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FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	Bias: Consolidation with bearish tilt Support: 97.70 / 97.50 Resistance: 98.50 / 99.00	DXY weakened after Powell's Jackson Hole speech opened the door to a September rate cut. Index fell -0.92% to 97.72, with broad USD selling across G10 and Asian FX.
EUR/USD	Bias: Bullish within range Support: 1.1650 / 1.1625 Resistance: 1.1750 / 1.1790	EUR rebounded nearly 1% to 1.1715; momentum improving but a sustained advance requires a break above 1.1750-1.179
USD/JPY	Bias: Neutral within wide range Support: 146.80 / 146.40 Resistance: 147.85 / 148.40	USD/JPY swung sharply, closing at 146.88. Outlook mixed with near-term range seen between 146.50-148.50
USD/INR	Support: 86.80 / 87.20 Resistance: 87.90 / 88.50	Gradual depreciating bias. US trade talks, & FPI flows on close watch.
USD/CNH	Bias: Mild bearish Support: 7.1630 / 7.1600 Resistance: 7.1830 / 7.1900	Offshore yuan strengthened; USD/CNH fell to 7.1720. Further downside possible but unlikely to break below 7.1600.

Market-Implied Path (U.S. Fed)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.11 %	-21 bp
10 Dec 2025	3.80 %	-53 bp
29 Apr 2026	3.43 %	-90 bp
28 Oct 2026	3.05 %	-127 bp
09 Dec 2026	3.05%	-127bp

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

The Jackson Hole Symposium reaffirmed its role as a bellwether for monetary policy shifts, with Fed Chair J Powell adopting a noticeably more dovish tone. He signalled that the Fed is edging closer to a rate cut in September, shifting the balance of risks toward employment after months of inflation preoccupation. Powell downplayed tariff-related price pressures as transitory and underscored that policy rates are now materially closer to neutral. His insistence on data dependence was clear, yet he opened the door to recalibration, remarking that the stability of the unemployment rate allows the Fed to “proceed carefully” in considering adjustments. Fed Chair Powell's also announced a meaningful policy framework shift: the end of deliberate inflation overshoots and a more symmetric approach to employment goals. Which reflect a return to a simpler, more traditional dual mandate balancing act yet one mindful of recent inflation experiences.

Financial markets responded convincingly DXY sold off, equities surged & Treasury yields fell sharply two-year yields by more than 10 bps and the probability of a September cut jumped from 65% to nearly 85%. While market participants remain split in their interpretation: some saw Powell deliberately leaning dovish to defuse political pressure, while others argued he was signaling a willingness to “look through” near-term inflation in favor of labor stability. Consensus expectations now center two modest cuts this year, framed as technical recalibration rather than aggressive easing.

Bond market dynamics reflect this recalibration narrative. We expect continued curve steepening: short-end yields adjusting lower with Fed action, while the long end remains anchored by structural forces persistent deficits and embedded inflation risks.

The macro outlook is now highly data-contingent. September's labor and inflation prints will determine whether Powell's dovish tilt matures into a single adjustment or the opening act of a more durable easing cycle. Beyond monetary policy, tariff dynamics add complexity: a 50% levy on Indian exports to the US takes effect on 27 August, and the termination of the “de minimis” exemption (which allow low value imports to enter US duty-free) on 29 August.

The week ahead is pivotal. The second estimate of 2Q GDP (28 Aug) (Bloomberg est. 3.1% q/q SAAR slightly above the prelim est. 3.0%, 1Q: -0.5%). The July PCE deflator (29 Aug) also will offer critical validation (Bloomberg expects headline PCE at 0.2% m/m, 2.6% y/y and core PCE at 0.3% m/m, 2.9% y/y). While “Powell has opened the door to easing, but the Fed's credibility now hinges on September's data and inflation anchoring.”

Fed at Jackson Hole retires average inflation targeting, returns to a clear 2% goal

- **Shift away from “Flexible average inflation targeting (FAIT)”**
 At Jackson Hole, Chair Powell announced the Fed is discarding its prior FAIT strategy, which had allowed inflation to exceed 2% after periods of undershooting. Instead, the Fed is returning to a more traditional flexible inflation targeting approach, reaffirming the 2% goal without intentionally allowing overshoots. This marks a clear pivot away from allowing inflation to average 2% over time.

- **Elimination of language around “shortfalls” in employment**

The updated long-run strategy removes the term “shortfalls” when describing employment goals. Previously, this language implied the Fed would mainly respond only to underperformance in employment, potentially overlooking overheating. The new version more neutrally emphasizes supporting “maximum employment” without suggesting the Fed would avoid action if employment exceeded that level.

Implication of the framework overhaul

1. Clearer inflation commitment

By abandoning FAIT, the Fed is signaling a less flexible stance toward inflation, which may enhance credibility by tightening its commitment to the 2% target.

Cross Asset fund flow as of 13th Aug'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	-1.0	7.6
All Bonds	17.8	10.6
US Equities	-6.0	5.7
US Bonds	6.9	4.3
EM Equities	-0.5	-0.2
EM Bonds	0.85	-0.37
Japan Equities	-0.9	0.2
China Equities	-0.11	-0.18
Europe Equities	1.1	-0.9
Europe Bonds	8.4	4.7

Source: JP Morgan

2. *More balanced employment response*

Removing “shortfalls” removes the implication of a one-sided response. The Fed can now address both labor market slack and overheating, without perceived bias. The revised framework moves back toward clarity, avoiding complex permissive language and making the Fed’s policy goals easier for markets and the public to interpret.

3. *Policy credibility tested*

Market participants will closely watch if this more orthodox framework holds up, especially if inflation pressures re-emerge or the labor market strengthens unexpectedly.

US dollar volatility reflects policy uncertainty

The dollar’s moves over the week reflected the delicate balance between policy expectations and risk sentiment. Early in the week, the DXY held firm near 98 as markets looked for clarity from FOMC minutes and Jackson Hole. Political noise, including Trump’s comments on the Fed, briefly weakened the dollar mid-week, underscoring how policy credibility influences investor confidence. However, stronger-than-expected US business activity and cautious Fed voices lifted the DXY back to 98.8 by Thursday. The decisive shift came after Chair Powell’s dovish pivot at Jackson Hole, where his openness to a September rate cut drove a broad USD sell-off. The dollar ended marginally weaker (-0.11%) on the week, but the volatility highlighted the degree to which markets are now trading Fed signalling rather than US macro fundamentals.

Yield curve dynamics signal policy shift

Treasury yields traced a similar arc, moving in tandem with expectations of Fed easing. Early softness in yields (10Y at -4.27%, 2Y at -3.71%) reflected a market willing to pre-position for policy accommodation. Mid-week, hawkish dissent in the FOMC minutes and stronger PMI data pushed yields higher, with the 10Y briefly testing 4.33% and the 2Y near 3.8%. But Powell’s Jackson Hole speech triggered a sharp rally across the curve, with the 2Y falling almost 10 bps and the 10Y down more than 7 bps. From our perspective, the key signal is curve dynamics: the modest steepening reflects a re-anchoring of expectations around earlier policy easing, while medium-term inflation risk remains a binding constraint. In short, the bond market is now priced for near-term cuts but continues to demand compensation for fiscal risks and persistent price pressures, explaining why the 10Y yield has remained sticky above 4.2%.

Looking Ahead: Implications for Global Liquidity

The interplay between the dollar and yields is likely to shape global flows into September. A softer DXY, if sustained, could ease financial conditions globally, reviving capital flows into emerging markets, particularly those with improving trade balances with economies where US trade tariff related uncertainty has been assuaged to some extent with breakthrough achieved in terms of trade deals. However, the dollar’s role as a safe-haven means that any geopolitical shock or US fiscal uncertainty could quickly reverse this trend. On the bond side, the rally in front-end yields has improved financial conditions domestically, but the persistence of elevated long-end yields signals that the market remains wary of fiscal deficits and tariff-driven price stickiness. For global liquidity, the near-term tilt toward Fed easing implies more room for risk assets to perform, but the durability of this cycle will hinge on whether inflation expectations remain anchored. If Powell’s “short-lived tariff shock” view proves correct, September could mark a turning point where US policy shifts from restraint to cautious support setting the stage for renewed volatility in both FX and rates as markets recalibrate growth and inflation risks.

INR ended flat after a brief FED-driven rebound, capped by US tariff risks and surging bond yields

50% US tariff hike on Indian goods from Aug 27 has reignited trade tensions and added fresh pressure on the rupee

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

Fitch reaffirmed India's 'BBB-' rating with a stable outlook, but the rupee weakened as markets had already priced in S&P's recent upgrade

FED Chair Powell's dovish Jackson Hole speech in Aug'25 sparked rate cut hopes, briefly eased Dollar strength

DXY fell 0.3% WoW Powell's dovish Jackson Hole remarks, easing dollar pressure and supporting the rupee.

Brent crude little higher amid geopolitical risks and a higher EIA forecast, but lower prices versus past peaks continue to support the rupee

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

Rupee sees whipsaw action; briefly breaks 87/\$ before sliding back to lows

Indian rupee saw a volatile trading week; a weaker dollar driven by rate cut expectations in Sep'25 (87% probability) and a slowdown in FPI outflows have provided some support to the rupee. However, the currency remains in fragile territory as uncertainty over the potential penalties on oil under the trade deal set to take effect from 27th Aug'25 continues to weigh on sentiment. While the pace of FPI outflows has eased, the trade deal remains the key driver for the rupee. Recent comments by U.S. Treasury Secretary Scott Bessent, coupled with ongoing uncertainty around the potential 25% penalty, have kept the rupee in a fragile zone. During the week, weakness in the DXY provided support to the rupee, but all eyes remain on the 27th Aug'25 trade negotiations, which will be closely watched for further cues. Rupee traded in a narrow range throughout the week, ultimately ending almost flat with only a marginal appreciation of -0.02% on a WoW basis (Last Friday's close: ₹87.5500/\$) [O: ₹87.4675/\$, H: ₹87.5475/\$, L: ₹86.9200/\$ & C: ₹87.5300/\$]. (Refer report: [FX Weekly: Post a \(peaceful\) Trump-Putin meet, Dollar likely to be led by Jackson Hole](#))

🔑 Key Drivers of Rupee Movement:

Negative contributors →

- ❖ **Trade tariffs** imposed by the U.S., a fresh 25% levy on Indian exports, from 7th Aug'25. The imposition of steep U.S. tariffs—raising duties on Indian goods to 50% from 27th Aug'25 has added fresh pressure on the Indian rupee, already navigating global volatility. The move, largely in response to India's continued oil trade with Russia, has reignited trade tensions and overshadowed the brief midweek support the rupee received from dovish comments by Fed Chair Jerome Powell and rising expectations of a U.S. rate cut in September.
- ❖ **Continually weak FPI flows** have weighed on the rupee, with YTD net outflows at \$13.45bn as of 22nd Aug'25. Last week, FPIs remained net sellers in equities, **offloading \$122mln vs \$348mln** the week prior, while staying net buyers in debt at **\$714mln vis-a-vis \$583mln**. FAR flows, totaling \$4.90bn YTD, saw a \$582mln inflow last week, taking Aug'25's net outflow to \$938mln.
- ❖ On 25th Aug'25, **Fitch Ratings reaffirmed India's sovereign rating at 'BBB-' with a Stable Outlook**, citing strong economic growth, resilient external finances, and robust domestic demand despite external pressures. The agency expects India's GDP to grow ~6.5% in FY26, well above the peer average. Overall investor sentiment was positive, but impact on the rupee was negative, especially when contrasted with the recent rating upgrade by S&P, which had already been priced in.

Driving forces →

- ❖ **FED Chair Jerome Powell's speech at the Jackson Hole symposium** in Aug'25 signaled a potential rate cut as early as September, citing a weakening labor market and easing inflation. His dovish tone buoyed global investor sentiment, supporting risk assets and briefly weakening the USD. For the Indian rupee, this provided midweek relief, easing dollar pressure and offering temporary support.
- ❖ **DXY** declined modestly by ~0.3% on a WoW basis, edged down from ~98.83 to close near 97.72 was largely triggered by FED Chair Powell's dovish remarks at the Jackson Hole symposium, signaling a possible near-term rate cut amid a weakening US labor market and easing inflation. The softer dollar eased pressure on emerging market currencies like Indian rupee, which gained some midweek relief.
- ❖ **Brent crude oil prices** broadly hovered ~\$67/bbl. driven by geopolitical tensions such as Ukrainian drone attacks on Russian energy infrastructure, which have raised concerns about supply disruptions. Also, the U.S. EIA revising its 2025 forecast upward to \$68.89. However, despite these risks, relatively lower crude prices compared to earlier spikes continue to support the Indian rupee by easing India's import bill and CAD pressures. On a WoW basis, prices gained by ~1.4%, and they still reflect a sharp YoY decline of ~16%.
- ❖ **FX reserves** rose by \$1.49bn to \$695.11bn for the week ending 15th Aug'25, driven mainly by a \$1.92bn surge in foreign currency assets to \$585.90bn. With this surge, reserves are now inching closer, shying just away ~\$9.75bn below the all-time high of \$704.86bn recorded on 27th Sep'24. A valuation-related gain of \$1.36bn was also recorded, reflecting the central bank's continued efforts to stabilize the forex market. Our analysis indicates a BoP surplus of ~\$7bn for FYTD26, with FX reserves—net of valuation effects continuing to closely track BoP dynamics.

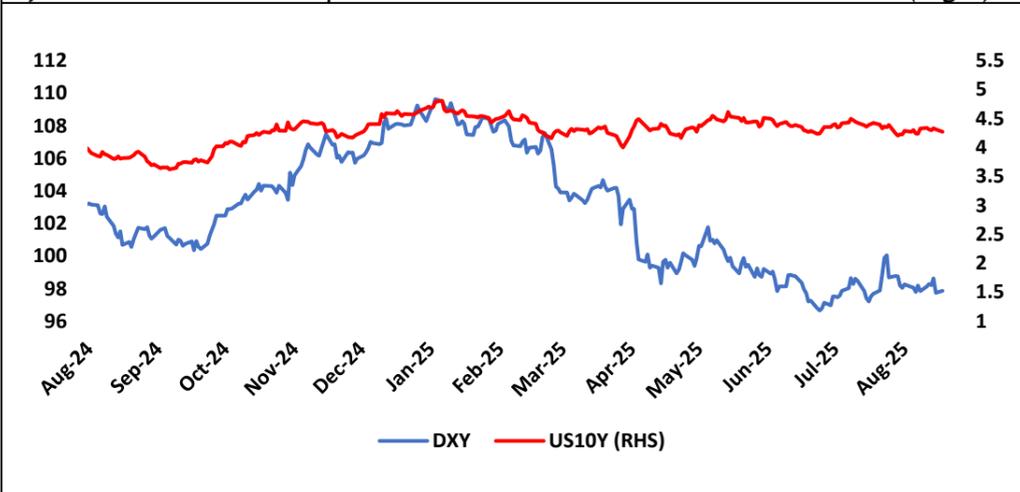
INR outlook is cautiously bearish, with pressure from US tariff concerns, weak FPI flows, and global risk aversion, though a softer dollar and easing crude prices may offer limited relief

Outlook (INR - ₹ view):

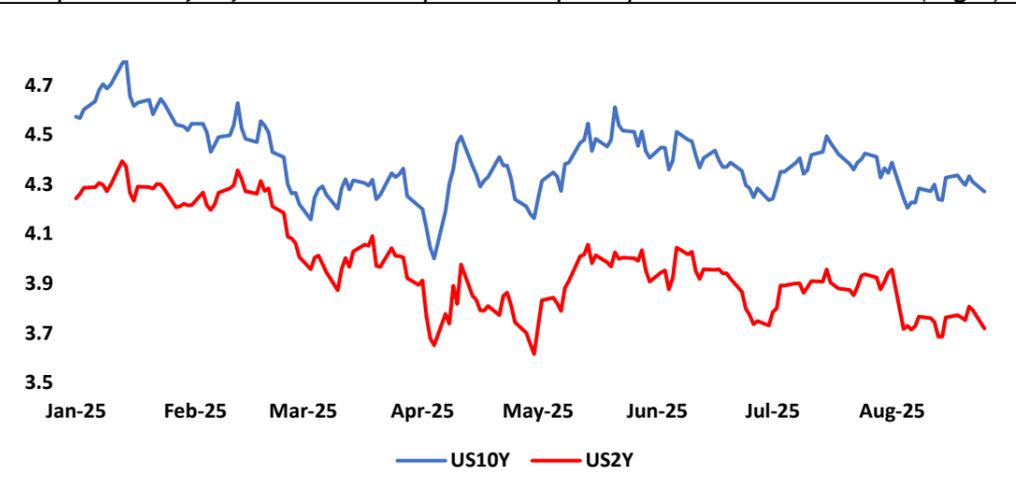
The outlook for the Indian rupee this week is cautiously bearish; likely to face pressure from ongoing US tariff concerns, global economic uncertainties, and subdued FPI flows. However, support may arise from expectations of a potential US FED rate cut, signaled by Jerome Powell's Jackson Hole speech, which could keep the dollar in check.

Technically, 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 rupee is likely to remain influenced by lingering concerns over U.S. trade tariffs, ongoing foreign portfolio outflows, and hawkish FED expectations. While a softer DXY and cooling crude oil prices may offer some short-term relief, the broader tone remains cautious. Markets will closely watch India's inflation data and progress in India-U.S. trade talks. The rupee may also underperform regional peers if risk aversion persists.

The dollar ended marginally weaker (-0.11%) last week and was sold aggressive after Powell hinted at Sept'25 rate cut (Fig 1)

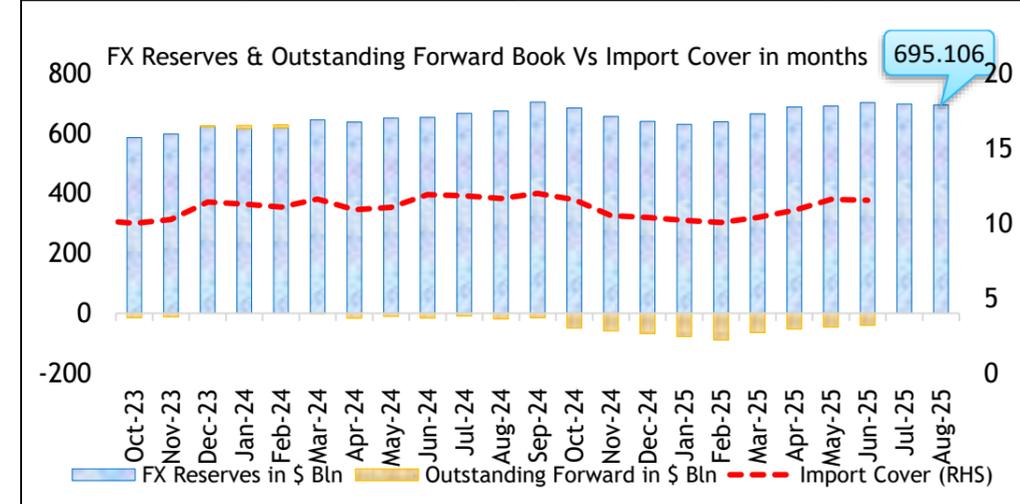


Bond market is now priced for near-term cuts but continues to demand compensation for fiscal risks and persistent price pressures (Fig 2)

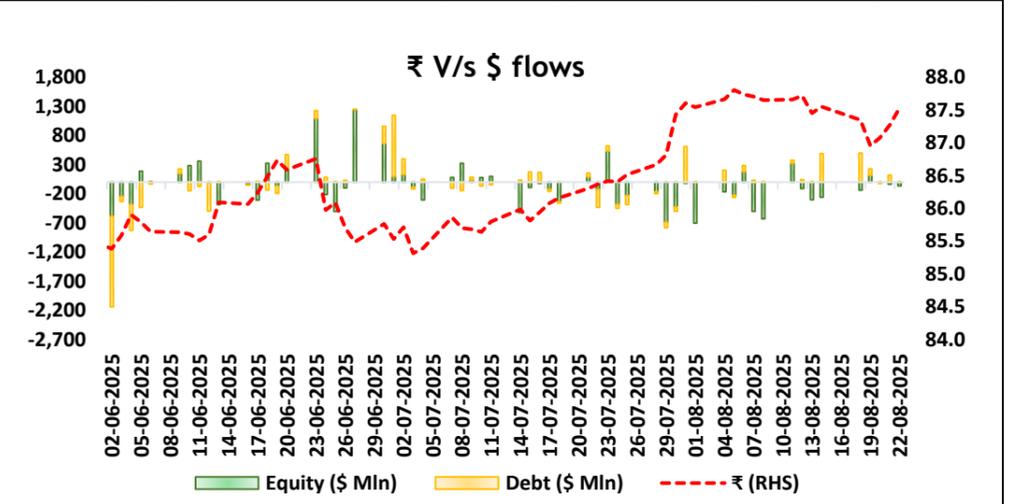


Source: LSEG Workspace & UBI Research

FX reserves surge amid rise in foreign currency assets (Fig 3)



INR broadly flat amid tensions of US tariffs and FPI outflows (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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