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Consolidated Percentage Breakdown
Across Latest Studies table (1)

Stakeholder	CBO (2025 Tariffs)	St. Louis Fed	Richmo nd Fed
US Consumers/ Importers	95%	90-100%	80-95%
US Producers/ Exporters	0-5%	0-10%	5-20%
Foreign Exporters	5%	0-10%	0-10%

The key themes shaping markets are:

- 1) the Fed's December 2025 decision and rapidly shifting rate-cut expectations;
- 2) the tug-of-war between tariff-driven inflation and a cooling labour market (soft landing vs. slowdown); and
- 3) the ongoing AI/tech-led equity rally against the backdrop of stretched valuations.

The most immediate focus is the Fed's December meeting. Monetary policy has shifted from a stabilising anchor to a major source of uncertainty. Market pricing has been volatile: the implied probability of a December cut fell to ~30%, recovered to two-thirds, and now stands at around 85%. With growth slowing but not collapsing, the labour market gradually softening, and inflation stuck near 3% (well above the 2% target). While this is a risk-management call, there is a trade-off: cutting now could reduce the risk of a sharper labor-market downturn later (at the cost of some inflation risk), while holding rates would protect credibility on the inflation target (at the cost of potentially overtightening an economy that is already softening). The outcome will significantly influence yields, the dollar, global capital flows, and the softness of the eventual landing. So far, while the 2025 tariff shock was expected to reduce global flows, it has not clearly reduced global trade in aggregate; instead, it has largely re-routed trade.

Markets are grappling with two opposing forces tariff-related inflation versus cooling domestic demand raising key questions about who ultimately absorbs the tariff burden? Table (1) shows the tariff cost is borne largely onshore: U.S. consumers and importers absorb roughly 80-100% through higher prices, foreign exporters bear little (~0-10%) via limited price cuts, and U.S. producers take a smaller share (~0-20%) mainly through margin compression or higher input costs.

Third, U.S. equities continue to be dominated by AI and mega-cap technology, with valuations effectively pricing in a sustained productivity boom. The core macro debate is whether we are witnessing the early stages of a genuine productivity upswing that will justify current multiples, or a capex-driven frenzy that could face a sharp repricing if earnings growth disappoints.

Earlier in the month, the dollar firmed, but that move has since unwound and the DXY is now back below 100. Into late November 2025, the near-term USD impulse has softened and the balance of risks still leans toward further slippage. That said signal is mixed: The Fed remains divided even as markets have repriced aggressively toward easing. If the Committee instead opts to pause in December 2025, the repricing could reverse quickly rebuilding rate support and putting the DXY back on an upward track. While the yen has depreciated after Sanae Takaichi's stimulus announcement, though verbal intervention has capped losses; markets now assign roughly 34% odds to a BoJ rate hike in December.

The Indian rupee breached the psychological 89-per-dollar level after trading near 88.80 for nearly two months which was not a surprise for us ([refer our report](#)), pressured by fading Fed-cut expectations and uncertainty surrounding a potential India-U.S. trade deal with the latter likely to remain a key driver in the coming months. On the domestic front, RBI Governor Sanjay Malhotra noted that recent macro data still support further rate cuts, though any decision at the upcoming MPC meeting will be collective. This aligns with [our call](#) for a Dec'25 rate cut. Now the key focus remains on the release of US economic data, any progress toward a resolution of the Russia-Ukraine war, and growing concerns that the Japan-China divide could widen. These developments could reshape market moves in the coming months.

- ♣ A Split Fed, a Softer Dollar: Why the Greenback's Bear Market May Have More Room
- ♣ EUR/USD Playbook: Post-Rally Consolidation, Dec Fed Event Risk, and the 1.14-1.19 Trading Corridor
- ♣ Yen on the ropes as markets are increasingly pricing in a BOJ rate hike
- ♣ Rupee slumps to fresh record lows amid trade tensions & FPI outflows; eyes on RBI MPC & US data

Two-way volatility likely persists, but the medium-term USD downtrend remains the base case as the Fed leads the G10 in the next easing leg.

FOMC December 2025: Dovish Tilt vs. Hawkish Resistance - Divide within FOMC

The Federal Open Market Committee (FOMC) is deeply divided on whether to implement a 25-basis point (bp) rate cut at its December 9-10 meeting. Recent minutes from the October 29 meeting reveal "strongly differing views," with "several" members open to a cut if economic data aligns with expectations, but "many" advocating for no further action in 2025 to avoid entrenching inflation above the 2% target. Market expectations, per CME FedWatch futures (as of November 25), have shifted dramatically, pricing in an approximately 85% probability of a cut.

FOMC Members' Stances: Bullish (Dovish), Hawkish, and Neutral

FOMC stances based on recent speeches, voting records, and dot-plot projections (September 2025: median of two cuts for 2025, but dispersion shows divides) **5 Dovish (favoring Dec cut), 3 Hawkish (opposing), 4 Neutral**. Voting could see 1-2 dissents, per October precedent. Non-voters (e.g., hawkish Lorie Logan, Neel Kashkari) amplify caution.

Dove-green, hawk-red

Voting Member	Role	Stance on Dec Cut	Key Reasoning/Recent Comments
Jerome Powell	Chair, Board of Governors	Neutral	Balances risks; "not foregone conclusion"; open if labor softens further.
John C. Williams	Vice Chair, NY Fed	Dovish	Sees "further adjustment" soon; labor weakness warrants easing.
Michael S. Barr	Board of Governors	Neutral	Data-dependent; supported October cut but cautious on pace.
Michelle W. Bowman	Board, Vice Chair Supervision	Dovish	Moderately dovish; favors cuts to avoid over-tightening.
Susan M. Collins	Boston Fed President	Hawkish	Leaning against Dec cut; inflation risks high amid tariffs.
Lisa D. Cook	Board of Governors	Dovish	Supports employment focus; open to Dec if data aligns.
Austan D. Goolsbee	Chicago Fed President	Neutral	Cautious; emphasizes inflation monitoring post-tariffs.
Philip N. Jefferson	Board, Vice Chair	Neutral	Slightly hawkish shift; data-driven on employment risks.
Alberto G. Musalem	St. Louis Fed President	Hawkish	Limited room for easing; policy should lean against inflation persistence.
Christopher J. Waller	Board of Governors	Dovish	Dec cut "appropriate"; labor weak, no rebound evidence.
Stephen I. Miran	Board of Governors	Dovish	Dissented for 50bp in Oct; aggressive easing to pre-empt slowdown.
Jeffrey R. Schmid	Kansas City Fed President	Hawkish	Dissented against Oct cut; inflation too hot, policy at neutral.

What would justify a rate cut in Dec'25 (the "cut" case)

Factor	Description/Impact
Weakening Labor Market	Job gains slowed to 119k in Sep (expected revisions lower); unemployment at 4.4%, edging higher; downside risks rose per Oct statement. Supports easing to prevent recession.
Controlled Inflation	Core PCE ~3% but cooling (e.g., recent PPI decline); allows focus on jobs without immediate reacceleration fears.
Balanced Risks	Oct cut shifted policy toward neutral; further 25bp keeps stance accommodative without excess. Waller: "Labor weak enough" for Dec action.
Economic Uncertainty	Shutdown delays obscure trends; anecdotal Beige Book data shows softening demand, justifying preemptive cut.
Consumer/Housing Strain	Affordability crisis (high rates exacerbate); cut eases borrowing for mortgages, autos amid Trump-era housing complaints.

What would argue against cutting (the “hold” case)

Factor	Description/Impact
Persistent Inflation	Above 2% target for extended period; core goods pickup expected from tariff pass-through; risks entrenchment if cut now
Resilient Economy	Moderate GDP growth, strong consumer spending; Sep jobs beat expectations, signalling stability over weakness
Tariff/Policy Uncertainty	Incoming tariffs could boost prices; easing now misread as lacking 2% commitment (per Oct minutes)
Data Gaps	No Oct jobs/CPI until post-meeting; incomplete info raises bar for action (Collins: "hesitant" due to dual risks)
Policy Neutrality	Current 3.75%-4% range near neutral; further cuts risk over-accommodation, per hawks like Schmid and Musalem

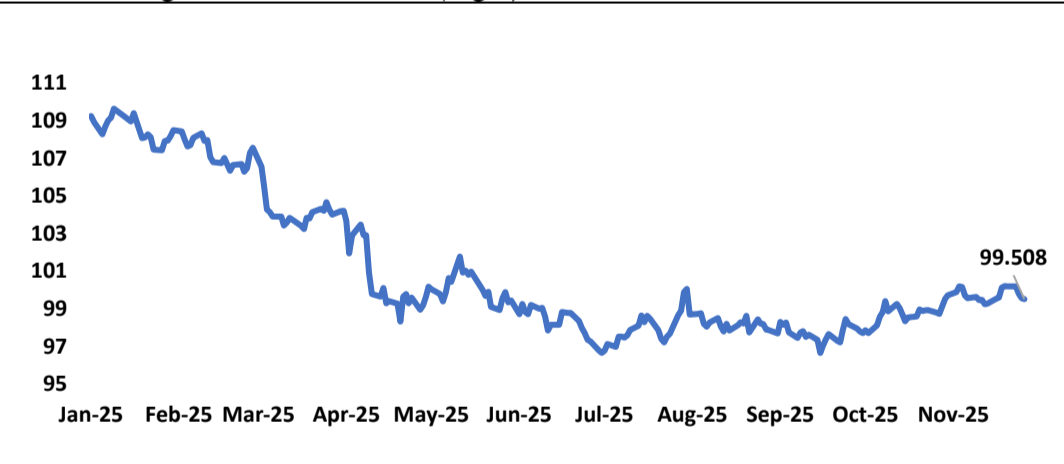
With the FOMC split and growth signals cooling, the USD stays data-driven near term 99-103 if the Fed pauses, but 96-98 becomes likely if cuts resume.

Why the Greenback’s Bear Market Isn’t Over Yet

The broad USD tone has softened into late November 2025, with the dollar index easing toward ~99.6-99.8 as weaker U.S. data revived the view that a Dec’25 Fed cut is back in play. Sentiment indicators are also wobbling. U.S. consumer confidence, for instance, fell sharply in November reinforcing the “growth cooling” narrative. Also, Dollar selling deepened on reports that Kevin Hasset is the leading contender to become the next Fed Chair. Seen closely aligned with the Trump administration, his appointment would reinforce expectations of a more activist push to reshape how the Fed operates. Markets would likely read this as a tilt toward prioritising full employment over strict inflation control consistent with a softer dollar.

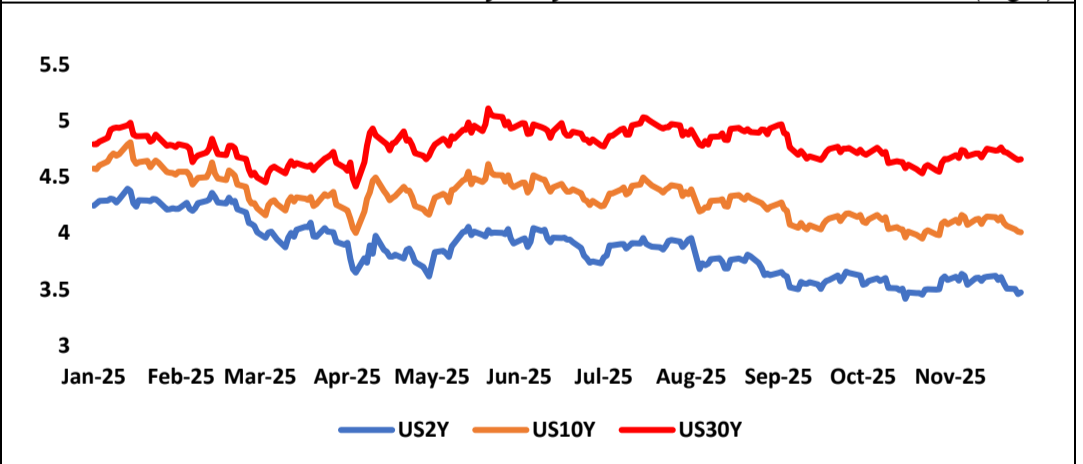
More broadly, the USD’s late-2025 trajectory reflects a mix of a Fed pivot toward easing and renewed uncertainty tied to trade-war risks. The DXY has fallen by more than 1% since November 20, even as Fed minutes underscored internal divisions over further cuts; rate futures still price in roughly three to four additional reductions by end-2026 on top of the two delivered this year. Stronger-than-expected labor data has tempered near-term dovishness, but emerging cracks in the jobs market alongside delayed October releases keep easing expectations alive. Globally, the euro is up about 12% YTD on relatively hawkish ECB signalling and optimism around German fiscal support, while the yen sits near 157 amid persistent speculation over BOJ hikes. Meanwhile technically in near term, a Fed pause could steady the DXY in a 99-103 range; but if the Fed resumes cutting, the balance of risks tilts toward 96-98.

The broad USD tone has softened into late November 2025, with the dollar index easing toward ~99.6-99.8 (Fig 1)

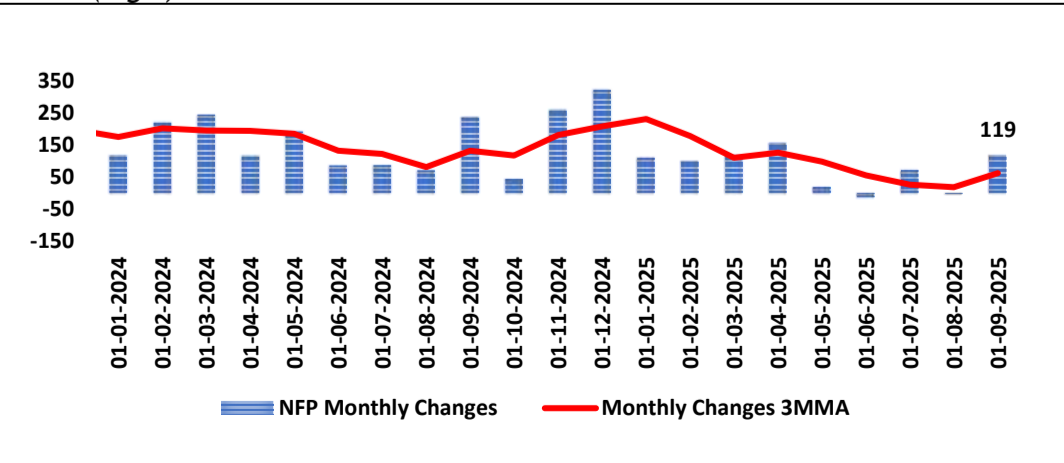


Source: Bloomberg, UBI research

With the increased probability of Dec’25 rate cut the shorter end of the curve has been most volatile with the 10-year yield down to around 4% (Fig 2)

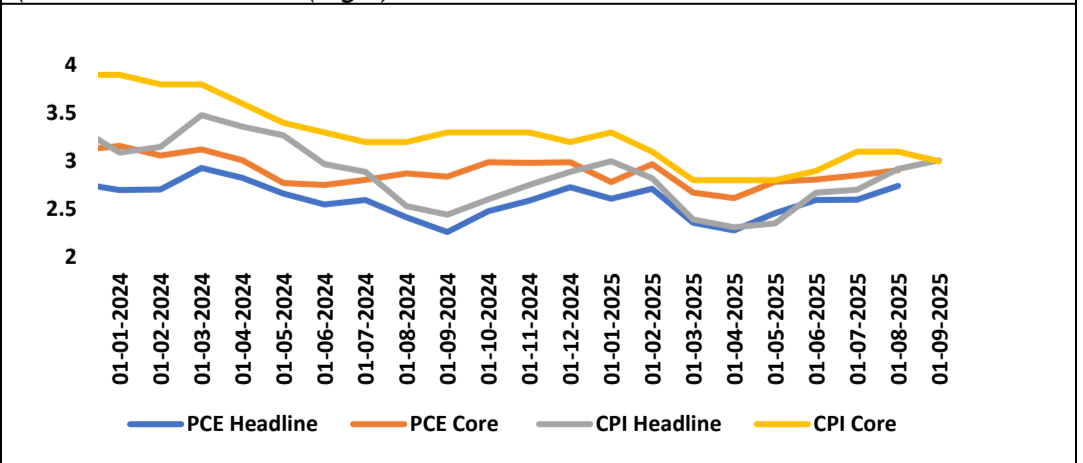


U.S. jobs trend is cooling—latest Sep 2025 NFP +119k with unemployment at 4.4%. (Fig 3)



Source: Bloomberg, UBI research

Inflation is still hovering near 3%—Sep CPI +3.0% y/y and Aug PCE +2.7% y/y (core PCE +2.9. (Fig 4)



♣ **EUR/USD Playbook: Post-Rally Consolidation, Dec Fed Event Risk, and the 1.14-1.18 Trading Corridor**

A “dull-but-stable” eurozone and a softer dollar backdrop keep EUR/USD biased toward the high-1.19s medium term, but the path is likely choppy and range-bound with data-driven swings and positioning squeezes.

The euro area is characterised by **slow but better-than-expected growth** and near-target inflation. With GDP growth around 1.3% and inflation close to 2%, Europe looks like a stable but unspectacular part of the global cycle. On this macro base, this year the euro has recovered strongly. The EUR/USD pair is up ~12% YTD, with a high at 1.1918 and a low near 1.0175. A weaker dollar after Fed cuts and tariff uncertainty, plus a euro area that looks “dull but stable”, has made the euro one of the better-performing G10 FX in 2025.

Overall, the macro picture supports EUR/USD in the high 1.19s over the medium term, but getting there is likely to involve range-trading, data-driven spikes and periodic squeezes of both euro longs and dollar shorts.

EUR/USD in November: Pause After the Rally

Despite ECB cuts, the euro has still appreciated about 12% against the dollar as investors reassess US tech, politics and the Fed’s rate-cut path. After a double-digit rally, EUR/USD is now consolidating in a sideways range around the mid-1.15s, with momentum cooling. The pair is effectively in a holding pattern within a broader uptrend, as markets wait for clearer signals from delayed US data, the Fed’s December meeting, and the ECB’s guidance for 2026 trying to gauge the new equilibrium between a Fed that has begun cutting and an ECB that has eased but is now on pause.

At its 30 October meeting, the ECB kept key rates unchanged. Market pricing now implies a very high probability of no change at the next meeting 18th Dec’25 (deposit rate at 2.00%). Markets now see fewer cuts in 2026.

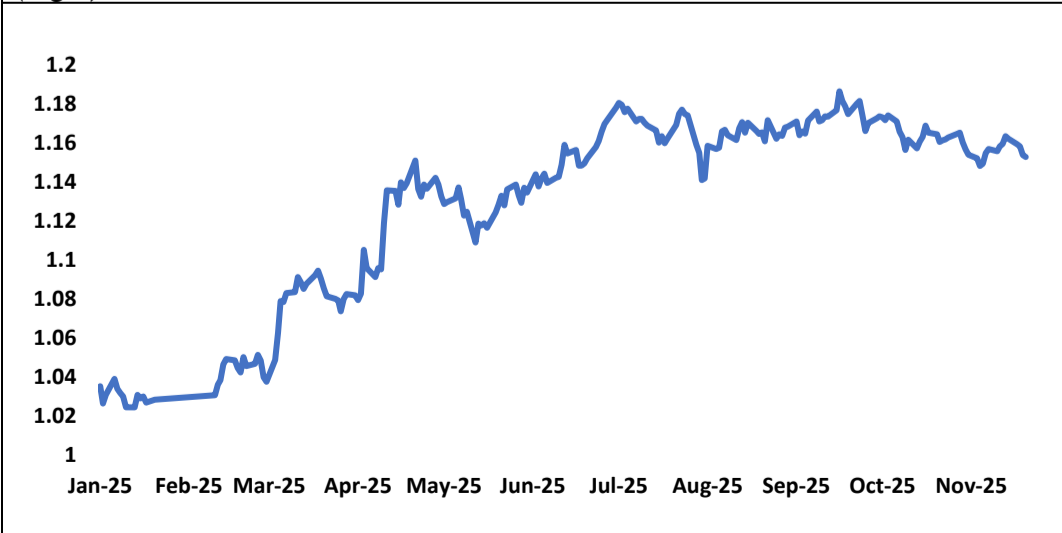
Why EUR/USD’s Next Move Could Be Outsized

Event risk is elevated as a divided Fed heads into the December FOMC meeting also the next US labour print is the key swing factor a clearly weaker report could accelerate dollar weakness and nudge EUR/USD up towards 1.18-1.20, while resilient data and sticky inflation would argue for fewer Fed cuts and a tactical dollar rebound towards 1.13-1.14. For now, the pair is trading inside that corridor, waiting for a clearer signal.

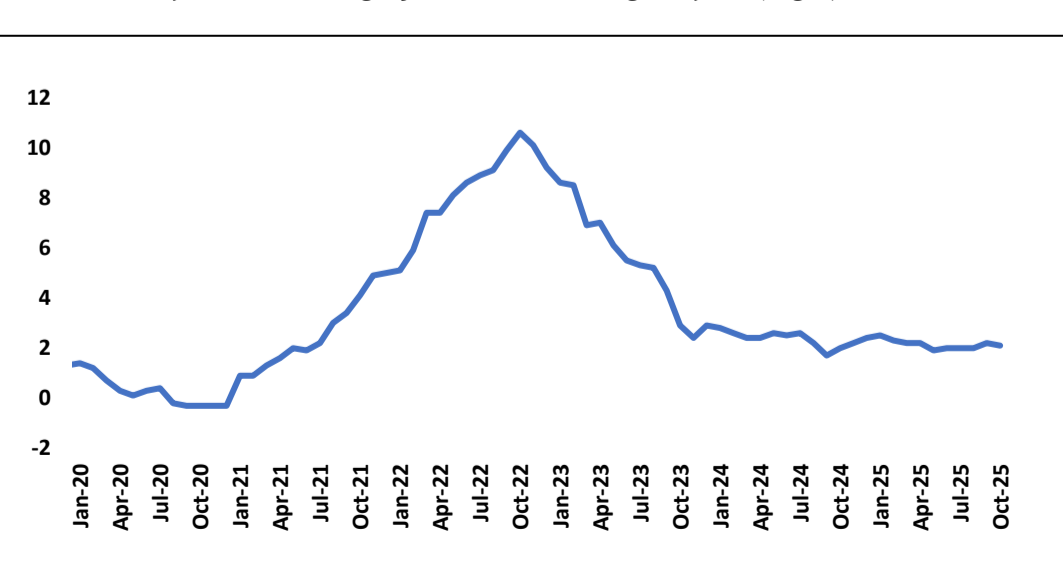
Beyond the immediate data risk, the medium-term story splits into two paths. In the bullish EUR scenario, US data soften further, tariffs act as a negative demand shock and the labour market cools, pushing the Fed into more and faster cuts which moves EUR/USD pairs towards 1.18 level. In the bearish scenario, the export boost fades, domestic demand weakens, Germany under-delivers on fiscal support and euro-area growth drops, while Fed cuts slow as US growth holds up; real-rate differentials swing back towards the dollar and EUR/USD slides towards 1.10-1.12, giving back a sizeable chunk of the 2025 rally.

After a ~12% rally, EUR/USD is consolidating around the mid-1.15s within an uptrend, as markets await delayed US data and December guidance, with ECB seen on hold at 2.00% on Dec 18 and fewer cuts priced for 2026.

The macro picture supports EUR/USD in the high 1.19s over the medium term (Fig 5)



Euro zone inflation has largely returned to target of 2% (Fig 6)



Source: Reuters, UBI research

♣ Yen on the ropes as markets are increasingly pricing in a BOJ rate hike

In November 2025, the Japanese yen weakening around 1.2% against the U.S. dollar as it moved from roughly 154.01 at end-October to about 157.90 on 20 November its highest level since January 2025.

Forces which largely drove the depreciation were First, 10-year JGB yields pushed to multi-year highs as markets digested the ~ ¥21.3 trillion fiscal package, reviving concerns around fiscal sustainability and term premia. Second, Governor Ueda’s cautious communication initially reinforced the view that the Bank of Japan could hesitate to hike in December. While authorities leaned against the move via repeated verbal warnings Finance Minister Katsunobu Kato and MOF officials flagged FX moves on 12 and 18 November keeping intervention risk in the background which kept JPY weakness on check.

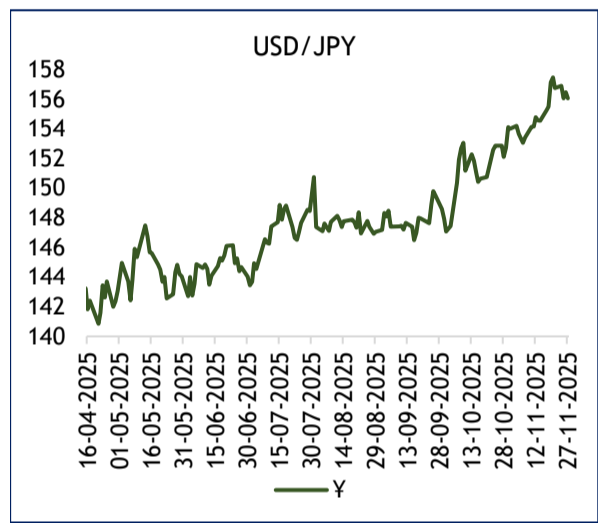
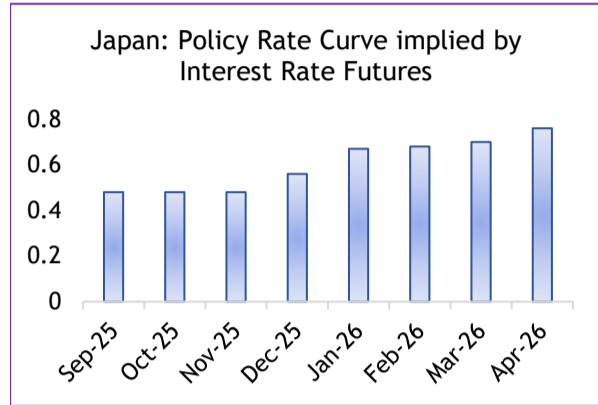
More recently, the market narrative has become less one-way. Dovish BOJ board member Noguchi noted progress toward the 2% inflation objective and warned that renewed yen weakness could add to price pressures, but he stopped short of signalling timing. Attention now turns to Governor Ueda’s speech next Monday for clearer guidance. Notably, rate pricing has shifted materially, with markets now implying roughly a 33% probability of a December hike, up from about 16% a week earlier suggesting expectations have rebounded even as the yen remains under pressure.

Outlook (View ¥):

The Japanese yen has remained under steady downward pressure, with USD/JPY hovering near 156 after a roughly 1.17% monthly yen decline. A large ¥21.3tn fiscal stimulus, higher yields as the 10-year JGB yield breached the 1.81% upper bound, and fading expectations of near-term BoJ tightening have kept the currency soft.

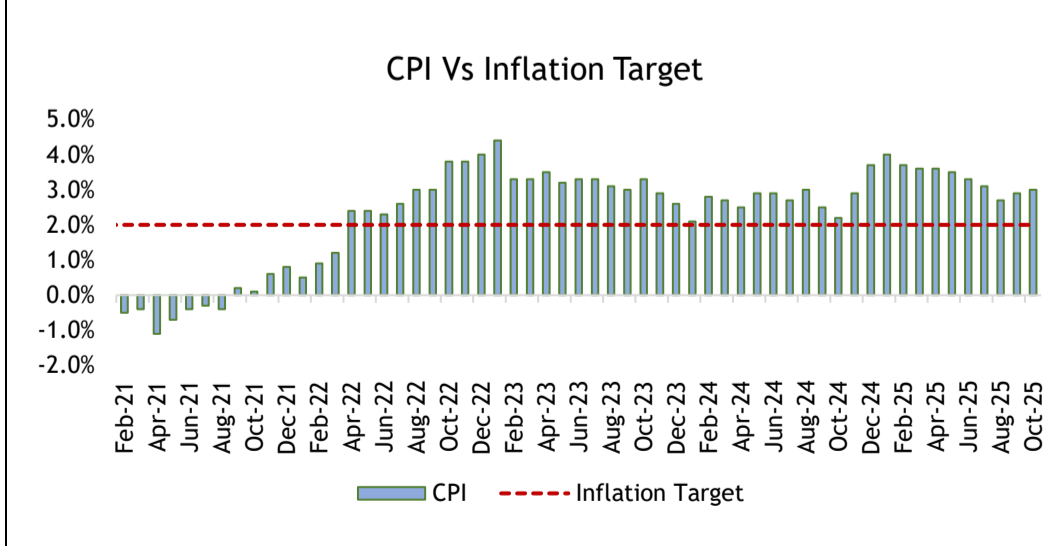
The yen remains vulnerable in the very near term, even as JGB volatility has eased; importantly, another bout of JPY weakness into year-end could itself increase the odds of a December BOJ hike. In terms of levels, a December hike would be pivotal in pulling USD/JPY back toward ~150 into year-end, as it would begin to unwind “yen-funding” by narrowing the policy-divergence narrative; beyond that, the BOJ to resume hikes in early 2026 once sustained wage momentum is confirmed, taking the policy rate toward 1% by mid-2026 with long-term rates rising toward ~2%, and see USD/JPY stabilising in a broad 140-150 range, noting that with further Fed cuts and BOJ hikes largely priced, the scope for additional yen gains purely from policy divergence is limited. While a dovish hold or cautious guidance would likely keep depreciation pressure intact and open the way towards 158.

Yen slides to Nine-Month lows as rising JGB yields, and BOJ dovishness fuel USD/JPY surge

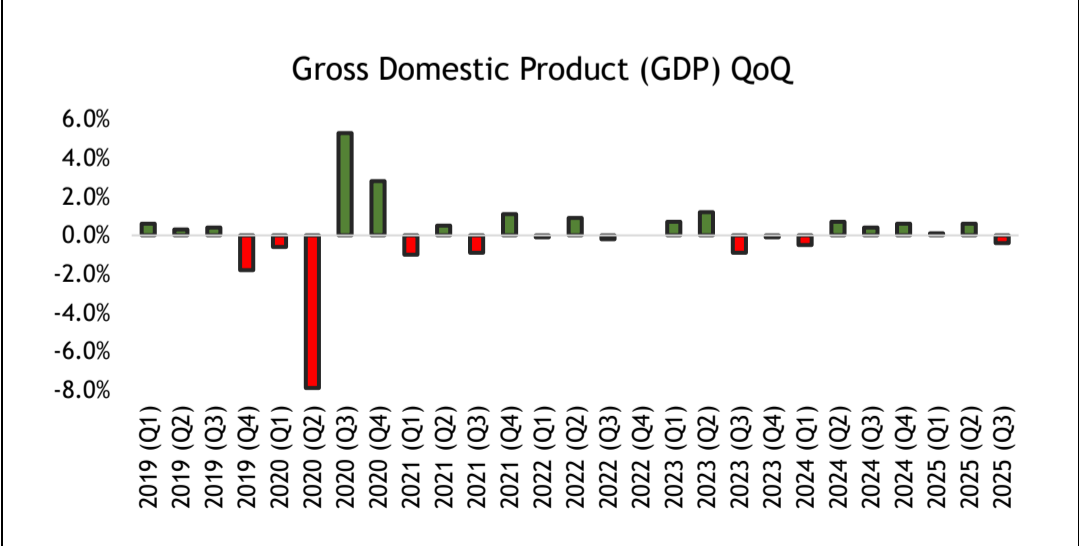


Yen remains weak near 156, with the BOJ’s December meeting set to dictate whether USD/JPY snaps back toward 152 or climbs toward 158.

CPI data inching up marking the highest reading since Jul’25 (Fig 7)



Japan GDP contracted QoQ in Q3 (Fig 8)



Source: Bloomberg, Reuters & UBI Research

Rupee hits a record low in Nov'25 amid US tariffs, FPI outflows, and trade tensions, with markets eyeing RBI MPC, GDP, and US data for direction

India-US trade talks make progress, aiming to ease Trump-era tariffs and potentially boost bilateral trade to \$500B by 2030.

Rupee slumps to record low amid trade tensions & FPI outflows; eyes on RBI MPC & US data

The Indian Rupee saw pronounced volatility through Nov'25, weakening against the US Dollar amid global uncertainty driven by newly imposed US tariffs and persistent Foreign Portfolio Investment outflows. The USD/INR pair began the month at ₹88.7775/\$ and climbed to a fresh record high of 89.4950 on 21st Nov'25 amounting to ~0.80% depreciation for the month & ~4.10% for this year.

The decline was largely fuelled by delays in resolving US-India trade disputes and an unexpectedly wide [October trade deficit of \\$41.68 billion](#). Seasonal dollar demand for overseas travel and education, a firmer US Dollar Index (+0.59%) following strong US economic data, shifting Fed expectations (with rate-cut odds for 10th Dec'25 falling to ~74%), and continued FPI selling also contributed to pressure. These factors were partly offset by solid IPO-related inflows estimated at ~\$8bln across Nov & Dec'25.

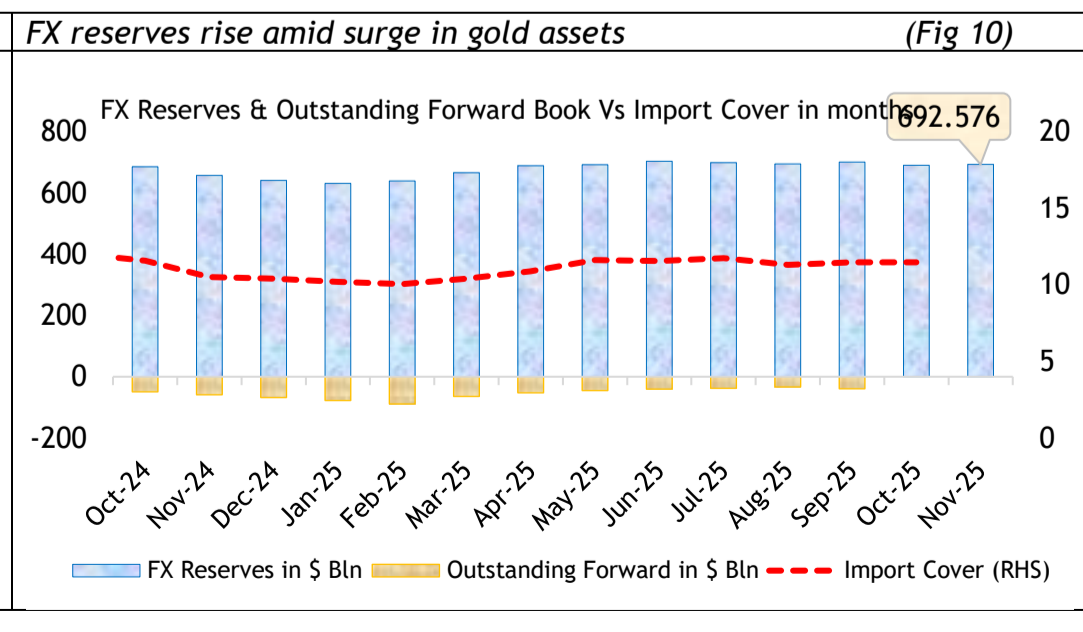
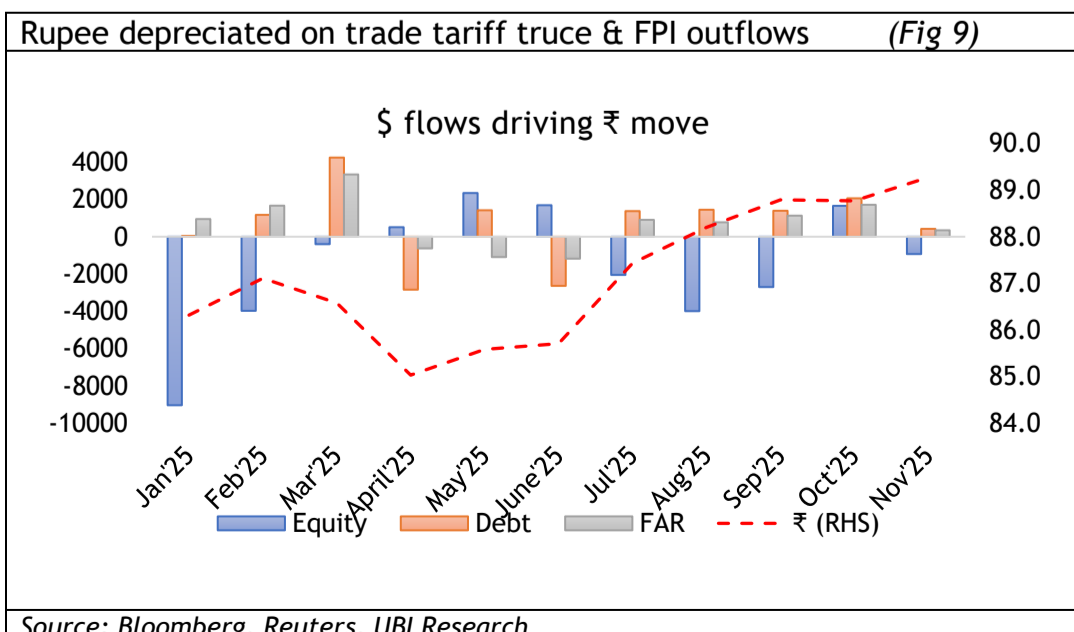
Investors now look ahead to key upcoming events—including India's Q2 FY26 GDP release on 28 Nov, the RBI's MPC meeting on 3-5 Dec, CPI data on 12 Dec, US Non-Farm Payrolls and unemployment figures on 5 Dec, and the 10 Dec FOMC decision—for fresh direction. Although the INR's November trajectory reflects broader economic challenges, trade disputes and shifts in global risk sentiment, Rupee remains vulnerable due to high import dependence and sensitivity to global financial uncertainties. [Refer Report: [FX weekly: Fed's policy now a central source of uncertainty while Dollar remains firm](#)]

🔗 Key Drivers for Rupee Movement:

- **Thaw in India - US Diplomatic Trade Tariffs:** Negotiations between India and the United States for a Bilateral Trade Agreement (BTA) are progressing toward closure in the first phase, with a focus on easing the 50% tariffs imposed by the Trump administration in Aug'25. The tariffs – split into 25% reciprocal duties and 25% penalties tied to Russian oil imports sparked a diplomatic and economic crisis, but recent developments signal a thaw. India's resilient economy and milder than expected export declines have given New Delhi leverage to negotiate without urgency, while energy sector deals are paving the way for broader relief. A full agreement could target \$500 billion in bilateral trade by 2030, up from \$191 billion currently.

Key Recent Developments:

- Tariff Rollback Signals:** On November 22, President Trump stated the US is "close" to a trade deal and will reduce tariffs on Indian goods "at some point," potentially dropping overall rates to 15-16% from 50%. The 25% Russian oil penalty tariff is expected to be lifted post-November, though the reciprocal 25% portion may persist through FY26. This follows exemptions for over 200 agricultural products and the removal of some punitive duties due to US inflation pressures.
- Energy Trade as a Bridge:** India signed a [one-year deal on 17th Nov'25 to import 2.2 million tonnes of US LPG](#) (about 10% of its 2026 needs), signaling diversification from Russian crude. Markets predict this will accelerate tariff relief, with India's Russian crude imports flat.



Source: Bloomberg, Reuters, UBI Research

DXY rose 1.47% in Nov'25, supported by strong US economic data and hawkish Fed signals, holding above 100; markets eye the 10 Dec FOMC for year-end direction amid a YTD decline of ~8%.

India's merchandise trade deficit hit a record \$41.68B in Oct'25, driven by oil, gold, and non-oil/non-gold gaps, signaling a wider FY26 current account deficit of ~1.7% of GDP amid ongoing global trade pressures

FPIs pulled \$600M from Indian equities in Nov'25 amid US shutdown and tariff concerns, while debt inflows remained steady at ~\$700M; year-end flows may improve on Fed cuts and softer US yields.

- c) Export Resilience and Government Support: [Indian exports to the US fell 8.6% year-on-year](#) in October (to \$6.3 billion), milder than September's 12% drop (\$5.43 billion). Sectors like engineering saw revivals, easing pressure on talks. On 12th Nov'25, India approved a [\\$5.1 billion exporter aid package](#), including credit guarantees and logistics support, to offset tariff impacts.
- d) Negotiation Momentum: Six rounds of talks have occurred since March, with both sides "satisfied" per Indian Commerce Minister Piyush Goyal. India is open to cutting import tariffs on over 80% of US goods (while protecting agriculture) and raising US corn quotas. The appointment of Trump loyalist Sergio Gor as US Ambassador to India on 10th Nov'25 underscores a push for quicker resolution, though experts warn of volatility from "political" diplomacy.

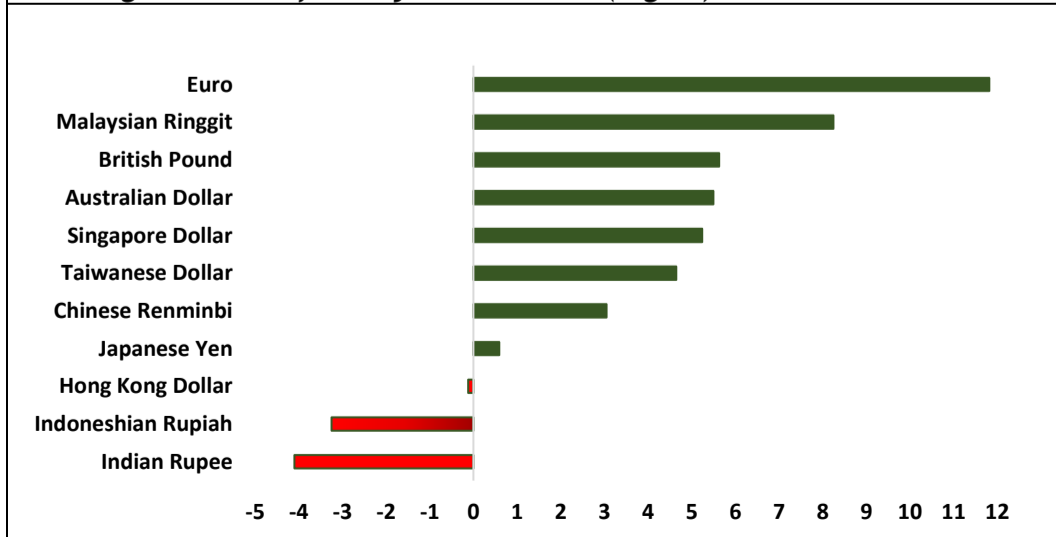
✚ **Dollar Index (DXY)** rose 1.47% in this month, recovering from an early-month dip near 99 to a high of 100.39. The rally was supported by stronger-than-expected US services PMI, robust ADP private payrolls, better-than-expected Non-Farm Payrolls (+119k vs +55k forecast), and hawkish Fed minutes that then lowered expectations for a Dec'25 rate cut. Despite volatility from the lingering effects of the 43-day government shutdown, delayed economic releases, and mixed FOMC minutes highlighting internal Fed divisions.

Looking ahead, markets expect a modest depreciating bias for the DXY, depending on the 10th Dec'25 FOMC meet. A hawkish 25 bps rate cut with cautious forward guidance could push the index higher by year-end, while any surprises or softer jobs and inflation data could weigh on the dollar. On a MoM basis, surged by ~1.47%, and they still reflect a **YTD decline of ~8%**.

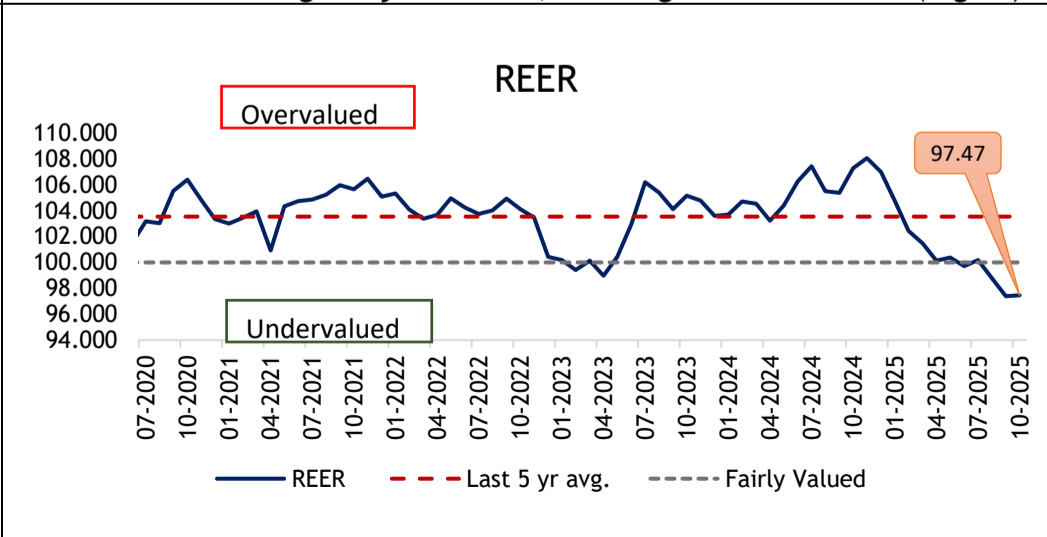
✚ **Merchandise trade deficit** widened to record high to **\$41.68bln in Oct'25**, from \$32.15bln in the previous month. That said, the data blew past the market's downside expectations of \$28.8bln and exceeded our upside estimate of \$33.3bln, marking a significant turning point in India's trade balance. In terms of sectoral drivers, oil deficit remained elevated with a marginal uptick with the latest number at \$10.84bln, gold deficit surged to record highs of \$16.20bln. More importantly, non-oil non-gold deficit widened further to near record highs as expected to \$14.64bln from \$13.18bln on the back of impact on export demand from trade tensions. 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.

✚ **Foreign Portfolio Investors (FPIs)** continued their aggressive selling in Indian markets in Nov'25, withdrawing **\$600mln** for the month and bringing YTD net outflows to **\$16.58bln** as of 25th Nov'25. Equity outflows were particularly sharp in the first half, driven by US government shutdown concerns, elevated US yields, and trade tariff fears, while flows turned mixed later with primary-market activity (IPOs), leaving net equity outflows for the month at around \$600 million. In contrast, debt inflows remained steady at ~\$700 million, supported by expectations of G-Sec index inclusion, compared with \$2 billion inflows in October. **FAR flows totaled \$8.18 billion YTD**, with \$600 million inflows in November so far. Looking ahead, markets anticipate a modest turnaround in FPI equity flows, aided by a likely 25 bps Fed rate cut, softer US yields, and year-end portfolio rebalancing, while debt inflows are expected to remain robust.

% Change in Jan'25 for major currencies (Fig 11)



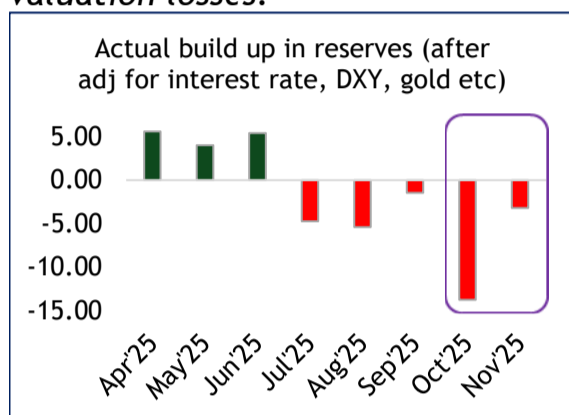
REER increased marginally in Oct'25; showing Undervaluation (Fig 12)



Source: Bloomberg, Reuters, UBI Research

Brent crude slid ~4% this month as easing geopolitics, rising supplies, & weak demand drove a broadly bearish outlook toward \$60.

FX reserves surged \$5.54bln to \$692.58bln amid jump in gold, despite valuation losses.



REER inched up to 97.47 in Oct'25 but remains undervalued, leaving room for a rebound toward 100 on any positive India-US BTA signals.

Rupee stays range-bound down ~4% YTD faces pressure trade-deal uncertainty & from outflows, with appreciation potential hinging on a US-India agreement.

- ✦ **Brent crude oil** fell ~3.87% this month, wiping out early-month gains above \$65 as the Ukraine-Russia risk premium eased following U.S.-brokered peace talks. The decline was further supported, weak Chinese demand, and record non-OPEC output. Prices touched low ~\$61 before a late technical rebound on oversold conditions and a 3.4-million-barrel draw in U.S. inventories. YTD losses now exceed 16%. Looking ahead, forecasts suggest further softening toward \$60, driven by accelerating stock builds, seasonal demand weakness, and potential additional OPEC+ supply if compliance slips. Upside remains limited unless Middle East tensions flare or China announces major stimulus with the overall bias remains bearish, if geopolitical de-escalation continues.
- ✦ **FX reserves** surged by \$5.54bln to **\$692.58bln** for the week ending 14th Nov'25 (covering ~11 months of imports), driven mainly by a **\$0.15bln** rise in FCA to \$562.29bln and **\$5.33bln** jump in **Gold**. With this rise, reserves now inch closer with **\$12.28bln** shy of all-time highs **\$704.86bln** recorded on 27th Sep'24. A valuation loss of \$0.25bln was also noted in this week, with a cumulative of **-\$19bln since Sep'25** highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP deficit of ~\$14bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.
- ✦ **The Rupee's Real Effective Exchange Rate (REER)** against a basket of 40 currencies (Base: 2015-16=100), in terms of trade-based weights, inched marginally higher to **97.47 in Oct'25** vis-à-vis 97.40 in Sep'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 Sep'25 of \$7.91bln** vis-à-vis sale of \$7.66bln in Aug'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.

Outlook (₹ - INR)

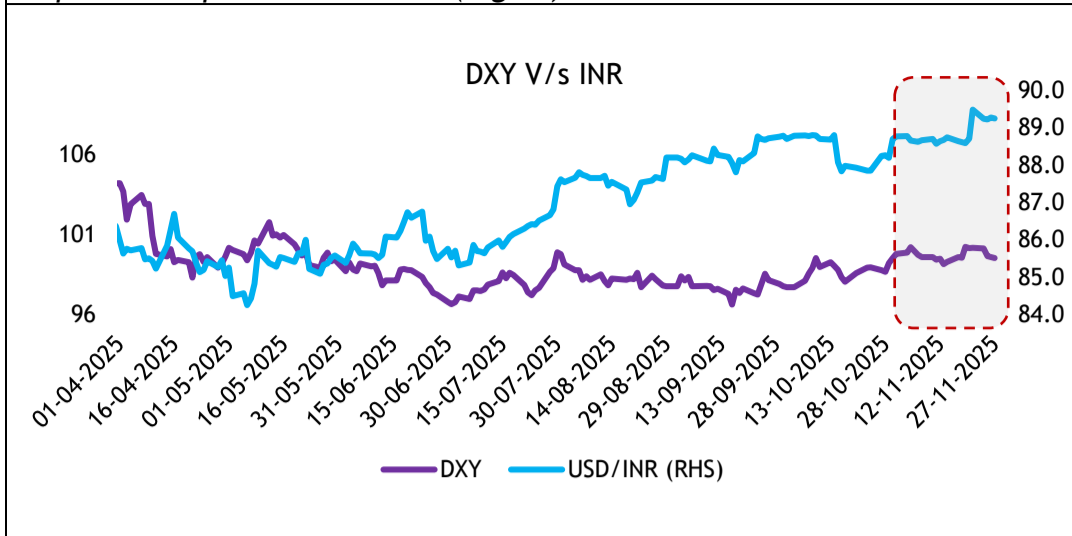
The USD/INR pair is currently trading in a tight range, with the rupee under pressure from a mix of domestic strength and external challenges, including U.S. tariffs and persistent capital outflows. The currency has weakened ~4% YTD, touching a record low near 89.4950 amid FII outflows exceeding \$14 billion and a widening CAD, though easing inflation and GST-related reforms are offering some support.

As highlighted in our earlier reports, the ₹88-89 zone (Refer: [Tariffs, Flows, and the ₹: Why 88-89 Wasn't a Shock](#)) was well within our expectations. However, Friday's sharp ~70-paisa jump the biggest in six months was unexpected, driven by broad USD strength and the postponement of the US-India trade deal. With uncertainty around the agreement now a key driver for the rupee, we continue to expect that once the deal is finalized, the appreciation threshold for the currency should shift.

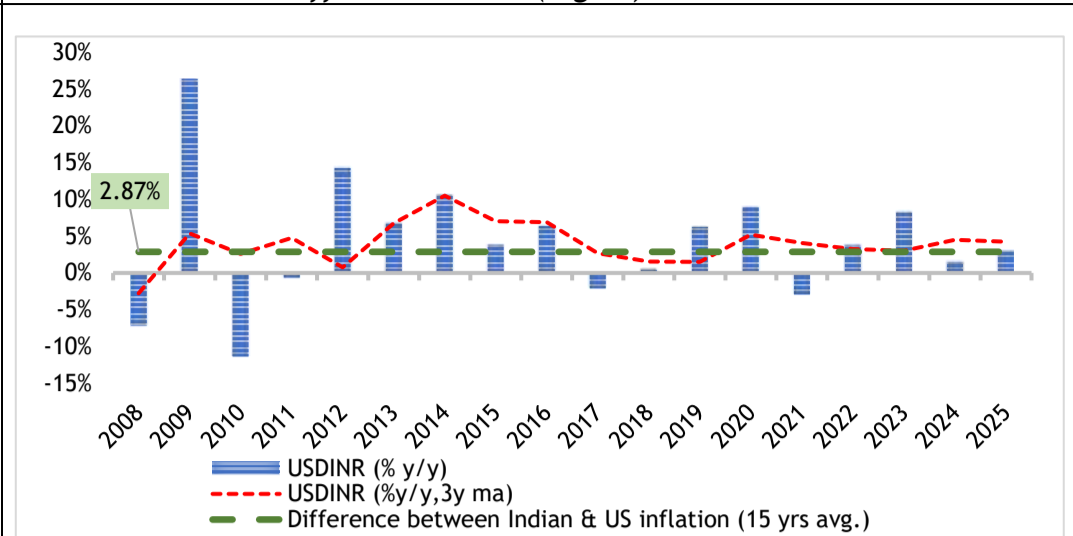
From a technical standpoint, the rupee is expected to remain range-bound between ₹88.80 and ₹89.50 through end-December. Sustained domestic equity inflows or tangible progress in India-US trade negotiations could strengthen the INR toward ₹88.50/\$, with ₹88.80/\$ acting as a key interim support. If an India-US BTA is finalized, accompanied by an RBI rate cut and a revival in FII inflows alongside anticipated Fed rate cuts weakening the dollar globally; the appreciation threshold for the rupee could shift meaningfully. Conversely, any bearish signal rupee is likely to face strong resistance near ₹89.50/\$, while selling pressure intensifies. A clear break above this zone could trigger a swift move toward ₹89.90/\$. Overall, geopolitical and tariff developments will remain central drivers of market sentiment.

The rupee appears undervalued at current levels based on the REER. Our analysis suggests that over a three-year horizon, the currency typically adjusts through an average annual depreciation of about 3-4%, broadly in line with the India-US inflation and interest rate differentials. This aligns academically with the Balassa-Samuelson effect, which posits that countries with higher productivity growth in tradable sectors tend to experience real currency appreciation or depreciation over time. Given that the rupee has already weakened by roughly 4% this year, we do not expect significant further depreciation in the near term.

Rupee decoupled with DXY (Fig 13)



Balassa-Samuelson effect (Fig 14)



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