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Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
10 Dec 2025	3.61 %	-16 bp
28 Jan 2026	3.63%	-25 bp
29 Apr 2026	3.47 %	-40 bp
28 Oct 2026	3.10 %	-78 bp
09 Dec 2026	3.06%	-81 bp

Next meeting probabilities: **No change 35 %**, **25 bps cut 65 %**

Recent Fed remarks signal less confidence in a present easing path, implying a greater tilt toward data dependence.

It's been a month of U.S. government shutdown, and the list of delayed economic indicators is stacking up. Amid all this, last week U.S. equities and Treasury yields climbed and the dollar edged higher. The moves reflected a tactical cooling in U.S.-China trade tensions, firmer-than-expected hawkish notes from Chair Powell that pared back odds of a December cut, and strong tech earnings.

Beneath the headlines, two themes stood out structural change, widening dispersions, and elevated uncertainty. Big and still growing AI capex underscored how tech investment has become a key engine of U.S. growth, offsetting softer spending hurt by the ongoing government shutdown. Policy dispersion showed up at the Fed. A rare two-sided dissent accompanied 25bps cut, and subsequent remarks exposed a sharp divide between inflation hawks and employment worriers. Minutes (due in a few weeks) should be illuminating. Despite Powell's warning that a December cut is "far from" assured, market odds fell to ~75% from ~90% pre-meeting (now at 65%). Uncertainty lingered as the U.S.-China announcement looked like a truce, not a treaty.

Meanwhile Fed commentary remains split. Miran argued policy is still restrictive and he'll keep pushing for outsized cuts. Daly signalled the door is open to another reduction in Dec'25 to support the labour market, even with inflation still above the 2% goal. Goolsbee, by contrast, put more weight on inflation risks than on jobs.

Outside the U.S., the ECB and BoJ held steady. Euro-area inflation printed 2.1% headline and 2.4% core, with services still elevated at 3.4%. While ECB President Christine Lagarde stated that the policy is "in a good place" and signalled a continued wait-and-see stance. In its first policy review since PM Sanae Takaichi took office, the BoJ held rates at 0.50%. The decision wasn't unanimous two members once more argued for a hike. Ueda pointed to trade-related risks, weaker growth prospects, subdued inflation expectations, and insufficient evidence on wages.

The broad US dollar index (DXY) held on to their recent gains and has retraced after touching 100 mark. While FX markets are struggling to find direction amid shutdown. **We believe Fed signalling is now the main macro driver amid government shutdown.** The Fed has already cut rates once, but Chair Powell made a point of saying that another cut in December is "not a foregone conclusion".

Last week's tariff backdrop eased at the margins but stayed structurally hawkish Washington and Beijing extended their reciprocal tariff pause, rolled back some fentanyl-related levies, and suspended higher port fees moves that trimmed headline risk but left the "new normal" of elevated barriers intact. The U.S. is advancing actions (e.g., fresh Section 301 scrutiny) that could lock in or expand duties, while Europe is exploring tools tied to critical raw materials signals that policy risk is shifting form, not fading.

This week expect heightened focus on "Fedspeak" as FOMC members weigh in on contentious policy questions. Official data will be sparse due to the shutdown, putting private indicators and the New York Fed's reports in the spotlight. Central-bank calendars stay packed as the UK is expected to stand pat, as the BoE meets just three weeks before budget.

U.S Policy in the Dark: Fed Cuts with Caveats, ECB Holds, BoJ Steady

A month into the government shutdown, the backlog of delayed data keeps growing. Last week alone, third-quarter GDP, and the PCE deflator staples for Fed decision-making failed to print. Private-sector proxies remain available, but they're unlikely to deliver a complete read on the hard data. As expected, the FOMC cut rates another 25 bps, taking the target range to 3.75%-4.00%, but the move was less of a slam dunk than markets assumed: two opposing dissents revealed "strongly differing views" on the path ahead amid resilient growth but a softening labor market. Chair Powell stressed that further cuts are "far from" assured, effectively raising the bar for a December move (see market-implied path). Consumer confidence fell for a third month in October, slipping well below pre- and post-pandemic norms, with fewer respondents expecting income gains (17.9%) and more anticipating declines (12.5%).

Cross Asset fund flow as of 22th Oct'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	2.8	10.1
All Bonds	15.7	11.1
US Equities	0.9	8.3
US Bonds	8.7	4.7
EM Equities	0.6	1.6
EM Bonds	0.88	0.002
Japan Equities	-0.5	0.1
China Equities	0.29	1.60
Europe Equities	0.6	-1.2
Europe Bonds	4.2	4.6

Source: JP Morgan

Last week's G10 policy slate opened with the European Central Bank kept rates unchanged at 2.00%, as expected, with no material shift in stance. President Christine Lagarde said policy is "in a good place," reinforcing a wait-and-see bias. Pre-meeting data showed Eurozone Q3 GDP at 1.3% y/y and 0.2% q/q slightly above consensus suggesting underlying resilience amid otherwise subdued growth. Inflation prints supported a hold headline eased to 2.1% y/y, core held at 2.4%, while sticky services inflation edged up to 3.4%. On balance, we expect the ECB to stay on hold through the remainder of this year and throughout 2026.

At its first meeting since Prime Minister Sanae Takaichi took office, the Bank of Japan left the policy rate at 0.50% in a non-unanimous decision, with two board members again favoring a hike. Governor Ueda cited trade uncertainty, downside growth risks, subdued inflation expectations, and the need for more wage evidence. Projections were little changed, aside from a small upgrade to 2025 growth (0.7% from 0.6%); inflation remains at 2.7%, 1.8%, and 2.0% for FY2025-FY2027. Subsequent data surprised firm: October Tokyo CPI rose 2.8% y/y for both headline and core, and September industrial production rebounded (+3.4% y/y; +2.2% m/m), reversing August declines.

Dollar Bid on Fed Caution; Front-End Leads UST Selloff

DXY (last week): The broad dollar softened early in the week as risk appetite improved ahead of the FOMC (DXY ~98.73 on Tue, then 98.62 on Wed), but Powell's "December not a given" guidance flipped the tone. The index rebounded on Thu (=99.52) and finished the week at a 3-month high around 99.71 as markets priced out part of near-term easing; EUR and GBP underperformed while JPY weakened after a steady BoJ. *While the impulse came less from data (much of it delayed) and more from policy communication i.e., a rates-path repricing that favoured the USD via higher front-end real yields and a mild risk-off rotation. But once the data start to flow a slight hint of weakness could weaken the DXY.*

USTs twist-flattened into mid-weeklong end outperforming as the 2y cheapened (Tue: 2y ↑ ~2 bps to ~3.50%, 10y ↓ ~1 bp to ~3.99%) then the post-FOMC reaction was a front-end-led selloff (Wed: 2y +11 bps to ~3.60%, 10y +9 bps to ~4.07%), flattening most curve segments. On Thu, supply and follow-through kept yields 1-2 bps higher with a slight bear-steepener. The curve's week was defined by policy-rate path repricing (front-end beta to Powell), while the long end was buffered by growth uncertainty and term-premium dynamics.

Oil Softens on Supply Overhang Talk; Gold Whipsaws Around \$4k

Oil spent the week fading rallies as the market re-priced a looser 1Q26 balance early gains on a big U.S. inventory draw and Russia-sanctions chatter were brief, with Brent only managing a sub-1% pop to just under \$65/bbl and WTI to ~\$60.5/bbl, before sentiment slipped back on expectations that OPEC+ would nudge output higher again in December.

Meanwhile gold chopped violently around the \$4,000/oz pivot spiking after the FOMC cut, then giving back gains as Powell pushed back on a December move, and finally bouncing into week-end as duration stabilized. It slipped 0.6% to ~\$3,929 mid-week, briefly plunged >3% to ~\$3,981, then recovered ~2.4% to ~\$4,023 classic policy-path whipsaw with a safe-haven underbid intact.

Rupee dips to 2-month low as FED turns hawkish; FPIs & Trade Talks offer cushion

The Indian Rupee (INR) weakened by 1.04% this week, its lowest level in over two months as a hawkish US Federal Reserve surprised markets with cautious guidance despite a 25bps rate cut to 3.75-4.00%. The Dollar Index (DXY) surged ~0.77%, its strongest weekly gain in a year, directly pressuring major currencies.

Offsetting the downside, FPIs turned aggressive buyers, injecting **\$1.66bln into equities and \$2.06bln into bonds in Oct'25**; the positive monthly inflows since July bolstered by IPO momentum and expectations of global liquidity easing. India-US trade talks advanced significantly: negotiations for a comprehensive bilateral deal are in "advanced stages", with potential US tariff cuts on Indian exports from 50% to 15%, a 10-year defence pact signed, and a six-month sanctions waiver for Chabahar Port operations. These developments signal reduced trade friction and support export competitiveness.

INR fell 1.04% to a 2-month low as a hawkish Fed boosted the DXY, but strong FPI inflows and progress in India-US trade and defence talks kept USD/INR range-bound with a mild bearish bias.

This week, USD/INR pair is expected to trade in a tight range. Upside capped by FPI inflows and trade optimism; downside risks from persistent DXY strength near 100. Mild bearish bias persists, but major breakdowns unlikely amid policy support and positive sentiment. (Last Friday's close: ₹87.8550/\$) [O: ₹87.8700/\$, H: ₹88.7850/\$, L: ₹87.8575/\$ & C: ₹88.7700/\$]. (Refer report: [FX weekly: Trump keeps markets on Tenterhooks as the Fed Eases and the Dollar Holds](#))

Recent Developments in India - US Trade talks

Date	Development	Details
April 2, 2025	US declares national economic emergency; initial reciprocal tariffs imposed	10% baseline + 25% reciprocal tariff on Indian goods, targeting trade deficit. Pause for negotiations extended to July.
August 1, 2025	First penalty tariffs enforced	Additional 25% tariff on Indian exports, bringing total to 50%, linked to Russian oil purchases.
August 6, 2025	Executive order formalizes penalty	Trump signs order citing "unfair practices"; India criticizes as "unjustified," vows WTO action but holds off on retaliation.
August 27, 2025	Full 50% tariffs take effect	Combined duties (25% reciprocal + 25% penalty) hit most sectors; US threatens secondary sanctions.
September, 2025	Five rounds of bilateral talks held	Focus on market access (US pushes dairy/agri entry); India resists but discusses corn/soymeal quotas.
October 21, 2025	Reports of nearing trade deal emerge	US may slash tariffs to 15-16%; India to phase down Russian oil imports and raise US corn quota. Announcement eyed for ASEAN Summit.
October 31, 2025	10-year defence pact signed	Amid tariff tensions, pact boosts military ties; Trump-Modi talks emphasize trade progress.
November 2, 2025	Exports data confirms tariff impact; China tariffs cut to 47%	US-China deal lowers duties below India's 50%, pressuring New Delhi.

Broader Context and Implications:

- **Tariffs and Oil Linkage:** US has imposed 50% tariffs on Indian goods partly due to Russian oil purchases. [Recent US sanctions on Rosneft and Lukoil](#) (22nd Oct'25) add pressure, but narrowing oil price gaps could ease this.
- **Sectoral Focus:** Agriculture remains contentious – US exports of corn/soybeans fell sharply post China deal, pushing for Indian quotas. India insists on periodic tariff reviews.
- **Strategic Angle:** The pact aligns with US Indo-Pacific goals, but experts warn ties may not regain past strength amid US outreach to Pakistan and sanctions.
- **Timeline Risks:** Post-Bihar polls (Nov 2025) could delay announcements to avoid farmer backlash. H-1B visa fees might resurface post-deal.

Rupee found support from softer Brent prices, renewed FPI inflows, and improving trade sentiment.

Brent crude oil prices closed last at \$64.89/bbl. amid cautious OPEC+ signals and global demand weakness. On 2nd Nov'25, eight OPEC+ members approved a modest 137,000 bpd production increase for Dec'25 matching prior months but paused further hikes in Q1 2026 due to seasonality and looming surplus risks, with the IEA forecasting a 4mbpd glut in 2026 from non-OPEC growth. This tempered earlier supply concerns, though gains were capped by a strong U.S. dollar, China's eighth straight month of factory contraction, and U.S. inventory builds (~1.5M barrels). Geopolitical noise including denied Venezuela strike rumors and Russian refinery attacks under U.S. sanctions added volatility but no sustained upside. This week, markets expect a range-bound move with bearish bias, watching U.S. inventory data (6th Nov) and [EIA's Q4 outlook](#) (\$62/bbl avg.), but downside risks target \$60 if breached, while Middle East tensions or OPEC+ flexibility could cap losses. On a WoW basis, prices dipped by -0.69%, and they still reflect a sharp YTD decline of ~14%. Lower Brent prices strengthen the rupee by cutting India's \$140B oil import bill saving billions, narrows the CAD, curbs inflation, and boosts FII inflows.

Foreign Portfolio Investors (FPIs) have pulled out \$16.82bln from Indian markets YTD as of 03rd Nov'25. However, we saw the trend reverse in Oct'25 with positive inflows. FPIs continue to be buyers in equities \$826mln vis inflows of \$97mln on a WoW basis. Flows continue to be positive in debt to \$418mln vis-a-vis \$235mln inflows a week ago. FAR flows, at \$7.62bln YTD, including a \$680mln mere inflow so far last week.

DXY strength, falling FX reserves, and rising RBI dollar shorts reflects the pressure on rupee.

DXY surged **-0.77%** to close at 99.80, rebounding sharply from October lows as the Fed's 25bps rate cut on Oct'25 was overshadowed by Powell's hawkish tone, which pushed back against aggressive easing expectations and trimmed December cut odds from ~91% to ~70%. Strong Q3 GDP growth of 2.8%, steady core PCE at 2.7%, and tentative US-China trade progress bolstered USD strength, while soft Eurozone CPI (1.8%) weighed on EUR/USD. DX Y hovering around 99.90 with upside momentum intact; past the psychological 100.00 barrier toward 101.30, risks a pullback to 98.50. On a WoW basis, prices surged by **-0.77%**, and they still reflect a **YTD decline of ~8%**. *A stronger DX Y, puts upward pressure on USD/INR, limiting rupee gains despite supportive domestic factors like FPI inflows and lower crude prices.*

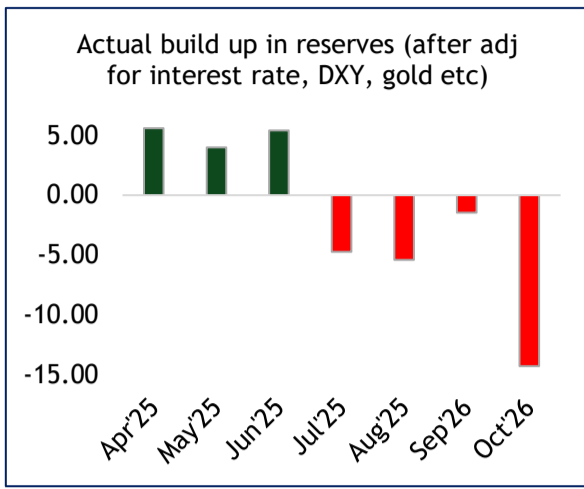
FX reserves dipped by \$6.92bln to **\$695.36bln** for the week ending 24th Oct'25, driven mainly by a **\$3.86bln** fall in FCA to \$566.55bln and **\$3.01bln** fall in Gold. With this fall, reserves now stand just **\$9.5bln** shy of all-time highs **\$704.86bln** recorded on 27th Sep'24. A valuation loss of \$2.72bln was also noted in this week, with a cumulative of **~\$14bln** since Oct'25 highlighting the central bank's ongoing efforts to stabilize the FX market. This dynamic suggests that despite significant inflows into equities and debt by FPIs, the currency remains under pressure due to elevated import demand. Moreover, it has simultaneously contributed to a persistent liquidity deficit in the banking system. Our analysis suggests a BoP deficit of **~\$11bln** for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

RBI's short positions in forwards and futures of \$59.4bln in forwards and futures, marking a **\$6bln increase** from Aug'25 and the first expansion in six months, according to the RBI's Oct'25 bulletin. This rise reflects intensified dollar demand amid persistent outflows, gold imports, and global tariff concerns. While the position remains below the Feb'25 peak of \$88.75bln, market estimates it likely grew further in Oct'25. Long positions have remained nil since April, following \$10.06 billion in February. By maturity, short-term exposure (up to 1 month) surged by \$10.64bln to \$16.49bln, however 1M > 3M surged by \$0.39bln and 3M > 1Y dropped by \$4.97bln. Maturities beyond one year were stable at \$20.10 billion as of Mar'25, mainly reflecting to the \$20bln swap facility.

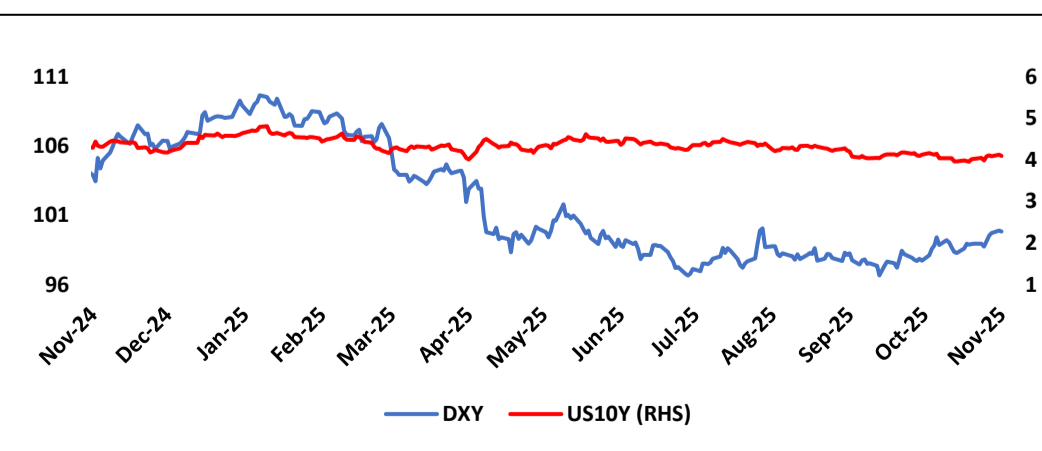
Outlook (INR - ₹ view):

Rupee is likely to face mild downward pressure this week, with USD/INR pair trading in a tight driven by persistent US-India trade tensions and a resilient DX Y hovering near ~100. With the DX Y supported by expectations of slower Fed rate cuts. Escalating U.S. tariffs currently at 50% on key Indian exports and 25% on Russian oil purchases threaten trade, though ongoing bilateral talks aim for a deal by late November that could lower duties to 15-16% in exchange for reduced Russian oil imports and higher U.S. corn quotas.

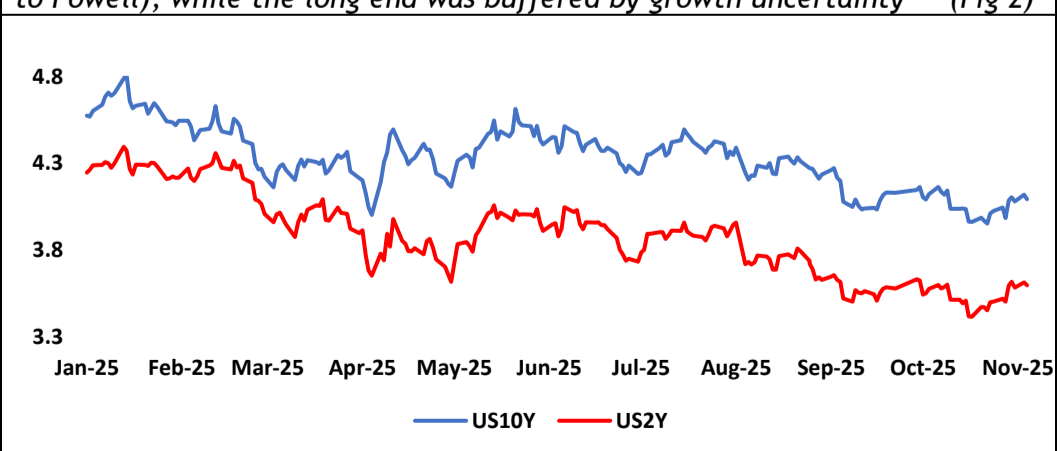
Technically, positive domestic equity inflows or progress in US-India trade talks could push the INR toward ₹87.80/\$, with ₹88.20/\$ as a key level. Conversely, a bearish turn might see resistance at ₹88.80/\$ where selling pressure intensifies, with a potential move to ₹89.30/\$ if breached. Geopolitical and tariff developments will remain critical for market sentiment.



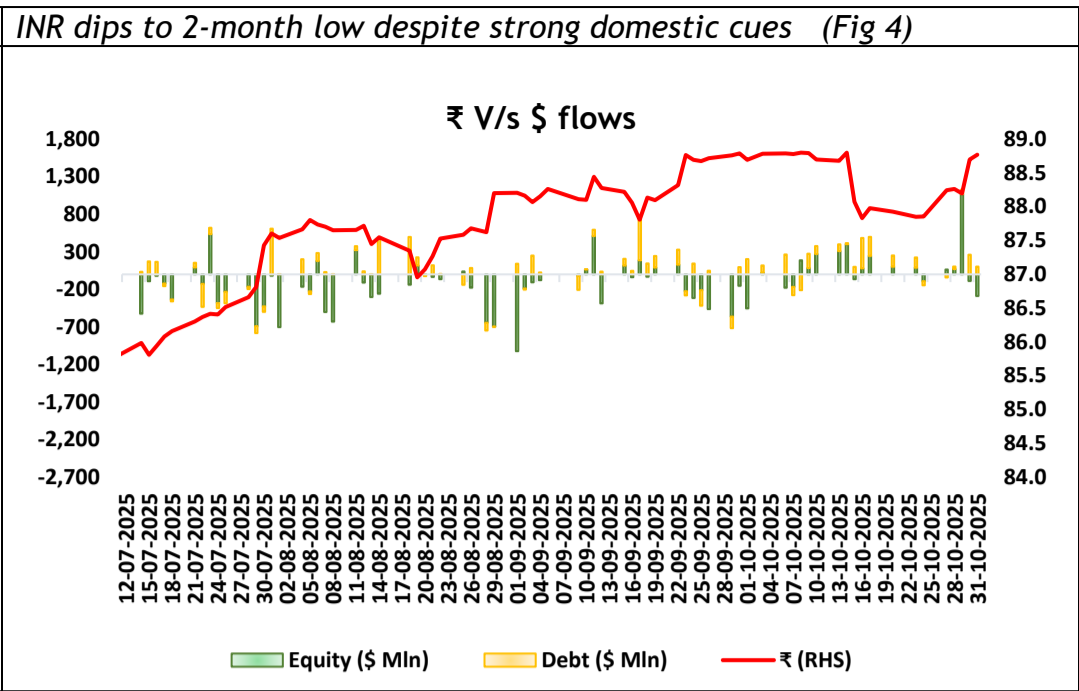
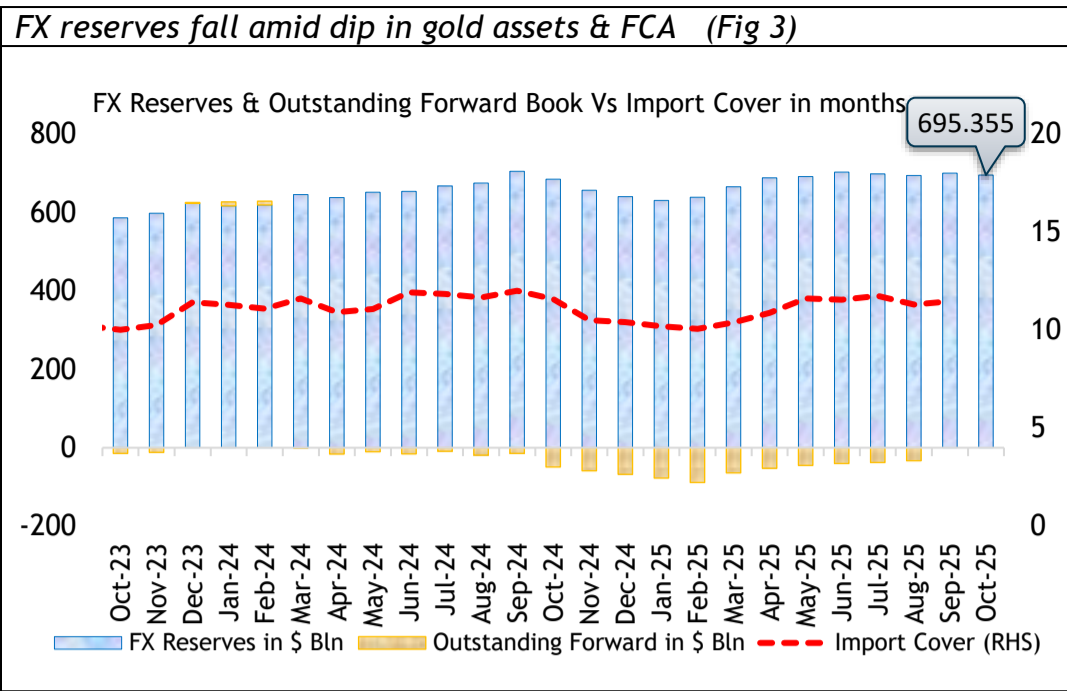
Dollar remains Bid on Fed Caution and trades just below 100 mark (Fig 1)



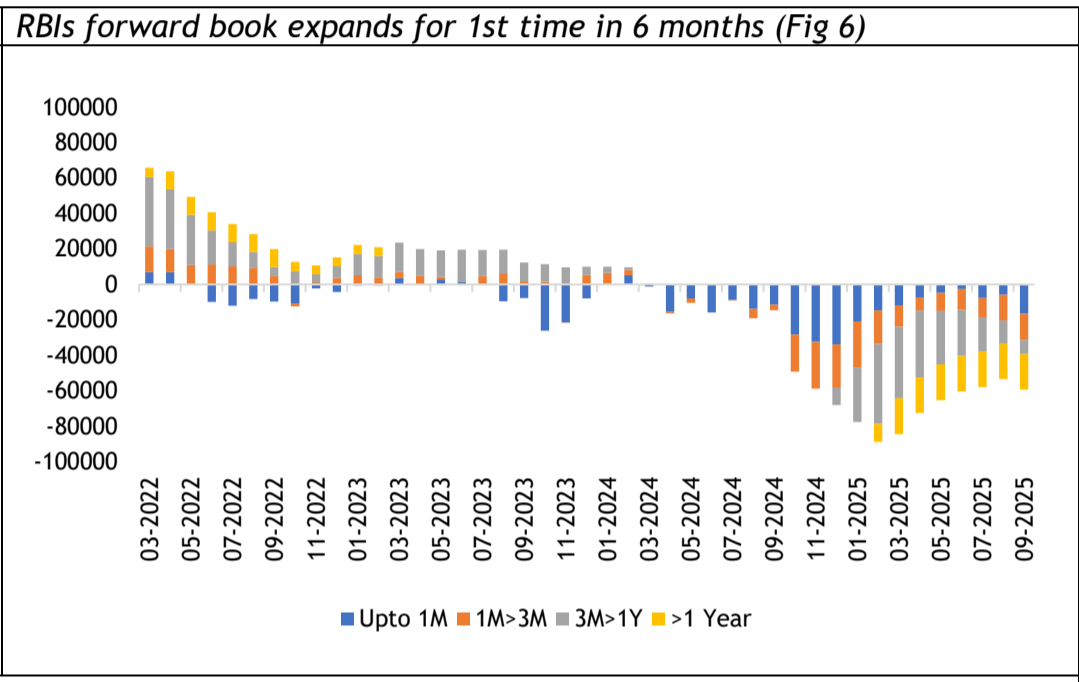
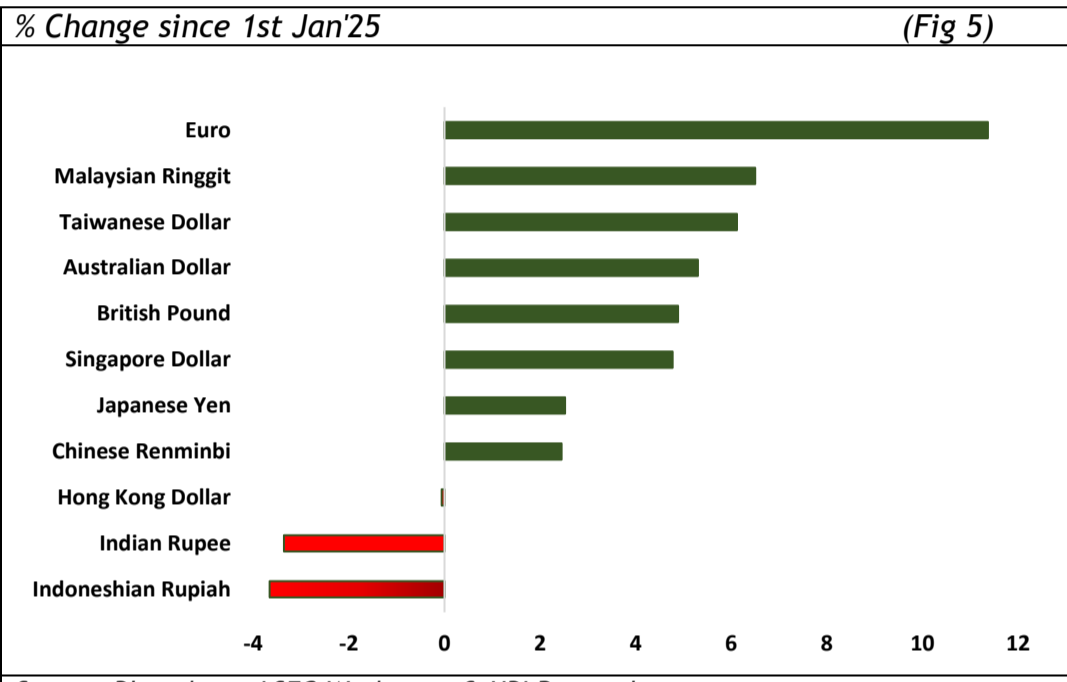
The curve's week was defined by policy-rate path repricing (front-end beta to Powell), while the long end was buffered by growth uncertainty (Fig 2)



Source: LSEG, UBI research



Source: Bloomberg, LSEG Workspace & UBI Research



Source: Bloomberg, LSEG Workspace & UBI Research

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