JUNE 6TH, 2026

WEEKLY NEWSLETTER

RBI MEASURES TO INCENTIVIZE INFLOWS MAY HAVE LIMITED IMPACT ON RUPEE

Global Development:

Iran's Supreme leader's adviser said talks with US were deadlocked over USD 24bn in frozen Iranian assets. He warned of a wider war, saying Iran will give a new dimension to the war by expanding military operations beyond the SoH. A hotter than expected US jobs report triggered a sell off in US equities on Friday as tech stocks sold off with long tenor yields rising. Rate cut hopes are out of the window and market is expecting a 25bps hike by end of 2026.

While the RBI kept rates and stance unchanged in yesterday's policy, it revised GDP forecasts lower by 30bps to 6.6% and inflation forecast higher by 50bps to 5.1% for FY27. It announced a slew of measures to incentivize inflows.

1) Expanding universe of FAR bonds (no restrictions on FPI ownership of these securities) to all new issuances of 15, 30 and 40y bonds

2) Relaxing limits on short term investment by FPIs in bonds under general route

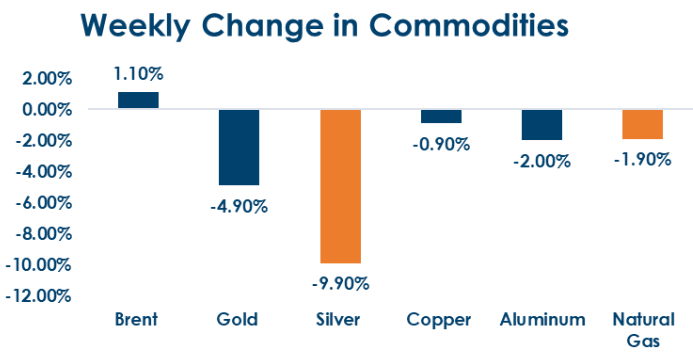
3) Concessional FX Swap for 4 months to incentivize ECBs by PSUs

4) RBI will bear full hedging cost for hedging 3-5y FCNR deposits raised by banks till 30th Sep'26

5) Restoring time for realisation of export proceeds to 9 months from 15 months

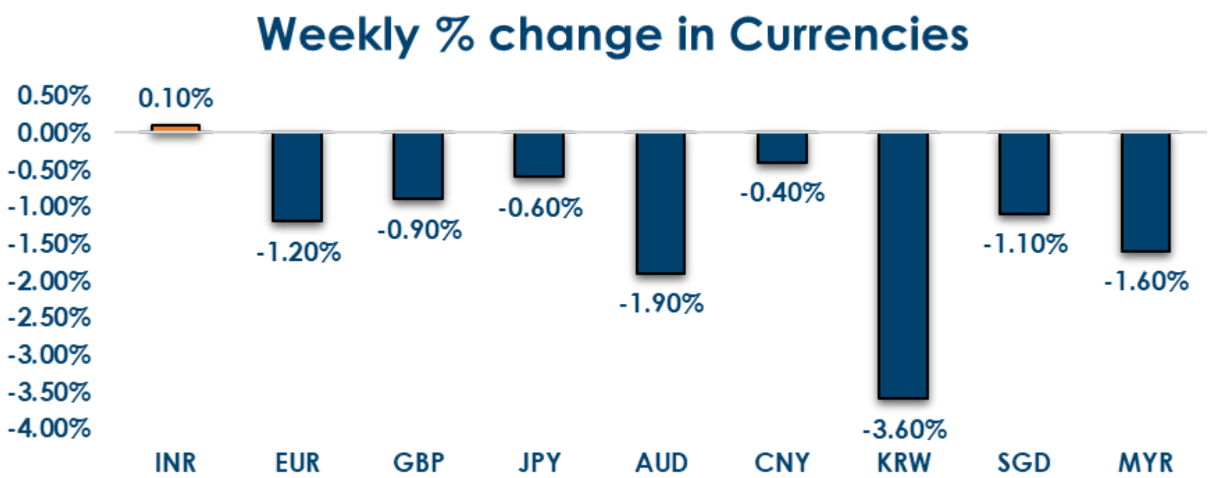
Commodities:

Energy markets remained firm, with WTI crude gaining 3.6% to USD 90.5/bbl and Brent rising 1.1% to USD 93.1/bbl, while precious metals saw profit-taking, with gold down 4.9% and silver down 9.9% during the week.



Foreign Exchange:

- A stronger-than-expected U.S. jobs report (172k vs. 85k expected) lifted the Dollar against all G10 currencies this week, with the NZD (-3.2%), SEK (-2.2%), and NOK (-2.1%) posting the steepest declines.
- The Euro weakened 1.2% against the U.S. Dollar this week as a stronger-than-expected U.S. payrolls report reinforced the Dollar's strength across G10 currencies.
- The British Pound declined 0.9% against the U.S. Dollar this week, reflecting broad-based strength in the greenback across G10 currencies.
- Asian currencies were mixed against the U.S. Dollar this week, with the Korean Won posting the sharpest decline at 3.6%, while the Indian Rupee gained 0.1%.
- Rupee strengthened 0.1% this week to 94.94 compared to previous week close of 95.00. It traded a 94.73-95.80 range during the week
- Rupee appreciated on Friday post RBI policy on measures introduced to incentivize flows into India.
- FX Reserves rose USD 900mn in week ending 29th May to USD 682.3bn
- RBI's concessional swap window sharply compressed forward premiums, with the 1-year implied yield falling to 2.94%.



Fixed Income:

- Global bond yields moved higher this week, with the U.S. 10-year Treasury yield rising 8 bps to 4.53%, the largest increase among major economies.
- Yield on the domestic 10y benchmark traded a 6.94-7.05% range and ended at 6.98% compared to previous week close of 7%
- 1y OIS fell 4bps this week to 6.05%. 5y OIS fell 7bps to 6.54% this week. Overnight MIBOR fixings happened in 5.34-5.36%.
- Banking system liquidity is in surplus of Rs 1.8 lakh crs.
- 1y T-bill is around 5.93% while 1y CD is around 7.75%.
- 10y AAA PSUs are yielding around 7.70% while NBFC arrange yielding around 7.80%
- FPIs have invested net USD 600mn in domestic bonds in June so far.

Our Views: What we like?

FX

Crosses continue to remain extremely range bound. We did see USD strength emerging post NFP print yesterday. RBI's measures to incentivise inflows may have limited impact on Rupee. This is because the tenors that have been brought under FAR route are not FPIs preferred duration to invest in as it is. On the other hand, PSUs and banks may not be easily able to raise ECBs and FCNR deposits as US rates are already high. Moreover even if the inflows do come in, they will be swapped with RBI. This will increase RBI Reserves and increase short forward position. In order to contain spot, the RBI will have to sell these Reserves. Given it is already heavily short in forwards, if it sells and Rupee still is not contained, it may result in the RBI being in a very difficult position. We expect the Rupee to trade a 94.40-96.20 range over the next couple of months with 'Buy on Dips' bias.

Fixed Income

We expect the yield on the domestic 10y benchmark to trade a 6.85-7.15% range over the next couple of months.

Commodities

We believe current levels are attractive to add Gold and Silver to portfolio. We prefer precious metals to base metals given that we see risk sentiment being a bit negative over the medium term.

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