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FX Views (Table 1)

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	<b>Bias: Consolidation with bearish bias</b> Resistance: 99.35/100.00 Support: 97.50 / 97.60.	Over July, large speculators in DXY futures swung from aggressively cutting their dollar-shorts in mid-month back toward a more bearish stance by month-end
EUR/USD	<b>Bias: Bearish</b> Support: 1.1500 / 1.1430 / 1.1300 Resistance: 1.1630 / 1.1700 / 1.1780	Euro has come under sustained selling pressure after Fed held the rates steady
USD/JPY	<b>Bias: Bullish</b> Support: 147.00–146.60 / 148.17 Resistance: 148.83 / 151.20 – 151.50	With the Fed on hold and BoJ still cautious, another leg toward 151.20–151.50 remains the next bullish target
USD/INR	<b>Support: 86.80 / 87.20</b> Resistance: 87.90 / 88.50	Gradual depreciating bias. US trade talks, & FPI (out)flows on close watch.
USD/CNH	<b>Bias: Bullish</b> Support: 7.1725 Resistance: 7.21	US-China final trade deal closely watched.

Market-Implied Path (U.S. Fed) (Table 2)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.10 %	-22 bp
10 Dec 2025	3.75 %	-58 bp
29 Apr 2026	3.45 %	-87 bp
28 Oct 2026	3.11 %	-121 bp
09 Dec 2026	3.03%	-129bp

Next meeting probabilities: **No change 11%, 25 bp cut: 89 %.**

The U.S. is entering a phase where trade policy shocks, evolving Fed leadership, and shifting macro fundamentals are colliding. Stagflation fears have re-emerged as Trump’s aggressive tariff measures begin to exert pressure on the U.S. economy. Treasury yields have risen steadily, reflecting heightened inflation expectations ahead of a critical CPI release this week.

Treasury yields remain resilient, with the 10-year holding above 4.25%, while the front end is pricing in cuts. Strong inflows into money-market funds (refer table 3) also create reinvestment risk should the Fed cut aggressively. The dollar’s path has been mixed, with the DXY down ~10% in H1’25 but up ~1.5% in H2 till date; a clear pivot to aggressive easing would likely undermine that strength.

The Fed faces a policy challenge as **slowing job growth collides with renewed tariff-driven inflation**, testing its dual mandate of maximum employment and price stability. Against this backdrop, **political dynamics are adding pressure**. Speculation around upcoming Fed leadership changes including the potential appointment of **Stephen Miran, known for a dovish tilt and downplaying tariff inflation effects** is fuelling debate over the central bank’s direction. The September FOMC meeting is now a focal point: while consensus points to a rate cut, **the size of the move remains uncertain**. Some in the market are leaning toward a 50bps cut if incoming data confirms labor softness and tariff pass-through, while others expect a more measured 25bps move to preserve optionality.

While data shows Trump’s post-Geneva tariff regime has had a measurable dampening effect on **China’s exports to the U.S.**, driving a steep decline in U.S.-bound shipments in the H1’25 (fig 1). Short-term, the Geneva truce provided a brief respite and prompted some recovery in trade flows, but it did not fully restore U.S. import demand for Chinese goods. Instead, **exporters diverted to other markets (ASEAN, E.U.) and navigated a climate of ongoing uncertainty**. The China’s export data from January-July 2025 tell a story of disruption but also adaptation.

This week’s market focus will be on several key events and data releases. **Trump is set to hold direct talks with Russian President Putin**, with the apparent exclusion of Ukrainian President Zelenskyy sparking concerns that the White House and Kremlin could negotiate a deal involving concessions Kyiv is unwilling to make. While **Crude oil prices have declined -8.30% since early August**, reflecting tentative optimism regarding a truce. On 12 August, **the 90-day pause on US-China tariffs expires**, a potential pivot point for trade dynamics. The same day brings US July CPI: headline 0.2% m/m, 2.8% y/y (vs 0.3% m/m, 2.7% y/y in June) and core 0.3% m/m, 3.0% y/y (vs 0.2% m/m, 2.9% y/y).

**Tariffs and Global trade pressures intensify**

The U.S. tariff policy has shifted from targeted disputes to a broad-based protectionist strategy, extending duties across a wide range of imports from industrial machinery to consumer electronics raising the average tariff rate and reshaping the pricing dynamics of key imports. In response, major trade partners are signalling potential retaliation: the E.U. is weighing counter-tariffs on U.S. agricultural exports, while China has hinted at selective restrictions on U.S. technology imports. The escalation **risk is high a tit-for-tat cycle** which could weaken export orders, and disrupt global manufacturing supply chains, particularly in semiconductors & automobiles.

**Shifted focus toward sector-specific tariffs** Trump has threatened an initial levy on pharmaceutical imports that could escalate to 150%-200% over the next two years and is also considering a 100% tariff on semiconductor imports. The current U.S.-China trade truce is set to expire on 12 August, and while a further **90-day pause is under discussion**, Trump has threatened to penalize China for purchasing Russian oil mirroring the additional 25% tariffs already imposed on India for similar actions. However, Trump’s chief trade advisor, Peter Navarro, has suggested that such measures could be moderated given their potential economic fallout.

Meanwhile, U.S. Treasury Secretary Bessent indicated that negotiations with **countries still without a trade deal should be largely completed by the end of October**.

## Cross Asset fund flow as of 28<sup>th</sup> July'25

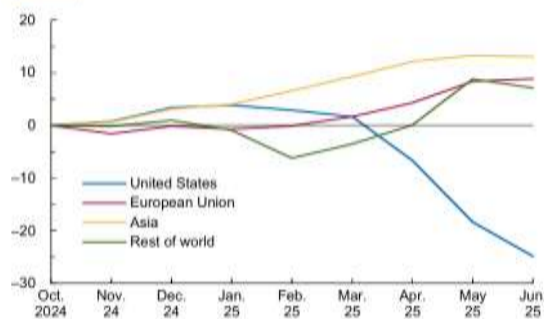
(Table 3)

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	-2.0	7.6
All Bonds	15.0	10.6
US Equities	-8.6	5.7
US Bonds	5.5	4.3
EM Equities	1.1	-0.2
EM Bonds	0.05	-0.37
Japan Equities	-1.1	0.2
China Equities	0.06	-0.18
Europe Equities	2.0	-0.9
Europe Bonds	6.8	4.7

Source: JP Morgan

(Fig 1)

Figure 2. China's Cumulative Export Growth by Destination (Percent)



Sources: General Administration of Customs, China; Haver Analytics; and IMF staff calculations.  
Note: Growth rates are calculated using three-month moving averages of seasonally adjusted goods exports, which are valued on free-on-board basis. Asia does not include Oceania.

Source: IMF

## China exports: monthly snapshot (Jan-Jul 2025)

(Table 3)

Month (2025)	Total exports (YoY)	Exports to U.S. (YoY)	Notes
Jan-Feb (combined)	+2.3%	-12.6%	Weak start; imports 8.4%.
Mar	+12.4%	+4.5%	Front-loading begins as tariff risk rises.
Apr	+8.1%	-21%	Export growth still elevated; Geneva talks imminent.
May	+4.8%	-34.5%	Geneva pause begins May 12–Aug 12; U.S. lane plunges.
Jun	+5.8%	-16.1%	Partial stabilization vs May, but still down y/y.
Jul	+7.2%	-21.67%	Front-loading ahead of Aug 12 expiry; ASEAN +16.6% y/y.

Source: China's customs data

INR ended week down under pressure from US tariffs, hawkish FED signals, and FPI outflows, despite support from softer crude and a weaker DXY.

US trade tariffs have escalated tensions and pressured the INR by weakening export competitiveness.

## China trade: What the data say after the Geneva tariff pause

China's July customs release shows a split picture: **headline exports rose 7.2% y/y** and **imports 4.1% y/y, yet shipments to the U.S. fell -21.7% y/y**. The **trade surplus narrowed to about \$98.2bn** from June's ~\$114.8bn. In other words, the overall export rebound is real, but the U.S. lane remains weak. This broadly attribute the July strength to **front-loading** ahead of the **Aug 12 expiry** of the 90-day de-escalation agreed in Geneva on **May 12**; China is clearly **deepening trade ties with ASEAN, Africa, Latin America, and Europe**. The data up to July 2025 show these regions readily absorbing goods that might have gone to the U.S.

The **IMF's July 2025 WEO** update links this pattern directly to the Geneva pause: effective tariff rates were **lowered temporarily for 90 days** (to Aug 12), which boosted trade in the near term through front-loading, while **U.S.-bound sales stayed soft** and sales to the **rest of the world picked up** (refer fig 1). IMF also notes that once the pause ends, front-loading should unwind and tariff uncertainty could again weigh on flows.

Trump's post-Geneva tariff regime has had a measurable dampening effect on China's exports to the U.S., driving a steep decline in U.S.-bound shipments in the first half of 2025. Short-term, the Geneva truce provided a brief respite and prompted some recovery in trade flows, but it did not fully restore U.S. import demand for Chinese goods. Instead, exporters diverted to other markets and navigated a climate of ongoing uncertainty. The export data from January-July 2025 tell a story of disruption but also adaptation: China's overall exports grew in spite of the tariffs, thanks to market diversification, yet exports to the U.S. showed underlying weakness and volatility.

Going forward, unless a durable agreement is reached, these trends point to a more fragmented global trading system, with U.S.-China trade suppressed and each country seeking alternatives. The tariff clash has strained bilateral relations and could leave lasting economic scars, from entrenched supply chain shifts to reduced bilateral trust. In the long run, the full impact will depend on whether the two sides can negotiate a stable arrangement or whether tariff escalation resumes, cementing a path toward broader economic decoupling. For now, the first seven months of 2025 have been a cautionary tale of how aggressive tariffs reshape trade causing short-term turmoil and potentially heralding a long-term realignment of global trade flows.

## Rupee dips on FPI outflows, trade jitters; aided by softer DXY & Weak Crude

Last week, the Indian rupee traded under pressure, moving in a narrow range against the U.S. dollar and ending the week **depreciated by -0.13%** on a WoW basis (Last Friday's close: ₹87.5400/\$) [O: ₹87.2150/\$, H: ₹87.8950/\$, L: ₹87.1950/\$ & C: ₹87.6525/\$]. Although the decline was modest, it reflected one of the steepest weekly losses in recent months, weighed down by U.S. tariffs on Indian exports. The impact has been negative, alongside hawkish US FED signals and persistent FPI outflows, weighed on the local currency despite some relief from softer crude prices and a weaker DXY, reinforcing its near-term downside bias. Sentiment remained subdued ahead of key inflation data, with the rupee underperforming most Asian currencies. Markets now await upcoming inflation prints and progress in India-U.S. trade negotiations for further cues. (Refer report: [FX weekly: Markets navigate U.S. labor market woes, Fed caution and tariff uncertainty](#))

### 🔑 Key Drivers of Rupee Movement:

#### Negative contributors →

- ❖ **Trade tariffs** imposed by the U.S., a fresh 25% levy on Indian exports, from 7<sup>th</sup> Aug'25, and announcing a further 25% penalty effective 27<sup>th</sup> Aug'25, taking total tariffs to 50% have escalated tensions and pressured the INR. Targeting sectors such as seafood, organic chemicals, apparel, jewelry, and carpets (while exempting key exports like pharma and electronics), the measures have hurt India's export competitiveness and added to economic uncertainty.

The bone of contention has been the high share of Russian Oil imports. Despite reduced Russian oil discounts, India has contained risks to its economy and the rupee by diversifying crude imports. As Russian oil's share fell to 33% in Jul'25, imports from the U.S. and Middle East grew sharply, offsetting higher costs. With OPEC's steady production supporting stable global supplies,

Continually weak FPI flows kept pressure on the rupee; last week saw equity selling, debt buying & a FAR outflow

Crude oil prices fell driven by easing geopolitical tensions and growth concerns, offering some relief to the INR.

FX reserves declined last week, driven by a fall in foreign currency assets and valuation losses

Rupee to trade cautiously; weighed by US trade tariff truce and FPI outflows. Easing DXY & Crude oil prices to be closely watched.

Timeline of upcoming events	
Date	Event
August 15, 2025	U.S. President Trump & Russian President Putin are scheduled to meet in Alaska
August 27, 2025	Additional Tariff - Extra 25% tariff, raising total to 50%; some exemptions apply
August 31 to September 1, 2025	Modi's Scheduled Visit to China to attend Shanghai Cooperation Organisation (SCO) Summit in Tianjin

this strategy has shielded India from a major external shock and helped prevent rupee volatility. The Rupee has weakened against major global currencies amid safe haven dollar demand, trade tariffs, and reduced Russian oil import discounts. While India benefits from diverse exports and remittances. Rupee remains vulnerable because of high import dependence and sensitivity to global financial tightening.

- ❖ **Continually weak FPI flows** have weighed on the rupee, with YTD net outflows at \$12.98 bn as of 8<sup>th</sup> Aug'25. Last week, FPIs remained net sellers in equities, **offloading \$1.3bn vs -\$2bn** the week prior, while staying net buyers in debt at **\$307mln vis-a-vis \$413mln**. FAR flows, totaling \$3.87bn YTD, saw a \$110mln outflow last week, taking Aug'25's net outflow to \$89mln.

**Driving forces →**

- ❖ **Brent crude oil prices** declined driven by easing geopolitical tensions; particularly hopes of a Russia-Ukraine peace deal that could reduce supply disruptions and concerns over global economic growth and energy demand amid US tariff hikes. This fall likely offered some relief to the INR by lowering crude import costs, easing pressure on the trade deficit for one of India's largest imports. On a WoW basis, prices dipped by **~3.9%**, and they still reflect a sharp **YoY decline of ~10%**.
- ❖ **DXY** declined modestly by **~0.63%** on a WoW basis, falling to around 98 levels. This reflects growing market expectations of **potential 25bps FED rate cut in sep'25** amid signs of a softening labor market and geopolitical concerns. The softer DXY eased some pressure on the INR and supporting EM currencies. However, despite this relief, the rupee still experienced depreciation due to stronger localized factors such as renewed US tariffs.

**Additional Info's:**

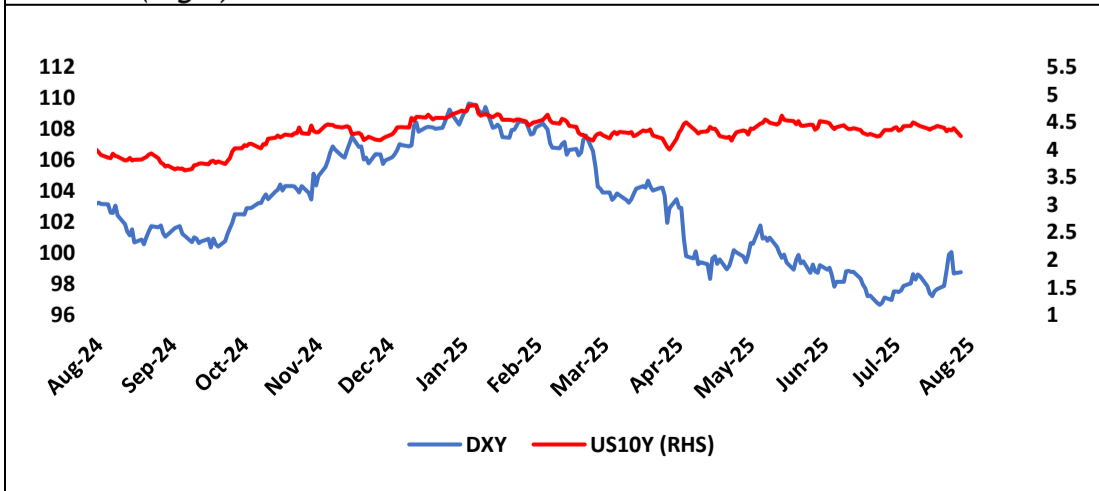
- ❖ **FX reserves** dipped by \$9.32bn to \$688.87bn for the week ending 1<sup>st</sup> Aug'25, driven mainly by a \$7.32bn fall in foreign currency assets to \$581.61bn. With this fall, reserves are now shy further away **-\$16bn** below the all-time high of \$704.86bn recorded on 27<sup>th</sup> Sep'24. A valuation-related loss of \$4.53bn was also recorded, reflecting the central bank's continued efforts to stabilize the forex market. Our analysis indicates a BoP surplus of **-\$6bn** for FYTD26, with FX reserves-net of valuation effects continuing to closely track BoP dynamics.

**Outlook (INR - ₹ view):**

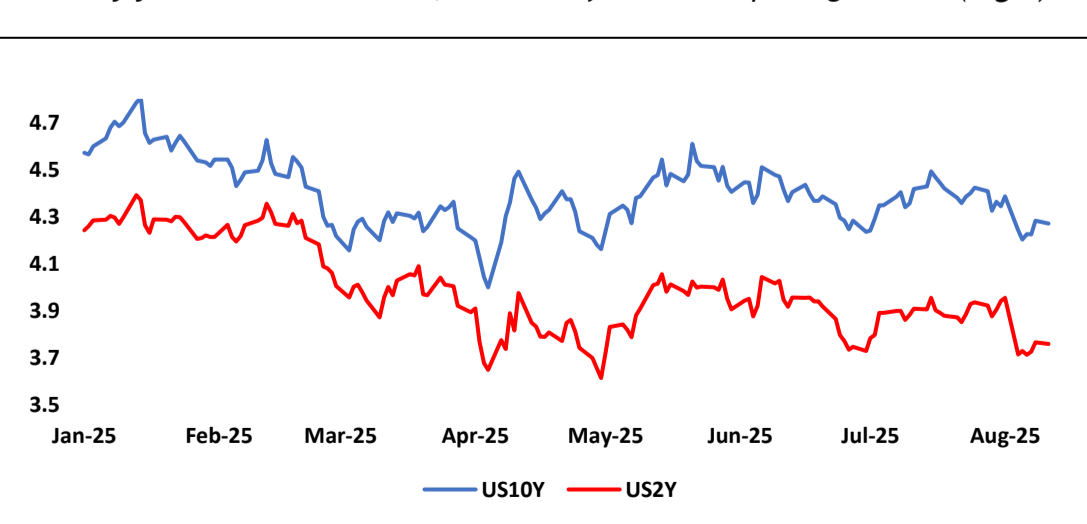
This week, the outlook for the INR is relatively stable but with a slightly vulnerable stance. We anticipate a rebound in rupee sentiment to come soon while reflecting a narrow trading band with limited volatility, with immediate support seen around ₹87.20/\$, a decisive break below this level could open the door to ₹86.80/\$. On the upside, resistance is expected near ₹87.90/\$, and a breach of that could push the pair towards fresh all-time highs of ₹88.50/\$.

The rupee is likely to remain influenced by lingering concerns over U.S. trade tariffs, ongoing foreign portfolio outflows, and hawkish FED expectations. While a softer DXY and cooling crude oil prices may offer some short-term relief, the broader tone remains cautious. Markets will closely watch India's inflation data and progress in India-U.S. trade talks. The rupee may also underperform regional peers if risk aversion persists.

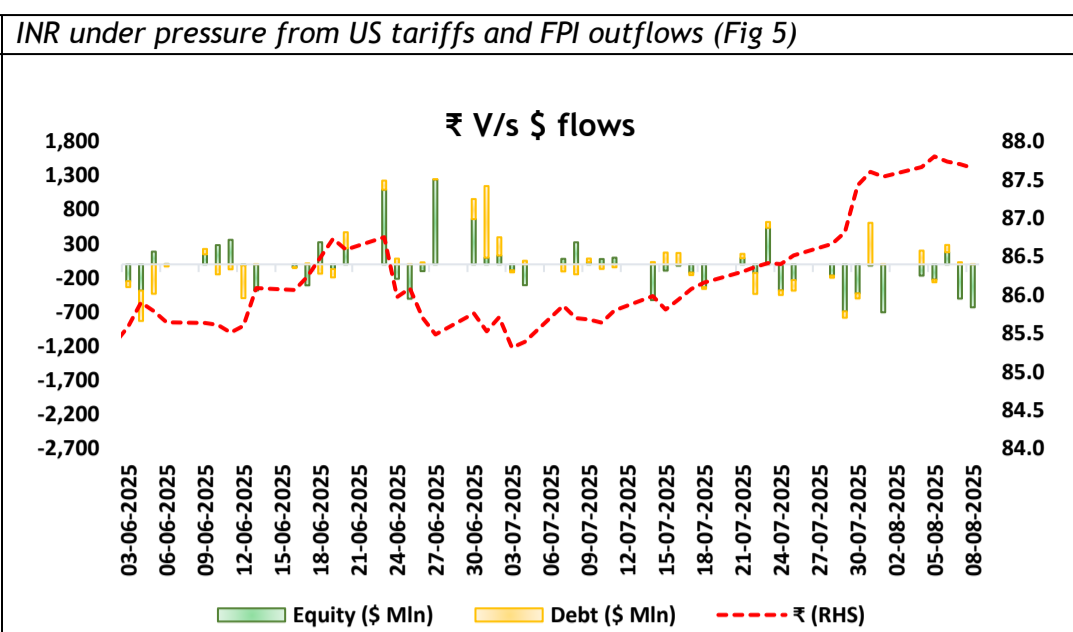
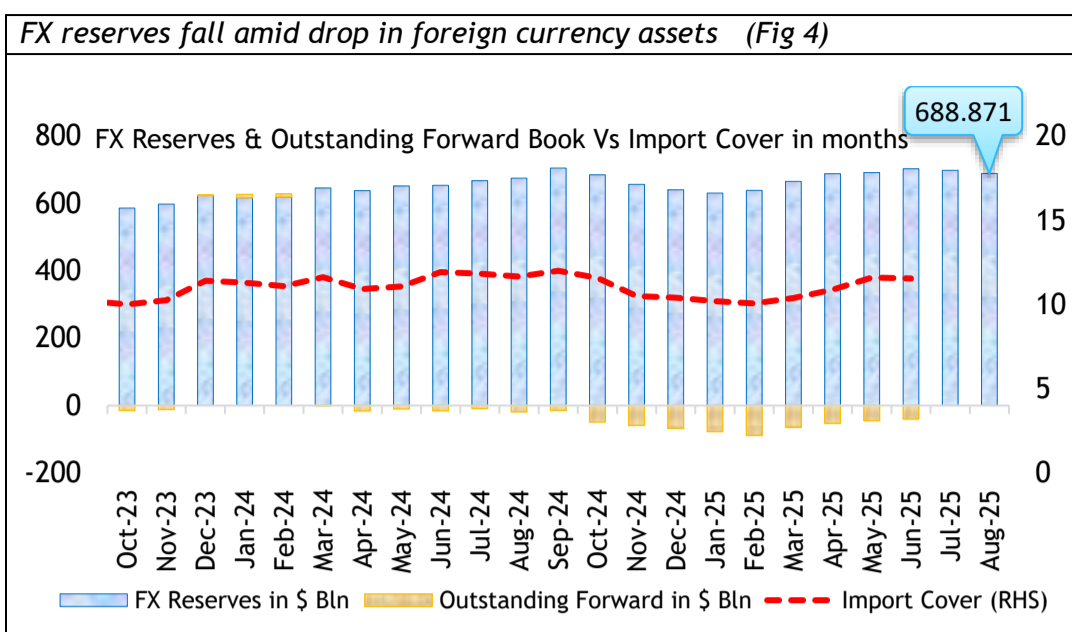
The DXY down ~10% in H1'25 but up ~1.5% in H2 While treasury yields remain resilient (Fig 2)



Treasury yields remain resilient, while the front end is pricing in cuts (Fig 3)



Source: Bloomberg, LSEG Workspace & UBI Research



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