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As we approach end of the year, 2025 is likely to be dominated by what policy will be implemented by President elect Donald Trump once he joins office on 20th January, which will have bearing on economies around the world. Post the US election outcome the US dollar continues to trade higher with primary focus on Trump's final cabinet selections. Trump is filling his incoming cabinet with figures known for their hawkish views on China, signalling a tough line on Beijing in areas ranging from trade to national security. ***Meanwhile markets have taken some relief from inclusion of some fiscal hawks like Bessent in his team. Post Trump win world monetary policy divergence to persist between US and other economies****. As his policies of fiscal expansion and tax cuts are all inflationary which might prompt the FED to keep rates higher, while trade protectionism and tariff on import of goods are likely to put pressure on growth prospect of other countries.* *(Refer our report: Trump 2.0 Impact on markets and macros).*

We firmly believe that in a fragile world economy "economics may trump politics" thereby making the new President probably not staying true to all his poll promises*.*

The FOMC on 7th November cut the policy rate by 25bps on expected lines while Powell remained firm on FED independence. His press conference was filled with political questions but he deflected most of the questions except saying election outcomes will not impact policy decisions in the near term, and more importantly, "no" that he would not resign if Trump asked him to leave. FED chair Powell along with other FED members have made hawkish statements in recent month which have led to rate cut pricing go down by 100bps by end of 2025. As per CME FedWatch tool the likelihood of the FED cutting rates in December policy plummeted from 82.5% on 13th November to currently 56.2%. *Going forward labour market data will be key for FED for deciding the future rate cut path as inflation remains sticky.*

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

- **US Dollar exceptionalism to continue; while Trump cabinet filled with China hawks**
- **JPY remains weak while awaits BoJ's stance in December policy**
- **UK less likely to be affected by US tariff; BoE may follow gradual path on rate cut**
- **Geopolitics, Trump trade and German election to weigh on Euro**
- **Rupee hit all-time lows while the central bank strives to contain volatility**

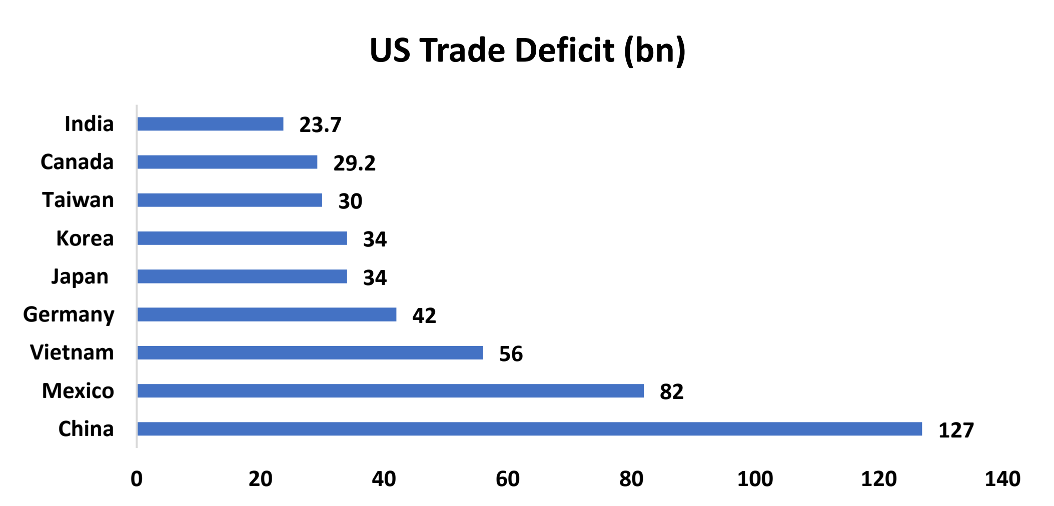
US Dollar and yields continue to show strength amid geopolitical tension and uncertainty over implementation of Trump's policy

Markets have also begun scaling back rate cut expectations, pushing the dollar higher.

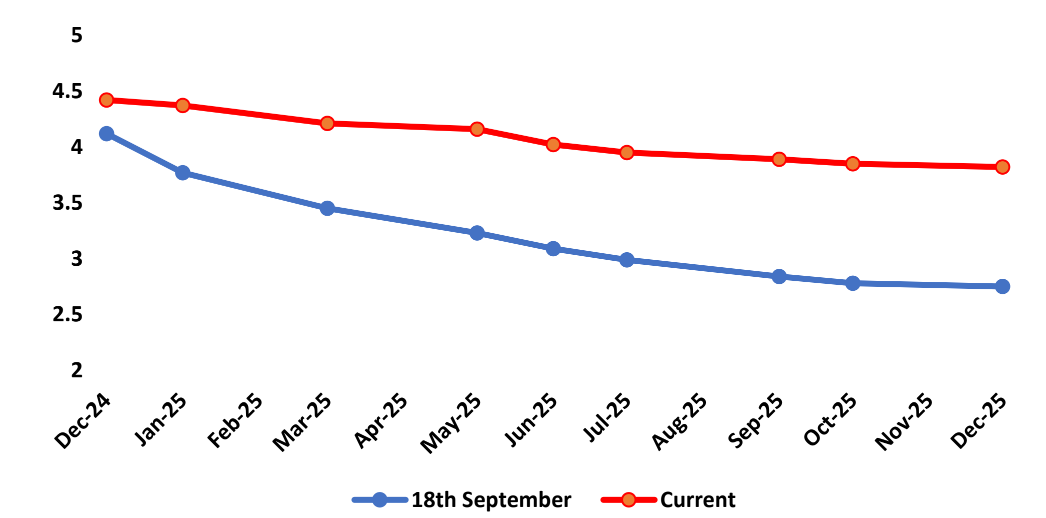
US Dollar exceptionalism to continue; while Trump cabinet filled with China hawks

The Trump trade, has picked up steam again about a week after the US presidential election. The yield on US2Y & 10Y have risen by c.20bps since the election outcome, the highest level since 1 July, while the US dollar has also continued to strengthen sharply which has resulted in the dollar index rising towards 108.00-level. However, Trump selection of Scott Bessent a fiscal hawk as treasury secretary, have led market heave a sigh of relief and we have since seen correction in DXY towards 107 level

US goods and services deficit was $84.4 billion in September (Fig1)



Current FED policy rate vs FED fund rate on 18th September; Curve Shifted upward after election (Fig 2)



Source: Bloomberg, UBI Research, Refinitiv

Expectations of tariffs and tax cuts have fuelled a frenzy of USD

and US10Y also correct back to pre-election announcement level. ***However, Trump announced that he plans to impose a 25% tariff on all goods from Mexico and Canada and would impose an additional 10% tariff on Chinses goods, on his first day in office. Although there was knee jerk market reaction, partly due to how well flagged the threat of tariff has been.***

FED members have followed Powell and maintain hawkish stance over future rate cut

On 14 November, FED Chair Powell stated that ***"The economy is not sending any signals that we need to be in a hurry to lower rates,"*** adding that the FED could consider slowing the pace of cuts. The market saw this as hinting at the possibility that the FOMC will delay a rate cut at the next meeting in December. The CME FedWatch showed the likelihood of the Fed changing the target rate plummeted from 82.5% on 13 November to currently 56.2%. With expectations of interest rate cuts receding. As a result, market expectations for the terminal rate in the Fed's current easing cycle has been lifted up to just below 4.00% which is well above the Fed's estimate of the neutral rate at just below 3.00%.

Economic data: Inflation remains sticky while consumer spending remains resilient

Inflation remain sticky while labor market data disappoints on the backdrop of Hurricane and strike

The release of the latest US CPI and PPI reports for October have indicated that inflation remain sticky for second consecutive month. The Consumer Price Index (CPI) rose 0.2% in October, the largest monthly uptick since April. This bump brought the 12-month rate to 2.6%, the first annual acceleration since Q1'24. Perhaps most discouraging is the stickiness in core services. Services prices excluding energy have posted monthly gains between 0.3% and 0.4% in each of the past four months.

There was disappointment on labor data where October NFP data saw massive downside surprise showing only 12K jobs added along with downward revisions of 112K for the previous two months. Strikes and hurricanes led to the less than stellar report, as captured by the 46K fall in manufacturing employment and the 512K who reported not being able to work due to bad weather. There is strong possibility that the October's data may get revised upward all eyes will be on NFP data due on 6th December.

While overall retail sales numbers surpassed expectations with a 0.4% MoM increase in October, while September's data was also revised to double its original strength. This indicates that robust consumer spending helped the economy maintain its strong pace of growth last quarter.

November FOMC: On expected line 25bps cut while Powell remains firm on FED independence

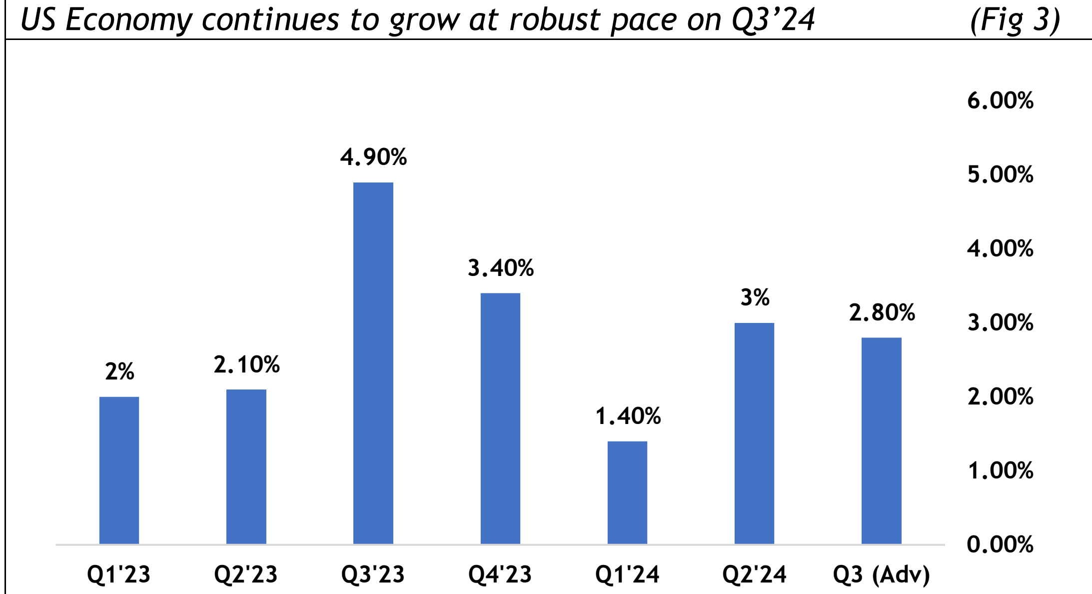
Powell emphasized that rates remain restrictive and finding neutral is a process

The FED, in its 6/7 Nov'24 FOMC meeting, decided to lower its policy rates by 25bps to 4.50-4.75%. Unlike the Sep FOMC, the FOMC decision this time was unanimous. Where in September, FED Governor Bowman dissented to argue for a smaller 25 bps rate move, making her the first FED Governor to dissent since 2005 and the first dissent from any FOMC member since 2022. Powell refrained from giving any forward guidance as he opted to proceed meeting by meeting, based on evolving data.

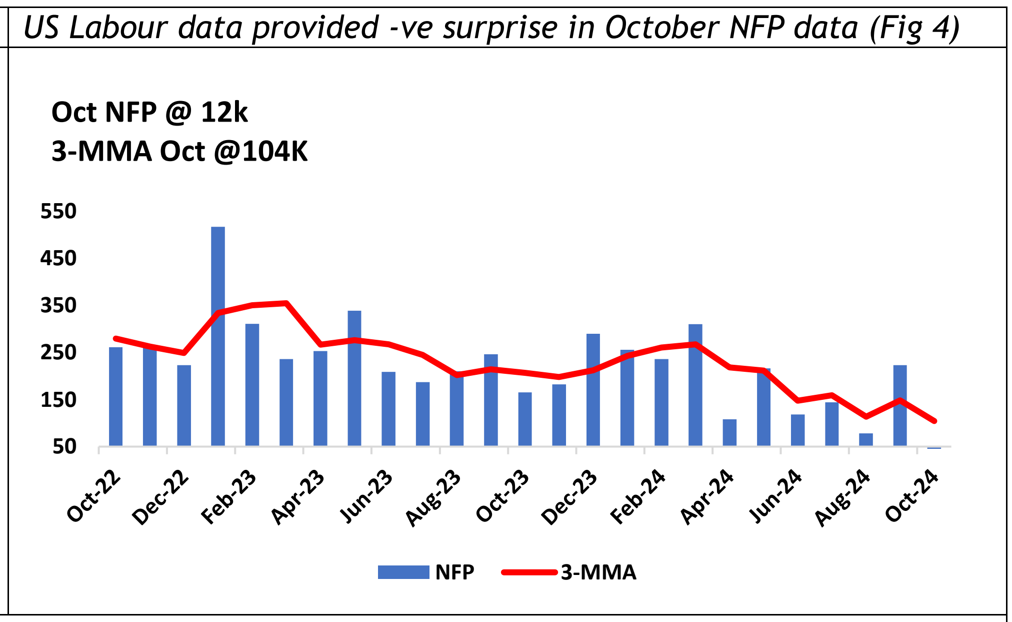
The most notable changes were the removal of the entire statement, "has gained greater confidence that inflation is moving sustainably toward 2%," and replacing it with "In light of the progress of inflation and the balance of risks" simply with "In support of its goals".

On the quantitative tightening (QT), the FED maintained its commitment to "continue reducing its holdings of Treasury securities and agency debt and agency mortgage backed securities", which means keeping to the monthly reduction of US Treasuries at US$25bn and mortgage back securities at US$35bn.

US Economy continues to grow at robust pace on Q3'24 (Fig 3)



US Labour data provided -ve surprise in October NFP data (Fig 4)



Source: Bloomberg, UBI Research, Refinitiv

No country added in currency manipulation list

The US Treasury released report of countries on the monitoring list for currency manipulation this month. No country was found to have manipulated the exchange rate, though **Korea was added to the watchlist that includes Japan, Taiwan, China, Vietnam, and Singapore.** Importantly, Japan, Korea, and Taiwan are all facing extended domestic currency weakness. Only China had been named as a currency manipulator in Aug 2019 when USD/CNY rose above 7.0 level due to Trump-led trade tensions, but this was subsequently dropped after a bilateral trade deal.

Trump's hawkish cabinet; a step towards future policy with China

Trump team has already begun nominating individuals for his cabinet positions

US Treasury Secretary- Scott Bessent

Scott Bessent is an old Wall street hand and fiscal hawk. Scott Bessent stated that he will focus on enacting tariffs, eliminating tax cuts on social security benefits and overtime wages, and maintaining the US Dollar's status as the world's reserve currency. He is currently targeting a budget deficit of 3% of GDP by 2028. However, he has also been openly in favour of a strong US dollar as against Trump who wants weak dollar.

Secretary of State — Marco Rubio

Rubio has long held the reputation as one of Congress's fiercest critics of Beijing. As a senator Rubio has pushed forward legislation banning the use of Chinese telecommunications equipment in the US. He has also been an advocate for strengthening U.S. support for Taiwan. He was quite vocal on human rights issue in China's Xinjiang region which got him sanctioned by Beijing twice in 2020 which prevents him from travelling to China.

National Security Advisor — Mike Waltz

Mike Waltz as also been a reliable China hawk on Capitol Hill. Waltz will have to help navigate the US position on the wars in Israel, and in Ukraine and Russia.

He states that the US should "urgently" bring the conflicts in Ukraine and the Middle East to an end so it can "finally focus strategy attention where it should be i.e. countering the greater threat from the Chinese Communist Party". He has been an advocate for increasing defence spending to better equip the US to defend Taiwan against a Chinese attack.

Scott Bessent is being received positive by the market and is viewed as pragmatist when it comes to policy

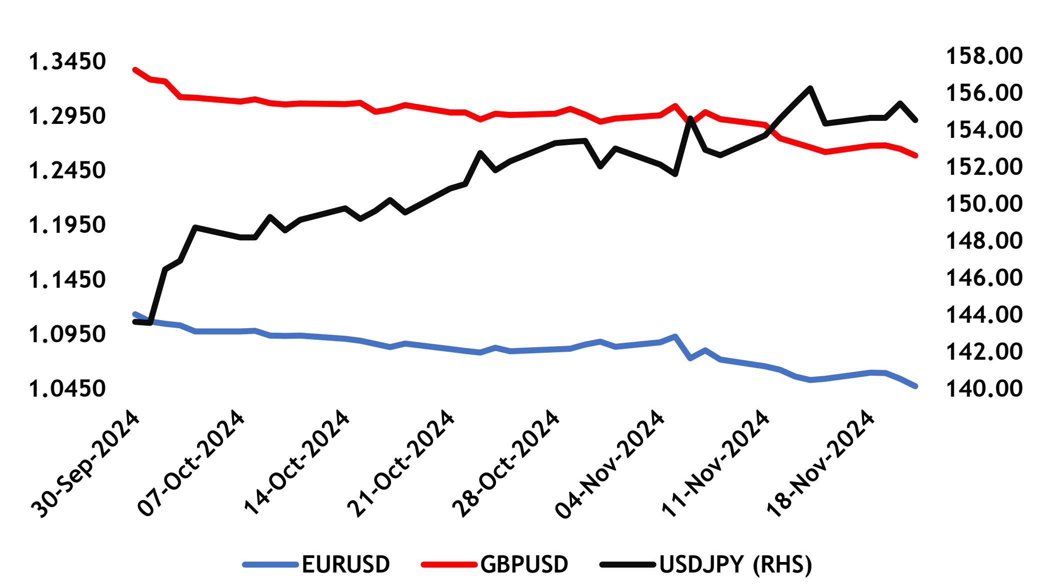
Secretary of Defence — Pete Hegseth

Hegseth, a military veteran who served in Afghanistan and Iraq, does not have much of a record to explore on China, as he has never held public office. As a military veteran, Hegseth has raised his concerns about the weakness of the U.S. military as Beijing invests in ramping up its forces.

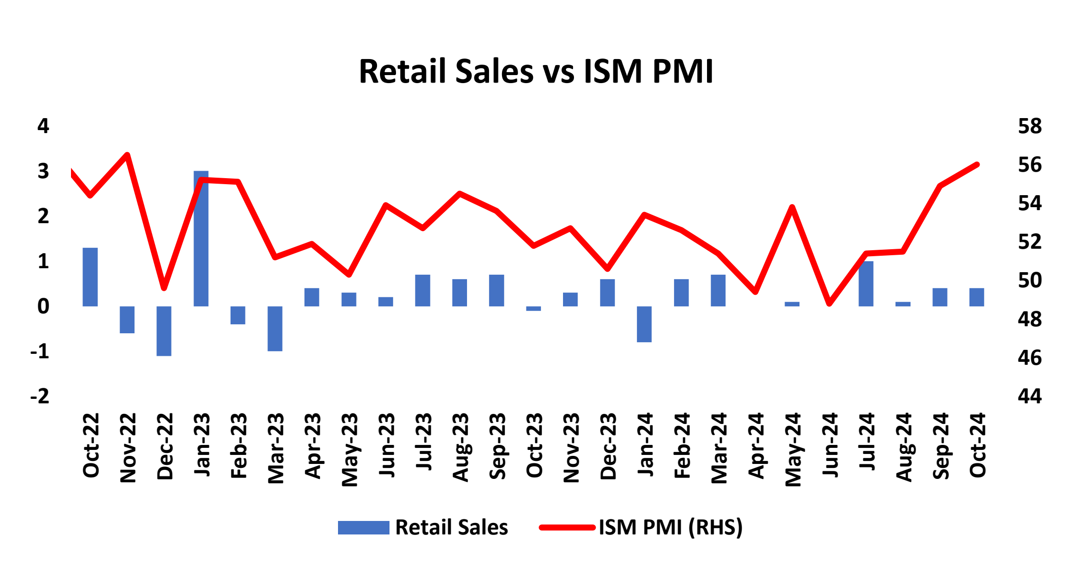
Department of Government Efficiency — Elon Musk & Vivek Ramaswamy

Unlike other figures in Trump's cabinet, Musk, has significant business ties to China and is known for his relatively positive views about the Chinese government. Musk have promised to cut $2 trillion, or more than a third, of the US government's annual budget. While both have stated that their initial aim will be to cut the $500 billion plus in annual federal expenditure.

Major currency stays on backfoot amid US election outcome (Fig 5)



US Retail sales data show resilience in US economy (Fig 6)



Source: Refinitiv, UBI research, Bloomberg

US Dollar awaits execution of Trump's polices

US Dollar Bullish Case

Trump's policy of fiscal expansion, high trade tariff to keep US Dollar and yield supported

The near-term outlook for the US dollar appears to be heavily influenced by

1. **Trump's America first policy**: The election of Donald Trump has triggered a market reaction that is pricing in expectations of significant fiscal stimulus (tax cuts, tariffs, and increased government spending). This has boosted risk assets, including equities and cryptocurrencies, and has also supported the USD as a result of anticipated policy-driven economic expansion.

2. **FED's Stance**: Markets have started to question the Fed's willingness to aggressively cut rates, especially in light of the solid economic data. The US economy is growing at around 2.5%, inflation remains above the Fed's 2% target, and the labor market is still strong with real wage growth. This provides the Fed with the room to maintain a relatively hawkish policy stance compared to other central banks, supporting a stronger USD.

3. **Interest Rate Differentials**: As expectations shift toward a potentially higher terminal rate in this cycle, the US dollar stands to benefit. The idea that the FED may keep the rates elevated for longer supports the USD, particularly in a global environment where other central banks may be slow to act.

US Dollar Bearish Risks

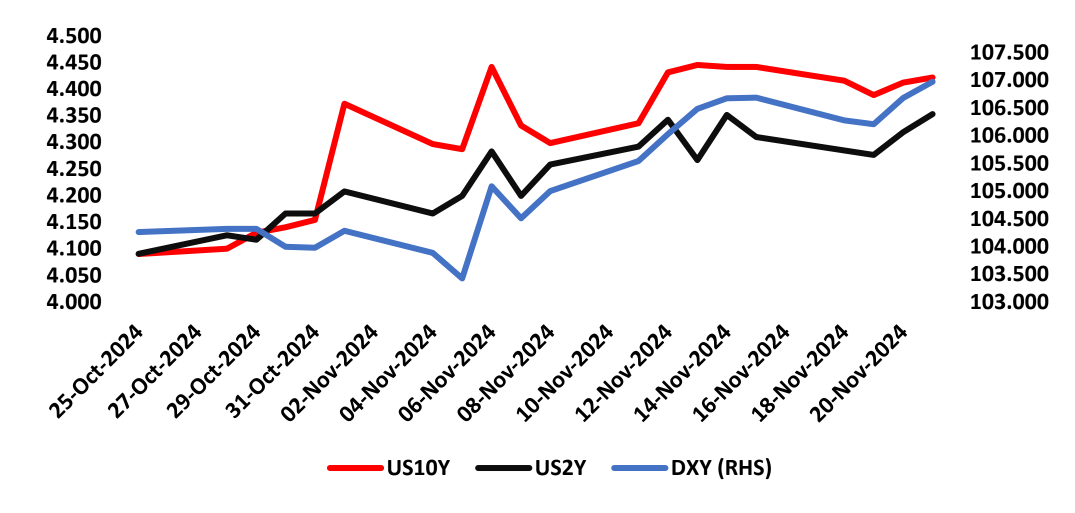
Any weakness in US economy may prompt FED to cut rates even if inflation remains elevated which may lead to weakness in US Dollar

1. **De-Dollarization process accelerates:** Over the past few years, the US has used the dollar's global reserve status as a tool in its foreign policy, particularly through sanctions and trade restrictions. This has driven some countries and central banks to diversify their foreign reserves away from the dollar, with growing interest in alternative assets like gold. If Trump's foreign policy turns more aggressive, it could push more countries to reduce their dependence on the dollar, further eroding its global dominance.

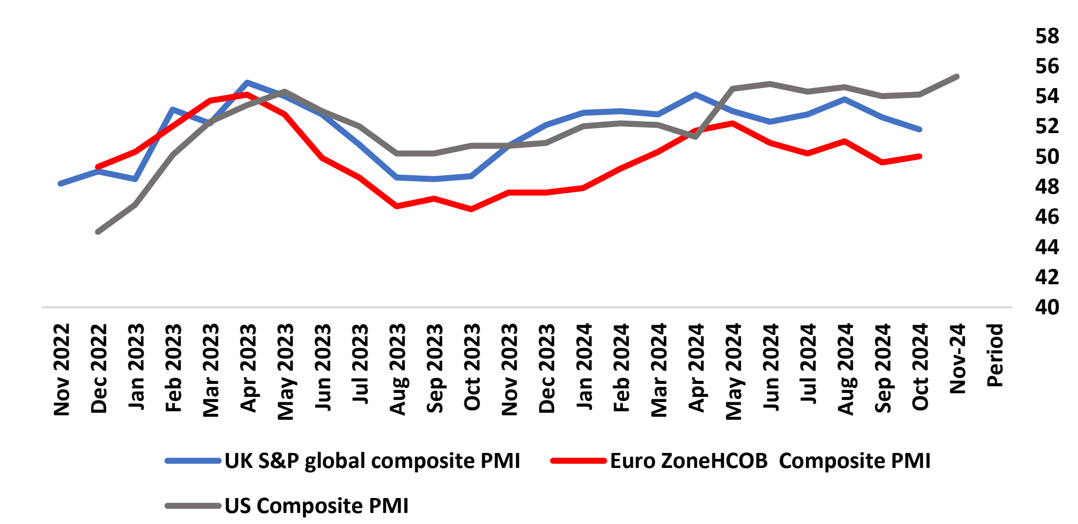
2. **US Twin Deficits fundamentally weaken the dollar**: The US faces persistent twin deficits both a fiscal deficit and a current account deficit. The US relies on foreign buyers to finance its fiscal deficit, with a significant portion of Treasury issuance being purchased by foreign governments and investors. If Trump's policies particularly tariffs succeed in reducing the US trade deficit, it could lead to a reduction in the global supply of dollars available for foreign central banks. If there are fewer dollars in circulation outside the US, it could dampen global demand for US assets and put downward pressure on the USD.

Conclusion: While the short-term outlook for the US dollar looks strong, supported by Trump driven policy expectations and a resilient economy, the medium-term scenario presents a more challenging picture. Factor like high fiscal deficit could put downward pressure on the dollar, especially if the FED is forced to ease in response to financial stress. This may be third year in which DXY continue to strengthen on strong fundamental and safe haven demand which is likely to continue due to uncertainty of Trump's policy. Technically the next resistance for DXY is seen at 109.50 levels a break of which may lead the DXY to touch all-time highs of 114.77 levels last seen on Sept'22. On contrary support lies at 106.81 levels.

Recent hawkish stance from FED has led to strength in yields (Fig 7)



Growth fear visible outside US (Fig 8)



Source: Bloomberg, UBI Research, Refinitiv

JPY remains weak while awaits BoJ's stance in December policy

Central Bank comment and Economic data

Ueda expresses concern about weakness in JPY and its effect on inflation

Japan received third quarter GDP growth numbers this month, the economy expanded by 0.9% on a Q-o-Q annualized basis, at faster pace than market expectation of 0.7%. However, it still marks a slowdown from the previous quarter's downwardly revised figures of 2.2%. Overall the GDP data provided some good news on the consumer side of the economy but was also mixed enough to ensure the government continues with plans for a substantial fiscal support package as had been promised by PM Ishiba earlier. On inflation front the October core CPI number came in at 1.8% below the central bank's target of 2% for the first time in five months potentially complicating the central bank's quest to raise interest rates further.

Ueda reiterates data dependency rhetoric provide no guidance on rate path

Bank of Japan Governor Ueda said in recent remarks that the December meeting could be live and that the BoJ will seriously assess the impact of the JPY on inflation and the economy and the Yen will be a key factor in inflation forecasts.

While Japan's finance minister Kato this week stating that the MoF was watching FX moves "with a high sense of urgency" and that recent moves were "one-sided and rapid". Sending a message to the markets that its foreign exchange policy has not been altered under Japan's new government.

BoJ's monetary policy outlook in December

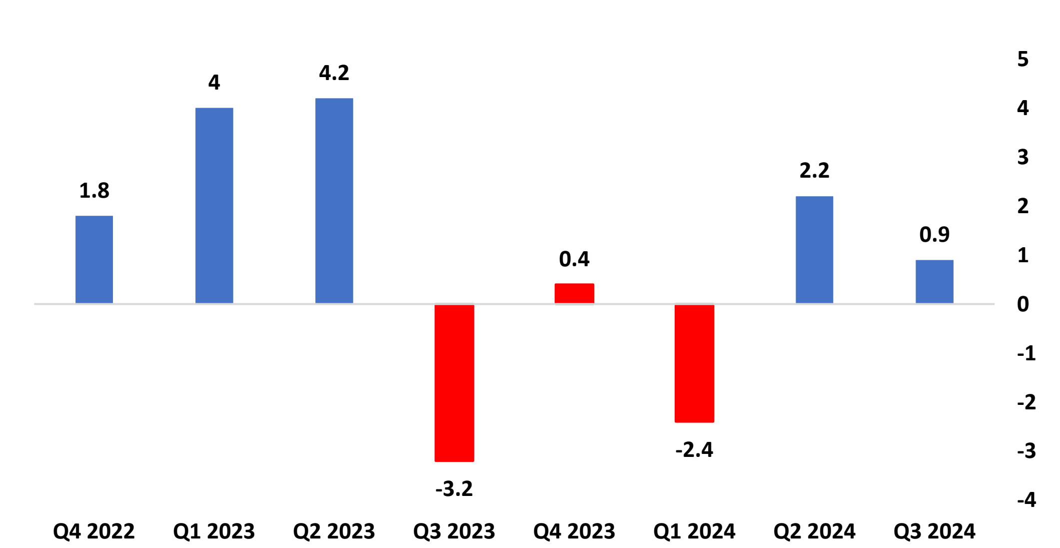
The markets are currently pricing in 53% probability for a 25bp hike at the next meeting on 19th December and 80% for the meeting on 24th January to reach terminal rate to 0.68bps by end of 2025. During December policy meet Ueda statement will be closely watched.

Any sudden weakness in JPY may could trigger another bout of intervention from MoF to support the JPY and encourage the BoJ to bring forward plans to hikes rate again.

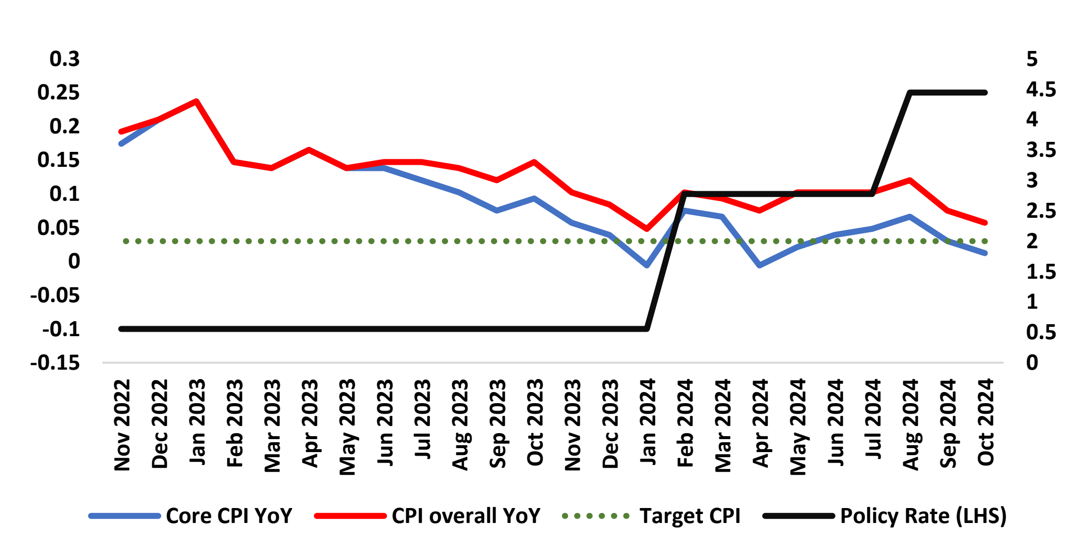
JAPANESE YEN (¥ - JPY): View

Over the last one month amid volatility due to US and Japan election the benchmark 2Y and 10Y has rose by 10bps. Meanwhile, USDJPY has continued to trade at the 155.00-level, as markets expect a slower pace of fed rate cuts (about 75bps through 2025) and only gradual rate hikes (+45bps through 2025) by the BOJ. Any yen strength could be limited. The level between 155.00 and 160.00 might be intervening zone. In this area, the MoF will likely act if we see further moves higher toward the 160 level. Also, uncertainty over future rate hike by BoJ, Trump's presidency and the possibility that the FOMC delaying rate cut may keep JPY on backfoot.

Japan's economy continues to grow at slow pace 0.9% on QoQ annualized pace (Fig 9)



October CPI came in @ 2.3% induces rate hike hope in December (Fig10)



Source: Refinitiv, UBI research, Bloomberg

UK less likely to be affected by US tariff; BoE likely to go gradual on rate cut path

BoE Governor Bailey has expressed concern about rise in inflation due to UK budget and Trump policies

The UK appears less exposed to any potential post-election rise in US protectionism. While it remains unclear to what extent Trump's campaign promises will translate into actual policy, market expectation is that the UK will avoid new US tariffs in the coming year. Historically, Trump has focused on the US goods trade balance with other economies, and given that the US runs a goods surplus with the UK, the UK is unlikely to be targeted for new tariff measures. While there is a possibility that the EU could face specific trade restrictions, the UK stands to benefit from Brexit, potentially avoiding such measures.

Central Bank comment and Economic data

UK economy contracted in September

The UK economy maintained a slow but positive pace of growth in the third quarter at 0.1% quarter-over-quarter, just a touch below consensus expectations, and 1.0% year-over-year. Monthly measures of other economic activity were also less than impressive, as industrial production, manufacturing production and services activity all surprised to the downside over the month.

While CPI turned out be stronger than expectation in October. ***BoE Governor Andrew Bailey has warned that the incoming Trump administration's potential trade tariffs as well as the latest budget of the UK government will add to uncertainty over the path of UK's inflation in the coming year***.

BoE to go gradual in rate cut path amid surge in October inflation

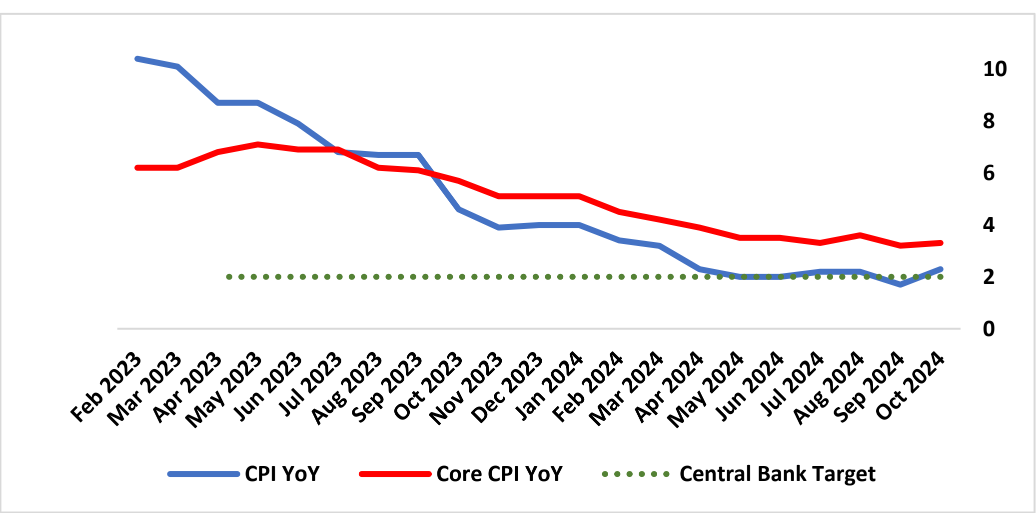
BoE may keep the policy rates unchanged in December meeting

The BoE has cut rate by 25bps on November 7, bringing the key rates to 4.75%. Currently markets are pricing in total 75bps rate cut by end of 2025 for terminal rates reach 4.00% as compared to FED's 3.84%. While BoE's next policy meet on 19th December'24 where markets expect the BoE to maintain status quo the probability of which currently stands at 76%.

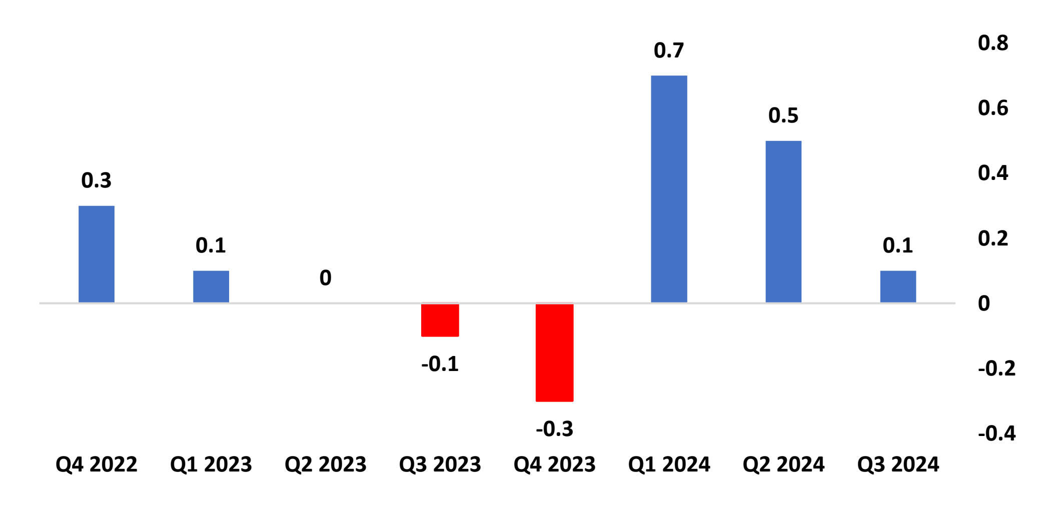
Market movement

While sterling remains, relatively the best performing G7 currency versus the US dollar year-to-date, on the backdrop that UK interest rates will take longer to fall meaningfully than U.S. ones. With sterling down from election-day highs above 1.30 to current trend lows just above 1.26. Sterling tested new lows, falling to a 4-1/2- month low at 1.2619 as the flow of USD buying is overwhelming the dwindling UK rate advantage out to December 2025. The yields on benchmark 2Y& 10Y also rose by c.40bps during last one month on expectation that BoE to cut rates at slower pace.

BoE October CPI turned out to be stronger than expected@ 2.3% Fig11)



UK economy showed surprise contraction in September (Fig 12)



Source: Refinitiv, UBI research, Bloomberg

Geopolitics, Trump trade and German election to weigh on Euro

Euro-zone likely to be most affected by US trade tariff after China

The US election dominated market trend this month with the Euro has been the worst performing G10 currency this month amid Trumps victory. It has resulted in EUR/USD testing the lows of 1.0331 levels last visited since Oct'23, after making high of 1.12 in August'24. The EUR has been hit harder by the outcome from the US election than other G10 peers which reflects market participants views that the victory for Donald Trump will deliver more of a negative growth shock for the euro-zone economy. Policy divergence exist between Eurozone and US, as per current market pricing ECB is expected to cut rates by 150bps by end of 2025 while US by just 50bps which may lead EURUSD testing parity next year.

Central bank comment and Economic data

On the backdrop of slower growth and US trade tariff ECB to continue its rate cut path

According to preliminary flash data, third-quarter GDP rose by 0.4% in the euro area from the previous quarter, an increase from 0.2% in the second quarter. This marks the strongest growth rate in two years, with the German economy expanding by 0.2%, thus avoiding a recession. Growth was also recorded in France and Spain, indicating that lower interest rates and the forthcoming Paris Olympics may have contributed to economic growth.

***The ECB published a gloomy financial report warning of elevated debt levels and budget deficit amid tepid growth for the Eurozone*.**

Lagarde is worried about growth in Europe and has stated specifically after Trump's win that the Europe should consolidate its resource in areas such as defence and climate, as its productivity growth stagnates and the world becomes increasingly fragmented into competing blocs.

<u>EU Treasuries/Bonds impact due to US election</u>

Trump's win has increased divergence between US and European rates over the next twelve months.

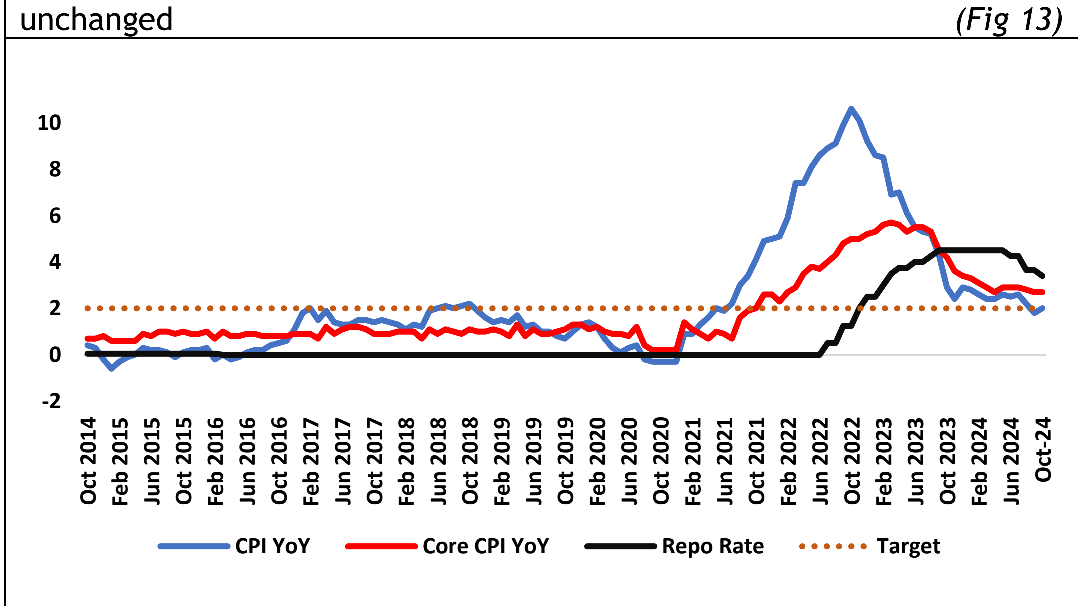
Yields have already adjusted sharply higher in the US relative to in the euro-zone since the end of September. The yield on the 2-year US Treasury bond has risen by around 80bps since 25th September compared to a much more modest increase of around 4 bps for the 2-year German government bond.

EURO (€ - EUR) view:

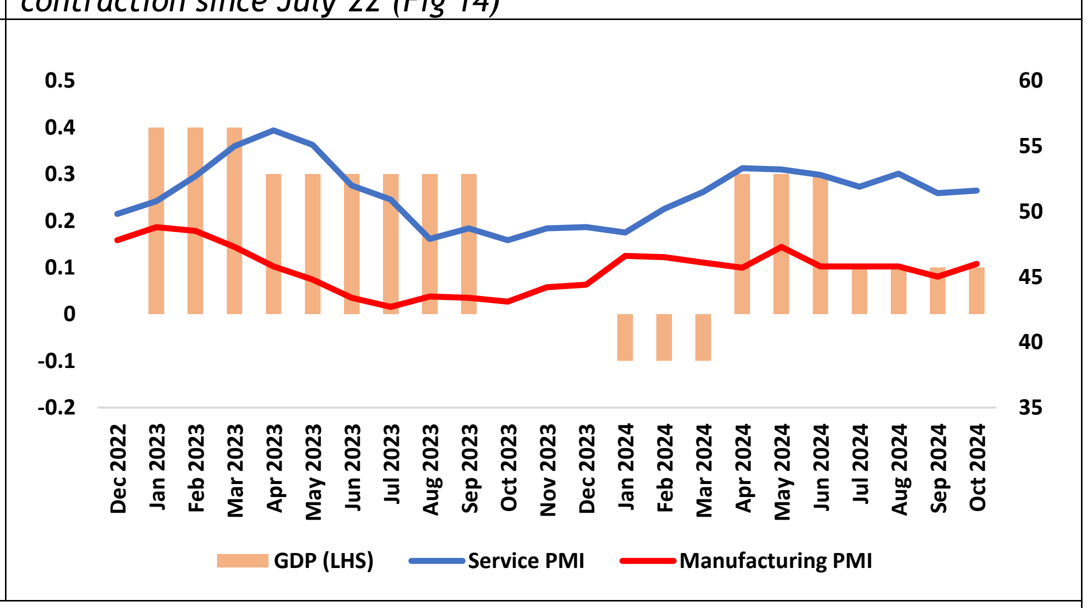
The EURUSD pair has fallen c.6% since late September'24 on weaker domestic growth and victory for Donald Trump raises the prospect of a hike in tariffs that could deal a fresh blow to the euro zone economy. Going forward faster interest rate cuts from the European Central Bank (ECB) than in the US would be negative for the euro. Also, Germany is headed towards unexpected election as Germany Chancellor Olaf Scholz lead coalition government has come in minority, and elections are to be held in Feb'25 this factor are likely to weigh on euro.

The 1.05 level remains crucial for EURUSD pair a breach of which may lead to further decline, however the pace is likely to be more gradual. The next technical support lies, near 1.0450. On the upside, we view 1.0810 as a key resistance level. However, if EUR/USD were to break above 1.0740, the likelihood of EUR/USD dropping to 1.0310 may diminish.

Eurozone inflation spiked to 2% in October, while core remains unchanged *(Fig 13)*



Service PMI remains in expansion zone while manufacturing PMI in contraction since July'22 (Fig 14)



Source: Refinitiv, UBI research, Bloomberg

Rupee hit all-time lows while the central bank strives to contain volatility

Nov’24 started with major global events of the year “US elections” followed by US FOMC interest rate decision and BoE rate decision. Re-elected Trump 2.0 caused major jitteriness in the global markets; making Dollar stronger c.2% on a move to safe haven demands. Despite of a much-anticipated rate cut of 25bps by US FOMC (4.50% - 4.75%), Dollar saw broad-based strengthening on Trump’s poll promises with respect to tariff hikes across the globe. Rupee was no exception from the EM currencies and hit to its all-time low levels on a recurring basis.

After breaking the major physiological level of 84/$ on 11th Oct’24, Rupee hit an all-time low of 84.5025/$ (22nd Nov’24) after trading in a tight range of 83/$ corridor for almost 2 years (since Oct’22). (Refer our FX report: World worried about “Trump trade” amid election dead heat)

Broad Dollar strength continues on proposed policies by the incoming president, including tariff and fiscal policies, which are deemed to be positive for growth. However, also proving to be inflationary in the medium to long term, 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 Japan amid safe haven buying.

In Nov’24, unlike Asian peers, when all the Emerging-Market currencies took a hit amid rising Dollar strength, Rupee remained one of the least volatile currencies and marginally depreciated (0.35%) and refrained from severe depreciation. Rupee is hovering close to its all-time lows but the downside (Psychological barrier of 84.50) is largely protected by continuous Dollar sales by PSBs.

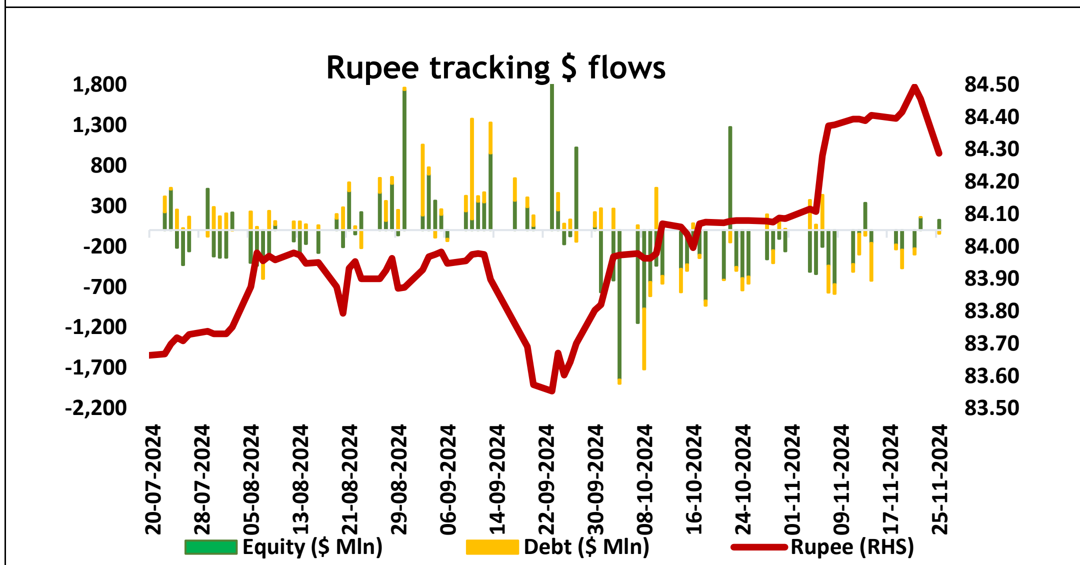
The premium on the one-year dollar/rupee forward contract fell to an over 10-week low as banks persistently sold the greenback for forward delivery, noting a likely shortage of dollars in the system. Premium on dollar/rupee forward contracts fell across tenures. On an annualised basis, premium is hovering around 2.00% and markets expects rupee forward to stabilize here in the coming days.

There is a likely dollar crunch in the system owing to continuous foreign fund outflows from domestic equity markets. Foreign Portfolio Investors who net withdrew $11.12bln (highest in a decade) in Oct’24, have pulled out another $3.02bln so far in Nov’24. However, the debt segment is witnessing higher outflows to the tune of $853mln vis-à-vis $282mln from the last month, the matter of concern is that FAR related flows have started booking profits and observed outflows of $781mln in this month so far. However, **MSCI's Nov’24 index review boosts India's weight, attracting $2.5 billion in FII inflows has supported the market sentiments**.

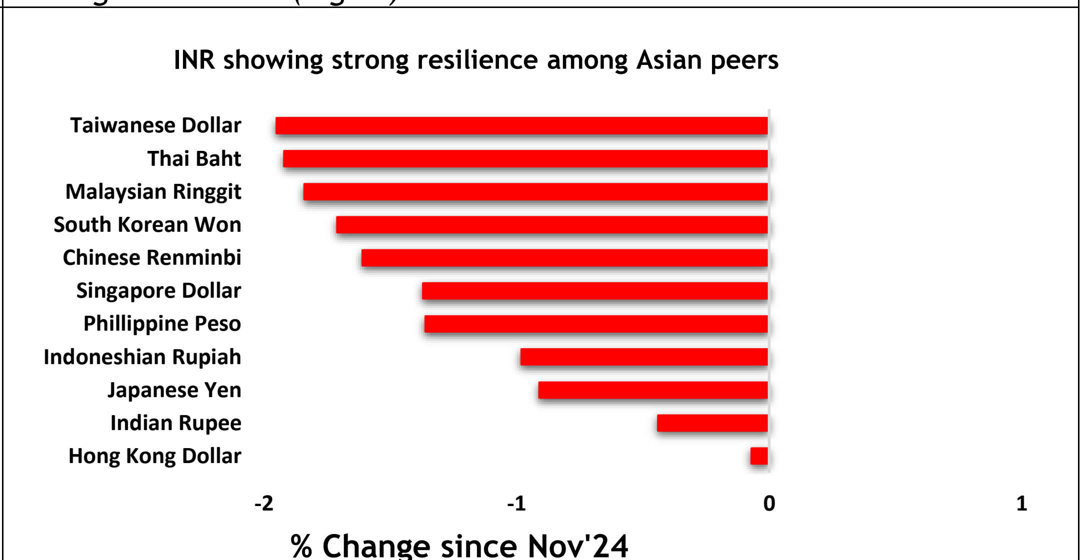
The recent **Trade Data** for Oct’24 showed a negative outlook for Rupee. October deficit widened to $27.1bln post narrowing seen in Sep’24; oil was the prime driver of trade dynamics as deficit hit an all-time high of $13.71bln ahead of festive season despite **record services exports which clocked to the highest levels ever of $17.02bln**. The local currency has been under pressure on global risk aversion and FPI outflows. (Refer our Trade Data Oct’24 report: Oct’24 trade data provided negative surprise; oil plays spoilsport).

Oil futures have registered gains initially after US election outcome but have declined later. Trump’s stance towards oil producers like Iran & Israel will be on close watch. India being a major oil importing country

FPI outflow putting pressure on INR *(Fig 15)*



Rupee remains one of the least volatile and least affected currency during US election (Fig 16)



Source: Refinitiv, UBI research, Bloomberg

will be affected with any changes in global crude oil prices and will directly impact in the country's broad trade data. Despite escalating middle east tensions, rising concerns over weak demand growth in China has led oil prices to slip again from recent Highs of $80.55/bbl. to Lows of $70.70/bbl., Current level: $72.72/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 $46.99bln to $657.89bln from all-time highs of $704.86 ($33.09bln fall was adjusted after valuation effects), signalling that the Central Bank has taken appropriate measures to curb volatility in the local currency. The strategy to beef up its accumulation buffer its reserves, it helps to avoid any unforeseen future volatility in the domestic currency.

Also, our analysis shows a close correlation between FX reserves (adjusted for valuation effects) and BoP. **FYTD25 BoP is tracking at c.$5.93bln** (Q1: $6.37bln, Q2: $27.65bln & Q3: -$28.09bln) looking at reserves data.

In the coming months, the interest rate differential between US & India is likely to stay elevated as FED is expected to cut another 25bps in 18th Dec'24. However, RBI can refrain from rate cuts amid Rupee depreciation. 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 Sep'24 with the RBI to raise $3.78bln vis-à-vis $5.46bln 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

INR traded in a very narrow range with a depreciating bias from 84.0650 to 84.5025 and moved linked to the Dollar's strength & consistently weakening Chinese Yuan. The election outcome led to a knee jerk strength in the DXY (c.105 levels) but however with 25bps cut by FED, DXY slipped to 104.34 levels. Thereafter, DXY gradually started strengthening to 108 levels. Considering the present scenario, we may expect dollar to stabilize over time taking into further 25bps rate cut by FED (56% probability for a 25bps cut in 18th Dec'24) will lead to appreciating rupee. Also, Dollar inflows will be seen from Dec'24 due to inclusion of India FAR bonds in the Bloomberg Emerging Market (EM) Local Currency Government Index and related indices, starting 31st Jan'25. Still, the central bank will remain vigilant using all the levers to contain the currency volatility.

Despite global headwinds, the USD/INR pair has shown resilience on continuous dollar sales by PSBs. But, there can be a completely different scenario when Trump originally takes charge on Jan'25 and DXY shoots to its all-time highs of c. 115 levels then there will be a tremendous pressure on INR and will be closely watched how the central bank allows it to gradually depreciate. We expect the domestic currency hovering at current levels (84.30/$) with a negative bias, however the depreciation will be capped amid lower crude oil prices. Based on the current global scenario, technically INR should take support of 84.16 followed by 83.88 levels and will find resistance around 84.5050 (NDF highs), breach of which will test 84.80 levels.

Government Bond and Commodity Price Change *(Fig 17)*

Government Bond	1M Change BPS	3M Change BPS	YTD Change
10Y US Treasury	11	58	52
10Y JP JGB	12	18	45
10Y DE Bund	-3.19	3.15	25
10Y UK	15	47	85

Commodity Price Performance	MTD % Change	3M % Change	YTD % Change
WTI Crude	-1.58	-6	-3.65
Gold	-1.99	6.16	30.6
Silver	-7.41	5.04	30
Copper	-6.84	-3.19	4.61

FX performance *(Fig 18)*

FX Performance

FX Pair	3M % Change	6M % Change	MTD % Change	YTD % Change
EURUSD	-6.17	-3.65	-4.19	-5.53
GBPUSD	-4.43	-1.53	-2.92	-1.63
AUDUSD	-3.1	-1.84	-1.29	-4.61
NZDUSD	-4.84	-4.23	-2.31	-7.67
USDJPY	5.5	-0.0152	1.55	9.45
USDCHF	4.28	-2.97	2.86	5.54
USDCAD	4.25	-3	2.85	5.51
DXY	6.66	2.58	3.32	6.01
USDCNY	4.21	-3	2.84	5.51
USDINR	0.54	1.39	0.38	1.43

Source: Reuter, UBI research, Bloomberg

From technical perspective we have been constantly flagging levels of 84.5050 which was respected in recent period in spite of FX volatility. However, going forward, we closely watch for a scenario of possible overshoot in DXY, probably a breach of current technical level.

Central bank Policy Rates			
	Current	End of 2023	YTD Change 2024 in BPS
Advanced Economies			
Australia	4.35%	4.35%	0
Canada	3.75%	5%	-125
Euro-zone	3.40%	4.50%	-110
Japan	0.25%	-0.10%	35
New Zealand	4.25%	5.50%	-125
United Kingdom	4.75%	5.25%	-50
US	4.75%	5.50%	-75
Developing Economies			
Brazil	11.25%	11.75%	-50
China (1Y LPR)	3.10%	3.45%	-35
India	6.50%	6.50%	0
Indonesia	6%	6.00%	0
Philippines	6%	6.50%	-50
South Korea	3.25%	3.50%	-25

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