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By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Akash Deb
akash510@unionbankofindia.bank

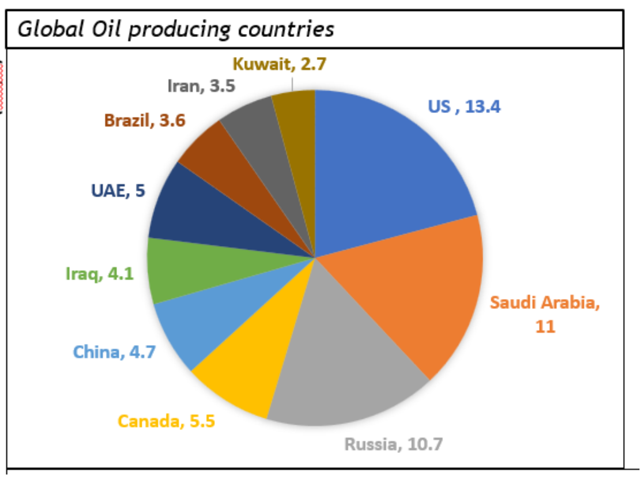
Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank

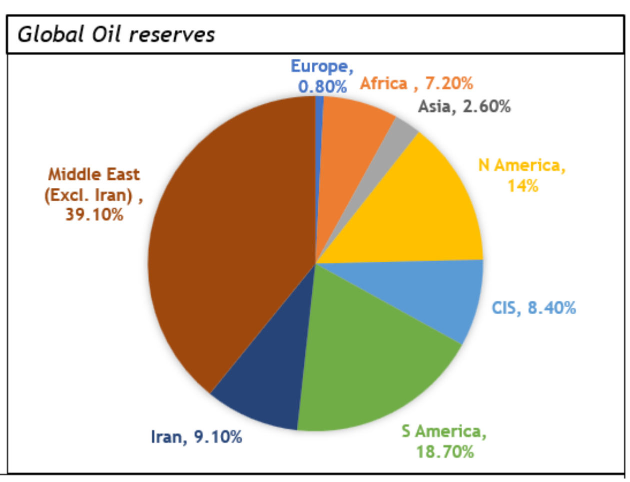
*The US struck Iran's three main nuclear sites over the weekend, intensifying the Israel-Iran conflict, while Tehran vowed to defend its sovereignty by all means. Market direction now depends on the scale of Iran's response and potential disruption to oil supply. Russia also claimed that some countries are ready to supply Iran with nuclear weapons thus escalating the war. Brent and WTI did hit their highest levels since Jan '25 before paring gains. Meanwhile, **market views the attack** as **short-lived escalation** rather than a prolonged conflict with addition reprieve from potential nuclear threat. The market now awaits Iran's action specifically related to Strait of Hormuz.*

While the Middle East holds over 40% of global oil reserves, and nearly 20 mbpd flow through the Strait of Hormuz (Refer: Beyond the Barrel: Global & Indian Macro at the Crossroads). A full-scale escalation could push oil prices to $120/bbl, shave up to 100 basis points off global growth, and drive inflation toward 5%.

***For India if oil prices persist at $75-$80/bbl. level, the macro impact may be capped and mostly absorbed by oil marketing companies**. While **rupee will be the direct channel of financial market impact, sensitivity to oil prices have reduced in recent years with cushion from spike in services export**, remittances from advanced economies and adequate FX reserves. While **direct impact via Iran is capped** as it's share in oil imports is down to negligible vs ~12.5% in FY17. Sensitivity analysis shows $10/bbl. rise in oil prices (vs $70/bbl. baseline) affects C/A deficit by $16-17bln(0.3-0.40% of GDP) while GDP & CPI are affected by (-)15bps, (+)30bps (assumes no change in excise duty). However, a sharp price spike may force the government and consumers to absorb some hit. With the focus on fiscal consolidation and frontloaded monetary easing, in case of an oil price spike, policy space appears to be capped. That said **RBI has various other policy tools in its kitty to address the macro shocks**.*

In FX the US dollar held a modest rebound through the week, supported by rising geopolitical tensions in the Middle East and the Federal Reserve's cautious stance on rate cuts. Despite this, G10 currency volatility remained subdued as traders avoided strong directional bets and were hesitant to build fresh USD short positions amid ongoing uncertainty. The Fed kept interest rates unchanged and flagged concerns over inflation risks from tariffs and supply-side shocks. While the dot plot still indicates 50 bps of rate cuts in 2025, Chair Powell stressed data-dependency, noting that higher oil prices and new trade tariffs could stall the disinflation trend. Going ahead developments around US trade tariffs and Middle east tensions are likely to keep markets volatile while as stated above Iran's response towards US and Israel attack remains on close watch.





FX reaction to US strikes on Iran: A cautious rebound

The FX market response to the US strikes on Iran has been modest so far, despite the dollar's oversold position the dollar move has been muted. This reflects a pattern as markets are quicker to punish than reward the dollar. A sustained dollar rebound may require prolonged elevated oil prices, which could weaken demand for oil-sensitive safe havens like the euro and yen, pushing investors back toward the dollar as a defensive play. So far, markets are pricing in limited escalation, with Brent briefly rising above $80/bbl. before retreating to just over $77. If the oil spike proves temporary, strategic USD shorts may regain favour, driven by US macro headwinds.

The key variable now is Iran's response. Any significant retaliation particularly involving disruption to the Strait of Hormuz could drive oil sharply higher and trigger a short-term reversal of dollar shorts before risk appetite and FX positioning normalize. While US Secretary of State Marco Rubio on Sunday called for China to prevent Iran from closing the Strait of Hormuz, one of the most important trade routes for crude oil in the world. China is Iran's most important oil customer and maintains friendly relations with the Iran.

FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	**Bearish (but strained).** Support: 98.00 / Resistance: 99.00–100.00	USD downside remains fragile. Oil-driven inflation may delay Fed cuts.
EUR/USD	**Support:** 1.1400–1.1450 / Resistance: 1.1625	Capped by oil surge; risks skewed to downside.
USD/JPY	**Volatile, neutral**	Higher UST yields offset safe-haven buying
USD/CNH	Price action suggests a **range-bound phase** between 7.1660 and 7.1890	Stabilizing despite geopolitical noise.

Cross Asset fund flow as of 11th June'25

Category	4 wk. avg. ($bn)	2024 avg. ($bn)
All Equities	−3.0	7.6
All Bonds	19.2	10.6
US Equities	−4.0	5.7
US Bonds	6	4.3
EM Equities	0.1	−0.2
EM Bonds	0.39	−0.37
Japan Equities	−2.7	0.2
China Equities	−0.41	−0.18
Europe Equities	0.4	−0.9
Europe Bonds	10.4	4.7

Source: JP Morgan

Investor sentiment has turned cautious as reflected by broad outflows from equities (-$3.0bn) and strong inflows into bonds ($19.2bn) as of 11th June 2025. US and Japan equities saw the largest withdrawals, while European bonds attracted the bulk of inflows, indicating a clear shift toward safer assets.

US yields whipsaw amid inflation concerns and geopolitical tensions

US Treasury yields exhibited notable volatility last week, reflecting the market's delicate balancing act between geopolitical anxieties, inflation expectations, and Fed policy outlook. At the start of the week, safe-haven buying briefly pushed yields lower amid fears of escalation in the Israel-Iran conflict. However, as oil prices surged and raised concerns about inflation persistence, yields quickly reversed course. The 10-year yield climbed from 4.399% on June 14 to 4.44% by midweek, while the 2-year hovered near 3.97% before briefly dipping and then retracing to around 3.94% by June 19.

The Fed's decision on June 18 to keep rates steady at 4.25–4.50%, alongside a revised economic outlook projecting slower growth and stickier inflation, added another layer of complexity. While policymakers still signalled two cuts by year-end, an increasing divide among FOMC members introduced uncertainty. Markets priced in a more cautious easing path, and risk aversion contributed to a flight-to-quality later in the week. By June 21, yields remained largely range-bound, with the 10-year around 4.39% and the 2-year at 3.91%, as investors awaited further clarity on both geopolitical escalations.

Tariff remained side-lined of back of Middle east tension

Trade tariffs re-emerged as a key source of global economic uncertainty last week, with market focus shifting to the broader implications of President Trump's protectionist agenda. The start of universal tariffs has begun to filter through economic indicators, as reflected in the disappointing US retail sales and industrial production data for May. Meanwhile, central banks and policymakers increasingly voiced concern about the inflationary spill overs from elevated tariffs. ECB President Lagarde explicitly warned that US tariff measures could create inflationary pressures within the Eurozone, while BoJ Governor Ueda flagged downside risks to Japan's economy stemming from trade-related uncertainty. In Asia, South Korea proposed a supplementary budget to support demand weakened by trade headwinds. Overall, the evolving tariff landscape has become a critical watchpoint for markets, amplifying volatility and complicating monetary policy trajectories across major economies

US economic data – Signs of softness amid policy caution

Recent US economic data painted a mixed but increasingly cautious picture. Retail sales for May declined by 0.9%, marking the largest drop in four months and indicating potential strain on consumer demand. Industrial production also slipped by 0.2%, reflecting softening momentum in manufacturing. Meanwhile, housing starts fell nearly 10% to the slowest pace since the pandemic's onset, and jobless claims remained elevated near an eight-month high. These data points suggest a cooling economic backdrop, reinforcing the Fed's decision to keep rates unchanged while maintaining flexibility amid persistent inflation and rising global uncertainty.

US Economic data last week

Date	Economic Indicator	Actual	Consensus	Interpretation
14-Jun-2025	US Consumer Sentiment (Jun)	60.5	53.6	Much stronger
17-Jun-2025	US Retail Sales (May)	-0.9% m/m	-0.70%	Weaker
17-Jun-2025	US Industrial Production (May)	-0.2% m/m	0.10%	Weaker
19-Jun-2025	US Housing Starts (May)	1.26M	1.4M est.	Weaker
19-Jun-2025	US Jobless Claims (w/e 14 Jun)	245K	250K est.	Slightly stronger
19-Jun-2025	Fed Funds Rate	4.25%-4.50%	Unchanged	No cut; hawkish tilt

Key events this week

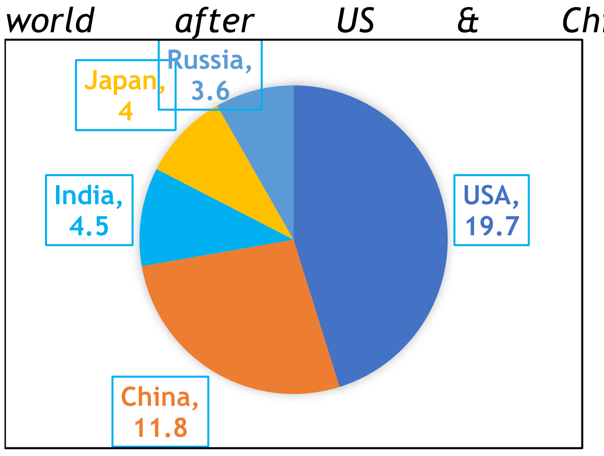
Sr. No	Watchpoints Ahead		
	Date	Event	Potential Impact
1	24 Jun	Powell testimony	Outlook on inflation & tariffs in focus
2	26 Jun	US Q1 GDP (final)	Last growth check before Q2 tariffs
3	27 Jun	US Core PCE (May)	Key inflation gauge before July FOMC
4	Ongoing	Middle East tensions	High-impact tail risk for oil & FX

Rupee hit 3-month low as oil spikes on Mideast tensions, offsetting relief from soft DXY

The rupee depreciated for a second consecutive week, hitting a 3-month low amid a sharp spike in oil prices, despite a weaker DXY

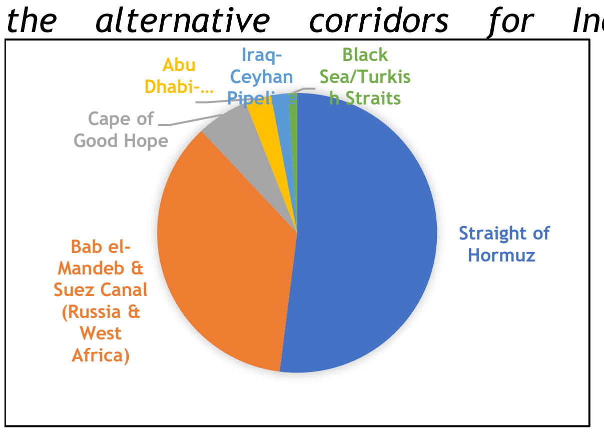
Last week, the Indian Rupee (INR) continued its weakening trend against major currencies hitting back to back weekly closing levels and touched 3-month low of ₹86.9000/$ on 19th Jun'25; levels last seen on 17th Mar'25. The key driver prompting rupee depreciation is the escalating Middle East tensions (Israel-Iran), pushing Brent crude oil prices to ~$79/bbl., raising fears of increased energy import costs and Oil companies and corporates hedging further drove demand for USD. Mid-week DXY edged higher, hovering around 99 levels, sustaining underlying dollar strength adding pressure to the local currency. Turning Point by week's end, rupee firmed modestly to ₹86.59/$, ending the week slightly stronger from Thursday's dip. The relief came when US President Donald Trump announced a two-week delay in deciding on potential military intervention in the escalating Israel-Iran conflict. However over the weekend he defied his own words and attack the nuclear sites of Iran. This tempered immediate concern of supply disruptions, leading to a pullback in oil prices as Brent crude oil price eased ~2% to close at $77.01/bbl. and DXY softened marginally to 98.71 levels. Last week, Rupee depreciated further by 1.16% on a WoW basis (Last Friday's close: ₹86.0900/$) [O: ₹86.0650/$, H: ₹86.9000/$, L: ₹85.8850/$ & C: ₹86.5900/$]. (Refer our report: FX weekly: Middle east shock lifts oil, weighs on INR and broader Asia FX).

India is third largest oil consumer of the world after US & China



Crude oil forms the backbone of India's energy basket, with more than 85% of its crude oil demand being met through imports. Global oil consumption remains highly concentrated, with India's position as the 3rd-largest consumer highlights the growing energy appetite of emerging markets. This concentration of consumption among a few major economies makes global oil markets highly sensitive to policy shifts, economic cycles, and geopolitical risks in these regions. Tensions between Israel-Iran remained the focal point in oil markets, fuelling concerns over a wider regional conflict and potential disruptions to Middle Eastern energy supplies. These geopolitical risks injected a notable risk premium into oil prices. Despite some end-of-week volatility, Brent crude was poised to log its third straight weekly gain, marking an 11.03% rise WoW—reaching levels last seen on 20th Jan'25. On a MoM basis, prices are up ~19%, though they still reflect a sharp YoY decline of ~8%. This represents a 11.03% increase on a WoW basis leading to levels last seen in 20th Jan'25 and ~19% on a MoM basis; however, still a sharp ~8% drop YoY is observed. In contrast, these higher oil prices are dampening sentiment toward the Rupee, increasing pressure on the currency despite other supportive factors.

The Strait of Hormuz (~52%) relative to the alternative corridors for India



Oil & gas sector contribution to exchequer on a downtrend on duty cuts to absorb oil price volatility

Oil & Gas sector contribution to exchequer (% of GDP)					
	FY21	*FY22*	*FY23*	*FY24*	*FY25E*
Taxes & Dividends	*3.4%*	*3.3%*	*2.8%*	*2.5%*	*2.3%*
Subsidies	*0.2%*	*0.2%*	*0.1%*	*0.1%*	*0.1%*
Net contribution	*3.2%*	*3.1%*	*2.6%*	*2.4%*	*2.2%*

Meanwhile, invisibles surplus stayed robust driven by strong services trade surplus $188.75bln in FY25 vis-à-vis oil deficit of $122.45bln, which clearly shows that C/A deficit is expected to remain comfortable. Also, India remittances have increased significantly and recently crossed the $100bln mark in FY23 and growing thereafter cushioning the India's oil deficit. That says sensitivity of C/A deficit to oil prices stays high with every $10/b move in oil price affecting annual C/A balance by close to $15 bn. If average oil prices settle at ~$75/bbl.; C/A deficit may be closer to 0.5% of GDP in FY26.

Variable	Unit	Sensitivity per US $10/bbl. rise in crude (bps, unless specified)	Scenario 1: +US $15/bbl (short spike)Partial disruption, OPEC releases spare capacity	Scenario 2: +US $30/bbl. (prolonged) Six-week closure, rerouting via Cape/Fujairah	Scenario 3: +US $50/bbl. (severe) Multi-month blockage, global inventory draw-down
Oil prices	$/bbl.	70	80	95	115
Real GDP^	% YoY	-15	-22.5	-45	-75
CPI inflation^	% YoY	+30^^	+45	+90	+150
Current account deficit	$ bn	(-)$16 bn	(-)$24 bn	(-)$48 bn	(-)$80 bn
Current account deficit^^^	% of GDP	-0.4	-0.6	-1.1	-1.8

^as per the Monetary Policy Report April 2025 and based on a 10% deviation from baseline crude oil assumptions; ^^assumes no cut in excise duty; ^^^negative sign indicates widening deficit

However, we believe the impact on macros esp. inflation likely to be absorbed by the government and OMCs. Since 2022 (Russia-Ukraine war year), limited impact of oil price volatility has been witnessed in retail fuel prices as the government absorbed most of the impact via excise duty changes and/or oil marketing companies adjusted margins. It is widely believed crude at $75-80/bbl. is comfortable for India from c/a perspective.

FPIs stay net buyers in equities last week, but continued to exit debt, with FAR-related outflows accelerating to drive overall net outflows for the month.

Lagging FPI flows continues to be worry for the local currency, continue to be negative this year to the tune of \$11.06bln. Even though, the trend has reversed since Apr'25; FPI flows in equity continue to be negative this year with an outflow seen in Jun'25 after inflow clocked in April and May. In the latest week, FPI turned net buyers in equity to the tune of \$139mln vis-à-vis inflow of \$391mln on a WoW basis. Even in debt segment outflow narrowed to the tune of \$18mln vis-à-vis outflow of \$619mln from the prior week. While FAR-related flows have remained relatively strong so far this year, totalling \$2.34bln, but the selling intensified in Jun'25 including outflow of \$345mln in the last week; recording a cumulative monthly outflow of \$1.89bln — a continued trend from Apr'25, which saw an outflow of \$0.63bln.

FX Reserves jumped on account of a major increase in foreign currency assets

Foreign exchange reserves rose by \$2.29bln to reach \$698.95bln for the week ending 13th Jun'25, largely driven by a \$1.74bln jump in foreign currency assets, which climbed to \$589.43bln. Despite the increase, total reserves remain \$5.91bln below the record high of \$704.86bln. A valuation-related decline of \$1.15bln was also noted, highlighting ongoing efforts by the central bank to stabilize the forex market. Our assessment shows that the FYTD26 Balance of Payments (BoP) remains in surplus, currently at around \$12.11bln. Historically, FX reserves—net of valuation changes—have shown a strong correlation with BoP trends. Consequently, Oil price sensitivity to the movement of rupee has reduced in recent years. In case of an oil price shock, ample FX reserve buffer ~11.5 months of import cover would help RBI to limit FX volatility.

Rupee now faces heightened global headwinds that are expected to increase exchange rate volatility, while a relatively softer greenback is helping anchor the rupee. While the escalation in the geopolitical tensions has cast a cloud over the much-touted US-India trade deal which was earlier widely speculated to close by first week of July.

Escalating Middle East tensions and any Strait of Hormuz disruption could lift oil prices and strengthen the DXY. Meanwhile, ongoing US-India trade talks and robust IPO-driven inflows may cap severe pressure to the rupee.

Jun'25 will mark a critical juncture for India's IPO landscape, and the next week comes up with the upcoming HDB Financial IPO (~\$1.5Bln/₹12,500Crs), Ellenbarrie Industrial (~₹852.53Crs), Kalpataru Limited (~₹1590Crs) and few more may bring fresh foreign capital, potentially supporting rupee stability. However, sustained dollar demand from major importers and oil companies to provide a floor for the USD/INR pair.

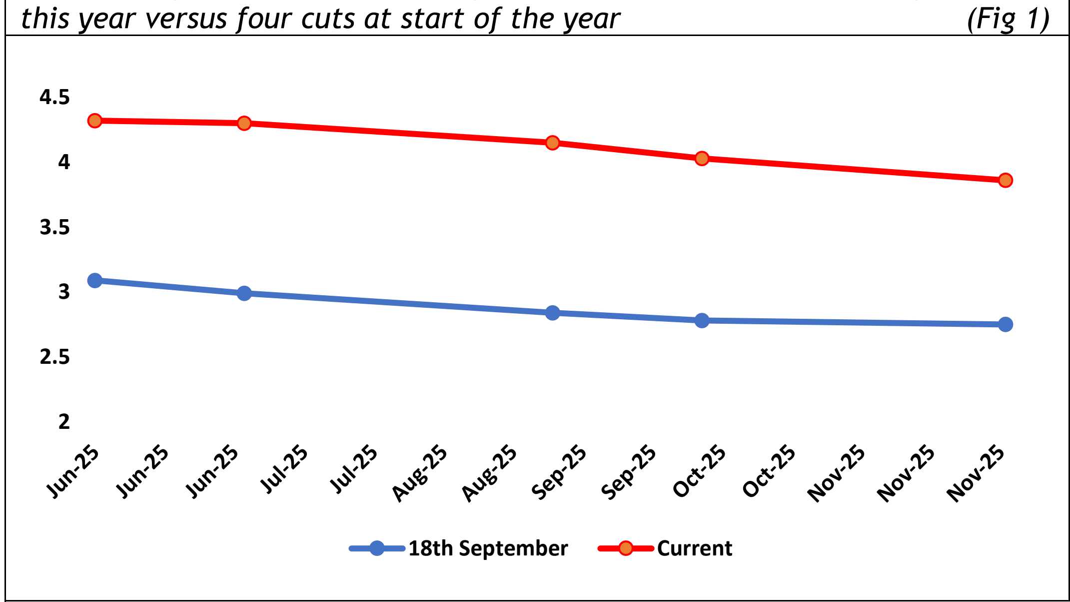
Technically, the USD/INR pair has respected our previously identified levels. We anticipate Middle East tensions to ease in the near term, leading to softer global crude prices and a rebound in rupee sentiment, with immediate support seen around ₹86.45/\$, a decisive break below this level could open the door to ₹86.15/\$. On the upside, resistance is expected near ₹86.90/\$, and a breach of that could push the pair towards ₹87.45/\$. Looking ahead, we are closely monitoring the news related to middle-east tensions & closure of the Strait of Hormuz, one of the world's most critical oil transit chokepoints; which will potentially drive overshooting in the US Dollar Index (DXY) beyond current technical levels & make a steep spike in the global crude oil prices, which could weigh negatively on rupee sentiment.

Impact by asset class

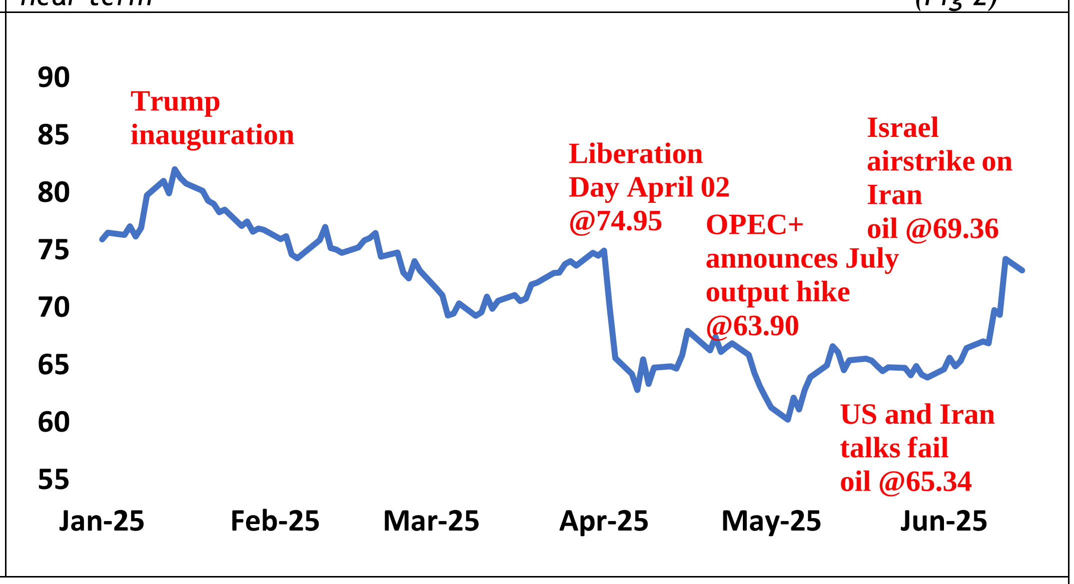
Asset class	Level as on		Market moves (% change or bps)	
	12th June (last day of US-Iran nuclear talks ahead of war)	23rd June (ongoing Iran-Israel war)	30th May -12th June	13th June- 23rd June
Equities				
Dow Jones	42968	42207	-1.65%	-1.8%
Sensex	81692	81897	0.30%	0.25%
Bonds				
US 10yr	4.36	4.39	-04	03
India 10 yr	6.28	6.31	08	03
FX				
Dollar index	97.84	99.30	-1.61%	1.49%
Yuan	7.17	7.18	0.42%	0.1%
Rupee	85.60	86.75	-0.02%	-1.34%
Commodities				
Oil	69.36	77.57	8.55%	11.84%
Gold	3386	3368	2.89%	-0.53%
Copper	4.82	4.83	2.99%	0.21%

Source: Reuters, level as on 23rd Level as of 15:51 hrs

Market has pared back rate cut expectation to two rate cuts of 25bps each this year versus four cuts at start of the year (Fig 1)

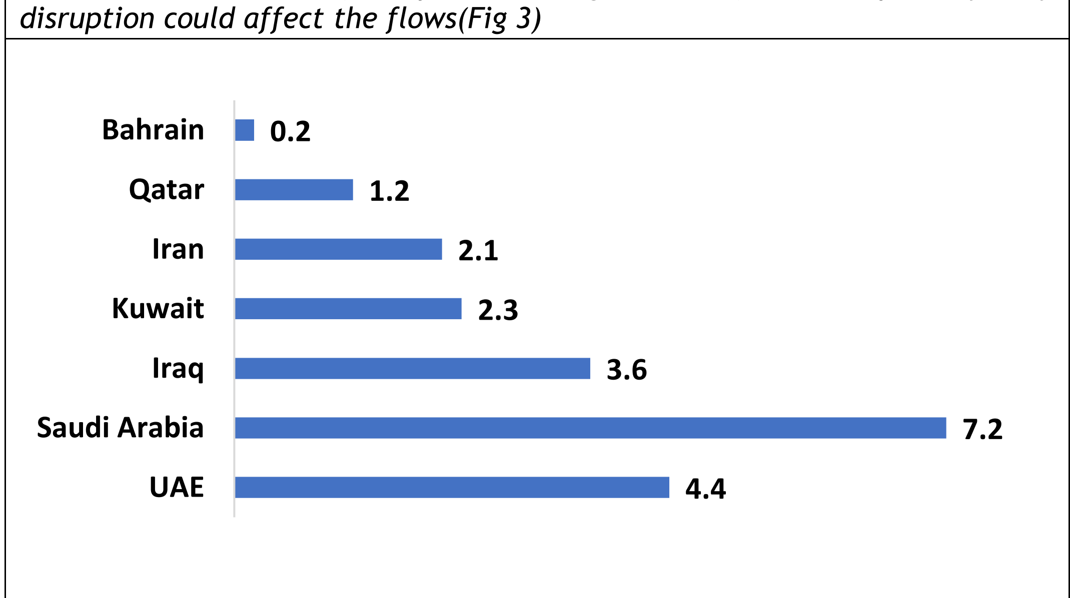


Geopolitical uncertainty will likely sustain the oil price risk premium in the near term (Fig 2)

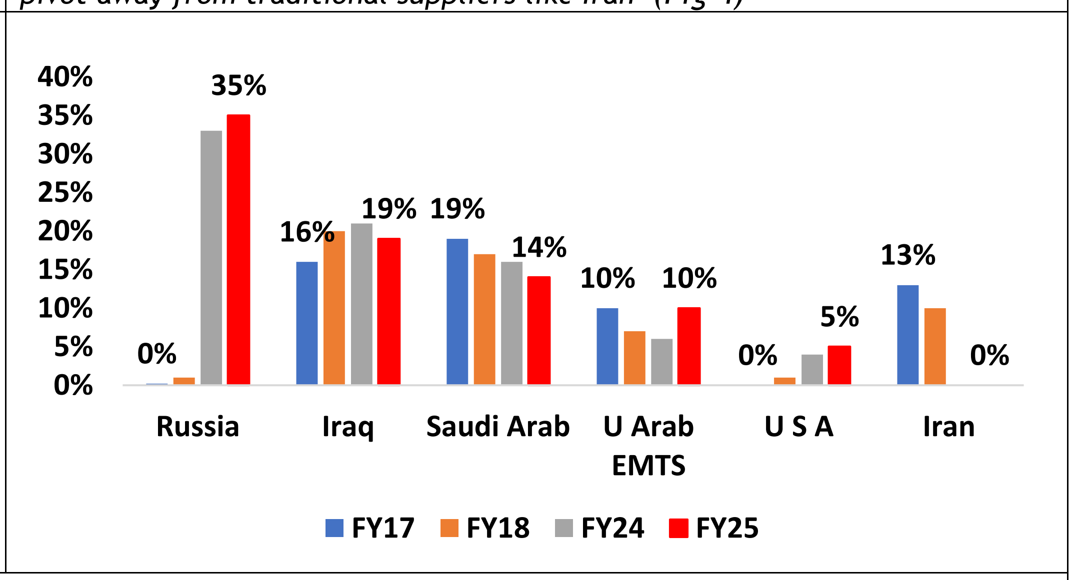


Source: Bloomberg, Oxford Economics, UBI research

Around 21mln barrels of oil passes through Strait of Hormuz per day, any disruption could affect the flows(Fig 3)

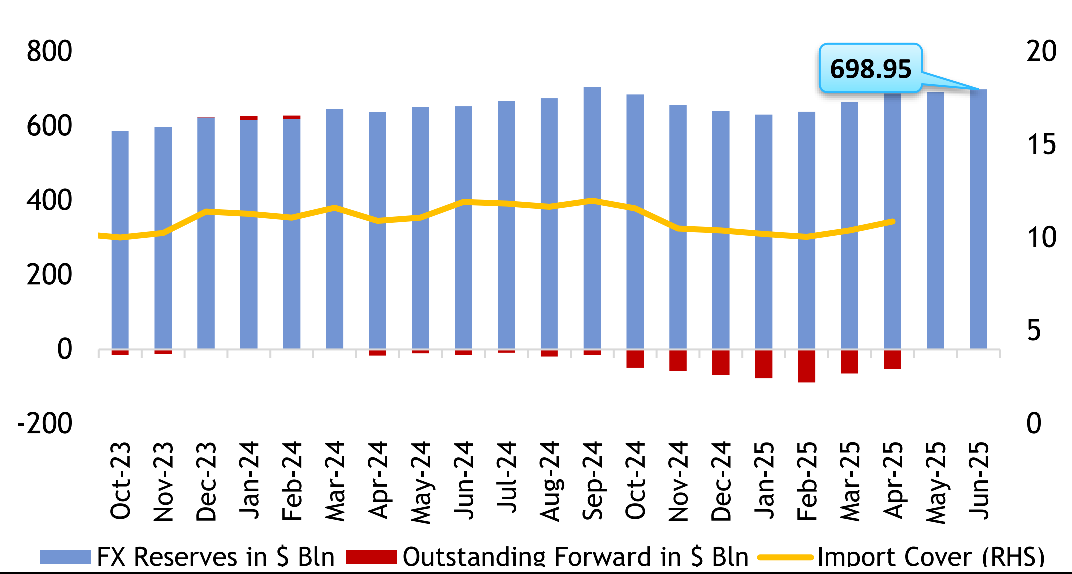


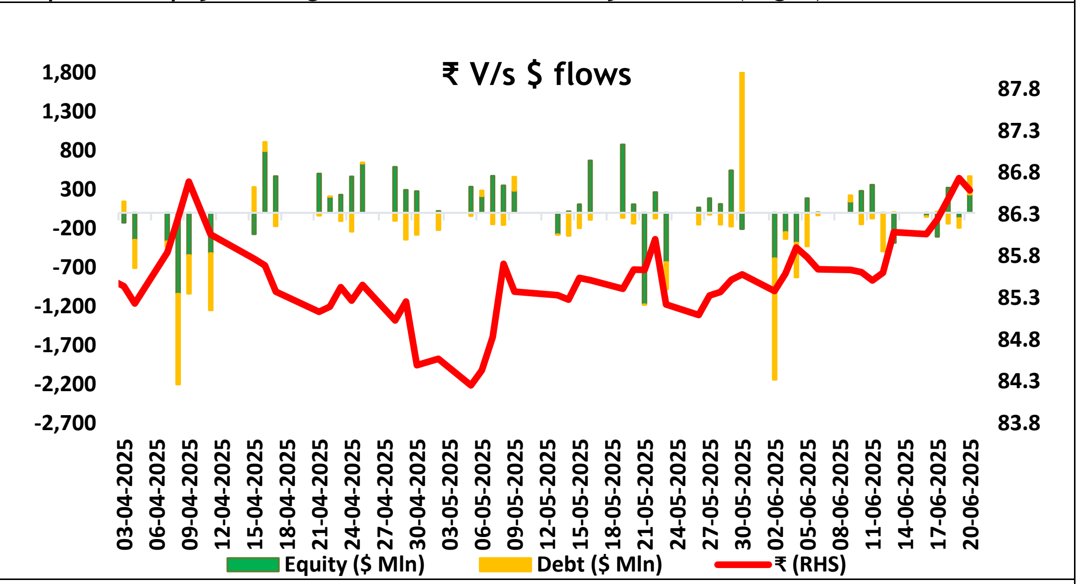
India's oil import profile has shifted significantly over the years, with a clear pivot away from traditional suppliers like Iran (Fig 4)



Source: Bloomberg, LSEG workspace, UBI research

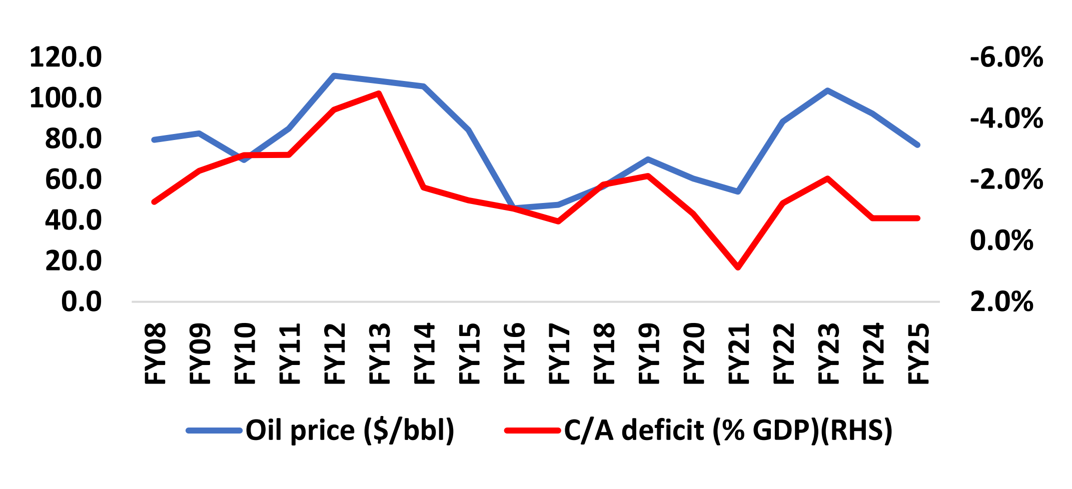
FX Reserves gained on account of rise in foreign currency assets (Fig 5)	*Rupee sharply hitting back to back weekly lows (Fig 6)*

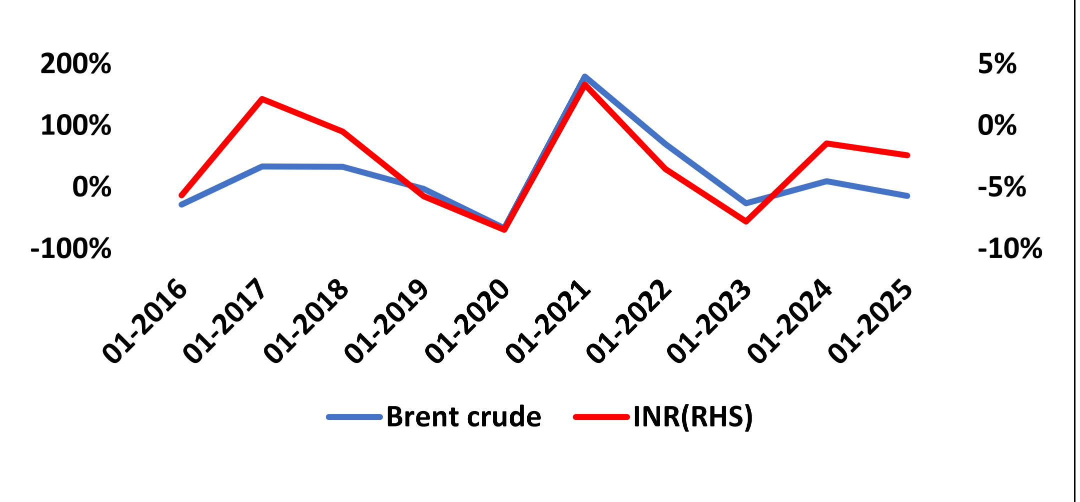




Source: Bloomberg, LSEG Workspace & UBI Research

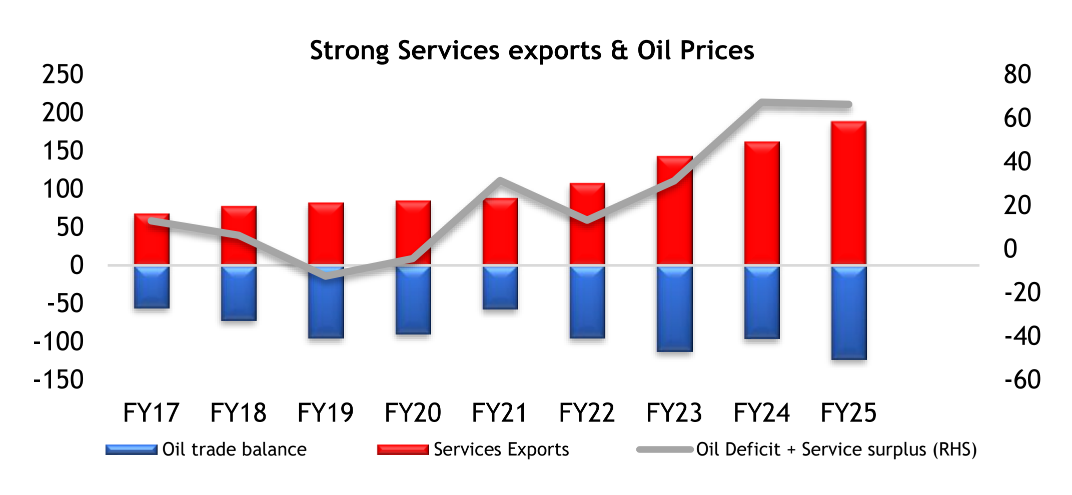
C/A deficit show positive correlation with oil prices yet sensitivity has reduced in recent years (Fig 7)	*Oil price sensitivity to the movement of rupee has reduced in recent years (Fig 8)*

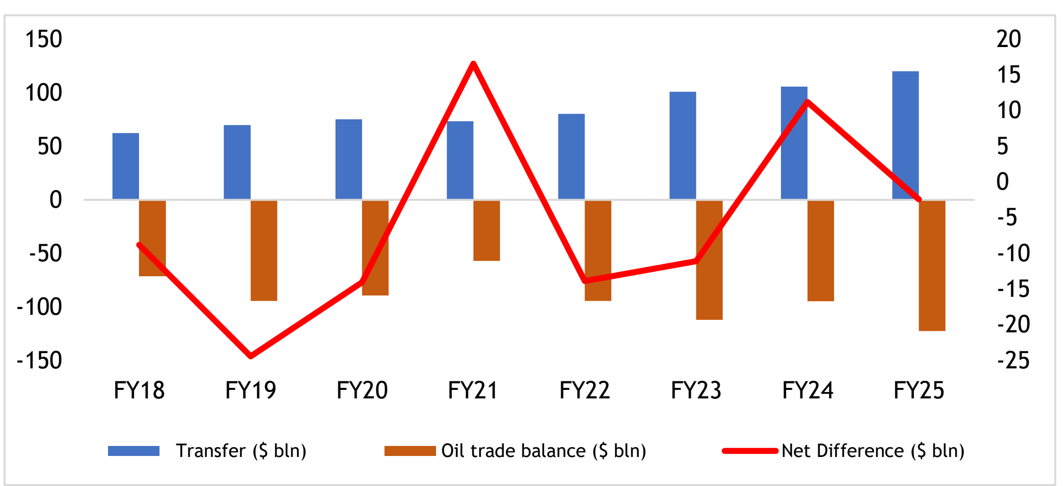




Source: Bloomberg, CEIC, LSEG Workspace & UBI Research

Services export broadly substantiating Oil imports (Fig 6)	*India remittances crossed the $100bln and cushioning oil deficit (Fig 7)*





Source: Bloomberg, CEIC, LSEG Workspace & UBI Research

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