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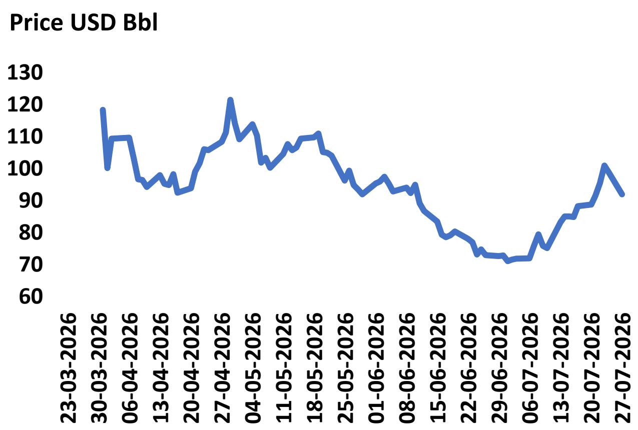
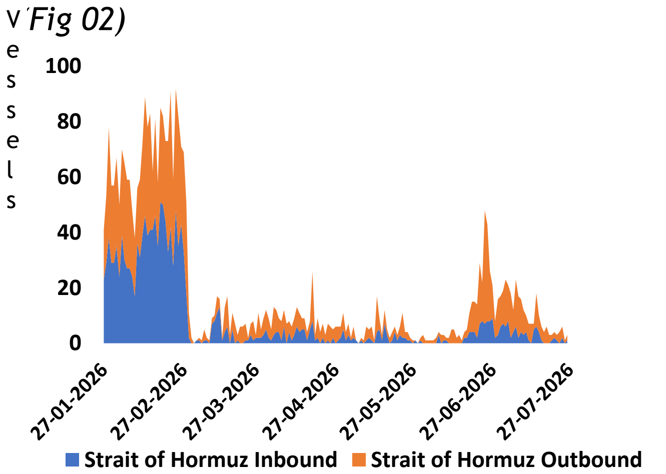
Oil slips 5% after US, Iran pause fighting over weekend (Brent Crude) (Fig 01)



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	29.6	8.1
All Bonds	16.8	11.3
US Equities	20.3	3.5
US Bonds	10.1	4.3
EM Equities	-1.3	0.9
EM Bonds	0.74	0.50
Japan Equities	0.8	-0.1
China Equities	-0.91	-0.15
Europe Equities	-0.6	0.9
Europe Bonds	4.2	4.3

As of 08th July' 26 *Source: JP Morgan*

*The dominant market theme heading into the final week of July is the tension between easing geopolitical risks and a more persistent repricing of inflation. Markets are being driven by three forces: **developments in the Middle East, uncertainty surrounding the Fed policy, and renewed demand for the US dollar**.*

Brent crude has eased to the mid-$90s after briefly topping $100 last week, supported by the US pause in strikes on Iran and renewed efforts to keep the Strait of Hormuz open. While this has improved risk sentiment, key supply routes remain vulnerable.

***Brent has averaged approximately $95 per barrel since the conflict began, compared with an average of around $87 for the year as a whole**. The sharp round trip this month from below $70 in early July to above $100 during the peak of tensions, before closing Friday at $96.78 highlights that the market is currently trading headline-to-headline rather than being anchored in underlying fundamentals.*

*From a macro perspective, **the base case for oil remains a normalization toward the $80-85 range**, a level at which most central banks would feel more comfortable from an inflation-management standpoint. Importantly, recent price action has also demonstrated how quickly downside can materialize. Following the announcement of a US-Iran ceasefire, oil prices fell sharply as supply recovered to nearly 80% of pre-war levels within a matter of days.*

This suggests that even if the current yearly average is tracking closer to $87, there remains a credible path for oil to settle below $80 over the course of the year, particularly if geopolitical risk premiums fade and supply disruptions continue to unwind

*Tanker-flow data in (Fig 2) show that traffic through the **Strait of Hormuz remains severely disrupted despite the recent decline in crude prices**. Between July 20 and July 26, the Strait recorded only seven inbound and 17 outbound movements, equivalent to daily averages of around one and 2.4 vessels, respectively. This compares with average daily movements since late January of approximately 8.4 inbound and 10.4 outbound vessels. The fall in Brent therefore reflects the removal of part of the immediate escalation premium rather than a complete normalisation of oil flows. Until tanker traffic improves consistently, the market is likely to retain a meaningful risk premium for delays, rerouting, higher insurance costs and the possibility of renewed disruption across both Hormuz and the Red Sea.*

***Global investment flows remain broadly positive, led by debt and bond inflows, followed by equities, while allocations to gold and broader commodities remain limited and close to neutral (table 1)**. Regionally, Europe remains the most preferred destination, followed by modest allocations to India, the US and Hong Kong. Japan, Taiwan and South Korea remain structurally underweight, although recent emerging-market momentum has strengthened in Indonesia, South Korea, Taiwan and Brazil while weakening in India and China.*

*Against this backdrop, this week's central-bank meetings are unusually consequential. **The Fed is still expected to hold the federal funds rate at 3.50-3.75% on Wednesday, which remains both our base case** and the consensus view. However, the distribution of market expectations has shifted sharply. The implied probability of a rate hike has risen from roughly 11% on July 15 to around 35-38%. Chair Warsh's decision to remove post-meeting projections and place less emphasis on forward guidance has also left markets with fewer anchors going into the meeting than at almost any point in recent years.*

We do not believe that a single energy-driven inflation reading will be sufficient to push the Committee into raising rates this week. June core PCE inflation surprised on the downside, and an oil shock is typically something policymakers would initially look through rather than react to immediately. The more important debate concerns September, where swap pricing now assigns a probability of slightly above 70% to a rate increase. A hawkish hold this week, combined with anything short of a clear Middle East de-escalation, would keep the possibility of a September hike firmly alive.

The Bank of England's headline decision appears less uncertain, with markets expecting the policy rate to remain unchanged at 3.75%. The vote split, however, will be important. Huw Pill and Megan Greene already dissented in favour of a hike in June. Even an unchanged 7–2 vote could be interpreted as a Monetary Policy Committee losing patience with sticky services inflation, despite continued weakness in UK growth and the labour market.

Central banks may stay on hold, but their guidance will decide whether the hawkish pricing in rates is justified

The Bank of Japan is also expected to leave its policy rate unchanged at 1%, *with market pricing assigning close to a 98% probability to no change in July. However, the market sees a substantially greater probability of tightening later in the year. By October, the distribution assigns a majority probability to the policy rate moving above 1%. The July decision itself is therefore not the central issue. The real test is whether Governor Ueda validates the faster pace of policy normalisation already embedded in Japanese rates. USD/JPY has traded near 164 despite rising Japanese government-bond yields and increasingly explicit intervention warnings. Japanese inflation is also facing renewed upside pressure from the weaker yen and higher imported energy costs. A fresh bout of yen selling could follow if Governor Ueda fails to validate market expectations for further tightening.* ***We expect a near-term USD/JPY range of 161–165, with intervention risk increasing as the pair approaches the upper end****.*

More broadly, the dollar enters the week supported by three factors: elevated US yields relative to other developed markets, expectations of a potentially more hawkish Fed, and continuing safe-haven demand generated by geopolitical and trade uncertainty*. However, part of this support already appears to be priced in, with the DXY rising 0.7% last week to trade near 101.50 alongside broad-based weakness in major currencies.*

The dollar should remain firm near term, though further gains require a fresh geopolitical, policy or data catalyst

The dollar is therefore likely to remain firm in the near term*, but a sustained move above recent levels would require a fresh catalyst, such as renewed Middle East escalation, a clearly hawkish Fed signal or materially stronger-than-expected US data. In the absence of these developments, a further decline in oil prices and a Fed that refrains from endorsing near-term tightening could see the DXY retreat towards the 99–100 range.*

In rates, US Treasuries have sold off for four consecutive sessions following the spike in crude prices, pushing the 10-year yield towards its highest level of the year at around 4.68–4.70%. At the same time, the 2s10s curve has compressed into the mid-30-basis-point range as front-end yields have adjusted to the higher probability of a rate hike. Over the next 72 hours, the front end is likely to provide a cleaner market signal than the long end. The 2-year yield more directly reflects changes in expected Fed policy, while the 10-year yield increasingly combines monetary-policy expectations with higher inflation expectations and an oil-driven term premium.

Oil remains the key swing factor for inflation expectations, bond yields and the broader risk outlook

Away from the Middle East, the tariff overhang has gradually shifted from being a short-term market catalyst to a more permanent feature of the global trading environment. The temporary ***10% global duties imposed under Section 122 expired on Friday and were replaced by the previously signalled Section 301 tariffs****. These include duties of 12.5% on China, Japan, South Korea, Switzerland, Singapore, Thailand and Vietnam; 10% on Canada, the European Union, Taiwan, the UK, Indonesia and Malaysia; and a 10% tariff on India rather than the 12.5% rate initially proposed.*

Overall, this is nominally a central-bank week, but oil prices will determine how hawkish policymakers need to sound. The recent fall in crude provides breathing room, not closure. The strongest market signal will come from whether central banks validate the tightening already priced into rates or use the recent geopolitical de-escalation to push back against it.

Rupee See-Sawed between rising oil prices and increasing dollar inflows

Indian rupee continues to remain susceptible to vagaries of oil prices

Indian rupee continues to remain susceptible to vagaries of oil prices, as US-Iran war which started in late February sent shockwaves to oil prices and thereby rupee. Rupee opened last week at 96.40 and traded in a narrow range of 96.12-96.67. Volatility remained in the pair, as US and Iran continued their attacks. Rupee came close to touching its life-time low, ~96.96/$ (seen in May'26) as oil rallied again above $100/barrel level, but inflows remained supportive for INR. INR finally closed at 96.5625 level last week against previous week close of 96.28. Rupee journey last week was guided by higher oil prices and inflows into domestic market. Thereby, it largely traded in a 55 paise range entire week. Over the weekend as there was no fresh attack from US & Iran crude prices fell ~5% which supported the rupee as it heads for steepest rise in three weeks (below 96/$).

The Positives:

With a view to strengthen our balance of payments and incentivize capital inflows, RBI had announced a series of measures including concessional swap facility for fresh FCNR (B) deposits, OFCB and ECB inflows. RBI published data on 18th July suggested that pace of deposits has been good, which aided rupee at the start of the last week.

Type	Amount (USD million) on 17th July 2026	Amount (USD million) on 24th July 2026
FCNR(B) Deposits	17,406	NA
OFCBs	1,970	NA
ECBs	1,342	NA
Total	20,718	~32,000

Source: RBI, HBL

Recent RBI Governor interview highlighted that so far close to USD 32 Bn. has been mobilized through these capital flows, which is about 55% increase w-o-w. This inflow coupled with inflow into domestic gilts on account of Govt. tax measures and RBI's FAR limit changes led to significant inflows into Indian economy during the past few weeks.

FPI Flows Rebound Sharply to $2.07bn Inflow in Week Ended 24 July

Foreign portfolio flows improved sharply in the week ended 24 July 2026, with combined equity and debt inflows of $2.07bn, compared with an outflow of $279mn in the previous week. Equity flows turned positive at $317mn, reversing the previous week's $336mn outflow, while debt inflows strengthened to $1.75bn from just $57mn. Within debt, general-limit securities attracted $2.38bn, FAR securities received $210mn, while the VRR segment recorded an $837mn outflow.

In FY27 till 24 July, FPIs remained net sellers of Indian assets by $5.83bn. Cumulative equity outflows stood at $13.51bn, partly offset by debt inflows of $7.68bn. The debt total comprised $5.25bn of general-debt inflows and $3.72bn of FAR inflows, partly offset by $1.29bn of VRR outflows. Foreign-flow pressure therefore improved materially during the latest week, led primarily by general-debt inflows and a return of equity buying. However, the FY27 balance remains negative because cumulative equity outflows continue to exceed debt inflows.

Strong Policy Cushion from RBI

India's foreign-exchange reserves increased by $1.08bn in the week ended 17 July 2026 to $676.24bn. Foreign Currency Assets rose by $4.55bn to $551.06bn, more than offsetting a $3.48bn decline in gold reserves to $101.75bn. SDR holdings increased by $44mn to $18.67bn, while the reserve position in the IMF declined by $32mn to $4.76bn. Total reserves remained $52.26bn below the record high of $728.49bn reached on 27 February 2026.

Valuation-adjusted reserve accretion stands at approximately $2.19bn during the latest week. Using twelve-month average monthly imports of $67.57bn through June, headline reserves provide around 10.01 months of import cover. After adjusting RBI's latest available $106.66bn net forward short position at end-May, the effective reserve cushion stands at approximately $569.58bn, equivalent to 8.43 months of import cover. The reserve buffer therefore remains substantial, although the forward-adjusted cushion is materially lower than the headline position.

RBI Forward Short Position Rebuilds to a Record

The RBI's outstanding net forward and futures position widened to a $106.66bn short position at end-May 2026, from $95.30bn short at end-April. This represents an $11.35bn increase in the short position and places the May book $3.59bn above the previous peak of $103.06bn recorded in March.

The increase was concentrated in the shortest and longest maturity buckets. The net short position due within one month widened by $6.30bn to $19.82bn, while the position beyond one year increased by $5.34bn to $56.07bn. The more-than-three-month and up-to-one-year short position widened by $1.75bn to $21.90bn. In contrast, the more-than-one-month and up-to-three-month position narrowed by $2.04bn to $8.86bn, providing a partial offset.

In the spot market, the RBI purchased $22.23bn and sold $28.33bn during May, resulting in net dollar sales of $6.10bn.

We expect rupee to trade in a range of 95/$-96.70/$ level this week, and in the near term, we expect rupee to trade in a range of 94/$-97/$. Upside risks to the pair remains if oil prices sustain above $100/barrel level.

Outlook: After a return to full-scale war was threatened, the United States and Iran have paused strikes for a second consecutive day - renewing hopes of negotiations on a ceasefire. It's unclear why the US has paused its attacks, after carrying out 13 consecutive days of strikes and Donald Trump threatening a "massive attack", but it has been quiet from Central Command and from Iranian forces. This has led to fall in Brent Crude oil prices to $90/barrel levels at the start of week (27th July).

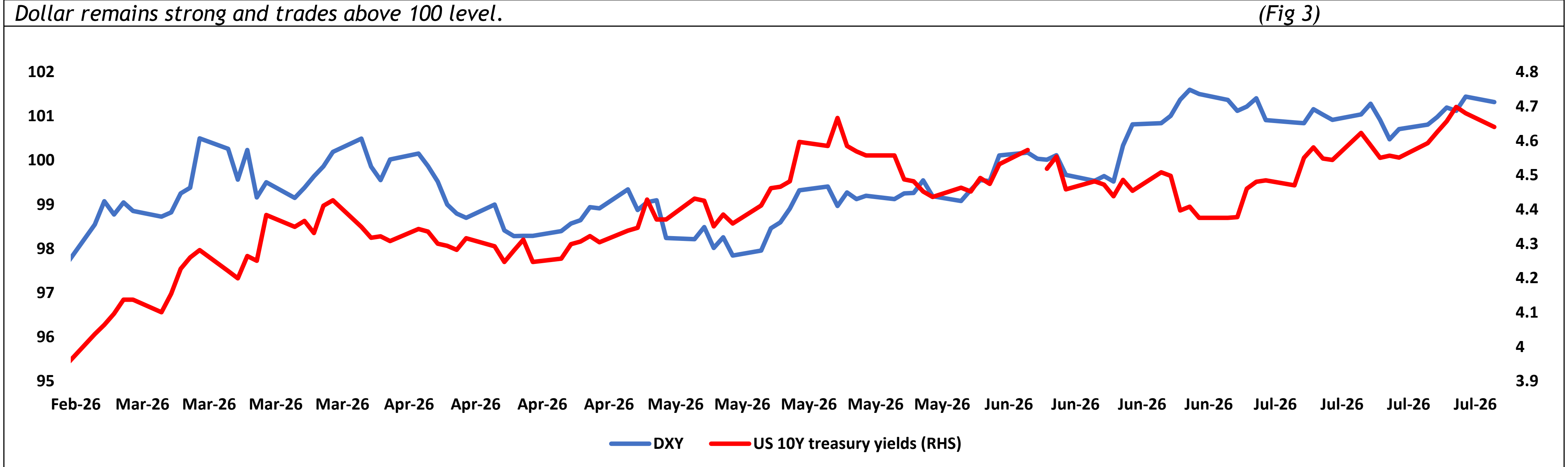
Nonetheless, activities in gulf-region are important for rupees' course.

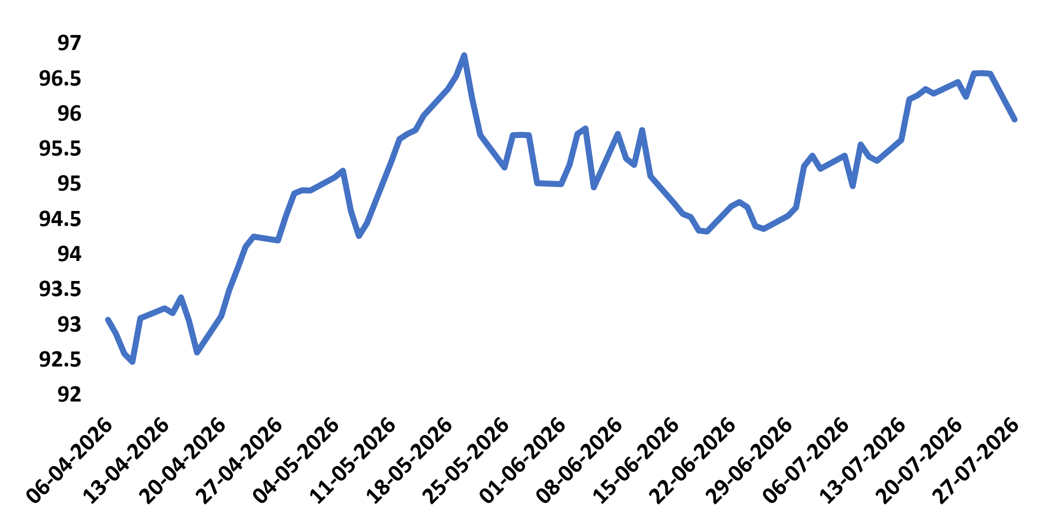
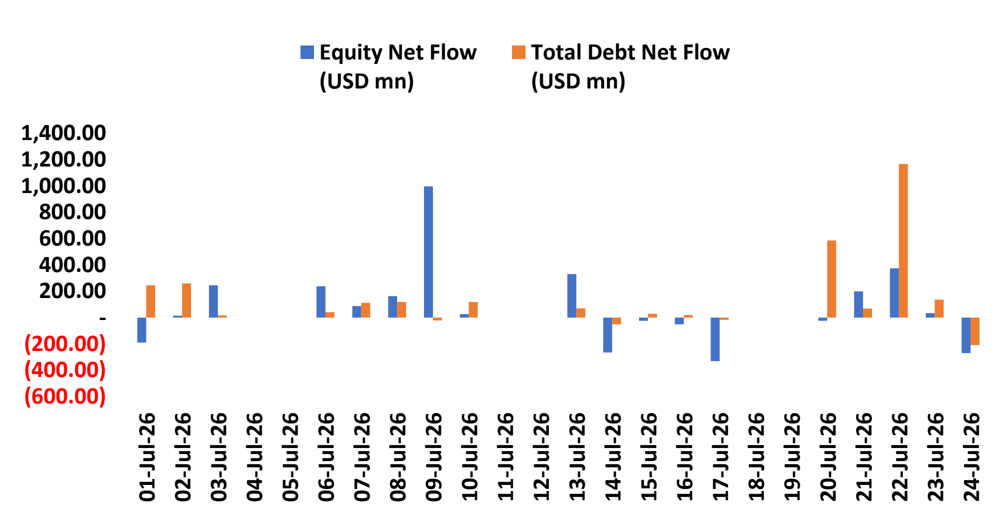
RBI Governor stated that nearly $32 Bn. has been mobilized through FCNR (B) deposits- from ~$17 Bn. reported on 17th July. That's a good increase, and if this momentum continues, more than $50-70 Bn. inflows as per market consensus can be achieved by September end, supporting RBI's FX-kitty.

FPI inflows have remained robust in past few weeks in the debt segment, as well as in equity segment. India's debt inclusion in Bloomberg Global aggregate Bond Index is to be watched. USD index has also remained supported above 100 levels and is expected to take cues from FOMC outcome on 29th July, as policymakers are currently divided on whether to raise, cut, or hold interest rates amid persistent inflation concerns.

Considering these factors, we expect rupee to trade in a range of **95/$-96.70/$** level this week, and in the near term, we expect rupee to trade in a range **of 94/$-97/$.** Upside risks to the pair remains if oil prices sustain above $100/barrel level.

Dollar remains strong and trades above 100 level. *(Fig 3)*



Indian rupee heads for steepest rise in three weeks (below 96/$), as oil falls (Fig 4)	*After the RBI measures, flows turned positive (Fig 5)*
	

Source: LSEG Workspace, CEIC & UBI Research

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