

W E E K L Y N E W S L E T T E R

RUPEE NOSEDIVES TO FRESH LOWS AS ENERGY SITUATION BECOMES GRIM



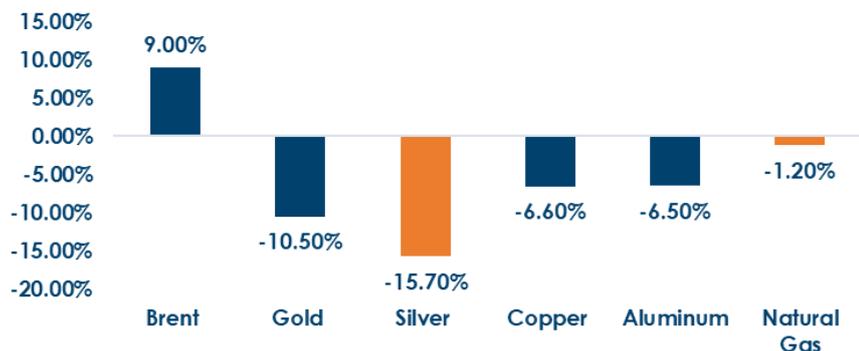
Global Developments:

- **Energy Crisis Deepens:** Rising uncertainty over continuity of industrial activity and daily life as the global energy situation turns increasingly grim
- **War Escalation Hits Supply:** Conflict in the **Middle East has intensified**, with direct targeting of energy infrastructure—shifting the **concern from logistics (Strait of Hormuz) to actual production disruptions**.
- **Longer-Term Supply Risks:** Even post-conflict, supply restoration may be delayed due to damage to production facilities, keeping markets tight
- **Temporary Relief from US:** **The US has released ~140 million barrels of Iranian crude** held at sea to ease supply pressures, though this is largely viewed as a short-term cushion
- **Geopolitical Uncertainty Persists:** While President Trump winding down of US military involvement, the outlook hinges on Iran’s response, which has already demanded assurances against future attacks
- **Central Banks Stay Cautious:** Major central banks—Fed, ECB, BoE, and BoJ—held rates steady this week, maintaining a hawkish stance amid rising inflation risks driven by energy shocks

Commodities:

- Commodities saw sharp divergence this week, with energy leading gains (Brent +9%, European gas +18%) while metals and precious metals corrected steeply (Gold -10.5%, Silver -15.7%, base metals ~6% down).
- Precious metals cracked this week (even more than base metals). This is despite risk-off and USD weakness.

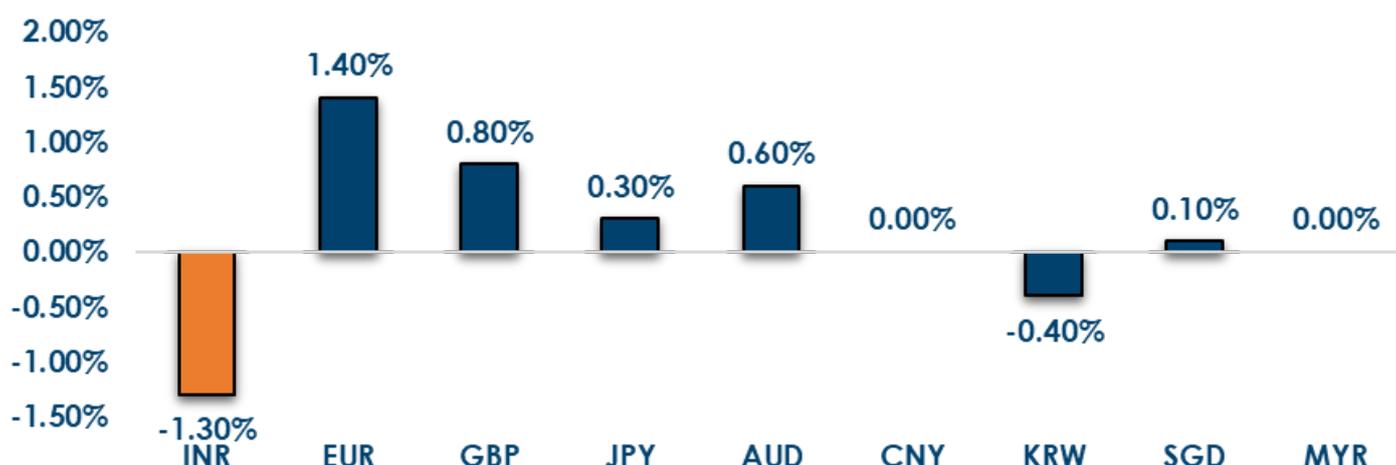
Weekly Change in Commodities



Foreign Exchange:

- G10 currencies broadly strengthened against the Dollar this week, led by NOK (+2.1%), followed by SEK (+1.5%) and EUR/DKK (+1.4%), while gains across the pack remained moderate with CAD largely flat.
- Asian currencies showed a broadly muted to weaker trend against the USD this week, with most units flat to mildly negative, while INR (-1.3%) and THB (-1.5%) emerged as the worst performers.
- Euro appreciated ~1.4% against the Dollar this week, reflecting broad-based G10 strength amid USD softness
- Pound gained ~0.8% against the Dollar, participating in the overall G10 currency uptrend but underperforming key European peers
- Rupee weakened 1.3% from last week's close of 92.20 to end at a fresh all-time low of 93.71 against the Dollar.
- Near-term forward premiums stayed elevated (March-end impact), while the long end remained stable; the curve ranges from ~4.66% (1M) to ~3.48% (5Y).
- 3m ATM implied volatility is at 5.74%, similar to last week
- FX Reserves dropped USD 7bn to USD 709.8bn in the week ending 13th March

Weekly % change in Currencies



Fixed Income:

- Bond yields shot up across most major economies as inflation expectations rose on the back of surging energy costs
- Global bond yields moved higher across major economies this week, led by sharp increases in the UK (+22bps), Italy (+24bps), and the US (+16bps), while Japan remained largely stable and China saw a marginal decline.
- Yield on the benchmark 10y rose 5bps to 6.74% this week, while 5y yield rose 10bps this week to 6.46%. Lack of supply and RBI buying in the secondary market is likely causing the 10-year point to outperform
- 1y OIS moved up 1bps to 5.85% while 5y OIS moved up 2bps to 6.41% this week
- MIBOR fixings happened in the 5.32-5.40% range this week. Banking system liquidity has almost returned to neutral from surplus. This could be a result of FX interventions.
- 1y CD is at 7.21% while 1y T-bill yield is at 5.60%
- 10y AAA PSU spread over Gsec is 58bps while that of 10y NBFC is 74bps
- FPIs have sold USD 1.6bn of domestic debt in March so far.

Our Views: What we like?

FX

The dollar index has retraced from the top of its range of around 100.50. It has been trading in a 95.50-100.50 range over the last several months. We expect the majors to continue trading in ranges. The dollar could outperform against EM currencies and even more so against the rupee, given the vulnerabilities to energy supply disruptions. We expect the Rupee to now trade in a 92.60-94.50 range over the next 6 weeks and believe every dip is an opportunity to go long USD.

Fixed Income

We have seen a sell-off in rates on account of inflationary expectations. However, bonds continue to remain relatively resilient due to a lack of supply and RBI buying in primary as well as secondary markets. We expect the yield on the 10y IGB to trade in a 6.65-6.85% range over the next 6 weeks

Commodities

We believe the current bizarre correlations will likely not play out for too long, and precious metals will see dip buying amid current uncertain times. We remain bullish on Silver and Gold and believe one should definitely have an allocation to these in long-term portfolios.

Contact Us:

+91 86557 85089 | info@ifaglobal.net

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