MAY 23RD, 2026

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WEEKLY NEWSLETTER

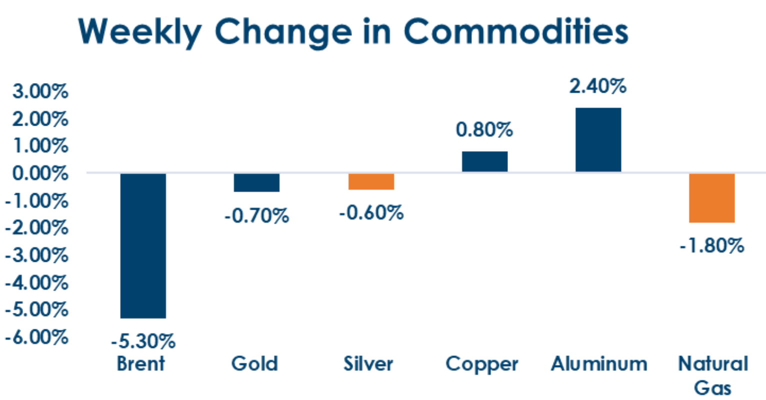
RUPEE THE BEST PERFORMING ASIAN CURRENCY THIS WEEK ON AGGRESSIVE RBI INTERVENTION

Global Development:

RBI intervened with a lot of intent this week in offshore and onshore, hammering down spot, pulling USDINR down from all time highs around 97. RBI intervention has flooded banking system with Dollars, creating a glut pushing up near term forwards so much so that the implied annualized forward yield curve is inverted and 1m onshore points are greater than offshore.
There were also reports that India is considering measures including a rate hike to control the Rupee. RBI's aggressive intervention suggests that the RBI may not be too keen to hike rates and dampen growth outlook and sentiment. It may instead use tight Liquidity conditions as a lever to prevent pressure on Rupee from building up again in the near term.
RBI board announced a dividend of Rs 2.87 lakh crs to the government, slightly below street expectations of over Rs 3 lakh crs.
Hopes of US-Iran reaching an agreement resulted in crude prices coming off. We have seen optimistic statements come in whenever US yields have spiked. The optimism has brought about some respite after bond yields of major economies hit multi year highs earlier in the week

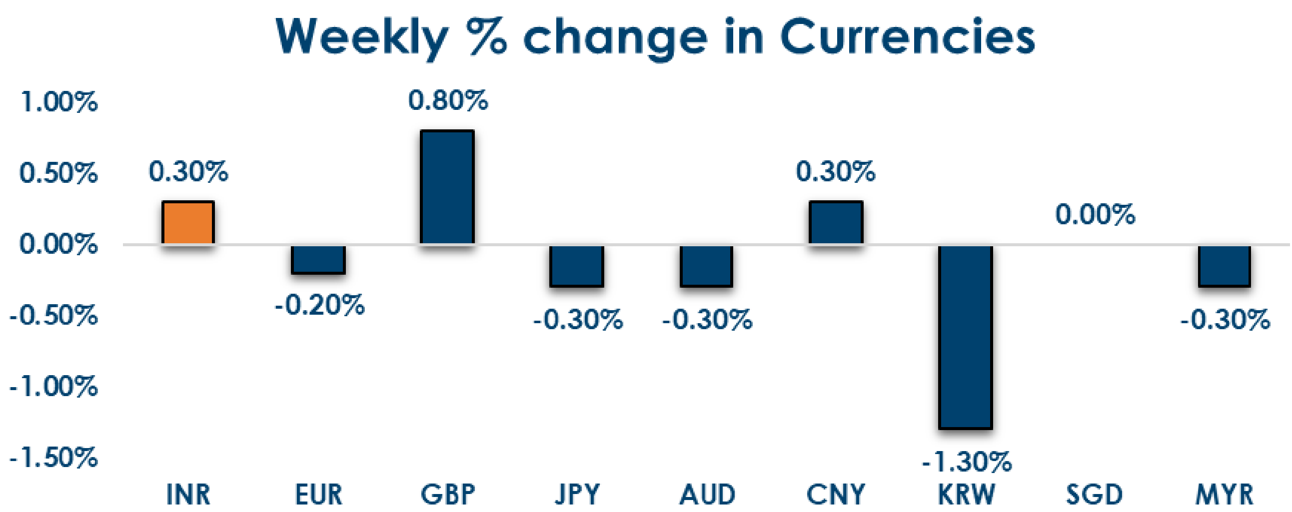
Commodities:

- Commodity markets were mixed this week, with crude oil seeing a sharp correction as WTI fell 8.4% and Brent declined 5.3%, while industrial metals remained firm and precious metals edged lower.



Foreign Exchange:

- G10 currencies were mixed against the Dollar this week, with GBP and SEK outperforming with 0.8% gains each, while commodity-linked currencies such as CAD and AUD underperformed..
- The Euro ended marginally weaker against the Dollar this week, declining 0.2%, amid mixed performance across major G10 currencies.
- Among major G10 currencies, GBP emerged as the top performer this week with a 0.8% gain against the Dollar, while commodity-linked currencies underperformed.
- Asian currencies were mixed against the Dollar this week, with INR outperforming with a 0.3% gain, while KRW and IDR were the weakest performers, declining 1.3% and 1.4% respectively.
- Rupee traded a 95.69-96.95 range this week and ended at the strongest point at 95.69 compared to last week close of 95.97
- The forward yield curve remained inverted at the shorter end, with annualized yields easing from 4.15% in 1-month forwards to 3.21% in 2-year forwards, before steepening towards 5-year yields at 3.75%.
- Compared to last week, near term forwards have spiked and term structure has become inverted on Dollar glut in system. RBI has sold a lot of Dollars but has announced a Buy-Sell swap for just USD 5bn
- 3m ATMF implied volatility is at 5.55% compared to 5.25% last week
- RBI FX Reserves dropped USD 8bn in the week ended15th May to USD 688.9bn.
- RBI was short in forwards to the extent of USD 103bn as of March end as per the latest RBI bulletin.
- 40 currency trade weighted REER was at 90.96 as on April end compared to 92.57 in March.



Fixed Income:

- Yields across major economies had hit multi year highs on inflationary concerns but retreated on hopes of US and Iran reaching a deal.
- Global bond yields softened this week, led by sharp declines in the UK (-20bps) and Australia (-19bps), while Japan was the only major economy to see a rise in 10-year yields.
- Yield on the benchmark 10y traded a 7.02-7.14% range and ended at 7.09% compared to previous week close of 7.06%.
- 1y OIS ended 14bps higher at 6.30% while 5y OIS rose 10bps to 6.82%. Overnight call fixings happened in 5.23-5.43% range with system liquidity returning to neutral on FX RBI intervention.
- 1y T-bill is at 5.93% while 1y CD is at 7.96%.
- FPIs have bought net USD 600mn of domestic bonds in May so far
- 10y AAA PSUs and NBFCs are around 7.87-7.94% implying a spread of around 75bps over Gsecs.

Our Views: What we like?

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Dollar index has been range bound in the 96-100.50 range for the last one year. RBI's aggressive intervention may keep upside in USDINR capped for a few sessions if crude remains below USD 110 per barrel.

Fixed Income

OIS rates are still extremely elevated and are pricing in hikes. We believe these are good levels to receive 5y OIS i.e. around 6.90%. 10y benchmark at 7.15% annualized is also attractive to invest in.

Commodities

We continue to remain constructive on precious metals and base metals amid ongoing macro uncertainty, central bank diversification trends, and resilient industrial demand dynamics.Gold remains an attractive accumulation opportunity in the USD 4300–4500 range, while Silver offers favorable risk-reward in the USD 65–70 range, supported by both safe-haven demand and its growing role in industrial applications linked to the global energy transition.

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