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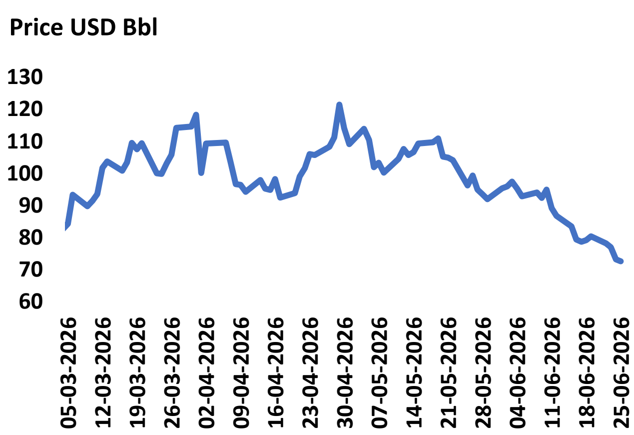
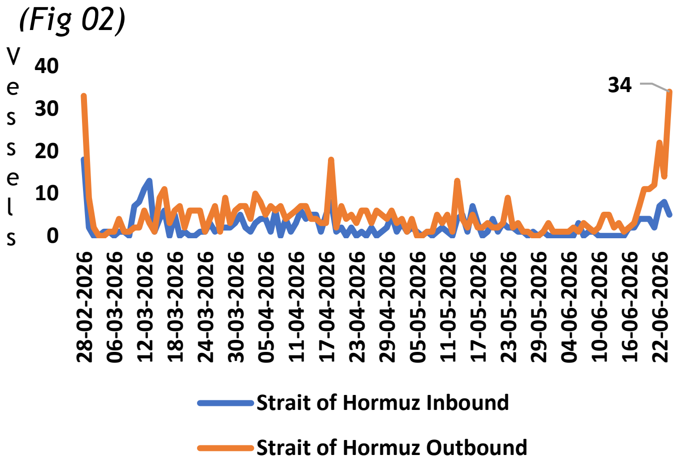
Oil prices at pre-war levels (Brent Crude) (Fig 01)



Source: Refinitiv

Vessel Daily Transit via the Strait of Hormuz (Fig 02)



Source: Refinitiv

Cross Asset Fund Flow Monitor (Table 1)

Category	4 wk avg ($bn)	2025 avg ($bn)
All Equities	35.3	8.1
All Bonds	17.0	11.3
US Equities	35.9	3.5
US Bonds	9.3	4.3
EM Equities	-1.4	0.9
EM Bonds	0.81	0.50
Japan Equities	-2.1	-0.1
China Equities	-1.65	-0.15
Europe Equities	-2.1	0.9
Europe Bonds	5.2	4.3

As of 17th June' 26 *Source: JP Morgan*

The current market theme is a divergence that rarely holds for long: energy prices are falling sharply, yet the dollar is strengthening and central banks remain firmly on guard. Ordinarily, a sharp fall in oil would ease inflation concerns, support oil-importing economies, and reduce the urgency for additional rate hikes. This time, however, the oil correction is largely a post-war normalisation story, while dollar strength is being driven by a separate force the re-pricing of Fed rate-hike risk on sticky core inflation and resilient U.S. activity data. The result is a mixed global signal: lower energy prices are easing the inflation impulse, but a stronger dollar and higher U.S. rate expectations are keeping financial conditions tight. That interaction is the week's dominant analytical challenge.

The oil reversal is significant. Brent settled at $73.74/bbl on 24 June, with WTI approaching the $70/bbl mark a dramatic compression from the above-$150/bbl levels that were being discussed just weeks ago when the US-Iran conflict was pricing in a sustained Hormuz blockade. Tanker flows through the Strait are beginning to normalize (fig2) and the energy-risk premium is unwinding faster than most expected. For inflation-watching central banks, this is unambiguously welcome. It reduces the probability of a second-round energy shock and, for Asia in particular, breaks the negative feedback loop that had been building: currency weakness → higher import costs → rising inflation expectations → more policy tightening needed.

Central banks have not pivoted on the back of the oil correction. The Fed's Goolsbee was explicit: services inflation is driven by structural domestic factors, not energy, and lower crude does not resolve the core inflation problem. The ECB has moved to a less alarmed posture Lagarde noted the medium-term inflation path remains intact but hawkish voices within the council retain the floor rate. The Bank of England's Taylor offered the most constructive tone, suggesting an extended hold with optionality for cuts if conditions improve, but this is not yet committee consensus. The RBI has sounded balanced, with Governor Malhotra noting it is premature to discuss rate hikes now that oil has eased, a signal broadly consistent with our neutral-to-cautious India rate view.

The DXY rose to 101.61, its strongest reading since May 2025, driven by a hawkish June FOMC overhang and pockets of resilient US data. The euro has slipped toward 1.1358, sterling toward 1.3168, and USD/JPY continues to hover near 161.8 levels that sustain intervention risk. Our view is that the dollar should remain supported in the near term as long as inflation remains sticky and markets continue to price some probability of further Fed tightening. Technically, the 102 level is the next key upside level to watch.

The flow backdrop reinforces this mixed signal (table 1). Cross-asset fund flows show that investors are not abandoning risk, but the risk appetite remains narrow and selective rather than broad-based. Equity inflows are still concentrated in the U.S., while non-U.S., emerging-market, Europe, Japan and China equity flows remain weak. At the same time, bond funds continue to attract steady inflows, led by U.S. and European bonds. This suggests investors are still balancing equity exposure with duration and income, rather than positioning for a clean global reflation trade. In other words, lower oil has improved the macro backdrop, but the combination of dollar strength, sticky U.S. inflation and Fed-hike optionality is keeping global positioning cautious and U.S.-centric.

In US rates, the week produced a two-phase move. Early dollar-strength lifted the 2-year yield above 4.22% and pushed the 10-year toward the critical 4.50% level. The subsequent lower oil repriced duration demand, pulling the 10-year back to 4.39% and the 2-year to 4.14%. The 10-year at 4.50% remains the global tripwire: a sustained move above that level would tighten EM financial conditions, raise EM funding costs.

The global macro landscape has improved at the margin, but not enough to shift positioning decisively. Lower oil is a genuine relief it reduces tail risk for current-account-deficit economies, softens imported inflation, and gives central banks in Asia and EM room to stay on hold. But the dollar's strength, sticky core inflation in the US, and elevated 10-year yields mean that the easing of external conditions is partial, not complete. Watch Brent's stability in the $70-75/bbl range, and the 10-year yield's behavior around 4.50%.

The rupee has strengthened despite a firmer dollar, showing that India-specific positives lower crude, RBI measures and improving flows are currently outweighing broad dollar pressure

RBI measures have moved from announcement to execution, with the FAQ giving banks operational clarity on FCNR(B), SBLC and lien structures; actual FCNR(B) mobilisation and FAR/debt flows are now the key monitors

INR Decouples from Strong Dollar as Oil Shock Reverses and Policy Support Transmits

The rupee's external position has improved materially over the past few weeks, driven by three reinforcing shifts: the sharp reversal in crude oil prices, operational progress on the RBI's foreign-currency inflow measures and an emerging improvement in FPI flow data. The defining feature of the move is that the rupee has strengthened to 94.37 even as the DXY has gained around 2.5% month-to-date an unusual decoupling that signals India-specific tailwinds rather than broad dollar weakness.

The oil correction is the single largest driver. Brent has declined to around $72.82/bbl, down nearly 24% month-to-date, retracing almost entirely to pre-Iran-war levels.

The RBI's June policy package FCNR(B) swap facility, ECB/overseas borrowing swap at a fixed 1.5% p.a., FAR expansion, and capital-gains tax relief for eligible FPI investors has moved from announcement to implementation. The release of a detailed FAQ has resolved operational ambiguity for banks, making FCNR(B)-linked mobilisation actionable. Critically, the RBI confirmed that Indian banks, including overseas branches, may extend loans to non-residents or issue SBLCs against eligible FCNR(B) deposits, and may mark lien on such deposits structural features that should improve actual inflow execution. Market expectations for FCNR(B) mobilisation remain wide-ranging, with most estimates in the $35-50bn range, while more optimistic projections suggest inflows could approach $100bn. The key monitor now is the actual mobilisation of FCNR(B) deposits & sustained FAR/debt flows.

FPI flows now provide the clearest evidence that rupee pressure is easing. In the five latest reporting sessions during 22–29 June, overall FPI inflows stood at around $3.33bn, well above the previous full-week inflow of $1.35bn during 15–19 June. The improvement was led by both equity and debt flows. Equities saw inflows of $954mn, while debt inflows stood at $2.37bn. Within debt, FAR securities added $318mn.

Near-term, USD/INR is expected to trade in a 93.80–95.00 range with a mild INR-positive bias. The 94.00-94.20 zone remains a key support level for the rupee, while a sustained move below 94.00 would likely require Brent crude to remain soft alongside stronger FCNR(B) and debt inflows. On the upside, a rebound toward 95.00–96.00 would likely be driven by higher crude prices, further dollar strength, rising US Treasury yields, or a renewed bout of equity outflows.

What Has Changed This Week

The rupee's support base has broadened meaningfully. Earlier, the case for INR stability rested largely on lower oil prices and the initial announcement effect of RBI measures. This week, the data has begun to confirm transmission: FPI flows have improved, debt inflows remain constructive, the forward book has started unwinding from its March peak, and the RBI FAQ has removed operational uncertainty around FCNR(B)-linked structures. The recovery is therefore more flow-backed and less reliant on sentiment.

RBI Policy Measures: Announcement to Implementation

The RBI's June package covers three instruments. First, a USD/INR swap facility for fresh FCNR(B) deposits mobilised for 3–5 years (eligible deposits through 30 September 2026; swap window through 16 October 2026). Second, a swap facility for eligible ECBs and overseas foreign-currency borrowings, with a maximum tenor of five years at a fixed cost of 1.5% per annum, compounded semi-annually, reducing effective hedging cost. Third, FAR expansion and capital-gains tax relief to deepen the government-securities investor base for FPIs. The FAQ released this week is the critical development: it has converted these measures into actionable structures for bank treasuries. The RBI swap will cover only the principal amount, not the interest component, which is a constraint to factor into mobilisation economics.

FPI Flows: Early Signs of Stabilisation

FPI flows now provide the clearest evidence that rupee pressure is easing. In the five latest reporting sessions during 22–29 June, overall FPI inflows stood at around $3.33bn, well above the previous full-week inflow of $1.35bn during 15–19 June. The improvement was led by both equity and debt flows. Equities saw inflows of $954mn, while debt inflows stood at $2.37bn. Within debt, general debt inflows were particularly strong at $2.12bn and FAR securities added $318mn, partly offset by VRR outflows of$69mn. This follows the previous full week, when equities had recorded $251mn of inflows and debt

Foreign-flow pressure has clearly moderated, with both equity and debt inflows improving; however, the FYTD picture remains negative because equity outflows are still large

had added $1.26bn, with FAR and general debt both contributing meaningfully. The FYTD picture is still negative, but the pressure has moderated sharply. For FY27-to-date up to 29 June, overall FPI flows stood at an outflow of $10.57bn, improving from around $13.90bn as of 19 June. Equity remains the main drag, with FYTD outflows of $15.31bn. Debt flows remain the stabilising offset, with FYTD debt inflows of $4.74bn, led by FAR inflows of $2.74bn and general debt inflows of $2.14bn, while VRR recorded an outflow of $135mn.

Reserves and Forward Book: Comfortable but Not Unconstrained

India's headline FX reserves stood at $672.59bn as of 19 June, equivalent to around 10.2 months of import cover. Reserves rose by $963mn during the week, as a $4.11bn increase in gold reserves more than offset a $3.07bn decline in foreign-currency assets. However, the effective reserve cushion remains meaningfully lower after accounting for the RBI's net short forward position of $95.30bn, based on April data. This brings forward-adjusted reserves to approximately $577bn, or around 8.7 months of import cover. The forward book itself has begun to unwind: the net short position fell from $103.06bn in March to $95.30bn in April, with the bulk of the reduction in the up-to-3-month bucket. Net spot dollar sales by the RBI in April were $8.94bn, slightly lower than $9.76bn in March.

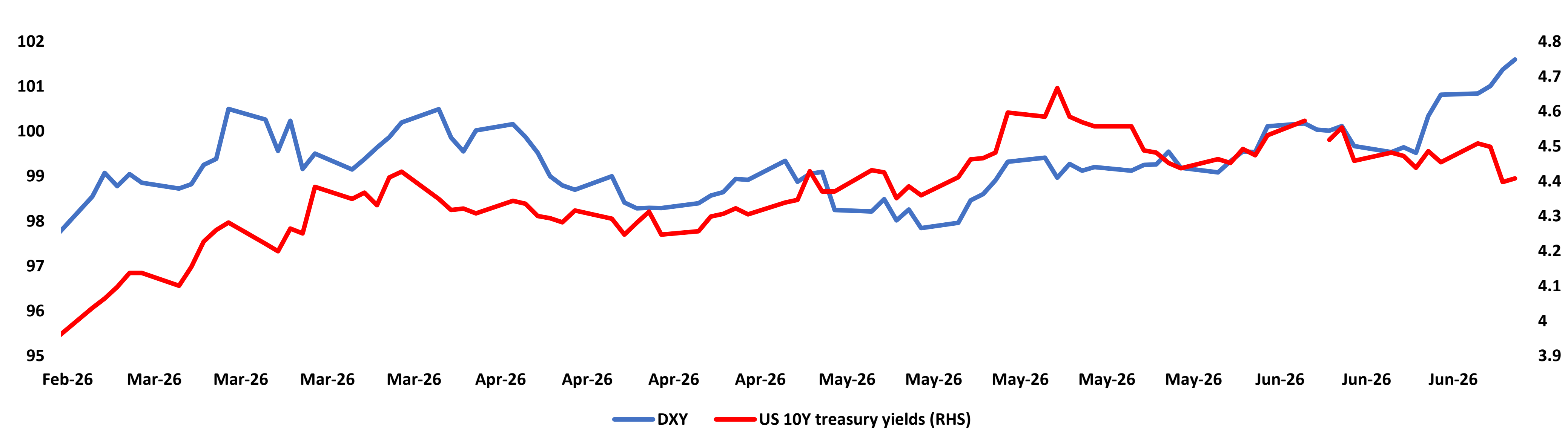
India's reserve buffer remains comfortable, but the forward-adjusted cushion is lower, so RBI support is strong but not unlimited

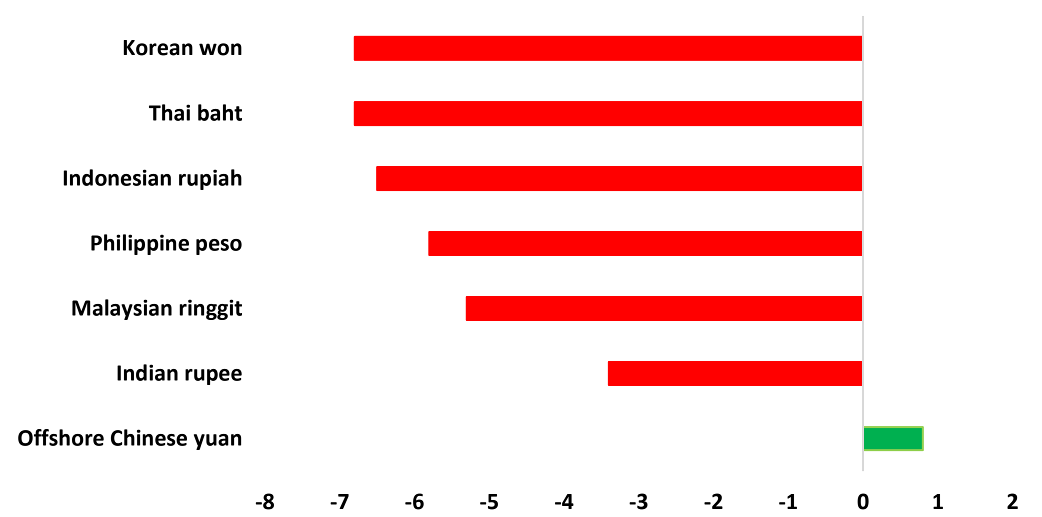
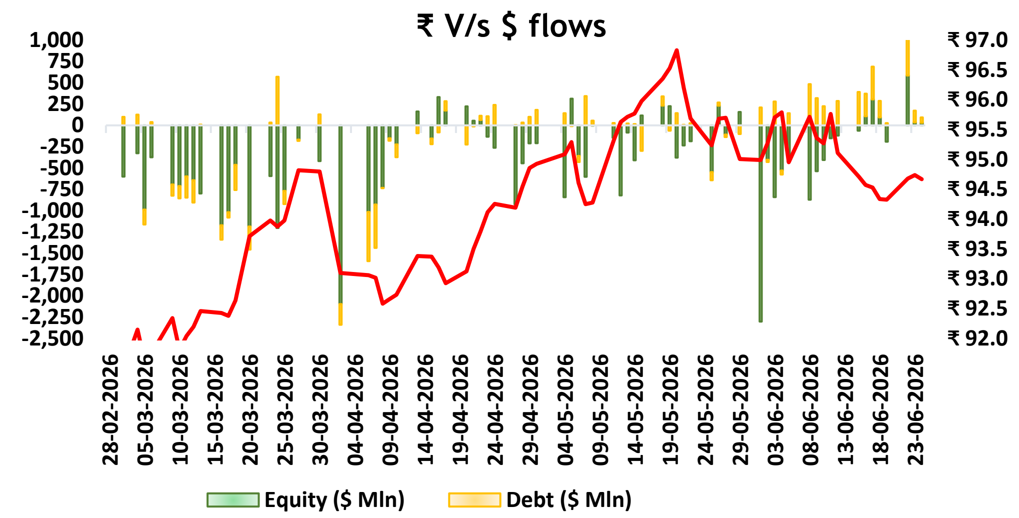
Rupee REER: The 40-currency trade-weighted REER fell to 89.21 in May from 90.97 in April, the sixth consecutive monthly decline, implying meaningful real-terms adjustment that provides policymakers some comfort that the currency has already absorbed much of the external shock.

The rupee has a mild supportive bias from lower crude, better flows and RBI clarity, but a sustained break below ***94.00-94.20*** *needs stronger equity inflows and stable global conditions*

Outlook: USD/INR is expected to hold within a 93.80–95.00 range in the near term, with a mild INR-positive bias. The rupee is no longer reacting solely to the fading of war-related risks; it is now being supported by a combination of lower crude oil prices, improving FPI flows, operational clarity on RBI measures, and a still-comfortable FX reserve buffer. This broadening of the support base makes the recovery more sustainable. However, significant appreciation is likely to be capped by still-large FYTD equity outflows and the risk of a reversal in global factors. The 94.00–94.20 zone remains the key appreciation threshold, while a move back toward 95.00–96.00 could materialise if crude oil prices rebound, the DXY strengthens further, US Treasury yields rise, or equity outflows resume.

Dollar scales two-month peak as Fed hike bets ramp up. *(Fig 3)*



Performance of Asian currencies since Iran war began (Fig 4)	The rupee's external position has improved materially over the past few weeks (Fig 5)
	

Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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