Mecklai Financial
WHERE RISK MEETS ITS MATCH

INDIA; RUPEE ON THE EDGE WAS WAR CLOUDS GATHER

Apr 28, 2025

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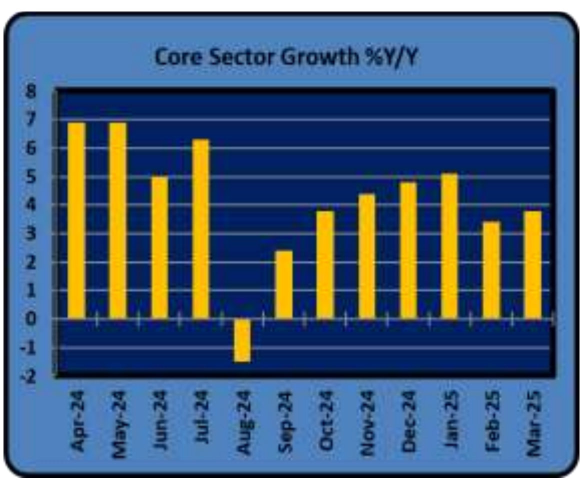
Indian rupee ended mostly steady last week at 85.44 to a dollar level versus 85.37 previous close. The rupee traded volatile as uncertain global cues and border tensions escalated in the aftermath of the heinous terrorists on tourists in Pahalgam district. After the attack, India retaliated by undertaking certain diplomatic moves, including keeping the decades old Indus Water Treaty in abeyance. Pakistan rattled by the strong move and vocal responses from Indian politicians and authorities have moved their army to the border areas and reports of skirmishes have already emerged. In India, equity market benchmarks ended about 0.8% higher from the previous week.

The rupee traded between 85.04 and 85.67 levels during the week trading alternatively between these two levels. Traders were worried about the border tensions amid lack of firm cues from US or China about the resumption of trade talks. President Trump indicated that trade talks are on with China, whereas China firmly refuted it. US index recovered from multi month lows to end modestly higher.



India's core sector growth recovered to 3.8% Y/Y in March from a five-month low of 3.4% in February according to provisional data released by the government on Monday. The eight core industries, which largely represent India's infrastructure sector and account for 40 percent weight in the index of industrial production, ended FY25 at a four-year low growth rate of 4.4 percent compared with 7.6 percent in the previous fiscal.

WEEK AHEAD FOR INDIAN MARKETS

Markets will be focused on the developments in the India – Pakistan tensions that could keep the rupee under pressure. On the data front, on Monday, Industrial Output and Mfg. output data will be released on Monday. Markets are closed on May 01st for Maharashtra day holiday in Mumbai and Labour Day in other states. On Friday, the final April HSBC Mfg. PMI will be released.

HEDGING STRATEGY

For Imports: Hedge for payables up to end August 2025 near or below 85.00 levels

For Exports Hedge partial exports above 86.30 levels.

GLOBAL SCENARIO							Apr 28, 2025
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	99.08	99.94	97.92	99.47	99.38	95.50-108	Positive
USD/INR	85.1100	85.6750	85.0363	85.4500	85.3700	84.60-86.00	Positive
EUR/USD	1.1387	1.1573	1.1308	1.1365	1.1365	1.1075-1.1700	Negative
GBP/USD	1.3271	1.3424	1.3234	1.3315	1.3266	1.2650-1.3550	Positive
USD/JPY	142.23	144.03	139.89	143.67	142.43	138.00-148.00	Negative

INTERNATIONAL MARKETS

US

Risk sentiment slightly improved as the intensity of the Federal Reserve's independence and the US-China trade war tensions have eased slightly. Both President Trump and Treasury Secretary Scot Bessant moderated their rhetoric with a view to seal a deal with China. However, the positive mood dissipated on Friday when President Trump said that he would see it as a "total victory" if tariffs on foreign imports reach 50% within a year.

President Trump claimed that Chinese President Xi Jinping had called him, though Beijing denies any negotiations happening. At the end of the week, China granted exemption on certain categories of imports from the US from the steep 125%.

The few hard data release showed the US economy is still resilient. The latest Beige book survey noted that overall, economic activity was little changed across districts, but planning by firms were hinted by uncertainty surrounding the international trade policy changes. In most districts, corporates were taking a wait and see approach to hiring, while decline was seen in government sectors.

Overall, tariff-related concerns weighed on the outlook across the districts. Regional purchasing manager indexes like the Richmond Fed Mfg. index and the Kansas City Mfg. activity survey show steep drop. New York and Philly Fed surveys also indicated similar trend.

Sentiment is weak, but hard economic data are holding on. Durable goods orders were stronger than expected in March, as new orders rose a stark 9.2%, due to sharp rise in non-defence aircraft orders and motor vehicle orders. Yet, after excluding transportation, new orders were flat and the report offered little evidence of companies pulling forward in demand to get ahead of tariffs. Core capital goods orders (nondefense orders excluding aircraft) rose a muted 0.1% Risk sentiment slightly improved as the intensity of the Federal Reserve's independence and the US-China trade war tensions have eased slightly. Both President Trump and Treasury Secretary Scot Bessant moderated their rhetoric with a view to seal a deal with China. However, the positive mood dissipated on Friday when President Trump said that he would see it as a "total victory" if tariffs on foreign imports reach 50% within a year.

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Residential investment is unlikely to match the rise in equipment outlays. The housing market continues to be constrained, with March data demonstrating a slow start to the spring selling season. Existing home sales dropped 5.9% in March to a 4.02M-unit pace, the slowest since January 2024. By comparison, new home sales were a bright spot in March, jumping 7.4% to a 724K-unit pace, the highest level in six months.

Overall, it appears that dimming economic growth and trade uncertainty are weighing on the sentiment and future spending.

EUR

It was a reasonably quiet week for the EURUSD ranging between 1.13 and 1.14 level for most part of the week barring Monday's sharp move up above 1.15, on reports that President Trump was considering dismissing Fed Chairman Powell, which was later denied by him. On the data front also, the PMI numbers and German IFO survey were the significant data.

April Eurozone PMI numbers were underwhelming. While the Mfg. PMI rose a tad to 48.7, it remains in the contraction territory. The composite PMI dipped to a four-month low of 50.1, just a tad above the breakeven level. A similar pattern was seen for the region's two largest economies Germany and France as well. Looking into the details, for the Eurozone, business confidence dropped significantly while there a modest price growth in input costs. These numbers are good for a case of 25 bps rate cut by the ECB. We will get the confirmation from this week's GDP and CPI inflation data.

GBP

The British pound climbed above $1.34, its highest level in seven months, mainly driven by a weaker US dollar despite softer UK inflation data. GBP/USD mainly remained at the mercy of the US Dollar dynamics, induced by US President Donald Trump's erratic tariff moves and some flickers of optimism on surprisingly resilient US corporate earnings. Headline CPI slowed to 2.6% y/y, and services inflation eased to 4.7%, reducing pressure on the Bank of England. These prompted traders to slightly raise bets on rate cuts, now pricing in 86 basis points of easing by year-end, with growing odds of a fourth cut in December. The data suggests the BoE may have more room to support the economy as global trade tensions and household costs weigh on growth.

The UK PMIs for April were noticeably soft. The services PMI fell by several points more than expected, to 48.9, marking an entrance to "contractionary" territory. The Manufacturing PMI declined by as much as expected, to 44.0, the lowest reading in more than a year. Together these outcomes weighed down the economy-wide composite PMI to 48.2. This marks the first month the composite index has been below 50—the line that separates expansion from contraction—in a year and a half. Output in the MFg. sector and business activity in the service sector and confidence took a hit due to elevated uncertainty about the impact of tariffs.

Data published by the Office for National Statistics (ONS) showed Friday that British Retail Sales rose unexpectedly in March by 0.4% m/m, outstripping the anticipated 0.4% decline. The data failed to provide any impetus to the Pound Sterling as economic releases continued to be ignored by markets.

Meanwhile, several Bank of England and Fed officials spoke during the week, citing prudence on revising the policy, as they continue to assess the impact of Trump's tariffs on the economy and inflation prospects. Speaking in a CNBC interview on Thursday, BoE Governor Andrew Bailey said that they see the effect of tariff uncertainty coming through to business investment and consumers.

JPY

The Japanese yen slipped to around 143 per dollar on Friday, reversing gains from the previous session as the dollar strengthened on signs of easing global trade tensions.

On the domestic front, data showed that Tokyo's core inflation rate, a leading indicator of nationwide price trends, surged to a 2-year high of 3.4% in April. National headline inflation eased slightly, against expectations for steady inflation, in March. Meanwhile underlying inflation—measured as CPI excluding fresh food—ticked up as expected to 3.2%, from 3.0% previously. Overall goods inflation ticked down from last month, while services inflation picked up slightly. PMI figures were also generally encouraging; while the manufacturing PMI only ticked up ever so slightly, the Services PMI shot up over two points, helping boost the composite, or economy-wide, PMI into "expansionary" territory at 51.1. This complicates the Bank of Japan's task in balancing risks from higher US tariffs and rising prices, with the central bank expected to hold rates steady next week.

Uncertainty is unusually elevated, largely owing to a globally shared lack of clarify on the future of U.S. tariff policy, and as such, we see the BoJ taking it slow and keeping rates on hold next month.

CRUDE OIL

Crude oil prices posted a weekly loss last week on market expectations of oversupply and uncertainty around tariff talks between the US and China. Brent crude futures settled about 1.6% over the week while the WTI marked a weekly decline of 2.6%. China exempted some US imports from its 125% tariffs on Friday in a sign that the trade war between the US and China could be easing. Markets are also see the risk that a weaker economy will erode demand, supplies could swell. Several OPEC+ members have suggested the group accelerate oil output increases for a second month in June. There are indications that the Russia Ukraine war could also see an end, increasing chances of Russian oil flow into global markets.

WEEK AHEAD

In the coming week, markets will closely watch developments in the ongoing US-China trade war, assessing the likelihood of a potential de-escalation. The week is packed with key economic data in the US, the first estimate of Q1 2025 GDP, as some economists predict a possible contraction.

Investors will also focus on the jobs report, PCE inflation data, and the ISM Manufacturing PMI. In Europe, market participants will analyze flash

GDP and inflation figures for the Eurozone. Meanwhile, the Bank of Japan is meeting this week and is widely expected to keep interest rates unchanged.

MARKETS LAST WEEK			
	Clsng as per 25-04-25	Clsng as per 17-04-25	Change
Mibor 3M	5.91	5.92	-0.01
Mibor 6M	5.82	5.81	0.01
Swap 1 Y	5.72	5.75	-0.03
G-sec 1 Y Yield	6.122	6.125	0.00
G-sec 10Y Yield	6.461	6.473	-0.01
US 2Y Yield	3.755	3.799	-0.04
US 10Y Yield	4.254	4.332	-0.08
Ger 10Y Yield	2.473	2.463	0.01
Jap 10Y Yield	1.343	1.275	0.07
Gold	3319.72	3326.85	-7.13
Silver	33.11	32.56	0.55
Brent Crude	66.87	67.96	-1.09
WTI Crude	63.02	64.68	-1.66
Nifty 50	24039.35	23851.65	187.70
BSE Sensex	79212.53	78553.2	659.33
DXY	99.47	99.23	0.24

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