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Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
10 Dec 2025	3.77 %	–10 bp
28 Jan 2026	3.67%	-21 bp
29 Apr 2026	3.50 %	–38 bp
28 Oct 2026	3.11 %	–76 bp
09 Dec 2026	3.07%	-80 bp

Next meeting probabilities: **No change 60 %, 25 bps cut 40 %**

Markets are in a fragile "soft-landing" equilibrium Fed cuts no longer a done deal, the dollar stuck in a contested range, yields grinding higher, and volatility poised to jump as the looming data deluge tests current narratives on growth, inflation, and policy.

Recent market moves have been driven by a sharp repricing of Fed expectations and a spike in rate volatility. A December rate cut, once seen as almost certain, is now priced at well below 50%. This shift reflects not so much a change in the data as a mix of hawkish Fed commentary and an unusual information vacuum caused by the recent U.S. government shutdown, which has delayed key releases. As a result, markets are trading more on Fed nuance and second-order signals than on a steady flow of macro data. Even so, the Fed's longer-term message remains that most officials expect policy rates to be lower by 2026, even if the near-term path is uncertain.

*Growth expectations in the U.S. are consistent with a "softish" landing rather than an imminent recession, while **trade volumes have not flattened because trade partners have found alternative routes**. For 2025, real U.S. GDP growth of around 2% is seen as plausible, particularly given the mid-year slowdown already experienced, and some think 2026 could see equal or slightly stronger growth if policy easing, resilient corporates, and tax refunds support demand. The economy, however, is increasingly described as K-shaped: some sectors are doing very well especially those tied to AI, digital infrastructure and services while more interest-sensitive or lower-income segments remain under pressure. This unevenness complicates the Fed's task, as headline data can mask mounting strain in specific cohorts and industries.*

*The dollar has softened after briefly breaking above 100, and markets are now split into two camps. The "strong-USD" view leans on U.S. exceptionalism: better relative growth and returns, safe-haven demand, and the dollar's network role in trade invoicing, global funding, and reserves. The "USD-down" camp points to a relatively more dovish Fed, equity-flow pressures, improved non-USD liquidity, and the risk that any Fed balance-sheet expansion would add dollar supply and cap gains. For now, **Strong dollar camp is gaining momentum**.*

***U.S. inflation has remained sticky, and consumers are absorbing some tariff costs**, but the impact is diluted by the small weight of tariff-affected items in the overall basket and by cooling in major components like shelter, along with disinflation in energy. Core goods (excluding food and energy) are rising. This is where tariff effects are most visible, especially in imported and durable goods, but the overall impact remains limited because some tariff-sensitive items have increased while many others are flat or declining due to post-pandemic normalization, discounting, and cheaper tech products.*

In order to counter this price hike Trump lifted the tariffs he had previously placed on more than 200 food items, including beef, coffee etc. As per media report officials involved in trade and agricultural export policy, the tariff exemptions also send a positive signal for ongoing U.S.-India trade negotiations and may help relieve export pressures created by this year's earlier tariff hikes.

The immediate outlook is shaped by a dense calendar of data, events, and earnings that could either validate or challenge the current cautious consensus. With the U.S. shutdown over, investors now face a data gap: missing releases could delay or even derail Fed rate cuts. The BLS is due to publish the September jobs report, with Bloomberg estimating NFP at 50k (vs 22k in August). The week ahead also features major U.S. corporate earnings, weekly jobless claims reports, and speeches from key Fed officials. As the data desert gives way to an information deluge, markets will have an opportunity to test their narratives on growth, inflation, and policy. Until then, volatility is likely to remain elevated.

After the Shutdown: A Divided Fed Heads into a Noisy December Meeting

The end of the 43-day US government shutdown removed one immediate source of uncertainty, but investor focus quickly swung back to the Fed and the deepening divisions within the FOMC. The sense in markets is that whatever the Fed does at its 9–10 December meeting, the outcome will likely be noisy, contentious, and carry governance risks for what remains the world's most important central bank. Market expectations have shifted sharply. Where there was previously a roughly 92% implied probability that the Fed would cut rates in December despite solid growth, concerns have now turned to the risk that the Fed does not cut even as signs of labor-market softening accumulate.

Cross Asset fund flow as of 05th Nov'25

Category	4 wk. avg. ($bn)	2024 avg. ($bn)
All Equities	13.9	10.1
All Bonds	12.2	11.1
US Equities	8.2	8.3
US Bonds	7.3	4.7
EM Equities	1.7	1.6
EM Bonds	0.81	0.002
Japan Equities	2.2	0.1
China Equities	0.43	1.60
Europe Equities	0.9	–1.2
Europe Bonds	3.2	4.6

Source: JP Morgan

Markets are trading in a fragile equilibrium where modestly higher US yields, firmer safe-haven assets, and pressure on speculative risk all underscore how small policy or data surprises can trigger outsized cross-asset moves.

Household Relief, Policy Restraint: Tariff Cuts in a Hawkish Fed World

US President Trump moved to ease cost-of-living pressures on American households by ordering tariff cuts on a range of food imports including beef, tomatoes, coffee and bananas to lower grocery bills. The exemptions apply to commodities that the US cannot produce in sufficient quantities, covering hundreds of food products. Switzerland also secured relief as the US said the tariff on Swiss goods will be reduced from 39% (set in Aug) to 15%, bringing it in line with the European Union's rate.

On tariff front over the weekend, US Treasury Secretary Bessent said he is confident China will honor the rare-earth deal and expressed hope of finalising a magnet agreement by Thanksgiving, while President Trump said China is in the process of buying soybeans and expects purchases to be completed before spring.

At the same time, with top-tier data delayed, Fed communication has effectively become the data. A series of speeches from current FOMC voters including Musalem and Collins leaned more hawkish, arguing there is limited room for further cuts and that rates should stay on hold for some time. Jefferson, Goolsbee, and Powell all stressed that a December cut is "far from" assured, even as Governor Miran continued to argue for a 50 bp move, insisting policy remains more restrictive than many colleagues acknowledge.

The net effect was a clear repricing: the market-implied probability of a 25 bp December cut has fallen from about 63% at the start of the week to roughly 40%, raising the bar for further easing. Shutdown-related data gaps add to the caution the Fed is still missing the BLS Employment Situation report, and the last official payroll and unemployment figures only cover August. Alternative indicators suggest a labor market that is cooling rather than collapsing, but both the Fed and markets are flying partly blind.

Policy Jitters Drive Softer Dollar, Yield Uptick and Cross-Asset Rotation

Against this policy-heavy backdrop, the US dollar softened modestly over the week, with the DXY stalling after a brief push above 100 as markets weighed a higher bar for Fed cuts against lingering policy and growth uncertainty. Global bond markets saw a moderate repricing: US 10-year Treasury yields edged higher to around 4.15%, reflecting more hawkish Fed rhetoric and better-than-expected growth tracking. This is a classic "policy-fog" move term yields remain capped by expectations of lower policy rates over the medium term, but are still high enough to signal a restrictive stance and some term-premium/supply pressure.

In commodities, gold moved higher to roughly $4,084/oz, supported by the combination of policy uncertainty, lingering governance concerns, and still-elevated real rates that maintain demand for portfolio hedges. Brent crude also firmed to around $64.29 per barrel, aided by supply dynamics and ongoing geopolitical risks. The balance between FOMO and fear remains delicate, with relatively small policy or data surprises capable of triggering disproportionately large position adjustments across the macro complex.

Rupee range-bound but resilient despite CPI craters and record merchandise trade deficit

The Indian rupee exhibited mild volatility against the US dollar last week, recording a modest depreciation of ***~0.09%***. The sharper-than-expected plunge in October CPI inflation to a decade-low 0.25% YoY, a drop of 119bps from Sep'25 intensified market expectations of a potential rate cut by December. Supportive macro drivers, including softer crude prices, optimism surrounding the India–US trade negotiations, and resilient demand for India's services and manufacturing exports, helped counteract structural headwinds such as the persistent trade deficit and global risk uncertainty. As a result, the rupee traded within a cautiously stable, range-bound zone. Meanwhile, progress on the "final-stage" India–US trade deal which may reduce US tariffs on Indian goods from 50% to 15–16% in exchange for India permitting duty-free imports of soya-bean, corn, and dairy could unlock $20–25bln in additional annual bilateral trade. This prospective boost may alleviate current account pressures and support a tentative ***₹88.20–₹89.00 stabilization band*** in the near term safeguarding the ***psychological 88.80 zone, widely regarded as the de-facto floor***.

Decade-low inflation and a potentially transformational India-US trade pact helped anchor the rupee in a tight band as markets await critical macro data.

Markets now await ***India's October PMI data along with US Retail Sales, NFP & PMI figures*** for directional cues in the current week. (Last Friday's close: ₹88.6650/$) [O: ₹88.6675/$, H: ₹88.7600/$, L: ₹88.5200/$ & C: ₹88.7450/$]. (Refer report: FX weekly: From Data Dark to Risk Spark: DXY remains capped, Fed Tone in Focus)

Recent Developments in India - US Trade talks

Date	Event / Source	Key Details
November 5, 2025	Minister Piyush Goyal's Latest Update	Talks "going on very well" despite "sensitive, serious issues"; five rounds completed since March.
November 6, 2025	Full Force Negotiations	Finance Minister Nirmala Sitharaman confirms efforts "in full force" to conclude BTA soon.
November 10, 2025	Trump: "Pretty Close to a Deal"	US President says agreement is near; includes expanded economic/security ties, US energy exports, investments; says India "will love us soon."
November 12, 2025	India Approves $5.1bln Exporter Aid Package	Cabinet allocates ₹450.6bln ($5.1bln) for credit guarantees, finance, logistics to offset US tariffs; indicates pre-deal support amid progress.
November 14, 2025	US Signals Breakthrough; Bihar Verdict Impact	Senior US official cites "a lot of positive developments"; aims for year-end deal on tariffs/Russian oil; PM Modi's Bihar win shifts balance for farm concessions.
November 15-16, 2025	Final Stage Reports	Deal reportedly in "final stage"; India to allow duty-free US soya-bean, corn, dairy; reciprocal tariffs; announcement expected end-November.
November 17, 2025 (Ongoing)	Continued Momentum	Rumours of imminent agreement; sectors like pharma, mining, textiles seen as beneficiaries; legal finalization underway

Rupee supported by falling crude & softer dollar; FPI flows provide additional tailwind

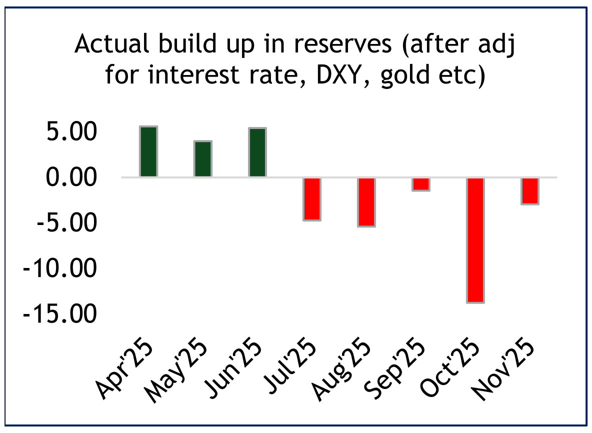
Brent crude oil prices edged lower last week, falling 0.28% amid OPEC+ signals of a global supply glut and EIA forecasts projecting a +2.2mbpd inventory increase in 2026. Looking ahead, Brent is likely to trade within a $61–66/bbl range, with downside bias potentially keeping USD/INR stable if prices remain below $64, whereas a breach above $66 could push the pair toward 89.00 amid upcoming US retail sales and PMI data. On a WoW basis, prices dipped by ~**0.28%**, and they still reflect a sharp **YTD decline of ~15%**. *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.*

Dollar Index (DXY) softened modestly, reflecting easing US Treasury yields and softer-than-expected inflation signals. This dollar weakness provided support to the rupee. Looking ahead, the rupee is likely to track DXY movements closely amid a data-heavy week, including US Retail Sales, Jobless Claims, and PMI releases. Overall, trade-deal optimism and softer crude prices remain supportive tailwinds for the currency. On a WoW basis, fall by ***~0.21%***, and they still reflect a ***YTD decline of ~8%***. *A continued softening of the dollar could help the rupee stabilize, while any rebound in DXY could push USD/INR toward fresh lows.*

Foreign Portfolio Investors (FPIs) have pulled out ***$16.66bln (YTD)*** from Indian equity markets as of 14th Nov'25. Even though, we saw the trend reversed in Oct'25 with positive inflows but turned negative again in Nov'25. FPIs turned ***net buyers in equities $730mln*** vis ***outflows of $1417mln*** on a WoW basis. Flows continue to be positive in debt to ***$654mln vis-a-vis $68mln*** inflows a week ago. FAR flows, at ***$8.09bln YTD***, including a $406mln mere inflow so far last week.

FX reserves dipped further by $2.70bln to ***$687.03bln*** for the week ending 07th Nov'25 (*covering ~11 months of imports*), driven mainly by a ***$2.45bln*** fall in **FCA** to $562.14bln and ***$0.19bln*** fall in **Gold**. With this fall, reserves now inch further by ***$17.83bln*** shy of all-time highs ***$704.86bln*** recorded on 27th Sep'24. A valuation loss of $2.95bln was also noted in this week, with a cumulative of ***~$14bln only in Oct'25*** highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP deficit of ~$13bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

Month	Change in total FX reserves	Build-up in reserves (after adj for interest rate, DXY, gold etc)
Apr'25	22.73	5.58
May'25	3.36	4.00
Jun'25	11.3	5.41
Jul'25	-4.59	-4.73
Aug'25	-3.96	-5.4
Sep'25	6.01	-1.46
Oct'25	-10.5	-13.76
Nov'25	-2.7	-2.95



Merchandise trade deficit widened to record high to $41.68bln in Oct’25, from $32.15bln in the previous month. That said, the data blew past the market’s downside expectations of $28.8bln and exceeded our upside estimate of $33.3bln, marking a significant turning point in India’s trade balance. (Refer our report: Trade Deficit likely widened to $33.3bln in Oct’25, driven by higher Oil purchases & a probable record in NONG imports)

In terms of sectoral drivers of trade dynamics, oil deficit remained elevated with a marginal uptick with the latest number at $10.84bln compared to $9.08bln the previous month, gold deficit surged to record highs of $16.20bln from $9.89bln in Sep’25. More importantly, non-oil non-gold deficit widened further by $1.46bln MoM to near record highs as expected to $14.64bln from $13.18bln on the back of impact on export demand from trade tensions.

Services trade surplus surge to $19.88bln in Oct’25 from $18.83bln (revised up from $15.53bln) in Sep’25, versus an average $16.95bln in Apr-Oct’25 (same period last year: $14.49bln). That said, it remains broadly stable and continues to provide a buffer for C/A dynamics.

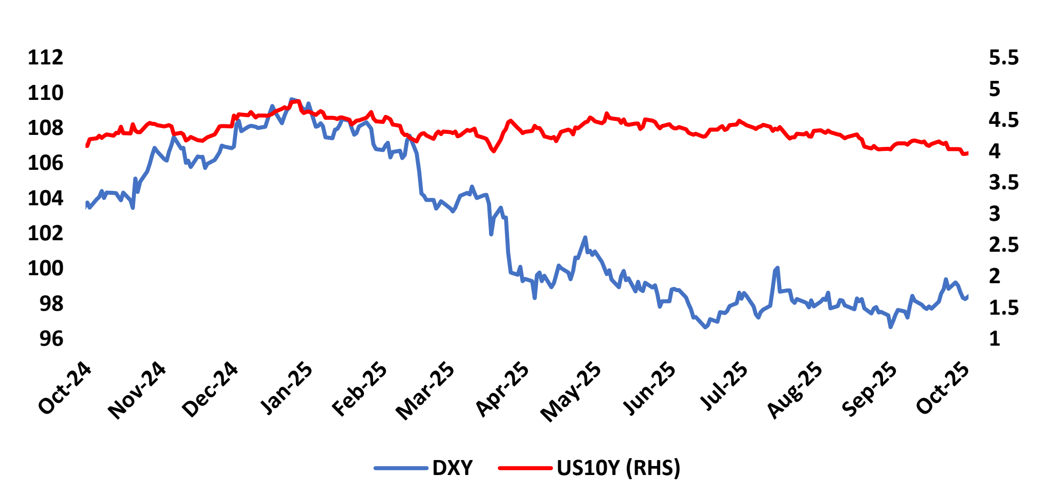
Going forward, we see trade deficit witnessing seasonal pressures on festive demand effects even as lower commodity prices (especially oil) may cap impact. We expect a rise in current account deficit to 1.7% of GDP in FY26 versus our initial forecast of 1.2%, as global trade tariff pressures continue to keep trade deficit elevated despite weak demand and lower commodity prices. With the India-US BTA nearing finalization potentially by late November, cutting tariffs from 50% to 15–16% exports could gain. Though the near-term impact may be limited, the deal is expected to strengthen India’s export base over time, partially offsetting pressures on the trade balance in the **quarters ahead.**

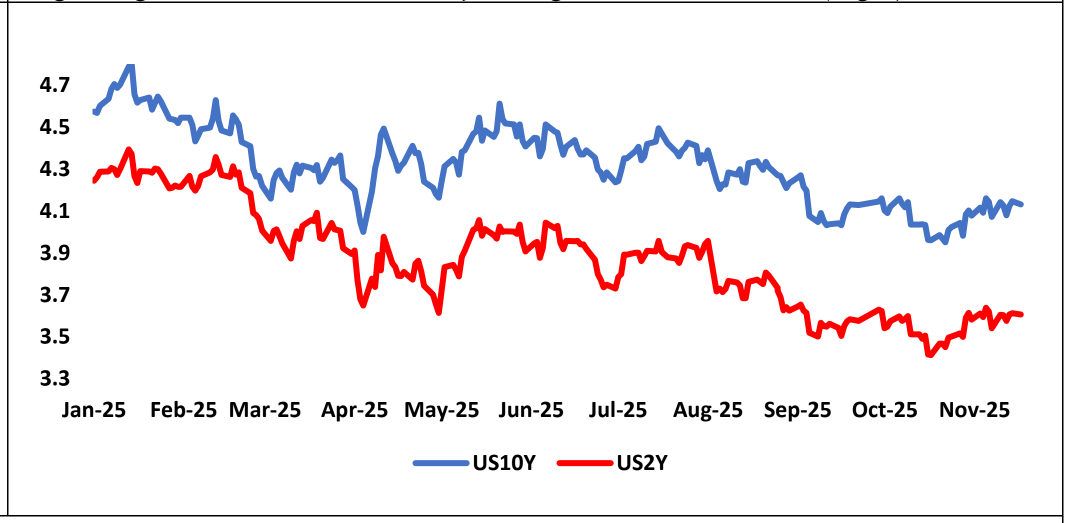
Outlook (INR - ₹ view):

The Rupee is poised for a narrow trading range this week, with a mild appreciation bias, influenced by a consolidating DXY and cautious FPI flows amid elevated valuations. Though potential India-US trade deal finalization could spark $2–3bln inflows; supportive factors include sub $64/bbl. Brent crude, October CPI at 0.25% YoY fuelling odds of a December RBI rate cut, and domestic SIPs. Key catalysts: US October retail sales and September trade balance for dollar strength and trade optimism; jobless claims for Fed signals; FOMC minutes for rate hints; and flash PMIs for both India & US aligning growth narratives. Upside risks from hawkish US data, downside buffers from deal news and low oil, positioning INR for tentative stabilization ahead.

From a technical perspective, sustained domestic equity inflows or concrete progress in the India-US trade talks could drive the INR stronger toward ₹87.80/$, with ₹88.30/$ acting as a crucial intermediate support. On the flip side, any bearish shift would likely encounter stiff resistance near ₹88.80/$, where selling tends to accelerate; a decisive break above this level could open the door for a quick move toward ₹89.30/$. Geopolitical and tariff developments will remain critical for market sentiment.

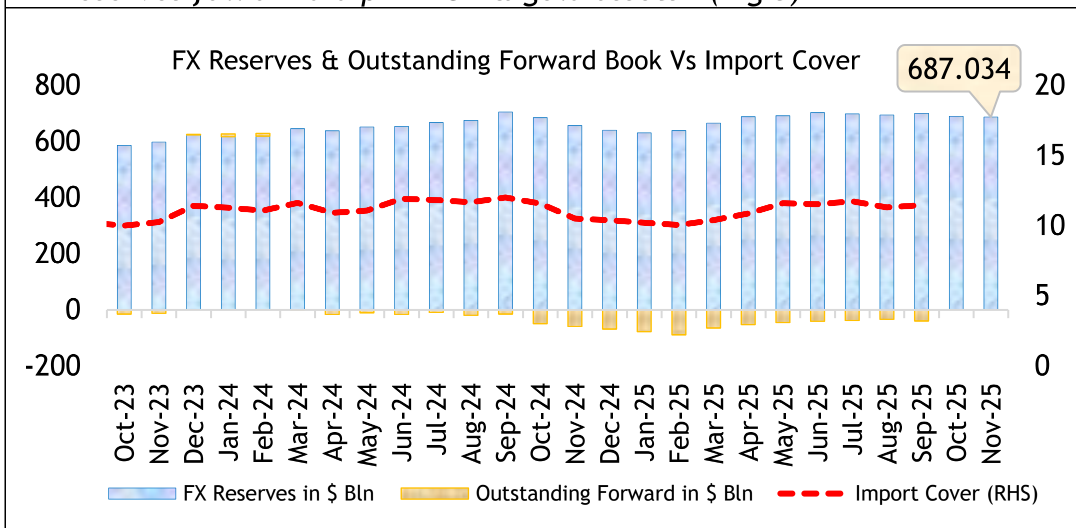
The US dollar softened modestly over the week, with the DXY stalling after a brief push above 100(Fig 1)	*Global bond markets saw a moderate repricing: US 10-year Treasury yields edged higher to around 4.15%, reflecting more hawkish Fed (Fig 2)*

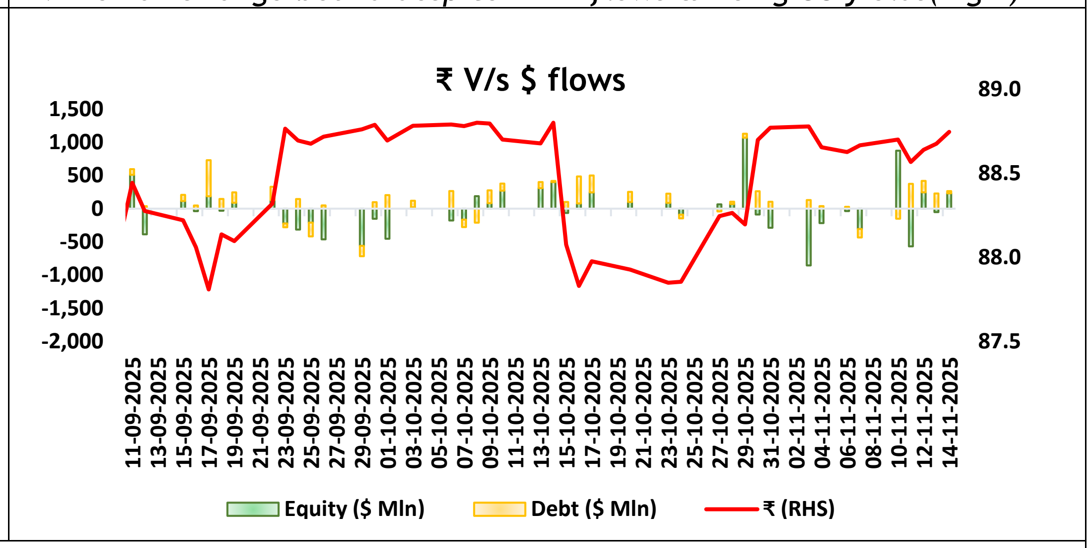




Source: LSEG, UBI research

FX reserves fall amid dip in FCA & gold assets (Fig 3)	*INR remains range-bound despite FPI inflows & rising US yields(Fig 4)*





Source: Bloomberg, LSEG Workspace & UBI Research

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