

WEEKLY NEWSLETTER

RISK SENTIMENT POSITIVE INTO WEEKEND ON OPTIMISM AROUND US-IRAN TRUCE DEAL



Global Development:

US-Iran headlines were volatile this week. We saw escalation and strikes being traded earlier in the week but towards the end of the week there were positive statements coming in from US and Iran about a potential agreement for 60 days while they negotiate terms around Iran's nuclear program. However, US and Iran have differing accounts of what is in the framework to be signed. Nevertheless Risk sentiment was positive heading into the weekend

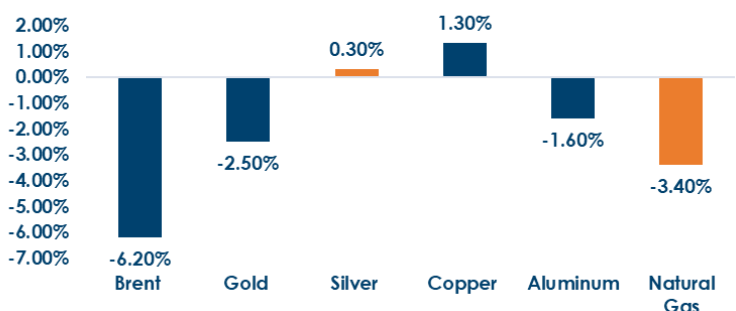
ECB hikes rates by 25bps this week and said it would act on a policy to policy basis

Key event to look forward to next week would be the US Fed rate decision, Kevin Warsh's first policy as Fed Chair. Market is expecting rates to be kept unchanged. BoE is also expected to maintain status quo while BoJ is expected to hike by 25bps.

Commodities:

Crude oil led declines this week with WTI and Brent falling 6.2% each amid easing supply concerns, while industrial metals remained resilient as copper gained 1.3%; precious metals were mixed with gold down 2.5% and silver marginally higher.

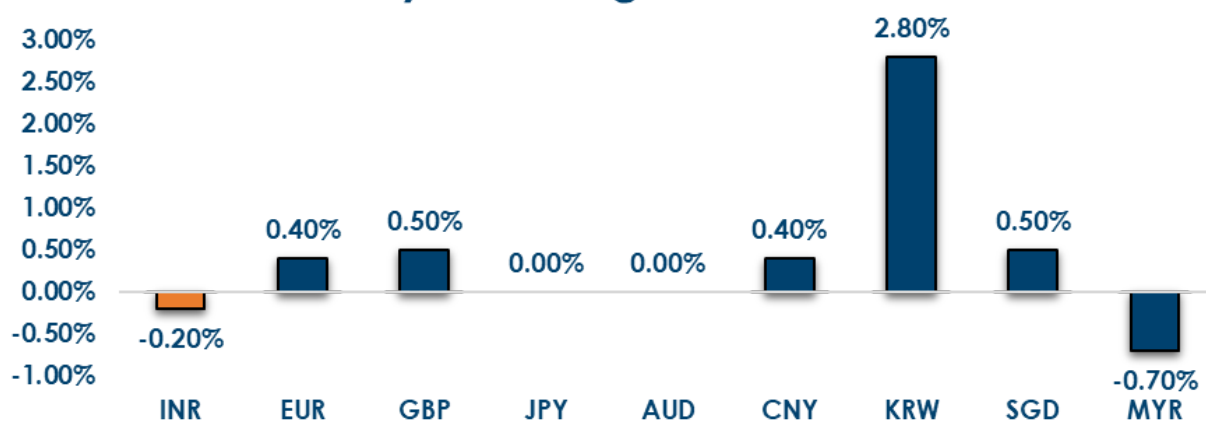
Weekly Change in Commodities



Foreign Exchange:

- The Dollar ended the week mixed against major peers, weakening most notably against the New Zealand Dollar (+0.6%) and British Pound (+0.5%), while the Norwegian Krone (-0.7%) and Canadian Dollar (-0.4%) underperformed amid softer commodity prices.
- The Euro gained 0.4% against the Dollar this week, supported by improving risk sentiment and broad-based Dollar softness despite lingering concerns around Eurozone growth.
- The Pound advanced 0.5% against the Dollar, outperforming most G10 peers as expectations of a gradual easing cycle by the Bank of England continued to support the currency.
- The South Korean Won outperformed regional peers with a 2.8% gain against the Dollar this week, while the Indian Rupee (-0.2%) and Malaysian Ringgit (-0.7%) lagged amid continued capital outflows and softer commodity prices.
- Rupee traded a 94.95-95.76 range this week and ended at 95.11 compared to previous week close of 94.91.
- The USD/INR forward curve remained largely stable, with premiums near 3% across short tenors and rising to 3.2% at the 5-year tenor.
- FX Reserves dropped USD 700mn in week ending 5th June to USD 681.6bn.
- 3m ATMF implied volatility stands at 5.50%.

Weekly % change in Currencies



Fixed Income:

- Bond yields declined across major economies this week, led by Korea (-18bps) and the UK (-11bps), as softer inflation expectations and easing growth concerns supported fixed-income markets.
- Yield on the benchmark 10y traded a 6.88-7% range this week and ended at 6.89% compared to previous week close of 6.99%
- 1y OIS dropped 9bps this week to 5.96%. 5y OIS dropped 20bps to 6.34%.
- Banking system liquidity is in surplus of around Rs 1.3 lakh crs.
- 1y T-bill yield stands at 5.85% while 1y CD is yielding 7.55%.
- 10y AAA PSU is yielding around 7.55% and 10y AAA NBFC around 7.70%
- FPIs have invested net USD 2bn in domestic bonds in June so far

Our Views: What we like?

FX

Dollar continues to remain sideways, with major currencies largely range-bound. The worst may be over for the Rupee for now, as FCNR and ECB inflows should provide the RBI with ample ammunition to arrest further underperformance. Various estimates suggest India could attract USD 40–100 billion of inflows, with the leverage available under the scheme likely to be a key determinant of the eventual quantum. Several banks are currently offering FCNR rates of 5.5–7% for 3–5 year tenors. At the same time, we do not expect a one-way appreciation in the Rupee. We expect USD/INR to trade in a 94.40–96.40 range over the next few weeks.

Fixed Income

Pressure on domestic bonds eased as Brent came off. Tax relaxation and other measures are already showing impact with flows beginning to come in. Yesterday's CPI print was lower than expected. We expect the 10y to trade a 6.80-7% range over next few weeks.

Commodities

We believe current dip in gold and silver along with Rupee cooling off offer an attractive opportunity to increase allocation. We remain bullish on base metals as well, especially Copper.

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