

JANUARY 17TH, 2026

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WEEKLY NEWSLETTER

RUPEE WEAKENS PAST THE 13 MARK AGAINST YUAN AS DOMESTIC ASSETS UNDERPERFORM



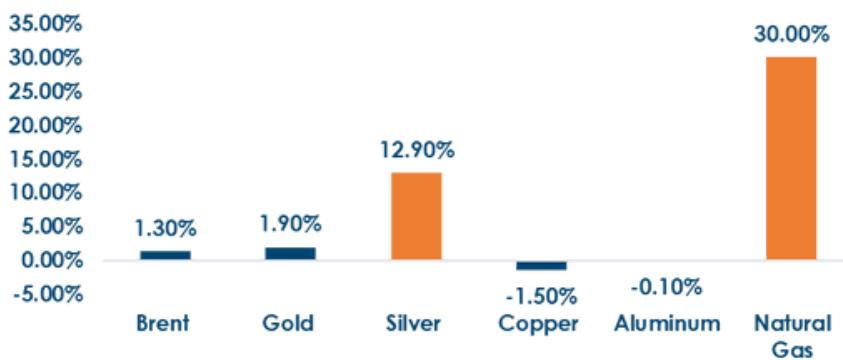
Global Developments:

- Geopolitics continues to set the tone for markets overall. The possibility of the US intervening in Iran is keeping risk sentiment on edge.
- The Trump administration's undermining of the authority of the Fed is seen as structurally bearish for the Dollar. Department of Justice's criminal probe into Fed Chair Powell has raised concerns over Fed independence.
- The US core CPI came in a bit lower than expected this week.

Commodities

- Energy was mixed (Brent +1.3%, US gas -2.1%, Europe gas +30%), base metals softened, while precious metals outperformed with gold up 1.9% and silver surging 12.9%.
- While base metals cooled slightly, precious metals continued to rally. Gold and Silver hit fresh record highs.

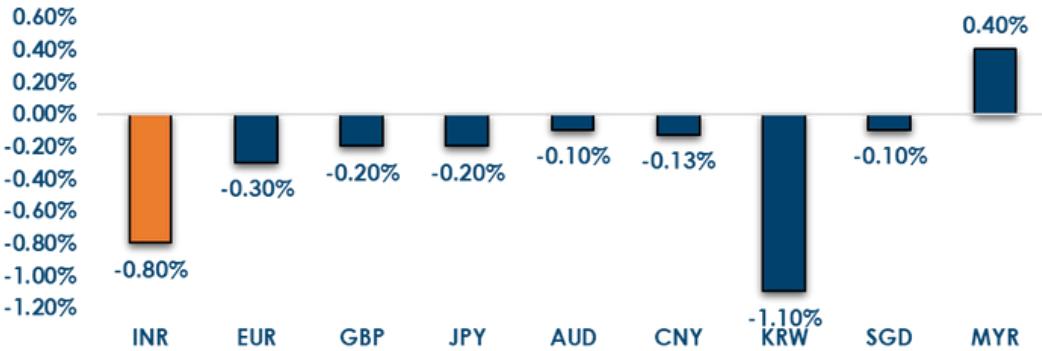
Weekly Change in Commodities



Foreign Exchange

- NZD led gains (+0.4%) while NOK edged up (+0.1%) and CAD was flat; most others weakened modestly, with EUR and DKK the biggest laggards (-0.3%) against the Dollar this week.**
- The **euro slipped 0.3% against the Dollar**, reflecting subdued risk appetite and lack of fresh growth or policy triggers.
- Sterling eased 0.2% versus the Dollar**, weighed down by cautious sentiment and limited near-term macro catalysts.
- Yen had weakened to 160 levels against the Dollar on the possibility of PM calling a snap election to consolidate power.** This would entail greater fiscal spending. Yen weakened, JGBs sold off, and Nikkei rallied on this news this week.
- Asian currencies were mixed against the dollar this week, with **MYR leading gains (+0.4%) while INR (-0.8%) and KRW (-1.1%) underperformed.**
- Rupee ended almost at the weakest point of the week at 90.87 compared to the previous week's close of 90.17. A large part of the depreciation happened on Friday itself.** Comments like the one from the Commerce Secretary this week that the trade deal with the US was near, but a timeline couldn't be put, are doing more harm to sentiment than good. **There was also some residual buying by those who had participated in the swap. They saw good participation, and LTFX got paid post-cutoff. 3-year cutoff in auction was 728p (2.69%), whereas Friday close level was around 810p (2.97%). There was heavy demand at Fix.**
- The impact of any intervention is proving to be short-lived. **Rupee slid past the 13 mark against the Yuan for the first time.**
- 3m, 1y and 3y implied forward yields are 3.42%, 2.81% and 2.97% respectively.
- 3m ATMF implied volatility is at 4%
- RBI FX Reserves rose 400mn in the week ending 9th Jan to USD 687.2bn.**
- December trade deficit came in at USD 25bn compared to USD 24.5bn in November. Services surplus in December was a healthy USD 18.1bn.**
- CPI print for December came in at 1.33% yoy, against expectations of 1.5% yoy.**

Weekly % change in Currencies



Fixed Income

Yield on the US 2y as well as the US 10y rose 5bps this week

Yields on most 10y Eurozone bonds were -2bps to +2bps, except Portugal, which rose 12bps.

Yield on Japan 10y rose 9bps to 2.17%, highest since 1998

Yield on the benchmark 10y rose 4bps to 6.68% this week. The low was 6.57%. Yields shot up on news that India Bonds may not get immediately included in the Bloomberg aggregate index.

1y and 5y OIS rose 5bps and 6bps respectively to 5.54% and 6.02%

Banking system liquidity is in a moderate surplus. Overnight call fixings happened in a 5.39-5.43% range this week

FPIs have invested a net USD 250 million in domestic bonds so far in January.

1y T-bill is at 5.61% while 1y CD is at 6.94%

Spread of 10y AAA PSU and NFBC over 10y Gsec is 44bps and 67bps, respectively

Our Views: What we like?

FX

The dollar continues to remain range-bound. **We are seeing a bit of Dollar strength as recent US data has been stronger than expected, allaying some fears of cracks in the US labor market.** We see the dollar remaining range-bound overall. We could see the Rupee underperform. **We expect a 90.40-91.40 range over the coming 6 weeks.**

Fixed Income

Domestic bonds continue to remain under pressure despite OMOs. Indian Bonds not getting immediately included in the Bloomberg aggregate index was a dampener this week. However 6.60-6.70% zone has been a major resistance on the 10-year. **We expect no major surprises in the upcoming budget, and that should ease nerves in the bond market. The focus, as always, will be on the gross borrowing number.**

Commodities

We expect the rally in precious metals to continue as it is a structural theme. Base metals, too, are likely to see positive traction. **We believe rally in Brent towards USD 65-66 per barrel can be sold into.**

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