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FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	Range: 98.10 – 98.58 Support: 98.19 / 97.90 Resistance: 98.67 / 98.86	A breach below 98.19 would open the way to 97.90, while a rebound above 98.67 could test 99.86.
EUR/USD	Range: 1.1585 – 1.1655 Support: 1.1585 / 1.1550 Resistance: 1.1655 / 1.1720	Slowing momentum suggests that instead of continuing to weaken, EUR/USD is more likely to trade sideways between 1.1585 and 1.1655.
USD/JPY	Range: 147.65 – 148.85 Support: 147.65 / 146.90 Resistance: 148.85 / 149.20	The recent price action appears part of a 147.65–148.85 range phase; USD/JPY strength has paused and must hold above 146.90 to keep the uptrend intact.
USD/INR	Support: 85.50 / 85.80 Resistance: 86.30 / 86.80	Gradual depreciating bias. US trade talks, & DXY on close watch.
USD/CNH	Range: 7.1740 – 7.1880 Support: 7.1740 / 7.1550 Resistance: 7.1880 / 7.2000	USD/CNH is consolidating between 7.1740 and 7.1880 after trading in a narrow band; momentum suggests limited upside unless it breaks above 7.1880

Market-Implied Path (CME Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
30 Jul 2025	4.32 %	-1 bp
17 Sep 2025	4.15 %	-17 bp
10 Dec 2025	3.89 %	-43 bp
29 Apr 2026	3.56 %	-77 bp
28 Oct 2026	3.19 %	-114 bp

Next meeting probabilities: **No change 95 %**, **25 bp cut: 5 %**.

Markets price gradual Fed easing, with 114 bps of cuts by Oct 2026, but a July rate cut remains highly unlikely (5% probability).

U.S. markets entered a phase of heightened uncertainty in mid-July 2025 as Trump’s public criticism of Fed Chair Powell collided with early signs of tariff-induced inflation. Although consumer sentiment climbed to a five-month high, investors grappled with conflicting signals, robust retail sales and a resilient labour market on one side, nascent inflationary pressures on the other. These crosscurrents have reshaped expectations for the Fed’s next rate move and roiled bond yields across the curve.

Will the rate stay higher for longer remains a big question? As long as the current Fed, under Powell’s leadership, remains in place, a significant pullback in yields appears unlikely. The real question lies with Powell’s potential successor or a shadow Fed chair who may be pressured to implement QE to rein in yields. How far they might go to align with Trump’s agenda will be critical to watch.

Last week Trump’s flip-flops continue as he oscillated between tough tariff threats and conciliatory signals. He began by announcing a 30% August 1 levy on imports from Mexico and the EU, then swiftly signalled openness to negotiations. His much-teased “major” Russia sanctions amounted only to a conditional 100% secondary tariff threat no immediate oil embargo. Reports that he had considered firing Powell were later downplayed, and earlier high-rate warnings were subsequently scaled back.

Japanese PM Ishiba suffered a major blow as the LDP-Komeito coalition lost its Upper House majority. Ahead of the vote, the yen was the weakest G10 currency YTD, with USD/JPY rising 3.5% in July to ~¥149.20. Investors likely feared unfunded spending or tax cuts, pushing 10-year JGB yields up 15 bps to 1.53%, briefly touching 1.60%. Focus now shifts to Ishiba’s political survival as Tokyo continues trade talks with Washington.

While investors face a delicate balancing act between geopolitical noise, tariff-driven inflation risks, and the still-solid fundamentals of the U.S. economy. The Fed retains the tools to navigate these crosscurrents, the timing and pace of eventual rate cuts will depend critically on real-time data and the preservation of central-bank independence. This week on July 24, the ECB’s rate decision will be closely watched as markets currently assign a 94% probability to no change while any developments on U.S. trade talks will also draw intense scrutiny.

DXY positioning: Speculators trim shorts as buyer interest rises

Speculators trimmed their net short positions in the U.S. Dollar Index during the week to July 15, according to CFTC data. Net shorts fell from 4,282 contracts on July 1 to 3,665 on July 15, even as the number of DXY-buyer positions rose to 321 (up from 296 a week earlier). Over the same period, the DXY rallied roughly 1.1%, as investors pared G10 dollar longs by about \$0.98 billion despite growing bearish sentiment. The reduction in shorts and modest uptick in buyer interest suggest that traders are scaling back their bearish bets on the dollar amid Fed policy steadiness and safe-haven demand.

Tariffs, Governance noise, Resilience: Dollar index weekly pulse

The DXY rose 0.61% on the week, closing at 98.46. The dollar’s weekly path traced a three-phase arc: early strength on renewed U.S. tariff escalation (broad safe haven / relative growth bid and cross currency underperformance in EUR, JPY, AUD), a mid-week wobble as Powell firing speculation and a front end yield dip interrupted a multi session advance, then a late week re acceleration on resilient U.S. data (retail sales, jobless claims) that preserved the Fed’s “measured easing later” narrative. Tariff headlines injected mild inflation stickiness risk limiting aggressive Fed cut repricing while foreign idiosyncrasies (JPY election risk, Europe’s trade uncertainty) mechanically reinforced the DXY’s climb.

Economically, the week underscored a supportive mix for the dollar: (i) uncertainty and fragmentation premia lifting demand for U.S. assets; (ii) relative cyclical resilience keeping U.S. rate expectations firmer than peers amid emerging signs of tariff pass through; and (iii) swift market digestion of governance noise (Powell speculation) that proved transient. Forward focus now pivots to breadth of tariff-induced core goods pressures, evolving global policy divergence, and any renewed institutional credibility shocks each a potential catalyst for either extending or eroding the dollar’s current rate.

Cross Asset fund flow as of 09rd July'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	4.4	7.6
All Bonds	13.6	10.6
US Equities	-0.3	5.7
US Bonds	5.4	4.3
EM Equities	1.7	-0.2
EM Bonds	0.98	-0.37
Japan Equities	-0.8	0.2
China Equities	-0.10	-0.18
Europe Equities	1.1	-0.9
Europe Bonds	5.4	4.7

Source: JP Morgan

Weekly flows reveal strong preference for bonds, with \$13.6bn into bonds vs. \$4.4bn into equities. US and Europe bonds saw significant demand (\$5.4bn each), while US equities (-\$0.3bn) and Japan equities (-\$0.8bn) witnessed outflows. Despite recent inflows, EM equities and bonds remain negative on 2024 average, signalling cautious sentiment.

Yield curve movements and rate-cut speculation

Short-dated U.S. Treasury yields fluctuated sharply, driven by both incoming economic data and calls from White House-aligned Fed governors to lower rates. The two-year yield drifted lower after mixed signals strong retail sales versus concerns about fading Fed independence. Meanwhile, long-dated yields initially eased on expectations of eventual rate cuts but later reversed on heavy new issuance and fears of sustained deficit spending. Market consensus now places the first Fed rate-cut in September or December 2025, with between one and two 25 bp reductions priced in by year-end.

Higher for longer? Interest-rate outlook and U.S. Treasury dynamics

US central bank are poised to keep policy rates elevated until there's clear evidence of sustained disinflation, but the sharp surge in U.S. debt issuance after the debt-ceiling deal means Treasury yields may remain range-bound rather than spike higher. Today, the 2-year yield sits at 3.86%, and the 10-year at 4.40%. Heavy front-loaded T-bill issuance \$629 billion this quarter has "bearishly flattened" the curve, pushing up front-end rates while the long end lags. Yet deep money-market fund demand (historically absorbing 60-80% of extra bills), dealer intermediation, and the Fed's standing repo facility should smooth supply absorption. Traders are neutral on duration overall but favour tactical 10s/30s flatteners.

Patience with a Live insurance cut: Mid July Fed tone

Market messaging last week tilted net toward holding policy restrictive with repeated emphasis on needing clearer disinflation progress and monitoring tariff pass through, while only a narrow dovish wing framed limited, insurance style easing (not an aggressive cycle) to pre-empt further labor softening. The immediate cut advocacy introduced by one governor left the near-term decision "live" but did not shift the centre of gravity, which remains anchored in patience and vigilance over emerging price pressures suppliers are trying to pass through.

OIS expectations retrenched to about 44 bps of easing for 2025 versus 49 bps earlier in the week modest paring, not capitulation while broader narrative pieces note the case for a rate cut remains unresolved despite political pressure, reinforcing a "delay/patience" baseline rather than a wholesale dovish pivot.

Date(s) 2025	Fed Member	Consolidated Statement	Tone Assessment
Jul 16	Boston Fed Collins (voter)	Can maintain an "actively patient" stance given still-solid conditions.	Neutral / Slightly Hawkish (patience, no urgency to cut).
Jul 16	Richmond Fed Barkin (non-voter)	Sees growing price pressures as suppliers attempt pass-through.	Hawkish (emphasizes inflation persistence).
Jul 17	New York Fed Williams (voter)	Expects tariff effects to build; keeping a modestly restrictive stance is "entirely appropriate."	Hawkish / Restrictive (endorses current restraint).
Jul 17 & 18	Atlanta Fed Bostic (non-voter)	First stressed keeping rates steady amid rising price pressures; later highlighted high uncertainty making near-term cuts difficult.	Hawkish → Cautious (consistently resisting early cuts; later nuance = uncertainty).
Jul 18	Governor Kugler (voter)	Argues Fed should hold rates steady "for some time" as tariffs accelerate inflation.	Hawkish (delay easing; inflation vigilance).
Jul 18	Governor Waller (voter)	Calls for a 25-bps cut this month citing a "labor market on the edge"; identified publicly as an advocate for an immediate cut.	Dovish (presses for imminent easing).
Jul 18	San Francisco Fed Daly (non-voter)	Says it's reasonable to plan two cuts this year—shouldn't wait too long.	Moderately Dovish (gradual, limited easing path).

Rupee exhibits stability amid pressure from elevated Brent Crude Oil & resilient DXY

Rupee traded in a narrow range but closed ~0.42% lower WoW, pressured by stronger DXY, rising oil and risk aversion.

Brent dipped ~2% WoW amid Iraq supply shocks and OPEC+ output hike, pressuring the Rupee despite stable domestic cues.

Despite steady FAR-related debt inflows, renewed FPI equity outflows in last week—have revived pressure on the Rupee, reversing the April-June inflows.

FX reserves fell further broadly due to a drop in foreign currency assets.

Trade-deficit narrowed to \$18.78 bln in Jun'25, driven by a steep drop in NONG imports after anti-dumping duties & targeted import bans, while services exports stayed strong.

This week, the Indian Rupee moved within a fairly steady range against major global currencies. Its performance was mainly shaped by recent domestic economic data, global market mood with changes in oil prices and the Dollar Index. The Rupee remained relatively stable, however, it depreciated from last week's trading corridor of 85.50-86.00 and closed at a lower level. The DXY strengthened this week, primarily driven by upbeat US economic data and trade-tariffs related safe-haven demand. It was briefly boosted by chatter around Fed leadership, then eased somewhat as risk sentiment improved post-earnings. Heightened risk aversion during this period added pressure on the currency. Later in the week, rupee closed on a weak note amidst global and domestic cross-currents. Last week, Rupee **depreciated by -0.42% on a WoW basis** (Last Friday's close: ₹85.8000/\$) [O: ₹86.0100/\$, H: ₹86.2400/\$, L: ₹85.7350/\$ & C: ₹86.1600/\$]. (Refer report: [FX weekly: Tariffs, Fed outlook, and the Bond market: A delicate balancing act](#))

Brent began the week at \$70.50/bbl. on 14th Jul'25 and surged to \$71.53 levels; however, dipped midweek and by the week-end settled at \$69.28 on 18th Jul'25. Brent oil prices oscillated within a \$68-\$71 range, reflecting a mix of supply shocks and market sentiment. The Brent market this week was characterized by a tug-of-war: Support came from Iraqi supply disruptions when Drone strikes in Iraqi Kurdistan, triggering a ~1.4% price uptick. Pressure came from OPEC+ raised output by ~550k bpd for August amid signs of firmer global demand and US gasoline inventories build-up by 3.4m barrels last week, against anticipation of a decline of 1m barrels. On a WoW basis, prices are down ~2%, and they still reflect a sharp **YoY decline of ~16%**. In contrast, the recent surge in oil prices is adding pressure on the Rupee sentiment, intensifying challenges for the currency despite other supportive factors.

Persistently weak FPI flows remain a concern for the local currency, with net outflows totalling \$9.52bln so far this year as of 18th Jul'25. The trend has reversed since Apr'25; however, outflows are seen in Jul'25 after inflow clocked in April, May and June. In the latest week, FPI have turned net sellers in equity to the tune of **\$1090mln vis-à-vis inflow of \$614mln on a WoW basis**. However, in debt segment inflows were seen to the tune of **\$311mln vis-à-vis outflow of \$308mln** from the prior week. While FAR-related flows have remained relatively strong so far this year, totalling \$4.06bln, followed by buying spree seen in Jul'25. In Jul'25 we saw inflows of ~\$301mln in the last week; recording a cumulative monthly inflow of \$1.04bln.

FX reserves dropped by \$3.06bln to reach **\$696.67bln** for the week ending 11th Jul'25, largely driven by a \$2.48bln fall in foreign currency assets, which decreased further to \$588.81bln. With the decrease, total reserves remain \$8.19bln just below the record high of \$704.86bln as on 27th Sep'24. A valuation-related gain of \$0.17bln was also noted, highlighting ongoing efforts by the central bank to stabilize the forex market. Our assessment shows that the FYTD26 Balance of Payments (BoP) remains in surplus, currently at around ~\$11bln. Historically, FX reserves—net of valuation changes—have shown a strong correlation with BoP trends.

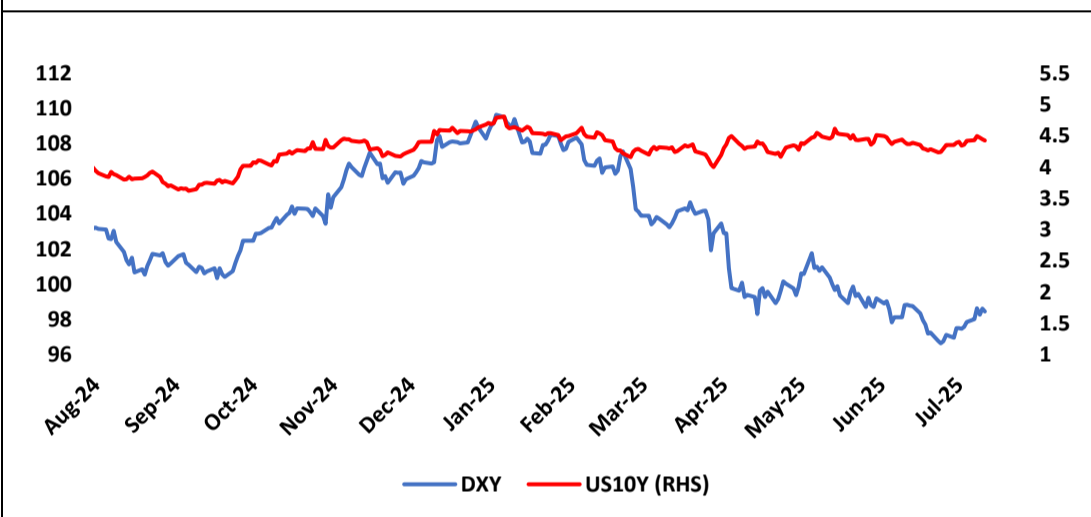
India's trade landscape was marked by a narrowing trade deficit, resilient services exports, despite a slight dip in merchandise exports. The improvement in the trade balance was largely driven by a significant decline in imports. Merchandise Trade Deficit clocked lower at **\$18.78bln in Jun'25 vis-à-vis \$21.88bln a month ago** {Our estimate: [\\$20.7bln](#); Market consensus: \$22bln}. Although we had anticipated an improvement in trade dynamics primarily driven by oil, the actual data revealed that NONG segments were the main contributors. In terms of sub-segments, trade dynamics were led by narrowing in NONG deficit as anti-dumping duties on four chemicals showed effect, while some impact seen of banning of imports of jute products and woven fabrics from Bangladesh; NONG deficit hit \$7.83bln from \$10.48bln in May'25. Meanwhile, Oil deficit was nearly flat and drop was seen in Gold deficit. (Refer Report: [Trade deficit narrows in Jun'25 led by sharp drop in NONG imports](#))

India and US have concluded their 5th round of trade talks, aiming an interim deal ahead of the 1st Aug'25 tariff deadline. President Trump mentioned that the US is "very close" to a deal with India and could potentially formalize it soon. This may encourage capital inflows, especially into equities and export-driven sectors, as reduced tariff risks enhance export competitiveness—supporting the trade balance and potentially strengthening Rupee demand.

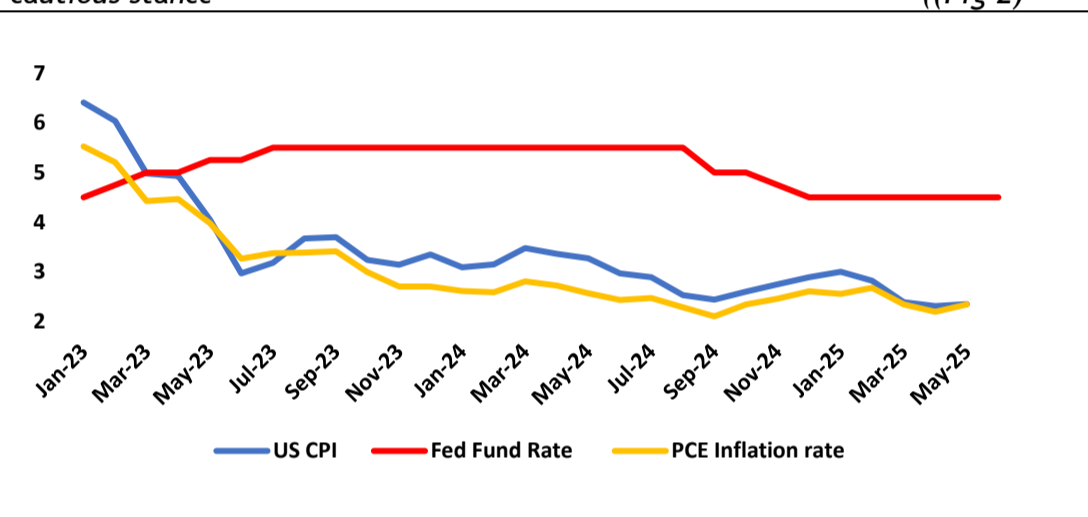
The outlook for rupee is to remain range-bound with a mild depreciation bias this week due to strength in the US dollar, supported by global safe-haven demand and elevated oil prices. We anticipate oil prices this week are likely to consolidate with modest upside potential and DXY is expected to trade in a cautious to slightly bearish range this week. 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 ₹85.80/\$, a decisive break below this level could open the door to ₹85.50/\$. On the upside, resistance is expected near ₹86.30/\$, and a breach of that could push the pair towards ₹86.80/\$. The rupee's direction will be shaped by global oil prices, geopolitical risks, DXY trends, domestic macro indicators, and foreign portfolio flows, all of which could drive sentiment and INR movement.

Rupee is expected to trade range-bound with a mild depreciation bias amid strong dollar and high oil prices, though optimism over a near-term US-India trade deal may lend support via improved capital flows and export sentiment.

DXY and US yields have moved upward last week (Fig 1)

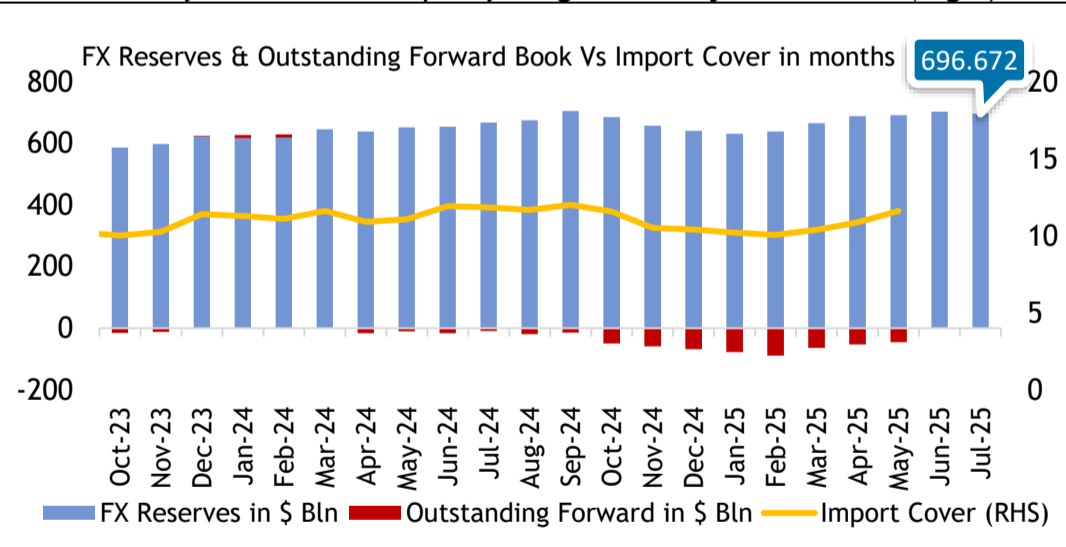


As US inflation remains sticky and tariff risks persist, the Fed is maintaining a cautious stance (Fig 2)



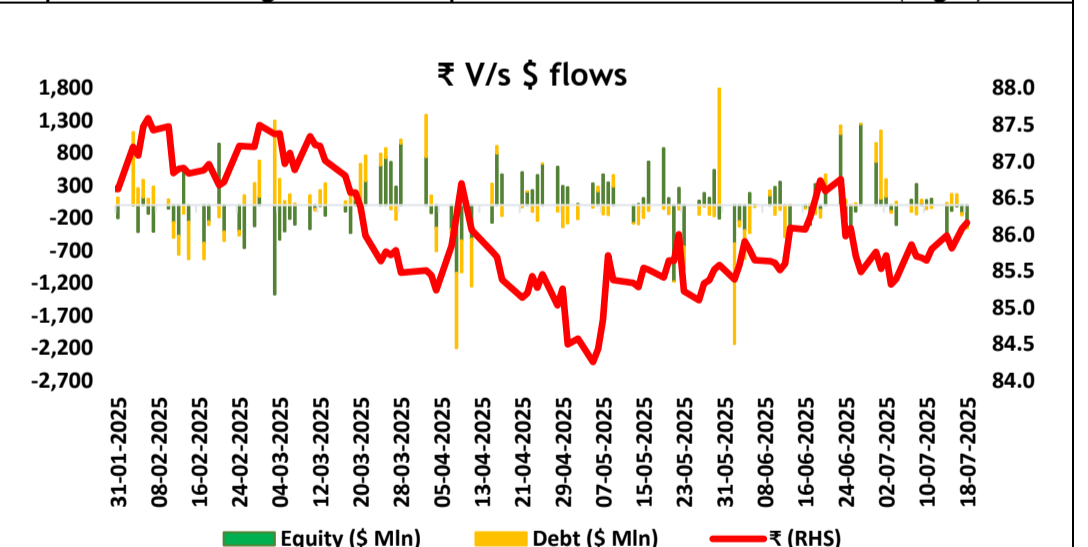
Source: Bloomberg, LSEG Workspace & UBI Research

FX reserves fell due to a drop in foreign currency assets (Fig 3)



Source: Bloomberg, LSEG Workspace & UBI Research

Rupee traded range bound despite elevated Oil & DXY levels (Fig 4)



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