DECEMBER 13TH, 2025

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WEEKLY NEWSLETTER

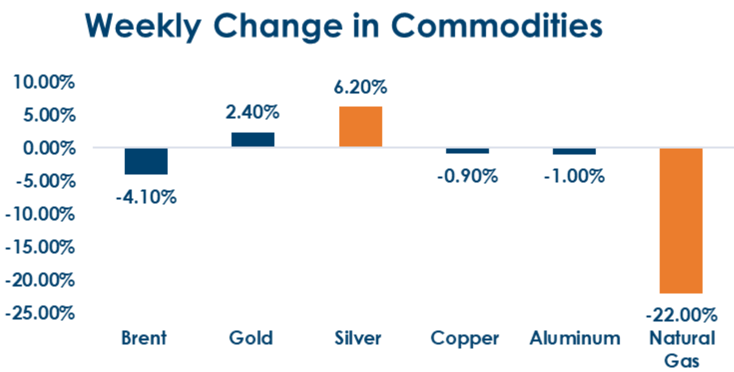
RUPEE UNDERPERFORMS AS TRADE DEAL TIMELINE GETS PUSHED AGAIN

Weekly Developments:

- Fed Policy Outcome: **The Fed delivered a widely expected 25 bps rate cut**, though the decision was not unanimous. 9 members voted for a cut, 2 preferred the status quo, and 1 voted for a deeper 50 bps cut.
- Powell's Commentary: **Chair Powell noted the decision was a close call, highlighting that prevailing conditions justified arguments for both a rate cut and maintaining current rates.**
- Liquidity Measures: **The Fed also announced USD 40 bn per month in T-bill purchases to support system** liquidity and ensure smooth policy transmission.
- Forward Guidance: The median dot plot signals only one rate cut in 2026, contrasting with market expectations of just over two cuts by the end of 2026.
- Key US Data Ahead: **November payrolls and retail sales data (Tuesday) will be closely watched** for further cues on growth and consumption trends.
- **Global Central Bank Watch: ECB & BoE policy decisions – Thursday & BoJ policy decision – Friday**

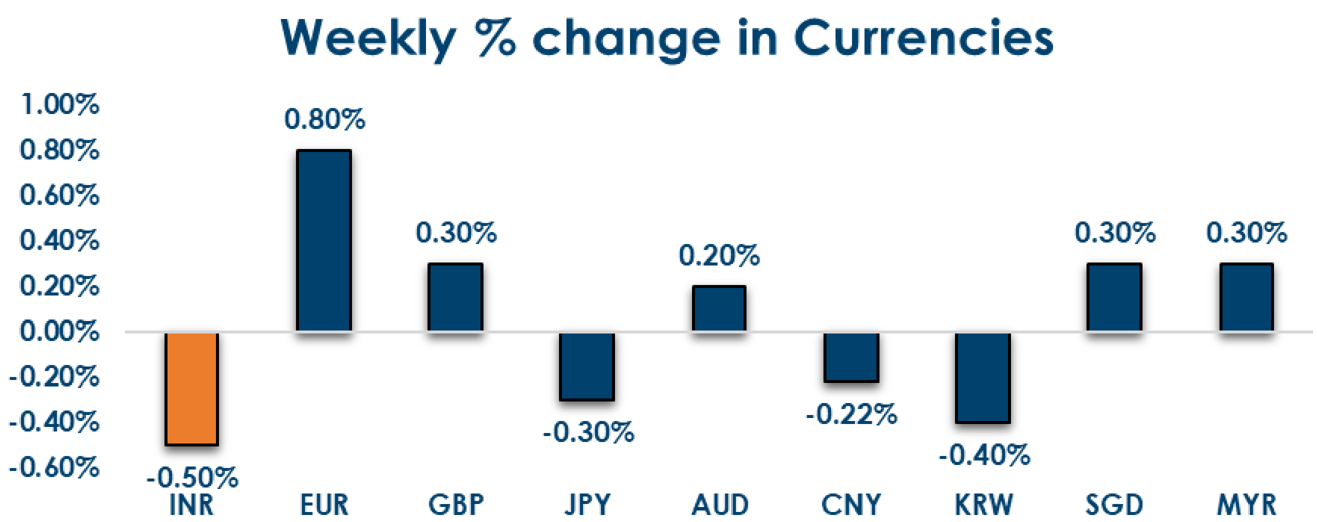
Commodities

- Commodities were mixed: energy prices saw sharp weakness with Brent down 4.1% to USD 61.1 and US natural gas plunging 22% to USD 4.1, base metals softened modestly (Aluminium -1%, Copper -0.9%), while precious metals outperformed with Gold up 2.4% to USD 4,299 and Silver surging 6.2% to USD 61.96.
- LME 3M Copper hit a fresh all time high this week of USD 11952 before giving up gains to end at USD 11515.
- Precious metals were buoyed by a weaker Dollar.



Foreign Exchange

- Most G10 currencies ended the week stronger, led by SEK (+1.4%) and CHF (+1.1%), while NOK and JPY (-0.3% each) were the only laggards.
- The euro strengthened 0.8% over the week, reflecting relative stability in the Eurozone currency basket amid a broadly softer USD environment.
- The pound gained 0.3%, supported by resilience in UK macro expectations even as broader G10 gains remained modest.
- Asian FX ended the week mixed, with THB leading gains (+1.4%), modest strength in MYR and SGD (+0.3%), stability in IDR and HKD, while PHP (-0.3%), KRW (-0.4%) and INR (-0.5%) underperformed.
- Rupee traded a 89.76-90.56 range this week and ended at 90.42 compared to previous week close of 90.00
- Rupee continues to underperform as the trade deal continues to remain elusive. The timeline for the deal now seems to be March. The delay in securing the deal despite positive comments from both sides indicates that something could possibly be broken in negotiations
- Near-term forwards remain elevated on IPO-related flows and year-end dollar selling, with the curve at 1m 3.24%, 3m 2.95%, 6m 2.85%, 1y 2.63%, 2y 2.79%, 3y 2.96%, 5y 3.34%, while 3m ATMF implied volatility stands at 4%.
- FX Reserves rose USD 1bn in the week ended 5th Dec to USD 687.3bn.



Fixed Income

Yield on US 10y treasury ended 2bp higher this week at 4.18%. 2y yield, on the other hand, fell 5bps to 3.52%

10y yields were steady across the UK, the Eurozone, and Japan

Yield on the domestic benchmark 10y ended 10bps higher this week at 6.59%. The intra-week high was 6.63%. The selloff was likely on account of the market feeling that we could probably have seen the last cut in this cycle. The OMO amount announced last week of Rs 1 lakh crs was also lower than market expectations

A similar sell-off was seen in rates as well. 5y OIS rose 13bps to 5.92%. 1y OIS was steady, up 2bps for the week at 5.45%

The spread of 10y AAA PSU over Gsec is 54bps, while that of 10y AAA NBFC is 88bps

1y T-bill is at 5.48% while 1y CD is at 6.61%

Banking system liquidity is in surplus of about Rs 1.5 lakh crs. Overnight MIBOR fixings have been happening at 5.24%

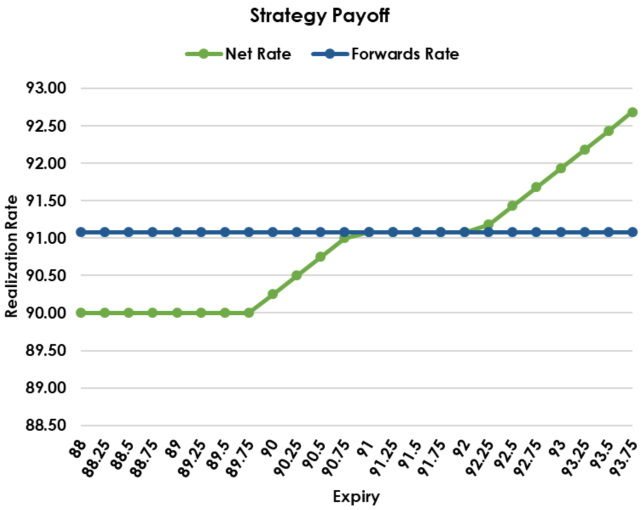
FPIs have sold net USD 800mn of domestic debt in December so far

November CPI print came in line with expectations at 0.71% yoy

Option Structures for Exporter Importer

IMPORT SEAGULL

Spot ref 90.42
Tenor 3m
Buy call Atmf (91.08)
Sell put 90
Sell call 92.40
Net cost 10 ps



EXPORTER ENHANCED COLLAR

Spot ref 90.42
Tenor 6m
Fwd level 91.70
Buy put 955
Sell call 91.70 with eki at 92.60

Our Views: What we like?

FX

We continue to expect the Dollar to trade with a weak bias. We see more Fed rate cuts in 2026 than what the market is pricing in, given weakening labor market conditions. Rupee may, however, continue to underperform amid Dollar weakness in the medium term. **We see a range of 89.60-90.60 over the next 6 weeks.**

Fixed Income

We believe current levels of 10y are attractive to add duration to the portfolio. It is time to execute carry rolldown strategies. The yield curve is steep, and RBI OMO purchases may cap upside at the far end of the curve. **Our 5y OIS target of 5.90% was reached this week.**

Commodities

We continue to remain bullish on precious metals in a weak Dollar environment. Stable risk sentiment overall should impart tailwinds to base metals as well. **Energy complex, especially Brent, may remain under pressure due to oversupply concerns**

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