Mecklai Financial
WHERE RISK MEETS ITS MATCH

# FII INFLOWS DRIVE THE RUPEE HIGHER

**Apr 21, 2025**

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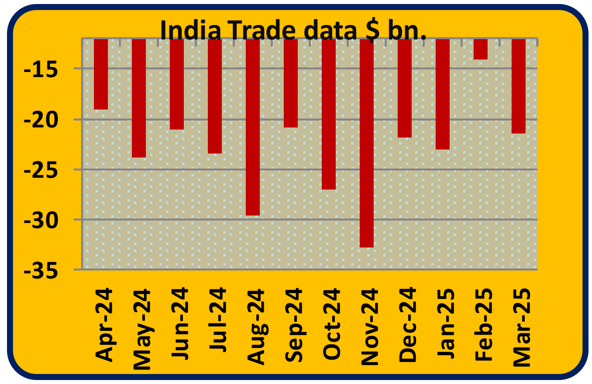
The rupee rose sharply last week and ended about 0.8% higher from the previous week. The rupee ended at 85.37 to a dollar level compared to 86.05 level close in the previous week. Weakening US Dollar and improved outlook on India's economic fundamentals saw the FPIs/FIIs return to buy the domestic equities. Equity market benchmarks closed about 4.5% higher from the previous week. FIIs/FPIs have invested more than 11K crores of rupees in the domestic markets in the past four sessions.



Meanwhile, India's inflation numbers dropped to a six-year low. India's retail inflation eased to 3.34% in March The number stood at 3.61% in February 2025 which translates into a 27 basis points drop in the month of February. while the WIP inflation drops to 4-month low of 2.05%. Inflation has been easing since October 2024 the RBI may be open to more rate cuts in the coming months.




Elsewhere, India's merchandise trade deficit widened sharply to $21.54 billion in March, reversing the relief seen in February when the gap had narrowed to a three-year low of $14.05 billion. The sudden spike came as imports shot up to $64.51 billion in March from $50.96 billion in February, outpacing the rise in exports during the same period.

## WEEK AHEAD FOR INDIAN MARKETS

During this week, key data releases include the Flash Composite PMI, Mfg. and Services for April. Market sentiments will however be mostly dependent on the Trade war comments from President Trump and other leaders. Over the last three trading sessions, foreign portfolio investors (FPIs) have purchased over $1 billion worth of Indian equities after a prolonged selling streak. FPIs continued selling in the first half of April. The total FII sell figure for the month up to April 19 stood at ₹23,999 crores. However, FII activity reversed during the last three trading days ending April 17. During these days, FIIs bought stocks worth ₹14,670 crores in the cash market. Two important factors caused the reversal in FII activity.

**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 21, 2025 |
|---|---|---|---|---|---|---|---|
| MARKETS LAST WEEK | | | | | | | |
| | Open | High | Low | Close | Pre. Week | Range | Sentiment |
| DXY | 100.02 | 100.28 | 99.17 | 99.38 | 100.10 | 95.50-104 | Negative |
| USD/INR | 85.8400 | 85.8800 | 85.3400 | 85.3700 | 86.0500 | 84.50-85.60 | Negative |
| EUR/USD | 1.1297 | 1.1425 | 1.1264 | 1.1365 | 1.1355 | 1.1250-1.1800 | Positive |
| GBP/USD | 1.3058 | 1.3292 | 1.3041 | 1.3266 | 1.3087 | 1.2850-1.3600 | Positive |
| USD/JPY | 144.15 | 144.31 | 141.62 | 142.43 | 143.54 | 134.75-145.0 | Negative |

## INTERNATIONAL MARKETS

## US

The USD index DXY slipped further and ended at the lowest level since October 2021, at 99.23 level. The trade tensions between US and China escalated further with US asserting that the total tariffs on Chinese imports would bet 245% as against the 145% tariff imposed by China on US goods. There was some relief after US President Trump said that tariff would be exempted for certain semiconductor products.

The US markets sell off extended after Fed Chair Powell stated that the trade war presents a "challenging scenario" for the Central Bank. His speech indicated that rates would remain elevated for a considerable future dates. The higher prices are already influencing Consumer behavior. Last week's retail sales report showed that the prospect of tariff-driven price hikes spurred a pre-emptive shopping spree in March. Retail sales jumped 1.4%. It was especially visible in the jump in the auto parts and car sales. It is quite possible this behavior will get carried over to April also.

The manufacturing sector has not yet wavered in response to tariffs. Total industrial production fell by 0.3% in March, but the monthly drop was largely the result of a decline in utilities output, which offset increases in mining and manufacturing production. The gain in manufacturing was notable in that most industry segments posted growth in March, with standouts in computer & electronics, aerospace, apparel and plastics production. Meanwhile, tariff concerns may be starting to weigh on the residential sector. Total housing starts fell 11.4% in March, a larger-than-expected decline The NAHB Housing Market Index edged up to 40 in April as current sales and buyer traffic improved modestly. However, expectations for future sales declined to the lowest reading since late 2023. All told, residential construction appears to be losing momentum as builders and developers contend with dimming economic growth prospects, elevated inventory levels and increased supply-chain uncertainty, which we explore in the Topic of the Week.

Dollar could come under pressure this week as talk of White House discussing about removing Fed Chair Powell. Markets are worried that this could curtail the independence of the Federal Reserve in their monetary policy decisions

**EUR**

EUR/USD hovered near 1.1400 level last week though a decisive break is still elusive. EURUSD continues to trade above both its EUR/USD continued trading above both its 200 day and 200-week simple moving averages at 1.0756 and 1.0840, respectively.

As in recent weeks, this lift coincided with a sharp selloff in the USD), which kept the US Dollar Index (DXY) pinned near three-year lows around the 99.00 support level. In contrast, Germany's 10-year bund yields stayed locked in their multi week downtrend, dipping below 2.50% for the first time since early March.

There was little reaction to the ECB meeting outcome last week. The ECB delivered a widely anticipated 25 bps cut, lowering the deposit rate to 2.25% in a subtle shift, the policy statement dropped the word "restrictive" implying that the Governing council now views policy as neutral. In addition, the ECB noted a slowing in headline and core inflation in March, and said services inflation has eased markedly over recent months. Otherwise, the ECB's guidance was little changed from previous announcements, with the ECB saying "especially in current conditions of exceptional uncertainty, it will follow a data-dependent and meeting-by-meeting approach to determining the appropriate monetary policy stance."With the announcement leaning slightly dovish overall and with little change in the ECB's guidance, we remain comfortable with our view that the next 25 bps policy rate cut, to 2.00%, will come at the June monetary policy meeting.

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**GBP**

Last week, the UK released the wage and inflation data for March. Most of the measures of wage growth showed slower than expected growth. Headline wage growth—measured for the three months to February compared to the same period last year—holding steady at 5.6%. Ex-bonus earnings for the private sector also came in slower than expected at 5.9%. While these readings are somewhat encouraging, wage growth in the UK still elevated by historical standards. In other labour market data, the unemployment rate held steady at 4.4%. Turning to prices, the March CPI report was generally favourable. Headline inflation eased by more than expected to 2.6% y/y, while Core inflation also eased to 3.4%. Services inflation slowed a touch more than expected to 4.7%, from 5.0% previously.

**JPY**

USDJPY recovered from mid-141 levels last week after BoJ Governor Ueda signaled that there is a potential to pause the rate-hiking cycle and said that the BOJ may need to take policy action if US tariffs hurt the Japanese economy. Further, there are reports that the BoJ is set to cut its economic growth forecast at the April 30-May 1 meeting as US tariffs heightened risks to the fragile economic recovery. However, BoJ board member Junko Namakwa said that if the outlook for economic activity and prices is realized, the central bank will continue to raise rates and adjust the degree of monetary accommodation.

Moreover, hopes for a US-Japan trade deal might hold back the JPY bears from placing aggressive bets and cap the USD/JPY pair. In fact, Trump said negotiators had made "big progress" in trade talks with a Japanese delegation, while Japan's PM Ishiba said that talks with the US were

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constructive and that the government will consider trade negotiations a top priority. Furthermore, Japan's Economy Minister Ryosei Akazawa said that the officials agreed to hold a second meeting this month and believed that the US wants a deal within the 90-day window.

Japan FM Katsunobu Kato told Parliament on Friday that Japan does not engage in actions to deliberately weaken the Yen. His statement comes against US President Trump's claims that Tokyo is intententionally driving down its currency to favour exporters. US Treasury Secretary Scot Bessent will meet Japan FM during this week.

On the data front, Japan's annual inflation rate edged to 3.6% in March 2025 from 3.7% in the prior month, marking the lowest point since last November. However, the core inflation rate rose to 3.2% from 3.0%, in line with market estimates. Monthly, the CPI increased 0.3%, after a 0.1% drop in February. The data supports the Bank of Japan's approach of gradual interest rate hikes, though rising economic risks, particularly from sweeping U.S. tariffs, cast a shadow over the outlook. The inflation figures arrive ahead of the BOJ's policy meeting this week, where the central bank is expected to keep its benchmark rate unchanged at 0.5% and lower its growth forecasts. Other data including March Trade surplus, Core Machinery Orders and Industrial Production were mixed.

USDJPY movement this week will depend on the outcome of the US Japan trade talks and statements by the authorities from either side.

## CRUDE OIL

Crude oil prices surged sharply last week ending the week with about 5% gains, their first weekly gain in three weeks. Hopes of trade deal settlements lifted the risk sentiment. US. President Donald Trump and Italian Prime Minister Giorgia Meloni met in Washington and expressed optimism about resolving trade tensions that have strained U.S.-European relations. Making a potential deal with European Union could potentially lift crude oil demand. Washington also issued additional sanctions on several companies and vessels it said were responsible for facilitating Iranian oil shipments to China as part of Iran's shadow fleet. The OPEC said on Wednesday that it had received updated plans for Iraq, Kazakhstan and other countries to make further output cuts to compensate for pumping above quotas. However, OPEC, the International Energy Agency and several banks, including Goldman Sachs and JPMorgan, cut forecasts on oil prices and demand growth this week as U.S. tariffs and retaliation from other countries threw global trade into disarray.

## WEEK AHEAD

Uncertainty on the path of tariffs by the US amid threats of escalation against pledges to strike trade deals will continue to drive volatility across all asset classes. On the economic front, flash PMI readings for US, the Euro Area, Japan, India, and Australia will unveil the initial impact of tariff threats. Durable goods orders and existing home sales will also be eyed in the US, and key confidence gauges are awaited in Germany, France, and the UK. On the monetary policy front, the PBoC is set to hold loan prime rates in China.

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| MARKETS LAST WEEK | | | |
|---|---|---|---|
| | Clsng as per 17-04-25 | Clsng as per 11-04-25 | Change |
| Mibor 3M | 5.92 | 6 | -0.08 |
| Mibor 6M | 5.81 | 5.91 | -0.10 |
| Swap 1 Y | 5.75 | 5.84 | -0.09 |
| G-sec 1 Y Yield | 6.125 | 6.225 | -0.10 |
| G-sec 10Y Yield | 6.473 | 6.545 | -0.07 |
| US 2Y Yield | 3.799 | 3.971 | -0.17 |
| US 10Y Yield | 4.332 | 4.495 | -0.16 |
| Ger 10Y Yield | 2.463 | 2.58 | -0.12 |
| Jap 10Y Yield | 1.275 | 1.334 | -0.06 |
| Gold | 3326.85 | 3237.61 | 89.24 |
| Silver | 32.56 | 32.31 | 0.25 |
| Brent Crude | 67.96 | 64.76 | 3.20 |
| WTI Crude | 64.68 | 61.5 | 3.18 |
| Nifty 50 | 23851.65 | 22828.55 | 1023.10 |
| BSE Sensex | 78553.2 | 75157.26 | 3395.94 |
| DXY | 99.23 | 100.1 | -0.87 |



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