

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank.in

Akash Deb
akash510@unionbankofindia.bank.in

Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank.in

Market-Implied snapshot) Meeting	Path (Fed-Funds Futures (Table 1) Implied Rate	Cumulative Change
18 Mar 2026	3.61%	-02 bp
29 Apr 2026	3.56 %	-08 bp
17 June 2026	3.43%	-21 bp
29 July 2026	3.32%	-32 bp
16 Sept 2026	3.20%	-45 bp
28 Oct 2026	3.10 %	-53 bp
09 Dec 2026	3.01%	-62 bp

Next meeting probabilities: **No change 90 %**, **25 bps cut 10 %**

Last week’s price action captured a “mixed macro, loud markets” dynamic. US data delivered a near-Goldilocks combination **stronger-than-expected job growth alongside a softer inflation print** yet the adjustment expressed itself primarily through rates rather than equities. U.S. treasuries rallied across the curve, led by the front end and belly, as markets leaned more decisively into an eventual rate-cut narrative even while recognizing that the Fed has not endorsed it. The 2-year yield declined 5 bps to 3.40% and the 10-year fell to 4.05%, its lowest since early December, while Fed-dated OIS shifted to price roughly 63 bps of easing by year-end, up from 55 bps previously.

The macro debate is therefore not about imminent recession activity remains broadly resilient but about policy calibration: whether current settings are tighter than necessary versus the risk that services inflation remains sticky. Headline CPI rose just 0.17% m/m in January (vs. 0.3% expected), easing y-o-y to 2.4% from 2.7%, while core held firmer at 0.3% m/m. The tariff pass-through were visible in selected goods categories, reinforcing that inflation composition still matters. The data was sufficient to move markets, but not decisive enough to alter the Fed’s stance.

In FX, the dollar remains suspended between fundamentals and capital flows. Rate differentials continue to offer relative support. This is less a “Sell America” narrative and more a “diversify more” dynamic, explaining why the dollar has softened relative to pure rate-model signals. The DXY hovered near 96.9, range-bound, with positioning adjustments limiting follow-through after CPI. **Structurally, continued Fed easing expectations and lingering questions around fiscal discipline and long-end yield control leave the medium-term dollar bias softer.**

A forward-looking theme gaining traction is the possibility that future Fed leadership Kevin Hassett could place greater emphasis on balance-sheet discipline less tolerance for prolonged excess liquidity while retaining its buyer-of-last-resort role during genuine plumbing stress.

Meanwhile the Fed’s tone was broadly cautious and tilted toward a prolonged hold rather than **an imminent easing cycle**. Fed’s Goolsbee said rate cuts remain conditional on inflation clearly returning to 2%, stressing that inflation is still “stuck around 3%.” Fed’s Schmid cautioned that further easing could entrench inflation and saw little evidence that current rates are restraining growth. Fed’s Hammack described policy as “around neutral” and appropriate to remain on hold, while Fed’s Logan noted that if inflation eases and the labor market stays stable, cuts may not be necessary.

Trade developments offered a modest constructive backdrop. The US and Taiwan finalized a tariff-cut agreement 15%, reducing US tariffs on several Taiwanese exports and securing commitments for sizable US energy purchases and broader market access. Meanwhile, US-China dialogue resumed on the sidelines of the Munich Security Conference, with both sides signaling willingness to strengthen cooperation. Taken together, the trade tone leaned toward incremental de-escalation rather than fresh disruption.

In the commodity space, price action reflected diverging macro drivers. Oil remained under pressure on a weekly basis marking a second straight decline, with markets balancing potential OPEC+ supply normalization against **lingering Iran-related geopolitical risks**. Gold, by contrast, rebounded decisively after the softer US inflation print, reclaiming the \$5,000 handle.

Looking ahead, US markets are closed on 16th Feb’26. Despite the shortened trading week, financial markets are expected to remain focused on the upcoming developments and key data releases like Dec PCE inflation (20 Feb, Bloomberg est. 0.3% m/m, 2.9% y/y from 0.4% m/m, 3.0% y/y in Nov), core PCE (Bloomberg est. 0.4% m/m, 3.0% y/y from 0.2% m/m, 2.8% y/y in Nov), FOMC minutes, and 4Q GDP (20 Feb, Bloomberg est. 2.8% q/q SAAR from 4.4% in 3Q). A firmer PCE print closer to 3% would likely challenge current easing expectations, reprice front-end yields higher, and lend support to the dollar. A softer outcome would reinforce the prevailing mix of lower yields, a gently weaker USD, and constructive risk sentiment. With tariffs still a policy wildcard and multiple Fed speakers due, markets remain positioned at the intersection of resilient growth and nuanced inflation dynamics.

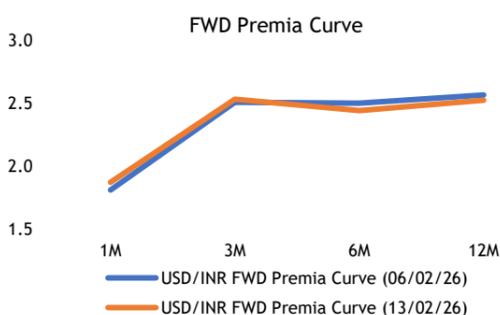
Rupee gains momentum on RBI stability & Landmark India-US Trade breakthrough, backed by benign Oil and a Softer Dollar

Brent Crude fell ~2% WoW to \$67-\$68/bbl., range-bound amid oversupply concerns and easing geopolitical risks; likely \$66-\$70 this week, down ~10% YoY

DXY up ~0.2% WoW, holding ~97 on solid data and yields but capped by softer inflation; 98 upside, ~96 support, down ~9% YoY

FPIs Pumped \$3.28bln into Indian markets, led by equities & debt, supported by the India-US trade deal

FX Reserves fell \$6.71bln to \$717 bln, led by gold declines offset by FCA gains and valuation effects, tracking BoP trends



Source: Refinitiv Workspace & UBI research

Rupee Rallies on “Goldilocks” Tailwinds: Reset Power Structural Upside

The Indian Rupee entered the week, on a remarkably strong footing, bolstered by a “Goldilocks” combination of domestic policy stability and a transformative geopolitical shift. Following the RBI Monetary Policy Committee meeting on February 6, where the repo rate was held steady at 5.25% with a “neutral” stance and an upgraded FY26 GDP growth forecast of 7.4%, the currency found a solid fundamental floor. This stability was supercharged by the landmark India-US Interim Trade Deal, which effectively rescinded the 25% punitive “Russian oil” tariff and lowered the reciprocal tariff to 18%, drastically improving India’s export competitiveness against regional peers. While Brent crude remains range-bound ~\$68/bbl. and the US Dollar Index has stabilized in the ~97 following cooler US inflation data, the Rupee is set to benefit from a structural shift in trade flows. (Last Friday’s close: ₹90.6750/\$) [O: ₹90.5700/\$, H: ₹90.7900/\$, L: ₹90.3675/\$ & C: ₹90.6350/\$]. (Refer report: [FX weekly: India’s Trade Breakthrough Reshapes the Rupee Threshold](#))

Key drivers for Rupee →

➤ Geopolitics in Play: Brent & DXY Drive FX Sentiment:

Brent crude oil prices: Traded largely range-bound last week, hovering around \$67-\$68/bbl., as early gains driven by cooler U.S. inflation data were offset by easing geopolitical risk and persistent supply concerns. Market sentiment remained cautious amid expectations of potential OPEC+ production increases from April and ongoing U.S.-Iran nuclear talks, both of which limited upside momentum. While macro signals offered brief support, oversupply fears kept Brent on track for a soft weekly tone. For the week ahead, prices are likely to remain contained within the \$66-\$70 range, with downside risks emerging if supply expansion signals strengthen, while any geopolitical escalation could push prices back above \$70/bbl. On a WoW basis, prices dipped by ~2%, and they reflect a sharp decline of ~10% YoY.

Dollar Index (DXY): Traded in a narrow range last week, stabilizing near 97 as resilient data and steady Treasury yields provided support, while cooler inflation prints capped further upside by softening aggressive rate expectations from the Federal Reserve. Improved global risk sentiment limited safe-haven demand, keeping the dollar range-bound. For the week ahead, DXY is likely to remain neutral to mildly firm, with direction hinging on upcoming U.S. macro data and yield movements – a push above 98 possible on stronger data, while softer prints could drag it toward the 96-support zone. On a WoW basis, rise by ~0.20%, and they still reflect a YoY decline of ~9%.

➤ FPI Flows, FX Reserves and Forward Curve in focus amid policy watch to sustain capital inflows:

Foreign Portfolio Investors (FPIs) have turned towards the Indian economy by pumping **\$3.28bln** in Indian markets as of 13th Feb’26. A sharp FPI turnaround is seen as the India-US trade deal boosts investor confidence and attracts renewed foreign capital inflows. FPIs continue to be net buyers **in equities to the tune of ~\$1276mln** vis-à-vis **inflows of ~\$897mln** on a WoW basis. Debt markets remained positive to the tune of **~\$393mln vis-a-vis ~\$808mln inflows** a week ago. FAR flows, at **\$2069mln (CY26)**, including a **~\$119mln** inflow so far last week.

FX reserves dipped from record highs, fall by \$6.71bln to **\$717.06bln** for the week ending 06th Feb’26 (covering ~11 months of imports), driven mainly by a **\$14.21bln** fall in Gold despite **\$7.66bln surge** in FCA. A valuation gains of \$9bln was also noted, highlighting the central bank’s ongoing efforts to stabilize the FX market. Our analysis suggests a BoP deficit of ~\$9bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

The USDINR forward curve has remained relatively flat as the market balances the RBI’s “neutral” monetary stance against shifting US interest rate expectations. Following the MPC meeting, the 1-year forward premium is hovering near the 1.90% - 2.05% annualized range, reflecting a stable interest rate differential as both the RBI and the Fed signal a cautious approach to future cuts. The landmark India-US trade deal is expected to increase long-term dollar inflows, potentially exerting downward pressure on the far-end of the curve; however, any hawkish surprise in upcoming US retail data could lead to a temporary “hardening” of premiums as the market recalibrates the timing of the Fed’s next move.

Foreign Investment Inflows				
(US \$ Million)				
Item	2024-25	Apr-Jan	Feb'26	2025-26
FDI	959	-	-	5629 [^]
FPI	3564	-7158	3275	-3883 [*]
Total flows	4523		-	1746

[^]data till Nov'25; ^{*}data till 13th Feb'26

Source: RBI, NSDL, UBI research

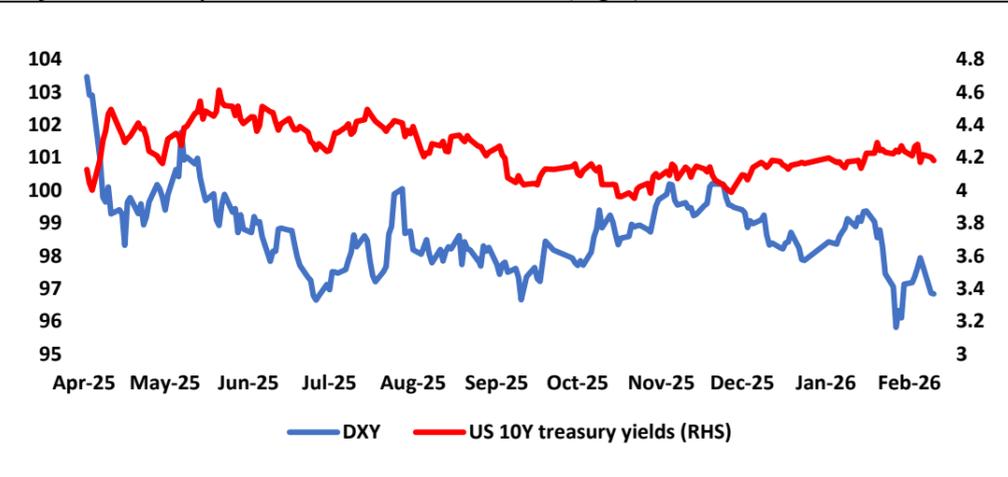
Outlook (INR - ₹ view):

The Indian Rupee is positioned for a cautiously bullish performance, likely consolidating within a broad range as markets digest a powerful combination of domestic stability and geopolitical breakthroughs. The currency is underpinned by the RBI's neutral stance and the structural "game-changer" of the India-US trade deal. This week's primary volatility triggers include the Geneva nuclear talks starting Tuesday, which could crash Brent crude and further ease India's import bill, and Friday's US Q4 GDP print, which will dictate whether the DXY stages a recovery or continues its slide.

From a technical standpoint, the rupee is expected to trade between 90.20-90.90/\$ throughout the next week. Sustained domestic equity inflows could strengthen the INR toward ₹89.80/\$, with ₹90.20/\$ acting as a key interim support. As India-US BTA is finalized; the threshold for the rupee has shifted meaningfully. Likely to face strong resistance near ₹90.90/\$, a break above this zone could trigger a move toward ₹91.20/\$. Overall, geopolitics will remain central driver.

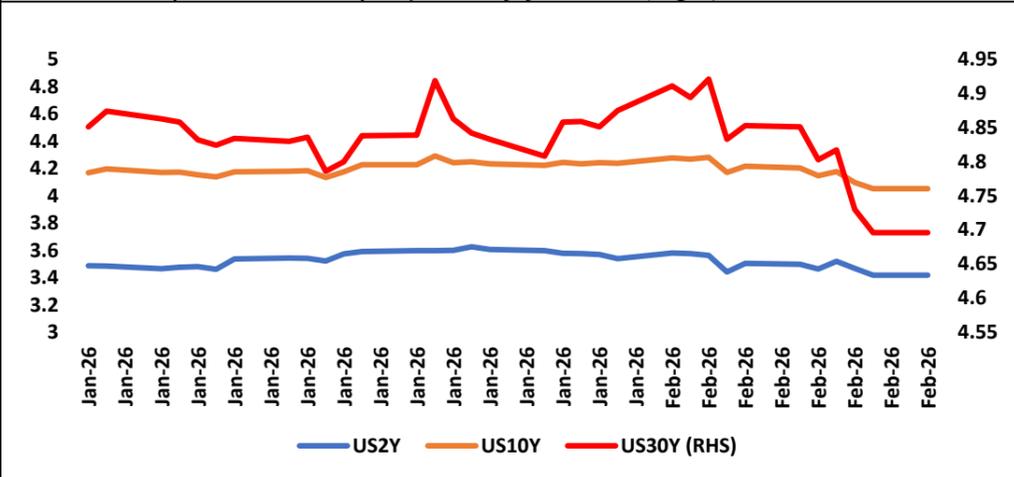
Fundamental outlook, near-term trajectory for rupee is expected to remain supported, which indicates that over a three-year horizon, the rupee typically adjusts via an average annual depreciation of 3-4%, aligned with India-US inflation and interest rate differentials. Given that the rupee had already weakened by ~6% this financial year and cumulatively ~10% in last 3 years (since March 2023), we did not expect significant or runaway depreciation pressures in the currency. This suggests that the USD/INR overshooting to the ₹92/\$ level was largely a sentiment-driven reaction to January's aggressive FPI sell-off and "Trade War" anxieties, rather than a reflection of fundamental macro stress. Currently, the Rupee is estimated to be ~5% undervalued on a REER basis, indicating that it has drifted well below its fair value. Consequently, the focus has now shifted to the return of capital flows the vital "missing link" needed to rebalance market dynamics. With the historic India-U.S. trade deal and a fiscally disciplined budget acting as catalysts, the central bank is expected to remain actively engaged, using its record reserve chest to contain excess volatility and facilitate a structural mean reversion.

DXY held near 97 despite softer inflation; as short-covering and positioning adjustments kept the downside limited (Fig 1)

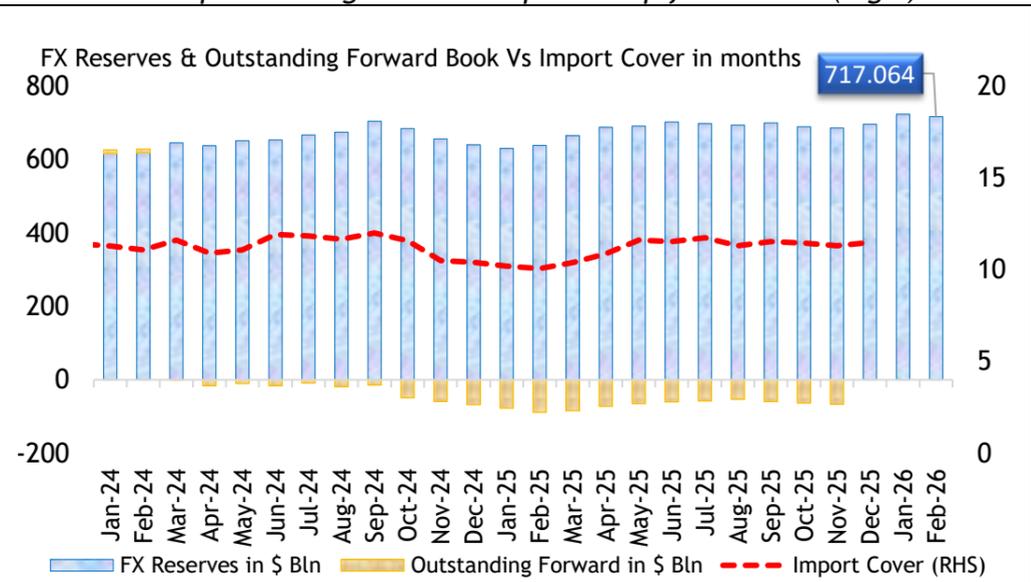


Source: LSEG, UBI research

After the CPI data the 2-year yield fell 5 bps to 3.40% and the 10-year to 4.05% as Fed OIS repriced to ~63 bps of cuts by year-end (Fig 2)

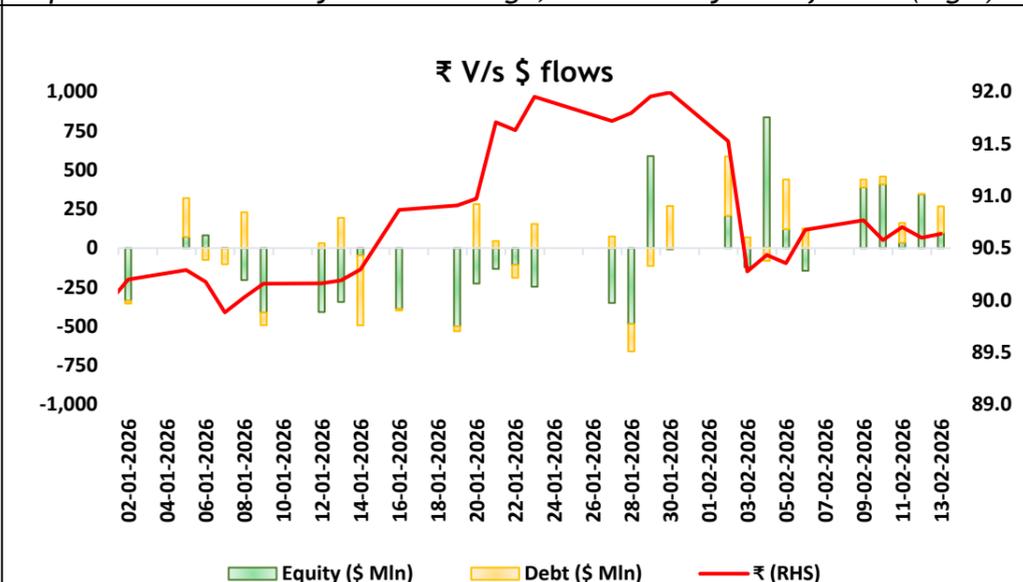


FX reserves dip amid surge in FCA despite sharp fall in Gold (Fig 3)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

Rupee remained steady within a range, bolstered by 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

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.