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Market-Implied Path (Fed-Funds Futures snapshot)

| Meeting | Implied Rate | Cumulative Change |
|-------------|--------------|-------------------|
| 10 Dec 2025 | 3.66 % | -21 bp |
| 28 Jan 2026 | 3.59% | -28 bp |
| 29 Apr 2026 | 3.45 % | -43 bp |
| 28 Oct 2026 | 3.16 % | -71 bp |
| 09 Dec 2026 | 3.12% | -75 bp |

Next meeting probabilities: No change 14 %, 25 bps cut 86 %

Fed's rate cut patch for 2026 will decide if dollar weakness is likely to continue

Markets are broadly expecting policy shifts in both Japan and the United States.

Markets are increasingly confident the Fed will deliver a third straight 25bps rate cut on 10 December, and this improving risk sentiment has seen central bank and fiscal policy divergence drive relative FX moves. The Board of Governors still leans broadly dovish, but several voting regional presidents have struck a more cautious tone, setting up potential dissent on both sides of the policy decision.

The key question now is what the Fed will signal for next year in its updated forecasts. Previously, officials pencilled in just one rate cut in 2026, assuming growth around 1.8%, unemployment near 4.4% and core inflation still above target at 2.6% by year-end. With unemployment already at roughly 4.4% and a "low-hire, low-fire" labour market posing upside risks, the Fed is unlikely to sound more relaxed on inflation, especially given limited fresh data.

On data front US consumer sentiment and inflation expectations beat consensus forecasts as Core PCE, rose 0.2% on the month and 2.8% YoY, with the annual rate ticking down from 2.9% in August. Headline PCE also climbed 0.3% on the month, leaving overall inflation at 2.8% YoY.

The USD logged a second straight week of losses, but much of the downside from Fed easing now appears priced in, and the dollar could stabilise if policymakers pair the next cut with hawkish guidance. Officials remain split on whether inflation or labour-market softness is the bigger risk, pointing to a likely divided vote. For a market that has largely priced in an extended easing cycle into next year, the December FOMC could deliver a reality check that instead tilts risks to the upside for the dollar: after three consecutive cuts, the Fed can credibly argue that rates are now much closer to neutral, justifying either a pause or a shift to cutting only at alternate meetings. Meanwhile, the JPY has firmed on signals that the BoJ may resume rate hikes this month (rate hike probability 70%), with policymakers hoping that a BoJ hike alongside a Fed cut helps reverse the yen's sharp depreciation; otherwise, pressure for renewed FX intervention will only grow. In commodities space, oil rebounded from recent lows to finish above \$60/bbl., gold edged up to \$4,224.

In India, the MPC's 25-bps rate cut was fully in line with our expectations, accompanied by a retained 'neutral' stance and dovish guidance. It was a volatile week for the rupee, which briefly slipped past the 90-per-dollar mark, but the broader backdrop remains constructive, according to [media reports](#), a U.S. trade delegation is expected to visit India this week, with both sides working towards finalising a comprehensive framework agreement by end-2025 underscoring India's growing importance in global trade discussions.

This week is dominated by central banks and key data releases, with Wednesday's Fed decision the main focus. Markets will be watching whether the dollar extends its decline after the 9-10 December FOMC, especially after Kevin Hassett widely viewed as a leading Fed chair candidate also backed a cut. Investors will scrutinise the statement, SEP, and Powell's press conference for signals on the policy path, while also staying alert to a possible Fed chair announcement around the same time. Also Powell's successor at the Fed will be key to watch and may well drive the easing cycle in alignment with market pricing.

The Global Economy in Transition: A Four-Theme Framework

The global macro landscape is entering 2026 with more questions than convictions, and markets are increasingly focused on a handful of pivotal themes that will define the trajectory of growth, inflation, and asset prices. At the core, markets are asking whether the disinflation cycle has further room to run, how aggressively the Fed can ease policy, the durability of U.S. consumer spending, the credibility of China's recovery path, and the economic fallout from intensifying trade and geopolitical disruptions.

1. Will Global Inflation Continue Its Downward Trend?

Disinflation remains the dominant macro theme across advanced economies. In recent month U.S. headline CPI has decelerated toward the 2.2-2.4% range, eurozone inflation eased back near 2%, and supply-side pressures from commodities, and goods inventories continue to normalise. More importantly the key question for 2026 especially for the U.S. economy is whether tariff-related risks will reignite price pressures. That said from a macro framework standpoint, services inflation and real

Markets may be overpricing a rapid 2026 cutting cycle; a divided FOMC and lingering services inflation mean December could bring a more cautious signal than investors expect.

U.S. consumer slowdown is real but gradual: Spending is shifting from strong to moderate, with higher borrowing costs and falling job openings posing the biggest downside risks heading into early 2026.

China's recovery is stabilising but uneven: Policy support is rising and trade data is improving, but weak property markets and soft confidence mean China remains a key swing factor for the 2026 global outlook

Rupee slid 0.61% last week as delays in the US-India trade deal, \$1.37bln in FPI outflows and persistent external risks outweighed strong IPO activity and kept the currency under pressure

wage growth remains sticky in several economies, while shelter, energy and food markets have turned more volatile, partly due to ongoing geopolitical tensions.

On balance the base case is that, global inflation edges modestly lower, but the risk of stalling disinflation is rising, especially if supply chains again become fragmented by trade restrictions.

2. Will the Fed cut rates further?

Fed expectations remain one of the most consequential market drivers. The Fed's communication has acknowledged cooling labour markets, easing core PCE closer to target, and softer credit conditions. However, policymakers remain cautious, noting uncertainty around services inflation and weaker labor market. Markets are increasingly confident the Fed will deliver a third straight 25bps rate cut on 10 December, and this improving risk sentiment has seen central bank and fiscal policy divergence drive relative FX moves. The Board of Governors still leans broadly dovish, but several voting regional presidents have struck a more cautious tone, setting up potential dissent on both sides of the policy decision. For a market that has largely priced in an extended easing cycle into next year, the December FOMC could deliver a reality check for 2026.

3. How Severe Is the Slowdown in U.S. Consumer Spending?

The U.S. consumer is losing momentum. Retail sales, real disposable income, point to slower consumption growth compared with the exceptional resilience of 2023-24. High-frequency data suggest a transition from strong to moderate consumption rather than an abrupt collapse, but the burden of higher borrowing costs is becoming more visible across lower-income households. If job openings continue to fall (as signalled by the latest JOLTS projections), consumption risks tilting further below trend in early 2026.

4. China's Growth Trajectory in 2026

China's macro path remains a major uncertainty. The policy guidance from the latest Politburo meeting signals more proactive fiscal support and moderately loose monetary policy next year. The focus on domestic demand, new growth drivers, and structural reforms is notable, but the property sector remains a drag, and consumer sentiment is still subdued. While recent data shows China's trade surplus widened to \$111.68 billion in November from \$90.07 billion previously, beating expectations. Exports rose 5.9% YoY in dollar terms, while imports increased 1.9%. This shows that global trade volumes are not reducing but are diversifying. A stronger-than-expected rebound in global trade would also support China's recovery. Also, with China's exports staying resilient despite diversification away from the U.S., it seems China is exporting disinflation to the rest of the world. With China's PPI in negative territory, it is effectively exporting disinflation globally. In this regard, Powell's successor at the Fed will be key to watch and may well drive the easing cycle in alignment with market pricing.

The global economy is at a delicate juncture as inflation is lower but not yet fully anchored, the Fed is preparing to pivot but remains data-dependent, U.S. consumers are slowing but not collapsing, China is stabilising but far from a robust recovery, and geopolitics pose persistent upside risks to inflation and supply chains. The macro narrative will ultimately hinge on how these forces interact and whether policymakers can navigate the transition without reigniting price pressures or triggering a sharper growth slowdown.

Rupee volatility rises: diplomatic talks continue but markets stay cautious

The Indian Rupee traded with heightened volatility against the US Dollar last week, depreciating by roughly 0.61% on a weekly basis and hit an all-time low of ₹90.44/\$ on 04th Dec'25 on postponement in concluding the US-India BTA (bilateral trade agreement) negotiations and persistent capital outflows continued to pressure the currency. FPIs sold roughly \$1.37bln in equities in the first eight days of December as the rupee's slide and concerns over fresh US tariff actions triggered by President Trump's new tariffs on Indian rice and hints of broader reciprocal duties weighed on sentiment. Diplomatic engagement continued, with US Under Secretary of State Allison Hooker visiting India next week and [Deputy USTR Rick Switzer and chief negotiator Brendan Lynch set to meet Commerce Secretary Rajesh Agrawal](#) for what could be the final round of pre-agreement discussions. Despite strong primary market

activity, with [India's 2025 YTD IPO mobilisation have hit a record of \\$19.6bln](#), net equity flows remained negative due to profit-taking and listing-related exits, and markets refocused on inflation risks and external vulnerabilities, limiting much recovery in the rupee. (Last Friday's close: ₹89.4575/\$) [O: ₹89.4400/\$, H: ₹90.4400/\$, L: ₹89.4225/\$ & C: ₹90.0000/\$]. (Refer report: [FX weekly: Dollar loses 100 handle on rate cut hopes; Rupee at record lows, yet sharp losses appear capped](#))

India - US Trade talks

India and the US resume BTA talks this week, but tariff gaps and unresolved issues continue to delay a final trade deal

| Date | Event | Details |
|-----------|--|---|
| Nov-05 | Piyush Goyal Update on Talks | Commerce Minister Piyush Goyal states negotiations are "going on very well" with 5 rounds completed since March; emphasizes addressing "sensitive, serious issues" like tariffs, while protecting farmers & MSMEs. First tranche of agreement by November. |
| Nov-14 | Positive Developments in Tariff Talks | Senior US official notes "positive developments" on resolving tariffs and Russian oil imports; deal eyed by year-end to normalize trade. |
| Nov-17 | LPG Import Deal Signed | Indian PSU oil firms conclude 1-year contract for 2.2 MTPA LPG imports from US Gulf Coast (2026 delivery), aimed at balancing trade; not directly tied to BTA but signals goodwill amid tariff pressures. |
| Nov-17 | First Tranche "Nearing Closure" | Commerce Secretary Rajesh Agarwal announces six rounds of talks completed; BTA phase 1 focuses on reciprocal tariffs (25% broad levy + 25% oil surcharge) and US market access in dairy, EVs, and agro-products. India seeks relief for textiles, gems, and shrimp. |
| Nov-18 | Goyal Signals "Good News Soon" | Piyush Goyal indicates pact nearing completion if "fair and equitable"; prioritizes safeguards for farmers, fisherfolk, and small industries against US demands in agriculture and autos. |
| Nov-20 | Tariff-Cut Plan Preparation | India readies concessions on US industrial equipment, chemicals, and engineering goods; US pushes for access in autos, dairy, and high-tech manufacturing. |
| Nov-24 | Russia Oil Import Cuts | Major Indian refiners halt new December orders for Russian crude, aligning with US pressure; expected to boost BTA momentum by easing tariff justifications. |
| Nov-28 | Optimism for Year-End Seal | Commerce Secretary Agarwal: "Only a matter of time" for first tranche closure before Dec 31; two parallel tracks—full BTA and immediate framework for tariffs. Most issues resolved; political-level fixes for sticking points like agriculture. |
| Dec-10-12 | Advancing work on the first phase of the BTA | Deputy USTR Rick Switzer and supported by chief negotiator Brendan Lynch visiting India. US Under Secretary of State Allison Hooker is also in India this week to deepen strategic ties. |

DXY fell ~0.27% last week on Fed rate-cut bets and soft US data, extending its YTD decline to ~9%, with eyes on upcoming PCE, jobs, and the FOMC

Dollar Index (DXY) fell approximately 0.27% last week, pressured by a ~90% probability of a 25 bps Federal Reserve rate cut on 10th Dec'25. Soft US economic data, including subdued inflation and labour market indicators, reinforced expectations of further monetary easing. Global sentiment was also affected by ongoing Fed uncertainty and volatile Treasury yields, encouraging investors to rotate into higher-yielding or risk-sensitive assets. Looking ahead, DXY is expected to remain reactive to key US macro releases, such as PCE inflation and employment figures, as well as guidance from the upcoming FOMC meeting. On a WoW basis, fell by **-0.27%**, and they still reflect a **YTD decline of ~9%**.

FPIs continued equity outflows in Dec'25 (~\$1.32 bn WoW), keeping YTD withdrawals at \$17.71 bn.

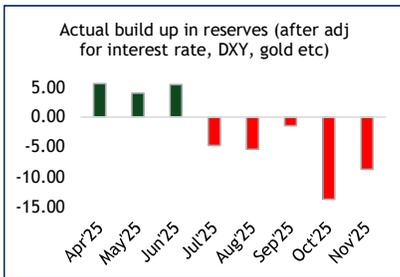
Foreign Portfolio Investors (FPIs) have pulled out **\$17.71bln (YTD)** from Indian equity markets as of 08th Dec'25. Even though, we saw the trend reversed in Oct'25 with positive inflows but turned negative again in Nov'25 and continues in Dec'25. FPIs continue to be net sellers **in equities ~\$1315mln** vis-à-vis **inflows of ~\$1mln** on a WoW basis. Flows turned marginally negative in debt to **-\$57mln vis-a-vis -\$24mln** inflows a week ago. FAR flows, at **\$7.81bln YTD**, including a **-\$78mln** mere inflow so far last week.

MPC cut the repo by 25bps to 5.25% with dovish guidance, lowered FY26 inflation to 2%, raised growth to 7.3%, and announced Rs 1 lakh Cr OMOs plus a \$5 bn 3-year FX swap to support liquidity.

RBI MPC: In a divided consensus, the MPC's rate cut announcement was aligned to [our policy view](#) of a 25bps rate cut to 5.25% repo rate and retention of 'neutral' policy stance. Additionally, the policy guidance was dovish and assertion on benign underlying inflation (adjusted for 50bps impact of gold). FY26 inflation projections revised down to 2% vs 2.6% previously while growth forecast revised higher to 7.3% for FY26, with slowdown seen to 6.5% in Q4-FY26 and -6.75% levels in H1-FY27 as base effects fade. More importantly, the liquidity bazooka with announcements of Rs 1 lakh Cr OMOs on 11th and 18th December along with 3-year FX swap of \$5bn on 16th December.

Brent crude fell ~1.5% WoW, extending its YTD drop to ~17%, with markets eyeing Fed policy, OPEC+ actions, and global demand.

| Month | Change in total FX reserves | Build-up in reserves (after adj for interest rate, DXY, gold etc) |
|--------|-----------------------------|---|
| Apr'25 | 22.73 | 5.58 |
| May'25 | 3.36 | 4.00 |
| Jun'25 | 11.3 | 5.41 |
| Jul'25 | -4.59 | -4.73 |
| Aug'25 | -3.96 | -5.4 |
| Sep'25 | 6.01 | -1.46 |
| Oct'25 | -10.5 | -13.76 |
| Nov'25 | -3.51 | -8.76 |



Rupee is poised for mild stabilization and range-bound trading between ₹89.50-₹90.50, with US-India trade progress, Fed easing, and domestic inflows likely driving near-term strength.

Brent crude oil prices traded in a narrow range last week, initially rising mid-week to \$63.82/bbl. on expectations of a US Federal Reserve rate cut and geopolitical supply concerns, including [tensions around Russian and Venezuelan exports](#). However, gains were capped as reports of progress in [Ukraine peace talks](#) weighed on prices. Looking ahead, oil prices are likely to remain sensitive to the Fed's upcoming policy decision, geopolitical developments affecting Russian exports, global demand indicators from major economies, and OPEC+ production guidance. On a WoW basis, prices fell by -1.48%, and they reflect a sharp YTD decline of -17%.

FX reserves dipped by \$1.88bln to **\$686.23bln** for the week ending 28th Nov'25 (covering ~11 months of imports), driven mainly by a **\$3.57bln** fall in FCA to \$557.03bln and **\$1.61bln** gain in Gold. With this fall, reserves now inch far by **\$18.63bln** shy of all-time highs **\$704.86bln** recorded on 27th Sep'24. A valuation loss of \$5.44bln was also noted in this week, with a cumulative of **-\$24bln since Sep'25** highlighting the central bank's ongoing efforts to stabilize the FX market.

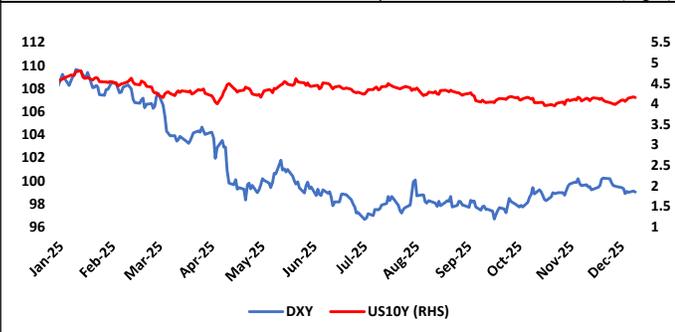
Outlook (INR - ₹ view):

The Rupee is positioned for potential stabilization, suggesting a gradual strengthening from current levels. Key drivers include the outcomes of India-US trade talks and expectations of Fed easing, which could tilt the rate differential in India's favour. Important data to watch this week includes India's November CPI, industrial production, and weekly FX reserves, alongside US CPI, employment reports, retail sales, and FOMC guidance, all of which could influence INR volatility. RBI liquidity injections post-rate cut could bolster reserves, and a robust IPO market may attract selective inflows. Overall, the progress in US-India trade negotiations will be crucial.

From a technical standpoint, the rupee is expected to remain range-bound between ₹89.50 and ₹90.50 through end-December. Sustained domestic equity inflows or tangible progress in India-US trade negotiations could strengthen the INR toward ₹89.60/\$, with ₹88.80/\$ acting as a key interim support. If an India-US BTA is finalized alongside anticipated Fed rate cuts weakening the dollar globally; the appreciation threshold for the rupee could shift meaningfully. Conversely, any bearish catalysts such as delays in resolving US-India tariff issues are likely to face strong resistance near ₹90.30/\$, where exports are likely to intensify selling. A break above this zone could trigger a move toward ₹90.50/\$. Overall, geopolitical and tariff developments will remain central drivers of market sentiment.

The rupee appears undervalued at current levels based on the REER. Our analysis suggests that over a three-year horizon, the currency typically adjusts through an average annual depreciation of about 3-4%, broadly in line with the India-US inflation and interest rate differentials. Given that the rupee has already weakened by -5% this year, we do not expect significant further depreciation in the near term.

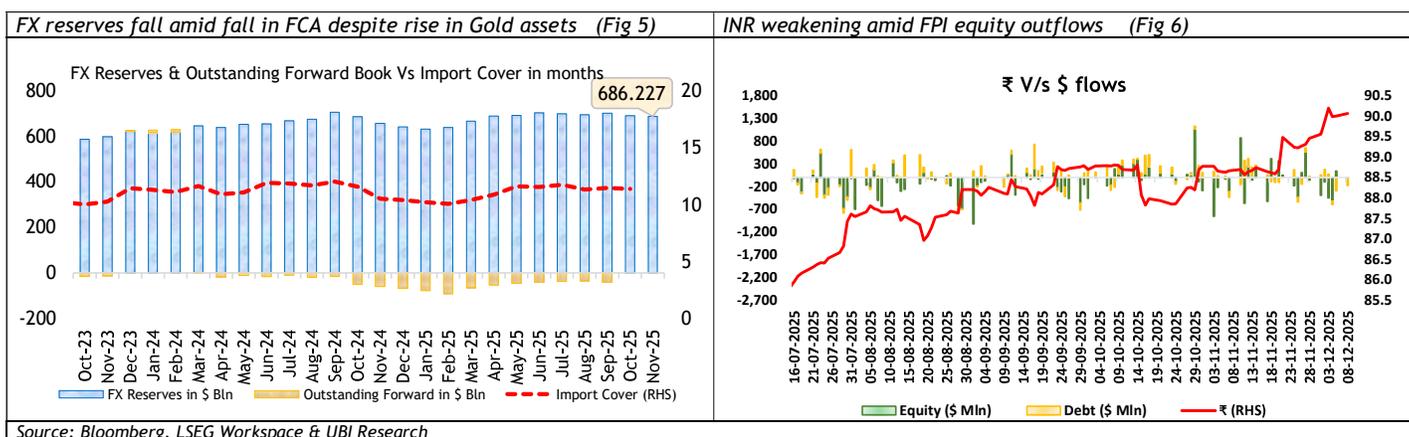
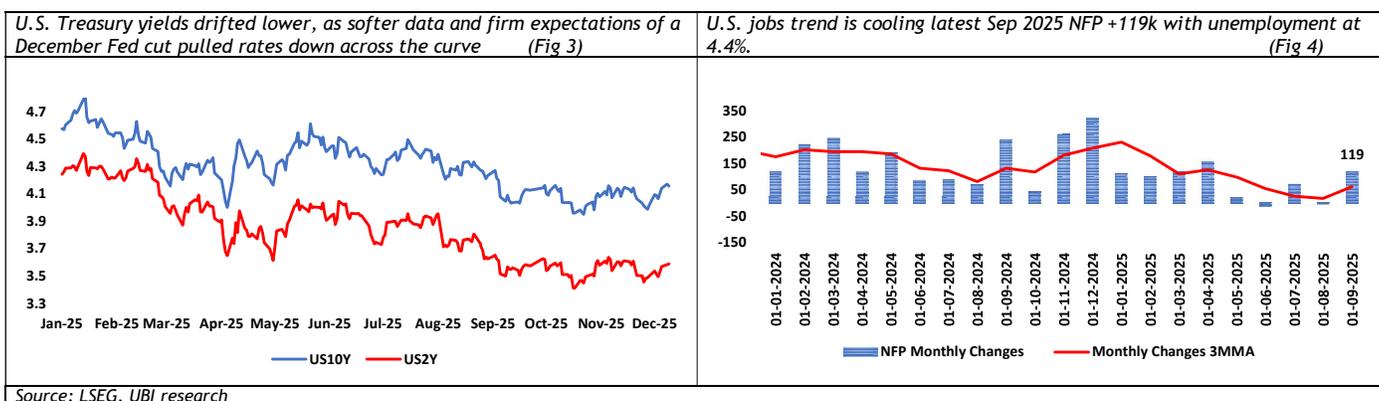
The broad USD tone has softened but Dec'25 Fomc outcome and guidance by Fed chair Powell will decide the direction for the dollar (Fig 1)



Source: LSEG, UBI research

Global central bank policy rates, market awaits FOMC and BoJ policy rate decision this month (Fig 2)

| Economy | Latest | End-2024 | 2025 YTD Change (bps) |
|---------------------|--------|----------|-----------------------|
| Australia | 3.6 | 4.35 | -75 |
| Canada | 2.25 | 3.25 | -100 |
| Euro Area (MRO) | 2.15 | 3.15 | -100 |
| Japan | 0.5 | 0.25 | 25 |
| New Zealand | 2.25 | 4.25 | -200 |
| United Kingdom | 4 | 4.75 | -75 |
| United States (FFR) | 4 | 4.5 | -50 |
| China (1Y LPR) | 3 | 3.1 | -10 |
| India | 5.25 | 6.5 | -125 |
| Indonesia | 4.75 | 6 | -125 |
| Malaysia | 2.75 | 3 | -25 |
| Philippines | 4.75 | 5.75 | -100 |
| South Korea | 2.5 | 3 | -50 |
| Thailand | 1.5 | 2.25 | -75 |



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