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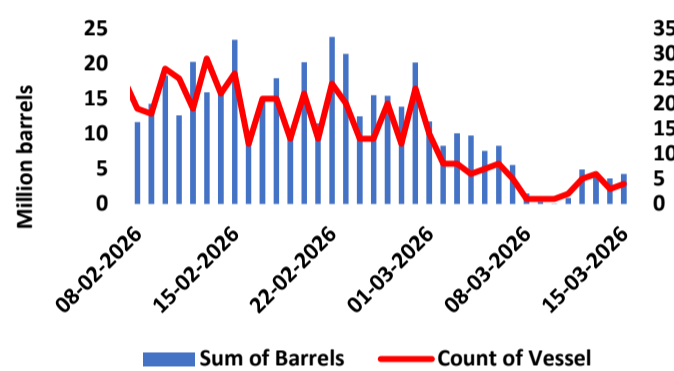
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Strait of Hormuz Traffic Collapse: Tanker traffic has fallen ~95%. Crude loadings are down 99% The disruption is unprecedented in modern history.

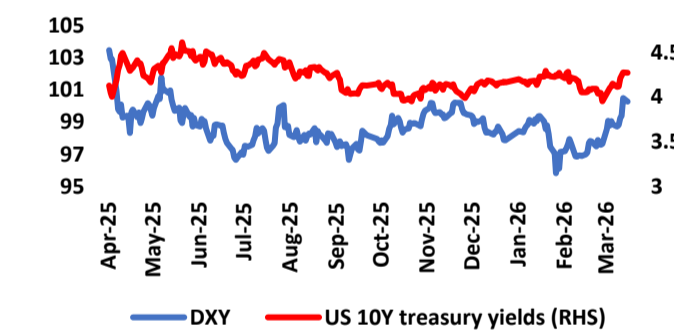
(Fig 01)



Source: Refinitiv

DXY has risen to its highest level in nearly ten months.

(Fig 02)



Source: Refinitiv

Market-Implied Path (Fed-Funds Futures snapshot) (Table 1)

Meeting	Implied Rate	Cumulative Change
18 Mar 2026	3.63%	-01 bp
29 Apr 2026	3.62 %	-02 bp
17 June 2026	3.58%	-06 bp
29 July 2026	3.53%	-10 bp
16 Sept 2026	3.50%	-13 bp
28 Oct 2026	3.46 %	-17 bp
09 Dec 2026	3.40%	-25 bp

Next meeting probabilities:

No change 99 %
25 bps cut 1 %

Global financial markets are experiencing severe dislocation as the US-Israel military campaign against Iran enters its third week, with volatility metrics surging and risk-off sentiment dominating across major asset classes, while there remain no clear signs of the conflict nearing resolution.

The geopolitical crisis in the Middle East has reached a critical inflection point. As per [media reports](#) U.S. President Trump is considering deploying ground forces to seize Iran's Kharg Island, which accounts for over 90% of Iranian oil production. Any such escalation would significantly intensify the conflict, potentially triggering renewed market jitters, heightened uncertainty and further upside pressure on global oil prices. Simultaneously, Trump's efforts to assemble an international coalition to forcibly reopen the Strait of Hormuz have met with conspicuous silence from key allies, with Japan and Australia explicitly declining to commit naval vessels despite direct presidential appeals. The coalition request extended to China, France, South Korea, and the U.K has thus far yielded no public commitments, exposing the limitations of U.S. diplomatic leverage in the current crisis.

Adding further complexity to the situation, Iran has proposed allowing tanker passage through the Strait of Hormuz exclusively for oil transactions denominated in Chinese yuan, effectively weaponizing the chokepoint to challenge the petrodollar system and accelerate de-dollarization trends. This proposition has introduced a new dimension to the conflict beyond purely military considerations, potentially forcing oil-importing nations to choose between energy security and alignment with the US-led financial architecture. Meanwhile, U.S. President Trump has directly linked progress on reopening the Strait to his planned summit with Chinese President Xi Jinping scheduled for late March in Beijing, threatening to postpone the meeting if China fails to provide assistance, while simultaneously pressuring NATO allies by warning the alliance faces a "very bad" future if members do not support Washington's Middle East operations.

Currency markets reflect intensifying safe-haven flows, with the US Dollar Index surging to a ten-month high of 100.36, gaining 2.5% in March alone and posting strength against all G-10 peers. The Japanese yen has weakened to 159.73/\$ despite mounting speculation of intervention from Japanese authorities, while the euro has fallen to seven-month lows near 1.1417. Fixed income markets have witnessed a pronounced bear steepening dynamic, with U.S. treasury yields climbing sharply across the curve as traders aggressively pare Fed rate cut expectations. The 2-year yield has surged to 3.73%, up approximately 26 basis points YTD, while the 10-year yield has reached 4.28%, its highest level in over a month.

Commodity markets remain the epicenter of volatility, with Brent crude oil prices breaching USD 104 per barrel despite the International Energy Agency's announcement of a record 400-million-barrel emergency reserve release. Gold has retreated from recent highs to approximately USD 5,019 per ounce as the stronger dollar and reduced central bank easing expectations weigh on the precious metal, though safe-haven demand continues to provide underlying support.

Meanwhile market participants have dramatically reduced expectations for monetary policy easing, with Fed Funds futures now pricing in merely 25bps of rate cuts by year-end, down sharply from approximately 60bps prior to the outbreak of US-Iran war. The upcoming Fed meeting on March 18th has emerged as a critical inflection point, with consensus expectations for rates to remain unchanged at 3.50-3.75%, though the accompanying Summary of Economic Projections and Chair Powell's communications will be scrutinized for signals regarding the policy path amid heightened uncertainty. ECB officials have adopted a cautious stance, with President Lagarde emphasizing the need to prevent the Iran conflict from triggering inflation dynamics similar to those experienced after Russia's invasion of Ukraine. Attention will now turn to the Bank of Japan and the Bank of England, both of which are scheduled to announce policy decisions on 19 March.

The macroeconomic backdrop has deteriorated modestly, with recent U.S. inflation data showing headline CPI at 2.4% YoY in February, while core PCE inflation remains elevated at 3.1%. The labour market continues to display resilience despite some moderation in momentum, with initial jobless claims holding steady at 213,000 in the week ended March 7, slightly below the consensus forecast of 215,000. At the same time, recent data releases point to softer growth dynamics, with Q4 GDP revised down from 1.4% to 0.7% and consumer spending broadly flat in January. Forward-looking indicators also suggest some cooling, with the NFIB small business optimism index declining for a second consecutive month to 98.8 in February as firms scaled back hiring and capital expenditure plans.

This week the focus remains firmly on the ongoing war and its near- and long-term implications for the global economy and financial markets. The policy calendar is particularly heavy, with central bank meetings across much of the G10, including the Bank of England, Bank of Japan, ECB and the Fed, alongside decisions from the Reserve Bank of Australia and the People's Bank of China. U.S. data releases are relatively lighter, with attention centred on housing indicators, February PPI final demand (18 Mar; Bloomberg est. 0.3% m/m, 2.9% y/y from 0.5% m/m, 2.9% y/y in Jan) and initial jobless claims (20 Mar). On the geopolitical front, U.S. Treasury Secretary Scott Bessent is meeting with Chinese Vice Premier He Lifeng in France on 15-16 March to prepare for the anticipated meeting between U.S. President Donald Trump and President Xi Jinping in Beijing later this month.

₹ Slides to record low as Oil shock, strong Dollar & FPI outflows trigger risk-off rout

The Indian Rupee experienced a week of intense downward pressure, culminating in a fresh record low of ₹92.48/\$ on 13th Mar'26 as a "risk-off" sentiment gripped global markets. Escalating geopolitical tensions in West Asia raised concerns over potential supply disruptions through key energy routes, which propelled Brent crude prices past the \$100/barrel mark and reinforcing downside risks for the rupee through a widening oil import bill.

Simultaneously, a resurgent US Dollar Index, which breached the 100.30 level on robust US economic data and expectations that US interest rates may remain higher for longer, prompting global investors to favour dollar assets, triggered a massive capital flight. This backdrop triggered continued Foreign Portfolio Investors offloaded over \$3.44bln in domestic equities last week in search of safer havens. RBI's FX reserves remained near record highs, providing a strong buffer against external shocks and allowing the central bank to smooth excessive volatility in the currency market thus resulting in a sharp \$11.68bln weekly decline in FX reserves to \$716.81bln.

Overall, the rupee's movement last week reflected a combination of external pressures and capital flow dynamics, with oil price risks, FPI outflows, and dollar strength emerging as the dominant drivers. In the near term, the currency is likely to remain sensitive to developments in West Asia, crude oil price trends, and global dollar movements, even as RBI's strong FX reserves help contain excessive volatility. (Last Friday's close: ₹91.7500/\$) [O: ₹92.2075/\$, H: ₹92.4800/\$, L: ₹91.7000/\$ & C: ₹92.4625/\$]. [Refer report: ["Strait Under Fire: Global and Indian Macros & Markets at the Crossroads"\(Part II\)](#)]

Rupee at record low amid Oil shock amid West Asia crisis: Key Risks for India's Macros & Markets

1) **High oil price sensitivity:** Brent crude prices underwent a period of extreme "war-premium" volatility last week, peaking at an **intraday high of \$119.50/bbl.** before settling at ~\$105 mark. The primary catalyst was the credible threat to the Strait of Hormuz (a key artery for global energy shipments), which handles roughly 20% of global oil consumption. Consequently, the INR plummeted to record lows, driven by the dual pressure of high energy costs and the resulting FPI exodus from Indian markets. Looking ahead, the outlook remains binary: any successful diplomatic "safe passage" agreement for tankers could trigger a sharp correction toward \$90/bbl, while any direct hits to energy infrastructure could see Brent testing the \$140 threshold, further straining India's fiscal position. On a **WoW basis, prices surged by ~16%, and reflect a rise of ~72% YoY.** 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. Hence given the spike in geopolitical tensions, if average oil prices settle higher at ~\$85/bbl., our estimates suggest India's Current Account Deficit could

Fig.3: Sensitivity of India's macros to Indian Crude Basket (ICB) prices

Economic Variable	Impact of Every \$10/bbl. Increase in Crude Oil Prices
GDP Growth [^]	-15 bps
CPI Inflation [^]	+30 bps ^{^^}
Combined Fiscal Deficit [*]	Worsens by ~0.3–0.4% of GDP
Current Account Deficit (C/A) [*]	Widens by ~0.4% of GDP
Indian Rupee (INR)	Depreciation / Weaker Bias

[^] 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;

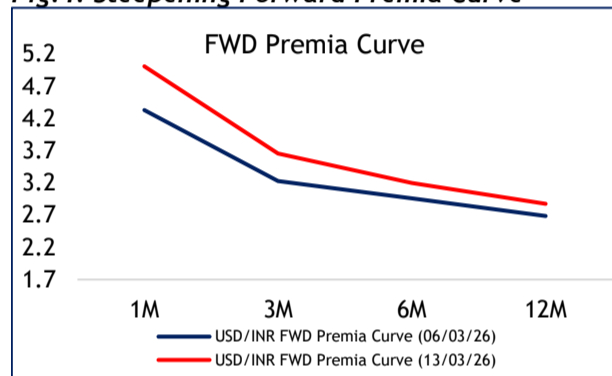
Source: RBI & UBI research

Brent Oil spiked to ~16% WoW on West Asia war risks around the Strait of Hormuz, heightening pressure on the INR through higher import costs & FPI outflows.

DXY surged above 100 on West Asia war-driven safe-haven demand, triggering heavy FPI outflows and intensifying depreciation pressure on the INR.

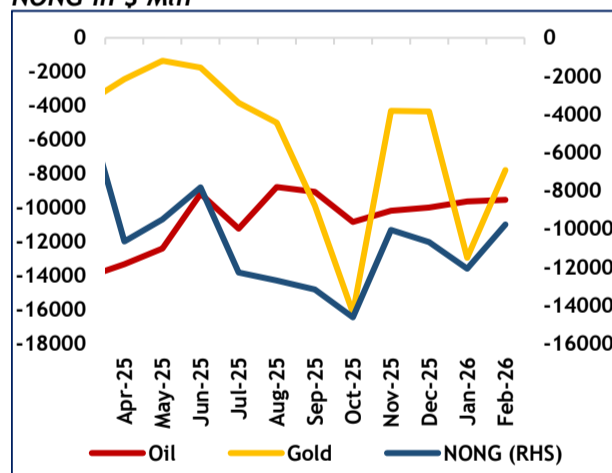
Strong FX buffer at \$716.81bln providing ample firepower to smooth volatility despite global headwinds.

Fig.4: Steepening Forward Premia Curve



Source: Cogencis & UBI Research

Fig.5: Trade Deficit components - Oil, Gold & NONG in \$ Mln



Source: Cogencis & UBI Research

Fig.6: FII flows shows severe outflows in Mar'26

Foreign Investment Inflows				
(US \$ Million)				
Item	2024-25	Apr-Feb	Mar'26	2025-26
FDI	959	-	-	3986 [^]
FPI	3564	-2990	-6554	-9545 [*]
Total flows	4523		-	-5559

[^]data till Dec'25; ^{*}data till 13th Mar'26
Source: RBI, NSDL & UBI research

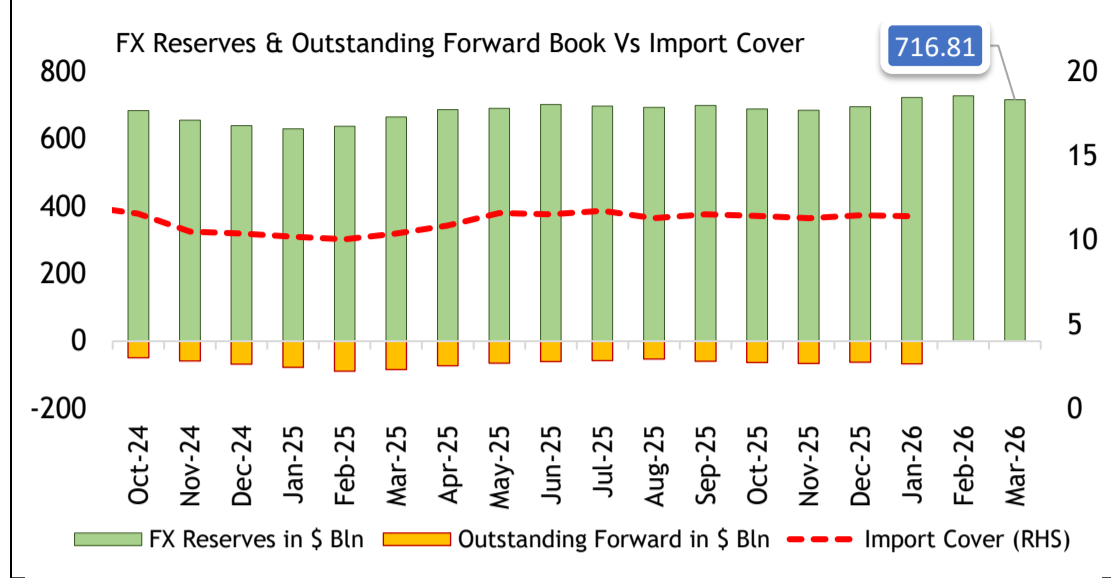
widen beyond 2% of GDP in FY27. While in current fiscal year, it is tracking at sub 1% of GDP, it is key to note that March may spoil C/A arithmetic amid spike in oil prices and war led trade disruptions.

- 2) **Dollar strength and FPI exodus:** The DXY underwent a decisive safe-haven breakout last week, surging past the *psychological 100 mark*. This bullish momentum was fueled by the intensifying West Asia war, as investors abandoned riskier emerging market assets in favor of the liquidity and relative energy independence of the US economy. This DXY strength acted as a secondary hammer for the Rupee, which collapsed under the weight of FPI exodus. Looking ahead, the DXY is expected to test the 101.50 resistance level if upcoming Federal Reserve commentary remains hawkish in the face of rising energy costs. During this month, FPIs turned net sellers, withdrawing **~\$6.55bln** from Indian markets, amid heightened global uncertainty. FPIs continue to be net sellers in equities to the tune of **~\$3.4bln** vis-à-vis outflows of **~\$2.3bln** on a WoW basis. Debt markets also turned negative to the tune of **~\$779mln** vis-a-vis **~\$89mln** inflows a week ago. FAR flows, at **\$2.58bln (FY26)**, including a **~(\$483)mln** outflow so far last week.
- 3) **Strong policy cushion with RBI:** On the on-going external headwinds, India's foreign exchange reserves stay close to record highs at **\$716.81bln** (as of 06th Mar'26) covering **~11 months of imports**, driven mainly by a **\$9.88bln** fall in FCA and **\$1.61bln drop** in Gold; providing the central bank with substantial cushion to smooth volatility. The large reserve buffer, along with relatively strong macro fundamentals, has helped the rupee remain among the more resilient EM currencies even during periods of global risk-off sentiment.
- 4) **The USDINR forward curve:** The curve steepened slightly last week as heightened geopolitical tensions in West Asia and the surge in Brent Crude Oil above \$100/bbl. increased hedging demand from importers amid rising rupee depreciation risks. At the same time, the strength in the DXY and persistent FPI outflows added to forward dollar demand, keeping premiums supported. As a result, near-term forward premiums remained firm during the week as market participants sought protection against further volatility in the rupee. Looking ahead, the forward curve is expected to remain sensitive to oil price movements, geopolitical developments, and capital flows; sustained global uncertainty may keep premiums elevated.
- 5) **Merchandise Trade Deficit for Feb'26:** India's trade landscape in early 2026 presents a study in contrast: services are soaring while merchandise stays steady. Merchandise trade deficit narrowed to \$27.1bln in Feb'26 from \$34.7bln in Jan'26, as imports eased to \$63.71bln while exports stood at \$36.61bln, reflecting some sequential improvement in the external balance. Net Services surged to \$23.15bln, acting as a massive cushion for the economy. Gold deficit remained a major pressure point at \$7.8bln, however Oil faced renewed volatility but staying flat at \$9.5bln and seasonality normalization is seen in NONG at \$9.8bln. However, Mar'26 trade may widen despite lead-lag effect, as there is a significant disruption in the global markets. This may impede the C/A surplus in this quarter.

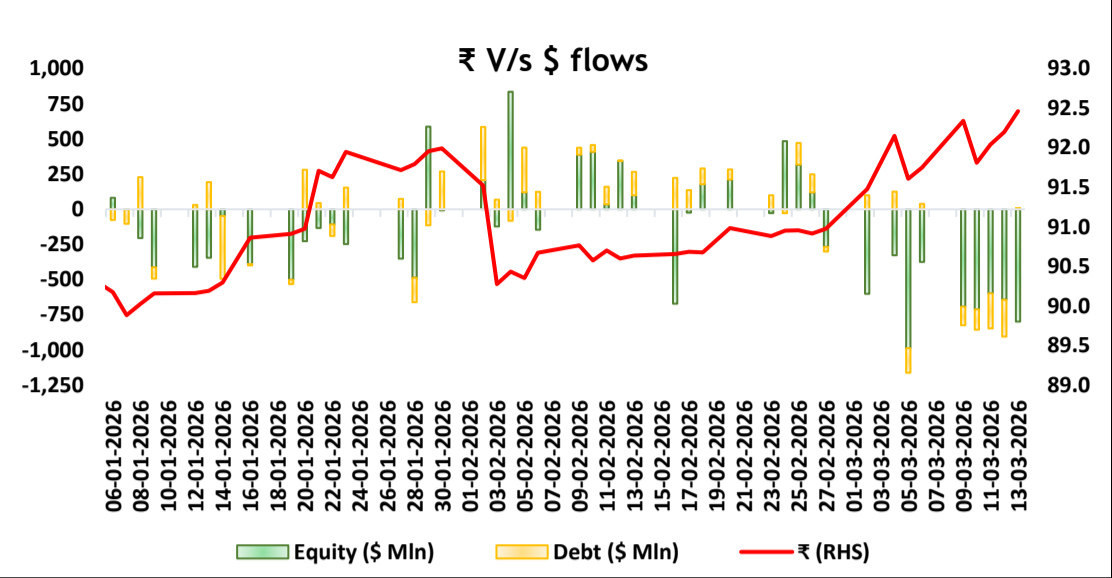
Outlook (INR - ₹ view):

The Indian Rupee enters the week, on a defensive footing, with technicals indicating a potential move breaching the record all-time low corridor. Market sentiment is dominated by the West Asia war, where any further disruption to the Strait of Hormuz could send Brent Crude toward a higher level, drastically widening India's trade deficit. With the DXY holding firm at ~100.30 levels, the Rupee faces a dual-threat of imported inflation and relentless FPI outflows. All eyes are now on the Federal Reserve's policy meeting on 18th Mar'26; a hawkish stance to combat global energy-led inflation would strengthen the Dollar further, likely forcing to dip deeper into FX reserves to prevent a disorderly slide. Unless a diplomatic breakthrough in the Middle East triggers a "relief rally" in oil, the INR is expected to remain "stuck" in a high-volatility range.

FX reserves fall from records high amid major dip in FCA & Gold (Fig 7)



₹ hits record lows amid West-Asia tensions & Crude at \$100/bbl. (Fig 8)



Source: Bloomberg, CEIC & UBI Research

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