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Markets brace for September cut as U.S. jobs slow, Dollar holds steady

Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.06 %	-26 bp
10 Dec 2025	3.61 %	-71bp
29 Apr 2026	3.28 %	-104 bp
28 Oct 2026	2.93 %	-140 bp
09 Dec 2026	2.89%	-144 bp

Next meeting probabilities: **No change 7 %** 25
bps cut 93 %

Policy divergence widens: Fed to start rate cut, ECB signals end of disinflation while BoE likely to hold

Sterling finds support amid fiscal concerns; GBP/USD seen range-bound with mild upside likley

The U.S. economy is flashing mixed signals, with both sides of the Fed's dual mandate are under strain. Inflation has re-accelerated modestly, with core CPI at 3.1% y/y and PPI close behind. Tariff-driven pressures are keeping goods inflation sticky, at the same time the labor market backdrop has deteriorated sharply. Benchmark revisions to payrolls revealed that job growth leading up to March 2025 was nearly 911,000 jobs weaker than previously reported, with unemployment rising toward 4.3%, the highest of this cycle.

Markets have fully priced Fed easing at each of the remaining three meetings this year, beginning with a 25-bps cut this week. **While a larger 50-bps move is still unlikely, its probability has risen given the scale of labor market weakness, while traders will watch closely for any hint that bigger cuts are under discussion, signals that may push both yields and the dollar lower.** The meeting will also feature the release of the Summary of Economic Projections (SEP), commonly known as the "dot plot," which outlines each member's outlook for the future path of monetary policy. Meanwhile G7 yield curves have largely synchronized into an upward-sloping configuration. Short-term yields are coming down as central banks respond to inflation and softer growth, while long-term yields remain relatively high due to inflation, fiscal pressures, and investors demanding more compensation for long-term risk. ([Refer Uni-FX: Bull-Steepener World: Front End Anchored, Long End Distorted](#)).

Yet, despite weaker U.S. yields, the dollar has not collapsed. It continues to trade near the bottom of recent ranges but has shown resilience, supported by global demand for U.S. assets and the stability of long-term yields, which remain anchored above 4% amid deficits and supply concerns. **Rate markets are also pricing nearly 140 bps of easing through the end of 2026, but the dollar index still sits about 1.3% above its July lows. This reflects investor caution, driven by doubts over whether the Fed can actually deliver the full scale of cuts expected, especially with inflation outside the labor market proving sticky.**

While divergence is opening between the Fed, which is easing, and the ECB and BoE, which are signalling higher thresholds for further cuts. The euro is supported by Lagarde's declaration that the "disinflationary process is over," while sterling has found a floor as UK rate cut bets have been pared back. **"This month, after the ECB kept rates steady, the focus shifts to other central banks the Fed, the BoE, and the BoJ which may trigger the next leg of interest-rate cuts in Asia as well."**

Europe: Hawkish Stance Buoy the Euro

The ECB held rates at 2.00% last week, but the tone was firmer than markets expected. Staff projections nudged inflation forecasts only slightly lower, leaving core CPI at 1.8% by 2027, still just under target. Lagarde's emphasis on avoiding "over-engineering" signaled policymakers are comfortable sitting tight for the foreseeable future. As a result, expectations for further cuts have evaporated, with just 10 bps priced by mid-2026. The euro initially dipped on the ECB statement but reversed higher on Lagarde's hawkish rhetoric. With Fed easing and ECB policy on hold, EUR/USD is poised to grind higher toward 1.20, though it remains trapped for now in the 1.15-1.18 range.

UK: Fiscal Worries Meet Monetary Caution

The BoE is set to hold rates at 4.00% this week. Having already slowed its easing pace, the BoE faces persistent inflation and renewed scrutiny of public finances. Long gilt yields spiked to 5.75% earlier this month, their highest since 1998, before easing to 5.50%. Bailey's comments downplaying the 30-year yield underscored the BoE's discomfort with market volatility. The central bank is likely to slow its pace of quantitative tightening, halving gilt sales to about £50 billion annually. That shift should ease upward pressure on long yields and reduce downside risks for sterling.

Going ahead GBP/USD is likely to stay range-bound but with a mild upward bias. In the near term, the pair may test resistance around 1.3595, though sustaining gains above this level appears difficult. Initial support lies near 1.3550, with stronger support at 1.3535; a break below would ease current upside pressure. Over the next 1-3 weeks, GBP/USD is likely to trade between 1.3425 and 1.3590, with upward momentum not yet strong enough for a lasting breakout.

Cross Asset fund flow as of 03rd Sept'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	12.2	7.6
All Bonds	17.3	10.6
US Equities	4.4	5.7
US Bonds	7.1	4.3
EM Equities	0.3	-0.2
EM Bonds	0.86	-0.37
Japan Equities	-0.5	0.2
China Equities	0.02	-0.18
Europe Equities	-0.4	-0.9
Europe Bonds	7.5	4.7

Source: JP Morgan

On a longer horizon, risk builds on the downside: if the pair slips below trendline support near 1.3275, it could open the way toward the August low around 1.3145. Overall, the outlook is cautiously constructive in the short run but flags vulnerability to renewed weakness if key supports give way.

Yield Curve and Market Structure, Near-Term Outlook: Scenarios and Risks

The yield curve tells the story of this policy tension. Front-end Treasuries have rallied strongly in anticipation of cuts, while the long end has held firm near 4.0-4.5%. Structural forces rising fiscal deficits, heavy Treasury issuance, and sticky inflation expectations are anchoring long yields higher. The result is a curve that has steepened but remains fragile.

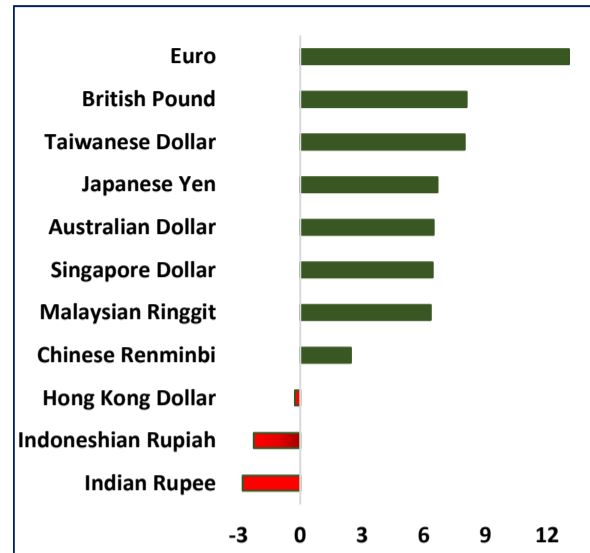
Political attention, particularly under Trump, has traditionally focused on the 10-year yield given its influence on mortgages and consumer credit. However, markets retain control of the long end, where issuance dynamics and global demand for U.S. debt play the decisive role. Traders have favored steepener trades, betting that front-end yields will fall faster than the long end.

Looking ahead in the medium term, we outline a few scenarios that could play out in global bond markets, along with their implications and key risks. The period in question is critical, as it includes central bank meetings (the Fed and others) and fresh data that could alter the trajectory of yields and currencies. Below is a scenario grid for the one-month outlook:

Scenario	Description and Likely Market Impact
Base Case: "Orderly Easing" (Soft Landing Continues) Probability: High	<p>U.S. data continue to signal softness without outright collapse. If the Fed delivers a 25- bps rate cut in September, pointing to moderating job growth. Forward guidance remains cautious no commitment to rapid easing, but the door stays open for more.</p> <p>Bond markets react in an orderly fashion: short-term yields ease toward 3.2–3.3%, while the 10-year holds near 4.0%, leaving the curve slightly steeper before stabilizing. The dollar softens modestly on the Fed's move, with DXY testing the mid-90s, though the effect is muted given expectations were already priced in. With oil steady and no new shocks, markets broadly welcome the Fed's support while recognizing the economy is slowing gradually, not collapsing.</p>
Bullish Scenario: "Growth Score = Bigger Fed Pivot" Probability: Moderate	<p>Economic data surprise to the downside, fuelling recession fears. The Fed reacts with a 50- bps cut or 25 bps paired with strong guidance for another soon.</p> <p>Bonds rally sharply: 2-year yields slide toward ~3.0% or below as markets price multiple cuts by year-end. The 10-year falls to ~3.5–3.7%, though the move is smaller. The curve could flatten or briefly invert again front-end plunging on Fed easing while long-end reflects growth risks. If recession odds rise further, long bonds may catch a stronger bid, shifting the move from bull steepening to bull flattening.</p> <p>The dollar weakens more noticeably in this scenario, as aggressive Fed easing erodes its rate advantage, pushing DXY lower.</p>
Bearish Scenario: "Reflation Jitters" Probability: Low	<p>In this less likely but plausible scenario, incoming data show surprising resilience or an inflation uptick, challenging the "doves." The Fed could deliver only a token cut, paired with hawkish commentary that further easing is on hold.</p> <p>Bond Market: Yields would jump, led by the belly of the curve. The 2Y UST could rebound toward 3.8–4.0% as rate-cut expectations get pushed out, while the 10Y could climb back toward 4.5% or higher on renewed inflation fears and a higher-for-longer Fed. The curve would likely flatten, with short yields rising faster than long ones, especially if stagflation concerns cap long-end weakness. Markets may even re-price to assume no Fed cuts at all.</p> <p>USD: The dollar would strengthen, with DXY bouncing above 100 on renewed yield advantage. This scenario delays the Fed pivot and revives concerns that inflation is not yet beaten, bearish for long-duration bonds and high-beta assets.</p>

Rupee wobbles near record lows: All eyes on FED outcome & India - US trade talks

Rupee hit a record low last week as US tariffs outweighed trade deal hopes, with volatility likely ahead of the FED decision and India-US talks.



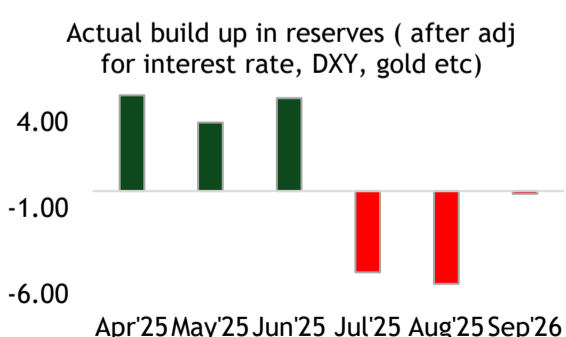
Ongoing India-US trade talks offer cautious optimism, but tariff tensions and policy uncertainty continue to weigh on the rupee.

After aggressive FPI outflows of \$3.99 bln in Aug'25, investors turned net equity buyers last week, though debt flows moderated and YTD outflows remain elevated.

Yuan surged to a record ₹12.42, highlighting the rupee's weakness in Asia and raising import costs amid trade tensions and capital flow volatility.

DXY traded sideways with a modest dip on weak US jobs data, offering limited relief to the rupee.

FX reserves rose to \$698.27 bln, driven by gold gains



Last week, the Indian rupee tumbled to a fresh all-time low against the US dollar, breaching key psychological levels as mounting external pressures took their toll. The unprecedented slide was driven primarily by steep US tariffs on Indian exports and persistent foreign capital outflows; factors that overshadowed tentative optimism surrounding ongoing India-US trade negotiations. As government scrambles to soften the economic blow through measures such as GST rate cuts and renewed diplomatic engagement the rupee's historic weakness underscores the fragile outlook for India's currency amid shifting global policies and persistent risk aversion. With the US Federal Reserve's key policy decision on 17th Sep'25 (96% probability for a 25bps rate cut) and bilateral trade talks still in flux, markets are bracing for heightened volatility in the days ahead. Despite brief recoveries spurred by gains in domestic equities, the rupee depreciated by a mere -0.01% over the week, despite recoveries in Asian currencies (Last Friday's close: ₹88.2650/\$) [O: ₹88.0000/\$, H: ₹88.4700/\$, L: ₹87.9500/\$ & C: ₹88.2750/\$]. (Refer report: [FX weekly: From U.S. payroll shock to policy pivot: Bonds lead the way](#))

Key Drivers of Rupee Movement:

- ❖ **India and the US** remain locked in sensitive trade negotiations. While both countries are now engaged in detailed, technical-level discussions, recent remarks from U.S. Ambassador-designate Sergio Gor, stating that the two sides are "not that far apart," offer cautious optimism. However, tensions remain high following stern comments from U.S. Commerce Secretary Lutnick, who warned that India "must remove tariffs on agricultural imports or face tough times." **The uncertainty surrounding the outcome has already triggered capital outflows and pushed the rupee to a record low.** Still, until a concrete resolution is reached, trade tensions are expected to persist as a key overhang for the rupee especially amid broader global headwinds like a strong dollar and the upcoming U.S. Federal Reserve policy decision.
- ❖ **Foreign Portfolio Investors (FPIs)** have continued their aggressive selling in Indian markets, pulling out \$3.99bln in Aug'25 - marking the highest monthly outflow in 7 months with YTD net outflows at \$16.27bln as of 10th Sep'25. This trend has extended into Sep'25, with \$1.35bln withdrawn in just the first half, driven by concerns over rising US tariffs & the depreciating rupee. In response, SEBI is working to ease compliance norms for FPIs, particularly in government securities, and is considering an "automatic window" to streamline FPI registration in an effort to stabilize capital flows and restore investor confidence. Last week, FPIs turned buyers in equities to the tune of \$168mln vis outflows of \$1394mln on a WoW basis. Flows have reversed in debt to \$64mln vis-a-vis \$402mln inflows a week ago. FAR flows, at \$5.45bln YTD, saw a \$719mln inflow till date this month.
- ❖ **Yuan Strength, Rupee Strain:** The Chinese yuan has continued to gain against the Indian rupee, reaching ₹12.42/ ¥ on 11th Sep'25 its strongest level ever recorded. This underscores the rupee's relative weakness within the Asian currency basket, making Chinese imports more expensive for Indian businesses and driving up input costs in sectors heavily reliant on Chinese goods. The rupee's underperformance against the yuan reflects broader regional vulnerabilities, amid ongoing trade tensions and unstable capital flows.
- ❖ **Dollar Index (DXY)** has traded relatively sideways, fluctuating within the 97.6 to 98.0 range and posting a -0.28% decline over the past month. This modest softening came on the back of weaker-than-expected US labor market data, which has bolstered expectations of a potential FED rate cut. Softer DXY provided some cushion, the rupee continued to depreciate amid persistent trade tensions, tariff uncertainties, and capital outflows. The absence of a strong dollar rally offered limited relief, but not enough to reverse the broader downward trend in the INR, which remains vulnerable to both external shocks and domestic macroeconomic challenges.
- ❖ **FX reserves** surged by \$4.04bln to **\$698.27bln** for the week ending 05th Sep'25, driven mainly by a **\$0.54bln** rise in foreign currency assets to \$584.48bln and **\$3.53bln** rise in **Gold**. With this gain, reserves now stand **-6.59bln** below the **all-time high of \$704.86bln** recorded on 27th Sep'24. A valuation loss of \$0.16bln was also noted, highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP surplus of -\$5bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

Brent crude fell 1.65% WoW due to rising US inventories & OPEC+ supply concerns, easing import costs for the rupee

Trade deficit narrowed to \$26.49 bln in Aug'25, but weak exports, rising import bills, and firm dollar demand continue to weigh on the rupee.

Rupee is expected to remain under pressure through Sep, in line with our FY26 outlook, as trade tensions, strong dollar demand, and capital outflows continue to weigh, despite brief support from a softer DXY and easing oil prices.

- ❖ **Brent crude oil prices** fell to \$65.50/bbl., driven by a surprising 2.4 million barrel rise in US crude inventories and Saudi Arabia's push for higher OPEC+ production. New supplies from Guyana and Brazil, along with slower US growth concerns, added to the pressure. Brent is expected to hover around these levels but remains vulnerable to oversupply and economic uncertainties. For the rupee, lower oil prices ease import costs and provide some support. On a WoW basis, prices surged by ~1.65%, and they still reflect a sharp YTD decline of ~10%.
- ❖ **Trade Deficit:** India's trade deficit narrowed slightly to \$26.49bln in Aug'25 ([Our estimate: \\$26.10bln](#)), but both exports and imports declined, reflecting weak global demand and tariff-related disruptions. Despite strong services exports and remittances helping cap the current account deficit, the outlook for FY26 points to a wider gap amid rising import bills and uncertain export growth. These imbalances continue to pressure the rupee, especially as dollar demand stays firm.

Outlook (INR - ₹ view):

The Indian rupee is likely to remain under pressure through the rest of Sep'25, hovering near its recent record lows against the U.S. dollar. Key factors weighing on the currency include strong dollar demand from importers, foreign investment outflows, and ongoing trade tensions with the U.S., especially after new tariffs were announced. Although there is some support from expectations of U.S. Fed rate cuts, the overall outlook remains fragile. Unless there is a significant improvement in global risk sentiment or a resolution to trade issues, the rupee is expected to trade in a broad range this month.

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 ₹87.80/\$, a decisive break below this level could open the door to ₹87.50/\$. On the upside, resistance is expected near ₹88.50/\$, and a breach of that could push the pair towards fresh all-time highs of ₹88.80/\$. Overall, the rupee is likely to stay vulnerable to external pressures such as dollar movements, trade tensions, and capital flows, with little indication of a strong rebound this week, while a softer DXY and cooling crude oil prices may offer some short-term relief. Markets will closely watch any progress in India-U.S. trade talks. The rupee may also underperform regional peers if risk aversion persists.

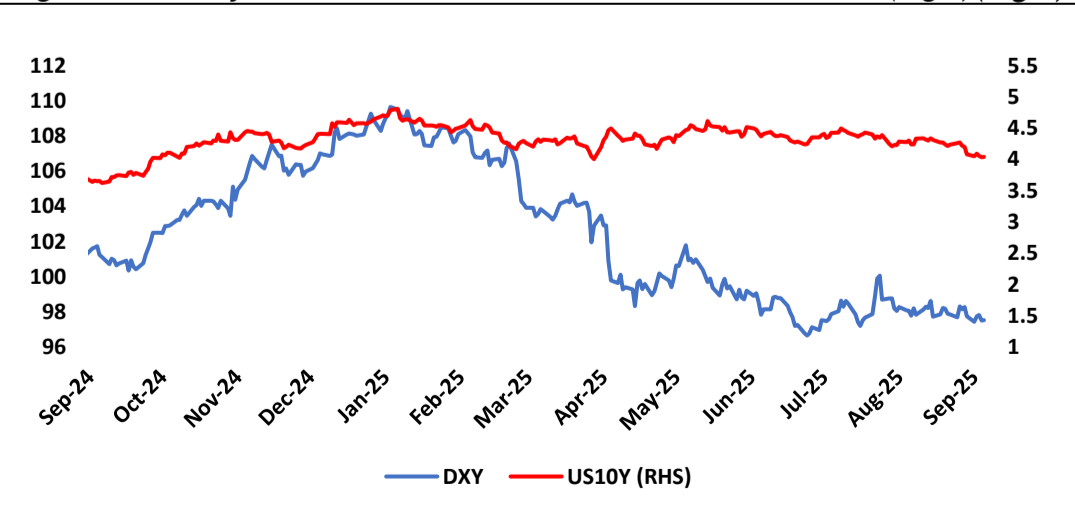
Base Case & Risk Scenarios:

Base-case: Rupee trades in a range of ~₹88.00 to ₹88.50/\$, with mild downward bias if negative trade/tariff news continues, but supported by dollar expectations moderated by Fed rate cut talks.

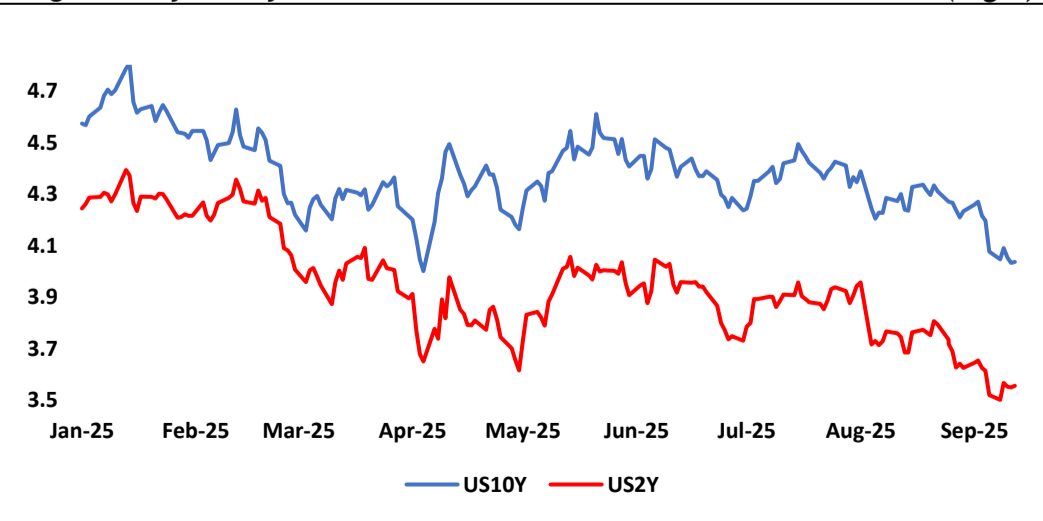
Upside scenario: If India-U.S. trade negotiations yield a concrete easing of tariffs, plus dollar softness (due to weak U.S. data), the rupee could strengthen to ~₹87.50-₹87.80 levels.

Downside scenario: If tariffs escalate, foreign capital continues to exit, and dollar stays strong (if Fed delays cuts or global risk rises), rupee could breach ₹88.80 or worse in the short term.

Dollar sliding to new lows while 10Y eases only gradually—softer USD without a big duration rally (Fig 1)(Fig 1)

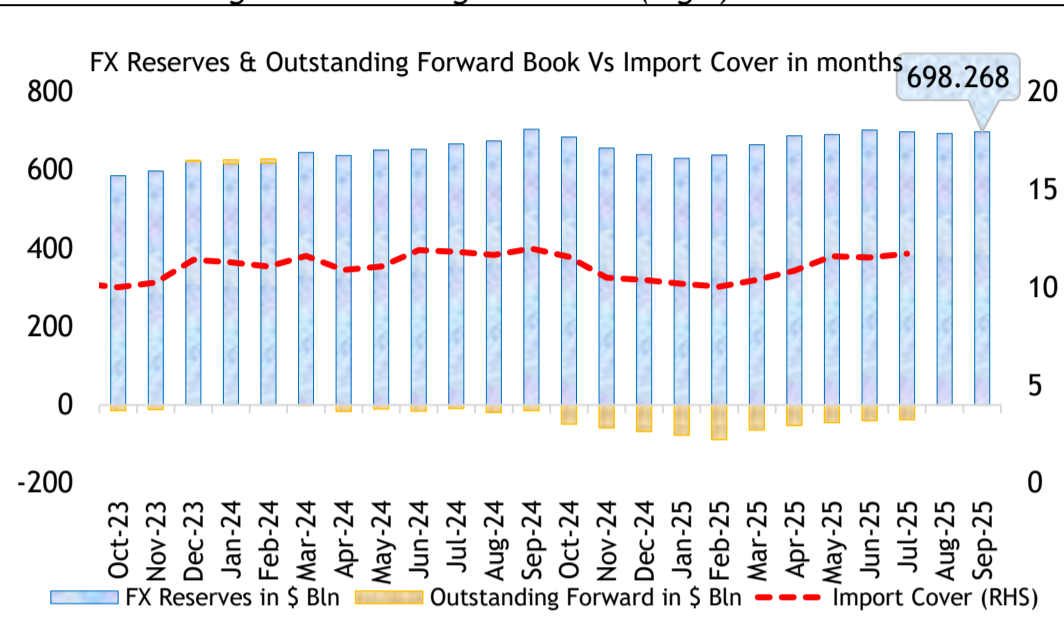


Bull steepener: 2Y dropping faster than 10Y as front-end prices cuts and the long end stays sticky (Fig 2)

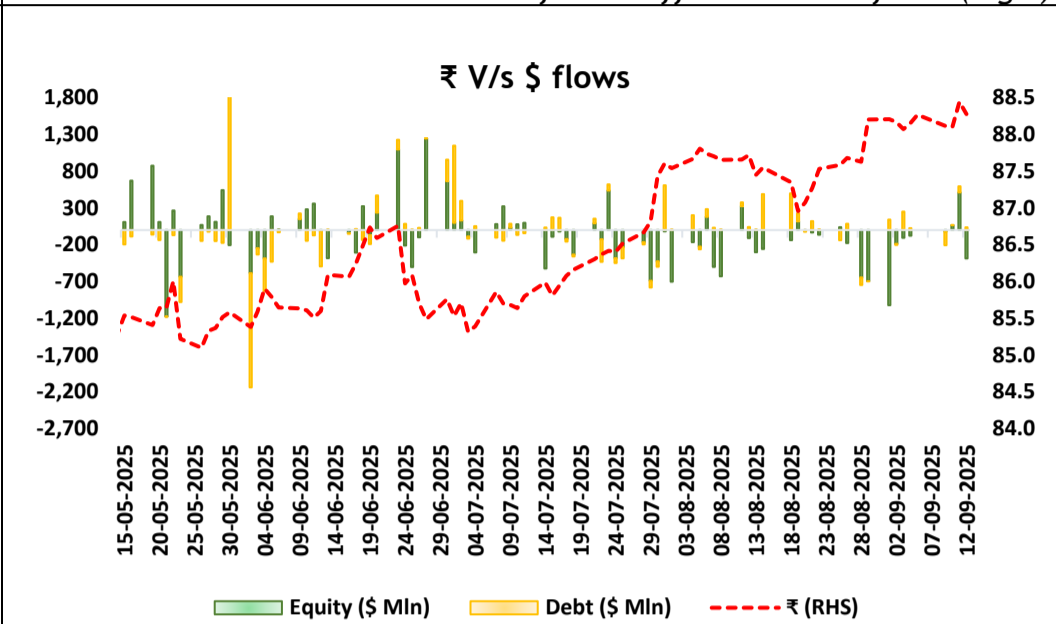


Source: Cogencies & UBI Research

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



INR hits record lows amid tensions of US tariffs and FPI outflows (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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