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Weekly Fixed Income Bulletin

04th August 2025

Market Snapshot

Key Overnight Interest Rates p.a.	Current Week	Previous Week	Change	Year change
MIBOR	5.50%	5.44%	0.06%	-1.72%
US SOFR	4.39%	4.30%	0.09%	0.00%
EU ESTR	1.92%	1.92%	-0.01%	-1.75%
UK SONIA	4.22%	4.22%	0.00%	-0.73%

**MIBOR is recorded Friday to Friday while other international benchmarks are recorded Thursday to Thursday. Fall in rates can be attributed to rate cut during this week.*

Liquidity Adjustment Conducted By RBI	Thu 31 Jul 2025	Thu 24 Jul 2025	Change
Injected (+)/ Absorbed (-) as on Thursday. [In Rs. Crs.]	-₹ 2,86,387.79	-₹ 2,55,830.79	(30,557.00)

**Liquidity Injection/absorption is calculated from RBI's outstanding operations which includes repo operations, fine tuning operations, targeted long-term operations and special long-term repo operations (SLTRO) for small finance banks. This is recorded Thursday to Thursday and adjusted for public holidays.*

Yields (Annualized-p.a.)	Current Week	Previous Week	Change	Year change
India 3 Month T-Bill	5.41%	5.39%	0.02%	-1.27%
India 6 Month T-Bill	5.53%	5.52%	0.01%	-1.26%
India 5 Year Benchmark Yield	6.10%	6.09%	0.00%	-0.59%
India 10 Year Benchmark Yield	6.37%	6.35%	0.02%	-0.55%
US 10 Year Benchmark Yield	4.21%	4.39%	-0.17%	0.24%
EU 10 Year Benchmark Yield	2.68%	2.71%	-0.03%	0.43%
Japan 10 Year Benchmark Yield	1.56%	1.60%	-0.05%	0.52%
UK 10 Year Benchmark Yield	4.53%	4.63%	-0.09%	0.64%

Fund Type	Annualized Weekly Return (p.a.)
Liquid Funds	5.17%
Ultra Short Duration	6.16%
Short Duration	5.15%
GILT	-13.21%

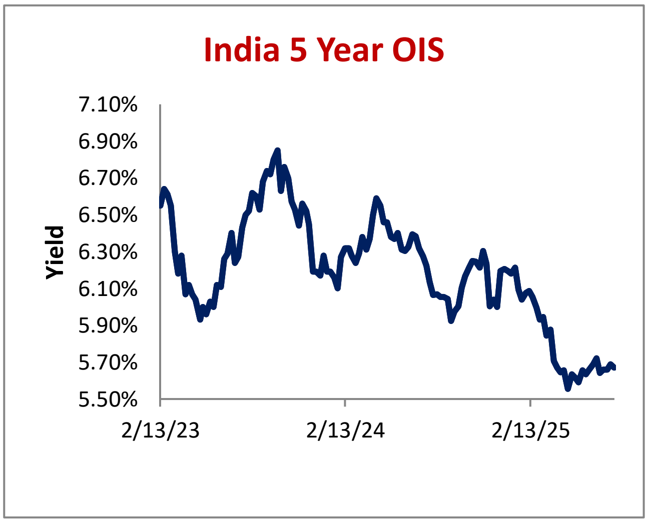
Weekly return as on Thursday is annualized to arrive at the above data set.

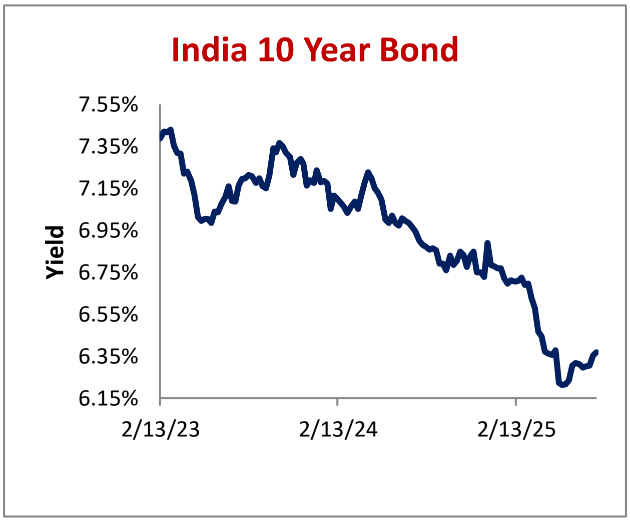
Week Ahead:

Key Events *[04th August-2025 to 09th August-2025]*	Date	Previous Number	Forecasted Number
ISM Services PMI JUL	05-Aug-25	50.8	51
RBI Interest Rate Decision	06-Aug-25	5.5%	5.5%
U.K. S&P Global Construction PMI JUL	06-Aug-25	48.80	49.6
China Balance of Trade JUL	07-Aug-25	$114.77B	$100.0B
Germany Balance of Trade JUN	07-Aug-25	€18.4B	€14.5B
U.S. GDP Growth Rate QoQ Adv Q2	07-Aug-25	-0.50%	2.50%
BoE Interest Rate Decision	07-Aug-25	4.25%	4.00%
China Inflation Rate YoY JUL	09-Aug-25	0.10%	-0.10%

Week in Review:

Key Events *[28th July-2025 to 01st August-2025]*	Date	Previous Number	Actual Number
India Industrial Production YoY JUN	28-Jul-25	1.20%	1.50%
BoE Consumer Credit JUN	29-Jul-25	£0.859B	£1.417B
U.S. JOLTs Job Openings JUN	29-Jul-25	7.769 mn	7.437 mn
Germany GDP Growth Rate QoQ Flash Q2	30-Jul-25	0.40%	-0.10%
EU GDP Growth Rate QoQ Flash Q2	30-Jul-25	0.60%	0.10%
U.S. GDP Growth Rate QoQ Adv Q2	30-Jul-25	-0.50%	3.00%
Fed Interest Rate Decision	30-Jul-25	4.50%	4.50%
China NBS Manufacturing PMI JUL	31-Jul-25	49.7	49.3
Germany inflation Rate YoY Prel JUL	31-Jul-25	2.00%	2.00%
U.S. Core PCE Price Index MoM JUN	31-Jul-25	0.20%	0.30%
E.U. Inflation Rate YoY Flash JUL	01-Aug-25	2.00%	2.00%
U.S. Non-Farm Payrolls JUL	01-Aug-25	147K	73K
U.S. Unemployment Rate JUL	01-Aug-25	4.10%	4.20%
ISM Manufacturing PMI JUL	01-Aug-25	49	48.0





Market Recap

Domestic Market

The RBI continues to actively manage surplus liquidity through short-tenor VRRR auctions, aiming to align short-term rates closer to the repo rate amid persistent liquidity surpluses exceeding ₹2.4 trillion. Overnight rates have dipped near or below the SDF rate, prompting these interventions. Despite market requests, the RBI remains reluctant to reintroduce fixed-rate daily lending, favoring variable rate operations to prevent over-reliance. The liquidity framework is under review, with potential shifts to a 7-day main operation tool expected with the August policy.

Looking ahead, the RBI is likely to keep rates unchanged in August, despite soft inflation and sluggish growth, as Governor Malhotra emphasized data-driven decisions over short-term noise. Market participants anticipate rate cuts only if inflation remains low and growth weakens further. FPIs continue to sell Indian debt, reflecting cautious sentiment amid US tariff pressures and rupee concerns. In the medium term, yields are expected to remain range-bound, with a slight steepening bias possible if long-end rates begin to reflect future easing. The upcoming liquidity framework, inflation trajectory, and trade tensions will be critical in shaping the debt market's direction through the rest of the year.

UK Yield Curve Steepens Ahead of BoE Decision

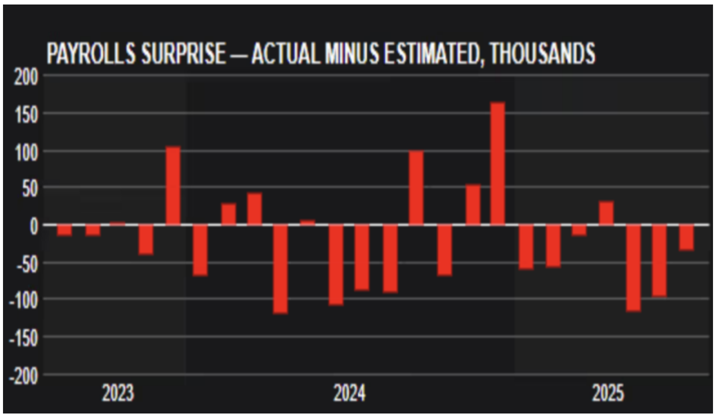
UK gilt yields surged, with the 10-year rising 7 bps amid global tariff tensions and uncertainty over the BoE’s quantitative tightening (QT) path. Markets now price in an 80% chance of a 25 bps BoE rate cut on August 7, yet long-end yields continue to steepen, reflecting Quantitative tightening related supply fears and market dysfunction risk. With liquidity nearing pre-2008 equilibrium, the BoE faces pressure to recalibrate Quantitative tightening likely slowing gilt sales or avoiding longer-dated maturities. Any misstep could disrupt curve dynamics further. Outlook hinges on next week’s policy guidance, where clarity on Quantitative tightening pacing and interaction with rate policy will be critical.

Japan Nears Rate Hike

The Bank of Japan is cautiously setting the stage for a possible interest rate hike later in 2025, backed by revised inflation projections and evolving economic signals. The central bank raised its core CPI forecast to 2.5 percent for fiscal year 2025, up from 2.1 percent. Interest rate swaps now assign a 54 percent probability to a rate hike to 0.75 percent in October, rising to 71 percent by December. Although Governor Ueda struck a cautious tone, the bank's language has shifted particularly in its assessment of US trade risks, now seen as high rather than extremely high. On the bond front, 10-year JGB yields fell to 1.54 percent, and the 40-year yield dropped to 3.315 percent, reflecting both policy caution and political instability following the ruling coalition’s election setback. With second-round inflationary effects spreading beyond raw materials into labour and logistics, the BOJ may treat each upcoming meeting as a live opportunity for tightening.

Data Disarray: Fed Faces Jobs Shock and Political Heat

July's U.S. jobs report was more than a disappointment, it was a wake-up call. With just 73,000 jobs added and a shocking 140,000 downward revision to prior months, markets were left questioning the reliability of the economic data guiding the Federal Reserve. The unemployment rate rose to 4.2%, while wage growth softened signals that the labor market may be cooling more quickly than anticipated.



The reaction was swift: 2-year Treasury yields fell 25 basis points, and markets rushed to price in a high probability of a rate cut by September. Inside the Fed, tensions are rising. Two Governors: Waller and Bowman broke ranks, calling for immediate easing, a rare dissent that underscores growing concern within the institution. Yet, Chair Powelland other key members remain cautious, emphasizing the need for more data amid persistent inflation and mixed signals elsewhere in the economy.

Rate Cuts Back on the Table?

With just two inflation and jobs reports left before the pivotal September meeting, the Fed finds itself cornered. Markets are betting on at least one 25-bps move as early as next month. But the path is narrow: inflation remains sticky, and Powell remains cautious. Meanwhile, gold surged nearly 2% to $3,358.74/oz and the dollar index fell over 1.3%, as investors hedged against policy uncertainty and global risks. Beyond the Fed, bigger questions loom: rising tariffs, deepening deficits, and the rise of euro- and yuan-led blocs threaten the dollar's dominance, amplifying the stakes of every policy misstep.

End of report

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