Fixed Income Market Insights

July 2025

A Shifting Rate Cycle & Central Bank Playbook

Eurozone & Bank of England – Pausing the Pivot: In June-25, European Central Banks members had emphasized their commitment to the 2% inflation target, cushioning a cautious tone after 25 bps (basis points) cut to a 2% central rate. Officials noted that economic growth remains soft (~0.9% forecast for 2025) and any further easing will be data dependent.

The Bank of England, after holding the Bank Rate at 4.25%, reinforced that any additional reductions must align with inflation data, as quantitative tightening (QT) continues to operate in the background.

Japan – Cautious Calibration: The Bank of Japan held its short-term interest rate at 0.5% despite Tokyo core CPI at ~3.6%—highest in two years—given its view that inflation remains unanchored and growth stalled at –0.2% annualized in Q1CY2025. Governor Ueda emphasized a cautious, patient approach before embarking on further tightening.

US – On Hold: The US Fed maintained its stance in June-25, holding rates steady and pushing a start to cuts likely in September-25, as encouraging inflation data was offset by cautious labor and global dynamics.

Geopolitical Flashlight

Iran–Israel Conflict & Strait of Hormuz Risks

Mid-June-25 saw Israel strike Iranian nuclear sites, triggering a volatile but contained escalation. Brent crude spiked 15% ($81.40) before stabilizing near $70–74. Though Iran's parliament even approved a motion to close the Strait of Hormuz—a route for ~25% of global oil and 20% of LNG supply. While the final decision vests with Iran's Supreme National Security Council making it open for now. However, if one of the world's most important shipping routes gets closed the global economy would feel the heat almost immediately.

Impact on Inflation & Bonds

The temporary oil spike posed upside risks to inflation—US Fed estimates suggest a $10 oil rise could lift CPI by ~0.2%. However, bond yields saw initial safe-haven bids then rebounded, as investors interpreted the conflict as short-lived. A closure of the Strait remains a likely event in case of worsening conditions, which could spike Brent prices.

NATO Summit & Developing Debt Pressures

At June-2025's NATO summit, member nations agreed on heightened defence spending and coordination. While this enhanced strategic stability, it also raises sovereign borrowing costs in developing nations through higher global bond yields.

The World Bank warned that developing economies, already with record-high debt levels and slowing growth (~3.8% in 2025), could face higher borrowing costs if global yields firm up.

Asia: Growth Resilient, Inflation Modest

China's rebound remained tepid: fixed asset investment grew just 3.7% YTD, industrial output softened to 5.8%—the weakest since Nov 2024. China's CPI stayed subdued (~–0.1% year on year), freeing policymakers to support growth.

Neighbouring economies like Vietnam, Thailand, and Singapore saw comfortably low inflation and GDP growth, prompting regional central banks to prepare for modest easing cycles.

Indian Economy: Policy Shock, Debt Market Reaction & Monsoon Outlook

Monetary Policy Decision which shocked the markets

On 6th June 2025, RBI delivered a surprise: a 50 bps repo cut to 5.5% and a CRR reduction of 100 bps, releasing ~₹2.5 trillion liquidity—a sharp shift from "accommodative" to "neutral" stance.

Initially, markets reacted swiftly: short-end G sec yields fell (~5Y ≈6.0%), while 10 yr yields hovered around 6.25%, supported by RBI's operations and limited FPI inflows.

Outlook & Monsoon Relief

Encouragingly, June-2025 onset of the southwest monsoon showed above-average rainfall, cooling food inflation pressures—CPI hovered near 2.8%. Lower food costs and tumbling yields suggest the RBI move was timely and likely sufficient.

July-2025 Outcome: What Happened, Why, What's Next?

- **What happened?**

  Central banks globally have paused after intermittent easing—ECB, BoE, US Fed, BOJ are all at or nearing the mid-cycle pivot, influenced by soft growth, sticky yet moderating inflation, and geopolitical caution.

- **Why?**

  Persistent but controlled inflation, fragile growth, and the Iran–Israel flare-up have kept policymakers on their toes. The oil shock proved temporary yet underscored the fragility of energy-dependent economies. NATO's calls for defence spending and cautious bond markets in developing nations add layers of tension.

- **Market impact**

  June-25 saw modest declines in global 10 yr yields (Germany ~2.7%, UK ~4.2%, Japan ~1.0%, India ~6.25%) amid stabilizing oil and RBI relief. Emerging Market spreads remain under pressure due to rising Developed Market yields and elevated debt.

- **What's Next?**

  June 2025 delivered a pivotal moment in fixed-income markets—central banks halted the pivot phase; geopolitics took centre stage yet markets mostly shrugged. July beckons steadier yields and calmer inflation, but the global script remains fragile hinging on oil, monsoons, and macro policy coherence.

- **Global:**

  With geopolitical risk elevated, inflation stable, and rate cuts expected later in the year. A Strait closure remains a wild card—with potential to send oil sharply higher, disrupting inflation targeting.

- **Emerging/Developing Markets:**

  Sovereign credit costs may rise on NATO-induced yield pressures. However, Asia's disciplined inflation and growth outlook supports selective easing, supporting local yields.

- **Indian Fixed Income Landscape:**

  With monsoon progressing well and food inflation subdued, India's bond yields should stay range-bound.

Past Performance May or May not sustain in future.

VRRR: Variable Rate Reverse Repo, YTD: Year to Date

All data as of 30th June 2025. Source: Internal, Trading Economics, Bloomberg