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*Recent poll suggests Trump gaining ground in swing states though Kamala Harris is leading in national poll*

*Yield on US treasury remain volatile over uncertainty around US election*

*As highlighted in our latest [(Uni-FX report)](), increased volatility in global markets on rising winning odds of Donald Trump in US Presidential election is driving USD and US10Y three-month high levels last seen in July 2024. In fact, political uncertainty continues to drive market. In Japan over weekend we saw its long-time ruling party (LDP) lost its majority for the first time in 15 years, prompting uncertainty about the make-up of the next government. Additionally, the UK finance minister will deliver the government's most awaited budget on Wednesday, putting to rest weeks of uncertainty over potential tax hikes and spending cuts. Meanwhile, China announced that the National People's Standing Committee (NPSC) meeting will take place from 4 November to 8 November.*

*This week we have US Q3'24 GDP data along with the PCE inflation and NFP data which is expected to be on lower side at 110K while unemployment rate is expected to remain unchanged. Also, the upcoming US election will continue to attract more market attention as we move closer to the election date on 5th November. The key FX themes from last week are outlined below.*

♣ **US Dollar and Treasury yields continue their uptrend as we move closer to US election**

♣ **JPY slips to weakest level since July on the back of political uncertainty**

♣ **EURUSD down 3% in October on weak macros**

♣ **Rupee remains stable after breaching 84/$ mark; awaiting fresh cues**

**US Dollar and Treasury yields continue their uptrend as we move closer to US election**

The US dollar gained for fourth consecutive week, its longest run since June 2024 in the build up to the upcoming US election on 5th November. The yield on US2Y has risen c.60bps and US10Y has spiked c.65bps since last FOMC meet on 18-19 September. While the recent up move in long term Treasury yields alongside increased uncertainty regarding future monetary and fiscal policy has spurred a leg higher in mortgage rates. Higher US yields and a stronger US dollar are being led by rising probability of a Trump victory and Red Sweep at the US election on 5th November. According to PolyMarket, the probability of a Red Sweep where the Republicans take control of Congress allowing them to put in place their fiscal policy has risen closer to 48% from around 30% at the start of this month. If Trump wins and stays true to his words, he has promised to impose 60% tariff hike on China and implement loose fiscal policy. His campaign proposals to raise tariffs, maintain loose fiscal policy are viewed as inflationary for the US economy which would curtail the FED's room to keep lowering rates.

Additional sign that the U.S. economy momentum remains robust pace may be another factor behind the rise in Treasury yields. The US economy remains robust with the Atlanta FED's GDPNow model tracking Q3 growth at 3.4% and the New York FED's Nowcast model projecting 3.0% growth for Q3 and 2.6% growth for Q4. While existing home sales declined 1.0% MoM during September, falling short of expectations for a modest gain, new home sales jumped 4.1% MoM during September.

A strong labor market has been a major support for economic growth, and evidence continues to mount that growth is not falling off the cliff. Initial jobless claims fell to 227K in the week ended Oct. 19 while continuing claims rose modestly, which suggests the labor market is indeed softening. All eyes will be of October's NFP data due for release on 1st Nov which is expected to be on lower side of 110k vis-à-vis 254k in September while unemployment rate is expected to remain same at 4.1%. Although the effect of Hurricane Helene, Milton and strike at Boeing may be seen in October NFP data but currently is not visible in weekly jobless claims. While Core PCE price index MoM is expected to rise to 0.3% vis-à-vis 0.1% in August.

As per CME FedWatch tool, currently markets are pricing in 97% probability of 25bps rate cut in November FOMC meet. Markets are currently pricing in 100bps cut for next year which has come down significantly from 150bps a month ago. Our heatmap shows (Annexure 1) the recent macro data mix is a continuation of the underlying trends in economic growth that consumers (key contributor to US economy) are strong, while interest-rate-sensitive sectors are weak.

## JPY slips to weakest level since July on the back of political uncertainty

*JPY continue to weaken over political uncertainty and rising US yields*

In Japan there were election held over weekend on 27th October. Japan's ruling coalition lost its lower house majority in Sunday's general election for the first time in 15 years prompting concerns about the world's fourth largest economy and uncertainty about the make-up of the next government. The Liberal Democratic Party secured 191 seats, far below the 247 it had going into the election. Its coalition partner Komeito won 24 seats. Together, the two parties fell short of the 233 they needed to secure a majority.

Investors sold off the Japanese currency, believing that political uncertainty may slow interest rate hikes. The yen made high of 153.88 just before retracing back. The unclear outlook for the Japanese government could make it harder for the Bank of Japan to tighten monetary policy. While Ishiba have stated "I do not believe that we are in an environment that would require us to raise interest rates further". The Bank of Japan's meeting later this week on 31st October will also be closely watched for any indication of another rate hike later this year given JPY weakness. On other hand Japan's equity market ended higher after announcement of election result on growing expectations of increased government spending to stimulate the economy due to the rise of opposition parties in the elections.

## EURUSD down 3% in October on weak macros

*Eurozone data continues to deteriorate while German business climate recorded an uptick in October*

Last week there were growing speculation that the next rate cut in December by ECB may be of 50bps as few ECB members supported given the benign inflation trends. During last week, the Eurozone October PMIs were somewhat mixed. The manufacturing PMI rose to 45.9 from 45.0 against consensus expectations for a much smaller increase, reaching its highest level in five months. The services PMI declined slightly to 51.2 against expectations for a mild increase. Overall, the manufacturing sector still appears to be contracting, while the services sector remains in expansion territory, in October it expanded at the slowest pace in eight months. The composite PMI ticked up slightly to 49.7, though this reading is still below the 50 level that typically denotes expansion. Currently markets are pricing in 85% probability of 25bps rate cut in its 12th December ECB meet and 100bps rate cut by end of 2026.

## Rupee remains stable after breaching 84/$ mark; awaiting fresh cues

In the latter half of this month, the domestic currency had been very rangebound after it broke the major psychological level of 84/$ on 11th Oct'24 and touched a high of 84.10/$. Broad Dollar strength continues on robust economic data prints and awaits the upcoming NFP data which is expected to slow down from the earlier print.

*Rupee trading in tight range*

Since June'24, unlike Asian peers, Rupee was the worst performing currency and was hovering close to its then all-time lows. However, in recent weeks when all the emerging-market currencies took a hit amid rising Dollar strength, Rupee remained one of the least volatile currencies and refrained from severe depreciation.
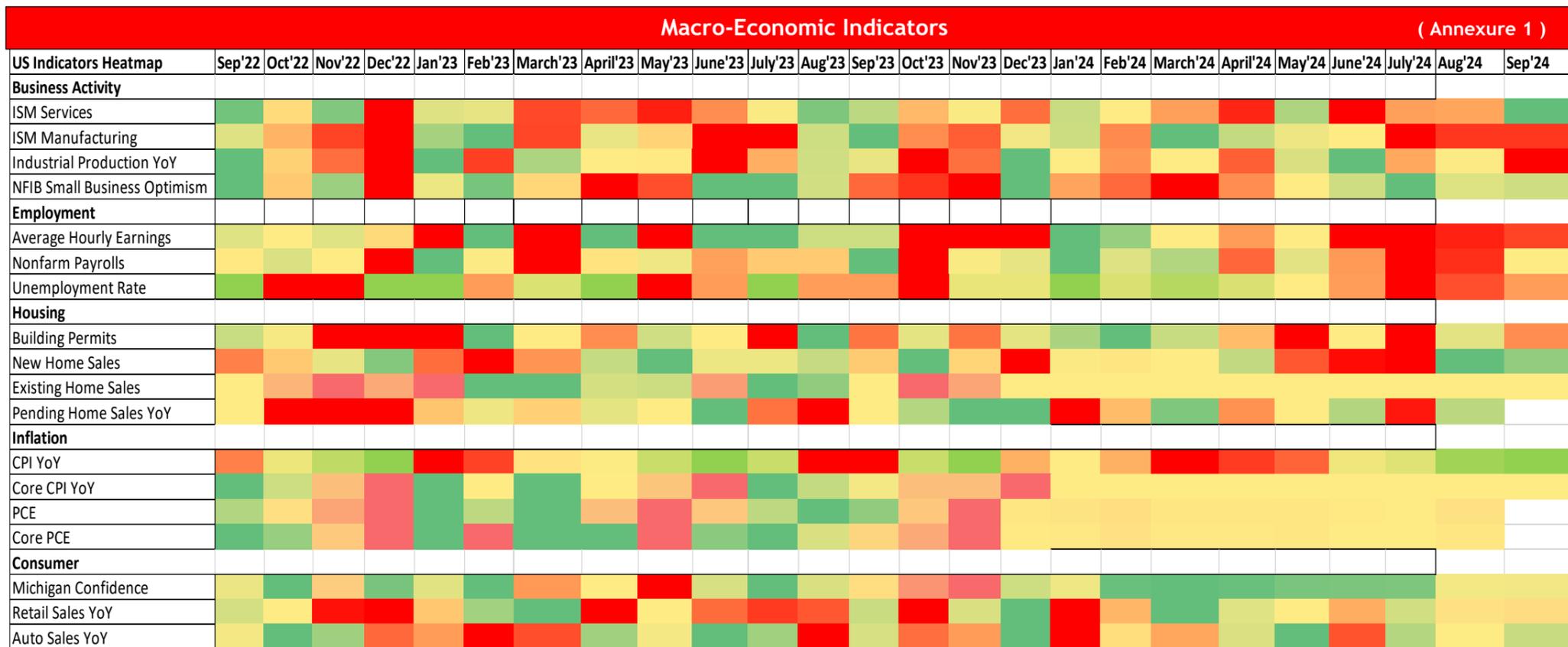
*FX Reserve continue to fall on FPI selling pressure*

This is despite persistent FPI outflows mostly in the equity segment $10.2bln was seen in October till date vis-a-vis inflows of $6.89bln a month ago (highest in CY25), even the debt segment is witnessing outflows of $466mln vis-à-vis inflows of $4.2bln from the previous month, moreover Fully accessible route (FAR) securities related flows have turned negative at $50mln in this month vis-à-vis inflows of $2739mln a month ago. Our analysis shows that in this month, the record high forex reserves kitty has slipped further by $16.62bln to $688.27bln from all-time highs of $704.86 (-$8.76bln fall was adjusted after valuation effects), signalling that the central bank has taken appropriate measures to curb volatility in the local currency.

*Lower crude oil prices support INR*

Any change in global crude oil prices will impact directly in the country broad trade data as India is a major oil importing country. Oil futures have tumbled over 4% after Israel's retaliatory strike on Iran over the weekend bypassed Tehran's oil and nuclear facilities and did not disrupt energy supplies, easing geopolitical tensions in the Middle east. Sensitivity of C/A deficit to oil prices stays high with every $10/b move in oil price affecting annual C/A balance by close to $15bln. Hence, if average oil
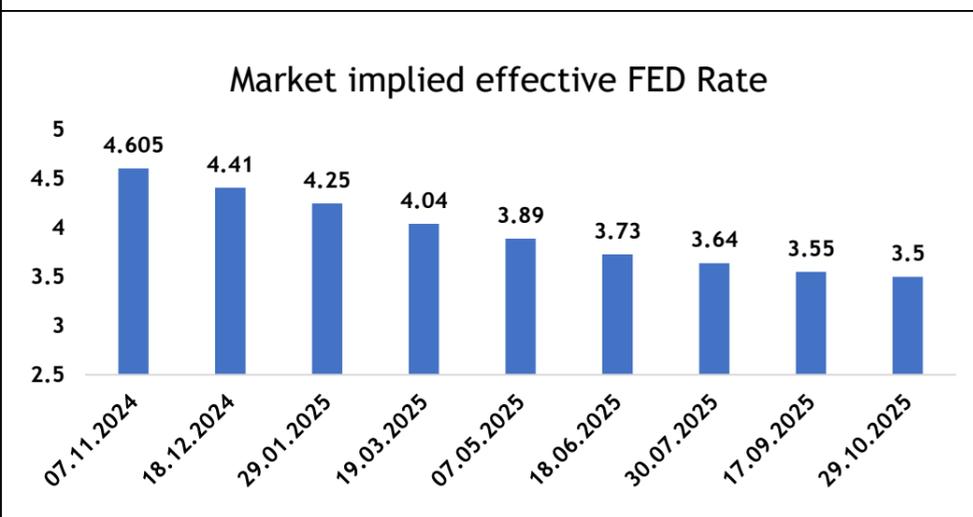
prices settle lower at c.$75/b, C/A deficit may be closer to 0.5% of GDP in FY25. (Refer our report: India: Q1-FY25 C/A switched to deficit; BoP surplus likely rose 3x in Q2 vs Q1)

Last week, INR traded in a very narrow range with a depreciating bias from 84.0550 to 84.0825, nearing its all-time low of 84.10. We expect the domestic currency to hover around current levels (84.07/$) with a negative bias, however the depreciation pressure is likely to be capped amid lower crude oil prices. Based on the current global scenario, technically INR is expected to take support of 83.88 levels and will find resistance around 84.16 (NDF highs), breach of which will test 84.36 levels.
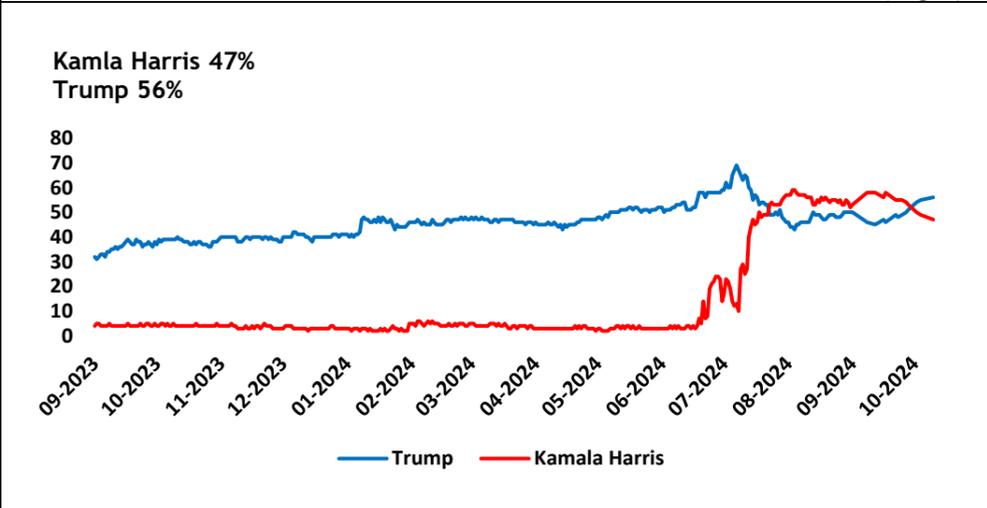
| Major Economic Indicators | | | | | | |
|---|---|---|---|---|---|---|
| Date | Time (IST) | Country | Data | Month | Forecast | Previous |
| 29.Oct.24 | 07:30 | US | JOLTs Job Openings | Sep | 7.80M | 8.04M |
| 30.Oct.24 | 10:30 | JP | Consumer Confidence | Oct | 36.7 | 36.9 |
| 30.Oct.24 | 15:30 | EU | GDP Growth Rate QoQ Flash | Q3 | 0.30% | 0.20% |
| 30.Oct.24 | 18:00 | US | GDP Growth Rate QoQ Adv | Q3 | 3.00% | 3.30% |
| 31.Oct.24 | 08:30 | JP | BoJ Interest Rate Decision | Oct | 0.25% | 0.25% |
| 31.Oct.24 | 15:30 | EU | Inflation Rate YoY Flash | Oct | 1.90% | 1.70% |
| 31.Oct.24 | 18:00 | US | Core PCE Price Index MoM | Sep | 0.10% | 0.10% |
| 01.Nov.24 | 18:00 | US | Non Farm Payrolls | Oct | 111k | 254k |
| 01.Nov.24 | 18:00 | US | Unemployment Rate | Oct | 4.20% | 4.10% |

## Macro-Economic Indicators ( Annexure 1 )



US Indicators Heatmap: Sep'22 to Sep'24 across Business Activity (ISM Services, ISM Manufacturing, Industrial Production YoY, NFIB Small Business Optimism), Employment (Average Hourly Earnings, Nonfarm Payrolls, Unemployment Rate), Housing (Building Permits, New Home Sales, Existing Home Sales, Pending Home Sales YoY), Inflation (CPI YoY, Core CPI YoY, PCE, Core PCE), Consumer (Michigan Confidence, Retail Sales YoY, Auto Sales YoY)



Market participant anticipating 100bps rate cut by end of 2025 (Fig 1)

Market implied effective FED Rate: 07.11.2024: 4.605; 18.12.2024: 4.41; 29.01.2025: 4.25; 19.03.2025: 4.04; 07.05.2025: 3.89; 18.06.2025: 3.73; 30.07.2025: 3.64; 17.09.2025: 3.55; 29.10.2025: 3.5



Donald Trump continues to lead over Kamala Harris in US Presidential election (Fig 2)

Kamla Harris 47%
Trump 56%

Source: Bloomberg, Reuters, UBI research, PredictIT

**Oil prices fall after Iran limited Israeli strike** *(Fig 3)*



Source: Bloomberg, Reuters, UBI Research

**Political uncertainty has led to sharp weakness in JPY** *(Fig 4)*



**Rupee remain stable despite heavy FPI outflows** *(Fig5)*



Rupee movement tracking $ flows

Source: Bloomberg, NSDL, UBI Research, Reuter

**Rupee volatility contained despite US Dollar strength** *(Fig6 )*



DXY Vs INR
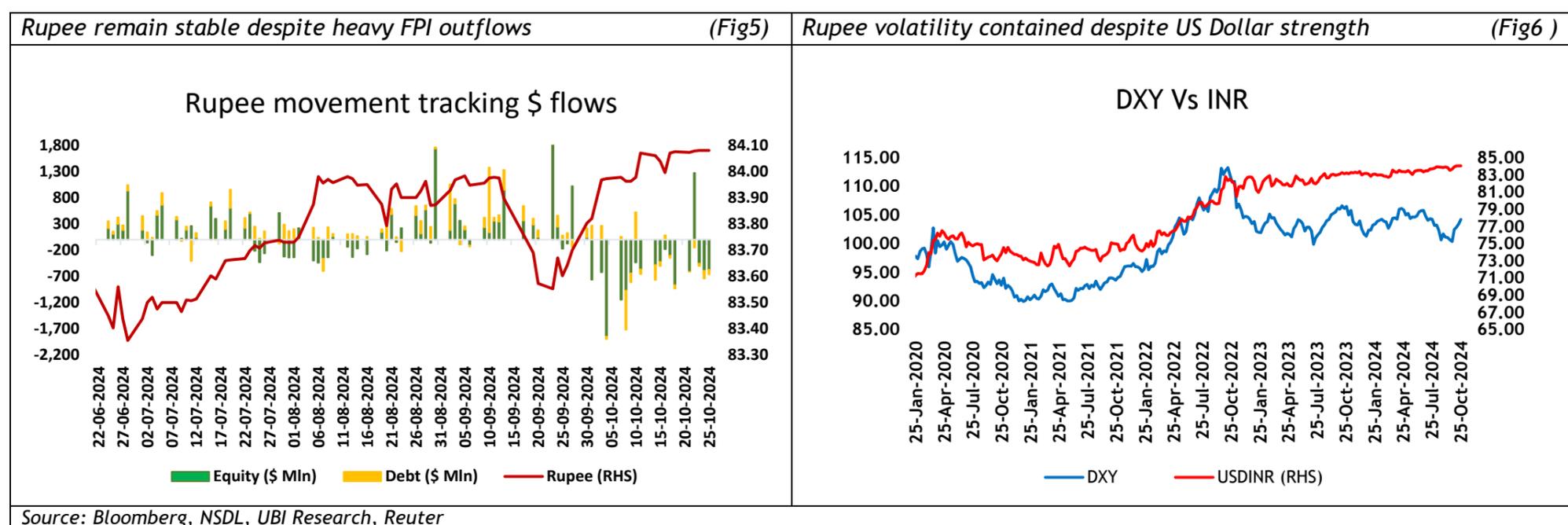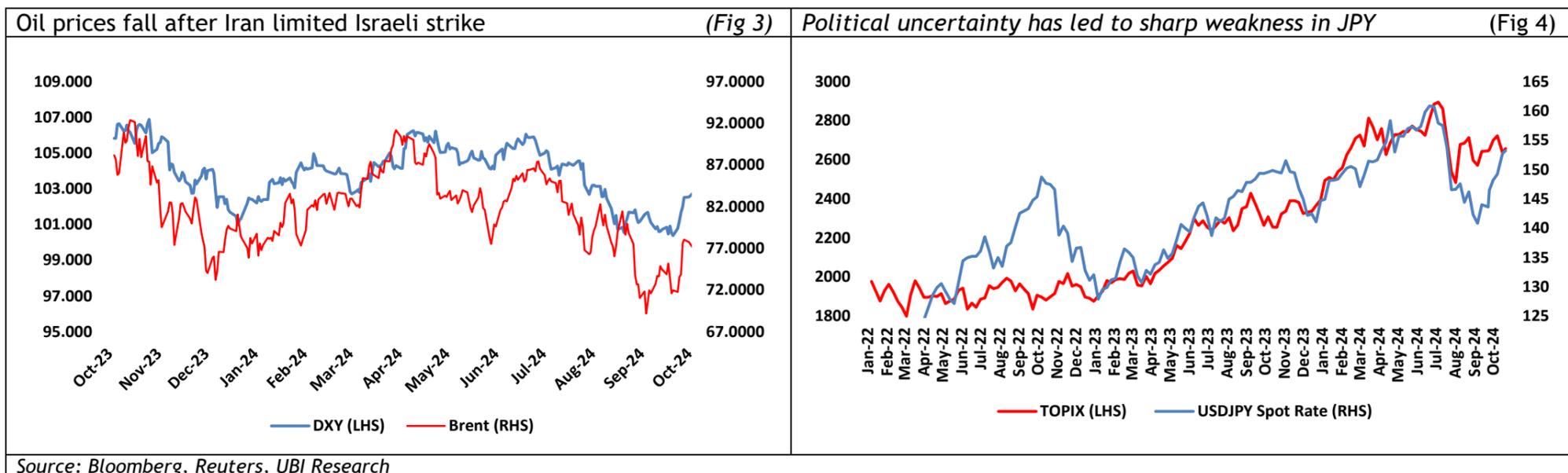
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Classification: Internal