

## **WILD GYRATIONS IN PRECIOUS METALS ON FRIDAY; GOLD SEES BIGGEST INTRADAY DROP IN 4 DECADES, SILVER BIGGEST EVER!!!**



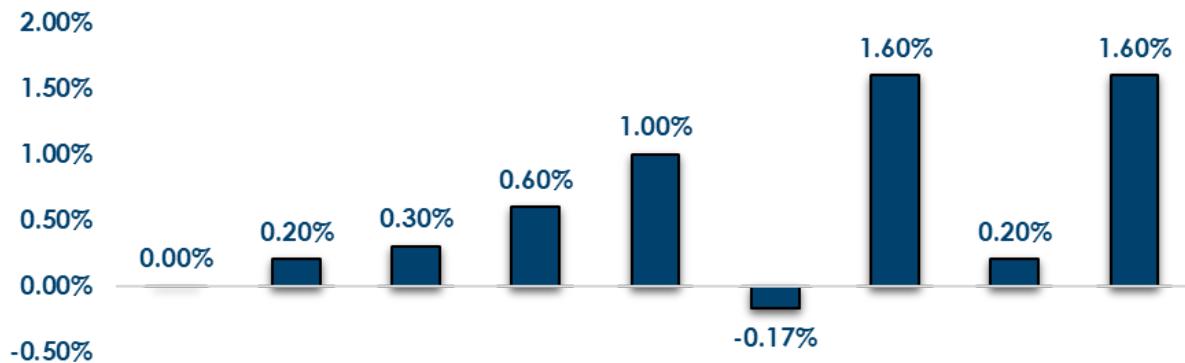
## Global Developments:

- Kevin Warsh was announced as the next Fed Chair; his inflation-fighting credentials and prior Fed experience eased concerns over Fed independence.
- Precious metals saw a sharp sell-off, with Gold posting its steepest intraday fall since the early 1980s and Silver its biggest intraday decline on record.
- The Fed held rates steady as expected, though two members dissented in favor of a rate cut.
- The Union Budget on Sunday is the key domestic event; equities and commodities are open, FX and fixed income shut, and equities will trade without T+0 settlement.
- Focus will then shift to the RBI policy on Friday, with markets watching how the RBI addresses money market stress amid sharply higher bank funding costs.

## Foreign Exchange

- G10 currencies posted gains against the dollar this week as the dollar weakened overall, led by NOK (+1.4%), NZD (+1.2%), and AUD (+1.0%), while European currencies lagged with more modest moves in EUR (+0.2%), DKK (+0.2%), and SEK (+0.3%).**
- EUR saw only marginal gains against the dollar, rising 0.2% on the week, reflecting persistent growth concerns in the Eurozone.
- GBP outperformed the euro modestly, gaining 0.3% against the dollar, supported by relative macro stability but capped by cautious rate expectations
- Asian FX was mixed against the dollar, with KRW and MYR leading gains, while INR remained flat and lagged peers, trading in a 91.52–92.00 range and ending the week largely unchanged as offshore pricing continued to reflect mild depreciation pressure.
- The forward curve remains upward sloping beyond the near term, with implied yields rising from 2.18% at 1m to 3.25% at 5y, pointing to expectations of gradual depreciation over the medium term.
- Short-dated volatility remains contained, with 3m ATM implied volatility at 4.65%, suggesting stable near-term FX expectations.
- India's FX reserves increased by USD 8bn to USD 709.4bn in the week ending 23rd Jan, largely driven by revaluation gains in gold, strengthening the RBI's buffer position.

### Weekly % change in Currencies



## Fixed Income

US 2y treasury yield dropped 4bps to 3.52% while 10y yield was almost unchanged at 4.23% 10y yields across the Eurozone were lower by 1-8bps while UK 10y GILT yield was up 2bps. Yield on 10y JGB was up 1bps.

Yield on the benchmark 10y traded a 6.64-6.73% range this week and ended at 6.70% compared to the previous week's close of 6.67%. 1y OIS came off 4bps to 5.60% while 5y OIS rose 2bps to 6.16% this week. FPIs bought net USD 700mn of domestic debt in January. 3m T-Bill rate is at 5.48% while 3m CD rate is at 7.33%. Banking system liquidity is in a surplus of around Rs 80000crs. Overnight MIBOR fixing on Friday happened at 5.53% i.e. above repo

## Commodities

- Energy markets were mixed, with Brent crude rallying 5.2%, while US natural gas plunged 17.5% and European natural gas fell 1.9%.
- Base metals were largely stable, with LME Copper marginally higher (+0.3%) and LME Aluminum slightly lower (-0.8%).
- Precious metals saw an unprecedented sell-off, with Silver down 17% for the week after a record intraday collapse.
- Silver fell from an intraweek high of USD 118.5 to a low of USD 73.6, before ending the week at USD 85.2 per troy ounce.
- Gold also recorded its sharpest intraday decline in four decades, sliding from highs near USD 5,595 to close the week at USD 4,894, prompting the CME to raise margins following the historic plunge.

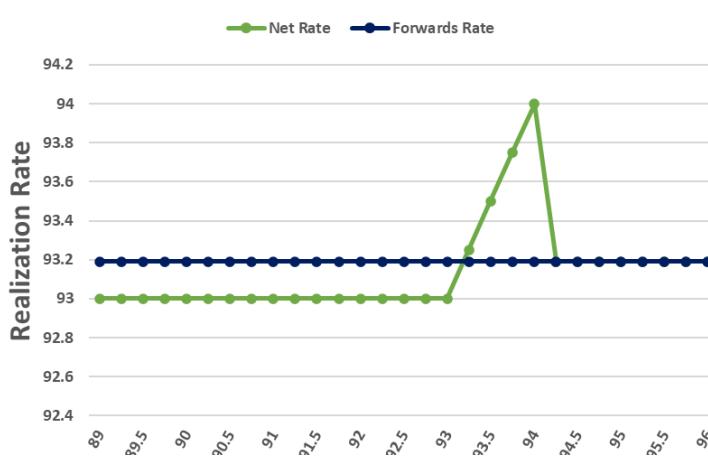
### Weekly Change in Commodities



## Option Structures for Exporter Importer

### Exporter Enhanced collar

Spot ref 92.00  
 Tenor 6m  
 Fwd level 93.19  
 Buy put 93.00  
 Sell call 93.19 with eki at 94.25  
 Net zero cost



### Import seagull

Spot ref 92.00  
 Tenor 3m  
 Buy call Atmf (92.62)  
 Sell put 91.25  
 Sell call 93.75  
 Net cost 2 ps



## Our Views: What we like?

### FX

**The dollar weakened overall during the week. However, Crosses gave up gains post announcement of Kevin Warsh as Fed chair, as he was a former Fed governor and under him, the Fed's independence is not seen as getting compromised.** Despite the India-EU trade deal, USD/INR kept pushing higher. It traded above 92 in NDF. However, onshore, the RBI seemed to be drawing a line at 92. **The rupee is likely to continue to remain under pressure as long as FPI outflows from equities continue. RBI can defend for a while, but eventually it may be constrained by monetary conditions. We expect calibrated, gradual depreciation for the rupee going forward and see a 91.10-92.40 range over next 6 weeks.**

### Fixed Income

**Benchmark 10y yield is heading into budget at a key level, around 6.70%** The market will be keeping a close eye on the gross borrowing number. Anything above Rs 16 lakh crs may cause the market to panic. Underlying Expectations in terms of the nominal GDP growth rate considered for budgeting will also be scrutinized. **One can look to go long duration on any sell-off that we get post-budget.**

### Commodities

**Rally in precious metals is likely to continue and any dip of 8-10% should be seen as a buying opportunity.** There is a definite trend of preference to hold physical assets over fiat currencies and we see this playing out over a protracted period of time.

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