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FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	Range: 98.10 – 98.58 Support: 98.19 / 97.90 Resistance: 98.67 / 98.86	A breach below 98.20 would open the way to 97.80, while a rebound above 98.70 could test 99.80.
EUR/USD	Strong support: 1.1690 Resistance: 1.1795 / 1.1830	Price action points to further EUR strength toward 1.1790. A clear break above 1.1790 would shift focus to 1.1810, while the downside remains protected by 1.1690.
USD/JPY	Support: 145.75 / 146.50 Resistance: 147.50 / 148.50	Downward momentum is showing early signs of slowing. A breach of 147.50 would imply that 145.80 (the recent low) marks the extent of current weakness
USD/INR	Support: 85.80 / 86.20 Resistance: 86.90 / 87.40	Gradual depreciating bias. US trade talks, & DXY on close watch.
USD/CNH	Support: 7.1395 / 7.1440 Resistance: 7.1730	USD remains on a negative footing and could drop to 7.1395. This view holds as long as USD/CNH stays below the strong resistance at 7.1730.

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	3.89 %	-43 bp
29 Apr 2026	3.56 %	-77 bp
28 Oct 2026	3.19 %	-114 bp

Next meeting probabilities: **No change 97 %**, **25 bp cut: 3 %**.

Markets price gradual Fed easing, with 114 bps of cuts by Oct 2026, but a July rate cut remains highly unlikely (5% probability).

The global economy is undergoing a complex transition shaped by divergent policy approaches, realignment in trade relationships, and a normalization of financial conditions. Financial markets have shown cautious optimism in recent sessions, buoyed by subdued volatility and resilient inflows into bond funds. This has occurred even as the U.S. dollar consolidates and long-end yields remain elevated amid mounting fiscal concerns.

High-stakes trade negotiations between the U.S. and key partners are including the EU, U.K., Japan, are positively influencing investor sentiment. Even as discussion with Korea and India are impending. Market participants are closely watching for developments tied to the August 1 deadline and sector-specific tariff resolutions. Simultaneously, corporate responses to anticipated tariff regimes and broader U.S. trade strategy are revealing growing uncertainty for exporters, automakers, and capital allocators alike.

After weeks of heavy bearish positioning, the dollar is unwinding shorts. Yet, this moderation does not signal a clear shift to a bullish stance. While global fund flows reflect a cautious mood: bond funds remain a safe haven, while equity flows diverge U.S. equities see sporadic outflows, European stocks attract steadier demand, and emerging markets recover only modestly. ETF activity mirrors this split, with bond ETFs drawing inflows and equity ETFs largely flat since April.

Looking ahead, fading trade tensions, stable rates, and solid U.S. earnings should support risk assets. However, political instability in Japan, unresolved U.S.-India talks, and sticky US inflation could unsettle markets. While this week we have FOMC & BoJ, the Fed is widely anticipated to keep the Fed Funds Rate at 4.25-4.50% at its July 30 FOMC meeting. However, the decision to hold is unlikely to be unanimous. Fed Governors Michelle Bowman and Christopher Waller both Trump appointees have publicly endorsed a rate cut this week and were probably the only FOMC members favouring July easing. Attention remains on Trump’s “on again, off again” calls for Powell’s removal and his push for substantially lower rates. Nonetheless, markets will be watching for any hints of a September cut, currently priced in with a 60% probability in the futures market.

From tariff wars to investment-driven trade diplomacy

The global trade narrative is undergoing a structural transformation. As in recent weeks we saw a decisive pivot toward investment-led bilateralism, aimed at stabilizing trade flows and reinforcing economic alliances. The landmark US-Japan trade agreement, which reduces auto tariffs from 25% to 15% and commits both sides to a joint \$550 billion investment framework, is a defining example of this shift. Rather than merely rolling back protectionist measures, the deal institutionalizes industrial cooperation and strategic capital flows marking a return to managed globalization.

While the U.S. and the E.U. have reached a preliminary accord involving the application of a 15% tariff on the majority of EU exports to the U.S., with notable exemptions for strategic sectors such as steel, aluminium, semiconductor equipment and pharmaceuticals. Both sides signalled convergence on the core tariff framework during post-meeting statements. In parallel, Trump announced that the EU has agreed to procure \$750 billion in U.S. energy exports and intends to deploy an additional \$600 billion in investment signalling a significant deepening of transatlantic economic ties. This alignment extended beyond policy into rhetoric, with leaders emphasizing the scale of the deal, albeit in differing tones.

This evolving architecture has catalysed regional reordering. South Korea, facing strategic risk of trade exclusion, is negotiating its own investment-led deal with U.S. India, meanwhile, finalized a free trade agreement with the UK, offering tariff-free access on 99% of Indian exports and phased duty reductions on UK goods. Sectors such as pharmaceuticals, textiles, and electric vehicles stand to benefit from this arrangement, which signals India’s growing willingness to integrate into Western economic systems.

While these deals provide clarity for corporates and capital markets, they also signal a retreat from multilateralism. The emerging paradigm ties trade access to investment pledges and political alignment, with rules of origin and strategic asset controls playing increasingly central roles. The next round of US-China trade talks in Stockholm (July 28-29) and the anticipated US-India negotiations will further define the contours of this recalibrated global trade order.

Cross Asset fund flow as of 16th July'25

Category	4 wk. avg. (\$bn)	2024 avg. (\$bn)
All Equities	8.2	7.6
All Bonds	13.8	10.6
US Equities	1.7	5.7
US Bonds	6.0	4.3
EM Equities	1.5	-0.2
EM Bonds	0.19	-0.37
Japan Equities	-0.6	0.2
China Equities	-0.06	-0.18
Europe Equities	1.5	-0.9
Europe Bonds	4.4	4.7

Source: JP Morgan

Investors remain biased toward fixed income. U.S. bonds lead the surge, while U.S. equities have cooled sharply. Emerging-market stocks have regained traction, even as EM bonds lag, and Japan continues to see equity outflows. Europe shows a more balanced recovery across both asset classes. Overall, the data reflect a cautious stance seeking yield and stability in bonds, yet selectively redeploying capital into regions with improving fundamentals.

Rupee depreciated by ~0.42%, pressured by FPI outflows, strong import demand, and broad dollar strength.

Currency markets: Navigating volatility, Yield differentials, and Political risk

The foreign exchange landscape reflected the dual influence of these geopolitical shifts and evolving central bank strategies. The US dollar exhibited a mixed tone, weakening early in the week before rebounding slightly as Treasury yields firmed and global risk appetite moderated. Last week the U.S. dollar has weakened modestly (-0.8%) amid consolidation after extended speculative “short” positions were pared back, though positioning data remain neutral rather than outright bullish.

The U.S. 10-year Treasury yield has eased slightly to 4.39%, yet upward pressure persists at the long end of the curve as investors anticipate heavier bond supply from elevated U.S. deficits. While bonds continue to attract inflows, underlining their safe-haven status amid market uncertainty.

The Japanese yen captured significant market attention last week. After brief strength following hawkish commentary from BoJ Deputy Governor Uchida, the currency quickly retreated amid domestic political volatility. The governing coalition’s loss of control in the upper house has weakened Prime Minister Ishiba’s position, casting doubt on fiscal reform and policy continuity. Despite increased market expectations of a rate hike by year-end, the lack of political clarity makes the BoJ’s next steps uncertain.

Growth momentum moderates: A global economy in transition

The macroeconomic backdrop continues to reflect an uneven normalization in global growth. In the U.S., recent data shows that the economy remains resilient while the labor market remains historically tight, and wage growth has yet to cool meaningfully.

Inflation dynamics in the US are becoming more nuanced. Headline CPI is decelerating, driven by easing energy and goods prices, but core services inflation remains sticky. These crosscurrents are keeping the Federal Reserve cautious. While no immediate policy move is expected, the FOMC is likely to maintain a prolonged pause, with forward guidance cantered on data dependency and downside risks.

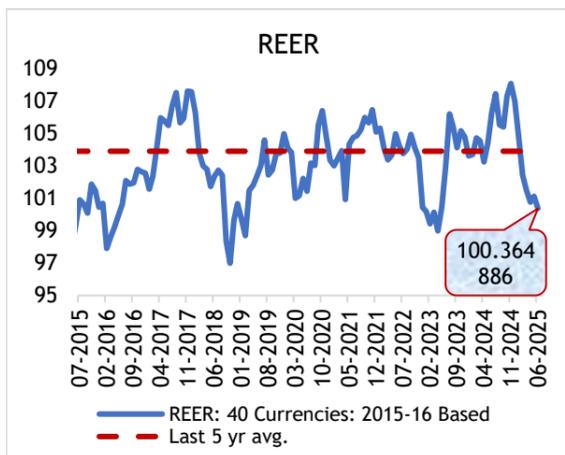
Across the Atlantic, the Eurozone economy is exhibiting signs of stagnation. Manufacturing PMIs remain in contraction territory, and consumer confidence is faltering. The European Central Bank (ECB) held its deposit rate steady at 2.00% last week. The Bank of England faces a similar challenge: while inflation has moderated, robust wage growth and core inflation are delaying a policy pivot.

Divergent Fed Voices: From Dovish Calls to Hawkish Safeguards

Over the past week, Fed communication has ranged from clearly dovish to distinctly hawkish. Christopher Waller emerged as the most dovish voice, openly warning he would dissent against holding rates and making the case for an immediate cut to bolster the labor market. Michelle Bowman struck a more neutral tone, focusing her remarks on the Fed’s capital-framework review without signalling a clear policy tilt. By contrast, Chair Jerome Powell, however, struck a more hawkish tone, emphasizing the importance of maintaining policy strength. Taken together, these varied tones suggest the FOMC remains divided: one camp eager to ease, another focused on structural oversight, and a third intent on preserving policy strength.

Rupee slips on stronger dollar and capital flows; all eyes on FED policy signal

The Rupee remained under pressure, weakening against the US Dollar and hitting a fresh monthly low. The depreciation was driven by broad-based dollar strength, robust importer demand for USD, softer foreign portfolio inflows, and growing risk aversion amid global trade tensions. While the local currency traded with relative stability, it extended its depreciation, ending the week below the lower bound of the previous week’s trading corridor. Despite a -0.83% WoW decline in DXY, the move reflected euro strength and investor caution ahead of key US data and the Fed’s policy decision. A new US-EU trade deal halving tariffs on European exports boosted the euro, DXY’s largest component. Meanwhile, uncertainty ahead of the upcoming Fed meeting (30th Jul’25) and key data releases such as PCE inflation and the jobs report kept markets in a wait-and-see mode, limiting dollar upside despite a brief rebound attempt in the latter half of the week. Outflows from Indian equities and portfolio investments, combined with robust import demand, contributed to the Rupee’s weakness.



Brent crude prices fell ~1.5% WoW & ~14% YoY, as bearish momentum persisted amid trade optimism, OPEC supply uncertainty & weak global cues.

FPI outflows remain a drag on the Rupee, with YTD net selling at \$9.63bln, as July saw renewed equity and debt outflows despite earlier inflows, while FAR-related flows stayed supportive.

The decline in FX reserves persisted, largely driven by a continued fall in foreign currency assets.

OFDI surged to \$5.03bln in Jun'25, while ECBs moderated at \$2.68 bln underscoring robust outbound investments and a cautious approach to external fundraising

Last week, Rupee depreciated by ~0.42% on a WoW basis (Last Friday's close: ₹86.1600/\$) [O: ₹86.2250/\$, H: ₹86.6375/\$, L: ₹86.1950/\$ & C: ₹86.5175/\$]. (Refer report: [FX weekly: Tariffs, Fed outlook, and the Bond market: A delicate balancing act](#))

The Rupee's Real Effective Exchange Rate (REER) against a basket of 40 currencies (Base: 2015-16=100), in terms of trade-based weights, clocked downside to 100.36 in Jun'25 vis-à-vis 101.12 in May'25. The Rupee's recent depreciation marks a move toward its fair value after a period of overvaluation. The currency is now competitively priced relative to its trading partners. Having underperformed most Asian currencies falling ~1% since Jan'25 the REER nearing 100 signals improved export competitiveness.

In May 2025, RBI made net forex purchases of about \$1.76bln, after being a net seller in April by \$1.66bln, showing a more balanced approach between buying and selling dollars to manage market liquidity and support the rupee amid pressure and also manage forward dollar positions effectively.

Brent crude oil prices opened the week at \$68.35/bbl. on 21st Jul'25, and saw a marginal rise to \$68.98/bbl., but remained broadly rangebound with a bearish bias, eventually settling at \$67.66/bbl.; prices oscillated within a narrow \$67-\$69 range throughout the week. Last week, Brent trended bearish, facing selling pressure and showing potential for further decline. The market anticipated a bearish correction unless prices broke above the key resistance, which could signal a reversal. Price movements were influenced by optimism from a US-EU trade deal reducing tariffs to 15% and a 90-day extension in the US-China trade truce, both supporting crude demand. However, uncertainty around July OPEC production estimates and ongoing supply concerns tempered sentiment, resulting in a cautious outlook amid mixed global economic factors. On a WoW basis, prices are down ~1.5%, and they still reflect a sharp YoY decline of ~14%.

Persistently weak FPI flows remain a concern for the local currency, with net outflows totalling \$9.63bln so far this year as of 25th Jul'25. The trend has reversed since Apr'25; however, outflows are seen in Jul'25 after inflow clocked in April, May and June. In the latest week, FPI continued being net sellers in equity to the tune of \$113mln vis-à-vis outflow of \$1090mln on a WoW basis. However, in debt segment outflows pursued to the tune of \$379mln vis-à-vis outflow of \$311mln from the prior week. While FAR-related flows have remained relatively strong so far this year, totalling \$3.76bln, followed by buying spree seen in Jul'25. In Jul'25 we saw outflows of ~\$298mln in the last week; recording a cumulative monthly inflow of \$707mln.

FX reserves pursued dropping by \$1.18bln to reach \$695.49bln for the week ending 18th Jul'25, largely driven by a \$1.20bln fall in foreign currency assets, which decreased further to \$587.61bln. With the recent decrease, total FX reserves have moved further away by \$9.37bln, from the record high of \$704.86bln reached on 27th Sep'24. A valuation-related gain of \$0.31bln 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.

Outward Foreign Direct Investment (OFDI) & External Commercial Borrowings (ECBs) reveals India's ODI commitments significant surge of \$5.03bln in Jun'25 vis-à-vis \$2.83bln in May'25; soaring 74% on a YoY basis and registering an 86% MoM increase. This strong growth suggests heightened confidence among Indian businesses to expand internationally, even as global economic uncertainties persist. ECBs signals a mixed trend in overseas fundraising by Indian companies, which marks a continued moderation from earlier in the year. Notably, Mar'25 witnessed a sharp spike in ECB filings, surpassing \$11bln, but this was followed by a steep decline to \$2.92bln in Apr'25 and \$2.68bln in May'25. Of the May'25 filings, \$2.74bln was through the automatic route and nothing via the approval route.

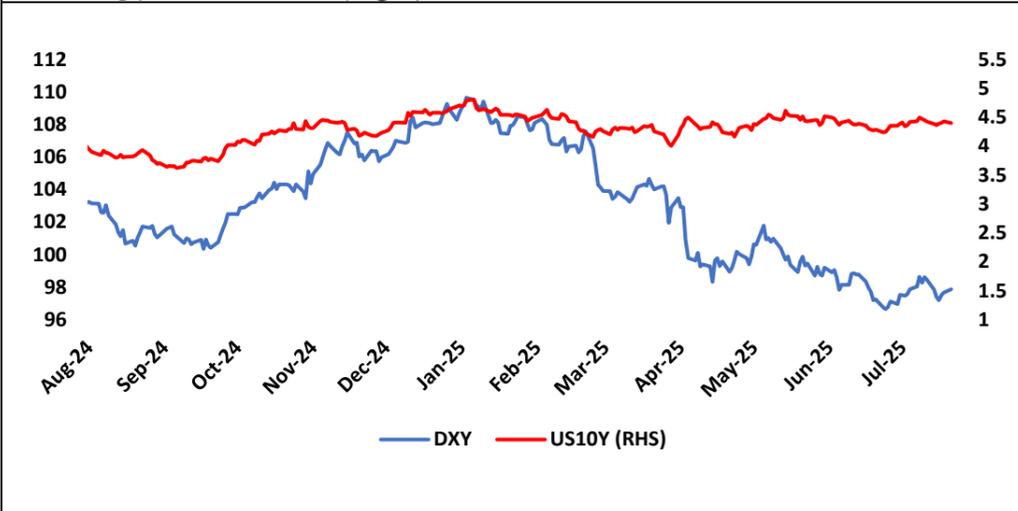
India is actively negotiating a trade deal with the US ahead of the August 1 tariff deadline, seeking better terms than those offered to other nations like Indonesia. Uncertainty remains high, prompting efforts to secure concessions for key exports like textiles, gems, and chemicals, in exchange for tariff cuts on US goods. Optimism around the talks has grown, with Commerce Minister Goyal citing "fantastic" progress, though sticking points remain in sensitive sectors like dairy and agriculture. Potential 100% US tariffs targeting Russian oil trade partners, including India, pose risks. The outcome is crucial, as failure to reach a deal could expose India to steep tariffs and trade-related economic pressures.

Rupee is expected to trade in a narrow range with slight weakening, supported by a strong ₹7,000 crore (~\$1bn) IPO week, while global cues, oil prices, DXY strength, and FPI flows continue to influence sentiment amid ongoing geopolitical & macroeconomic uncertainties.

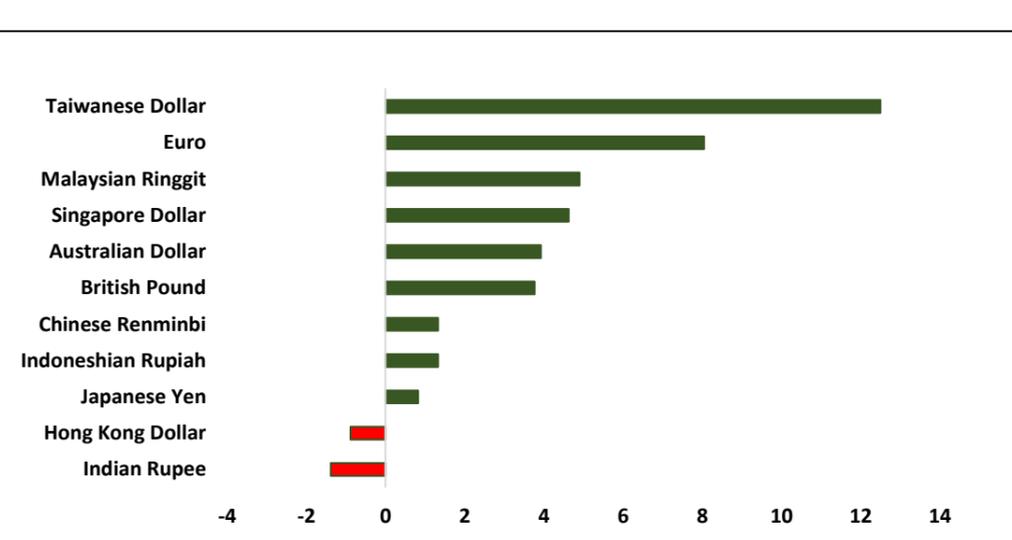
Jul'25 marks a key milestone for India's IPO market, with major firms like set to file DRHPs and launch bids, potentially attracting fresh foreign capital and offering near-term support to the rupee. The total amount targeted fundraising this week is approximately ₹7k crore (~\$1bn). This marks a strong resurgence in the IPO market with various major offerings including the National Securities Depository Ltd (NSDL) IPO expected to raise about ₹3,424 crore (~\$400 Mio) and few more may bring fresh foreign capital, potentially supporting rupee stability. However, persistent dollar demand from large importers and oil marketing companies is likely to keep a floor under the USD/INR pair.

The outlook for rupee shows a relatively narrow trading range with slight weakness expected against the US Dollar, supported by global safe-haven demand. We anticipate oil prices this week are likely to remain volatile but supported near current levels by supply concerns and geopolitical risks, with no clear directional breakout expected imminently and DXY is expected to show slight strength and stabilize around the current range, supported by steady US economic growth and cautious FED signals amid ongoing global uncertainties. Technically, the USD/INR pair has respected our previously identified levels. We anticipate a rebound in rupee sentiment to come soon, with immediate support seen around ₹86.20/\$, a decisive break below this level could open the door to ₹85.80/\$. On the upside, resistance is expected near ₹86.90/\$, and a breach of that could push the pair towards ₹87.40/\$. The rupee's direction will be shaped by global oil prices, geopolitical risks, DXY trends, domestic macro indicators, and foreign portfolio flows, all of which could drive sentiment and INR movement.

The U.S. dollar consolidates and long-end yields remain elevated amid mounting fiscal concerns. (Fig 1)

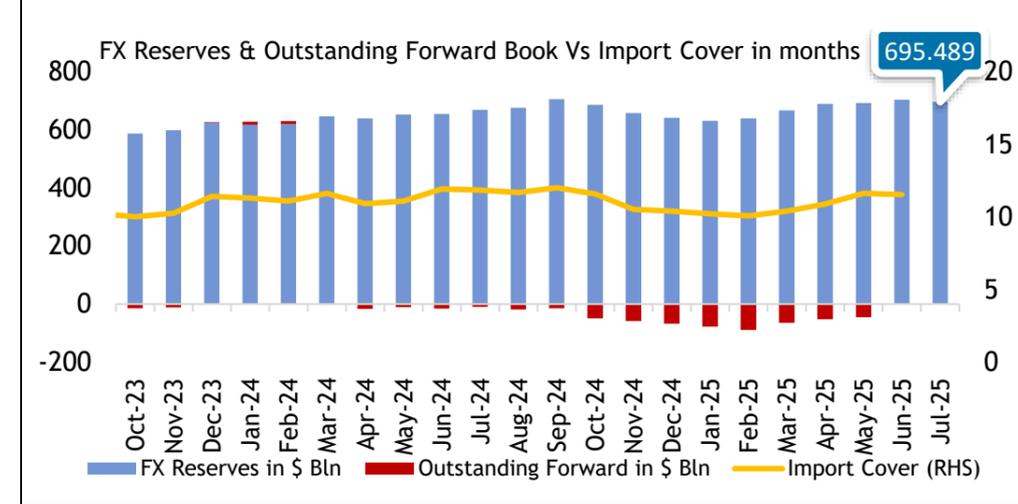


Currency % change since 1st January 2025 (Fig 2)

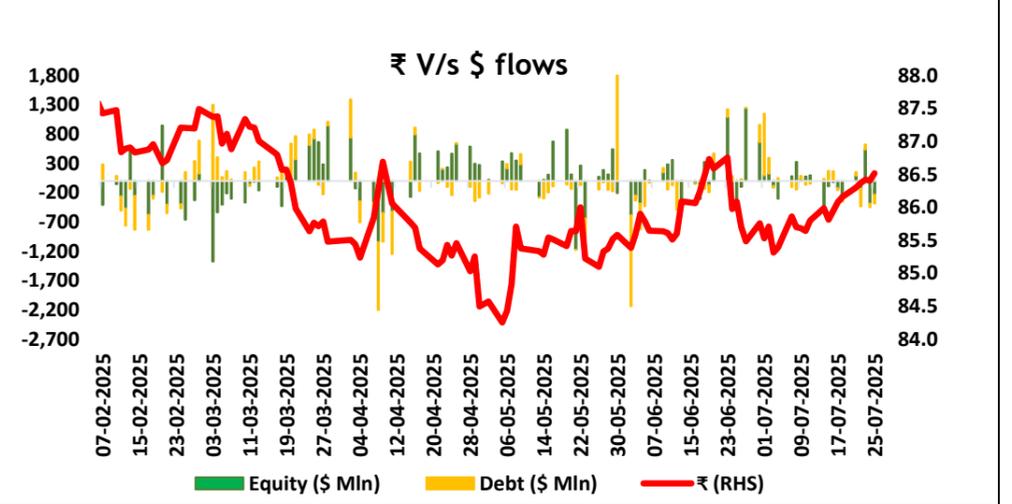


Source: Bloomberg, LSEG Workspace & UBI Research

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



Rupee traded range bound with a depreciating bias (Fig 4)



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

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