Crisil
Intelligence

RateView

Crisil's outlook on near-term interest rates

August 2025

The outlook

Benchmark	July 31, 2025 (A)	August 31, 2025 (P)	October 30, 2025 (P)
10-year G-sec yield	6.38%	6.40% - 6.50%	6.35% - 6.45%
10-year SDL yield	6.87%	6.90% - 7.00%	6.87% - 6.97%
10-year corporate bond yield	7.04%	7.05% - 7.15%	7.00% - 7.10%

A: Actual; P: Projected (6.33% GS 2035)

One-month view

Our August review is based on expectations of lower inflation and benign oil prices amid slowing global growth, which offsets the impact of geopolitical uncertainties.

Other factors that could drive the yield include market liquidity, which averaged ~Rs 3.04 lakh crore in July, the outcome of possible trade negotiations with the US, and foreign capital inflows, which have been volatile in recent months.

Three-month view

Chances of the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) cutting the repo rate in its October meet appear bleak after the central bank announced a pause and indicated any further intervention would be data dependent. However, we do expect swifter transmission of earlier rate cuts as the RBI manages liquidity effectively. Headline retail inflation is expected to remain benign (1.55% in July), supported by low food inflation and commodity prices. Other factors that could affect the yield include market liquidity, re-negotiation of the US tariff imposition, foreign portfolio investor (FPI) inflows and the US Federal Open Market Committee's decisions.

Framework for the outlook

We provide the outlook on key benchmark rates for different debt classes — 10-year government securities (G-secs), state development loans (SDLs) and corporate bonds — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, macroeconomic outlook, key events (local and global) and market factors (liquidity and demand/ supply).

Contents

July jog

Monthly summary

- The yield on the new 10-year benchmark G-sec (6.33% GS 2035) ended July at 6.38%, up 6 basis points (bps) from June's 6.32%

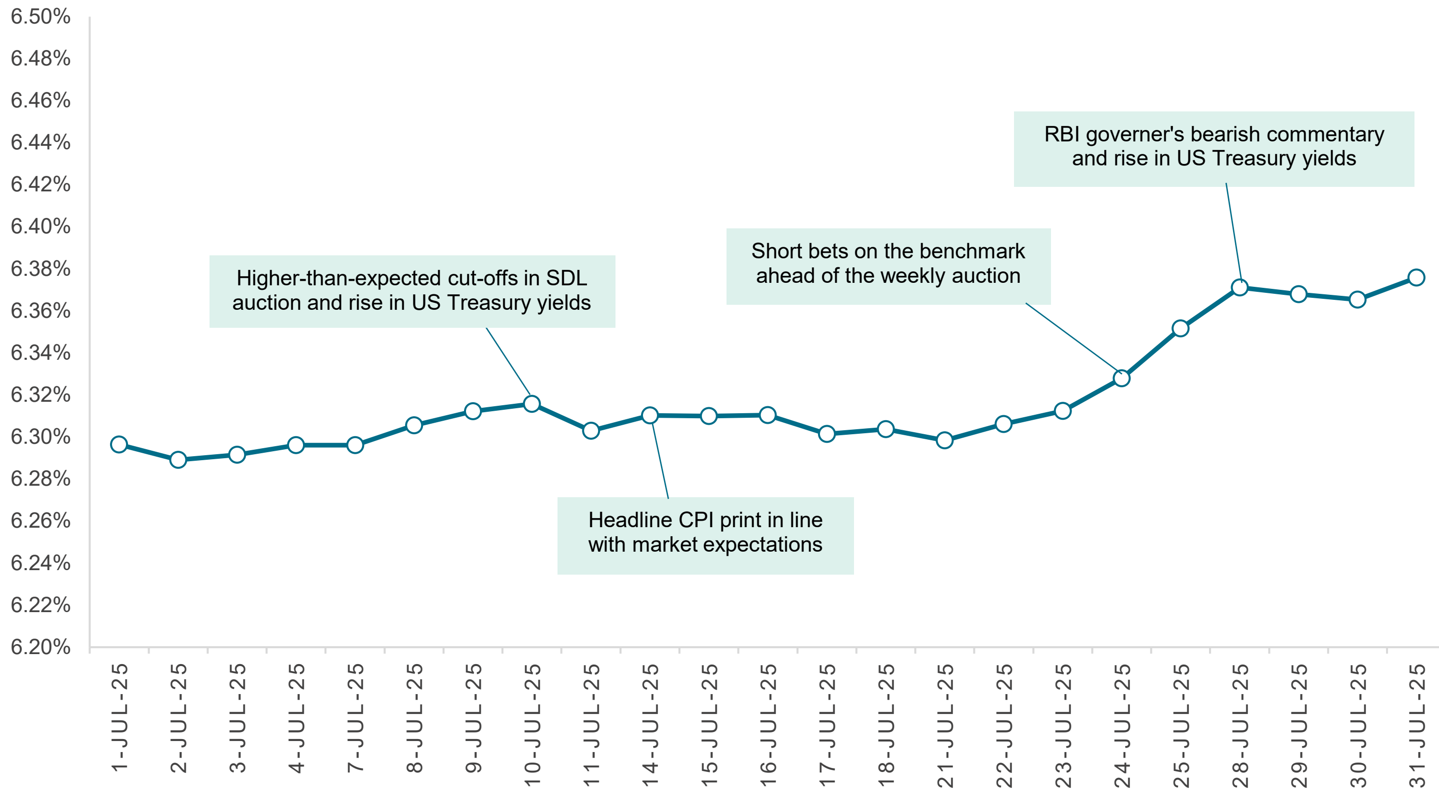
Weekly highlights

- **Week 1:** Domestic bonds opened on a bullish note, initially supported by likely FPI buying, a decline in US Treasury yields and purchases by state-owned banks. Market sentiment remained firm mid-week amid expectations of lower US Treasury yields following Fed Chair Jerome Powell's remarks and strong demand for gilts. Bond prices were further supported by a higher liquidity surplus and a better-than-expected 91-day Treasury bill (T-bill) auction. However, gains were partially trimmed due to profit booking. Towards the end of the week, the market turned cautious, with pressure on long-term bonds ahead of the G-sec auction, while a rise in US Treasury yields led to a bearish close. With this, the new 10-year benchmark paper closed at 6.30%
- **Week 2:** The week started with the domestic sovereign bonds trading with a bearish bias due to a rise in US Treasury yields and higher-than-expected cut-off yield at the 10-year state government securities auction. On Friday, higher-than-expected VRRR auction of Rs 2.5 lakh crore weighed on the gilt prices. However, better-than-expected cut-offs at the weekly G-sec auction and an overnight decline in US Treasury yields supported the gilt prices. With this, the new 10-year benchmark paper closed at 6.30%
- **Week 3:** Early in the week, domestic sovereign bonds traded on a steady note owing to the headline Consumer Price Inflation (CPI) printing broadly in line with market expectations. Lack of any major cues from the market and the RBI governor's views in an interview on further policy rate cuts led to marginal changes in gilt prices. However, a higher-than-expected cut-off at the weekly SDL auction somewhat weighed on bond prices. Towards the end of the week, domestic sovereign bonds turned bullish owing to better-than-expected cut-offs in buyback auction and fall in US Treasury yields. At the weekly G-sec auction, strong demand for bonds aided the gilt prices to a certain extent. With this, the new 10-year benchmark paper closed at 6.30%
- **Week 4:** The week started with domestic sovereign bonds trading with a bullish bias, supported by an overnight fall in US Treasury yields and short covering by traders. Further, domestic bonds traded in a narrow price range following the VRRR and T-bill auctions. The 10- year and 15-year bonds prices rose slightly as traders purchased at attractive yields and placed short bets on 6.33% GS 2035 security ahead of the weekly G-sec auction. Towards the end of the week, domestic sovereign bonds turned bearish due to an overnight rise in US Treasury yields. The week ended with a bearish bias as the RBI governor's commentary dashed hopes of another rate cut in the upcoming August meeting. This led traders, who were betting on rate cuts, to trim their positions, even though cut-off yield at the weekly G-sec auction was on the expected lines. With this, the 10-year benchmark paper closed at 6.35%

Closing day

The new 10-year benchmark hardened mildly and closed at Rs 99.66 (6.38%).

Bearish undertone lifts yields through July



Note: All yields are volume-weighted averages during the last trading hour of that day
Source: Crisil Intelligence

Factors influencing the outlook

Economic parameter	Our View	Impact on yields
GDP growth	• We expect GDP growth at 6.5% in fiscal 2026, with risks on downside • US tariff-related global uncertainty is the top risk to India's growth. However, growth is expected to be supported by improving domestic consumption driven by an above-normal monsoon, income tax relief, and RBI's rate cuts. • GDP rose to 7.4% on-year in the fourth quarter of fiscal 2025, from 6.4% in the previous quarter. Overall, GDP grew 6.5% in fiscal 2025	↔
CPI inflation	• We expect CPI inflation to soften to 3.5% in fiscal 2026 from 4.6% last year • An above-normal monsoon is expected to keep food inflation in check. Lower crude prices, benign commodity prices should help contain non-food inflation • CPI inflation dropped further to 1.6% in July from 2.1% in June	↓
RBI's monetary policy	• We expect one more rate cut is possible this fiscal, and a pause thereafter. The MPC had cut repo rate by 100 bps between February-June 2025 • The MPC kept the policy rates unchanged during its review meeting on August 6. It maintained its neutral policy stance, which implies future monetary policy actions will be data dependent amid global uncertainties. • The MPC is waiting for the transmission of past rate cuts. They expect inflation to rise in the second half of this fiscal.	↓
Fiscal health	• The budget has targeted a reduction in centre's fiscal deficit to 4.4% of GDP in fiscal 2026 from 4.8% of GDP in fiscal 2025 • Gross market borrowing is estimated at Rs. 14.8 lakh crore for fiscal 2026, 5.8% higher on-year. The government plans to borrow 54% of the budgeted borrowings in the first half of the fiscal. • Fiscal deficit stood at 17.9% of this year's budget target until June, higher than 8.4% in the corresponding period last year. This has been driven by higher non-tax revenue[1] compared with tax revenue, coupled with a significant pick up in capital expenditure.	↓
Crude oil prices	• We expect crude prices average \$60-\$65 per barrel in fiscal 2026 compared to an average of \$78.8 per barrel in fiscal 2025. • Brent crude oil prices fell to \$71 per barrel average in July, 0.7% lower on-month and 16.8% lower on-year.	↓
Current account balance	• We expect the current account deficit (CAD) to average 1.3% of GDP in fiscal 2026 compared to 0.6% of GDP in fiscal 2025.	↔

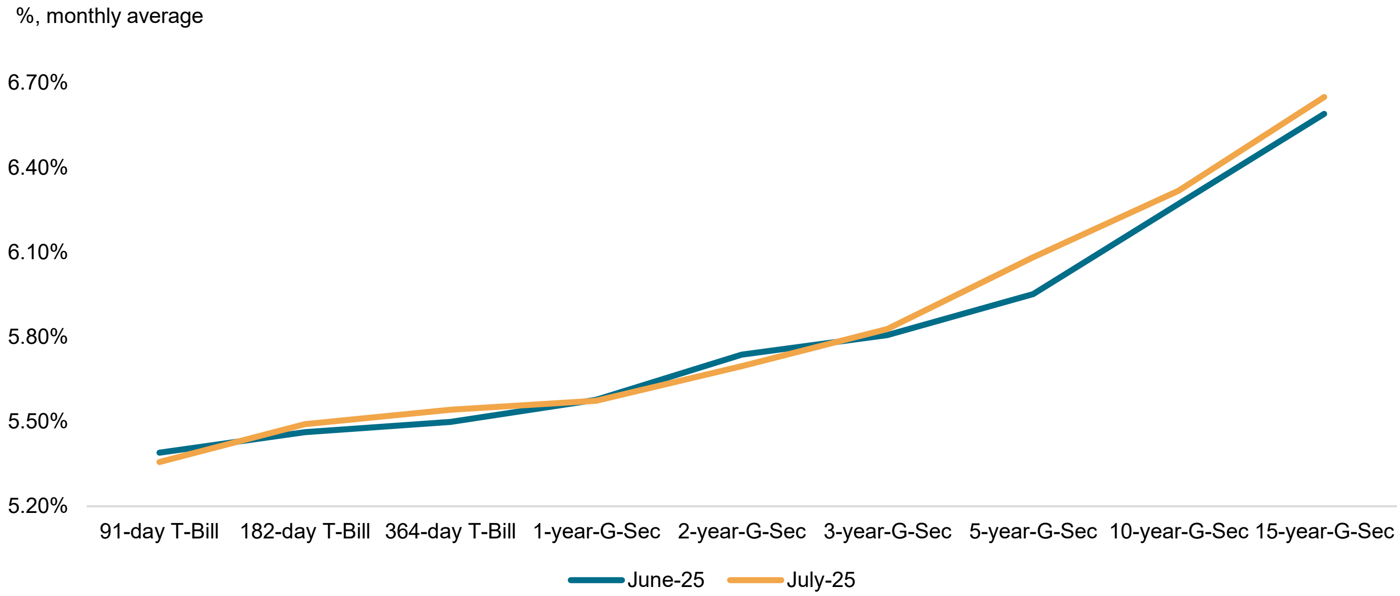
[1] as a percentage of budget target

Economic parameter	Our View	Impact on yields
	• The merchandise trade deficit is expected to come under some pressure this fiscal given US tariff hikes and expected global growth slowdown. That said, we believe the surplus in services and healthy remittances will keep the current account deficit (CAD) from widening too much. • The current account was in a surplus of 1.3% of GDP in the fourth quarter of fiscal 2025, versus 0.5% in the same quarter of fiscal 2024	
US Federal Reserve's stance	• S&P Global expects the Fed to cut rates by 50 bps in calendar year 2025. While their base case expects rate cuts to begin post October, risks are tilted to rate cut beginning in September if growth slips below trend • The Fed kept its policy rate unchanged at 4.25-4.5% for the fifth consecutive meeting in July. The Fed is in a wait and watch mode for how upside risks to inflation and downside risks to growth materialize from US tariff hikes.	↓
Liquidity indicators i) Demand and supply	**Supply** • The RBI auctioned over Rs 1.2 lakh crores of G-sec spread across maturities. RBI also auctioned over Rs 0.96 lakh crores of SDLs in July 2025. **Demand** • Constant demand for longer-tenure SDLs was seen among insurance companies and pension funds	↑
ii) Call rates/ liquidity-adjustment facility	• Liquidity surplus in the Indian banking system touched a two-year high of Rs 4.25 trillion on July 4, on the back of increased government spending following a record Rs 2.7 trillion dividend payout by the RBI. This led to a weighted average call rate averaging at 5.39% (until July 31) below the repo rate of 5.50%. This prompted the central bank to conduct a series of VRRR auctions to manage liquidity	↓

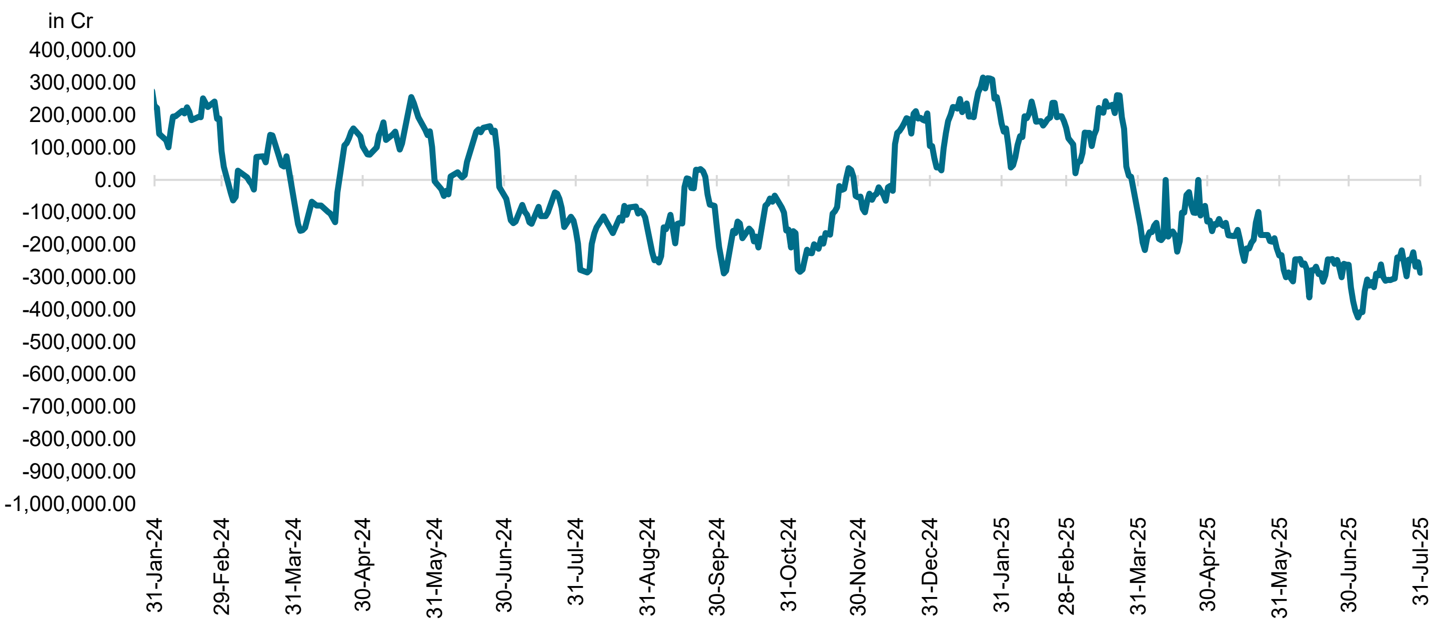
Month at a glance

Yield curve steepens

Longer end maturities of debt securities hardened across board on account of expectations of limited scope of further rate cuts**.** This was further amplified by the higher than expected cut off yields for SDLs indicating a higher risk appetite pushing overall yields in the G-sec market.



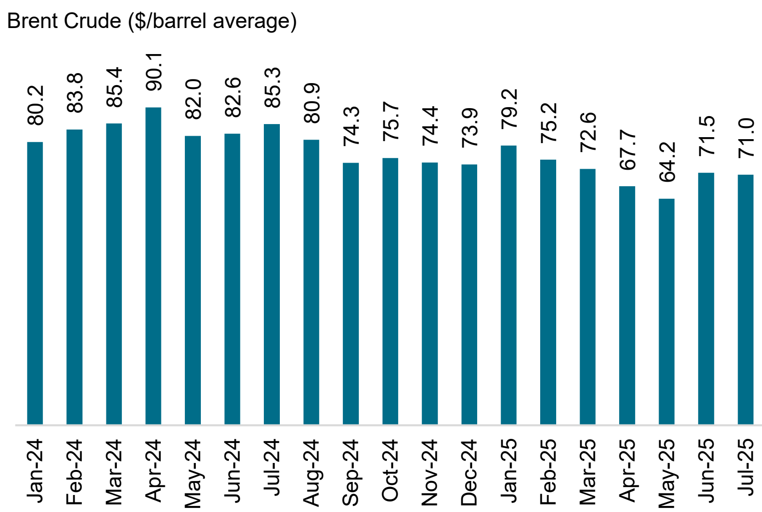
Liquidity to the rescue, again



Note: Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo
Source: Crisil Intelligence

- The average systemic liquidity surplus stood at ~Rs 3.04 lakh crore in July, compared with ~Rs 2.74 lakh crore in June, driven by a slight pick-up in deposit growth and lower GST collection Liquidity surplus peaked at Rs 4.25 lakh crore in July.
- The average liquidity surplus over the past 36 months was Rs 0.33 lakh crore. In July, the daily average liquidity surplus was more than 1.2% of net demand and time liabilities, compared with 1.1% in June

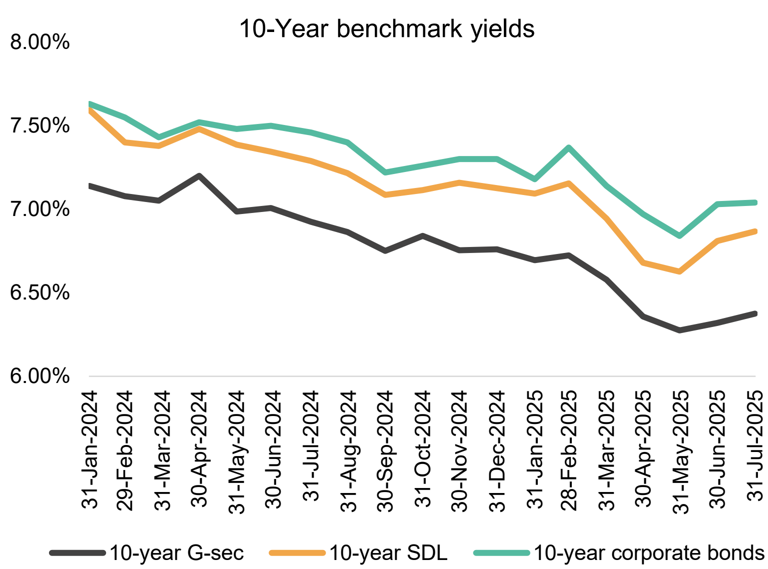
Crude oil prices remain stable



Source: Crisil Intelligence

- Crude oil prices remained stable, clocking a 0.70% on-month decrease in the Brent crude oil price to $71 per barrel, ending the five-month declining streak
- The price remained below the 12-month average of $73.4 per barrel

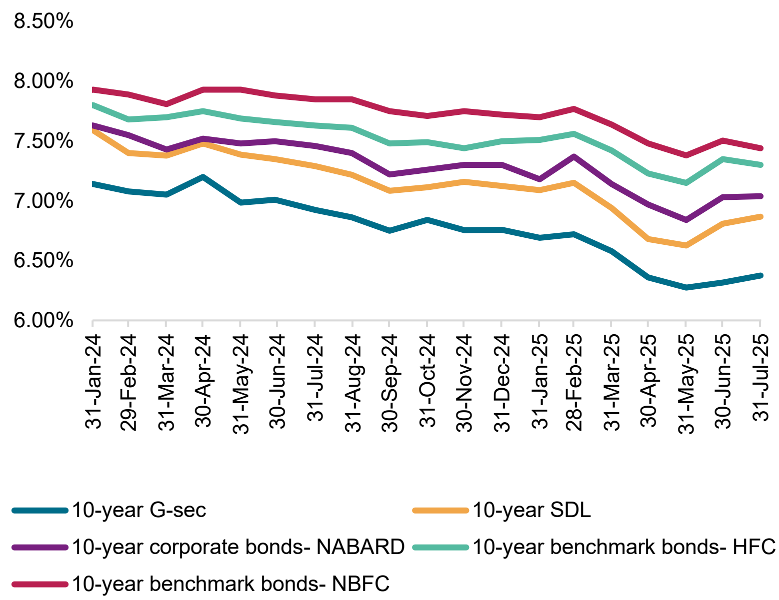
Yields on benchmark G-sec, SDL and corporate bond (PSU FI) harden



Source: Crisil Intelligence

- The yield on the 10-year benchmark G-sec closed at 6.38% in July, up 6 bps from June, due to limited scope for further rate cuts.
- The yield on the 10-year SDL hardened 6 bps to 6.87% tracking the G-Sec movement
- The yield on the 10-year corporate bond (10-year PSU) rose slightly by 1 basis point to 7.04%.

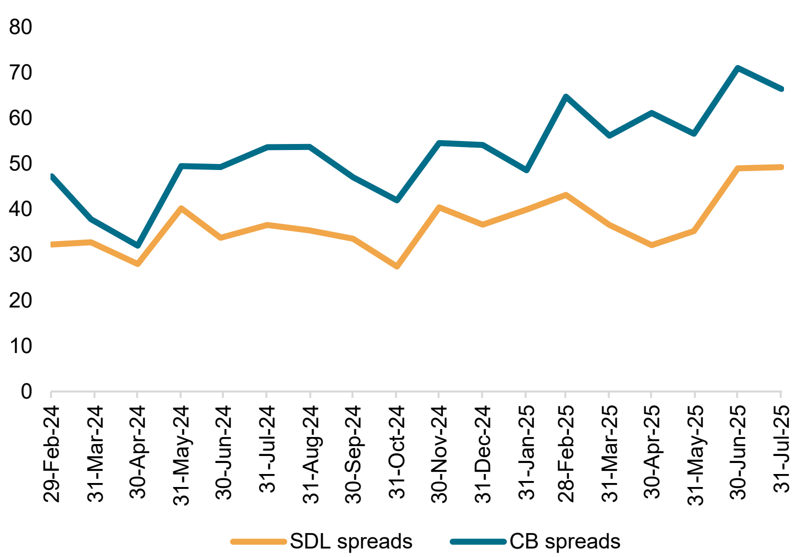
10-year G-sec/SDL/corporate bond benchmark yields



Source: Crisil Intelligence

- The yield on the 10-year AAA-rated public sector undertaking (PSU) bonds were flat at 7.04% in July compared with 7.03% in June
- The yield on the 10-year SDLs closed at 6.87% in July from 6.81% in June
- Yields on bonds issued by housing finance companies (HFCs) softened to 7.30% in July from 7.35% in June, while those on bonds issued by non-banking financial companies (NBFCs) softened to 7.44% from 7.51%

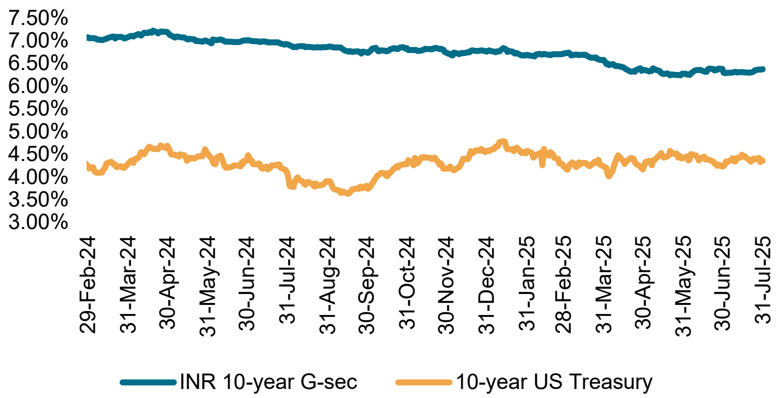
Corporate bond and SDL spreads over 10-year benchmark G-sec yield



Source: Crisil Intelligence

- The spread of the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~49 bps in July, higher than the 12-month average spread of ~38 bps
- The spread of the 10-year AAA-rated public sector corporate bonds (PSU FI) closed at ~66 bps, up ~1.5 bps. The 12-month average spread stood lower at ~ 56 bps

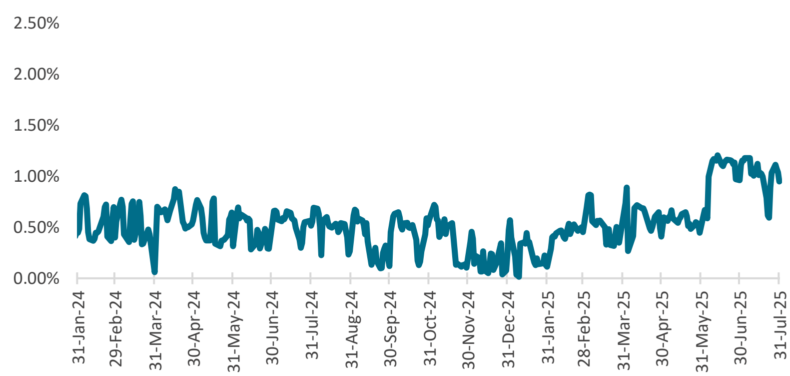
US Treasury and G-sec yield trajectory



- US Treasury yields closed at 4.36% in July vs 4.23% in June. The hardening was mainly due to the US Fed's hawkish commentary
- The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield slid to 202 bps in July from 215 bps in June. The average monthly spread stood at 194 bps however it was below the 12-month average spread of 235 bps

Source: Crisil Intelligence

Term premium between 10-year benchmark G-sec and TREPS



- The average term premium between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) was ~101 bps in July vs ~102 bps in June. The 12-month average premium stood at ~53 bps

Source: Crisil Intelligence

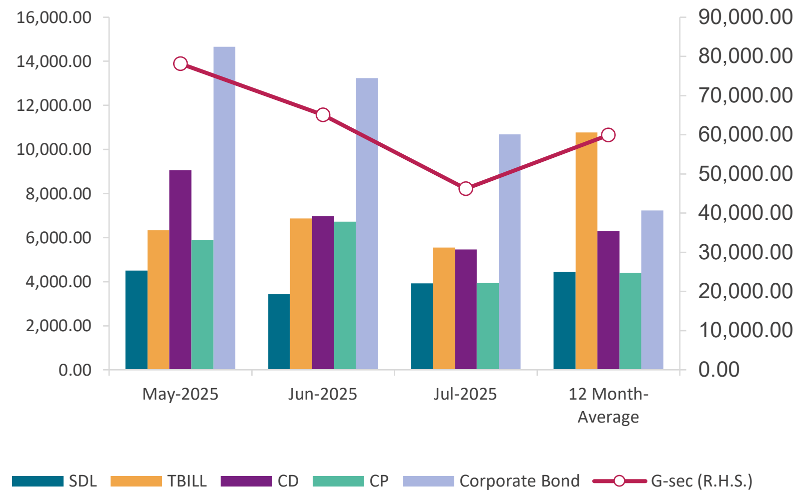
Benchmark spreads over G-secs

Rating category	Date	PSUs/ corporates	NBFCs	HFCs
AAA	30-Jun-25	0.77%	1.20%	0.91%
	31-Jul-25	0.64%	1.06%	0.85%
AA+	30-Jun-25	1.10%	1.79%	1.64%
	31-Jul-25	1.09%	1.60%	1.56%
AA	30-Jun-25	1.47%	2.54%	2.20%
	31-Jul-25	1.35%	2.41%	2.12%
AA-	30-Jun-25	2.03%	3.79%	3.30%
	31-Jul-25	1.90%	3.65%	3.26%

**Spreads are for five-year securities over the annualised G-sec yield; selection of representative issuers has been re-evaluated as per the periodic review*

Source: Crisil Intelligence

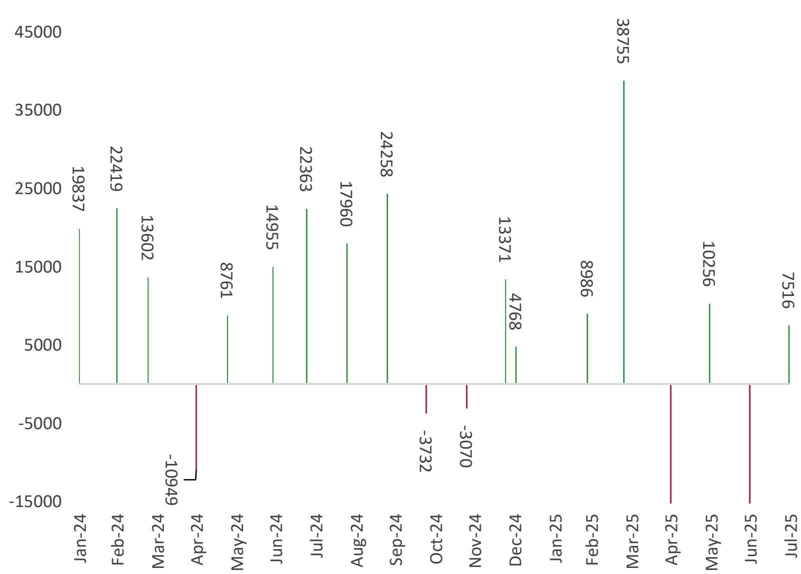
Trading volume decreases across securities, except SDLs



Source: Crisil Intelligence

Trading volume for G-secs decreased 29% on-month in July, while that for T-bills decreased 19.24%. Trading volume for SDLs increased 14%, while that for corporate bonds fell 19.28%. Trading volume for certificates of deposit (CDs) decreased 21.76%, while that for commercial papers (CPs) decreased 41%.

FPI flows



Source: Crisil Intelligence

Net FPI inflow into the debt market was Rs 7,516 crore in July vs outflow of Rs 16,161 crore in June (debt general limit plus debt fully accessible route [FAR]). Inflow from debt FAR stood at Rs 7,750 crore in July. FPIs were net sellers of equity worth Rs 17,741 crore.

Rating changes in July 2025

Upgrades

Issuer name	Old rating	New rating
Aadhar Housing Finance Ltd.	CARE AA	CARE AA+
Andhra Pradesh Capital Region Development Authority	CRISIL BBB-(CE)	Crisil BBB+(CE)
Aptus Finance India Pvt. Ltd.	CARE AA-	CARE AA
Bharti Telecom Ltd.	Crisil AA+	Crisil AAA
Hazaribagh Ranchi Expressway Ltd.	IND BBB	IND BBB+
Indus Towers Ltd.	CRISIL AA+	CRISIL AAA
Nuvama Wealth Finance Ltd.	CARE AA-	CARE AA
South Indian Bank Ltd. (*Basel III Tier II*)	CARE A+	CARE AA-
Yes Bank Ltd.	[ICRA]A	[ICRA]AA-

Downgrades

Issuer name	Old rating	New rating
Twenty Five South Realty Ltd.	BWR B	BWR B-

Analytical contacts:

Bhushan Kedar
Director
Fixed Income Research
bhushan.kedar@crisil.com

Sourabh Prakash
Manager
Fixed Income Research
sourabh.prakash@crisil.com

Dharmakirti Joshi
Chief Economist
dharmakirti.joshi@crisil.com

Dipti Deshpande
Principal Economist
dipti.deshpande@crisil.com

Pankhuri Tandon
Senior Economist
pankhuri.tandon@crisil.com

With contributions from Chirag Baisani, Gaurav Shah and Avadhut Dahiwadkar

Media contacts

Ramkumar Uppara
Media Relations
M: +91 98201 77907
ramkumar.uppara@crisil.com

Sanjay Lawrence
Media Relations
M: +91 89833 21061
sanjay.lawrence@crisil.com

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