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Weekly Fixed Income Bulletin

08th September 2025

Market Snapshot

Key Overnight Interest Rates p.a.	Current Week	Previous Week	Change	Year change
MIBOR	5.40%	5.54%	-0.14%	-1.20%
US SOFR	4.41%	4.34%	0.07%	-0.94%
EU ESTR	1.93%	1.92%	0.01%	-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 04 Sep 2025	Thu 28 Aug 2025	Change
Injected (+)/ Absorbed (-) as on Thursday. [In Rs. Crs.]	-₹ 2,86,955.46	-₹ 2,37,211.42	(49,744.04)

**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	5.52%	5.52%	0.00%	-1.13%
India 6 Month T-Bill	5.64%	5.62%	0.02%	-1.09%
India 5 Year Benchmark Yield	6.30%	6.35%	-0.05%	-0.46%
India 10 Year Benchmark Yield	6.47%	6.57%	-0.10%	-0.39%
US 10 Year Benchmark Yield	4.09%	4.23%	-0.14%	0.35%
EU 10 Year Benchmark Yield	2.66%	2.72%	-0.07%	0.45%
Japan 10 Year Benchmark Yield	1.57%	1.60%	-0.03%	0.68%
UK 10 Year Benchmark Yield	4.65%	4.72%	-0.07%	0.73%

Fund Type	Annualized Weekly Return (p.a.)
Liquid Funds	5.38%
Ultra Short Duration	4.71%
Short Duration	11.13%
GILT	74.76%

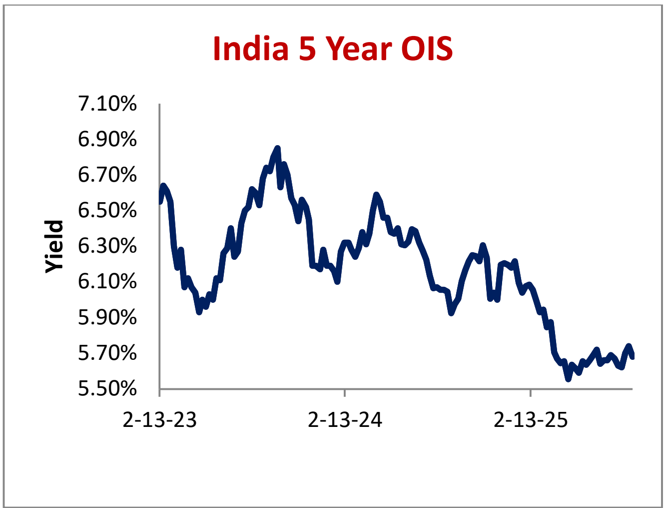
Weekly return as on Thursday is annualized to arrive at the above data set.

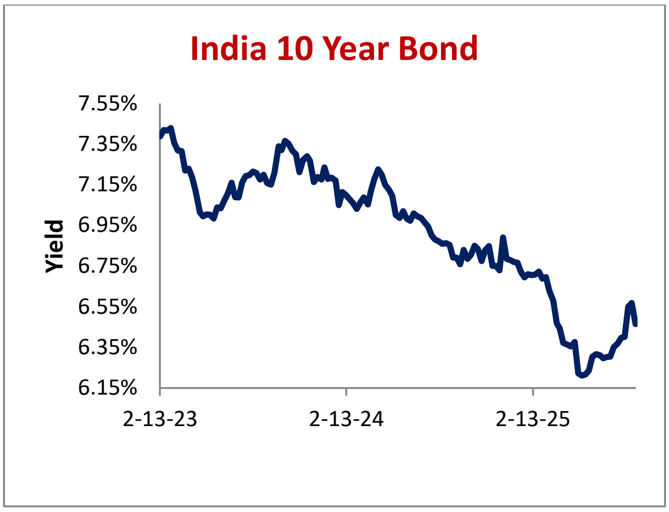
Week Ahead:

Key Events *[08th September-2025 to 12th September-2025]*	Date	Previous Number	Forecasted Number
China Balance of Trade AUG	08-Sep-25	$98.24B	$95.0B
Germany Balance of Trade JUL	08-Sep-25	€14.9B	€21.4B
U.S. Non-Farm Payrolls Annual Revision	09-Sep-25	-818K	-
China Inflation Rate YoY AUG	10-Sep-25	0.00%	-0.10%
U.S. PPI MoM AUG	10-Sep-25	0.90%	0.60%
E.U. Deposit Facility Rate	11-Sep-25	2.00%	2.00%
ECB Interest Rate Decision	11-Sep-25	2.15%	2.15%
U.S. Core Inflation Rate YoY AUG	11-Sep-25	3.10%	3.10%
U.S. Inflation Rate YoY AUG	11-Sep-25	2.70%	2.80%
U.K. GDP MoM JUL	12-Sep-25	0.40%	0.10%
India Inflation Rate YoY AUG	12-Sep-25	1.55%	1.70%
U.S. Michigan Consumer Sentiment Prel SEP	12-Sep-25	58.2	57.0

Week in Review:

Key Events *[01st September-2025 to 05th September-2025]*	Date	Previous Number	Actual Number
China Caixin Manufacturing PMI AUG	01-Sep-25	49.5	50.5
EU Unemployment Rate JUL	01-Sep-25	6.30%	6.20%
EU Inflation Rate YoY Flash AUG	02-Sep-25	2.00%	2.10%
U.S. ISM Manufacturing PMI AUG	02-Sep-25	48.0	48.7
U.S. JOLTs Job Openings JUL	03-Sep-25	7.36 mn	7.18 mn
U.S. ADP Employment Change AUG	04-Sep-25	106K	54K
U.S. ISM Services PMI AUG	04-Sep-25	50.1	52.0
U.K. Retail Sales MoM JUL	05-Sep-25	0.30%	0.60%
U.S. Non-Farm Payrolls AUG	05-Sep-25	79K	22K
U.S. Unemployment Rate AUG	05-Sep-25	4.20%	4.30%





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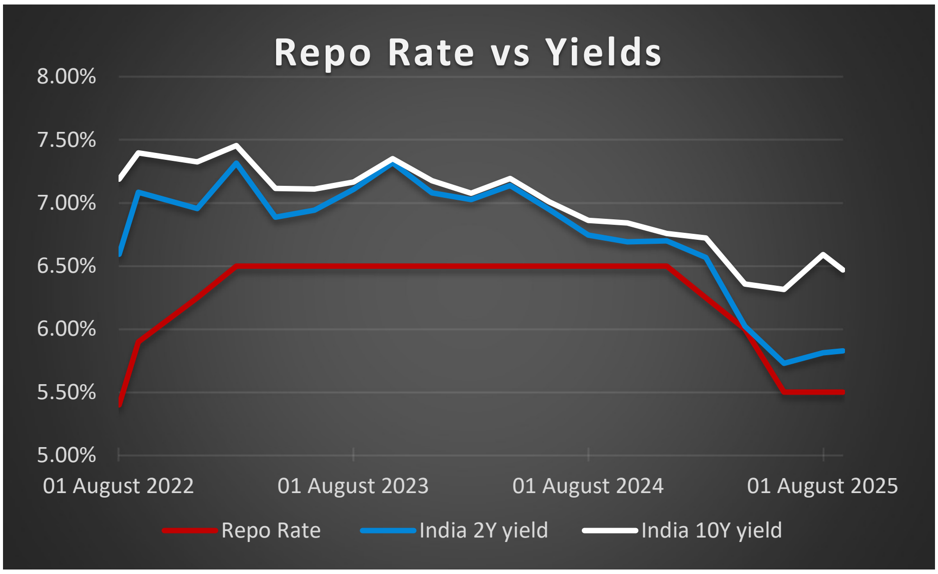
Market Recap

Domestic Market

Despite the RBI's cumulative 100 bps of rate cuts in 2025, India's bond market has resisted transmission—10-year yields spiked 19 bps in August, the steepest monthly rise since 2022, settling near 6.47%. The surge reflected fiscal jitters after GST-related tax cuts, heavy long-duration supply in the ₹14.82 lakh crore borrowing plan, and weak demand from insurers and banks.



The finance minister insists the 4.4% deficit target and ₹11.21 trillion capex plan remain intact, but markets remain cautious. However, this week yields eased slightly as the GST revenue impact was assessed to be smaller than initially feared, U.S. Treasury yields fell after a weak payrolls print, and expectations grew that the RBI may adjust the H2 issuance mix to trim ultra-long supply. The rupee, though, remains under pressure from new U.S. tariffs, record lows above 88, and over $16 billion in equity outflows this year. RBI has absorbed surplus liquidity through VRRRs, keeping overnight rates closer to repo, but the transmission gap persists as term premia stay wide.

Traders have largely priced out additional near-term easing, viewing policy as in "status quo" despite a dovish Fed. With the curve still bear-steepening, any deficit slippage or supply misstep could push yields past 6.60%. For September, the 10-year is likely to hover in the 6.50–6.60% range, with downside capped by fiscal overhang and rupee fragility, and upside checked by potential RBI supply management and softer U.S. yields.

Global Sovereign Yields Reflect Fiscal Discipline and Political Volatility

Global bond markets are increasingly driven by fiscal credibility and political risk rather than central bank policy alone. In the UK, 30Y gilts have retreated from a 27-year peak of 5.75% to 5.51%, reflecting investor caution amid elevated debt (95% of GDP) and persistent deficits (5.7% of GDP). In the eurozone, Germany's 10Y Bund at 2.66% continues to act as the safe-haven benchmark, while France's 77 bps spread over Bunds highlights rising downgrade risk amid political instability and looming fiscal reviews. Japan's 30Y JGB at 3.23% underscores how super-long maturities remain sensitive to foreign flows and domestic political uncertainty. For investors, the message is clear: opportunities now lie in navigating sovereign credit risk, supply dynamics, and duration positioning, with markets rewarding fiscal discipline and liquidity while penalizing political volatility and overstretched issuance.

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Short-Term Relief – Fed Cuts and Labor Weakness

The U.S. bond market is living out a dramatic story of tension. In August, a disappointing 22,000 nonfarm payroll gain and a rise in unemployment to 4.3% triggered a swift Treasury rally. The 10-year yield dipped to around 4.09%, and markets began pricing in an almost certain 25 bp Fed rate cut in September, with 60–70 bp of easing expected by year-end. Yet beneath the surface lies rising concern: the 10-year term premium has surged to roughly 0.75–0.84%, its highest level in years, signalling investor wariness toward long-dated Treasuries amid growing fiscal and inflation risk. Inflation appears to be easing, core PCE stands near 2.6% yoy but the spectre of future tariffs and political interference in Fed policy continue to cloud the outlook.

Long-Term Strains – Deficits, Gold, and Market Skepticism

On the fiscal front, Washington's red ink remains deep: the FY 2025 federal deficit is projected at about 6.2% of GDP, totalling roughly $1.9 trillion, a historic high outside wartime or recession periods. Meanwhile, Treasury borrowing remains heavy, with around $1 trillion in net marketable issuance in Q3 alone, further pressuring long-end supply. Globally, demand for U.S. Treasuries is softening: China's holdings have dropped to about $750–760 billion, their lowest since 2009. At the same time, central banks continue to bulk up their gold reserves, on track to add around 1,000 metric tonnes of gold in 2025, a continuation of recent buying trends and gold has responded robustly, breaking above $3,580/oz and rising close to 36% this year.

This clash between short-term easing optimism and long-term fiscal scepticism drives the widening 2Yr10Yr yield curve dynamic. The bond market is no longer a passive backdrop but a frontline where optimism and distrust now collide.

End of report

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