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Weekly Fixed Income Bulletin

18th August 2025

Market Snapshot

Key Overnight Interest Rates p.a.	Current Week	Previous Week	Change	Year change
MIBOR	5.53%	5.48%	0.05%	-1.02%
US SOFR	4.34%	4.35%	-0.01%	-0.98%
EU ESTR	1.93%	1.92%	0.00%	-1.74%
UK SONIA	3.97%	3.97%	0.00%	-0.98%

**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 14 Aug 2025	Thu 07 Aug 2025	Change
Injected (+)/ Absorbed (-) as on Thursday. [In Rs. Crs.]	-₹ 2,90,261.53	-₹ 3,54,931.76	64,670.23

**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	5.46%	5.44%	0.02%	-1.17%
India 6 Month T-Bill	5.56%	5.54%	0.02%	-1.18%
India 5 Year Benchmark Yield	6.25%	6.15%	0.10%	-0.53%
India 10 Year Benchmark Yield	6.40%	6.40%	0.01%	-0.46%
US 10 Year Benchmark Yield	4.29%	4.28%	0.01%	0.40%
EU 10 Year Benchmark Yield	2.78%	2.69%	0.09%	0.53%
Japan 10 Year Benchmark Yield	1.56%	1.49%	0.07%	0.75%
UK 10 Year Benchmark Yield	4.70%	4.61%	0.09%	0.77%

Fund Type	Annualized Weekly Return (p.a.)
Liquid Funds	5.57%
Ultra Short Duration	4.03%
Short Duration	0.33%
GILT	-5.78%

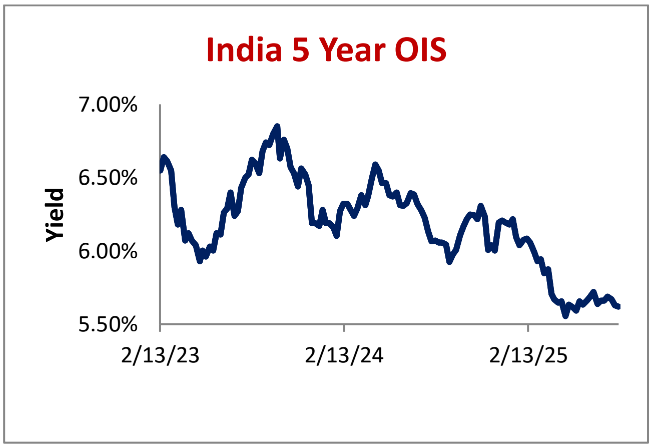
Weekly return as on Thursday is annualized to arrive at the above data set.

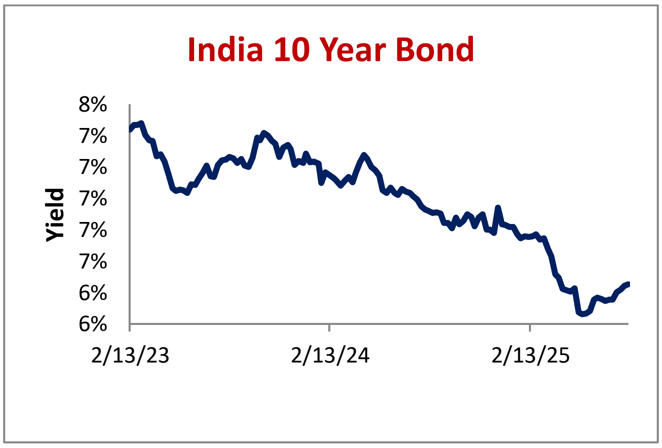
Week Ahead:

Key Events *[18th August-2025 to 22nd August-2025]*	Date	Previous Number	Forecasted Number
E.U. Balance of Trade JUN	18-Aug-25	€16.2B	€14.7B
India Unemployment Rate JUL	18-Aug-25	5.60%	5.50%
U.S. Housing Starts JUL	19-Aug-25	1.32mn	1.29mn
Japan Balance of Trade JUL	20-Aug-25	¥153.1B	¥250.0B
U.K. Inflation Rate YoY JUL	20-Aug-25	3.6%%	3.80%
India HSBC Composite PMI Flash AUG	21-Aug-25	61.1	60.9
Germany HCOB Manufacturing PMI Flash AUG	21-Aug-25	49.1	48.7
U.K. S&P Global Manufacturing PMI Flash AUG	21-Aug-25	48	48.6
U.S. Existing Home Sales JUL	21-Aug-25	3.93 mn	3.9 mn
U.S. S&P Global Composite PMI Flash AUG	21-Aug-25	55.1	53
Japan Inflation Rate YoY JUL	22-Aug-25	3.30%	3.30%
U.K. Retail Sales MoM JUL	22-Aug-25	0.90%	0.30%
Fed Chair Powell Speech	22-Aug-25		

Week in Review:

Key Events *[11th August-2025 to 15th August-2025]*	Date	Previous Number	Actual Number
U.K. Unemployment Rate JUN	12-Aug-25	4.70%	4.70%
Germany ZEW Economic Sentiment Index AUG	12-Aug-25	52.7	34.7
U.S. Inflation Rate YoY JUL	12-Aug-25	2.70%	2.70%
U.S. Core Inflation Rate YoY JUL	12-Aug-25	2.90%	3.10%
U.K. GDP Growth Rate YoY Prel Q2	14-Aug-25	1.30%	1.20%
India WPI Inflation YoY JUL	14-Aug-25	-0.13%	-0.58%
U.S. PPI MoM JUL	14-Aug-25	0.00%	0.90%
Japan GDP Growth Rate QoQ Prel Q2	15-Aug-25	0.00%	0.30%
U.S. Retail Sales MoM JUL	15-Aug-25	0.60%	0.50%
U.S. Michigan Consumer Sentiment Prel AUG	15-Aug-25	61.7	58.6





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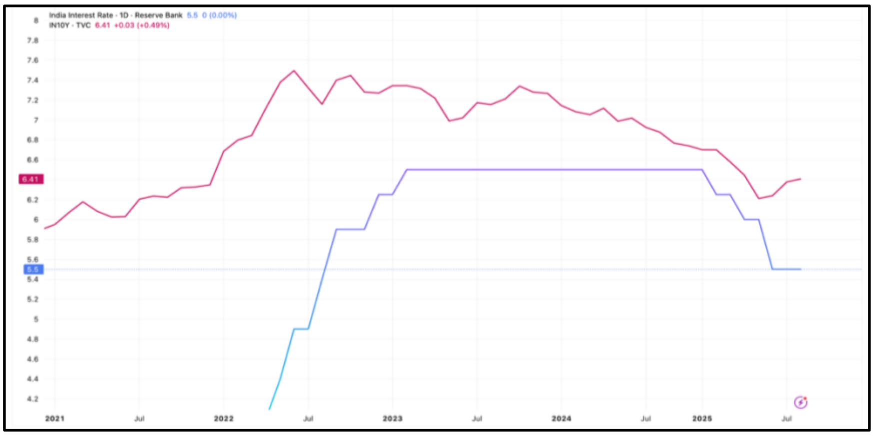
Market Recap

Domestic Market



The RBI's decision to hold the repo rate at 5.5% in August underscores its cautious stance, even amid sharply easing inflation. July's CPI dropped to a mere 1.55% YoY, the lowest since June 2017, comfortably within the comfort zone and highlighting the disinflationary trend. Yet the bond market is sending a different message. The 10-year G-Sec yield now sits nearly 100 basis points above the policy rate, marking the largest yield–repo spread observed this year. This divergence, driven not by inflation concerns but fiscal pressures like elevated borrowing, weaker tax collections, and welfare demands hasn't been seen for much of the past year, putting markets on alert. Investor demand for sovereign debt remains uncertain as fiscal fragility surfaces, though corporate bond spreads stay compressed, reflecting robust liquidity even amid sovereign caution. Concurrently, the rupee has softened modestly against the dollar, influenced by global risk aversion and capital outflow pressures. The narrative that emerges is one of benign inflation colliding with fiscal unease, producing sticky yields despite the benign price environment. A trend not witnessed at this level for several months.

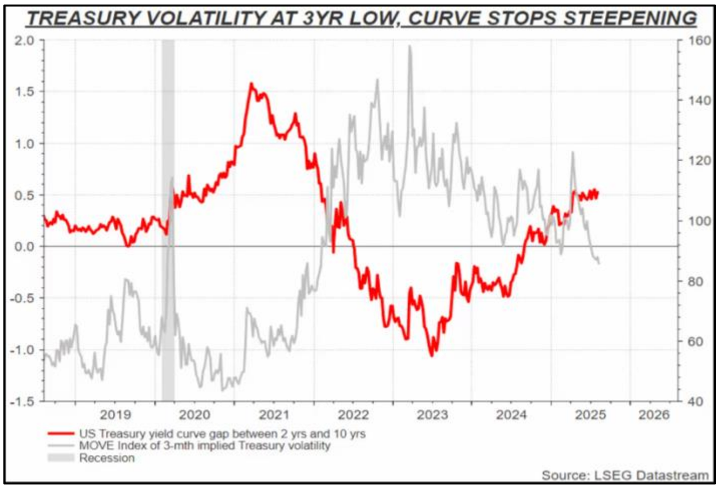
ECB rate cuts unlikely as bond markets price higher for longer

Investors in the euro zone are recalibrating toward a "higher for longer" rate environment, with ESTR forwards pricing only a 60% chance of a small March cut before rates climb back above 2% into 2027. The ECB is now widely expected to hold policy steady, supported by Germany's sharp fiscal expansion, which reduces the need for further easing. The 5-year ESTR OIS remains above 2%, reinforcing market conviction that the neutral rate has shifted upward. Euribor futures echo this mild uptick, embedding some credit risk but confirming expectations of higher structural rates. German 10-year yields rose 7 bps to 2.77% after a hot U.S. PPI print spilled over into European markets, while Italian spreads compressed to their tightest since 2011 at 82 bps, reflecting relative stability in the periphery. Overall, the policy narrative has turned from tariff-driven disinflation fears to a fiscal- and inflation-resilient stance, limiting scope for ECB rate cuts.

Fed Policy Dilemma and Market Sentiment

The Federal Reserve stands at a crossroads as September approaches, with 61% of economists expecting a 25 bps rate cut amid signs of labour market weakness and tariff-driven inflationary pressures. Yet, scepticism remains: Barclays and others warn markets are overly confident, misreading the Fed's tolerance for short-term inflation versus employment risks. Producer price data came in higher, tempering hopes of an aggressive 50 bps move. Powell's upcoming Jackson Hole speech is seen as pivotal in signalling how much political pressure and economic fragility will shape decisions. Meanwhile, rate-cut futures traders price near certainty for September easing, underscoring a widening gap between cautious economists and exuberant markets.

Yield Pressures vs. Credit Market Optimism



Treasury yields have risen, partly dragged by European bond selloffs, with the 10-year hitting 4.33% as curves steepen. Despite this, corporate bond markets remain buoyant: spreads over Treasuries are at their tightest since 1998, and September issuance is expected to exceed $140 billion, driven by treasurers' funding needs rather than Fed timing. The MOVE index, Wall Street's bond volatility gauge, has collapsed to multi-year lows, reflecting surprising calm despite fiscal deficits, tariff uncertainty, and leadership shifts at the Fed. Analysts point to reduced Treasury supply fears post-Trump's fiscal package and systematic vol selling as suppressors of risk perception. The gap between credit optimism and rate caution shows markets may be too relaxed—if inflation stays high or growth slows, bonds could face a sudden shock.

End of report

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