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Last week heading into Christmas, with U.S. markets closed on 25th December, saw thin trading volumes amid the holiday-shortened schedule. Global equities continued their year-end rally, with U.S. benchmarks reaching multiple record highs, supported by optimism around AI-led growth and expectations of further monetary easing. Asian markets outperformed, led by Japan and select emerging markets, while European equities experienced muted activity due to Christmas and Boxing Day holidays.

With no new major central bank policy announcements during the week, shifting market attention toward forward guidance, positioning, and year-end portfolio rebalancing rather than fresh policy developments. Precious metals climbed to new record highs, while commodities delivered mixed results. Economic data were sparse, though delayed U.S. third-quarter GDP figures surprised to the upside, showing annualized growth of 4.3% and reinforcing positive market sentiment.

Metal Mania: Gold, Silver and Platinum soar to unprecedented levels

Precious metals extended a historic surge, with silver, gold, and platinum all hitting record highs.

Precious metals continued their extraordinary rally, with silver climbing to all-time highs; topping around **$75/ounce** and breaching record price levels driven by strong investor demand, tight supply conditions and expectations of U.S. rate cuts. Gold has also soared to unprecedented levels, reaching fresh record peaks above **$4,500/ounce** as safe-haven demand surged amid economic uncertainty and monetary easing bets. Platinum joined the rally, jumping sharply and hitting new all-time highs on robust industrial and investment interest. Overall, bullion markets remain exceptionally strong, reflecting a broad shift toward hard assets in response to geopolitical tensions, softer rate outlooks, and sustained global demand.

Market-Implied Path
(Current Implied O/N rate: 3.640%)
(Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Change
28 Jan 2026	3.597%	-04 bp
18 Mar 2026	3.498%	-14 bp
29 Apr 2026	3.438%	-20 bp
28 Oct 2026	3.090%	-55 bp
09 Dec 2026	3.050%	-59 bp

Next meeting probabilities: **No change 82 %, 25 bps cut 18 %**

Brent Crude holds near $62/bbl. amid geopolitical support, oversupply concerns linger

Brent crude hovered near $62/bbl in thin holiday trade, supported by geopolitics and supply risks but capped by weak demand and oversupply fears

Brent crude traded ~$62/bbl. this week amid thin holiday trading, supported by geopolitical tensions and supply concerns, including tighter enforcement on Venezuelan oil exports. Despite the short-term gains, oversupply fears and weak demand kept overall momentum limited, with prices on track for one of their worst annual performances since 2020. Looking ahead, inventory data and macroeconomic indicators for clues on demand will be in focus, while any new geopolitical developments could push prices higher. Brent to remain range-bound around **$60–$65/bbl.** unless supply tightening signals emerge.

U.S. Dollar - Mild Rebound Amid Policy Cross-Currents

U.S. 10-year yields stayed range-bound, while the dollar softened slightly, the euro and pound held firm, and the yen weakened despite a BoJ hike.

Last week, the US 10-year Treasury yield remained range-bound in ***4.13% - 4.20%*** corridor, driven by stronger than expected U.S. economic growth and cautious Federal Reserve policy expectations, which limited bets on near-term rate cuts (*FedWatch shows an **82% chance of rates staying unchanged** at the 28th Jan'26 FOMC meeting*). The US Dollar Index softened modestly as mixed economic data tempered demand for the greenback, while risk-sensitive currencies such as the euro (***briefly touching 1.18 levels***) and British pound (***hovering ~1.35 levels***) showed relative strength. The Japanese yen weakened (***topped 157 levels before retreating to 156 levels now***), approaching multi-year lows, but the interest rate differential with the U.S. has been narrowing as the Bank of Japan raised its policy rate to 0.75%, pushing 10-year JGB yields higher and reducing the carry-trade advantage that had favored the dollar.

Looking ahead, markets will focus on key U.S. economic indicators, Crude Oil Inventories, FOMC Meeting Minutes, Initial Jobless Claims, along with any Fed commentary. Stronger data may lift Treasury yields and the dollar; weaker data could revive easing bets and pressure yields. Currency markets will also watch for further developments from the BoJ, Eurozone economic data, and geopolitical factors that could influence safe-haven flows.

FPI outflows, oil volatility, and dollar demand weigh on rupee, prompting RBI stabilization measures

Rupee slips on FPI outflows & year-end $ demand; RBI announces stability measures

The Indian rupee closed last week weaker, depreciating ~***0.6%*** as persistent FPI outflows, volatile crude prices, and year-end corporate dollar demand outweighed broad U.S. dollar softness. USD/INR hovered near the ₹90/$ level, underscoring cautious sentiment toward emerging-market currencies amid global uncertainty and elevated U.S. yields, while thin trading conditions exacerbated volatility late in the week.

From a macro standpoint, sustained negative FPI flows continued to weigh on the rupee across both equity and debt markets. **On the policy side**, the RBI maintained a stabilizing influence through liquidity management and bond market operations, while permitting some currency flexibility. It announced OMO purchases of government securities totalling ₹2 lakh crore, to be conducted in four tranches between late Dec'25 and Jan'26, along with a $10bln USD/INR buy-sell swap auction for a three-year tenor scheduled for 13th Jan'26. **External factors**, particularly U.S.-India trade negotiations, remained a key overhang. The absence of tangible progress kept sentiment cautious, given concerns over potential tariff impacts on exports and capital flows. Any positive developments on this front could provide medium-term support to the rupee. (Last Friday's close: ₹89.2800/$) [O: ₹89.5500/$, H: ₹89.95/$, L: ₹89.4450/$ & C: ₹89.8500/$]. (Refer report: FX weekly: BoJ's 25bp Hike Fails to Lift Yen; Soft CPI Reinforces Fed Cut Path & Dollar Drift)

US-India trade talks remain key for rupee, with delays weighing on sentiment and capital flows.

India - US Trade talks

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	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.
Dec-11	Diplomatic engagement	PM Modi held his third call with US President Trump, reviewing bilateral relations (including trade). Chief Economic Adviser predicts deal; Most issues resolved; surprised if not signed by March; parallel discussions on tariff framework and comprehensive pact.
Dec-12	Negotiation feedback	A senior US negotiator **praised India's "best-ever" market-access offer**, though sticking points remain (agriculture, dairy).
Dec-15	Following six rounds of bilateral trade talks	India and the United States are on the brink of finalising an initial framework agreement, Commerce Secretary Rajesh Agrawal said.

FX reserves rise $4.37bln to $693.32bn, driven by FCA and gold gains, nearing all-time peak.

FX reserves increased by $4.37bln to ***$693.32bln*** for the week ending 19th Dec'25 (*covering ~11 months of imports*), driven mainly by a ***$1.64bln*** rise in **FCA** to $559.43bln and ***$2.62bln*** gain in **Gold**. This gain puts FX reserves $11.54bln short of the all-time peak of $704.86bln reached on 27th Sep'24. As per liquidity calculations, the FX drag in liquidity to possibly curb the FX volatility has been ~$10bln in the week ended 19th Dec'25.

Forward premiums eased last week after RBI's $10 bn USD/INR swap, but remain elevated amid year-end dollar demand and hedging pressures.

Forward premiums eased from recent multi-year highs following the RBI's $10 billion USD/INR buy-sell swap announcement, aimed at easing liquidity strains and reducing hedging costs. The January month-end forward premium fell to ~41 paise from prior elevated levels (~58 paise), reflecting some relief after intense year-end dollar demand and thin market conditions. Nevertheless, earlier spikes in premiums was driven by heightened corporate hedging, a glut of dollar liquidity, and year-end rollovers. Looking ahead, forward premiums are likely to remain elevated but may moderate further if liquidity improves and dollar demand subsides, while, global rate dynamics, and corporate hedging flows will remain key drivers for near-term movement.

FPIs pull $18.03bn YTD from Indian markets, with equity and debt outflows continuing into December.

Foreign Portfolio Investors (FPIs) have pulled out ***$18.03bln (YTD)*** from Indian equity markets as of 26th 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 turned net sellers ***in equities ~$62mln*** vis-à-vis ***inflows of ~$419mln*** on a WoW basis. Debt markets outflows broadened to ~***$521mln vis-a-vis ~$233mln*** outflows a week ago. FAR flows, at ***$6.59bln YTD***, including a ~$346mln outflow so far last week.

Brent crude stabilized near $61-$62/bbl last week, falling ~2% WoW amid geopolitical tensions, supply concerns, and weak global demand.

Brent crude oil prices stabilized last week around $61-$62/bbl, supported by geopolitical tensions, including Middle East developments and ongoing supply concerns such as tighter Venezuelan exports, while thin holiday trading amplified volatility. Despite these gains, broader oversupply fears and weak global demand kept momentum limited, with Brent on track for one of its worst annual performances since 2020. U.S. rig activity showed a modest uptick, while market participants also monitored inventory data and OPEC+ signals for near-term supply clues. Looking ahead, Brent is expected to remain range-bound around $60-$65/bbl, with prices sensitive to inventory reports, geopolitical developments, OPEC+ output decisions, and global economic indicators that could shift demand sentiment. On a WoW basis, prices fell by ~2%, and they reflect a sharp YTD decline of ~19%.

DXY declines ~0.3% WoW as Fed dovishness & global equities weigh, remaining near recent lows with a ~10% YTD fall.

Dollar Index (DXY) softened last week amid softer U.S. economic data, dovish Fed expectations, and a year-end rally in global equities that reduced safe-haven demand. Despite broad dollar weakness, market participants monitored Treasury yields, geopolitical developments, and Fed signals for clues on near-term policy direction. Precious metals remained near record highs, reflecting a shift toward non-USD assets. Looking ahead, the DXY is expected to remain range-bound near recent lows, with U.S. economic releases, Fed commentary, and global risk sentiment serving as key drivers for any directional moves. On a WoW basis, fell by ***~0.30%***, and they still reflect a ***YTD decline of ~10%***.

Outlook (INR - ₹ view):

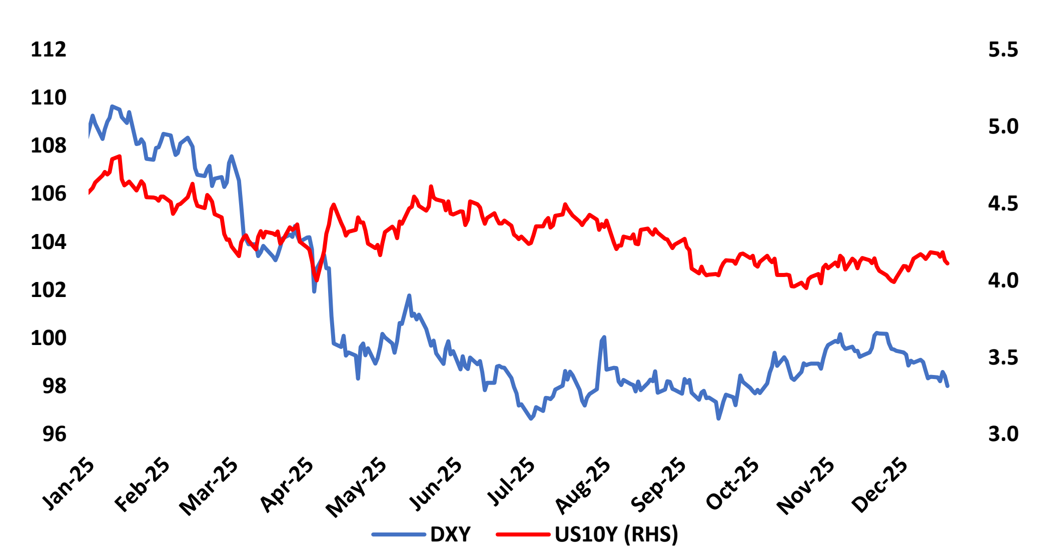
Rupee stable around ₹90/$ as year-end flows, US-India trade talks, and RBI liquidity support shape market sentiment.

The rupee is likely to remain range-bound near the ₹90/$ handle this week amid lingering corporate hedging demand, thin trading conditions, and continued foreign portfolio outflows as year-end flows persist. Markets will watch key economic data such as PMI, fiscal deficit prints, and global cues including U.S. jobless claims, which could influence dollar strength and risk sentiment. Progress (or lack thereof) in U.S.-India trade negotiations remains a critical overhang. On the domestic policy front, continued RBI liquidity measures and bond operations may help steady markets, but sustained capital outflows and external imbalances are likely to keep volatility elevated in the near term.

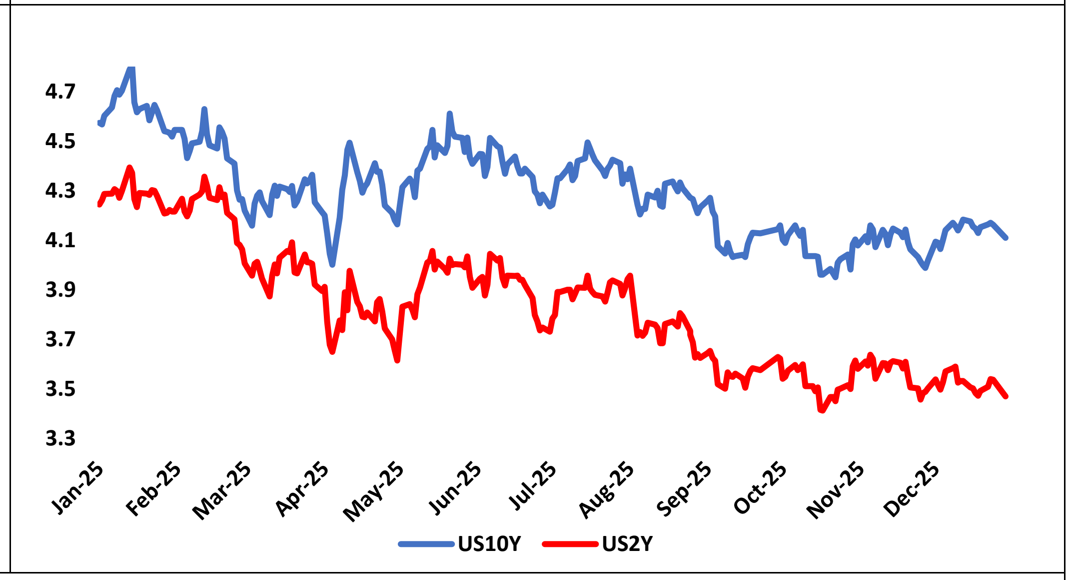
"**From a technical standpoint**, the rupee is expected to trade between ₹89.00 and ₹90.50 through-out this week. Sustained domestic equity inflows or tangible progress in India–US trade negotiations could strengthen the INR toward ₹89.30/$, with ₹89.00/$ acting as a key interim support. If an India–US BTA is finalized; 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 ₹90.10/$, a break above this zone could trigger a move toward ₹90.50/$. Overall, geopolitical and tariff developments will remain central drivers of market sentiment.

We have consistently noted that the rupee's recent weakness reflects overshooting due to negative sentiment rather than fundamentals. Based on the Real Effective Exchange Rate (REER), the currency appears undervalued by ~2.5%. Our analysis indicates that over a three-year horizon, the rupee typically adjusts via an average annual depreciation of 3–4%, aligned with India–US inflation and interest rate differentials. Given that the rupee has already weakened by ~5% this calendar year and cumulatively ~9% in last 3 years (since March 2023), we do not expect significant or runaway depreciation pressures in the currency.

The dollar remains range-bound; FOMC meeting minutes will be in focus (Fig 1)

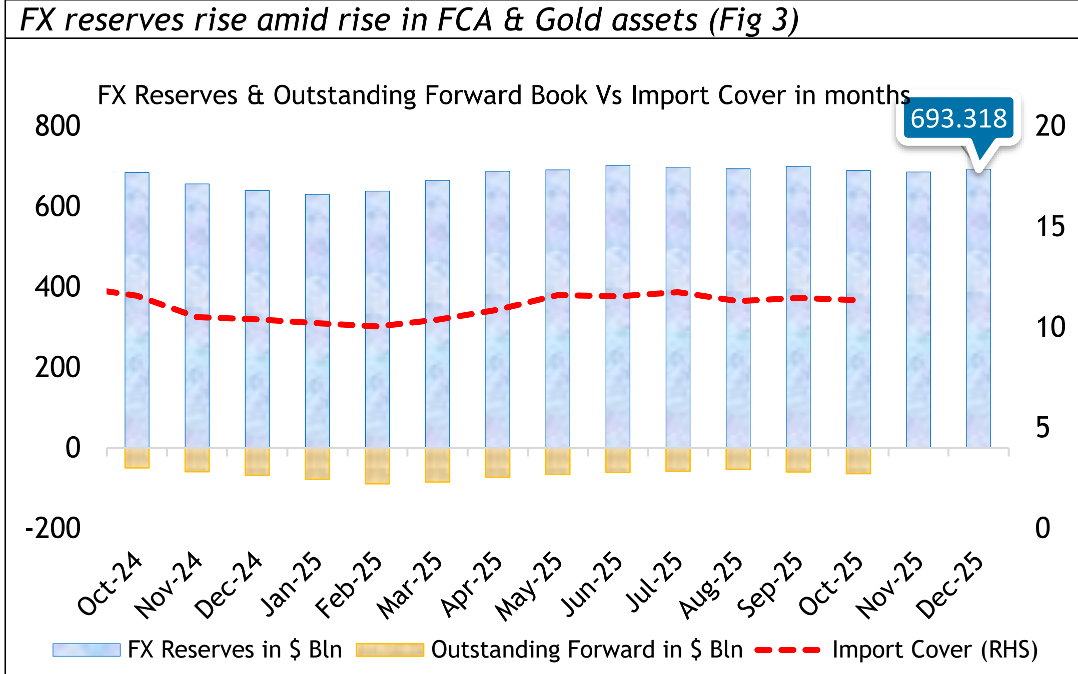


US bonds easing amid dovish fed expectations (Fig 2)

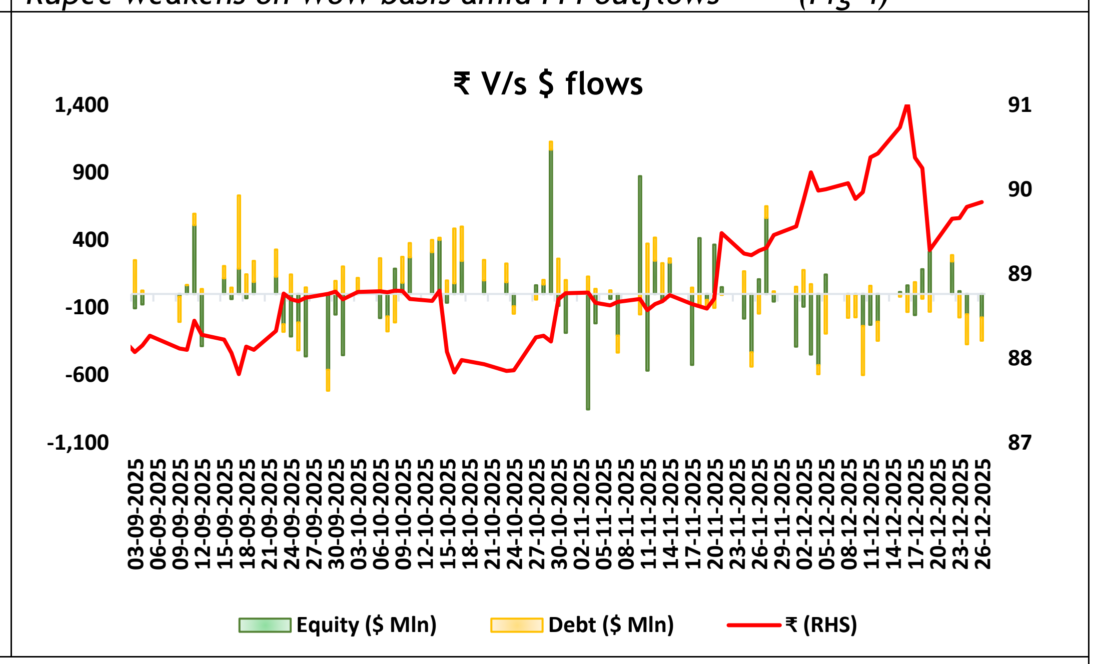


Source: LSEG, UBI research

FX reserves rise amid rise in FCA & Gold assets (Fig 3)



Rupee weakens on WoW basis amid FPI outflows (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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