

By:

Kanika Pasricha  
kanika.pasricha@unionbankofindia.bank

Akash Deb  
akash510@unionbankofindia.bank

Shreyas Bidarkar  
shreyas.bidarkar@unionbankofindia.bank

Last week there was plenty of good news for markets as Trump selected Scott Bessent as Treasury Secretary which raised hopes that tariffs will be more measured. ([Refer our Uni-FX: US exceptionalism theme boosted by Trump trade effect](#)). Other good news includes stable inflation numbers and decent consumer sentiment in US. However, tariff talk added uncertainty back in markets as Donald Trump proposed a 25% tariff on all imported goods from Mexico and Canada and an additional 10% levy on all products from China. The move came as a surprise because Trump campaigned on a 10% tariff on all trading partners and a special 60% rate on China. In response to this President Claudia Sheinbaum has signalled that Mexico is prepared to respond with retaliatory tariffs. Over the weekend Trump also threatened to impose 100% tariff on BRICS nations if they undertake efforts to develop their own currency.

Since the US presidential election, the US dollar has appreciated by c.2% against the other G10 currencies. Consequently, the market seems to assume that the policies of the incoming Trump administration will have a significantly positive impact on the value of the US dollar. Now that the market is aware of the Trumps' fiscal, trade and immigration policy from the statement made by Trump and his team during the election campaign all eyes will be how he implements the policies once he joins office on 20th January and needs to be seen if markets have priced in the worst. This week we have US jobs data on Friday where the market expects NFP to rise to 202k in November vis-à-vis 12k in October and its subsequent revisions along with the unemployment rate, a deciding factor before FED's December FOMC meet. The key FX themes from last week are outlined below.

- ♣ Trump's tariff threat, continues to haunt markets
- ♣ ECB rate cut expectations & French budget drama remains in focus
- ♣ Japanese Yen finishes the week strongly on BoJ rate hike speculation
- ♣ USD/CNY hit one year low, expect further monetary easing to support liquidity demand
- ♣ Rupee was sailing steady until India GDP shocked & Trump threatened BRICS

#### Trump's tariff threat continues to haunt markets

Last week, the US dollar corrected by 1.5%, with the DXY index declining below 106 level. This was driven by a stronger Japanese yen (JPY) and the nomination of Scott Bessent as US Treasury Secretary. Bessent's appointment is seen as indicating a more measured approach to trade restrictions, alleviating concerns that Trump might take extreme actions on tariffs. The nomination also contributed to a drop in US Treasury yields, with the 10-year UST yield falling 19 basis points to 4.21%.

While Trump announced plans to impose a 10% tariff on China and a 25% tariff on imports from Mexico and Canada on his first day in office. This signals an aggressive stance on trade policy, especially regarding illegal immigration and drugs. This development reinforces the expectation that Trump will act quickly and decisively on tariffs.

US macro data released last week was mostly in line with expectations. Key highlights include a slight downward revision to personal consumption in Q3 GDP, softer than expected durable goods orders for October, and continued stickiness in weekly continuing claims. The FED's preferred inflation measure, core PCE, rose by 0.3% MoM, matching the previous months data. On a positive note, the Conference Board's consumer confidence index increased from 109.6 in October to 111.7 in November, suggesting ongoing support for domestic consumption.

The FED may deliver another 25bps rate cut in 18<sup>th</sup> December, and it could further lower the policy rate by 75bps in 2025, bringing the fed funds rate to the 3.50%-3.75% range. Indeed, the pace of rate cuts in 2025 could be slower, considering the potential inflationary policies that the incoming Trump administration could implement. The statement from FED members seem to be divided on rate cut. FED's Bostic stated that he's undecided on whether a rate cut is needed in December FOMC meet.

*Trump is filling his incoming cabinet with figures known for their hawkish views on China*

*Data last week came in line with market expectation, NFP will be closely watched along with revisions*

*Trump's policies may lead to stronger US Dollar as against his expectations of weaker dollar*

*Political drama in France have led to rise in yields in France bond markets*

*Markets currently pricing in total 150bps rate cut next year*

FED's Williams stated that more rate cuts likely needed over time. While Governor Waller stated that he is "leaning" toward supporting a rate cut this month (18 Dec), barring a negative surprise on inflation data.

#### **Hawkish FED monetary policy could counter Trump's tariff policy**

A hawkish FED monetary policy can lead to quite considerable US dollar strength, especially if other major central banks loosen its monetary policy. However, an excessively strong dollar counteracts the positive effect of US import tariffs on the US trade balance. This is because a strong dollar makes foreign goods cheaper in the US, thus reducing the effect of the tariffs. At the same time, it reduces the price competitiveness of US exporters abroad. In the end imports may hardly decline at all, but exports may collapse, so the trade balance may improve little or not at all. In this situation, Trump would or may tries to force the FED to pursue a loose monetary policy that allows higher inflation, weakens the US dollar and is likely to lead to an improvement in the US trade balance.

#### **NFP data is expected to remain strong in November**

The markets are expecting November payroll to rise by 202k. The October jobs report showed a modest increase of 12k in nonfarm payrolls, but this figure was overshadowed by temporary disruptions from Hurricanes Helene and Milton, as well as multiple strikes. As a result, the data was seen as "noisy" and less reliable. However, the report did reveal ongoing softening in the labor market, with revisions for August and September lowering job growth by a total of 112k. Additionally, the unemployment rate rose by nearly 0.1%, reflecting broader labor market trends. While this time unemployment rate in November is expected to rise slightly towards 4.2%. vis-à-vis 4.1%. While average hourly earnings m/m is expected to fall to 0.3%.

#### **ECB rate cut expectations & French budget drama remains in focus**

The euro has benefitted from the broad-based correction in the US dollar last week that has helped to lift EUR/USD back up towards the 1.0600-level from lows of 1.0335. The euro has derived support as well from the paring back of ECB rate cut expectations. The euro is facing the potential of reaching parity against the US dollar, largely due to the policies pursued by Donald Trump policy and divergence in monetary policy between US and Eurozone.

Comments from ECB officials last week have not provided a clear indication that they are planning to deliver a larger 50bps cut as soon as next month. While Villeroy de Galhau struck a more dovish tone but did not explicitly signal he favours larger 50bps cut next month. He still sees significant room to ease and reverse the current restrictive policy stance. He even noted that rates may need to be cut deeper below neutral territory which is between 2.00% and 2.50%.

#### **50bps rate cut in December seems difficult**

German headline inflation came in at 2.2% year-on-year, up from 2.0% YoY in October. Back in September, headline inflation was still at 1.6% YoY, while the European inflation measure came in at 2.4% YoY, unchanged from October.

The modest improvement in eurozone sentiment and the latest German inflation data may lead some ECB members to reconsider their October rate cut decision and the potential for larger rate cuts in December. The key debate is how long and how far the cuts will go. Isabel Schnabel emphasized a gradual rate-cut process, with her preferred terminal rate between 2% and 3%. In contrast, Philip Lane suggested rates could go below the neutral level next year.

While the ECB aims to quickly return rates to neutral to avoid unconventional measures like quantitative easing or negative rates, while recent data may encourage hawkish members to oppose a 50bp cut in December. A 25bp cut seems increasingly likely, aligning with a cautious, gradual approach, though it risks not moving fast enough. The eurozone's inflation rate increased to 2.3% in November, with 'core' stable at 2.7%. Currently markets are pricing in 83% probability of rate cut by 25bps and 17% probability by 50bps and a total cut by 150bps by end of 2025 for terminal rate to reach at 1.65%.

### **Lagarde worried about Trumps' tariff policy**

Christine Lagarde urged European leaders to negotiate with Donald Trump on trade issues, cautioning against retaliation. She warned that escalating trade tensions could harm global economic growth and suggested a strategy of increasing purchases of US products, such as liquefied natural gas and defence equipment, to ease tensions and avoid a tit-for-tat scenario. Lagarde went on to criticize Trump's claims that tariffs would "make America great," questioning how this would be possible if global demand falls.

### **Political uncertainty in France leads to its 10Y borrowing cost match Greece's for first time**

For the first time on record, France's benchmark bond yield matched that of Greece's, as both the 10-year French and Greek bond yields rose to 3.03%. This milestone comes amid growing concerns over the future of Prime Minister Michel Barnier's government, particularly regarding the passage of the 2025 budget.

France Marine Le Pen's National Rally party, pledged to topple French PM Michel Barnier's government after he used a constitutional tool to push through parts of his budget bill without a parliamentary vote, as he is far short of having a majority in the National Assembly. A no-confidence vote is increasingly likely to happen this week. This continues to weigh on Euro and may lead it towards parity against US dollar.

### **Japanese Yen finishes the week strongly on BoJ rate hike speculation**

The Japanese yen has strengthened significantly, pushing the USD/JPY below the 150.00 level, retreating from the high of 156.75 levels on November 15th. The yen was the best performing G10 currency last week, gaining over 3.1% against the US dollar. The yen's rise is driven by expectations that the Bank of Japan (BoJ) will hike rates as soon as December. Market pricing indicates about 15bps of rate hikes at the BoJ's December meeting and another 20bps by January. This optimism was fuelled by the release of Tokyo's November CPI data, which showed a bigger than expected increase in headline inflation to 2.6%, suggesting stronger inflationary pressures that could prompt the BoJ to act.

Governor Ueda stated that it's not possible to predict the outcome of the December policy meeting and implied that the decision would be dependent on a lot more data and information available by then.

At the same time, a broader correction in the US dollar has contributed to the lower USD/JPY, with the US dollar index set to post its first weekly decline since the US election. A failure to sustain gains above 107.00 has pressured the dollar, and US Treasury yields have also fallen back to pre-election levels. Despite President-elect Trump's tariff threats, the underlying US dollar strength is expected to be temporary. The main risk to the dollar's outlook is next week's nonfarm payrolls report; if employment data is weak, it could add pressure on the dollar.

### **USD/CNY hit one year low, expect further monetary easing to support liquidity demand**

China's yuan weakened past a key threshold to the lowest level in more than a year against the dollar, pressured by the widening yield gap between the world's two largest economies and Trump's renewed tariff threats. The offshore yuan breached the psychologically important 7.3 per dollar level. Chinese 10-year bonds fell below a key 2% mark this week and is more than 2ppt below their U.S. counterpart, while the yuan has fallen about 2.7% to the dollar since Trump's sweeping election victory on Nov. 5.

The People's Bank of China (PBoC) kept the 1-year Medium-term Lending Facility (MLF) rate at 2.00%, while withdrawing RMB 550bn from the system. In November, the PBoC conducted an RMB 800bn outright reverse repo (3-month tenor) and net purchased RMB 200bn in sovereign bonds to ensure adequate liquidity in the banking system. Despite these measures, the market anticipates an additional 25-50bps reserve requirement ratio (RRR) cut by the end of the year to ease liquidity conditions. The sell off in yuan has a spill over impact on the Asian Fx pack as well given the trade and financial linkages

On the economic front, October's industrial profit growth remained negative but showed improvement, narrowing to -10.0% YoY from -27.1% the previous month. The manufacturing PMI rose to 51.5 in November against last month's figure of 50.3. Near term focus will be December's policy meetings such as annual Central Economic Work Conference and Politburo meeting.

*JPY is rebounding heading into the year end as inflation continues to rise above 2%*

*USD/CNY hit one year low on trumps renewed tariff threat*

## Rupee was sailing steady until India GDP shocked & Trump threatened BRICS

The last fortnight of Nov'24, saw some sharp spike in volatility in the FX global markets (DXY: 106.11 to 108.07). On account of robust US data (Existing home sales & PMI) DXY surged (1.85%) on a move to safe haven demands. However, risk sentiment improved as markets saw Trump's pick of Scott Bessent as Treasury Secretary; a measured choice for the US economy and financial markets. The anticipated rate cut of 25bps by US FOMC in Dec'24 has been discounted by markets which in turn has softened the Dollar's strength. (Refer our report: [FX weekly: Market continues to assess US election outcome and impact on economies](#))

Since June'24, unlike Asian peers, Rupee was the worst performing currency and was hovering close to its then all-time lows. However, in recent weeks when all the emerging-market currencies took a hit amid rising Dollar strength, Rupee remained one of the least volatile currencies and depreciated (0.33%) and refrained from drastic depreciation. India Q2FY25 GDP data came as a red flag for economic activity, with the number printing 5.4% vs our and consensus estimate of 6.5%. The possibility of rate cut expectations in the upcoming RBI MPC has heaped pressure on the local currency. Adding fuel to it, Donald trump threatened to impose a 100% tariff on the BRICS group if they replace the US Dollar or create a new BRICS currency which in turn brought further dollar demand from the FPIs & importers and made Rupee hit fresh all-time lows (84.7050 on 02<sup>nd</sup> Dec'24)

Until the release of GDP data, dollar-rupee far forward premiums were rising, aided by the decline in US bond yields. The 1-year implied yield rose to 2.25%, its highest level in three weeks. Far forward premiums have formed a range for now and it is likely to stay between 2.10% to 2.40% unless there is a material shift in rate cut expectations. After the data, premiums fell to a near three-week low. The latest RBI Special Data Dissemination Standards shows, the RBI's net outstanding short positions in dollar/rupee forward contracts rose by a whopping \$34.60bln m/m to \$49.18bln at the end of Oct'24, the highest in at-least in a decade. The central bank not only rolled over \$11.4bln worth of short positions in forwards maturing within one month, but also added another \$16.78bln in the segment.

Foreign Portfolio Investors net withdrew \$11.12bln (highest in a decade) in Oct'24, however the outflows have moderated to \$2.56bln in Nov'24. Nevertheless, on a WoW basis equity markets received inflows to the tune of \$586.45mln vis-à-vis outflows of \$487.45mln a week ago. Also, the debt segment has witnessed inflows to the tune of \$850.14mln vis-à-vis outflows of \$365.21mln from the previous week, however the FAR related flows have stayed negative at \$507mln in the entire Nov'24.

Oil futures have registered gains initially after US election outcome but have declined later. Trump's stance towards oil producers like Iran & Israel will be on close watch. India being a major oil importing country will be affected with any changes in global crude oil prices and will directly impact in the country's broad trade data. Sensitivity of C/A deficit to oil prices stays high with every \$10/b move in oil price affecting annual C/A balance by close to \$15 bln. Hence, if average oil prices settle lower at c.\$75/b, C/A deficit may be closer to 0.5% of GDP in FY25. (Refer our weekly report: [India: Q1-FY25 C/A switched to deficit; BoP surplus likely rose 3x in Q2 vs Q1](#)).

Our analysis shows that in Nov'24, the record high forex reserves kitty has slipped by \$48.30bln to \$656.58bln from all-time highs of \$704.86 (\$29.46bln fall was adjusted after valuation effects), signalling that the Central Bank has taken appropriate measures to curb volatility in the local currency.

### Indian Rupee (₹ - Rupee): View

INR depreciated & traded with bouts post recovery from lows of 84.2225 to retesting all-time lows of 84.7050. Rupee move was broadly linked to the Dollar's strength & weakening Chinese Yuan. Considering the present scenario, we may expect dollar to consolidate till Trump takes charge of the White House. Another 25bps rate cut by FED (67% probability for a 25bps cut in 18th Dec'24) will lead support to the domestic currency along with dollar inflows which are expected from Dec'24 on inclusion of India FAR bonds in the Bloomberg Emerging Market (EM) Local Currency Government Index and related indices, starting 31st Jan'25. Still, the central bank will remain vigilant using all the levers to contain the currency volatility.

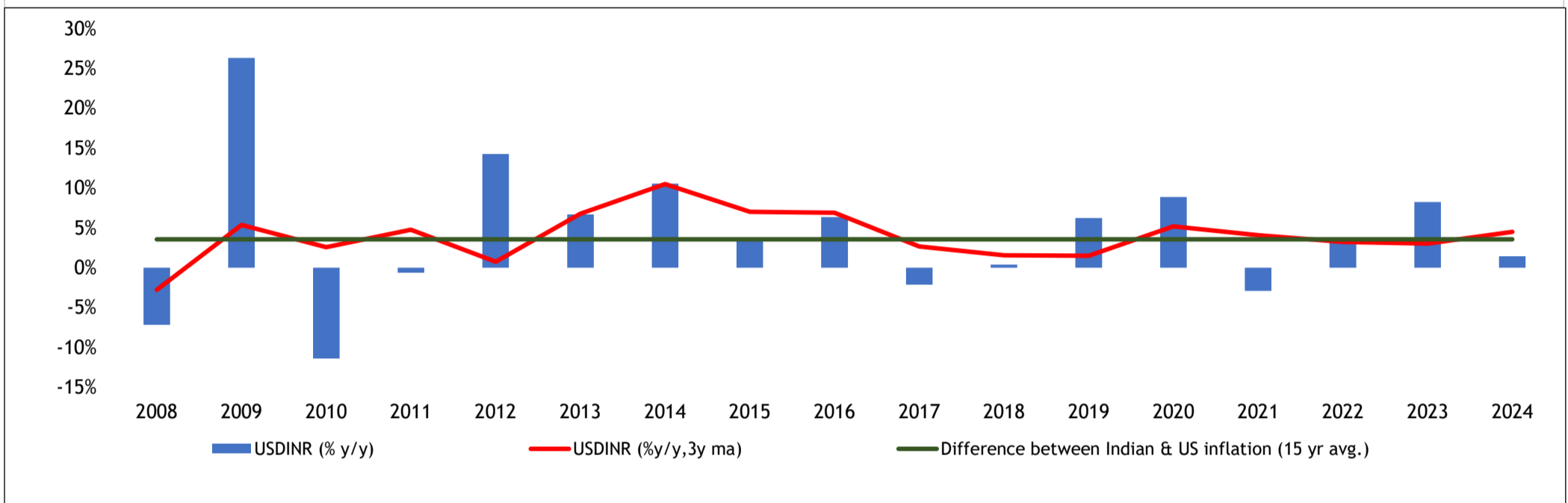
*RBI SDDS shows increased net short position in forwards highest in a decade*

*Fx reserves continues to fall for eight consecutive weeks*

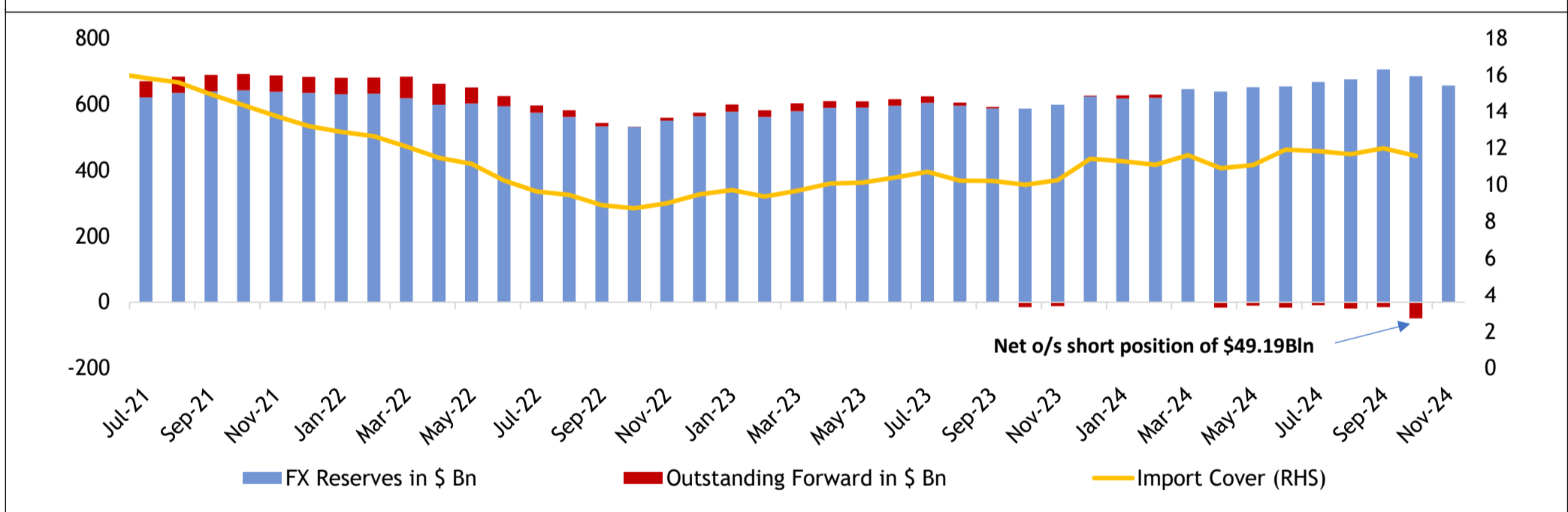
REER shows overvaluation in INR

Despite global headwinds, the USD/INR pair has outperformed other FX peers on continuous dollar sales by PSBs. Given US Dollar exceptionalism may persist in the near term at least till Trump joins office on 20<sup>th</sup> Jan'25, we are of the view that there is a case for further drift in USDINR. Fundamentally as well, Rupee is a depreciating currency with an average annual FX move of 2-3% clocked to align with US-India long term inflation differentials. Interestingly, during Mar'20-Mar'23, while INR was nearly flat from Mar'20 to Mar'22, a one-off depreciation of 9-10% was seen in FY'23 to align with fundamentals. Thereafter, INR depreciated c.1% in FY24 and also in this year there is a very tight movement of c.2%. Hence, there is a pending depreciation in FX from a fundamental perspective as well, which is already reflected in the RBI REER over valuation. These shows concern that the Indian rupee may still have more room to depreciate, however the RBI firmly focused on FX volatility may allow it to depreciate gradually. (Refer our monthly report: [Uni-FX: US exceptionalism theme boosted by Trump trade effects](#)).

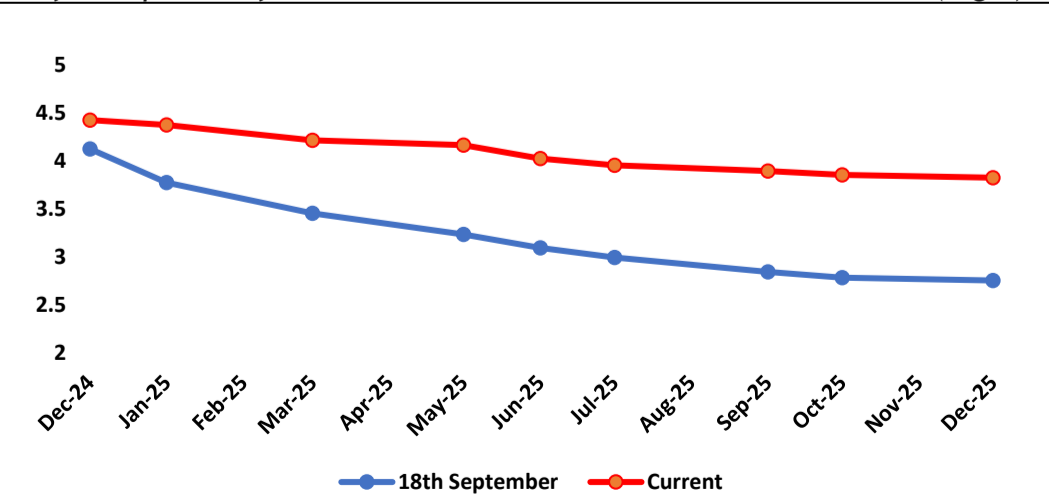
**Fig 1: Rupee fundamentally clocks 2-3% average annual depreciation on a medium-term basis**



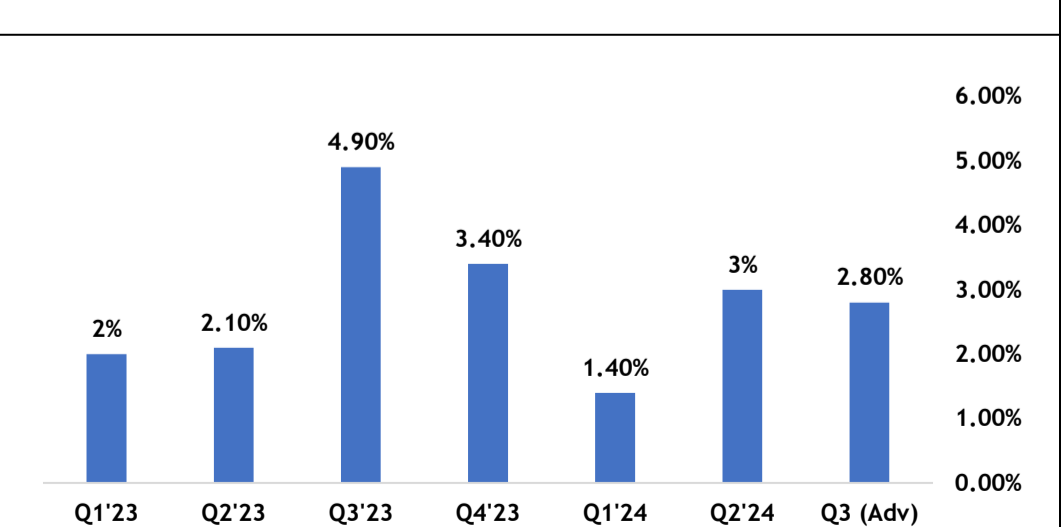
**Fig 2: FX Reserves & Outstanding Forward Book Vs Import Cover in months**



**Current FED policy rate vs FED fund rate on 18th September; Curve Shifted upward after election (Fig 3)**

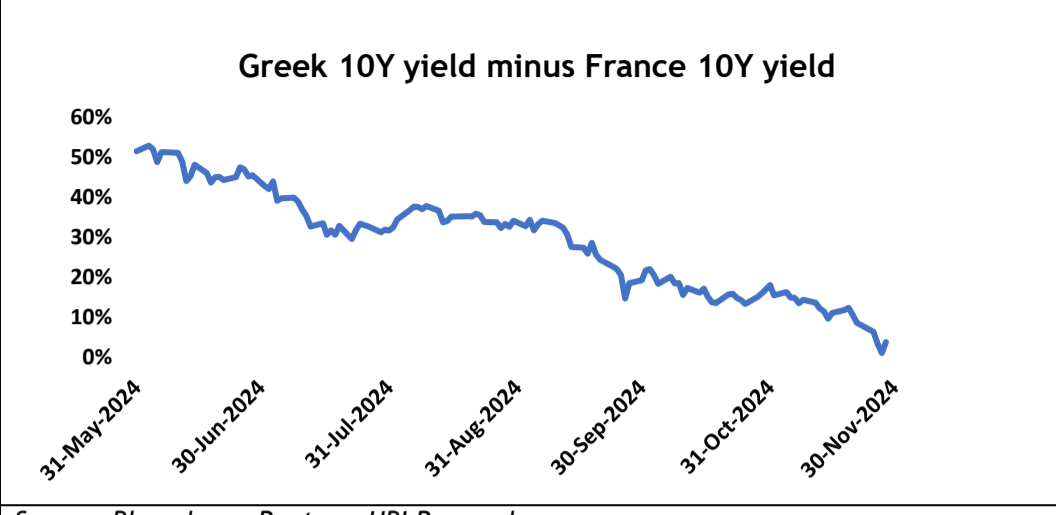


**US Economy continues to grow at robust pace on Q3'24 (Fig 4)**



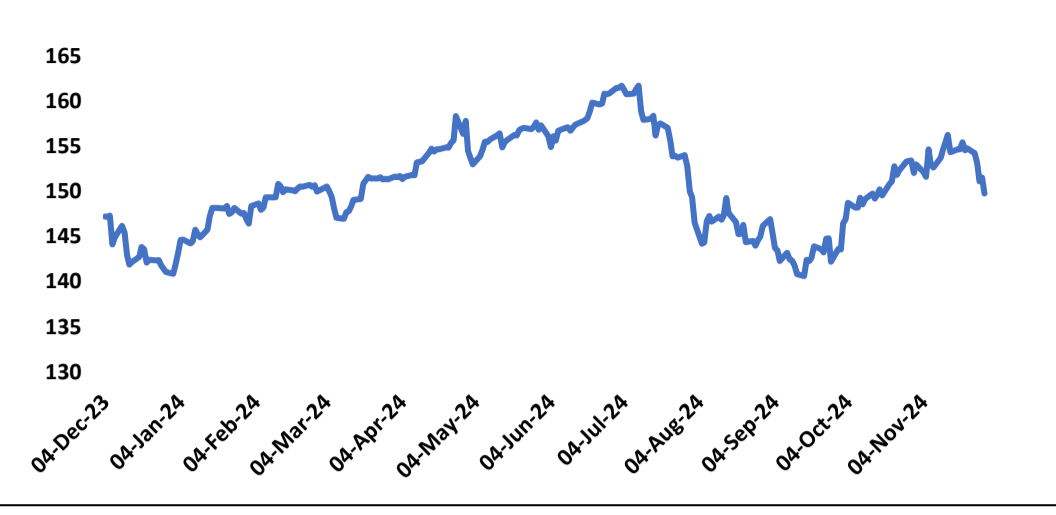
Source: Bloomberg, Reuters, UBI research

France 10Y borrowing cost match Greece's for first time (Fig 5)

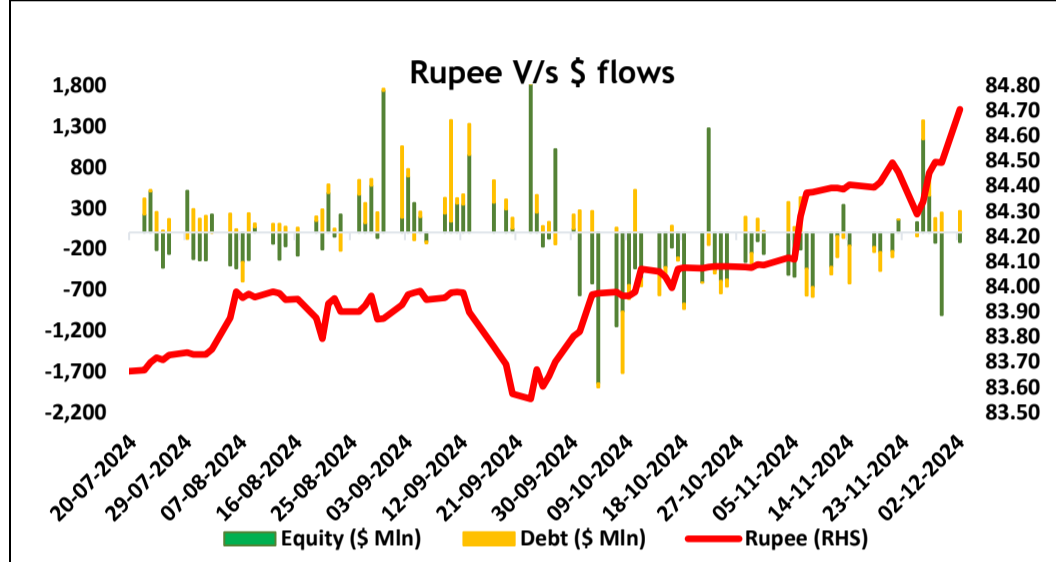


Source: Bloomberg, Reuters, UBI Research

JPY rebounds heading into year-end on rate hike expectation (Fig 6)

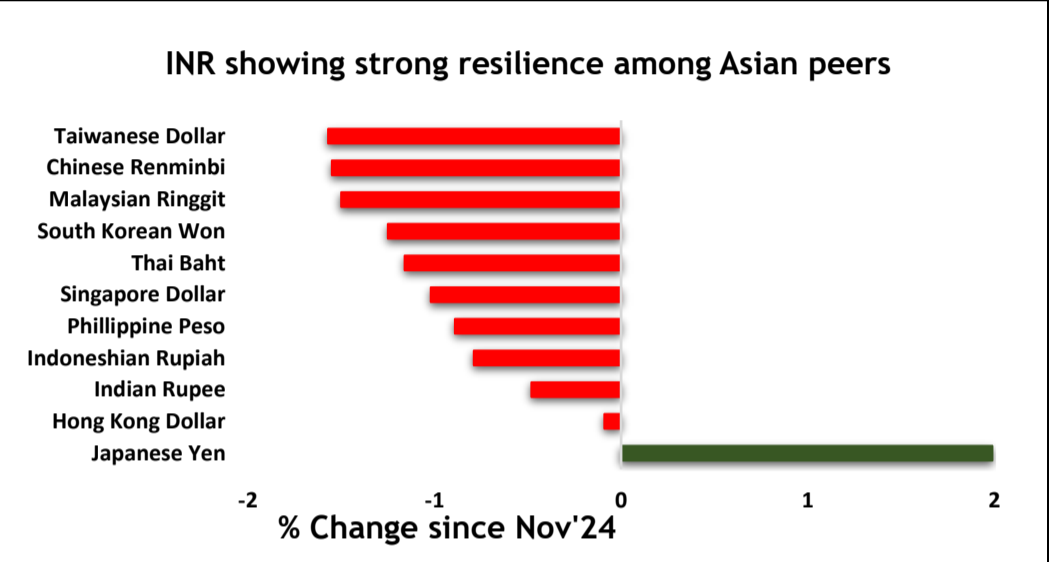


Rupee depreciated after dismal GDP data (Fig 7)



Source: Bloomberg, NSDL, UBI Research, Refinitiv

Rupee volatility & depreciation contained despite USD strength (Fig 8)



| FX Performance |             |             |              |              |
|----------------|-------------|-------------|--------------|--------------|
| FX Pair        | 3M % Change | 6M % Change | MTD % Change | YTD % Change |
| EURUSD         | -5.03       | -3.8        | -0.83        | -4.97        |
| GBPUSD         | -3.51       | -1.2        | -0.68        | -0.61        |
| AUDUSD         | -3.5        | -3.2        | -0.55        | -4.93        |
| NZDUSD         | -4.9        | -4.81       | -0.59        | -7.2         |
| USDJPY         | 3.09        | -3.91       | 0.16         | 6.32         |
| USDCHF         | 4.39        | -0.88       | 0.76         | 5.48         |
| USDCAD         | 3.59        | 3.01        | 0.25         | 5.99         |
| DXY            | 4.6         | 2.13        | 2.51         | 4.98         |
| USDCNY         | 2.27        | 0.56        | 0.55         | 2.6          |
| USDINR         | 0.93        | 1.99        | 0.21         | 1.86         |

| Central bank Policy Rates   |         |             |                        |
|-----------------------------|---------|-------------|------------------------|
|                             | Current | End of 2023 | YTD Change 2024 in BPS |
| <b>Advanced Economies</b>   |         |             |                        |
| Australia                   | 4.35%   | 4.35%       | 0                      |
| Canada                      | 3.75%   | 5%          | -125                   |
| Euro-zone                   | 3.40%   | 4.50%       | -110                   |
| Japan                       | 0.25%   | -0.10%      | 35                     |
| New Zealand                 | 4.25%   | 5.50%       | -125                   |
| United Kingdom              | 4.75%   | 5.25%       | -50                    |
| US                          | 4.75%   | 5.50%       | -75                    |
| <b>Developing Economies</b> |         |             |                        |
| Brazil                      | 11.25%  | 11.75%      | -50                    |
| China (1Y LPR)              | 3.10%   | 3.45%       | -35                    |
| India                       | 6.50%   | 6.50%       | 0                      |
| Indonesia                   | 6%      | 6.00%       | 0                      |
| Philippines                 | 6%      | 6.50%       | -50                    |
| South Korea                 | 3.25%   | 3.50%       | -25                    |

| Government Bond |               |               |            |
|-----------------|---------------|---------------|------------|
|                 | 1M Change BPS | 3M Change BPS | YTD Change |
| 10Y US Treasury | -7.6          | 37.4          | 33         |
| 10Y JP JGB      | 15            | 15            | 40         |
| 10Y DE Bund     | -38           | -23           | 3          |
| 10Y UK          | -24           | 18            | 67         |

| Commodity Price Performance |              |             |              |
|-----------------------------|--------------|-------------|--------------|
|                             | MTD % Change | 3M % Change | YTD % Change |
| WTI Crude                   | -4           | -6.6        | -6.4         |
| Gold                        | -2.78        | 5.26        | 28.84        |
| Silver                      | -4           | 7           | 30           |
| Copper                      | -6.84        | -1.4        | 6.68         |

Source: Refinitiv

| Banking Research Team                     |  |
|---|--|
| Kanika Pasricha<br>Chief Economic Advisor | kanika.pasricha@unionbankofindia.bank  |
| Suneesh K                                 | suneeshk@unionbankofindia.bank         |
| R Gunaseelan                              | gunaseelan@unionbankofindia.bank       |
| Nidhi Arora                               | nidhiarora@unionbankofindia.bank       |
| Rajesh Ranjan                             | rajeshranjan@unionbankofindia.bank     |
| Jovana Luke George                        | jovana.george@unionbankofindia.bank    |
| Amit Srivastava                           | asrivastava@unionbankofindia.bank      |
| Rohit Yarmal                              | rohitdigambar@unionbankofindia.bank    |
| S. Jaya Laxmi                             | s.jayalakshmi@unionbankofindia.bank    |
| Dhiraj Kumar                              | dhirajkumar@unionbankofindia.bank      |
| Akash Deb                                 | akash510@unionbankofindia.bank         |
| Shreyas Bidarkar                          | shreyas.bidarkar@unionbankofindia.bank |

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