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**FX Views:** (Table 1)

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	<b>Bias: Consolidation with bearish bias</b> <b>Resistance: 98.65/99.35</b> <b>Support: 97.70 / 96.00.</b>	Over July, large speculators in DXY futures swung from aggressively cutting their dollar-shorts in mid-month back toward a more bearish stance by month-end
EUR/USD	<b>Bias: Range bound</b> <b>Support: 1.1500 / 1.1430</b> <b>Resistance: 1.1750 / 1.1800</b>	EUR likely to trade range-bound with a slight bearish bias ahead of Jackson Hole and key Fed signals.
USD/JPY	<b>Bias: Bullish</b> <b>Support: 146.08 / 144.97</b> <b>Resistance: 148.42 / 149.65</b>	JPY likely to drift lower amid stronger yen sentiment, BoJ tightening bets, and FED rate cut expectations.
USD/INR	<b>Bias: Bearish</b> <b>Support: 86.80 / 87.20</b> <b>Resistance: 87.90 / 88.50</b>	Modest appreciating bias. US trade talks, & FPI (out)flows on close watch.
USD/CNH	<b>Bias: Bearish</b> <b>Support: 7.1691 / 7.1561</b> <b>Resistance: 7.1933/7.2045</b>	CNH likely to trade range-bound with a slight bearish bias, as PBoC policy tweaks and improved risk sentiment. US-China final trade deal closely watched.

**Market-Implied Path (U.S. FED)** (Table 2)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.12 %	-21 bp
10 Dec 2025	3.78 %	-55 bp
29 Apr 2026	3.47 %	-86 bp
28 Oct 2026	3.10 %	-122 bp
09 Dec 2026	3.05%	-131bp

Next meeting probabilities:

**No change 15%, 25 bp cut: 85 %.**

**Cross Asset fund flow as of 28<sup>th</sup> July'25**

(Table 3)

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	-2.0	7.6
All Bonds	15.0	10.6
US Equities	-8.6	5.7
US Bonds	5.5	4.3
EM Equities	1.1	-0.2
EM Bonds	0.05	-0.37
Japan Equities	-1.1	0.2
China Equities	0.06	-0.18
Europe Equities	2.0	-0.9
Europe Bonds	6.8	4.7

Source: JP Morgan

The U.S. dollar saw a mixed performance last week, holding largely steady against major peers but facing subtle downward pressure amid shifting global and domestic dynamics. The easing of geopolitical tensions following the Trump-Putin talks (despite a ceasefire not being reached on Ukraine) also contributed to market stability. Hence, easing geopolitical risks, falling crude prices, and growing optimism in global markets reduced demand for the dollar as a safe-haven asset. Meanwhile, a stronger Japanese yen and stable euro and pound movements kept the dollar's momentum in check as investors looked ahead to the upcoming Jackson Hole Symposium for further policy cues.

The US Dollar Index (DXY) traded in a narrow range between roughly 97.44 and 98.50 last week, closing at 97.85 on 15<sup>th</sup> Aug25 with a slight decline of 0.63%. Market sentiment was influenced by easing geopolitical tensions after the Trump-Putin meeting and anticipation of the Trump-Zelensky talks, which reduced safe-haven demand for the greenback. Expectations of a FED rate cut in Sep'25 also weighed on the dollar's short-term strength. Despite minimal monthly gains of ~0.1%, the dollar remains down ~4% YoY, reflecting longer-term softness amid cautious investor sentiment.

US 10Y treasury yields remain relatively stable, fluctuating within a tight range of 4.24% to 4.33%, while the front end of the yield curve is broadly pricing in 25bps rate cut. This steady movement reflected cautious investor sentiment amid key geopolitical and economic events, including anticipation of the Trump-Zelensky meeting and the upcoming Federal Reserve Jackson Hole symposium. The easing of geopolitical tensions following the Trump-Putin talks also contributed to market stability. Overall, the yield's range and behaviour suggested balanced optimism as investors awaited clearer monetary policy direction. Strong inflows into money-market funds (Refer: Table 2) also create reinvestment risk should the Fed cut aggressively.

From the data perspective, while US CPI provided a mild positive surprise, PPI data was higher than expectations.

- The July U.S. Consumer Price Index data released on 12<sup>th</sup> Aug'25 rose by **0.2% MoM and 2.7% YoY**, came **below market expectations but remain unchanged MoM**. However, core CPI—which excludes volatile food and energy prices—climbed by 0.3% on the month, marking the sharpest increase since January and pushing the annual **core inflation rate up to 3.1% from 2.9% in June**. The uptick in core inflation was mainly driven by higher costs in shelter, healthcare, and air travel, while goods inflation remained relatively modest. Despite persistent pressure in housing and services, overall inflation was kept in check by a decline in energy prices, particularly gasoline.
- The U.S. Producer Price Index surged **0.9% MoM**—the biggest jump in over three years; significantly above expectations, which had anticipated a 0.2% MoM rise and rose **3.3% YoY** the most pronounced annual gain since Feb'25. Strong gains in goods, services, food, and energy prices, driven partly by tariffs, pushed wholesale costs higher than expected. This persistent inflation pressure complicates Federal Reserve plans for rate cuts, raising concerns that consumer prices may also climb further.

Going forward, the greenback is poised for a pivotal week ahead, influenced by a confluence of geopolitical developments and Federal Reserve signals. (i) Markets are closely monitoring a **high-stakes meeting between Trump and Zelensky**, aimed at advancing peace negotiations. Additionally, Trump's recent meeting with Putin in Alaska revealed a shift toward a peace deal over a ceasefire, potentially easing global risk premiums and impacting the dollar's safe-haven demand. (ii) The Federal Reserve's annual **Jackson Hole symposium**, scheduled for August 21-23, is expected to provide insights into the U.S. economic outlook and potential policy moves. **Fed Chair Jerome Powell's testimony** is highly anticipated as markets look for clues on future interest rate cuts. He has hinted that inflation risks have eased and the Fed may soon shift focus toward supporting employment. Powell's remarks could significantly influence expectations on the timing and pace of rate cuts, making the speech a key event for investors assessing the Fed's next moves.

Technically, the DXY remains in a bearish trend, suggesting limited immediate upside potential. Key support levels to watch are around 97.70, with resistance near 98.65. A break below support could expose deeper areas at 97.00 and even 96.00.

Timeline of upcoming events	
Date	Event
August 18, 2025	Trump-Zelenskyy meeting in Washington
August 27, 2025	Additional Tariff - Extra 25% tariff, raising total to 50%; some exemptions apply
August 31 to September 1, 2025	Modi's Scheduled Visit to China to attend Shanghai Cooperation Organisation (SCO) Summit in Tianjin

*INR saw a modest weekly appreciation amid soft US inflation data and easing domestic prices, though gains were capped by geopolitical tensions & trade concerns.*

*US tariff hikes pressured the INR, but the Trump-Putin summit eased oil supply fears by delaying secondary sanctions on Russian oil buyers.*

*Continually weak FPI flows kept pressure on the rupee; last week saw equity selling, debt buying with a FAR inflow*

*S&P upgrade to "BBB" boosted the rupee by enhancing India's financial stability and attracting greater foreign investment.*

*Crude fell ~3.9% WoW amid easing geopolitical tensions and demand concerns.*

*DXY fell WoW; reflecting Fed rate cut expectations amid softening data.*

*FX reserves surged last week, driven by a rise in foreign currency assets.*

## Rupee strengthens amid tax reforms, softer DXY, cheaper crude & credit rating upgrade.

The Indian Rupee traded within a narrow but mildly appreciating range against the US Dollar during the week. Global FX markets responded to a mix of global and domestic cues, with softer than expected US inflation data boosting risk sentiment, while India's own inflation rate hit an eight-year low. Despite mid-week gains, the rupee closed the week slightly weaker ahead of further global economic releases. Last week, rupee **appreciated by ~0.12%** on a WoW basis (Last Friday's close: ₹87.6525/\$) [O: ₹87.5150/\$, H: ₹87.7400/\$, L: ₹87.3700/\$ & C: ₹87.5500/\$]. Although the rise was modest, it reflected the dampened sentiment by U.S. tariffs on Indian economy. The Trump-Putin meeting in Alaska added strategic uncertainty but did not trigger sharp rupee moves immediately, with the rupee underperforming most Asian currencies. Markets now monitor US policy shifts, foreign capital flow trends, commodity price movements and progress in India-U.S. trade negotiations for further cues. (Refer report: [FX weekly: Trade Tariffs & Fed Policy: The U.S. at a Monetary and Trade Inflection Point](#))

### 🔑 Key Drivers of Rupee Movement:

#### Negative contributors →

- ❖ **Trade tariffs** imposed by the U.S., a fresh 25% levy on Indian exports, from 7<sup>th</sup> Aug'25, and announcing a further 25% penalty effective 27<sup>th</sup> Aug'25, taking total tariffs to 50% have escalated tensions and pressured the INR. However, The Trump-Putin summit eased fears of additional oil-related sanctions, with Trump delaying secondary sanctions on countries buying Russian oil, which helped calm oil markets and paved the way for continued Russian supply.
- ❖ **Continually weak FPI flows** have weighed on the rupee, with YTD net outflows at \$13.32 bn as of 14<sup>th</sup> Aug'25. Last week, FPIs remained net sellers in equities, **offloading \$0.35bn vs \$1.34bn** the week prior, while staying net buyers in debt at **\$583mln vis-a-vis \$307mln**. FAR flows, totaling **\$4.32bn YTD**, saw a \$445mln inflow last week, taking Aug'25's net inflow to \$356mln.

#### Driving forces →

- ❖ **S&P rating upgrade** for India to "BBB" from "BBB-" has had a positive impact on the rupee and Indian financial markets overall. The upgrade reflects strong economic growth, improved fiscal consolidation, credible inflation management, and enhanced external resilience. Following the announcement, the Indian rupee saw limited appreciation against the US dollar, given concerns around Trump-Putin meeting during the long weekend. The rating upgrade is expected to have a sustained positive impact on the rupee in the medium term by reinforcing India's financial stability and boosting its appeal to global investors, thereby supporting stronger capital inflows.
- ❖ **Brent crude oil prices** declined driven by easing geopolitical tensions; particularly hopes of a Russia-Ukraine peace deal that could reduce supply disruptions and concerns over global economic growth and energy demand amid US tariff hikes. This fall likely offered some relief to the INR by lowering crude import costs, easing pressure on the trade deficit for one of India's largest imports. The Trump-Putin summit in Alaska pushed oil prices lower as supply concerns eased. Though no Ukraine ceasefire was reached, Trump's decision to delay secondary sanctions on buyers of Russian oil—helped calm fears of tighter supply. On a WoW basis, prices dipped by ~3.9%, and they still reflect a sharp YoY decline of ~10%.
- ❖ **DXY** declined modestly by ~0.63% on a WoW basis, falling -98 levels. This reflects growing market expectations of **potential 25bps FED rate cut in sep'25** amid signs of a softening labor market and geopolitical concerns. The softer DXY eased some pressure on the INR and supporting EM currencies.

**Despite rising global FX volatility, the reserves buffers provide policy ammunition with the central bank to support the currency.** As per latest weekly data, **FX reserves** rose by \$4.75bn to **\$693.62bn** for the week ending 8<sup>th</sup> Aug'25, driven mainly by a \$2.37bn surge in foreign currency assets to \$583.98bn. With this rise, reserves are now inching closer by ~\$11bn away from the all-time high of \$704.86bn recorded on 27<sup>th</sup> Sep'24. A valuation-related gain of \$0.43bn was also recorded, reflecting the central bank's continued efforts to stabilize the forex market. Our analysis indicates a BoP surplus of ~\$6bn for FYTD26, with FX reserves—net of valuation effects continuing to closely track BoP dynamics.

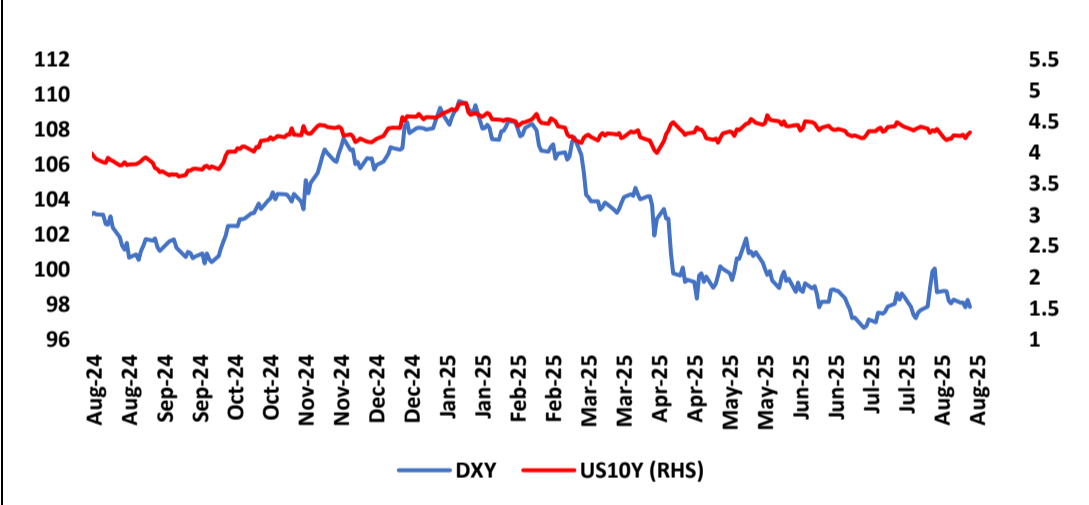
INR may trade stable with a slight positive bias, supported by easing oil risks, but capped by US-India trade delays and Trump-Zelensky tensions.

**Outlook (INR - ₹ view):**

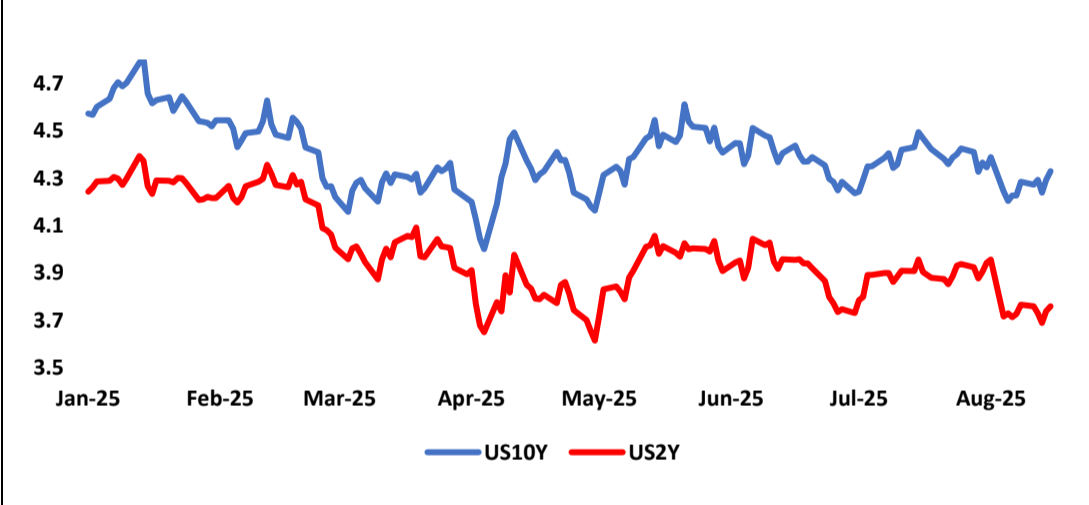
This week, the outlook for the INR is relatively stable with mildly positive bias supported by improved risk sentiment following the Trump-Putin summit in Alaska, where no new sanctions were announced—easing oil supply concerns and boosting foreign inflows. We anticipate a rebound in rupee sentiment to come soon while reflecting a narrow trading band with limited volatility, with immediate support seen around ₹87.20/\$, a decisive break below this level could open the door to ₹86.80/\$. On the upside, resistance is expected near ₹87.90/\$, and a breach of that could push the pair towards fresh all-time highs of ₹88.50/\$.

The Trump-Zelensky meeting taking place today (18<sup>th</sup> Aug'25) continues to weigh on broader investor sentiment due to heightened global tensions. Domestically, supportive tax measures have further lifted confidence, but the talks on a proposed US-India trade deal has been delayed after US negotiators cancelled their visit to New Delhi (Aug 25-29) dampening hopes of averting new US tariffs on Indian Goods set to take effect on 27<sup>th</sup> Aug'25. That said, Trump's decision to delay secondary sanctions on buyers of Russian oil is likely to support the currency. There are key event risks in the coming weeks which will drive the fate of US-India trade deal and the Rupee. Overall, the rupee may see limited gains, with movement likely capped by persistent trade and geopolitical uncertainties.

DXY down ~0.35% in this week and sharply down by ~10% in YTD; Treasury yields broadly flattish (Fig 3)



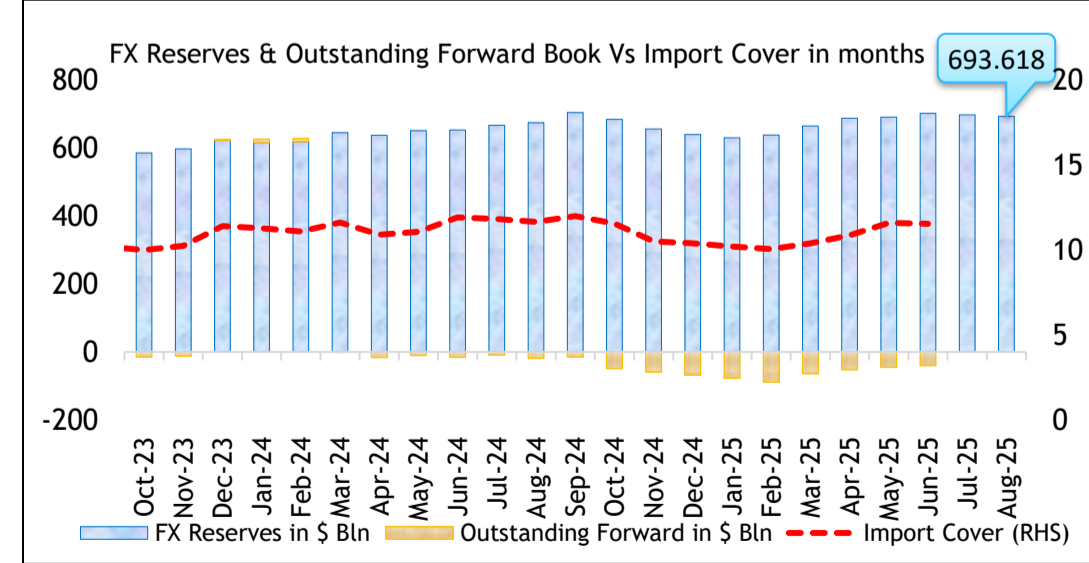
Treasury yields remain resilient, while the front end is pricing in Sep'25 rate cuts (Fig 4)



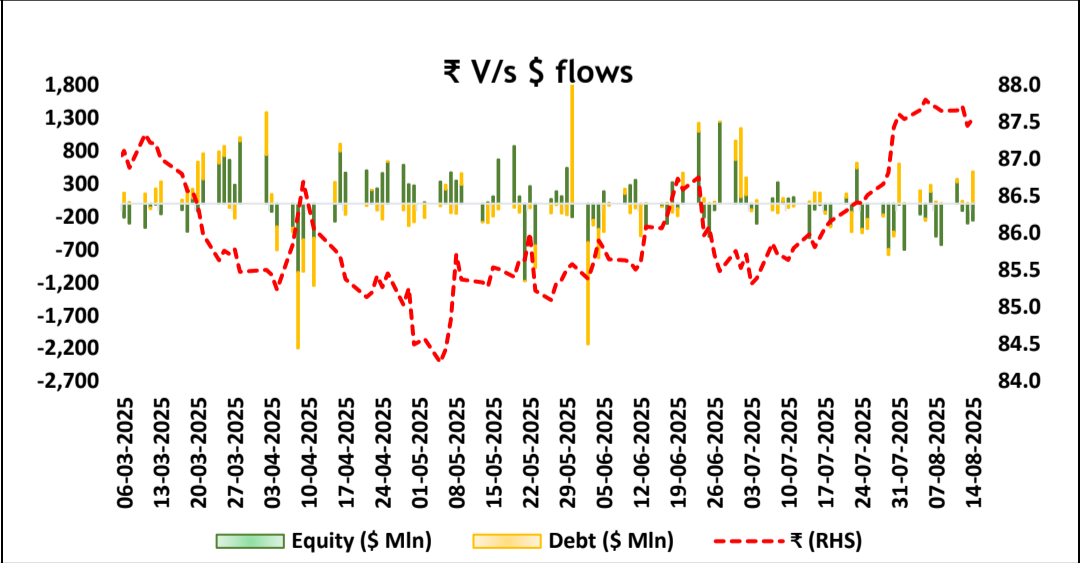
Source: Bloomberg, LSEG Workspace & UBI Research

Source: Bloomberg, LSEG Workspace & UBI Research

FX reserves rise amid rise in foreign currency assets (Fig 5)



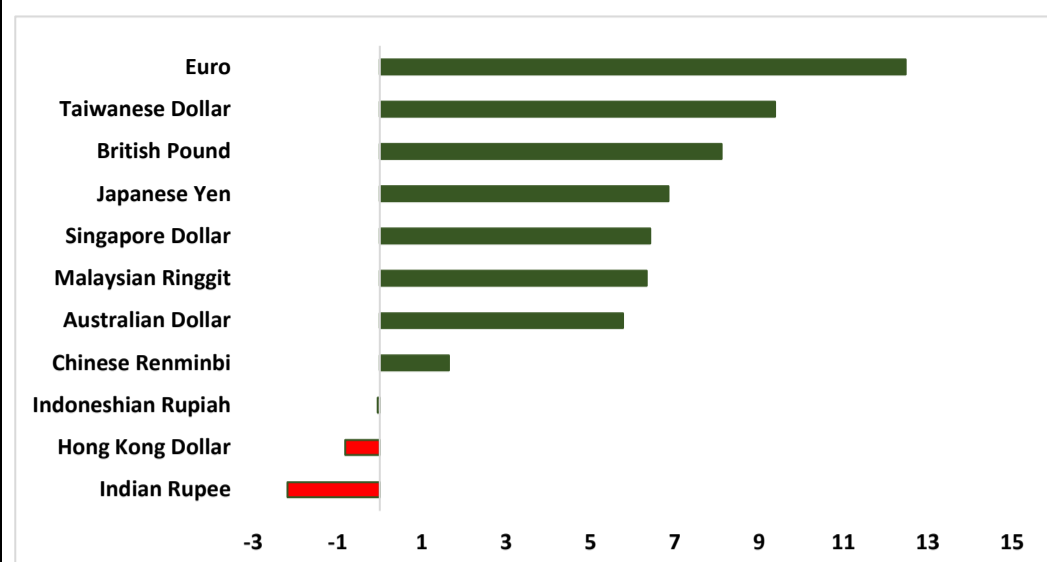
INR supported by India's rating upgrade and lower DXY (Fig 6)



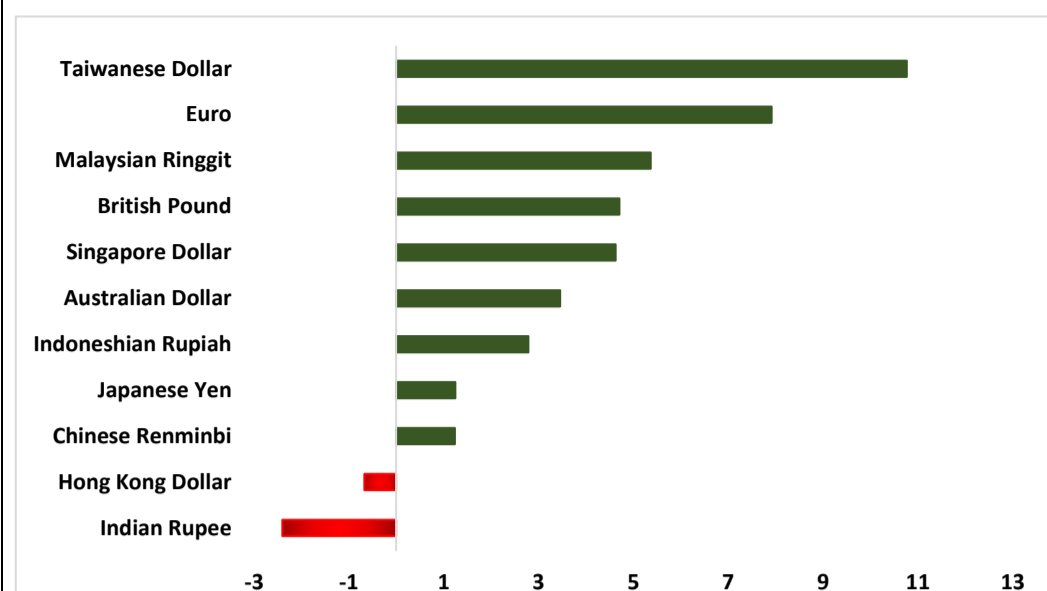
Source: Bloomberg, LSEG Workspace & UBI Research

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% Change in Jan'25 for major currencies (Fig 7)



% Change in Apr'25 for major currencies (Fig 8)



Source: Bloomberg, Reuters, UBI Research

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