

WEEKLY NEWSLETTER

MOUNTING US-IRAN TENSIONS BID UP SAFE HAVENS

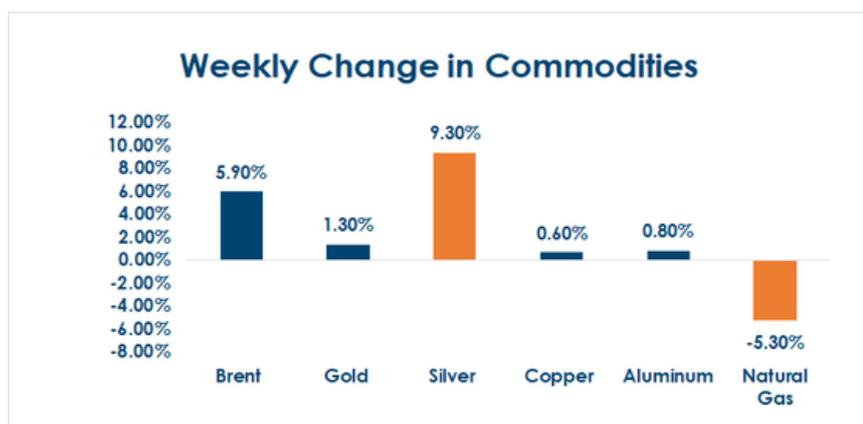


Global Developments:

- **Rising geopolitical tensions have triggered flight to safety. US treasuries and precious metals have been bid up on safe haven demand. President Trump said that he is not happy with how the negotiations with Iran are progressing and that he may have to use force. Countries have been asking citizens to leave Iran. UK closed its Iran embassy and withdrew staff from Tehran amid fears of imminent US strikes.**
- **Another key theme playing out is concerns around credit given AI led disruptions. There are chances of traditional businesses defaulting on account of AI led disruptions.**

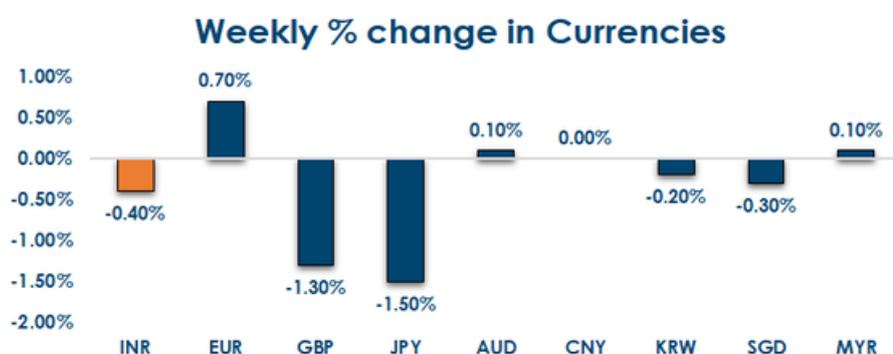
Commodities:

- Precious metals led gains this week with Silver surging 10.8% to USD 93.8 and Gold rising 3.4% to USD 5,278 on strong momentum and safe haven demand.
- Base metals remained firm as LME Copper advanced 2.9% to USD 13,343 and LME Aluminum gained 1.2% to USD 3,140, reflecting resilient industrial sentiment.
- Energy markets were mixed with Brent crude up 1% to USD 72.9.
- Natural gas underperformed as US natural gas fell 6% to USD 2.86 while European natural gas was largely flat at EUR 32.



Foreign Exchange:

- In G10 FX this week, most currencies strengthened against the Dollar, led by CHF 0.8%, AUD 0.5% and NZD 0.4%, followed by SEK and CAD 0.3%, DKK, EUR and NOK 0.2%, while GBP was flat and JPY fell 0.6%.
- In Asian FX this week, most currencies gained against the Dollar, led by TWD 0.9% and PHP 0.8%, while INR was flat and HKD edged down 0.1%.
- In G10 crosses against the Euro and Pound this week, CHF led with 0.8%, followed by AUD 0.5% and NZD 0.4%, while GBP was flat and JPY fell 0.6%.
- Rupee traded an extremely narrow 90.81-90.98 range this week and ended at 90.98. Rupee continues to underperform its Asian peers amid Dollar weakness.
- Forward premiums are upward sloping, rising from 2.28% at 1m to 3.51% at 5y, while 3m ATM implied volatility stands at 4.25%.
- FX Reserves fell USD 2.1bn in the week ending 20th Feb to end at 723.6bn



Fixed Income:

- US 2y yield dropped 6bps to 3.38% while 10y yield ended 9bps lower at 3.94%
- Global 10y yields declined across regions, with South Korea down 14bps, the US 9bps, the UK 8bps, Germany and Australia 7bps, France 6bps, while Japan was unchanged..
- Yield on the domestic 10y benchmark traded a 6.65-6.72% range and ended at 6.66% compared to last week close of 6.72%
- 1y OIS dropped 4bps for thr week to 5.48% and 5y OIS fell 10bps to 5.99%
- Overnight MIBOR fixings have happened in 5.13-5.17%
- 1y T-bill yield is at 5.51% while 1y CD is at 6.91%
- FPIs have invested net USD 1.6bn in domestic debt in Feb

Option Structures for Exporter Importer

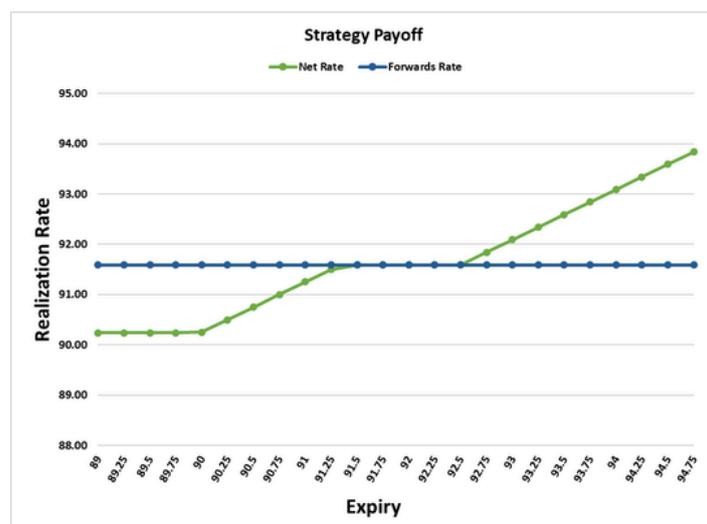
Exporter Enhanced Collar

Tenor 6m
 Atmf 92.17
 Buy put 92.00
 Sell call 92.17 with eki at 93.17
 Net zero cost



Importer seagull

Spot ref 90.98
 Tenor 3m
 Atmf 91.59
 Sell put 90.24
 Sell call 92.75
 Cost 8ps



Our Views: What we like?

FX

FX Vols continue to remain very low overall. We are slightly biased towards USD weakness on account of structural Reserve shifts (De-Dollarization theme)

We expect the Rupee to continue underperforming amid a weak Dollar environment. RBI has been present above 91. There have been NDF expiries and RBI does not seem to be rolling the shortd over, putting pressure on onshore spot as well. Spike in Brent could add to Rupee's woes

Fixed Income

Yield on the benchmark 10y is likely to trade in the 6.60-6.80% range.

Higher CD ratios have meant that demand for Gsec from banks has been lower than it would have been otherwise. However, we may see demand come in as LCR ratios drop.

Commodities

Brent is on the edge given US-Iran tensions. Metals overall continue to do well, especially precious metals. We prefer buying precious metals on any dip. Gold at USD 4600 and Silver at USD 75 could offer good entry points

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