Mecklai Financial
WHERE RISK MEETS ITS MATCH

Rupee Hits Record Low as Tariffs Bite; Brent Slips Ahead of OPEC+ Talks.

Sep,09 2025

Rupee Hits Record Low as Tariffs Bite; Brent Slips Ahead of OPEC+ Talks

Indian Rupee had a roller coaster ride last week, ending at all-time low of ₹88.36 levels. This sharp plunge of local unit in the latter part of the week was driven mainly by geopolitical and trade developments rather than domestic fundamentals. A major factor behind the fall was the Biden administration's decision to double tariffs on certain Indian exports, specifically those linked to Russian crude oil purchases. The tariffs were increased to 50%, citing secondary sanctions violations. This move triggered widespread panic among foreign investors, leading to robust foreign institutional investor (FII) outflows from domestic equities. Over the week, foreign investors withdrew roughly 12,257 crore (~USD 1.4bn) from Indian equities. The risk-off sentiment prompted a shift away from emerging markets, with investors opting for safer assets.

While RBI acknowledged the downside risks, especially from escalating trade tensions, it chose not to intervene aggressively in the currency markets. The central bank emphasized that rural demand remained resilient but avoided direct action in FX markets, likely to prevent market distortions. On the domestic front, India's Q2 GDP data showed a 7.8% growth rate, slightly below expectations but still among the strongest in recent quarters. Manufacturing and services sectors performed better than anticipated, while agriculture and mining underperformed. Despite this, the rupee's movement was dominated by external shocks. Additionally, a lack of dollar inflows from IPOs and corporate borrowings deprived the currency of seasonal support. Without expected RBI interventions before September's policy review, the rupee is likely to stay vulnerable, especially if crude prices rise or global tensions intensify.

WEEK AHEAD FOR INDIAN MARKETS

Indian markets are likely to tread cautiously in the coming week amid a mix of domestic reforms and external risks. The newly announced GST overhaul (GST 2.0) aims to boost consumption ahead of the festive season, but could initially strain fiscal revenues. Market participants will also watch for FII activity, which remains cautious amid global uncertainty, while near-term support expectations hinge on US rate-cut optimism and positive global cues.

HEDGING STRATEGY

For Imports: Hedge for payables up to end September 2025 near or below 87.85.

For Exports Hedge partial exports near or above 88.75

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GLOBAL SCENARIO							Sep,09 2025
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	97.83	98.64	97.43	97.77	97.77	95.00-102.50	Negative
USD/INR	88.25	88.36	87.85	88.27	88.21	86.50-89.00	Positive
EUR/USD	1.1695	1.176	1.1608	1.1717	1.1686	1.1200-1.2200	Positive
GBP/USD	1.3503	1.3555	1.3333	1.3509	1.3504	1.2870-1.3950	Positive
USD/JPY	147.09	149.14	146.79	147.43	147.05	138.50-153.00	Negative

INTERNATIONAL MARKETS

US

DXY traded with a mildly bullish tone this week, recovering from its August lows and closing at 98.37. The dollar's rebound was driven by a mix of macroeconomic data, political uncertainty, and seasonal liquidity factors. Early in the week, trading volumes were thin due to the upcoming Labor Day holiday, but sentiment shifted midweek after softer-than-expected jobless claims and inflation data. Initial jobless claims fell to 212,000, better than forecasts, while the core Personal Consumption Expenditures (PCE) inflation rate eased to 2.6%, suggesting that inflationary pressures were moderating. These signals reinforced market expectations that the Federal Reserve might opt for a rate cut in its upcoming September meeting. While the dovish tilt initially supported the dollar, political developments added complexity. President Trump's ongoing criticism of the Fed's independence, including threats to remove key members, spooked investors and triggered safe-haven flows into the greenback. The labor market showed signs of weakening, with consumer confidence falling to 97.4 in August from 98.7 in July. The proportion of job seekers finding it hard to secure employment rose to 20%, its highest level since February 2021, signaling labor market stress. Additionally, concerns around housing demand further weighed on sentiment. New home sales slipped by 0.6% in July, while inventories rose. Despite these challenges, the ISM Manufacturing Index improved from 47.9 to 49.8, hinting at a possible stabilization in industrial activity. Increased dollar buying by corporate treasuries ahead of tax payments also contributed to demand. Moreover, easing geopolitical risks from Ukraine and Taiwan helped the dollar gain ground against other currencies, positioning it for further gains if Fed policy stays accommodative.

EUR

Euro posted modest gains against the US Dollar this week, bolstered by better-than-expected economic data and a relatively calm political environment in the Eurozone. One of the most significant data points was the Eurozone's Manufacturing PMI, which rose to 50.7 in August, signaling a return to expansion territory and surpassing forecasts of 49.5. This suggested that the industrial sector, which had struggled earlier in the year, might be stabilizing. Inflation data also contributed to the euro's resilience. The headline inflation rate increased slightly to 2.1% in August from 2.0% in July, driven primarily by rising energy and food prices. Though inflation remained above the ECB's target, the modest uptick did not trigger alarm bells, allowing policymakers to maintain a measured stance. ECB President Christine Lagarde's remarks further reinforced this cautious outlook. Speaking in Frankfurt, she reiterated that policy decisions would be data-dependent and that no major rate adjustments were likely in the near term. Labor market data added to the positive sentiment, with unemployment falling to 6.2%, the lowest since 2008. This improvement helped bolster hopes of gradual recovery without aggressive monetary tightening. Political stability in key countries like Germany and France also supported investor confidence, as no significant disruptions were reported throughout the week. On the FX front, euro demand was supported by corporate hedging flows and month-end portfolio adjustments. Meanwhile, bond yields in the region remained steady, with the German 10-year bund yielding 2.54%, suggesting that markets were not anticipating sharp policy changes. Despite concerns over China's slowing growth and its implications for Eurozone exports, the euro managed to outperform several other G10 currencies, reflecting optimism in the region's economic fundamentals.

GBP

British Pound traded with a slightly bearish bias this week, closing near 1.3455 against the US Dollar. Political and fiscal concerns weighed on sentiment, overshadowing supportive macroeconomic data. Speculation around Chancellor Rachel Reeves' fiscal proposals intensified early in the week, as she outlined plans for a windfall tax on banking profits and higher corporate levies to fund public sector wage increases. While these measures aimed to address income inequality, they raised concerns about the long-term health of the UK's financial sector and its ability to attract capital. As a result, investors began pricing in the possibility of reduced inflows and diminished profitability for key industries. Despite this, economic data provided intermittent support. The UK's Services PMI came in at 53.2, comfortably above the expansion threshold and beating expectations, suggesting that the service sector remained robust. Inflation also remained sticky, with headline CPI at 3.4% year-over-year, reinforcing the view that the Bank of England might delay rate cuts until at least spring 2026. Governor Andrew Bailey's testimony before Parliament underlined this cautious approach, as he highlighted ongoing inflationary pressures and the risks associated with premature easing. GBP/INR saw notable movement, surging to ₹119.21 midweek, although this was more a reflection of rupee weakness than pound strength. Political challenges also lingered, with criticism of government handling of healthcare and immigration policies, though these had limited direct impact on markets. Short-term gilt yields rose, with the 2-year reaching 4.78%, indicating uncertainty over fiscal policy. Overall, the pound's performance this week was shaped by a tug-of-war between solid economic indicators and growing concerns about fiscal sustainability.

JPY

Japanese Yen remained subdued this week, trading in a narrow range around the 147 level against the US Dollar. The currency's lackluster performance was driven by mixed domestic data and cautious central bank signals, which left investors hesitant. Industrial production figures for July were disappointing, showing a decline of 1.2% month-over-month compared to forecasts of a 0.3% drop. Retail sales also underwhelmed, rising just 1.1% year-over-year, suggesting fragile consumer demand despite moderate wage growth. However, signs of strength in the labor market offered a glimmer of hope. The unemployment rate fell to 2.3%, the lowest since early 2020, hinting at a tighter labor environment. Despite this, uncertainty remained about the Bank of Japan's next steps. Governor Kazuo Ueda, speaking at a Tokyo symposium, emphasized the central bank's commitment to maintaining accommodative policies until wage growth is "durably strong." While acknowledging improvements in employment conditions, he refrained from hinting at any imminent rate hikes. This left the market leaning toward continued low rates, putting downward pressure on the yen. Global factors also played a role, as easing tensions in the Taiwan Strait and progress in Ukraine's ceasefire talks reduced safe-haven demand for the yen. Japanese government bond yields stayed low, with the 10-year JGB at 0.72%, reflecting continued yield curve control. Implied volatility on USD/JPY options dropped to a three-month low, underscoring investor caution. Political concerns, including dissent over defense spending and tax reforms, added to uncertainty but had limited direct impact on the yen. Overall, the currency's muted action reflected a wait-and-watch approach, with traders awaiting clearer signals from domestic policymakers and global risk sentiment.

CRUDE OIL

Crude oil prices ended the week slightly lower, with Brent settling near $66.79 per barrel, down about 2% from the prior week. The market's subdued tone was influenced by a combination of geopolitical developments, supply expectations, and weak demand indicators. Early in the week, prices spiked temporarily following reports of Ukrainian drone attacks on Russian export facilities, which raised fears of supply disruptions. However, these concerns were short-lived as news of ceasefire talks between Russia and Ukraine eased fears and trimmed the risk premium embedded in oil prices. Additionally, speculation about the upcoming OPEC+ meeting on September 7 kept investors cautious. Analysts from ANZ and other institutions noted that the alliance might authorize another round of production increases to regain market share lost to U.S. shale producers. The expectation of rising output weighed heavily on sentiment, especially as global inventories showed signs of building.

WEEK AHEAD

Global markets enter the new week with significant developments in store. All eyes will be on the US inflation gauges, particularly CPI and PPI, which could influence expectations of Fed rate cuts. Markets are also watching central bank moves especially from the ECB, and others in Asia that could shape capital flows and risk sentiment. In the EU, political volatility such as France's confidence vote may add market watchfulness. OPEC+ decisions on production and China’s upcoming economic data could also sway oil prices and commodity-linked currencies.

MARKETS LAST WEEK

	Clsng as per 05-09-25	Clsng as per 29-08-25	Change
Mibor 3M	5.49	5.53	-0.04
Mibor 6M	5.47	5.5	-0.03
Swap 1 Y	5.5	5.49	0.01
G-sec 1 Y Yield	5.657	5.558	0.10
G-sec 10Y Yield	6.465	6.588	-0.12
US 2Y Yield	3.5113	3.623	-0.11
US 10Y Yield	4.0781	4.226	-0.15
Ger 10Y Yield	2.662	2.716	-0.05
Jap 10Y Yield	1.58	1.611	-0.03
Gold	3584.96	3447.95	137.01
Silver	40.95	39.72	1.23
Brent Crude	65.5	67.48	-1.98
WTI Crude	61.87	64.1	-2.23
Nifty 50	24741	24426.85	314.15
BSE Sensex	80710.76	79809.65	901.11
DXY	97.76	97.77	-0.01

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