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U.S. trade policy in 2025 blends deal-making with tariff brinkmanship. Allies such as Japan and the EU have accepted moderate levies in exchange for market access and investment assurances, while India face steep duties as negotiations stall or progress only in fits and starts. U.S. President Trump now wields tariffs as a broader geopolitical lever, reshuffling supply chains and sparking continual uncertainty.

*Amid this uncertainty the U.S. Leading indicators and sentiment surveys have softened, along with the recent employment numbers (refer fig 5). Currently markets have pivoted from inflation fears although the effect of tariffs on inflation is unknown in longer duration. While this has dragged down Treasury yields and the dollar, in our view in the coming months the impact will become clearer and may affect pricing. Also, in **recent weeks the key question that is arising is that the markets are underestimating the trump tariff impact given the low sensitivity shown to his eccentricity**.*

*Policy choices over the next three to six months are crucial. The Fed must time its easing carefully: Markets are now pricing in 60 bp of Fed rate cuts in 2025 and a further 70 bp in 2026, despite warnings from some academics that tariffs will push inflation higher next year. Investors appear to believe that any **tariff-driven price spike will prove temporary**. Their logic is two-fold: first, the inflation bump should fade once the one-off adjustment to higher import costs is complete by late-2025; second, slowing growth and **rising recession risk** will curb demand and keep underlying inflation in check. By 2026, supply chains are expected to have shifted toward non-tariff sources, further easing price pressures. In short, **markets are looking past the near-term inflation flare-up and betting that a weakening economy will give the Fed room and the imperative to ease aggressively**. However, in our view the situation is still volatile thereby require a close watch. That's said the political pressure on Fed is rising while September meeting look live at current juncture and this is why hawks are being replaced by doves. As Trump tapped CEA Chair Miran to fill Adriana Kugler's Fed seat, while adviser-favoured Fed Governor Christopher Waller is emerging as the leading candidate for the Fed chair.*

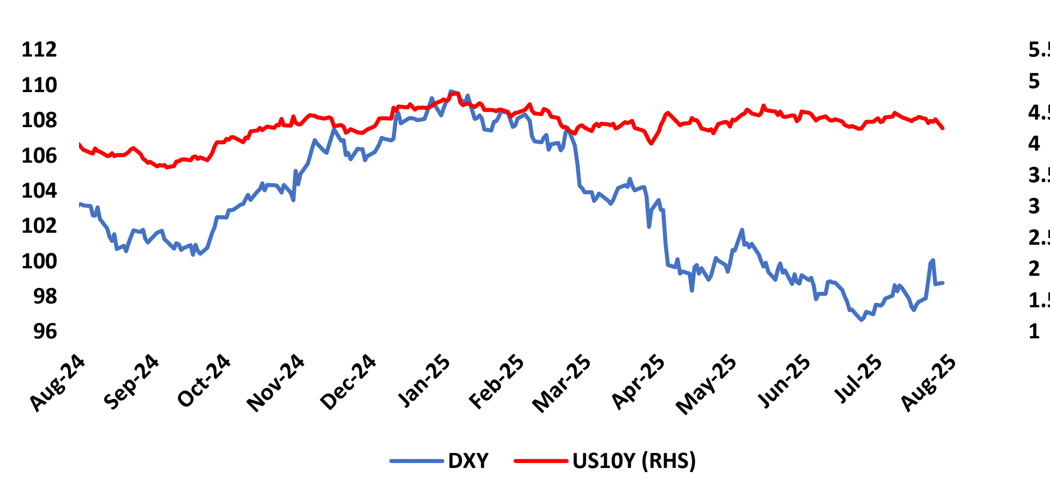
*Developments are moving quickly on three fronts **tariffs, geopolitics, and the Fed**. Tariffs and geopolitics intersect in India, where Washington has doubled duties to 50% to penalise New Delhi's close economic ties with Moscow. At the same time, Trump says **"great progress"** has been made in talks with Russia and plans to meet Vladimir Putin as early as next week. In doing so, they risk under-pricing the second-round effects U.S. consumer price pass-through, corporate margin squeeze, and possible retaliation that could materialize as the tariffs bite. The key themes for our Uni-Fx are outlined below*

- ♣ **Tariff tightrope: Navigating U.S. Trade, Fed policy, and Geopolitical crosswinds**
- ♣ **EU-US Trade deal: Trade-off or Relief?**
- ♣ **Yen hits multi-month low against dollar as economic uncertainty & inflation persist**
- ♣ **Rupee strained despite correction in US dollar on account of US-India trade deal stalemate**

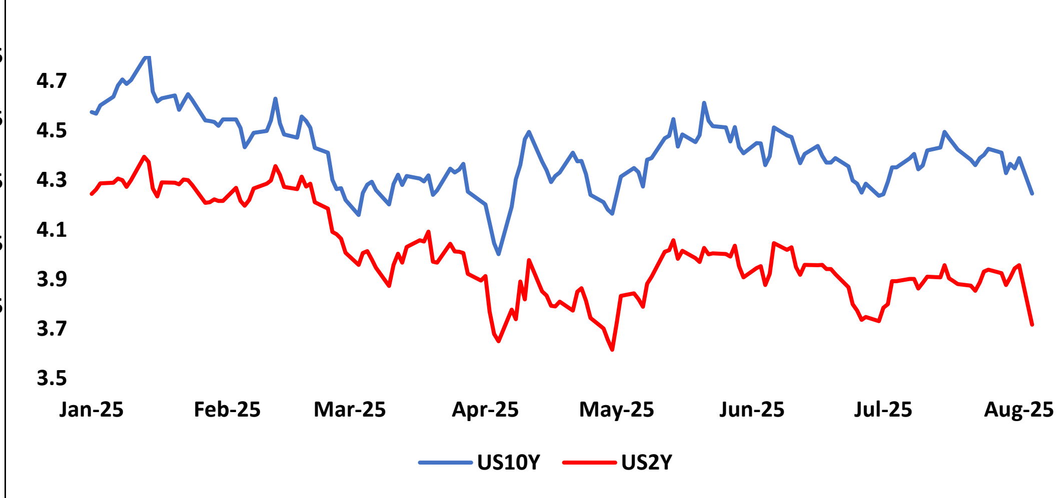
FX Views

Currency / Index	Trend bias/ Key Levels	Commentary
DXY	**Bias: Consolidation with bearish bias 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	**Bias: Bearish 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	**Bias: Bullish 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	**Support: 86.80 / 87.20 Resistance: 87.90 / 88.50**	Gradual depreciating bias. US trade talks, & **FPI (out)flows on close watch**.
USD/CNH	**Bias: Bullish Support: 7.1725 Resistance: 7.21**	US-China final trade deal closely watched.

DXY continues to consolidate after hitting the 100 mark while yields adjust according to inflation expectations (Fig 1)



Bull steepening in Yield curve was evident over the month (Fig 2)



Source: LSEG, UBI research

Market-Implied Path (CME Fed-Funds Futures snapshot)

Meeting	Implied Rate	Cumulative Δ vs now
17 Sep 2025	4.08 %	–24 bp
10 Dec 2025	3.72 %	–60 bp
29 Apr 2026	3.40 %	–92 bp
28 Oct 2026	3.03 %	–127 bp
09 Dec 2026	3.04%	-128bp

Next meeting probabilities: **No change 5 %**
25 bps cut 95 %

US Trade talks: Recent deals and Tariff actions

The U.S. has pursued aggressive trade negotiations in 2025 with major partners - including India, China, Japan, and the European Union often coupling talks with tariff pressure. A "final" trade deal reached in early May 2025 (notably with China in Geneva) set the stage for subsequent moves. Table 1 summarizes key developments and U.S. tariff changes since that deal:

(Table 1)

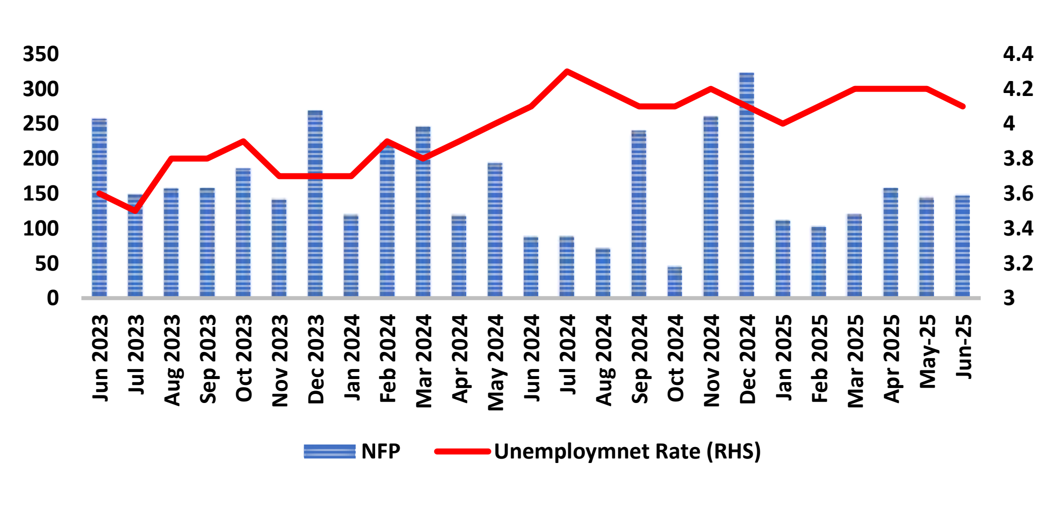
Trading Partner	**Recent Developments (since May 2025)**	**U.S. Tariffs Implemented**
India	Talks collapsed in July–Aug; India refused full U.S. terms (e.g. on agriculture), expecting a deal similar to Japan/EU. Trump pivoted away, calling India's stance a "miscalculation." In August, relations hit a low as the U.S. penalized India over Russian oil imports.	**+25%** tariff (Aug 2025) on Indian goods, on top of an existing 25%, bringing **total U.S. tariffs on India to ~50%**. (India called the move "**unfair**".)
China	A **"Geneva" trade truce** in May averted a full trade war. Both sides agreed to roll back threatened **triple-digit** tariffs and uphold earlier agreements. Talks continue (e.g. in London, Stockholm) without major breakthrough.	**30%** U.S. tariff on Chinese imports (effective rate under the truce). China in turn imposed a **10%** retaliatory tariff on U.S. goods. *(*These are down from much higher threatened levels; if another 90-day truce lapses without a new deal, tariffs could snap back upward.)
Japan	**U.S.–Japan Strategic Trade Agreement** struck in July 2025 after months of negotiation. Japan agreed to major investments in the U.S. and increased purchases of American exports. This deal headed off a potential auto tariff dispute.	**15%** baseline U.S. tariff on Japanese imports as part of the new deal. *(This uniform rate is lower than the 25% tariff threat initially floated by Trump, reflecting a compromise.)* Japan will invest $550 billion in U.S. industries and open its markets to U.S. goods.
European Union	**U.S.–EU Trade Framework** clinched late July 2025, narrowly averting a trans-Atlantic trade war. The EU committed to large-scale U.S. investments (~$600 billion) and expanded imports of U.S. energy and defense products. EU leaders conceded to U.S. tariff demands "across the board" despite initial hopes to avoid any tariffs.	**15%** U.S. tariff on most EU goods (effective uniformly) exactly half of the 30% rate the U.S. had threatened without a deal. *(*Notably, existing **50%** steel & aluminum tariffs remain in place for now.*)* The 15% EU tariff mirrors the Japan deal, signaling a new U.S. norm for allies.

U.S. Yields and the Dollar shift with Fed easing expectations

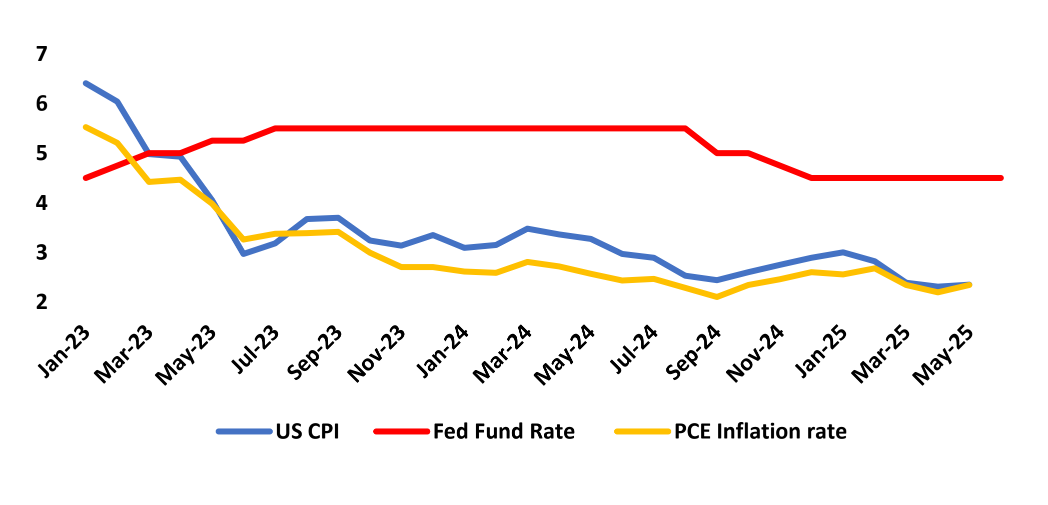
Financial markets have been oscillating as investors parse conflicting signals from data and policy. The 10-year Treasury yield sits around 4.25% little changed from a month ago but down from last year's peak while short-term yields (the 2-year near 3.71%) have edged lower as traders' price in imminent easing. Growth fears have pulled long yields down even as lingering inflation and supply concerns provide upward pressure.

Meanwhile, the U.S. dollar has fallen to roughly 15-month lows, reflecting global capital's anticipation of U.S. rate cuts and a broader shift toward diversification. Looking ahead, both yields and the dollar may have more room to decline if inflation continues to ease and the Fed follows through on rate cuts offering relief to debtors and boosting U.S. export competitiveness. However, any unexpected resurgence in inflation or a risk-off shock (such as geopolitical turmoil) could trigger a short-term rebound in both asset classes. Investors, therefore, brace for continued volatility as each new data point recalibrates expectations for the path of interest rates and exchange rates.

The US job market exhibits signs of slowing in month of June (Fig 3)



As US inflation remains sticky and tariff risks persist, the Fed is maintaining a cautious stance (Fig 4)



Source: Bloomberg, Reuters, UBI research

Soft Landing or Storm Ahead? Parsing the U.S. Economy's 2025 Crosscurrents

A few leading indicators highlight this divergence and foreshadow where the hard data may be headed.

Despite the trade turbulence, the **U.S. economy's performance in the first half of 2025 has been mixed** with "hard" data (actual economic outputs and employment) sending a more upbeat signal than many "soft" data indicators (surveys and sentiment measures). This divergence has been a key theme in recent months.

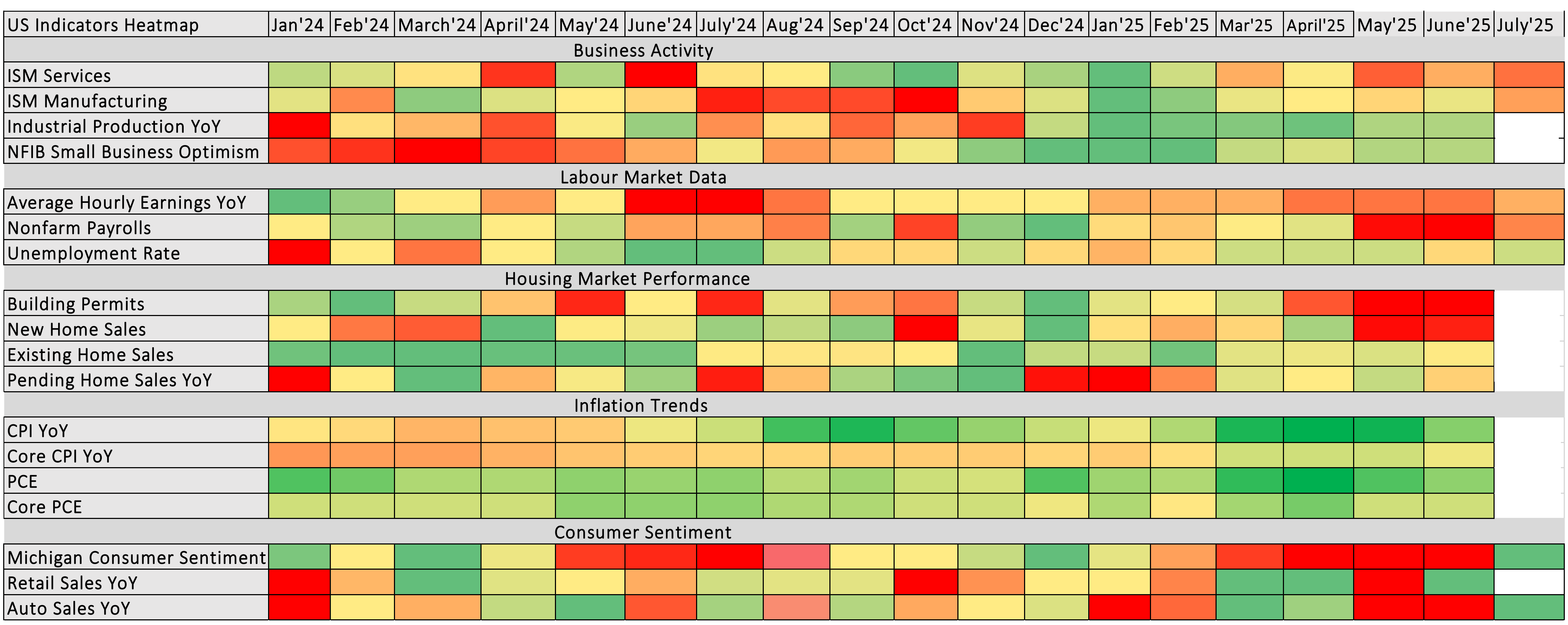
On the hard data side, the picture through mid-year has been one of resilient, albeit slowing, growth. After a strong 2024, the economy hit a snag in Q1 2025 real GDP contracted by about 0.3% annualized. However, that dip is not viewed as a true recession signal but rather a statistical quirk tied to trade: businesses front-loaded imports before tariffs kicked in, causing an import surge that dragged down the GDP math. Actual data for Q2 confirmed an uptick: U.S. GDP growth "rebounded more than expected" as the trade deficit reversed course in April-May. This seesaw in trade gave GDP a temporary lift. Setting trade aside, underlying economic momentum has moderated but not stalled.

Crucially, the labor market has stayed on solid footing until very recently. The unemployment rate has hovered around 4.0–4.2% a modest rise from the 3.5% lows of 2022, but still low by historical standards. ***Unemployment rate has remained stable despite massive revision in NFP data***.

The soft data, however, tell a more worrisome story. Surveys of confidence and expectations have deteriorated over the past six months, in some cases markedly. Business sentiment, in particular, has been hit by the trade-policy uncertainty and rising costs.

Factors supporting this hopeful outcome include: resilient consumer finances, the possibility of fiscal support (e.g. if tariffs bite too hard, the government might offset via tax breaks or spending measures), and the chance that global growth stabilizes (which would support U.S. exports). Additionally, if the Fed manages to nimbly cut rates at just the right time, it could prolong the expansion. Bloomberg's survey of economists puts the odds of a U.S. recession in the next 12 months at roughly 30% (down from closer to 50% earlier in the year).

(fig 5)



♣ EU-US Trade Deal: Trade-off or Relief?

The Fragile Truce

EU-US trade deal Critics call it a "road map" with weak safeguards; Germany urges Brussels to close loopholes and harden its stance.

After months of tit-for-tat threats, the EU and U.S. have agreed a provisional 15% tariff umbrella on most exports marking a shift from headline shocks to a calibrated (if still uncertain) framework. While this pact is detailed enough to price out immediate risk, it stops short of resolving medium-term uncertainty until carve-outs and exemptions are finalized.

Politics & Process

Critics argue that the EU conceded too much under pressure labelling the agreement a mere "road map" that relies on WTO compliance rather than enforceable safeguards. In response, German Finance Minister Lars Klingbeil has urged Brussels to adopt a firmer stance in ongoing talks and to close remaining loopholes.

Where things stand: Most manufactured goods including autos fall under the 15% baseline levy. Sector-specific discussions are already live: EU wine and spirits, for example, face interim 15% tariffs even as detailed carve-outs are negotiated. The message from Washington is clear: breadth first, carve-outs later and the timetable can tighten if progress stalls.

ECB nearing the end of rate cut cycle

In Q2 2025, the Eurozone eked out only +0.1% QoQ growth despite tariff volatility. Germany and Italy each posted mild contractions (-0.1%), reflecting their high U.S. export exposure, yet domestic demand held up well enough to bolster sentiment heading intoH2.

The deal defuses near-term flashpoints, but medium-term risks remain; traders will track carve-out negotiations, macro data, and central-bank signals for the next catalyst.

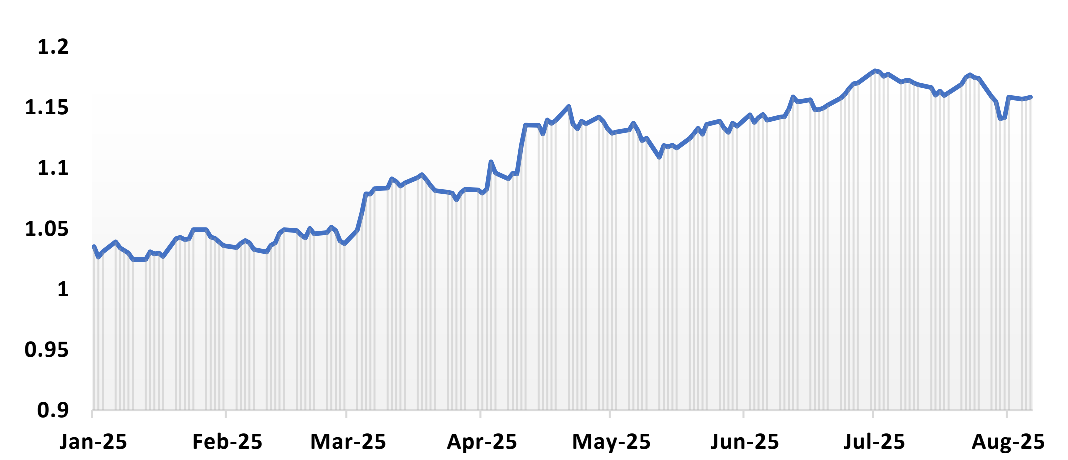
Inflation dynamics reinforce the ECB's cautious stance. Headline CPI sat at 2.0% in July, with core inflation steady at 2.3% and services easing to ~3.1%. The trade-driven headwinds of this framework have been partly priced in, helping to maintain disinflationary momentum. Market-implied rates now point to mild easing: roughly 1.89% by September and toward 1.77% by year-end suggesting modest dovish expectations, not a rush to cut.

FX Outlook: EUR/USD in the crosshairs

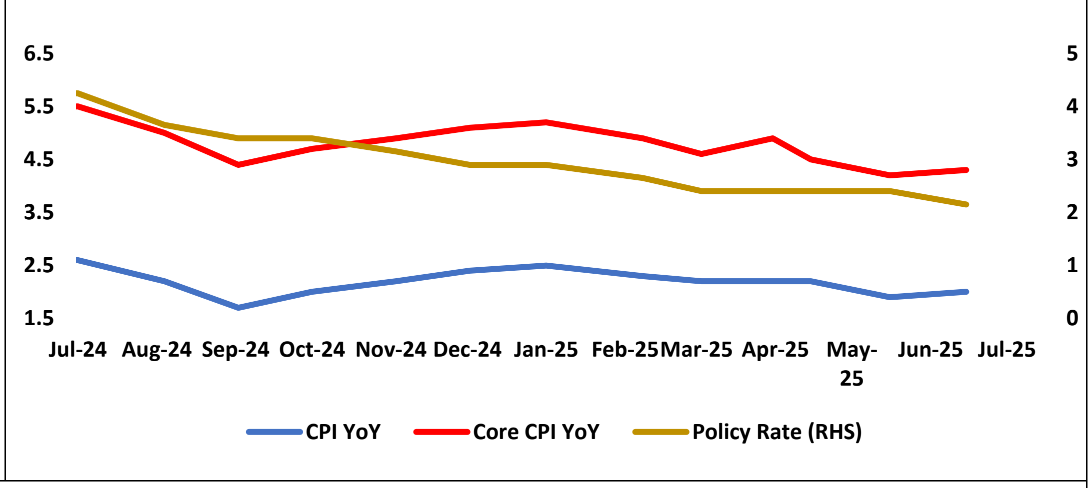
All of this has left EUR/USD trading on a knife-edge. After rallying near 1.18 in early July, the euro slid to 1.1416 by month-end amid renewed trade jitters and recalibrated ECB-Fed divergence. As August began, it found a foothold around 1.1540–1.1585. Technical indicators now warn of further downside toward 1.1400 unless clear progress on carve-outs or fresh ECB guidance shifts the narrative.

The EU-US tariff agreement may have defused the most immediate flashpoints, but until the carve-outs are nailed down, medium-term risks remain. Investors will keep watching both the negotiation timeline and incoming macro data and EUR/USD traders will look to central-bank cues for the next catalyst.

After rallying near 1.18 in early July it has corrected, recalibrated ECB-Fed divergence (Fig 6)



After series of rate cut the ECB is expected to hold its rates while inflation remains within its target of 2% (Fig 7)



Source: Bloomberg, Reuters, UBI research

♣ Yen hits low against dollar as rate hike expectations tame despite higher inflation

Japan's economy faces stagnation amid weak exports, while the BoJ maintains a 0.5% policy rate, raises 2025 inflation and growth forecasts, with incremental rate hikes into 2026.

Japan's economy showed signs of stagnation and uncertainty over the past month, driven by weak exports, a slowing global economy. In its 31st Jul'25, **Bank of Japan Policy Meet** kept the short-term policy rate at **0.5% for the 4th consecutive time**, signalling a cautious approach amid persistent inflation and global uncertainties. The BoJ raised its fiscal 2025 **core inflation forecast to 2.7%** and slightly lifted **GDP growth to 0.6%**, supported by recent Japan-US trade agreements; involving a $550bln investment commitment. While the market shows ~90 % probability no change in Sept'25 meeting and a total of 12bps rate hike.

Nominal GDP is projected to rise to $4.7 tln by Q425 amid flat Q1 growth, while inflation remains elevated at 3.2% in Jun'25, driven by soaring food prices.

In 2024, Japan's nominal GDP was approximately $4.0-4.2tln, and it is projected to reach around $4.7tln by the Q425. In Q125, the Japanese economy faced notable headwinds, with QoQ real GDP growth holding flat at 0.0%, following a 0.6% increase in Q424.

Japan's inflation reflects a mix of domestic and global influences. By Jun'25, the Consumer Price Index (CPI) was **3.2%**, slightly down from 3.4% in May'25. Key inflationary pressures have come from food, with prices rising over 7% annually and rice reaching record highs due to harvest challenges and strong tourism demand. The Bank of Japan forecasts average CPI inflation of around 2.5% for 2025.

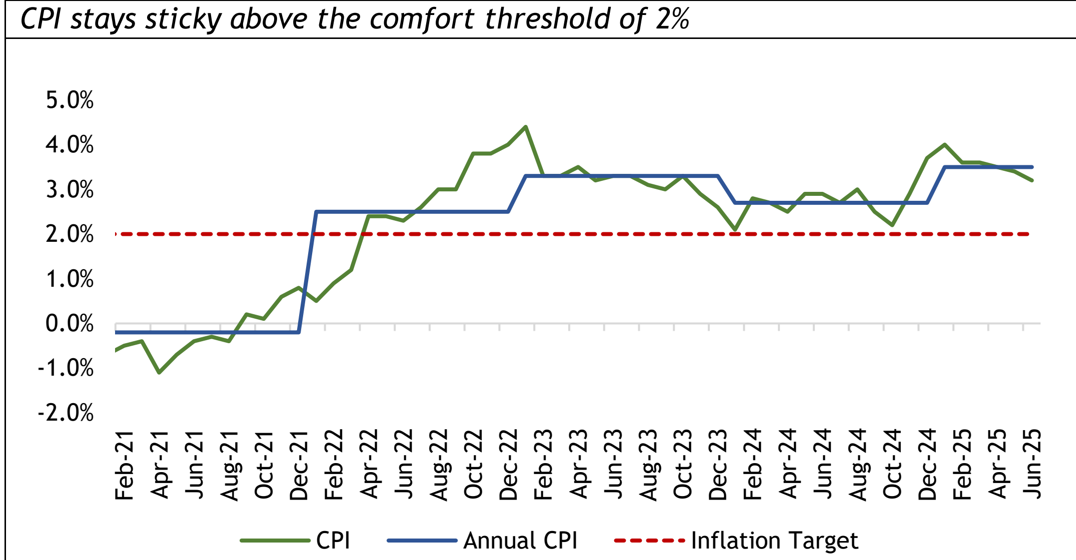
Japan's mfg. PMI fell to 48.9 showing contraction, while the services PMI rose to 53.6, keeping the composite PMI modestly positive at 51.6.

Japan's latest PMI data points mixed trends across sectors. In Jul'25, the manufacturing **PMI dropped to 48.9 vis-vis 50.1**, signalling a return to contraction in factory activity. The services sector remained resilient, with the **services PMI at 53.6 vis-à-vis 51.7**, supporting an improvement in the **composite PMI to 51.6 vis-à-vis 51.5** indicating continued modest overall private sector growth.

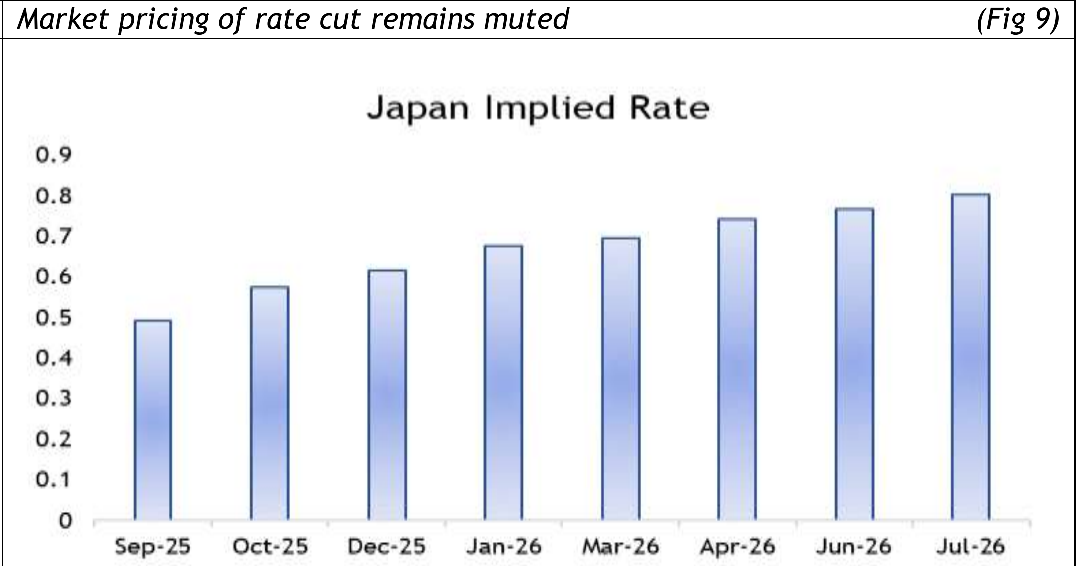
JPY is expected to remain weak against dollar in Aug'25, potentially testing 149, unless positive domestic developments or a US slowdown

The Japanese yen (JPY) is anticipated to stay under pressure and may continue weakening against the US dollar throughout August, with most forecasts placing the USD/JPY range between 144 and 150. As of August 6, 2025, the yen is trading ~147.5/$, having declined ~1% in the past month. Overall, consensus for August 2025 suggests the yen will remain weak, potentially testing the 149 level, and is unlikely to gain significantly unless there are unexpected positive domestic economic developments or a notable slowdown in US economic data.

CPI stays sticky above the comfort threshold of 2%



Market pricing of rate cut remains muted *(Fig 9)*

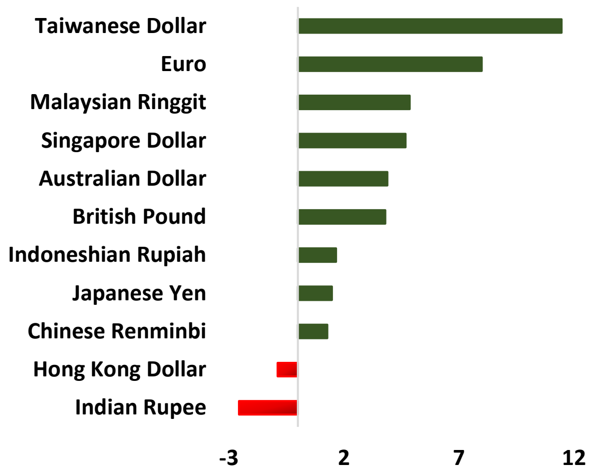


Source: Bloomberg, Reuters, UBI research

Rupee strained despite correction in US dollar on account of US-India trade deal stalemate

India's current account in FY26 has shown resilience due to robust services exports and remittances, with the trade deficit also turning out lower than our initial projections. At this juncture, the key pain point in the India-U.S. trade stalemate is our purchase of Russian crude oil: the share of India's oil imports has surged from ~1% in FY 22 to ~35-40% by FY25. While India has rightly defended its national interests, the macroeconomic fallout from weaning ourselves off Russian oil is likely limited. The discounts on import of Russian Urals which was at ~30% in FY23 (as per anecdotes & media sources) has reduced to ~5-7% in last 12 months. Even a full shift away from Russian supplies would raise our net import bill by only about 3% (40% × 7%), or $5 billion. In other words, ***while sentiment around the stalled trade deal keeps the rupee on edge, the direct impact of reduced Russian oil imports on the current-account balance is capped***.

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



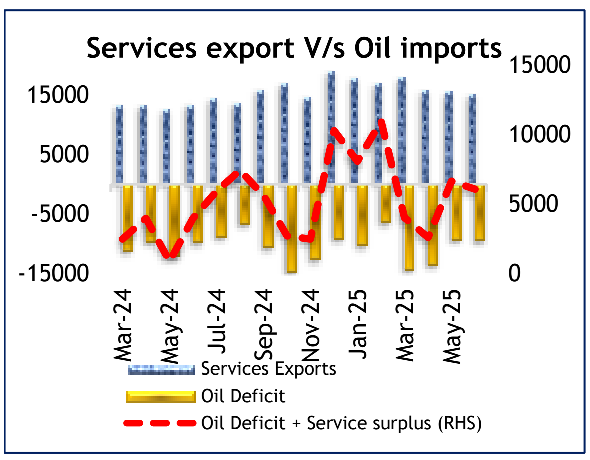
The Rupee has weakened against major global currencies amid safe haven dollar demand, trade tariffs, and reduced Russian oil import discounts. While India benefits from diverse exports and remittances. Rupee remains vulnerable because of high import dependence and sensitivity to global financial tightening, ending the month weaker by ~2.5% (1st Jul'25 Close: ₹85.53/$) touching highs of ₹87.8950/$ before closing at ₹85.7375/$ on 06th Aug'25. [Refer Weekly-Report: FX weekly: Markets navigate U.S. labor market woes, Fed caution and tariff uncertainty]

The major drivers of Rupee movement are dollar demand, capital outflows & FPI pullback amid tariff-driven trade frictions.

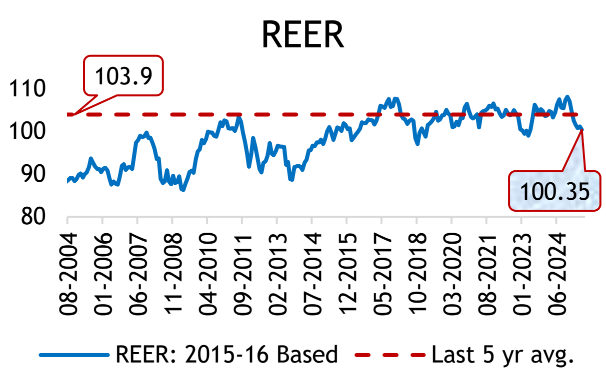
Key Drivers:

- **External factors →**

a) **Brent crude oil prices** edged higher, rising from ~$66/bbl. to ~$73 by Jul'25, before settling at ~$67/bbl. on 07th Aug'25. The upward movement was driven by tighter global supply conditions, resilient demand from Asia especially China and ongoing geopolitical tensions. These firmer oil prices added pressure on import bill, given the country's heavy reliance on crude imports. The rising energy costs widened the merchandise trade deficit, contributing to the rupee's depreciation. As a result, the rupee weakened by ~2.5% during the month, underscoring its sensitivity to global oil price movements. On a WoW basis, prices are down **~6%**, MoM drop by **~3%** and they still reflect a sharp **YoY decline of ~15%.** Net services exports are playing a critical role in balancing the country's high oil import bill & stabilizing its overall trade deficit.



b) **DXY** saw notable volatility with, July's disappointing U.S. NFP data., the DXY fluctuated before settling near 98 levels, reflecting ongoing uncertainty over US economic strength and monetary policy direction. The DXY maintained a persistent bearish bias, trending lower within a well-defined **descending channel pattern**. On a WoW basis, prices are down **~2%**, MoM minor increase by **~0.4%** and a broad **YoY decline of ~5%.**

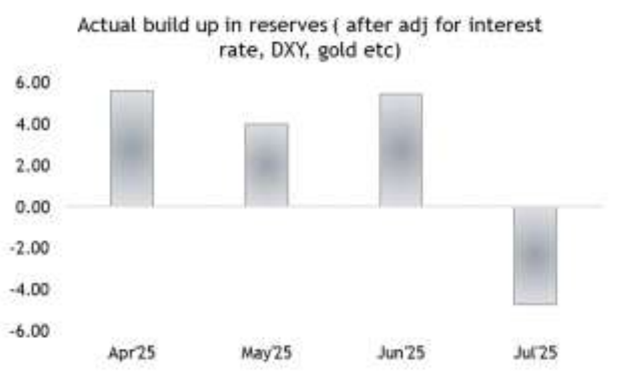


- **Domestic factors →**

A. **RBI's 56th MPC** on 07th Aug'25 was in alignment with our view of a status quo on rates and stance with a unanimous vote. The monetary policy stays data dependent as transmission of the frontloaded easing measures as they flow through the economy. The rupee maintained relative steadiness without significant adverse movement after the RBI MPC.

B. **The Rupee's Real Effective Exchange Rate (REER)** 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.

C. **FX reserves** rose by $2.70bln to **$698.19bln** for the week ending 25th Jul'25, driven mainly by a $1.32bln rise in foreign currency assets to $588.93bln. With this increase, reserves are now just $6.67bln below the all-time high of $704.86bln recorded on 27th Sep'24. A valuation-related loss of $0.87bln was also recorded, reflecting the central bank's continued efforts to stabilize the forex market. Our analysis indicates a Balance of Payments (BoP) surplus of ~$10bln for FYTD26, with FX reserves net of valuation effects continuing to closely track BoP dynamics.



RBI's short positions declined for the 4th straight month in Jun'25, with long positions fully unwound

D. **Foreign Portfolio Investors** flows are persistently weak and continue to weigh on the local currency, with net outflows reaching $12.02bln YTD as of 6th Aug'25. Although the trend had reversed with net inflows seen in April, May, and June, outflows resumed in July. In the most recent, FPIs are net sellers in equities, pulling out $1.09bln in Aug'25 and $2.05bln in Jul'25. On the other hand, the debt segment saw a reversal, with FPIs turning net buyers to the tune of $1.4bln in Jul'25 and $0.2bln in Aug'25. FAR-related flows have remained relatively robust this year, totaling $3.79bln, supported by strong buying activity in July.

E. The **RBI's aggregate short positions** in forwards and futures declined for the 4th consecutive month, easing by $4.83bln to $40.29bln as of Jun'25, from $45.12bln in May'25, as per the latest RBI Bulletin. Long positions were fully unwound by Apr'25, after standing at $10.06bln in Feb'25. In terms of maturity breakdown: short-term exposure **up to 3 months** remains significant at $2.54bln; the **3-month to 1-year** bucket saw a slight increase to $11.85bln; and the largest exposure is in the **over 1-year** category at $25.91bln. Derivative contracts (forwards, futures, and options) with residual maturities beyond one year were steady at $20.10bln as of Mar'25, largely reflecting the $20 billion swap window.

Outlook (₹ - INR)

US tariffs on Indian imports doubled to 50% over India's Russian oil purchases, escalating trade tensions, while expected IPOs offer near-term rupee support amid ongoing volatility and mixed pressures.

Recent US tariffs on Indian imports escalated with a 25% hike announced in August 2025, doubling US duties to 50% over India's Russian oil purchases. This intensifies trade tensions, raising costs for Indian exporters and posing challenges to bilateral relations, though critical sectors remain partially protected.

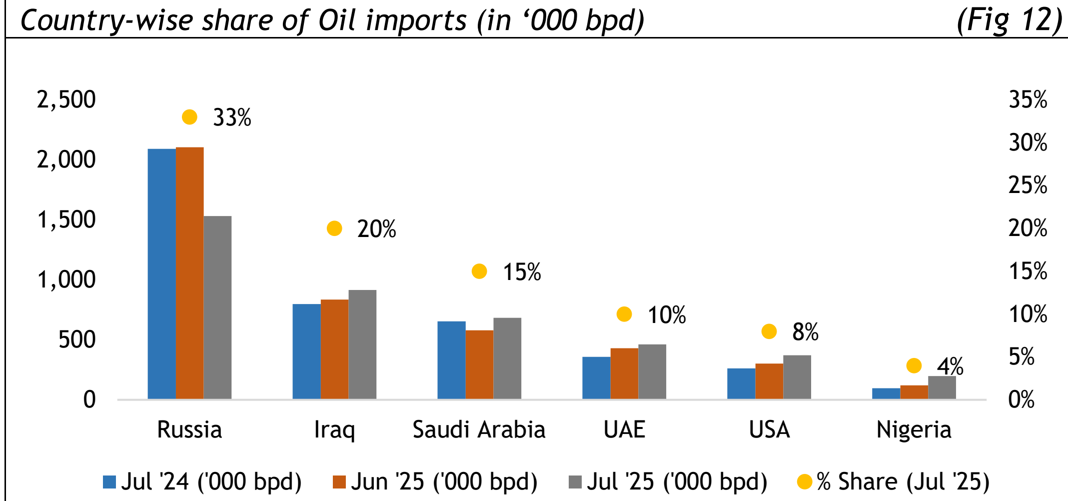
The total amount expected to be raised from IPOs in August 2025 in India is estimated at ~₹20,000Crs / ~$2.4bln. Major IPOs set to file DRHPs and launch bids, potentially attracting fresh foreign capital and offering near-term support to the rupee. However, persistent dollar demand from large importers and oil marketing companies is likely to keep a floor under the USD/INR pair.

Rupee is likely to remain volatile and face mild depreciation risks this month amid a mix of domestic and international pressures. The rupee has been pressured by factors such as widening current account deficits, capital outflows, weak foreign portfolio investments, and global trade tensions including US tariff increases.

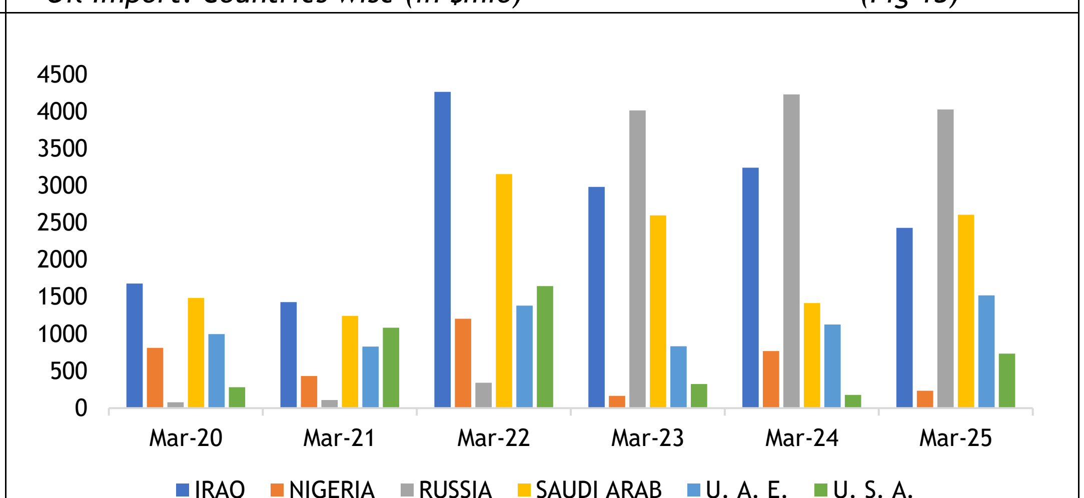
Technically, the USD/INR pair has respected our previously identified levels. We anticipate a rebound in rupee sentiment to come soon, with immediate support seen around ₹87.20/$, a decisive break below this level could open the door to ₹86.80/$. On the upside, resistance is expected near ₹87.90/$, and a breach of that could push the pair towards fresh all-time highs of ₹88.50/$. The rupee's direction will be shaped by global oil prices, geopolitical risks, DXY trends, domestic macro indicators, foreign portfolio flows and any development in India-US trade tariff corridor.

Rupee dynamics will be driven by developments in the US-India trade deal. Over the 21-day window beginning 7 August 2025 before a proposed 25% tariff takes effect ***markets will be watching a series of high-profile events***, including talks between U.S. President Trump and Russian President Putin, meetings between India's Prime Minister and China's President, and visits by US officials to India.

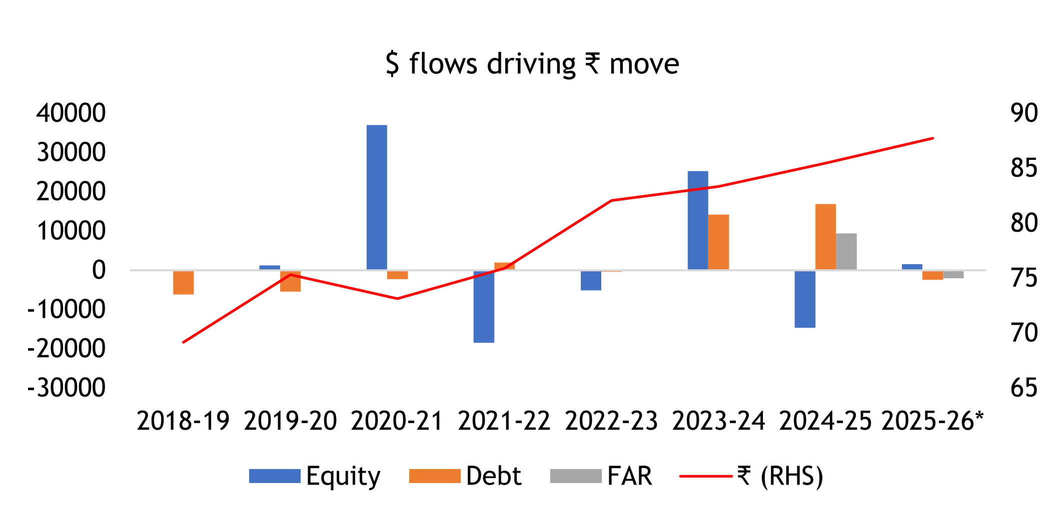
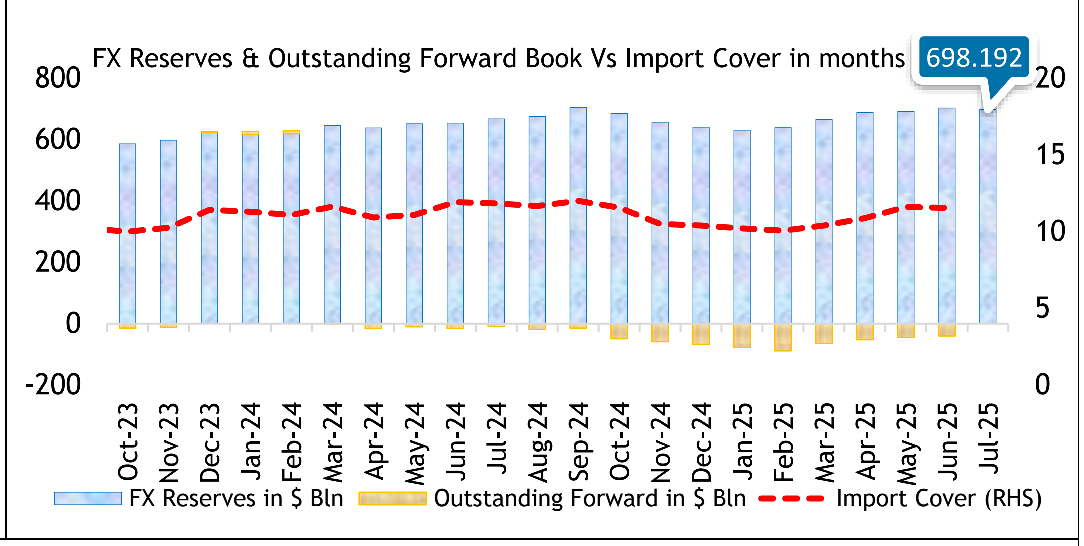
Country-wise share of Oil imports (in '000 bpd) *(Fig 12)*



Oil Import: Countries wise (in $mio) *(Fig 13)*



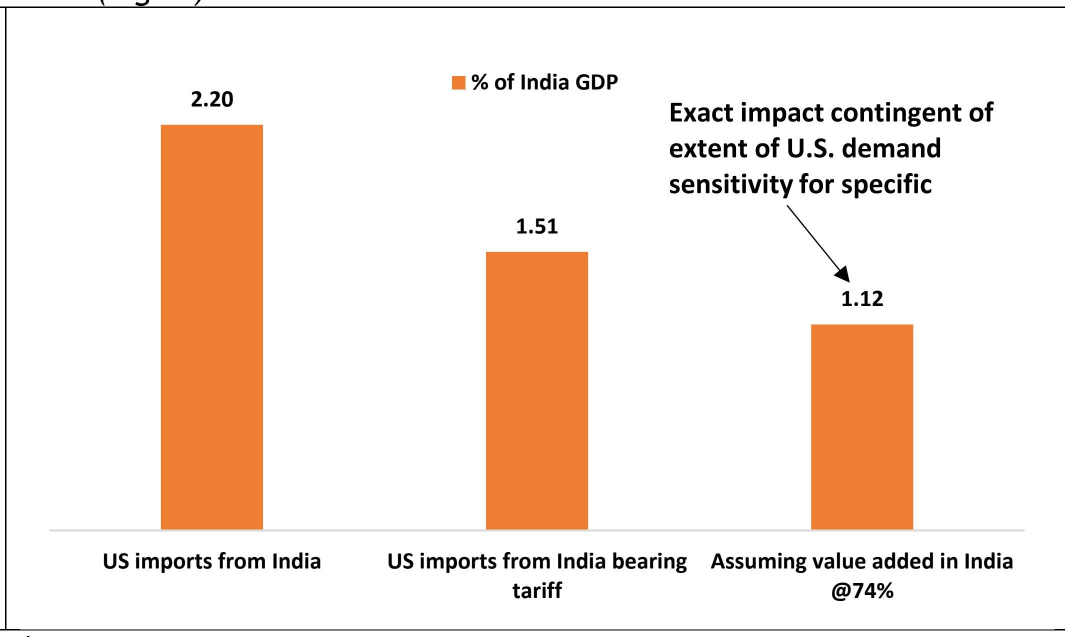
Source: Kpler, Ministry of Commerce, UBI research

Rupee depreciated on FPI outflows (Fig 14)	*FX Reserves gained on account of rise in foreign currency assets (Fig 15)*
	

Source: Bloomberg, Reuters, UBI research

Impact of additional US tariffs @50% on India's GDP outlook(Fig 16)

Sector (USD bn)	US Imports from India	Imports exempted from tariffs	Net US Imports from India	Assuming 74% value added in India on US imports
Textiles	12.04	0.00	12.04	8.91
Gems and jewellery	11.89	0.02	11.87	8.78
Machinery	8.33	0.09	8.24	6.10
Others	8.54	0.33	8.22	6.08
Agri	6.04	0.00	6.04	4.47
Electronics	14.40	8.98	5.41	4.01
Metals	5.41	0.43	4.97	3.68
Chemicals	5.82	2.78	3.04	2.25
Auto	2.80	0.00	2.80	2.08
Pharma	12.73	12.71	0.01	0.01
Energy	3.23	3.23	0.00	0.00
Total	**91.23**	**28.58**	**62.66**	**46.37**



Source: ***dataweb.usitc.gov****, https://federalregister.gov/d/2025-06063 and UBI Research.*

1. *FY26 Nominal GDP assumed @$4.15 trillion*
2. *Energy and pharma products are more or less exempted from tariffs*

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