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There was a bit of good news in the week gone by as US President Trump signed an order to direct the US Trade Representative and Commerce secretary to propose new tariffs on a country-by-country basis in an effort to rebalance trade relations – a broad process with no clear date as to when they would take effect. Trump's Commerce secretary nominee Lutnick stated that all studies should be completed by 1 Apr and that Trump could act immediately afterward. Another event that made the round was US President Donald Trump revealed that he had a phone call with Russian President Vladimir Putin to start negotiating an end to the war in Ukraine. **The reciprocal tariff framework and continued uncertainty around trade negotiations are likely to fuel currency volatility which may strengthen safe haven currency like US Dollar.** When there's a delay in the implementation of tariffs (or other trade measures), the risk associated with that delay is being realized.

Under Donald Trump, the traditional balance between economics and politics was often upended, particularly in terms of trade policy. His administration's approach, especially with trade wars and tariff strategies, was rooted in the idea that "economics trump politics". ([Refer our report](#))

The US Dollar along with yields continues to consolidate and may be a buying opportunity as US dollar is likely to pick up strength in second quarter once the trade tariffs start to kick in completely. But the delay in the tariff hike could be interpreted as a challenge to the notion of US exceptionalism and is risk to US Dollar.

US data docket is light this week. All eyes will be on US PCE data due to be released on 28th Feb'25 along with any major announcement of trade tariffs from Trump administration and any breakthrough in Russia Ukraine war will be closely watched.

Key Themes:

- ♣ Trump announces “fair and reciprocal plan” on trade
- ♣ Rupee recovers its lost ground after falling to record low levels

US Dollar and yields ended the week on weaker note

The US dollar ended the week trading on a softer footing and closed 1.21% lower, below the crucial 107.00 level, recording its second consecutive week of losses and fourth week of losses out of the last five. Despite the US inflation data coming hotter than market expectation and markets pulling back rate cut expectation the US dollar failed to maintain its upward momentum. The two triggers for weaker US dollar was Trump delaying the implementation of reciprocal trade tariff and optimism over a potential peace deal for Ukraine and Russia.

The overheating worries after US CPI did drove the UST yields higher, denting risk sentiment in the process but after US President Trump directed his administration to evaluate reciprocal tariffs, but he stopped short of imposing immediate measures this lead to fall in yields across the curve, where US10Y fell by 9bps but overall the weekly performance remained flat with 0.33% loss.

Trump announces “fair and reciprocal plan” on trade

The US administration first announced 25% levies on imports from Canada and Mexico, followed by a 10% tax on imports from China. While the actual implementation for Canada and Mexico is on hold for now, tariffs on China are already in place. In the most recent escalation, US President Trump announced additional 25% tariffs on all steel and aluminium imports into the US. While tariffs on steel and aluminium are not new, having been initially introduced during Trump's first presidency in 2018. If Trump is following the same strategy, these tariffs could likely be used as leverage in trade negotiations.

Trump has also asked Commerce secretary to propose new reciprocal tariffs on a country-by-country basis in an effort to rebalance trade relations. This study is likely to be completed by 1st April and we may likely see its implementation immediately in second quarter. Trump cited European VAT policies as an example of unfair trade practices, while a White House official pointed to Japan and South Korea as potential targets. Developing economies with higher tariffs on US products are also likely to be

US Dollar remains on backfoot after US CPI and reciprocal trade tariff plans from Trump

The prospect of a deal between Russia and Ukraine has lifted risk sentiment along with delays in reciprocal tariff implementation

affected. Unlike his 2024 campaign proposal for a universal import tax, this approach appears more tailored but leaves room for broader action.

FED on hold for longer this time

FOMC officials have made clear that they are in no hurry to adjust the current stance of monetary policy. With inflation still running above the FOMC's target, the labor market looking stronger and heightened uncertainty around Trump administration economic policy changes. In his recent testimony before the US congress FED Chair J Powell has clearly stated that the inflation remains above the 2% target and wants to make more progress on inflation, while policy stance now significantly less restrictive than it had been and the economy remaining strong and don't see any reason to be in a hurry to reduce rates further. Other FED members have also given hawkish statements FED's Goolsbee described the latest inflation report as "sobering" and warned that if the Fed gets multiple months of CPI inflation like Jan, then the job is clearly not done.

The next FOMC meet on 19th March currently the probability of FED to hold rates currently stands at 97% while markets are expecting only one rate cut of 25bps in Dec'25 as previous two rate cut a month ago which may keep the yields at elevated levels.

US CPI and PPI comes in hotter than market expectation

US Jan'25 CPI report was hotter than expected, with the headline CPI print coming in at 0.5% m/m, 3.0% y/y (above market est. 0.3% m/m, 2.9% y/y and up from 0.4% m/m, 2.9% y/y in Dec), while core CPI also accelerated in Jan'25, coming in at 0.4% m/m, 3.3% y/y (above market est. 0.3% m/m, 3.1% y/y, and up from 0.2% m/m, 3.2% y/y in Dec).

The core inflation's 0.4% m/m increase was the fastest since Mar'24. Much of the pickup can be traced to a jump in used vehicle prices (+2.2%), motor vehicle parts (+0.8%) and medical care commodities (+1.2%), whereas apparel posted a notable decline in prices (-1.4%). The closely-watched shelter component rose 0.4% over the month.

US wholesale prices PPI rose more than forecast, coming in at 0.4% m/m, 3.5% y/y in Jan (versus market est. +0.3% m/m, 3.3% y/y, and same pace as the 0.5% m/m, 3.5% y/y in Dec) with food prices up 1.1% y/y and energy prices up 1.7% y/y. Core PPI rose by 0.3% m/m, 3.6% y/y (versus market est. 0.3% m/m, 3.3% y/y, from 0.4% m/m, 3.7% y/y in Dec). The latest PPI increases suggest only limited progress on inflation ahead of the tariffs imposed by the Trump administration.

Rupee recovers its lost ground after falling to record low levels

The Indian rupee has gone past two big figure change this year on the backdrop of Trump's uncertain trade policy and outflows from domestic equity markets. Earlier in the week, the rupee had fallen to a record low of 87.95 per dollar. But showed some strength on the backdrop of weak US dollar while PSU banks were also seen selling US dollars which added to the rupee strength and made a low of 86.50 on Tuesday (11thFeb'25). This US dollar sell lead to rise in dollar/rupee near term forward premiums on the back of dollar liquidity. The indirect impact of USD sales on banking system liquidity is offset by doubling OMO amount in two auctions and introduction of 49-day VRR.

The rupee ended at its highest level in nearly two weeks at 86.8325 against the dollar on Friday (14th Feb'25) as the dollar index fell to a near two-month low after US President Donald Trump delayed the implementation of reciprocal tariffs. Another positive factor for rupee is crude oil prices continues to trade lower on the news that US President Trump and Russian President Putin agreed to talks on ending the war in Ukraine, sparking speculation that risks to Russian supply may ease.

This reciprocal tariff may be implemented only after 1st April may have provided some sort of relief to INR but recently Trump has termed India as one of the highest tariff countries in the world. "India charges more tariffs than any other country. It's hard to sell in India because they have very strong tariffs...Whatever India charges us, we'll charge them. Reciprocal tariffs are the fair way to go." If Trump implements reciprocal tariffs on India this is likely to weigh on rupee going forward.

FED members have maintained hawkish tone over the week

Inflation peaked up more than anticipated in Jan'25, the Fed may have to wait longer than anticipated

Reciprocal trade tariffs not being imposed immediately lead to rise in Asian peers help support INR

Debt-FAR related flow has been strong this month till date

Local factors also point to a less benign growth-inflation trade-off for India, while the RBI on 7th Feb'25 cut its policy rate by 25bps. On rupee, the Governor asserted that “our interventions in the forex market focus on smoothening excessive and disruptive volatility rather than targeting any specific exchange rate level or band. The exchange rate of the Indian Rupee is determined by market forces”. The recent commentary from Governor Sanjay Malhotra was more or less same as former governor Shaktikanta Das but the rupee moves are slightly different.

As per the data released by RBI the central bank’s aggregate negative position in FX forwards and futures hit \$68 billion in December. The last time its forward book was this big, whether positive or negative, was in March 2021.

While REER has seen an overvaluation, bias persists (107.20 in Dec'24 down from 108.13 in Nov'24 versus 5- yr. avg. of 103.99 levels) reflecting pending depreciation pressure in the currency pair. Pace of overvaluation has reduced in Dec vs Nov as Rupee move was relatively better aligned versus global peers. However, in Jan'25, the pace of fall in over-valuation would have increased as Rupee was one of the worst performing currencies amid global FX peers. (Ref fig 6,7,8)

However, the latest trade numbers for Jan'25 show sharp narrowing to \$22.99bln. FYTD25 Balance of Payment (BoP) is tracking negative c. -\$21.83bln (Q1: \$6.37bln, Q2: \$27.65bln, Q3: -\$42.27bln & Q4 till date: -\$8.17bln) with sharp loss in BoP seen in Q3:FY25. Historically, there is a close correlation between FX reserves and BoP. Additionally, foreign exchange reserves held by the Reserve Bank of India continues to rise third week in a row to one month high of \$638.26 billion as of 7 Feb'25. The reserve increased by \$ 7.66 billion in the week ended 7th Feb'25 this was week when rupee saw sharp depreciation, with reversal seen in the week ended 14th Feb'25 probably reversal of this reserve gains are likely. This increase in reserve was highest since the week ended September 27, where the reserves touched a record high of \$704.9 billion (Our analysis shows jump in forex reserves due to revaluation gain was around \$5.41 billion for week ending 7th Feb'25).

FPIs net withdrew \$11.12bln (highest in a decade) in Oct'24, while there was inflow of \$1.83bln in Dec'25. Followed by outflows to the tune of \$9.04bln in Jan'25 and \$2.40bln in Feb'25. The debt segment has been positive this month; to the tune of \$879 million vis-à-vis inflows of \$38 million from the previous month. Moreover, the FAR related flows have risen to \$8928 mln. in Feb'25 (14th Feb'25) vis-à-vis inflow of \$8192mln. in Jan'25. Going ahead all eyes will on Trump’s tariff plans and how Asian currency pairs react to it.

Central bank Policy Rates			
	Current	End of 2024	YTD Change 2025 in BPS
Advanced Economies			
Australia	4.35%	4.35%	0
Canada	3.00%	3.25%	-0.25
Euro-zone	2.90%	3.15%	-0.25
Japan	0.50%	0.25%	0.25
New Zealand	4.25%	4.25%	0
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	3.00%	3.00%	0

Key Market movers

(Fig 1)

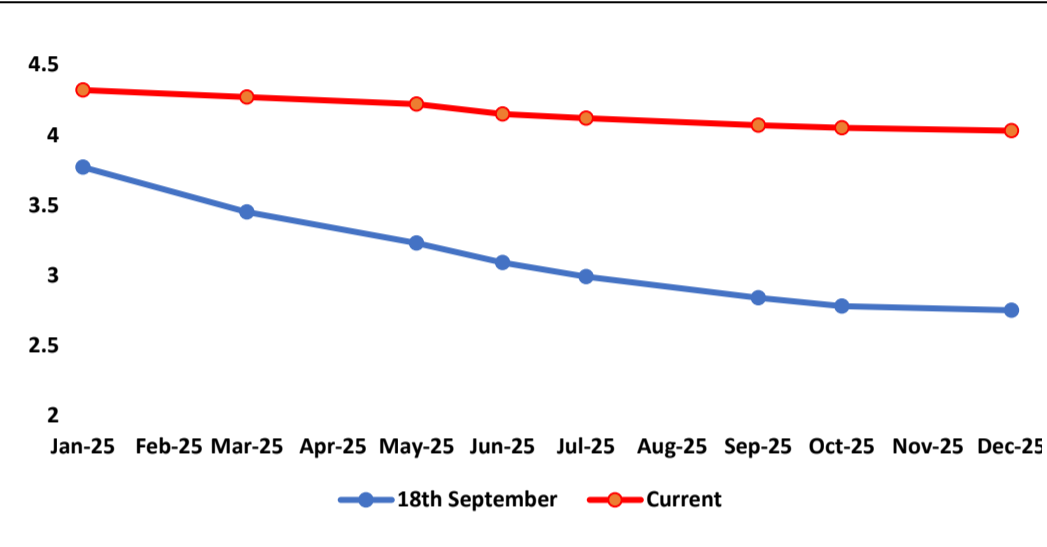
FX Performance				
FX Pair	3M % Change	6M % Change	MTD % Change	YTD % Change
EURUSD	-0.37	-4.73	1.24	1.33
GBPUSD	-0.63	-1.87	1.57	0.59
AUDUSD	-1.58	-3.73	2.24	2.63
NZDUSD	-2.05	-4.45	1.65	2.43
USDJPY	-2.51	3.41	-1.84	-2.87
USDCHF	1.01	3.93	-1.27	-0.89
USDCAD	0.88	3.41	-2.36	-1.38
USDCNY	0.36	1.61	0.03	-0.63
USDINR	2.56	3.17	0.1	1.25

Government Bond			
	1M Change BPS	3M Change BPS	YTD Change
10Y US Treasury	-15	6	-10
10Y JP JGB	15	28	26
10Y DE Bund	-10	8	6
10Y UK	-15	4	-6

Commodity Price Performance			
	MTD % Change	3M % Change	YTD % Change
WTI Crude	-19	5	-2
Gold	6	13	10
Silver	5	8	12
Copper	7	14	15

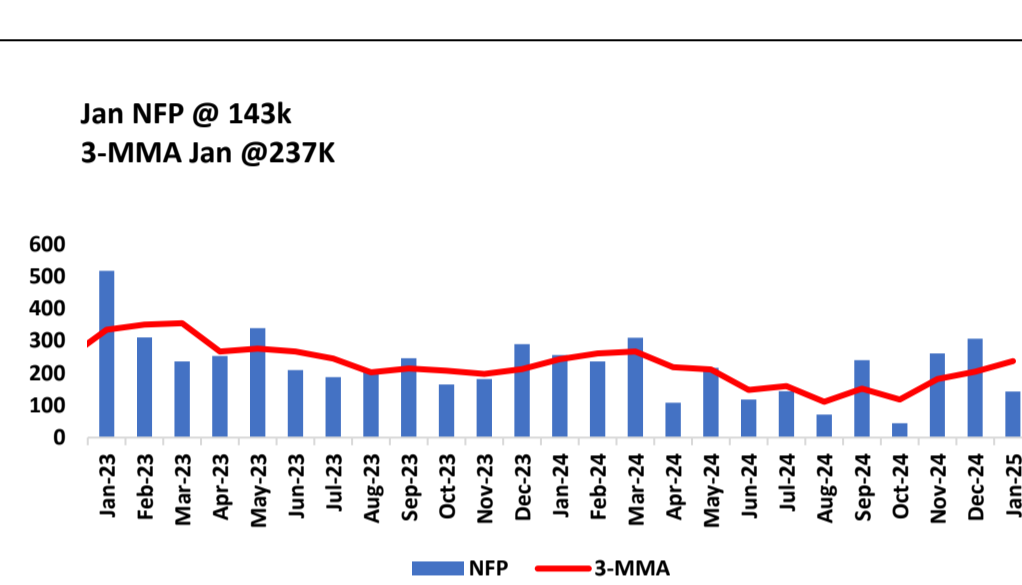
Source: Bloomberg, Reuters, UBI research

Pricing of FED rate cut has gone up since 50bps rate cut on 18th September (Fig 2)

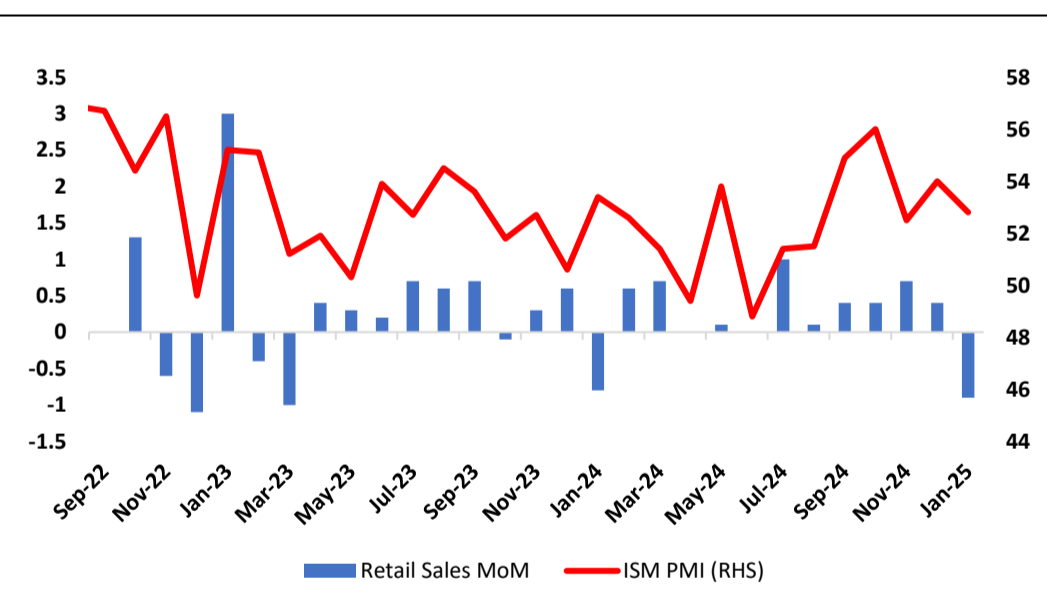


Source: Bloomberg, Reuters, UBI research

Job creation in Jan'25 (US NFP) was lower than expectation (Fig 3)

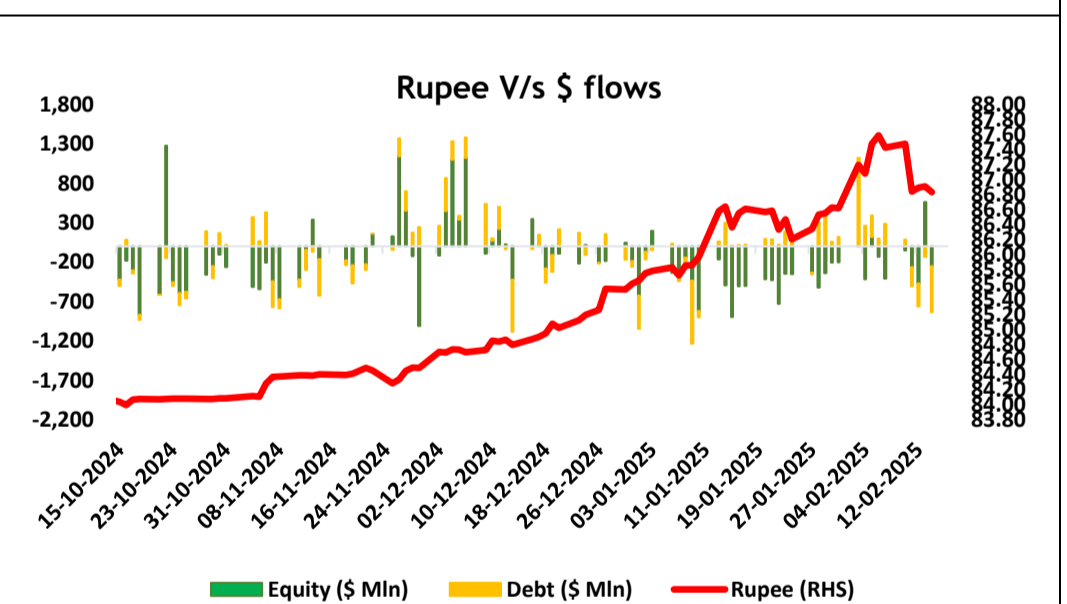


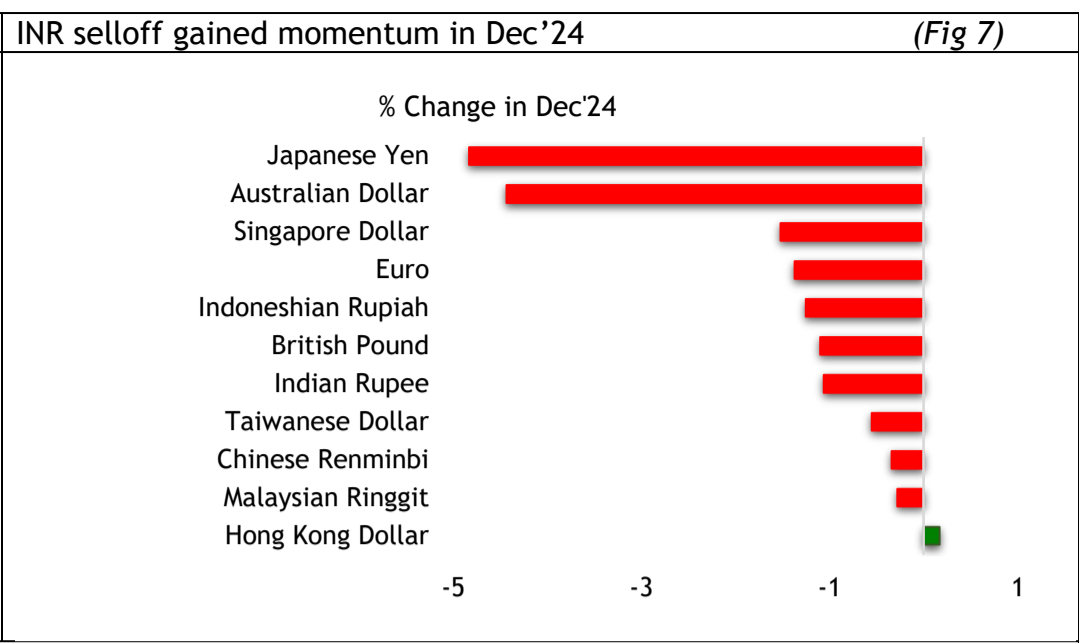
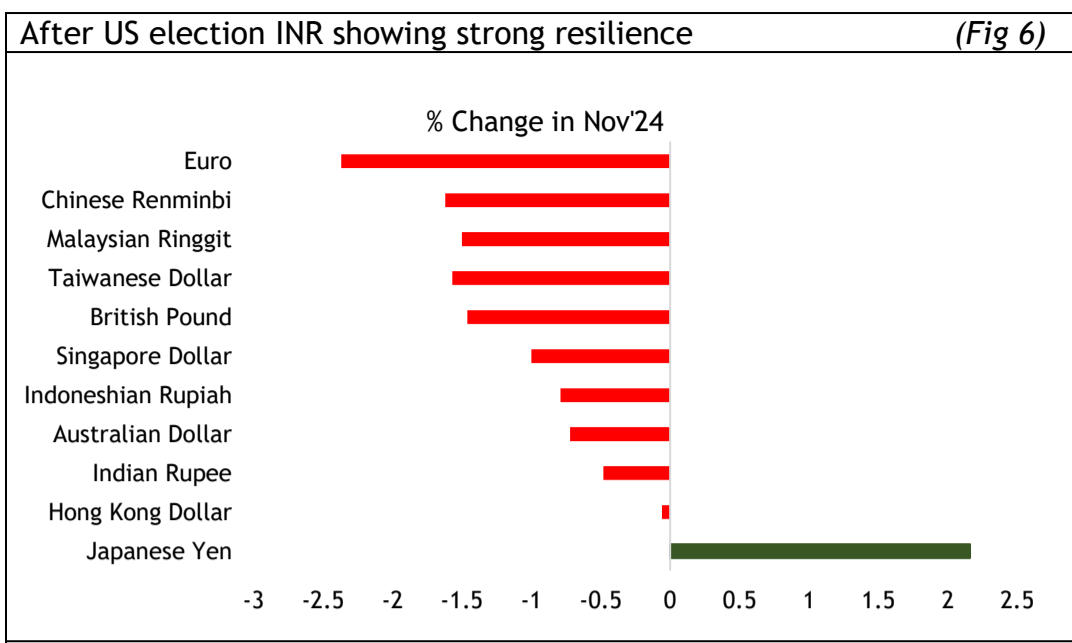
US retail sales slumped 0.9% in Jan'25 (Fig 4)



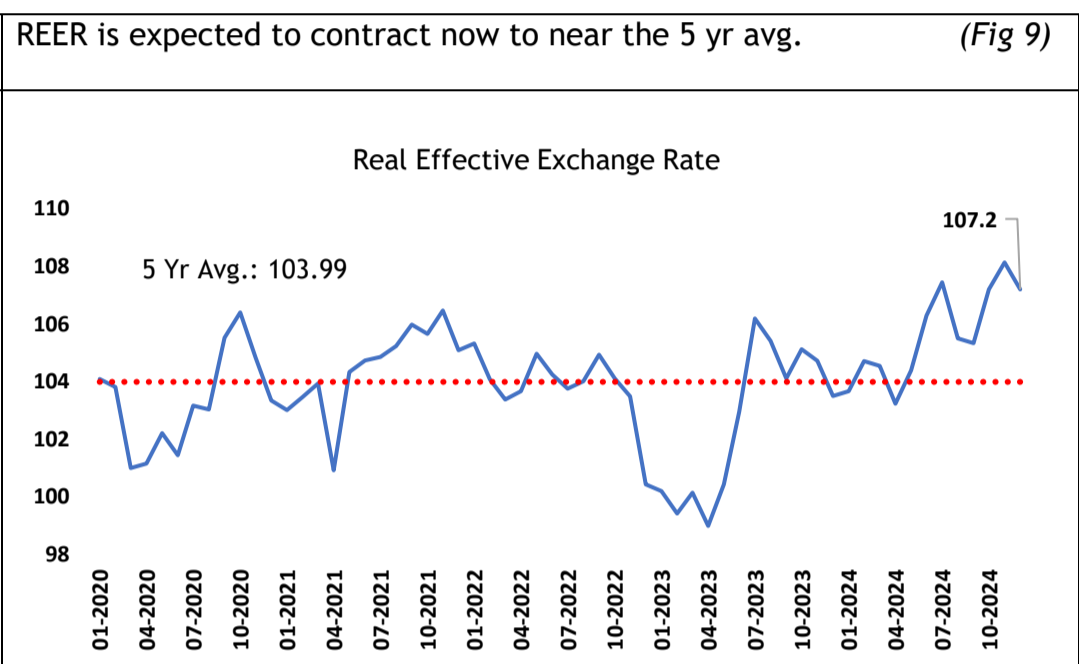
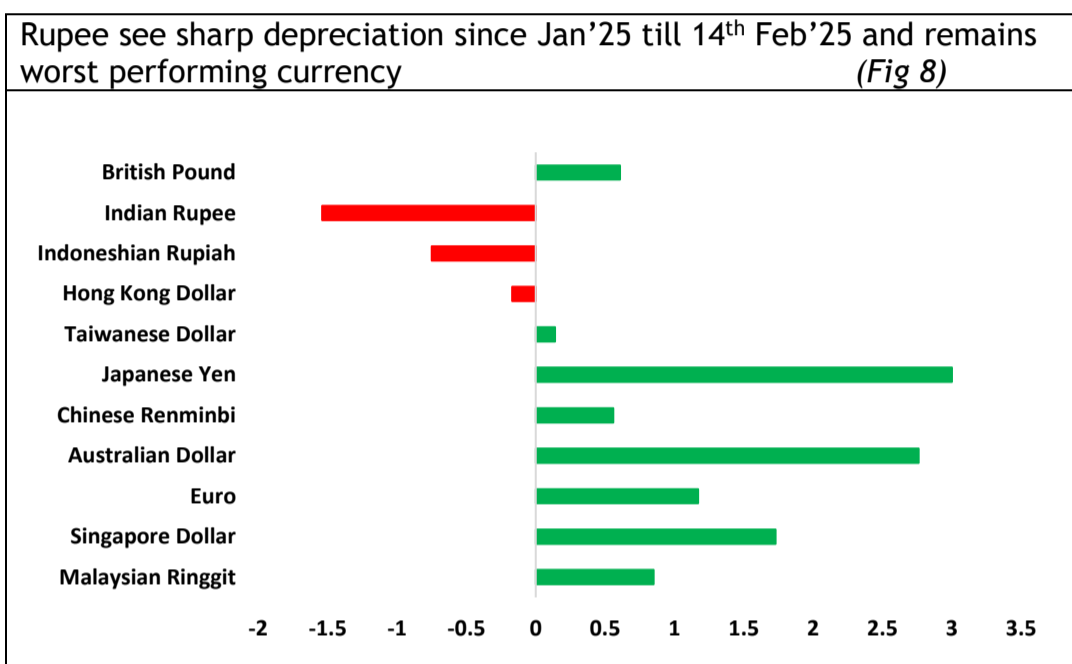
Source: Bloomberg, Reuters, UBI research

Outflows from equity markets continue to weigh on rupee (Fig 5)





Source: Bloomberg, Reuters, UBI Research



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