

G-Sec Yield Behaviour

(Analysis with Yield Movement since 27 February 2026 + Fiscal Impact)

- ❑ Announcement of excise duty cut on fuel (March 27, 2026)
- ❑ Impact on surge in 10-Year G-Sec yield
- ❑ Yield movement since 27 February 2026 (daily data)
- ❑ Why yields rose despite the cut (Fiscal vs Inflation angle)
- ❑ Step-by-step fiscal deficit impact Calculation
- ❑ Comparison with 2021 excise cuts
- ❑ Impact on equity markets
- ❑ Outlook and key risks

Bond yields might harden further in H2 due to elevated bond supply (49% borrowing)



Quick Fact
The yield on India's 10-year G-Sec climbed to around 7.03 %, extending gains to its highest level since July 2024, as a combination of fiscal pressures, energy shocks, and heavy debt supply pushed borrowing costs higher.

10 Year bond yield			
Country	27.02.2026	30.03.2026	Change in %
USA	3.96	4.34	38 bps
UK	4.30	4.92	+62bps
Germany	2.65	3.03	+38bps
Japan	2.11	2.35	+24 bps
China	1.82	1.81	-
India	6.66	7.03	+37bps

Quick Fact

- ✓ Yields rose across most countries (except China, which was stable/slightly lower)
- ✓ India showed a relatively muted increase (+37bps) compared to UK (62 bps), but the move is still notable given its higher base level.

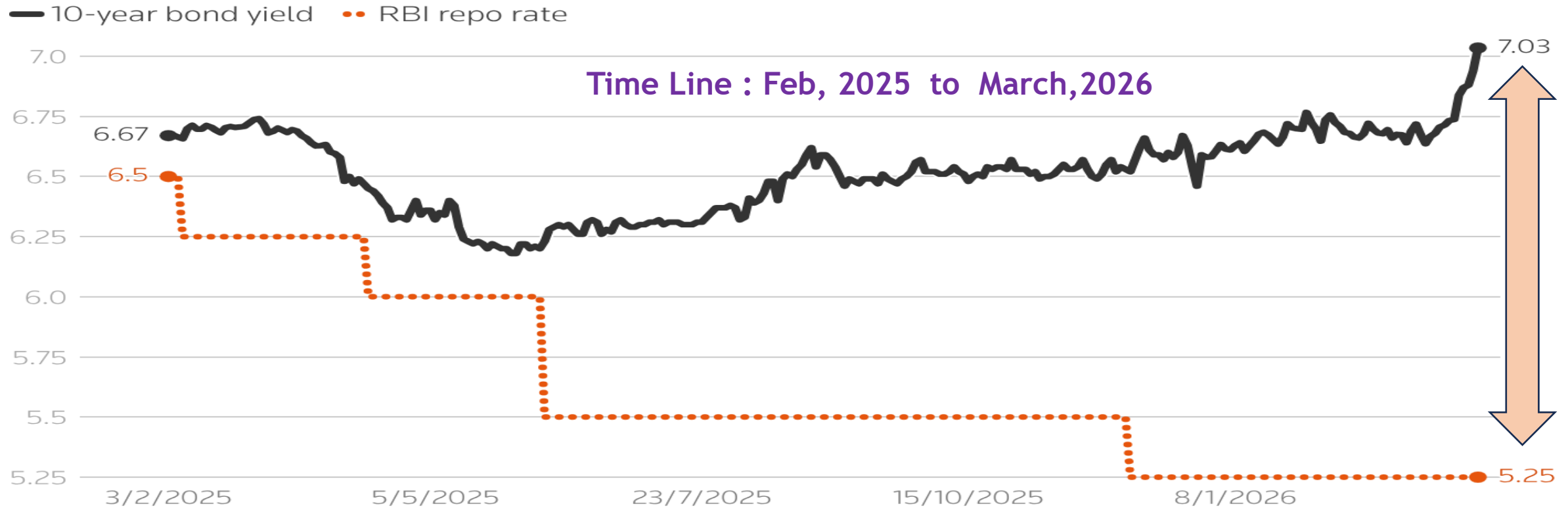
Key Highlights

- ❑ **Current Yield (27 Mar 2026): 6.92% - 6.95%** (Intra-day high: 6.9523% - 20-month high)
- ❑ **Total Rise since 27 Feb 2026: +26 to 29 bps** (from 6.661%)
- ❑ **Rise in last 5 trading days (20-27 Mar): +18 to 20 bps**
- ❑ **Sharpest Move: +10.2 bps** on 23 March (oil price spike)
- ❑ **Bond Prices:** Fell sharply (yields move inversely to prices)
- ❑ **Main Drivers:** Geopolitical oil surge + Heavy borrowing + Excise duty cut (fiscal concerns)

Date	10Y Yield (%)	Daily Change (bps)	Key Event / Comment
27 Feb 2026	6.66	-	Starting point
Early March	6.68 – 6.70	+2 to +4	Range-bound
18 Mar 2026	6.73	+0.18%	Stable
20 Mar 2026	6.74	+0.12%	Oil pressure building
23 Mar 2026	6.84	+10.2 bps	Sharpest daily jump (oil spike)
24 Mar 2026	6.87	+2.8 bps	Continued rise
25 Mar 2026	6.87	+0.7 bps	16-month high zone
27 Mar 2026	6.92 – 6.95	+5 to +8 bps	Post excise cut announcement
30 Mar 2026	6.96-7.03	+ 7bps	to remain elevated and sticky in the near term

Total Rise (27 Feb → 30 Mar): ≈ + 37bps

Spread between India RBI repo rate, 10-year bond yield continues to balloon



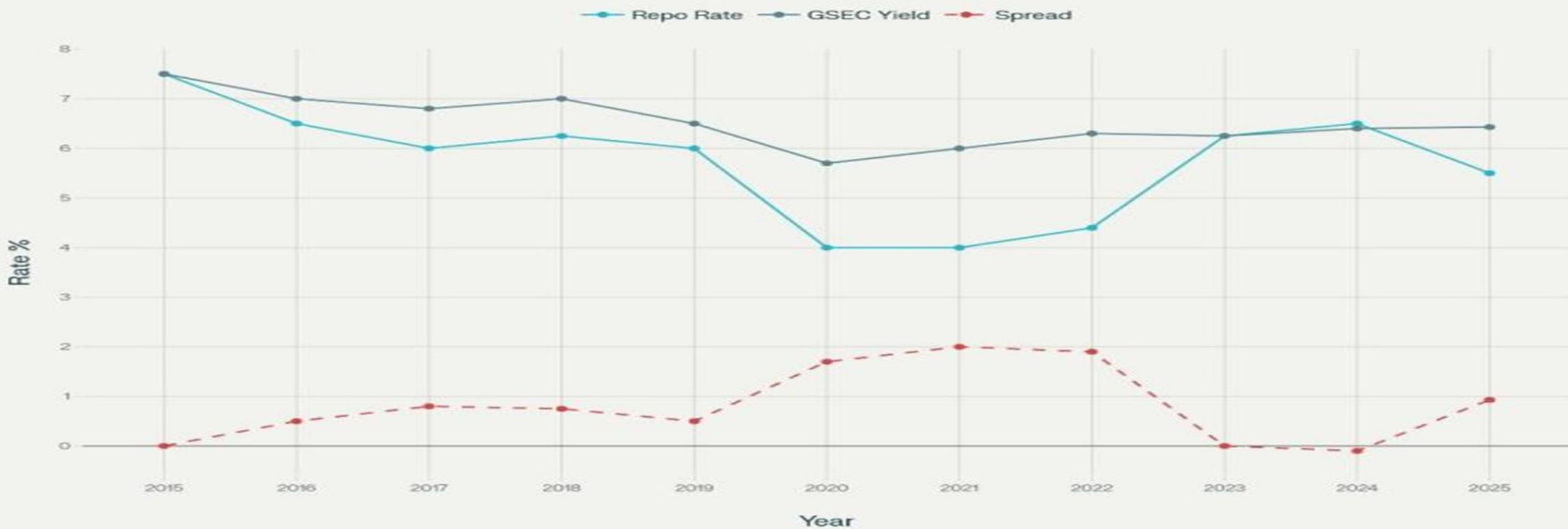
Note: Levels in %

Source: LSEG

Reuters

The spread has fluctuated due to inflation expectations, fiscal deficit concerns, global bond movements, and liquidity. Yields have shown more independence from the repo rate in recent quarters because of supply dynamics and external shocks

Repo, GSEC Yield & Spread 2015-2025



Key Trends (2022–30 Mar 2026)

- ❑ **2022: Sharp rise in both** — Repo hiked aggressively from 4.0% to 6.5%; G-Sec yields peaked near 7.5%.
- ❑ **2023–mid 2025:** Repo paused at 6.5% initially, then gradual cuts in 2025 (to 6.25% → 6.0% → 5.5% → 5.25%). Yields eased but remained elevated.
- ❑ **Late 2025–Q1 2026:** Yields rose again (from 6.6% range to 7.0%) while repo stayed at 5.25%, causing the spread to widen notably in early 2026 amid heavy supply and external pressures.

❑ Government announced **₹10/litre excise duty cut** on both petrol & diesel

- ✓ Petrol SAED: ₹13 → ₹3
- ✓ Diesel SAED: ₹10 → ₹0

❑ **Immediate Bond Market Reaction:**

- ✓ 10Y yield jumped **5–8 bps** on the day
- ✓ Intra-day high: **6.95%** (highest since July 2024 as on 27.03.2026)
- ✓ Described as “**fresh**”

Quick Fact

This move is effective immediately and aims to shield consumers and oil marketing companies (OMCs like IOC, BPCL, HPCL) from the sharp rise in global crude oil prices due to the West Asia (Iran-related) crisis. The government is also imposing windfall taxes on diesel and ATF exports to ensure domestic supply.

Why Yields Rose?

Fiscal revenue loss fears outweighed inflation relief benefit.

Duty Cut: ₹10 per litre on Petrol + Diesel

1. Annual Consumption (FY27 projected)

- ❑ Petrol: 44.9 MMT → 60.6 billion litres
- ❑ Diesel: 96.4 MMT → 113.8 billion litres
- ❑ **Total:** 174.4 billion litres

2. **Gross Revenue Loss** = 174.4 bn litres × ₹10 = **₹1.74 lakh crore**

3. **Market Consensus Estimate:** ₹1.50 – 1.55 lakh crore

(used by ICRA, Emkay, analysts)

5. **Deficit-to-GDP Widening:** +40 to 45 basis points

(Revised FY27 fiscal deficit likely 4.7% – 4.75% of GDP)

Key Result (Base Case):

- ❑ Gross Loss: ₹1.74 lakh crore
- ❑ Consensus Loss: ₹1.55 lakh crore
- ❑ Deficit Widening: 43 bps
- ❑ System Liquidity might be squeezed due to fiscal constraint faced by government.

[Excel Calculation](#)

Quick Fact

The excise duty cut will increase the fiscal deficit by approximately ₹1.5 lakh crore (annualised) in FY27, widening the deficit-to-GDP ratio by roughly 40–45 bps. This is exactly why bond yields rose sharply on March 27 — markets are pricing in higher government borrowing to bridge the gap.

A Comparison with 2021 Excise Cuts.---is there any similarity ?

Aspect	2021 Cuts (Nov 2021 & May 2022)	2026 Cut (March 2026)
Cut Size	<ul style="list-style-type: none"> ✓ Nov 2021: ₹5/litre on petrol, ₹10/litre on diesel ✓ May 2022: ₹8/litre on petrol, ₹6/litre on diesel 	₹10/litre on both petrol (₹13 → ₹3) and diesel (₹10 → ₹0)
Context	<ul style="list-style-type: none"> ✓ Post-COVID recovery, high global oil prices, ✓ Diwali relief + further relief in 2022 	✓ Sharp spike in global crude due to Middle East (Iran-related) geopolitical tensions
Fiscal Revenue Loss (Annual Estimate)	<ul style="list-style-type: none"> ✓ Significant but spread out; ✓ part of broader tax adjustments 	~₹1.5-1.6 lakh crore (very large one-time hit for FY27)
Immediate Bond Market Reaction	<ul style="list-style-type: none"> ✓ Mild to moderate pressure on yields ✓ +3 to +8 bps (over 1-5 days) ✓ Around 6.38%-6.40% range (no major jump) ✓ Absorbed as part of post-COVID relief; offset by recovery hopes 	<ul style="list-style-type: none"> ✓ Sharp rise: +5-8 bps on announcement day; ✓ 10Y yield hit 6.95% (20-month high)

❑ **Yes — the pattern is similar:** In both 2021 and 2026, the excise duty cuts pushed G-Sec yields higher in the immediate term because bond investors prioritized fiscal revenue loss and potential higher borrowing over the inflation-cooling benefit.

❑ **The 2026 reaction has been stronger and more negative** so far due to:

- ✓ Larger absolute cut (₹10 on both fuels)
- ✓ Bigger estimated fiscal hit
- ✓ More challenging backdrop (geopolitics + already elevated yields)

- ❑ **Broad Market:** Nifty/Sensex fell 1.5-2% (~300-400 pts on Nifty)
- ❑ **Oil Marketing Companies (OMCs):** Positive
BPCL, HPCL, IOC gained 3-5% initially (margin relief)
- ❑ Gains later capped by overall sell-off
- ❑ **Other Sectors:** Risk-off mood dominated (financials, PSU banks under pressure)
- ❑ **Net Effect:** OMC stocks benefited; broader market dragged by oil/geopolitical worries

MPC Expectations ?

□ Short-term:

Yields likely to remain elevated (6.85% - 7.0% range) **Medium-term:** Could moderate if

- ❖ Oil prices stabilize/de-escalate
- ❖ RBI provides liquidity/OMO support
- ❖ Government offsets revenue loss (windfall taxes, dividends)

□ Risks:

- ❖ Persistent high crude oil (> \$100/bbl)
- ❖ Higher government borrowing in FY27
- ❖ Rupee weakness & FII selling

□ Bottom Line:


Excise cut helps consumers & OMCs but adds near-term pressure on bonds due to fiscal slippage concerns.

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