

By:

Kanika Pasricha  
[kanika.pasricha@unionbankofindia.bank](mailto:kanika.pasricha@unionbankofindia.bank)

Akash Deb  
[akash510@unionbankofindia.bank](mailto:akash510@unionbankofindia.bank)

Shreyas Bidarkar  
[shreyas.bidarkar@unionbankofindia.bank](mailto:shreyas.bidarkar@unionbankofindia.bank)

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

*The US GDP was skewed to the downside although not pointing to a severe slowdown.*

*There are still no sign of US and China initiating trade talks as both sides are waiting for the other to take the first step.*

The highlight of this week was the data from US which was a mixed bag as GDP data showed contraction while inflation softened and labor market data showed no decisive signs of deterioration which was a surprise despite current uncertainty. The fed fund futures were volatile as there were more than four rates cut priced in earlier this week but are down to three after the US labour data. In FX space the DXY gained some ground and closed just above the crucial 100 mark while the yield on US2Y rose by 11bps after the expectation of rate cut was pared back. But Trump again called for the Fed to lower rates, while Scott Bessent stated that the yield on US2Y is lower than the Fed funds rate which makes a case for rate cut.

On trade tariff front after a pause for 90 days on reciprocal tariff as things stand, the US maintains a staggering 145% levy on Chinese imports, while China continues to impose tariffs of 125% on most US goods, effectively declaring a trade embargo between the two sides. Some positive news was reported this week from WSJ which stated that the Beijing weighs fentanyl offer to US to start trade talk. Also, the White House issued an update to the administration's 25% tariff policy on foreign-made auto imports, stating that the previously-announced 25% auto tariff would not stack on top of other existing tariffs. This provided hope on trade which along with positive labor market data from US induced a risk on sentiment this week.

The central banks around the world continued with their cautious rate cut(s) while several central banks are scheduled to announce their monetary policy next week. Key to global markets will be the FOMC, but also on tap are the Bank of England, Norges Bank, the Riksbank, and central banks in Chile, Brazil and Malaysia. The BoE is widely expected to cut Bank Rate by 25bps on Thursday 8<sup>th</sup> May'25. While this week, the Bank of Japan (BoJ) held its policy rate at 0.50% as uncertainty around trade policy appears to be a key factor that kept BoJ policymakers on the side-lines this month.

Although the data from US remain strong currently the challenges lies ahead. Fed governor J Powell will be in the spotlight the coming week on 7<sup>th</sup> May'25 FOMC meet, while traders are waiting on the US to make deals with trading partners for signs that the tariffs won't be as bad as feared.

**Key Themes:**

- ♣ Markets pared back rate cut expectations after the US labour market data
- ♣ Rupee rallied on profound unpredictability amid unwinding of long dollar positions

**Markets pared back rate cut expectations after the US labour market data**

**Mixed data from US shows labour market remains strong**

There was plenty of employment data to digest this week, as it was a mixed bag, GDP data showed contraction while inflation softened and labor market data showed no decisive signs of deterioration. April saw 177K new jobs above the 140K forecast though there were revisions cut 58K from prior months, while the unemployment rate held at 4.2%. Initial jobless claims rose to 241K, the second-highest in six months, but still relatively low.

Employment growth continues, albeit at a slower pace in three of the past four months. As the first-quarter GDP estimate showed a 0.3% annualized contraction, while domestic demand remained strong. The consumer confidence declined in April, mainly due to growing concerns about future job and income prospects. While manufacturing jobs dipped slightly, consistent with ongoing contraction in the ISM Manufacturing Index.

The inflation in the US, as measured by the change in the Personal Consumption Expenditures (PCE) Price Index was soft, as it edged lower to 2.3% on a yearly basis in March from 2.5% in February. This reading came in above the market expectation of 2.2%. The core PCE Price Index, rose 2.6% in the same period, down from the 3% increase reported in February and in line with market estimates.

After a sharp sell-off the USD stabilized this week

### The US dollar and yield gained after the labour market data

The US Treasury yields rose to a one-week high on 2<sup>nd</sup> April after data showed that employers added more jobs than market had expected in April, pushing bets on the next Fed rate cut back one meeting to July. Traders are now pricing in a 34% probability of a June cut, down from around 58% from before the jobs report, according to the CME Group's FedWatch Tool. A rate cut at the Fed's May 6-7 meeting has only 2% odds, with July now seen as the most likely month for the next rate reduction with a 79% probability.

The US dollar fell sharply again in April, as the dollar (DXY basis) is down by -7.5% but has gained c.0.45% this week and closed above the crucial 100 mark, the benchmark US10Y closed at 4.30% levels up 6bps this week. While the shorter end of curve US2Y which track the Fed fund rate is also up 6bps this week and was up 11bps on 2<sup>nd</sup> May'25 as the rate cut were pared back.

As stated in our [April Uni-FX](#) where global flows in early 2025 show a divergence between institutional and retail behaviour. While the latest report from JP Morgan showed flows suggest a high level of resilience, despite depressed sentiment and policy risk. US investors remain underweight equities, retail flows dominate ETF momentum, especially in US stocks and gold.

Category	Flow / Position Trend	Summary Insight
US Equity ETFs (Global)	\$387bn YTD inflow pace (close to 2024 record)	Strong despite high uncertainty; driven mainly by US retail "buy-the-dip" behavior.
Non-US Investors (US Equities)	Flow stopped since Feb 2025	Retail shift toward currency-hedged ETFs seen; likely not institutional hedging.
European Equities ETFs	~\$47bn inflows YTD vs. \$9bn full-year in 2024	Big acceleration in flows vs. prior year.
Asia Equity ETFs	~\$47bn YTD, slower pace vs. \$170bn in 2024	Momentum slowing slightly.
Speculative Positioning	Hedge funds short USD and US equities	Key driver of recent USD weakness.

### Outlook:

Asset / Policy	Outlook	Detailed Risk
US Dollar	Near-term rebound & may strengthen in later part of the year	Uncertainty from US policy and tariffs caused recent selloff; tactical not structural; safe-haven status may return.
EUR/USD	Gradual decline	Eurozone faces weak growth and limited ECB stimulus space; fiscal response insufficient to offset tariff impact.
USD/JPY	Stronger near-term, then softens in 2026	BoJ expected to hike once, but weak wages, yen strength, and tariff risks limit further tightening.
GBP/USD	Mild depreciation	UK's tariff exposure, growth sluggishness, and BoE caution create downside risk.
USD/INR	Consolidate	Stable INR and low oil prices give RBI room to ease; risks from rising U.S. yields and potential oil shocks remain. Trade tariff deal +ve for rupee.
U.S. Treasuries	Volatile, gradually stabilizing	Loss of risk-free status post-Liberation day has hurt demand; Fed easing should support Treasuries, but volatility may persist.
Brent Crude	Range bound to lower	Lower global growth, especially from China, weighs on demand; geopolitics could cause supply disruption.

*Rupee rallied on Dollar weakness, FPIs return to Equities, possibility to strike trade deal with US and unwinding of long dollar positions*

*FPI flows into the equity markets have turned positive while FAR related flows are negative*

*REER overvaluation below 5 yr. avg. for consecutive 2 months in a row*

*FX reserves at 7-month high; rising for 8th consecutive week*

*Fall in Brent crude oil prices continue to support Rupee sentiment*

*RBI Aggregate short positions reduced and long positions nullified*

## **Rupee rally on profound unpredictability amid unwinding of long dollar positions**

The rupee strengthened past 84/\$ handle (83.7575/\$ on 02<sup>nd</sup> May'25) levels last seen in Sep'24; broadly on account of the Dollar weakness, return of FPI flows in the equity segment and possibility the 1<sup>st</sup> country of striking a trade deal with US. However, the rally was supported on huge unwinding of long dollar positions in anticipation of worst tariff tantrum. Almost all bulls ran to liquidate their position as stop-losses triggered at 84.90 levels. (Refer our report: [Uni-FX: "Liberation Day" Dampens Global Growth Outlook as Investors Shift from US Assets](#))

FPIs flows in the equity segment, turned negative this year to the tune of \$12.89bln but have changed course and turned positive in the month of Apr'25 & May'25 (-\$9.04bln in Jan'25, -\$3.98bln in Feb'25, -\$0.41bln in Mar'25, \$0.51bln in Apr'25 and \$0.02bln May'25). The 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 \$5.33bln; however, turned negative in Apr'25 to -\$0.63bln vis-à-vis inflow of \$3.34bln in Mar'25.

The rupee's Real Effective Exchange Rate (REER) against a basket of 40 currencies, in terms of trade-based weights, fell to 101.49 in Mar'25 vis-à-vis 102.51 in Feb'25, its lowest level since May'23 due to appreciation of the INR in nominal effective terms and narrowing of India's inflation differential with its major trading partners. Since, the currency has appreciated by 2.59% MoM already, we observed that it has been consecutive 2 months that overvaluation has contracted below the 5-yr. avg. of 103.93 levels and the local currency is expected to consolidate at the current levels.

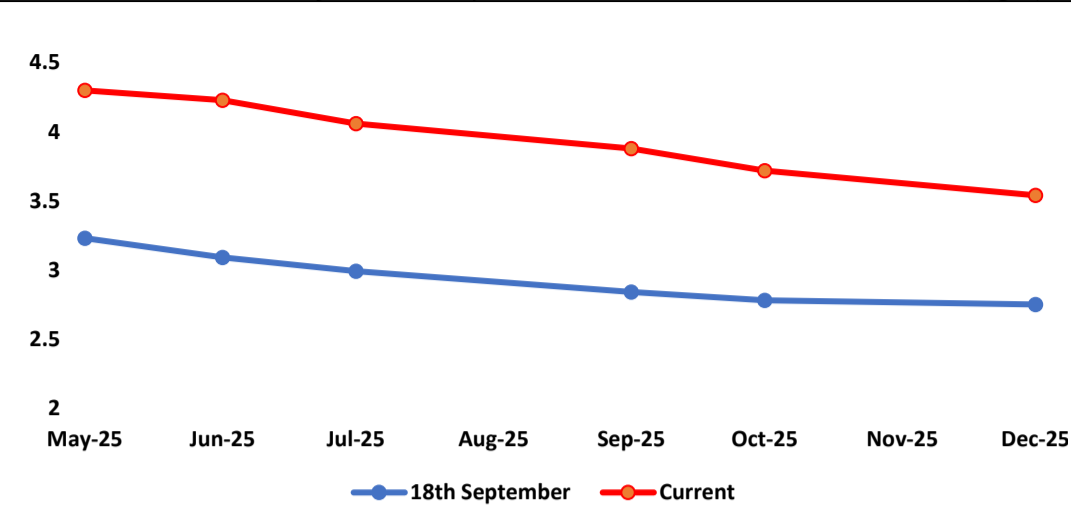
India's foreign exchange reserves rose for the 8th consecutive week to reach a 7-month high by \$198mln to \$688.13bln for the week ended 25<sup>th</sup> Apr'25, likely owing to revaluation gains, though it is still down by \$16.73bln from all-time highs of \$704.86 (\$1.99bln rise was adjusted after valuation effects). This shows central bank has persisted with its efforts to curb FX volatility.

Another key factor that gave a psychological boost to Rupee move was the fall in global Brent crude oil prices (touched a high of \$75.47/bbl. on 02<sup>nd</sup> Apr'25 to lows of \$58.40/bbl. on 09<sup>th</sup> Apr'25; current levels: \$61.29/bbl.) as global worries from the US-China trade war have been pressuring demand. Meanwhile, the latest US NFP data print rose by 177k in Apr'25, up & over the market estimates of 133k but lower than the revised 185k in Mar'25 also dented oil sentiment. A weaker-than-expected report could heighten recession fears, potentially boosting gold prices as investors seek safety. For oil, weak employment data means lower demand prospects.

The latest RBI Bulletin shows that the RBI Aggregate short positions in forwards and futures have been reduced by \$24.51bln to \$64.25bln as on Mar'25 vis-à-vis \$88.75bln in Feb'25. Also, the long positions have been nullified in Mar'25 down from \$10.06bln in Feb'25. However, it clearly reflects that the derivatives (forward, futures, or options contracts) having a residual maturity greater than one year, have also increased from \$10.06bln in Feb'25 to \$20.10bln in Mar'25, which mainly consists of the \$20bln Swap window. (Refer RBI bulletin: [Reporting Form for Presenting Data in the Template on International Reserves/Foreign Currency Liquidity](#))

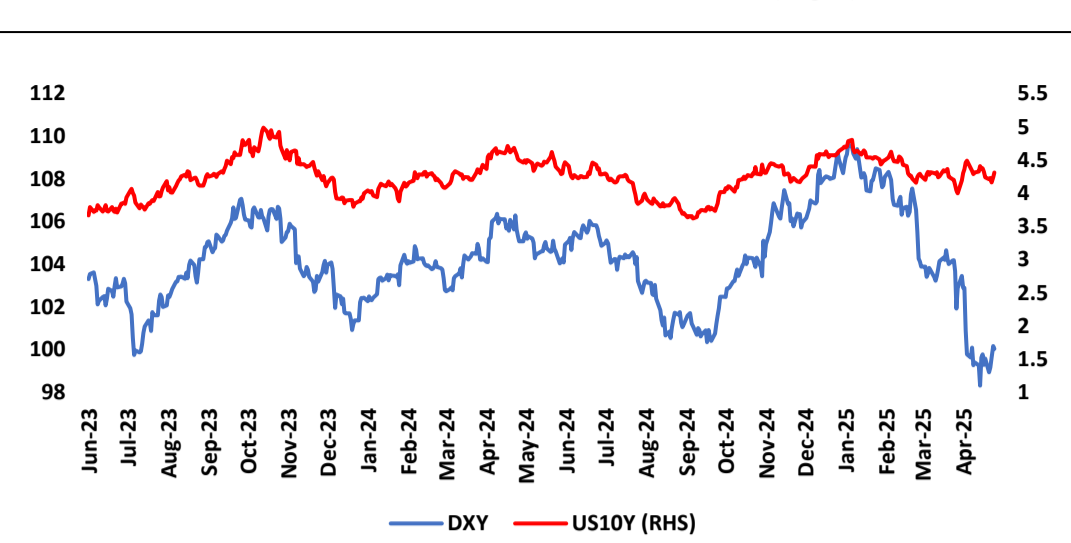
Based on the current global scenario, volatility to reign on uncertainties and we expect cooling down of DXY to consolidate at current levels. The Dollar Rupee pair has respected our previous technical levels and took support at 84.45 on 30<sup>th</sup> Apr'25 and next day it broke the support and went past 84/\$ handle to touch 83.7575 as major stop losses were triggered. However, major importers & oil companies rushed in to buy dollars at lower levels and eventually the USD/INR pair closed at 84.5725 the next day. Looking at the technical levels, we feel INR consolidation at current levels taking support of 84.40, a break of which will open doors to 83.85 levels and will find resistance around 84.90, breach of which will test 85.60 levels. However, going forward, we closely watch for a scenario of possible overshoot in DXY, probably a breach of current technical level and any news related to the probable escalation in the border will hurt Rupee sentiment. Though we still claim buy on dips for USDINR but we believe that the sentiment for INR has turned more favourable in recent weeks. (Refer our monthly report: [Uni-FX: "Liberation Day" Dampens Global Growth Outlook as Investors Shift from US Assets](#)).

After the April labor market data market has pared back rate cut expectation to three rate cuts this year versus four cuts (Fig 1)

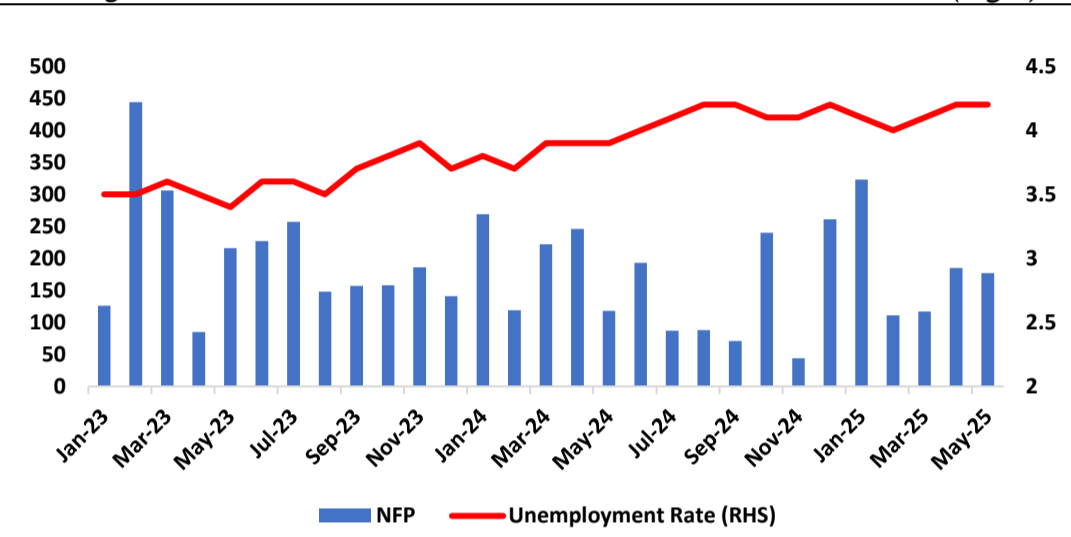


Source: Bloomberg, Reuters, UBI Research

DXY and yield moved higher after the labor market data (Fig 2)

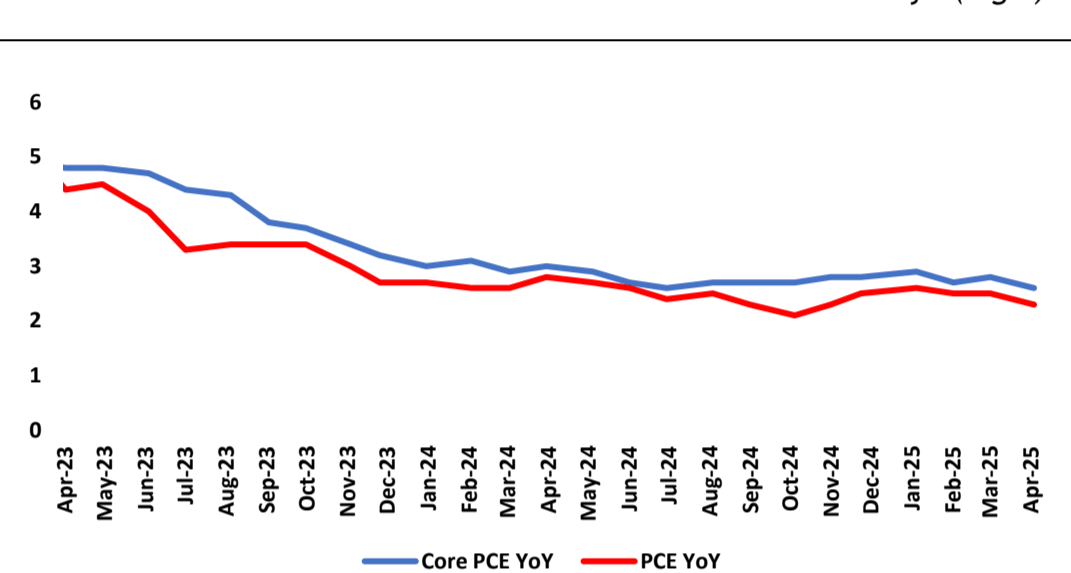


April NFP data was a huge surprise although unemployment rate remained unchanged (Fig 3)

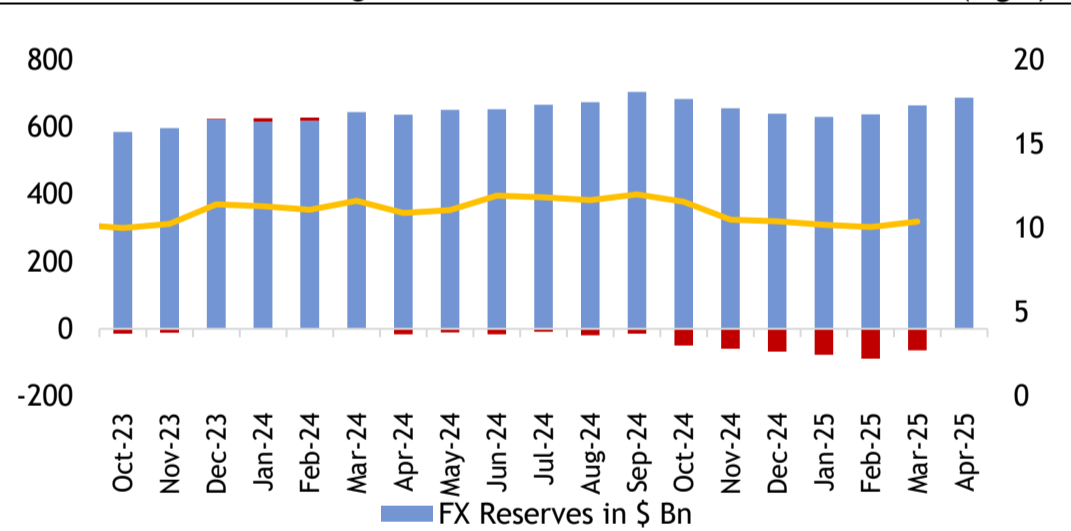


Source: Bloomberg, Reuters, UBI Research

The PCE inflation data was on softer side for the month of May (Fig 4)

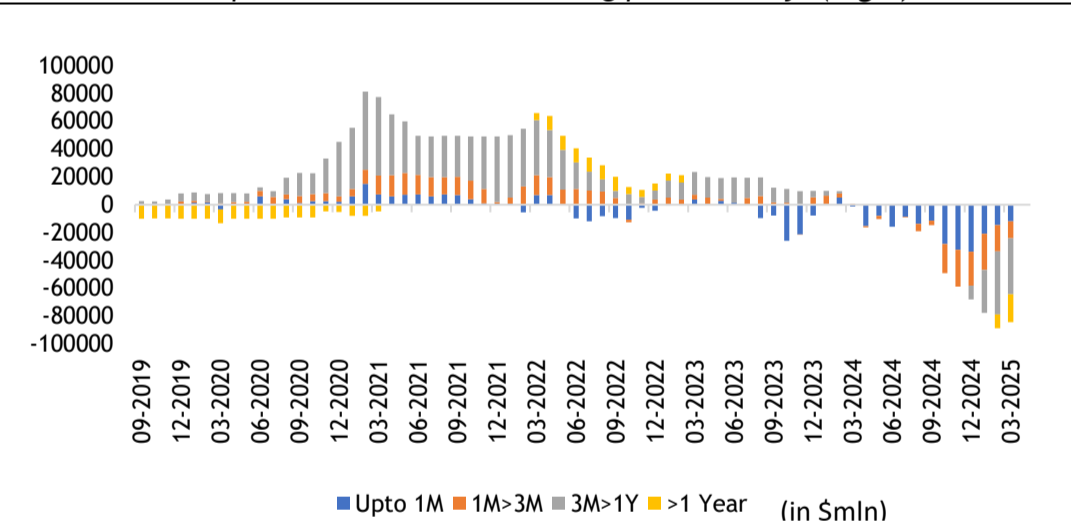


FX reserves at 7-month high (Fig 5)

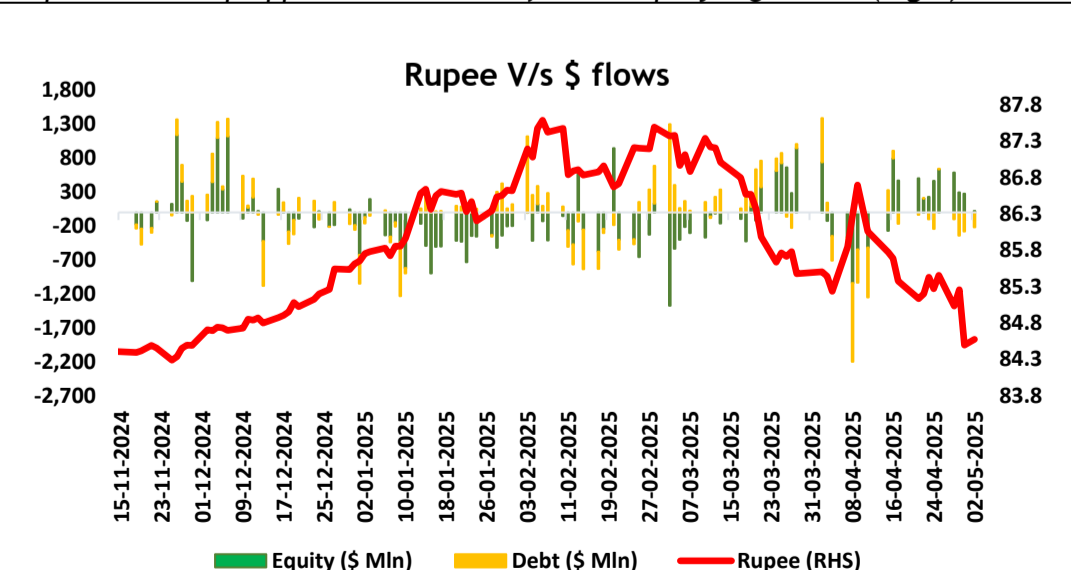


Source: Bloomberg, Reuters, UBI Research

Decreased short positions with increased long positions >1yr (Fig 6)

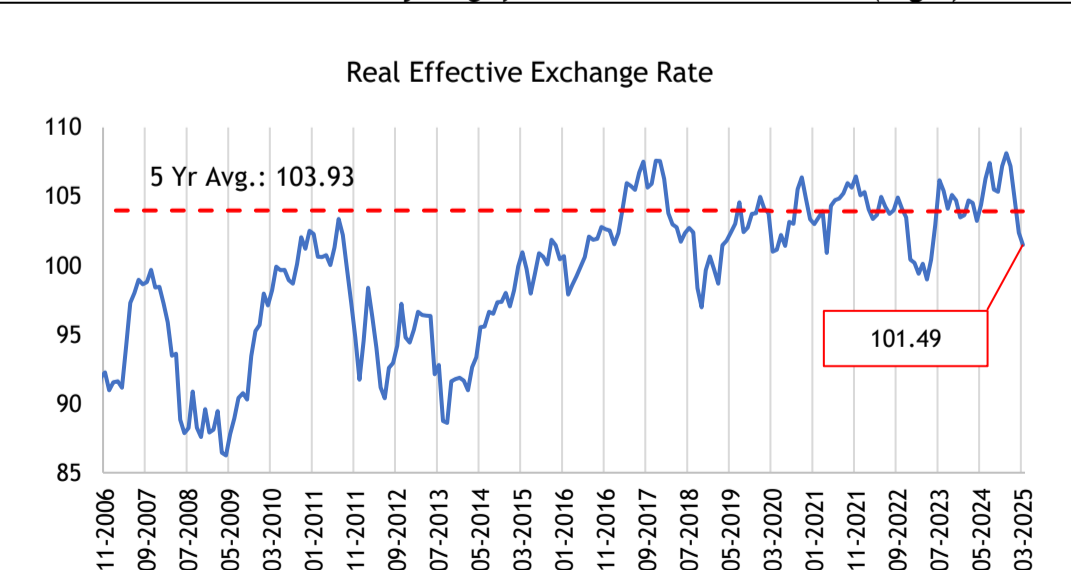


Rupee seen sharp appreciation on FPIs flow in equity segment (Fig 7)



Source: Bloomberg, Reuters, UBI Research

REER contracted below the 5 yr avg. for consecutive 2 months (Fig 8)



Banking & Economic Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank

**Disclaimer:**

*The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.*