

12th January 2026

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank.in

Akash Deb
akash510@unionbankofindia.bank.in

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank.in

Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Change
28 Jan 2026	3.62%	-01 bp
18 Mar 2026	3.56%	-07 bp
29 Apr 2026	3.52 %	-12 bp
28 Oct 2026	3.16 %	-47 bp
09 Dec 2026	3.11%	-53 bp

Next meeting probabilities: **No change 95 %**, **25 bps cut 5 %**

Markets remain range-bound as macro data stabilize, but rising political and institutional risks increasingly drive asset prices, favoring relative-value trades, curve steepeners, and selective commodity exposure over outright directional bets.

Markets entered the week navigating a complex mix of macro stabilization, policy uncertainty, and rising political risk. In the U.S., January rate-cut expectations were decisively priced out after labor market data showed resilience beneath mixed payroll headlines, reinforcing the view that the Fed remains less dovish than markets had assumed. At the same time, institutional risk moved sharply back into focus as tensions between the White House and the Fed escalated over the weekend. Fed Chair Jerome Powell disclosed that the administration had threatened him with criminal indictment related to the Fed headquarters renovation, a move Powell characterized as a pretext to exert greater influence over monetary policy and push for aggressive rate cuts.

Policy uncertainty extended beyond monetary affairs. The Supreme Court again deferred ruling on the legality of Trump's use of the International Emergency Economic Powers Act (IEEPA) to impose trade tariffs, leaving the tariff framework in legal limbo. Treasury Secretary Bessent sought to contain market concerns, stating that the Treasury has sufficient capacity to manage any potential tariff refunds over time and emphasizing that tariff pass-through to consumer prices has so far been limited.

Across global markets, this backdrop of macro steadiness and political unease kept core rates range-bound, with investors maintaining light positioning amid uncertainty over the next Fed chair and the durability of policy independence. Commodities advanced, led by crude oil as unrest in Iran revived supply-risk premiums alongside falling U.S. rig counts, CFTC data show hedge funds increasing their bullish positioning in crude oil, suggesting that WTI warrants close monitoring in the coming weeks. While gold and silver extended gains on safe-haven demand despite fading expectations of near-term Fed easing. In foreign exchange, political uncertainty resurfaced in Japan as speculation of a snap election weighed on the yen, which underperformed G10 peers. While the dollar's steady advance was stalled after Fed Chair Powell revealed that the Justice Department had issued grand jury subpoenas related to the Fed headquarters renovation. Markets have shifted into wait-and-see mode as investors assess the implications for Fed independence and USD stability.

Overall, the week reinforced a market regime increasingly shaped by institutional credibility and geopolitical tail risks rather than near-term macro deterioration. With growth data stabilizing, monetary policy constrained, and political interference risks rising, investors continue to favor relative-value trades, curve steepeners, and selective exposure to commodities over outright directional bets.

Looking ahead, the week brings several key catalysts, including U.S. CPI and PPI releases and heavy Fed speak ahead of the blackout period. While January CPI (13 Jan; Bloomberg est. 0.3% m/m, 2.7% y/y, unchanged from Nov) and core CPI (est. 0.3% m/m, 2.7% y/y from 2.6% y/y) are unlikely to materially alter the near-term Fed outlook, they will be important for shaping confidence around the durability of disinflation. In this environment defined by policy uncertainty and cross-currents between growth and inflation markets are likely to remain range-bound, continuing to reward relative-value positioning, rather than strong directional conviction.

Geopolitics: A Rising Risk Premium

The start of the year has not been favorable for risk sentiment or capital flows into emerging markets such as India. The U.S. takeover of Venezuela's oil sector and the renewed focus on central bank independence have reintroduced political and institutional risks. These factors are expected to keep uncertainty elevated around the outlook for interest rates and the dollar, leaving markets volatile and searching for direction. At the same time, renewed uncertainty around US tariff policy amid pending Supreme Court rulings and rhetoric around alternative enforcement mechanisms kept trade tensions elevated. Broader risks were compounded by unrest in Iran, where widespread protests, internet shutdowns, and warnings against foreign intervention heightened fears of regional instability with direct implications for global energy supply. Collectively, these developments underpinned support for gold and oil while periodically weighing on global risk assets and emerging markets.

Resilient unemployment alongside strong growth signals has pushed January rate-cut hopes off the table, reinforcing a less dovish Fed and leaving markets pricing future easing with low conviction amid rising policy and institutional uncertainty.

Fragmented Fed messaging and data-dependent caution kept Treasuries range-bound and the dollar firm.

Rupee traded volatile but supported near ₹90/\$ as FPI outflows and trade delays capped gains despite softer US data

U.S. Jobs Data Reasserts Fed Caution, Tempering Near Term Easing Hopes

U.S. macro data over the week effectively ruled out a January Fed rate cut, forcing markets to recalibrate near-term easing expectations. While December nonfarm payrolls undershot consensus and prior revisions weighed on the headline print, the unemployment rate fell to 4.4% a metric Chair Powell has consistently emphasized as central to the Fed's assessment of labor-market tightness. While with the Atlanta Fed's GDPNow tracking growth above a 5.4% pace, incoming data continue to highlight a growing decoupling between economic growth and employment. For rates markets, the key implication is that the labor-market fears that justified late-2025 "insurance cuts" have faded, leaving the Fed less dovish than markets had assumed just weeks earlier. Pricing still reflects expectations for two cuts later in 2026, but conviction is thin, with policy uncertainty amplified by the approaching end of Powell's tenure and rising sensitivity around Fed independence.

Fed Communication: Cautious, Data-Bound, and Fragmented

Fed messaging over the week reinforced uncertainty rather than offering clear forward guidance. Dovish voices such as Governor Miran emphasized that policy remains restrictive and signaled openness to meaningful cuts should inflation continue to converge toward target. In contrast, officials like Barkin and Bostic highlighted balance-sheet risks, lingering inflation concerns, and the narrowness of labor-market strength outside healthcare and AI-linked sectors. Kashkari struck a middle ground, acknowledging cooling job momentum while cautioning that inflation is not yet fully tamed. Taken together, the tone remained firmly data-dependent and risk-aware, with policymakers resisting premature declarations of victory on inflation while implicitly validating market repricing away from imminent easing.

Dollar & US Yield Moves

The U.S. Treasuries remained volatile but range-bound, reflecting uncertainty over timing rather than direction of policy. Front-end yields moved higher as markets pared aggressive near-term cut pricing, while the long end oscillated around the 4.1-4.2% range, constrained by a mix of supply dynamics, and uneven data signals. In FX, the US dollar traded with a firm but uneven tone. The DXY softened early on weaker ISM data before rebounding as labor data confirmed that policy easing is not imminent. Dollar strength (+0.72%) was most visible against G10 currencies such as JPY and GBP, while Asia FX found intermittent support when CNY fixings remained stable, reinforcing the view that FX moves remain policy-driven rather than risk-sentiment led.

Rupee stabilises near ₹90/\$ mark amid FPI outflows and Trade Deal uncertainty

The Indian rupee exhibited volatile but supported performance last week, trading near around the ₹90/\$ mark. The currency was weighed down by a combination persistent FPI outflows, stalled US-India trade talks, and a softer US dollar tone post the modest Dec'25 NFP release.

FPI flows remained decisively negative, with FPIs continuing to pare exposure to Indian equities at the start of Jan'26. **Sustained capital outflows have emerged as the single most important structural headwind for the rupee, offsetting supportive domestic fundamentals and keeping USD/INR bid on dips.**

On the external front, developments related to the India-US trade deal added to market uncertainty. Although high-level talks are scheduled this week, the absence of a finalized agreement and lingering tariff concerns have kept investor sentiment cautious. Any meaningful progress on trade could act as a near-term positive catalyst for the rupee, while further delays risk reinforcing risk-off positioning.

From a global macro perspective, the latest US Non-Farm Payrolls (NFP) data was not weak enough to materially accelerate expectations of aggressive Fed rate cuts. As a result, US yields and the dollar remain relatively supported, limiting upside for emerging market currencies, including INR. Potential easing in global risk conditions may offer temporary relief, a sustained INR recovery is unlikely without a clear reversal in FPI flows or a strong positive trigger on the trade front. Near-term risks remain skewed toward further pressure, though sharp downside moves may be contained by policy action. (Last Friday's close: ₹90.1975/\$) [O: ₹90.2000/\$, H: ₹90.2950/\$, L: ₹89.7350/\$ & C: ₹90.1600/\$]. (Refer

India - US Trade Talks Timeline:

Date	Event	Details
Nov-05	Piyush Goyal Update on Talks	Commerce Minister Piyush Goyal states negotiations are "going on very well" with 5 rounds completed since March; emphasizes addressing "sensitive, serious issues" like tariffs, while protecting farmers & MSMEs. First tranche of agreement by November.
Nov-14	Positive Developments in Tariff Talks	Senior US official notes "positive developments" on resolving tariffs and Russian oil imports; deal eyed by year-end to normalize trade.
Nov-17	LPG Import Deal Signed	Indian PSU oil firms conclude 1-year contract for 2.2 MTPA LPG imports from US Gulf Coast (2026 delivery), aimed at balancing trade; not directly tied to BTA but signals goodwill amid tariff pressures.
Nov-17	First Tranche "Nearing Closure"	Commerce Secretary Rajesh Agarwal announces six rounds of talks completed; BTA phase 1 focuses on reciprocal tariffs (25% broad levy + 25% oil surcharge) and US market access in dairy, EVs, and agro-products. India seeks relief for textiles, gems, and shrimp.
Nov-18	Goyal Signals "Good News Soon"	Piyush Goyal indicates pact nearing completion if "fair and equitable"; prioritizes safeguards for farmers, fisherfolk, and small industries against US demands in agriculture and autos.
Nov-20	Tariff-Cut Plan Preparation	India readies concessions on US industrial equipment, chemicals, and engineering goods; US pushes for access in autos, dairy, and high-tech manufacturing.
Nov-24	Russia Oil Import Cuts	Major Indian refiners halt new December orders for Russian crude, aligning with US pressure; expected to boost BTA momentum by easing tariff justifications.
Nov-28	Optimism for Year-End Seal	Commerce Secretary Agarwal: "Only a matter of time" for first tranche closure before Dec 31; two parallel tracks—full BTA and immediate framework for tariffs. Most issues resolved; political-level fixes for sticking points like agriculture.
Dec-10	Advancing work on the first phase of the BTA	Deputy USTR Rick Switzer and supported by chief negotiator Brendan Lynch visiting India. US Under Secretary of State Allison Hooker is also in India this week to deepen strategic ties.
Dec-11	Diplomatic engagement	PM Modi held his third call with US President Trump , reviewing bilateral relations (including trade). Chief Economic Adviser predicts deal ; Most issues resolved; surprised if not signed by March; parallel discussions on tariff framework and comprehensive pact.
Dec-12	Negotiation feedback	A senior US negotiator praised India's "best-ever" market-access offer , though sticking points remain (agriculture, dairy).
Dec-15	Following six rounds of bilateral trade talks	India and the United States are on the brink of finalising an initial framework agreement, Commerce Secretary Rajesh Agrawal said.
Jan-5	President Trump claims PM Modi acted to 'make me happy,' praises him as 'a good man'	The President also linked India's cooperation on Russian oil to potential trade consequences, warning, "We could raise tariffs on India if they don't help on Russian Oil issue."
Jan-9	US claims deal stalled due to leadership-level gap	India's much-anticipated trade deal with the US stalled after PM Modi did not personally call President Trump to finalize the agreement, U.S. Commerce Secretary Howard Lutnick said — a characterization New Delhi has denied.
Jan-12	US Ambassador Sergio Gor, stresses strong Modi-Trump rapport	U.S. Ambassador Sergio Gor said President Trump and PM Modi are "real friends" as India-U.S. prepare for key trade talks starting January 13 , highlighting strong personal ties amid ongoing negotiations.

FX reserves fell \$9.81bln to \$686.8bln in the week ended 2nd Jan'26

FPIs net sellers in equities with \$1.31 bln outflows CY26

Brent up 2% WoW at \$60-\$64/bbl, range-bound; prices sensitive to inventories, OPEC+ cues and Middle East risks

FX reserves declined by \$9.81bln to **\$686.80bln** for the week ending 02nd Dec'25 (covering ~11 months of imports), driven mainly by a **\$7.62bln** fall in FCA to \$551.99bln and **\$2.06bln** drop in Gold. This drop puts FX reserves \$18.06bln short of the all-time peak of \$704.86bln reached on 27th Sep'24. As per liquidity calculations, the FX drag in liquidity to possibly curb the FX volatility (excluding valuation effects) has been ~\$7bln in the week ended 02nd Jan'26. **From Balance of payment perspective given the sharp fall in reserve witnessed in the latest week it is a clear signal that till such time capital outflow persists fundamentally rupee may stay under pressure thereby requiring persistent central bank efforts to contain volatility.**

Foreign Portfolio Investors (FPIs) have pulled out **\$1.31bln (CY26)** from Indian equity markets as of 09th Jan'26. Even though, we saw the trend reversed in Oct'25 with positive inflows but turned negative again in Nov'25 & Dec'25 and continues in Jan'26. FPIs continue to be net sellers **in equities ~\$466mln** vis-à-vis **outflows of ~\$1722mln** on a WoW basis. Debt markets-maintained inflows of **~\$219mln vis-a-vis ~\$136mln** inflows a week ago. FAR flows, at **\$437mln (CY26)**, including a **~\$216mln** inflow so far last week.

Brent crude oil prices traded mostly higher last week, hovering **~\$60-\$64/bbl.**, balancing persistent global supply surplus concerns against sporadic geopolitical risks, particularly unrest in Iran. U.S. crude and product inventories were expected to rise, signalling oversupply and limiting price gains, while potential disruptions near the Strait of Hormuz provided only short-lived support. For the coming week, Brent is expected to remain range-bound around **\$60-\$68**, with near-term movements driven by inventory reports, OPEC+ signals, and supply-side developments from the Middle East and Venezuela. On a WoW basis, prices gained by **~2%**, and they reflect a sharp decline of **~22% YoY**.

DXY mixed, +0.5% WoW, (10) % YoY; direction hinges on U.S. macro data and Fed signals

Rupee likely range-bound mid-Jan onward; supported by softer USD and domestic fundamentals, but pressured by FPIs, importer demand, and trade tensions.

Dollar Index (DXY) saw mixed price action last week, with the dollar briefly strengthening on safe-haven demand and geopolitical headlines, but broader downside pressure persisted amid dovish market positioning and rising expectations of easier Federal Reserve policy. The DXY has been trading around sub-99 levels, near multi-week lows, as markets weighed prospects of future Fed easing and subdued yield advantages compared with peers; this dynamic was compounded by political tensions surrounding the Federal Reserve’s leadership, which triggered dollar weakness and a rise in traditional safe havens like gold. On a WoW basis, surge by **-0.51%**, and they still reflect a **YoY decline of -10%**.

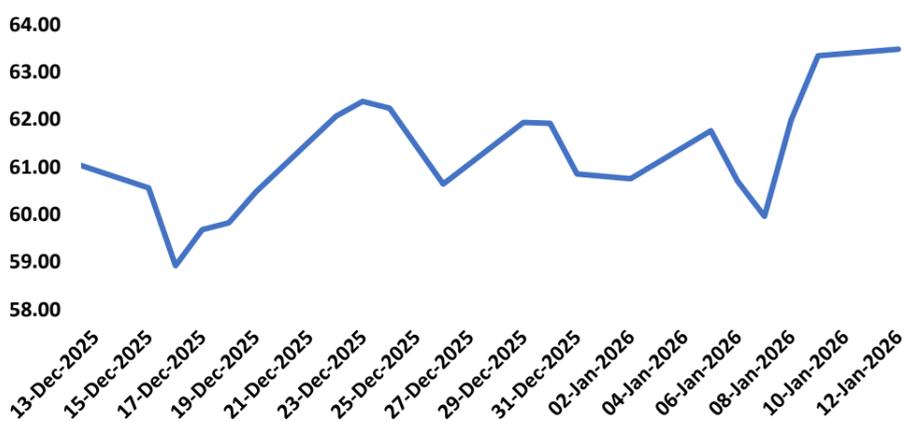
Outlook (INR - ₹ view):

Looking ahead to mid-Jan’26 onward, the Indian rupee is likely to remain range-bound, with downside risks if foreign outflows persist or India-US trade tensions escalate. Key supports include the possibility of a softer USD if upcoming U.S. data such as inflation reinforces expectations of Fed easing. While no immediate FOMC meeting is scheduled until late January, markets will watch closely for any signals on rate cuts. Pressures are likely to come from continued FPI sensitivity to global cues and trade news, importer dollar demand, and potential tariff escalations. On a broader horizon, strong domestic fundamentals, including GDP growth, may attract flows later in 2026. Key releases to monitor include India’s December inflation data, U.S. economic indicators, and updates on trade talks.

From a technical standpoint, the rupee is expected to trade in a range of ₹89.50-₹90.80/\$ this week. A turnaround in domestic equity inflows or tangible progress in India-US trade talks could push the INR toward ₹89.50/\$, with ₹89.00/\$ serving as a key interim support. Should a formal India-US Bilateral Trade Agreement (BTA) be finalized, the rupee’s appreciation potential could extend further. On the downside, delays or setbacks in resolving US-India tariff issues may encounter strong resistance near ₹90.50/\$, and a breach above this level could drive the currency toward ₹90.80/\$. Overall, geopolitical developments and trade negotiations will remain the primary drivers of market sentiment.

We have consistently noted that the rupee’s recent weakness reflects overshooting due to negative sentiment rather than fundamentals. Based on the Real Effective Exchange Rate (REER), the currency appears undervalued by ~2.5%. Our analysis indicates that over a three-year horizon, the rupee typically adjusts via an average annual depreciation of 3-4%, aligned with India-US inflation and interest rate differentials. Given that the rupee had already weakened by ~5% last calendar year and cumulatively ~9% in last 3 years (since March 2023), we do not expect significant or runaway depreciation pressures in the currency.

Oil prices rises as unrest in Iran revived supply-risk premiums while hedge funds are increasing their bullish oil position (Fig 1)

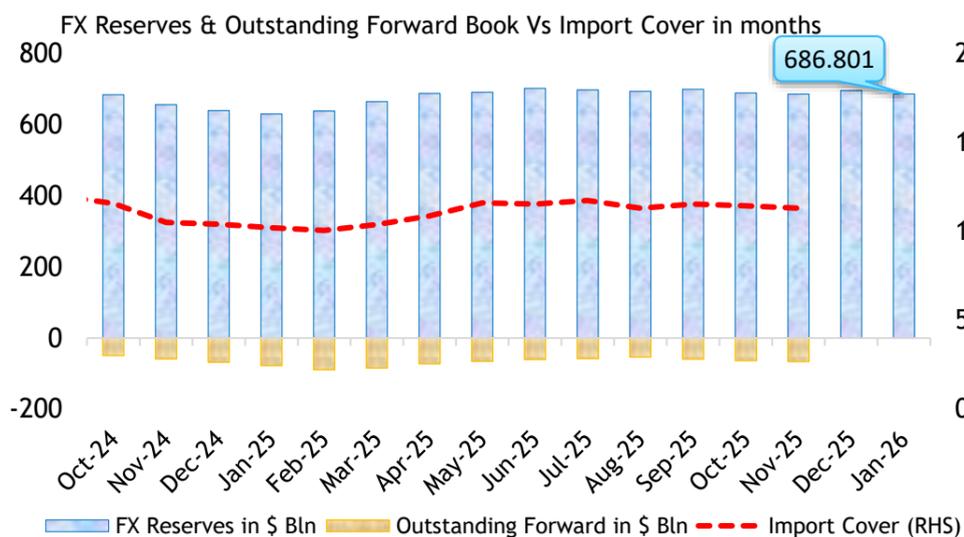


Gold and silver extended gains on safe-haven demand despite fading expectations of near-term Fed easing (Fig 2)

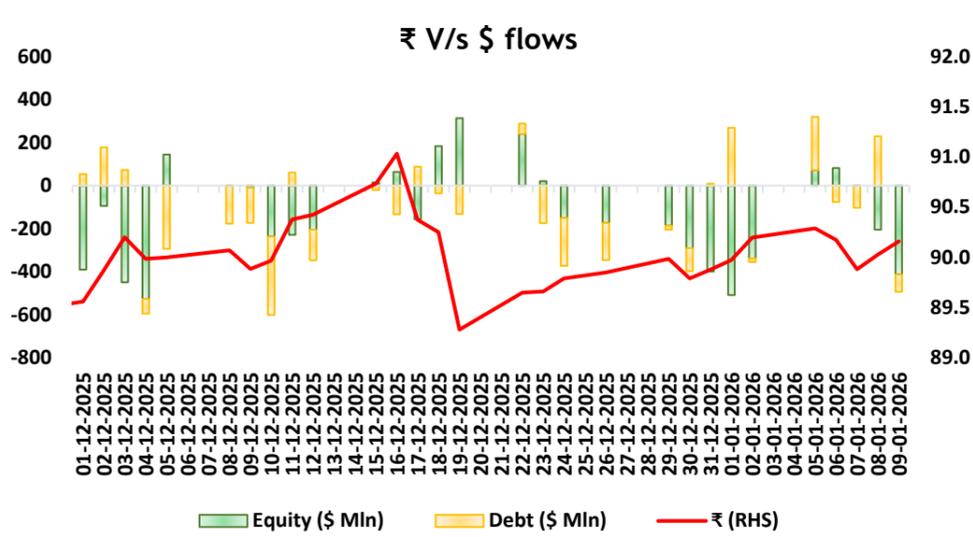


Source: LSEG, UBI research

FX reserves fall amid major drop in FCA & Gold assets (Fig 3)



Rupee weakens amid continuous FPI equity outflows (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.