Mecklai Financial
WHERE RISK MEETS ITS MATCH

INDIA; RUPEE ENDS STABLE WITH TARIFF DEADLINE FOCUS **Jul,07 2025**

INDIA; RUPEE ENDS STABLE WITH TARIFF DEADLINE FOCUS

Indian rupee ended the week little changed as market await the developments on US-India trade talks. Traders continued to monitor developments in the US-India trade talks after a Financial Times report mentioned that India is close to finalizing an interim trade agreement with the US. Final data also lifted sentiment, as India's private sector growth hit a 14-month peak in June 2025, with services and manufacturing rising the most in 10 months and 14 months, Equity market benchmarks halted their three-week rally and ended in the negative last week.

The latest information on the talks came from Commerce Minister Piyush Goyal when he commented that India would not sign the deal under pressure indicating that the agreement cannot be reached as most analysts expected. The deadline for the reciprocal tariffs is July 09. Meanwhile, President Trump has already started sending letters to different countries on the new tariff regime, which would begin on August 01.

On the data front, the HSBC India Mfg. PMI stood at 58.4 in June 2025, matching the flash data released earlier, marking the highest print since April 2024. Services PMI was revised lower to 60.4 in June 2025, from 60.7 in the preliminary estimates, following a final 58.8 reading in the previous month.

However, data also showed India's Industrial Output expanded by 1.2% y/y from the previous year in May 2025, slowing from the downwardly revised 2.6% increase in the previous month and firmly below market f/c of a 2.4% growth rate to mark the softest pace of Industrial growth since August 2024. Production in manufacturing expanded by 2.6% annually, slowing from the 3.1% expansion from the previous month,

On the fiscal front, India's fiscal deficit stood at INR 0.13 trillion in April-May 2025–26, down from INR 0.51 trillion in the same period a year earlier, representing 0.8% of the government's full-year target compared to 3.1% last year due to a 28% increase in tax receipts.

WEEK AHEAD FOR INDIAN MARKETS

There are no major data releases from India this week. However, markets will be concerned about developments on the India-US trade deal. In addition, President Trump would be in the news talking about the Tariff as the Pause period ends on July 9.

HEDGING STRATEGY: -

For Imports: Hedge for payables up to end August 2025 near or below 85.10.

For Exports: Hedge partial exports near or above 85.90 levels.

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GLOBAL SCENARIO						Jul,07 2025	
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	97.19	97.42	96.38	97.18	97.40	96.00-102.50	Positive
USD/INR	85.49	85.76	85.26	85.40	85.49	85.10-86.75	Positive
EUR/USD	1.172	1.1829	1.1708	1.1778	1.1718	1.1200-1.2200	Negative
GBP/USD	1.3704	1.3789	1.3563	1.365	1.3716	1.3100-1.4000	Negative
USD/JPY	144.7	145.23	142.68	144.47	144.65	137.75-149.00	Positive

INTERNATIONAL MARKETS

US

The Dollar index edged up slightly after the release of the Non-Farm Payrolls data, which was better than market expectations. However, overall data releases were not encouraging.

Non-farm payrolls may appear to be a good number on the surface. The labour market has been a relative bright spot, but is also showing signs of strain. Slowing immigration and weak population growth may be encouraging employers to hold onto workers, limiting layoffs — the unemployment rate remained little changed. June payrolls rose by 147k—above the 110k consensus—but gains were heavily concentrated in state and local government (+74k) and healthcare & social assistance (+60k). Excluding these two non-cyclical sectors, employment was nearly flat, suggesting continued private-sector hesitation. Jobless rate fell to 4.1%, but a decline in the labour participation rate explains the decline in unemployment rate. The data resilience justifies Chair Powell's message of not needing to rush a rate cut at the upcoming July meeting. The futures market had put the odds of a July rate cut at about 20%, but the entire bets were taken off after the jobs report.

Despite another major layoff announcement from the tech sector this week, layoffs remain in check at the national level. Yet, the continuing claims for jobless benefits hit their highest level since 2021 in the latest numbers released this week, showing that for those who are out of work, it is getting tougher to find a job.

ISM survey data also points to modest economic activity. Both the manufacturing and services indices improved slightly in June, but remained at low levels. Manufacturing remained in contraction, while services returned to expansion after a brief dip in May. Price pressures persisted in both sectors, especially for manufacturers, where input costs continue to rise. Employment subcomponents fell further into contraction, signaling reluctance to expand payrolls.

President Trump announced a framework trade deal with Vietnam on social media. The U.S. will impose 20% tariffs on imports from the Vietnam and a 40% levy on any goods that are "trans shipped" via this country in order to prevent Chinese goods from entering the U.S. via backdoor routes. So far, the UK and Vietnam are the only countries to get deals ahead of the deadline.

Overall, this week's data is unlikely to shift the Fed from its patient stance. Activity is softening, but not collapsing. We share the market's view that the Fed will likely keep monitoring inflation developments before making any policy moves, with September remaining the most likely decision point.

President Trump signed the Big Beautiful Bill into a law. The bill was quite controversial as Trump's closest advisor Elon Musk criticized the Congress for passing this bill. Financial markets, however, are hardly convinced of the benefits of this new law. The Congressional Budget Office estimated that the bill would add around $3.3 trillion to federal deficits over the next 10 years and leave millions without health insurance. It also includes $150 billion in new defence spending and another $150 billion for border enforcement and deportations, which will be financed with cuts in health care spending. The tax cuts will end up benefiting those with higher incomes, while low-income Americans will suffer the most, as they will lose health and food support. Concerns revolved also around tariffs and mounting tensions between President Trump and Federal Reserve (Fed) Chairman Jerome Powell.

Looking forward, uncertainty looms large as the temporary pause on the Liberation Day ends on July 9. President Trump has ordered his administration to send letters to countries unilaterally informing them of the tariffs to begin from August 1. Lingering uncertainty on Section 232 tariffs — affecting lumber, copper, pharmaceuticals, and critical minerals — will further complicate matters.

EUR

EURUSD continued its rally into the first week of July, peaking around 1.1830 level before retreating modestly. Still the pair had retained most of its weekly gains and settled around 1.1780 level.

From Eurozone, June inflation data matched consensus expectations, with headline inflation rising 2% y/y, in line the ECB's inflation target. Core inflation remained steady at 2.3%, while services inflation edged slightly higher to 3.3%. The German annual HICP was reported at 2%, easing from the 2.1% posted in May. Eurozone PPI fell -0.6% m/m in May, in line with market expectations, as falling energy costs drove the decline. On an annual basis, PPI decelerated from 0.7% to 0.3% y/y. Excluding energy, producer prices still edged up 0.1% mom.

Germany also released Retail Sales, which were up 1.9% in May, down from the 2.9% posted in April. Despite the subdued inflation print supporting the ECB's overall easing bias, we expect the central bank to proceed cautiously from here, maintaining a patient and data-dependent stance amid ongoing global uncertainties and hold rates steady at its July meeting.

The leaders of major central banks from Europe and Asia gathered in Portugal to discuss risks related to conducting monetary policy. Indeed, trade tensions and neutral rates were at the top of the list. Policymakers also discussed the USD reserve currency status, but acknowledged there's a long path ahead before any other currency could take its place.

Back in May, European Central Bank (ECB) President Christine Lagarde noted that for the Euro to become a reserve currency, Europe needs a stronger geopolitical and legal foundation as it grows its capital markets through a strong European economy.

Lagarde shared some comments at the beginning of the forum, noting that the world ahead is more uncertain, and that is likely to make inflation more volatile. She hit the wires again on Friday with some hawkish remarks, stating the ECB will do whatever it must do to reach its inflation target, adding the economic system needs to become more efficient before the Euro can boost its global currency status.

GBP

The persistent downbeat mood around the USD drove the GBP/USD pair to nearly four-year highs of 1.3789. However, Pound Sterling sellers quickly jumped in due to resurfacing concerns regarding the British fiscal and political situation, which sent the UK gilts in a downward spiral and GBP/USD to weekly lows of 1.3563 on Wednesday.

British Finance Minister Rachel Reeves appeared visibly upset during PMQs on Wednesday after Prime Minister Keir Starmer avoided a question if she would remain in her position until the next election. Although Starmer's press secretary later said that "the chancellor is going nowhere, she has the prime minister's full backing." The Pound Sterling shrugged off that comment and sustained its corrective decline as the USD witnessed a relief rally on a surprisingly strong US labor market report on Thursday.

Meanwhile, Bank of England Governor Andrew Bailey told the Lords Economic Affairs Committee on Tuesday that they are starting to observe labour market softening. Additionally, BoE Deputy Governor Dave Ramsden said that if evidence becomes stronger that inflation will undershoot the target, they could speed up rate cuts. Although these comments failed to trigger an immediate market reaction, they might be contributing to GBP/USD's indecisive action midweek.

JPY

USDJPY stayed in ranges between 145.23 and 142.68 during the week as JPY bulls hesitated to up the bets. However, policy divergences between the Fed and the BOJ might favour the JPY in the coming months, though BoJ has been hesitating to go for a rate hike during the week. Traders are however convinced that the BoJ will stay on the path of monetary policy normalization amid broadening signs of inflation in Japan.

The incoming data indicated that inflation in Japan has persistently exceeded the BoJ's 2% annual target for over three years. Moreover, the Tankan Survey released earlier this week revealed that firms expect consumer prices to rise by 2.4% over the next three years and by 2.3% annually over the next five years. Adding to this, a government report on Friday showed that Household Spending in Japan surpassed even the most optimistic estimates and rose 4.7% in May from a year earlier. This, in turn, keeps the door open for further rate hikes by the BoJ and underpins the JPY.

Getting into the details, Japan's Q2 Tankan survey further supported this improving tone across. The Tankan survey—a closely watched measure of business confidence in Japan—showed favorable overall trends during the second quarter. The large manufacturers' diffusion index rose to +13, beating expectations for a slight decline to +10 from +12. Manufacturers of paper products, iron and iron steel primarily drove the move. The index for large non-manufacturers eased by one point to +34 from +35, in line with consensus expectations and still near multiyear highs.

CRUDE OIL

Crude oil prices ended last week higher, but selling pressure may emerge again as the OPEC+ agreed on Saturday t raise production by 548K barrels per day in August, further accelerating output increase at its first meeting since oil prices jumped. The August increase represents a jump from monthly increase of 411K bpd, OPEC+ had approved for May, June and July and 138K in April. OPEC+ cited a steady global economic outlook and healthy market fundamentals, including low oil inventories, as reasons for releasing more oil. The acceleration came after some OPEC+ members, such as Kazakhstan and Iraq, produced above their targets, angering other members that were sticking to cuts. With the August increase, OPEC+ will have released 1.918 million bpd since April, which leaves just 280,000 bpd to be released from the 2.2 million bpd cut. On top of that, OPEC+ allowed the UAE to increase output by 300,000 bpd. The group still has in place other layers of cuts amounting to

3.66 million bpd. The group of eight OPEC+ members will next meet on August 3.

WEEK AHEAD

Next week, investors will closely monitor trade developments in the US as the July 9th deadline approaches, marking the end of the tariff pause announced in April. The Trump administration has begun sending formal letters to trading partners outlining the tariff rates they will face. As of July 4th, only a few deals had been finalized—specifically with the UK, Vietnam, and a framework agreement with China.

Attention will also turn to the release of the FOMC minutes, as traders look for further clarity on the Fed's policy direction for the rest of the year. Fed Chair Powell has maintained a cautious, wait-and-see stance. On the economic front, the US calendar is relatively light. Globally, markets will be watching China's consumer and producer price data, monthly GDP figures from the UK, industrial production and trade numbers from Germany, Canada's labor market report, and monetary policy decisions from central banks in Australia, South Korea, Malaysia, and New Zealand.

MARKETS LAST WEEK			
	Clsng as per 04-07-25	Clsng as per 27-06-25	Change
Mibor 3M	5.46	5.47	-0.01
Mibor 6M	5.48	5.5	-0.02
Swap 1 Y	5.51	5.54	-0.03
G-sec 1 Y Yield	5.524	5.604	-0.08
G-sec 10Y Yield	6.295	6.381	-0.09
US 2Y Yield	3.886	3.744	0.14
US 10Y Yield	4.328	4.274	0.05
Ger 10Y Yield	2.56	2.586	-0.03
Jap 10Y Yield	1.4	1.439	-0.04
Gold	3337.15	3274.33	62.82
Silver	36.97	35.99	0.98
Brent Crude	68.3	67.77	0.53
WTI Crude	66.5	65.52	0.98
Nifty 50	25461	25637.8	-176.80
BSE Sensex	83435.89	84058.9	-623.01
DXY	97.18	97.4	-0.22

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