

By:

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Akash Deb  
[akash510@unionbankofindia.bank](mailto:akash510@unionbankofindia.bank)

Shreyas Bidarkar  
[shreyas.bidarkar@unionbankofindia.bank](mailto:shreyas.bidarkar@unionbankofindia.bank)

Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
10 Dec 2025	3.70 %	-15 bp
28 Jan 2026	3.61%	-25 bp
29 Apr 2026	3.44 %	-44 bp
28 Oct 2026	3.01 %	-86 bp
09 Dec 2026	2.95%	-92 bp

Next meeting probabilities: **No change 26 %**, **25 bps cut 74 %**

Markets head into a choppy, holiday-shortened week with risk sentiment still fragile, the Fed's December path uncertain but tilting dovish, and the dollar broadly firm as softening US data, policy divisions and geopolitics keep volatility elevated.

Two developments helped stabilise fragile risk sentiment over the week. First, New York Fed President John Williams delivered remarks that were interpreted as relatively dovish and broadly representative of Chair Powell's thinking. Second, reports emerged that the Trump administration is considering allowing Nvidia to sell its advanced chip to China. Williams' comments materially shifted rate expectations, lifting the implied probability of a December rate cut from around 30% after the mid-week release of the Fed minutes to roughly 74%. This shift has helped steady shaky markets at a time when global equities have moved from near-smooth gains into a much more volatile phase. **That said, there is a growing divide at the Fed as to what to do next in Dec'25 FOMC meet.**

On the data front, the September jobs report stood out mainly for its signs of cooling payrolls which rose a moderate 119K, prior prints were also revised lower while the unemployment rate climbed to 4.44%, its highest level since 2021. **The overall message is of a labour market that is gradually losing momentum.** The University of Michigan survey sent a clearer signal consumer confidence is under strain, squeezed by a combination of still-elevated prices and rising anxiety about job security. The next FOMC meeting is still about two weeks away, leaving some room for incoming data to shape views. Growth figures delayed by the shutdown and September PPI will be available, but the Fed will not see the next jobs or CPI reports before the December decision.

**The USD has benefited from renewed uncertainty over whether the Fed will deliver a third consecutive rate cut in December**, with the DXY supported by hawkish Fed commentary, a weaker yen, a fresh bout of "data fog" from the shutdown, and questions over the inflation impact of tariffs. **Although views on the dollar remain divided, the hawkish camp is gaining momentum.** The broad dollar index logged one of its best weeks since early October, rising about 0.9% and closing back above 100. In FX, USD/JPY briefly hit a 10-month high before retreating after Japan's finance minister issued the strongest warning yet on currency weakness (verbal intervention) and explicitly flagged intervention as an option; the yen still finished the week down about 1.2%. While Bank of Japan board member Kazuyuki Masai said the BoJ is "nearing" a decision to raise interest rates and will not wait for the conclusion of next year's spring wage negotiations. His comments, coming after Governor Kazuo Ueda signalled the possibility of a December rate hike on Friday. The probability of rate hike in next month BoJ policy meet stands at 30%.

The Indian rupee was also under pressure, with USD/INR spiking above 88.80 and breaching the psychologically important 89 level. It logged its worst session in over six months on Friday, ending at a record closing low, as fading expectations of a Fed rate cut next month and renewed uncertainty around the India-US trade deal weighed on sentiment.

In a US holiday-shortened week, attention will focus on Ukraine peace talks. While similar efforts have failed before, sanctions appear to have nudged Russia into showing slightly more interest in a deal. Recent reports suggest President Zelenskyy may travel to Washington later this week to meet President Trump. Details from the Geneva talks remain limited, but the tone is cautiously optimistic. Beyond politics, dollar traders will focus on incoming US data like September retail sales.

### **Market Pricing and Fed Strategy: December Still a Coin Toss**

Fed's policy is now a central source of uncertainty rather than a stabilising anchor. The policy uncertainty is mirrored in market pricing. Probabilities for a December rate cut have been extremely volatile, falling to around 30%, then rebounding to roughly two-thirds, and now sitting near 74%, effectively treating the outcome as a coin toss rather than a settled base case. The two-year Treasury yield, the most rate-sensitive part of the curve, has fallen to its lowest level since late October, reflecting both the repricing of Fed expectations and renewed concern about growth risks. Amongst the Fed members

- **Doves** (e.g. Governor Miran and some others) argue that policy is already restrictive, that the labour market is clearly cooling, and that the Fed should "finish the cutting cycle" with at least one more 25 bp insurance cut in December.

*Fed policy has become a source of ambiguity rather than stability, with markets treating the December decision as a coin toss*

*The labour market has emerged as the decisive variable in the Fed's reaction function*

*Data point to a gradually weakening, while tariffs and loose fiscal policy are propping up growth and revenues but adding medium-term inflation and deficit risks, reinforcing the doves' argument for pre-emptive easing while making the Fed's policy trade-offs more complex.*

*Rupee logged its sharpest weekly drop to a record 89.48/\$ amid trade tensions, a blowout trade deficit, strong USD demand, and fading Fed cut hopes, with markets now eyeing GDP and FX reserves for direction.*

- **Hawks** and cautious centrists worry that inflation has stalled near 3%, fear the optics of appearing soft on the 2% target, and highlight the lack of complete data due to the extended government shutdown.

The **data blackout** intensifies the dilemma. By the 10 December meeting, the Fed will not have a full set of up-to-date labour and inflation releases. Decisions therefore rely more on forecasts and **risk management** than usual. Doves stress the risk of waiting too long and pushing the economy past “stall speed”; hawks emphasise the danger of prematurely declaring victory on inflation.

Overlaying this is explicit **political pressure**:

- The White House and Treasury are openly calling for further cuts, linking them to affordability, and interest-burden relief.
- That pressure is likely **hardening hawkish resistance**, as some officials feel compelled to demonstrate institutional independence.

The result is an FOMC that is unusually polarised on both economics and institutional identity, with the December meeting framed as both a macro and governance test.

### **Labour Market and the K-Shaped Economic recovery**

Labour data present a mixed picture but tilt gradually weaker:

- Payrolls are still growing, but at a slower pace.
- The unemployment rate has risen for three consecutive months.
- Measures such as permanent layoffs and time to find a new job are creeping higher.

Doves argue that policy should be forward-looking and pre-emptive: waiting for “clear” weakness in the labour market risks moving too late. They stress that monetary policy acts with lags and that, once unemployment rises sharply, it is hard to reverse quickly.

The macro narrative is increasingly K-shaped:

- Higher-income households remain supported by past asset-price gains and relatively strong balance sheets.
- Lower-income cohorts show more stress: weaker discretionary spending, trading down, and more vulnerability to job loss and higher borrowing costs.

### **Tariffs, Fiscal Policy and Inflation Dynamics**

Tariffs and fiscal policy add another layer to the macro mix.

- The recent tariffs have been **fiscally helpful**: they raise revenue, modestly easing pressure on Treasury issuance and term premia, and so far, have been bond-market positive.
- However, they carry medium-term inflation risk, especially if more of the tariff burden shifts from foreign exporters and compressed margins to final consumers as buffers erode.

On the fiscal side, there is little political momentum for consolidation. Instead, the discussion is about additional stimulus - tax refunds, targeted transfers, or new spending - which would support near-term growth but complicate the inflation and deficit narrative.

### **Rupee Record Rout: Slides 0.83% WoW on Trade Uncertainty & Dollar Strength**

During the last week, the Indian Rupee posted its sharpest decline in recent months, weakening 0.83% to end at a new all-time low of 89.4825/\$. Although the currency traded within a narrow band on four of the five sessions, it registered a steep fall of 0.88% on 21<sup>st</sup> Nov'25, when USD/INR broke past the earlier record low of 88.80 and touched an intraday high of 89.4950. The downturn was driven by delays in resolving US-India trade tensions and an unexpectedly large [October trade deficit of \\$41.68bln](#). Additional pressure came from seasonal dollar demand related to [outbound tourism](#) and education payments, alongside a stronger US Dollar Index (up 0.59%) following series of US economic data and reduced Fed rate cut expectations (~74% for 10<sup>th</sup> Dec'25).

Decade-low inflation and a potentially transformational India-US trade pact helped anchor the rupee in a tight band as markets await critical macro data.

Despite India's strong macroeconomic backdrop and [Moody's reaffirming its 7% GDP growth forecast](#) for 2025, market sentiment remains cautious in the absence of a meaningful breakthrough in bilateral trade negotiations. Markets now await **India's Q2 FY26 GDP, IIP data & Forex Reserves** for directional cues in the current week. (Last Friday's close: ₹88.7450/\$) [O: ₹88.7150/\$, H: ₹89.4950/\$, L: ₹88.4150/\$ & C: ₹89.4825/\$]. (Refer report: [FX weekly: Fed in Flux, Dollar holding ground, Data Deluge Ahead](#))

**Rupee Faces Triple Hit: Record Trade Deficit, Hardening DXY, and No Progress on India-US BTA**

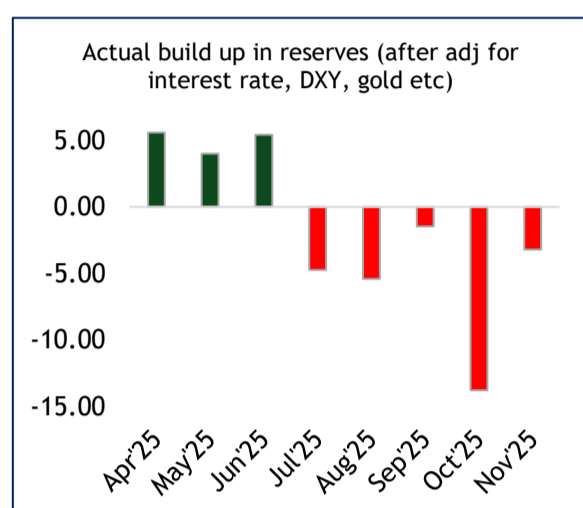
**India - US Trade Talks:**

Aspect	India's Position	United States Position	Latest Status / Expected Outcome	Overall Deal Timeline
Phase-1 Target	Before end of 2025	"Very close" - Trump & Hasset	First tranche likely by Dec'25 or early 2026	Phase-1 before end-2025
Bilateral Trade Goal	Increase from \$191B → \$500B by 2030	Same goal	Both sides fully aligned	Long-term target 2030
US Tariffs on India	Current: up to 50% (incl. 25% penalty on Russian oil purchases)	Willing to reduce to ~15% and remove Russian-oil penalty	Expected rollback to ~15% in Phase-1	Tariff rollback expected in early 2026
India's Tariffs on US Goods	Will cut duties on >80% of US tariff lines	Wants deeper & faster cuts (autos, dairy, medical devices)	Gradual reduction; agriculture & dairy protected	Cuts phased through 2026
Energy Trade	Reducing Russian crude gradually; agreed to buy 10% of LPG needs from US in 2026	Pressuring shift away from Russia; wants higher crude & LNG exports	10% LPG deal locked for 2026; crude volumes to rise	Energy expansion through 2026-27
Trade Surplus	India has ~\$45-48B surplus	Major US concern ("America First")	Surplus expected to narrow via high US energy & tech exports	Adjustments begin 2026
Sensitive Sectors (India)	Agriculture, dairy, fishermen - red lines	Pushing dairy & farm access	India holding firm; almost no opening	Negotiations ongoing
Key Gains for India	Lower US tariffs → better margins in pharma, textiles, gems, engineering	Market access + geopolitical alignment	Pharma, textiles, auto parts, shrimp benefit most	Post-deal tariff cuts 2025-26
Key Gains for US	Higher energy exports, defence sales, medical devices	Reduction in trade deficit	\$93M Javelin + Excalibur sale approved; more coming	Expanding defence & energy ties
Recent Statements	<a href="#">Piyush Goyal (Nov 23): "Good news very soon...fair, balanced deal"</a>	Trump (Nov 23): "Tariffs on India will come down...fair trade deal"	Strongest political signals in 48 hours	Momentum accelerating
Next Milestone	7th round of talks end-Nov / early-Dec	Final political sign-off required	<a href="#">Announcement possible before Christmas 2025</a>	Or during Trump's India visit in 2026

**Merchandise trade deficit** widened to record high to [\\$41.68bln in Oct'25](#), from \$32.15bln in the previous month. That said, the data blew past the market's downside expectations of \$28.8bln and exceeded [our upside estimate of \\$33.3bln](#), marking a significant turning point in India's trade balance. In terms of sectoral drivers, oil deficit remained elevated with a marginal uptick with the latest number at \$10.84bln, gold deficit surged to record highs of \$16.20bln. More importantly, non-oil non-gold deficit widened further to near record highs as expected to \$14.64bln from \$13.18bln on the back of impact on export demand from trade tensions. We expect a rise in current account deficit to 1.7% of GDP in FY26 versus our initial forecast of 1.2%, as global trade tariff pressures continue to keep trade deficit elevated despite weak demand and lower commodity prices.

**Dollar Index (DXY)** advanced 0.57% to close at 100.18, reclaiming the key 100 level for the first time in weeks. The dollar drew strength from better-than-expected US Non-Farm Payrolls (+119k vs +55k forecast), robust retail sales, and hawkish Federal Reserve minutes that lowered December rate-cut odds. Rising Treasury yields and global growth concerns (UK GDP contraction, cautious ECB rhetoric) further fuelled safe-haven flows. The DXY touched a six-month high of 100.39 before settling, reinforcing US economic exceptionalism and keeping emerging-market currencies. On a WoW basis, surged by **-0.57%**, and they still reflect a **YTD decline of ~8%**. *A weaker dollar may offer rupee support; however, a hardening DXY could push USD/INR further into record-low territory.*

Month	Change in total FX reserves	Build-up in reserves (after adj for interest rate, DXY, gold etc)
Apr'25	22.73	5.58
May'25	3.36	4.00
Jun'25	11.3	5.41
Jul'25	-4.59	-4.73
Aug'25	-3.96	-5.4
Sep'25	6.01	-1.46
Oct'25	-10.5	-13.76
Nov'25	2.84	-3.20



### Rupee Range-Bound on support from lower Brent, robust reserves, and stable FPI flows

**Brent crude oil prices** -4% last week to \$61.94/bbl, pressured by easing Ukraine tensions, a looming supply glut, and weak demand. Prices dropped each session, with the steepest fall on 19<sup>th</sup> Nov'25 after a U.S.-brokered Ukraine peace report, a [4.4 million-barrel rise in U.S. crude inventories](#), sluggish Chinese demand, and OPEC+ signaling January output hikes. With the \$60 psychological mark in sight, crude may trend lower unless Middle East tensions flare or OPEC+ extends cuts unexpectedly. On a WoW basis, prices dipped by -4%, and they reflect a sharp YTD decline of -18%. Lower Brent prices strengthen the rupee by cutting India's \$140B oil import bill saving billions, narrows the CAD, curbs inflation, and boosts FII inflows.

**Foreign Portfolio Investors (FPIs)** have pulled out **\$16.58bln (YTD)** from Indian equity markets as of 21<sup>st</sup> Nov'25. Even though, we saw the trend reversed in Oct'25 with positive inflows but turned negative again in Nov'25. FPIs continue to be **net buyers in equities \$261mln** vis-à-vis **inflows of \$730mln** on a WoW basis. Flows turned negative in debt to **\$218mln vis-a-vis \$654mln** inflows a week ago. FAR flows, at **\$8.18bln YTD**, including a ~\$86mln mere outflow so far last week.

**FX reserves** surged by \$5.54bln to **\$692.58bln** for the week ending 14<sup>th</sup> Nov'25 (covering ~11 months of imports), driven mainly by a **\$0.15bln** rise in FCA to \$562.29bln and **\$5.33bln** jump in Gold. With this rise, reserves now inch closer with **\$12.28bln** shy of all-time highs **\$704.86bln** recorded on 27<sup>th</sup> Sep'24. A valuation loss of \$0.25bln was also noted in this week, with a cumulative of **~\$3bln in Nov'25** highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP deficit of ~\$14bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

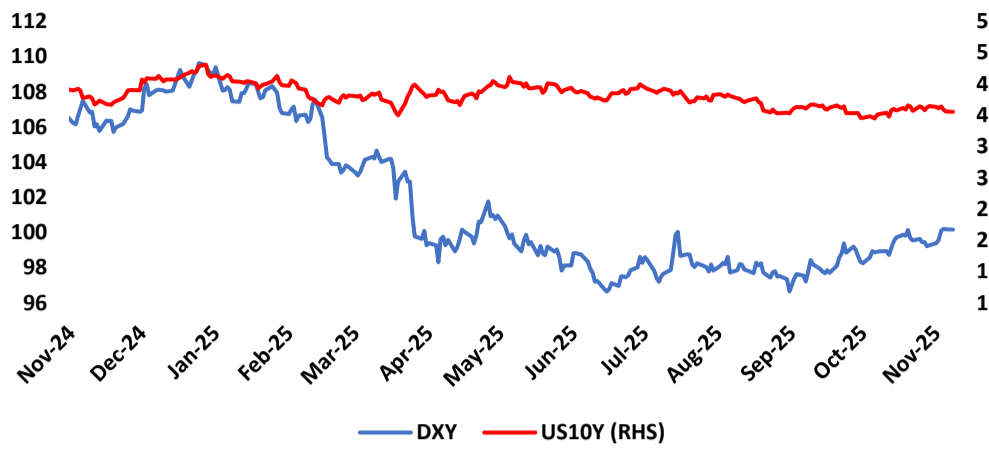
### Outlook (INR - ₹ view):

The Rupee enters the week under continued bearish pressure within a range-bound pattern after last week's 0.83% slide, with USD/INR expected to trade in the current band. The key catalysts will be Q2 GDP which a strong beat could spark dip-buying, while any miss would accelerate FPI selling. Additional headwinds include the October fiscal deficit release, thinner liquidity around the US Thanksgiving holiday, and the risk of hotter-than-expected US PCE data bolstering the DXY further. With \$16bln of YTD equity outflows, a record trade gap, and unresolved US tariff threats, the path of least resistance remains downward unless bilateral trade talks yield a surprise breakthrough.

As we have been stating in our reports ₹88-89 (Refer: [Tariffs, Flows, and the ₹: Why 88-89 Wasn't a Shock](#)) threshold was not a surprise for us. The recent move on Friday of more than 70 paise highest since last six month was a surprise even though it is attributed to two factor 1) US dollar strength and 2) deferment of US-India trade deal. As there is uncertainty on the latter which in our view is likely to be a key drive for rupee in coming month as we have been asserting, as and when the deal gets finalized we will see threshold shift in terms of rupee appreciation.

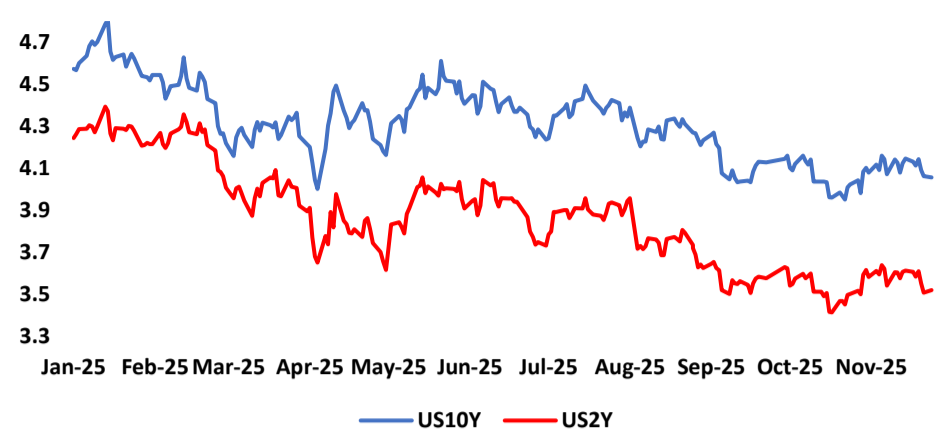
From a technical perspective, sustained domestic equity inflows or concrete progress in the India-US trade talks could drive the INR stronger toward ₹88.50/\$, with ₹88.80/\$ acting as a crucial intermediate support. On the flip side, any bearish shift would likely encounter stiff resistance near ₹89.50/\$, where selling will tend to accelerate; a decisive break above this level could open the door for a quick move toward ₹89.90/\$. Geopolitical and tariff developments will remain critical for market sentiment.

Dollar index logged one of its best weeks since early October, rising about 0.9% and closing back above 100 (Fig 1)

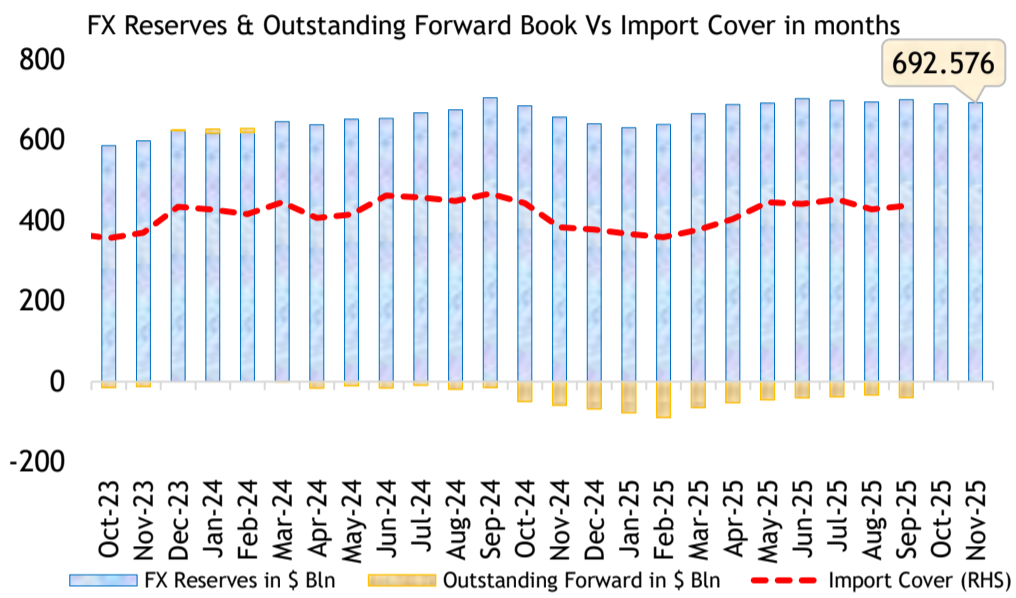


Source: LSEG, UBI research

US treasuries ended with small gains led by the front-end and belly of the curve. (Fig 2)

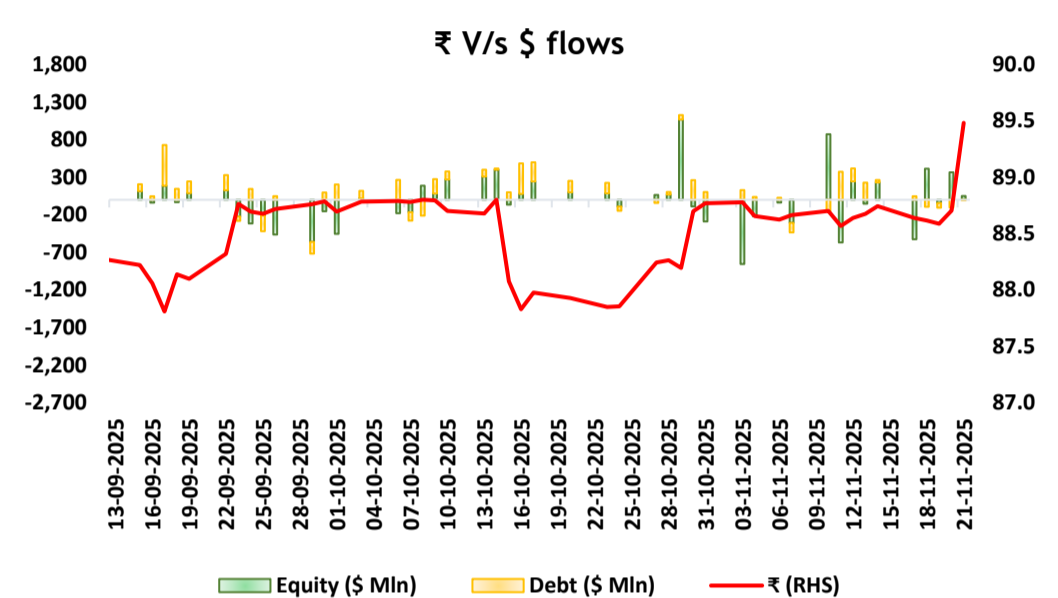


FX reserves rise amid surge in gold assets (Fig 3)



Source: Bloomberg, LSEG Workspace & UBI Research

INR breaks range despite positive FPI inflows (Fig 4)



## Banking & Economic Research Team

Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank

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