28 November 2025

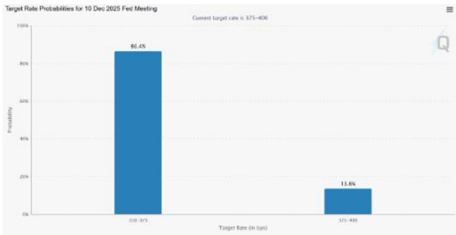
Hawkish Anticipation: Global rates overview

Key Developments in Global Interest Rates and Central Bank Policy

- **USA: Treasury yields consolidated this week as investors, lacking fresh macro data, hesitated to build on last week's dovish repricing despite Fed cut odds rising to 86%.**
- **Japan: Core CPI up 2.8%, past the target of 2.7%. Index excluding food and fuel rose 2.8% in November but remained constant in October. Inflation driven mostly by continued gains in food prices with the cost of rice up 38.5% year-on-year, a bag of coffee beans 63.4% higher and chocolate up 32.5%.**
- **UK: The new UK governmental budget appeases both investors and labour MPs as headroom is increased by unusual measures, long-term impact however, remains in question.**

Following last week's dovish repricing, this week sees limited new data, with uncertainty lingering. This week the likelihood of the FED cutting rates by 25 basis points has been of discussion with CME FedWatch probabilities of a cut happening increasing from last week's 70s to 86.4%. Despite this increase, treasury yields remained relatively stable with 2Y remaining at 3.50%, while 10-year and 30-year had modest decreases of 5 bps each to 4.013% and 4.665%. This signals temporary stabilization in rates, which is attributed to lack of substantial new data for the week. Markets appear to be reluctant in extending the recent rally in rates without confirmation with firmer macro signals. Looking ahead, next week's PCE inflation release and labor market data will provide the foundation for market sentiment for the end of the year.

Chart 1. Rate Cut Possibility



Source: CME FedWatch

Chart 2. Japan Tokyo Core CPI

Source: Trading Economics

Chart 3. UK 10 Year Gilt Bond Yield

Source: Tradingview

There are increasingly large expectations from market participants that the BoJ is raising policy interest rates after their December meeting. This stems from the remarks of senior BoJ officials stating they are willing to reassess their monetary policy soon. In the current economic climate, rate hikes seems like a natural course for Japan; Core consumer price index up 2.8% yr/yr, past the target of 2.7%, a separate index for Tokyo that strips away both fresh food and fuel costs rose 2.8% in November from a year earlier, unchanged from the pace in October. The increase in Tokyo CPI, a leading indicator of nationwide trends, was driven mostly by continued gains in food prices with the cost of rice up 38.5% year-on-year, a bag of coffee beans 63.4% higher and chocolate up 32.5%. (Reuters) The BOJ exited a decade-long, massive stimulus last year and raised interest rates to 0.5% in January on the view Japan was on the cusp of sustainably hitting its 2% inflation target.

Although a weaker yen would likely negatively affect the Takaichi administration's measures to combat inflation, the BoJ's dovish responses might be insufficient in combatting high domestic price levels. The BoJ has opted to keep rates steady considering the U.S tariffs. However, due to the unwavering changes in inflation, there is increasing support in the BoJ board for a rate hike.

On Wednesday Chancellor of the Exchequer Rachel Reeves has presented a new highly anticipated government budget in the house of commons. The goal of the budget was to appease as the investors, so the labour MPs. The former was addressed by the increased headroom, which more than doubled compared to the previous spring budget, while the latter taking the form of changed benefits structure. The increase in the headroom was mainly achieved through less conventional tax measures. This decision was mainly shaped by the change in OBR economic outlook and the manifesto pledge of labour government. From the market's perspective, a degree of uncertainty surrounds the budget. As the increases in tax revenue will only take effect in the years leading up to 2030 when the fulfilment of the fiscal rules will be assessed by the OBR and as the general elections take place the year before, investors are assessing whether the Chancellor will walk back on some of the changes. This caution was shown as in mid-November when yields on 10 year gilts have shot up 30 bps after the announcement that income-tax rate would not be included in the budget. Since then, the yields have dropped back after the budget announcement, but uncertainty remains.

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