

# Policy Rate Vs. Bond Yield of Major Economies

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# Movement of 10-Yr. Bond Yield Vs. Policy Rate of Major Economies

Economy	Policy rate			10- Yr. Bond Yield			Outcome & Reason
	Nov 2024	Nov 2025	Policy change (bps)	Nov 2024	Nov 2025	Yield change (bps)	
United States	4.50-4.75%	3.75-4.00%	-75	4.37%	4.01%	-36	Partial drop in Yield , Not In Proportionate to Rate Cut due to <b>tariffs &amp; \$38T</b> debt
Euro area / Germany	3.25%	2.00%	-125	2.31%	2.67%	+36	Yield has gone up despite cut due to <b>Fiscal spending</b> > ECB cuts
Japan	0.25%	0.50%	+25	1.05%	1.82%	+77	Strong rise in yield despite cut. Reason may be due to <b>Normalization effort + inflationary pressure</b>
United Kingdom	4.75%	4.00%	-75	4.30-4.45%	4.50%	+20	Strong divergence ( Yields up vs. cuts ) due to <b>persistent inflation, fiscal risks</b>
China	1-yr LPR = 3.10%	3.00%	-10	2.20%	1.82%	-38	Good alignment of policy cut vs Bond as yield Fell is greater than (> )cut due to <b>stimulus, deflation in economy.</b>
India	6.50%	5.50%	-100	6.70%	6.50%	- 20	Partial alignment of Policy cut with Bond yield. Although yields declined but lagged the aggressive RBI easing

## Reflections

- ✓ Most major central banks pivoted to easing of Policy rate in 2025.
- ✓ **Japan alone tightened**, while bond-market reactions diverged.
- ✓ Yields haven't fallen (US, UK & India) proportionally to cuts, signalling markets' caution on sustained low rates amid U.S. tariffs and deficits (\$36T+ debt).
- ✓ In India ,RBI has cut rates by 100 bps since February ,but the 10-year bond yield has fluctuated between a low of 6.16% as on 28-05-2025 and high 6.60% as on 26-08-2025), leading RBI to convey unease to market Participants.

The relationship between Policy Rate cut and Bond Yield has become one of the loosest in decades – policy rates are going down, but many bond yields are going sideways or up.

The message is clear-- Markets are worried about inflation, deficits and debt sustainability and have less confidence in the ability of central Banks to keep interest rate low through monetary easing .This is a ,definitely, worrying sign, as markets are not following central banks for looking cues from them.

**Monetary policy is still the captain of the ship, But the crew – fiscal policy, trade wars and global liquidity conditions – is increasingly rowing in the opposite direction.**

**THANK YOU**