AUGUST 1st , 2026

WEEKLY NEWSLETTER

FED, BOE AND BOJ ALL HOLD BUT WITH HAWKISH DISSENTS

Global Development:

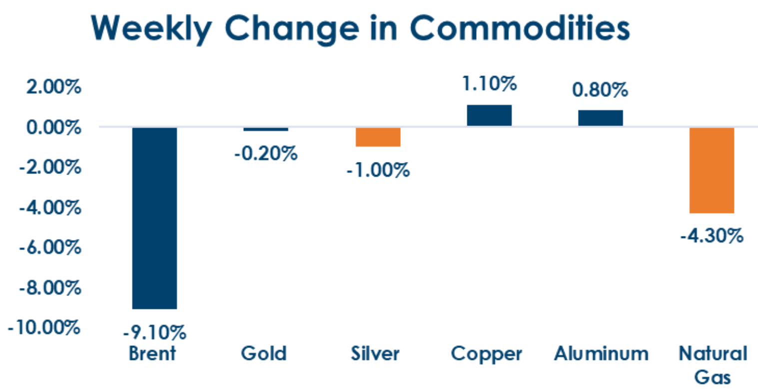
All three major central banks i.e. Fed, BoJ and BoE kept rates unchanged this week. However, there were hawkish dissents in all three committees

US 10y yield is very close to this year's high. The Dollar index however plunged this week despite higher US yields as USDJPY cratered on BoJ intervention.

US-Iran war situation remains tense with no clear resolution in sight. According to US officials, US could be striking Iran again, as soon as this weekend itself. There are a lot of moving parts such as Trump wanting an off ramp, mounting pressure from Trump's allies to end war with mid terms around, questions around who is calling the shots in Iran (senior IRGC members are jostling for control), diplomatic pressure from Israel to escalate and from Saudi to deescalate, dwindling US missile capacity in Gulf, Iran's control over SoH.

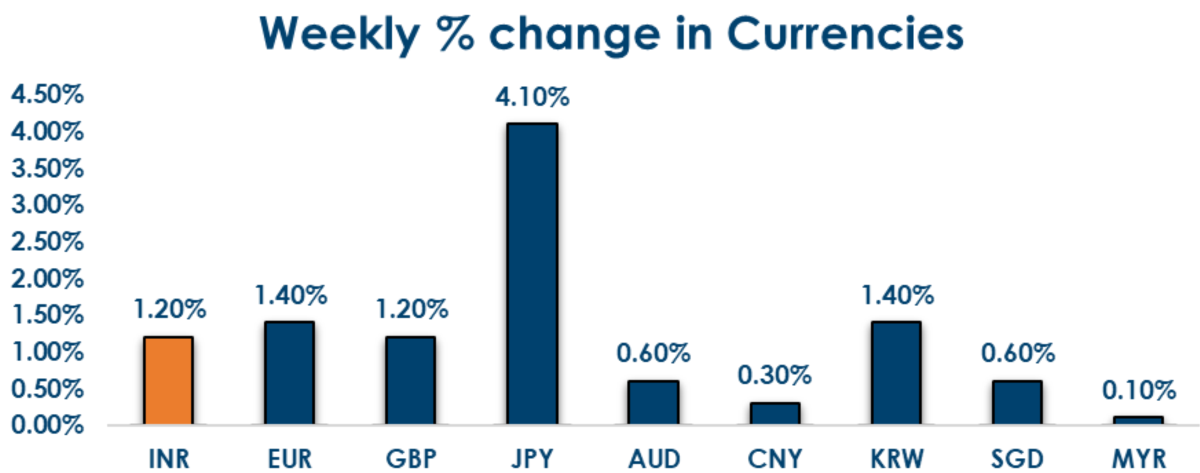
Commodities:

Commodities were broadly weaker during the week, led by a sharp decline in crude oil prices as easing geopolitical tensions weighed on energy markets. Industrial metals remained resilient with copper and aluminium posting modest gains, while precious metals traded largely range-bound.



Foreign Exchange:

- The US dollar weakened broadly against all G10 currencies this week, with the Japanese yen leading gains (+4.1%) as softer US economic data and easing Treasury yields weighed on the greenback.
- The euro advanced 1.4% against the US dollar this week as weaker US economic data and declining Treasury yields weighed on the greenback, improving sentiment towards the single currency.
- The British pound gained 1.2% against the US dollar this week, supported by broad-based dollar weakness and expectations that the Bank of England will maintain a relatively restrictive policy stance.
- Asian currencies broadly strengthened against the US dollar this week, led by the South Korean won (+1.4%) and Indian rupee (+1.2%), as softer US economic data and a weaker dollar boosted risk sentiment across the region.
- Rupee traded a 95.25-96.28 range this week and ended at 95.39 onshore compared to last week close of 96.57.
- The USDINR forward curve remained relatively stable, with implied annualized yields hovering around 3% across tenors, reflecting balanced liquidity conditions and a largely anchored interest rate differential.
- 3m ATMF implied volatility is at 5%
- FX Reserves rose USD 6.1bn in week ending 24th July to 682.3bn.



Fixed Income:

- Global bond yields were mixed this week, with US and major European yields moving higher on resilient economic data and inflation concerns, while yields in Australia, South Korea and China declined, reflecting expectations of a more accommodative policy outlook.
- Yield on the domestic 10y benchmark rose 6bps this week to 6.84%
- 1y OIS fell 7bps this week to 5.92% while 5y OIS dropped 9bps to 6.40%
- Overnight MIBOR fixings were in 5.25-5.41% range this week. Banking system liquidity has been in a surplus of around Rs 1-1.5 lakh crs this week
- FPIs invested net USD 2.1bn in domestic bonds in July
- 1y T-bill is at 5.70% while 1y A1+ CD is at 7.17%.
- 10y AAA PSU is around 7.50% while AAA NBFC is around 7.67%

Our Views: What we like?

FX

Dollar index we believe is still in a range. Dollar Index broadly has been in a 96-102 range since last 15 months.

While we did see a retracement in USDINR this week, Rupee may still not be out of the woods. Middle East geopolitcal situation is still volatile and RBI is running a massive short book in forwards. Despite the FCNR B inflows, we feel RBI will be measured in the way it intervenes.

Exporters are advised to hedge cautiously, only to extent of in-hand orders while Importers are advised to use the current dip to hedge.

We expect the Rupee to be in 94.50-97 range over next few weeks

Fixed Income

Indian bonds not being included in the Bloomberg index despite recent measures to facilitate FPI investments is a setback.

We expect the 10y to trade a 6.70-6.95% range for next few weeks.

Commodities

Precious metals are swaying to the Dollar theme rather than risk theme. We expect this to continue.

We are bullish on base metals and precious metals.

Energy prices are likely to be headline driven

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