

WEEKLY NEWSLETTER

# GOVERNMENT'S ACKNOWLEDGEMENT OF PROBLEM AND MEASURES TAKEN SPOOK DOMESTIC SENTIMENT



## Global Development:

Trump said that he is strongly considering resuming military action against Iran and that spooked sentiment. Equities and bonds sold off, Dollar strengthened as energy prices rose again.

Trump-Xi meeting in China was the eagerly awaited event of the week. Both agreed on importance of SoH remaining open and Iran not having nuclear weapons.

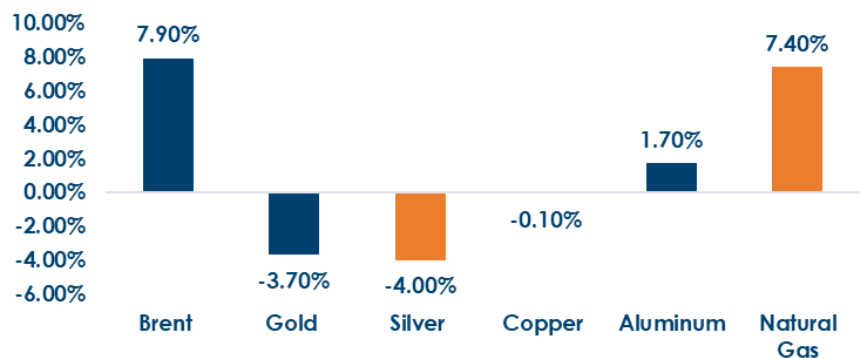
Government increased import duty on Gold and tightened compliance measures for imports. Government hiked petrol and diesel priced by Rs 3 per litre.

There are reports of consideration of taxes being lowered for FPIs' investment in domestic bonds.

## Commodities:

- Energy markets rallied sharply this week, with WTI crude rising 10.5% and European natural gas gaining 13.7%, as geopolitical tensions surrounding the fragile US-Iran ceasefire supported risk premium in oil and gas prices.
- Gold and silver declined sharply, while base metals traded largely stable.

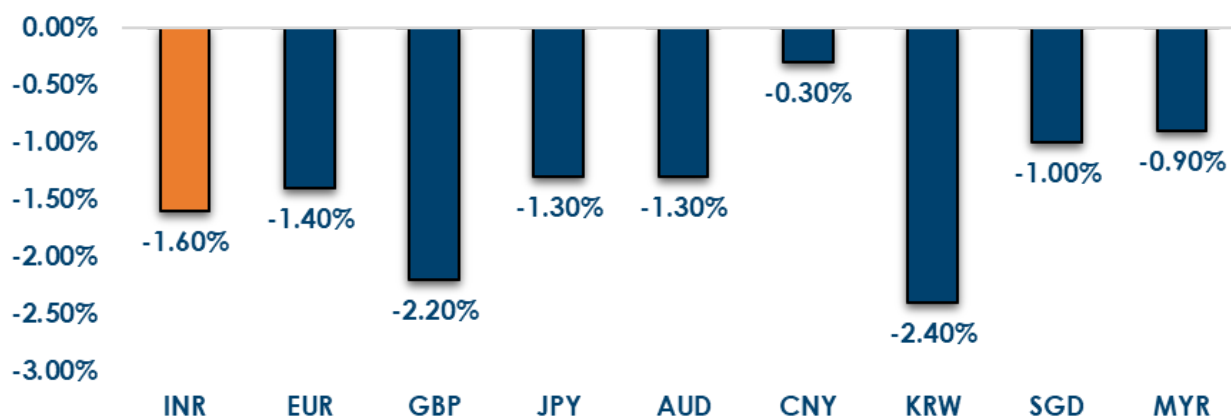
## Weekly Change in Commodities



## Foreign Exchange:

- All G10 currencies weakened against the US Dollar this week, led by sharp declines in SEK, GBP and NZD, as stronger Dollar sentiment weighed broadly on major currencies.
- The Euro declined 1.4% against the US Dollar this week, in line with broad-based weakness across G10 currencies amid stronger Dollar sentiment.
- The British Pound declined 2.2% against the US Dollar this week, emerging among the weakest performers within the G10 currency basket amid broad Dollar strength..
- The US Dollar strengthened against all major Asian currencies this week, with the Korean Won and Philippine Peso leading losses, while the Indian Rupee declined 1.6% amid broad regional Dollar strength.
- USDINR had gapped up at 94.87 on Monday compared to last Friday's close of 94.50. It traded a 94.87-96.14 range and ended the week at 95.97
- The INR FX forward curve remained broadly stable this week, with implied yields largely range-bound around 3.2%–3.4% across short- to medium-term tenors, while the 5-year tenor stayed elevated at 3.74%.
- 3m ATMFX onshore implied volatility is at 5.25% while 3m ATMFX offshore implied volatility is at 5.78%.
- FX Reserves rose USD 6.3bn in week ended 8th May to USD 697bn.

### Weekly % change in Currencies



## Fixed Income:

- Global bond yields moved higher this week, led by Japan and South Korea, while the US 10-year yield rose 18bps amid persistent inflation and geopolitical concerns.
- Yield on the domestic 10y benchmark rose 8bps this week to 7.06%. It traded a 7-7.10% range this week.
- 1y OIS 26bps this week to 6.16% while 5y OIS rose 11bps to 6.72%.
- Banking system liquidity is in surplus of around Rs 2 lakh crs
- FPIs have invested net USD 400mn in domestic debt in May so far

## Our Views: What we like?

### FX

Crosses continue to remain extremely range bound. Euro and Pound have retreated from familiar resistance zones. Rupee continues to remain under pressure and is expected to remain so till Brent remains above the USD 95 per barrel mark. We expect a 93.40-96.90 range for Rupee over the next 3 months.

### Fixed Income

WPI surged to a 42 month high of 8.3% yoy this week on higher fuel and power prices. Government passing on some burden to Citizens by hiking pump prices will push CPI higher. We expect the 10y sovereign yield to remain supported at 6.90% till Brent remains above the USD 95 per barrel mark. OIS suggests that the RBI should be hiking rates.

### Commodities

We remain bullish on commodities overall. Brent is trading in a USD 95-125 per barrel mark and that is something the market has learned to live with. However as realization sinks in that it can remain in this range for long, sentiment will keep getting dented periodically. The stress is even more acute in products and distillates. We remain bullish on precious metals as well.

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