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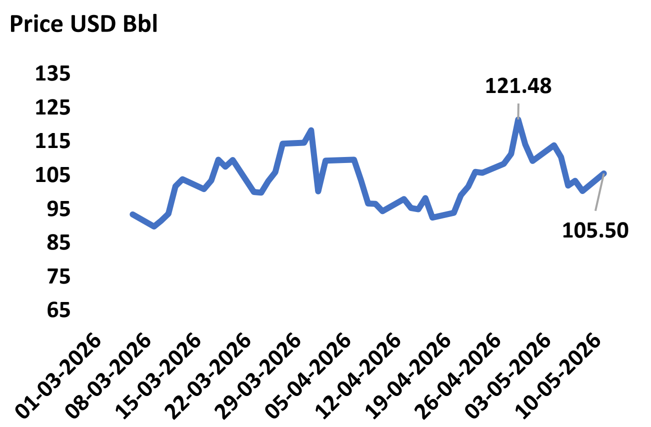
Oil has experienced extreme volatility (Brent Crude) (Fig 01)



Source: Refinitiv

Cross Asset Fund Flow Monitor (Table 1)

Category	4 wk avg ($bn)	2025 avg ($bn)
All Equities	20.5	8.1
All Bonds	9.9	11.3
US Equities	13.4	3.5
US Bonds	2.7	4.3
EM Equities	1.7	0.9
EM Bonds	1.52	0.50
Japan Equities	-0.1	-0.1
China Equities	0.09	-0.15
Europe Equities	-1.0	0.9
Europe Bonds	3.1	4.3

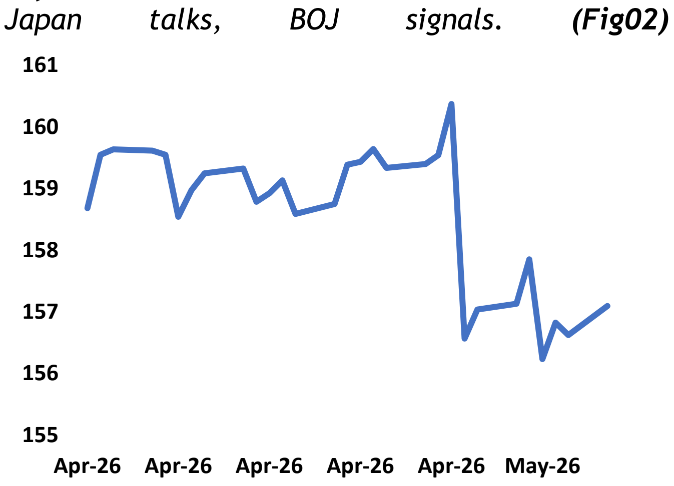
As of 29nd April,' 26 *Source: JP Morgan*

Market-Implied Path (Fed-Funds Futures snapshot) (Table 2)

Meeting date	Implied Rate	Cumulative Change
17 June 2026	3.62%	+1.50 bp
29 July 2026	3.63%	+3.19 bp
16 Sept 2026	3.65%	+4.33 bp
28 Oct 2026	3.66 %	+5.62 bp
09 Dec 2026	3.68%	-7.02 bp
27 Jan 2026	3.69%	+8.74 bp

Next meeting probabilities: **No change 91%, 25 bps Cut 9%**

USD/JPY remains vulnerable after Japan's intervention last week, with authorities likely to defend the 160 area while markets watch US-Japan talks, BOJ signals. ***(Fig02)***



Markets are entering the week with a familiar but uncomfortable contradiction: ***geopolitical risk remains elevated, oil remains the key macro variable, and yet US risk assets are still behaving as if the shock is manageable****. The market is not ignoring the US-Iran conflict or the disruption around the Strait of Hormuz; it is selectively pricing the risk. US equity investors are leaning on strong earnings momentum, particularly from AI and semiconductors, while bond, currency and commodity markets remain highly sensitive to every oil and diplomacy headline. This creates a fragile equilibrium. It can hold if oil stays elevated but contained, inflation does not surprise materially higher, and the Trump-Xi summit avoids another trade shock. It breaks if oil moves decisively higher, CPI forces another hawkish repricing, or US-China tensions re-escalate.*

The central market view is not that "peace is coming", but that the conflict is moving through intermittent de-escalation headlines*. Brent's sharp fall last week showed how quickly the war premium can compress when ceasefire hopes rise, but Trump's rejection of Iran's latest proposal as* ***"totally unacceptable"*** *has reminded markets that the diplomatic gap remains wide. Iran's position on nuclear facilities and control of shipping passage remains difficult for US to accept, while the US is facing growing domestic pressure from high gasoline prices. In practical terms, Brent below USD 90 gives markets breathing space, but Brent near USD 100 keeps inflation, current accounts and central-bank policy under pressure. A move toward USD 85–90 would be positive for risk assets and Asian FX.*

The US economy is still holding up better than feared, but the quality of the growth signal is uneven. April payrolls at 115k were stronger than expected, unemployment remained at 4.3%, and the labour market does not yet look weak enough to justify urgent Fed easing. However, consumer sentiment is deteriorating as fuel prices and broader affordability pressures bite. This matter because markets are currently assuming that growth can remain positive while inflation plateaus. If CPI remains sticky, investors will have to accept that the next phase is not rapid easing but prolonged policy hesitation.

The Fed view should therefore remain cautious. The earlier rate-cut narrative has largely faded, and markets have moved toward a higher-for-longer interpretation, with new Fed Governor Kevin Warsh set to take office on 15 May. This week's US CPI print on 12 May will be the key event. Bloomberg expects headline CPI at 0.6% m/m and 3.7% y/y, versus 0.9% m/m and 3.3% y/y in March, while core CPI is expected at 0.3% m/m and 2.7% y/y, versus 0.2% m/m and 2.6% y/y in March. The print will test whether investors can continue to treat the oil shock as temporary. A higher inflation surprise would likely push Treasury yields higher and support the dollar. A softer print would give markets short-term relief, but it is unlikely to fully revive near-term rate-cut expectations unless oil also declines. One good CPI print helps, but it does not solve the policy problem while Brent remains elevated.

The US dollar remains difficult to read because it is being pulled by competing forces. Geopolitical risk and delayed Fed cuts can support the dollar, but policy uncertainty, fiscal concerns and fading confidence in the US macro framework can cap upside. This explains why the dollar has not rallied aggressively despite the Middle East shock. The better view is that the dollar remains range-bound unless inflation or oil breaks the current balance. A hot CPI print or renewed oil spike would support the dollar; credible Middle East de-escalation and softer CPI would weaken it.

JPY also deserves close attention after last week's sharp moves in USD/JPY and suspected Japanese FX intervention*. USD/JPY briefly fell toward the 155 area before recovering to the upper 156s, suggesting that intervention may have slowed the move but has not fully reversed the underlying yen weakness. The key message is that Japanese authorities appear keen to prevent the 160 level from becoming entrenched as a new psychological anchor, especially while speculative yen shorts remain elevated and importer dollar demand continues. This week, Treasury Secretary Scott Bessent's visit to Japan will be important, with the weak yen expected to be on the agenda in meetings with Prime Minister Sanae Takaichi, Finance Minister Satsuki Katayama and BOJ Governor Kazuo Ueda.* ***The market should watch for three things: whether Japan signals further willingness to intervene, whether US officials tolerate or push back against intervention, and whether BOJ rate-hike expectations rise further ahead of the June meeting. For now, the likely USD/JPY trading range is 155-159, with the 160 area still acting as the key intervention-risk zone.***

For India, the rupee remains exposed as long as oil stays elevated. Since the Iran war broke out in late February, the rupee has declined by more than 4% and is currently trading above the 95 mark. Prime Minister Narendra Modi has urged citizens to conserve foreign exchange, while India's April CPI print this week will also be important. In the near term, INR strength would require a clear decline in crude prices, stronger FII inflows, or a broader dollar pullback.

Looking into the coming quarters, the key global question is where oil and the dollar settle once the immediate geopolitical premium stabilises*. Our base case is that Brent remains elevated but capped, broadly in the USD 80–85/bbl. range, as supply-risk premium, insurance costs and shipping disruption keep a floor under prices, while weaker demand and periodic diplomacy limit sustained upside. A move back toward USD 80–85/bbl would require credible de-escalation and smoother Hormuz flows, while a renewed disruption could quickly push Brent back above USD 120. For the dollar, the base case is range-bound rather than a fresh one-way rally. Delayed Fed cuts, geopolitical risk and sticky inflation should prevent a sharp dollar sell-off, but fiscal concerns, policy uncertainty and improving non-US relative valuations may cap upside.* ***In short, oil is likely to stay high enough to keep inflation risk alive, while the dollar is likely to remain supported but not broadly dominant unless CPI or crude breaks higher****.*

Rupee witnessed a sharp "V-shaped" move, hitting a record low of ₹95.4450/$ amid soaring crude prices, strong US NFP data, rising DXY, and geopolitical tensions, before staging a partial recovery on peace hopes.

The bottom line is that markets are still pricing controlled instability: partial Middle East de-escalation, elevated but contained Brent, a range-bound dollar, data-sensitive yields and pressure on oil-importing currencies. The risk is a sharper repricing if Hormuz disruption persists, CPI surprises higher, or the Trump-Xi summit revives trade tensions. For now, investors are willing to look through geopolitical noise, but only as long as oil stays contained and inflation does not re-accelerate. ***Oil, CPI and diplomacy will define the next move****.*

₹ faces perfect storm: crude spike, robust US jobs data & DXY strength drive turbulence: The Indian Rupee (INR) experienced a week of extreme volatility, characterized by a "V-shaped" movement largely influenced by sharp fluctuations in global crude oil prices, stronger-than-expected US macroeconomic data, sustained geopolitical tensions, and continued strength in the US Dollar Index (DXY). After touching historic low of ***₹95.4450/$ on 05th May'26***, early in the week, the currency saw a temporary recovery on Friday due to hopes of a peace proposal. A key trigger for global FX markets was the stronger US Non-Farm Payrolls (NFP) data, which reinforced expectations that the US Federal Reserve may keep interest rates higher for longer. The robust labour market data pushed US Treasury yields and the Dollar Index (DXY) higher, leading to broad-based weakness across emerging market currencies, including the INR. This data, combined with Brent crude surging toward $105.50/bbl. due to Middle Eastern tensions, has intensified capital outflows as investors pivot toward a strengthening DXY. The convergence of strong U.S. economic data and high energy costs continues to widen India's trade deficit, keeping the Rupee on a defensive footing as it may test new psychological lows. (Previous close: ₹94.9275/$) [O: ₹94.9600/$, H: ₹95.4450/$, L: ₹94.0450/$ & C: ₹94.2800/$].

Crude witnessed extreme "bull trap" volatility, rebounding ~$105/bbl. after failed US-Iran peace hopes, strong US NFP data, and renewed Middle East tensions revived supply shock fears, markets now eyeing the $110 resistance zone.

Key take-aways for India's Macros & Markets:

A. **High oil price sensitivity→** The Brent crude market has undergone a dramatic reversal this week, characterized by a "bull trap" that saw prices plummet only to surge back toward $105/bbl. The week began with a sharp correction toward $96 following Donald Trump's comments on May 6 suggesting a peace deal was within reach; however, this optimism evaporated over the weekend after Trump branded Iran's formal counter-proposal as "***Totally Unacceptable***," effectively collapsing the diplomatic bridge and reinstating a heavy "war premium." This geopolitical volatility was further compounded by Friday's "blowout" U.S. NFP report, which added 115k jobs nearly double the forecast signaling a resilient U.S. economy capable of sustaining high energy demand even as the Dollar strengthens. Looking ahead, the outlook remains aggressively bullish; with the Strait of Hormuz effectively restricted and diplomatic channels stalled, Brent is technically positioned to test resistance at $110, while any significant price dips are expected to be short-lived as the market prepares for a sustained supply shock. On a ***WoW basis, prices fell by ~8%, and reflect a rise of ~61% YoY***. Sensitivity of C/A deficit to oil prices stays high with every $10/bbl. move in oil price affecting annual C/A balance by close to $15bln.

DXY rebounded above 98 levels amid strong US jobs data, rising Treasury yields, safe-haven demand, and elevated oil-driven inflation concerns, with markets now eyeing the key US CPI data.

B. **Dollar strength→** The DXY has reclaimed its dominance, currently trading above 98 levels following a week of intense "peace-to-conflict" volatility and robust economic data. The resilient US labor market data boosted confidence in the strength of the US economy, driving US Treasury yields higher and supporting broad-based Dollar buying against major and emerging market currencies. Safe-haven flows into the Dollar also intensified. Additionally, elevated crude oil prices added to global inflation concerns, increasing expectations that central banks, particularly the Federal Reserve, may delay policy easing. This widened interest rate differentials in favour of the US Dollar, further strengthening the DXY. The outlook remains bullish as the market braces for a potentially hot CPI print; without a diplomatic breakthrough during Trump's visit to China, the index is technically positioned to test the 98.50–99.00 resistance zone as it continues to benefit from its status as the ultimate global safe haven. On a ***WoW basis, DXY decline by ~0.4%, and reflect a fall of ~4% YoY***.

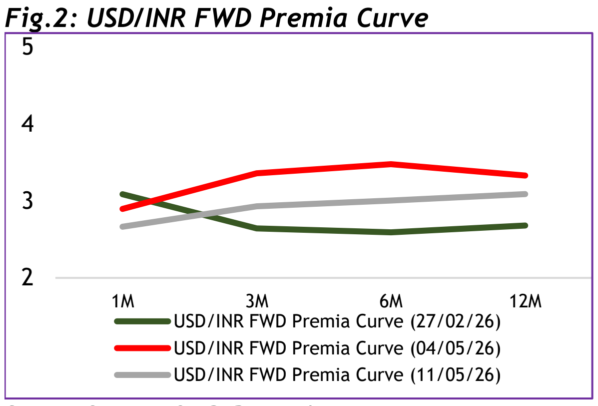
FPIs remained risk-off during FY26, with cumulative outflows ~$8bln amid global uncertainty, as continued equity selling outweighed steady debt and FAR inflows.

C. **FPI exodus→** During this FY, FPIs turned net sellers, ***withdrawing ~$8bln from Indian markets*** amid heightened global uncertainty. FPIs continue to be net sellers in equities to the tune of ~$1493mln vis-à-vis outflows of ~$1789mln on a WoW basis. Debt markets stayed positive to the tune of ~$461mln vis-a-vis ~$314mln inflows a week ago. FAR inflows, at $1.54bln (FY26), including a ~$391mln inflow in last week.

FX reserves dipped to $690.69bln, due to declines in gold and FCA holdings.

D. **Strong policy cushion from RBI→** On the on-going external headwinds, India's foreign exchange reserves tracked stable and continue shying away from record highs of ***$728.49bln*** (as of 27th Feb'26) to ***$690.69bln*** (as on 01st May'26) *covering ~11 months of imports*, driven mainly by a ***$5.02bln*** fall in **Gold** and ***$2.80bln*** dip in **FCA;** providing the central bank with substantial cushion to smooth volatility. However, if we consider the FX forward & future position then the import cover can be little lower at ~9 months. As per our analysis, the FX lift in liquidity to possibly curb the FX volatility has been ~($3.29bln) (excluding valuation effects) in the week ended 01st May'26.

Fig.2: USD/INR FWD Premia Curve



Source: Cogencis & UBI Research

. **The USDINR forward curve→** Forward premiums traded volatile with a mixed-to-firmer bias during the week, with the 1-year premium hovering near 1.95%–2.05%, the 6-month tenor around 2.10% annualised, and near-end premiums remaining elevated amid heightened spot Rupee volatility, rising crude oil prices, and strong US macroeconomic data. Stronger-than-expected US NFP data pushed US Treasury yields and higher DXY, reinforcing "higher-for-longer" Fed expectations and widening the US-India interest rate differential, which capped gains in longer-tenor premiums. At the same time, elevated importer hedging demand and persistent geopolitical tensions supported front-end premiums and increased activity in the forward and swap markets. Looking ahead, forward premiums are expected to remain volatile with a mild upward bias, supported by elevated hedging demand, global risk uncertainty, and crude oil-related pressures, while upcoming US inflation data, Treasury yield movements, DXY strength, and RBI liquidity actions will remain the key drivers for the curve.

Fig.3: Sensitivity of India's macros to Indian Crude Basket (ICB) prices

Economic Variable	Impact of Every $10/bbl. Increase in Crude Oil Prices
GDP Growth^	**-15 bps**
CPI Inflation^	**+30 bps^^**
Combined Fiscal Deficit*	**Worsens by ~0.3–0.4% of GDP**
Current Account Deficit (C/A)*	**Widens by ~0.4% of GDP**
Indian Rupee (INR)	**Depreciation / Weaker Bias**

^ as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions;
^^ assumes no cut in excise duty;
**negative sign indicates widening deficit;*
Source: RBI & UBI research

Outlook (INR - ₹ view):

Rupee outlook remains defensive amid a "triple threat" of elevated crude oil prices, persistent FPI outflows, and a stronger DXY, with markets closely watching US CPI, Fed commentary, Treasury yields, and geopolitical developments as INR risks testing fresh record lows.

The outlook for the Indian Rupee remains defensive and high-risk, as the currency grapples with a "triple threat" of soaring energy costs, aggressive capital outflows, and a resurgent U.S. Dollar. Brent crude prices hovering near elevated levels remain a key concern for the INR, given India's high dependence on energy imports and the sensitivity of the current account deficit to oil price movements.

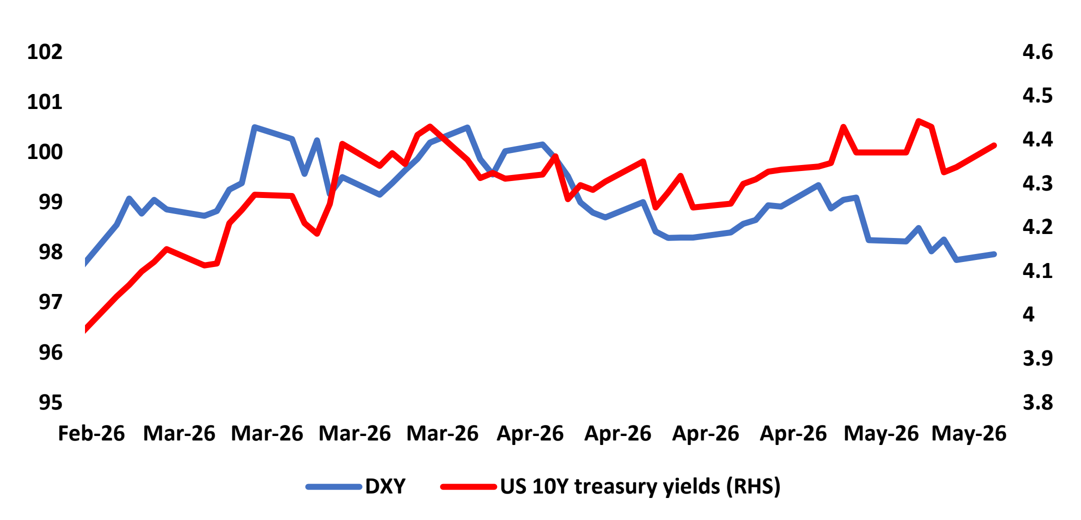
Markets will closely track upcoming US inflation (CPI) data, Federal Reserve commentary, and US Treasury yield movements following the stronger-than-expected NFP data, which has reinforced expectations of prolonged higher US interest rates. A stronger DXY and sustained safe-haven demand could continue exerting pressure on emerging market currencies, including the Rupee.

On the domestic front, FPI flows, importer dollar demand, and forward market positioning will also remain crucial near-term drivers for USD/INR. Any diplomatic breakthrough in ongoing geopolitical conflicts or correction in crude oil prices may provide temporary relief to the Rupee. However, if crude prices continue rising and global risk aversion intensifies, the INR could remain vulnerable to testing fresh record lows in the near term.

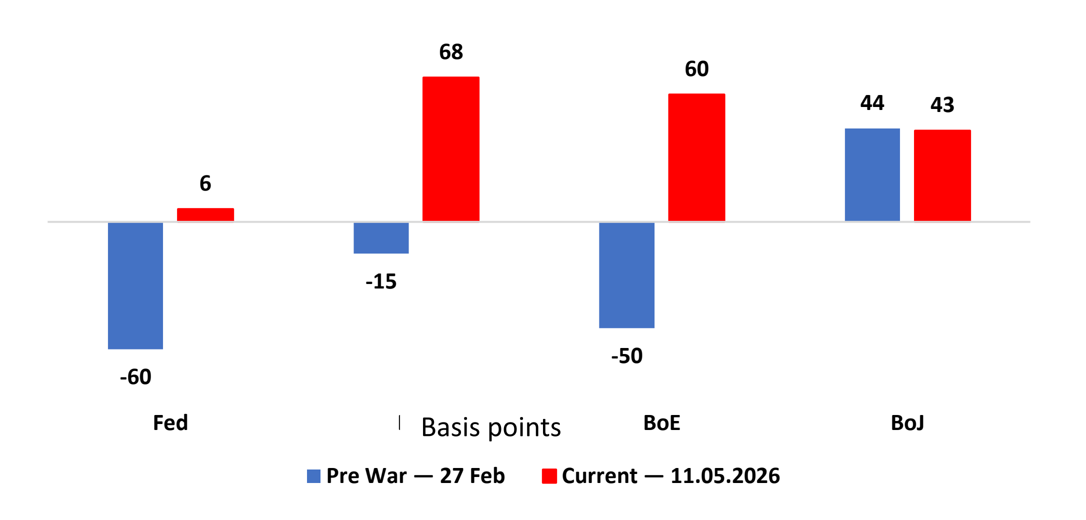
Amid these pressures, market discussions have increasingly shifted toward measures to attract durable Dollar inflows and stabilize the Rupee.

Participants are debating the possibility of reviving special FCNR(B)-type deposit schemes, easing overseas borrowing norms, incentivizing NRI deposits, and encouraging sovereign or quasi-sovereign foreign currency fundraising. There is also growing market speculation that maintaining relatively higher short-term INR interest rates and tighter domestic liquidity conditions may be necessary to improve carry attractiveness, discourage speculative Dollar demand, and support capital inflows. While higher short-term rates could help stabilize the currency and strengthen investor confidence in the near term, they may also tighten domestic financial conditions and weigh on growth-sensitive sectors. Therefore, policymakers are likely to prefer a calibrated mix of targeted FX liquidity measures, selective intervention, and liquidity tightening rather than aggressive rate actions alone.

The DXY slipped below 98.00, while US Treasury yields fell across the curve. The 10-year yield marking its biggest weekly decline since 17 April 2026 (Fig 4)

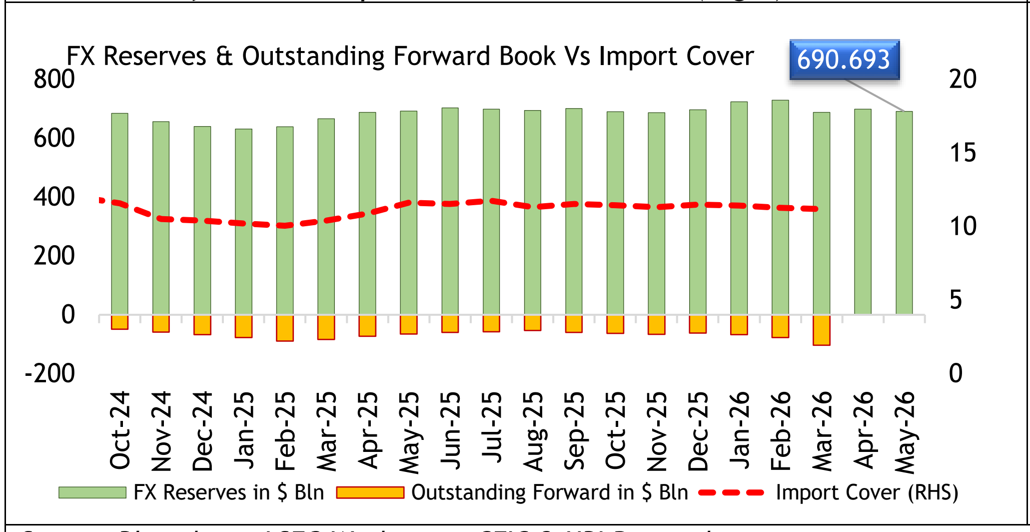


Markets have sharply repriced from rate cuts to renewed tightening risk, led by the ECB and BoE, while the BoJ remains broadly steady. (Fig 5)

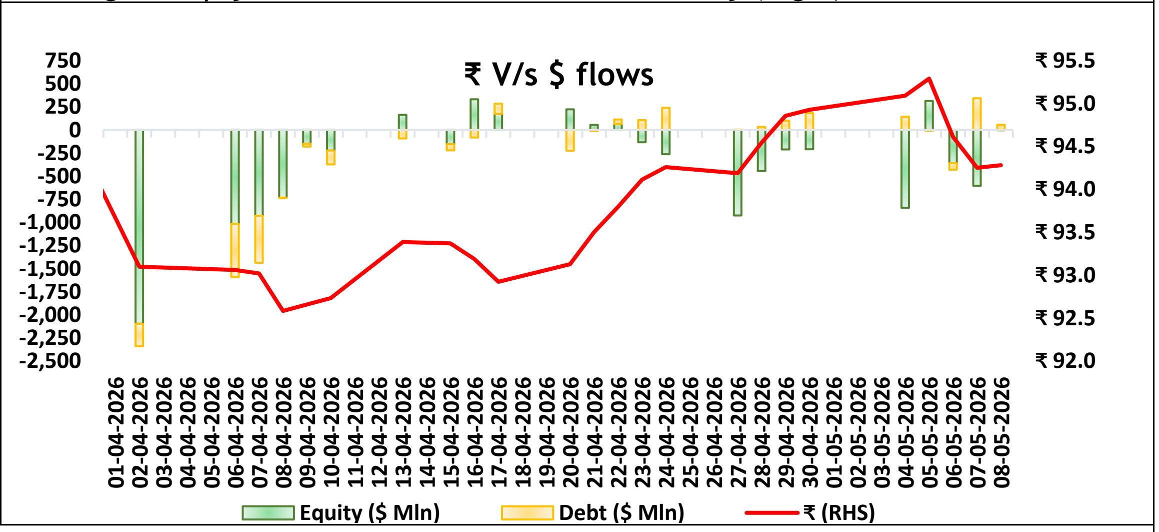


Source: LSEG, UBI research

FX reserves fall amid dip in Gold assets & FCA (Fig 6)



₹ swings sharply amid elevated crude oil volatility (Fig 7)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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