moderated, CPI remained elevated, monthly GDP gained momentum in Aug'26, on 3-month rolling basis.
- Among major economies, only Indonesia and Indias' yield hardened. For Indonesia 10Y yield surged at the sharpest pace on account of currency weakness and amidst reports of MSCI's threat of a double downgrade. It is to be noted that in Jul'26, rating agencies have already warned of elevated credit rating risk for Indonesia.
- **Nov'26** direction of yield started with a downward bias tracking sharp decline in oil prices (-10.9% fall in oil prices on 1st Nov'26). The question is whether this decline would sustain or not. The major factor will be US midterm elections which will shape future policy trajectory. However, we do not see much change about the stickiness of yields as on monetary policy front, the narrative is likely to be restrictive for major global central banks. Only a concrete formal peace proposal might change the underlying dynamics.

  Domestic 10Y yield after firming up by 24bps in Sep'26, rose by another 23bps in Oct. There was considerable upward momentum in India's 10Y yield in the past two months. The volatility as measured by SD adjusted for number of trading days also rose to 0.52 in Oct'26 (highest since May'26). Domestic factors such as announcement of "calibrated tightening" by RBI and MPC minutes signaling likely steeper rate hike cycle, outweighed the favorable global environment, thus driving yields higher. The yield gap between India and US 10Y yield is currently at 224 showing some upward correction compared to multi-year low levels of 205bps as on Sep'26. With US midterm election being the centerpoint and persistent rise in India's 10Y yield, it will be a guiding factor for where FPI debt flows are headed in the near term. T he first trading session of Nov'26 saw significant downward correction in India's 10Y yield. But the question is whether this trend will sustain or not? A lot is contingent on a formal arrival of a peace deal in place between US and Iran post US mid-term elections.

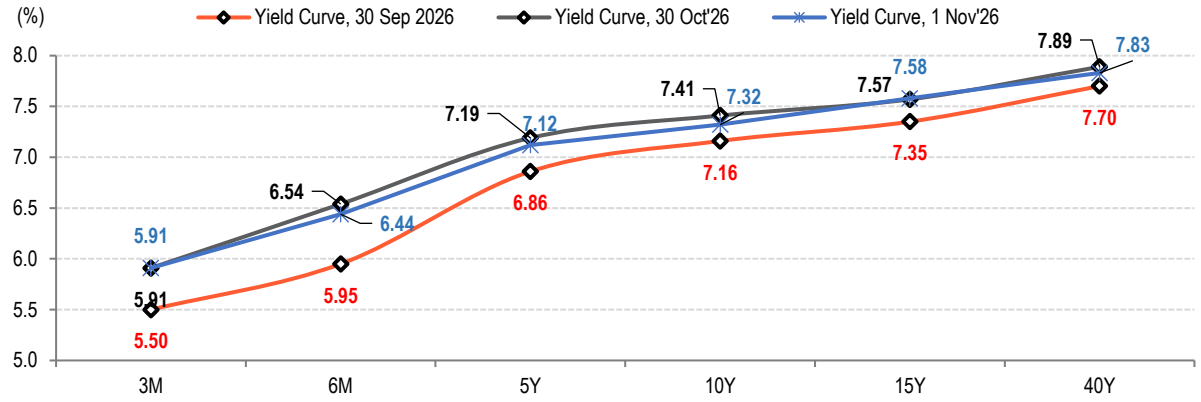
Table 1. 10Y Yield movement globally

Countries	10Y sovereign yield, 31 Aug 2026	10Y sovereign yield, 30 Sep 2026	10Y sovereign yield, 30 Oct 2026	10Y sovereign yield, 2 Nov 2026	Change, 30 Oct/30 Sep, bps
Indonesia	7.03	7.14	7.72	7.74	58
India	**6.95**	**7.19**	**7.41**	**7.32**	**23**
China	1.69	1.68	1.64	1.63	-4
UK	5.06	5.42	5.28	5.19	-14
Singapore	2.34	2.45	2.22	2.22	-23
Thailand	2.13	2.31	2.08	2.08	-24
Germany	3.32	3.59	3.32	3.29	-26
Japan	2.96	3.07	2.78	2.78	-28

Countries	10Y sovereign yield, 31 Aug 2026	10Y sovereign yield, 30 Sep 2026	10Y sovereign yield, 30 Oct 2026	10Y sovereign yield, 2 Nov 2026	Change, 30 Oct/30 Sep, bps
US	4.75	5.28	4.93	4.91	-36
S. Korea	4.31	4.42	4.01	4.04	-41

Source: Bloomberg, Bank of Baroda Research

Fig 2: Evolution of India's yield curve



Source: Bloomberg, Bank of Baroda Research

There has been broad based upward shift of India's yield curve in Oct'26 with short end (3M and 6M) part of the curve rising the most. Moderation in domestic liquidity conditions led to sharp jump in short end part of the curve which was bit insulated till Aug'26. RBI rate hike decision and forward signaling of a more hawkish approach going forward also resulted in rise in short end yields at a sharper pace. The gap between 3M and 10Y part of the curve has currently moderated to 141bps, compared to 166bps, as seen on 30 Sep 2026. We might witness the gap falling further in the current rate hike cycle of RBI.

What do auctions in the domestic market reflect?

In Oct'26, cut-off yields rose across the board. For 182 and 364-day Tbill it rose at the sharpest pace, on an average basis, in Oct'26 compared to Sep'26.

Table 2. Cost of borrowing

Type of Papers	Avg. Cut off yield, Sep'26	Avg. Cut off yield, Oct'26
Central Government Securities	7.14	7.48
State Government Securities	7.81	8.09
Tbills		
91 days	5.33	5.75
182 days	5.76	6.31
364 days	6.03	6.49

Source: Bank of Baroda Research, Note: Average cut off yield of auctions for the month have been accounted.

- As per Bloomberg data, foreign banks and MFs were major sellers in Oct'26 whereas PSBs were major buyers.

System Liquidity showed correction:

- Average system liquidity surplus moderated to Rs 2.4 lakh crore (0.8% of NDTL as on 15 Oct 2026) in Oct'26 compared to Rs 7.8 lakh crore in Sep'26. RBI's measures of liquidity absorption through OMO sales and requirement of higher minimum daily CRR maintenance by Banks supported normalization of system liquidity. Net durable liquidity also edged down to Rs 7.9 lakh crore as on 15 Oct 2026 from Rs 10.1 lakh crore as on 30 Sep 2026. Faster pace of CIC accretion (Rs 1.8 lakh crore in FYTD27 compared to 1.1 lakh crore in FYTD26) along with a faster pace of credit demand coinciding with festive months can be a further drag on durable liquidity.
- Banking liquidity i.e. the difference between deposits and borrowings net of investment and credit has fallen to -Rs 1.2 lakh crore as on 15 Oct 2026. Hence banking and system liquidity are moving in consonance. Credit and investment accretion happened at a faster pace than deposit and borrowing accretion. The current trend of credit demand is likely to keep banking liquidity at similar levels.
- Outlook on liquidity seems to be around the 1% NDTL level. The drag in terms of buoyant credit demand will be somewhat outweighed by likely increase in government spending in H2 (still trailing slightly lower than same period of previous year, CGA data). Some support to liquidity is likely in Nov'26 from redemption of Rs 66,724 crore securities and reversal of 29-day VRRR of Rs 25,555 crore.

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

- India's 10Y yield is unlikely to show much downward correction. Inflationary risks are elevated. Our in-house BoB ECI has gained considerable momentum in Oct'26 (11.1% increase YoY), hence inflation in Oct'26 is likely to be higher. RBI has also repeatedly focused on managing inflation expectations amidst a resilient growth environment. High frequency growth indicators such as non-oil-non gold imports, electronic imports and auto sales data are faring well, amidst festive cheer. Growing momentum in power demand along with higher steel consumption and growth in personal loans segment also signal uptick in economic activity. Apart from this, global yield narrative is also not clear with no clear signs of deescalation of West Asia crisis even with US Midterm elections in place. The disruption in global policy order is likely to keep yields elevated for majority of countries amidst elevated global debt and inflationary concerns.
- On FPI debt side as well, there has been hardly any movement. Between August till date, there has been outflow of US$ 2.4bn on the debt segment. In Oct'26, there was just US$ 70mn inflow as majority of RBI's measures on the derivative market centered on curtailing speculative activity. Going forward, some resumption in FPI debt flows may be seen as the gap between India and US 10Y yield is gradually inching up (albeit at low levels). Dec'26 is a crucial policy cycle for the economies guiding the direction of yield gaps.
- Taking all these factors into cognizance, we expect India's 10Y yield to settle in the range of 7.25-7.35% in Nov'26, with risks tilted to the upside.

Table 4: OIS rates hinting towards rate hike

	As on 30 Sep 2026	As on 30 Oct 2026
OIS Rates		
1M	5.48	5.84
2M	5.54	5.91
9M	6.04	6.57
AAA	48	50
AA+	95	94
AA	133	131

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

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