INDIA: RUPEE ENDS WEAKER ON US TARIFF JITTERS **Jul,14 2025**

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Indian rupee depreciated about 0.5% last week to close at 85.79 to a dollar on Friday due to weakness in domestic equity markets amid risk-off sentiments due to trade tariff uncertainty. Equity market benchmarks ended about 1.2% lower on the week.

President Trump expanded his tariff to more countries and imposed 35% tariff on Canadian goods. However, an Indian commerce ministry team led by Secretary Rajesh Agarwal is still on the works to iron out differences in sectors like agriculture and automobiles. India is trying to negotiate and finalise a trade agreement with the US, Special Secretary in the Department of Commerce Rajesh Agrawal said on Thursday. The aim is to conclude the first phase of this pact by fall (September-October) of this year. Before that, the two countries are looking to finalise an interim trade agreement. An Indian commerce ministry team will soon visit Washington for another on the proposed trade agreement with the US to iron out differences.

WEEK AHEAD FOR INDIAN MARKETS

The rupee is expected to remain under pressure due to global uncertainties, elevated crude oil prices and risk off sentiment in domestic equity markets. CPI and WPI inflation numbers are expected to be released on Monday. Trade balance for June will be released on Tuesday. The rupee is expected to trade in the range between 85.50 and 86.20 for the week.

HEDGING STRATEGY: -

For Imports: Hedge for payables up to end August 2025 near or below 85.40

For Exports: Hedge partial exports near or above 86.05 levels.

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GLOBAL SCENARIO						Jul,14 2025	
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	96.96	97.96	96.89	97.85	97.18	96.00-102.50	Positive
USD/INR	85.58	86.03	85.54	85.80	85.40	85.10-86.75	Positive
EUR/USD	1.1779	1.179	1.1663	1.1689	1.1778	1.1200-1.2200	Positive
GBP/USD	1.3653	1.3662	1.3481	1.3493	1.3650	1.3100-1.4000	Neutral
USD/JPY	144.42	147.52	144.23	147.43	144.47	137.75-149.00	Negative

INTERNATIONAL MARKETS

US

Last week was light on economic data, but there was other news to keep traders nervous. The One Big and Beautiful bill was passed at the end of the previous week. The ninety-day pause for the tariffs ended on 09th July and President Trump unilaterally issued tariff letters to 24 countries around the world so far. New tariff measures will take effect from August 1.

Recent data show consumer demand is weakening. The weaker demand backdrop has softened business confidence. The net share of small businesses expecting the economy to improve over the next six months fell three points to 22% in June. The survey revealed that small firms have planned to raise their prices in recent months, though the tariff pass through to consumer prices has been limited only to a selection of goods thus far, keeping a broad-based pick in inflation contained. Federal Reserve Bank of New York's survey of consumer expectations in June fell to 3.02% from 3.20%.

With the inflation impact so far proving more subdued than previously expected, there's been a growing divide among FOMC members on when to resume rate cuts. Minutes from the June 17-18 meeting released on Wednesday showed that while most committee members favour delaying cuts until there's more certainty on the inflation and labour market impacts, recent speeches suggest that two board members – Governor Waller and Bowman – support cutting rates as early as July.

EUR

EURUSD ended a few pips lower below the 1.1700 level last week, down from the 1.1830 highs seen in July. On Saturday, U.S President Donald Trump amped up his tariff regime on announcing 30% tariffs on Mexico and the European Union. The increased tariffs take effect on August 1, 2025.

Meanwhile, data releases in the Eurozone were far from encouraging. The July Sentix Investor Confidence index improved to 4.5 from -0.2 in June, yet Retail sales were down 0.7% in May, much worse than the previous monthly reading of 0.3%. In addition, Germany confirmed the July HICP at 2% y/y.

European Central Bank (ECB) Executive Board member Isabel Schnabel emphasized that the likelihood of an additional Governing Council interest rate reduction has grown increasingly remote, she noted that with inflation decline "proceeding broadly as expected," current interest rates were "in a good place, and the bar for another rate cut is very high."

ECB members by their comments have kept Schnabel decisively dismissed suggestions for additional monetary easing measures in the Eurozone and minimized worries about the Euro's exchange rate strength. "The low energy price inflation is likely to be temporary, and the fear of the exchange rate appreciation putting downward pressure on underlying inflation is exaggerated in my view, as the pass-through is likely to be limited," she elaborated. ECB Governing Council member Fabio Panetta stated on Friday that the ECB's monetary policy approach in the upcoming months should remain "flexible and pragmatic."

On Friday, the IMF said that it expects growth in the Euro area to remain moderate through 2027. Headline inflation is projected to stabilize at the 2% target in the second half of 2025, and core inflation is seen returning to target in 2026. IMF also noted that trade tensions and elevated uncertainty are expected to weigh on activity, despite some boost from higher defence and infrastructure spending. Further IMF noted that geopolitical issues are likely to affect investment and consumption negatively. Meanwhile, risks to the inflation outlook are two-sided. While the IMF saw undershooting risks from low non-energy goods prices, weaker-than-expected activity and wages, as well as the recent euro appreciation, inflation could also rise due to increased fiscal spending, geopolitical tensions, supply chain disruptions, and tariff escalation, as well as stubbornly high wage growth.

GBP

GBPUSD ended sharply lower last week after data showed UK GDP was lower than expected. May GDP disappointed with an unexpected 0.1% m/m fall, following on from a 0.3% decline in April. Much of the weakness was concentrated in the manufacturing sector, with industrial output falling 0.9%, while services eked out a slight 0.1% gain. The subpar report perhaps reflects some payback in activity after some front-loading ahead of higher U.S. tariffs. Even so, given the GDP declines seen in both April and May, the UK on course for only barely positive GDP growth for the second quarter as a whole. For the April-May period, the level of GDP is just 0.1% above its Q1 average.

JPY

The Japanese yen weakened toward 147 per US dollar on Friday, nearing a three-week low as the greenback gained strength amid rising global trade tensions. The move followed a series of aggressive tariff announcements by US President Donald Trump, including a 35% levy on Canadian imports and plans for 15% to 20% blanket tariffs on most other trade partners. Tensions between the US and Japan remained in focus.

Earlier this week, Trump unveiled a 25% tariff on Japanese goods, set to take effect on August 1, further straining bilateral ties. In response, Japanese Prime Minister Shigeru Ishiba stressed the need to reduce the country's reliance on the US in strategic areas such as defence, food security, and energy. He described the ongoing negotiations as a “battle in which national interest is at stake.” A leading Japanese think tank projected that the tariffs could cut Japan’s GDP by 0.8% in 2025 and by 1.9% cumulatively through 2029.

CRUDE OIL

Oil prices rose over 3% for the week as the International Energy Agency said the market was tighter than it appears, while U.S. tariffs and possible further sanctions on Russia were also in focus. Brent crude futures settled at $70.36 a barrel. U.S. West Texas Intermediate crude settled at $68.45 a barrel. For the week, Brent rose 3%, while WTI had a weekly gain of around 2.2%.

The IEA said the global oil market may be tighter than it appears, with demand supported by peak summer refinery runs to meet travel and power generation. Short-term market tightness notwithstanding, the IEA boosted its forecast for supply growth this year, while trimming its outlook for growth in demand, implying a market in surplus. Further adding support to the short-term price outlook, Russian Deputy Prime Minister Alexander Novak said Russia will compensate for overproduction against its OPEC+ quota this year in the August-September period. Another sign of robust short-term demand was the prospect of Saudi Arabia shipping about 51 million barrels of crude oil in August to China, the biggest such shipment in more than two years.

On a longer-term basis, however, OPEC cut its forecasts for global oil demand in the 2026-2029 period because of slowing Chinese demand in its 2025 World Oil Outlook, published on Thursday. Saudi Arabia's energy ministry said on Friday the kingdom had been fully compliant with its voluntary OPEC+ output target. Trump told NBC News on Thursday that he will make a "major statement" on Russia on Monday, without elaborating. The European Commission is set to propose a floating Russian oil price cap this week as part of a new draft sanctions package, but Russia said it has "good experience" of tackling and minimizing such challenges.

WEEK AHEAD

While tariff uncertainty looms large, data releases will be heavy on data with inflation numbers from the US and UK and GDP data from China and Manufacturing data from Japan. Trade data from China, Japan, EU and US will be closely watched.

On the inflation front all eyes will be on UK service inflation which is expected to drop further, likely giving the Bank of England confidence to cut rates again in August. There will be even more pressure for a cut after the UK GDP release on Friday.

Job numbers are more important for markets than inflation next week. In May, pay rolled employee numbers fell at the fastest rate since 2014 (excluding the pandemic). This data might be revised higher, but if it isn't and if June's numbers are also bad, it could push the Bank of England to speed up rate cuts.

MARKETS LAST WEEK			
	Clsng as per 11-07-25	Clsng as per 04-07-25	Change
Mibor 3M	5.47	5.46	0.01
Mibor 6M	5.51	5.48	0.03
Swap 1 Y	5.54	5.51	0.03
G-sec 1 Y Yield	5.7	5.524	0.18
Gsec 10Y Yield	6.304	6.295	0.01
US 2Y Yield	3.893	3.886	0.01
US 10Y Yield	4.412	4.328	0.08
Ger 10Y Yield	2.686	2.56	0.13
Jap 10Y Yield	1.529	1.4	0.13
Gold	3355.59	3337.15	18.44
Silver	38.42	36.97	1.45
Brent Crude	70.36	68.3	2.06
WTI Crude	68.45	66.5	1.95
Nifty 50	25149.85	25461	-311.15
BSE Sensex	82500.47	83435.89	-935.42
DXY	97.85	97.18	0.67

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