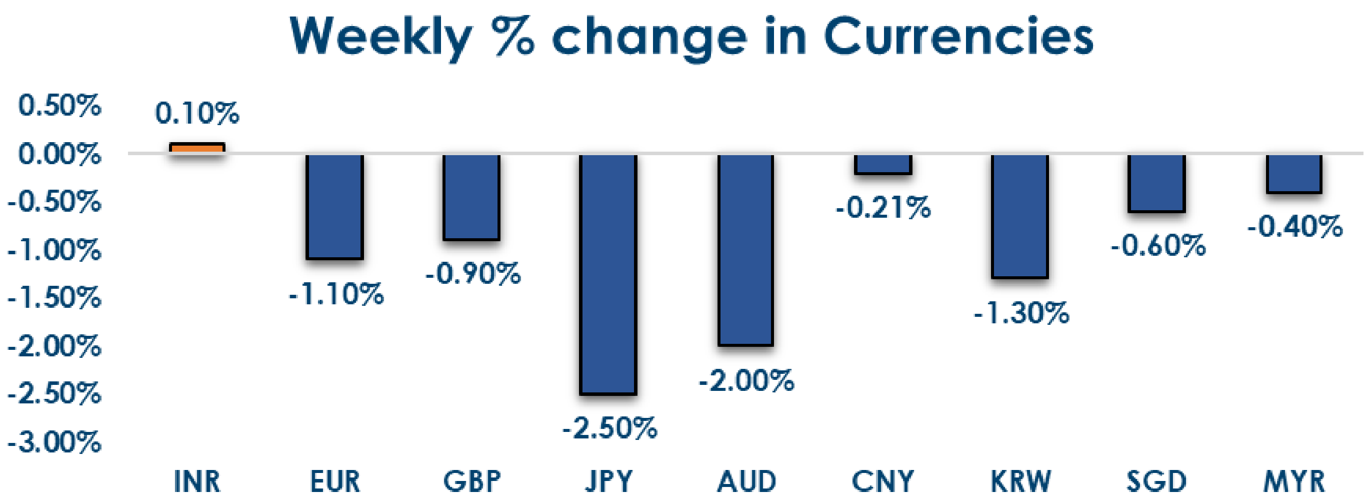
RENEWED US-CHINA TRADE TENSIONS, CONTINUING US GOVERNMENT SHUTDOWN, SPOIL RISK SENTIMENT

US Developments:

- President Trump announced plans to impose an additional 100% tariff on China and to implement export controls on all critical software, effective November 1st.
- He stated that these measures would be withdrawn if China lifts restrictions on rare earth exports.
- The Trump administration began laying off Federal workers on Friday.
- Trump mentioned that a large number of Federal employees would be laid off and would not return even after the shutdown ends.
- The US government shutdown has now lasted 10 days, with no signs of agreement between Republicans and Democrats.
- These developments triggered a risk-off sentiment, leading to:
    - Sell-off in US equities
    - Drop in US Treasury yields
    - The dollar is giving up earlier gains.

Foreign Exchange

- Both EUR (-1.1%) and GBP (-0.9%) weakened against the USD, with the Euro underperforming slightly.
- This indicates mild downward pressure on EUR/GBP, favoring the Pound marginally.
- The euro was under pressure due to political troubles in France. President Macron's own allies seemed to have turned against him. In a surprising move on Friday, though, Macron reappointed Lecornu as PM, after having accepted his resignation 7 days ago. The opposition is calling for a snap election.
- In Japan, the appointment of Sanae Takaichi as Japan's PM caused the Yen to weaken as she is seen as being pro-stimulus. Expectations around rate hikes by the BoJ were therefore pushed back.
- The Indian Rupee emerged as the best-performing Asian currency this week, appreciating 0.1% against the dollar. Most peers weakened, with the Korean Won and Thai Baht leading losses, down 1.3% and 1% respectively.
- Except on Friday, the Rupee traded in extremely narrow ranges during the week. It traded a 88.51-88.80 range during the week and ended at 88.69 compared to the previous week's close of 88.78
- RBI most likely continued intervening to defend 88.80, especially in offshore.
- FX Reserves ended almost unchanged in the week ending 3rd Oct at USD 700bn
- Implied forward yields show a gradual upward slope from 1.94% (1M) to 3.07% (5Y), reflecting mild long-term rate expectations.
- Meanwhile, ATMF implied volatility edges higher from 3.06% (1M) to 3.24% (3M), indicating modestly rising uncertainty over the near term.



Fixed Income

Yield on the US 2y dropped 9bp to 3.50% while yield on the 10y dropped 12bp to 4.03%. 10y Yields across the UK and the Eurozone were down between 6-8bps.

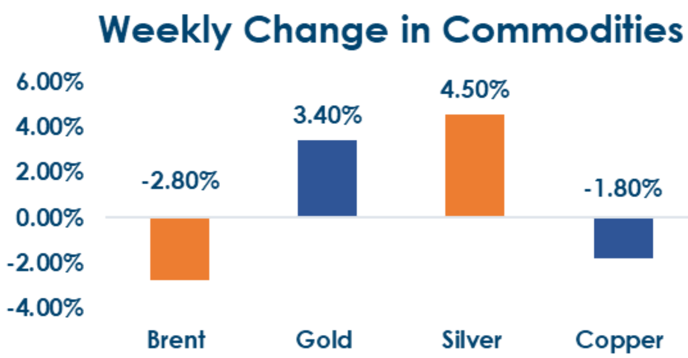
Yield on the domestic 10y benchmark ended 3bps higher at 6.54%. It ended at the highest point of the week. The low was 6.49%. 1y OIS ended the week almost unchanged at 5.44% and 5y OIS also ended flat at 5.66%

FPIs have invested net USD 500mn in domestic equities in October so far. 3m, 6m, 12m T-bills are at 5.43%, 5.51% and 5.54% respectively

3m, 6m, and 12m CD rates are at 5.93%, 6.07% and 6.33%. 10y Gsec annualized is at 6.64%, 10y AAA PSU at 7.12% and 10y AAA NBFC at 7.34%

Commodities

- This week, energy prices saw declines with Brent crude down 2.8% and US natural gas falling 6.6%, while metals had mixed movements—aluminum rose 1.4% and copper slipped 1.8%. Precious metals outperformed, with gold gaining 3.4% and silver up 4.5%.
- Gold and Silver rallied this week, both taking out key psychological levels of USD 4000 and USD 50, respectively
- Silver borrowing cost surged to unprecedented levels, sending the curve into backwardation. It indicates massive spot demand for delivery.



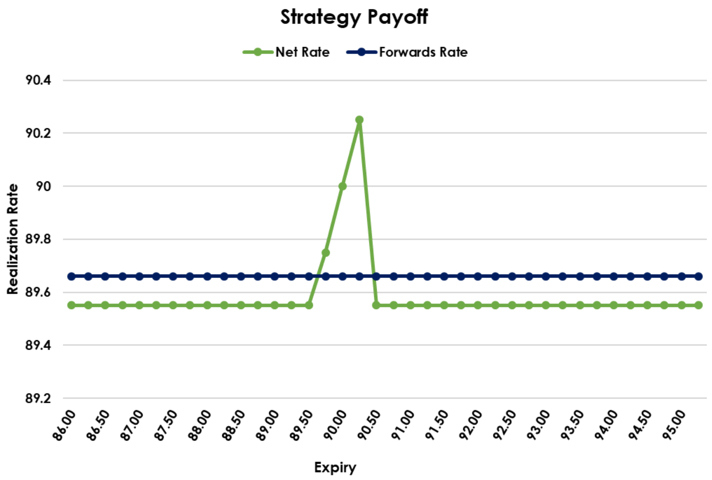
Option Structures for Exporter Importer

Importer Option Strategy (Seagull)

Spot ref 88.70
Tenor 3m
Buy call Atmf (89.15)
Sell put 88.50
Sell call 90.16
Net Zero cost

Exporter Option Strategy (KIKO)

Spot ref 88.70
Tenor 6m
Atmf 89.66
Buy put at 89.55
Sell call at 89.55 with eki at 90.50
Net Zero cost



Our Views: What we like?

FX

We continue to believe, despite this week's Dollar strength, that we are still in a phase of overall Dollar weakness, especially in the case of G10. We expect Dollar weakness to be less pronounced against Emerging market currencies, especially the Rupee. **Importers are advised to buy into any dips**. **Exporters are advised to hedge in a calibrated manner**, as we believe Rupee depreciation will likely happen in a controlled, step-wise manner. IFA Global Hedging barometer at 120 is indicating a mildly bearish view on Rupee over the medium term (Implied range is 88.40-89.30 over the next 6 weeks). Barometer range is 36-180, with 36 indicating peak USDINR bearishness.

Fixed Income

We expect the 10y to trade a 6.45-6.65% range over the next few weeks. We believe any uptick on 10y towards 6.65% is a good opportunity to add duration to the portfolio. Current levels on 5y OIS are attractive to convert floating-rate liabilities to fixed.

Commodities

We continue to remain bullish on precious metals amid uncertainties around trade and the US government shutdown. Overall, Dollar weakness imparts a tailwind as well. We are more upbeat on Silver than on Gold. We are neutral on Brent and Base Metals at this point.

Contact Us:
+91 86557 85089 | info@ifaglobal.net

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