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Market-Implied Path (Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.06 %	−26 bp
10 Dec 2025	3.61 %	−71bp
29 Apr 2026	3.28 %	−104 bp
28 Oct 2026	2.93 %	−140 bp
09 Dec 2026	2.89%	-144 bp

Next meeting probabilities: **No change 7 % 25 bps cut 93 %**

With the much-awaited US CPI and payrolls now in hand, the macro picture is clearer but no less complicated. Inflation remains above target, and pending tariff pass-through could keep it sticky. At the same time, policy focus is shifting toward the labor market as hiring momentum slows, revisions trim prior strength, and forward indicators point to fall in demand for workers. ***The question for the Fed is less whether inflation is too high than whether the softening in employment and wages is worrying enough to justify a steadier—perhaps earlier—easing path****. Markets now price a sizable, cyclical easing into 2026, with only a modest premium for U.S. political risk.*

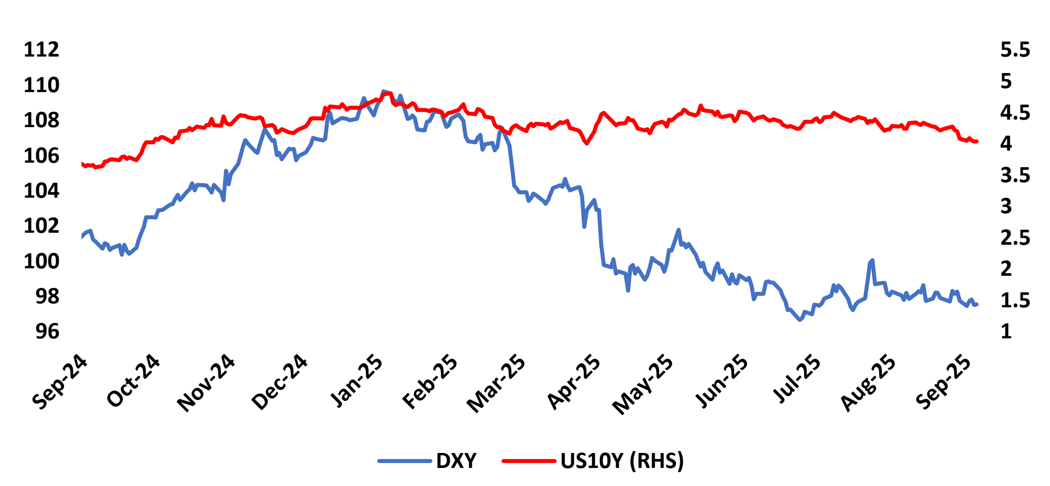
Yield curves across the G7 have largely re-normalized to upward-sloping. In the U.S., the front end reflects impending policy easing while the long end wrestles with deficits and term premium; 10s hovering near ~4% even as long-end volatility keeps financial conditions from loosening too quickly. ***The trade here remains focused on the front end of the curve, long bonds will be in play but duration via long bonds is not expected to contribute significantly****.* ***We also need to watch out for crowding in 2-year longs that could snap back on upside data surprises****.*

Cross-asset signals remain mixed: gold's outsized bid aligns with easing plus risk hedging; the dollar's resilience may fade if U.S. data continue to soften and rate-cut pricing persists*. Equities and Bitcoin lean toward growth/inflation persistence. Meanwhile,* ***China-U.S. trade is compressing*** *(exports to the U.S. sharply lower) as flows reroute toward ASEAN/EU/Africa; China's still-large overall surplus protects the yuan and underscores a realignment of global trade rather than outright shrinkage.*

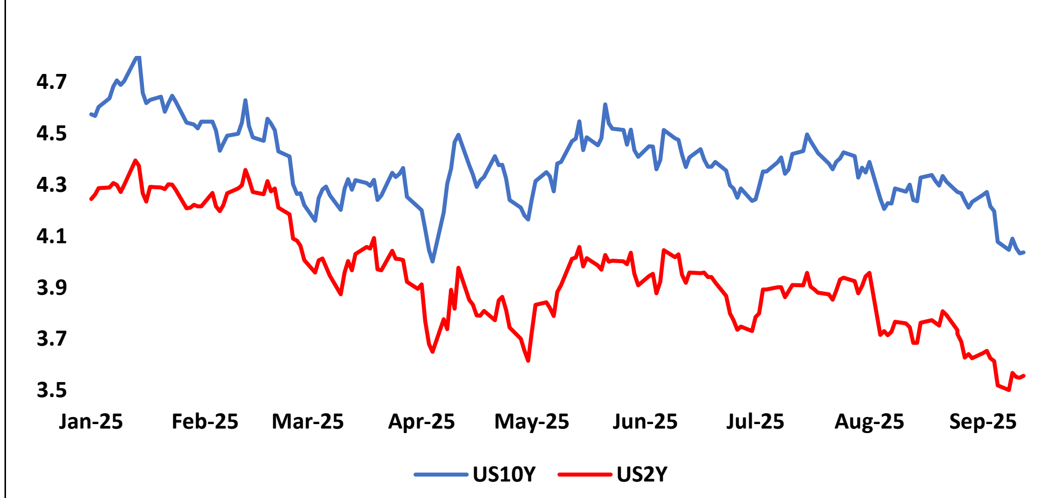
Meanwhile tectonic shifts are underway in global flows (refer our report), with trade fragmenting faster than capital, which will likely realign toward "trusted" partners over time. Capital has rotated from U.S. to global equities, while DM debt markets continue to attract inflows. The dollar has posted its worst FX returns in over a decade, though talk of its losing hegemony is overstated given the absence of credible alternatives. The key unknown remains the extent of tariff-hike passthrough to U.S. consumers, which will shape the Fed's policy response and drive both the dollar and rates. ***"This month, after the ECB kept rates steady, the focus shifts to other central banks the Fed, the BoE, and the BoJ which may trigger the next leg of interest-rate cuts in Asia as well."***

- **Fed at the Turn: Easing ahead, Mixed growth signals, Softer dollar**
- **From pact to premia: Japan's political jolt meets a steepening JGB curve**
- **ECB steadies, markets Reprice: Only a token cut left?**
- **Rupee tumbles to record low; will US-India trade deal hopes support a turnaround?**

Dollar sliding to new lows while 10Y eases only gradually—softer USD without a big duration rally (Fig 1)



Bull steepener: 2Y dropping faster than 10Y as front-end prices cuts and the long end stays sticky (Fig 2)



Source: LSEG, UBI research

Fed at the Turn: Easing ahead, Mixed growth signals, Softer dollar

After a 2025 hold, the Fed pivots toward easing as labor softness moves to the center of its reaction function.

Policy setting and shift. After cutting 100 bps late last year, the Fed stayed on hold through 2025 as growth and jobs looked “solid,” while inflation boosted by tariff pass-through kept policy in a slightly restrictive stance. That calculus began to change from July, when several governors highlighted labor-market weakening, and Chair Powell at Jackson Hole acknowledged conditions may soon “warrant” lower rates, putting labor softness at the center of the reaction function.

Q2 GDP was flattered by net trade while domestic demand softened; inflation stays above target but the BLS −911k revision tilts risks toward jobs and measured cuts

Growth composition and Inflation dynamics. Headline GDP growth of 3.3% in Q2 was flattered by a sharp improvement in net trade, masking a weaker domestic picture. Inflation remains above target and tariffs keep near-term risks skewed higher, but the downside risk to employment now outweighs upside price risks. The BLS’s newly released benchmark revisions are significant as payroll growth for the 12 months through March 2025 was revised down by 911,000 a larger cut than expected implying job creation was less than half of what earlier estimates suggested.

DXY has slipped from ~98 to -97s on softer data and cut pricing baseline gently weaker unless hot inflation or a hawkish Fed interrupts

Dollar and FX outlook. The DXY has edged lower since early August as the growth narrative softened and Fed-cut expectations firmed. Between mid-August and today (Sep 12), DXY slipped from the ~98.1-98.6 area into -97s (≈0.9% lower), touching a ~seven-week low near 97.25 on Sep 9. The immediate drivers have been weaker labor signals (jobless claims at cycle highs), in-line CPI/PPI prints that don’t resist easing, and a market consensus for a 25 bp cut on Sep 17-18. In short, the dollar has been losing altitude on cyclical grounds rather than any structural shift.

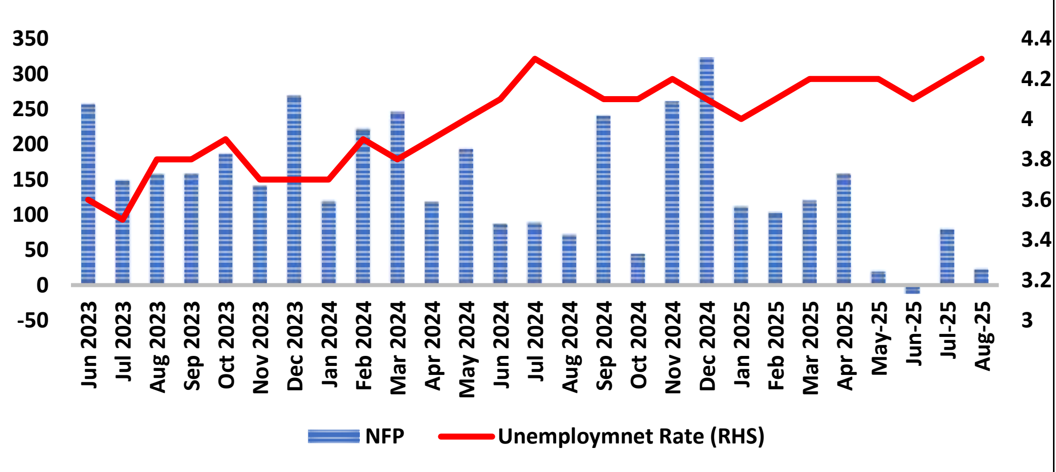
Looking ahead, the baseline is for a gently weaker DXY as Fed starts a measured easing cycle and the data flow continues to cool. That said, downside is likely capped by term-premium and supply dynamics that keep long U.S. yields sticky, plus occasional risk-off bursts that can lift the greenback. Upside risk to DXY would come from any upside inflation surprise or a hawkish Fed delivery/guide that pares back the expected pace of cuts; conversely, a clean 25 bp cut with dovish signals keeps the path biased lower, consistent with a still-intact medium-term bearish dollar trend after this year’s sharp slide.

Yield curve normalization: A new chapter for G7 bonds in 2025

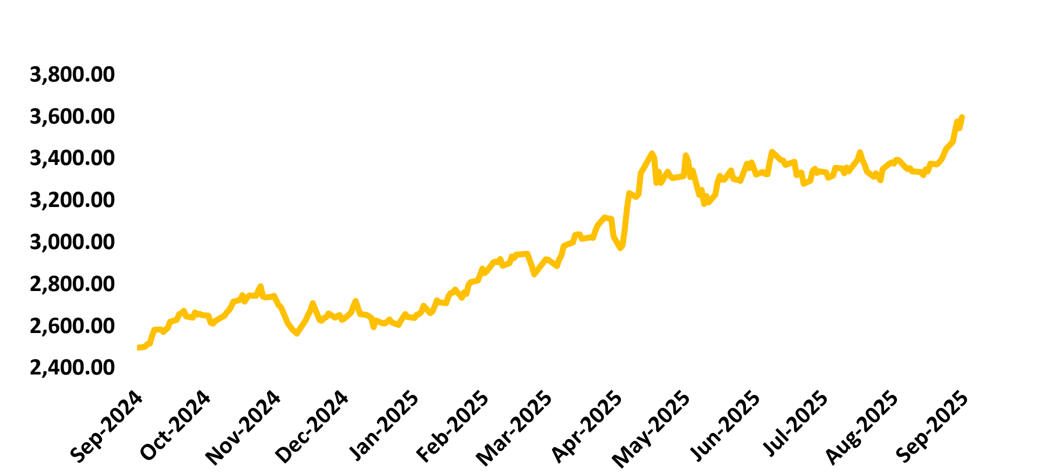
Curves have re-steepened front ends anchored by expected cuts, long ends held up by term premium and fiscal supply, keeping long-end volatility elevated.

G7 yield curves have largely synchronized into an upward-sloping configuration. Short-term yields are coming down as central banks respond to cooler inflation and softer growth, while long-term yields remain relatively high due to inflation, fiscal pressures, and investors demanding more compensation for long-term risk. This dynamic referred to as a “bear steepener” earlier in 2025 (when long yields rose even as short yields started falling), though more recently it’s been a “bull steepener” as weak data pulled short rates down faster. For traders, the key is that volatility is back on the long end: for instance, a ***US 30-year yield ~4.66%*** and UK 30-year ~5.43% illustrate how dramatically term premiums have repriced. These moves underscore divergent drivers – e.g. U.S. deficit spending, European fiscal reforms, UK inflation, BOJ policy shift but a common theme of post-inversion normalization. The big question is what this steepening means for the economy: Is it a sign of confidence (long yields up on growth optimism) or a warning (long yields up on inflation/supply concerns)?

Fed policy focus is shifting toward the labor market as hiring momentum slows, revisions trim prior strength, and forward indicators point to cooler demand for workers (Fig 3)



Gold’s outsized bid aligns with easing plus risk hedging claimed to all time high to $3,674/ounce in Sept’25 (Fig 4)



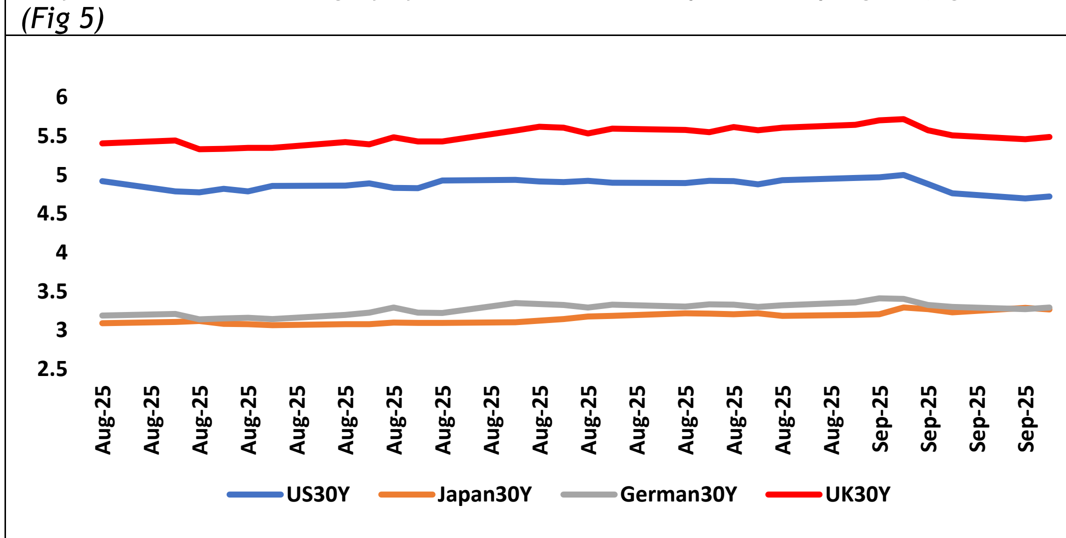
Source: LSEG, UBI research

Near-Term Outlook: Scenarios and Risks

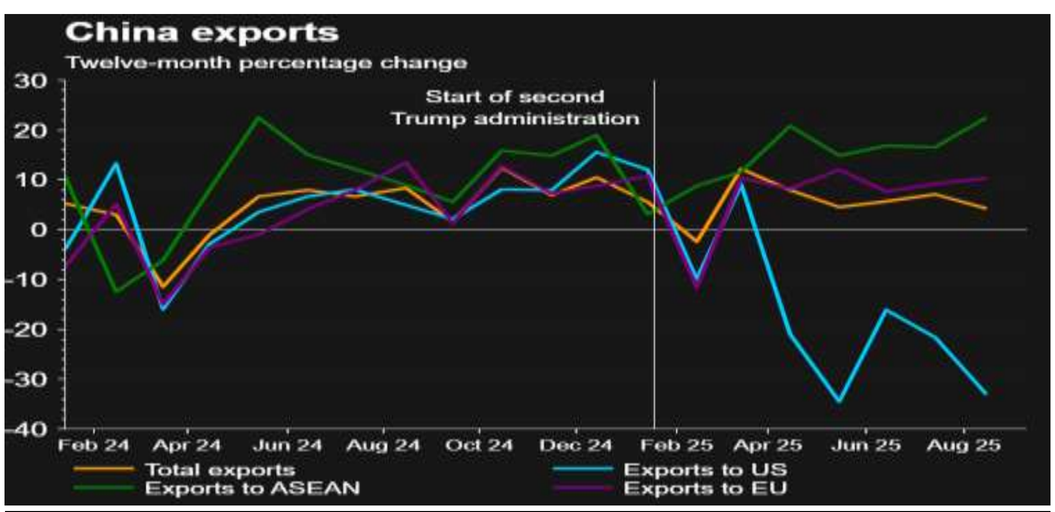
Looking ahead in the medium term, we outline a few scenarios that could play out in global bond markets, along with their implications and key risks. The period in question is critical, as it includes central bank meetings (the Fed and others) and fresh data that could alter the trajectory of yields and currencies. Below is a scenario grid for the one-month outlook:

Scenario	Description and Likely Market Impact
Base Case: "Orderly Easing" (Soft Landing Continues) *Probability: High*	U.S. data continue to signal softness without outright collapse. If the Fed delivers a 25- bps rate cut in September, pointing to moderating job growth. Forward guidance remains cautious no commitment to rapid easing, but the door stays open for more. **Bond markets react in an orderly fashion: short-term yields ease toward 3.2–3.3%, while the 10-year holds near 4.0%, leaving the curve slightly steeper before stabilizing.** The dollar softens modestly on the Fed's move, with DXY testing the mid-90s, though the effect is muted given expectations were already priced in. With oil steady and no new shocks, markets broadly welcome the Fed's support while recognizing the economy is slowing gradually, not collapsing.
Bullish Scenario: "Growth Scare = Bigger Fed Pivot" *Probability: Moderate*	Economic data surprise to the downside, fueling recession fears. The Fed reacts with a 50- bps cut or 25 bps paired with strong guidance for another soon. **Bonds rally sharply: 2-year yields slide toward ~3.0% or below as markets price multiple cuts by year-end. The 10-year falls to ~3.5–3.7%, though the move is smaller.** The curve could flatten or briefly invert again front-end plunging on Fed easing while long-end reflects growth risks. If recession odds rise further, long bonds may catch a stronger bid, shifting the move from bull steepening to bull flattening. The dollar weakens more noticeably in this scenario, as aggressive Fed easing erodes its rate advantage, pushing DXY lower.
Bearish Scenario: "Reflation Jitters" Probability*: Low*	In this less likely but plausible scenario, incoming data show surprising resilience or an inflation uptick, challenging the "doves." The Fed could deliver only a token cut, paired with hawkish commentary that further easing is on hold. **Bond Market**: **Yields would jump, led by the belly of the curve. The 2Y UST could rebound toward 3.8–4.0% as rate-cut expectations get pushed out, while the 10Y could climb back toward 4.5% or higher on renewed inflation fears and a higher-for-longer Fed**. The curve would likely flatten, with short yields rising faster than long ones, especially if stagflation concerns cap long-end weakness. Markets may even re-price to assume no Fed cuts at all. **USD**: The dollar would strengthen, with DXY bouncing above 100 on renewed yield advantage. This scenario delays the Fed pivot and revives concerns that inflation is not yet beaten, bearish for long-duration bonds and high-beta assets.

G7 yield curves have largely synchronized into an upward-sloping configuration (Fig 5)



China-U.S. trade is compressing (exports to the U.S. sharply lower) as flows reroute toward ASEAN/EU/Africa (Fig 6)



Source: Reuters, UBI research

Japan enters September with a political shock, uneven momentum after a Q2 upside surprise, and inflation easing at the margin but still above target

Ishiba's tariff-for-investment pact trims auto tail risk near term but raises medium-term fiscal/FX questions and policy uncertainty

Markets price ~94% hold on Sep 19 with ~+15 bps by year-end; YCC loosening has steepened the curve from a low base (2y ~0.9%, 10y ~1.6%, 30y ~3.2%) and is pulling Japanese savings home.

USD/JPY likely ranges 145–149 into Fed events, with direction set more by U.S. real yields and long-end JGB moves than by domestic data.

♣ From pact to premia: Japan's political jolt meets a steepening JGB curve

Japan enters September with **political shock**, a **jagged macro mix**, and **re-priced duration**. Ishiba's tariff-for-investment pact with the U.S. briefly reduces auto-sector tail risk but **raises long-term fiscal/FX questions**. Growth surprised on the upside in Q2, yet high-frequency data point to **uneven momentum**. Inflation is cooling at the margin but remains above the BoJ's target. Markets price no move at the Sept 19 BoJ (≈94% hold), with a modest +15 bps increase still the **base case by year-end**. In markets, **USD/JPY ranges** with event risk (U.S. Fed) in charge, while **ultra-long JGBs** remain the pressure point as term premia reassert.

Trade & Politics: Ishiba's costly trade gamble

Former PM **Shigeru Ishiba** resigned after signing a controversial pact with the U.S. that **cuts auto tariffs to 15% (from 25%)** in exchange for a US$550bn Japanese investment pledge over three years. The MoU lets Washington pick projects (semis, AI, critical minerals, energy) and raise tariffs if Tokyo balks, while 90% of excess profits flow to the U.S. Near-term, this cushions autos; strategically, it leverages Japan's balance sheet, potentially weakens the yen (USD funding), and embeds policy uncertainty for the successor government.

BoJ watch: Cautious words, optionality kept

The July BoJ minutes showed active debate about resuming hikes in 2025 if wage-price dynamics persist. Governor Ueda stresses patience and data dependence, yet keeps the door open to move "if the outlook holds." ***Market pricing: ≈94% probability of no change on Sept 19; ~15 bps by year-end remains the modal path.***

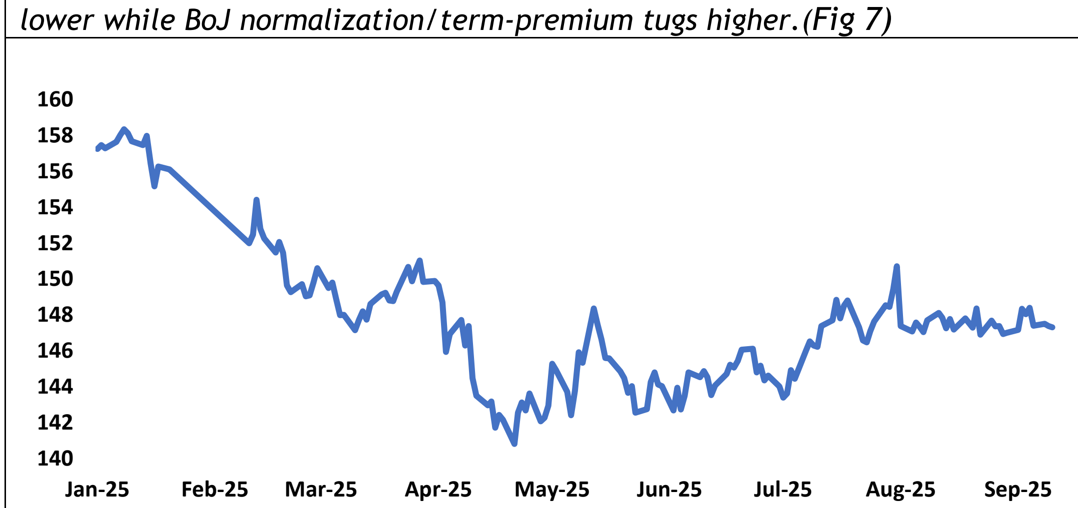
BOJ loosens Its grip: Rising yields Signal a new era

Japan's curve is steepening from a very low base as the BoJ tiptoes toward normalization. With the policy rate back above zero and YCC loosened, 2-year JGBs are ~0.87%, 10-year ~1.59% (a decade high), and 30-year ~3.22%—still the lowest yields in the G7 but notably higher than a year ago. Fatter ***local yields are pulling Japanese investors home, trimming demand for U.S. and European bonds and nudging global long rates up***. Further JGB upside is possible if the BoJ fully exits YCC, but any shift should be gradual the message is ***that even the most dovish central bank is normalizing***.

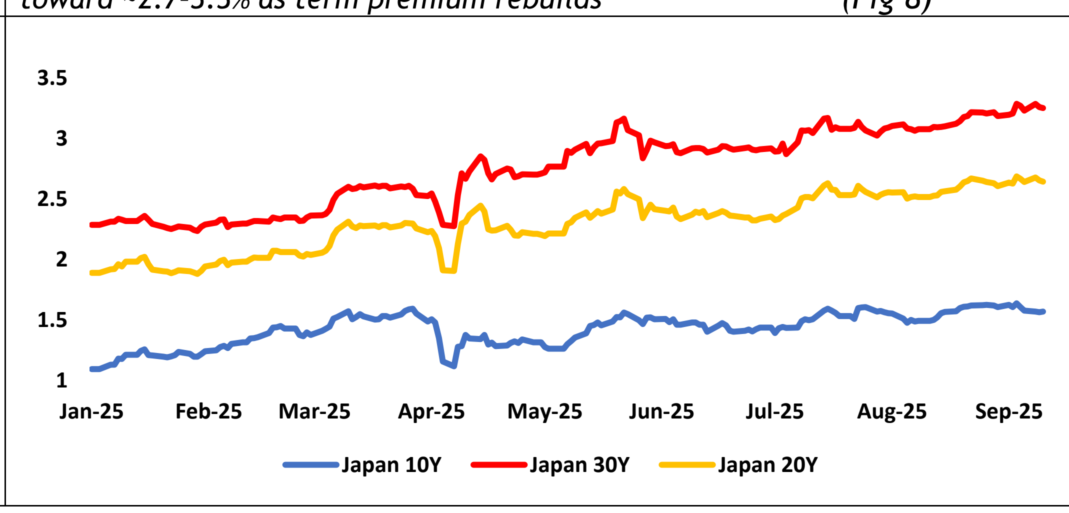
JAPANESE YEN (¥ - JPY):

Japan enters September with a firmer Q2 base but uneven momentum, inflation that is easing yet still above target, and a BoJ that is likely to hold this month while preserving optionality for a small move later in the year. The U.S.-Japan pact trims tail risk for autos but introduces medium-term fiscal and balance-of-payments questions that keep the yen and the ultra-long JGB sector sensitive to headlines. Against that backdrop, USD/JPY is likely to trade a broad 145–149 range into the Fed risk cluster, with direction set more by U.S. real yields and policy signalling than by domestic data.

USD/JPY settled into a 145-150 range—consolidation as Fed-cut pricing tugs lower while BoJ normalization/term-premium tugs higher.(Fig 7)



Ultra-long-led steepener—10Y steady near ~1.5% while 20Y/30Y grind higher toward ~2.7-3.3% as term premium rebuilds (Fig 8)



Source: Bloomberg, Reuters, UBI research

♣ECB steadies, markets Reprice: Only a token cut left?

ECB: "hold" mode, raises the bar for additional easing

ECB holds at 2.00% with guidance unchanged; 2027 inflation undershoot (H 1.9%, core 1.8%) lifts the bar for further easing, leaving only ~5 bps priced this year

The ECB left its policy rate unchanged at 2.00%, with no shift in guidance. Updated staff projections nudged this year's growth and inflation higher on recent data, but show headline and core inflation undershooting target in 2027 (1.9% and 1.8%). That mix effectively raises the bar for additional easing, and markets have pared back rate-cut expectations to about 5 bps for this year. A firmer euro should aid disinflation, while rising expectations of U.S. rate cuts and questions around Fed independence add cross-currents. On trade, near-term U.S. tariff threats have eased, yet the underlying equilibrium remains uneasy.

Eurozone: Easing Meets Issuance: A Steepener Story

Front end anchored by cuts (~2% Schatz) while Bund 10y ~2.7-2.8% stays sticky on term premium and heavy 2025 supply; Germany's capex/defense push helps keep a 70-80 bp 10s-2s steepener—soft front, stiff back.

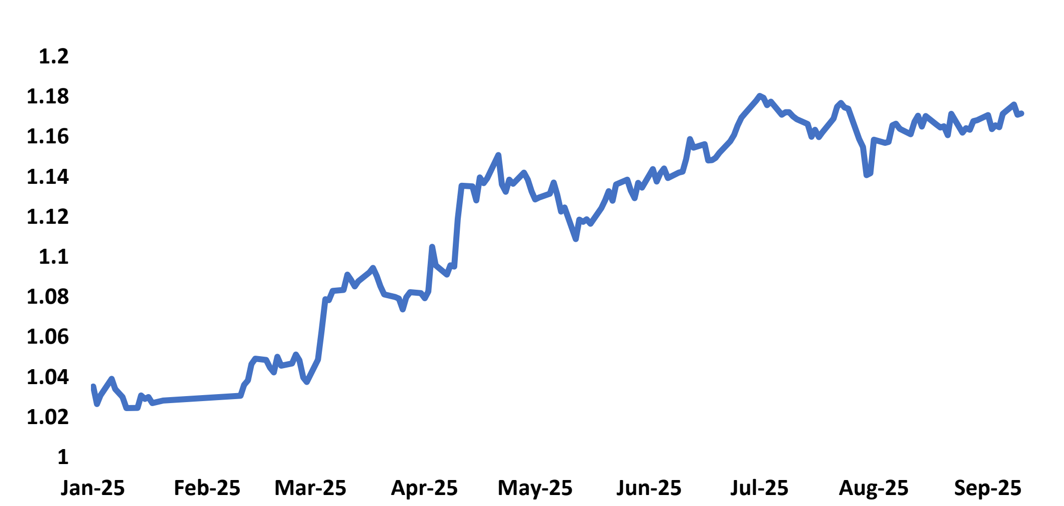
ECB cuts have dragged the deposit rate to 2.00% (July '25), pulling 2-year Schatz yields toward ~2% and re-steepening curves, while the 10-year Bund holds ~2.7-2.8% as term premium and heavy 2025 supply bite. Germany's long end has repriced on a €500bn infrastructure push, higher defense outlays, and a fading safe-haven bid helped along by a decades-big 43 bp jump earlier this year that lifted Bunds from ~2.1% in January to ~2.8% by late August. France and Italy sit near ~3.5% on 10-years, with OAT–BTP convergence reflecting France's 5.8% deficit and budget friction versus Italy's relative calm. Net-net, a 70-80 bps 10s-2s slope captures the tale: ***policy easing anchors the front end, but fiscal math and issuance keep the back end stubborn leaving euro rates in a "soft front, stiff back" regime where dips in the front end are buyable and long-end rallies remain fragile***.

EUR/USD: where we've been, what matters next, how to trade it

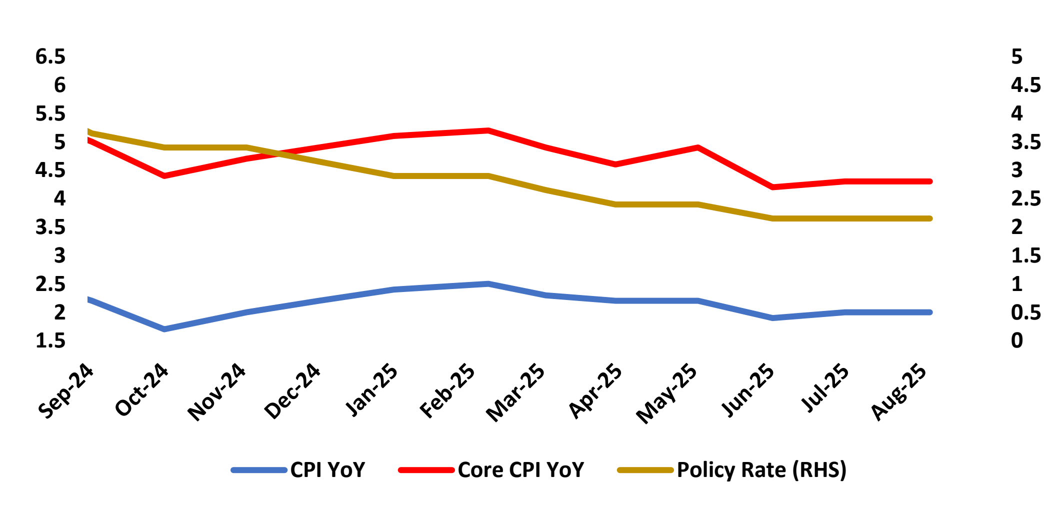
Bias higher on Fed-cut bets but capped by French politics; buy dips ~1.16-1.1650, break >1.1850 targets 1.1950-1.2050, while a hawkish Fed or renewed France stress risks ~1.1520

EUR/USD has ground higher into early September as Fed-cut bets rose but French political stress capped rallies. The euro area enters September with inflation near 2% and labour markets firm, while activity is mixed. The ECB paused, leaving the Fed as the near-term swing factor for EUR/USD. In rates, the France factor now rivals Italy as the key intra-euro risk. ***For FX, we favour EUR dips to 1.16-1.1650 as buyable; a clean break above 1.1850 targets 1.1950-1.2050, while a hawkish Fed surprise or renewed French stress risks a slide toward 1.1520***.

Euro remains resilient despite ECB rate cuts while yields remains elevated following the global trend (Fig 9)



ECB hold rates in its sept'25 policy meet amid hawkish tone by ECB President Lagarde (Fig 10)



Source: Bloomberg, Reuters, UBI research

♣ Rupee tumbles to record low; will US-India trade deal hopes support a turnaround?

Rupee depreciated ~2.5%, weighed down by safe haven dollar demand and trade tariffs, despite support from robust exports & remittances.

The Indian rupee remained under persistent pressure, hitting back to back all-time lows against the US dollar amid ongoing global uncertainties. US trade tariff truce, fluctuating foreign portfolio investment, and protracted trade negotiations have all contributed to the rupee's weakness. Additional downward pressure came from continued capital outflows from Indian equities, weakening export competitiveness, and speculation over the US-India trade deal. Although occasional progress in trade discussions offered brief support, it was insufficient to reverse the broader downtrend.

Rupee remains vulnerable due to high import dependence and sensitivity to global financial uncertainties, ending the month weaker by ~1.03% (01st Aug'25 Close: ₹87.54/$) touching all-time lows of ₹88.4700/$ before closing at ₹88.4425/$ on 11th Sep'25. The rupee's short-term outlook hinges on the resolution of trade disputes and shifts in global risk sentiment. [Refer Weekly-Report: FX weekly: From U.S. payroll shock to policy pivot: Bonds lead the way]

The major drivers of the rupee's movement are the pullback by Foreign Portfolio Investors (FPIs), leading to capital outflows, and ongoing uncertainty between India & US surrounding tariff and trade policy.

Key Drivers ▫

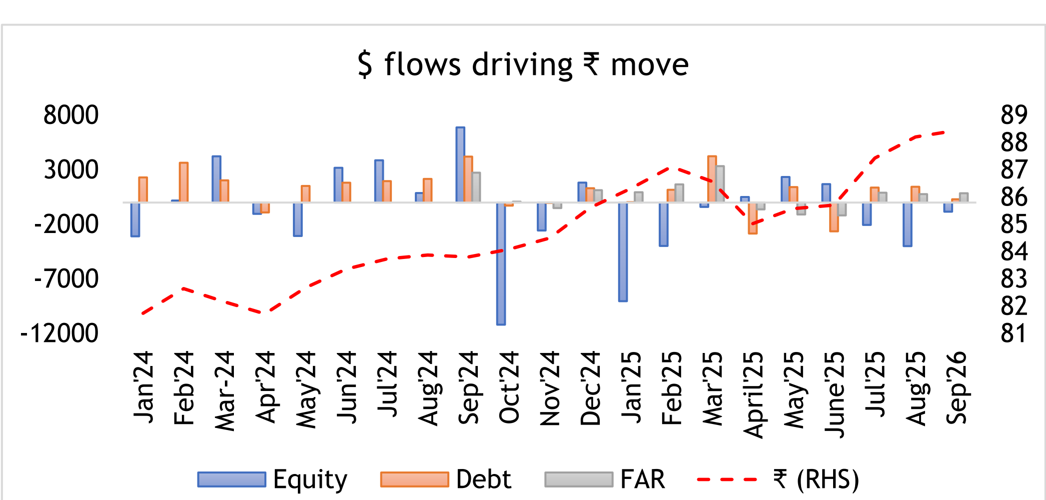
India-US trade talks gain momentum after diplomatic thaw, with a first deal tranche expected by Nov'25 amid ongoing tariff tensions and export relief measures

A. Thaw in India – US Diplomatic Tensions: Trade talks between India and the US have gained renewed momentum, with Commerce Minister Piyush Goyal stating that the first tranche of a trade agreement is likely by November. This follows a recent diplomatic thaw between President Trump and Prime Minister Modi, who have agreed to reopen negotiations amid rising tariff tensions. In response to steep US tariffs impacting sectors like textiles, jewellery, and seafood; India is preparing a relief package for affected exporters. While the negotiations signal progress, uncertainty still looms, and both sides are working to resolve key issues. Meanwhile, Indian officials have clarified that the country is not seeking to replace the US dollar in international trade, despite speculation stemming from broader BRICS discussions. ***Some breakthrough in India-US trade deal is likely as a new US envoy Sergio gor stated India has a good relationship with the US and trade deal will be resolved in the next few weeks.***

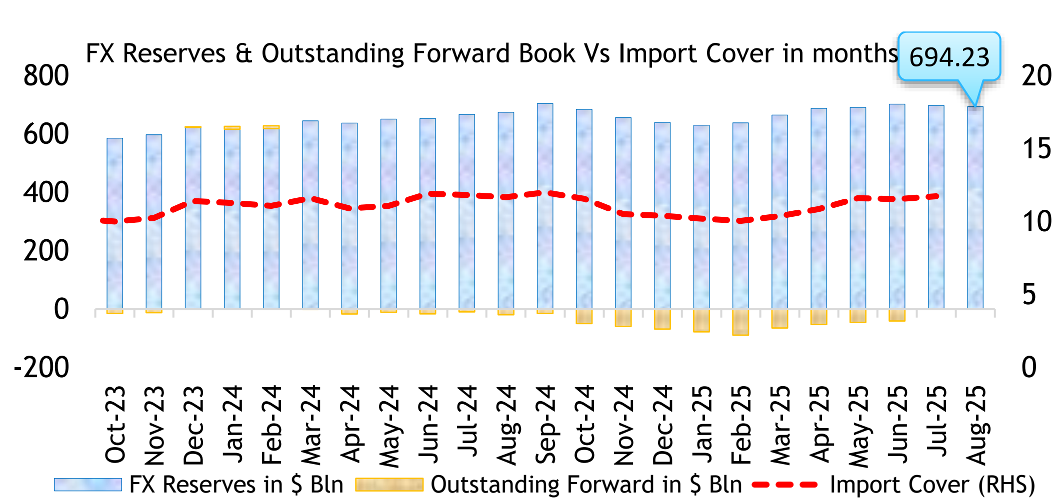
FPI outflows surged to $3.99bln in Aug highest in 7 months driven by tariff & rupee concerns, with YTD equity outflows at $16.27 billion

B. Foreign Portfolio Investors (FPIs) have continued their aggressive selling in Indian markets, pulling out $3.99bln in Aug'25 - marking the highest monthly outflow in 7 months with YTD net outflows at $16.27bln as of 10th Sep'25. This trend has extended into Sep'25, with $1.35bln withdrawn in just the first half, driven by concerns over rising US tariffs & the depreciating rupee. The financial sector has borne the brunt of these outflows, alongside IT, FMCG, and power stocks, adding significant pressure on both the currency and stock markets. In response, SEBI is working to ease compliance norms for FPIs, particularly in government securities, and is considering an "automatic window" to streamline FPI registration in an effort to stabilize capital flows and restore investor confidence. FPIs inflows in debt have come down to $217mln vis-a-vis $1447mln inflows a month ago. FAR flows, at $5.45bln YTD, saw a $719mln inflow till date this month.

Rupee depreciated on FPI outflows & trade uncertainties (Fig 11)



FX Reserves gained on account of rise in foreign currency assets (Fig 12)



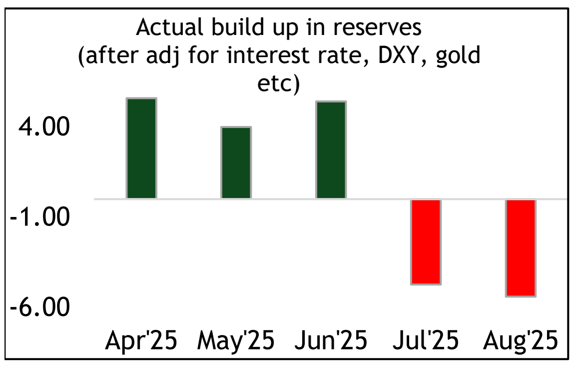
Source: Bloomberg, Reuters, UBI research

C. Yuan Strength, Rupee Strain: The Chinese yuan has continued to gain against the Indian rupee, reaching ₹12.42/ ¥ on 11th Sep'25 its strongest level ever recorded. This underscores the rupee's relative weakness within the Asian currency basket, making Chinese imports more expensive for Indian businesses and driving up input costs in sectors heavily reliant on Chinese goods. The rupee's underperformance against the yuan reflects broader regional vulnerabilities, amid ongoing trade tensions and unstable capital flows.

Yuan *surged to a record ₹12.42, highlighting the rupee's weakness in Asia and raising import costs amid trade tensions and capital flow volatility.*

D. Dollar Index (DXY) has traded relatively sideways, fluctuating within the 97.6 to 98.0 range and posting a ~0.28% decline over the past month. This modest softening came on the back of weaker-than-expected US labor market data, which has bolstered expectations of a potential FED rate cut (92% probability of a 25bps cut in 17 Sep'25). Notably, the August NFP report showed job additions of just 22k well below forecasts of 75k while the unemployment rate ticked up to 4.3%, its highest level since 2021. Softer DXY provided some cushion, the rupee continued to depreciate amid persistent trade tensions, tariff uncertainties, and capital outflows. The absence of a strong dollar rally offered limited relief, but not enough to reverse the broader downward trend in the INR, which remains vulnerable to both external shocks and domestic macroeconomic challenges.

DXY traded sideways with a modest dip on weak US jobs data, offering limited relief to the rupee.



E. **FX reserves** surged by $3.51bln to $694.23bln for the week ending 29th Aug'25, driven mainly by a $1.69bln rise in foreign currency assets to $583.94bln and $1.77bln rise in Gold. With this gain, reserves now stand ~10.63bln below the all-time high of $704.86bln recorded on 27th Sep'24. A valuation loss of $1.65bln was also noted, highlighting the central bank's ongoing efforts to stabilize the FX market. Our analysis suggests a BoP surplus of ~$5bln for FYTD26, with FX reserves (excluding valuation effects) continuing to align closely with BoP trends.

Brent crude fell 2.65% WoW due to rising US inventories & OPEC+ supply concerns, easing import costs for the rupee

F. **Brent crude oil** prices fell to $65.50/bbl., driven by a surprising 2.4 million barrel rise in US crude inventories and Saudi Arabia's push for higher OPEC+ production. New supplies from Guyana and Brazil, along with slower US growth concerns, added to the pressure. Brent is expected to hover around these levels but remains vulnerable to oversupply and economic uncertainties. For the rupee, lower oil prices ease import costs and provide some support. On a WoW basis, prices dropped by ~1.47%, and they still reflect a sharp YTD decline of ~12%.

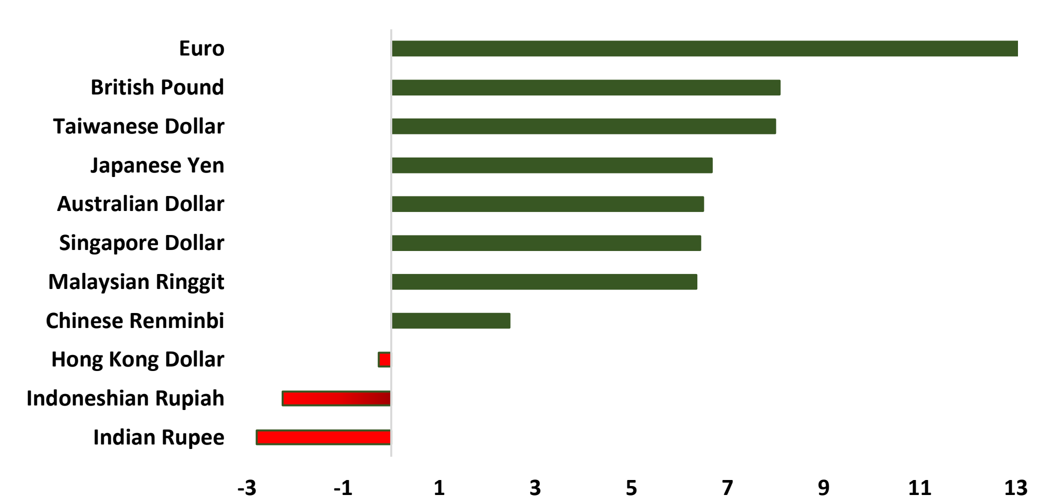
REER edged up to 100.06 in Jul'25, as the RBI turned net seller of $3.66B in forex after May's $1.76B purchase

G. **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 upside to 100.06 in Jul'25 vis-à-vis 99.68 in Jun'25 (downward revised), after a significant drop from the all-time highs of 108.08 in Nov'24. Notable fact, the RBI recorded a significant increase in net foreign exchange sales in Jun'25 of $3.66bln vis-à-vis purchase of $1.76bln in May'25. It is interesting to note that despite the alignment of Rupee to its fair value with REER close to 100 levels, we think the recent sharp move in the currency may be led by negative sentiment related pressures.

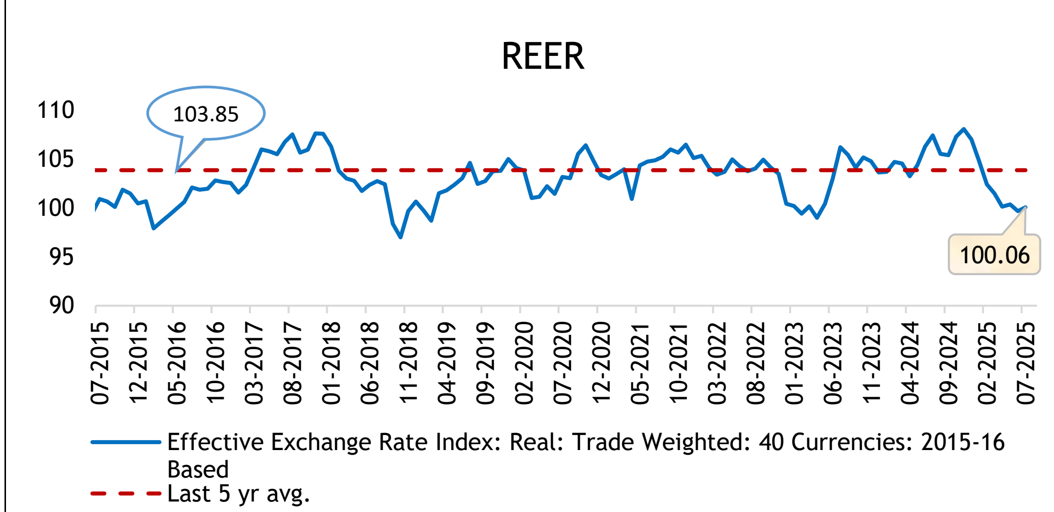
RBI's short forward and futures positions fell for the fifth straight month to $57.85B in Jul'25

H. **RBI's short positions in forwards and futures** fell for the fifth straight month, dropping by $2.54bln to $57.85bln in Jul'25 from $60.39bln in Jun'25, according to the latest RBI Bulletin. Long positions have remained nil since April, following $10.06 billion in February. By maturity, short-term exposure (up to 1 month) stood at $7.70bln, and rose by $5.16bln. Maturities beyond one year were stable at $20.10 billion as of March 2025, mainly reflecting to the $20bln swap facility.

% Change in Jan'25 for major currencies (Fig 13)



REER continues to ease in Jul'25 (Fig 14)



Source: Bloomberg, Reuters, UBI research

Rupee is expected to remain under pressure through Sep, in line with our FY26 outlook, as trade tensions, strong dollar demand, and capital outflows continue to weigh, despite brief support from a softer DXY and easing oil prices.

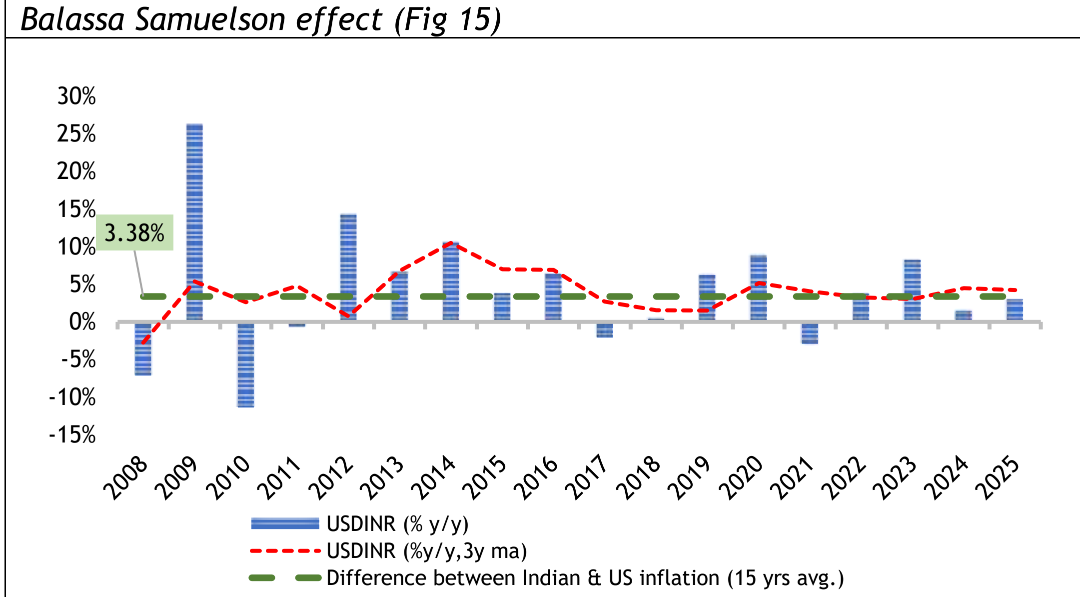
Outlook (₹ - INR)

The Indian rupee is likely to remain under pressure through the rest of Sep'25, hovering near its recent record lows against the U.S. dollar. Key factors weighing on the currency include strong dollar demand from importers, foreign investment outflows, and ongoing trade tensions with the U.S., especially after new tariffs were announced. Although there is some support from expectations of U.S. Fed rate cuts, the overall outlook remains fragile. Unless there is a significant improvement in global risk sentiment or a resolution to trade issues, the rupee is expected to trade in a broad range this month.

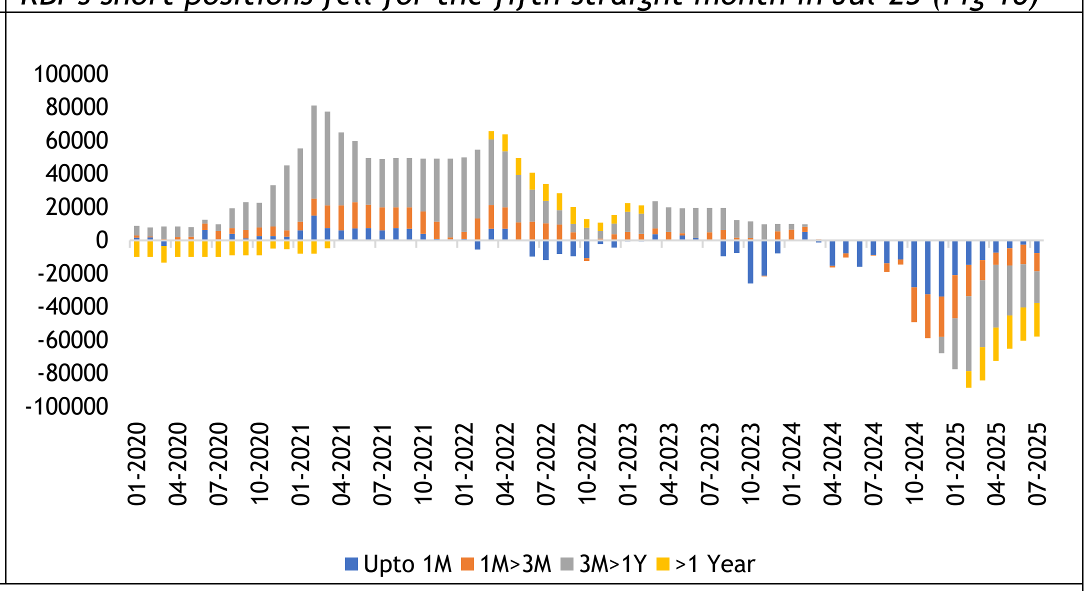
That said, the 88/89 levels for the Rupee are not a surprise for us and were flagged as part of our FY26 outlook for the currency where we mentioned our view of Rupee moving towards 89-90/$ levels during the course of the year (clearly highlighted in latest FX weekly and US-India trade deal stalemate Impact on macros and market)

Technically, immediate support seen around ₹87.80/$, a decisive break below this level could open the door to ₹87.50/$. On the upside, resistance is expected near ₹88.50/$, and a breach of that could push the pair towards fresh all-time highs of ₹88.80/$. Overall, the rupee is likely to stay vulnerable to external pressures such as dollar movements, trade tensions, and capital flows, with little indication of a strong rebound this week, while a softer DXY and cooling crude oil prices may offer some short-term relief. ***Markets will closely watch any progress in India-U.S. trade talks, we expect to see big figure change in rupee if US-India trade deal goes through. Till then the rupee may also underperform regional peers if risk aversion persists.***

Balassa Samuelson effect (Fig 15)

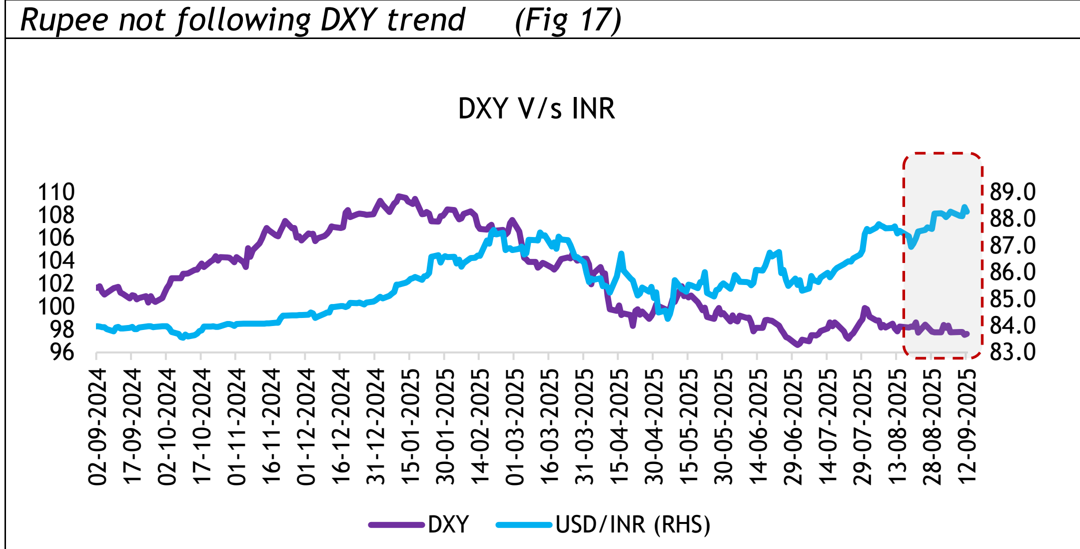


RBI's short positions fell for the fifth straight month in Jul'25 (Fig 16)

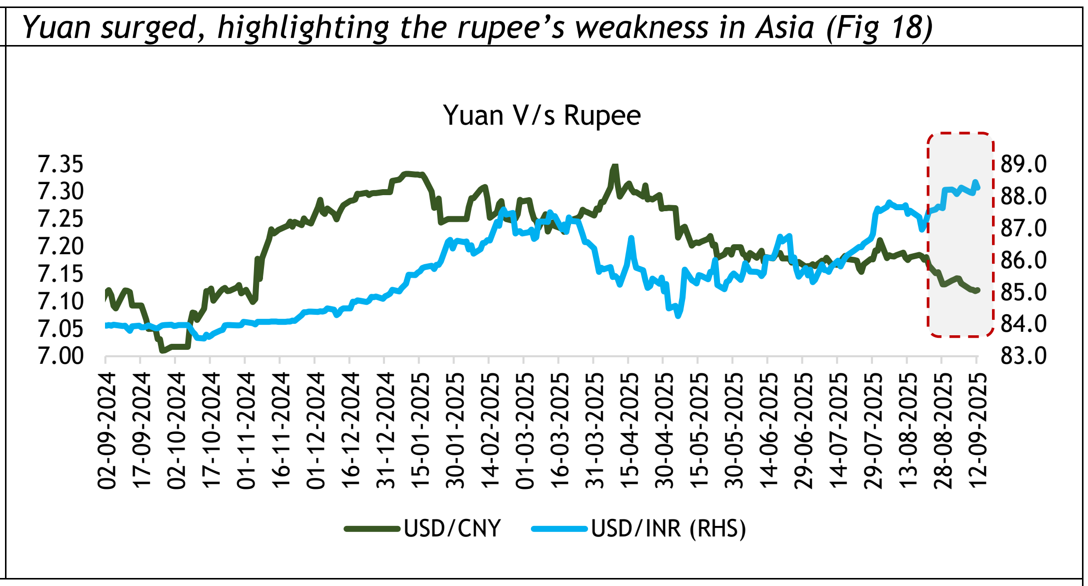


Source: Bloomberg, Reuters, UBI Research

Rupee not following DXY trend (Fig 17)



Yuan surged, highlighting the rupee's weakness in Asia (Fig 18)



Source: LSEG Workspace & UBI Research

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