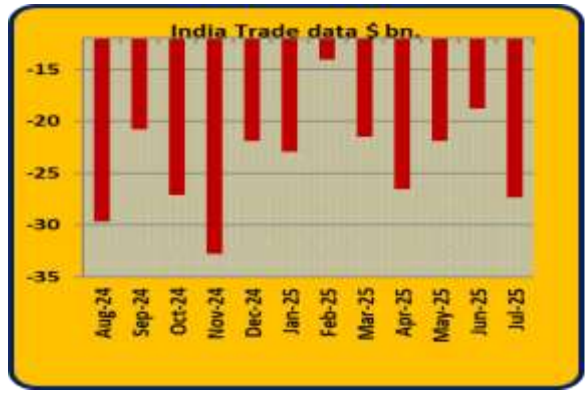
INDIA; RUPEE STABILISES AWAITING TRUMP-PUTIN SUMMIT

Indian rupee stabilised last week as RBI continues to underpin the rupee amid Dollar weakness in the global markets on expectations of Fed rate cut. The rupee opened at 87.52 to a dollar level this, but gains were only temporary as FIIs/FPIs continued to sell in the domestic markets amid worries about Trump's tariff tantrums. Equity market benchmarks broke its 6 week of losses and ended about 1% higher. So far in this month, FIIs/FPIs have sold a net of Rs. 12,000 worth of assets from the Indian capital markets and for the whole of this year about Rs. 82.000 crores have been pulled out. From the equity markets, the net outflow during this year had been about Rs.1.55 lakh crores.



Meanwhile, data from CPI and WPI data continue to show that deflation pressures are increasing. India's CPI based inflation rate eased further to 1.55% in July, the lowest year-on-year inflation since June 2017 compared to 2.1% rise in June 2025. The Reserve Bank of India (RBI) has projected CPI inflation at 3.1 per cent for 2025-26, However, CPI inflation is likely to rise above 4 per cent by Q4 of 2025-26 due to unfavourable base effects and demand-side pressures from policy actions. Core inflation is expected to remain moderately above 4 per cent during the year, barring any major negative shocks to input prices.

Also, India's annual inflation rate based on the WPI fell further into the negative zone, reaching a two-year low of (-) 0.58 per cent in July 2025, compared to the same month last year. The WPI inflation in July is also lower than the -0.13 per cent recorded in June 2025. WPI-based inflation has been easing steadily since March, after hitting a 14-month low of 0.39 per cent in May. Analysts expect this drop in wholesale prices to gradually ease retail inflation as cost savings at the bulk level are passed on to consumers, and reduced fuel prices lower transport costs.

In another data, India's merchandise trade deficit hit an eight-month high of over $27 bn. in July, as imports surged faster than exports. India's

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July exports do not show any major fallout from the U.S. decision to sharply raise tariffs on a range of Indian goods, as the higher levies only take effect from August.

In April-July, shipments to the U.S. rose to $33.53 billion, up 21.64% y/y, from $27.57 billion a year ago, while imports from U.S. rose to $17.41 billion compared to $15.50 billion a year ago. India's goods exports rose to $37.24 billion in July, up from $35.14 billion in June, while imports rose to $64.59 billion, up from $53.92 billion in the previous month. The trade deficit stood at $27.35 billion in July, higher than economists' expectations of $20.35 billion, and against $18.78 billion in the previous month.

WEEK AHEAD FOR INDIAN MARKETS

After the Trump-Putin summit there were no clear indications if secondary sanctions on India will go. But investors interpret that US may hold off on secondary sanctions on India. However, the August 25-29 trade talks scheduled in New Delhi between the US and India have been called off without indicating any future data.

Looking ahead, the Rupee's performance will depend on global oil prices, geopolitical developments, and foreign capital flows. With crude oil prices softening and inflation easing, the currency could find some support. However, any renewed volatility in global markets or a rebound in oil prices could reignite depreciation pressures. The RBI is likely to remain cautious, balancing growth support with inflation management, while keeping an eye on external risks.

HEDGING STRATEGY

For Imports: Hedge for payables up to end September 2025 near or below 86.80.

For Exports Hedge partial exports near or above 87.70.

GLOBAL SCENARIO							**Aug,18 2025**
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	**98.24**	**99.32**	**97.63**	**98.25**	**98.18**	**96.00-102.50**	**Negative**
USD/INR	**87.53**	**87.73**	**87.39**	**87.57**	**87.66**	**86.00-88.50**	**Neutral**
EUR/USD	**1.1641**	**1.173**	**1.159**	**1.1648**	**1.1641**	**1.1200-1.2200**	**Positive**
GBP/USD	**1.3435**	**1.3595**	**1.34**	**1.3532**	**1.3452**	**1.2870-1.3950**	**Positive**
USD/JPY	**147.67**	**148.52**	**146.21**	**147.76**	**147.74**	**138.50-153.00**	**Positive**

INTERNATIONAL MARKETS

US

TRUMP-PUTIN SUMMIT

The highly anticipated summit between President Donald Trump and Russian leader Vladimir Putin in Alaska on Friday concluded earlier than expected, without a formal deal. President Trump dropped his demand for a ceasefire, saying Russia and Ukraine should start negotiating on a final peace deal instead. Friday's summit ended without an agreement to secure peace in Ukraine — a long-standing goal for Trump. However, both the leaders claimed that the meeting was extremely positive and talks may continue towards achieving permanent peace. Ultimately, while the U.S. did not lift any preexisting sanctions following the meeting, it also didn't immediately announce any new ones, despite the lack of an agreement from Russia to stop fighting in Ukraine. Meanwhile, President Zelensky will head to Washington on Monday for a meeting with President Trump – alongside, some European leaders may also join.

The DXY ended slightly weaker last week as chorus for more rate cuts from Trump Administration following the inflation reports. However, regional Fed presidents Schmid and Goolsbee (Chicago) who are voting members of the FOMC this year, noted that caution was still warranted. Market pricing fluctuated this week, but currently has 90% odds for a rate cut in September. In the meanwhile, inflation data during this week showed that tariff pressures are only showing up mildly, but it could take two to three months' time to fully price in the tariffs since it has only been just one week since Tariffs took full effect.

Last week, the US inflation was the only tier-1 data point on the global front this week. While it was close to expectations it provided some relief in markets that there are still no strong signs of rising inflation from tariffs. Overall consumer prices came in as expected with the headline consumer price index (CPI) up 0.2% in July and the core CPI (excluding food & energy) rising 0.3%. Core CPI increased 0.3% m/m in line with expectations giving a small lift to the annual rate from 2.9% y/y to 3.1% y/y. Interestingly, it looks like the modest acceleration in core inflation was driven mostly by services. A big upward surprise in PPI inflation on Thursday led to some reversal of the relief as it could suggest the tariff impact is simply just delayed.

Producer prices, released on Thursday and measure the prices charged by U.S. businesses, also began to trend notably higher in July with the monthly change hitting a 3-year high. Moving forward, with the effective U.S. tariff rate nearly 10 percentage-points higher after last week's reciprocal tariffs came into force, inflationary pressures are expected to remain elevated through the second half of the year.

When it comes to spending, the latest retail sales data suggest consumption is holding up. Not only were overall sales up 0.5% during the month, but revisions to June activity suggests consumption is on slightly firmer footing headed into Q3. The control measure—which excludes autos, gas, building material and restaurant sales—still came in at a trend-like 0.4% last month, suggesting a decent start to Q3 consumption. Looking ahead, tariff worries may dampen consumption. The weaker trend for discretionary purchases in the first half still highlights consumer concern amid a moderating jobs market and high prices. It remains unclear to what extent consumers will stomach higher prices today.

Yields ended up broadly flat over the week while risk sentiment had another good week. A 25bp cut by the Fed is now fully priced in September and the market looks for another four 25bp cuts by the end of next year. It is partly fuelled by expectations that US President Donald Trump will select a dovish Fed Chair in 2026 when Jerome Powell's term expires in May.

Again on the consumer side, US consumer confidence weakened in August, with University of Michigan Consumer Sentiment Index falling from 61.7 to 58.6, missing expectations of 62.1 and marking the first decline in four months. While consumers are no longer bracing for the worst-case economic scenario feared in April at the height of tariff tensions, optimism remains fragile. Many still expect inflation and unemployment to worsen over the coming year, dampening any boost from earlier resilience in household sentiment. Inflation expectations were particularly notable, with year-ahead projections rising from 4.5% to 4.9% and long-run expectations climbing from 3.4% to 3.9%. The rebound ends a multi-month easing trend and will likely catch the Fed's attention, especially as it weighs the risk of entrenched price pressures against slowing growth.

EUR

In Europe it was quiet on the data front. Euro traded in a narrow range this week, struggling to gain momentum amid weak economic sentiment and disappointing data from Germany. The German ZEW expectations index dropped from 52.7 to 34.7 but this follows a period of steady increases, and the level is still solid. Finally, the assessment of the current situation in Germany was down to -68.6, after posting -59.5 in July. Germany also confirmed that its

For the Euro Area. the index dropped to 25.7 from 36.1 in July. The Euro Economic Surprise Index is clearly in positive territory. Market expectations for the ECB rate this year did not change much with the market still seeing around a 50-50 chance of a further rate cut of 25bp from the current level of 2.0%. Long-term yields moved lower, though, driven by spill-over from the US.

The Eurozone published a revision of the Q2 GDP, which matched the previous estimate and showed the economy grew a modest 0.1% in the three months to June. Also, Ind. Output in the bloc contracted by 1.3%, on a monthly basis in June, worse than the 1.1% advance posted in May or the 1% decline anticipated. Under these circumstances, we feel that the ECB is done with its rate cut cycle.

Despite the gloomy outlook, the Euro managed to hold above key support levels, thanks in part to speculative interest. Data from the Commodity Futures Trading Commission showed a notable increase in long positions on the Euro, suggesting that some investors are betting on a recovery. However, without strong economic data or clear policy direction from the European Central Bank, the currency remains vulnerable to downside risks.

GBP

GBPUSD remained the strongest currency last week and extended its gains above 1.3550 level. Contributing to the rally was the renewed USD weakness and slightly encouraging UK GDP data

In the United Kingdom, Q2 GDP surprised to the upside, rising 0.3% quarter-over-quarter and beating consensus expectations for a modest 0.1% increase. While the headline figure was encouraging, the underlying details were more mixed. Growth was largely driven by government consumption and inventory accumulation, with private consumption and investment both showing signs of softness. Consumer spending edged up just 0.1%, below expectations and slower than the 0.4% gain in Q1, while business investment fell 4.0%. Services remained an important driver of growth, with notable strength in information and communication, particularly computer programming and consultancy, which rose 4.2% quarter-over-quarter in Q2. Construction also contributed positively, up 1.2% on the quarter, helping to offset a 0.3% decline in production.

Meanwhile, wholesale and retail trade dragged on growth, falling 1.0%, largely due to a sharp drop in wholesale activity, excluding motor vehicles and motorcycles, which fell by 2.3%. Employers faced rising costs from higher National Insurance Contributions and minimum wage increases, which likely weighed on private sector momentum.

JPY

The Japanese yen firmed toward 147 per dollar on Friday, erasing the prior session's losses amid stronger-than-expected GDP growth. Japan's economy advanced 1.0% on an annualized basis in Q2 2025, exceeding market expectations of 0.4% and accelerating from 0.6% in the prior quarter, according to preliminary estimates. On a q/q basis, GDP grew 0.3% q/q and flash data showed. This marked the fifth straight quarter of annual growth, underpinned by resilient private consumption amid government measures to ease inflationary pressures from rising food prices—especially rice—and higher energy costs. Apart from acceleration in Capital spending, investment in labour saving technologies etc., front ending of exports also drove the GDP growth higher.

The yen also drew support from comments by US Treasury Secretary Scott Bessent, who said the BOJ is falling behind in tackling inflation. Additionally, the central bank is under pressure to drop an inflation gauge tied to domestic demand and wage growth that has constrained policy tightening. BOJ Governor Kazuo Ueda has maintained a cautious tone, stressing that "underlying inflation" remains below the 2% target.

Despite the stronger-than-expected Q2 print, the Bank of Japan is likely to maintain a cautious stance in the near term.

CRUDE OIL

Crude oil prices ended lower last week. Brent crude declined about 0.4% w/w while WTI crude prices ended about 0.9% lower. Markets were hoping to see a positive outcome from President Trump –President Putin meet in Alaska. Though a deal is still a distant away, Trump said a fully-fledged peace deal was the aim for Ukraine rather than a ceasefire.

Trump said he had agreed with Putin that negotiators should go straight to a peace settlement - not via a ceasefire, as Ukraine and European allies, until now with U.S. support, have been demanding.

Trump said he would hold off imposing tariffs on countries such as China for buying Russian oil following his talks with Putin. He has previously threatened sanctions on Moscow and secondary sanctions on countries such as China and India that buy Russian oil if no moves are made to end the Ukraine war. This will mean Russian oil will continue to flow undisturbed and this should be bearish for oil prices. The oil market will wait for developments from a meeting in Washington on Monday between Trump and Ukrainian President Volodymyr Zelenskiy. European leaders have also been invited to the meeting, a source familiar with the matter told Reuters.

Additional pressure came from rising OPEC+ output and early production starts in Guyana by ExxonMobil. While Iraqi and Kurdish disruptions limited gains, the overall supply outlook remains bearish for crude futures. The International Energy Agency's August report projected global demand growth of 680,000 barrels per day in 2025, but revised down consumption estimates for key markets like India, China, and Brazil. This has added to concerns about oversupply and weakening demand.

WEEK AHEAD FOR GLOBAL MARKETS

Coming week will be shaped by key macro releases and central bank signals, with investors eyeing UK and Eurozone CPI prints, US PMI data, and the RBNZ rate decision. In the US, Fed minutes and Powell's remarks will guide dollar sentiment amid mixed growth signals. Overall, data-driven volatility is expected across asset classes, keeping traders focused on policy cues and geopolitical developments.

MARKETS LAST WEEK			
	Clsng as per 15-08-25	Clsng as per 08-08-25	Change
Mibor 3M	5.49	5.47	0.02
Mibor 6M	5.48	5.49	-0.01
Swap 1 Y	5.51	5.5	0.01
G-sec 1 Y Yield	5.53	5.467	0.06
G-sec 10Y Yield	6.404	6.399	0.00
US 2Y Yield	3.759	3.758	0.00
US 10Y Yield	4.328	4.283	0.04
Ger 10Y Yield	2.787	2.692	0.09
Jap 10Y Yield	1.572	1.142	0.43
Gold	3336.19	3397.75	-61.56
Silver	38	38.34	-0.34
Brent Crude	65.85	66.11	-0.26
WTI Crude	62.8	63.35	-0.55
Nifty 50	24631.3	24363.3	268.00
BSE Sensex	80597.66	79857.79	739.87
DXY	97.85	98.18	-0.33

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