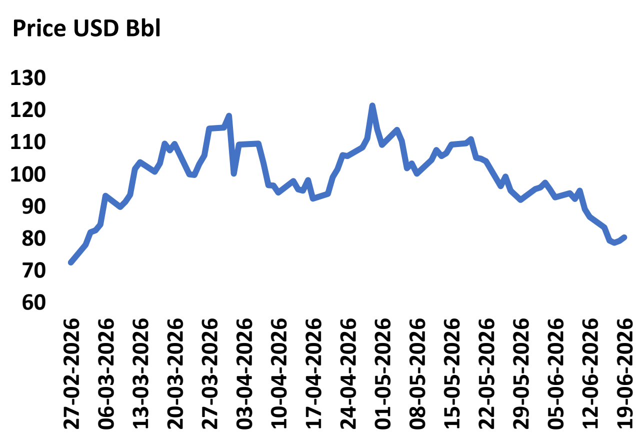
20th June 2026

By:

Kanika Pasricha
kanika.pasricha@unionbankofindia.bank.in

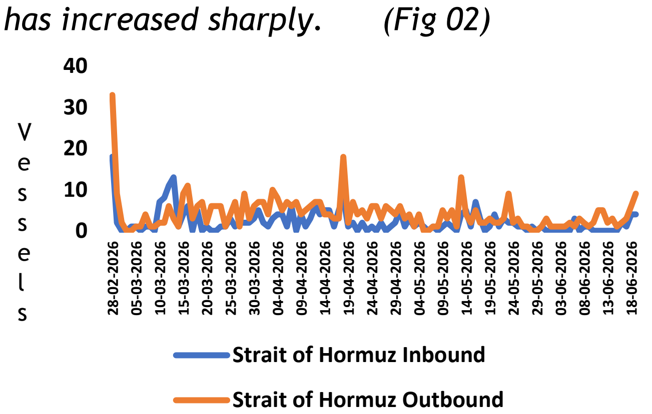
Shreyas Bidarkar
shreyas.bidarkar@unionbankofindia.bank.in

Oil is trading lower near $80/bbl mark (Brent Crude) (Fig 01)



Source: Refinitiv

Vessel Daily Transit via the Strait of Hormuz. Latest available data shows outbound traffic has increased sharply. (Fig 02)



Source: Refinitiv

The global macro backdrop has shifted from war-driven risk aversion to a more complicated phase where the ***geopolitical premium is fading, but the policy premium is rising****. The US-Iran framework has reduced the immediate risk of a prolonged disruption in the Strait of Hormuz, helping crude oil prices correct sharply and supporting a relief rally across risk assets and oil-importing currencies. However, the deal is still an interim framework rather than a final settlement. Shipping through Hormuz has improved (fig2), but traffic remains well below normal levels, and markets are now watching whether the agreement moves from headline relief to physical normalisation.*

The key question for markets is where crude oil settles after the first phase of war-premium unwinding. Brent's fall toward the $80/bbl area is justified because the probability of a worst-case Hormuz prolong shutdown has declined. But a full return to pre-war comfort levels looks premature. Tanker traffic, insurance costs, transit terms, mine clearance, freight rates and inventory rebuilding will decide whether oil can move sustainably lower or remains trapped in a higher range. For now, the more defensible view is that Brent settles in an $80-85/bbl range over the next few weeks, with the lower end possible if shipping normalises quickly and the upper end likely if operational or political frictions persist.

The US-Iran deal has eased pressure across the energy basket, with the sharp fall in crude toward $80/bbl coming as a positive surprise. The relief is strongest in crude and refined products, as oil disruption risk has proved less severe than feared, while gas/LNG remains relatively more exposed to shipping, contract-linkage and supply-route risks.

At the same time, central banks have turned more hawkish. The June FOMC was a hawkish hold: the Fed kept rates unchanged at 3.50-3.75%, but removed its earlier easing bias and signalled that a 2026 rate hike remains possible. The Fed's median 2026 policy-rate projection moved to 3.8% from 3.4% in March, while nearly half of policymakers now see higher rates by year-end. Market pricing has moved in the same direction, with fed funds futures now implying around +27 bps by October and +37 bps by December 2026. This suggests markets are no longer pricing a cutting cycle; instead, they are assigning meaningful probability to at least one Fed hike by year-end, keeping US front-end yields and the dollar supported. The hawkish tone is now broader than the Fed. Bank Indonesia have already raised rates, the BoJ has resumed normalisation, and the BoE/ECB remain cautious on inflation spillovers.

This shift has supported the US dollar. The dollar initially softened as oil prices fell, but quickly reversed after the Fed's hawkish signal. DXY moved to around 100.85, its highest level in more than a year, supported by resilient US data, higher front-end yields and renewed rate-hike pricing. The dollar's next move will depend on the oil-inflation link. If oil keeps falling and inflation expectations soften, markets could revive the Fed-cut narrative and the dollar may give back gains. If oil stabilises closer to $85-90/bbl and inflation stays sticky, the dollar can remain supported.

Key things to watch now are Hormuz normalisation, Brent's settlement range and the Fed-data reaction function. For the Fed, US PCE inflation and upcoming Fed speakers will decide whether markets maintain rate-hike pricing. The US 2-year yield remains the cleanest signal for dollar direction, while USD/JPY near 161 would raise the risk of Japanese intervention.

War Premium Has Reduced, but Hormuz Is Not Normal Yet

The US-Iran framework has lowered the immediate probability of a disorderly energy shock. As part of the understanding, both sides have committed to ending hostilities, restoring shipping flows and entering a 60-day negotiation window for a final agreement. This has reduced tail risk and helped crude oil prices fall sharply from their war-risk highs.

However, the shipping recovery is incomplete. As per media reports, there were 25 commercial crossings through Hormuz on 18 June, the highest single-day count since 18 April and more than five times the average daily level in the first 10 days of June. But this remains far below the pre-conflict level of around 120 crossings per day. That gap matters because oil prices will not fully normalise until insurers, shipowners, refiners and charterers believe the route is safe and commercially viable again. Several uncertainties remain: mine clearance, transit fees, shipping rules, insurance costs and whether the 60-day negotiation window leads to a final deal. As a result, markets have moved from pricing a full war shock to pricing a fragile ceasefire.

Cross Asset Fund Flow Monitor

(Table 1)

Category	4 wk avg ($bn)	2025 avg ($bn)
All Equities	4.8	8.1
All Bonds	19.2	11.3
US Equities	9.5	3.5
US Bonds	10.7	4.3
EM Equities	-2.3	0.9
EM Bonds	0.76	0.50
Japan Equities	-3.4	-0.1
China Equities	-0.95	-0.15
Europe Equities	-2.3	0.9
Europe Bonds	5.2	4.3

As of 10th June,' 26 *Source: JP Morgan*

The post-war relief trade is visible, but not yet fully confirmed: lower oil, calmer FX volatility and softer safe-haven demand support risk sentiment, but markets still need evidence of normalised Hormuz flows, lower insurance costs and easing inflation expectations.

Where Will Oil Settle? Relief Is Real, but Reality Is Messy

The key question is not just whether oil can fall after the US-Iran framework, but how far it can fall and where it ultimately settles this year. Brent's correction toward $80/bbl is justified as the risk of a prolonged Hormuz shutdown has declined, while the memorandum opens the door for Iranian crude waivers and a gradual recovery in Gulf exports. However, the downside may be limited unless Hormuz traffic normalises, transit terms are clear, insurance costs ease and inventories start rebuilding.

However, a quick return to pre-war oil levels looks premature. The political headline has improved faster than the physical market: Hormuz traffic has picked up, but remains well below normal, and shippers, insurers and refiners still need confidence that the route is safe and commercially viable.

The physical normalisation process will be slow for four reasons. First, shipowners will demand a risk premium until mine clearance, passage permits, insurance rules and transit terms are clearer. Second, tanker availability and freight rates will remain tight until a reliable shipping schedule returns. Third, Gulf producers cannot immediately rebuild exports if storage, loading programmes and production schedules were disrupted for several months. Fourth, crude that leaves the Gulf today still takes weeks to reach Asian refiners, so the supply relief is not instant.

Inventories are the second reason not to chase oil aggressively lower. The conflict has already forced large inventory drawdowns, and energy agencies have warned that stock cover has fallen materially. Even if flows recover from here, the market first needs to stop drawing inventories and then rebuild them. That creates a higher price floor than a simple "war over, oil lower" narrative would suggest. Lower geopolitical risk reduces the upside tail, but depleted inventories limit the downside.

Demand is the third balancing force. High prices and disrupted Middle East supply have already hurt demand, especially in Asia. That demand weakness has helped cap oil prices despite the supply shock. But if prices fall too quickly, demand can recover just as the market is still rebuilding inventories and shipping confidence. This would make it difficult for Brent to sustain a deep break below $75/bbl.

This oil range matters directly for central banks and the dollar. If Brent settles around $80-85/bbl, the disinflation signal becomes strong enough for markets to revisit Fed-cut pricing, which would weaken the dollar. If Brent holds in an $85–90/bbl range, the relief is meaningful but not decisive; it reduces the inflation shock without fully removing central-bank caution. Above $90/bbl, the inflation debate turns hawkish again and supports higher yields and a stronger dollar.

Rupee Recovery Gains Ground as Policy and External Buffers Strengthen

The rupee's rebound is meaningful because it has strengthened despite a firmer dollar, showing that INR-specific supports are now driving the move.

The rupee's rebound has been quietly impressive, supported by a more constructive global backdrop and reinforced by recent RBI/government measures. USD/INR peaked at 96.82 on 20 May, marking a 6.3% depreciation from pre-war levels, and has since retraced to 94.33 by 19 June, a recovery of around 2.6% from the lows. What makes this move notable is that it happened despite a firmer dollar, with the DXY rising from 99.67 to 100.81 over the same period. The rupee gaining ground against a bid dollar suggests that INR-specific tailwinds including softer oil, improved policy support and stronger external-flow prospects are doing real work.

RBI/government measures have strengthened the flow backdrop by improving prospects for FCNR(B), FAR and debt inflows, making the recovery more policy-supported than purely sentiment-driven.

Three forces drove the rebound. First, Brent's sharp correction from above $95/bbl in early June to ~$80/bbl by 19 June directly relieved India's import-bill pressure and the current-account narrative. Second, the preliminary US-Iran framework reduced near-term Hormuz risk, and with it, the tail-risk premium embedded in INR. Third, a coordinated policy response FCNR(B) swap support, temporary removal of deposit-rate caps, FAR expansion to 15/30/40-year tenors, and CGT exemptions for FPI G-sec investors has reoriented the flow architecture in India's favour.

FYTD FPI flows are still negative at –$13.9bn, driven by $16.3bn of equity outflows. Reserves, while substantial at $671.6bn, are $56.9bn below their all-time high, and RBI's net forward short position (~$95.3bn as of April) limits the optically-clean reserve cover. The trade deficit remains wide at $28.2bn in May.

Our base case is for USD/INR to remain in a 93.80–95.00 range in the near term, with a mild downside bias. A move toward 93.80–94.00 is possible if oil stays soft, FCNR(B) mobilisation improves and FAR/debt inflows remain strong. However, a re-test of 95.00–96.00 cannot be ruled out if crude rebounds, the DXY strengthens further or equity outflows resume.

<u>WHAT'S WORKING FOR THE RUPEE</u>

RBI and Government Measures: Policy Cushion Turns Supportive

Policy support has clearly strengthened the rupee's cushion by improving the outlook for FCNR(B), ECB and FAR-related inflows

Recent RBI and government measures have strengthened the policy cushion for the rupee by improving the outlook for foreign-currency inflows. The FCNR(B) swap support, along with the temporary relaxation in deposit-rate ceilings, gives banks greater flexibility to mobilise dollar deposits, while the concessional swap window for eligible overseas borrowings lowers hedging costs and improves funding certainty. At the same time, FAR expansion and tax relief for eligible foreign investors in government securities should support medium-term debt inflows. Overall, these steps are INR-positive as they improve potential dollar supply, encourage debt/FAR participation and reduce spot USD/INR pressure. Market expectations for FCNR(B) mobilisation remain wide-ranging, with most estimates in the $35–50bn range, while more optimistic projections suggest inflows could approach $100bn. The key monitor now is the actual mobilisation of FCNR(B) deposits & sustained FAR/debt flows.

Services and Remittances Cushion INR Despite Elevated Trade Deficit

India's goods deficit remains a pressure point, but strong services receipts and remittance inflows continue to provide a stable current-account cushion. This makes INR less vulnerable than the headline trade deficit alone would suggest

India's external position remains mixed. The May merchandise trade deficit stayed elevated at around $28.21bn, with exports at $45.20bn and imports at $73.41bn, keeping the goods deficit as a key pressure point for the rupee, particularly if oil or gold imports rise further. However, this pressure is partly offset by India's strong services surplus, estimated at around $17.7bn in May. The latest BoP data also showed a current-account surplus of $4.7bn in April, supported by robust services receipts and strong net transfers. Net transfers, largely reflecting remittance inflows, stood at around $16.0bn in April, providing a stable structural cushion for INR compared with more volatile portfolio flows. This is particularly important because a large share of India's remittances comes from the Middle East, and the fact that remittance flows remained strong despite the war suggests that this support channel has stayed resilient. The main concern remains the capital account, where April recorded an outflow of around $11.3bn, largely due to weak foreign portfolio flows. Overall, services exports and remittances continue to provide meaningful support to India's current account, but the rupee remains sensitive to capital-flow volatility and any renewed widening in the goods deficit

Weekly FPI Pressure Eases, but FYTD Equity Drag Persists

Weekly FPI pressure has eased, helped by positive equity flows and steady debt/FAR inflows. However, the FYTD picture remains weak, so a durable INR rally needs a clearer reversal in equity outflows

FPI flows have turned more supportive in June, helping reduce near-term pressure on the rupee. During 15–19 June, overall FPI flows turned positive at around $1.35bn, a clear improvement from an outflow of nearly $647mn in the previous week. The improvement was led by a sharp turnaround in equities, which saw inflows of around $251mn versus outflows of $2.09bn in the prior week, while debt flows remained strong at around $1.26bn. Within debt, inflows were broad-based across general debt, VRR and FAR securities, showing that foreign interest in Indian debt remains resilient. While FYTD flows are still negative at around $13.90bn, mainly due to earlier equity outflows, the latest weekly data suggest that June flow pressure is easing and is becoming incrementally INR-supportive.

Reserve Cushion Remains Comfortable, but Rebuild Bias May Rise

India's FX reserves declined to $671.63bn as of 12 June, down around $9.99bn over the week. The fall appears to have been largely valuation-led, driven by a sharp decline in gold reserves, while foreign-currency assets actually rose slightly. Reserves are now around $56.87bn below the record high of $728.49bn seen on 27 February, but the overall cushion remains comfortable, with headline import cover at around 10.1 months. After adjusting for the RBI's latest available net forward short position of $95.30bn, the effective reserve cushion falls to around $576bn, equivalent to roughly 8.7 months of import cover. This still leaves the RBI with adequate firepower to manage disorderly INR moves, but the moderation in reserves suggests the central bank may prefer to rebuild reserves when foreign-currency inflows improve.

USD/INR is likely to remain in a 93.80-95.50 range with a mild downside bias, supported by softer oil, FCNR(B)/FAR measures and steady services/remittance inflows.

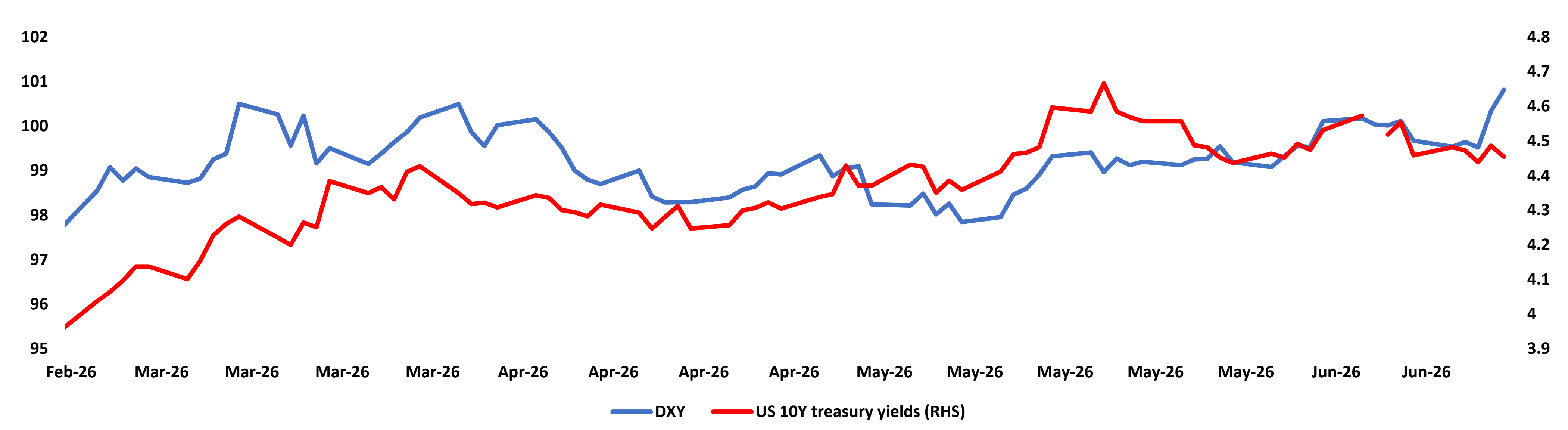
Outlook: Policy support keeps INR bias positive

The rupee appears to have moved out of the war-driven depreciation phase and into a policy-supported stabilisation phase. The recent move toward 94.33, despite a firmer DXY, reflects a genuine improvement in India's external-flow backdrop, led by softer oil prices, enhanced FCNR(B)/FAR policy support, and steady services and remittance inflows. These are more durable supports rather than one-off positives, and should help limit sharp INR weakness in the near term.

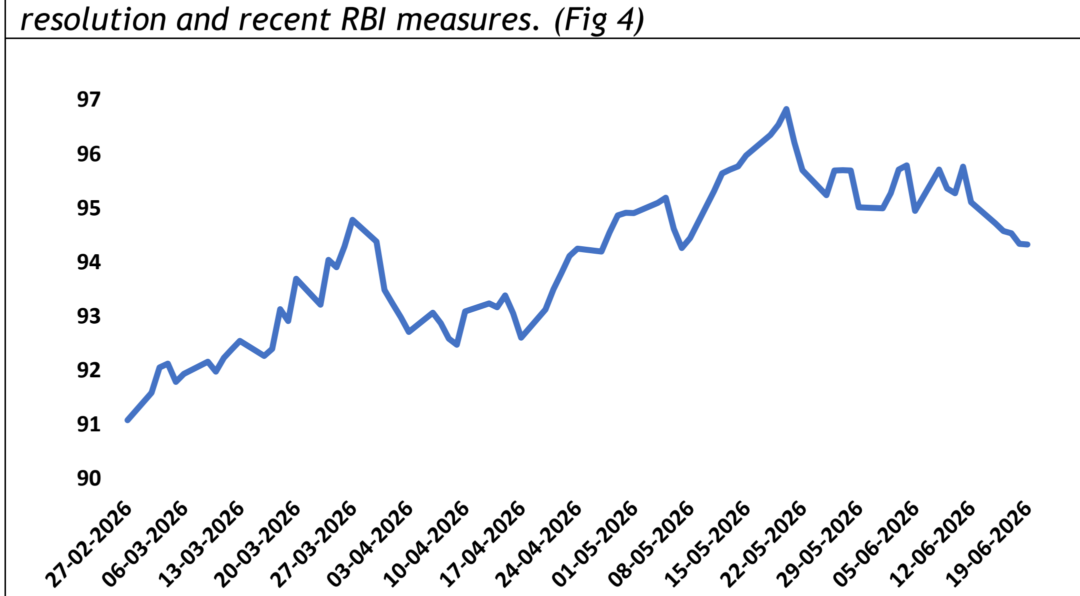
That said, the main constraint remains equity flows. Until FYTD FPI equity outflows start reversing meaningfully, USD/INR may struggle to break sustainably below the 93.80–94.00 zone. Hence, the near-term view is of a range-bound USD/INR market with a mild downside bias, where rallies toward 95.00 are likely to attract selling interest, while patience is needed below 94.00. A more decisive break lower in USD/INR would likely require a clear equity-flow inflection, along with continued support from debt/FAR inflows and soft crude prices.

The near-term USD/INR range is likely to remain around 93.80–95.00. A move toward 93.80–94.00 is possible if Brent stays below $80/bbl, exporters continue selling dollars, and FCNR(B)/debt inflows improve. Conversely, a move back toward 95.00–96.00 could materialise if oil rebounds, the DXY strengthens further, US yields rise, or equity outflows resume. Overall, the bias remains INR-positive.

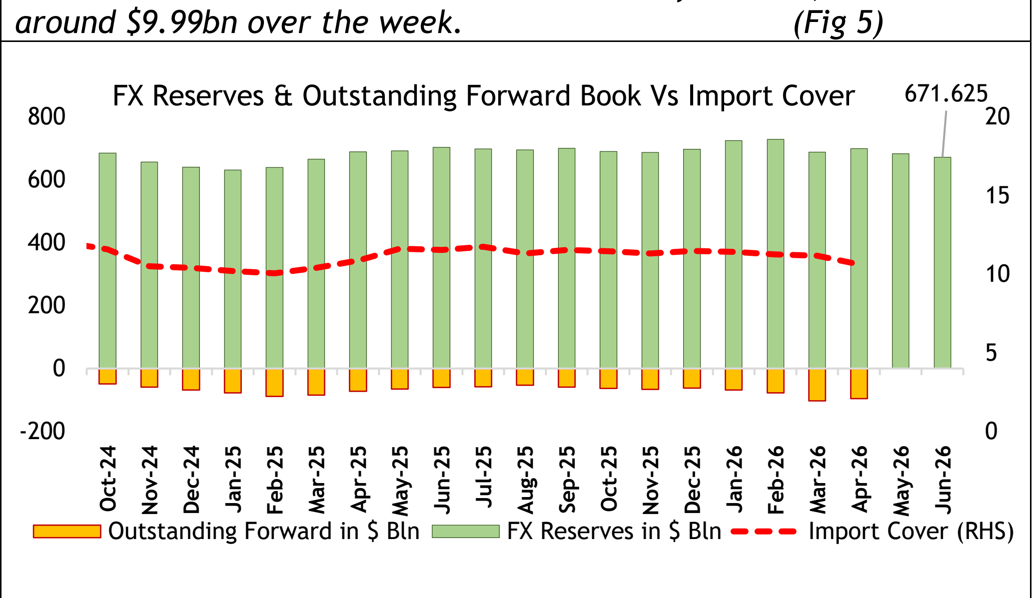
The US dollar has strengthened following a hawkish FOMC tone, with the DXY trading above 100. *(Fig 3)*



The rupee has recovered significantly on the back of the US-Iran war resolution and recent RBI measures. (Fig 4)



India's FX reserves declined to $671.63bn as of 12 June, down around $9.99bn over the week. *(Fig 5)*



Source: Bloomberg, LSEG Workspace, CEIC & UBI Research

Banking & Economic Research Team	
Kanika Pasricha **Chief Economic Advisor**	**kanika.pasricha@unionbankofindia.bank.in**
Suneesh K	suneeshk@unionbankofindia.bank.**in**
Nidhi Arora	nidhiarora@unionbankofindia.bank.in
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank.in
Jovana Luke George	jovana.george@unionbankofindia.bank.in
Amit Srivastava	asrivastava@unionbankofindia.bank.in
Rohit Yarmal	rohitdigambar@unionbankofindia.bank.in
Jaya Laxmi	s.jayalaxmi@unionbankofindia.bank.in
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank.in