

Fig.1: UST 10 year Vs DXY;

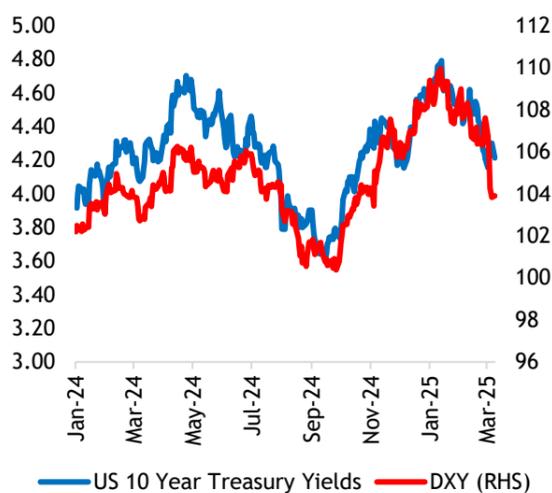
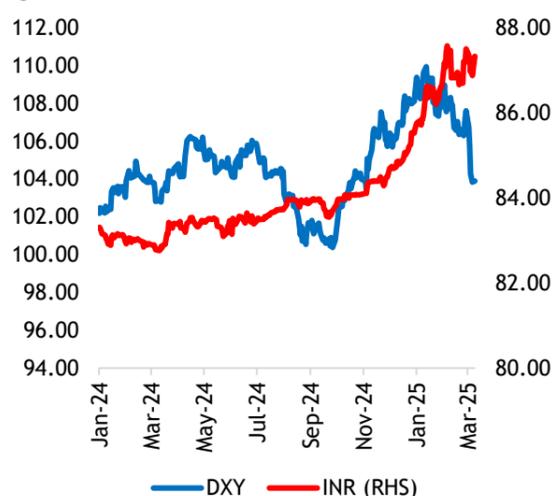


Fig.2: DXY Vs USDINR



Source: Bloomberg, UBI Research

Fig.3: Cumulative FPI flows into equity

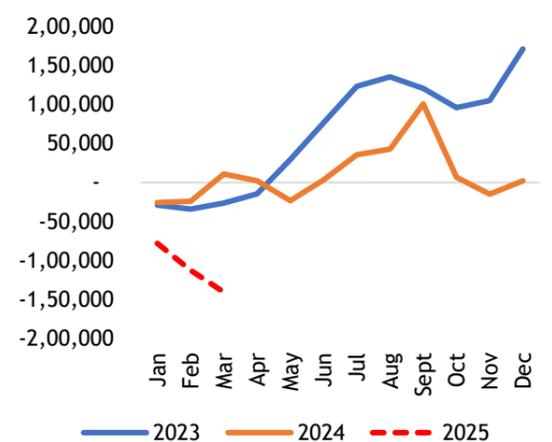
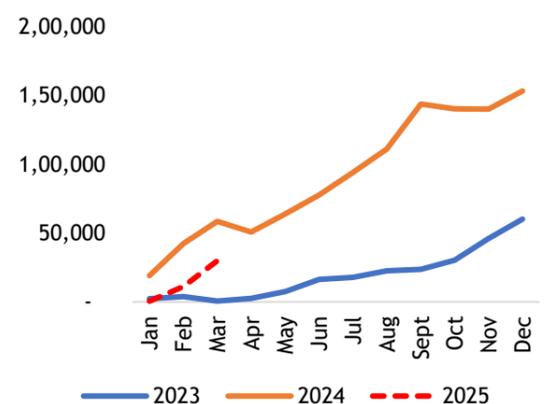


Fig.4: Cumulative FPI flows into Debt



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Recently, the r-word “Recession” has been raised too frequently in news. Even US President Trump were questioned on his take on recession in US economy to which he stated that the US economy is undergoing “a period of transition,” addressing apprehensions regarding the potential risks of a slowdown, as his initial emphasis on tariffs and reductions in federal employment leads to market instability. On data front, business & consumer confidence have plunged, stock market corrected and forecasters cutting estimates for economic growth this year with the Federal Reserve Bank of Atlanta’s GDPNow model, which estimates a -2.4% decline in the first quarter of 2025. The fear has cropped in and markets have started factoring the same with weakness in DXY and probability of rate cuts by Fed expanding from 1 cut to 3 cuts in 2025. Domestically, RBI’s announcement of liquidity measures has reinforced its confidence to provide sufficient system liquidity. The benchmark yield has moved lower to 6.68% from 6.74% post announcement.

Is US economy going into recession

- The Federal Reserve Bank of Atlanta’s GDPNow model, which estimates a -2.4% decline in the first quarter of 2025. In order to fulfill the technical definition of a recession, the trend has to hold into second straight quarter. If these estimates materialize, this would be the worst economic performance since the 2nd quarter of 2020, during peak COVID-19 pandemic.
- The National Bureau of Economic Research (NBER), which officially identifies recessions, employs a more comprehensive definition: “a sharp drop in economic activity that is widespread across the economy and persists more than a few months.”
- Even with contraction of GDP, NBER shall consider other indicators which includes, employment patterns, IIP and consumer spending before making formal announcement of an economic recession. Latest economic data have contributed to uncertainty if not formally into recession, a) Dented Consumer Confidence, b) Escalating Layoffs, c) Stock Market volatility and d) Expansion of recession probabilities by various forecasters.
- Treasury Secretary Scott Bessent recognized that the economy could encounter difficulties, linking some of the instability to government spending strategies, which he suggests necessitate a “detox period.”

Rate cut probability moved from One to three

- FOMC meeting is due on 19th Mar’25, where it is expected not to cut interest rates. As per CME FedWatch Tool, market currently give a mere 5% chance of lower short term interest rates at the conclusion of FOMC’s meeting.
- The rationale for holding rates steady is coming from Fed Chair Jerome Powell speech that, “while progress in reducing inflation has been broad based, recent readings remain somewhat above our 2% objective.” In our view, Trump tariff policies may keep the inflation sticky in US. Meanwhile, recession probabilities have been moving up due to Trump tariffs and reduced government spending added to uncertain economic outlook.
- For May’25 meeting, the CME FedWatch Tool is showing a probability of 48.6% of one 25bps rate cut. To call a rate cut in May’25, upcoming inflation reports shall cool down and the concerns of FOMC about US economy shall gather momentum as Powell sounded less optimistic on the same in his 07th March speech.
- Currently, markets believe that three rate cuts may be probable in CY2025. The probabilities of rate cuts may be gauged from upcoming FOMC on 19th Mar’25 as it updates their Summary of Economic Projections and adjusts statement language signaling less confidence in economic growth and labour market strength along with inflation concerns.

US Dollar strength tapering down, while USDINR still depreciates

- DXY has touched a high of 110.015 on 13th Jan’25 and since then the downward trajectory has continued as it touched a low of 103.21 on 11th Mar’25. As Donald Trump took over US presidency on 21st Jan’25, the new policies and tariff implementation indicates their inward focus with lack of respect for global trade and defense agreements of previous US establishments. Thus, the UST has started to factor in more rate cuts in 2025, thus softening from 4.9% to 4.2%, ultimately bringing DXY down to 103 levels.
- USDINR has been moving towards Rs.87.40/\$ levels after US President Donald Trump comments on tariffs on Indian goods along with fall in Chinese yuan. The uncertainty about Trump tariff policies has dented the investor sentiments as they moved towards safe haven currencies like Japanese Yen and Swiss franc thereby weakening the Dollar index further.
- We compliment Govt. fiscal and RBI monetary policy to shift the growth narrative, while even the debt flows remain positive it is outflows in equity segment which is weighing on USDINR. In terms of flows, Indian equity markets have witnessed an outflow of Rs.1.4 lakh crore during the CY 2025 till date (Fig.3), whereas, the debt markets have received an inflow of Rs.0.3 lakh crore during the same period (Fig.4).

Liquidity conditions to ease out if the volatility of outflows reduces

- RBI last week made an announcement for injecting Rs.1.9 lakh crore via OMOs and USD/INR Buy/Sell Swaps. During Oct’24 to Feb’24 the Fx reserves have fallen from peak of USD 705 Bn to USD 638 Bn a fall of USD 67 Bn, as Dollar index strengthened and the Central Bank intervened to curb the volatility of USD/INR.
- The average liquidity deficit has narrowed in Feb’25 to Rs.1.67 Lakh crore from Rs.2.04 lakh crore in Jan’25. Considering, tax outflows and seasonal credit uptick in March liquidity may experience pressure, while it is likely that liquidity conditions may ease as the volatility in capital outflows reduces (Our report: [RBI liquidity measures may potentially switch system into surplus unless Fx outflows spoil the party](#)).
- In the money market segment, funding rates have elevated with 1-month moving from c.7% to c.7.5% and 3-month moving from 7.4% to 7.6% due to year end pressures, yet we see significant relief in April.
- The Indian benchmark yields softened from 6.75% to 6.68% on account of liquidity support by Central Bank in addition to softening of US yields, however, year end profit booking along with Rs.1.35 lakh crore of SDL auctions capped the gains. The 30-year paper softened by 6 bps due to demand from Insurance companies as an underlying for FAR agreements.

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