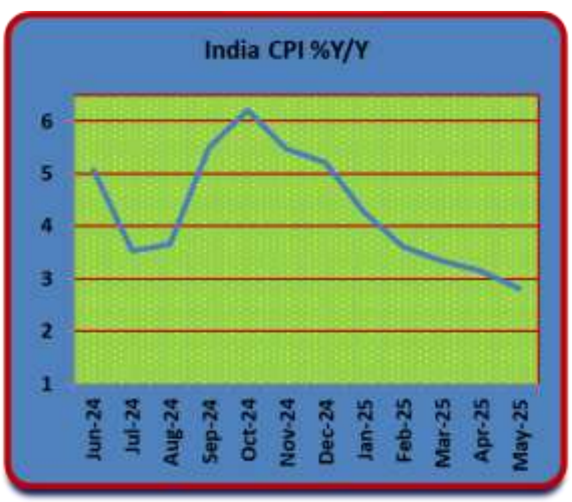
Mecklai Financial
WHERE RISK MEETS ITS MATCH

INDIA: RUPEE FALLS AFTER ISRAEL STRIKES IRAN **Jun 16, 2025**

India: Rupee Falls After Israel Strikes Iran

Indian rupee fell to an eight-week low of 86.22 to a dollar level on Friday morning amid rising geopolitical tensions and trade uncertainty. The volatility in global FX markets and Crude markets followed Israel's airstrikes on Iran without the US backing, sparking fears of Iranian retaliation and driving oil prices up nearly 10%. Domestic equity markets ended about 1.3% from the previous week as FIIs/FPIs were net sellers.

Adding to the external stress, President Trump said he might extend the July 8 tariff deadline but also signalled a tougher stance by planning to send letters to trade partners outlining unilateral tariff rates. However, some losses were limited by signs of progress in U.S.-India trade talks, particularly on industrial goods, agriculture, and tariffs. India's Foreign Ministry expressed hope of finalizing a deal before the truce expires.



On the data front, India's consumer price inflation eased to 2.82% in May 2025, down from 3.16% in April and below market expectations of 3%. This marked the lowest reading since February 2019, bringing inflation close to the Reserve Bank of India's lower tolerance threshold of 2% under its inflation-targeting framework. Food inflation fell sharply to 0.99%, the lowest level since October 2021.

WEEK AHEAD FOR INDIAN MARKETS

In the week ahead, the fx markets will be dictated by risk aversion due to geopolitical tensions. However, the upper limit for the USDINR will be dictated by intervention by the RBI. On the data front, May trade data will be released on Monday and on Friday, the RBI will release the minutes of its latest MPC meeting.

HEDGING STRATEGY: -

For Imports: Hedge for payables up to end June 2025 near or below 85.75.

For Exports: Hedge partial exports near or above 86.20 and 86.50 levels.

4th Floor, Cecil Court | Mahakavi Bhushan Marg | Colaba | Mumbai 400 001 | India
TELEPHONE +91-22-61940202 EMAIL mumbai@mecklai.com WEBSITE www.mecklai.com
REGISTERED OFFICE Mecklai Financial Services Private Limited | 101 Mahatma Gandhi Road | Mumbai 400 023 | India

GLOBAL SCENARIO						Jun 16, 2025	
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	97.77	98.59	97.62	98.18	99.19	96.50-105	Positive
USD/INR	86.15	86.20	85.97	86.09	85.64	85.00-86.75	Positive
EUR/USD	1.1584	1.1614	1.1489	1.1549	1.1397	1.1200-1.1800	Negative
GBP/USD	1.3613	1.3632	1.3517	1.3571	1.3528	1.3400-1.3800	Negative
USD/JPY	143.48	144.48	142.8	144.07	144.85	135.75-148.00	Neutral

INTERNATIONAL MARKETS

US

The Dollar index DXY ended lower last week following weaker than expected inflation data. A steel fall was averted as middle east tensions flared up on Thursday night.

Trade tensions between US and China is seeing some de-escalation after both the countries announced that they had reached a frame work of a trade deal. However, the details of the deal are limited. China agreed to relax restrictions on export of rare earth mineral. In exchange, the U.S. has agreed to lift its ban on Chinese students but did not remove the export restrictions on high-end semiconductors. Trade Secretary Scott Bessant also signalled that President Trump may extend the administration's current 90-day pause on reciprocal tariffs to countries who are negotiating in good faith. At the same time, President Trump announced that he would send unilateral format letters declaring tariffs to countries who are delaying the negotiations.

As it currently stands, the U.S. effective tariff rate on China is around 40%, well off the post-Liberation Day peak of 155%, but still elevated by historical standards. And with trade levies on most other countries sitting around 10-12%, that puts today's U.S. effective tariff rate at around 15%, which remains an ongoing concern for investors.

Meanwhile, we saw cooler readings on CPI and PPI for the month of May, alongside healthy demand in 10-and-30-year Treasury auctions helped to pressure term-yields 10-15 basis points lower on the week, with the 10-year currently sitting at 4.38%. Both monthly headline and core inflation registering just a 0.1% increase. While the fourth consecutive monthly decline in gas prices helped to keep headline inflation in check, the price data were benign across the board. Core goods prices, where higher tariff rates are expected to be felt most directly, surprisingly fell 0.04% over the month.

Domestic producer price growth also surprised to the downside in May. The headline PPI for final demand rose 0.1% over the month, and despite tariffs, the PPI for core final demand goods rose 0.2%—well in line with its average pace from the past couple of years.

Sentiment data have also become more optimistic as surveys pick up. The NFIB Small Business Optimism Index rebounded three points in May to 98.8, erasing the decline in April. The University of Michigan's headline Consumer Sentiment Index improved markedly in June's preliminary reading, but remains historically depressed at 60.5.

The Federal Reserve meets next week and is widely expected to keep policy rate unchanged and would continue to communicate a wait and see approach. Fed Chair Powell's post meeting press conference will be closely watched.

EUR

EURUSD peaked at 1.1634 level last week, but shed most of the gains on Friday after Middle east tensions peaked. Earlier, trade talks between US and China retained the spotlight.

Meanwhile, ECB officials lent support to the Euro by issuing hawkish comments. ECB Board member Isabel Schnabel said interest rates are now at neutral level, and that policy makers can now pause in interest rates. She also noted that the current monetary policy cycle is coming to end, echoing the comments made by President Lagarde after the ECB meeting. Governing Council member Joachim Nagel commented that the ECB is no longer restrictive and made similar comments like Isabel. Other officials also delivered comments in similar fashion. However, they ended saying that decisions will be made meeting by meeting.

UK

GBPUSD surged to a 3 year high of 1.3632 level earlier in the week more due to USD weakness after the US inflation numbers came in benign. However, weak economic numbers and hit to risk sentiment saw the UK currency slide lower.

From the UK key data releases showed that the UK economy is slowing. The April GDP figures were somewhat disappointing. The economy contracted by 0.3% m/m- more than expected by economists—with greater-than-expected contractions seen across several of the underlying sectors. Industrial production shrank 0.6%, manufacturing production fell 0.9% and services activity retreated by 0.4%. While the economy expanded 0.7% q/q in Q1, the second quarter may see a growth slowdown. These data show that there is some sign of heightened uncertainty related to the US tariffs.

Labour data released last week showed overall headline average weekly earnings growth slowed down to 5.3%, against expectations for the measure to maintain March's 5.5% pace. Underlying earnings growth showed a similar story, slowing more than expected: Average earnings growth excluding bonuses eased to 5.2% and growth in earnings for private sector employees (also excluding bonuses) decelerated to 5.1%.

The above data may support the view that BoE may go for gradual easing.

JPY

The Japanese yen initially rallied to a high of 142.80 level on risk aversion in response to the Israeli attack on Iran. However, USD was more favoured lifting the pair back to 144.07 level at close.

Trade-related concerns also persisted after US President Donald Trump threatened unilateral tariffs aimed at pressuring other countries into new trade deals, adding to broader market uncertainty.

Bank of Japan Governor Kazuo Ueda told parliament earlier in the week that the central bank is prepared to raise interest rates again—provided there is sufficient confidence that underlying inflation is sustainably approaching the 2% target.

The Bank of Japan is wrestling with trying to normalize monetary policy while the economy remains weak, and inflation remains elevated. As part of its effort to adjust monetary policy is it has slowed the purchases of government bonds, which appears to be adding to the pressure at the long end of the curve.

There were limited data from Japan last week. Japan's corporate goods price index slowed more than expected in May, easing from 4.1% to 3.2% y/y, versus the anticipated 3.5% y/y. The decline reflects the broader disinflationary trend in upstream prices, aided by the recent rebound in Yen. Yen-based import price index plunged -10.3% y/y, a sharper drop than April's -7.3% y/y. However, consumer-related categories showed more persistence in inflation. Business sentiment in Japan deteriorated sharply in Q2, with the Ministry of Finance's survey revealing a broad-based loss of confidence across industries. Large manufacturers sentiment deteriorated sharply. Non-manufacturers also experienced a steep drop from 5.2 to -5.7. The survey echoed growing sense of earnings pessimism due to US tariffs.

There are two highlights in the coming days. The first is the BOJ meeting. Governor Ueda can be expected to reiterate that if the economy evolves as the central bank expects, it will raise rates further. The swaps market does not have more than 10 bps of tightening priced in until October, and even by the end of the year, the market no longer fully discounts a quarter-point hike.

May's CPI will also be released. Officials, like market participants, have a good idea of it from the Tokyo CPI that was reported on May 30. The headline was stable at 3.4%, but the core measure rose to 3.6% (from 3.4%) and the measure that excludes fresh food and energy rose to 3.3% (from 3.1%). The takeaway if BOJ officials, like market participants, understand that price pressures are still rising. The April national core measure, which the target of policy was at 3.5%, the highest since January 2023.

The Bank of Japan is expected to keep its policy rate at 0.5%. The real focus will be on the interim review of the size of Japanese government bond purchase operations. Despite speculation that the BoJ may reduce its quarterly purchases from 400 billion yen to 200 billion yen and maintain the current pace.

CRUDE OIL

Crude oil prices surged sharply following news that Israel had launched direct airstrikes against Iran, targeting its nuclear and ballistic missile infrastructure. WTI crude is now trading more than 30% above its April low of 55.20, as geopolitical tensions in the Middle East reignite supply risk concerns. On a weekly basis crude oil prices ended sharply higher. WTI crude prices gained 15% while the Brent crude climbed 10% on a weekly basis.

Israeli Prime Minister Benjamin Netanyahu confirmed that the military had struck Iran's Natanz enrichment site, leading nuclear scientists, and the core of its missile program, vowing to continue operations "for as many days as it takes to remove this threat."

The military action was carried out without coordination with Washington. US Secretary of State Marco Rubio emphasized that Israel acted unilaterally and that the US was not involved in the strikes.

Still, the path forward depends heavily on how geopolitical events unfold. Should the conflict escalate further or draw in regional actors, a break above the resistance zone could open the door to a test of 81.01, a level that marks the potential start of a broader bullish reversal in the longer-term oil trend.

WEEK AHEAD

Geopolitical tensions in the Middle East will remain in focus next week following Israel's strike on Iran's nuclear facilities, heightening fears of a broader regional conflict. Markets will also be closely watching any progress on trade negotiations between the US and its key partners. Meanwhile, attention shifts to the G7 Summit in Canada, where leaders of the world's largest economies will meet to discuss major global challenges.

It's also a busy week for monetary policy decisions. The Federal Reserve, People's Bank of China, Bank of Japan, Swiss National Bank, Norges Bank and Bank of England are all expected to keep interest rates unchanged. On the data front, key releases include US retail sales and industrial production, UK inflation, Germany's ZEW economic sentiment index, China's industrial production and retail sales, and Japan's trade data.

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MARKETS LAST WEEK			
	Clsng as per 13-06-25	Clsng as per 06-06-25	Change
Mibor 3M	5.52	5.61	-0.09
Mibor 6M	5.54	5.57	-0.03
Swap 1 Y	5.57	5.54	0.03
G-sec 1 Y Yield	5.81	5.444	0.37
G-sec 10Y Yield	6.299	6.238	0.06
US 2Y Yield	3.949	4.036	-0.09
US 10Y Yield	4.406	4.505	-0.10
Ger 10Y Yield	2.534	2.581	-0.05
Jap 10Y Yield	1.406	1.461	-0.06
Gold	3423.44	3310.42	113.02
Silver	36.3	35.98	0.32
Brent Crude	72.98	66.47	6.51
WTI Crude	74.23	64.58	9.65
Nifty 50	24718.6	25003.5	-284.90
BSE Sensex	81118.6	82188.99	-1070.39
DXY	98.14	99.19	-1.05

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