

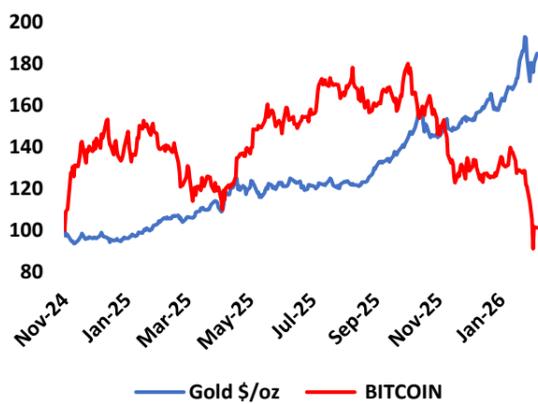
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The nomination of Kevin Warsh as the next Fed Chair triggered a broad wave of selling across risk assets. (Index, USD, Nov2024=100)



Source: LSEG datastream

Market-Implied snapshot)	Path	(Fed-Funds Futures
Meeting	Implied Rate	(Table 1) Cumulative Change
18 Mar 2026	3.61%	-02 bp
29 Apr 2026	3.58 %	-05 bp
17 June 2026	3.45%	-18 bp
29 July 2026	3.36%	-27 bp
16 Sept 2026	3.25%	-38 bp
28 Oct 2026	3.17 %	-46 bp
09 Dec 2026	3.10%	-53 bp

Next meeting probabilities: **No change 91 %**, **25 bps cut 9 %**

The current market story revolved around three intertwined strands: **US labour data, deleveraging in crowded trades, and a mounting tension between AI-driven capex ambitions and the bond market's capacity to finance them.**

Last week risky assets saw a sharp but contained shake-out: silver fell almost 20% at one point, crypto dropped hard, and some AI-focused tech stocks slipped under the weight of high valuations and big spending plans (USD 400bn). But the move stopped short of a full risk-off. Buy-the-dip flows returned later in the week, helping major indices recover and even pushing the Dow above 50,000.

Against this backdrop, policy and trade signals outside the US added a second layer of divergence. The **India-US trade deal marked a meaningful reduction in trade-policy tail risks: reciprocal tariffs have been reset to around 18% while sensitive domestic sectors remain protected.** That improves medium-term export visibility, reinforces India's role in diversified supply chains and supports FX and investment sentiment via clearer trade rules, energy linkages and technology commitments. In Europe, **the ECB kept rates on hold** and repeated that policy is in a "good place", effectively signaling an extended pause rather than imminent easing. **The BoE also stayed on hold at 3.75%**, but a narrow 5-4 vote and acknowledgement of better inflation dynamics pushed markets to bring forward expected cuts. **In India, the RBI maintained the repo rate at 5.25%**, underscoring a prolonged pause with the focus squarely on liquidity management over fresh rate action, as moderating inflation and elevated external risks argue for stability and flexibility. But the **RBA delivered 25bp hike**, taking the cash rate to 3.85%, as inflation remains persistently above target.

In FX and commodities, the same backdrop produced **dollar softness and hard-asset anxiety rather than a clean directional trend.** The DXY surrendered its recent gains and slipped back below 97 as weak data and reports emerged that **Chinese regulators had urged domestic institutions to curb US Treasury exposure.** Meanwhile the US dollar is likely to remain weak as Fed easing progresses, twin deficits widen and confidence in US fiscal discipline and control over long-end yields continues to erode. The US 10-year Treasury yields eased toward 4.15% as Fed funds futures increased expectations for further easing, with a June rate cut now fully priced. **Markets also remain attentive to policy signals from Fed Chair nominee Kevin Warsh.**

The third key thread was the **emerging clash between AI-driven capex and funding capacity.** Mega-cap tech firms have signalled close to USD 400bn of capex this year in the U.S., forcing investors to reassess both the profitability of this investment wave and the bond market's appetite to underwrite it against a backdrop of widening spreads and frictions in leveraged loans. At the margin, the question is shifting from "how big can AI be?" to "who will fund this, and at what price?"

Meanwhile Japan's ruling LDP secured a decisive Lower House victory, winning 316 seats comfortably above the majority threshold. PM Takaichi acknowledged investor concerns over the proposed temporary food sales-tax cut but reiterated it would not be bond-funded, stressing fiscal discipline and a gradual reduction in the debt-to-GDP ratio, alongside targeted subsidies and income support. This has led to JPY strength, with USD/JPY slipping below the 155 level.

After a weaker retail sales backdrop, US retail sales unexpectedly held steady at 0% m/m in December (vs. 0.4% expected). Nonfarm payrolls increased by 130k in January, recovering from December's 48k print and surpassing consensus expectations. The unemployment rate eased to 4.3% from 4.4%. On policy, the Fed's tone remains steady and near-neutral. Fed's Logan signaled that if inflation eases and the labor market holds, further cuts may not be needed, while Fed's Hammack said policy is well positioned to "see how things play out," implying rates could stay on hold for some time. Attention now shifts Initial jobless claims for the week ending 7 February, with markets expecting 223k compared with 231k previously. Continuing claims for the week of 31 January are projected at 1,850k versus 1,844k prior. January existing home sales data will also be released, with consensus at 4.15 million, down from 4.35 million in the previous month.

## Rupee Rebounds on trade optimism as RBI stability & record reserves fortify outlook

Rupee experienced a pivotal week, shifting from a state of defensive consolidation to a position of reinforced stability. The convergence of a landmark trade agreement, a record-breaking foreign exchange buffer, and monetary policy has created a *"triple-layer"* support system for the currency.

The rupee initially strengthened sharply following the announcement of reduced tariff measures under the India-US trade agreement, which boosted market sentiment and triggered foreign capital inflows. The Reserve Bank of India, in its latest Monetary Policy Committee meeting, maintained the *repo rate at 5.25%* and retained a *neutral stance*. The decision signalled policy stability amid evolving global conditions and provided near-term support to currency and bond markets.

Foreign Portfolio Investors turned net buyers after several months of sustained outflows, marking a significant shift in capital flow dynamics. This reversal has supported both equity markets and the rupee. Importantly, India's foreign exchange reserves climbed to record highs above the *\$720bn mark*, strengthening the country's external position and providing the RBI with substantial firepower to manage currency volatility. Overall, while improved trade sentiment, policy stability, and strong reserves provide a constructive backdrop for the rupee, sustainability of gains will depend on concrete progress in the trade agreement, continued FPI participation, and global dollar trends. (Last Friday's close: ₹91.9925/\$) [O: ₹91.7600/\$, H: ₹91.8400/\$, L: ₹90.0450/\$ & C: ₹90.6750/\$]. (Refer report: [FX weekly: US India trade deal a game changer for Rupee; global FX led by FX leadership change](#))

### Key drivers for Rupee →

#### ➤ Geopolitics in Play: Brent, DXY, and Trade Deals Drive FX Sentiment:

**Brent crude oil prices:** This week was characterized by a sharp tug-of-war between elevated geopolitical risk premiums and persistent structural oversupply. Brent crude climbed toward the \$70/bbl mark, driven by fresh U.S. sanctions on Iranian oil entities and a reshaping of global trade flows following the India-U.S. trade deal, which favours increased American energy exports. However, the upward momentum was capped after the API reported a substantial [13.4 million barrels](#) inventory build, reinforcing concerns of an ongoing global supply glut. Looking ahead to next week, prices are likely to remain range-bound as markets balance the embedded "war premium" against record-high U.S. production levels, inventory trends, OPEC+ signals, and broader demand indicators. Any escalation in geopolitical tensions could push prices back toward the upper end of the range, while easing risks and continued supply strength may exert downward pressure on crude. EIA forecasts the Brent crude oil price will average [\\$58/bbl. in 2026 and \\$53/bbl. in 2027](#). On a WoW basis, prices gained by *-2%*, and they reflect a sharp decline of *-10% YoY*.

**Dollar Index (DXY):** Last week, DXY experienced modest weakness as markets weighed softer U.S. economic data against ongoing global currency dynamics. The index initially found brief support from risk-off flows and central bank divergences, such as the Bank of England holding rates, but gains were capped as weaker-than-expected retail sales and dovish Federal Reserve expectations pressured the dollar. Strength in the Japanese yen following the recent election and reports of reduced U.S. Treasury demand from China further added to DXY's downward momentum. Overall, DXY traded within the 96-98 range, reflecting a balance between lingering safe-haven demand and structural pressures from other major currencies. Looking ahead to next week, the dollar is expected to remain range-bound between roughly 96 and 98.0, with movements closely tied to U.S. economic releases, Fed policy expectations, and shifts in global risk sentiment. On a WoW basis, fell by *-1%*, and they still reflect a *YoY decline of -11%*.

**Landmark India-US Trade Deal:** Effective February 7, 2026, the deal has fundamentally reshaped the rupee's trajectory by replacing trade-war volatility with a structured, long-term partnership. By slashing US tariffs from a punitive 50% (which included a 25% surcharge for Russian oil purchases) to a stabilized *18%*, the deal has provided an immediate ₹1.5/\$ relief for the INR, lifting it from its record lows near ₹92/\$. While India's commitment to purchase \$500bn in US energy and technology over five years creates a significant long-term dollar demand, the immediate return of *FPI inflows totaling over \$2.5bn* in early February and a *record \$723.8bn in RBI FX reserves* have fortified the currency's floor.

*Rupee stabilizes on trade optimism, steady RBI policy, renewed FPI inflows, and record \$720bn+ FX reserves, forming a strong near-term support base.*

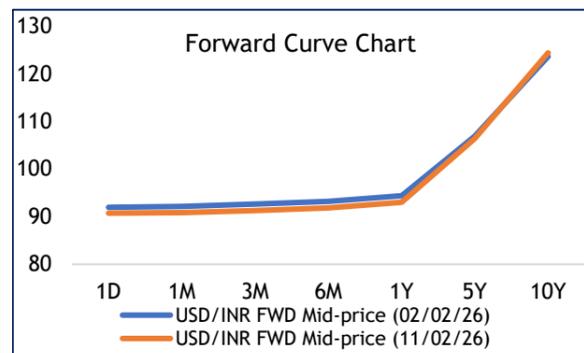
*Brent crude rose ~2% WoW toward \$70/bbl amid geopolitical risks and trade-driven flows, but a 13.4M-barrel inventory build capped gains, with prices down ~14% YoY and EIA forecasting \$58/bbl in 2026.*

*DXY slipped ~1% WoW to trade within 96-98, pressured by soft U.S. data, dovish Fed bets, and yen/China flows, down ~11% YoY.*

*Landmark India-US trade deal slashes tariffs, boosts FPI inflows and, alongside \$723.8bn FX reserves, lifts rupee by ₹1.5/\$*

FPIs stage a sharp turnaround post India-US trade deal, returning ~\$897M to equities and ~\$808M to debt, supporting total FAR flows of \$1.94B YTD.

FX reserves hit a fresh record of \$723.77B, driven by a \$14.6B gold surge despite a \$0.49B FCA dip.



Source: Refinitiv Workspace & UBI research

Foreign Investment Inflows		
(US \$ Million)		
Item	2024-25	2025-26
FDI	959	5629 <sup>^</sup>
FPI	3564	-4655 <sup>*</sup>
Total flows	4523	974

<sup>^</sup>data till Nov'25; <sup>\*</sup>data till 10<sup>th</sup> Feb'26  
Source: RBI, NSDL, UBI research

If 9-10% depreciation as seen historically is reported in 3 years cycle

Year	INR level	USD/INR Annual Move	3 Year Total	3 Year Avg.
Mar-10	44.90			
Mar-11	44.59	-0.70%		
Mar-12	50.87	12.35%		
Mar-13	54.28	6.28%		
Mar-14	59.91	9.40%	28.02%	9.34%
Mar-15	62.50	4.14%		
Mar-16	66.25	5.67%		
Mar-17	64.85	-2.17%	7.64%	2.55%
Mar-18	65.17	0.50%		
Mar-19	69.15	5.76%		
Mar-20	75.66	8.60%	14.86%	4.95%
Mar-21	73.11	-3.49%		
Mar-22	75.79	3.54%		
Mar-23	82.17	7.76%	7.81%	2.60%
Mar-24	83.40	1.48%		
Mar-25	85.48	2.43%		
10-Feb-26	90.58	5.63%	9.54%	3.18%

Source: CEIC, RBI & UBI research

➤ **FPI Flows, FX Reserves and Forward Curve in focus amid policy watch to sustain capital inflows:** Foreign Portfolio Investors (FPIs) have pulled out \$2.28bln (CY26) from Indian equity markets as of 10<sup>th</sup> Feb'26. A sharp FPI turnaround is seen as the India-US trade deal boosts investor confidence and attracts renewed foreign capital inflows. FPIs turned to be net buyers *in equities to the tune of ~\$897mln* vis-à-vis *outflows of ~\$257mln* on a WoW basis. Debt markets remained positive to the tune of *~\$808mln vis-a-vis ~\$56mln inflows* a week ago. FAR flows, at \$1938mln (CY26), including a *~\$490mln* inflow so far last week.

FX reserves touched fresh record highs, surged by \$14.36bln to \$723.77bln for the week ending 30<sup>th</sup> Jan'26 (covering ~11 months of imports), driven mainly by a \$14.60bln surge in Gold despite \$0.49bln fall in FCA. As per liquidity calculations, the FX drag in liquidity to possibly curb the FX volatility (excluding valuation effects) has been ~\$1.89bln in the week ended 30<sup>th</sup> Jan'26.

The USDINR forward curve remained relatively stable, with one-month and three-month premiums hovering around 2.8-3.0% and 2.9-3.2% annualized, while implied annualized yields moderated slightly to ~3.1% and ~3.4%, reflecting balanced hedging demand. The forward market was supported by renewed FPI inflows and optimism from the India-US trade deal, keeping premiums in check and the rupee slightly stronger; going forward, premiums and yields are expected to stay range-bound, though USD strength or sudden outflows could raise hedging costs.

**RBI MPC:** In its final policy review of FY26, the RBI MPC unanimously held the repo rate at 5.25% with a "Neutral" stance, signaling a strategic pause to support a robust 7.4% GDP growth forecast. To further fortify the Rupee, the RBI revamped the Voluntary Retention Route (VRR) by removing the standalone ₹2.5 lakh crore cap, effectively converting volatile FPI hot money into stable, three-year committed capital. This policy mix of maintained interest rate differentials and sticky debt inflows has provided a firm psychological floor for the INR, allowing the central bank to accumulate FX reserves while insulating the currency from global risk-off volatility.

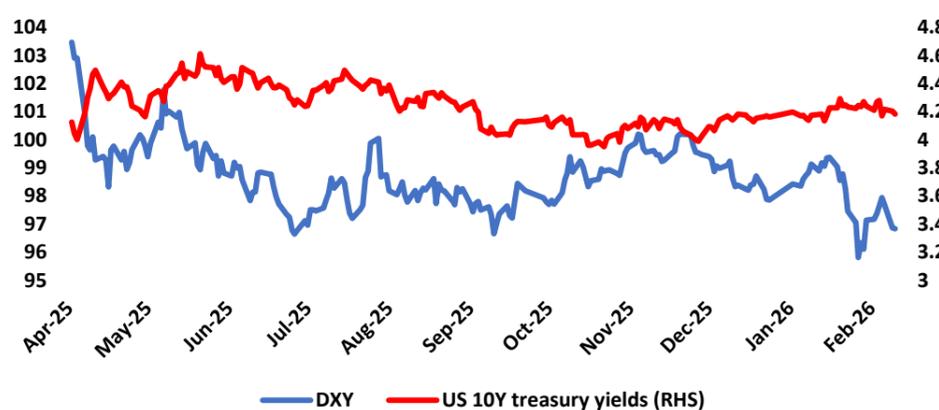
**Outlook (INR - ₹ view):**

In the week ahead, Rupee is projected to consolidate within a supported range of 90.10-90.90, anchored by a newfound sense of policy certainty and robust external buffers. The "triple-shield" provided by record-high FX reserves, the RBI's commitment to a "Neutral" policy stance, and the structural relief from the India-US trade deal has effectively capped the downside risk. Market participants will pivot their focus to the January CPI and WPI inflation releases to gauge if the current low-inflation environment will persist. While FPI inflows have shown a promising reversal in early February, the central bank is expected to maintain a ceiling on the Rupee, mopping up excess dollar liquidity to further bolster its "war chest" against any future global volatility or spikes in Brent crude.

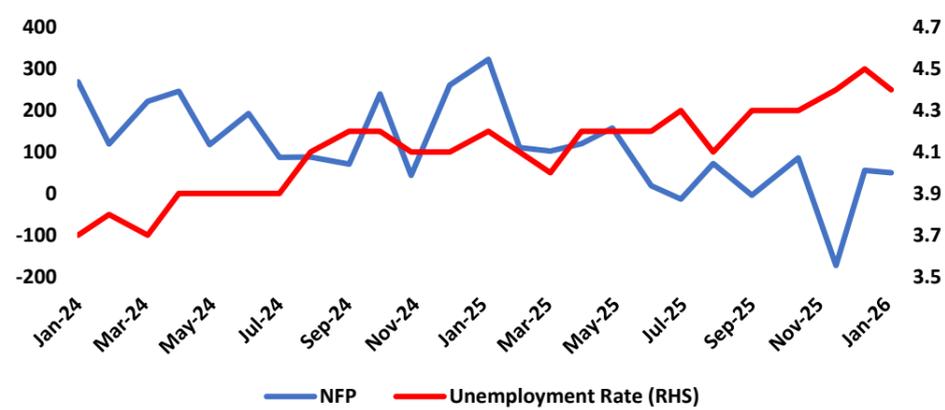
**From a technical standpoint,** the rupee is expected to trade between 89.80-90.90/\$ throughout the next week. Sustained domestic equity inflows could strengthen the INR toward ₹89.80/\$, with ₹90.10/\$ acting as a key interim support. As India-US BTA is finalized; the threshold for the rupee has shifted meaningfully. Likely to face strong resistance near ₹90.50/\$, a break above this zone could trigger a move toward ₹90.90/\$. 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.

The dollar continues to weaken amid JPY strength and reports of Chinese curbs on US Treasury holdings. (Fig 1)

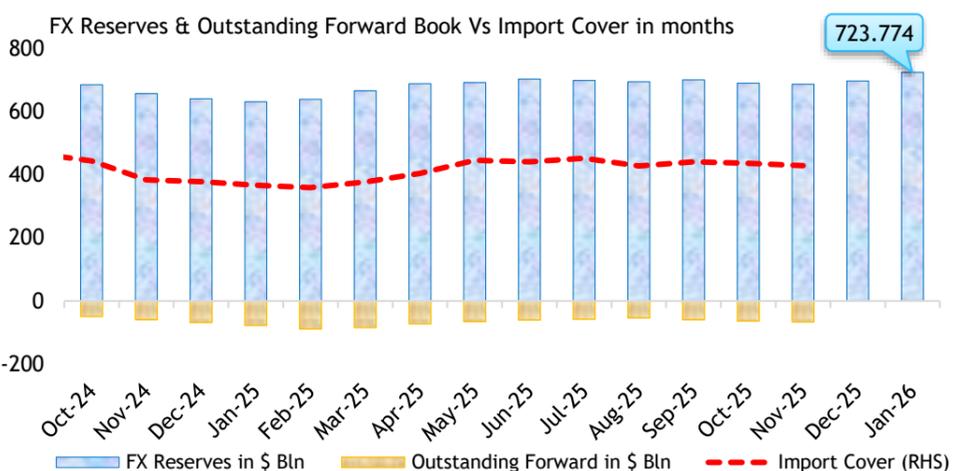


Attention now turns to January's US nonfarm payrolls report, with markets raising rate-cut expectations amid recent weakness. (Fig 2)

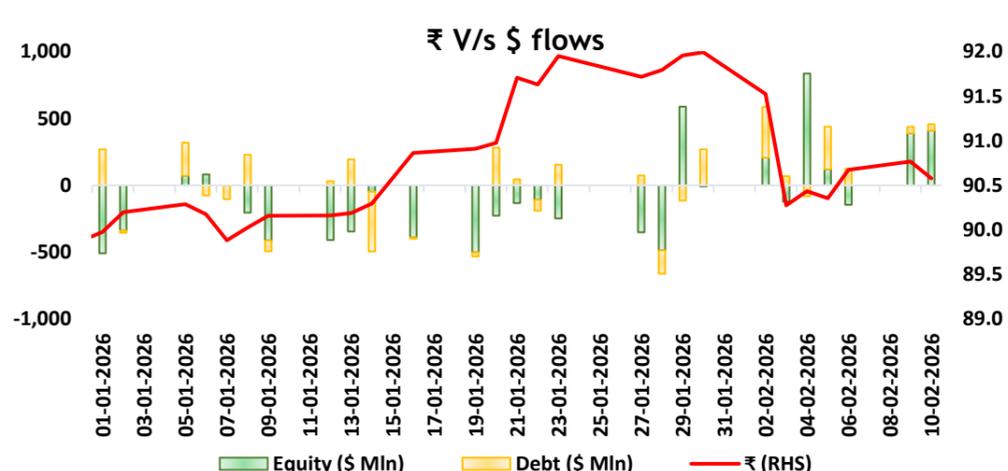


Source: LSEG, UBI research

FX reserves at fresh record highs amid surge in Gold assets despite drop in FCA (Fig 3)



Rupee threshold shifted after the US-India Trade deal announcement (Fig 4)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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