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FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	Bias: Consolidation with bearish bias Resistance: 99.35 100.00 Support: 98.50 / 98.60.	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	Bias: Bearish Support: 1.1500 / 1.1430 / 1.1300 Resistance: 1.1630 / 1.1700 / 1.1780	The euro has come under sustained selling pressure ahead of key Fed-rate and U.S. data releases.
USD/JPY	Bias: Bullish Support: 147.00–146.60 / 148.17 Resistance: 148.83 / 151.20 – 151.50	With the Fed on hold and BoJ still cautious, another leg toward 151.20–151.50 remains the next bullish target
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: Bullish Support: 7.2026 Resistance: 7.2221	US-China trade deal closely watched.

Market-Implied Path (U.S. Fed)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.08 %	-24 bp
10 Dec 2025	3.67 %	-65 bp
29 Apr 2026	3.35 %	-96 bp
28 Oct 2026	3.03 %	-129 bp
09 Dec 2026	2.11%	-221bp

Next meeting probabilities: No change 12%, 25 bp cut: 88 %.

Over the past week, a perfect storm of disappointing U.S. labor data, resurgent trade-policy risks and uneven corporate earnings sent volatility spiking across asset classes. July’s payrolls report just 73k jobs added, coupled with large downward revisions drove the largest one-day drop in two-year Treasury yields since August 2024 (down 28bps), even as investors refocused on relative macro fundamentals: the dollar chalked up its biggest monthly gain since April 2022 (DXY +3.0% in July) but gave up the gains after the U.S. labor market data.

Amid this backdrop, U.S. earnings season reinforced the “exceptionalism” narrative, with pockets of resilience in tech. On the policy front, the Fed left its target range unchanged at 4.25%-4.50% for a fifth meeting, even as two governors dissented in favour of a 25 bp cut an unusually vocal hint that easing could begin as soon as September. While just two days after the Fed opted not to lower rates, Fed Governor Kugler surprised markets by resigning, effective August 8. Kugler’s departure leaves an open seat President Trump can fill before Powell’s term expires in May 2026 potentially clearing the way for a like-minded “chair-in-waiting.” **While markets have priced in roughly 60 bps of rate cuts by December 2025 and about 130 bps of easing by the end of 2026.**

Globally, central banks maintained a cautious stance (with Japan’s BOJ holding at 0.5%), while in Washington the new “liberation day” tariff schedule a 15% baseline on most imports with select carve-outs was confirmed for August 7, as bilateral deals with South Korea and the EU eased but legal challenges to the U.S. President’s emergency-authority tariffs persist. Looking ahead, **investors must thread the needle between a divided Fed, an evolving trade regime and rapid technological change: with rate-cut odds surging and tariff deadlines in flux, volatility will endure, yet disciplined positioning can uncover lasting opportunities.**

This week, market attention turns to the RBI’s Monetary Policy Committee (MPC) for fresh guidance on India’s interest rate trajectory, as well as any updates on the U.S.-India trade deal after the recent stalemate led to rupee touching 88/U.S. threshold in NDF market. **The outcome of this deal could significantly influence the Indian rupee’s direction, especially in light of recent geopolitical tensions. As Trump has threatened penalties over India’s continued ties with Russia.**

U.S. momentum slumps as GDP, manufacturing and jobs ease

The U.S. economy entered the second half of 2025 with signs of deceleration: core GDP growth measured by private domestic final purchases slowed sharply to an annualized 1.2% in Q2, down from 2.5% a year earlier, underscoring the momentum loss as flagged by Fed Chair Powell

While activity in manufacturing and construction weakened as well: the ISM Manufacturing Index fell to 48.0, its weakest in nine months, while residential construction spending dropped 0.7% in June amid persistently elevated financing costs.

Meanwhile, the labor market cooled appreciably, with July payrolls up just 73k (against 100k consensus) and hefty downward revisions trimming over 250k jobs from the prior two months pushing the six-month average below 90k. Taken together, these data point to a broad-based loss of growth momentum. Yet earnings are held up and reinforced the “exceptionalism” narrative, with pockets of resilience in tech.

Dollar index climbs on Fed caution before payroll data sparks reversal

Over the last week through Friday, August 1, the US Dollar Index (DXY) climbed steadily from 97.65 on July 28 to breach the 100.00 mark its highest level in three months buoyed by safe-haven flows amid renewed tariff tensions and a Fed that held its policy rate at 4.25%-4.50%. Thursday’s Fed decision saw the dollar spike nearly 0.9% on Chair Powell’s cautiously hawkish tone, reinforcing expectations that restrictive policy will persist through year-end, and by mid-week the index had fully recouped last week’s losses.

However, Friday’s softer-than-expected July payrolls, combined with sharp downward revisions to prior months, triggered the dollar’s largest one-day loss against the yen since January 2023, as traders ramped up bets on imminent Fed easing.

Cross Asset fund flow as of 16th July'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	8.2	7.6
All Bonds	13.8	10.6
US Equities	1.7	5.7
US Bonds	6.0	4.3
EM Equities	1.5	-0.2
EM Bonds	0.19	-0.37
Japan Equities	-0.6	0.2
China Equities	-0.06	-0.18
Europe Equities	1.5	-0.9
Europe Bonds	4.4	4.7

Source: JP Morgan

Investors remain biased toward fixed income. U.S. bonds lead the surge, while U.S. equities have cooled sharply. Emerging-market stocks have regained traction, even as EM bonds lag, and Japan continues to see equity outflows. Europe shows a more balanced recovery across both asset classes. Overall, the data reflect a cautious stance seeking yield and stability in bonds, yet selectively redeploying capital into regions with improving fundamentals.

Still, the DXY's overall strength underscores the U.S. dollar's enduring safe-haven appeal and the *lack of credible alternatives to challenge its hegemony* even as markets increasingly price in policy relief later this year.

Yield curve dynamics: Bull steepening pattern:

In the opening days (28-30 July), front-end yields fell more sharply than the belly, driving a “bull-steepening” of the curve. Traders, anticipating that the Fed might soon lower short-term rates, pushed two-year Treasury yields down more aggressively than ten-year yields. On Monday, 28 July, the 10-year UST stood at 4.39% while the 2-year was at 3.92%.

However, as the calendar turned to August, tariff headlines and lingering Fed policy uncertainty reversed that trend. Short-term yields rose more than long-term yields, triggering a “bear-flattening” as traders demanded more compensation for near-term risk. This oscillation a tug-of-war between safe-haven demand around Fed meetings and shifting risk premiums tied to trade developments captured market nerves perfectly.

Then came Friday's non-farm payrolls (NFP) report. Softer employment growth surprised investors and reignited hopes that the Fed's tightening cycle may be pausing. In response, the 10-year yield plunged by 16bps to close at 4.22%, while the 2-year fell by 28bps to end at 3.68%.

In just one week, we witnessed sharp volatility between optimism for rate cuts and caution over macroeconomic risks culminating in a swift rally after the NFP data that re-steepened the curve and underscored how quickly fresh economic news can reshape Treasury signals.

Monetary policy in “Uncharted territory”

Fed officials have repeatedly described the current outlook as fraught with conflicting signals. Sticky core inflation notably with the Personal consumption expenditures (PCE) index running at **3.7%** YoY competes against the rising unemployment rate and slowing wage growth. As a result, traders have dramatically revised rate-cut odds: before the July jobs report, a September cut was seen as **45%** likely; afterward, those odds soared to current **88%**, and markets now fully price in two quarter-point reductions by year-end with further easing (current market pricing 130bps) possible in 2026.

While market reaction is likely underestimating Trump's tariff impact as equities rally signal that the trade tariff shock is seen as transitory under-pricing second-round effects (inflation pass-through specially in the U.S. where consumers are bearing the part of the tariff hike, margin squeeze, retaliation) Point of market reaction is still not known some academic research predicts an adverse outcome as shown below.

Summary of U.S. Tariff Impact Metrics (State of U.S. Tariffs, as of August 1, 2025)

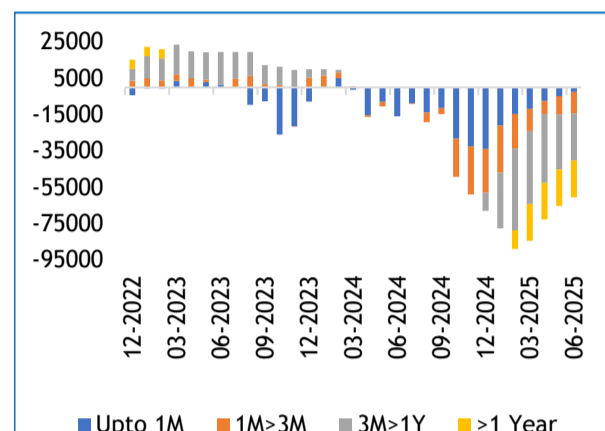
Metric	Key Conclusion
Average Effective Tariff Rate	Pre-substitution: 18.3% (highest since 1934); post-substitution: 17.3% (highest since 1935).
Aggregate Price Impact	Consumer prices up 1.8% in the short run (pre-substitution), equivalent to a \$2,400 income loss per household; post-substitution impact 1.5% (≈\$2,000 loss).
U.S. real GDP Growth	Growth lowered by 0.5 pp in both 2025 and 2026; long-run GDP -0.4% (≈\$120 billion annually in 2024 \$).
Labor Market	Unemployment rate up 0.3 pp by end-2025 and 0.7 pp by end-2026; payroll employment 497,000 lower by end-2025.
Fiscal Impact	Tariffs to date would raise \$2.7 trillion over 2026–35 (conventionally scored), net \$2.2 trillion after dynamic revenue effects.
Short-Run Distributional Impact	Bottom decile faces a 3.4% income loss (≈\$1,300); top decile 1.0% (≈\$4,900); median household cost \$2,200 .
Global Long-Run GDP Effects	Canada -2.1% , China -0.2% , EU +0.1% , UK +0.2% of real GDP relative to baseline.

Source: [The budget lab](#)

Note: Pre-substitution rate is the simple average tariff imposed on imports before suppliers or inputs shift in response to tariff changes.

Post-substitution rate reflects the average tariff after allowing for substitution toward lower-tariff sources, capturing likely adjustments by consumers and producers.

Rupee depreciated ~1.2%, pressured by FPI outflows, US India tariff and broad dollar strength.



RBI's short positions declined for the 4th straight month in Jun'25, with long positions fully unwound.

Brent crude prices rose marginally by ~0.32% WoW, despite mid-week volatility from OPEC+ supply hike concerns and geopolitical tensions, but remain ~10% lower YoY.

FPI outflows resumed in July with ~\$2bln equity sell-off last week, but debt and FAR-related flows provided some support.

FX reserves rose by \$2.70bln to \$698.19 bln as of 25th Jul'25, nearing the record high, supported by stronger foreign currency assets and a ~\$10bln FYTD26 BoP surplus.

The RBI's 56th MPC on 7th August is expected to pause after earlier easing, as it balances resilient growth, easing inflation, and Rupee stability amid global uncertainties.

Rupee hit by triple shock: Soaring DXY, Trump tariff jolt, & FPI outflows weigh heavy

The Indian Rupee posted its largest weekly loss last week, making it the worst performing currency **depreciating by ~1.2%** on a WoW basis despite REER being ~100. (Last Friday's close: ₹86.5175/\$) [O: ₹86.4800/\$, H: ₹87.7450/\$, L: ₹86.4800/\$ & C: ₹87.5400/\$]. As we highlighted in the last week, a 25% US import tariff on Indian goods, rattled investor sentiment as Trump kept a harsh stance and raised concerns about US-India trade relations; pushing rupee to 88 threshold in the NDF market. Additionally, FPIs pulled out over ~\$2.0bln from Indian equities in the last week, increasing demand for the dollar. The broader weakening of Asian currencies and a surge in the dollar index—further pressured the rupee. However, later in the week, the weak NFP data revived hopes for US FED rate cuts in September with market-implied probabilities rising to around ~81%, mildly buoyed the rupee sentiment, and fuelled a rally in global risk assets. (Refer report: [FX weekly: Trade diplomacy, Policy divergence, and FX realignment: Navigating a shifting](#))

The RBI's **aggregate short positions** in forwards and futures declined for the 4th consecutive month, easing by \$4.83bln to \$40.29bln as of Jun'25, from \$45.12bln in May'25, as per the latest RBI Bulletin. Long positions were fully unwound by Apr'25, after standing at \$10.06bln in Feb'25. In terms of maturity breakdown: short-term exposure **up to 3 months** remains significant at \$2.54bln down from \$4.82bln; the **3-month to 1-year** bucket saw a slight increase to \$11.85bln up from \$10.23bln; and the largest exposure is in the **over 1-year** category at \$25.91bln down from \$30.05bln. Derivative contracts (forwards, futures, and options) with residual maturities beyond one year were steady at \$20.10bln as of Mar'25, largely reflecting the \$20 billion swap window. Also, impending maturity of \$5bln on 4th Aug'25 is set to mature as per media reports.

Brent crude oil prices saw a modest but steady rebound over the week; taking a salutary effect as oil moves below the \$70/bbl. mark. The drop was primarily driven by OPEC+'s announcement of a substantial **production hike of 547k bpd** for Sep'25, which sparked concerns about oversupply in the global market. This weighed on sentiment escalating geopolitical tensions and US threats of secondary tariffs on Russian oil buyers and the imposition of new US tariffs added to market volatility and clouded the outlook for global oil demand. On a WoW basis, prices are up by ~0.32%, and they still reflect a sharp YoY decline of ~10%.

Persistently weak FPI flows continue to weigh on the local currency, with net outflows reaching \$11.63bln YTD as of 1st Aug'25. Although the trend had reversed with net inflows seen in April, May, and June, outflows resumed in July. In the most recent week, FPIs were net sellers in equities, **pulling out \$1.999bln** compared to \$113mln in the previous week. On the other hand, the debt segment saw a reversal, with FPIs turning **net buyers to the tune of \$413mln**, following an outflow of \$379mln the week before. FAR-related flows have remained relatively robust this year, totalling \$3.98bln, supported by strong buying activity in July and August. Last week alone, these flows brought in approximately \$218mln, contributing to a total monthly inflow of \$904mln in Jul'25.

India's FX reserves rose by \$2.70bln to \$698.19bln for the week ending 25th Jul'25, driven mainly by a \$1.32bln rise in foreign currency assets to \$588.93bln. With this increase, reserves are now just \$6.67bln below the all-time high of \$704.86bln recorded on 27th Sep'24. A valuation-related loss of \$0.87bln was also recorded, reflecting the central bank's continued efforts to stabilize the forex market. Our analysis indicates a Balance of Payments (BoP) surplus of approximately ~\$10bln for FYTD26, with FX reserves net of valuation effects continuing to closely track BoP dynamics.

RBI's 56th MPC on 07th Aug'25 is widely anticipated as a potential pause, following front-loaded easing measures, including a cumulative 100bps repo rate cut and a phased 100bps reduction in the CRR. With the policy stance now shifted to "neutral," the MPC appears to be adopting a more measured approach as it evaluates the evolving growth-inflation dynamics. However, if the current trends of (food) inflation trailing seasonal trends persists, thereby pressuring FY27 inflation forecast towards 4% and growth numbers start to show signs of weakness, we see space open up for final leg of 25-50bps rate cuts in this cycle. A rate cut by the RBI would likely exert downward pressure on the Rupee, as lower interest rates tend to reduce the appeal of Indian assets for foreign investors, potentially triggering capital outflows. Conversely, if the RBI opts to hold rates steady, the Rupee may remain stable or even appreciate slightly.

India-US trade talks continue amid the new 25% US tariffs on Indian imports effective 1st Aug'25. India resists US demands to cut tariffs on sensitive sectors like agriculture and dairy. Both sides aim for an interim deal by late August, but key issues and political tensions, including concerns over India's Russian oil purchases, keep progress slow. The upcoming negotiation round will be crucial for the deal's future. Both sides aim for an interim deal by late August, but key issues and political tensions, including US concerns over India's Russian oil purchases, slow progress. The next negotiation round will be critical.

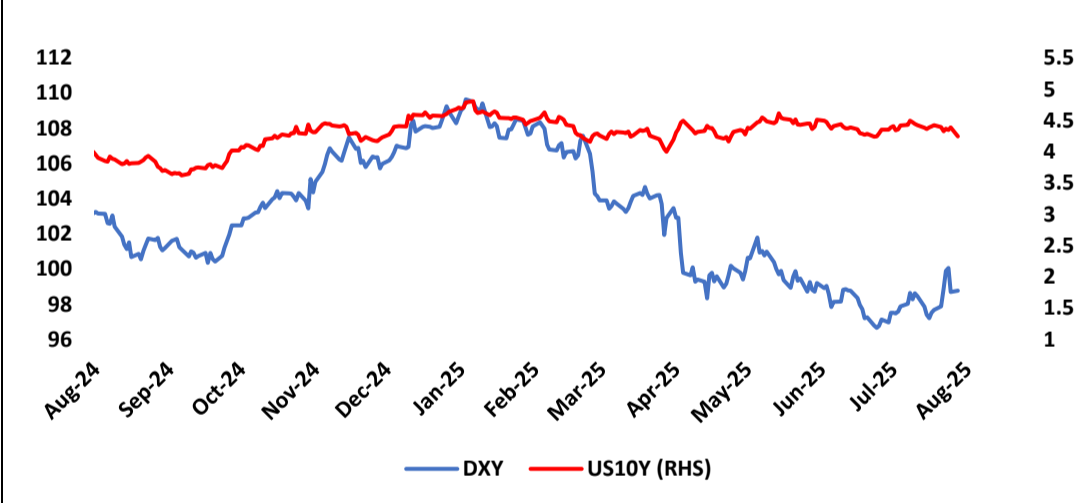
The total amount expected to be raised from IPOs in August 2025 in India is estimated at ~₹20,000Cr / ~\$2.4bln. Major IPOs set to file DRHPs and launch bids, potentially attracting fresh foreign capital and offering near-term support to the rupee.

The Indian Rupee is likely to face a cautiously bearish outlook for this week, as both domestic and global headwinds persist. The rupee is expected to fluctuate with continued volatility against the US Dollar, supported by global safe-haven demand. Key downside factors include a widening trade deficit fuelled by increased imports and declining exports, persistent foreign capital outflows, and geopolitical concerns such as recent US tariff actions. Subdued global growth continues to weigh on investor sentiment, while the rupee's trajectory will also hinge on the US Federal Reserve's monetary policy signals and developments in US-India trade negotiations.

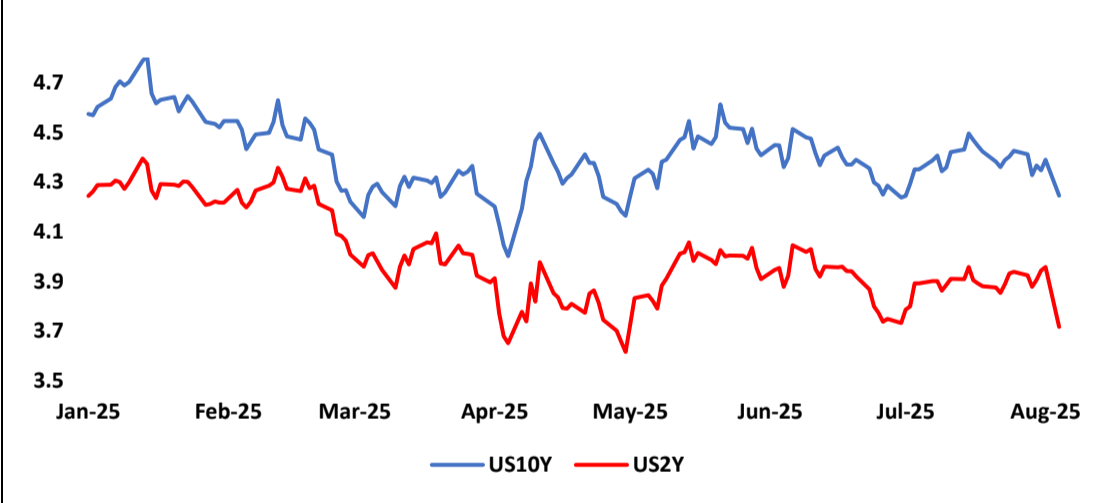
Technically, the USD/INR pair has respected our previously identified levels. We anticipate a rebound in rupee sentiment to come soon, with immediate support seen around ₹87.20/\$, a decisive break below this level could open the door to ₹86.80/\$. On the upside, resistance is expected near ₹87.90/\$, and a breach of that could push the pair towards fresh all-time highs of ₹88.50/\$. Given the volatility, we expect a wide range, and as per Balassa Samuelson effect, we may see Rupee making fresh record lows. However, if there is any India-US trade deal, we may see a temporary relief.

India-US trade talks remain tense after 25% US tariffs, with India resisting cuts on sensitive sectors; while hopes for an interim deal persist, geopolitical risks, dollar demand, and key macro triggers may keep the rupee volatile this week.

DXY was up on Fed caution, flips after disappointed payroll data (Fig 1)

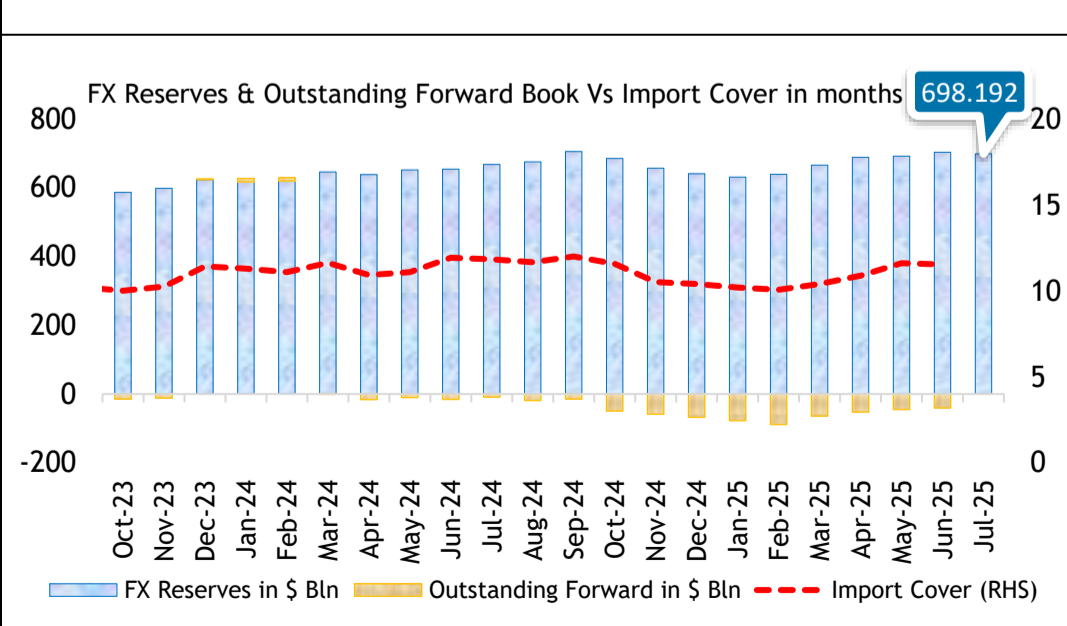


Bull steepening in Yield curve was evident last week (Fig 2)

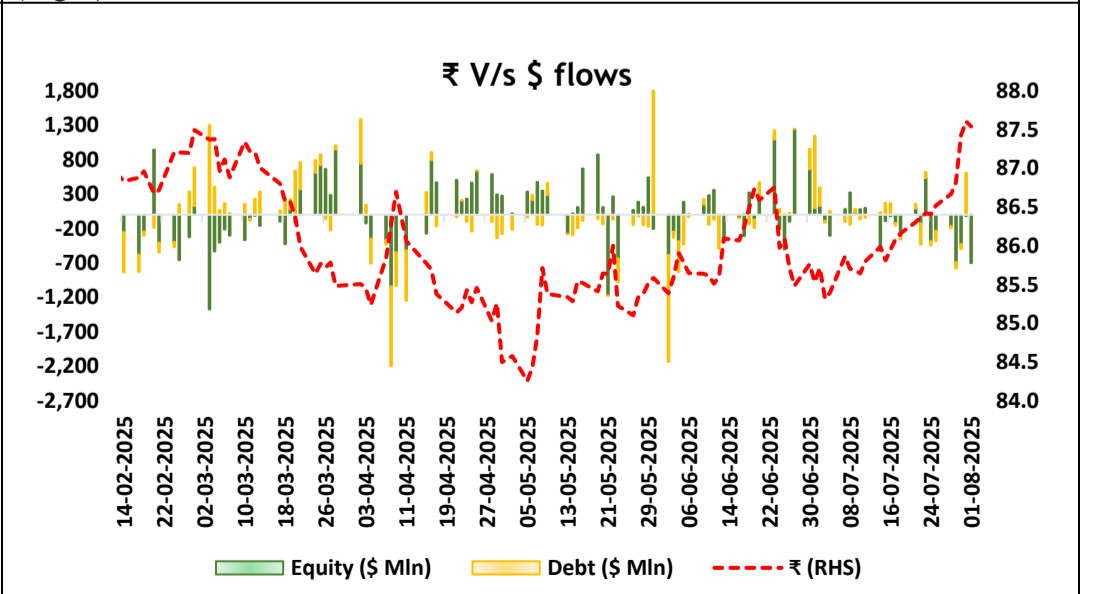


Source: Bloomberg, LSEG Workspace & UBI Research

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



Rupee depreciated the most in recent weeks amid global uncertainties (Fig 4)



Source: Bloomberg, LSEG Workspace & UBI Research

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