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Last week's highlight was Trump statement that the delayed 25% tariffs on Canada and Mexico will take effect on 4th Mar'25., what was surprising was China will also be charged an additional 10% tariff on the same day, which will be on top of a previous 10% tariff for a total of 20%. Post this announcement the US dollar climbed against most of the major currency pairs and closed at 107.56 levels. Another major event was the talks between US President Donald Trump and Ukrainian President Volodymyr Zelenskyy ended on a bitter note and no minerals deal was signed. Trump stated that he wants an "immediate" ceasefire between Russia and Ukraine, and warned Ukrainian President Zelenskyy to make peace or lose American support which may further put pressure on Eurozone. The repercussion of the same will be seen in coming weeks. This week the reciprocal tariff framework and continued uncertainty around trade negotiations are likely to keep the FX volatile. ***While the current dip in US Dollar may be a buying opportunity as it is likely to pick up strength in second quarter once the reciprocal tariffs start to kick in. (Refer our Uni-FX)***

A slew of US economic data last week showed some sign of slowdown in US economy, while consumers remain anxious about future inflation as talk of higher tariffs continues to dominate headlines. There were various FED's members speech where officials reiterated their hawkish tone and expressed the desire to hold rates steady on account of sticky inflation and increased uncertainty. The Fed's preferred measure of inflation PCE Index showed price growth easing a bit further.

While Trump's return to the White house has reignited questions over US exceptionalism as effects of Trump's tariffs, fiscal expansion, and deregulation are yet to be seen. As tariffs policy may face greater resistance from global powers and could disrupt global supply chain, slowing economic growth and thus hurting business sentiments. China's rise in AI, semiconductor is also posing challenge to US innovation leadership and raise question on US exceptionalism.

All eyes will be on US NFP data due to be released on 7th Feb'25 which is expected to rise to 156k in Feb'25 vis-à-vis 143k in Jan'25 along with average hourly earnings. In other G10 space we have ECB monetary policy on 6th Mar'25, markets expect the central bank to cut rate by 25bps, any future guidance by ECB Chief Lagarde is likely to be closely watched. China will hold its annual National People's Congress (NPC) meeting on 5th Mar'25 which may announce strong stimulus package if they perceive a strong negative impact of tariffs.

Key Themes:

- ♣ **US Dollar rally on hawkish trump trade news amid mix US economic data**
- ♣ **Indian rupee remains fragile amid uncertain global cues and foreign fund outflows**

US Dollar rally on hawkish trump trade news amid mix US economic data

Hopes for a US-led Ukraine peace deal were dashed following the heated exchange between Trump and Zelensky in the Oval Office

The White House had published a memorandum ("America First Trade Policy") setting out the principles of future trade policy and ordering investigations into the causes of the US's high trade deficits. Last week we saw another such hawkish tariff measure which lead the US Dollar to turned sharply higher through the end of the week. The news has seen an influx of buying for USD as traders anticipate hawkish implications for US inflation, delaying expected Fed easing over coming months. DXY surged by c.1% last week and closed at 107.56 levels, while its biggest gain of c. 0.6% was seen on 27th Feb'25 posting its biggest one-day rise in two months after announcement of tariff fresh 10% tariff on China.

Tariffs of 25% on goods from Canada and Mexico has kicked in today along with 10% tariffs on Chinese goods

Trump's tariff plans are driving USD upwards at a time when the Dollar had previously been weakened by recent data disappointment like drop-in consumer confidence and higher-than-forecast weekly jobless numbers. With tariff news now taking centre stage, USD looks likely to continue trade higher as tariffs against Canada and Mexico has already kicked in and Trump has stated that there was "no room left" for the two nations to negotiate. While yields on US treasuries continue to slid on backdrop of safe haven demand as markets are worried about reciprocal trade tariffs and the overall health of US economy. The benchmark 10-year Treasury yield since last week have fallen more than 30 bps to 4.16%. The 2-year Treasury yield has also slipped around 27 bps to trade below the crucial 4% mark at 3.96% levels.

FED members have maintained hawkish tone over the week

USD/INR gains traction on renewed trade tariff threat, while the threat of reciprocal tariffs continues to loom

Rupee trades weak as FII sell-off continued and crude oil prices remained elevated amid US tariffs

Market appears to be concerned about slowdown in US economy

Last week saw release of numerous data from US. The Fed's preferred gauge of inflation showed that US core PCE inflation rose 0.3% m-o-m in January, up from 0.2% in December and in line with market expectations. From a year ago, core PCE inflation eased to 2.6% y-o-y from 2.9% in December. While the Conference board consumer confidence index fell to 98.3 in February from 105.3 in January. The GDP number showed that the US economy grew at an unrevised 2.3% annualized pace last quarter, on par with consensus estimates. The second estimate of 4Q24 GDP was unchanged from the advanced estimate, which had shown 2.3% annualized growth. The US initial jobless claims for the week ending 22 Feb totalled a seasonally adjusted 242k, up 22k from the previous week's revised level and higher than the consensus estimate for 221k. All eyes will be on this weeks labor market data i.e. NFP for the month of January which is expected to rise to 156k in Feb'25 vis-à-vis 143k in Jan'25 along with average hourly earnings will be closely watch. Also, we have total 9 Fed members speech along with Fed Chair Powell speech on Friday. Markets are currently expecting the FED to hold rate in its 19th Mar'25 FOMC policy meet. The Fed funds futures market has priced in 70bps of US rate cuts in the rest of this year.

Indian rupee remains fragile amid uncertain global cues and foreign fund outflows

The rupee continues to see lot of volatility last week and more pronounced since US Presidential elections last year. The rupee started the week trading high at 86.6550 levels on anticipation of delayed trade tariffs and slight weakness in US Dollar. The USDINR pair after making a high of 87.99 on 10th Feb'25 on the backdrop of trade tariff news, was able to show some of its strength and did manage to recover its lost ground by making low of 86.32 against the US dollar on 12th Feb'25. As over the week markets were expecting the USDINR pair to hold 87.00 levels after heavy selling of US Dollar were seen by PSU banks, the pair did manage to break the crucial level of 87.00 on 25th Feb'25 and since then the rupee continues to weaken while announcement of additional 10% tariff on Chinese goods above already 10% tariff, for a total of 20% is also not helping the cause. The muted trend in domestic markets and persistent foreign fund outflows also continue to weigh on investor sentiments, undermining the INR.

RBI last week is seen taking various steps to limit indirect adverse impact of liquidity like daily VRR, one such measures it announced was buy/sell swaps. The central bank conducted a three-year USDINR buy/sell swap worth $10 billion on February 28 the settlement of auction will take place on March 4th and March 6th which has kept the US Dollar bid. The RBI said it received 244 bids during the auction and 161 bids were accepted for the amount totalling $10.06bln. Previously in Jan'25. This follows the RBI's earlier six months $5bn USDINR swap auction on January 31 (which will reverse on August 4), with market participants pinning hope on a longer duration swap in recent weeks to provide longer duration relief. The RBI also conducted two USDINR buy/ sell auctions in March-April 2019, about three weeks apart for $5bn each. This has also kept US dollar bid and weakened the rupee as it again crossed 87.00 mark on 25th Feb'25.

While the Indian central bank released data this month, showed that the rupee's 40-currency real effective exchange rate (REER) eased to 104.8 in Jan'25 from 107.1 in Dec'24, signalling the overvaluation against currencies of India's major trading partners narrowed which is a bit of relief. Although the rupee has depreciated by c.1% against US dollar in Jan'25 and c. 1.33% in Dec'25. The data also shows RBI's dollar sales in the foreign exchange market were at a fresh record high of $69.05 billion in Dec'24, up $17.94 billion from the previous month, indicating the scale of the central bank's defence of the rupee's exchange rate. The RBI's dollar sales of $51.11 billion in November was also a record-high.

The latest trade numbers for Jan'25 sharply widened to $23.0bln. While our analysis shows that BoP dynamics stayed under pressure even in Jan'25 at -$11.65bln. FYTD25 Balance of Payment (BoP) is tracking negative c.$23.61bln (Q1: $6.37bln, Q2: $27.65bln, Q3: -$42.27bln & Q4 till date: -$11.65bln) with sharp loss in BoP seen in Q3:FY25. Historically, there is a close correlation between FX reserves (adjusted for valuation effects) and BoP. India's foreign exchange reserves rose to a two-month high by $4.76bln to $640.48bln as of 21 Feb'25. ($0.72bln fall was adjusted after valuation effects). The week in which the reserve rose the rupee advance by c.0.12% on backdrop of weaker dollar.

Debt-FAR related flow has been strong this year

While FPIs net withdrew $11.12bln (highest in a decade) in Oct'24, the same trend continues this year as well. In equity segment flows turned negative in Jan'25 to $9.04bln and -$3.978bln in Feb'25. Also, the debt segment has turned positive to the tune of $0.2bln vis-à-vis outflow of $0.50bln from the previous month. Moreover, the FAR related flows are strong $1.67bln in Feb'25 vis-à-vis inflow of $0.95bln in Jan'25.

Going ahead as the tariffs on Canada, Mexico and China has kicked in which could continue to boost the US Dollar and exert some selling pressure on Asian pairs along with the INR. The, US lead peace talk between Trump and Zelenskyy has failed on bitter note, and the world seen to be divided over it and also awaits Trump's further action. Trump has also directed his administration to propose a round of so-called reciprocal tariffs on its trading partners by early Apr under the "Fair and Reciprocal Plan" this reciprocal tariff remains a big threat for India. As of the fiscal year 2023–24, the US stands as India's largest export partner. During this period, India exported goods worth approximately $88.02 billion to the U.S., accounting for 17.73% of its total exports. Of which major sector includes engineering goods, pharmaceuticals, gems and jewellery, agricultural products etc. If reciprocal tariffs are implemented against India we might see the rupee weakening further. Also domestically if FII's continues there selling in Indian equities, which is again likely to put pressure on the rupee.

Central bank Policy Rates

	Current	End of 2024	YTD Change 2025 in BPS
Advanced Economies			
Australia	4.10%	4.35%	-0.25
Canada	3.00%	3.25%	-0.25
Euro-zone	2.90%	3.15%	-0.25
Japan	0.50%	0.25%	0.25
New Zealand	3.75%	4.25%	-0.5
United Kingdom	4.50%	4.75%	-0.25
US	4.50%	4.50%	0
Developing Economies			
Brazil	13.25%	12.25%	100
China (1Y LPR)	3.10%	3.10%	0
India	6.25%	6.50%	-0.25
Indonesia	5.75%	6.00%	-0.25
Philippines	5.75%	5.75%	0
South Korea	2.75%	3.00%	-0.25

Key Market movers *(Fig 1)*

FX Performance

FX Pair	3M % Change	6M % Change	MTD % Change	YTD % Change
EURUSD	-0.78	-5.58	0.49	0.72
GBPUSD	-0.3	3.65	0.45	0.96
AUDUSD	-4	-7.2	0.27	0.6
NZDUSD	-4.64	-9.28	0.2	0.27
USDJPY	0.55	3.38	-0.13	-4.11
USDCHF	1.58	5.9	-0.31	-0.76
USDCAD	2.54	6.46	-0.27	0.3
USDCNY	0.03	2.35	0.08	-0.15
USDINR	3.18	4.07	-0.11	2.12

Government Bond

	1M Change BPS	3M Change BPS	YTD Change
10Y US Treasury	-32	5	-33
10Y JP JGB	16	33	32
10Y DE Bund	6	42	8
10Y UK	3	30	-5

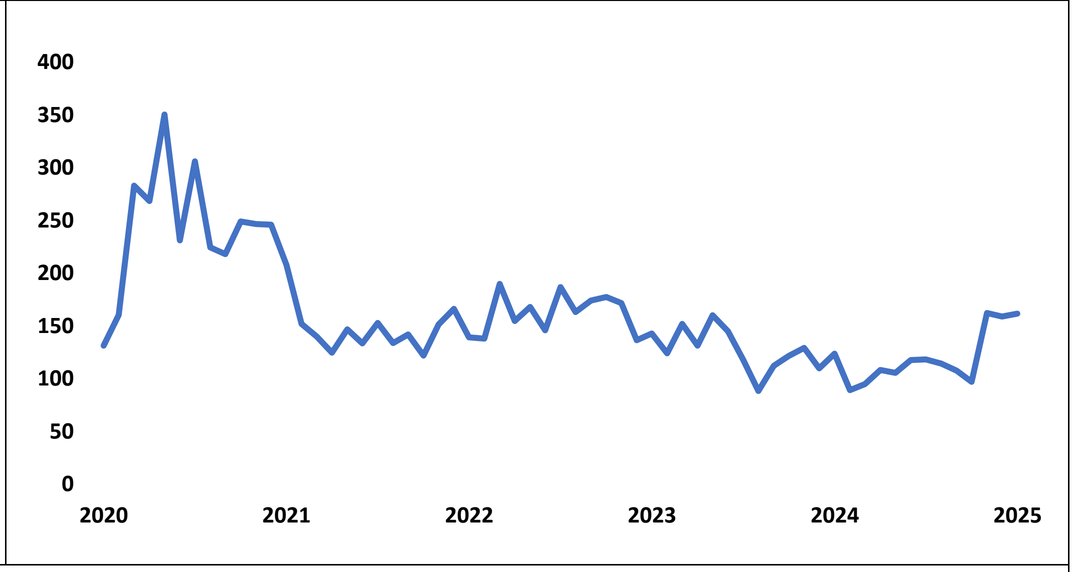
Commodity Price Performance

	MTD % Change	3M % Change	YTD % Change
WTI Crude	-4	1.69	-3.55
Gold	0.94	8.1	9.03
Silver	-1.78	3.21	9.15
Copper	5.8	10.66	13.87

Source: Bloomberg, Reuters, UBI research

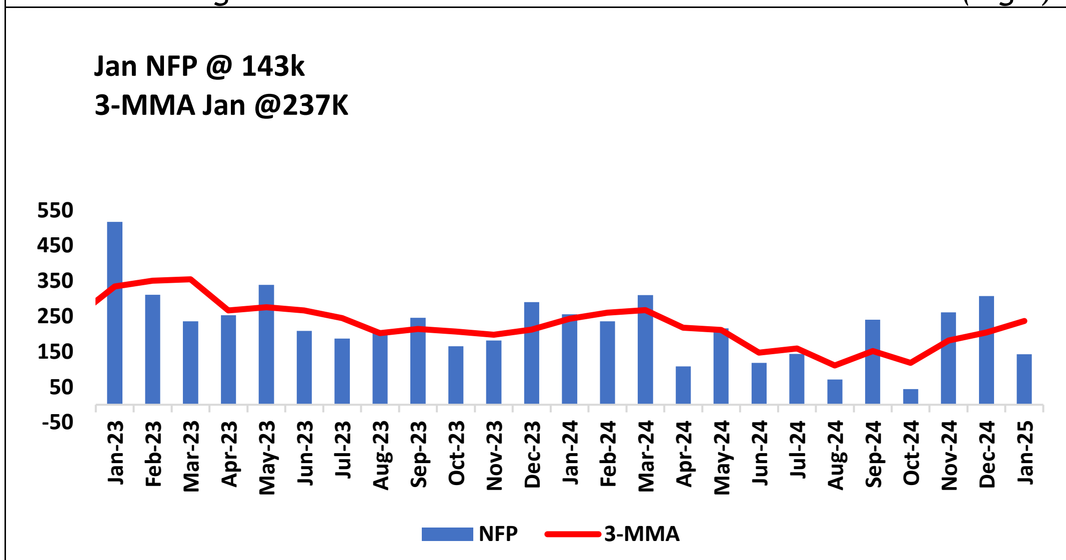
Trump fueled US Dollar rally has faded this year (Fig 2)

Consumer facing heightened uncertainty over policy uncertainty (Economic policy Uncertainty Index by US) (Fig 3)

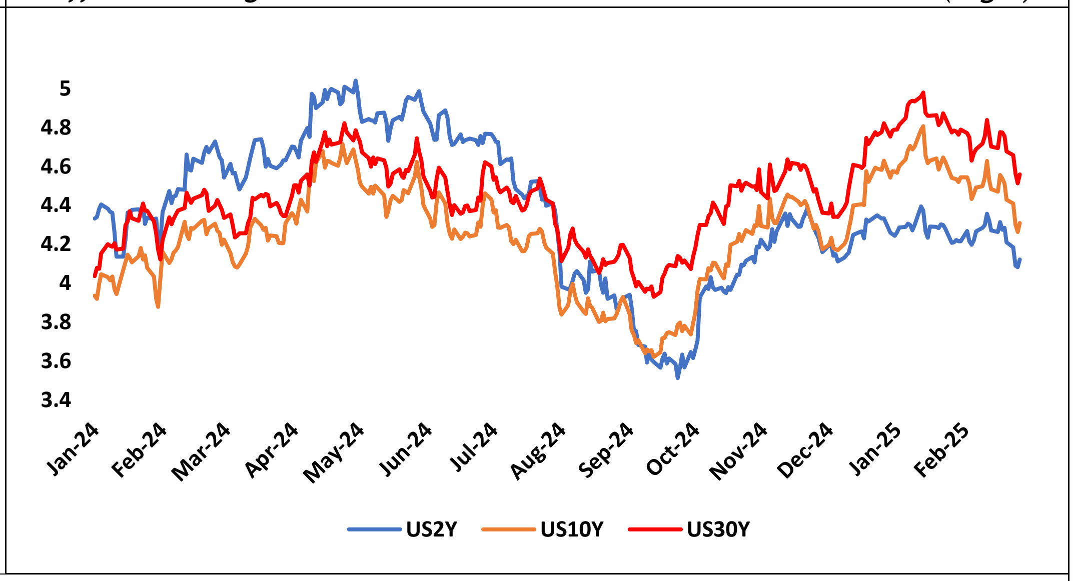


Source: Bloomberg, Reuters, UBI research, fred.stlouisfed.org

Jan'25 NFP data saw BLS doing downward jobs revision by 589K in 12 months through March 2024 (Fig 4)

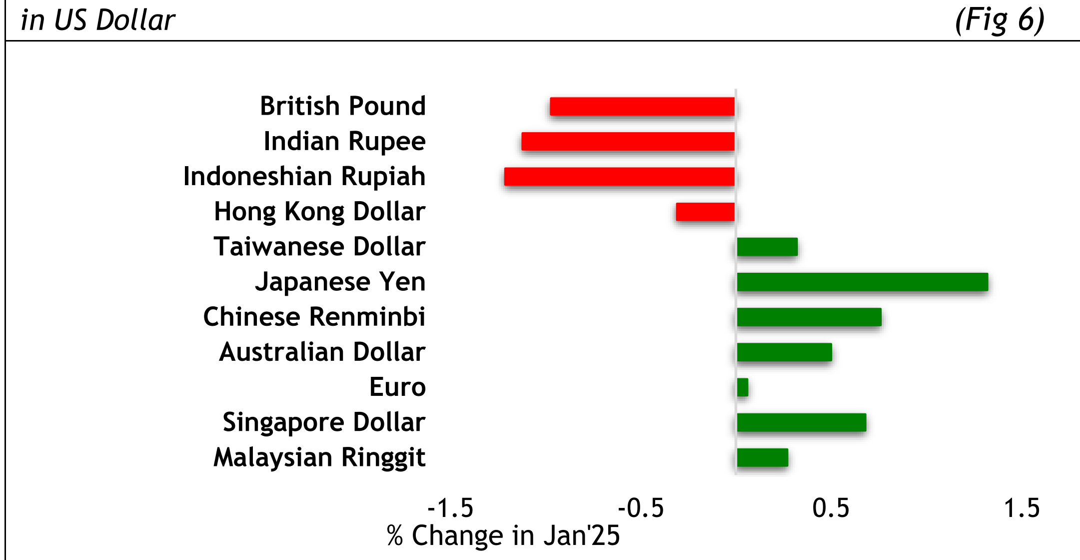


Yields on US Treasury continues to fall over uncertainty regarding trade tariffs even though FED remains hawkish (Fig 5)

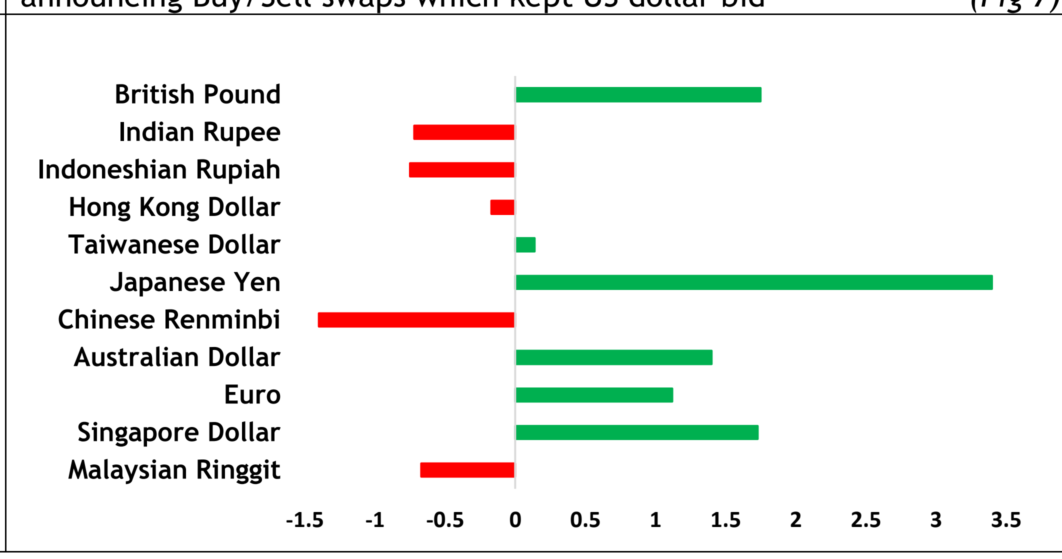


Source: Bloomberg, Reuters, UBI research

Indian Rupee remains one of the worst performing currency despite weakness in US Dollar (Fig 6)

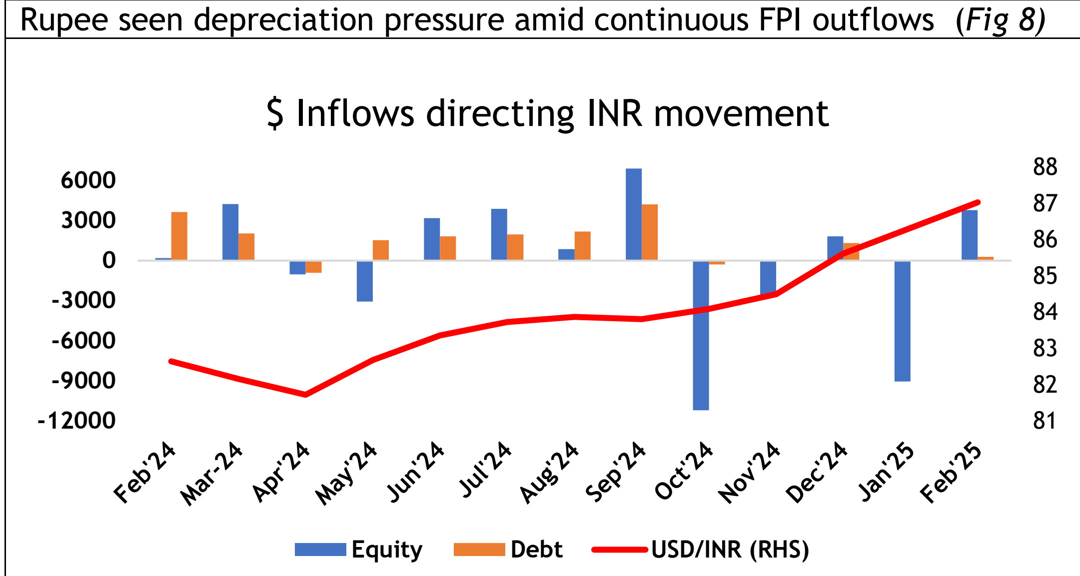


INR selling pressure continued in Feb'25 amid FII outflows and RBI announcing Buy/Sell swaps which kept US dollar bid *(Fig 7)*

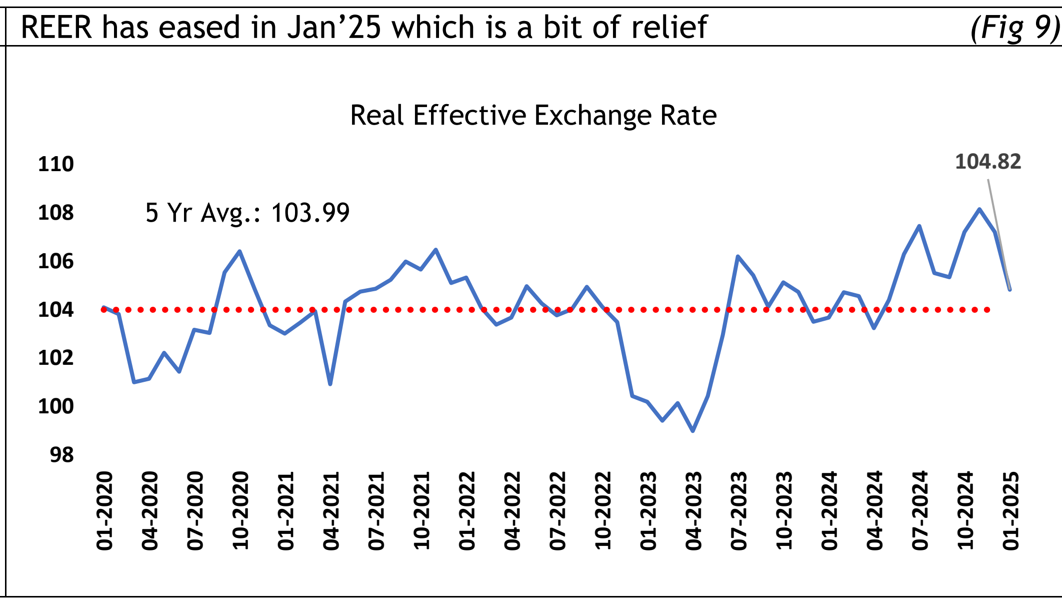


Source: Bloomberg, Reuters, UBI Research

Rupee seen depreciation pressure amid continuous FPI outflows *(Fig 8)*



REER has eased in Jan'25 which is a bit of relief *(Fig 9)*



Source: Bloomberg, Reuters, UBI Research

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