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The US Dollar has given up some of its gains recorded following last year’s US election amid delay in implementation of trade tariffs along with lower US consumer confidence and some signs of slowdown in US economy. The yields across the tenors have also remain lower amid Fed’s hawkish stance, and thus have limited the US dollar gains for now.

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.

Since Trump join the office only 10% tariffs on goods from China has been implemented and has not yet proven to be as disruptive as earlier feared for global trade and economy. This trade tariff threats are currently just used as negotiating tools by the US administration. While trade policy uncertainty is set to remain elevated which may provide support to the US Dollar, while plans for reciprocal trade tariffs are finalized in the coming months and are likely to be implemented after 1st April. Also, Fed’s cautious policy stance over delivering further rate cuts may remain supportive for the US dollar while monetary policy divergence is likely to remain amongst G10 central banks.

Under Donald Trump, the traditional balance between economics and politics was often upended, particularly in terms of trade policy. His administration’s approach, especially with trade wars and tariff strategies, was rooted in the idea that "economics trump politics". All eyes will remain on how US implements reciprocal tariffs and if there are also retaliatory tariffs implemented by other nations.

The key themes for our Uni-Fx are outlined below.

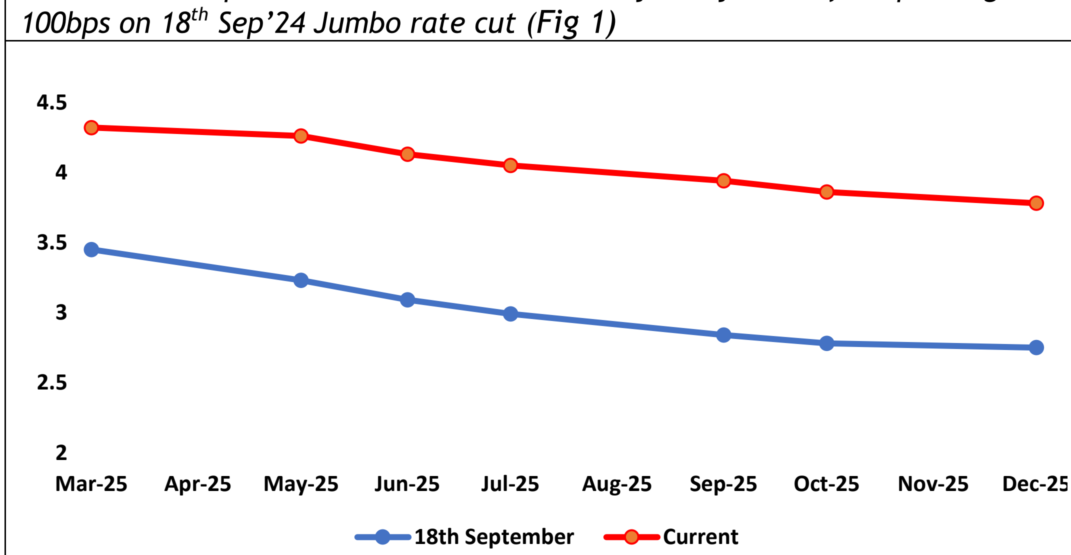
Key Themes:

- **US exceptionalism questioned by delay in trade tariffs putting pressure on Dollar & Yields**
- **Euro to remain at mercy of US tariff plans, monetary policy divergence to persist**
- **Yen remains best performing FX across G10 in 2025 supported by bond yields**
- **USD/INR sticks to positive bias despite various measures by RBI**

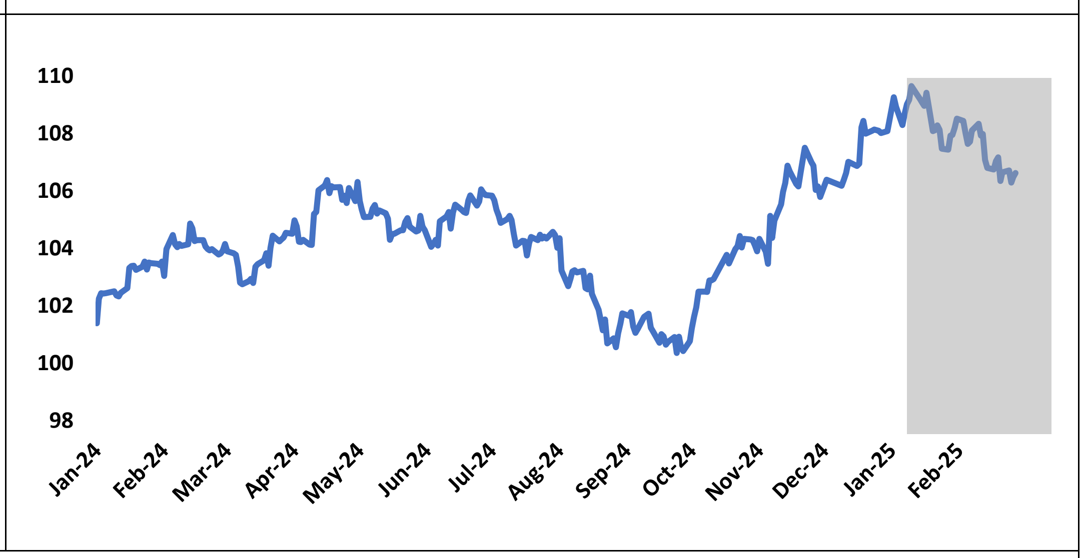
US exceptionalism questioned by delay in trade tariffs putting pressure on Dollar & Yields

The DXY has corrected c.2% since Trump resumed his office on 20nd Jan’25 as markets have viewed Trump’s tariff announcements as gradualist in nature. Although he has unveiled sweeping trade tariffs on its trading partners but compared to his first term (2017- 2020), these measures appear to be more targeted, aim to achieve broader strategic objectives.

Markets now expect Fed to cut rate twice this year by total of 50bps as against 100bps on 18th Sep’24 Jumbo rate cut (Fig 1)



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



Source: Bloomberg, Reuters, UBI research

Donald Trump's rhetoric on the trade policy continues stoked worries across markets about economic growth.

So far, the additional tariff of 10% on all Chinese goods effective from 4th Feb and the delayed tariffs on Mexico and Canada are only aimed at US' concerns over illegal immigration and drugs such as fentanyl entering the US. Although the factors contributing to the greenback's decline this year appear temporary. Which include Trump's delay of tariffs, US equities stalling with Fed cut expectations, and optimism regarding Trump's initiatives to conclude the war in Ukraine. US Treasury Secretary Scott Bessent has also acknowledged that stalled US disinflation and the Fed's ongoing balance sheet run-off could delay plans to extend the duration of government debt issuance. Trump's inconsistent messaging on the timing of tariff implementation and conditionalities around them have made markets more reluctant to position aggressively to these threats. ***If the US administration pursues higher tariffs, it will risk retaliation and a potential global trade war this could strengthen the dollar and push UST yields higher***.

Trump looks uncertain about tariffs as he contradictory answers about his plans to enact tariffs on Canada and Mexico, as well as the European Union.

The yield on US10Y continues to fall and has broken crucial support of 4.50% and is currently trading at its lowest level since December 11 down c.50bps after making a high of 4.80% in Jan'25, technically the next support lies at 4.12%. While the yields continued to surged last year over Trump's policy which was viewed as inflationary in nature but the recent economic data for US (weak retail sales and consumer confidence) has been shaky which is putting downward pressure on treasury yields.

Fed officials have also adopted a wait-and-watch approach to its monetary policy stance. The next FOMC meeting on 19thMar'25 comes after Trump's tariffs on Canada and Mexico, assuming no additional delay. Markets are expecting the Fed to keep rate unchanged in March FOMC meet the probability of which currently stands at 97%, while a total of two rate cut this year of 25bps each of policy rate to reach at 3.80%.

Lower US yields to limit US dollar gains for now

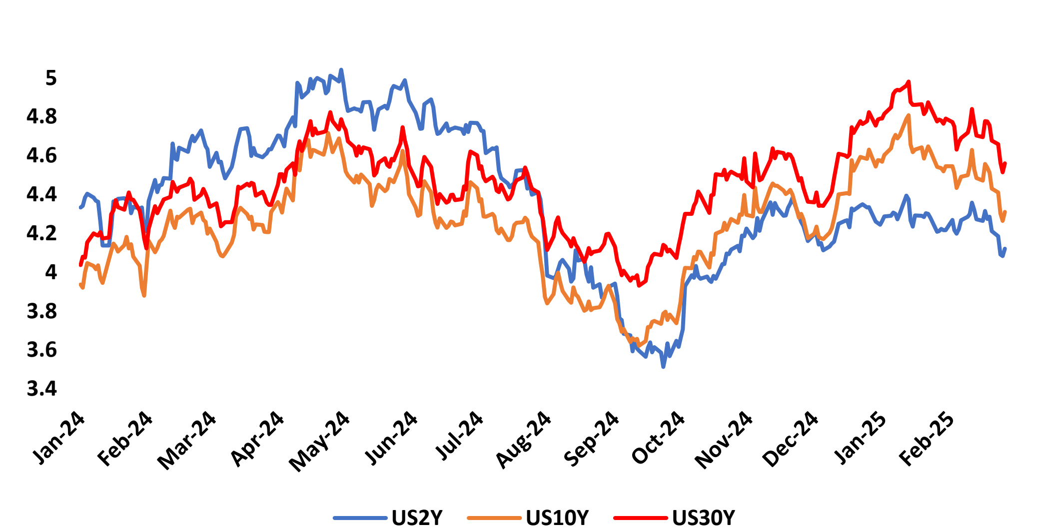
Reciprocal tariffs threat looms over most nations

US President Trump has 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".

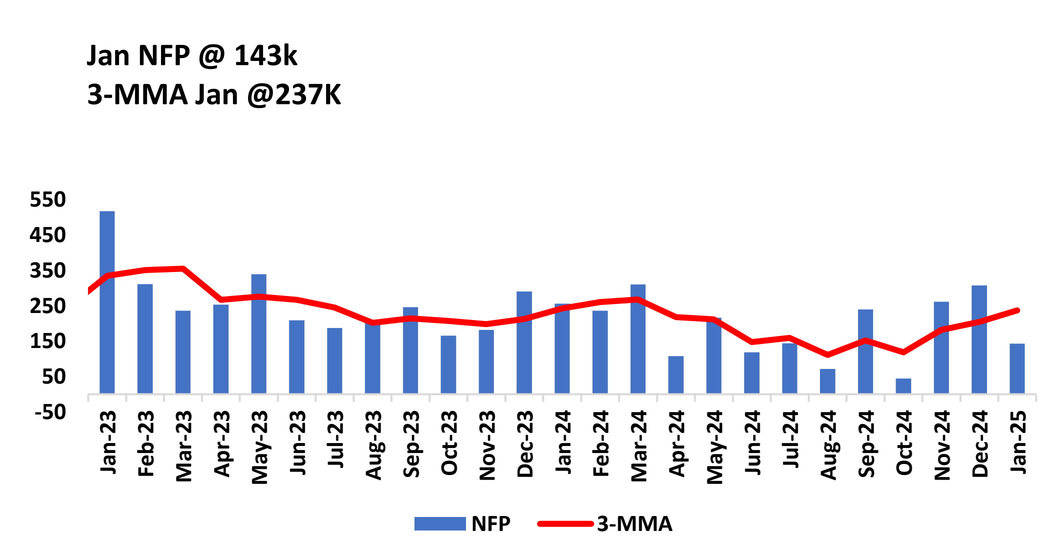
Trump is directing that "reciprocity" is based not just on the tariffs imposed by other countries on US imports, but also a range of other non-tariff factors including: i) other countries' taxes such as VAT imposed on US imports, ii) exchanges rates, iii) government subsidies for companies in their home countries, iv) bilateral trade balances with the US and v) regulations which are more difficult to quantify and considered on a case-by-case basis. It will create additional uncertainty over the potential negative impact of the tariffs. While there is a higher risk that the "reciprocal tariffs" may be implemented widely and could prove more disruptive.

Additionally, ongoing trade policy uncertainty may remain supportive for the US dollar until there is more clarity and could help limit room for US dollar weakness to extend further in the near-term. The current weakness in US dollar would provide more attractive levels to buy US dollar's heading into Q2'25 while plans for reciprocal tariff hikes are finalized.

Yields on US Treasury continues to fall over uncertainty regarding trade tariffs even though FED remains hawkish (Fig 3)



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



Source: Bloomberg, Reuters, UBI research

Key Date	Announcement related to tariffs and its implementation dates
04.02.2025	US imposes 10% tariff on Chinese goods while 25% on Mexico and Canada (energy resources from Canada at 10% tariff) receives 30-day delay and may be implemented on 4 Mar.
10.02.2025	China imposes retaliatory tariffs on US products including coal and LNG (15%) and crude oil, agricultural machinery and large engine cars (10%).
04.03.2025	China will be charged an additional 10% tariff on the same day, which will be on top of a previous 10% tariff that took effect on 4 Feb, for a total of 20%.
12.03.2025	US to reinstate the full 25% tariff on steel imports and increase tariffs on aluminium imports to 25%.
01-04-2025	US to announce reciprocal tariffs on trading partners with Brazil, India and EU being flagged.
02-04-2025	Trump stated that he would likely impose tariffs on automobile, semiconductor, and pharmaceutical imports of around 25%,

Euro to remain at mercy of US tariff plans, monetary policy divergence to persist

The EUR has benefitted from paring back of fears over potential disruption from Trump's trade policies and optimism over a potential peace deal between Ukraine and Russia.

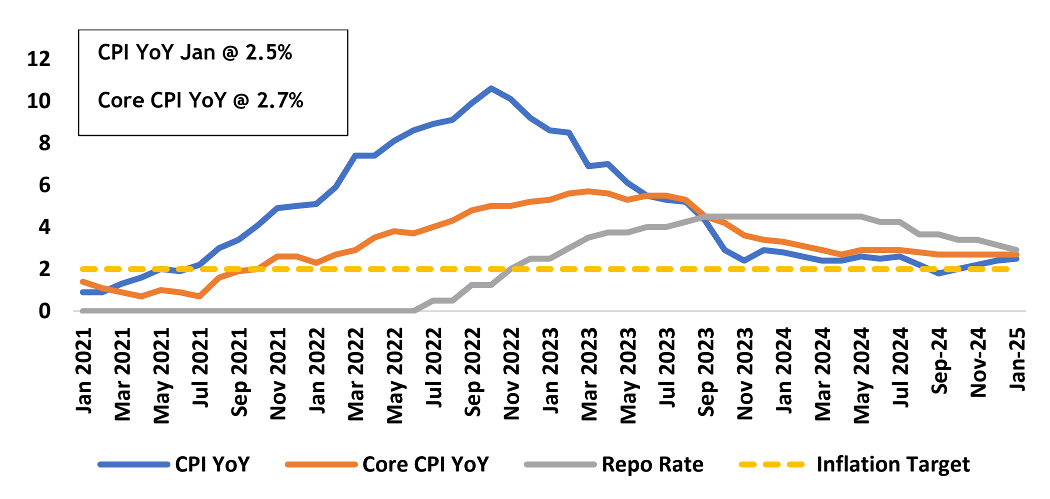
The Euro/USD pair has been on a roller coaster ride since the beginning of this year over trade tariff and geopolitical concerns. The pair started the year on a weaker note trading at 1.0358 levels on 1st Jan'25 and after making a low of 1.0117 on 13 Jan'25 since then it has stage modest rebound and made high of 1.0533. Although we feel that the Euro/USD pair trajectory remains bearish but the current optimism due to delay in trade tariff delivery by Trump administration and developments on a potential Russia/Ukraine cease-fire appear to be progressing have helped Euro recover its lost ground. In Jan'25 Uni-FX we highlighted the possibility of Euro/USD pair going towards parity but it seems that due to delay in tariff implementation it might be difficulty for the pair to reach parity in near term. Euro will remain at the mercy of implantation of reciprocal tariffs by Trump administration which may be announced on 2nd April also Trump administration is considers VAT regimes as a motivator for tariffs which doesn't bode well for Eurozone.

The EU would be negatively impacted by Trump's plans to put 25% tariffs on imports of auto, semiconductors and pharmaceuticals as EU is the second biggest exporter of cars to the US.

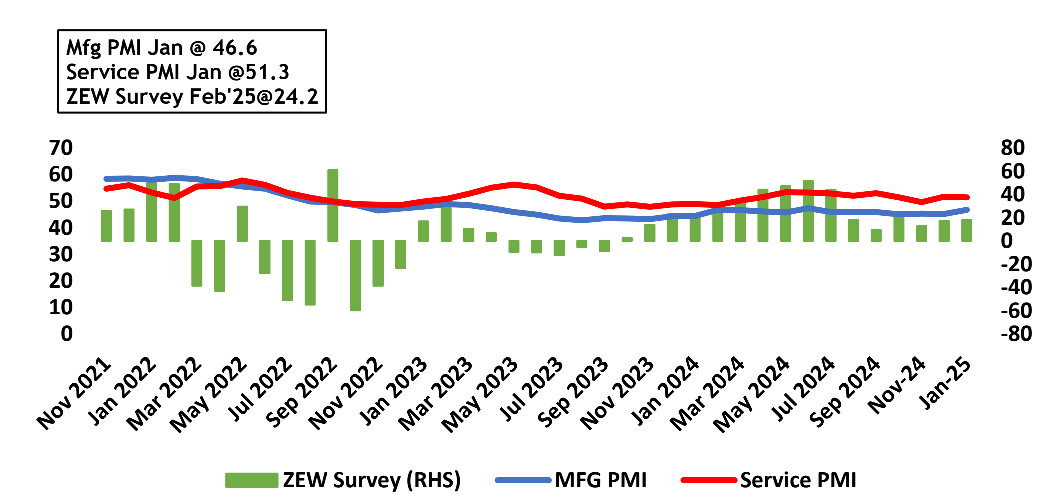
Since joining the office US President Trump has voiced concerns that the EU implements a 10% tariff on imports of cars while the US rate is lower at 2.5%. When announcing the reciprocal tariff plans he did warn that he was considering additional tariff hikes on automobiles, semiconductors and pharmaceuticals as well which may have greater effect on Eurozone. Another factor which could put pressure on Eurozone and Euro is recent announcement by US to reduce US military support to Ukraine which means that Europe must step up its defence spending. Which may lead to countries run higher deficits to finance the extra spending but this approach risks amplifying fiscal pressures.

While the relief this month was Germany's election results which came in very much as opinion polls had predicted. The conservative opposition leader Friedrich Merz plans to form a coalition government after public broadcaster ARD estimated his bloc won almost 29% of the vote. The far-right Alternative for Germany doubled its gains and won just over 20%. This has ended the uncertainty in German election which has lifted the Euro/USD pair.

Yields on US treasury remains critical for the performance of Yen *(Fig 5)*



The Dec'24 core CPI has hit 16-month high which continues to support BoJ rate hike *(Fig 6)*



Source: Bloomberg, Reuters, UBI research

EURO (€ - EUR) view:

The ECB is widely expected to cut its policy rate by 25bps in its 6th Mar'26 policy meet and total cut rates by 75bps, for its policy rate to reach 1.90 by end of this year. While updated ECB staff estimates revealed that the policy rate is moving closer to estimates of the neutral rate. President Lagarde has indicated it could be as low as 1.75% to 2.25%. ***While downside risks to growth of Eurozone from trade policy uncertainty related to Trump's tariff plans will continue to hang over European economies also monetary policy divergence to persist as US is expected to cut its rate only once this year which may keep the US Dollar bid and put pressure to Euro***. Technically we expect the EUR/USD pair likely to trade with bearish bias, on upside 1.0635 appears to be as strong resistance and 1.0330 can turn out to be strong support. The pair is likely to move within the range of 1.0775 to 1.0250 in near term.

Yen remains best performing FX across G10 in 2025 supported by bond yields

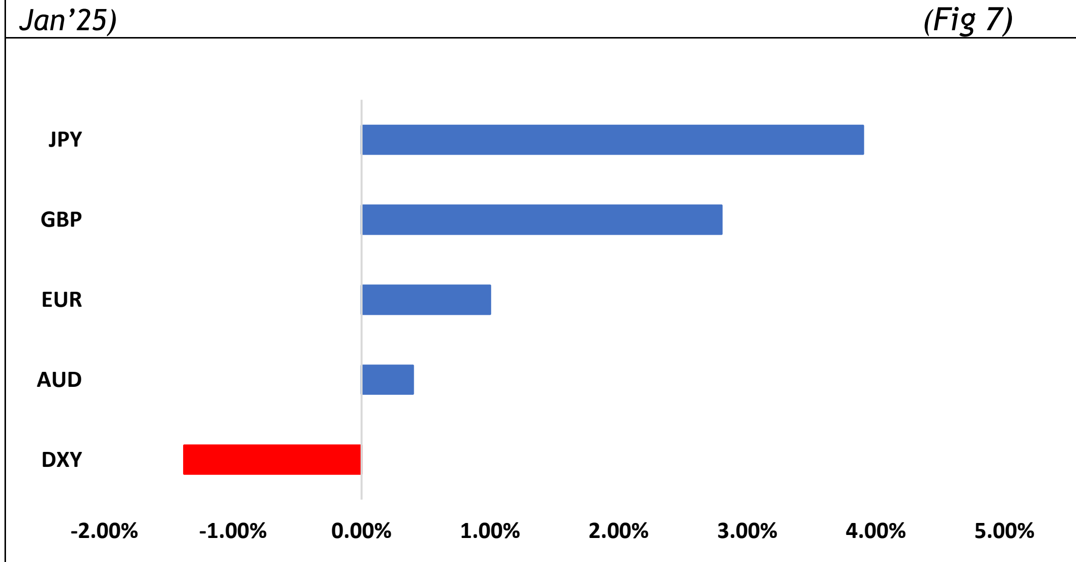
The USD/JPY fell below 150 for the first time in two months.

The USD/JPY pair after making high of 158.87 on 10th Jan'25 has corrected significantly and made a low of 148.56 on 25th Feb'25. The yen has outperformed other G10 currencies this year and has gained c.6.5% against the US dollar. Market participants have become more confident that the BoJ will raise their policy towards 1.00% in the coming years after delivering the third-rate hike in the current tightening cycle last month and following up with hawkish rhetoric talking up the likelihood of further hikes. The BoJ's decision to raise rates is supported by Japan's stronger-than-expected economic growth, with GDP expanding by 2.8% in Q4 and 1.7% in Q3 while Japan's national CPI inflation rose to 4% yoy in January from 3.6% in December and core CPI to 2.5% from 2.4%. Additionally, the BoJ is optimistic that sustained wage growth will help maintain inflation at its 2.0% target.

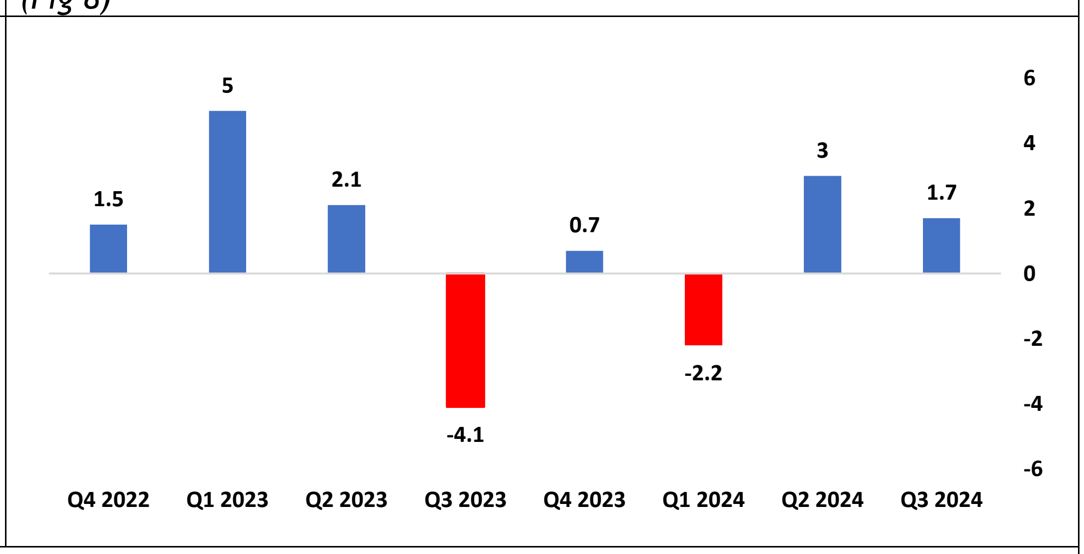
Rate hike expectation and rising bond yields continues to support Yen

The yen's rise has also been supported by shrinking yield gaps between Japan and other G10 economies along with this interest rate differentials between the US and Japan also remain one of the key driving forces for USD/JPY movements in early 2025. USD/JPY now remains more sensitive to Japanese bond yield volatility than U.S. yields. Since the BOJ scrapped its yield cap policy last year, Japanese government bond yields have continued to climbed. The BOJ's January rate hike to 0.5%, alongside stronger domestic GDP and inflation, further fuelled the rise, pushing the 10-year JGB yield to a 15-year high of 1.46%. The weakness in US dollar over US President Trump's tariff plans have eased slightly, though Japan remains at risk of being affected by potential tariff hikes on steel and aluminium.

JPY remains the best performing G10 currency this year (% change since 20th Jan'25) (Fig 7)



Japan's economy continues to expand in forth quarter on annualized basis (Fig 8)



Source: Bloomberg, Reuters, UBI research

JAPANESE YEN (¥ - JPY) view:

The next BoJ monetary policy on 10th Match'25 appears to be a non -event as markets are expecting the BoJ to keep the policy rate unchanged the probability of which currently stands at 98%. Going ahead uncertainty surrounding Trump's proposed "reciprocal tariff" plans, which may target Japanese goods is likely to put pressure on the Yen. Trump has also threatened to impose higher tariffs on autos, semiconductors, and pharmaceuticals starting in April, which could further impact Japan, which is the third-largest exporter of cars to the US. Technically the next level to monitor for USDJPY pair is 147.50, currently it seems that US dollar weakness is still not stabilised a break of 147.50 level can lead the pair to take support at 146.50 levels. On upper side strong resistance lies at 150.60 levels followed by 153.25.

USD/INR sticks to positive bias despite various measures by RBI

Rupee continues to with a negative bias on account of weakness in the domestic markets and sustained outflows by FIIs

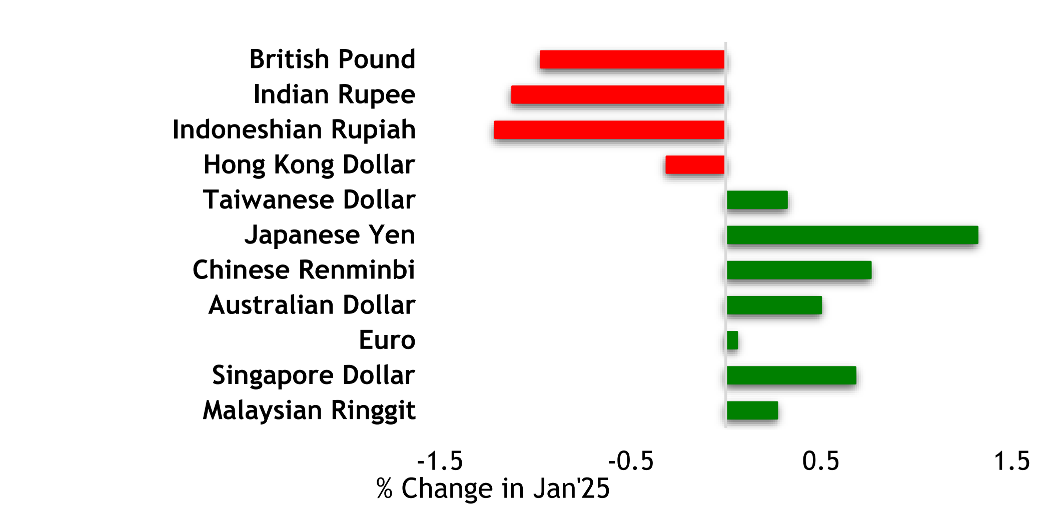
The Indian rupee's performance in 2025 is shaped by a combination of global market dynamics and domestic economic policies as rupee continues to experiencing sharp fluctuations against the U.S. dollar. The rupee till date in first two month of 2025 itself has deprecated by c.1.8% which is more than 1.5% depreciation it had undergone in 2023 and nearly half of depreciation in 2024 which was around 3%. The rupee has gone past two big figure change since the beginning of the year and fell to all time low of 87.95 levels on 10th feb'25 due to daily dose of Trump's tariff announcement but since then has shown some recovery amid selling by PSU banks. Trade war intensification risks and unpredictability of US policy have spooked market sentiments which continues to weigh on the Asian peers along with the rupee. Also change in stance of RBI governor Sanjay Malhotra who stated that the central bank is open to more flexible rupee and will allow it to move freely in tandem with its local peers as against former RBI governor Das who favoured a very stable rupee against the US dollar is also putting pressure on rupee.

The reciprocal tariff remains the biggest threat to India which may weigh on the rupee

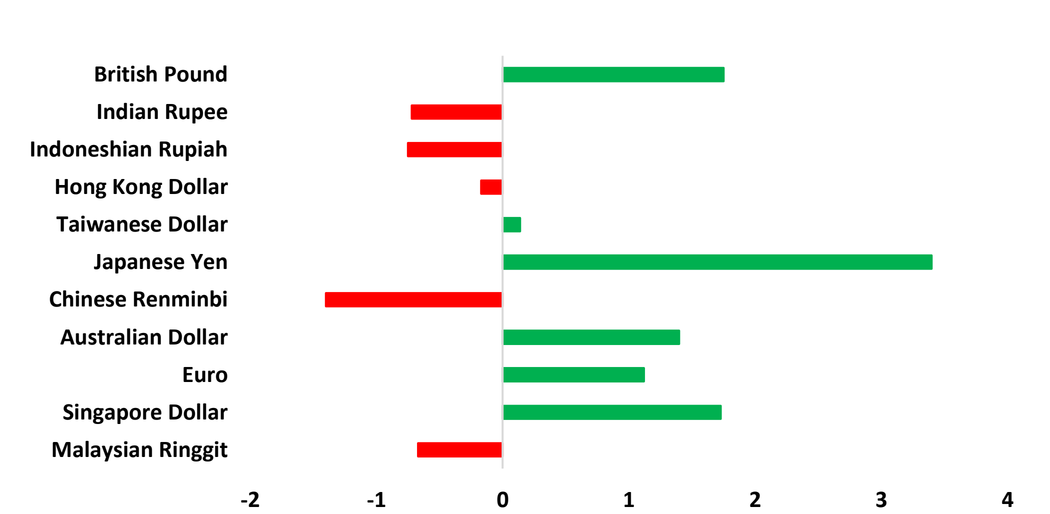
Since the US President Donald trump joined the office he has made numerous announcements regarding trade tariffs starting with 25% tariff on goods from Canada and Mexico which was delayed for 30 days but it led the rupee cross 87.00 level on 3rd Feb'25 against the US dollar. The next announcement came on reciprocal tariffs which lead the pair to touch lifetime low of 87.95 on 10th Feb'25. But amongst all this tariff announcement only 10% tariff on China has been implemented to this response China has also impose retaliatory tariffs on US products.

All eyes will be on implementation of reciprocal tariffs by Trump administration which might be implemented after 1st April in which India might be affected as US runs a trade deficit with 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 may see the rupee weakening further. While the Indian central bank released data, this month shows 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.

Indian Rupee remains one of the worst performing currency despite weakness in US Dollar *(Fig 9)*



INR selling pressure continued in Feb'25 amid FII outflows and RBI announcing Buy/Sell swaps which kept US dollar bid *(Fig 10)*



Source: Bloomberg, Reuters, UBI research

REER cooled down from all-time highs

FPIs have turned negative in 2025

Persistent foreign fund outflows continue to weigh on investor sentiments along with the rupee

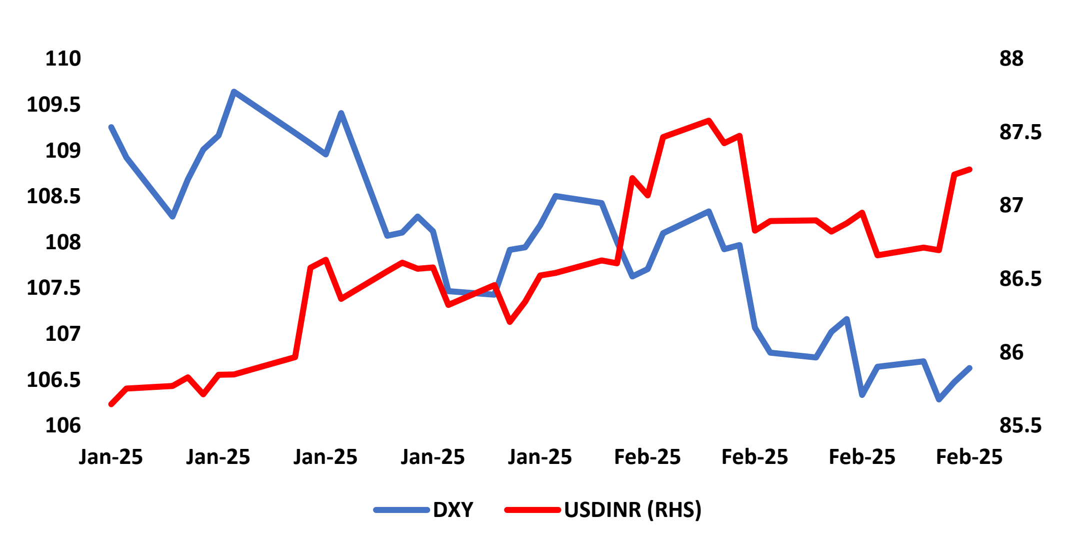
Although the rupee has depreciated by c.1% against US dollar in Jan'25 and c. 1.33% in Dec'25. The data also shows RBI's dollar sales in the foreign exchange market were at a fresh record high of $69.05 billion in Dec'24, up $17.94 billion from the previous month, indicating the scale of the central 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 sharp widening to $23.0bln. While our analysis shows that BoP dynamics stayed under pressure even in Jan'25 at $13.58bln. FYTD25 Balance of Payment (BoP) is tracking negative c.$23.61bln (Q1: $6.37bln, Q2: $27.65bln, Q3: -$42.27bln & Q4 till date: -$15.35bln) 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 snapped a three-week winning streak and saw a decline of $2.54bln to drop to $635.72 billion as of February 14, coming off over one-month highs ($0.72bln fall was adjusted after valuation effects) which previously saw an increase of $7.654 billion in the preceding week. However, the fall in foreign exchange reserves was limited as the RBI likely neutralised a majority of its spot interventions through active buy-sell swaps in the dollar/rupee forwards market.

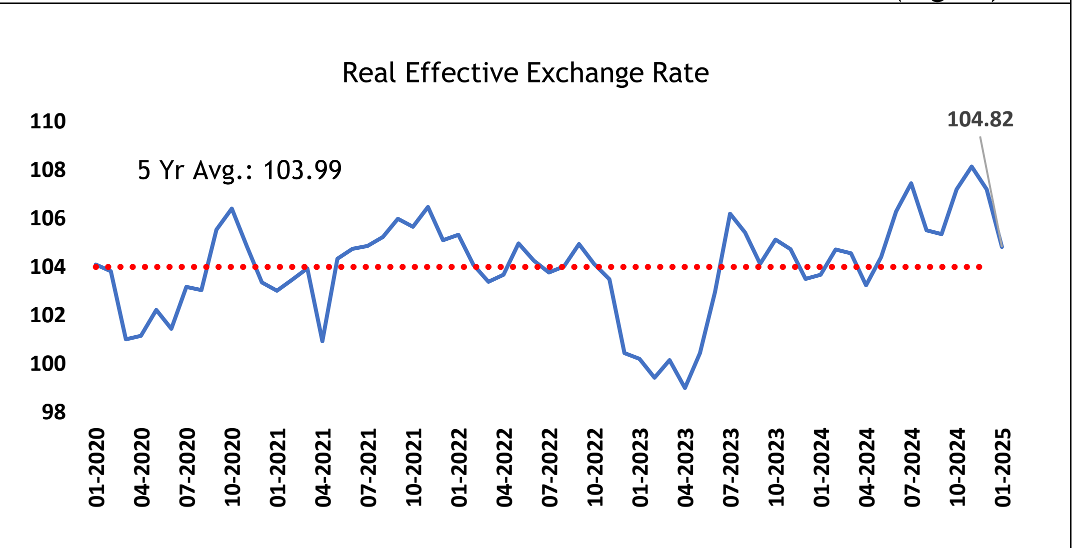
While FPIs net withdrew $11.12bln (highest in a decade) in Oct'24, the same trend continues this year as well. In equity segment flows turned negative in Jan'25 to $9.04bln and 4.11bln in Feb'25 (till 27th Feb). Also, the debt segment has turned positive to the tune of $0.2bln visà-vis outflow of $0.50bln from the previous month. Moreover, the FAR related flows are strong $1.14bln in Feb'25 vis-à-vis inflow of $0.95bln in Jan'25.

RBI is taking various steps to limit indirect adverse impact of liquidity like daily VRR, one such measures it announced is buy/sell swaps in order to make to make net liquidity neutral. The central bank will conduct a three-year USDINR buy/sell swap worth $10 billion on February 28. 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. Going forward the muted trend in domestic markets and persistent foreign fund outflows continue to weigh on investor sentiments, undermining the local currency. Furthermore, the latest tariff announcements from US President Donald Trump have sent shockwaves through global markets, which may continue to weigh on the rupee.

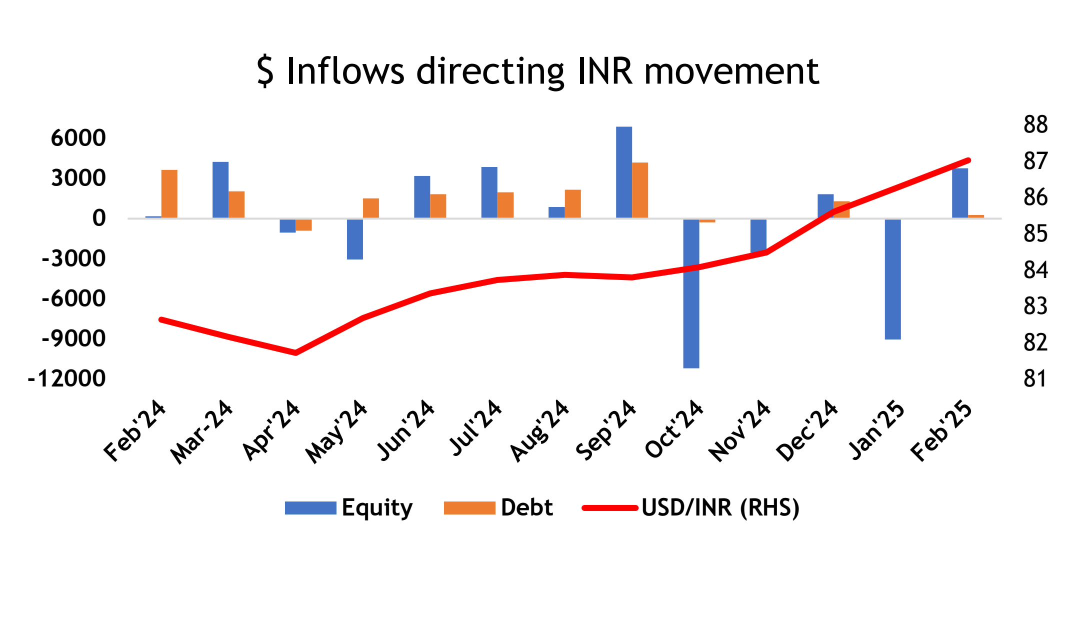
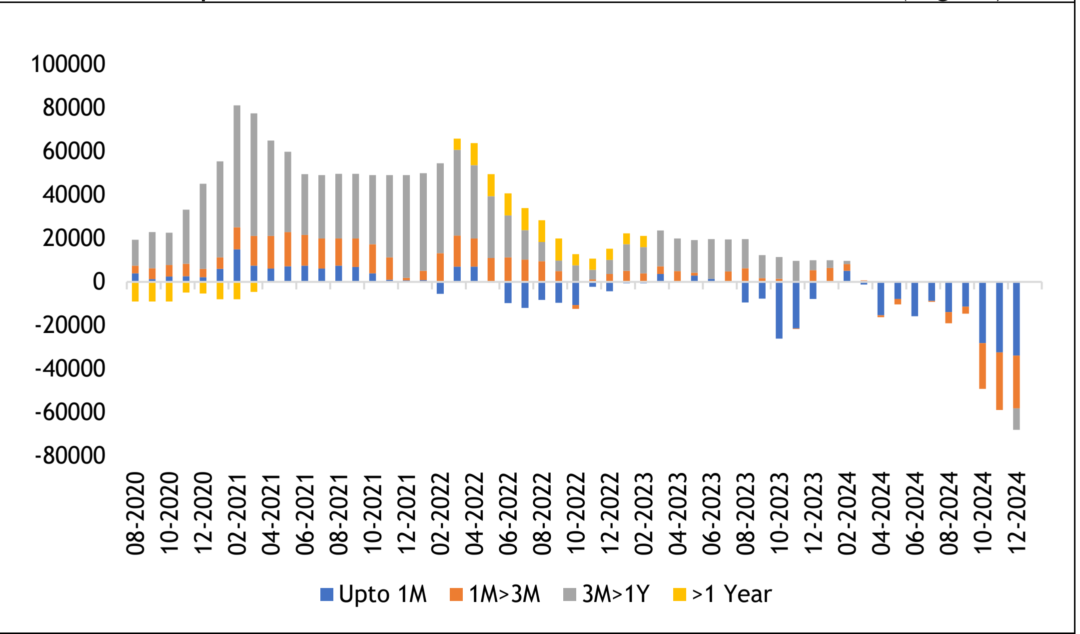
Rupee continues to depreciate despite weaker US Dollar *(Fig 11)*



REER has eased in Jan'25 which is a bit of relief *(Fig 12)*

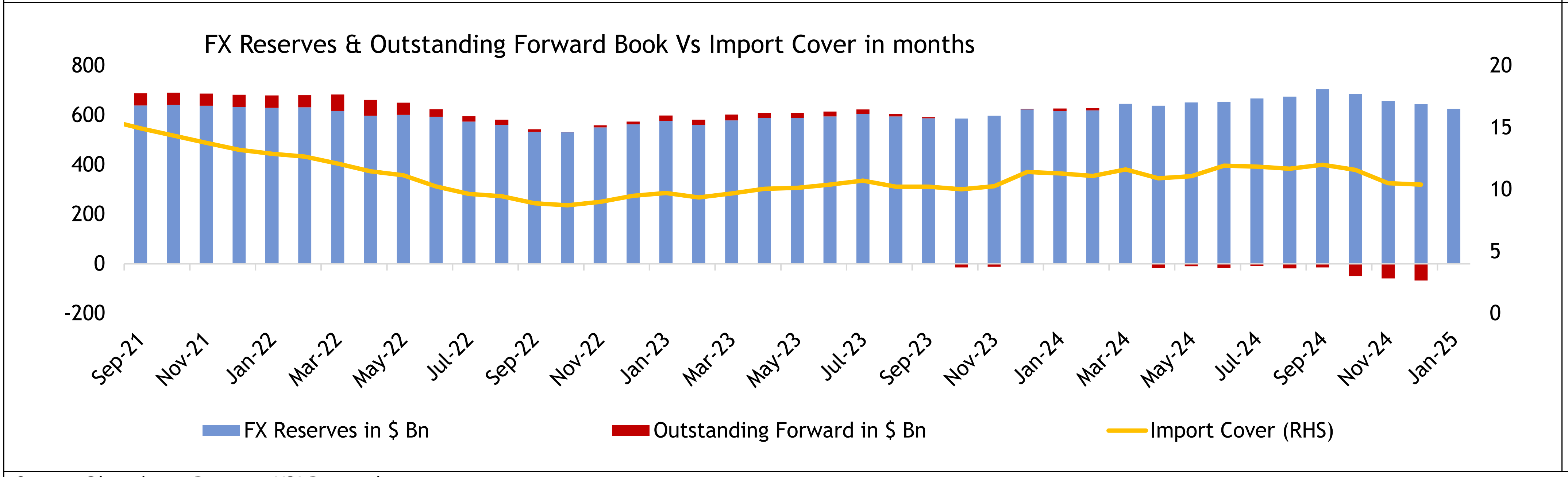


Source: Bloomberg, Reuters, UBI research

Rupee seen depreciation pressure amid continuous FPI outflows *(Fig 13)*	RBI forward position at record short levels *(Fig 14)*
	

Source: Bloomberg, Reuters, UBI Research

FX Reserves continues to fall and thus reducing import cover *(Fig 15)*



Source: Bloomberg, Reuters, UBI Research

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