

WEEKLY NEWSLETTER

BRENT SURGE PUSHES RUPEE TO FRESH ALL TIME LOWS



Global Development:

Brent shot above the **USD 126 per barrel mark** this week as Trump rejected Iran's proposal to open the SoH. However it cooled off subsequently as traders stepped into a 'wait and see' mode, anticipating talks between US and Iran. **Trump rejected the proposal sent by Iran on 1st May** as well saying Iran is asking for things he cant agree to. There is a dual blockade (Iran and US side both) as of now which is choking the global oil, gas and fertilizer shipments.

Fed, ECB, BoJ and BoE all kept rates unchanged this week hut there were hawkish dissemnts in Fed, BoE and BoJ. Even ECB acknowledged that short term inflation expectations had moved up. Yen was extremely volatile, having broken past the 160 mark against the Dollar on high crude prices and BoJ hold, only to stage a remarkable reversal on BoJ intervention (suspected to have sold around USD 25-30bn).

All eyes will be on the **West Bengal election result on Monday**. Most exit polls are suggesting a very tight race with some showing BJP ahead. The magic number for majority is 148 seats.

Commodities:

- Brent had shot above the USD 126 per barrel mark this week as Trump rejected Iran's proposal to open the SoH. However it cooled off subsequently as traders are in a wait and see mode, anticipating talks between US and Iran.

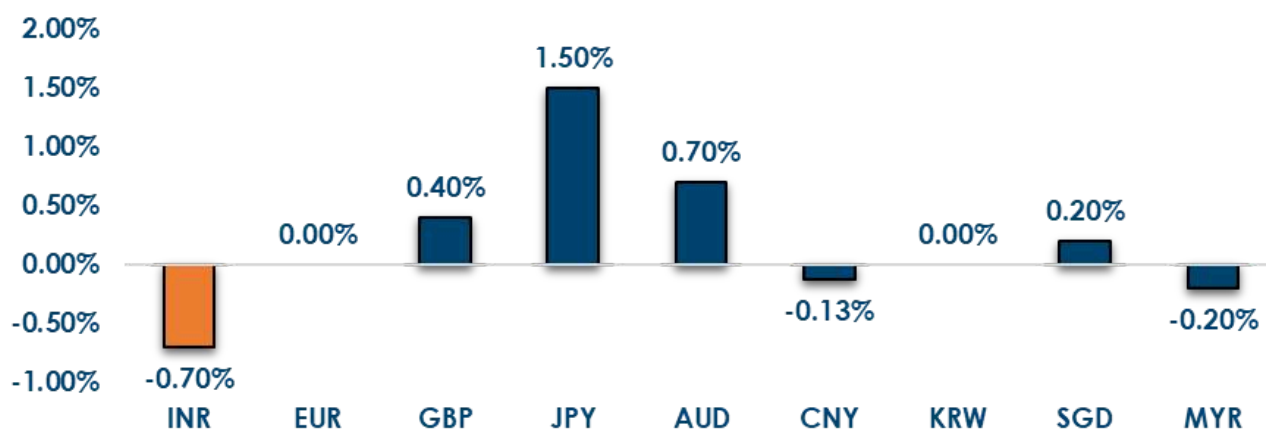
Weekly Change in Commodities



Foreign Exchange:

- G10 currencies posted a broadly positive performance against the dollar this week, led by the Japanese yen (+1.5%), while commodity-linked currencies like AUD (+0.7%) and CAD (+0.6%) also gained; European currencies were more muted, with GBP and CHF up 0.4%, SEK marginally higher, and EUR and DKK flat.
- The euro was unchanged against the dollar this week, reflecting a lack of clear directional drivers and relatively subdued market momentum,
- The British pound edged up 0.4% against the dollar this week, showing modest resilience amid relatively steady market conditions.
- Asian currencies were mixed to weaker against the dollar this week, with modest gains in SGD (+0.2%) and CNH (+0.1%), while most others declined—led by PHP (-1.2%), IDR (-0.9%), and INR (-0.7%)—and HKD and KRW remained flat.
- Rupee traded a 94.26-95.33 range this week before ending at 94.91, compared to previous week close of 94.26. 95.33 was a fresh all time low for Rupee against the Dollar, taking out 95.23 hit on 30th March.
- The forward curve shows a mild upward slope at the front end (1M 3.1% to 6M 3.43%), a slight dip through 1Y-2Y, and then a stronger steepening toward the long end, reaching 3.85% at 5Y,
- 3m ATM implied volatility stands at 4.84%. 3m Offshore ATM implied volatility is at 5.50%.
- FX Reserves dropped USD 4.8bn to USD 698.5bn in the week ending 24th April. According to reports, RBI's Short forward book now stands close to USD 100bn.

Weekly % change in Currencies



Fixed Income:

- 10-year yields were mixed this week, with the US (+3bps) and Japan (+4bps) moving higher, while Switzerland (-2bps) edged lower and Germany (0bp) remained unchanged.
- Yields on the benchmark India 10y had spiked to 7.06% this week before ending at 7.01%, compared to previous week close of 6.93%.
- 1y and 5y OIS both spiked 12bps this week to 6% and 6.61% respectively. Banking system liquidity is in surplus of around Rs 2 lakh crs. Overnight call rate has been fixing in 5.14-5.34%. It had spiked on month end due to reporting date for banks for CRR
- 10y AAA PSU is trading at a spread of around 55bps over Gsec and 10y AAA NBFC spread is around 80bps.

Option Structures for Exporter-Importer

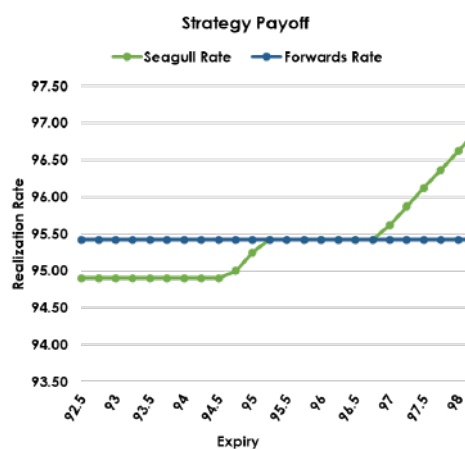
EXPORTER RISK-REVERSAL

Spot ref 94.90
 Tenor 6m
 Atmf 96.70
 Buy put 91.50
 Sell call 99.70
 Net cost 0 ps



IMPORTER SEAGULL

Spot ref 94.97
 Tenor 3m
 Atmf 95.42
 Buy call Atmf
 Sell put Atms
 Sell call 97.05



Our Views: What we like?

FX

We expect G10 to remain range bound. Broad 95.50-100.50 on DXY continues to hold. Rupee underperformance may reduce now as long as Brent does not cross the USD 120 per barrel mark again. We may see a short term down move to 93.40. However those may be good levels to hedge imports.

Fixed Income

The current selloff again gives an opportunity to load up duration. We believe levels above 7% on 10y are attractive. One can look to receive 5y OIS at current levels to convert fixed rate liabilities to floating

Commodities

Brent could have topped out for now, and only a move again above USD 120 per barrel and weekly close above that would entail a fresh leg of upmove in our view; we continue to be bullish on commodities overall; we believe USD 4400-4500 is a good zone to reenter longs in Gold; USD 65-70 is a value zone in Silver; and we are bullish on base metals.

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