

WEEKLY NEWSLETTER

PROSPECTS OF US-IRAN AGREEMENT LIFTS SENTIMENT



**Global Development:**

Prospects of US and Iran reaching an agreement to extend ceasefire for 60 days during which there would be unrestricted passage through SoH and negotiations on Iran's nuclear program lift sentiment. Energy prices cooled off, leading to a rally in bonds and equities. Dollar was weaker against most major and EM currencies this week. Trump is however yet to sign the agreement.

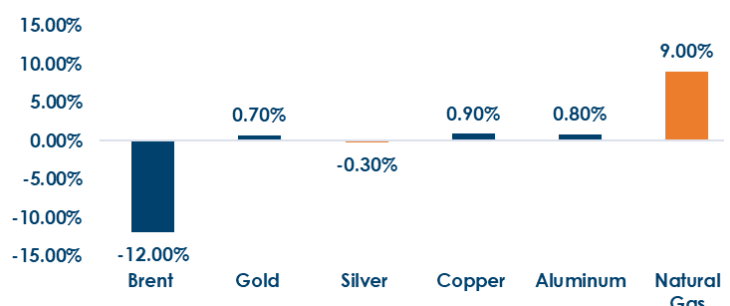
The WEF Chief Economists' Outlook highlighted global growth concerns and indicated the possibility of a stagflation like scenario. However, most of the Economists surveyed expected India to be the brightest growth story over the next 12 months on infrastructure spending and domestic manufacturing and saw imported inflation as being the key risk.

Key event to look forward to next week would be the US May jobs report and RBI policy on Friday

**Commodities:**

Commodities: Crude oil prices declined sharply this week, with Brent and WTI down 12% and 9.3% respectively, amid easing geopolitical concerns. Base metals remained firm, while gold edged higher and US natural gas outperformed with a 9% gain.

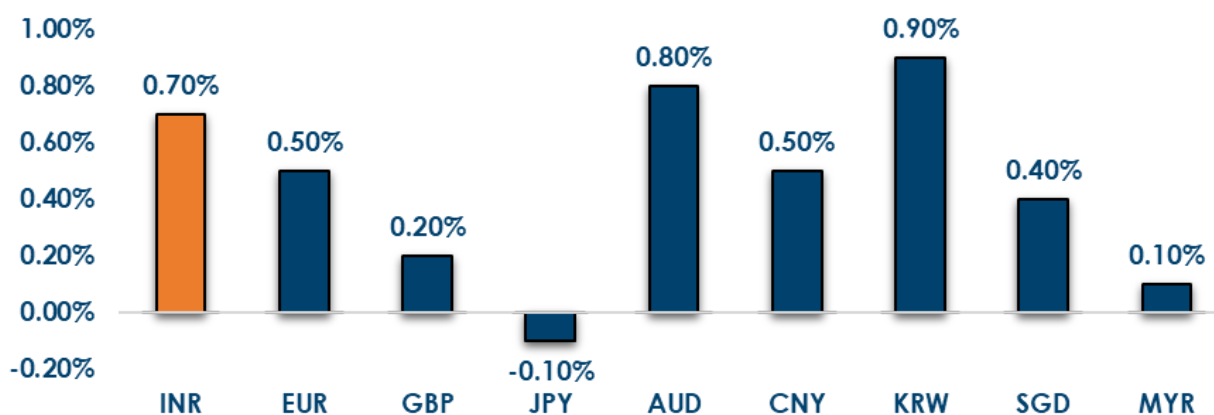
**Weekly Change in Commodities**



## Foreign Exchange:

- The US Dollar weakened against most G10 currencies this week, led by gains in the New Zealand Dollar (+2.4%) and Swedish Krona (+1.4%). Commodity-linked currencies outperformed, while the Japanese Yen was the only major currency to post a marginal decline against the Dollar.
- The Euro gained 0.5% against the US Dollar this week, supported by broad Dollar weakness and improved risk sentiment across global markets.
- The British Pound rose 0.2% against the US Dollar this week, benefiting from a softer Dollar environment and resilient market risk appetite.
- Most Asian currencies strengthened against the US Dollar this week, led by the Korean Won (+0.9%) and Indian Rupee (+0.7%), as improving global risk sentiment and broad Dollar weakness supported regional currencies. Indonesia's Rupiah was the only major laggard, declining 0.9%.
- Rupee strengthened 0.7% this week to 95.00, compared to previous week close of 95.69. It traded a 94.96-95.80 range this week.
- The INR forward curve remained downward sloping at the front end, with implied yields easing from 3.82% (1M) to 2.98% (2Y), before steepening modestly further out to 3.53% at the 5-year tenor.
- 3m ATM implied volatility is at 5.55%
- FX Reserves dropped USD 7.5bn in week ending 22nd May to USD 681.4bn. RBI is short more than USD 100bn in forwards (USD 103bn as per latest RBI bulletin).

### Weekly % change in Currencies



## Fixed Income:

- Sovereign bond yields declined across major economies this week, led by Switzerland (-16bps) and the US (-12bps), as easing geopolitical risks and expectations of a more accommodative policy outlook supported fixed-income markets
- Yield on the domestic 10y benchmark eased 9bps to 7% this week
- Banking system liquidity is in surplus of only around Rs 50000crs.
- Overnight MIBOR fixings happened in 5.43-5.52% this week. 1y OIS came off 20bps this week to 6.08%. 5y OIS came off 21bps to 6.60% this week
- 1y T-bill yield is at 5.92% and 1y CD yield is at 7.83%.
- 10y AAA PSUs are yielding around 7.80% and 10y AAA NBFCs around 7.90% annualized.
- FPIs invested net USD 400mn in domestic debt in May

## Our Views: What we like?

### FX

Dollar index and majors continue to remain range bound in a 5% range. Rupee has strengthened 2% from lows but further room for appreciation is likely to be limited even if the geopolitical situation normalizes completely. RBI has a massive short position in forwards, which it would want to square off. It may therefore keep a firm floor in USDINR. We expect a 94.40-96.20 range over the next 4-6 weeks

### Fixed Income

RBI policy is due on Friday in coming week. We expect the RBI to hold rates to support growth given that Rupee has come off from lows. We expect the Yield on the domestic 10y to trade a 6.85-7.15% range over the next few weeks.

### Commodities

Crude will remain vulnerable to headline news. Overall we are bullish commodities, especially precious metals and base metals. We believe it is an opportune time to add Gold to portfolio given the correction in both USDINR and global Gold prices.

Contact Us:

India Forex Asset & Management Pvt. Ltd.

+91 86557 85089 | [info@ifaglobal.net](mailto:info@ifaglobal.net)

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