



DEBT MARKET

The yield curve

What the curve plots, how its shapes are commonly read, and what India's looked like on 1 September 2026

Indian yields as on 1 September 2026 (Treasury bills: auction of 27 August 2026)

For training and education only. Not investment advice.

The yield curve is one borrower's interest rates, lined up from the shortest loan to the longest.

The borrower is usually the government. On one day, the curve shows what the market charges it for three months, one year, ten years and thirty years.

How to read the picture



One borrower

Every bond on the curve comes from one issuer, usually the government, so the only thing that differs is time.



Across: maturity

From Treasury bills of a few months on the left to bonds of 30 years or more on the right.



Up: yield

Each bond's yield to maturity on that day. This is the market yield, not the coupon printed on the bond.

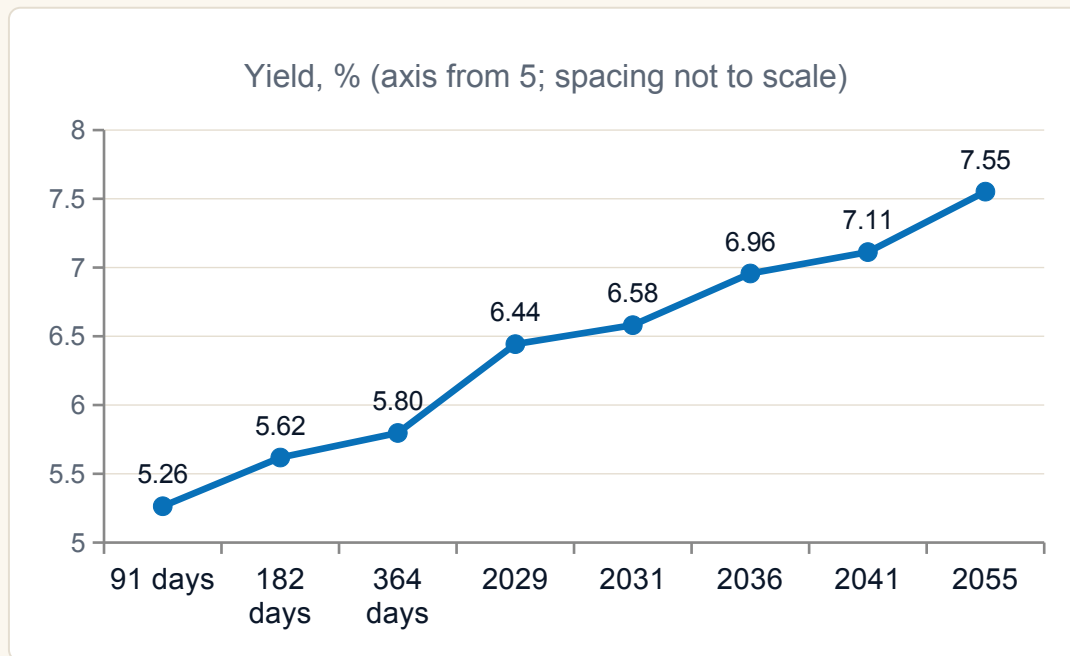


Slope

A long yield minus a short yield, also called the term spread. It is positive when the curve slopes upward.

A yield curve is a snapshot of one day. Tomorrow's curve will be a little different.

India's yield curve on 1 September 2026



Read the chart

- The curve slopes upward: 5.26% for 91 days, 7.55% for the bond maturing in 2055.
- The 10-year bond, maturing in 2036, yields 6.96%.
- RBI's repo rate was 5.25% on that date. The shortest yield sits close to it.
- Years on the axis are maturity years of the government bonds RBI lists.

Source: RBI Current Rates. Government securities as on 1 Sep 2026; Treasury bills at the cut-off yield of the last auction (27 Aug 2026).

Measuring the slope

THE YIELDS

The slope is one yield minus another.

364-day Treasury bill: 5.7968%

10-year bond (2036): 6.9570%

30-year bond (2055): 7.5520%

- 1 10-year minus 364-day: $6.9570 - 5.7968 = 1.1602$ percentage points, or about 116 basis points.
- 2 30-year minus 10-year: $7.5520 - 6.9570 = 0.5950$ percentage point, or about 60 basis points.
- 3 The first gap covers about 9 years, the second about 19. The curve rises faster at the short end and flattens further out.
- 4 If a long yield were below a short yield, the answer would be negative. That is an inverted curve.

On that day both gaps were positive: the curve sloped upward. Their size changes every day.

Figures: RBI Current Rates, 1 September 2026; Treasury bill at the cut-off yield of the 27 August 2026 auction.

Three shapes, and how they are read

Shape	What you see	A common reading	Keep in mind
Normal	Long yields above short yields.	Lenders are paid extra for lending longer. The market does not expect short rates to fall sharply.	This is the usual shape. It is not a sign that growth will be strong.
Flat	Short and long yields close together.	Often seen after the central bank has raised short rates, when the market doubts they will stay that high.	A flat curve can stay flat, steepen again or invert.
Inverted	Short yields above long yields.	The market expects short rates to fall later, usually because it expects slower growth or lower inflation.	It shows what the market expects. Expectations can turn out wrong.

Readings as commonly described in central-bank research, for example Federal Reserve Bank of New York, 'The Yield Curve as a Leading Indicator: Frequently Asked Questions' (2005).

Why long yields are usually higher

1

Expected short rates

A 10-year yield starts from what the market expects short-term rates to average over those ten years.

2

Term premium

The extra yield for holding a long bond instead of a series of short ones. Fed researchers define it as the yield minus that expected average.

3

Bigger price swings

Long bonds have a higher duration, so their prices move more when yields change. Holders usually want to be paid for that.

4

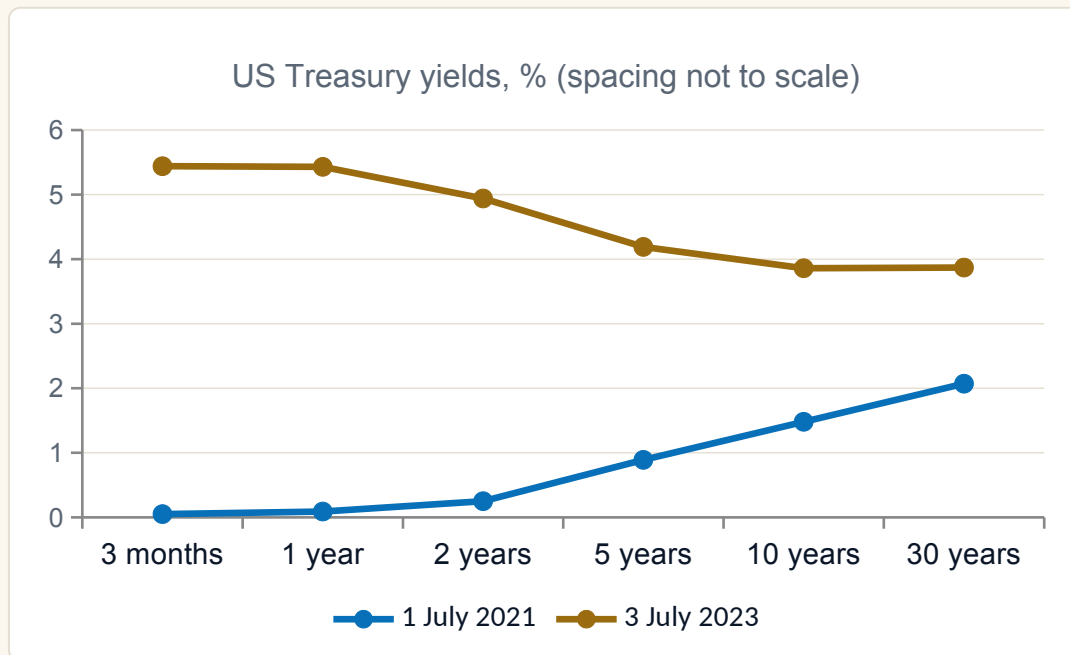
Inflation uncertainty

Nobody knows what inflation will be in ten or thirty years. The further away a payment is, the more that uncertainty matters.

The term premium cannot be seen directly. It is estimated with models, and estimates differ.

Source for the definition: Board of Governors of the Federal Reserve System, 'Three-Factor Nominal Term Structure Model' data page.

A past case: the US curve inverts



Read the chart

- July 2021: 0.05% for 3 months and 1.48% for 10 years. An upward slope.
- July 2023: 5.44% for 3 months and 3.86% for 10 years. Short yields sat above long yields.
- In between, the US central bank raised its policy rate from near zero to 5.00%-5.25%.
- The 3-month yield rose 5.39 percentage points. The 10-year rose 2.38.

Sources: Board of Governors of the Federal Reserve System, Treasury constant-maturity yields, via FRED (Federal Reserve Bank of St. Louis); Federal Reserve, open market operations page.

The 2022-24 US inversion in numbers

A widely quoted measure of slope is the US 10-year Treasury yield minus the 2-year yield.

TRADING DAYS
BELOW ZERO

537

Below zero on every trading day from 6 July 2022 to 26 August 2024.

DEEPEST POINT

-1.08

Percentage points, on 3 July 2023: 3.86% minus 4.94%.

US RECESSIONS AFTER
2020

None

NBER lists no US business-cycle peak after February 2020 (read 12 Oct 2026)

THE SAME GAP, 1 SEP
2026

+0.40

Percentage point: 4.79% minus 4.39%. Positive again.

Sources: FRED, Federal Reserve Bank of St. Louis, series T10Y2Y, DGS10 and DGS2 (Federal Reserve Board data); NBER, 'US Business Cycle Expansions and Contractions', as read on 12 Oct 2026.

If you learnt this from older material

What some older notes say

- Long loans cost more because the borrower's future is less certain.
- A curve inverts because cash is tight and firms pay up for short-term money.
- An inverted curve returns to normal; that return is called steepening.

What holds now

- On a government curve it is about time: expected rates plus a term premium.
- The short end follows the policy rate. Long yields reflect where rates are expected to go.
- Steepening means the long-short gap widens. It can start from any shape.

A curve can stay inverted for a long time: the US 10-year minus 2-year gap did for over two years.

Sources: FRED series T10Y2Y (Federal Reserve Board data); Federal Reserve Board term structure model page.

Four things people get wrong



'An inverted curve means a recession.'

In the US it has often come before one, but not every time. No recession has been dated after the 2022-24 inversion so far.



'The curve predicts interest rates.'

It shows what the market expects today, plus a term premium. Expectations change, and they can turn out wrong.



'RBI sets the whole curve.'

RBI sets the repo rate, which anchors the shortest yields. Longer yields are set by buyers and sellers in the market.



'Long bonds yield more, so pay more.'

The extra yield is payment for bigger price swings. Over a year, a long bond's price can fall by more than its interest.

Check yourself

Q1

On one day the 364-day Treasury bill yields 5.80% and the 10-year government bond yields 6.96%. What is the slope between them, and what shape is that?

Q2

Why is a yield curve drawn with the bonds of one borrower, usually the government?

Q3

A client says: 'I read that the yield curve has inverted, so a recession is certain.' What is a fair reply?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Indian yields: RBI Current Rates (page archived 2 Sep 2026). Government securities as on 1 Sep 2026; Treasury bills at the cut-off of the 27 Aug 2026 auction. Repo rate that day: 5.25%.
- US Treasury yields and the 10-year minus 2-year gap: Federal Reserve Board data via FRED, Federal Reserve Bank of St. Louis (series DGS3MO to DGS30 and T10Y2Y).
- US policy rate changes: Board of Governors of the Federal Reserve System, open market operations page.
- US business-cycle dates: National Bureau of Economic Research, 'US Business Cycle Expansions and Contractions', as read on 12 October 2026.
- Term premium definition: Federal Reserve Board, 'Three-Factor Nominal Term Structure Model' page. Record of the US curve: New York Fed, yield curve FAQ (Estrella, 2005).
- This deck describes past and current data. It does not forecast interest rates, growth or returns.

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