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*The week delivered a policy shock without policy clarity. **The Supreme Court's decision to curb IEEPA tariff** authority jolted market positioning, with second-order effects likely to outweigh the initial headline impact. At the same time, **AI-driven disruption concerns continued** to hover across equity and credit markets, adding another layer of uncertainty to an already fragile macro and policy backdrop. The **ruling invalidated the IEEPA legal basis for broad global tariffs invalidating an estimated $130–$160 billion in tariff revenues**, but it did not deliver a clean "tariffs are gone" outcome. Implementation takes time, **refunds are unclear**, and crucially the administration retains other tools (notably sector/national-security routes) that can reintroduce restrictions in different forms. **That keeps the trade chessboard in motion: deals negotiated under a "reciprocal tariff threat" framework may be reopened or challenged, because counterparties will question whether the tariff terms they accepted remain valid if the U.S. policy architecture changes again**. Following the ruling, U.S. President Trump moved to reimpose tariffs under Section 122, initially signaling a 10% across-the-board levy on all countries, before indicating over the weekend that the rate would be increased to **15% for maximum period of 150 days**.*

Meanwhile the countries that negotiated bilateral trade deals with the U.S. appear slightly disadvantaged in the short term, whereas countries which have not yet concluded comprehensive agreements emerge as relatively better positioned. India occupies a relative middle ground it was among the lowest-tariffed economies within its Asian peer group and largely sidestepped the most punitive reciprocal measures earlier. However, any uniform hike under Section 122 would lift its tariff exposure, eroding some of the relative advantages secured through prior negotiations.

*In FX terms, that's a complicated cocktail: higher long yields in general can be USD-supportive through rate differentials, but deficit/term-premium concerns can also steepen the curve and soften the dollar if investors begin to price more fiscal risk into U.S. assets. Yields on US Treasuries fell as investors weighed US President Donald Trump's latest tariffs after the Supreme Court struck down much of the duties last Friday. "**With U.S. trade policy uncertainty likely to persist, this adds another reason for negative dollar bias this year. Structurally, ongoing Fed easing expectations and lingering concerns over fiscal discipline and long-end yield control reinforce a softer medium-term outlook for the dollar.**"*

*The macro roundtable message was broadly consistent: The **Fed remains firmly in a "wait-and-watch"** mode, with current data not compelling immediate easing. Inflation risks remain sticky including potential tariff pass-through effects even if policy instruments evolve. At the same time, activity indicators suggest a decent start to the year, reinforcing the Fed's cautious stance.*

While markets continue to price roughly two cuts this year, expectations have shifted from imminent easing to conditional easing. The January 27–28 FOMC Minutes showed most members favoring a pause at 3.50-3.75%, citing stabilizing labor markets and persistent inflation pressures. Despite this, markets retain a roughly 50% probability of cuts resuming in June, partly reflecting speculation that political dynamics including a potential nomination of Kevin Warsh following Chair Powell's term ending in mid-May could tilt policy toward easing ahead of the November U.S. midterm elections.

On the data front, the U.S. economy remains heavily skewed toward high-tech and AI-linked capex, with investment in these segments cushioning softer momentum elsewhere. Consumer confidence likely saw a modest rebound in February from January's decade low. Q4 GDP data was slowing sharply to 1.4% annualized versus expectations of 2.8%. The shortfall was driven largely by temporary drags including the government shutdown.

Labour market indicators suggest ongoing stabilization rather than deterioration. Initial jobless claims declined to 206k in the week ended February 14 from a revised 229k, marking the steepest drop since November and reinforcing the view that layoffs remain contained. On the external front, the trade deficit widened to USD 70.3bn in December, pushing the full-year gap to USD 901.5bn among the largest on record. The bilateral deficit with China narrowed to USD 202bn, its smallest level in over two decades, while gaps with Mexico and Vietnam expanded to record highs, underscoring supply-chain re-routing under tariff policy rather than a broad retreat from global trade.

Market-Implied Path (Fed-Funds Futures snapshot) (Table 1)

Meeting	Implied Rate	Cumulative Change
18 Mar 2026	3.62%	-02 bp
29 Apr 2026	3.59 %	–05 bp
17 June 2026	3.49%	-14 bp
29 July 2026	3.39%	-25 bp
16 Sept 2026	3.25%	-38 bp
28 Oct 2026	3.16 %	–47 bp
09 Dec 2026	3.06%	-57 bp

Next meeting probabilities:

No change 94 %, 25 bps cut 6 %

This week's macro-FX map is a study in cross-currents. SCOTUS removed one tariff lever, but not tariff risk. That means trade uncertainty stays alive. This week's focus shifts to U.S. President Trump's revised tariff plan, alongside heightened U.S.-Iran tensions *after he signaled that limited military strikes remain under consideration to pressure Tehran over its nuclear program. The policy calendar is also dense, with* ***11 Fed speaker events*** *that could influence rate expectations, while Trump's State of the Union address in Washington, D.C. (Wednesday) will outline the administration's priorities for the year ahead.*

Rupee Resilient after SCOTUS ruling, defies Trade Gap as $725bln reserves fortify support

Rupee holds ₹90.60–90.70/$ band, briefly tests ₹91 on DXY Spike, rebounds after SCOTUS Tariff Twist.

The Indian Rupee maintained a remarkably stable trajectory for the majority of last week, consistently trading within a narrow ₹90.60/$-₹90.70/$ corridor. This stability persisted despite a widening trade deficit of $34.68bln and persistent FII outflows, as market participants remained confident in India's macroeconomic buffers, further bolstered by a fresh record-high forex reserves of ***$725.73bln***. However, this steady trend was disrupted on the final trading day as the Rupee slipped ~₹91/$ during market hours, driven by a sudden "selling rush" in domestic equities and a surge in the DXY following stronger than expected US inflation data. The narrative shifted dramatically in the late hours after a landmark US Supreme Court ruling struck down key executive tariff powers, triggering a global "risk-on" rally and a sharp softening of the Greenback. This judicial intervention allowed the Rupee to recoup its intraday losses and settle at the ₹90.73/$ level. The focus shifts to the upcoming GDP base revision and the evolving US trade policy landscape, with the Rupee expected to find firm support near the ₹90.50/$ zone. (Last Friday's close: ₹90.6350/$) [O: ₹90.6250/$, H: ₹90.9975/$, L: ₹90.5925/$ & C: ₹90.9850/$]. (Refer report: FX weekly: Goldilocks Jobs & Inflation Print, But Rates Lead the Adjustment)

Key drivers for Rupee →

➢ *Oil up on geopolitics; dollar volatile on growth and policy risks:*

Brent Crude Oil remained firm on heightened Middle East geopolitical tensions and supply-disruption concerns.

Brent crude oil prices remained firm, trading in the range of approximately $67-$72/bbl., marking a strong weekly gain supported by heightened geopolitical tensions in the Middle East, particularly concerns around U.S.–Iran developments and potential supply disruptions. The risk premium in oil increased as markets reacted to uncertainty surrounding supply routes and OPEC+ output dynamics. On a WoW basis, prices surged by ***~5%***, however they still reflect a decline of ***~4% YoY***.

DXY) remained volatile, rising ~1% WoW as weak Q4 FY25 GDP, sticky core PCE, and the U.S. Supreme Court's tariff ruling drove mixed rate expectations

Dollar Index (DXY) experienced volatility as markets balanced mixed macroeconomic signals and high-impact news. U.S. macro releases showing weaker than expected growth, with real GDP expanding at just 1.4% annualized in the Q4FY25, sharply below forecasts and down from 4.4% in Q3, highlighting a significant economic slowdown. The core Personal Consumption Expenditures (PCE) price index remained elevated near 3.0%, underscoring sticky inflation pressures. End-week, U.S. Supreme Court ruling that struck down broad IEEPA-based tariffs valued at roughly $175bln weighed on the dollar by injecting policy uncertainty and potential trade deficit concerns, contributing to DXY slipping from recent highs. On a WoW basis, rise by ***~1%***, and still reflect a ***YoY decline of ~8%***.

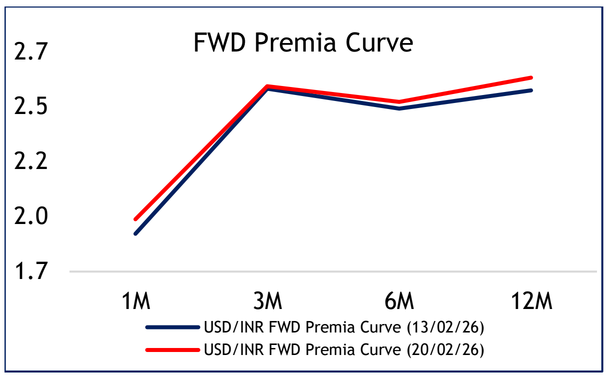
➢ *FPI revival meets record FX buffers: ₹ undervaluation & BTA tailwinds pave way for appreciation:*

FPIs invested $3.49bln in Feb'26; turned net sellers in equities this week amid AI disruption fears; thereafter a tech-led rebound post "Pax Silica" entry, while debt inflows improved.

Foreign Portfolio Investors (FPIs) have turned towards the Indian economy by pumping ***$3.49bln*** in Indian markets as of 20th Feb'26. FPIs offloaded shares in the IT & Auto sectors amid AI disruption fears, however, the week concluded with a notable rebound, as investor optimism surged following India's formal entry into the US-led "Pax Silica" initiative, a strategic trade and technology pact that buoyed semiconductor and tech stocks. FPIs turn to be net sellers ***in equities to the tune of ~$304mln*** vis-à-vis ***inflows of ~$1276mln*** on a WoW basis. Debt markets remained positive to the tune of ***~$543mln vis-a-vis ~$393mln inflows*** a week ago. FAR flows, at ***$2.31bln (CY26)***, including a ***~$241mln*** inflow so far last week.

FX reserves climbed $8.66bln to $725.73bln, driven by higher gold and FCA plus valuation gains.

FX reserves surged from record highs, rise by $8.66bln to ***$725.73bln*** for the week ending 13th Feb'26 (*covering ~11 months of imports*), driven mainly by a ***$4.99bln*** rise in Gold and ***$3.55bln surge*** in **FCA**. A valuation gains of $1bln was also noted, highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP deficit of ~$8bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.



REER slipped to 94.76 in Jan'26, with RBI's $10.02bln FX sales curbing volatility.

CAD tracking 0.54%; way below our initial estimate of ~1%

$ bln	FY-26	Comments
Goods Trade Deficit	-333	Assuming +ve seasonality toplay out in Feb-Mar'26
Service Trade Surplus	227	**Sharp upward revision for historical data provided +ve surprise**
Remittance	135	Assuming full year number at 2x the H1FY26
Investment Income	-50	
Current Account Balance (CAD)	-22	Remains well within comfort zone
As a % of GDP	**-0.54%**	**Despite -ve surprise in Jan'26, CAD tracking way below our initial estimate of ~1%**

Source: CEIC, RBI & UBI Research

Foreign Investment Inflows				
				(US $ Million)
Item	**2024-25**	**Apr-Jan**	**Feb'26**	**2025-26**
FDI	959	-	-	3986^
FPI	3564	-7158	3499	-3658*
Total flows	4523		-	328

^data till Dec'25; *data till 20th Feb'26

Source: RBI, NSDL, UBI research

The USDINR forward curve remained mildly upward sloping this week, with 1-month premiums hovering around 8.5–9.0 paisa (~1.3–1.5% annualized) and 1-year premiums near 150–165 paisa (~1.8–2.0% annualized), reflecting steady importer hedging demand, elevated oil prices, and a firm U.S. dollar backdrop. Forward premiums stayed supported due to liquidity conditions and carry dynamics. Looking ahead, premiums are expected to remain elevated in the near term, with scope for slight softening only if dollar strength eases or capital inflows improve meaningfully.

REER (2015-16=100) fell further to 94.76 in Jan'26 from 95.14 in Dec'25, extending the sharp correction from the Nov'24 peak of 108.08. Despite the currency being undervalued (REER <100), the recent weakness has been driven more by sentiment than by fundamentals. The RBI contained severe volatility, recording net FX sales of $10.02bln in Dec'25, compared with $9.71bln in Nov'25. Positive progress on the India-US BTA has triggered a structural shift in the rupee's trading range and is likely to gradually push the REER back toward the neutral 100 mark, indicating potential for a real appreciation over the coming months.

Merchandise trade deficit widened much sharper than expected to ***$34.68bln in Jan'26 from $25.04bln in Dec'25***. Meanwhile, imports picked up significantly, resulting in widening in the merchandise trade deficit, led by Gold (~199% surge), NONG (~13% rise) and Oil (~4% fall). In terms of sectoral drivers of trade dynamics, oil deficit remained elevated with a marginal correction with the latest number at $9.63bln compared to $10.00bln the previous month, gold deficit jumped 3-fold at $12.96bln vis-a-vis $4.33bln in Dec'25. Notably, non-oil non-gold deficit widened by $1.4bln MoM to $12.09bln from $10.70bln on the back of impact in volatile sub-segments like Machinery, Agri and Electronics. Services trade surplus jumped to ***$24.30bln in Jan'26 from $22.67bln*** (revised up to $18.12bln) in Dec'25.

Outlook (INR - ₹ view):

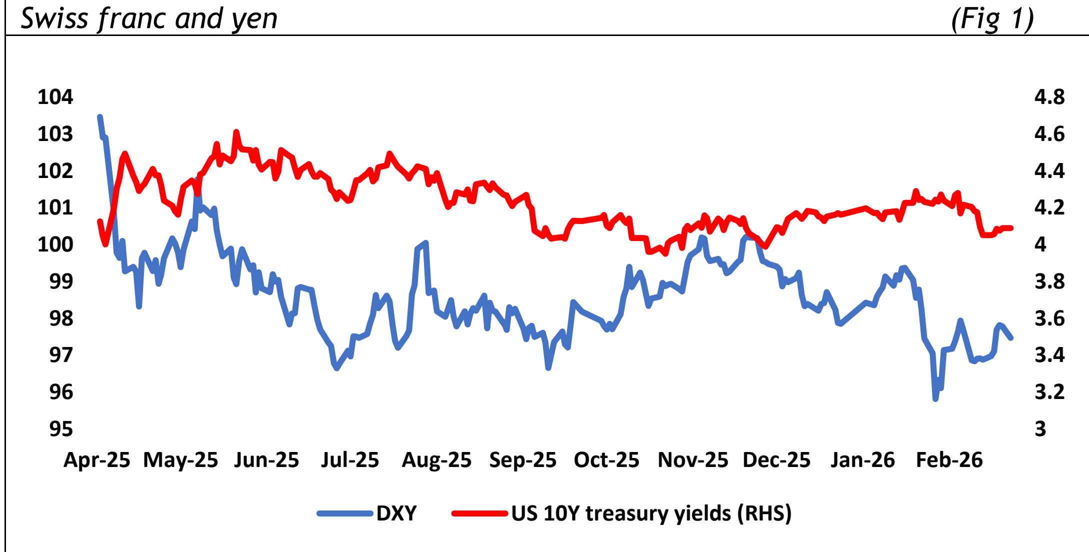
Looking ahead to this week, the Rupee is expected to navigate a landscape of high-impact domestic data and evolving US trade policy. The primary domestic catalyst is the highly anticipated GDP base year revision (shifting to 2022-23) scheduled for 27th Feb'26. The direction of growth trend remains on firm watch by markets and investors as "double deflation" impact on base revision poses downside risk to growth numbers yet clarity is sought especially for trends in nominal GDP growth. However, this bullish sentiment faces immediate friction from the US, where the swift invocation of Section 122 to impose a new 15% global surcharge following the Supreme Court's tariff setback may reignite demand for the Greenback. Furthermore, the release of the US Core PCE Price Index on Friday will be a critical gauge for Fed rate expectations, where any upside surprise could push the INR back toward the ₹91/$ resistance level.

Artificial Intelligence is set to reshape India's services export landscape, with higher-value digital, cloud, and AI-led offerings potentially strengthening export competitiveness and supporting USD inflows — a structural positive for the Rupee. However, near-term transition risks in traditional IT outsourcing models could weigh on earnings sentiment and FPI flows, creating episodic volatility. Overall, while AI disruption may trigger short-term pressure, the long-term impact remains supportive for INR through a stronger services surplus.

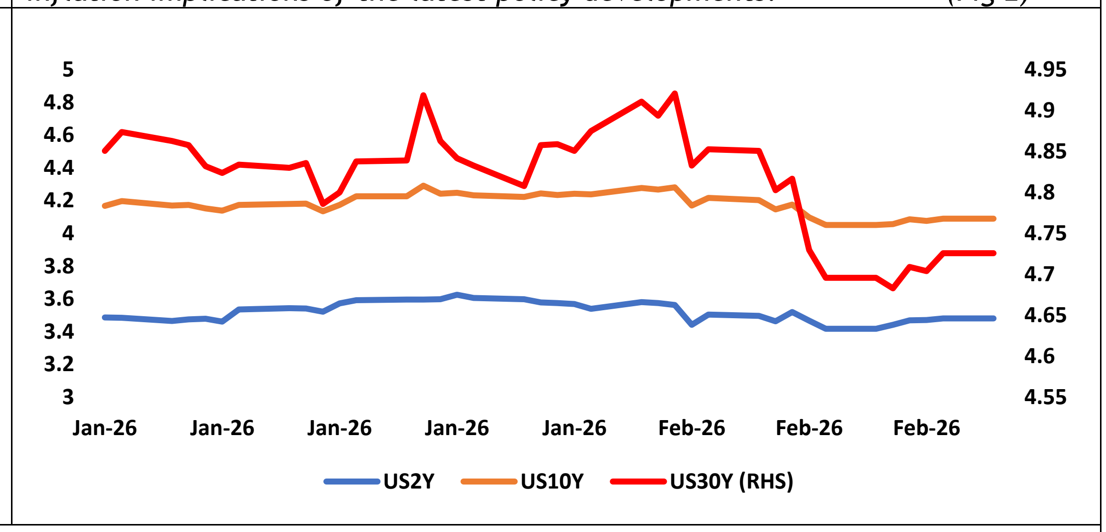
From a technical standpoint, the rupee is expected to trade between 90.40-91.20/$ throughout the next week. Sustained equity inflows could strengthen the INR toward ₹90.10/$, with ₹90.40/$ acting as a key interim support. As India-US BTA is finalized; the threshold for the rupee has shifted meaningfully. Likely to face strong resistance near ₹90.90/$, a break above this zone could trigger a move toward ₹91.20/$.

Fundamental outlook, the near-term trajectory for the Rupee remains well-supported, as the currency's historical adjustment of 3–4% annually aligned with India-US inflation and interest rate differentials suggests recent volatility was overextended. Having already weakened ~6% this fiscal year and ~10% since March 2023, the recent overshoot toward ₹92/$ was a sentiment-driven reaction to FPI sell-offs and trade war anxieties rather than fundamental macro stress. Currently ~5% undervalued on a REER basis, the Rupee has drifted significantly below its fair value, shifting the focus to the return of capital flows as the "missing link" for rebalancing. With a historic India-US trade deal and a fiscally disciplined budget serving as catalysts, the RBI is expected to leverage its record $725.73bln reserves to stifle excess volatility and facilitate a structural mean reversion.

The dollar extended losses, weakening most notably against havens such as the Swiss franc and yen (Fig 1)

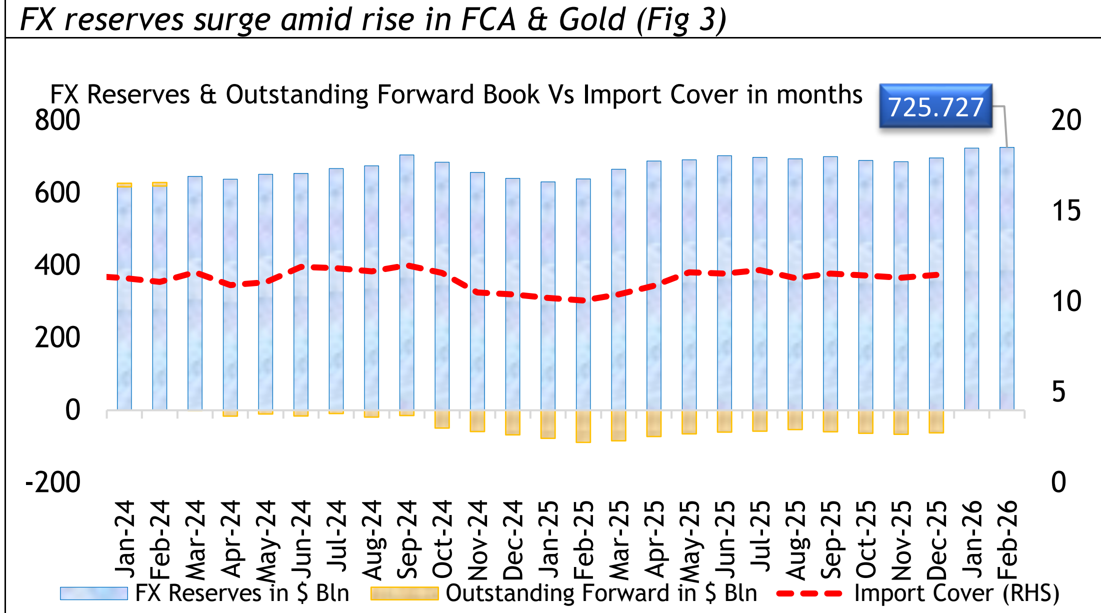


Treasuries remained range-bound as markets grappled with fiscal risks and the inflation implications of the latest policy developments. (Fig 2)

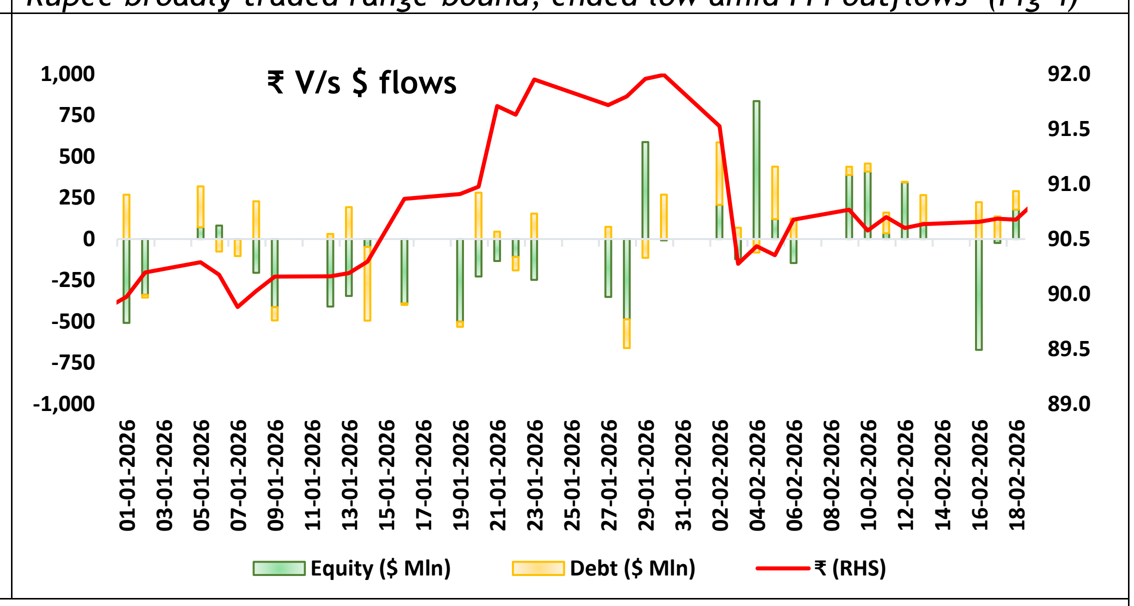


Source: LSEG, UBI research

FX reserves surge amid rise in FCA & Gold (Fig 3)

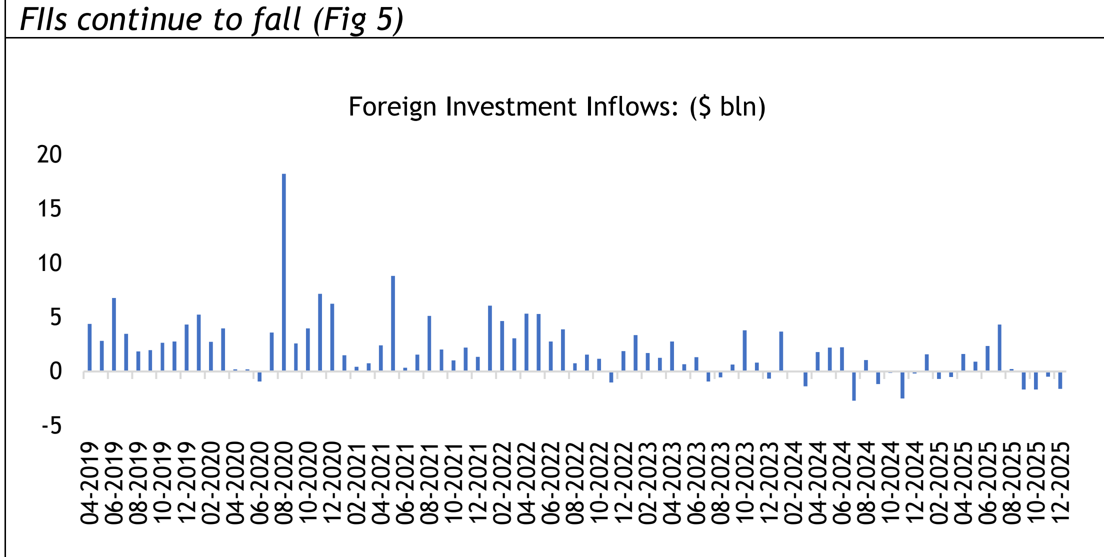


Rupee broadly traded range-bound; ended low amid FPI outflows (Fig 4)

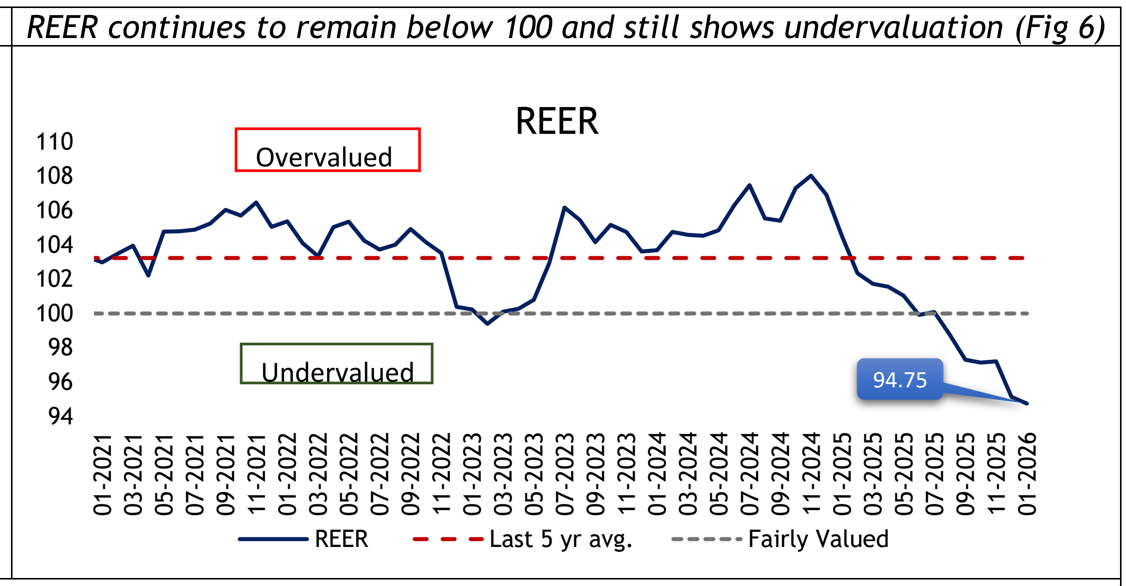


Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

FIIs continue to fall (Fig 5)



REER continues to remain below 100 and still shows undervaluation (Fig 6)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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