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As we approach the US election month volatility in the markets have started to increase. The price action indicates that market participants are moving to price in a higher probability of Donald Trump winning the US Presidential election. The return of Trump trade is also evident as US dollar continues to climb to new high, the yields have regained upward momentum while Bitcoin’s price has also seen significant surge in recent month. In last [Uni-Fx](#) we spoke about Central banks rate divergence but this scenario has been changed to convergence. The ECB delivered back to back rate cut in October, while The Reserve bank of New Zealand opted for a jumbo 50bps rate cut along with the Bank of Canada (BoC), its forth in a row.

Despite monetary policy easing, global investor sentiment has been adversely affected by geopolitical tensions in the Middle East and uncertainty ahead of US and Japan elections. This has boosted safe haven demand for commodities like gold. Meanwhile, with global demand pressures likely to stay subdued and China stimulus announcements disappointing, oil price has retraced back to USD 75/bbl. threshold post recent spike. In Asia Bank of Korea has also joined the global easing bandwagon along with China but India’s central bank preferred to remain status quo while changing its stance to “Neutral”. Going forward the outcome of US and Japan election will continue to drive the markets along with FED’s approach towards rate cut.

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

- ♣ US Dollar continues to strengthen in anticipation of Trump win
- ♣ The Race to US President: too close to call
- ♣ JPY weighed down on speculation that current government may not get a clear mandate
- ♣ China long on words but short on numbers
- ♣ Rupee broke crucial 84/\$ mark on record FPI selling streak

**US Dollar continues to strengthen in anticipation of Trump win**

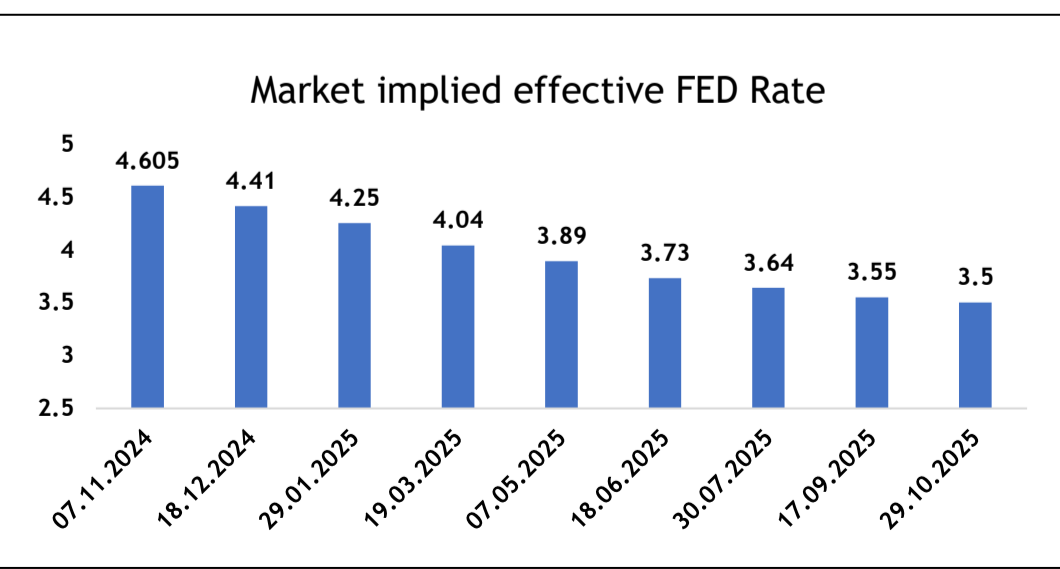
The US dollar continues to climb to fresh highs supported by various factors. This month, the US dollar index has gained 3.6%, the US 2-year Treasury yield has risen by c.40bps, while the 10-year was up by c.45bps to above 4%. Yields at the short end of the curve have been moving higher as market participants become less confident that the FED will cut rates aggressively. Also, lot of volatility has been seen during last one month in treasury yields specially the longer end of the curve as markets are cautious on the outcome of the election. The spread between the yields on 2/10Y currently stands at 18bps, where we saw reinversion starting of the month and now again the curve has steepened. Historically speaking, in 2016 the US10Y moved c.80bps post Trump victory, similar moves cannot be ruled out in future.

If Trump wins and stays true to his words, he has promised to impose 60% tariff hike on China and implement loose fiscal policy. His campaign proposals to raise tariffs, maintain loose fiscal policy are

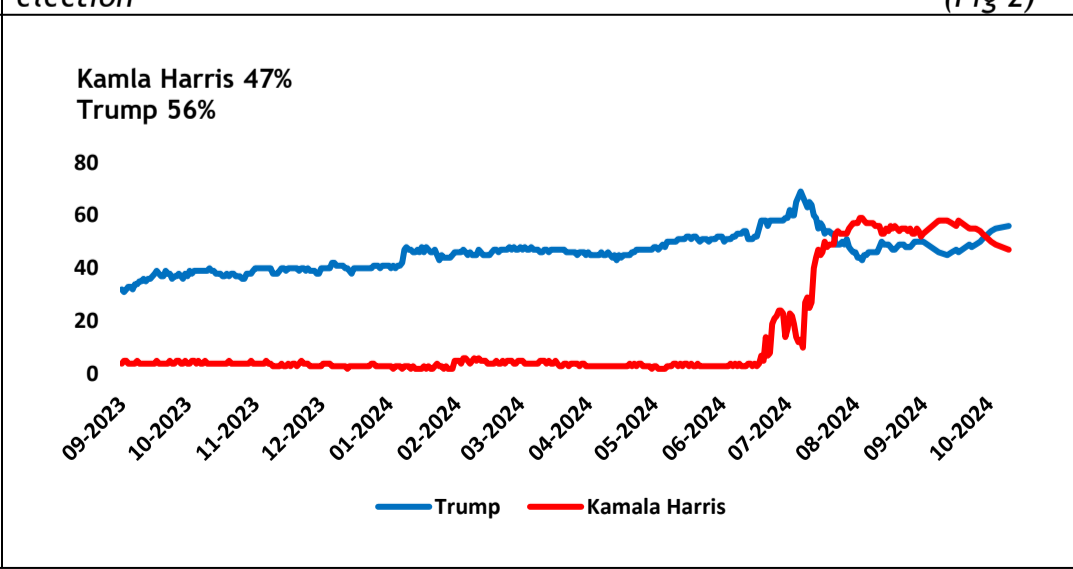
US yields regain upward momentum encouraging a stronger US dollar

Longer end of curve to remain volatile over uncertainty around US election

Market participant anticipating 100bps rate cut by end of 2025 (Fig1)



Kamala Harris continues to lead over Donald Trump in US Presidential election (Fig 2)



Source: Bloomberg, UBI Research, PredictIT

Improved US economic data flow casts doubt expectations of faster FED rate cut.

Inflation's bumpy descent continues

Trump has been gaining lead rapidly since last two weeks

viewed as inflationary for the US economy which would curtail the FED's room to keep lowering rates. As a result, the US dollar may continue to move higher heading into year-end if Donald Trump wins the US election. In addition, the US dollar has been deriving support from the change in monetary policy expectations between the FED and other G10 central banks. The recent US macro data releases have shown growth resilience especially in labour markets which has also helped scale back repeat of 50bps rate cut in upcoming meetings thereby buoying the Dollar.

**US data releases continue to show resilience in US economy**

The recent macro data mix is a continuation of the underlying trends in economic growth that consumers (key contributor to US economy) are strong, while interest-rate-sensitive sectors are weak. US retail sales data for September was stronger than market expectations illustrating resilient consumer spending that continues to power the economy. The headline increase of 0.4% MoM for September was just a bit ahead of the 0.3% increase that had been expected, but the real upside was in the core measures of spending.

The September labor market data showed improvement where NFP data jumped by 254K as against consensus estimate of 150k, highest reading since March'24, while job growth in previous two month of August and July was also revised higher by total of 72K. The unemployment rate also continued to edge lower for second consecutive month to 4.1% against market consensus of 4.2%. All eyes will be of October's NFP data due for release on 1<sup>st</sup> Nov which is expected to be on lower side of 131k while unemployment rate is expected to remain same at 4.1%.

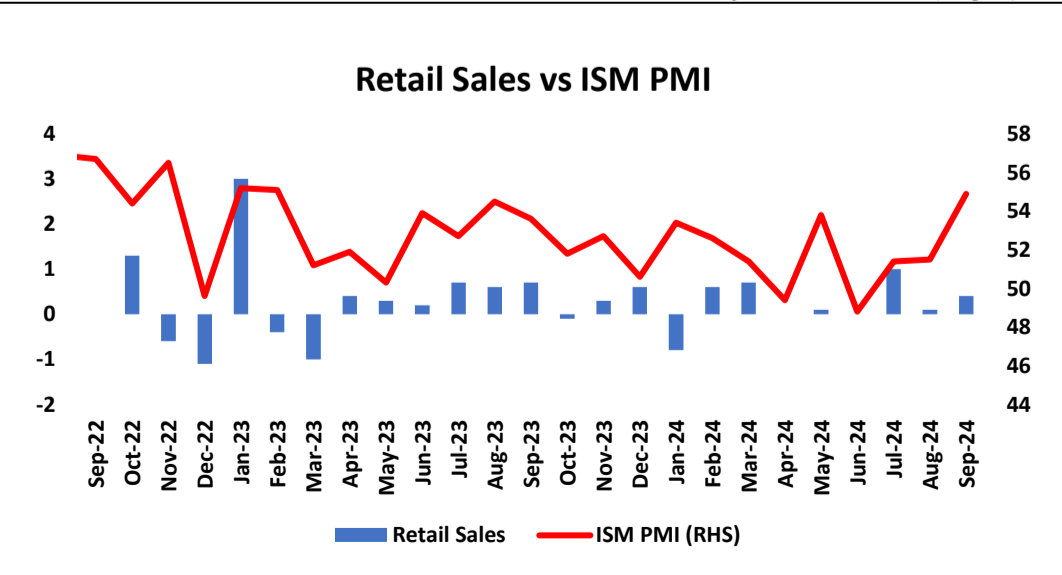
The September CPI report came in slightly hotter than market expected. CPI rose 0.2% on MoM basis in September, pushing the annual inflation rate to 2.4%, slightly above market expectations of 0.1% and 2.3% respectively. Core services inflation was 0.4% in September (0.36% unrounded), a modest cooldown from the 0.4% pace registered in August. (Refer to US heatmap at end). As per CME FedWatch tool currently markets are pricing in 92% probability of 25bps rate cut by FED in its November meet and total of 125bps cut by October next year for policy rate to be at 3.50%.

**The Race to US President: too close to call**

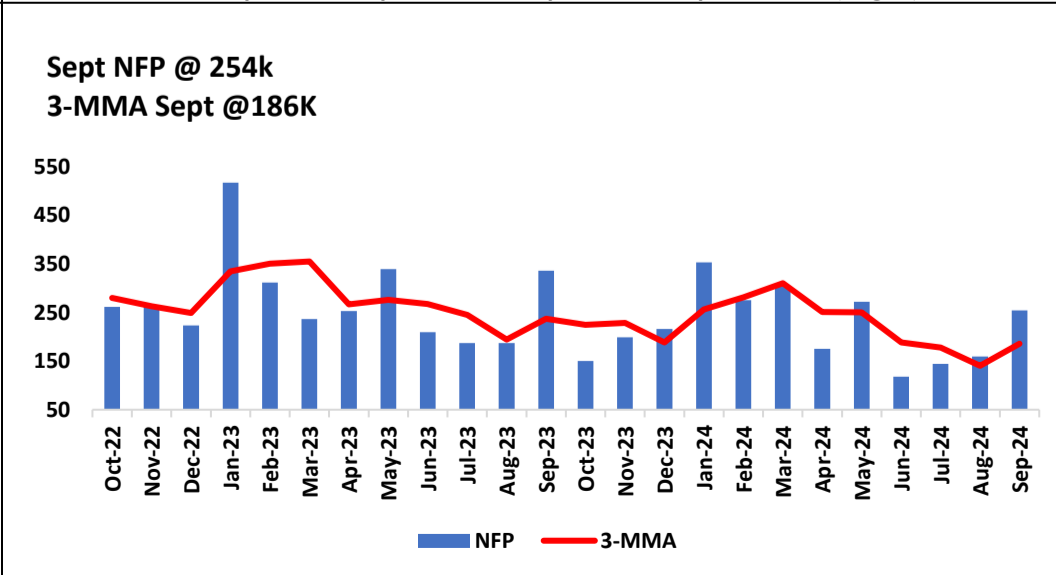
With the US election less than a month away i.e. on 5th November the markets focus on polls will further intensify. US Prediction Markets including Polymarket, Kalshi, and PredictIt have further raised the implied probability of Trump winning to more than 61%, while also raising the probability of a Red Sweep as well. While the trend especially in swing states have been clearly in Trump's favour since September, the magnitude is still clouded with significant uncertainty where just a small number of votes could determine which candidate gets the electoral vote.

Those swing states are Arizona, Georgia, Michigan, Nevada, North Carolina, Pennsylvania and Wisconsin. There are 34 Senate seats and all 435 seats in the House of Representatives up for the election of which 270 electoral votes are require to win the election. While three weeks ago Harris was still ahead in four of these seven states, she now only has a slight lead in Wisconsin. Harris will probably have to win all three states i.e. Pennsylvania (19 electors), Michigan (15) and Wisconsin (10), to become president. Any defeats here would have to be offset by successes in the swing states

US Retail sales data show resilience in US economy (Fig 3)



US Labour data provided positive surprise in September (Fig 4)



Source: Bloomberg, UBI Research

*Battle for control of congress is key*

of the south or southwest, i.e. Georgia (16), Arizona (11) and Nevada (6). However, this also means that she can only make up for the 34 votes she would lose in both Pennsylvania and Michigan if she also manages a sensation in a state that is actually considered safe to Trump. The state of Pennsylvania is important as in 2016 Trump had won by a narrow margin of 0.72%. Trump started with a wide lead on election night. However, over the next few days, Biden greatly closed the margin due to outstanding votes from Democratic-leaning areas, most notably Philadelphia and Pittsburgh, as well as mail-in ballots from all parts of the state which strongly favoured him.

**The Senate: Advantage Republicans**

The Republicans have a clear advantage in the Senate even if Harris wins the presidency, which could sharply reduce the flexibility of a Harris administration and make it difficult to get her more progressive policies passed into law. US Senators are elected to six-year terms and elections take place in a staggered format, meaning that not every Senate seat is up for election in each two-year electoral cycle. This time, the calendar heavily favours the Republicans. Not only do they hold a higher number of seats that are not up for election (38 vs. 28), but Republican seats that are up for election this year are mostly in safe territory. That's not to say the Democrats have no chance of holding the Senate, but it's clearly a big ask.

**Reasons for Trump's Lead**

The probability of Trump being re-elected for second term has risen significantly in last one month and has returned to almost 60% winning odds currently which are similar to levels before Biden withdrew from the race in July 2024. Although Biden administration has been successful in bringing inflation near 2% but voters cite this as one of their biggest sources of financial stress. Trump has insisted he will bring down the living cost by slashing energy prices and taxes on tips and overtime for hourly workers and benefit for senior citizens due to which he has been successful to gather votes of middle class. Trump has also vowed to further cut corporate tax rate which was seen as better representing the interests of large corporates and wealthy people. Also, Trump has vowed to stop illegal immigration which has went in his favour. Another reason is he's winning men's vote more than women.

Scenario	Trump Win		Harris Win	
	Republican Clean Sweep	Divided Government	Democratic Clean Sweep	Divided Government
Overview	Risks of trade tensions could be increase and affect economies all around		Focus will remain on policy steps like corporate tax hike	status-quo scenario to prevail
Trade and tariffs	Focus on trade protectionism Trump has promised 60% import tariff on China and 10-20% universal import tariff on rest of the world		Trade policy may remain status quo	
Foreign Policy/ Trade policy	Greater uncertainty in relationship with China. A push towards cutting funding to Ukraine and less support to Taiwan along with Iran. Trump focus on domestic growth and jobs		Ongoing support for Ukraine and close collaboration with global allies. Middle East tensions persist, but Taiwan retains US backing	
Fiscal Policy	We may see a strong push for fiscal expansion	Tax cut less likely without a legislative compromise.	Increase in the corporate tax rate. Raise the maximum tax rate on capital gains to 28%.	Priority will be to extend the provisions within the expiring Tax cut and jobs act (TCJA)
Effect on US Dollar, FED's stance and Commodities	<p><b><i>This is the most bullish scenario for dollar in medium term.</i></b> Loose fiscal, tight monetary policy plus tariff hikes are all dollar positive and may keep the yields higher</p> <p>Stronger growth and higher inflation likely mean FED keeps interest rates higher in this scenario vis-à-vis current market expectations.</p> <p>Focus on US energy independence and pressure on OPEC+ to increase supply may see weaker oil prices in medium term.</p> <p>Emerging markets could be affected by trade tensions, high tariff, although India may be relatively less affected as US being strategic partner to counter China</p>		<p>Somewhat tighter fiscal and looser monetary mix plus less aggressive trade policy is dollar negative and rise in yields remains muted</p> <p>A tighter fiscal environment, coupled with modestly weaker growth and reduced inflation threat may see the FED more willing to run looser monetary policy.</p> <p>Lower growth prospect weigh on oil prices in short term. Prospect of sustained Russia/Ukraine deadlock means oil prices may see some upward pressure on geopolitical tensions</p> <p>Any fiscal consolidation could pave the way for more cuts, which will support the emerging markets</p>	

Japan's 10-year yield differential with the US has narrowed since mid-September

Japanese authorities wary of the weak yen

USD/JPY up over 10 yen in just over a month

The domestic consumption in China remains weak

### JAPANESE YEN (¥ - JPY)

#### JPY weighed down on speculation that current government may not get a clear mandate

The USD/JPY rose above 150 for the first time since August 1, making high of 153.19 level. It has been just over a month since it declined to the 139 level on 16 September. Changes in domestic and external conditions over that time have resulted in a weaker yen and stronger dollar. Turning first to Japan, Prime Minister Shigeru Ishiba's comments are still having an impact. After meeting with BOJ Governor Ueda on 2 October, Ishiba said "I do not believe that we are in an environment that would require us to raise interest rates further." The USD/JPY rose by almost three yen on that day, from the 143 to the 146 level, and did not shed the gains despite efforts by the authorities to undo the damage. Next, in the US, expectations for a faster pace of rate cuts are fading, the probability of 50bps rate cut in November FOMC meet has diminished while election uncertainty has kept the US dollar strong. The BoJ monetary policy on 31<sup>st</sup> October is likely to be non-event as there is 84% probability of no change, while markets currently expect 10bps hike in December.

Markets are looking ahead to the upcoming Lower House Elections in Japan to be held on 27 October, with potential implications for the Japanese Yen and the path for BoJ policy. There have been a range of polls which suggest that the incumbent LDP-Komeito coalition could fall short of a majority needed to form a government without outside party support (233 seats out of 465 total), and this brings with it the potential for political uncertainty.

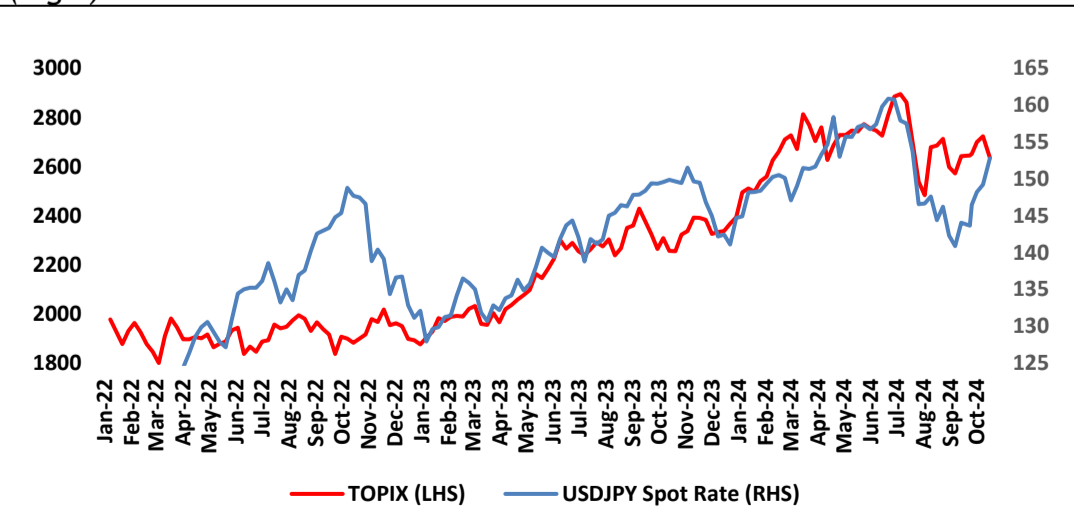
#### JAPANESE YEN (¥ - JPY): View

Going forward the direction of the US presidential election will decide direction of JPY which currently points towards the dollar strength along with the outcome of Japan election. Growing support for Trump is putting upward pressure on US interest rates, which appears to be pushing up the USD/JPY as well. JPY has been weighed down by latest election polls showing support for Japanese Prime Minister Ishiba's ruling coalition softening further, indicating the possibility that the vote may result in a weakened and unstable administration. Failure to win a clear mandate could complicate both the path of policy initiatives and also perhaps the government's support for further BOJ rate hikes. USD/JPY is poised to move back to the mid-to-high 150.00's if a Red Sweep is realised after the US election.

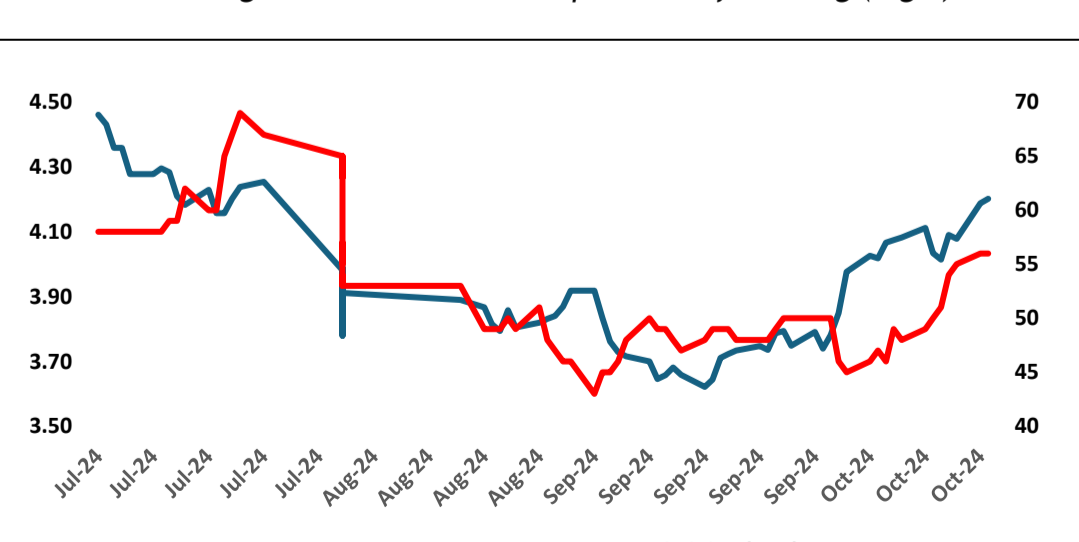
#### China long on words but short on numbers

With slew of weak economic data in last few months, the time was running out for China to achieve this year's growth target of 5%. In order to support the economy, the property sector and to boost local government spending Chinese policymakers have in recent weeks announced a mix of fiscal and monetary policies. While the improvement in the delivery of fiscal budget and new stimulus may help from a cyclical perspective, China's growth may remain under pressure due to the ongoing structural headwinds such as the real estate troubles. It will likely require a change in policy thinking to address these structural problems.

The strength in US Dollar has led to weakness in JPY and fall in equity (Fig 7)



US Yields moving in tandem with Trump's odds of winning (Fig 6)



Source: Bloomberg, UBI Research, CME Fedwatch Tool

The recent GDP expanded by an annual rate of 4.6% in Q3'24

China schedules meeting Nov 4 to 8 is expected to reveal fiscal stimulus details

Trump's tariff might have negative impact on the outlook for Asian economies and pose downside risk Asian currencies.

Heavy demand from FPI broke crucial level of 84/\$

**How The government is responding**

**Focus on the implementation of current budget**

The government has promised more support for the property sector and indebted local government. The finance ministry said China has CNY2.3 trillion (USD325 or 1.8% of China's annual GDP) in local government special bonds funds available for the rest of this year. This is not new money but idle cash waiting to be used. Local governments have been falling behind on budgeted spending due to the fall in tax revenues, and also the fact that it is getting harder to find projects that are profitable which is currently required by the central government.

**Expanding the usage of special funding facility**

Local governments will be allowed to utilize the existing funds from the special bonds to purchase unsold homes to stabilize the property sector. Additionally, sectors eligible for support through these special local bonds will be expanded. This could trickle down to bigger infrastructure investment because it makes it easier to find new investment projects. To alleviate local authorities' debt burden and encourage spending, the local governments will have the option to swap hidden debts with cheaper bond issuance to increase liquidity. The ministry noted that this will be the largest support in recent years to relieve debt burdens of local authorities.

**What Does it mean to India?**

Initially when the fiscal and monetary measures were announced by the Chinese policymakers that led to cheers in the Chinese stock markets with the SSE Composite index rising by c.15% within one month. However, the gain has been given up as the announcement were long on words and short on number. It was speculated that some investments are shifting from India to China, leading to a correction in the Indian markets. However, this correction might be temporary, as India isn't facing the structural challenges that China is.

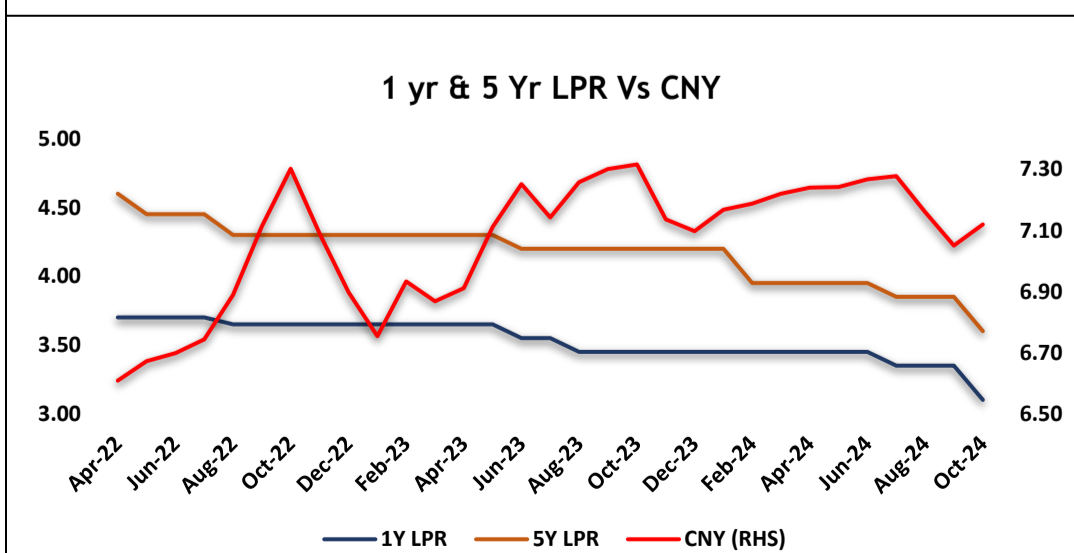
[As per media reports](#), funds tracker EPFR stated that nearly \$40bn flows were clocked in China equity funds in the first week of October. The influx of fresh money, which more than doubled the previous weekly record, also lifted the headline number for all EPFR-tracked emerging markets equity funds to a new record high. However, in the recent weeks global hedge funds have sold China and broader emerging markets shares and returned back to U.S. equities in a sharp rotation of flows in October ahead of the U.S. election. China, where stock markets surged 20% last month boosted by a raft of stimulus policies, has now seen heavy outflows this month.

**Rupee broke crucial 84/\$ mark on record FPI selling streak**

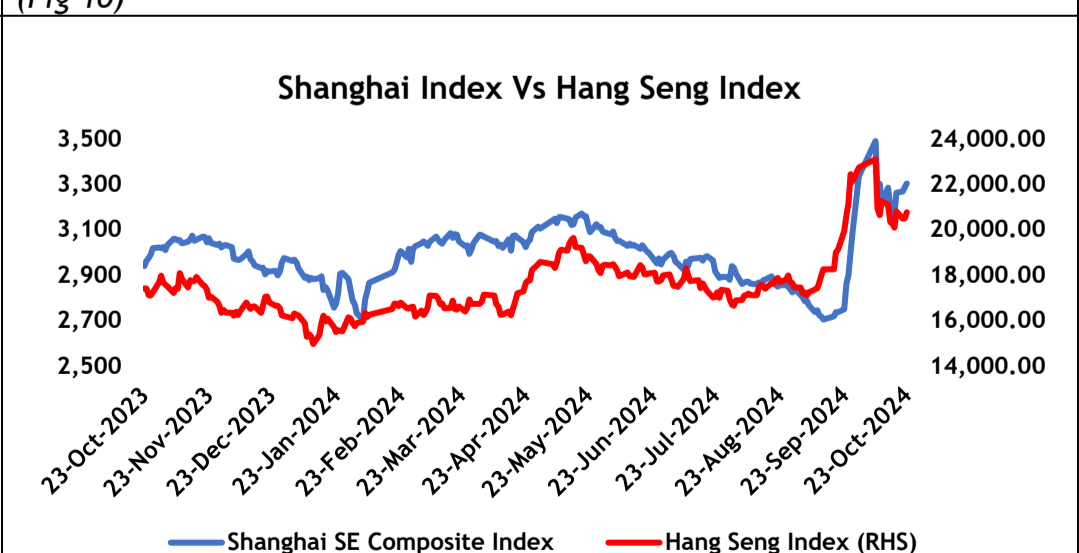
At last, the domestic currency broke the major psychological level of 84/\$ on 11<sup>th</sup> Oct'24 and touched a high of 84.10/\$ after trading in a tight range of 83/\$ corridor for almost 2 years (since Oct'22). In the first fortnight of Oct'24, although the domestic currency was broadly stable while hovering near to its then all-time low (83.99/\$), as Dollar firmed up on continuous robust data from US which has shown depreciation in major currencies. (Refer our weekly report: [FX weekly: Stronger US economic data continues to push back faster FED rate cut bets](#))

LPR rate cut to support the economy

(Fig 9)



China's long on words and short on number fail to cheer equity markets (Fig 10)



Source: Reuter, UBI research, Bloomberg

Broad Dollar strength continues on the robust economic data prints and sticky inflation in the US which in turn reiterated a less-dovish outlook for the Federal Reserve to stay on its stated course of policy easing. Moreover, market investors have also pivoted some flows towards China due to fresh stimulus measures which are expected to bring better returns.

Since June'24, unlike Asian peers, Rupee was the worst performing currency and was hovering close to its then all-time lows but the downside (Psychological barrier of 84.00) was largely protected by continuous Dollar sales by FPIs in the domestic equity & debt market. However, in recent weeks when all the emerging-market currencies took a hit amid rising Dollar strength, Rupee remained one of the least volatile currencies and refrained from depreciating much.

The domestic currency remained in pressure by the outflows by the FPI mostly in the equity segment \$9.6bln was seen in October till date vis-a-vis inflows of \$6.89bln a month ago (highest in CY25), even the debt segment is witnessing outflows of \$363mln vis-à-vis inflows of \$4.2bln from the previous month. However, FAR related securities have not seen a net outflow during this month.

The recent **Trade Data** for Sep'24 showed a positive outlook for Rupee. September deficit normalised to \$20.8bln post August aberration; yet currency has been under pressure on global risk aversion and FPI outflows. (Refer our weekly report: [Trade deficit normalises to \\$20.8 bn in Sep'24 post August aberration](#))

To add a fact, India being a major oil importing country will be sensitive to any change in global crude oil prices as it will impact directly in the country's broad trade data. Despite middle east tensions, rising concerns over weak demand growth in China has led oil prices to slip again from Highs of \$81.16/bbl. to Lows of \$72.50/bbl., Current level: \$74.94/bbl., Sensitivity of C/A deficit to oil prices stays high with every \$10/b move in oil price affecting annual C/A balance by close to \$15 bln. Hence, if average oil prices settle lower at c.\$75/b, C/A deficit may be closer to 0.5% of GDP in FY25. (Refer our weekly report: [India: Q1-FY25 C/A switched to deficit; BoP surplus likely rose 3x in Q2 vs Q1](#))

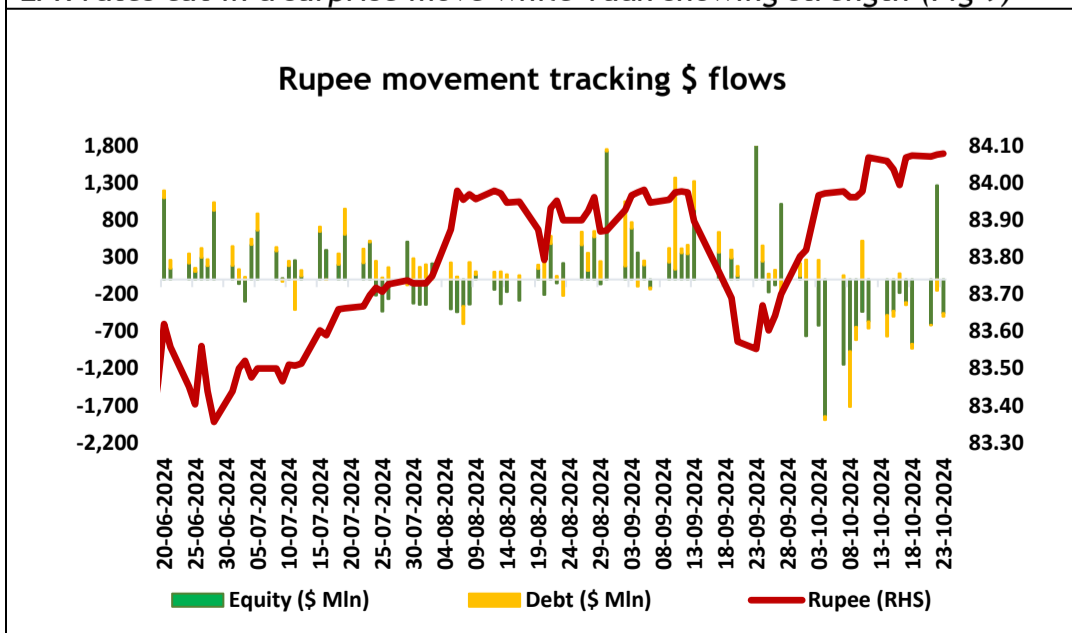
Our analysis shows that in this month, the record high forex reserves kitty has slipped by \$14.46bln to \$690.43bln from all-time highs of \$704.86 (\$6.31bln fall was adjusted after valuation effects), signalling that the Central Bank has taken appropriate measures to curb volatility in the local currency. Also, our analysis shows a close correlation between FX reserves (adjusted for valuation effects) and BoP. FYTD25 BoP is tracking at c.\$33bln (Q1: \$6.37bln & Q2: \$27.65bln) looking at reserves data.

On 8<sup>th</sup> Oct'24, Global index provider FTSE Russell announced it would include India's sovereign bonds in its emerging markets global bond index over a 6-month period starting from Sep'25, after index inclusion by JP Morgan and Bloomberg Index service, potentially drawing billions of dollars into local bonds. The projected weight is 9.35% of the index on a market value-weighted basis, which will be the 2nd-largest, behind China at 57.85%. Indian bonds have seen inflows c.\$18.5 billion since the announcement of inclusion in JP Morgan Emerging market index in Sep'23.

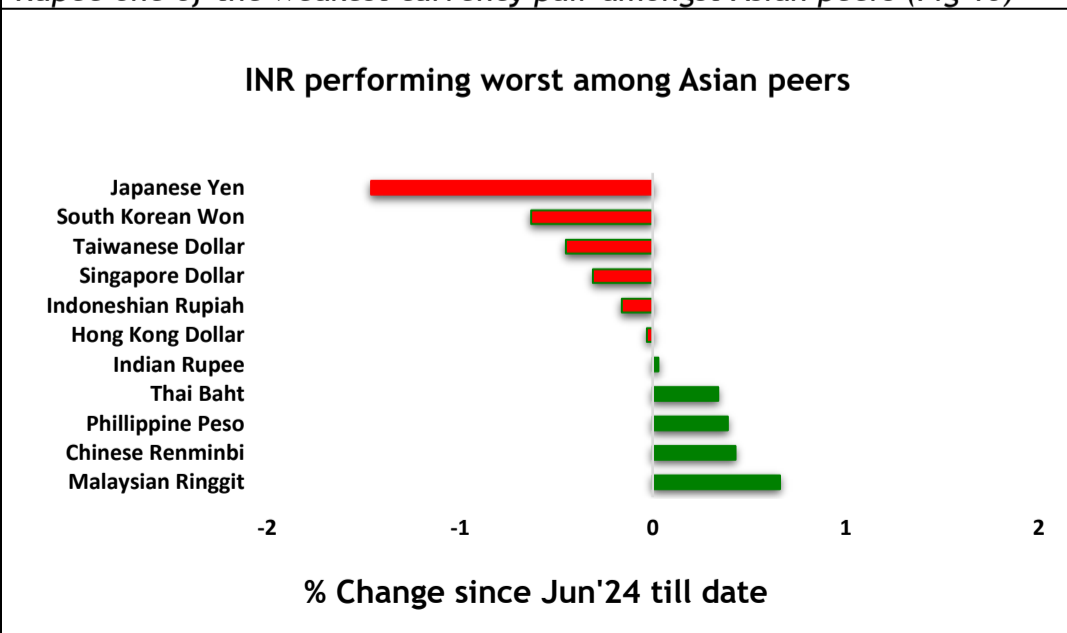
Lower crude oil prices to support INR

FTSE Russel Index inclusion to attract more inflow

LPR rates cut in a surprise move while Yuan showing strength (Fig 9)



Rupee one of the weakest currency pair amongst Asian peers (Fig 10)



Source: Reuters, UBI research, Bloomberg

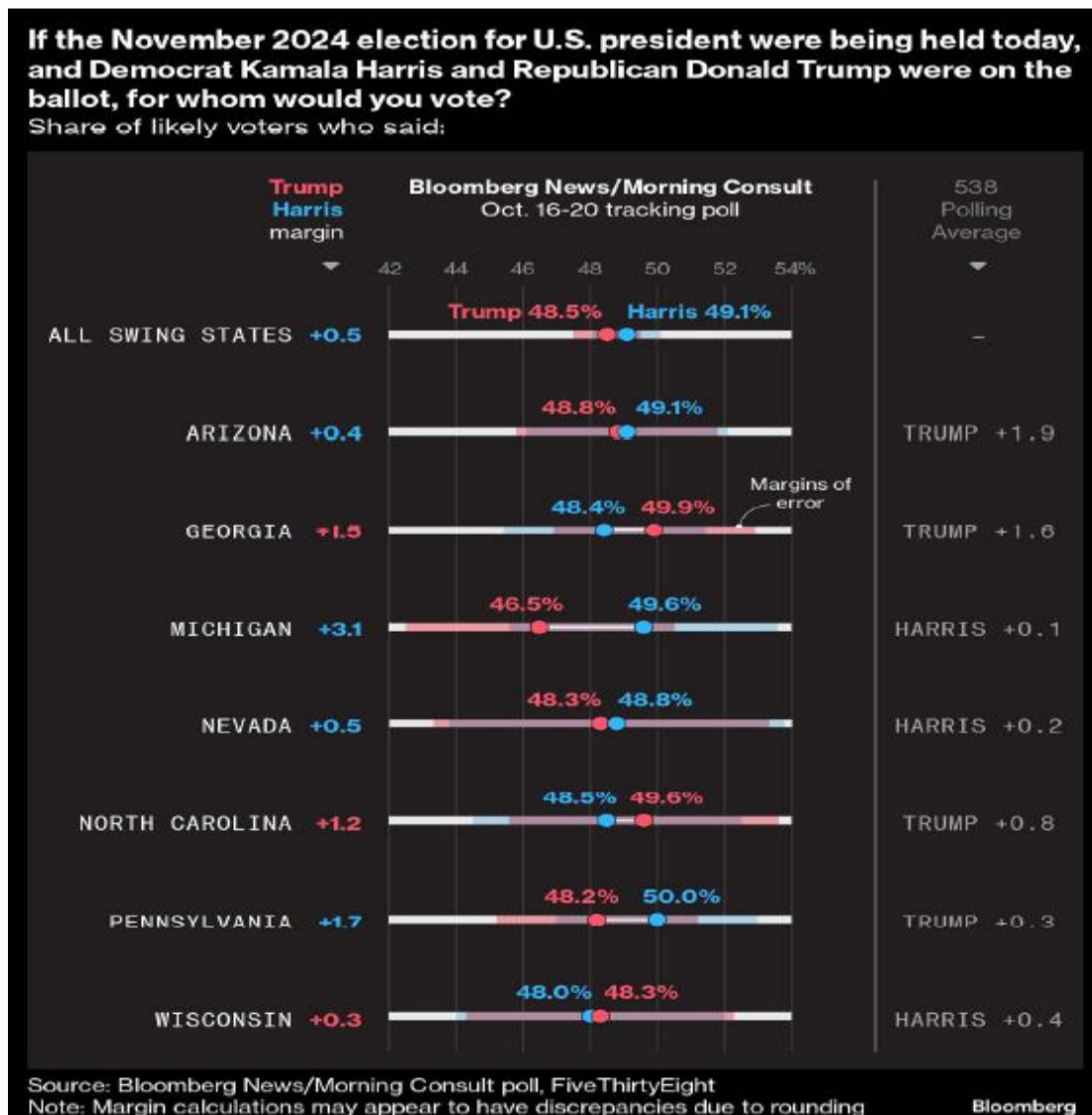
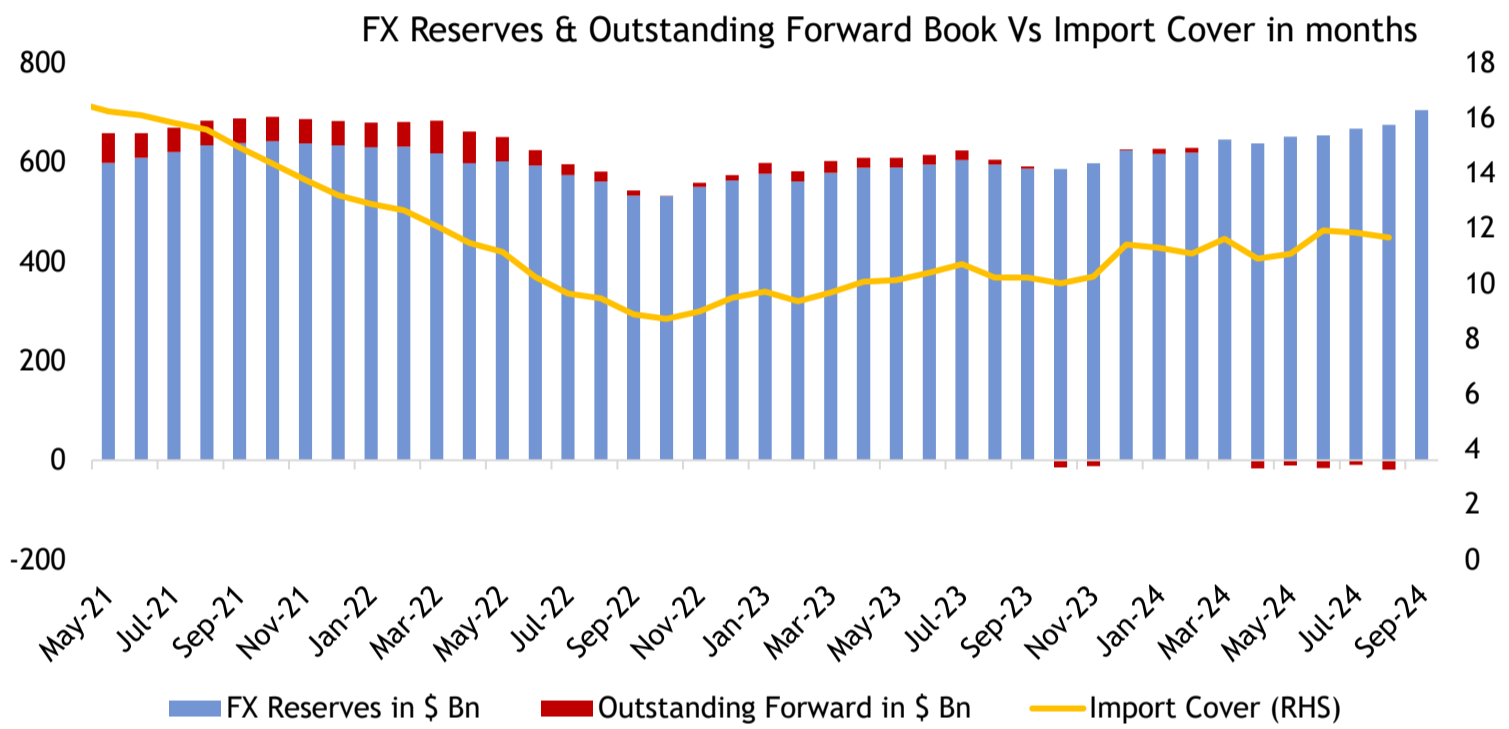
ECB flows to rise supporting the domestic currency

US election outcome to give further direction to INR

In the coming months, the interest rate differential between US & India is likely to rise as the FED front loaded its rate cutting with a jumbo cut(50bps) from this September FOMC. This in turn will open doors for more FPI flows leading support to the domestic currency; this is reflected in the RBI data on ECB flows, where Indian firms (including NBFCs) have filed proposals in Aug'24 with the RBI to raise \$5.46bln vis-à-vis \$3.58bln a month ago through External Capital Borrowings (ECB) via automatic route. Even this figure shows only a marginal rise YoY basis, but going forward we expect this to rise this year.

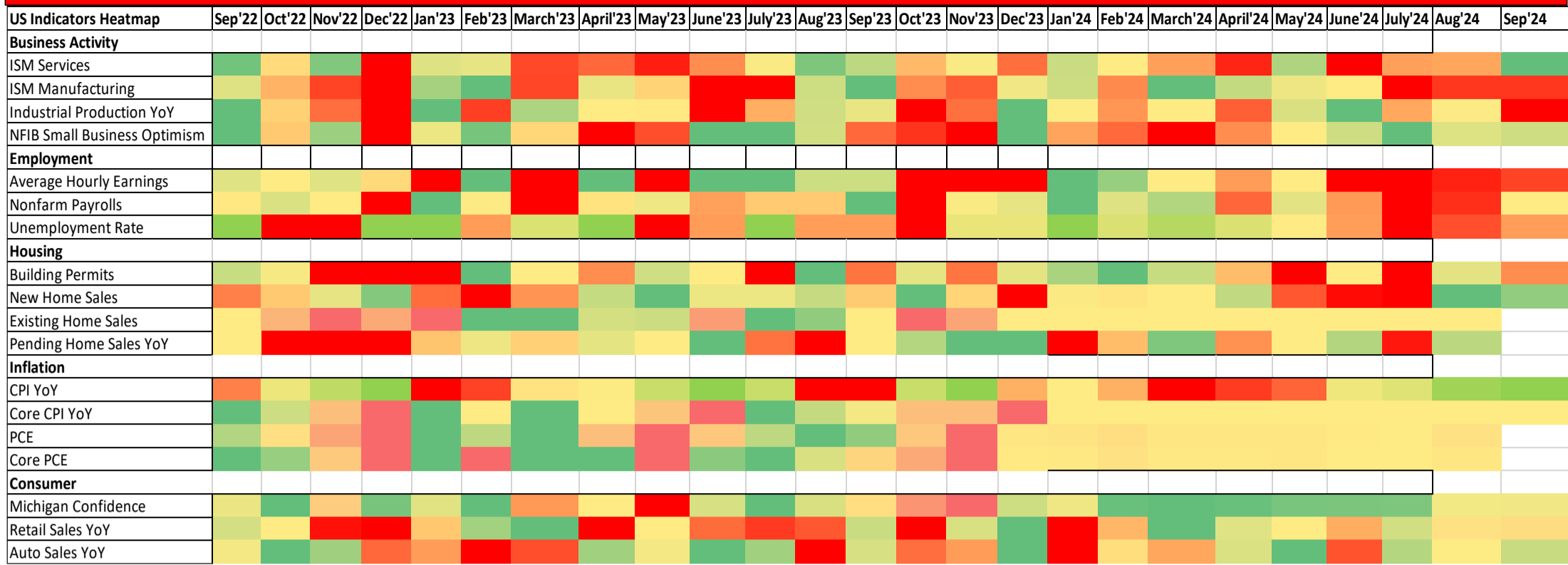
**Indian Rupee (₹ - Rupee): View**

This month till date, INR traded sticky in a very narrow range with a depreciating bias from 83.90 to 84.10 (All time low). We expect the domestic currency hovering at current levels (84.07/\$) with a negative bias, however the depreciation will be capped amid FPI dollar inflows on bond inclusion. Based on the current global scenario, we shift our technical stance that INR should take support of 83.76 and will find resistance around 84.16 (NDF highs), breach of which will test 84.36 levels.



Source: [Bloomberg news story](#)

## Macro-Economic Indicators



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