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The US economy is showing signs of slowing amid great policy uncertainty.

In expectation of a slowdown, US government bonds have rallied. While, fears of sticky inflation and lack of clarity about geopolitics have helped gold rally.

Consumers have gotten nervous and have begun postponing purchases, as seen by the surprisingly weak Jan'25 retail sales data

The key theme that is emerging in market is shift from US exceptionalism to un-exceptionalism, while the data print coming from the US are broadly mixed there is growing concern of recession in US as they implement DOGE and continue with their protectionist policy (trade tariff's). Given this backdrop the policy guidance from the US FED is very crucial to watch after Powell sounded slightly cautious in Jan'25 fomc meet, more important the dot plot for 2025 will remain on watch as markets are now pricing close to three rate cuts in 2025 vs two in the Jan'25.

In Fx the DXY may have found some near-term stability last week, after experiencing one of the worst weeks (3.5% fall week-on-week) for the week ending 7th Mar'25 helped by increased optimism in Europe over Germany's fiscal spending plans. Also, German's parliament passed a massive increase in government borrowing, including sweeping change to the country debt rule.

The tariff flip flop from Trump administration also continued and is damaging economic sentiments along with stability of financial market. While US Commerce Secretary Howard Lutnick has affirmed that there will be more tariff actions in a couple of weeks. The economic data hasn't been great this year and talks of US recession has already taken CenterStage. The first quarter GDP estimates are looking very weak as the Atlanta Fed's GDP now-cast is looking at a sharp fall in activity this quarter. While this week Trump trade policies and dovish/hawkish interpretations from central bank communications along with the dot plot will drive the FX markets.

Key Themes:

- ♣ Markets remain concern about Trump's flip flops
- ♣ Weakness in US Dollar help reduce pressure on INR, can the INR rally continue?

Markets remain concern about Trump's flip flops

This year is turning out to be a tough year for the US dollar. After its rose through the final quarter of 2024, this year the DXY index is off 5% as both US and European stories are re-assessed. The dollar retreated for another week though by a smaller extent with the US government avoiding a shutdown. The DXY fell a further 0.12% for a second week of losses, but narrowing from the more than 3.5% loss the prior week. This week the movement in FX will remain contingent on the decision take by the G10 central bankers (FED, BoE, SNB) on monetary policy front along with their future guidance.

The yield on the US2T, the most sensitive to the Fed's monetary policy, has declined almost 60bps from a mid-January peak to a trough this month of 3.83%, the lowest level in over five months and awaits Fed's interest rate decision this week. After clocking 4.10 % in early march the US10T have spiked to 4.30% levels. Looking ahead, we think the UST yields could stay range-bound barring any abrupt tariff shocks.

While this week the risk sentiment has picked up to some extent after Bloomberg reported that US trade representative Jamieson Greer is looking to bring more order to the upcoming announcement of new tariffs on 2 April, although there is still uncertainty around the severity of the upcoming tariffs. Trump continues to impose trade tariffs on his trading partner with the recent such measured announced last week was hike in tariff to 25% on steel and aluminium import which came into effect on 12th March'25, which led the European Union launching countermeasures against new US metals tariffs, with plans to impose its own duties on up to €26 billion (\$28.3 billion) worth of US goods. While Trump's flip flop on tariffs continues as he walked back on 50% tariff threat on goods from Canada hours after making it. The talks of recession are again making the rounds this year but Trump has downplayed the risk of tariff led recession.

Also, Treasury Secretary Scott Bessent dismissed the correction in US equities as healthy correction. Bessent did not rule out a US recession, adding that the administration was focused on an optimistic outlook in the long term based on major policies such as extending tax cuts, deregulation, anti-immigration, and energy security.

Traders now see a high probability of three rate cuts this year, most likely beginning in June.

Market will focus on officials updated quarterly economic projections and Fed Chair Jerome Powell's press conference for clues on the path ahead

The Indian rupee continues to strengthen for two consecutive week

Inflation rose below estimates for Feb'25 but tariffs is likely to weigh in the coming months

After a hot Jan'25 print, US headline CPI inflation cooled a bit more than expected, rising by 0.2% m/m, 3.1% y/y in Feb (Bloomberg est: 0.3% m/m, 3.2% y/y, Jan: 0.5% m/m, 3.3% y/y), the slowest y/y pace since Nov 2024 (2.7%). More importantly, core CPI also rose at a slower pace, coming in at 0.2% m/m, 3.1% y/y in Feb (Bloomberg est. 0.3% m/m, 3.2% y/y, Jan: 0.4% m/m, 3.3% y/y), the lowest y/y pace for core CPI since Apr 2021 (3.0%), back when US inflation started to accelerate. The Producer Price Index data last week also showed signs of disinflation as PPI was flat in Feb'25, while core prices slipped 0.1% the moderation led the annual rate of PPI inflation down to 3.2%.

FED is likely to keep rates unchanged in Mar'25 while guidance on close watch

After 100bp of interest rate cuts in late 2024, Chair Powell suggests that the Fed aren't in a hurry to ease policy further and a no change outcome is widely expected on 19 March. The Federal reserve has indicated that it's more concerned about inflationary risks than risks to growth. While the other FED members have also till now maintained the stance that Fed is in no rush to adjust policy.

As recently as 11th Feb'25 markets were pricing only one 25bp interest rate cut for the year ahead. However, due to uncertainty over US administration policy and Trump's flip flop on trade tariffs has led to hurt the business sentiments, which is also evident from the data releases this month, this has led to the markets priced in three rate cuts this year of 25bps each this year. **We will also receive the updated economic projections, and the dot plot in this FOMC meeting which will reveal FOMC members individual expectations for future interest rates. In this backdrop we will watch out for any revision of GDP and inflation data. Give the current uncertainty over trade tariffs will the Fed officials downgrade their forecasts for growth this year and bump up their outlook for inflation needs to be seen.**

Weakness in US Dollar help reduce pressure on INR, can the INR rally continue?

The Indian rupee continued its winning streak during the last two weeks and has gained c.1% against the US dollar. The reason for this strength is retreat of the US Dollar and treasury yields which allowed Asia FX to take a breather and thus helped the rupee to close below the 87.00-mark last week. Also, domestically India's equity benchmark indices have steadied after an extended period of correction and FPI outflows has slowed which was positive for the rupee. The rupee also got some boost this week as banks continued to sell US Dollar on behalf of exporter to meet their financial year-end payment requirements. Although the rupee gain may have been capped as importer saw the current levels attractive and some oil marketing companies also took the advantage of the strength in the rupee. This year is turning out to be tough year for US dollar which has fallen by 5% on the backdrop of uncertainty of US government policy which has raised concerns of recession and thus have increased the number of rate cuts by FED from 25bps at the start of the year to 75bps at current juncture. Despite this the rupee despite has weakened c.1% this year. Another factor that affects rupee are the crude oil prices which were trading lower during the start of the week but rebounded at the end.

As mention in our last [FX weekly report](#) the rupee is likely to trade in a large range of 86.60 to 87.60 same trend was followed last week, while in order to break this range some catalyst is needed and that catalyst may be the reciprocal tariffs which the US administration may announced against India on 2nd April which may not favour the rupee.

The data released by the RBI shows that the rupee's 40-currency real effective exchange rate (REER) eased to 104.8 in Jan'25 from 107.1 in Dec'24, signalling the overvaluation against currencies of India's major trading partners narrowed which is a bit of relief. Although the rupee has depreciated by c.1% against US dollar in Jan'25 and c. 1.33% in Dec'25. The RBI's net short dollar position in forwards and futures hit a record high of \$77.5 billion in Jan'25, most 60% of maturity of less than 3 months. From October to January, the RBI's forward dollar sales position increased by more than \$60 billion. As these positions are maturing it is a factor leading to some short-term pressure on the Rupee.

Debt-FAR related flow has been strong this year

Reciprocal tariffs on India may weigh on India rupee

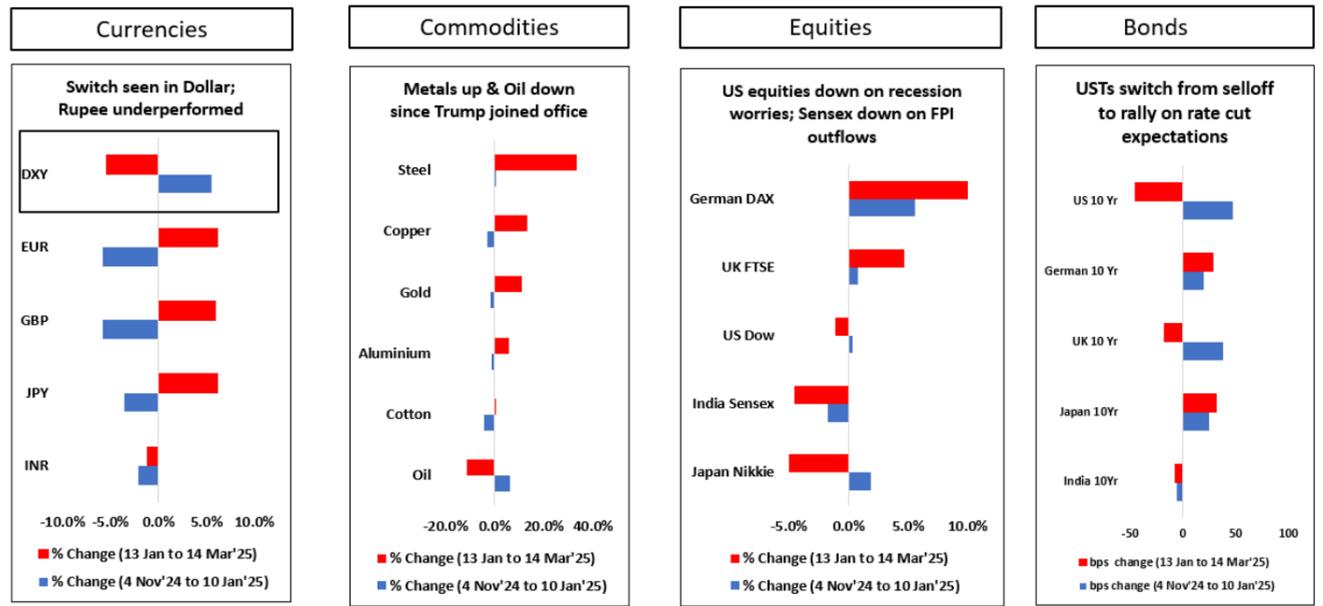
Trade deficit number for the month of Feb'25 was much better than market expectations at \$14bn from \$23bn the previous month. We had already stated in our previous [weekly report](#) that trade numbers show a positive seasonality in Jan'25 to Mar'25 quarter and hence we are likely to see some relief in net dollar demand from this perspective and added to that slowdown in pace of equity FPI outflows will also help stabilise the rupee. With the sharply positive surprise in trade data, we see a downside risk to our earlier FY25 C/A deficit projection of 1.2%. Interestingly, given that the services story has bolstered furthermore in FY25 vis-à-vis FY24, with annual surplus tracking higher by c.\$ 25-30bn to fresh record highs of c.\$190bn this year, we now see FY25 C/A deficit (% of GDP) tracking near FY24 numbers. While goods deficit narrowed, services trade surplus also inched higher at \$18.48bn in Feb'25 vis-à-vis \$18.02bn a month ago and \$13.10bn in Feb'24. This is a positive trend in a slowing global economy and is likely to have a salutary effect on FY25 C/A dynamics.

India's foreign exchange reserves rose by \$15.27 billion in the week ended Mar. 7 to \$653.97 billion. At \$653.97bn, India's foreign exchange reserves were at the highest since Dec. 6. Reserves received a boost in the week ended Mar. 7 from the RBI's \$10 billion dollar/rupee buy/sell swap auction, which was conducted on Feb. 28, with the settlement on Mar. 4. Apart from the swap, valuation gains also boosted the reserves. The week in which the reserve rose the rupee also gained by c.0.5% on backdrop of weaker US Dollar. In equity segment flows turned negative this year to the tune of \$17bn till date (Jan'25 \$9.04bn, -\$3.978bn in Feb'25 and -\$3.96bn till 18th Mar'25). While, the FAR related flows are strong this year \$1.67bn in Feb'25 vis-à-vis inflow of \$2.3bn in Mar'25.

We believe three factors are favouring rupee currently a) stalling of FPI outflows b) sharply lower oil prices and c) weakness in US Dollar, while challenges remain via broadly uncertainty regarding revival on Fx flows. Going ahead Fed's monetary policy will be crucial although market expects that the Fed is going to hold the rates steady for time being but dot plot and update of economic forecasts is crucial which is going to decide the direction of the US Dollar. Also, markets will be watchful of developments of reciprocal trade tariffs which White house officials have stated that the tariffs are set to take effect from 2nd April which is likely to weigh on the rupee.

Central bank Policy Rates			
	Current	End of 2024	YTD Change 2025 in BPS
Advanced Economies			
Australia	4.10%	4.35%	-0.25
Canada	2.75%	3.25%	-0.5
Euro-zone	2.65%	3.15%	-0.5
Japan	0.50%	0.25%	0.25
New Zealand	3.75%	4.25%	-0.5
United Kingdom	4.50%	4.75%	-0.25
US	4.50%	4.50%	0
Developing Economies			
Brazil	13.25%	12.25%	100
China (1Y LPR)	3.10%	3.10%	0
India	6.25%	6.50%	-0.25
Indonesia	5.75%	6.00%	-0.25
Philippines	5.75%	5.75%	0
South Korea	2.75%	3.00%	-0.25

Trump's policies driving US exceptionalism to un-exceptionalism
 (How market moves have turned volatile under Trump 2.0)



5th-6th November US Presidential election and result days

Key Market movers

(Fig 1)

FX Performance					Government Bond				Commodity Price Performance			
FX Pair	3M % Change	6M % Change	MTD % Change	YTD % Change		1M Change BPS	3M Change BPS	YTD Change		MTD % Change	3M % Change	YTD % Change
EURUSD	5.59	-1.98	5.45	5.67	10Y US Treasury	-24	-22	-28	WTI Crude	-7	-4	-7
GBPUSD	3.98	-2.16	3.34	3.88	10Y JP JGB	7	45	42	Gold	3	17	39
AUDUSD	2	-6.62	2.45	2.81	10Y DE Bund	31	58	44	Silver	4	16	34
NZDUSD	3.29	-6.77	3.89	3.97	10Y UK	9	12	8	Copper	10	22	24
USDJPY	-5.15	4.7	-0.84	-4.8								
USDCHF	-2.4	3.42	-2.93	-3.36								
USDCAD	-0.65	5.5	-1.11	-0.53								
USDCNY	-0.87	2.34	-0.68	-0.9								
USDINR	1.81	3.59	-0.96	1.25								

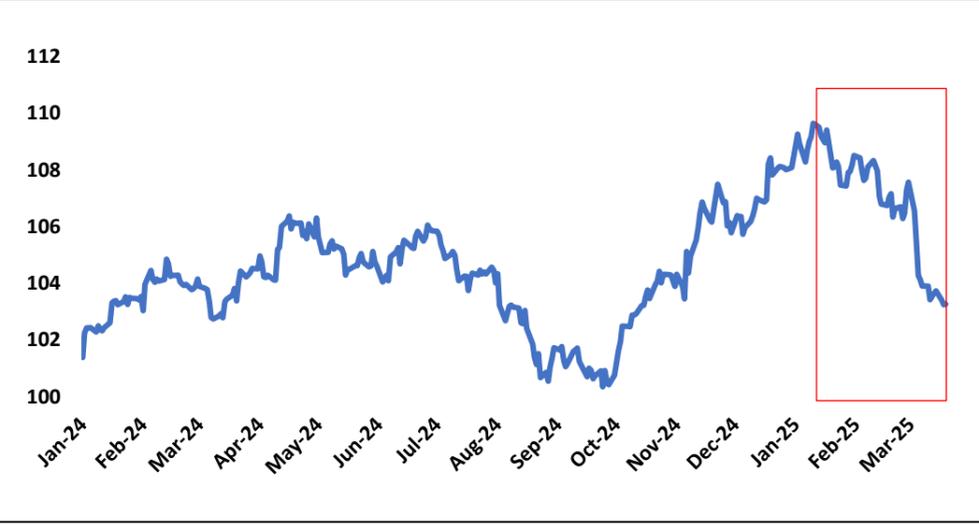
Source: Bloomberg, Reuters, UBI research

Trump fueled US Dollar rally has faded this year

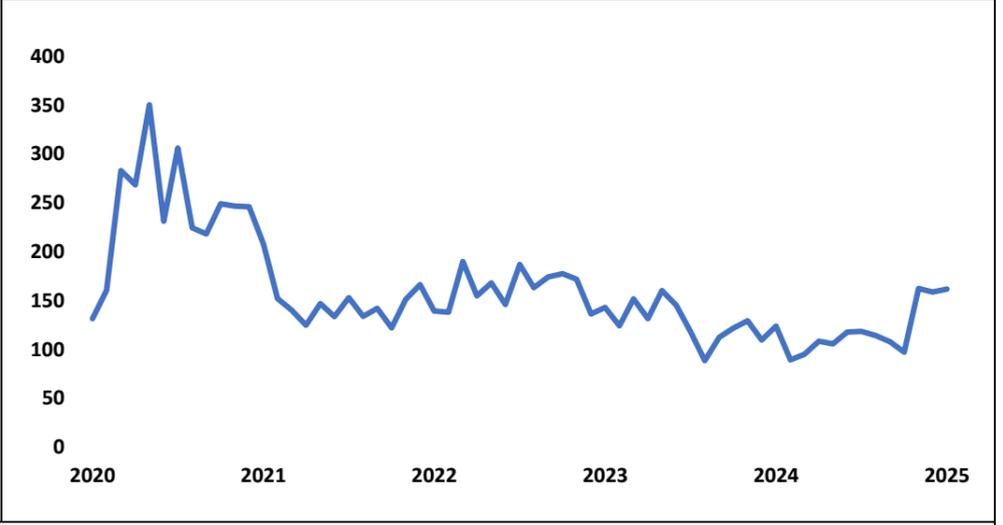
(Fig 2)

Consumer facing heightened uncertainty over policy uncertainty (Economic policy Uncertainty Index by US)

(Fig 3)



Source: Bloomberg, Reuters, UBI research, fred.stlouisfed.org

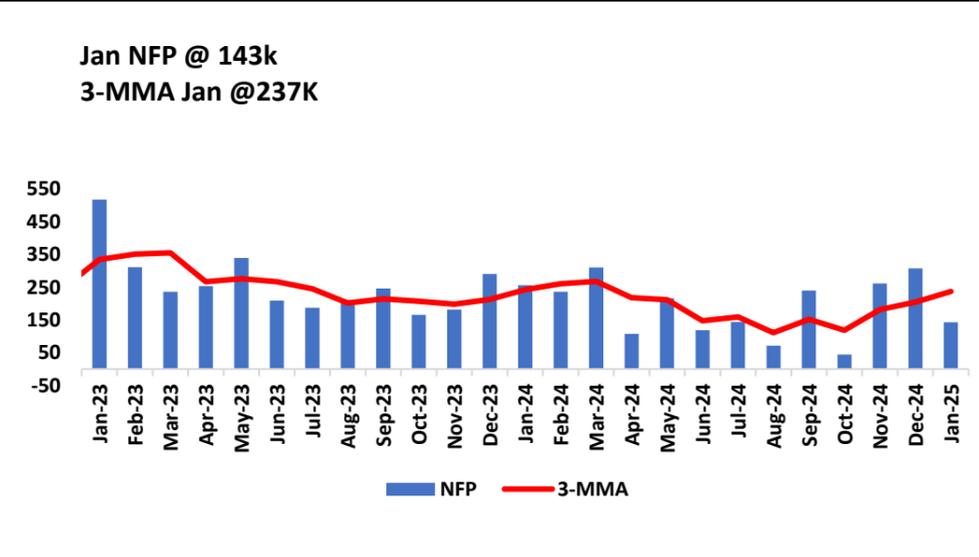


Jan'25 NFP data saw BLS doing downward jobs revision by 589K in 12 months through March 2024

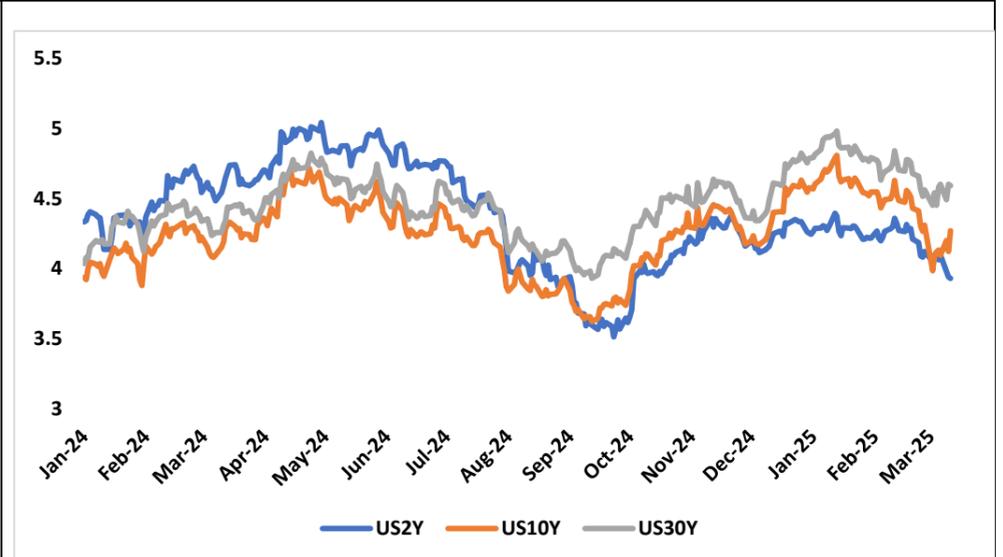
(Fig 4)

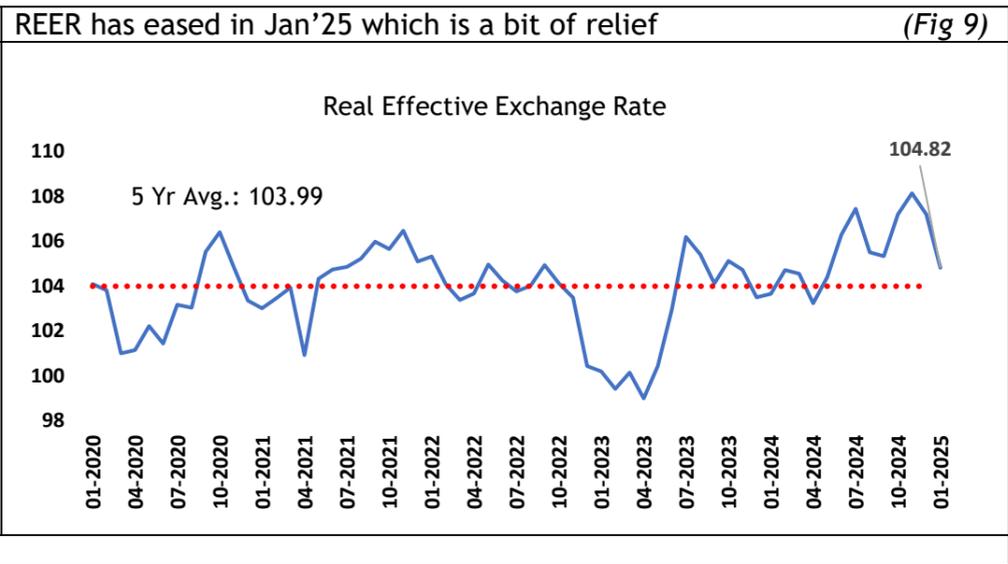
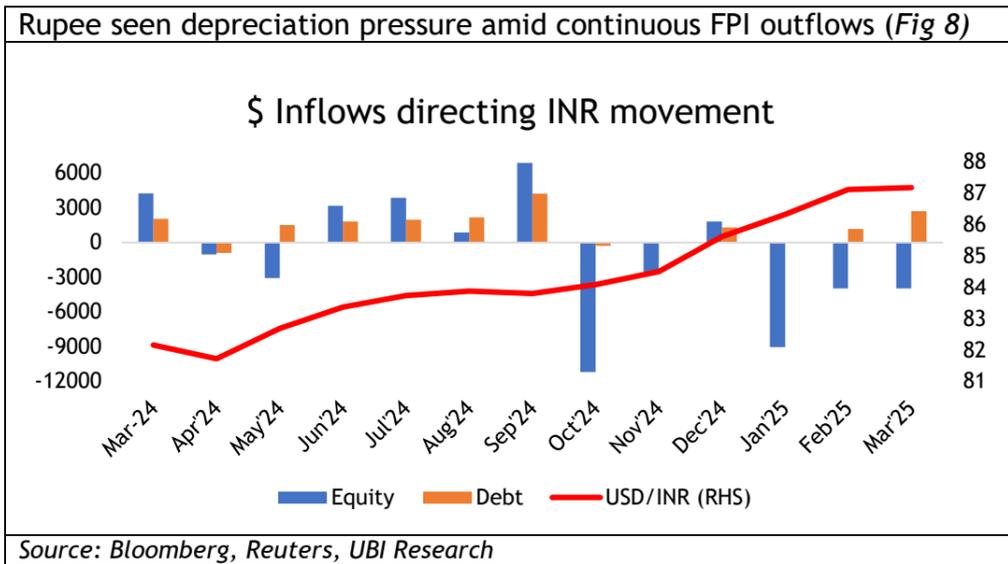
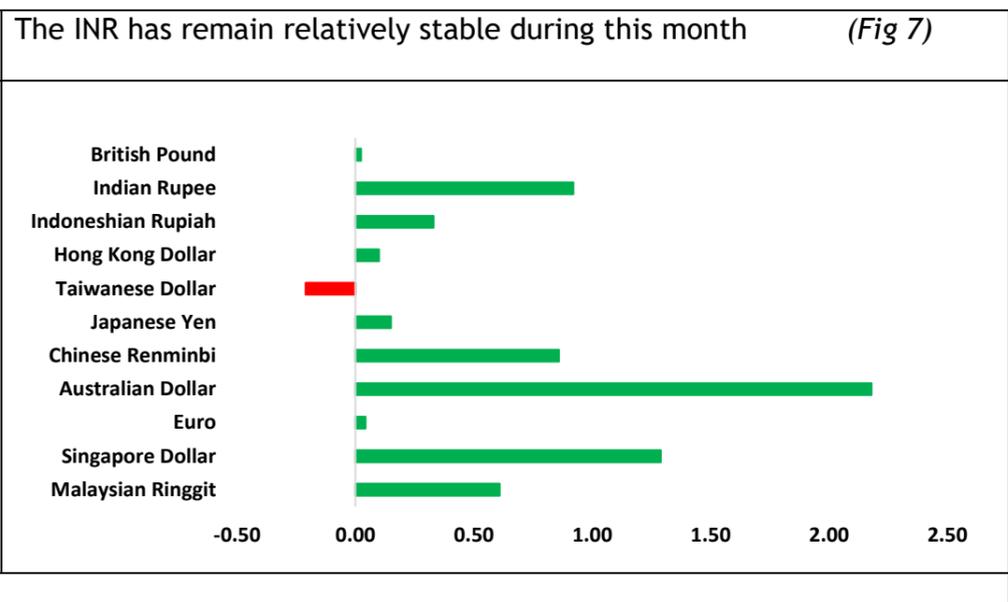
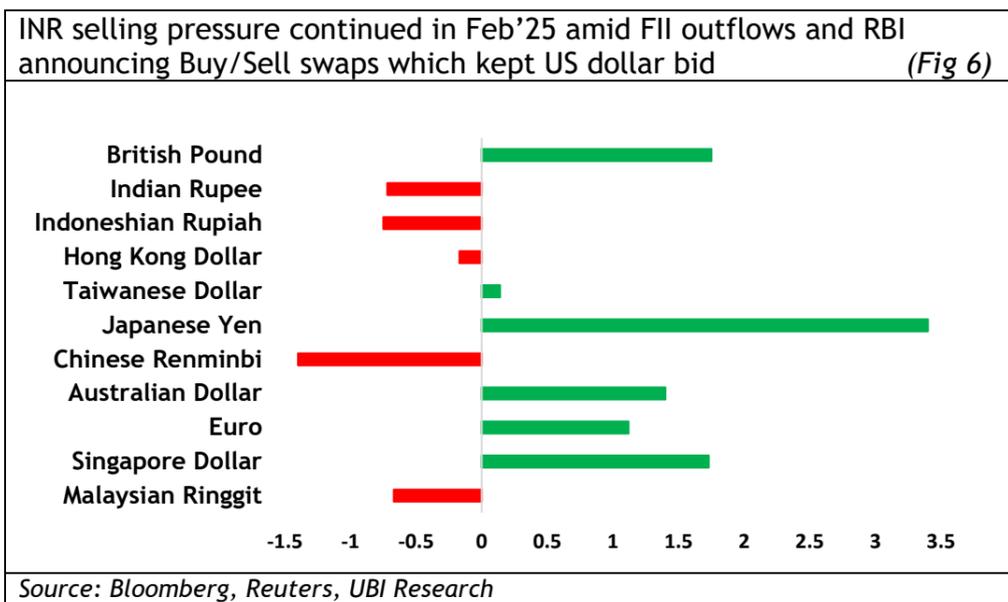
Yields on US Treasury continues to fall over uncertainty regarding trade tariffs and rising probability of recession

(Fig 5)



Source: Bloomberg, Reuters, UBI research





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