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FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	**Bearish (but strained).** Support: 96.75 / Resistance: 99.00–100.00	Speculative short positions in the DXY are rising, reflecting growing bearish sentiment
EUR/USD	**Support: 1.1520 / 1.1560 Resistance: 1.1730 / 1.1780**	Further **strength possible**, next level to watch is 1.1780.
USD/JPY	**Support: 144.00 / 143.50 Resistance: 145.55 / 146.50**	Higher UST yields offset safe-haven buying
USD/INR	**Support: 84.70 / 85.20 Resistance: 86.20 / 86.70**	Gradual depreciating bias. Crude oil & DXY on close watch
USD/CNH	Support: 7.1570 / 7.1450 Resistance: 7.1770 / 7.1950	Tentative momentum build-up; edging lower toward 7.1475.

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

Meeting	Implied Rate	Cumulative Δ vs now
30 Jul 2025	**4.28 %**	–5 bp
17 Sep 2025	4.08 %	–25 bp
10 Dec 2025	3.73 %	–60 bp
29 Apr 2026	3.43 %	–90 bp
28 Oct 2026	3.11 %	–122 bp

Next meeting probabilities: **No change 80 % 25 bp cut 19 %**.

Bond market pricing of 2 rate cut by 2025 and 5 by late 2026 will be the key focus area in the coming months apart from US economic data.

The US dollar (DXY) has slid to its weakest level since March 2022 as investors unwind US exposures and chase higher carry abroad. The dollar's weakness is no longer being driven solely by shifting rate expectations; it is now being reinforced by a decisive reallocation of global capital. (Refer Uni-Fx: Winds of Change: Bears blow through the greenback, will it sustain). Despite the Fed's predominantly "wait-and-see" stance, Fed Chair Powell and seven officials pencilling in no rate cuts in 2025 markets have refocused on dovish rhetoric from Governors Waller and Bowman and a run of soft US data.

While the US economic data shows soft surveys and hard prints alike signal a measured cooling not a freeze where factories contract, confidence stays muted, and real activity has flatlined under a cautious stance. The downward revision in Q1 GDP to -0.5% (against a -0.2% forecast) underlines that the US economy contracted more sharply than expected, suggesting that consumer and business activity was softer at the start of the year. For the Fed, this alignment supports patience rather than an emergency cut.

These developments have driven traders to fully price in a September cut and even assign about a 20% chance of a July cut, contingent on this week's nonfarm payrolls report. Thursday's jobs figures will therefore be the pivotal FX driver, providing a reality check on recent dovish Fed bets. NFP data for May is expected to come in slightly lower at 120k vs 139k in April, while the unemployment rate is forecast to edge up to 4.3%. Once the payrolls report is digested, focus will shift squarely to the July 9 tariff reactivation deadline and its potential impact on trade-deal negotiations. Having already struck deals with the UK and China, the July 9 deadline is now under close watch, and the remaining countries expected to reach agreements with the US by then will remain in focus unless the deadline is extended.

Dollar on the defensive amid geopolitical shifts and Fed uncertainty

In the final week of June 2025, the US Dollar Index (DXY) extended its downward trajectory, closing at 97.25 on 27 June its lowest level in over two years, and down nearly 1.6% for the week from 98.71 on 23 June. The dollar came under pressure amid easing Middle East tensions and growing speculation over potential Federal Reserve rate cuts. Multiple Fed officials, including Powell and Daly, acknowledged that tariffs may not drive a sustained inflation surge, reinforcing expectations of a policy pivot later this year. Meanwhile, stronger euro and sterling gains added to the DXY's weakness, with EUR/USD hitting a multi-year high of 1.1753. The dollar briefly stabilized on 27th June, closing at 97.25, but remained down 1.32% for the week reflecting both improved global risk sentiment and doubts over the Fed's tightening stance.

US treasury yields: Caught between inflation signals and Fed uncertainty

US Treasury yields saw a broad decline in the final week of June 2025, reflecting a shift toward dovish expectations amid mixed macro signals and easing geopolitical tensions. The 10-year yield dropped from 4.40% on 23 June to as low as 4.24% by 27 June a weekly fall of roughly 16bps. Market sentiment was driven by Fed Chair Powell's cautious remarks on tariffs and inflation risks, while other officials reinforced a wait-and-see approach. Renewed concerns over Fed leadership changes also supported demand for safe-haven treasuries. However, by 27 June, yields edged higher again, with the 10-year rising to 4.28% as core PCE came in slightly above expectations, suggesting inflation persistence may delay near-term rate cuts. ***Overall, the week showcased a tug-of-war between softening growth indicators and resilient inflation pressures***.

Fed at the crossroads: Cooling growth meets sticky inflation

US data paint a picture of cooling growth alongside persistent underlying inflation and a still-resilient labour market. Housing activity has softened even as consumer sentiment and jobless claims remain firmer than expected, and inflation metrics are broadly on target but show little sign of fading quickly. Last week the headline PCE inflation matched expectations at 0.1% m/m and 2.3% y/y in May, unchanged from April's monthly pace. However, core PCE inflation, the Fed's preferred gauge came in slightly above forecasts at 0.2% m/m and 2.7% y/y, up from a revised 0.1% m/m and 2.6% y/y in April.

Cross Asset fund flow as of 18th June'25

Category	4 wk. avg. ($bn)	2024 avg. ($bn)
All Equities	–4.9	7.6
All Bonds	17.2	10.6
US Equities	–8.0	5.7
US Bonds	4.9	4.3
EM Equities	0.4	–0.2
EM Bonds	0.69	–0.37
Japan Equities	–2.2	0.2
China Equities	–0.18	–0.18
Europe Equities	0.2	–0.9
Europe Bonds	9.4	4.7

Source: JP Morgan

Bond funds are surging with non-US and European issues seeing near-record inflows. EM bonds hold steady, but EM equities lag, underscoring a clear tilt toward income over risk.

While there was downward revision in Q1 GDP to -0.5% (against a -0.2% forecast). In this environment, the Fed is maintaining its current policy stance of holding rates steady to assess whether slowing demand ultimately brings inflation firmly back to target before embarking on any rate cuts.

Trade tariffs on watch: After China, India and Japan makes stride

Malaysia and the US struck a deal this week to wrap up tariff negotiations before the July 9 deadline, joined by South Korea's technical teams clinching breakthroughs on autos and electronics in Washington. By contrast, Trump abruptly "terminated ALL discussions" with Canada over its digital services tax, warning of looming levies. Meanwhile, Japan and India pressed on extending their negotiating missions in D.C. and racing to secure pacts by before the July 9 deadline.

US Economic data last week

Date	Economic Indicator	Actual	Consensus	Interpretation
30-Jun-2025	University of Michigan Consumer Sentiment (Jun)	60.7	60.5	Much stronger
30-Jun-2025	US Headline PCE Inflation (May)	0.1% m/m, 2.3% y/y	0.1% m/m, 2.2% y/y	In line
30-Jun-2025	US Core PCE Inflation (May)	0.2% m/m, 2.7% y/y	0.1% m/m, 2.6% y/y	Slightly above
26-Jun-2025	US Building Permits (May)	-2.0% m/m	0.0%	Weaker
26-Jun-2025	US New Home Sales (May)	623 K (-13.7% m/m)	N.A.	Weaker
27-Jun-2025	US 1Q25 GDP Revision	–0.5% q/q	–0.2% q/q	Weaker
27-Jun-2025	US Initial Jobless Claims (w/e 21 Jun)	236 K	246 K est.	Slightly stronger

Key data this week

Date	Event	Market Expectation
1-July-2025	Eurozone CPI YoY (Jun, Flash)	2.0% (vs. 1.9% prior) - Stabilization near ECB's target
1-July-2025	US ISM Manufacturing Index (Jun)	48.8 (vs. 48.5 prior) - Continued contraction, little change
3-July-2025	US Nonfarm Payrolls (Jun)	120K (vs. 139K prior) - Slower hiring expected
3-July-2025	US Unemployment Rate (Jun)	4.3% (vs. 4.2%) - Gradual softening in labor market
3-July-2025	US Average Hourly Earnings MoM (Jun)	0.3% (vs. 0.4% prior) - Wage growth moderating
3-July-2025	US ISM Services Index (Jun)	50.8 (vs. 49.9 prior) - Back in expansion zone

Rupee logs best weekly gain in 2-yrs amid falling oil prices, weak DXY & FPI inflows

INR surged ~1.28% last week, breaking ₹86/$ for the first time in a month, driven by Israel-Iran ceasefire, with a sharp ~12% drop in oil prices & DXY at 3-yr lows

The Indian Rupee (INR) experienced notable volatility last week, influenced by global geopolitical tensions, fluctuating oil prices and easing dollar index. The key driver prompting rupee appreciation was after a 12-day direct exchange of airstrikes, with both Israel-Iran agreeing to halt hostilities, tumbling Brent crude oil prices to ~$66/bbl. Brent and WTI both dropped ~12%, the steepest weekly sell-off since Mar'23. DXY dropped to ~97; its lowest levels in over 3 years, levels last seen in Mar'22. Turning Point in the middle-east war made Rupee have significant single-day jump of ~64 paisa on 24th Jun'25, helped the Rupee break ₹86/$ handle, its biggest daily move in a month, ending the week stronger.

Last week, Rupee **appreciated by ~1.28% on a WoW** basis (Last Friday's close: ₹86.5900/$) [O: ₹86.7600/$, H: ₹86.8600/$, L: ₹85.4300/$ & C: ₹85.4850/$]. (Refer our report: FX weekly: Rupee weakens, Oil surges as Israel-Iran conflict escalates).

Oil prices plunged ~12% WoW amid easing Middle East tensions and shifting sentiment, offering some relief to the Rupee

Oil prices showed notable volatility last week. Brent crude opened at $78.90/bbl. on 23rd Jun'25 but dropped sharply to $65.93 by 24th Jun'25, before settling around $66.80 on 27th Jun'25. The biggest shift happened when prices **fell more than $12 from the previous day**, largely due to easing middle-east tensions and shifting market sentiment. Despite the steep drop, prices held above $65/bbl. for the remainder of the week, reflecting ongoing concerns about possible supply disruptions in the Middle East and changes in US crude inventories. Despite some end-of-week/month volatility, the combination of rising supply and uncertain demand creates a complex outlook for oil markets. On a WoW basis, prices are down ~**12%**, and they still reflect a sharp **YoY decline of ~23%**.

In contrast, the recent decline in oil prices is providing some relief for the Rupee, easing pressure on the currency despite other headwinds. (Refer our report: Beyond the Barrel: Global & Indian Macro at the crossroads)

FPI flows remain a concern for the Rupee, with YTD outflows of $9.54 bln till 27th Jun'25; FPIs stay net buyers in equities & debt in the latest week.

Lagging FPI flows continues to be worry for the local currency; continue to be negative this year to the tune of $9.54bln till 27th Jun'25. The trend has reversed since Apr'25; and finally turned positive this month with an inflow 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 **$1522mln vis-à-vis inflow of $139mln on a WoW basis**. Even in debt segment inflows came to the tune of **$251mln vis-à-vis mere outflow of $18mln** from the prior week. While FAR-related flows have remained relatively strong so far this year, totalling $2.71bln, but the selling intensified in Jun'25; with turnaround inflows of $368mln in the last week; recording a cumulative monthly outflow of $1.52bln — a continued trend from Apr'25, which saw an outflow of $0.63bln.

FX Reserves fell on account of a minor decrease in foreign currency assets

Foreign exchange reserves dropped by $1.02bln to reach **$697.94bln** for the week ending 20th Jun'25, largely driven by a $0.36bln fall in foreign currency assets, which declined to $589.07bln. With the decrease, total reserves remain $6.92bln below the record high of $704.86bln as on 27th Sep'24. A valuation-related gain of $0.76bln 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 $12.88bln. Historically, FX reserves—net of valuation changes—have shown a strong correlation with BoP trends.

India's Q4 FY25 current account surplus trimmed the FY25 deficit to 0.6% of GDP, aided by record remittances of $123bln, while weak capital flows drove a $5 bln BoP shortfall.

Q4 FY25 current account switched to a surplus as expected yet a higher number than our estimate drove FY25 C/A deficit to 0.6% of GDP vs our estimate of 0.7%. Apart from persistent strength in services exports, spike in remittances this year to record high $123bln was a key driver and growing thereafter cushioning the India's oil deficit. Meanwhile, BoP slipped into a deficit of $5bln in FY25 primarily on subdued FDI, FPI and banking capital outflows. That says sensitivity of C/A deficit to oil prices stays high with every $10/bbl. move in oil price affecting annual C/A balance by close to $15bln.

Despite occasional recoveries supported by foreign inflows and softer DXY trends, the rupee has remained vulnerable, reflecting the currency's sensitivity to geopolitical risks and energy price swings.

The much-touted US-India trade deal which was earlier widely speculated to close by first week of July remains under close watch. Tariff discussions have hit an impasse as India and the US clash over import duties on auto parts, steel and agricultural products, undermining hopes for a deal before Trump's July 9 tariff deadline.

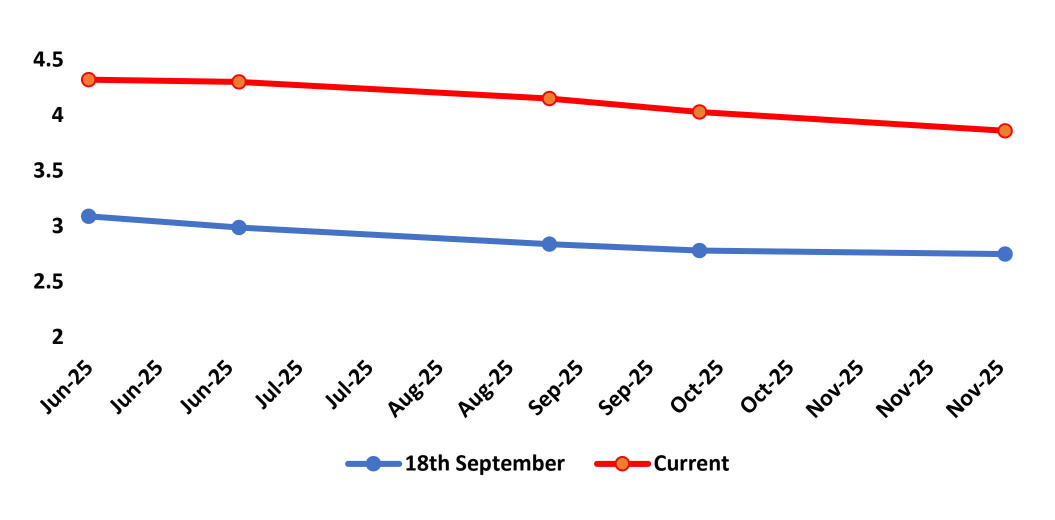
Despite intermittent support from foreign inflows, softer DXY, and upcoming IPOs, the rupee remains vulnerable to geopolitical risks, energy price swings, and persistent dollar demand, with medium-term bias tilted toward gradual depreciation toward ₹87.30/$ by year-end.

Jul'25 marks a key milestone for India's IPO market, with major firms 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.

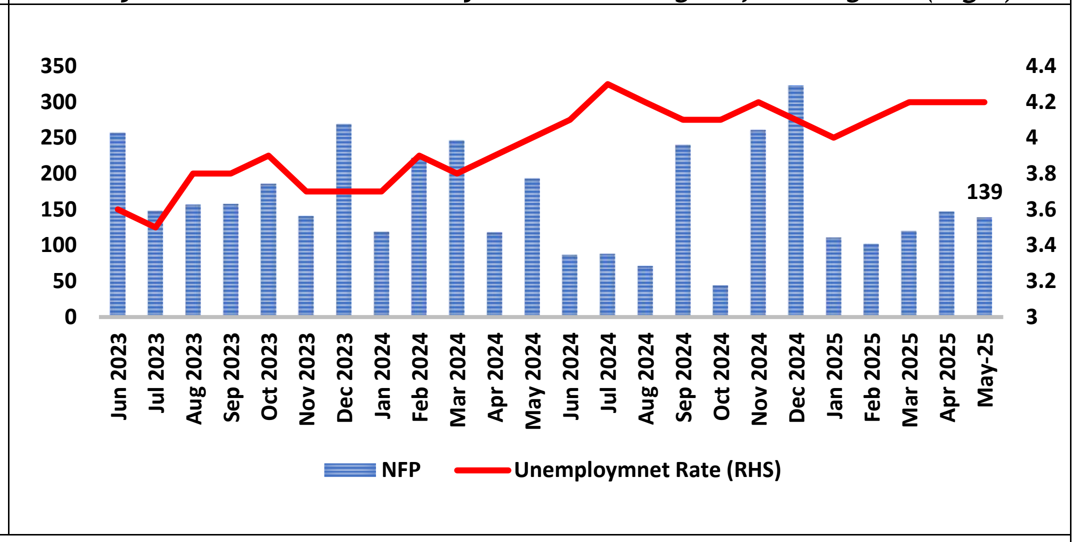
Technically, the USD/INR pair has respected our previously identified levels. We anticipated Middle-East tensions to ease in the near term, which in turn led to softer global crude prices and a rebound in rupee sentiment, with immediate support seen around ₹85.20/$, a decisive break below this level could open the door to ₹84.70/$. 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, RBI policy actions, 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**.

Markets are pricing two rates cut in H2 this year (Fig 1)

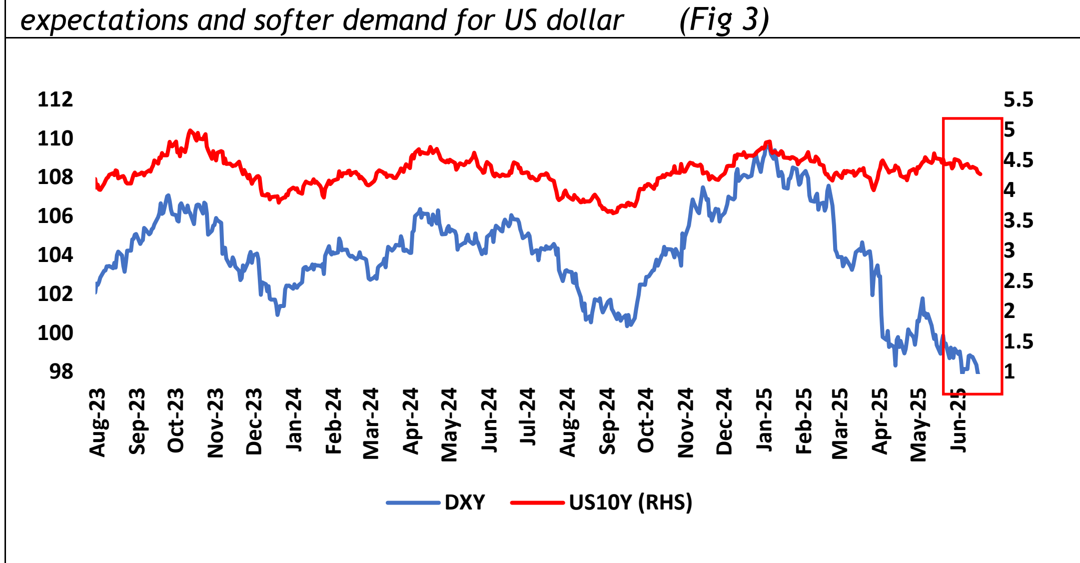


The US job market remains steady but exhibits signs of slowing (Fig 2)

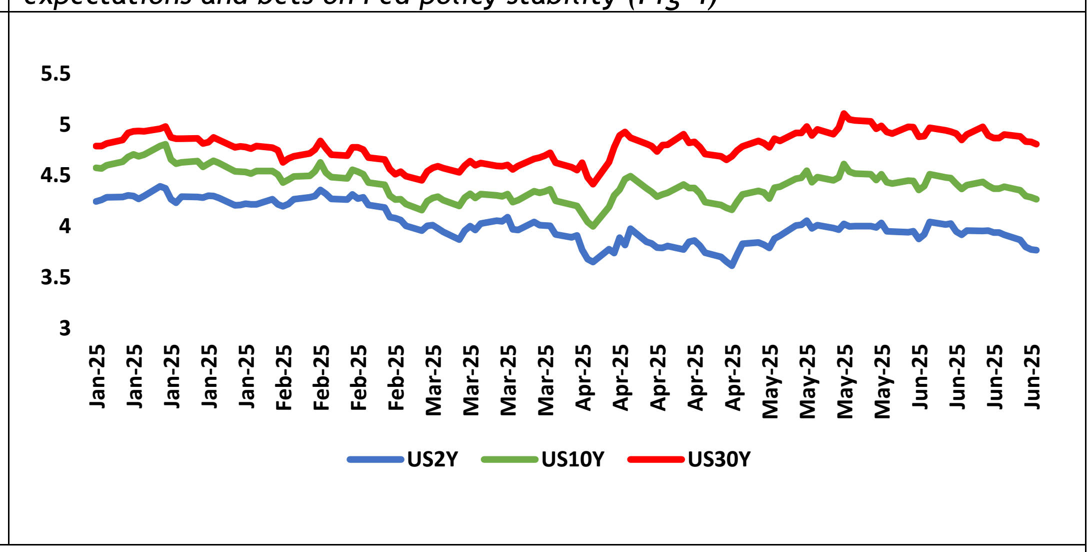


Source: Bloomberg, LSEG workspace, UBI research

This month both the DXY and US10Y weakened reflecting easing inflation expectations and softer demand for US dollar (Fig 3)

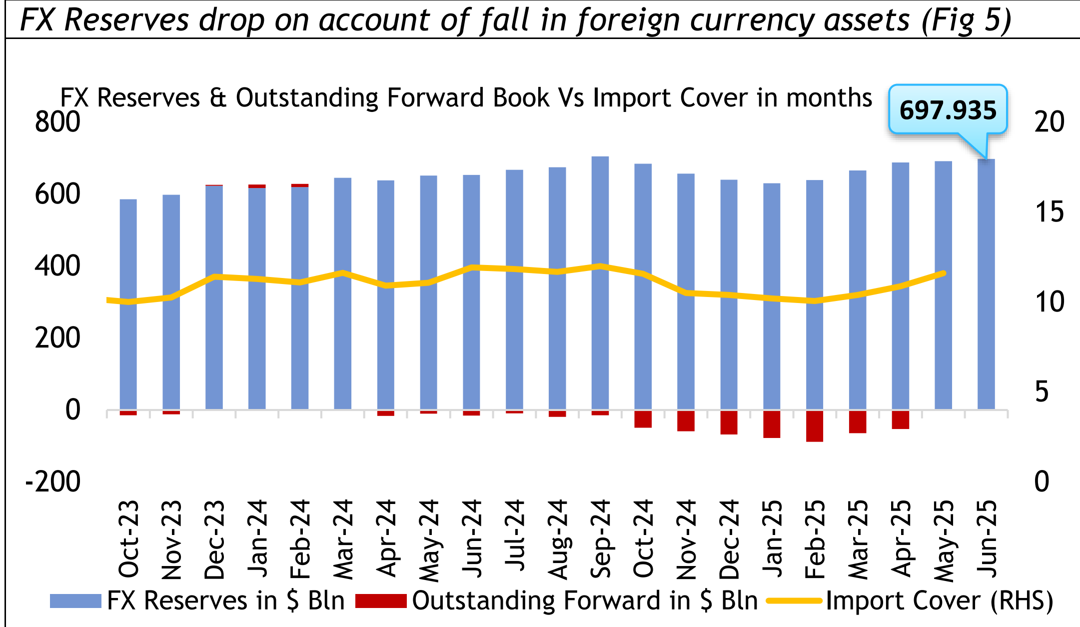


US Treasury yields have eased over June driven by cooling inflation expectations and bets on Fed policy stability (Fig 4)

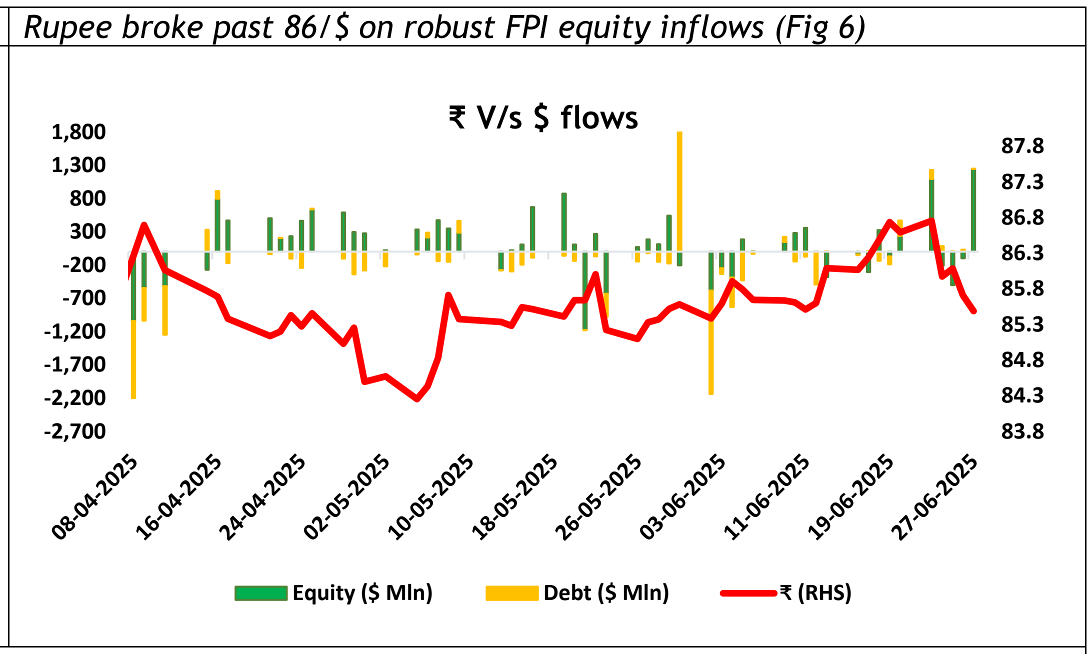


Source: Bloomberg, LSEG Workspace & UBI Research

FX Reserves drop on account of fall in foreign currency assets (Fig 5)



Rupee broke past 86/$ on robust FPI equity inflows (Fig 6)



Source: Bloomberg, CEIC, LSEG Workspace & UBI Research

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