ANOTHER DESTRESS WEEK FOR INDIAN RUPEE **Jul,28 2025**

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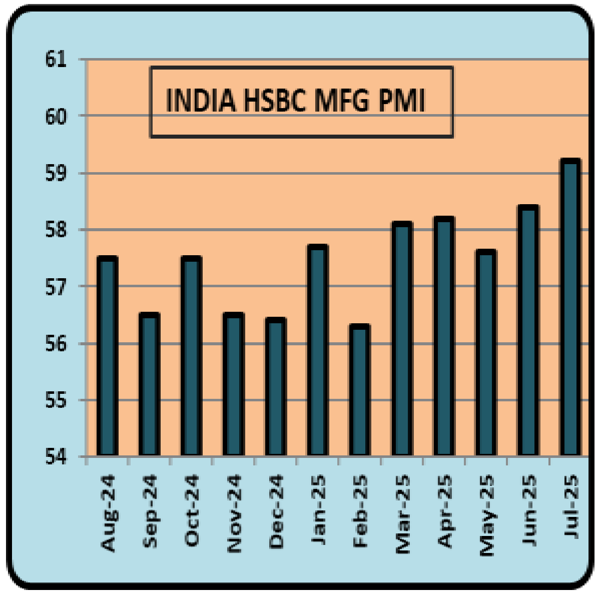
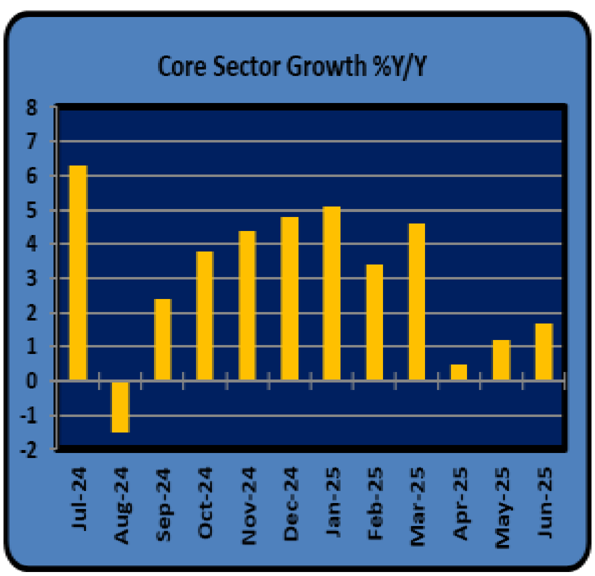
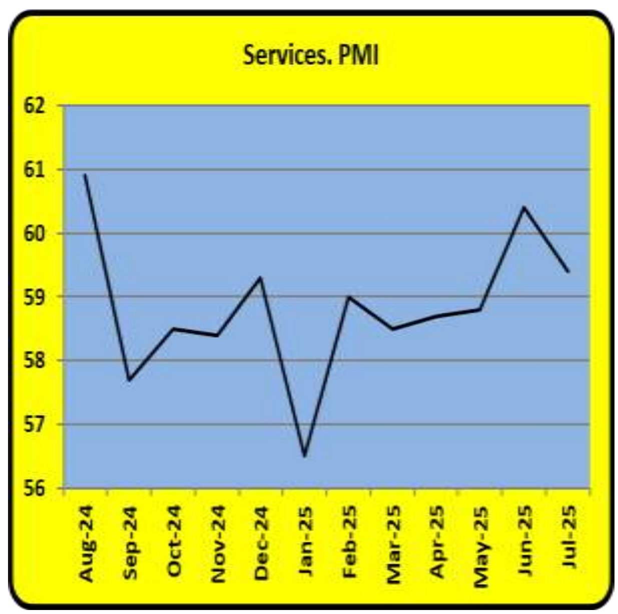
Indian Rupee ended the week at ₹86.52 against the US Dollar, marking its sixth consecutive weekly decline and reflecting a mix of domestic and global pressures. One of the most notable developments was the release of India's forex reserves data, which showed a third straight weekly drop, falling by $1.18 billion to $695.49 billion for the week ended July 18. Adding to the worries, the delay in India-US trade deal is also playing a role in the rupee's weakness.

Another key data point FPI activity, who offloaded equities around more ₹2K crore on Thursday alone, and cumulative outflows for the month stood at over ₹16k crore. This persistent capital flight was driven by weak Q1 earnings from Indian corporates, especially in banking and telecom sectors, also due to uncertainty surrounding the US-India trade deal. The lack of progress in negotiations, coupled with President Trump's renewed threats of tariffs on BRICS nations, further dented rupee sentiment.







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On the macro economic front, Flash PMI numbers for June showed some softness in the Services sector, but improvement in the Mfg. sector from the previous month's number. However, it shows solid expansion in both sectors. Earlier, the Core Sector output data for June was released showing a 1.7% y/y growth, compared to 1.2% growth in May 2025.

Despite these headwinds, the rupee found some support from exporter dollar sales and a softer dollar midweek, but the overall tone remained bearish. Technical indicators showed the rupee breaching key support at ₹86.10, with next resistance seen near ₹86.80. Analysts expect the rupee to trade in a range of ₹85.80–₹86.90 in the coming week, with a mild negative bias unless trade talks yield a breakthrough or global risk sentiment improves

WEEK AHEAD FOR INDIAN MARKETS

Focus will remain on the progress of the Indo-US trade deal. Comments from Commerce Minister Piyush Goel that the India-US trade deal is making fast progress would lend some support to the rupee. If the deal is announced, there could be a knee jerk reaction in the markets, lifting the rupee sharply.

Domestically, HSBC Final manufacturing and services PMIs, and the NSDL IPO, which could test retail appetite. Globally, cues from the Fed's July 30 meeting, US GDP data, and China's PMI releases will influence sentiment.

HEDGING STRATEGY

For Imports: Hedge for payables up to end September 2025 near or below 85.70.

For Exports: Hedge partial exports near or above 86.60.

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GLOBAL SCENARIO						Jul,28 2025	
MARKETS LAST WEEK							
	Open	High	Low	Close	Pre. Week	Range	Sentiment
DXY	**98.36**	**98.51**	**97.11**	**97.65**	**98.48**	**96.00-102.50**	**Neutral**
USD/INR	**86.26**	**86.63**	**86.20**	**86.52**	**86.16**	**86.00-87.10**	**Positive**
EUR/USD	**1.1634**	**1.1789**	**1.1615**	**1.1742**	**1.1626**	**1.1300-1.2200**	**Positive**
GBP/USD	**1.3425**	**1.3589**	**1.3399**	**1.3438**	**1.3416**	**1.3100-1.4000**	**Negative**
USD/JPY	**148.15**	**148.66**	**145.86**	**147.69**	**148.81**	**138.50-152.00**	**Positive**

INTERNATIONAL MARKETS

US

With only housing data on board last week, trade developments continued to dominate the limelight, with trade "deals" announced with Japan, the Philippines and Indonesia. Progress on the trade front appeared to prop up financial markets, with the S&P 500 up 1.3% on the week.

The Dollar index ended lower for the third consecutive week as expectations for a September rate cut is building up. Last week was more focused on housing data, which appear to be entering an early winter. Both the Existing and New Home sales came in below expectations, as the mortgage rates remained firm. The 30 Year fixed mortgage rate stood firm at 6.74%. Existing home sales retrenched 2.7% in June to a 10-month low, marking the fourth pull back in the past six months. The median existing home price reached a historical high of $435K.

New home sales have also started to stumble. Sales of new construction rose a modest 0.6% m/m and 4.5% y/y in June following a sharp decline in May. The recent softness in transactions is a trend shift from the new home market's relative resilience over the past few years.

A directionally softening labour market may be another dynamic at play suppressing home demand. This week, initial jobless claims fell to 217K, its lowest reading in three months. However, continuing claims remained elevated, up 5% over the past year. In other words: layoffs are low, but those who are laid off are having increasing difficulty finding new employment.

On Friday, the US durable goods orders data presented us with the economic uncertainty associated with equally uncertain tariff regime. June's 9.3% headline plunge was largely a product of aircraft orders, which are highly volatile and not too revealing about the underlying state of business demand. However, core capital goods orders (excluding defense and aircraft) declined by a greater-than expected 0.7%.

Looking ahead, the dollar may face short-term consolidation, particularly if upcoming US GDP and labor market data show signs of cooling. However, for now, the currency remains the global safe haven, supported by strong fundamentals and relative monetary policy flexibility.

EUR

EURUSD climbed above the 1.1700 level last week and comfortably remained above this level. In a widely expected move, the ECB held its Deposit rate steady at 2.0% at its monetary policy meeting. The accompanying statement was neutral tone and offered no forward guidance on future policy moves. The ECB noted that the economy remains resilient, partly due to past rate cuts, but flagged elevated uncertainty, particularly stemming from trade tensions. ECB President Lagarde reiterated the central bank's "data-dependent, meeting-by-meeting approach," while also emphasizing that the central bank is "not pre-committing to a particular rate path."

The latest PMI readings provide timely insight into how the Eurozone economy is faring early in the third quarter. The Eurozone PMI surveys showed modest improvement early in Q3, with the composite index rising to 51.0, slightly above consensus expectations of 50.7. The services PMI also surprised to the upside at 51.2, marking the strongest expansion since January, while the manufacturing PMI edged up to 49.8, in line with expectations and still below the expansion threshold. Among the region's largest economies, Germany saw both its services and manufacturing PMIs improve. Services moved into expansion territory at 50.1 for the first time since March, and manufacturing rose to 49.2, the highest reading since July 2022, though still below the expansion mark. In France, both PMIs remained in contraction but showed incremental gains, with services ticking up to 49.7 and manufacturing to 48.4. Overall, the data suggest a modest and marginal expansion, with German steadiness offsetting France's continued weakness.

At this backdrop of the ECB meeting, the ECB's Q3 Survey of Professional Forecasters showed that headline inflation expectations have been revised down across the medium term. HICP inflation is now projected at 2.0% for 2025 (down from 2.2%) and 1.8% for 2026 (down from 2.0%), while 2027 remains unchanged at 2.0%. Core HICP inflation for 2025 is unchanged at 2.3%, but was revised down from 2.1% to 2.0% for both 2026 and 2027. Respondents cited tariffs as having a small downward effect on inflation in the short term, On growth, forecasters revised up their 2025 GDP forecast by 0.2 percentage points, trimmed 2026 by 0.1 points, and left 2027 unchanged at 1.4%.

Elsewhere, Germany's Ifo Business Climate Index edged up from 88.4 to 88.6 in July, indicating only marginal improvement in business confidence. However, the crucial Expectations Index held steady at 90.7. The Ifo Institute noted the recovery remains "sluggish," with no clear acceleration in sight. The GfK's German consumer confidence took another step back heading into August, with GfK Consumer Climate index falling to -21.5, down from -20.3 and missing expectations of -19. Indicating that the households are delaying any meaningful rebound in consumer spending.

GBP

GBP/USD came under bearish pressure on Thursday and lost more than 0.5%, snapping a three-day winning streak in the process. The pair extends its slide on Friday and trades below 1.3500.

The renewed USD strength weighed on GBP/USD pair on Thursday. The US Department of Labor reported that the number of first-time applications for unemployment benefits declined to 217,000 in the week ending July 19 from 221,000 in the previous week. This reading came in better than the market expectation of 227,000. Additionally, the S&P Global Composite Purchasing Managers Index (PMI) improved to 54.6 (preliminary) in July from 52.9 in June, reflecting an ongoing expansion in the private sector's business activity, at an accelerating pace.

Early Friday, the UK's Office for National Statistics reported that Retail Sales rose by 0.9% on a monthly basis in June. This reading followed the 2.8% decrease recorded in May but came in worse than the market expectation for an increase of 1.2%, making it difficult for GBP/USD to stage a rebound.

In the second half of the day, Durable Goods Orders data for June will be the only data featured in the US economic calendar. Nevertheless, this data is unlikely to have a long-lasting impact on the USD's valuation.

JPY

The Japanese yen slipped to around 147.5 per dollar towards the end of the week on renewed worries about the economic outcome of the US-Japan trade deal. The deal imposes a 15% tariff on Japanese exports to the US, significantly lower than the 25% previously threatened by Trump, providing some relief but keeping trade tensions in focus. On the economic front, Tokyo's core inflation for July came in slightly below expectations but remained well above the BOJ's 2% target, reinforcing speculation of another rate hike later this year. The BOJ will announce its policy decision next week and is widely expected to keep rates unchanged amid concerns about the economic fallout from US tariffs. However, the central bank is also likely to revise up its inflation forecast in its quarterly outlook. Earlier this week, BOJ's Uchida signaled a cautious stance on further tightening, citing heightened uncertainty over US trade policy and its broader global implications.

CRUDE OIL

Crude oil prices ended at a three-week low as traders worried about the negative economic news from the US and China and signs of growing supply. Optimism U.S. trade deals could boost global economic growth and oil demand in the future limited losses. For the week, Brent was down about 1.2% while WTI was down about 3.2%. There were reports that the US. is preparing to allow partners of Venezuela's state-run PDVSA, starting with U.S. oil major Chevron, to operate with limitations in the sanctioned nation. That could boost Venezuelan oil exports by a little more than 200,000 bpd, a news U.S. refiner would welcome, as it would ease tightness in the heavier crude market.

Iran said it would continue nuclear talks with European powers after "serious, frank, and detailed" conversations on Friday, the first such face-to-face meeting since Israel and the U.S. bombed Iran last month. Venezuela and Iran are members of the OPEC. Any deal that could increase the amount of oil either sanctioned country could export would boost the amount of crude available to global markets. OPEC said the joint ministerial monitoring committee scheduled to convene on Monday does not hold decision-making authority over production levels.

Four OPEC+ delegates said an OPEC+ panel is unlikely to alter existing plans to raise oil output when it meets, noting the producer group is keen to recover market share while summer demand is helping to absorb the extra barrels. OPEC+ includes OPEC and allies like Russia.

WEEK AHEAD

This week, investors will closely monitor trade negotiations between the US and its key partners, particularly the EU, as the August 1st deadline for sweeping tariffs approaches. The week is also packed with key monetary policy decisions from the Fed, the BoJ, the BoC, and the Central Bank of Brazil. On the data front, the US economic calendar is heavy, featuring the advance estimate of Q2 GDP, the monthly jobs report, the PCE release, and the ISM Manufacturing PMI. Elsewhere, attention will also turn to preliminary GDP and inflation figures from the Eurozone, Germany, France, Italy, and Spain, China's PMIs, GDP from Mexico, Taiwan, and Hong Kong and monthly GDP from Canada.

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MARKETS LAST WEEK			
	Clsng as per 25-07-25	Clsng as per 18-07-25	Change
Mibor 3M	5.45	5.46	-0.01
Mibor 6M	5.46	5.48	-0.02
Swap 1 Y	5.5	5.52	-0.02
G-sec 1 Y Yield	5.551	5.59	-0.04
G-sec 10Y Yield	6.352	6.305	0.05
US 2Y Yield	3.921	3.871	0.05
US 10Y Yield	4.391	4.416	-0.03
Ger 10Y Yield	2.708	2.678	0.03
Jap 10Y Yield	1.597	1.527	0.07
Gold	3337.3	3349.94	-12.64
Silver	38.16	38.17	-0.01
Brent Crude	68.44	69.28	-0.84
WTI Crude	65.16	67.34	-2.18
Nifty 50	24837	24968.4	-131.40
BSE Sensex	81463.09	81757.73	-294.64
DXY	97.65	98.48	-0.83

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