

WEEKLY NEWSLETTER

# MARKETS REJOICE DEESCALATION IN US-IRAN TENSIONS; THE OUTCOME OF TALKS CRUCIAL



## Global Development:

**Israel and Lebanon agreed to a ceasefire**, and Iran reciprocated that passage through the Strait of Hormuz was open to commercial vessels for the duration of the ceasefire. This news came after the onshore close yesterday. **The SoH had been effectively shut down since the war began.** The way talks between Iran and the US go over the weekend will be extremely crucial. The following are the key asks from both sides -

1. **US asks:**

- **Nuclear Disarmament, i.e., Iran won't pursue nuclear weapons**
- **Permanent freedom of navigation in the Persian Gulf**

2. **Iran asks:**

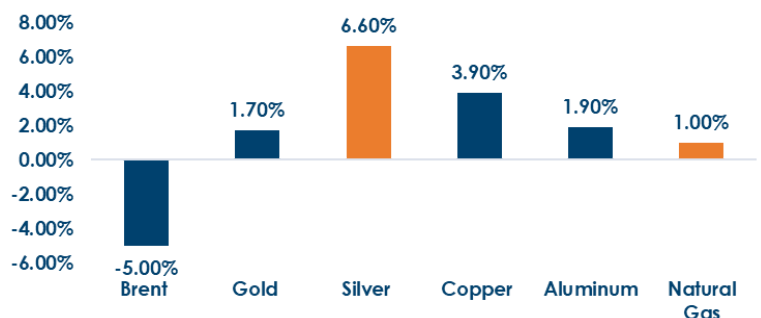
- **War reparations**
- **Recognition of Iranian authority over the Strait of Hormuz**
- **Immediate lifting of all economic sanctions and release of frozen Iranian assets**

It will be a matter of what the administrations on both sides can take as wins for the people of their respective countries. **At least for now, markets seem to be rejoicing in the silver lining.** RBI has apparently asked oil companies to buy Dollars through a special window from SBI instead of tapping the interbank market. This is yet another measure taken by **the RBI to reduce pressure on the spot USDINR.**

## Commodities:

- Crude prices corrected sharply, with WTI down 13.1% and Brent falling 5%, while European natural gas declined 10.8% (US gas marginally up 1%). In contrast, metals and precious metals outperformed—copper (+3.9%) and aluminum (+1.9%) gained, while gold (+1.7%) and silver (+6.6%) saw strong upside momentum.

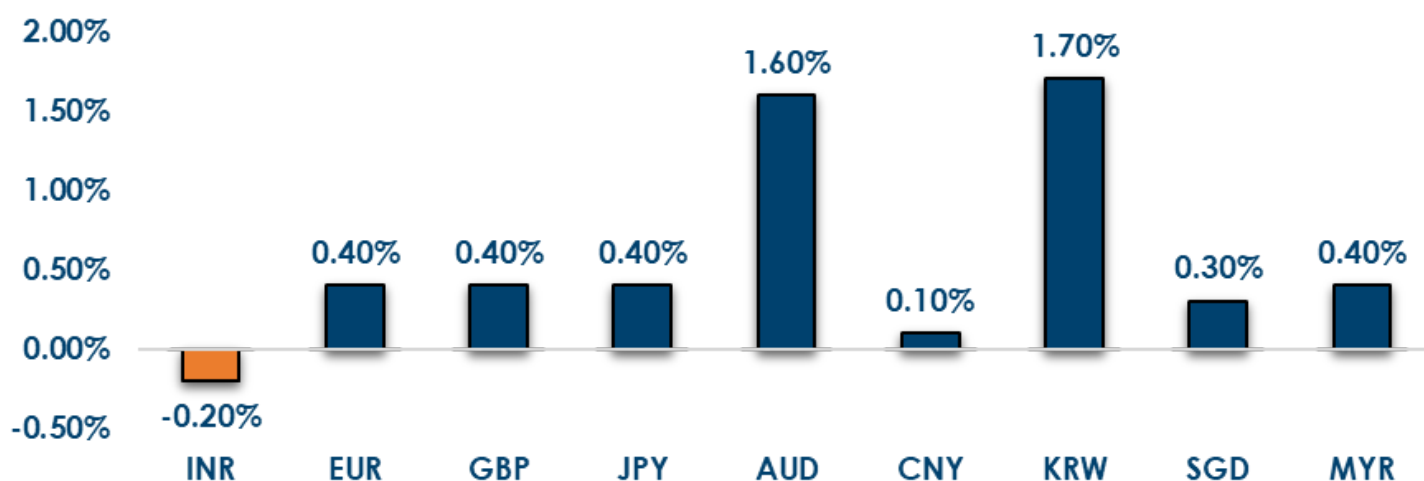
Weekly Change in Commodities



## Foreign Exchange:

- All G10 currencies appreciated this week, led by NOK and AUD (+1.6%), followed by CAD (+1.1%) and SEK (+1.0%), while EUR, JPY, and GBP posted modest gains (~0.4%)
- A 0.4% rise in the Euro signals mild relief for Eurozone exporters but adds marginal cost pressure for importers, especially in energy-sensitive sectors.
- The British Pound, gaining 0.4%, reflects steady confidence in UK assets, slightly tightening export competitiveness while easing import costs.
- Broad-based strength across Asian currencies this week, led by KRW (+1.7%), while TWD (+0.5%), MYR (+0.4%), SGD (+0.3%), and CNH (+0.1%) posted modest gains; HKD remained flat, whereas PHP (-0.2%), INR (-0.2%), and IDR (-0.5%) saw mild depreciation against the Dollar.
- Rupee traded in a 92.66-93.43 range this week and ended at 92.93 compared to last week's close of 92.74
- Rupee further strengthened in offshore to end at the implied spot of 93.65
- The forward curve remains mildly upward sloping at the longer end, with near-term premiums stable around 3.1-3.2%, dipping slightly at the 12M mark (2.98%) before steepening towards the 5Y tenor at 3.61%.
- 3m ATM implied volatility crashed to 4.33% this week

## Weekly % change in Currencies



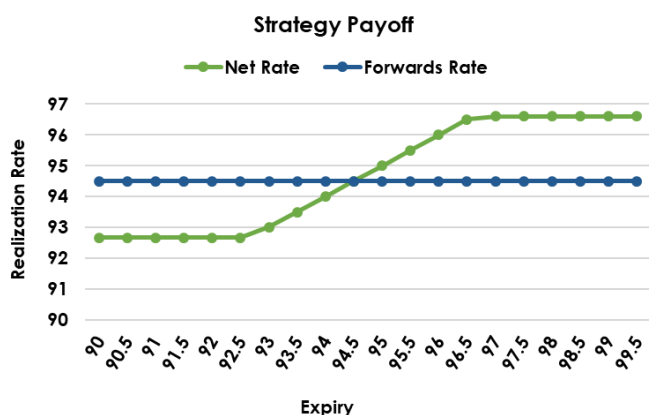
## Fixed Income:

- 10Y yields softened across major economies this week, led by sharper declines in Europe (France -17bps, Germany -13bps, UK -11bps), while other markets saw moderate easing (US, Japan -4bps; China -3bps; Australia & South Korea -2bps each), reflecting a broadly cooling global rate environment.
- Yield on the benchmark 10y ended almost flat for the week at 6.91% after trading a 6.86-6.93% range this week
- 1y OIS ended 2bps lower at 5.81% and 5y OIS ended 7bps higher at 6.38% this week
- Banking system liquidity is still in surplus of more than Rs 4 lakh crs. Overnight call rate fixed in the 5.09-5.13% range this week.
- 10y AAA PSU spread over Gsec is 55bps and that of 10y AAA NBFC is 58bps
- FPIs have sold net USD 1.6bn of domestic debt in April so far

## Option Structures for Exporter-Importer

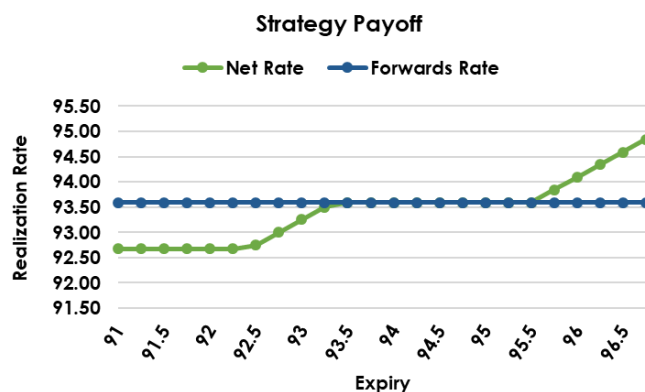
### EXPORTER RISK-REVERSAL

Spot ref 92.67  
 Tenor 6m  
 Atmf 94.50  
 Buy put atms  
 Sell call 96.60  
 Net cost 0 ps



### IMPORTER SEAGULL

Spot ref 92.67  
 Tenor 3m  
 Atmf 93.59  
 Buy call Atmf  
 Sell put Atms  
 Sell call 95.75



## Our Views: What we like?

### FX

The dollar index is in the middle of its 96.50-100.50 range at 98.1. We expect the Dollar index to continue to remain range-bound. Overall, we expect the De-Dollarization theme to play out over a 1-year horizon. Developed Market and EM currencies may behave very differently. We expect the EM currencies to underperform amid USD weakness, and the Rupee to underperform among EM currencies. We see a 92-93.50 range for the Rupee over the next 6 weeks.

### Fixed Income

With the rupee cooling off as a result of the RBI's measures, we expect rates to be kept on hold. RBI would have had to hike rates to defend the Rupee. We expect the OIS to cool off gradually. 5y OIS around 6.40% is attractive to receive with a target of 6.1%. We expect the 10-year yield to eventually come off to 6.60% once the inflation risk premium due to elevated Crude prices wanes.

### Commodities

Crude prices have cooled off as the Middle East situation has de-escalated as of now. How talks proceed will be crucial, but the tolerance for higher Brent prices seems to be low from the US point of view. We have maintained that we are bullish on precious metals. Base metals also showed encouraging traction this week.

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