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 Cumulative YTD flows by asset class
 (Table 1)

Asset class	Week (%AUM)	YTD (\$bn)	YTD (%AUM)
Equities	+0.3	+73.3	+0.3
ETFs	+0.5	+84.1	+0.5
LO (Long-only)	-0.1	-11.1	-0.1
Bonds	+0.3	+34.5	+0.4
Commodities	+0.4	+7.5	+0.7
Money market	-0.6	+86.4	+0.8

*week ended 01/14/2026 Source: EPFR Global, Bofa Global Research

 US equity inflows still dominating YTD
 (Table 2)

Category	Wk % AUM	YTD (\$bn)
Total Equities	0.3%	73.3
Long-only funds	-0.1%	-11.1
Equity ETFs	0.5%	84.1
Total EM	0.6%	19.5
Brazil	1.5%	0.0
India	-0.3%	-0.3
China	0.9%	8.8
Total DM	0.2%	53.9
US	0.2%	17.6
Europe	0.1%	4.7
Japan	0.0%	-0.2
International	0.2%	30.8

 Total Equities = Total EM + Total DM
 Source: EPFR Global, Bofa Global Research

 Market-Implied Path (Fed-Funds Futures
 snapshot)
 (Table 3)

Meeting	Implied Rate	Cumulative Change
28 Jan 2026	3.62%	-01 bp
18 Mar 2026	3.58%	-06 bp
29 Apr 2026	3.54%	-10 bp
28 Oct 2026	3.21%	-42 bp
09 Dec 2026	3.16%	-47 bp

Next meeting probabilities: No change 95 %, 25 bps cut 5 %

This month's global macro and FX story is defined by narratives moving faster than data, policy signals mattering more than policy itself, and credibility not rate cuts anchoring markets. Even before the first month has passed, price action has made one thing clear: **2026 is not trading as a traditional macro cycle, but as a policy-headline regime, where geopolitics, fiscal dominance, institutional independence, and communication risk are setting the tone for risk assets, yields, and FX.**

Against that backdrop, markets are increasingly conditioned to buy dips created by Trump-policy headlines the now-familiar "TACO" reflex. Participants have been watching not the rhetoric itself, but whether the administration ultimately follows through on tariffs, sanctions, or escalation, or instead softens once markets, allies, and optics push back. The Davos-Greenland episode crystallised this regime. U.S. President Trump's decision not to impose Greenland-linked tariffs on European allies, citing a "framework" understanding with NATO, triggered a sharp relief rally after prior de-risking.

In parallel, institutional risk has returned to the macro radar. Supreme Court scrutiny over whether a U.S. President can remove a Fed Governor "for cause" has sharpened focus on executive power and central-bank independence. Trump's renewed push to appoint a new Fed chair, alongside criticism of the Fed's public messaging, has raised the risk that monetary policy is seen as increasingly personality driven an outcome markets typically price through higher volatility rather than outright risk-off. Meanwhile the U.S. Supreme Court has deferred ruling on the legality of Donald Trump's global tariffs.

Against this backdrop, Fed communication has remained cautious and nuanced. While some officials acknowledge the labour market could weaken quickly keeping the door open to further easing there is clear internal disagreement on the pace of cuts. **This tension is visible in the latest dot plot, which signals only one cut in 2026 versus nearly two cuts priced by markets.**

Beneath the headlines, the macro backbone flagged in the deck remains intact: central banks still control the front end, but long-end yields are anchored by fiscal dominance, heavy supply (US Treasury issuance ~\$2.4T, federal debt \$30T+), and a higher term premium, explaining why duration has failed to rally meaningfully despite easing cycles (Refer: [Global Fixed Income: Yield Curve Beyond Central Bank Control](#)). Meanwhile China continues to export deflation via a \$1.2T trade surplus and deeply negative PPI (~-2.6% in 2025), containing global goods prices, but services inflation, tariff risk, and commodity tightness prevent a clean inflation reset. Layered on top are non-trivial tail risks most notably Japan's relentless climb in long-dated JGB yields points to the erosion of one of the world's most dependable liquidity backstops, with consequences that reach well beyond Tokyo, which could transmit stress globally and might lead to tighter global liquidity.

Meanwhile the dollar weakened by roughly 10% in 2025 during the initial "Sell America" narrative, but 2026 has not seen a disorderly follow-through with DXY still holding around the 99 handles, broadly in line with much of last year and even post the earlier sell-off. Metal (Gold & Silver) has been the clearer beneficiary of this volatility backdrop, as rising US yields and persistent uncertainty, supply constrain continue to drive demand for hard assets. Over the coming months, **the dollar is likely to remain range-bound with a defensive bias, supported by relative US growth, elevated real yields, and its role as the market's default hedge in a headline-driven regime. Meanwhile dollar downside appears limited as markets price a Fed hike in 2027, while rates are expected to remain anchored by prolonged policy support and the upcoming 2026 leadership transition.**

Looking ahead, geopolitical developments and trade negotiations will continue to shape risk sentiment, while US inflation and labour-market data will be closely watched. At the same time, attention will turn to the appointment of a new Fed governor, prediction market Polymarket suggests that Kevin Warsh currently leads with a 50% probability, followed by Rick Rieder at 28%. Kevin Hasset has fallen sharply to just 4%. Against this backdrop, the FX likely to act as the primary adjustment mechanism as investors recalibrate relative growth, rate, and credibility dynamics.

♣ What Will Move Markets in 2026

♣ Japan: Yen Weakness Signals a Deeper Structural Stress

♣ Rupee's Tug-of-War: Hits record lows amid FPI exodus; eyes on India-US trade deal

US Rate Cuts vs Yield Reality, how markets responded to rate cuts? (Table 4)

Fed Rate Cut Date	Rate Cut Size	US 2Y Yield	US 10Y Yield	US 30Y Yield
18-Sep-2024	-50 bps	3.64%	3.72%	4.05%
18-Dec-2024	-25 bps	4.23%	4.40%	4.61%
19-Mar-2025	-25 bps	4.09%	4.32%	4.60%
18-Jun-2025	-25 bps	3.94%	4.37%	4.87%
17-Sep-2025	-25 bps	3.55%	4.08%	4.68%
17-Dec-2025	-25 bps	3.48%	4.15%	4.82%
22-Jan-2026	-	3.59%	4.24%	4.85%

Impact of tariff hikes on US inflation (Table 5)

Month 2025	Headline CPI	All items ex food & energy	Shelter	Food	Energy	Core goods
Apr	2.3%	2.8%	4.0%	2.8%	-3.7%	0.1%
May	2.4%	2.8%	3.9%	2.9%	-3.5%	0.3%
Jun	2.7%	2.9%	3.8%	3.0%	-0.8%	0.7%
Jul	2.7%	3.1%	3.7%	2.9%	-1.6%	1.2%
Aug	2.9%	3.1%	3.6%	3.2%	0.2%	1.5%
Sep	3.0%	3.0%	3.6%	3.1%	2.8%	1.5%
Nov	2.7%	2.6%	3.0%	2.6%	4.2%	1.4%
Dec	2.7%	2.6%	3.2%	3.1%	2.3%	1.4%

♣ What Will Move Markets in 2026

1) Central banks have lost control of the Long End of the curve

The defining macro outcome of the last easing cycle is now unambiguous: central banks still control the front end, but not the long end of the curve. Despite aggressive Fed rate cuts between September 2024 and December 2025, long-dated yields remained elevated, with U.S. 30-year yields ending the 2025 cycle near highs. Markets repeatedly signalled that fiscal supply, inflation risk, and term premia dominate policy transmission.

This is not a temporary anomaly but a regime shift. Heavy Treasury issuance (~\$2.4 trillion annually), rising debt sustainability concerns (US federal debt \$30T+), and higher compensation for duration risk have structurally weakened forward guidance. Rate cuts compress short-term yields, but they no longer anchor long-term borrowing costs reinforcing a world where bond vigilantes price fiscal math, not policy intent.

2) The Easing Cycle Is Shallow and Politically Fragile

Markets are not pricing a return to rate hikes, but they are increasingly pricing **limited room for easing**. In the US, this tension is visible in the widening gap between the Fed's guidance (one cut in 2026) and market pricing (nearly two cuts), leaving the front end highly sensitive to data surprises and leadership risk.

What complicates this outlook is politics. Pressure on central banks, uncertainty around future Fed leadership, and renewed debate around independence mean policy paths are no longer viewed as purely data-driven. This raises the probability that **rate expectations reprice abruptly**, not gradually especially if credibility is questioned or fiscal dominance deepens.

3) Inflation Is Two-Speed and Tariffs Are the Swing Factor

Inflation dynamics entering 2026 remain uneven rather than resolved. In the US, headline CPI has remained above target for over three years, reflecting a **two-speed inflation regime**. Services inflation is easing gradually as shelter cools, but goods inflation is firming again, driven by tariff pass-through, supply constraints, and geopolitical friction (refer table 5).

Tariffs represent the key upside risk. Renewed or higher tariffs would reintroduce goods-price inflation, disrupt supply chains, and complicate disinflation just as central banks attempt to normalise policy. This asymmetry helps explain why long-term yields remain sticky and why markets are reluctant to price a clean glide path back to low inflation.

4) Institutional Credibility Is Now a Market Variable

Rising political pressure on central banks has pushed institutional credibility to the forefront of macro pricing. In the US, renewed tensions between President Trump and the Federal Reserve including public criticism of policy and debate over leadership appointments have revived concerns that monetary decisions could become politically influenced.

Markets typically do not respond to this risk via outright risk-off, but through higher FX and long-end rates volatility, as investors demand compensation for uncertainty around future policy frameworks. In this environment, credibility not the number of rate cuts becomes the primary anchor for expectations.

5) FX and Liquidity Stress Are the Main Transmission Channels

With bond markets constrained by fiscal dominance and policy credibility under scrutiny, **FX is increasingly the adjustment valve**. Japan is the clearest example: the relentless rise in long-dated JGB yields signals erosion in one of the world's most reliable liquidity backstops, raising the risk of global spillovers through funding markets.

At the same time, the US dollar's performance has become more nuanced. While the USD weakened sharply in 2025 during the initial "Sell America" narrative, **2026 has so far been characterised by consolidation rather than capitulation**, reflecting its continued role as a defensive hedge. Meanwhile, demand for hard assets particularly gold remains strong, reinforcing concerns around debasement, fiscal dominance, and long-run currency credibility.

♣ Japan: Yen Weakness Signals a Deeper Structural Stress

The BOJ kept its policy rate unchanged at 0.75%, as expected, following a hike from 0.5% in December, while upgrading its growth outlook for FY25 and FY26 and reaffirming a moderate recovery. The central bank struck a more optimistic tone, citing a strengthening income-spending cycle and a gradual rise in underlying inflation, and raised its FY26 core inflation forecast to 1.9% from 1.8%, noting that risks to growth and prices remain broadly balanced.

Meanwhile Japan is increasingly being priced as a structural stress case rather than a benign normalisation story. The yen opened the year weaker (-1.1%) against the dollar as markets reacted to renewed fiscal concerns, snap-election uncertainty, and fresh stress in Japan's bond market signals that debt sustainability risks are moving back to the forefront.

Japan's new prime minister is planning a large, debt-financed fiscal stimulus, including energy subsidies and cash handouts. While the final size of the package awaits parliamentary approval, the direction is clear: more borrowing in an economy where government debt already stands near 240% of GDP. This has reinforced long-standing investor unease around fiscal sustainability and policy credibility.

At the core of the current repricing are two interlinked developments: rising long-term JGB yields and a persistently weak yen. Despite decades of ultra-accommodative policy, yields across the 10-year and longer tenors have climbed to multi-decade highs. Yet they remain artificially constrained by continued BoJ's intervention, forcing the adjustment into the FX market instead. The yen's depreciation is not being treated as a temporary funding-currency move, but as evidence that fiscal risks remain unresolved.

As a result, the yen has become a bellwether of deeper systemic risk. While earlier weakness could be explained by rate differentials and structural stagnation, the current dynamic increasingly reflects market pricing of sovereign and policy risk. The failure of higher yields to arrest the yen's decline suggests markets are assigning rising probability to fiscal stress rather than an orderly adjustment.

Taken together, Japan's challenges now extend well beyond domestic policy choices. As a major holder of global bonds and a key source of international liquidity, any erosion of confidence in Japan's fiscal-monetary framework has meaningful global spillovers, transmitting through yield curves, FX markets, and risk premia. Japan is therefore not undergoing a routine transition, but operating in a structural stress regime, with the yen and long-dated JGB yields acting as the primary early-warning signals.

USD/JPY View

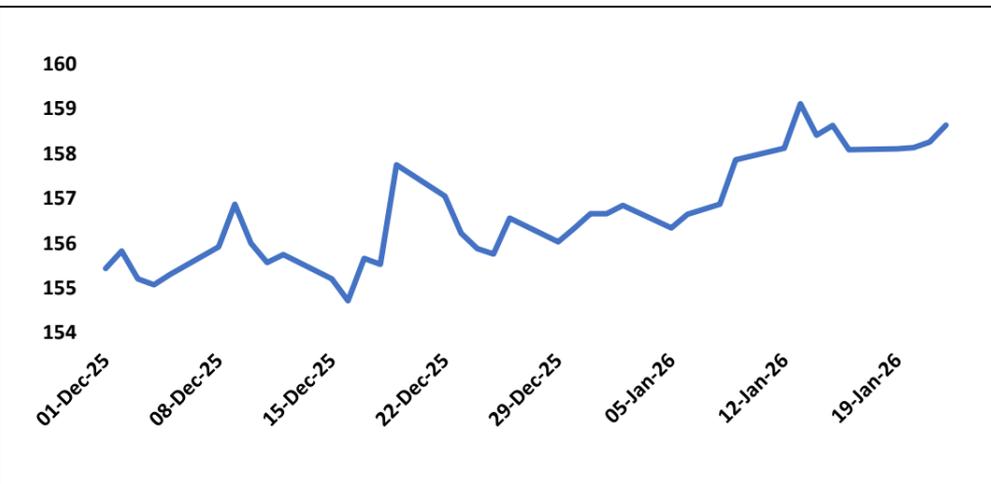
Looking ahead the key risk events to watch include a potential snap election, rising domestic yields, renewed trade-war pressures, and broader geopolitical risks. From a technical perspective, momentum remains firmly bullish after the pair decisively broke above the prior 158.50. The immediate hurdle is the 160.00 psychological level, which may slow gains, but a move toward 162.00 cannot be ruled out over the coming months if current dynamics persist. On pullbacks, the 155.90 area stands out as a key medium-term support zone. A sustained hold above this level would keep the broader bullish structure intact, while any deeper correction would likely require a material shift in either yield dynamics or policy expectations.

Japan is being priced as a structural stress case, not a benign normalisation, with fiscal sustainability concerns now central to market pricing

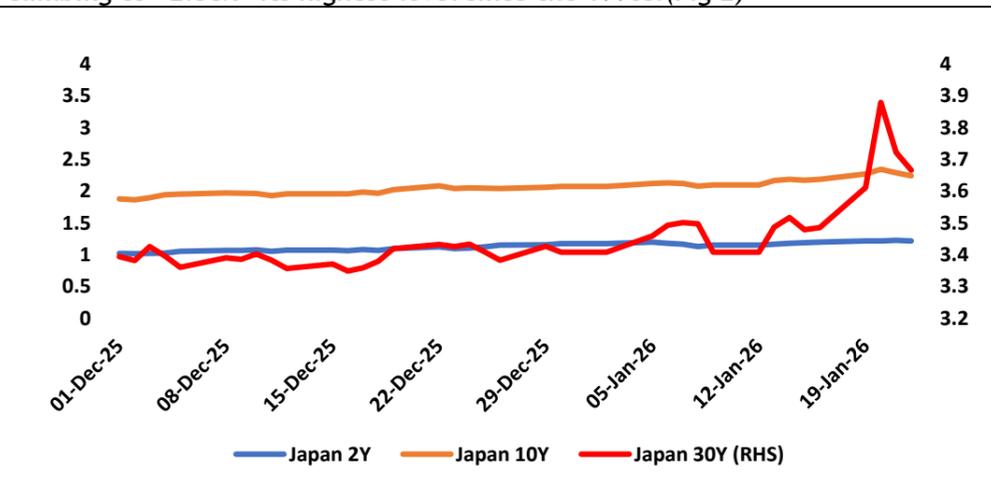
The yen has become the key adjustment valve, signalling unresolved sovereign and policy risk as yield control caps the bond-market response

Spillover risk is rising, with stress in JPY and long-dated JGBs posing broader implications for global yields, FX, and risk premia.

The yen started the year on the back foot as fiscal worries, snap-election risk, and bond-market stress revived debt-sustainability concerns (Fig 1)



Japan's bond market saw a historic repricing, with 30Y JGB yields jumping ~30 bps in a single session, 40Y surging to ~4.24% (all-time high), and the 10Y climbing to ~2.38%—its highest level since the 1990s.(Fig 2)



Source: Bloomberg, UBI research

♣ Rupee's Tug-of-War: Hits record lows amid FPI exodus; eyes on India-US trade deal

The Indian Rupee is navigating a complex landscape of record low valuations and shifting geopolitical sentiment and depreciated MoM by -2.03%. The currency recently hit a historic trough of ₹91.75/\$ on 21st Jan'26, driven by persistent FPI outflows - \$3.5bln in the first three weeks of January alone, as foreign investors offload heavyweights in the FMCG and banking sectors. However, a significant sentiment reversal began following President Trump's optimistic remarks at Davos, where he hinted at a "good deal" for the India-US trade agreement, sparking a relief rally in export-oriented stocks. Looking toward February, the Rupee's recovery will depend on a massive ₹2.65 lakh crore IPO pipeline, which could bring in much-needed dollar liquidity. Investors are now focused on the 1st Feb'26 Union Budget and upcoming US Fed policy data, as any cooling of the US Dollar Index combined with a finalized "first tranche" trade deal could pull the Rupee back below the ₹90 territory. [Refer Report: [FX weekly: Tariffs on Ice: Greenland Tensions Bring Back Trade-War Tail Risk](#)]

🔗 Key Drivers for Rupee Movement:

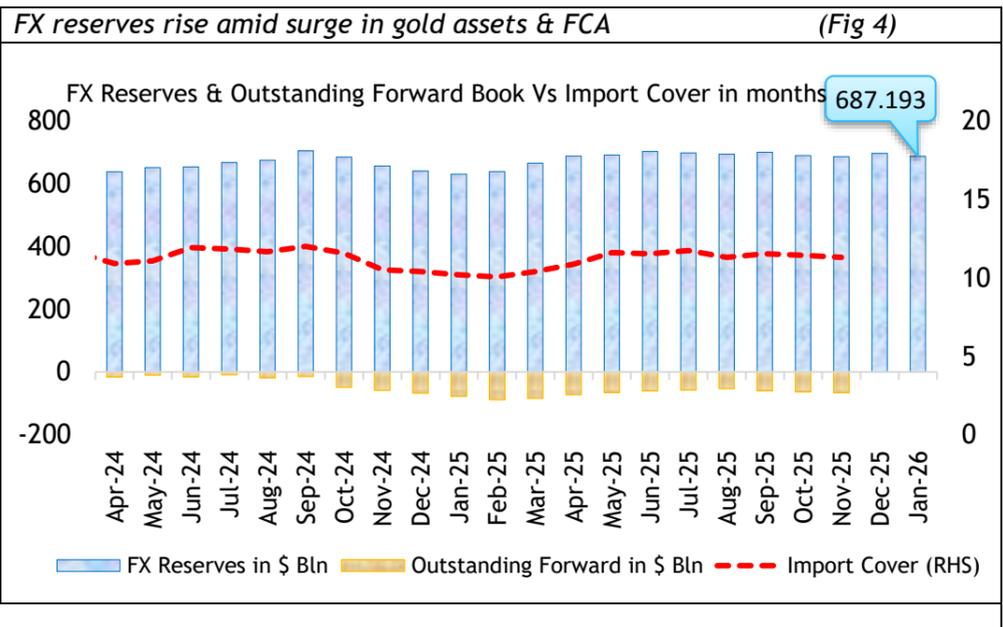
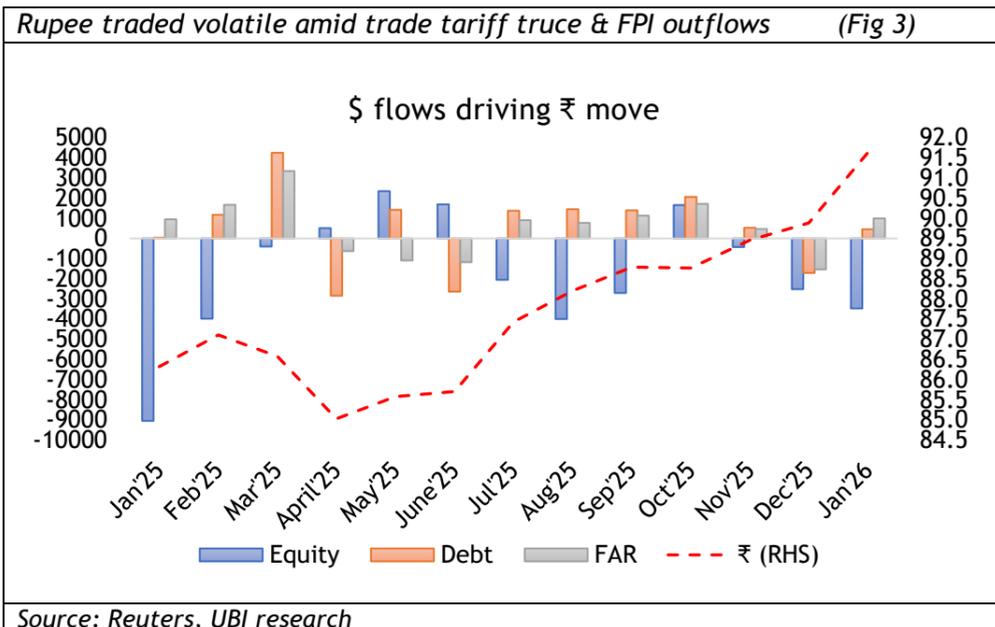
Key Recent Developments in India - US Trade Talks:

Date	Event	Details
Dec-10	Advancing work on the first phase of the BTA	Deputy USTR Rick Switzer and supported by chief negotiator Brendan Lynch visiting India. US Under Secretary of State Allison Hooker is also in India this week to deepen strategic ties.
Dec-11	Diplomatic engagement	PM Modi held his third call with US President Trump , reviewing bilateral relations (including trade). Chief Economic Adviser predicts deal ; Most issues resolved; surprised if not signed by March; parallel discussions on tariff framework and comprehensive pact.
Dec-12	Negotiation feedback	A senior US negotiator praised India's "best-ever" market-access offer , though sticking points remain (agriculture, dairy).
Dec-15	Following six rounds of bilateral trade talks	India and the United States are on the brink of finalising an initial framework agreement, Commerce Secretary Rajesh Agrawal said.
Jan-5	President Trump claims PM Modi acted to 'make me happy,' praises him as 'a good man'	The President also linked India's cooperation on Russian oil to potential trade consequences, warning, "We could raise tariffs on India if they don't help on Russian Oil issue."
Jan-9	US claims deal stalled due to leadership-level gap	India's much-anticipated trade deal with the US stalled after PM Modi did not personally call President Trump to finalize the agreement, U.S. Commerce Secretary Howard Lutnick said — a characterization New Delhi has denied.
Jan-12	US Ambassador Sergio Gor, stresses strong Modi-Trump rapport	U.S. Ambassador Sergio Gor said President Trump and PM Modi are "real friends" as India-U.S. prepare for key trade talks starting January 13 , highlighting strong personal ties amid ongoing negotiations.
Jan-15	Remain engaged on proposed deal; Commerce Secretary says "Can't put deadline"	Close to finalizing a BTA, but it will be announced only when both sides are prepared to do so, Commerce Secretary Rajesh Agrawal said, underlying that negotiations remain active and ongoing.
Jan-19	Talks on Trade and Broader Bilateral Cooperation	Commerce Minister Goyal Says that India & US held productive talks as they move closer to a trade deal, with India set to join the U.S.-led PaxSilica initiative.
Jan-22	President Trump shares update on India-US trade talks	President Trump praised PM Modi and expressed confidence in an India-US trade deal. "I have great respect for your Prime Minister. He's a fantastic man and a friend mine. We are going to have a good deal."

Rupee hit a historic ₹91.75/\$ amid \$3.5bln FPI outflows, but trade-deal optimism and an upcoming IPO pipeline could support a recovery.

India and the US are close to finalising a bilateral trade deal, but no deadline has been set as negotiations and sectoral issues remain active.

With policy on hold and USD strength fading, EUR/USD looks range-bound with a mild upside bias, supported on dips and gravitating higher as rate differentials compress into 2026



Post the frontloading of exports in FYTD26, trade dynamics stay favourable

USD bln	Goods trade bal.	Services trade bal.	Total trade bal.
April'25	-26.6	15.9	-10.7
May'25	-22.1	15.8	-6.3
June'25	-18.7	16.2	-2.5
July'25	-27.4	16.5	-10.9
Aug'25	-26.5	15.6	-10.9
Sep'25	-32.2	15.5	-16.7
Oct'25	-41.7	17.4	-24.3
Nov'25	-24.5	17.4	-7.2
Dec'25	-25.0	18.1	-6.9

Source: CEIC & UBI Research

Forward premiums are high due to hedging demand and dollar strength, with RBI's \$10 billion swap easing pressure, though they may remain elevated near-term.

FPIs have withdrawn \$3bln from Indian equities in CY26 amid high US yields and dollar strength, with outflows likely to persist this month.

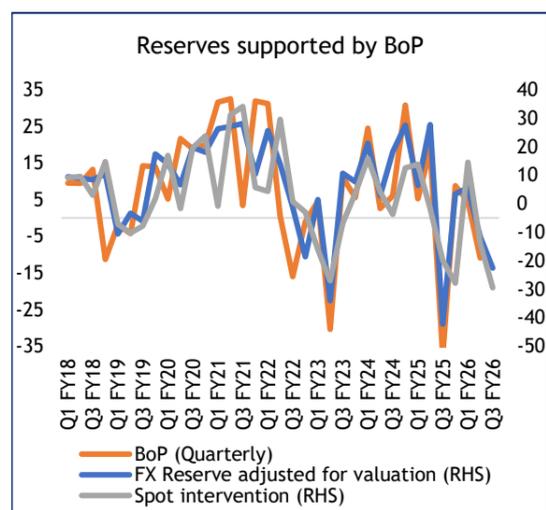
REER fell to 95.30 in Dec'25 from 97.51 in Nov'25, remaining undervalued despite RBI net FX sales of \$9.71bln in Nov'25.

- Merchandise trade deficit** widened as expected to \$25.04bln in Dec'25 from \$24.53bln in Nov'25. That said, the data stayed below the market's expectations of \$27bln but in line with [our estimate of \\$25.10bln](#). In terms of sectoral drivers of trade dynamics, oil deficit remained elevated with a marginal correction with the latest number at \$10.00bln compared to \$10.18bln the previous month, gold deficit stayed flat at \$4.34bln vis-a-vis \$4.30bln in Dec'25. More importantly, non-oil non-gold deficit widened by \$0.65bln MoM to \$10.70bln from \$10.05bln on the back of impact of normalization in volatile sub-segments like Machinery and Electronics. Services trade surplus jumped to \$18.12bln in Dec'25 from \$17.39bln (revised down from \$17.90bln) in Nov'25, versus an average \$16.86bln in Apr-Dec'25 (same period last year: \$15.05bln). That said, it remains broadly stable and continues to provide a buffer for C/A dynamics. Going forward, we expect the trade deficit to moderate as seasonal pressures ease and lower commodity prices particularly oil provide support. We project the current account deficit (CAD) to remain manageable at ~1% of GDP in FY26, supported by resilient services exports and broadly favorable external sector fundamentals.
- Forward premiums** have been elevated recently, with one-year forward points rising sharply due to strong hedging demand and excess dollar liquidity, reflecting expectations of a weaker rupee amid global dollar strength and higher U.S. yields. As of mid-Jan'26, premiums remain above multi-year averages, signaling persistent cost pressures for hedgers. The RBI's buy/sell swap operations, including a recent **\$10bln USD/INR swap** that was oversubscribed three times, have helped moderate these premiums by injecting rupee liquidity, reducing hedging costs for exporters and corporates, and easing pressure on the currency. Looking ahead, forward premiums are likely to remain elevated but may gradually moderate if liquidity support continues and global dollar strength eases, though strong hedging demand could keep them above long-term averages.
- Foreign Portfolio Investors (FPIs)** continued their aggressive selling in Indian Equity markets, withdrawing **\$3bln (CY26)** as of 19th Jan'26. **FAR flows totaled \$0.80bln CYTD**, however in contrast the outflow reversed after Dec'25 at ~\$1.54bln, which reflected profit booking and higher US yields compressing carry; prompting global investors to pare duration risk, rather than any deterioration in India's fundamentals. FPI flows are likely to remain negative this month, driven by high US bond yields, a strong dollar, and global risk aversion, though India's strong growth outlook could help stabilize flows toward month-end.
- The Rupee's Real Effective Exchange Rate (REER)** against a basket of 40 currencies (Base: 2015-16=100), in terms of trade-based weights, dipped further to **95.30 in Dec'25** vis-à-vis **97.51 in Nov'25**, after a significant drop from the all-time highs of 108.08 in Nov'24. Notable fact, the RBI recorded a **net FX sale in Nov'25 of \$9.71bln** vis-à-vis **sale of \$11.88bln in Oct'25**. Notably, the rupee though still undervalued (REER <100) has weakened sharply, driven more by sentiment around the US trade-tariff truce than by fundamentals. Any positive signals on an India-US BTA could push the REER back toward the neutral 100 mark in the coming months, indicating room for a real-value correction.
- Dollar Index (DXY)** traded largely in the 98-99 range in Jan'26, finding support from firm US macro data, reduced expectations of near-term Fed rate cuts (95% probability of status quo in 28th Jan'26 FOMC), and periodic safe-haven demand amid geopolitical and policy uncertainty, though gains were capped by improved global risk sentiment and lingering de-dollarization narratives. The dollar stabilized after a sharp decline in 2025, with markets closely tracking inflation, labour data and Fed guidance. Looking ahead, DXY is expected to remain range-bound ~97-100, with upside risks from stronger than expected US data or risk-off flows, and downside risks if growth softens and rate-cut expectations resurface. On a MoM basis, rose by ~1%, and they reflect a **YOY decline of ~9%**.

Brent traded in the mid-\$60/bbl range in Jan'26, up ~5% MoM but down ~18% YoY, supported by supply disruptions, a weaker dollar and China demand signals.

Rupee may trade ₹89.90-91.90/\$ in Feb'26, supported by trade-deal optimism, IPO inflows, and key macro data, amid FPI caution.

FX reserves rose \$0.39bln to \$687.19bln, led by a \$1.57bln gold gain, despite a \$1.12 bln FCA drop.



Foreign Investment Inflows		
(US \$ Million)		
Item	2024-25	2025-26
FDI	959	6198 [^]
FPI	3564	-6887 [*]
Total flows	4523	-689

[^]data till Oct'25; ^{*}data till 22nd Jan 2026;
Source: RBI, NSDL, UBI research

If 9-10% depreciation as seen historically is reported in 3 years cycle; then we may be near the peak in the USD/INR pair unless sentiment overshoots

Year	INR level	USD/INR Annual Move	3 Yr Total	3 Yr Avg.
Mar-10	44.90			
Mar-11	44.59	-0.70%		
Mar-12	50.87	12.35%		
Mar-13	54.28	6.28%		
Mar-14	59.91	9.40%	28.02%	9.34%
Mar-15	62.50	4.14%		
Mar-16	66.25	5.67%		
Mar-17	64.85	-2.17%	7.64%	2.55%
Mar-18	65.17	0.50%		
Mar-19	69.15	5.76%		
Mar-20	75.66	8.60%	14.86%	4.95%
Mar-21	73.11	-3.49%		
Mar-22	75.79	3.54%		
Mar-23	82.17	7.76%	7.81%	2.60%
Mar-24	83.40	1.48%		
Mar-25	85.48	2.43%		
22-Jan-26	91.63	6.71%	10.63%	3.54%

Brent crude oil traded largely in the mid-\$60/bbl. range in Jan'26, recovering from early-month lows near \$60 as support came from temporary supply disruptions, a weaker U.S. dollar, and improved China demand signals, while gains were capped by ample global supply and elevated inventories. The IEA raised its 2026 global demand growth outlook by [4.25 mbpd in the first quarter](#), lending some support, though the broader market remains cautious. Geopolitical headlines provided intermittent volatility but failed to materially tighten supply. Looking ahead, Brent is expected to remain range-bound around \$62-67/bbl, with upside risks from geopolitical disruptions or OPEC+ action, while persistent inventory builds, strong non-OPEC supply and muted global demand pose downside risks. On a MoM basis, rose by ~5%, and they reflect a YoY decline of ~18%.

FX reserves rise by \$0.39bln to \$687.19bln for the week ending 09th Jan'26 (covering ~11 months of imports), driven mainly by a \$1.57bln jump in Gold despite \$1.12bln fall in FCA to \$550.87bln. This rise puts FX reserves \$17.67bln short of the all-time peak of \$704.86bln reached on 27th Sep'24. As per liquidity calculations, the FX drag in liquidity to possibly curb the FX volatility (excluding valuation effects) has been ~\$0.4bln in the week ended 09th Jan'26.

Outlook (₹ - INR)

In February 2026, the Indian rupee is expected to trade in a range of ₹89.90-91.90/\$, attempting a recovery from the record low of ₹91.75/\$ hit on 21st Jan'25. The currency's near-term direction will be driven by capital flows, FPI activity, domestic liquidity, and global cues. While FPIs remain cautious amid elevated U.S. yields and a strong dollar, optimism over the India-US trade deal sparked by President Trump's Davos remarks and potential easing of tariffs could trigger foreign inflows. IPO-related dollar inflows pipeline is expected to provide additional support. Key upcoming Indian data notably the Union Budget (1 Feb) with its 4.5% fiscal deficit target, CPI, and trade numbers alongside U.S. Fed policy decisions, PCE inflation, and employment reports will influence global risk sentiment and dollar strength. Taken together, these domestic and global factors could help the rupee stabilize.

From a technical standpoint, the rupee is expected to trade between ₹89.90-91.90/\$ throughout the next month. Sustained domestic equity inflows or tangible progress in India-US trade negotiations could strengthen the INR toward ₹89.20/\$, with ₹89.50/\$ acting as a key interim support. If an India-US BTA is finalized; the appreciation threshold for the rupee could shift meaningfully. Conversely, any bearish catalysts such as delays in resolving US-India tariff issues are likely to face strong resistance near fresh all-time lows of ₹91.75/\$, a break above this zone could trigger a move toward ₹91.90/\$. Overall, geopolitical and tariff developments will remain central drivers of market sentiment.

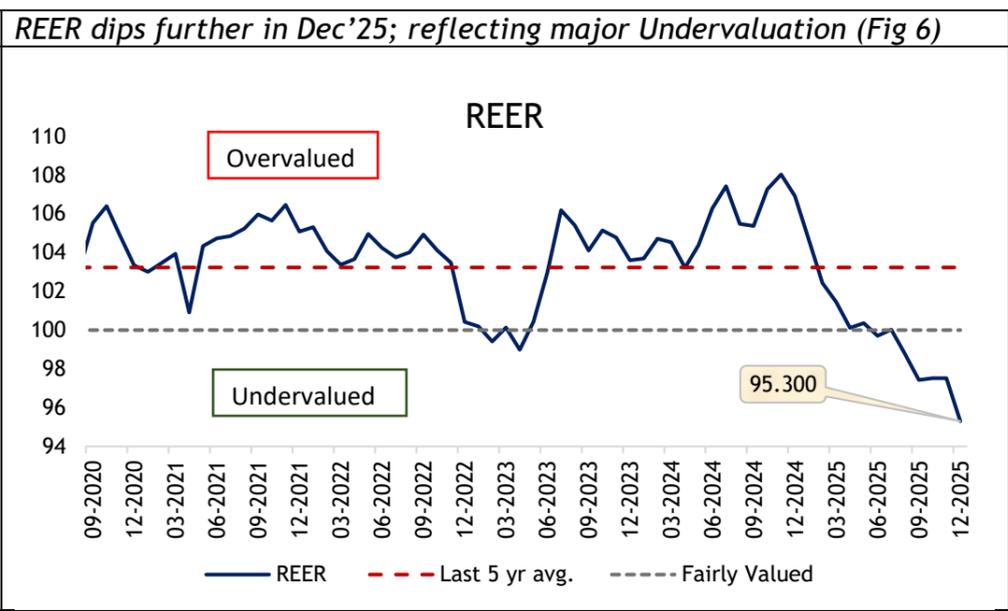
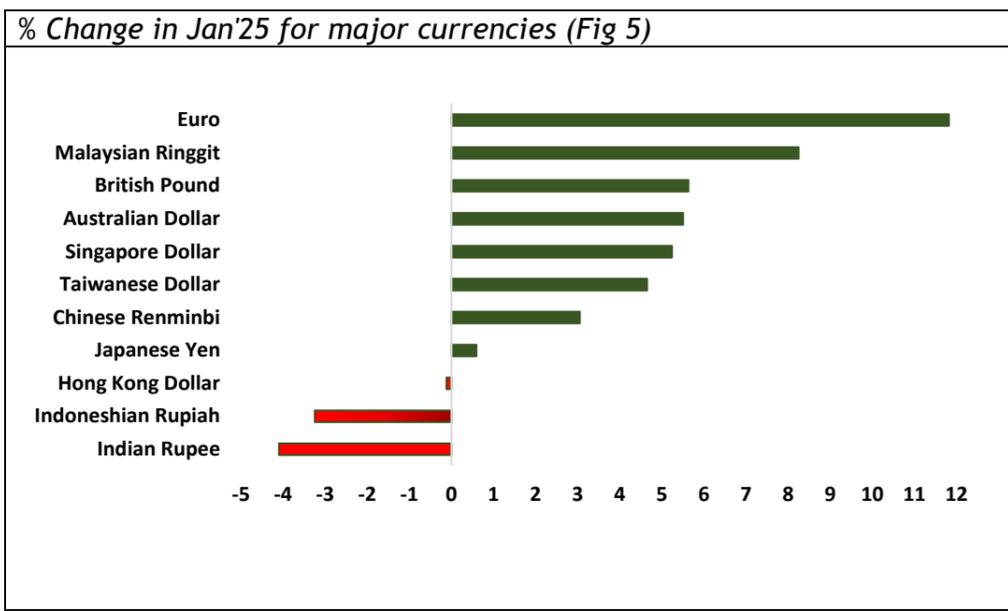
We have consistently noted that the rupee's recent weakness reflects overshooting due to negative sentiment rather than fundamentals. Based on the Real Effective Exchange Rate (REER), the currency is now undervalued by ~5%. Our analysis indicates that over a three-year horizon, the rupee typically adjusts via an average annual depreciation of 3-4%, aligned with India-US inflation and interest rate differentials. Given that the rupee has already weakened by ~7% this FY26, we do not expect significant or runaway depreciation pressures to continue. In the worst-case scenario, market participants estimate that the Balance of Payments is not beyond the \$30bln. However, in this year, the central bank might have sold more dollars in the market to support the local currency.

Near-Term Trajectory: Range-bound with Volatility

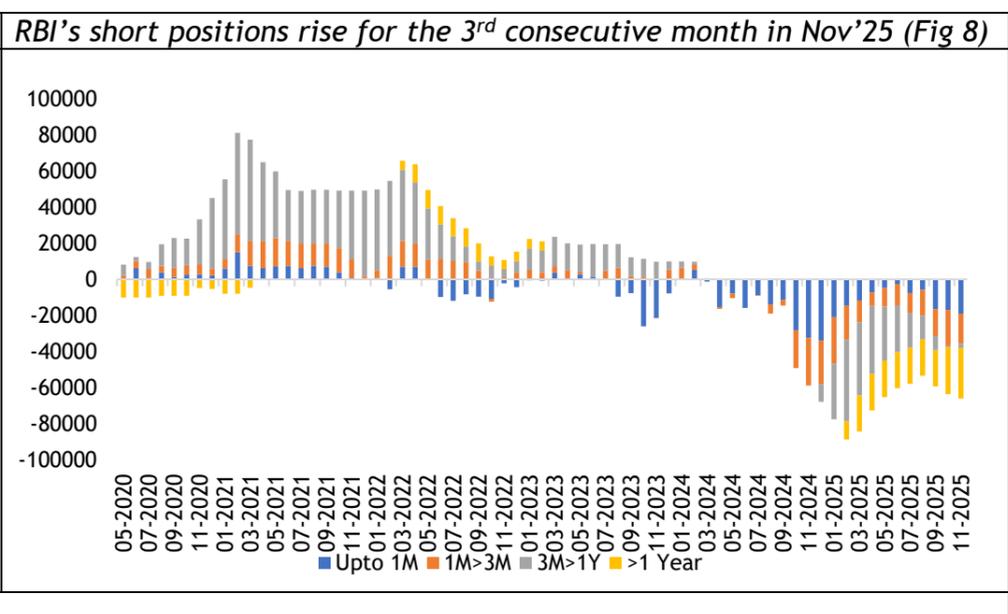
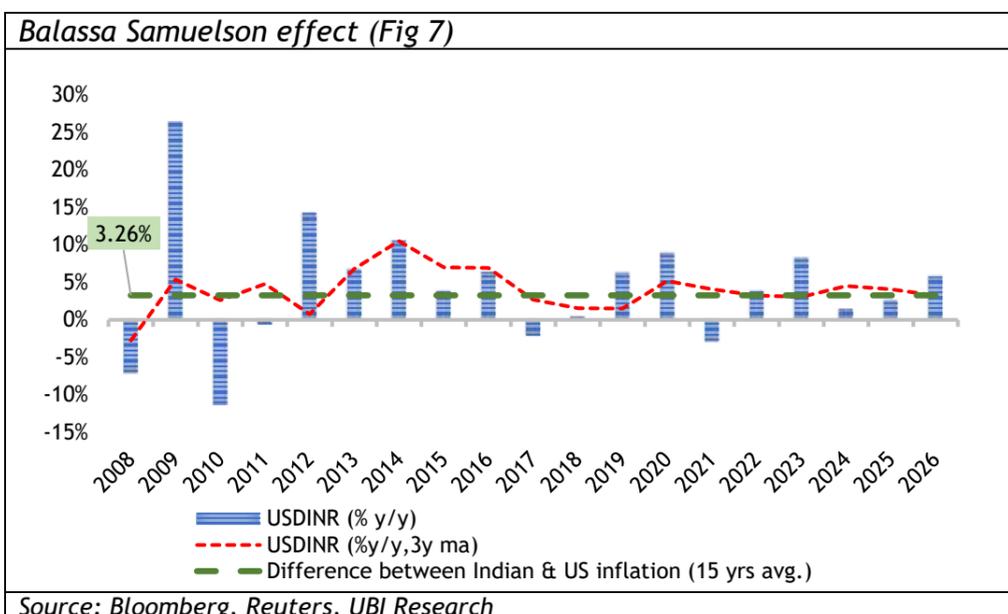
Base Case: Expect rupee to trade range-bound ₹89.90-91.90/\$ till end-February.

Bullish Scenario (Rupee Strengthens): If India-US BTA finalizes and FII inflows resume USD/INR could stabilize near ₹88.80-₹89.50. This assumes lower crude oil prices and weakening USD globally.

Bearish Scenario (Rupee Weakens Further): Delay in US-India trade tariff truce or sticky global inflation with persistent FPI outflows could push it to ₹92.50/\$.



Source: Bloomberg, Reuters, UBI Research



Source: Bloomberg, Reuters, UBI Research

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