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Fx Crosses views		
FX Crosses	Outlook	Outlook
DXY	↑	Near-term rebound & may strengthen in later part of the year
EURUSD	↓	Gradual decline
GBPUSD	↓	Mild depreciation
USDJPY	↓	Stronger near-term, then softens in later part of the year
USDINR	↔	Consolidation

Financial markets, particularly equities, have recovered a large chunk of their losses since the early-April mayhem, due to recent progress in trade talks

Last week got off to a good start with the headline-grabbing news that the US and China would be taking a 90-day reprieve from a full-blown trade war as the two nations engaged in trade talks. Markets buzzed on the news that the tariff rate on Chinese imports would drop to about 30% from 145% previously, as the deal gave more clarity on the trade policy outlook. This further de-escalation of tariffs has led to market reconsidering the recession risks and has lifted financial markets, although the overall economic situation in US remains difficult to interpret. As hard data continues to show resilience—a term often used to describe the US economy in recent times while soft data is sending warning signals, raising concerns about the future outlook.

In a major setback to US economy the Moody's downgraded the US credit rating to Aa1 from Aaa, aligning with Fitch and S&P in stripping the US of its top-tier status. This pressured the US Dollar Index and pushed Treasury yields higher amid persistent deficit concerns. While global capital flows have cooled in May, with foreign investors trimming exposure to US assets and if US rates stay elevated and recession risks grow, flows may shift toward safer assets like US Treasuries.

There were many Fed speech last week of which Fed Chair Powell highlighted the risk of more volatile inflation going forward driven by structural shifts and the potential for recurring supply shocks markets took comfort in the near-term inflation moderation. Nevertheless, policy visibility remains clouded by trade dynamics, with the dollar's direction increasingly influenced by perceived shifts in FX strategy. In Fx space Treasury Secretary Bessent reaffirmed the US commitment to a strong dollar, while investors remain wary, especially as the greenback has depreciated by nearly 7% since Trump took office but is showing early signs of recovery.

Trade talks appear to be progressing, while Trump signalled that tariff rates for "other countries" will be determined over the next 2-3 weeks, citing limited capacity to conduct simultaneous negotiations. Trump even claimed India had offered a broad-based tariff reduction in ongoing trade talks—a claim India swiftly denied—uncertainty around future trade alignments persists. With a light US data calendar ahead, markets will remain focused on any meaningful developments related to tariffs and their implications for Fed policy and the broader risk environment.

**Key Themes:**

- ♣ Global markets buoyed by US-China trade truce amid mixed global economic signals
- ♣ Global fund flows: Shift toward caution after 2024 surge
- ♣ JPY faces pressure as outbound flows surge
- ♣ Rupee in a boxed-in pattern amid a ceasefire in border disputes & an easing dollar

**Global markets buoyed by US-China trade truce amid mixed global economic signals**

This week has been dominated by risk-on sentiment in markets following the positive outcome of the US and China trade negotiations in Geneva. The latest relief came from China's 90-day suspension of export curbs on rare earths and military-related goods targeting 28 US entities, along with a pause in trade and investment restrictions on 17 US companies. This truce adds to a growing perception of co-operation in US-China trade relations, even as strategic skepticism remains in the background.

While the UK secured the first US trade deal, it's worth noting that the US total goods trade with the UK was only around \$148.0 billion in 2024 a relatively small figure when compared with its trade volumes with Japan, Korea and India. Although trade talks appear to be progressing, they have so far been limited to nations where the US has modest trade exposure (except China). In contrast, the US is yet to finalize any deals with the countries where it runs the largest trade deficits (except China), leaving the core imbalances in global trade unaddressed for now.

Last week brought a wave of economic data from both advanced and emerging economies, with several upside surprises on the growth front. The UK posted stronger-than-expected first quarter growth figures, reflecting resilience despite broader global uncertainty.

US CPI and PCE inflation are tracking sub 2.4%, while core readings are at below 3%

The dollar traded choppily last week but settled higher against all the G10 currencies

Atlanta Fed's GDPNow Tracker has Q2 growth at 2.4%

Retail investors were strong buyers of equities through March and April

While Japan was the notable outlier, with GDP contracting more than expected. On the emerging economy side, India's softer-than-expected inflation print was reassuring.

**US Dollar stage some recovery**

Over the past month, FX markets have seen a broad-based reversal. The downward trend in the USD has stalled, supported by a shift in risk sentiment following tariff easing with EUR/USD trading lower around the 1.12 level. The risk-on environment has been unfavourable for risk-off currencies like the JPY and CHF, with USD/JPY back to pre- 'Liberation Day' levels.

**Yields across the curve remains high**

The Treasury Secretary Scott Bessent has stated that he is focused squarely on getting the 10-year yield down but despite this the yields on US10Y continues to move higher even after the recent success in trade deals, the last time the yields were this high, when Trump paused tariffs for 90days. The yield on US2Y also continue to move higher as the rate cuts continue to paired back.

**Global Fund Flows: Shift Toward Caution After 2024 Surge**

If US interest rates stay higher for longer, equity flows may still come into the US but in a selective manner. Investors may favour quality, large-cap, and dividend-paying stocks especially if the US economy remains resilient and other central banks begin cutting rates. However, if recession risks rise or earnings weaken, flows may shift toward bonds or safer assets like Treasuries instead. Overall, **equity inflows will depend on the balance between growth durability and monetary policy divergence.** As per JPMorgan's Flows & Liquidity report the changes in global fund flows are as below:

**1. Retail Fatigue Emerges**

- Retail investors were strong buyers of equities through **March and April**, largely via **leveraged equity ETFs**, driven by a "buy-the-dip" mentality.
- However, **May shows signs of fatigue**, with net equity purchases slowing—suggesting limited retail appetite going forward.

**2. Hedge Fund Positioning Turns Bullish Again**

- After de-risking in early 2025, **equity-focused hedge funds** increased exposure in April, reverting to **bullish stances**. Macro hedge funds **largely completed short-covering**, removing a downside buffer.

**3. Foreign Investors Pull Back**

- **Non-US domiciled investors have:**
  - o Stopped buying **US equity funds** since February.
  - o Turned modest **net sellers of US bond funds** in March and April.

**4. Bond vs. Equity Dynamics**

- **Bond ETF flows continue to rise globally**, especially in **high-grade and EM debt**, while equity ETF flows show divergence by region (stronger in US and Japan, weaker in Europe and EM ex-China).

Category	Details	Key Numbers	Outlook
Retail Investor Behaviour	Strong buying in March-April, but momentum faded in May	\$630B YTD inflow from retail; May slowdown after consistent buying since mid-2023	🟡 Waning retail momentum
Hedge Fund Positioning	Macro hedge funds have covered shorts; equity-focused funds are fully re-risked	\$640B net outflow from equity Long/Short funds YTD	🔴 Elevated exposure, limited upside
Foreign Investor Flows	No net buying of US equities/bonds by non-US investors since Feb, modest selling in Mar-Apr	Foreign holdings: \$16T equities, \$14T bonds	🟡 Lack of inflows may dampen USD recovery
ETF Flows	Modest equity ETF inflows in US; stronger flows into crypto, outflows from gold	+18% AUM in crypto ETFs vs. gold ETF declines past 3 weeks	🟢 Crypto gaining favour over gold

## JPY faces pressure as outbound flows surge

The International Transactions in Securities (Weekly) released by Japan's Ministry of Finance on May 15, 2025. This report presents weekly data on Japan's portfolio investment transactions both outward (by residents) and inward (by non-residents) with a breakdown by security type.

Week	Outward Investment (JPY Bn)	Inward Investment (JPY Bn)	Net Flow (JPY Bn)
Apr 6 – Apr 12, 2025	2.36	10.45	8.09
Apr 13 – Apr 19, 2025	6.1	7.06	0.96
Apr 20 – Apr 26, 2025	1.34	2.81	1.47
Apr 27 – May 3, 2025	25.45	9.68	-15.77
May 4 – May 10, 2025	2.51	4.39	1.88

### Key Weekly Insights

#### Outward Investments (Residents investing abroad)

Week	Outward Investment (JPY Bn)	Trend
Apr 6 – Apr 12, 2025	2.36	Moderate buying, mostly long-term debt
Apr 13 – Apr 19, 2025	6.1	Sharp rise in equities and long-term debt
Apr 20 – Apr 26, 2025	1.34	Modest buying, long-term debt focus
Apr 27 – May 3, 2025	25.45	<b>Significant spike</b> , large equity inflows
May 4 – May 10, 2025	2.51	Return to moderate acquisition levels

The week of April 27 - May 3 saw a dramatic increase in outward investment, particularly in equity, suggesting a possible global risk on sentiment or capital reallocation.

#### Inward Investments (Foreigners investing in Japan)

Week	Inward Investment (JPY Bn)	Trend
Apr 6 – Apr 12, 2025	10.45	Inflows, mostly into long-term debt
Apr 13 – Apr 19, 2025	7.06	Slight dip from prior week
Apr 20 – Apr 26, 2025	2.81	Lower inflow, stable equity positions
Apr 27 – May 3, 2025	9.68	Jump driven by long-term debt
May 4 – May 10, 2025	4.39	Decrease, but still positive flow

Despite fluctuations, there is consistent foreign interest in Japanese long-term debt. However, short-term activity remains volatile.

#### Implications for JPY (Japanese Yen) Movement

##### 1. JPY Strength in Late April:

The large-scale net outward investment of ¥25.45 bn during Apr 27 - May 3, especially into long-term foreign debt, likely exerted downward pressure on the yen, as domestic investors sold JPY to buy foreign assets.

##### 2. JPY Stabilization in May:

Flows normalized in the first week of May with a net inflow of ¥1.88 bn. This coincided with a stabilization or mild recovery in the yen, supported by foreign interest in Japanese securities, especially short-term debt.

##### 3. Capital Flow Sensitivity:

The yen remains sensitive to weekly shifts in portfolio rebalancing, especially large bond purchases abroad. Persistent capital outflows typically weaken the JPY unless offset by strong inward equity or bond interest.

**Conclusion:** While Japan has seen steady inflows in early April, the sharp rise in outbound investments in late April created temporary depreciation pressure on the JPY. However, this effect appears to be reversing in May with more balanced flows. If current trends continue, the yen may find support from improving foreign demand for Japanese assets, particularly if risk sentiment globally favours Japanese bonds and equities.

*Rupee consolidation continues amid easing cross-border strains and a soft Dollar tone.*

*FPI flows into the equity markets have continued to be positive in May'25, nevertheless FAR related flows continue to be negative.*

	Equity	Debt
Jan'24	-3096	2305
Feb'24	186	3648
Mar-24	4240	2036
Apr'24	-1036	-908
May'24	-3063	1522
Jun'24	3186	1821
Jul'24	3874	1965
Aug'24	873	2167
Sep'24	6890	4212
Oct'24	-11195	-282
Nov24	-2563	-5
Dec'24	1828	1314
Jan'25	-9043	38
Feb'25	-3977	1171
Mar'25	-401	4246
April'25	510	-2841
May'25	2199	-897

*FX Reserves Climb to 31-Week High*

*Low Brent crude prices continue to buoy Rupee sentiment.*

*Robust ECB filings indicate likely support for the Rupee in the near term*

*Rupee volatility is expected to settle for now, supported by easing global uncertainties and reduced border tensions.*

## Rupee in a boxed-in pattern amid a ceasefire in border disputes & an easing dollar

The rupee is in a consolidating pattern; broadly trading in a range of 1 rupee [O: ₹84.6350, H: ₹85.7400, L: ₹84.6350 & C: ₹85.5150], depreciating by a mere 0.16% this week. On 10<sup>th</sup> May'25, India and Pakistan announced a full and immediate ceasefire with US President Donald Trump playing a pivotal role. The ceasefire marked a significant de-escalation in the Rupee sentiment and opened gap up by 74 paisa this week (Last Friday's close: ₹85.3750/\$), however OMCs & other importers rushed in to buy dollar at lower levels. Thereafter, the local currency took support and traded above ₹85/\$ for the full week. (Refer our report: [FX Weekly: Fed holds steady, Trade talks progressing +ve while war in Asia on close watch](#))

FPIs flows in the equity segment, continue to be negative this year to the tune of \$11.52bln; however, the positive momentum continues in May'25 after a positive Apr'25(-\$9.04bln in Jan'25, -\$3.98bln in Feb'25, -\$0.41bln in Mar'25, \$0.51bln in Apr'25 and \$1.39bln in May'25). The return of flows in the equities turned positive in the 2nd half to \$4.46bln vis-à-vis outflows of \$2.42bln in the 1st half, which mainly boosted the Rupee sentiment. While, the FAR related flows are strong this year to the tune of \$5.42bln; yet continue to remain negative in May'25 to \$0.09bln vis-à-vis outflow of \$0.63bln in Mar'25.

India's foreign exchange reserves continued to rise, climbing by \$4.55bln to reach a 31-week high of \$690.62bln for the week ended 9 May'25 – likely driven by revaluation gains. Despite the uptick, reserves remain \$14.24bln below the all-time high of \$704.86bln. Notably, a \$1.39bln increase was attributed to valuation adjustments. This suggests the central bank has maintained its efforts to curb forex market volatility. Our analysis indicates that FYTD26 Balance of Payments (BoP) dynamics remain positive, with a surplus of approximately \$9.06bln. Historically, there has been a strong correlation between FX reserves—adjusted for valuation effects—and the BoP position.

Global Brent crude oil prices have experienced a modest uptick this week, despite facing downward pressures from increased global supply and geopolitical uncertainties. This slight increase was broadly driven by easing trade tensions between the U.S. and China, following a 90-day pause in their tariff conflict, OPEC+ production hike, Potential Iranian Nuclear Deal and US Crude Inventory Increase. In contrast, these lower oil prices continue to support positive sentiment toward the Rupee (touched highs of \$66.81/bbl on 13<sup>th</sup> May'25; current levels: \$64.33/bbl).

The RBI's latest summary of Outward Foreign Direct Investment (OFDI) reveals that Indian entities committed \$6.81bln in Apr'25 vis-à-vis \$5.90bln, registering a 90% YoY rise and a 15.3% increase over Mar'25. Additionally, Indian companies, including NBFCs, filed proposals with the RBI in Mar'25 to raise \$11.04bln through External Commercial Borrowings (ECBs), the highest monthly filing in the past 72 months. Of this, \$8.34bln was through the automatic route and \$2.69bln via the approval route. The total ECB filing for FY25 was \$60.66bln, a significant increase from \$48.60bln in FY24 and \$25.27bln in FY23.

Given the current global scenario, volatility is expected to temporarily subside as major uncertainties appear to have settled, at least for now. Consequently, we expect the Rupee to consolidate around the current levels. That said, major importers and oil companies continue to accumulate dollars at lower levels, providing underlying demand in the USD/INR pair. Technically, the USD/INR pair has respected our previously identified levels. We now anticipate a sideways movement in the Rupee, with support seen around ₹84.80/\$, a decisive break below this level could open the door to ₹84.45/\$. On the upside, resistance is expected near ₹85.90/\$, and a breach of that could push the pair towards ₹86.80/\$. Looking ahead, we are closely monitoring two key risks: A potential overshoot in the US Dollar Index (DXY) beyond current technical levels & any fresh escalation in cross-border tensions, which could weigh negatively on Rupee sentiment.

Central bank Policy Rates				Fig 1.
	Current	End of 2024	YTD Change 2025 in BPS	
<b>Advanced Economies</b>				
Australia	3.85%	4.35%	-0.5	
Canada	2.75%	3.25%	-0.5	
Euro-zone	2.40%	3.15%	-0.75	
Japan	0.50%	0.25%	0.25	
New Zealand	3.50%	4.25%	-0.75	
United Kingdom	4.25%	4.75%	-0.5	
US	4.50%	4.50%	0	
<b>Developing Economies</b>				
Brazil	14.75%	12.25%	125	
China (1Y LPR)	3.10%	3.10%	0	
India	6.00%	6.50%	-0.5	
Indonesia	5.75%	6.00%	-0.25	
Philippines	5.50%	5.75%	-0.25	
South Korea	2.75%	3.00%	-0.25	
Taiwan	2.00%	2.00%	0	

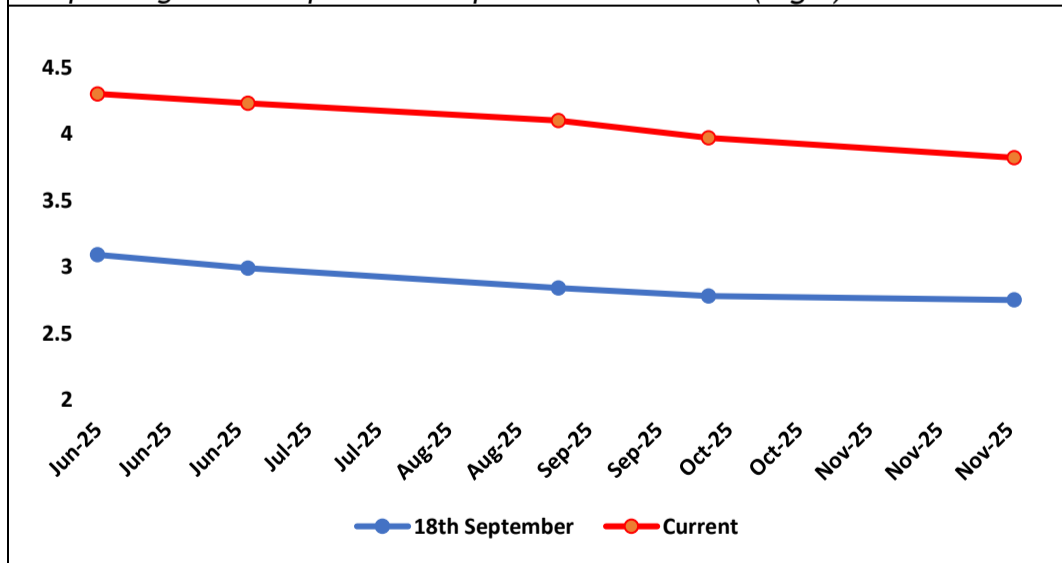
Market Performance

(Fig 2)

FX Performance					Government Bond				Commodity Price Performance			
FX Pair	3M % Change	6M % Change	MTD % Change	YTD % Change		1M Change BPS	3M Change BPS	YTD Change		MTD % Change	3M % Change	YTD % Change
EURUSD	6.87	5.32	-1.45	7.8	10Y US Treasury	15	0.4	-9	WTI Crude	-3	-11	-13
GBPUSD	5.24	4.7	-0.41	6.08	10Y JP JGB	17	10	36	Gold	-4	8	21
AUDUSD	3.19	-0.19	-0.89	5.15	10Y DE Bund	11	15	22	Silver	-0.35	-0.69	11
NZDUSD	3.19	-0.19	-0.89	5.15	10Y UK	8	14	8	Copper	-2.14	-4	14
USDJPY	-4.23	-5.84	1.78	-7.15								
USDCHF	-7.23	-5.13	1.43	-7.66								
USDCAD	-1.63	-0.35	1.21	-2.89								
USDCNY	-0.96	-0.38	-0.85	-1.24								
USDINR	-1.59	1.29	1.09	-0.07								

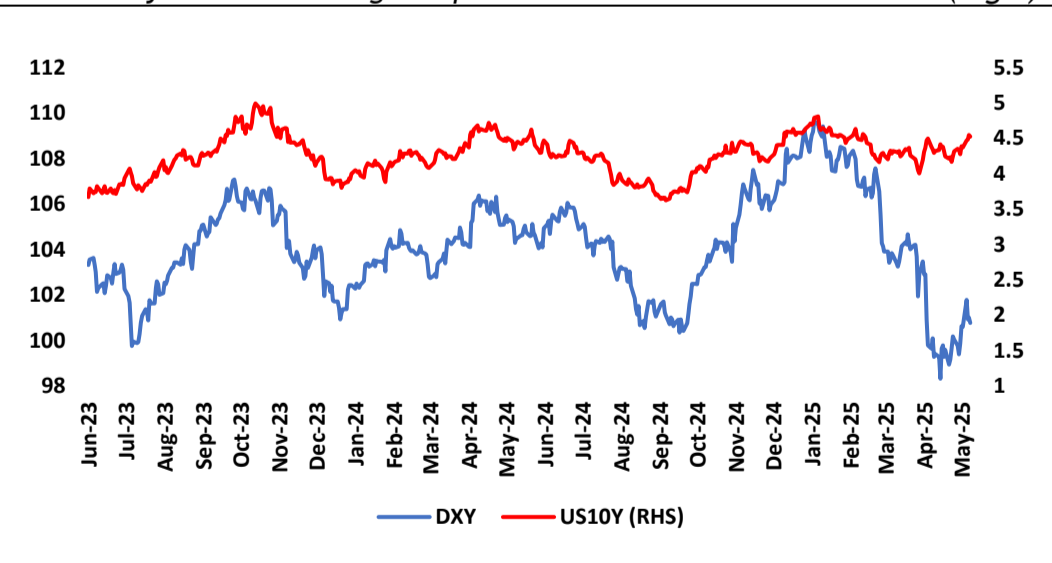
Source: Bloomberg, Reuters, UBI research

The market continue to pare back its rate cut expectations to a total of 50bps as against 100bps on 18<sup>th</sup> Sep'24 Jumbo rate cut (Fig 3)

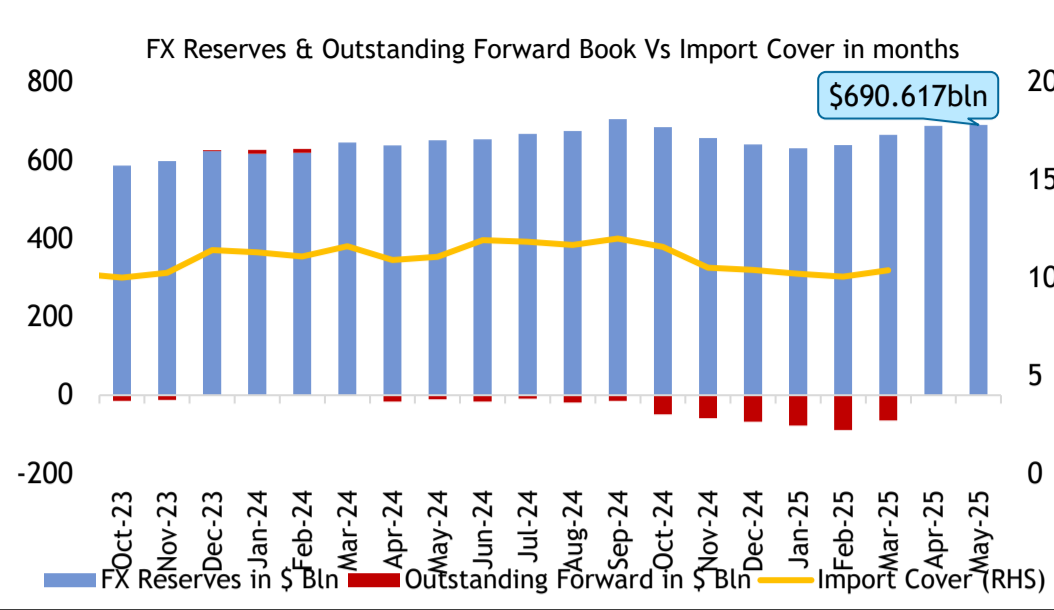


Source: Bloomberg, Reuters, UBI research

US dollar recovering and trading comfortable above the crucial 100 level while the yields are still high despite +ve news on trade deal (Fig 4)

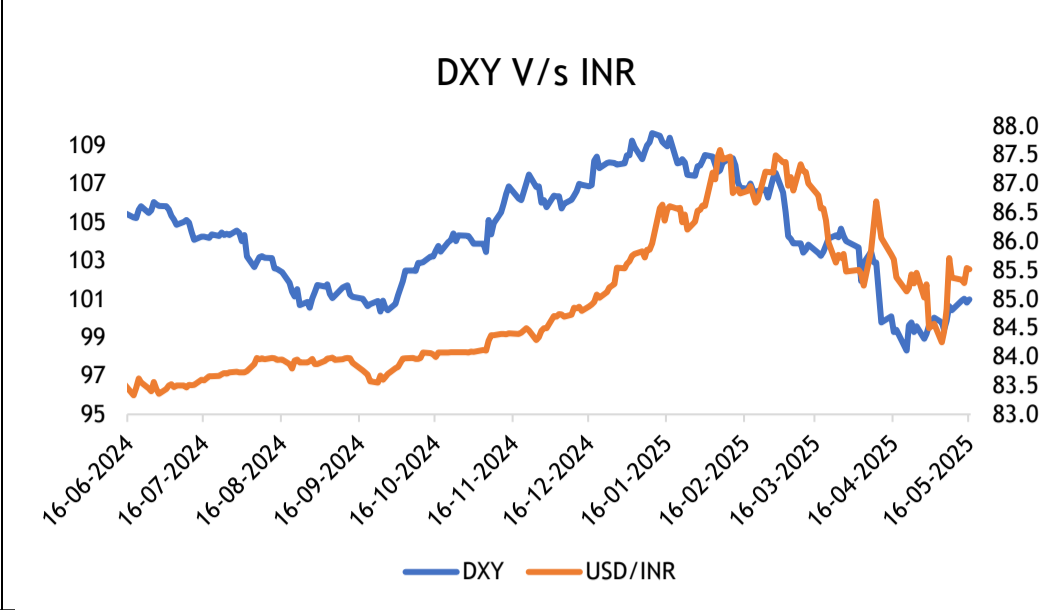


FX reserves at 7-month high for 8 consecutive weeks (Fig 5)

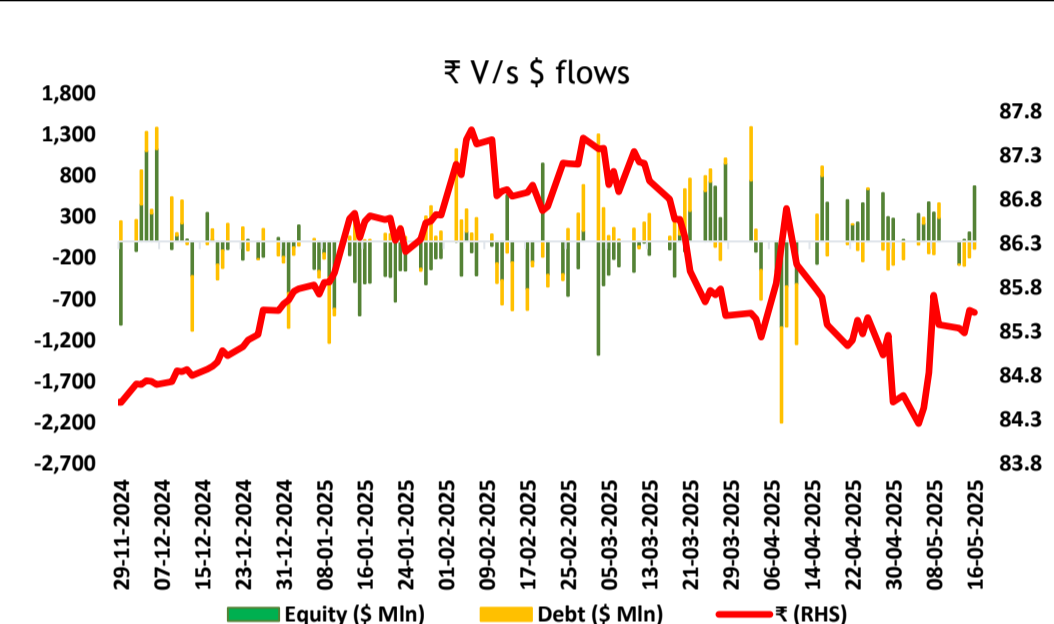


Source: Bloomberg, Reuters, UBI Research

INR broadly in sync with DXY (Fig 6)

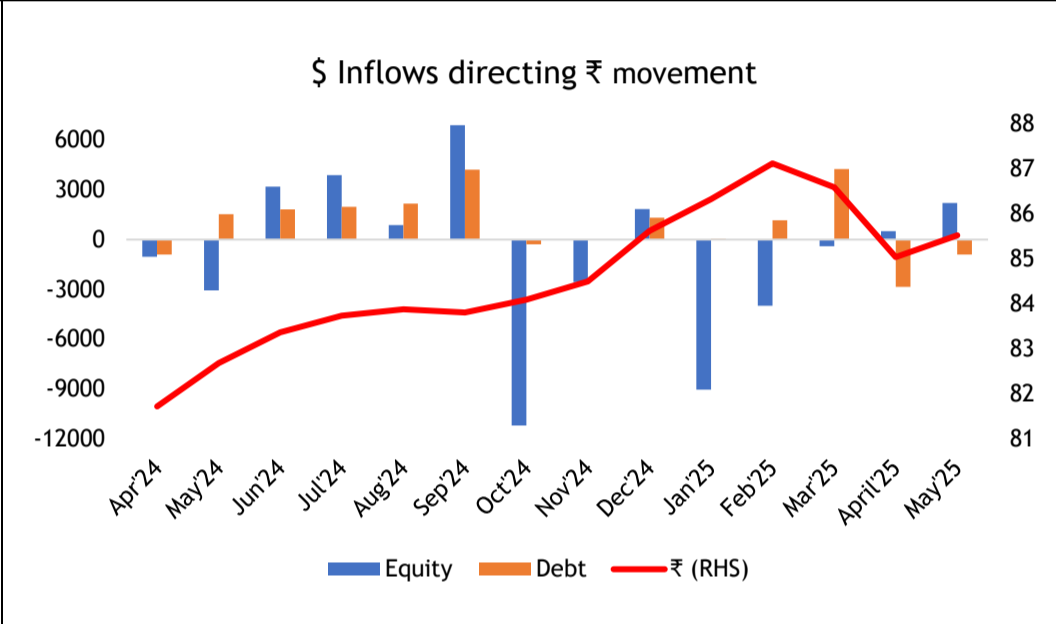


Rupee consolidation continues in Weekly trend (Fig 7)

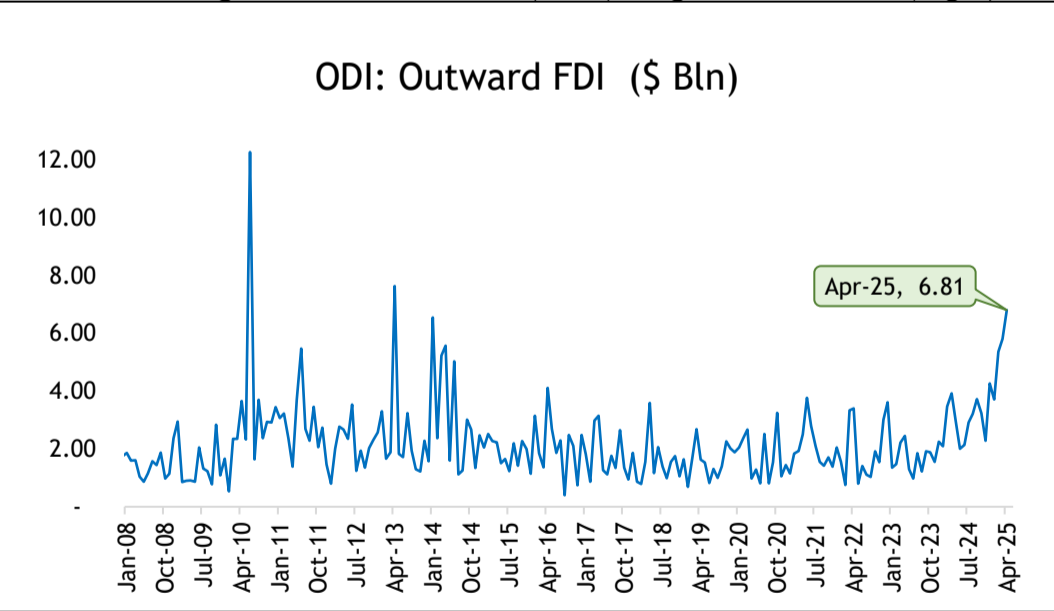


Source: Bloomberg, Reuters, UBI Research

FPI flows on a monthly basis (Fig 8)

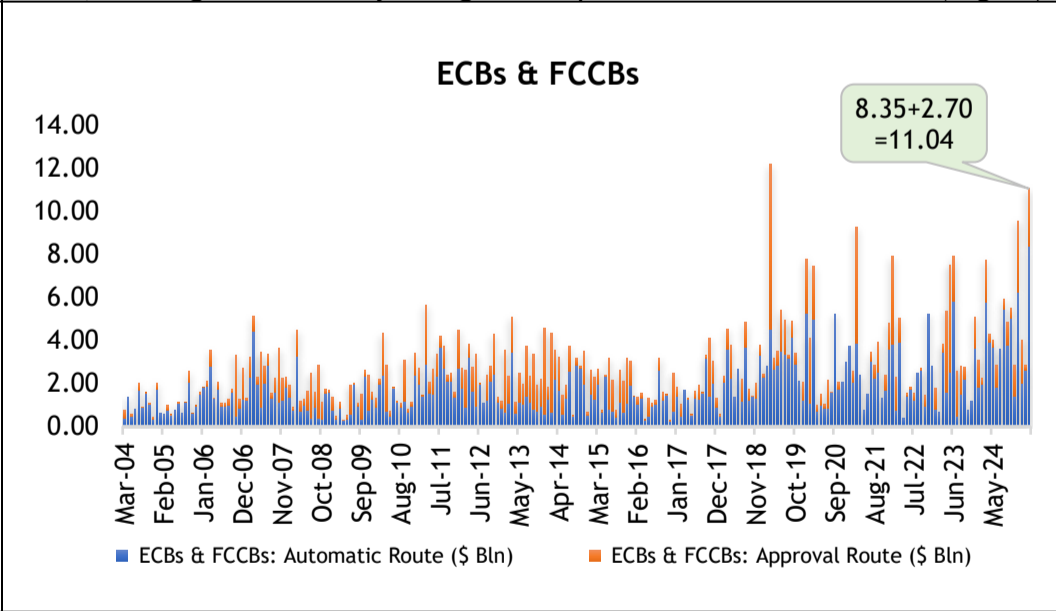


Outward Foreign Direct Investment (OFDI) surges 15.3% MoM (Fig 9)



Source: RBI, CEIC & UBI Research

ECBs, the highest monthly filing in the past 72 months (Fig 10)



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