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U.S. markets have stayed notably resilient despite the government shutdown. *Policy is easing even though inflation remains sticky as core PCE is near ~3% and economic data are sporadically missing. The Fed remains on a path to achieve neutral rate but has been clear it won't cut blindly; in a data blackout it can lean on regional and private proxies, yet the bar to accelerate cuts without BLS prints is high. As a result, the rate glidepath still tilts lower into 2026.* ***While the Fed's messaging last week turned incrementally dovish on rates while retaining hawkish caveats on inflation and labor market***.

In the data void, traders are leaning on high-frequency signals: payroll trackers imply ~60k September vs 22k in Aug while ADP printed a 32k drop as against expectation of45k; ISM services slipped below market ranges collectively consistent with a labor market losing momentum rather than collapsing. While scenario-wise, a quick shutdown resolution, improving labor market, and drifting-lower inflation can extend today's tight-spread regime; a prolonged standoff with job cuts, softer Q4 consumption, and sticky services inflation would hit stocks (especially companies with weaker balance sheets) and bond yields harder.

That said the US10Y yield has rebounded above ~4.10%, term premia supported by heavy issuance even as rate cuts are priced ahead. In Fx, while the US dollar has weakened last week (~0.48%), the DXY's tone stayed choppy but net-firm, reflecting haven bids into a data vacuum and policy uncertainty. ***Broadly, the longer a U.S. government shutdown drags on, the greater the potential pressure on the dollar though it's worth noting the DXY has held up reasonably well so far***. *While investors are closely watching Japanese markets after Sanae Takaichi won the LDP leadership contest.* ***Takaichi's pro-growth tilt toward easier fiscal policy could weigh on the yen in the near term. Her preference for leaving Bank of Japan rates unchanged also contrasts with market expectations for another hike later this month, potentially pushing back the timing of further tightening***. *Even though BOJ governor Ueda has reiterated that if economic activity and prices improve in line with the bank's outlook, future rate hikes remain on the table. Nevertheless, Japanese bond yields are testing record highs, while the yen has softened as markets scale back expectations for further rate hikes. Meanwhile CNY remains on an appreciating path, though technically any RMB gains are likely to be limited.*

In commodity space crude fell steadily last week (~5%), extending a four-session drop as traders priced a possible OPEC+ increase in output into year-end. Gold kept its safe-haven bid and printed successive records before easing. The pattern says dips are shallow while macro uncertainty (shutdown-skewed data, rate-cut path) and central-bank demand anchor support; pullbacks look buyable unless real yields lurch higher.

This week U.S. government shutdown will remain in focus *while the economic calendar is light as no tier-1 global releases are scheduled, though a delayed U.S. labor report could surface if the shutdown ends; we do get University of Michigan consumer sentiment and FOMC minutes, both potential catalysts in a market starved for clean signals.*

Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
29 Oct 2025	3.85%	-24 bp
10 Dec 2025	3.63 %	–46 bp
29 Apr 2026	3.33 %	–76 bp
28 Oct 2026	3.00 %	–109 bp
09 Dec 2026	2.96%	-113 bp

Next meeting probabilities: **No change 2 %, 25 bps cut 98 %**

Job growth is cooling, but the near-term risk skew is drifting downside. The data fog from the shutdown no September jobs report will further cloud the Fed read-through.

Fragile goldilocks: Trading through a policy fog

The U.S. markets are currently fixated on jobs. ADP and Challenger both pointed to softer hiring, ADP showed stalled private payroll growth in August–September and Challenger flagged sharply lower hiring plans while layoffs kept declining and JOLTS was roughly on target. ISM manufacturing held at 49, reinforcing slowdown.

Meanwhile, the Supreme Court's temporary block on removing Governor Lisa Cook means she participates in October an institutional win for Fed independence and a signal of policy continuity rather than a lurch. Meanwhile at the October 29 Fed meeting, the probability of a rate cut is ~95%, with markets pricing ~44 bps of easing this year and ~70 bps next year.

Cross Asset fund flow as of 24th Sept'25

Category	4 wk. avg. ($bn)	2024 avg. ($bn)
All Equities	4.1	9.8
All Bonds	12.4	11.0
US Equities	2.9	8.3
US Bonds	3.9	4.7
EM Equities	0.2	1.3
EM Bonds	1.17	0.002
Japan Equities	0.3	0.1
China Equities	-1.72	1.31
Europe Equities	-0.4	–1.2
Europe Bonds	5.3	4.6

Source: JP Morgan

Dollar momentum softened as the missing jobs report and shutdown nudged the Fed path dovish, leaving DXY choppy but net-firm

Treasury yields chopped within a tight band early supply/term-premium jitters briefly steepened the curve before the data blackout

Fed tone turned mildly dovish on cuts but kept hawkish caveats

USD/INR's grind near record highs reflects a "buy-USD-on-dips" backdrop driven by tariff overhang, fragile flows and trade-policy uncertainty

Dollar: Grinding higher, but with fragile breadth

Dollar momentum rolled over as the jobs report vanished; a ***prolonged shutdown is a modest USD negative because it nudges the Fed sooner while much may be priced in***. The DXY's tone stayed choppy but net-firm, reflecting haven bids into a data vacuum and policy uncertainty: after a 1.4% advance in 2H25 to date, the index slipped 0.15% on Friday to ~97.60 before easing again to ~97.70 as the market re-priced a slightly more dovish Fed path. Under the hood, USD/JPY's volatility remained elevated as Japan's LDP leadership vote, while EUR and GBP edged higher on marginally better European headlines. Net-net, the dollar remains supported by relative growth and policy-rate carry, but participation is narrowing and headline sensitivity is high.

Tight-Range Treasuries: Steepener Starts, Fade Ends

Treasury yields drifted but stayed in a tight band, with the 10-year mostly 4.08%–4.15%. Early on, supply/term-premium worries nudged the long end up and briefly steepened the curve; later, the data blackout (no payrolls) and softer private labor proxies pulled duration bid, taking the 10-year back down and flattening the curve. The front end was steadier as markets already price near-term Fed cuts, while the belly (5s/7s/10s) did most of the moving as traders toggled between "late-cycle steepener" and "buy-the-dip duration."

In rates derivatives, Fed-dated OIS edged a touch more dovish midweek (adding a few basis points of cuts into the next two FOMC meetings), but some of that was retraced as liquidity thinned leaving OIS still skewed to gradual easing rather than a rush. Net-net: positioning and missing data did more than fresh fundamentals yields chopped, 2s10s whipsawed by a few basis points either way, and OIS positioning drifted dovish at the margin but stopped short of pricing an aggressive.

Fed Speak: Dovish Direction, Hawkish Caveats

The messaging cadence leaned incrementally dovish on rates but retained hawkish caveats on inflation and labor. Fed's Williams emphasized policy remains restrictive and that further cuts "made sense," contingent on a gradually softening labor market; Hammack flagged services inflation and tariff pass-through as risks, pushing 2% back toward 2027 and arguing for restrictive settings for longer. Meanwhile, Logan's suggestion to move away from fed funds toward market rates kept money-market plumbing in focus, widening swap spreads and nudging basis trades. While the dissent of last FOMC meet Stephen Miran stated that he would reassess his inflation outlook if housing costs rose unexpectedly. But he also highlighted forces such as tighter immigration policies under U.S. President Trump and easing trends in average rents that, in his view, should pull housing inflation lower.

While the guidance remains cut-biased, but with enough inflation and policy-framework ambiguity to keep the Fed optionality premium alive especially with official data suspended and the shutdown muddying near-term reads.

INR under the tariff cloud: Flows, reserves, and levels on watch

USD/INR spent the week pinned near its lifetime high, repeatedly testing the $88.7–88.8 area and closing just below the record low ($88.81 on 30/09/3025) despite a softer broad USD. ***The rupee is down about 3.5% this year despite the dollar index losing ~10% during same period***. The backdrop is threefold: Trade still carries a tariff overhang (talks are supportive but not base case yet); Flows remain fragile after large YTD FPI outflows (~12.3bn); and sentiment stays defensive on trade policy uncertainty like timing of U.S.-India final trade deal amid concerns over the H-1B fee hike, 100% tariff on pharma, ***keeping "buy-USD-on-dips" behaviour intact***. While crude fell steadily last week (~5%), as traders priced a possible OPEC+ increase in output into year-end.

Structurally, our bias is for gradual INR depreciation. As per our analysis, over a three-year window, the rupee tends to adjust ~3–4% annual average depreciation in line with the India–US inflation/interest rate differential. Academically speaking this is consistent with the Balassa-Samuelson effect, which suggests that countries experiencing higher productivity growth in tradable sectors, will see a real appreciation/depreciation of their currency over time.

Policy Backdrop: RBI's Push to Internationalise the Rupee

RBI in its Oct'25 monetary policy announced steps to deepen INR use in cross-border transactions: AD banks (including overseas branches) may now extend INR-denominated loans to residents/banks in Bhutan, Nepal, and Sri Lanka; FBIL will broaden its reference currency set to cover all major trading partners, aiding onshore pricing; and balances in Special Rupee Vostro Accounts can now be invested in corporate bonds and commercial paper. The Governor also reiterated that the RBI does not target a level, only curbs undue volatility. The RBI's steps broaden INR usage, deepen liquidity, and enhance price discovery supporting a steadier, incrementally firmer rupee profile. Expect tighter onshore/offshore pricing, shallower volatility, and healthier two-way flows, with the pace guided by global USD moves, oil, and risk appetite. ***While RBI has proposed a market-linked ECB framework tying borrowing limits to a company's financial strength and allowing market-determined interest rates, with draft norms open for feedback until Oct 24***

Reserves, Flows and Sentiment: Cushion vs. Headwinds

Despite a softer USD, INR lagged on FPI outflows and importer demand, with policy/tariff frictions clouding sentiment; reserves near record

Despite a broadly softer dollar, INR underperformed as portfolio outflows and importer demand kept the pair bid; policy frictions with the U.S. and tariff overhang continue to weigh on sentiment, leaving INR among Asia's laggards this year. Meanwhile, FX reserves fell to ~$700.24bn for the week ended Sept 26 (down ~$2.3bn w/w). **India's FX reserves have risen ~USD 65.7bn (+10.4% YTD) in 2025, climbing from USD 634.6bn (Jan 3) to USD 700.2bn (Sep 26)**. The year's low was USD 624.0bn (Jan 17) and the high printed at USD 703.0bn (Sep 12), leaving the latest reading just shy of that peak. While a steady, near-record uptrend through Q3 2025, with only brief pullbacks along the way. FX reserve adjusted for valuation effect (a good BoP proxy) have shifted from a surplus in Q1 to a net deficit ~$13bn in Q2. That mix helps slow depreciation pressure and soften intraday volatility, but it doesn't yet erase the earlier cumulative outflows; sustainability over the next few weeks is the key differentiator between stabilization and mere respite.

No US-India trade deal yet, but the tone has turned constructive

Foreign Portfolio Investors (FPIs) remain net sellers YTD, with aggregate outflows of ~$12.03bn (Equity -$18.06bn; Debt total +$6.06bn across General +$0.97bn, VRR -$0.95bn, FAR +$6.04bn). Week-on-week, FPIs sold equities ~$1.15bn in the latest week (Sep 29–Oct 3), versus ~$1.08bn of equity selling the prior week (Sep 22–26). On the debt side, weekly total debt flows improved to +$244mn (vs +$130mn the prior week), even as debt (general) dipped -$70mn this week (vs +$90mn a week earlier). FAR flows stand at ~+$6.04bn YTD and are ~+$174mn MTD (Oct to date).

Constructive Signals, No Closure: India–U.S. Trade Talks continues

On US-India trade deal no agreement has been reached yet, but the signalling improved as U.S. officials hinted that additional trade deals are "coming soon" and ***described India's stance as pragmatic***, with both sides actively negotiating keeping optionality open even without concrete deliverables. New Delhi likewise called the latest round "constructive" with a push for an early conclusion.

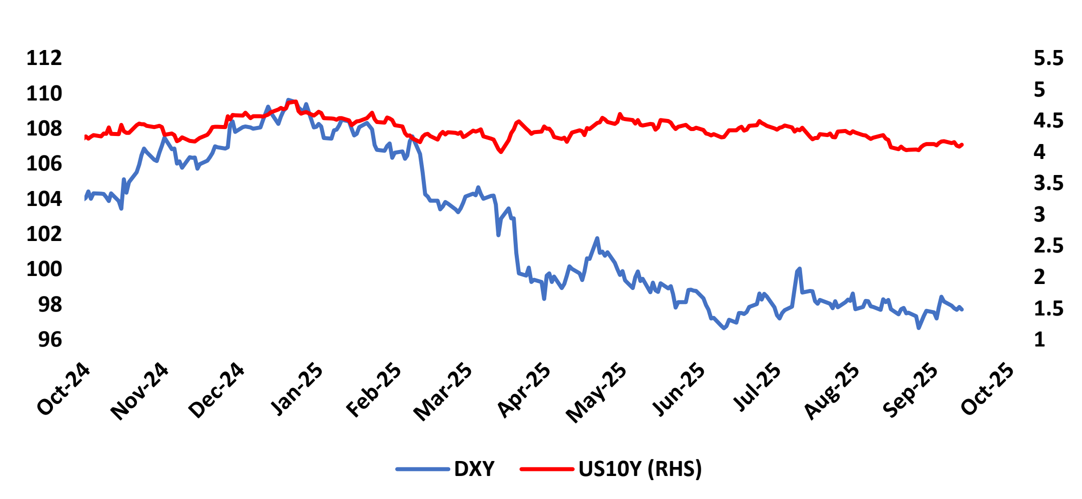
Outlook (INR - ₹ view):

INR retains a mild weakening bias amid global uncertainty and fragile sentiment near-term driven by U.S. data/Fed cuts

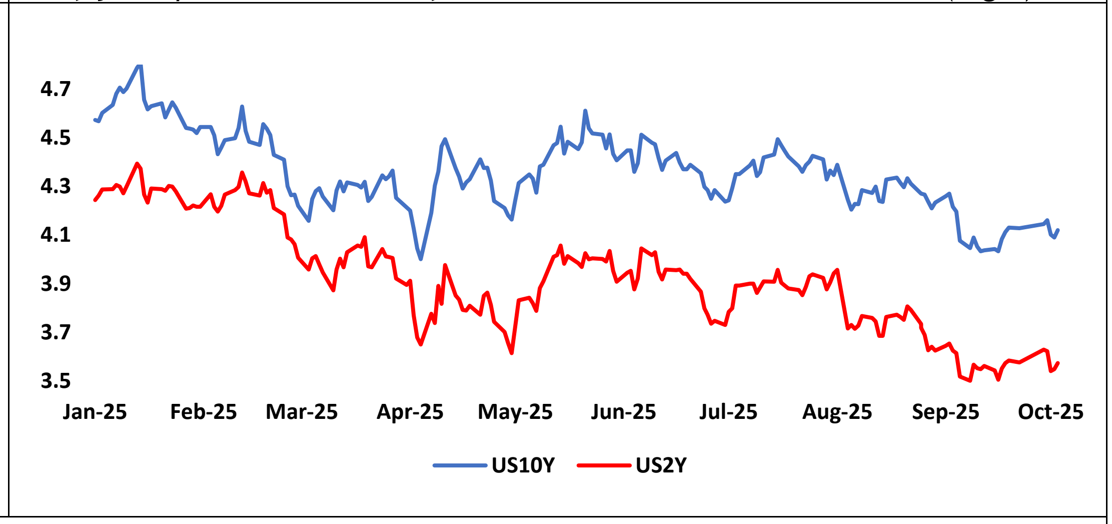
We see INR remaining under pressure with a mild weakening bias as global uncertainty persists. The near-term impulse will hinge on U.S. data and the Fed's rate-cut path, which will likely drive U.S. dollar moves. At home, brisk IPO calendars can intermittently support INR via equity-related inflows, but the unresolved U.S.–India trade negotiations and the drag from higher U.S. visa fees on services exports keep sentiment fragile. ***While RBI Governor signalled that steps will be taken to correct excessive FX losses, we see Rupee turning around only post clarity on US-India trade deal.*** The RBI's ample FX reserves should still help smooth intraday swings and contain disorderly moves rather than change the underlying drift.

Tactically, the market is trading defined levels: immediate support sits near ₹88.50/$; a clean break below opens room toward ₹87.80/$. On the topside, resistance is clustered around ₹89.00/$, and a push through could test fresh highs near ₹89.20/$. With risk aversion elevated, INR may underperform regional peers until trade headlines turn more constructive; progress on India–U.S. talks would be the key upside catalyst for sentiment.

Dollar momentum softened as the missing jobs report and shutdown nudged the Fed path dovish, leaving DXY choppy but net-firm (Fig 1)

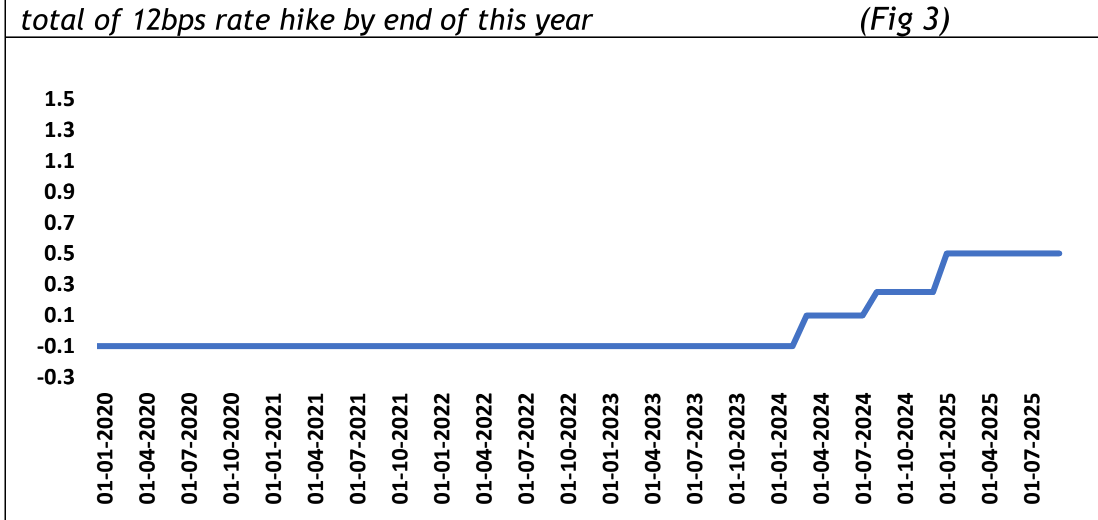


Treasury yields chopped within a tight band early supply/term-premium jitters briefly steepened the curve before the data blackout (Fig 2)

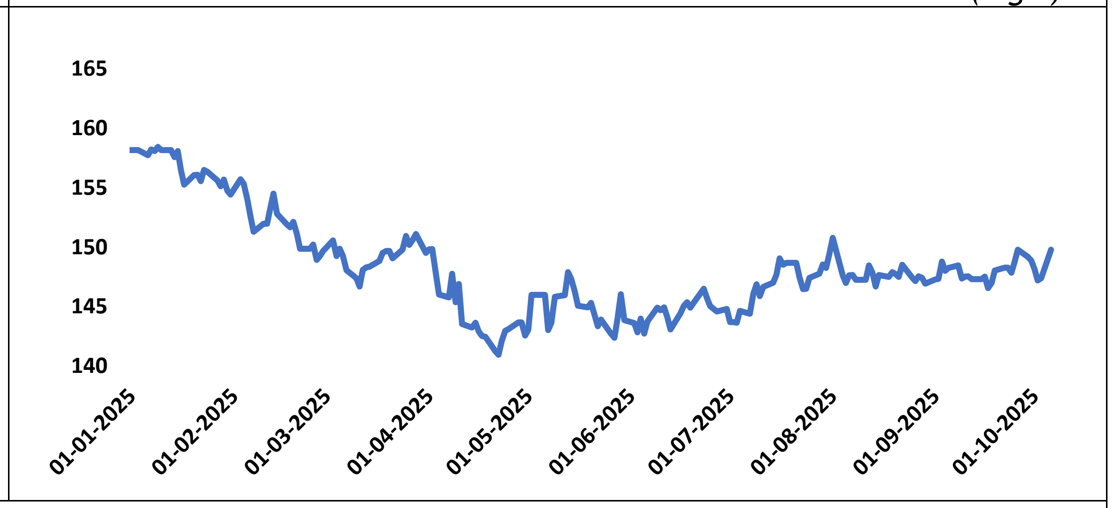


Source: Cogencies & UBI Research

Markets expect the BoJ to remain put during this Oct'25 BoJ policy meet and a total of 12bps rate hike by end of this year (Fig 3)

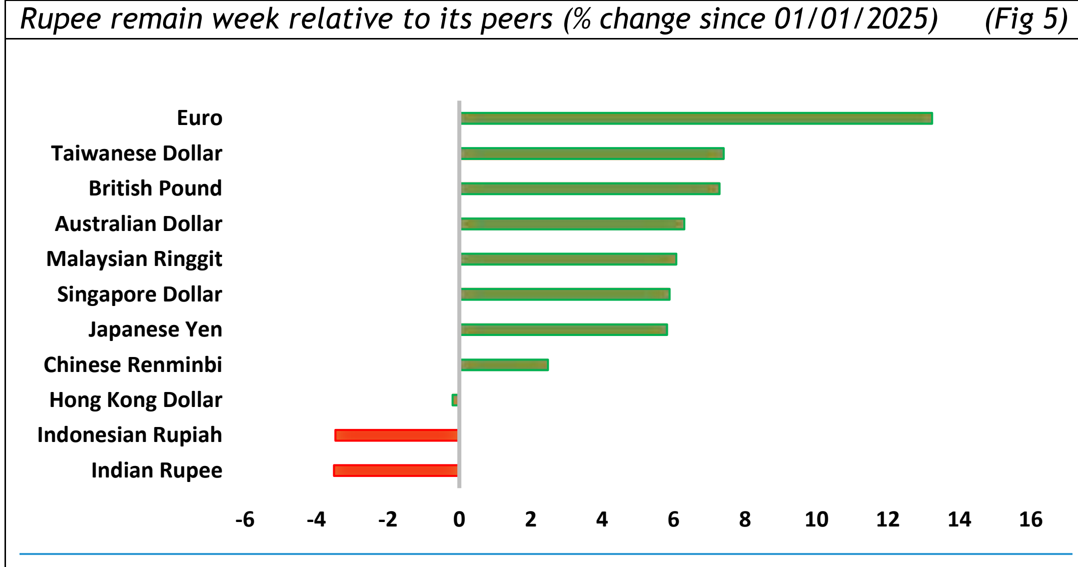


USD/JPY trades higher 1.5% after Sanae Takaichi won the LDP leadership contest (Fig 4)

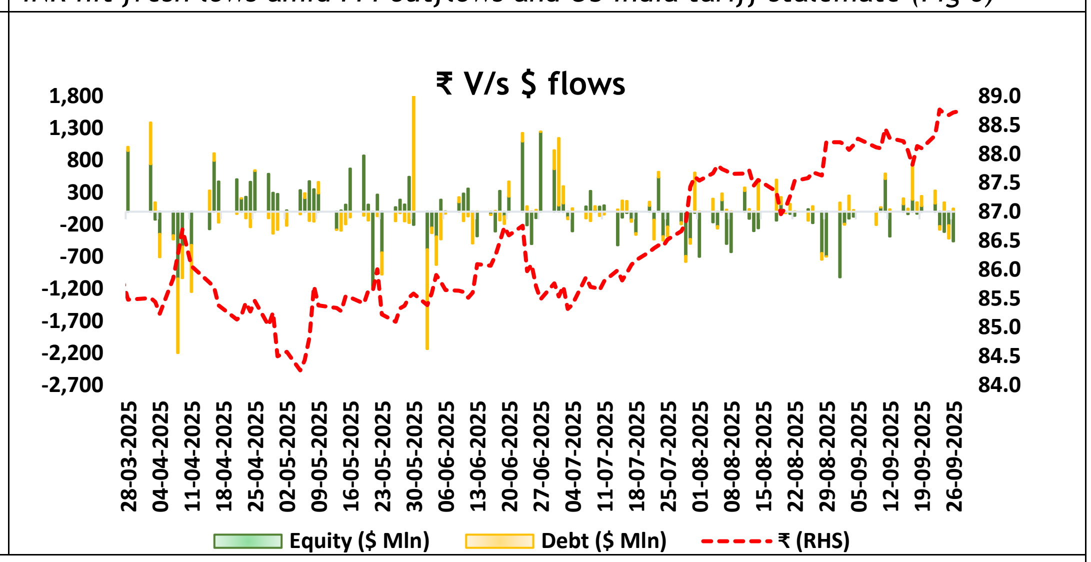


Source: Cogencies & UBI Research

Rupee remain week relative to its peers (% change since 01/01/2025) (Fig 5)



INR hit fresh lows amid FPI outflows and US-India tariff stalemate (Fig 6)



Source: Bloomberg, LSEG Workspace & UBI Research

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