

22nd December 2025
Market Snapshot

Key Overnight Interest Rates p.a.	Current Week	Previous Week	Change	Year change
MIBOR	5.43%	5.24%	0.19%	-1.46%
US SOFR	3.66%	3.66%	0.00%	-0.64%
EU ESTR	1.93%	1.93%	0.00%	-1.23%
UK SONIA	3.73%	3.98%	-0.25%	-0.97%

*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 18 Dec 2025	Thu 11 Dec 2025	Change
Injected (+)/ Absorbed (-) as on Thursday. [In Rs. Crs.]	₹ 29,910.12	-₹ 1,83,719.19	₹ 2,13,629.31

*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	5.27%	5.30%	-0.03%	-1.23%
India 6 Month T-Bill	5.51%	5.49%	0.02%	-1.14%
India 5 Year Benchmark Yield	6.36%	6.32%	0.04%	-0.37%
India 10 Year Benchmark Yield	6.60%	6.59%	0.01%	-0.18%
US 10 Year Benchmark Yield	4.15%	4.20%	-0.04%	-0.42%
EU 10 Year Benchmark Yield	2.89%	2.86%	0.03%	0.59%
Japan 10 Year Benchmark Yield	2.02%	1.95%	0.07%	0.94%
UK 10 Year Benchmark Yield	4.53%	4.52%	0.01%	-0.06%

Fund Type	Annualized Weekly Return (p.a.)
Liquid Funds	6.34%
Ultra Short Duration	3.30%
Short Duration	4.42%
GILT	8.72%

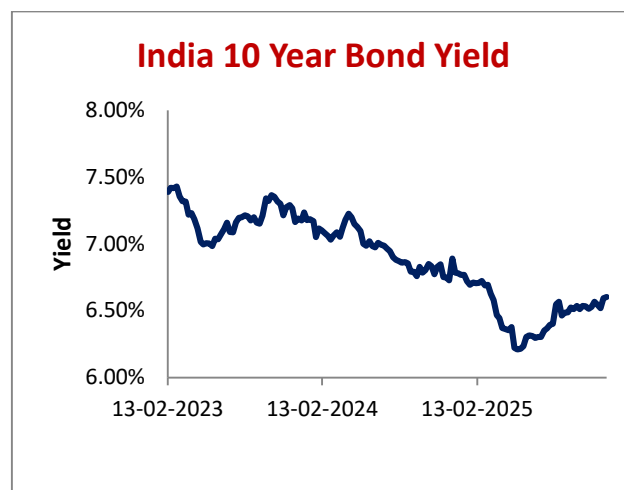
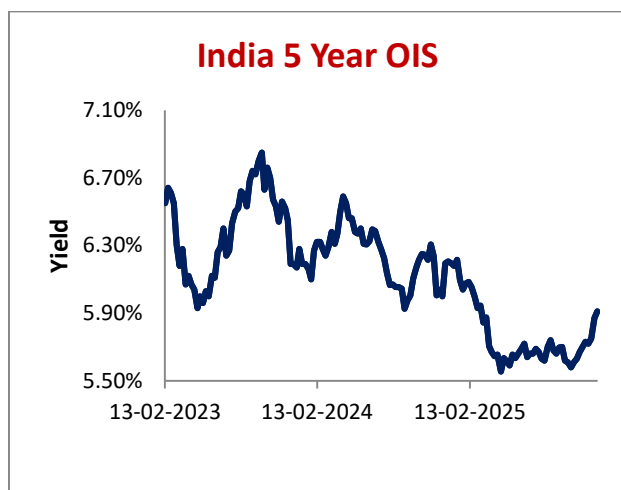
Weekly return as on Thursday is annualized to arrive at the above data set.

Week Ahead:

Key Events [22 nd December-2025 to 26 th December-2025]	Date	Previous Number	Forecasted Number
India Infrastructure Output YoY NOV	22-Dec-25	0.00%	2.00%
U.S. Durable Goods Orders MoM OCT	23-Dec-25	0.50%	0.30%
U.S. GDP Growth Rate QoQ 2nd Est Q3	23-Dec-25	3.80%	3.20%
Japan Unemployment Rate NOV	26-Dec-25	2.60%	2.60%

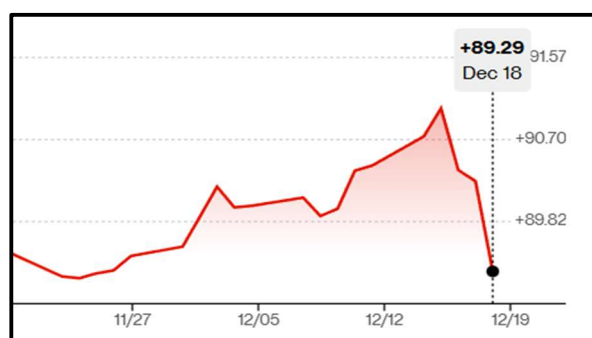
Week in Review:

Key Events [15 th December-2025 to 19 th December-2025]	Date	Previous Number	Actual Number
Japan Tankan Large Manufacturers Index Q4	15-Dec-25	14	15
China Industrial Production YoY NOV	15-Dec-25	4.90%	4.80%
China Retail Sales YoY NOV	15-Dec-25	2.90%	1.30%
India WPI Inflation YoY NOV	15-Dec-25	-1.21%	-0.32%
India Unemployment Rate NOV	15-Dec-25	5.20%	4.70%
U.K. Unemployment Rate OCT	16-Dec-25	5.00%	5.10%
Germany HCOB Manufacturing PMI Flash DEC	16-Dec-25	48.2	47.7
U.K. S&P Global Manufacturing PMI Flash DEC	16-Dec-25	50.2	51.2
U.K. S&P Global Services PMI Flash DEC	16-Dec-25	51.3	52.1
Germany ZEW Economic Sentiment Index DEC	16-Dec-25	38.50	45.80
U.S. Non Farm Payrolls OCT	16-Dec-25	119K	-105K
U.S. Non Farm Payrolls NOV	16-Dec-25	-	64K
U.S. Unemployment Rate NOV	16-Dec-25	4.40%	4.60%
Japan Balance of Trade NOV	17-Dec-25	¥-226.1B	¥322.2B
U.K. Inflation Rate YoY NOV	17-Dec-25	3.60%	3.20%
Germany Ifo Business Climate DEC	17-Dec-25	88.10	87.60
BoE Interest Rate Decision	18-Dec-25	4.00%	3.75%
ECB Interest Rate Decision	18-Dec-25	2.15%	2.15%
U.S. Core Inflation Rate YoY NOV	18-Dec-25	-	2.60%
U.S. Inflation Rate YoY NOV	18-Dec-25	-	2.70%
Japan Inflation Rate YoY NOV	19-Dec-25	3.00%	2.90%
BoJ Interest Rate Decision	19-Dec-25	0.50%	0.75%
Germany GfK Consumer Confidence JAN	19-Dec-25	-23.20	-26.90
U.K. Retail Sales MoM NOV	19-Dec-25	-0.90%	-0.1%



Market Recap

A Week When Liquidity Did the Heavy Lifting in Domestic Markets



India's bond market ended the week highlighting the gap between policy intent and market conviction, with the 10-year benchmark closing near 6.60% despite sustained RBI support. The week opened with a USD 5 billion, 3-year USD/INR buy-sell swap, over 2x subscribed, injecting durable rupee liquidity ahead of advance-tax outflows. This buffer allowed the RBI to intervene twice and brought USD/INR by almost 2% in the spot FX market to curb one-way rupee weakness

without triggering disorderly funding stress.

Liquidity conditions were actively managed through multiple 1–4 day VRR operations, which absorbed frictional pressures from FX intervention and tax drains, keeping funding costs anchored near the repo rate of 5.26%. MIBOR nevertheless edged up by 19 bps during the week, reflecting advance-tax outflows, intraday rupee drains from FX intervention and year-end balance-sheet caution in unsecured markets, rather than a shift in policy stance. In parallel, the RBI conducted a ₹50,000 crore OMO purchase, fully absorbing the notified amount and signalling resistance to further steepening at the long end.

Market response, however, remained cautious. OIS rates across the 1–5 year segment stayed range-bound near 5.5–5.95%, reflecting limited conviction on further rate cuts despite dovish cues in the December MPC minutes. USD/INR forward premiums continued to rise amid excess dollar liquidity and heightened hedging demand, tightening financial conditions at the margin. While the committee acknowledged soft inflation and emerging growth slack keeping easing optionality alive the retention of a neutral stance, weak demand at a key bond auction, persistent foreign outflows and elevated global yields reinforced market caution. As a result, RBI actions have contained volatility, but structural pressures continue to cap bond market optimism.

Calm Bonds, Nervous Stocks: Disinflation and Global Shifts Anchor U.S. Treasuries

Global fixed income markets were shaped by softer U.S. data, global policy spillovers and supportive cross-asset flows. U.S. Treasuries rallied early in the week after core CPI eased to 2.6% YoY (vs 3.1% expected), headline inflation slowed to 2.7%, and the unemployment rate rose to 4.6%, reinforcing the view that the Fed is near peak restrictiveness. Gains were partly pared after the Bank of Japan raised rates to 0.75%, its highest level in 30 years, following the CPI release, triggering a modest global duration selloff. Still, yields ended lower on the week, with the 2-year and 10-year yields both down by 8 bps and 4 bps to 3.45% and 4.15%, respectively.

Curve dynamics remained the dominant signal, with the 2s–10s spread steepening to 66–67 bps, the widest since January 2022, as markets priced slower growth and deeper easing in 2026 despite Fed pushback on near-term cuts (20% odds for January). Equity-bond volatility divergence added support: the VIX rose over 10% to 18, while the MOVE index fell near



its lowest since 2021, prompting risk-parity rebalancing flows into bonds. Supply risks were contained with \$183 bn of coupon issuance announced, and foreign demand remained supportive as October TIC data showed Japan increased Treasury holdings by \$10.7 bn to \$1.20 tn. With cleaner data delayed until January, Treasuries appear range-bound, but with downside yield risks building as labor-market cooling and cross-asset flows increasingly dominate.

Japan: Policy Normalisation Meets Market Skepticism



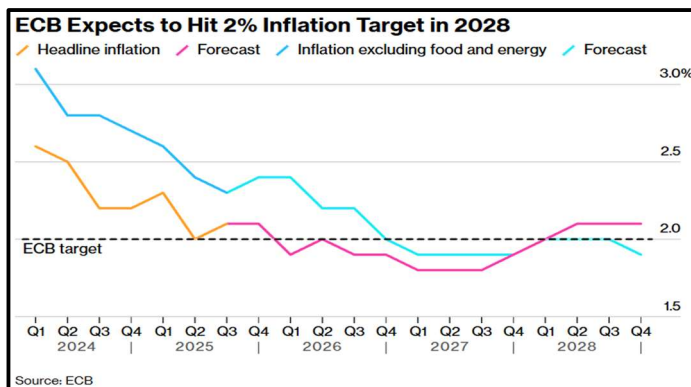
The BOJ raised its policy rate to 0.75%, the highest in 30 years, reinforcing its exit from ultra-loose policy as wage gains and underlying inflation show durability. JGB yields repriced sharply, with the 10-year breaching the symbolic 2% level for the first time since the late 1990s, reflecting both tighter policy and mounting fiscal-supply concerns as BOJ bond purchases are pared back. Yet the yen weakened materially as Governor Ueda stayed

deliberately vague on the terminal rate and pace of hikes, signalling gradualism despite rates still sitting below the estimated neutral range. This policy-market disconnect underscores that rate hikes alone are insufficient to support JPY amid wide global rate differentials. Rising yields improve household interest income on aggregate, but distributionally hurt younger, leveraged cohorts and corporates, while life insurers face growing mark-to-market losses. With bond-market depth strained

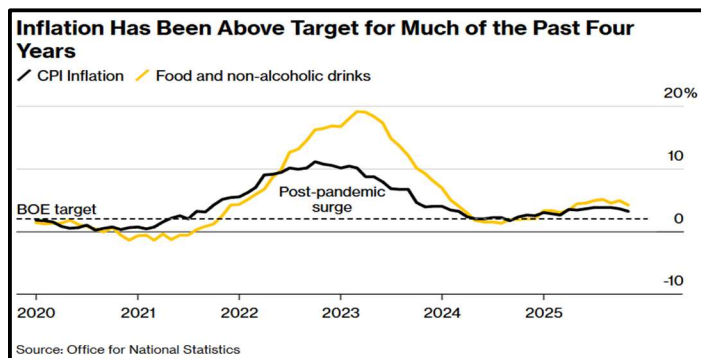
and fiscal issuance elevated, the BOJ now walks a fine line between containing inflation and preventing destabilising volatility across the JGB curve.

Optionality Preserved as Euro Markets Drift Toward Hike Narrative

The ECB struck a deliberately cautious tone after holding the deposit rate at 2%, pushing back against market perceptions that the easing cycle is definitively over. Policymakers broadly agree inflation is near target and growth has surprised on the upside, but stress that risks: geopolitical, fiscal, wage-driven and energy-related remain unusually large and bidirectional. While markets have priced out further cuts and are tentatively flirting with a 2027 hike, the Governing Council is keen to retain “maximum optionality,” refusing to pre-commit to any path. Bond markets reacted with higher yields, particularly at the long end, as fiscal concerns resurfaced amid fresh EU borrowing and elevated issuance expectations. The policy message is clear: rates are on hold for now, but forward guidance is intentionally absent, with the next move cut or hike fully data- and shock-dependent rather than calendar-driven.



Narrow BOE Cut Signals a Late-Cycle, Cautious Easing Path



The Bank of England delivered a narrow 5–4 rate cut to 3.75%, but its guidance was notably hawkish, stressing proximity to neutral and making further easing in 2026 a “finely balanced” call. Even as CPI fell to 3.2% and growth and labour data softened, services inflation and forward wage signals continue to split the MPC, prompting markets to trim 2026 cut expectations to 37 bps and pushing gilts modestly higher in

yield. Relative value remains a key support, with 10Y gilts offering nearly a 90 bp premium over Bunds. This yield advantage drove Japanese investors to their largest monthly purchase of UK sovereign bonds in over four years as on October end. reflecting rotation away from lower-yielding core Europe amid rising fiscal and defence concerns there. Fiscal relief from lower debt-interest costs helps sentiment, but elevated public debt and looming defence spending limit duration upside. Overall, gilts remain attractive on carry and cross-market flows, though the BOE’s easing cycle is clearly entering its late phase.

End of report

Prepared By:

Swaraj Rajagopal

Manager – Treasury Market

Prikshit Chanana

Analyst – Treasury Market