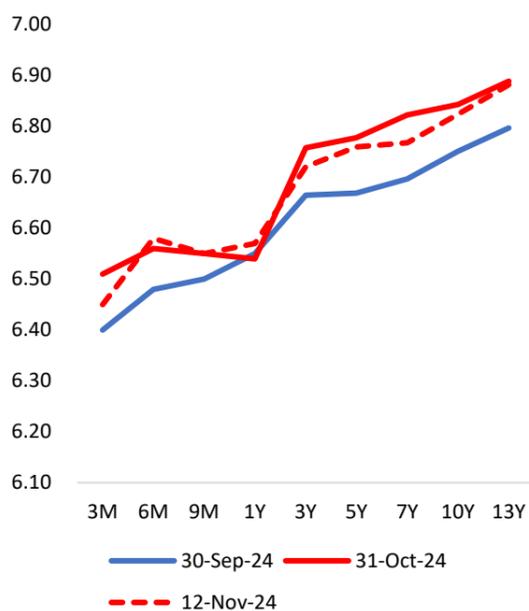


Fig 1: India yield curve movement ; (%)



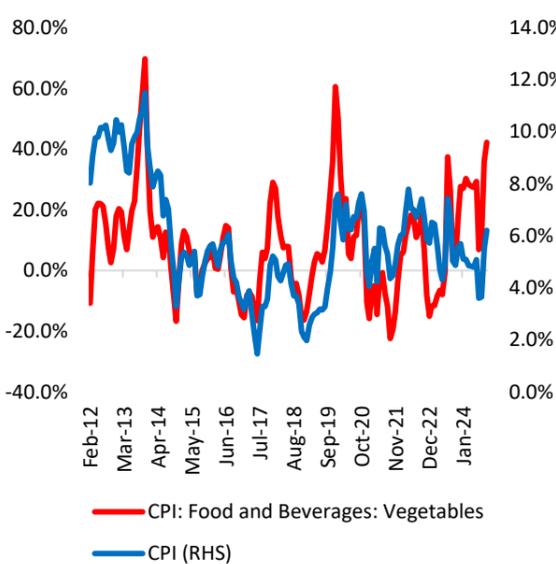
Source: Bloomberg, UBI Research

Fig 2: CD T-Bill spreads holding up even with Credit Deposit wedge closing; (%)



Source: Bloomberg, UBI Research

Fig 3: Rise in Veggies pushing CPI beyond 6%; (%)



Source: CEIC, UBI Research

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A sweeping victory of Donald Trump has brought him back for the second time to the White House. There are wide variety of promises made in the manifesto ranging from immigration to GDP, inflation agenda making "America Great again". A mix of agendas has been promised, which are having and may impact further the financial markets. Global macros and markets are in doldrums digesting Trump's victory anticipating implementation of "Trumponomics". In India, equity markets facing corrections, however, IGBs are insulated from global volatility. Domestic yields have hardened c.15bps vis-à-vis 85bps hardening of US 10year since Sep-24 FOMC meeting. Even 25bps rate cut decision in Nov-24 FOMC could not provide respite to falling bond prices. India CPI came above 6% with worries over rising food prices. IIP was the savior with 3.1% as it recovered from negative zone in previous month.

**The Trump Agenda** (Refer our report : [Trump 2.0](#))

- Deport illegal immigrants : Trump promised the biggest mass deportations of undocumented migrants in US history. He also pledged to complete the building of a wall at the border with Mexico that was started during his first presidency.
- Economy, Tax and Tariffs: Polls data has suggested that the economy was a key issue for voters. Trump has promised to "end inflation" which rose to high levels under President Joe Biden. He also proposed corporate tax cuts, tax-free tips and abolishing tax on social security payments. He proposed 60% tariff on import of Chinese goods and at least 10% new tariffs on most foreign goods.
- Cut on Climate Regulations: Trump vowed to cut regulations as a way to help the American car industry. He has pledged to increase production of US fossil fuels.
- Ending Ukraine war: Trump pledged to end the conflict "within 24 hours" through a negotiated deal.
- Trump is war dove and his victory has led to lower oil prices which shall benefit domestic markets.

**The Market Impact of "Trumponomics" : Risk-On but brace for volatility**

- With Donald Trump coming to power, market got "Risk-On" mode. Equities and Dollar were positive whereas Bonds devalued pushing Treasury Yields higher.
- US10 year yields spiked to 4.47% levels last week with a low of 4.25%. The upward thrust in US10 year gave strength to Dollar Index which rose to 106 levels and currently trading above that showing further strength.
- The EUR/USD slumped to 1 year low (EUR/USD - 1.0533) and Japanese yuan slumped to more than 3 month low (JPY/USD - 156.13) with Europe and China both major targets of potential Trump tariffs.
- Federal Reserve on the next day of US elections i.e. in its 6-7<sup>th</sup> Nov'24 meeting, decided to lower policy rates by 25bps to 4.50-4.75%. Unlikely Sep FOMC meeting, the FOMC decision was unanimous this time.
- The US CPI stood at 2.6% in October, slightly up from 2.4% registered in September. Compared to the previous month, the CPI rose by 0.2%. The core CPI, which excludes food and energy increased by 0.3% on m-o-m basis and 3.3% on y-o-y basis.
- Reacting to CPI data, markets have priced in 83% probability for a 25-bps rate cut in December FOMC as per CME FedWatch Tool. Market participants await speeches by US Fed policymakers including Jerome Powell scheduled on Thursday and shall assess to get more cues on the future interest rate decisions by the Fed.

**India bonds remain insulated from Global volatility**

- The Indian 10-year benchmark yield has been insulated from global volatility due to US presidential elections and FOMC meeting. The movement in 10-year benchmark yield has been limited to 7bps (6.80%-6.87%) whereas the US 10-year yield has moved 30bps (4.25% to 4.47%) during 03<sup>rd</sup> Nov to 12<sup>th</sup> Nov-24. It is favorable demand supply dynamics helping bonds and keeping India yields muted (even though OIS pricing first rate cut in Jun 2025).
- FPI outflows in debt is positive despite Rupee clocking record low. The Debt segment has witnessed inflows amounting to Rs.2,822 Crore during Nov-24 till date. However, it is not enough to counter the outflows of equity segment, Rs.23,547 Crore, during Nov-24 till date.
- The USD/INR pair has been under pressure during Oct-24 and continued its depreciating momentum in Nov-24 as well. The USD/INR depreciated to 84.4125/\$ as of 12<sup>th</sup> Nov-24 hitting an all time high.
- India CPI inflation in Oct-24 clocked 6.21% close to our expectations of 6.15% (away from market consensus of 5.9%), highest in 14 months due to low base effect and jump in food inflation. The Food price index jumped 10.9% due to rise in vegetables (42.2%) and Oils & fats (9.5%). Core CPI remained benign at 3.7% (previously 3.5%).
- The weekly IGBs auction is scheduled on Thursday as markets are closed on Friday due to Guru Nanak Jayanti. The auction is much talked about event as the RBI will issue a new 15 year bond.

**Liquidity continued to remain buoyant**

- FPIs outflows from equity market and Dollar strengthening due to Trump coming to power has led to Rupee depreciate to record highs. Fx Reserves dropped during Oct-24, as USD may be utilized to curb the INR volatility due to FPI outflows and geo-political rejig. Going forward, Forex may play spoil sport for the system liquidity.
- Currently, the system liquidity is in surplus at Rs.2.12 lakh crore which is getting reflected in Call WAR at 6.45% remaining close to repo rate. Further, the T-Bills cut off came in at 91D-6.44%, 182D-6.62% and 364D-6.61% which is 2bps up as compared to previous week cut-off.
- As per RBI weekly data, the currency in circulation has increased by Rs.4,380 Crore during the week ended 08<sup>th</sup> Nov'24. The government balance been reduced to Rs.1.30 lakh crore during the week ended 01<sup>st</sup> Nov'24 due month end govt expenditure.
- The Credit - Deposit wedge has turned negative currently for latest fortnight ended 18<sup>th</sup> Oct-24., however, we would watch out for sustainability of this trend during the busy festive season.
- The funding issues for the banking system is continuing, with the 1 year CD rates near to 7.50%, as the spread over the 1 year T-Bill rate is close to 95bps. The outstanding CDs is Rs.4.65 lakh crore with issuances in fortnight ended 01<sup>st</sup> Nov-24 dropping to Rs.0.09 lakh crore.

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