FX weekly: Oil Relief Builds on Optimism Amid Fragile Ceasefire; Dollar Stays Firm

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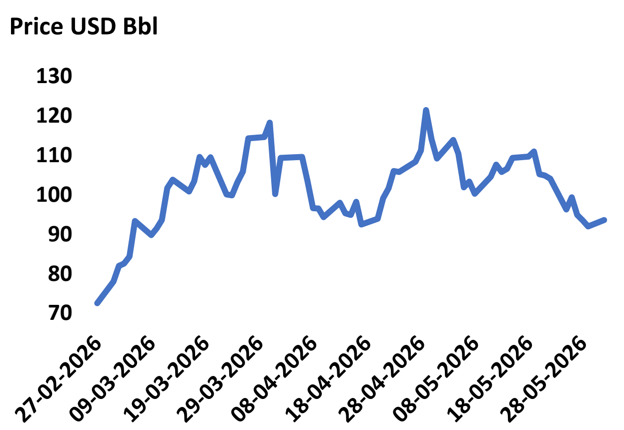
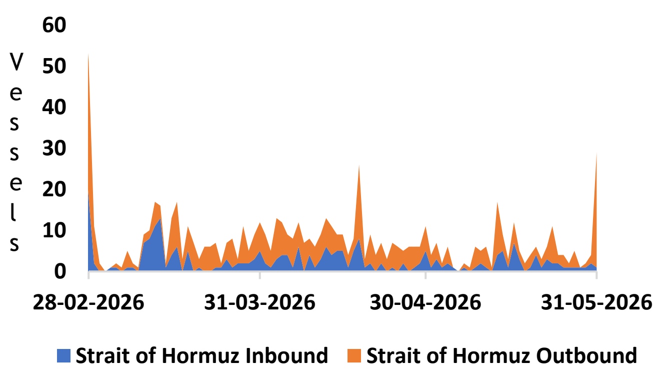
Oil is trading lower on hopes of a deal in sight (Brent Crude) (Fig 01)



Source: Refinitiv

Vessel Daily Transit via the Strait of Hormuz. Latest available data shows outbound traffic at __28 vessels on 31 May 2026__, sharply higher than the previous few days. (Fig 02)



Source: Refinitiv

Key Sticking Points in the US-Iran Deal Negotiations (Table 1)

Pointer where US-Iran deal may be stuck	Why it is difficult
Iran's enriched uranium stockpile	The US wants removal or destruction of highly enriched uranium, while Iran is resisting sending it abroad.
Strait of Hormuz status	The US wants Hormuz fully open; Iran wants security/control guarantees before giving unrestricted access.
Iran's proposed tolls / maritime control	Washington opposes any Iranian toll or control mechanism over Hormuz, viewing it as an international waterway.
US blockade of Iranian ports	Iran wants the blockade lifted, but this remains strategically difficult for the US.
Sanctions relief and frozen assets	Iran wants sanctions relief and access to frozen assets, but the scope and timing remain unresolved.
Ballistic missiles and regional security	The US, Israel and Gulf states remain concerned about Iran's missiles and regional proxy network.

Markets after the war are rarely a straight-line normalisation trade. The immediate relief trade is visible in lower oil, resilient equities, softer safe-haven demand and calmer FX volatility, but the post-war risk premium has not fully disappeared. Weekend headlines suggest that the US and Iran are still negotiating a possible peace arrangement while limited military incidents continue in the background. For now, markets have treated this as a manageable risk rather than a renewed escalation shock. For FX markets, the key question is whether this remains a temporary ceasefire-relief phase or develops into a cleaner normalisation phase where oil flows stabilise, inflation expectations cool and central banks regain room to be less restrictive.

***The most important positive development has been the lower trajectory in oil prices. As Brent averaged around USD 101/bbl so far this year and had traded with a heavy geopolitical premium during the conflict, the recent decline toward the low-to-mid USD 90/bbl area** has helped ease immediate inflation fears and supported risk appetite. However, the final landing point for oil remains the key macro uncertainty. If Brent settles closer to USD 90/bbl, central banks may gain greater confidence that the oil shock is easing. However, should oil remain closer to USD 95-100/bbl or move higher due to delays in restoring Hormuz flows, inflation risks could remain elevated, potentially encouraging policymakers to maintain a cautious stance for longer.*

*In FX, the dollar continues to receive safe-haven support even as ceasefire optimism improved, but the broader US macro story may now be starting to provide a new source of support. DXY has remained broadly supported around the 99 area, with market focus shifting from geopolitical hedging to relative rates and data momentum. **The dollar's next move apart from peace headlines also depend on whether US data continue to validate the idea that the Fed can stay focused on inflation risks rather than employment risks**. If US labour-market data remain firm and business surveys show sticky pricing pressure, markets may move closer to pricing a full 25 bps Fed rate hike this year, compared with roughly 17 bps currently priced. In that scenario, dollar strength is likely to be most visible against low-yielding currencies such as the Japanese yen and Swiss franc, with USD/JPY still biased higher unless the Bank of Japan delivers a more hawkish surprise.*

US yields have also reflected this shift in narrative. Global bond markets had a volatile May as the Iran war pushed inflation expectations and long-end yields higher, with the US 30-year yield briefly moving above 5%. The recent fall in oil and signs of progress in peace talks have helped yields ease from their highs, but the move is not a full reversal. The US 10-year yield remains elevated around the mid-4% area, while the 30-year yield is still close to 5%, showing that investors remain sensitive to inflation persistence, fiscal supply and central-bank reaction functions.

Last week's US data gave markets a mixed but important signal. First-quarter GDP was revised lower to 1.6% annualised, suggesting that the economy has lost some momentum. At the same time, consumer spending continued to expand, although at a slower pace, while April headline PCE inflation rose to 3.8% y/y and core PCE stayed elevated at 3.3% y/y. The softer monthly core print gave markets some relief, but the year-on-year inflation rate remains too high for the Fed to sound comfortable. Initial claims also edged higher, but not enough to signal a decisive labour-market break. This week's JOLTS, ADP, Challenger layoffs, ISM surveys, Beige Book and May non-farm payrolls will therefore be crucial. A healthy payroll gains of around 90k and unemployment holding near 4.3% would reinforce the view that the Fed can prioritise inflation control.

***Central banks are increasingly being pulled back toward a hawkish bias**. Fed speakers have continued to stress inflation risks, while upcoming comments from more hawkish officials will be important for market pricing. The ECB is also turning more cautious as the energy shock raises upside inflation risks even as growth risks rise. The RBNZ has signalled that its next move may also be a hike. Overall, the global easing cycle has been interrupted by the oil shock, and markets are no longer trading as if rate cuts are the dominant policy direction.*

*Cross Asset Fund Flow Monitor. Fund flows suggest a **"selective risk-on"** market: investors are still buying equities, mainly **US/Japan**, but the stronger signal remains in bonds, showing that caution has not fully disappeared.*

(Table 2)

Category	4 wk avg ($bn)	2025 avg ($bn)
All Equities	6.8	8.1
All Bonds	19.6	11.3
US Equities	6.6	3.5
US Bonds	10.3	4.3
EM Equities	-2.9	0.9
EM Bonds	1.20	0.50
Japan Equities	1.7	-0.1
China Equities	0.34	-0.15
Europe Equities	-1.8	0.9
Europe Bonds	5.8	4.3

As of 20th May,' 26 *Source: JP Morgan*

The key point for the week ahead is that a political deal is not the same as physical normalisation. Shipping through the Strait of Hormuz, insurance costs, tanker repositioning and inventory rebuilding will matter more than the headline announcement itself. Reports suggest that vessel flows remain well below pre-war levels and that temporary buffers could start fading by mid-July if supply restoration is delayed. For FX markets, the main things to watch are Brent's ability to hold below USD 95/bbl, US payrolls and ISM pricing indicators, Fed speaker tone, DXY support near 98.75-99.00, and whether USD/JPY can sustain momentum toward the 162 area. **Our base case is that the dollar remains supported on dips, while high-beta FX can benefit only if oil continues to fall and US rate-hike pricing does not intensify.**

Markets After the War: Why It Matters for FX

The relevance of the post-war market setup is not only geopolitical; it is directly linked to FX through oil, inflation and central-bank reaction functions. Past conflict episodes show that markets usually rally once the immediate oil tail risk starts to fade, but the durability of that rally depends on whether inflation is treated as temporary or persistent. This is why the current US-Iran ceasefire phase matters for currencies: if lower oil prices cool inflation expectations, the dollar can lose safe-haven support and high-beta FX can recover. But if oil remains elevated or physical energy flows do not normalise, central banks may stay hawkish for longer and the dollar could remain supported by rate differentials.

The post-war relief trade is visible, but not yet fully confirmed: lower oil, calmer FX volatility and softer safe-haven demand support risk sentiment, but markets still need evidence of normalised Hormuz flows, lower insurance costs and easing inflation expectations.

Historical Comparison: Oil Shock, Inflation and Fed Reaction

Episode	Oil Shock	Inflation Impact	Fed / Policy Response	Market Lesson
1990 Gulf War	WTI rose sharply as Middle East supply risk surged	US CPI moved higher, but inflation later eased as the oil shock faded	Fed eased as recession risk became more important than temporary oil inflation	Relief rally begins when oil tail risk peaks and inflation is seen as temporary
2003 Iraq War	Oil carried a war premium before the conflict, then eased as uncertainty cleared	Inflation stayed contained and growth concerns dominated	Fed cut rates due to weak growth and disinflation risk	War-risk unwind is more equity-positive when inflation is low and the Fed is dovish
2022 Russia-Ukraine War	Brent moved close to USD 140/bbl during the shock	Inflation was already high and rose further, forcing a broader policy response	Fed hiked aggressively through 2022	Persistent energy shocks become dangerous when inflation is already elevated
2026 US-Iran War	Brent moved above USD 120/bbl during escalation and has now eased toward the low-to-mid USD 90/bbl area	Inflation has re-accelerated, with energy again the key swing factor	Fed officials are more cautious and markets are discussing the risk of hikes if inflation persists	Markets are pricing ceasefire relief, not full normalisation

Current Market Setup and Asset-Class Outlook

Asset Class	Current Behaviour	What Matters Next	FX / Market Implication
Oil	War premium has compressed, but prices remain above pre-war comfort levels	Actual Hormuz traffic, insurance costs and inventory rebuilding	Lower oil supports risk appetite, but any renewed spike can revive inflation and dollar demand
US Equities	Equities have remained resilient, supported by ceasefire hopes and AI-led earnings momentum	Whether yields stay contained and oil continues to ease	Risk appetite can support high-beta FX, but only if inflation fears do not return
US Treasuries	Yields have eased from recent highs, but not fully reversed	Fed reaction function, sticky inflation, fiscal supply and term premium	10Y UST likely to trade in a 4.30%-4.60% range near term. Elevated US yields can limit broad dollar downside
US Dollar	Safe-haven demand has softened, but rate support remains	US data, Fed tone and whether global risk appetite broadens	DXY likely to trade in a 97.50-101.00 range near term. Dollar weakness may be selective rather than a broad USD sell-off.
Central Banks	Easing expectations have been interrupted by oil and inflation risks	Whether central banks treat oil as temporary or persistent	Policy divergence is likely to remain a key FX driver

For FX, the key risk is policy persistence: the dollar may soften on peace headlines and lower oil, but sticky US data, elevated yields or renewed energy pressure could keep the Fed hawkish and limit broad USD downside.

The easier part of the relief trade may already be priced. For markets to move into a cleaner post-war normalisation phase, oil needs to stay lower, Hormuz flows need to normalise, inflation expectations need to cool, and central banks need confidence that the energy shock is not becoming persistent. Until then, FX markets are likely to remain selective: the dollar can soften on peace headlines, but strong US data or sticky inflation can still keep it supported.

Central Bank Response: Policy Divergence After the Oil Shock

The next layer of the FX story is the central-bank response. The US-Iran war and oil shock have not pushed all central banks in the same direction. Instead, they have widened policy divergence. Economies facing stronger fuel pass-through, above-target inflation or currency pressure have moved toward rate hikes, while economies with weaker growth or already-restrictive real rates have continued to cut cautiously. This matters for FX because currencies are now being driven less by a single global rate cycle and more by local inflation sensitivity, energy exposure and central-bank credibility.

A monthly snapshot of major central-bank rate decisions and policy outlooks. (Table 3)

Sr. No.	Central Bank	Current Rate	Market Expectations / Policy Outlook
1	RBI	5.25%	Hold expected.
2	ECB	2.15%	25 bps hike expected; outlook remains commodity-market dependent.
3	RBA	4.35%	Hold expected after recent tightening and softer inflation/labour data.
4	BOJ	0.75%	Hold expected in June; possible hike to 1.00% in 3Q26.
5	Fed	3.50%–3.75%	Extended pause expected through 2026; easing may resume in 2027.
6	BSP	4.50%	25 bps hike expected; another hike possible in 3Q26.
7	BI	5.25%	25 bps hike expected to support rupiah stability.
8	BOE	3.75%	Hold expected; markets may be pricing too much easing/tightening ahead of fundamentals.

Central Bank Response Since 28 Feb 2026

Policy Direction	Central Bank / Economy	Move	Policy Rate After Move	Key Driver
Hiked	Reserve Bank of Australia	+50 bps	4.35%	Inflation above target; fuel pass-through lifted CPI risk
Hiked	Philippines	+25 bps	4.50%	Inflation jumped to 7.2% in Apr; transport costs surged
Hiked	Bank Indonesia	+50 bps	5.25%	Rupiah defence amid capital outflows and USD demand
Hiked	Sri Lanka	+100 bps	8.75%	Inflation rose to 5.4% after fuel-price pass-through
Cut	Brazil	-50 bps	14.50%	Real rates restrictive; growth moderating
Cut	Russia	-50 bps	14.50%	Activity weakened, despite inflation risks
Cut	Mexico	-50 bps	6.50%	Growth weak; inflation easing but still above target
Cut	Poland	-25 bps	3.75%	Inflation near target band, but oil risk kept tone cautious

The oil shock has not created a uniform global policy response. Inflation- and currency-sensitive economies have leaned toward hikes, while economies facing weaker growth or very restrictive real rates have continued to cut cautiously. For FX, this means policy divergence remains a key driver: currencies backed by credible tightening may stay supported, while currencies exposed to high oil import bills or weak growth may remain vulnerable.

₹ pulls back from edge of ₹97/$: RBI armour and US-Iran ceasefire defuse ~$11bln FPI exodus:

A combination of ceasefire-led oil relief, fading geopolitical risk premium and proactive RBI measures enabled the rupee to defend the critical ₹97/$ level and close May on a significantly firmer footing.

The Indian Rupee (INR) has stabilised significantly, closing out the final week of May at ***₹95.0050/$ on 29th May'26*** after hitting brief an all-time low of ***₹96.9700/$ on 20th May'26***, protecting the key psychological level of ***₹97/$***. This recovery is primarily driven by sharp relief in global energy markets following a breakthrough on 28th May'26, where the US and Iran reached a tentative agreement to extend their mediated ceasefire by an additional 60 days, explicitly including terms to reopen the critical Strait of Hormuz shipping lane. Consequently, geopolitical risk premiums evaporated, causing Brent crude to retreat to $92/bbl., offering vital breathing room to India's inelastic import bill. This easing of war fears reduced safe-haven volatility in both the US Dollar Index (DXY) and the US 10-Year Treasury yield, though market players remain cautious ahead of upcoming Federal Reserve rate rhetoric. Also, we commend the RBI Governor's verbal intervention as an important first step toward restoring stability in the rupee.

On the domestic front, risk-off sentiment has triggered a severe exodus of foreign capital from domestic capital markets. FPIs have recorded a substantial net outflow of $10.64bln over the FY27. To maintain the local currency strength and prevent a chaotic breach during the month's peak friction, the Reserve Bank of India (RBI) took several defensive measures. These actions alongside valuation adjustments—are clearly reflected in India's FX reserves, which fell by $7.51bln in the week ending 22nd May to stand at $681.38bln. To manage the severe rupee liquidity crunch, the RBI has run sterilized measures alongside a $5bln USD/INR buy-sell swap auction, the RBI actively managed forward and futures curves, compressing near-term forward premiums to deter speculative long-USD positioning while ensuring exchange-traded derivatives remained orderly. Moving forward into June, the rupee's stability will hinge entirely on the formal execution of the 60-day ceasefire terms and the subsequent behavior of global oil benchmarks. (Previous close: ₹95.6900/$) [O: ₹95.3500/$, H: ₹95.7975/$, L: ₹94.9000/$ & C: ₹95.0050/$]. {Refer report: FX weekly: Relief Trade Builds, But US-Iran War Keeps the Macro Risk Premium High}

RBI's Emergency INR Defence Shield:

1. ***Forex Caps (Mar '26):*** *Limited daily Net Open Position (NOP) to $100M.*
2. ***NDF Restrictions (Apr 1, '26):*** *Banned NDF contracts and specific non-resident transactions (withdrawn Apr 20).*
3. ***Trade Support:*** *Extended export repatriation to 15 months and credit relief to 450 days (thru June 30, '26).*
4. ***Oil Window (Apr 16, '26):*** *Launched a dedicated dollar credit line for state-run refiners.*
5. ***Gold Curbs (May '26):*** *Hiked duty to 15% (May 13); capped licenses at 100kg with a 50% export fulfilment rule (May 15).*

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

A. **Oil price sensitivity→** Brent crude oil futures logged their first monthly decline of 2026, sliding to a six-week low ~$92/bbl. at Friday's close. This sharp downward correction was triggered by immense optimism surrounding a tentative, US-brokered agreement to extend the mediated US-Iran ceasefire by 60 days and gradually reopen the heavily blockaded Strait of Hormuz. However, sharply reversion is observed in this relief rally, with Brent rebounding toward $93.40/bbl. as both Washington and Tehran clash over changes to the draft agreement. ***President Trump has reiterated that any final deal must mandate a full freeze of Iran's nuclear program***, trapping the market in a hyper-sensitive "statement cycle" where neither side is willing to compromise on core red lines. This geopolitical friction overrides recent macro data, including US Core PCE inflation matching consensus at 3.3% YoY, which keeps Fed rate hike threats alive. Moving forward, Brent's trajectory remains entirely binary: a complete breakdown in diplomatic talks or renewed safe-haven bids will quickly propel prices past the $100/bbl. level, whereas a formal signing of the 60-day truce and a clear timeline for Hormuz shipping traffic will strip out the remaining war premium, dragging benchmarks down toward key psychological support at $90/bbl. On a ***WoW basis, prices dip marginally by ~0.01%, and reflect a rise of ~44% 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. **Consequently, this persistent energy premium is expected to push the FY27 Current Account Deficit (CAD) to 2.0% of GDP.**

April Peak: $126/bbl. (Hormuz Closure)
↓
May 29 Close: $92.00/bbl. (Ceasefire Optimism)
↓
June 1 Today: $93.40/bbl. (Draft Deal Standoff)

Brent crude slipped to a 6-week low of ~$92/bbl. before rebounding to $93.40/bbl. on a volatile US-Iran "statement cycle," leaving prices down 0.01% WoW (+44% YoY).

B. **Dollar strength→** The DXY exhibited two-way volatility over the week as it balanced a macro data release against the shifting headlines of the US-Iran war. A late-week technical correction toward two-week lows near 99, driven by market optimism following a US-brokered agreement to extend the ceasefire by 60 days. However, the greenback edged higher on 1st June morning to trade above the 99 handle; President Trump demanded strict amendments ensuring a freeze of Iran's nuclear program, causing Tehran to push back and reigniting safe-haven capital rotation. The high-importance US Core PCE Price Index printed at 0.2% MoM & 3.3% YoY, matching consensus but confirming that inflation remains above the Fed's 2% target. Moving ahead, the DXY's path is highly binary: a formal collapse of the 60-day truce or a hot print in the upcoming US Non-Farm Payrolls will trigger an aggressive breakout toward the 100.50 resistance zone, while an official signing of the treaty alongside cooling labor data would strip out the safe-haven premium and drag the index down to test multi-week support near 98.00.On a ***WoW basis, DXY inch-down by ~0.2%, and reflect a rise of ~0.3% YoY***.

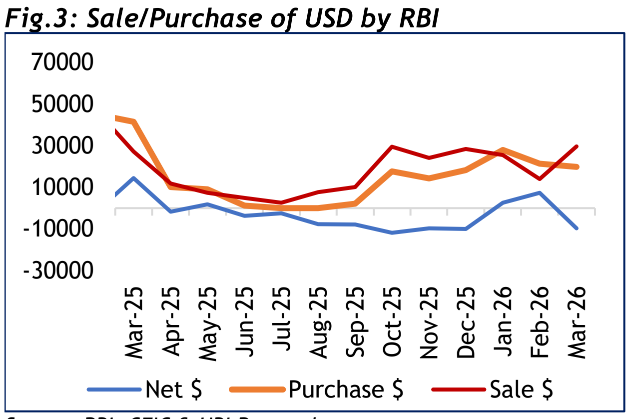
DXY slipped 0.2% WoW (+0.3% YoY) to trade just above the 99 handle as early ceasefire optimism gave way to a fresh US-Iran nuclear standoff.

C. **FPI exodus→** During this FY, FPIs continue to be net sellers, ***withdrawing ~$11bln*** from Indian markets amid heightened global uncertainty. FPIs continue to be net sellers in equities to the tune of ***~$268mln vis-à-vis outflows of ~$343mln*** on a WoW basis. Debt markets turned negative to the tune of ***~$188mln vis-a-vis ~$222mln inflows*** a week ago. FAR inflows, at ***$448mln (FY27)***, including a ***~$15mln inflow*** in last week. Given the continuous drop in capital inflows and rigid import costs, India is staring at its third consecutive Balance of Payments (BoP) deficit this FY26, compounding the structural stress observed after the external sector slid into a $5bln BoP deficit in FY25 following a volatile downshift from the healthy $64bln BoP surplus recorded in FY24.

FPIs continued to pare India exposure, taking FY27 net outflows to ~$11bln as equity and debt flows remained under pressure despite positive FAR inflows.

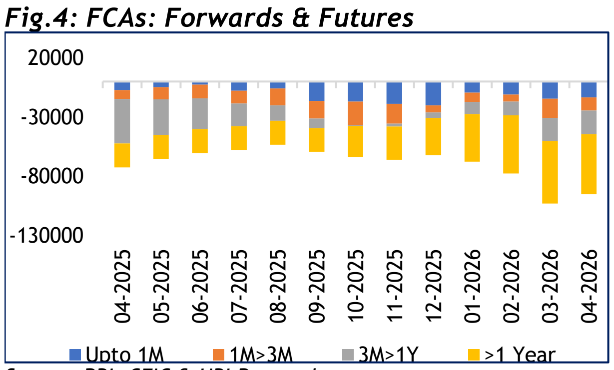
D. **Strong policy cushion from RBI→** Over the on-going external headwinds, India's FX reserves turned negative to ***$681.38bln*** (as on 22nd May'26) *covering ~11 months of imports*, driven mainly by a ***$4.53bln*** dip in **Gold** and ***$2.87bln** fall* in **FCA;** providing the central bank with substantial cushion to smooth volatility [All-time highs at ***$728.49bln*** as of 27th Feb'26]. However, if we consider the FX forward & future position of ***$95.30bln*** 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 ~($2.21bln) (excluding valuation effects) in the week.

Fig.3: Sale/Purchase of USD by RBI



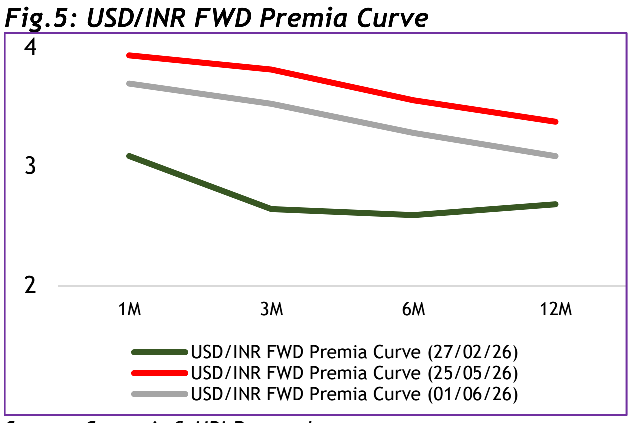
Source: RBI, CEIC & UBI Research

Fig.4: FCAs: Forwards & Futures



Source: RBI, CEIC & UBI Research

Fig.5: USD/INR FWD Premia Curve



Source: Cogencis & UBI Research

Rupee enters June on a firmer footing, cautiously optimistic approach, but the currency's ability to hold recent gains will depend on ceasefire credibility, crude oil stability and the RBI's continued management of FX & liquidity conditions.

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^	+50 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 2026 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

E. **Forward Book Build-up by RBI →** The RBI contained severe volatility, recording consecutive net FX sales of $9.76bln in Mar'26, compared with purchase of $7.41bln in Feb'26. RBI's short positions in forwards and futures of $95.30bln, marking a $7.76bln decrease from Mar'26, as per RBI's Apr'26 bulletin. While the position remains below the Mar'26 peak of $103.06bln, market estimates it likely contracted further in May'26. By maturity, short-term exposure up-to 1-month dip by $0.94bln to $13.53bln, 1M > 3M fall by $5.25bln to $10.89bln & 3M > 1Y increased by $0.50bln to $20.15bln. Maturities > 1 year dropped by $2.08bln to $50.73bln mainly reflecting to the swap facility positions. This drop in the forward book is largely attributable to the string of aggressive micro-prudential and structural measures implemented by the central bank to curb speculative rupee shorting. Administrative mandates, such as tighter Net Open Position (NOP) limits to cap currency exposure and import-disincentivizing gold duty hikes, effectively stemmed runaway rupee depreciation and triggered a recovery throughout May, allowing the RBI to significantly scale down its outstanding forward liabilities.

F. **The USD/INR forward curve→** The forward premium curve experienced a highly volatile, headline-driven week as it adjusted to shifting liquidity conditions and the headlines of the US-Iran war. After compressing heavily in mid-May due to the RBI defensive measures including a $5bln USD/INR Buy-Sell swap auction designed to combat the local liquidity crunch, forward points staged a sharp late-g the forward curve firmly elevated with the ***3-month premium at 2.40% p.a., the 6-month premium at 2.22% p.a., and the 12-month premium anchored at 2.15% p.a***. Moving into June, the forward premia trajectory remains cautious; a formal breakdown in diplomatic talks or a hot US NFP print will prompt the RBI to keep forward points elevated to deter speculative long-USD positioning, whereas an official treaty signing will allow the central bank to unwind its defensive swaps, compressing the 3, 6, and 12-month premiums back toward their mid-May lows.

Outlook (INR - ₹ view):

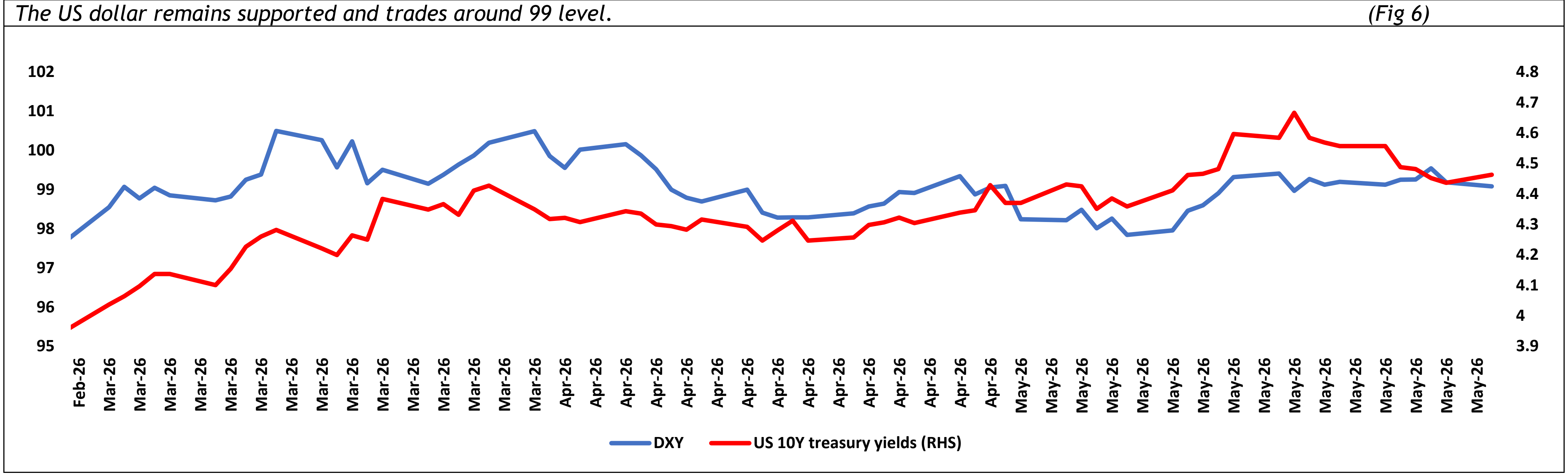
The near-term trajectory for the Rupee enters June tightly bound, headline-driven landscape. Brent crude oil will remain the key variable for INR direction. Any confirmation of ceasefire implementation and uninterrupted shipping activity through Hormuz could further reduce oil's geopolitical risk premium, easing India's external vulnerability and supporting the rupee. Conversely, any breakdown in negotiations, military activity, or disruption to Gulf energy flows could quickly revive dollar demand from importers.

Domestically, investor focus will shift toward the RBI's MPC decision scheduled for 5th June, where markets broadly expect rates to remain unchanged while closely monitoring the central bank's inflation assessment, FX policy stance and any additional measures aimed at attracting durable dollar inflows.

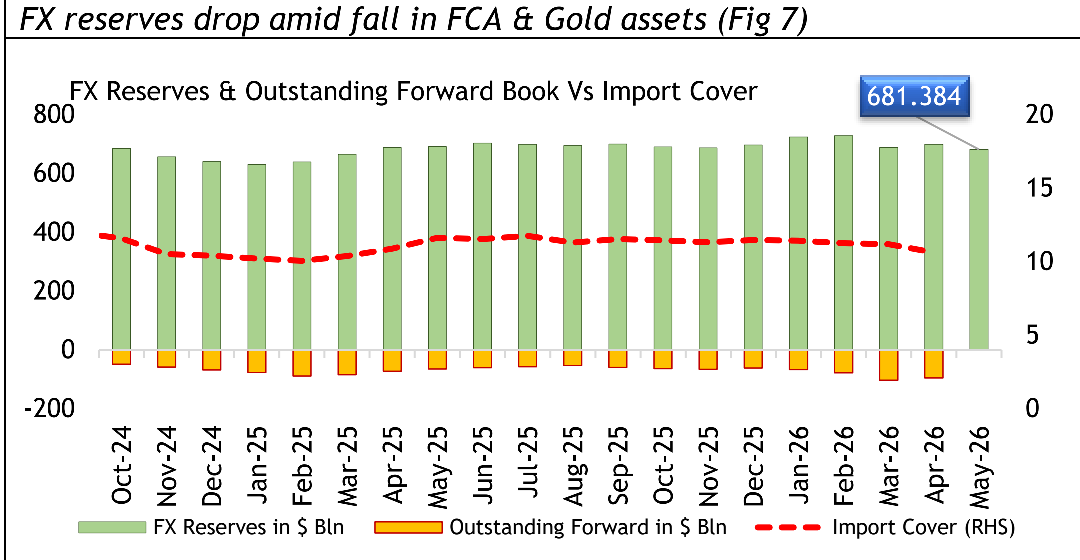
Globally, US NFP, ISM activity indicators, Federal Reserve commentary, movements in the DXY and US Treasury yields will remain important drivers for emerging market currencies. While the recent unwinding of safe-haven demand has provided temporary relief, persistent geopolitical uncertainty, elevated oil prices and continued FPI outflows suggest volatility is likely to remain elevated through the week.

Overall, the rupee enters June on a firmer footing, but its near-term trajectory remains overwhelmingly dependent on the durability of the US-Iran ceasefire framework, crude oil price behaviour and the RBI's ability to balance currency stability with domestic liquidity conditions. That said, markets remain in an unprecedented and highly distorted phase, with participants divided over whether this is the appropriate time to launch FCNR(B)/Dollar bond/ECB measures or wait for more favorable near-term conditions and improved market stability. Over the last few trading sessions, there has been a threshold shift in local currency dynamics, with FX dollar sales by PSU banks partly helping improve market sentiment; however, the sustainability of these levels warrants close watch.

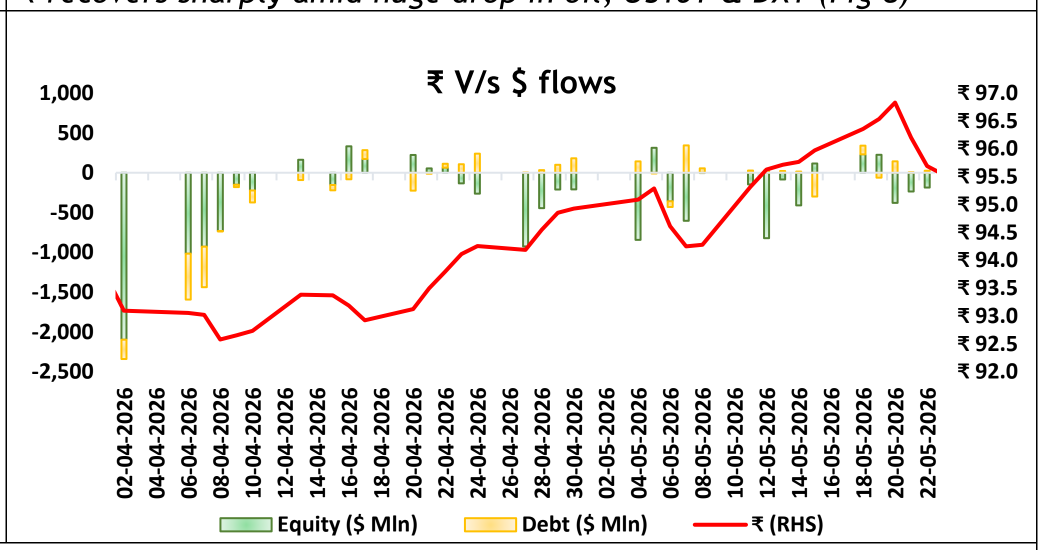
The US dollar remains supported and trades around 99 level. *(Fig 6)*



FX reserves drop amid fall in FCA & Gold assets (Fig 7)



₹ recovers sharply amid huge drop in oil, US10Y & DXY (Fig 8)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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