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Last week was a bumper week, with three G7 central-bank decisions amongst which the much-awaited FOMC- rich in signals but light on genuine surprises. The Fed delivered a 25-bps ***risk-management cut, not a pivot to rapid easing****. Fears of a splintered vote proved overdone: dissent was limited to Governor Miran's push for a 50 bps move. The statement's centre of gravity shifted toward the labor side* ***"downside risks to employment have risen"*** *even as Powell kept both sides of the mandate in view. His remark that the -911k payroll revision through March 2025 was "almost exactly" what the Fed anticipated reads as either prescient or conveniently aligned with today's narrative.*

Beneath the calm surface, the SEP dots tell a messier story. Several participants see only one more cut this year, and at least one projects a notably low 2025 path. That dispersion matters: it heightens data-dependence and sets the stage for episodic volatility around every major print and presser as the reaction function is stress-tested in real time.

Markets heard "insurance," not "pivot." The initial dovish read was quickly faded: front-end yields rose as the 2-year reset to a shallower path of cuts, gently ***steepening*** *the curve. The message is clear easing has begun, but the bar for faster follow-ups is high. Pricing implies a slow-walk profile:* ***10-year yields appear anchored around 4.0–4.2% while the front end does most of the repricing****; the 2s10s has drifted toward ~55 bps, consistent with a modest term-premium rebuild.* ***The dollar's sharp post-FOMC bounce looks more like positioning and front-end spread dynamics than a hawkish policy turn; medium term, a softening labor market and additional cuts still bias the USD lower as the cycle matures****. "The Fed's September 2025 projections lifted the inflation forecast, and in combination with a rate cut, this has undermined market confidence.*

Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
29 Oct 2025	3.85%	-23 bp
10 Dec 2025	3.63 %	–44 bp
29 Apr 2026	3.32 %	–75 bp
28 Oct 2026	2.98 %	–109 bp
09 Dec 2026	2.95%	-112 bp

Next meeting probabilities: **No change 8 % , 25 bps cut 92 %**

Globally, the cycle isn't synchronized it's asynchronous. The BoC and Norges Bank cut, the BoE and BoJ held, and Brazil paused with hawkish optionality. That patchwork keeps relative-value trades alive especially in front-end curves and selective FX as country-specific labor/inflation mixes, not a single global rhythm, drive the path.

Near-term catalysts: Fed speakers, the third US GDP print, and most importantly Friday's Aug PCE data (Bloomberg est 0.3% m/m, 2.7% y/y from 0.2% m/m, 2.6% y/y in Jul), core PCE (Bloomberg est 0.2% m/m, 2.9% y/y from 0.3% m/m, 2.9% y/y in Jul). A hotter PCE would reinforce bear-steepening and test markets' "insurance-cut" patience; a cooler print would validate the gradual-cuts baseline, supporting a softer USD and a continued quality-led equity bid.

September FOMC: Risk-management cut and the road ahead

Last week the Fed delivered a 25-bps cut, taking the target range to 4.00%-4.25% the first reduction of 2025 via an 11–1 vote. Only the newly appointed Governor Stephen Miran dissented, favoring a 50 bp cut. Governors Waller and Bowman often linked to the Trump camp and dissenters at the prior meeting backed the majority this time. Chair Powell thus secured an almost unanimous outcome.

The Fed is easing, but not sprinting, and it expects a slow normalization of inflation with labor slack cushioning the path.

Powell's Message: Dovish door, Hawkish guardrails

Chair Powell struck a dovish tone: labor demand has softened and job creation is running below the "break-even" rate, but he avoided committing to a rapid easing cycle. He framed the move as a ***"risk-management cut," stressed a meeting-by-meeting approach, and noted limited support for a larger 50 bps step***. He also emphasized that tariff-related goods inflation may persist through this year and next, even as overall inflation risks have eased since April. Net effect: policy has been nudged easier, but the bar for outsized or pre-announced easing remains high.

The Dots and the data: A slower glide path

The updated dot plot implies two additional 25 bps cuts this year (now at 3.6% by end-2025), then one cut in 2026 (to ~3.4%) and another in 2027 (to ~3.1%); the long-run rate stays at 3.0%. Dispersion widened: six officials see no further 2025 cuts, while a minority pencils materially more easing. The Summary of Economic Projections leans resilient: 2025 real GDP was marked up to 1.6% (from 1.4%), unemployment is still seen at 4.5% this year easing to 4.2% by 2028, and PCE inflation drifts toward target only gradually 2% headline is not achieved until 2028.

Cross Asset fund flow as of 10th Sept'25

Category	4 wk. avg. ($bn)	2024 avg. ($bn)
All Equities	7.9	7.6
All Bonds	17.7	10.6
US Equities	-1.4	5.7
US Bonds	7.8	4.3
EM Equities	1.2	–0.2
EM Bonds	0.98	–0.37
Japan Equities	-0.4	0.2
China Equities	-0.06	–0.18
Europe Equities	-0.7	–0.9
Europe Bonds	7.3	4.7

Source: JP Morgan

DXY: Whipsaw, then rebound holding firm

The dollar's last week was a two-step: a dovish FOMC read initially knocked DXY lower as markets leaned into an easing cycle (DXY –0.75% to 96.21 with broad G10 gains vs USD), but Powell's "risk-management cut" framing and firmer U.S. data (retail sales) flipped the narrative and produced a relief rebound. By Thursday, DXY snapped higher (+0.49% to 97.60) and finished the week modestly firmer (+0.03% w/w), while EUR/USD faded from a post-statement four-year high (1.1918) and USD/JPY swung from losses to gains. Tactically, that sequence says near-term USD dips are still sensitive to front-end repricing and headline surprises even if the medium-term bias softens as the Fed cuts accumulate.

U.S. Yields: Knee-Jerk rally, Hawkish re-price, Modest steepening

U.S. treasuries traced the same arc. A post Fed decision duration bid quickly gave way to a hawkish re-price as Powell leaned against hopes of a rapid cutting cycle. Into Thursday, yields pushed back up, the 10Y above ~4.13%, 2Y to ~3.58%, 30Y to ~4.73% and by Friday incremental bear moves (≈+0.8–2.3 bps) left the curve a touch wider (2s10s ~+1.3 bps), i.e., modest bear-steepening from the intraday lows. For positioning: the belly/long end remain most sensitive to shifts in the Fed reaction-function and term-premium/supply dynamics, while the 2Y stays pinned by evolving cut odds setup that argues around PCE/labor prints and for selectively fading outsized rallies.

BoJ: Steady Policy, Symbolic Unwind

The BoJ kept rates steady but nudged the architecture of policy in a more orthodox direction by planning to offload ETFs/J-REITs at a glacial pace.

The Bank of Japan paused policy in September (7–2 vote to hold the overnight call rate "around 0.50%") but surprised markets with a plan to sell its ETF and J-REIT holdings at a very conservative pace, while discontinuing new purchases. The mix signals a central bank inching toward normalization in balance-sheet design even as it keeps the policy rate steady and guidance cautious.

Policy settings were left unchanged for money-market operations, but the decision was not unanimous: two board members (Takata and Tamura) preferred a 25-bps hike to 0.75%, marking Governor Ueda's first dissenters since taking office. Their reasoning prices skewed to the upside and inflation "more or less achieved" highlights a committee now openly debating the timing of the next step.

Ueda's press conference: Cooling october hike hopes

October is no longer the default hike window; December is the live meeting, contingent on data and tariff spill overs.

While the two dissents initially nudged markets to price an October hike, **Governor Ueda doused that speculation, saying the Bank needs more data especially around U.S. tariff risks before deciding next steps.** He emphasized a cautious approach and declined to wade into short-term currency commentary.

USD/JPY — Two-way swings into BoJ, but no clean follow-through

Around the FOMC, USD softness briefly pushed USD/JPY down to ~145.5, but a swift dollar rebound flipped the pair higher and back toward prior-week levels. Heading into the BoJ, USD/JPY was firm (≈147–148), reflecting front-end USD support; post-decision, the yen only edged stronger as Governor Ueda's cautious tone tempered the meeting's hawkish color (two dissents for a hike; announcement to slowly reduce ETF/J-REIT holdings). Net-net, it was a whipsaw week: dip on the Fed headline, rebound into BoJ, then marginal yen strength on the day leaving the cross near where it started and signalling that clearer BoJ conviction (or weaker US data) is needed for sustained downside in USD/JPY.

A tug of tides: Rupee gains on Fed cut & high FX Reserves of $700Bln, hit by visa storm

Rupee ended week ~0.20% stronger, supported by a Fed rate cut & robust FX reserves, though gains were capped by visa fee shocks.

Last week, the Indian Rupee navigated a volatile global environment with resilience, ending marginally stronger against the U.S. dollar despite facing considerable external pressures. The key event influencing currency markets was the **U.S. Federal Reserve's policy meeting**, where the Fed cut interest rates by 25bps to a range of 4.00% to 4.25% — its first cut since Dec'24 and the lowest level since late 2022. Fed officials signalled that two more rate cuts are likely before the end of the year. The Dollar Index weakened modestly following the decision, as markets began pricing in a more accommodative stance despite the Fed's cautious forward guidance. The Rupee to gain support from a significant boost in foreign exchange reserves, which crossed the **$700bln** mark. Additionally, positive sentiment from ongoing India-U.S. trade dialogue helped stabilize the currency. Later in the week, sentiment weakened after the US announced **steep visa fee ($100,000)** hikes for **H-1B** applications, hitting Indian IT firms and raising concerns over service export revenues. The currency retains a mild downward bias amid global monetary policy divergence and volatile capital flows. Despite brief recoveries spurred by gains in domestic equities, the rupee appreciated by **~0.20%** over the week, despite recoveries in Asian currencies (Last Friday's close: ₹88.2750/$) [O: ₹88.2625/$, H: ₹88.3450/$, L: ₹87.7200/$ & C: ₹88.0975/$]. (Refer report: FX weekly: Global easing divergence meets India's tariff test: Rupee on the ropes) 🔑 **Key Drivers of Rupee Movement:**

Ongoing India-US trade talks offer cautious optimism, but tariff tensions and policy uncertainty continue to weigh on the rupee.

- **India and the India-U.S. trade talks** have gained momentum recently to resolve tensions triggered by steep U.S. tariffs. External Affairs Minister **S. Jaishankar** has actively engaged with U.S. lawmakers, meeting **Senator Marco Rubio** and other officials on the sidelines of the UN General Assembly, signaling high-level political commitment to de-escalate the dispute. India's **Chief Economic Adviser** has suggested that the U.S. may reduce the penal tariffs to around 10–15%, and **Commerce Minister Piyush Goyal** has expressed confidence in reaching a satisfactory resolution. Meanwhile, rupee recently slid to an all-time low, remains under pressure due to trade uncertainty, U.S. visa policy shifts, and global headwinds. Any positive breakthrough in trade negotiations could stabilize the rupee and improve investor sentiment.

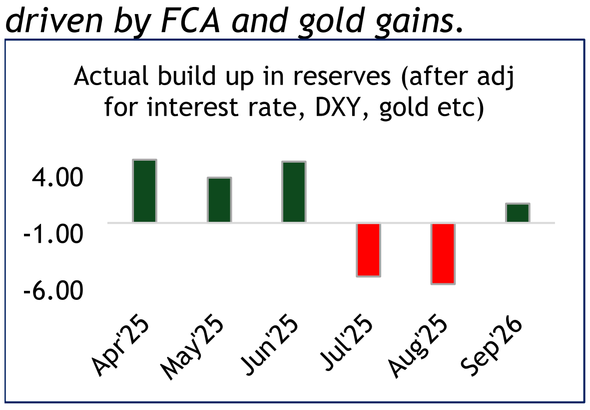
FPIs turning net buyers with $322M inflows in equities and $983M in debt, easing a YTD selloff of $15.70bln.

- **Foreign Portfolio Investors (FPIs)** have continued their aggressive selling in Indian markets, withdrawing **$15.70bln YTD** as of 22nd Sep'25. However, we saw a turnaround in the last week when FPIs turned buyers in equities injecting $322mln vis inflows of $168mln on a WoW basis. Flows have flushed in debt to $983mln vis-a-vis $64mln outflows a week ago. FAR flows, at **$5.83bln YTD**, including a $1092mln inflow so far this month.

DXY rose 0.32% last week on strong US data & a cautious Fed, keeping EM currencies under pressure amid firm dollar outlook.

- **Dollar Index (DXY)** gained modestly (0.32%) as investors positioned for a more resilient US economy and digested the Federal Reserve's cautious tone following a 25bps rate cut; the first since Dec'24. The dollar's strength was underpinned by lower than expected jobless claims and upgraded US growth forecasts, which reinforced its relative appeal against major currencies. This renewed dollar strength continued to weigh on EM currencies. Looking ahead, the DXY is expected to remain firm, with upcoming US inflation data and Fed commentary in focus. If the strong dollar environment persists, the rupee could remain under pressure, facing heightened volatility and continued depreciation risks.

FX reserves jumped to $702.97 bln driven by FCA and gold gains.



- **FX reserves** surged by $4.70bln to **$702.97bln** for the week ending 12th Sep'25, driven mainly by a **$2.54bln rise in FCA** to $587.01bln and **$2.12bln rise in Gold**. With this gain, reserves now stand just **$1.89bln** shy of all-time highs **$704.86bln** recorded on 27th Sep'24. A valuation gains of $1.88bln was also noted, highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP surplus of ~$6bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

Brent crude rose ~0.96% last week amid geopolitical tensions, but remains down ~10% YTD, keeping pressure on the rupee through higher import costs and trade deficit risks.

- **Brent crude oil prices** saw a modest recovery last week, following a brief dip earlier in the week. The rebound was driven by fresh EU sanctions on Russia and heightened geopolitical tensions near Eastern Europe, but gains were capped by increased Iraqi exports post-OPEC+ cuts and persistent demand concerns, despite a larger-than-expected U.S. inventory drawdown. Looking ahead, Brent is expected to trade within a narrow range, as geopolitical risks are weighed against supply-side pressures. For rupee, elevated crude prices remain a key risk, as higher oil imports widen the trade deficit and potentially worsening currency depreciation. On a WoW basis, prices surged by **~0.96%**, and they still reflect a sharp **YTD decline of ~10%**.

Trade deficit narrowed to $26.49bln in Aug’25, aided by a sharper fall in imports, while resilient services surplus of $16.6 bln helped offset export pressures from the US-India trade deal stalemate.

Rupee is expected to stay under pressure amid global uncertainties & a strong dollar, with brief support from robust IPO activity and RBI’s FX reserves cushioning volatility.

- **Trade Deficit** narrowed to **$26.49bln in Aug’25**, from **$27.35bln** in the previous month. That said, the number came in closer to our above market consensus ($24.3bln) **estimate of $26.1bln** (Refer report, ‘Aug-25 Trade’). The data was closely watched as it was the first month of severe disruption expected in exports on US-India trade deal stalemate. This was signaled by downward pressure on exports even as the fall in imports was slightly more to support slight narrowing in deficit. More importantly, services trade surplus, another area of vulnerability amid significant reliance on US, remains resilient and clocked $16.6bln, highest since March 2025.

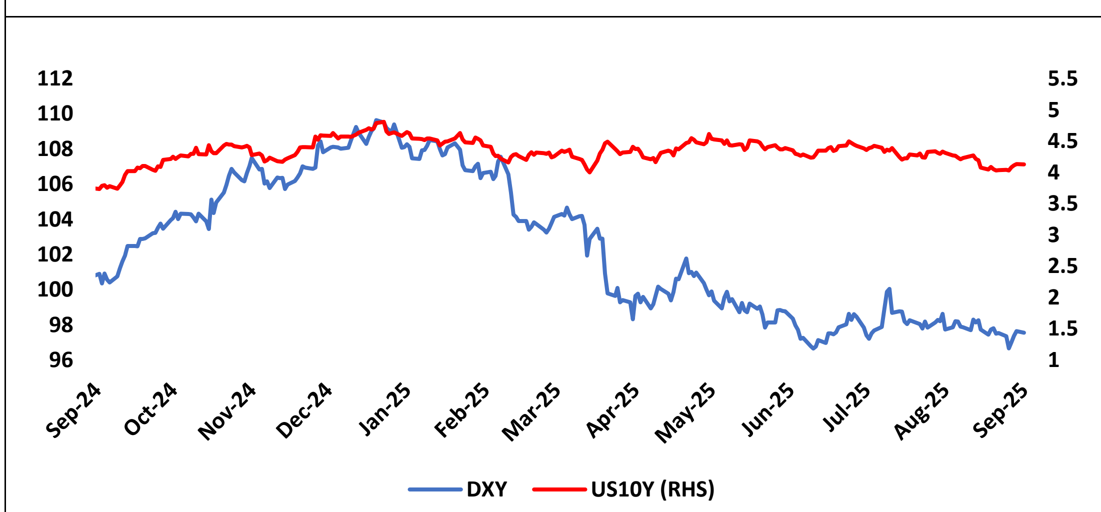
Outlook (INR - ₹ view):

The rupee is likely to remain under pressure this week, with a mild weakening bias amid global uncertainties. Key drivers include upcoming US data, commentary from Fed officials. Domestically, the rupee could see some temporary support from robust IPO activity, with over 25 public issues expected to raise around ₹6,300 crore across mainboard and SME segments. Additionally, uncertainty around the US-India trade deal and the impact of recent US visa fee hikes on services exports continue to cloud sentiment. While the RBI’s strong FX reserve buffer may help contain excess volatility. That said, it is important to note that India’s services trade surplus has jumped from $80 bl. in pre-Covid period to close to $190 bln. in FY25 becoming a key driver of C/A dynamics. Hence, a threat to services trade surplus needs close watch even as it has not yet been affected much in FYTD26.

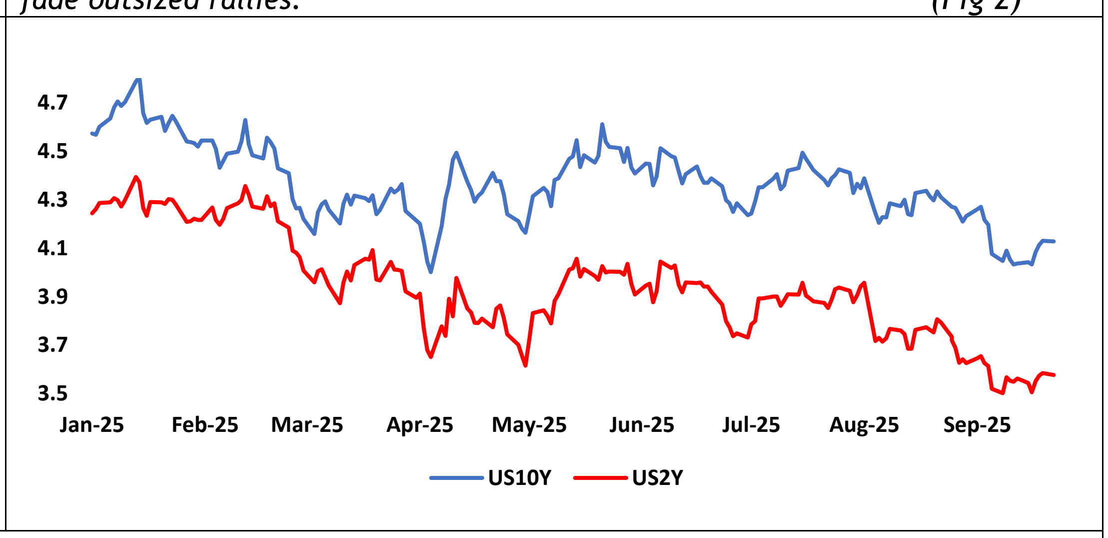
That said, the 88/89 levels for the Rupee are not a surprise for us and were flagged as part of our FY26 outlook for the currency where we mentioned our view of Rupee moving towards **89-90/$** levels during the course of the year (clearly highlighted in latest FX weekly and US-India trade deal stalemate Impact on macros and market)

Technically, immediate support seen around ₹88.50/$, a decisive break below this level could open the door to ₹87.80/$. On the upside, resistance is expected near ₹89.20/$, and a breach of that could push the pair towards fresh all-time highs of ₹89.50/$. Markets will closely watch any progress in India-U.S. trade talks. The rupee may also underperform regional peers if risk aversion persists.

Dovish FOMC knocked DXY to 96.21, but Powell’s “risk-management cut” + firm data flipped it DXY rebounded to 97.60 and ended flat w/w (Fig 1)

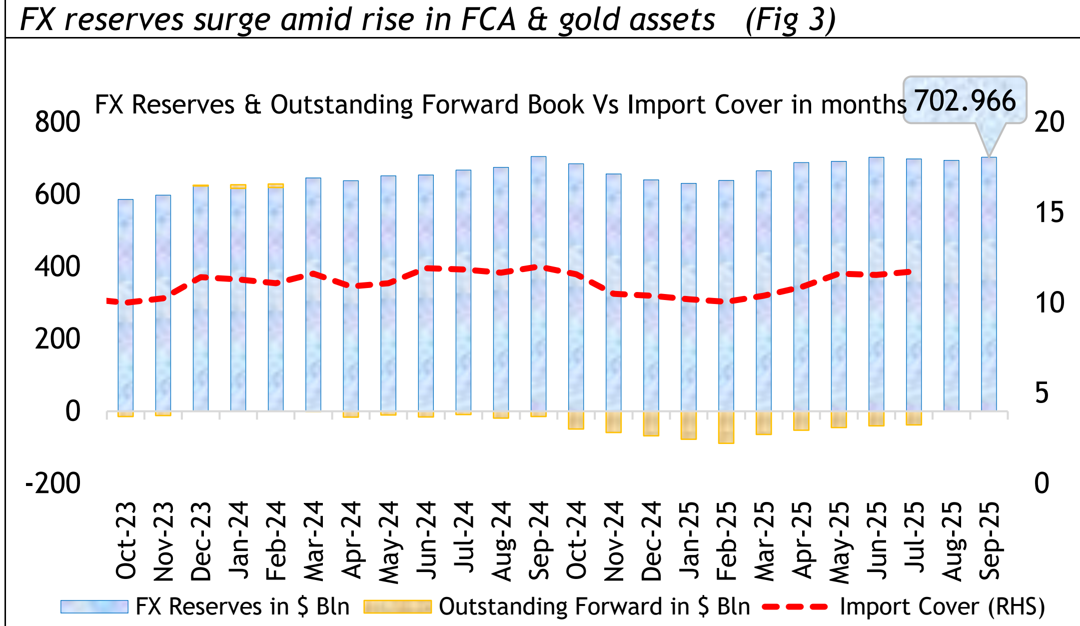


USTs flipped from post-Fed bid to hawkish reprice; modest bear-steepening into Fri (10Y >4.13%, 2Y ~3.58%) belly/long end most reactive, 2Y pinned by cut odds fade outsized rallies. (Fig 2)

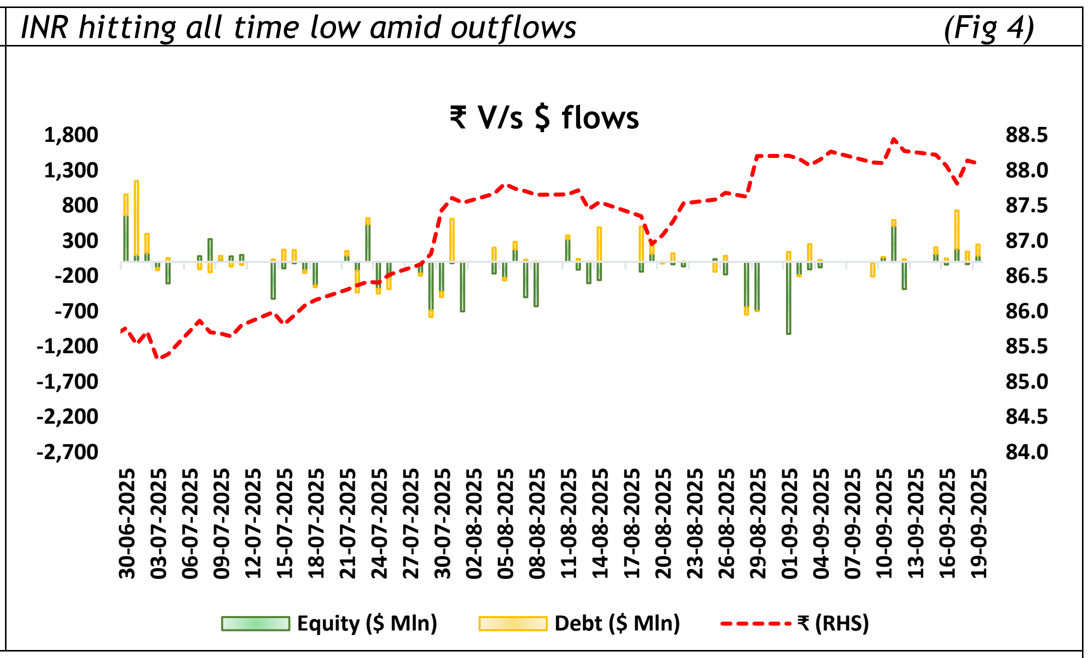


Source: Cogencies & UBI Research

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



INR hitting all time low amid outflows (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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