

RESEARCH**BOB ECONOMICS RESEARCH | BOND WRAP**

Fortnightly review

SUMMARY**INDIA ECONOMICS: BOND WRAP**

Global yields are showing significant upward momentum. The major driver has been the direction of US 10Y yield which is now trading at its highest since 2007. This comes in the wake of elevated inflation data which has led Fed to embark on its rate hike cycle. FOMC projections suggest steeper rate hike path, going forward. We believe the northward bound of global yields to persist, taking cues of direction of US yield. Further, domestic conditions in terms of inflation inching up and rising gap between India and US 10Y yield redirecting FPI debt flow especially towards developed markets (US treasury), all point towards a steeper yield curve for India. RBI's OMO sales are also likely to put pressure on yields, as seen historically. However, the quantum and timing of the same remain crucial.

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17 September 2026

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Dipanwita Mazumdar
Economist

With Fed's rate action, market is pricing in further tightening by major central banks. ECB has already signaled accelerated pace of tightening to control inflation. Japan's yen movement has solidified expectations of a steeper rate hike cycle by BoJ. RBI's Oct'26 decision will be closely watched under this changing global backdrop.

Weighing all the factors, we expect India's 10Y yield to trade in the range of 6.95-7.12% in the remaining part of Sep'26, with risks tilted to the upside.

Global yields trading with a sharp upward bias:

- Global yields are showing considerable upward momentum in Sep'26. Among advanced economies, the sharpest increase was seen for US, UK and Germany. The Bloomberg Barclays EM USD aggregate index also shot up by 20bps in Sep'26. EM yields except for China also saw significant increase this month till date (16th Sep 2026).
- The narrative of global yields centered around US yield. Albeit US government's effort to buyback securities, yield witnessed upsurge. This was primarily on account of escalated military tension between US and Iran since Aug onwards after the initial agreement of an interim truce. Further in Sep'26, situation worsened with renewed attacks on oil infrastructure in Saudi Arabia, ports of Kuwait and Bahrain. Apart from this, US macro indicators also showed strength with factory orders (+0.9%, SA, MoM, in Jul'26, compared to -0.2%, last month) and core durable goods firming up, labour market conditions remaining buoyant, non-farm payrolls surged by 162k in Aug'26, largest gain in past 5 months, following 21k additions seen in Jul'26. Jobless claims data especially the 4-week moving average claims softened (206K, for the week ending 5 Sep 2026).



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Note: Recommendation structure changed with effect from 21 June 2021

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