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FX Views

| Currency / Index | Trend bias/ Key Levels | Commentary |
|------------------|--|--|
| DXY | Bearish (but strained). Support: 96.50 / Resistance: 99.00–100.00 | Speculative short positions are rising, reflecting growing bearish sentiment. |
| EUR/USD | Support: 1.1660 / 1.1625 Resistance: 1.1720 / 1.1755 | EUR momentum has weakened; risk of a break below 1.1660 is increasing, with potential for a test of 1.1625 if resistance at 1.1720 holds |
| USD/JPY | Support: 146.00 / 145.60 Resistance: 147.20 / 147.60 | Rebound gaining strength; May retest 147.20, but a sustained advance beyond that is uncertain. Uptrend intact unless 145.60 is breached. |
| USD/INR | Support: 85.20 / 85.50 Resistance: 86.20 / 86.70 | Gradual depreciating bias. US trade talks, & DXY on close watch. |
| USD/CNH | Support: 7.1730 / 7.1630 Resistance: 7.1880 / 7.2000 | USD/CNH is in a consolidation phase; range likely between 7.1730 and 7.1880. Momentum suggests limited upside unless 7.2000 breaks. |

Source:JP Morgan

Market-Implied Path (CME Fed-Funds Futures snapshot)

| Meeting | Implied Rate | Cumulative Δ vs now |
|-------------|--------------|---------------------|
| 30 Jul 2025 | 4.32 % | -1 bp |
| 17 Sep 2025 | 4.15 % | -17 bp |
| 10 Dec 2025 | 3.82 % | -50 bp |
| 29 Apr 2026 | 3.50 % | -82 bp |
| 28 Oct 2026 | 3.22 % | -110 bp |

Next meeting probabilities: **No change 95 %**, **25 bp cut: 5 %**.

Markets price gradual Fed easing, with 110 bps of cuts by Oct 2026, but a July rate cut remains highly unlikely (5% probability).

Last week, there was a notable shift in US trade policy rhetoric when tariff implementation was formally pushed out to August 1. Rather than calming markets, this delay reinforced the perception that higher import levies remain a live threat across a broader set of trading partners, from EU to key Asian allies. The market reaction has been rather muted to this extension as compared with “Liberation day” but, **treasury yields**, which had drifted lower on hopes of a sooner Fed easing cycle, **snapped back higher as investors recalibrated inflation expectations to account for renewed cost pressures**. The most pronounced upward repricing occurred in the 3- to 5-year segment of the curve, suggesting that the market sees these tariffs as a medium-term drag on disinflation and growth. On the supply side, US Treasury auctions offered further proof of the market’s thirst for high-grade debt. Last week’s three-, ten- and thirty-year sales were met with stronger-than-anticipated demand.

Against that backdrop, last week’s bond market behaviour underscores two critical takeaways. First, even anticipatory adjustments to trade policy can meaningfully alter the inflation outlook, import-price gauges and core CPI/PCE figures are therefore likely to command outsized attention in the weeks ahead. Second, the Fed’s reluctance to hint at rate cuts: by maintaining a neutral “wait-and-see” posture, policymakers are preserving optionality in the face of unpredictable external shocks.

In Asia Fx, **Japanese government bond yields edged higher** as markets priced in rising political risk ahead of the July 20 Upper House election: the 2-year JGB yield climbed to 0.75% and the 10-year yield to 1.49% by July 10. **Investors demanded a premium amid uncertainty over the minority Ishiba government’s tough auto-tariff stance driven in part by fears of a poor election showing, fuelling modest repricing of policy expectations and adding upward pressure to yields.**

Looking ahead to this week, focus will be threefold. One, we will watch for any fresh developments around the August 1 tariff deadline. Two, upcoming data releases, particularly the import-price index and core PCE report will serve as critical barometers of whether trade-induced cost pressures are gaining traction. Policy uncertainty also lingers, with [media reports](#) hinting at a possible resignation by Fed Chair Powell. Finally, we will be parsing remarks from regional Fed presidents and Chair statements for any shifts in tone that might hint at a recalibration of the policy timeline. Taken together, these inputs will inform whether markets should brace for further volatility or can tentatively price in a smoother path toward rate relief.

Dollar holds firm amid rising yields and tariff tensions

Last week, the US dollar index (DXY) chalked up a modest 0.91% gain as Treasury yields rose across the curve, closing at 97.86 on Friday’s session. Trading was confined to a roughly 97.0-97.7 range, underpinned by firm demand at recent three-, ten- and thirty-year US Treasury auctions and lingering tariff-related uncertainties that bolstered the dollar’s safe-haven appeal. With yields anchored in the mid-4% area, the greenback found fresh bids alongside renewed threats of import levies, reinforcing market expectations of a “higher-for-longer” Fed’s stance. Looking ahead, upside surprises in US import-price or core PCE data could push the DXY toward the high-98s, while any de-escalation on trade-policy risks may see it ease back toward the mid-96s.

US tariff action last week

The US launched a sharp trade offensive last week slapping reciprocal levies on various trading partners, a 50% duty on copper (with pharma next), threatening Brazil with a 50% surcharge and notifying Canada of a 35% tariff on non-USMCA goods, **yet equities barely budged**. Commodity and FX markets, however, felt the heat: copper futures jumped 13%, highlighting that trade-policy and its inflationary spill overs will drive market risk into July and beyond.

Cross Asset fund flow as of 03rd July'25

| Category | 4 wk. avg. (\$bn) | 2024 avg. (\$bn) |
|-----------------|-------------------|------------------|
| All Equities | -7.9 | 7.6 |
| All Bonds | 14.2 | 10.6 |
| US Equities | -8.9 | 5.7 |
| US Bonds | 5.0 | 4.3 |
| EM Equities | 0.3 | -0.2 |
| EM Bonds | 1.09 | -0.37 |
| Japan Equities | -0.5 | 0.2 |
| China Equities | -0.25 | -0.18 |
| Europe Equities | 0.1 | -0.9 |
| Europe Bonds | 6.0 | 4.7 |

Source: JP Morgan

As of July 3rd, 2025, global fund flows reflect a clear rotation out of equities (-\$7.9bn) and into bonds (+\$14.2bn), with particularly strong inflows into European (+\$6.0bn) and US bonds (+\$5.0bn), signalling a shift toward safer assets amid rising market uncertainty, even as emerging market equities and bonds see tentative stabilisation.

Markets remain finely balanced supported by steady Fed, yet weighed down by fiscal imbalances, tariff-driven inflation, and rising bond risk premia. With growing debt issuance and uncertain policy signals, volatility is likely to stay elevated as inflation and rate expectations continue to reprice.

| Date | Counterparty | Tariff Measure | Effective Date | Notes |
|-------------|---|--|----------------|--|
| 8 Jul 2025 | Japan (25%), South Korea (25%), South Africa (30%), Malaysia (25%), Indonesia (32%), Thailand (36%) | "Reciprocal" tariffs mirroring April's Liberation Day rates | 1 Aug 2025 | Shortened extension of prior tariff delay; letters sent to six Asian partners |
| 9 Jul 2025 | Copper imports (sector-specific) | 50 % tariff under Section 232 on copper (and signal for pharma) | TBD | Prompted a 13.5 % surge in US copper futures, underlining mounting inflation risks |
| 10 Jul 2025 | Brazil | Threat of 50 % tariff on all Brazilian goods | 1 Aug 2025 | Real slid over 2 %; marked shift toward using tariffs for political leverage |
| 11 Jul 2025 | Canada (35 % on non-USMCA goods); EU warned (15-20 %) | 35 % duty on non-USMCA imports; letters to EU next | 1 Aug 2025 | Uncertainty over carve-outs; USMCA-compliant goods likely excluded; further letters imminent |
| 11 Jul 2025 | EU (30% tariff), Mexico (30%) | Tariff of 30% much higher than 20% announced during Liberation day | 1 Aug 2025 | Trump has announced a 30% tariff on imports from Mexico and the European Union, following the breakdown of negotiations. |

Navigating tariffs and inflation: Fed officials signal patience

Last week Fed officials struck a cautiously pragmatic tone, emphasizing data dependency amid heightened tariff uncertainty. John Williams warned there's a non-negligible chance rates could eventually return to zero, underscoring long-term downside risks. Christopher Waller and Mary Daly have signalled openness to rate cuts later this year, Daly even envisaging two reductions while stressing that any easing would be measured and non-political. By contrast, Alberto Musalem urged patience, cautioning that it remains unclear whether recent tariff-driven price pressures will prove transitory or persistent. Collectively, their remarks reflect a Fed navigating between guarding against persistent inflation and remaining ready to ease policy if the economic outlook softens. The Fed is expected to stay on pause until greater clarity emerges on the evolving tariff landscape and fiscal dynamics. While a rate cut in September remains possible, it hinges heavily on labor market softness and the inflation trajectory.

| Date | Fed Member | Statement Summary | Tone |
|-------------|--------------------|--|--------------------|
| 08-Jul-2025 | John Williams | "The Fed cannot assume its benchmark rate won't return to zero at some point," noting a 9 % chance of hitting the zero-lower bound over a seven-year horizon | Cautious |
| 11-Jul-2025 | Christopher Waller | Reiterated that a July rate cut could be appropriate, arguing that easing "would not be political" and that current restrictive rates can be lowered | Dovish |
| 11-Jul-2025 | Mary Daly | Said she still views two rate cuts as likely this year and that inflation is on a path toward the 2 % target | Dovish |
| 11-Jul-2025 | Alberto Musalem | Warned it is too soon to know whether tariff-driven price bumps will prove transient or persistent | Cautious / Neutral |

US Economic data last week

| Date | Data Release | Actual / Consensus | Interpretation |
|-------------|--|--------------------|---|
| 08-Jul-2025 | NFIB Small Business Optimism (Jun) | 98.6 / 98.6 | Flat reading; indicates stable small business sentiment amid trade tensions |
| 08-Jul-2025 | NY Fed 1-Year Inflation Expectations (Jun) | 3.0% / 3.13% | Lower than expected; easing near-term inflation concerns |
| 11-Jul-2025 | Initial Jobless Claims (Week ending 5 Jul) | 227k / 235k | Lower than expected; suggests labor market remains tight |

Rupee holds steady in narrow band amid US-India tariff jitters & lack of market cues

The Indian rupee was largely stable against the US dollar over the past week, with only minor fluctuations amid global and domestic developments. During the week, the rupee traded in a narrow band with the key drivers prompting was the optimism over a potential India-US trade deal and easing geopolitical tensions. Brent surged marginally and topped \$70/bbl. & DXY traded with positive bias above ~98 levels after President Trump's threats to impose higher tariffs on trading partners rattled global risk appetite, leading investors to flock to the US dollar as a safe haven. As a result, the DXY rose by approximately 0.6%. Midweek, the rupee slipped against the dollar, driven by fears of potential US tariffs on pharmaceutical imports. Heightened risk aversion and climbing oil prices during this period added pressure on the currency. Later in the week, rupee rebounded driven by optimism over a potential India-US Trade deal ending the week weaker. Last week, Rupee **depreciated by ~0.48% on a WoW basis** (Last Friday's close: ₹85.3900/\$) [O: ₹85.5800/\$, H: ₹86.0400/\$, L: ₹85.5300/\$ & C: ₹85.8000/\$]. (Refer report: [FX weekly: As the tariff clock ticks, global markets brace for July 9 shakeup](#))

Oil prices showed notable gains last week. Brent crude opened at \$67.64/bbl. on 07th Jul'25 and surged to \$70.71 levels by the week-end, before settling around \$71.11 on 14th Jul'25. Brent oil prices surged last week primarily on the prospect of new US sanctions on Russia, which raised concerns about tighter global oil supplies. The US decision to send Patriot air defence systems to Ukraine, signalling escalating geopolitical friction and additional upward pressure came from the European Union moving closer to an 18th package of sanctions on Russia, including a lower price cap on Russian oil. However, the rally was somewhat tempered by news of Saudi Arabia exceeding its OPEC+ output quota and concerns that new US tariffs on goods from the EU and Mexico could slow global economic growth and reduce oil demand. On a WoW basis, prices are up ~2%, and they still reflect a sharp YoY decline of ~16%. In contrast, the recent increase in oil prices is adding pressure on the Rupee, intensifying challenges for the currency despite other supportive factors.

Persistently weak FPI flows remain a concern for the local currency, with net outflows totalling \$8.43bln so far this year as of 11th Jul'25, though a gradual recovery trend is emerging. Trend has reversed since Apr'25; and finally turned +ve this month with an inflow seen in Jun'25 after inflow clocked in April and May. In the latest week, FPI continue to be net buyers in equity to the tune of **\$614mln vis-à-vis inflow of \$497mln on a WoW basis**. However, in debt segment outflows were seen to the tune of **\$308mln vis-à-vis inflow of \$1633mln** the prior week. FAR-related flows have remained relatively strong so far this year, totalling \$3.76bln, but the selling intensified in Jun'25, the momentum turned positive in Jul'25 despite outflows of \$391mln in the last week; recording a cumulative monthly inflow of \$0.70bln.

Foreign exchange reserves dropped by \$3.05bln to reach **\$699.74bln** for the week ending 04th Jul'25, largely driven by a \$3.54bln fall in foreign currency assets, which decreased to \$591.29bln. With the decrease, total reserves remain \$5.12bln just below the record high of \$704.86bln as on 27th Sep'24. A valuation-related loss of \$4.34bln 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 ~\$11bln. Historically, FX reserves—net of valuation changes—have shown a strong correlation with BoP trends.

Merchandise trade deficit likely narrowed marginally in Jun'25 to \$20.7bln vis-à-vis \$21.9bln a month ago. This was probably led by oil prices cooling down immediately after ceasefire in Middle-East war & rising OPEC+ output outweighed earlier supply fears. Last month Gold imports stayed muted and was primarily driven by essential or need-based buying. However, commodity prices saw a uptrend, amid the 12 day Israel - Iran war, metals saw an uptick.

The rupee is expected to remain slightly range-bound with a depreciating bias this week. This outlook is supported by relatively soft energy prices, robust domestic economic indicators, and continued foreign exchange reserve accumulation. However, some uncertainty persists due to potential US tariff actions and global trade developments. India and the US are close to an interim trade agreement after the US extended the tariff deadline to 1st Aug'25. India seeks exemptions from steep US tariffs, especially on agriculture, while the US may reduce proposed tariffs below 20%. The deal would provide India better terms than other countries and allow continued talks on a broader agreement later this year.

Rupee traded in a tight range last week, dipping midweek on tariff and oil concerns before rebounding on India-US trade optimism, ending ~0.48% weaker WoW.

Oil rose ~2% last week, driven by geopolitical tensions and looming US-EU sanctions on Russia, while higher Saudi output and tariff concerns capped gains, putting added pressure on the Rupee.

Despite YTD FPI outflows of \$8.43 bln as of 11th Jul'25, last week have seen a recovery with net equity inflows and a positive monthly trend emerging, although debt segment outflows and intermittent volatility persist.

FX reserves fell mainly due to a drop in foreign currency assets and valuation losses.

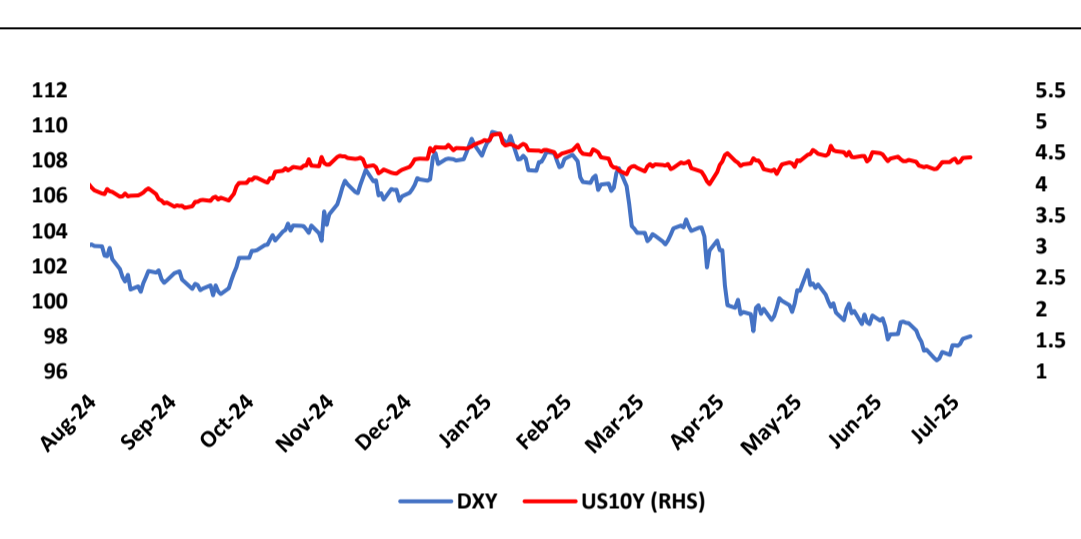
Rupee is likely to stay range-bound with a slight weakening bias this week, as strong IPO activity and domestic fundamentals offer support, but persistent importer demand and global trade uncertainties keep upward pressure on USD/INR.

Jul'25 marks a key milestone for India's IPO market, with major firms like set to file DRHPs and launch bids, potentially attracting fresh foreign capital and offering near-term support to the rupee. However, persistent dollar demand from large importers and oil marketing companies is likely to keep a floor under the USD/INR pair.

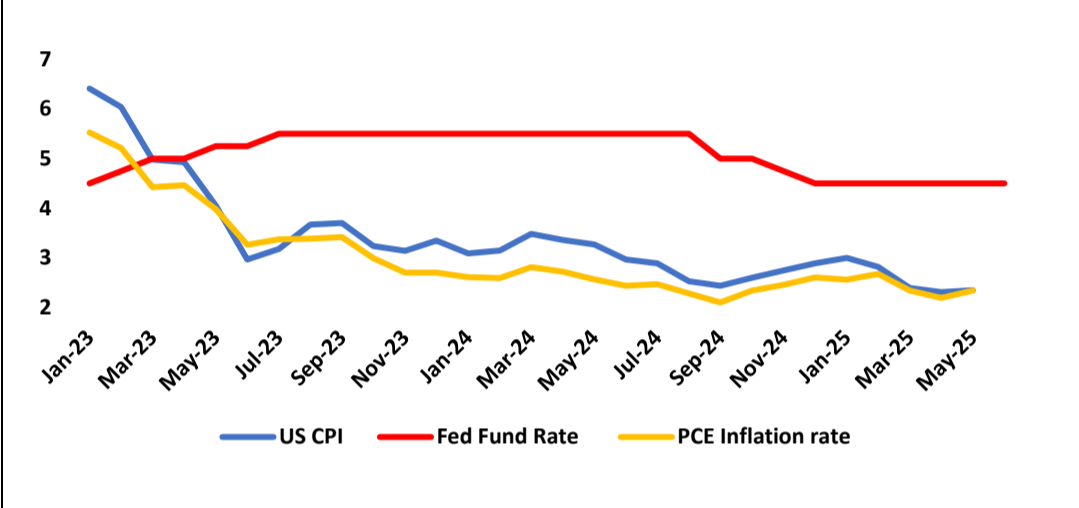
Technically, the USD/INR pair has respected our previously identified levels. We anticipate softer global crude prices and a rebound in rupee sentiment, with immediate support seen around ₹85.50/\$, a decisive break below this level could open the door to ₹85.20/\$. On the upside, resistance is expected near ₹86.20/\$, and a breach of that could push the pair towards ₹86.70/\$. Looking ahead, the rupee's movement will be shaped by a combination of global oil prices, geopolitical risks, DXY trends, domestic macroeconomic indicators, and the direction of foreign portfolio flows; which will potentially drive rupee sentiment.

We believe much of appreciation bias for the rupee is broadly behind us, and going forward, we expect the local currency to gradually depreciate with a buy on dips strategy in the medium term. INR recent highs this year is ₹83.7575/\$ & all-time lows is ₹87.94/\$. Our Range for medium term is ₹83.50/\$ to ₹87.50/\$ and expect the currency to gradually head towards ₹87.30/\$ by the year end.

DXY and US yields have moved upward and awaits US CPI data this week (Fig 1)

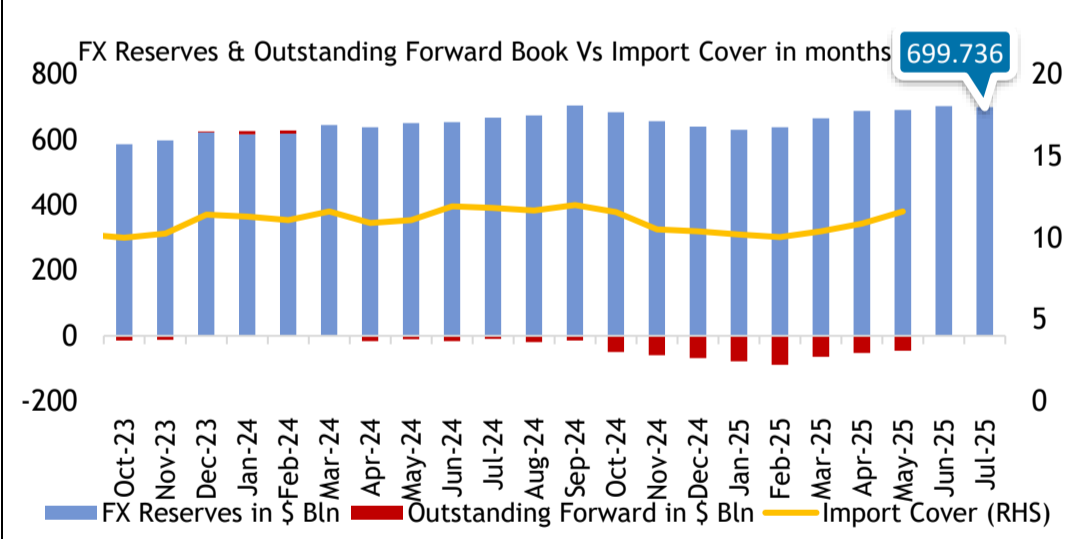


As US inflation remains sticky and tariff risks persist, the Fed is maintaining a cautious stance (Fig 2)

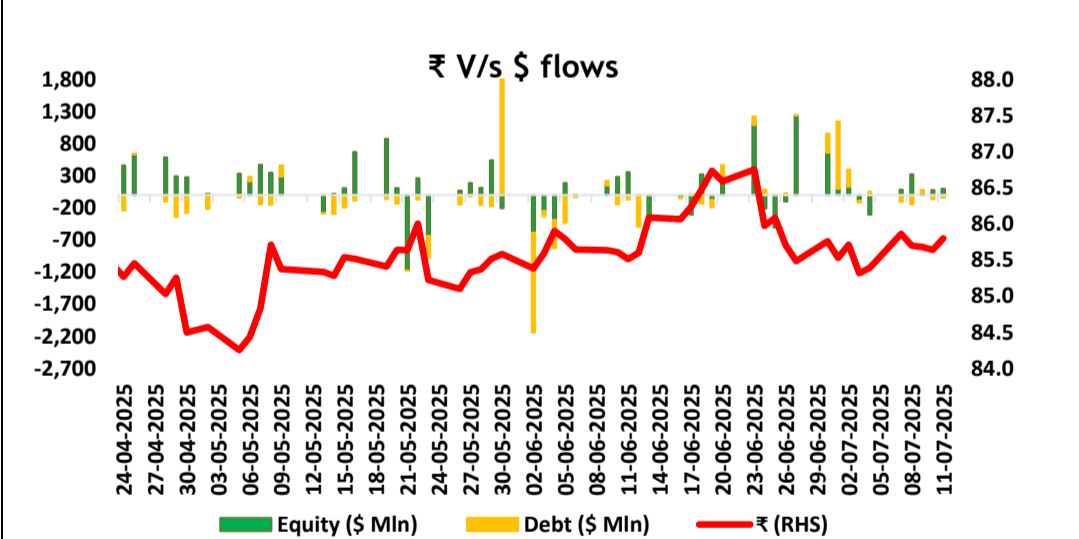


Source: Bloomberg, LSEG Workspace & UBI Research

FX reserves fell due to a drop in foreign currency assets (Fig 3)

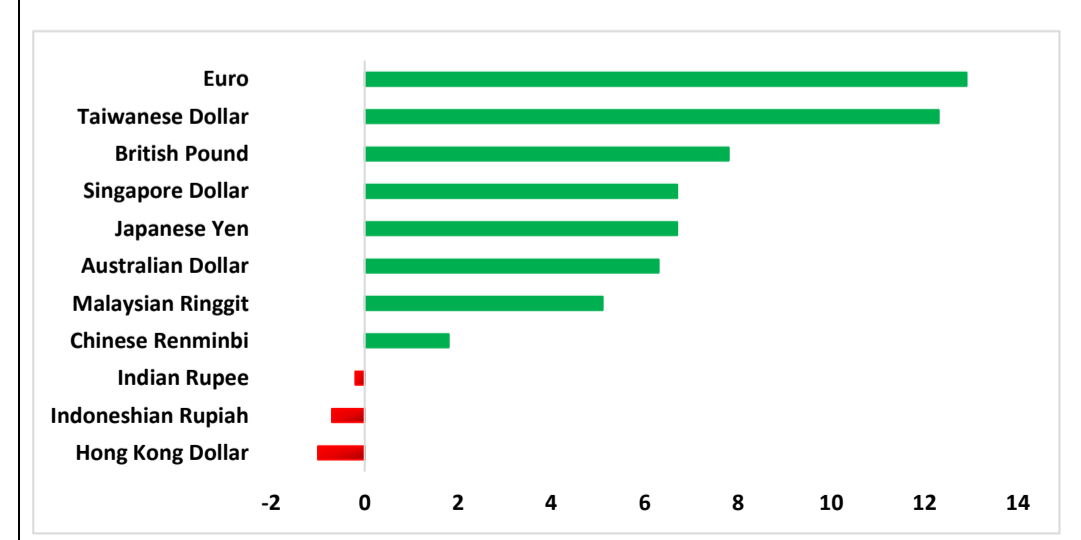


Rupee traded in a narrow range on absence of any major flows (Fig 4)

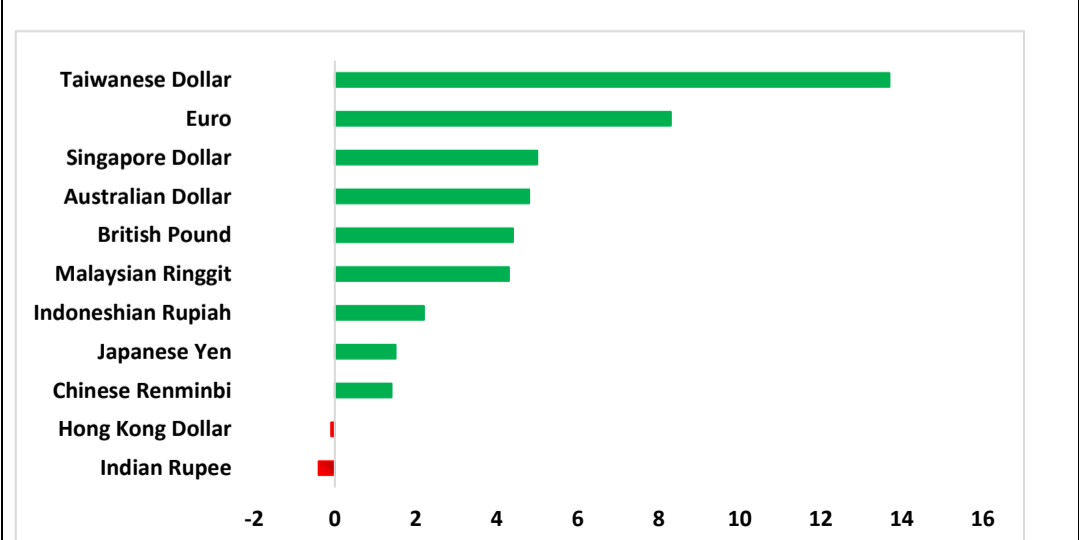


Source: Bloomberg, CEIC, LSEG Workspace & UBI Research

% Change since 1st Jan'25 (Fig 5)



% Change in Apr'25 (Fig 6)



Source: Bloomberg, LSEG Workspace & UBI Research

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