

OCTOBER 04TH, 2025

WEEKLY NEWSLETTER

US SHUTDOWN FUELS UNCERTAINTY; RBI HOLDS RATES, EASES TRANSMISSION.



US Developments:

- US government shut down as Democrats and Republicans failed to agree on a spending plan.
- Healthcare spending remains the key contentious issue.
- Government employees furloughed; essential workers working without pay.
- Shutdown expected to last at least into next week.
- The US jobs report for this week has been postponed due to the shutdown.

India / RBI Updates:

- RBI keeps policy rates unchanged but signals possible future easing.
- Introduces measures to ensure credit flow and transmission of previous rate cuts.
- Banks are allowed to fund M&A transactions.
- Risk weights for project finance are now stage-dependent.
- Thresholds raised for loans against shares and IPO financing.
- Proposes removing the ceiling on lending against listed debt securities.
- Supports exporters: extends the merchanting trade window and EEFC account conversion period at GIFT IBUs.
- The retracts rule discourages lending to ultra-large corporate borrowers.

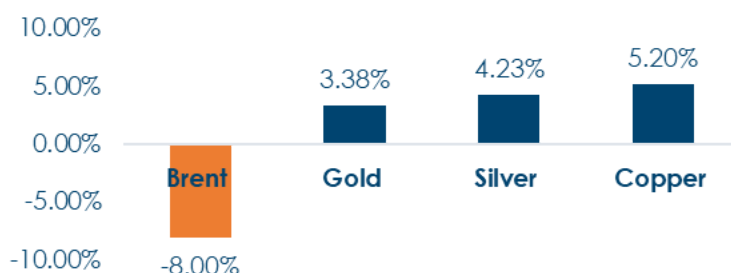
Foreign Exchange

- The Pound outperformed the Euro this week, rising 0.6% versus the Euro's 0.3% gain, reflecting stronger UK sentiment and fewer BoE rate cut expectations.
- The Euro's limited upside suggests continued caution amid sluggish Eurozone growth, keeping EUR/GBP biased lower.
- Yen strengthened heading into today's leadership vote. The leader of Japan's ruling party, the LDP, is to be elected.
- Most Asian currencies appreciated against the dollar this week, led by the Indonesian Rupiah (+1.2%) and Taiwan Dollar (+0.5%), while the Thai Baht (-0.5%) and Indian Rupee (-0.1%) were the only losers.
- Rupee traded in an extremely battle range of 88.65-88.80 this week and ended at 88.78 compared to last week's close of 88.71. 3m ATM implied vols are at 3.30%.
- The forward premia curve is upward-sloping, rising from 2.12% (3M) to 3.14% (5Y).
- FX Reserves dropped USD 2.3bn to USD 700.2bn in the week ending 26th September.

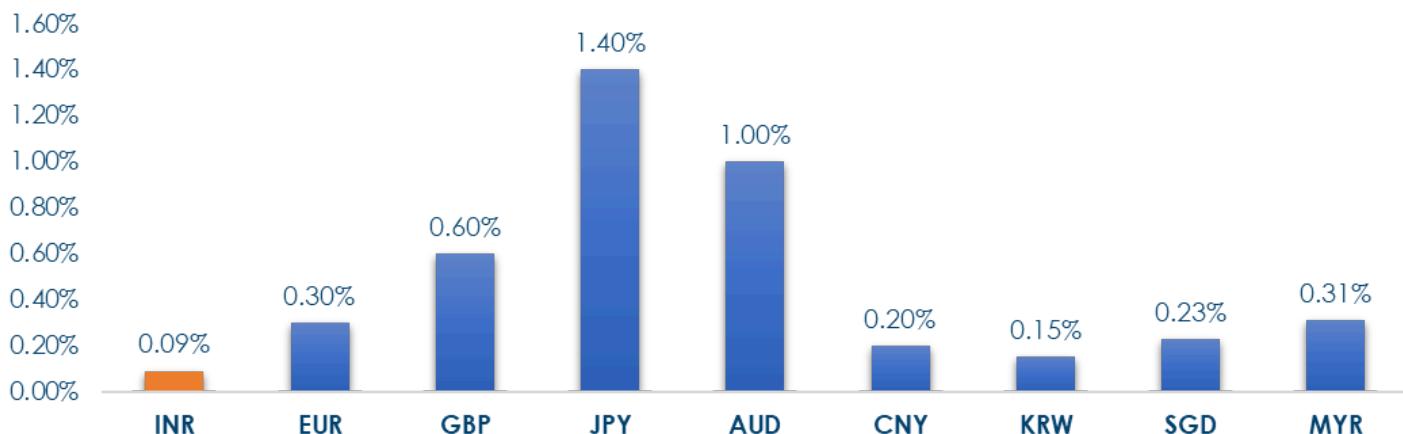
Commodities

- Crude has been under pressure amid expectations that OPEC+ will discuss fast-tracking supply hikes
- Copper rallied on supply disruptions from Indonesia
- Gold gained for the 7th straight week as the US government shutdown added to uncertainty.

Weekly Change in Commodities



Weekly % change in Currencies



Fixed Income

Yield on the US 2y treasury rose 4bps to 3.58%. US 10-year treasury yield ended 2bps lower at 4.12%. Change in 10-year Yields across the UK and the Eurozone this week was anywhere between -2bps to +2bps.

Yield on the domestic 10y benchmark traded a 6.50-6.61% range and ended at 6.51% compared to the previous week's close of 6.52%. Yields eased from highs after the monetary policy, as the MPC kept doors open for further accommodation. Cutoff on the new 10y benchmark yesterday came in at 6.48%

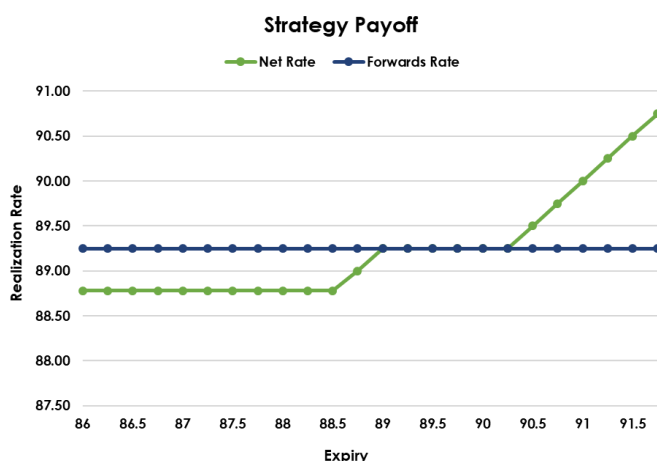
1y OIS ended the week 3bps lower at 5.43% and 5y OIS dropped 8bps to 5.66%. Banking system liquidity returned to a surplus of Rs 1.7 lakh crs. Call fixing, which was consistently happening above Repo, eased to 5.40% yesterday. 10y AAA PSU spreads are at 48bps and 10y AAA NBFC spread is at 82bps over Gsec

FPIs bought USD 1.3bn of domestic bonds in September. In the first few sessions of Oct, they have bought USD 300mn

Option Structures for Exporter Importer

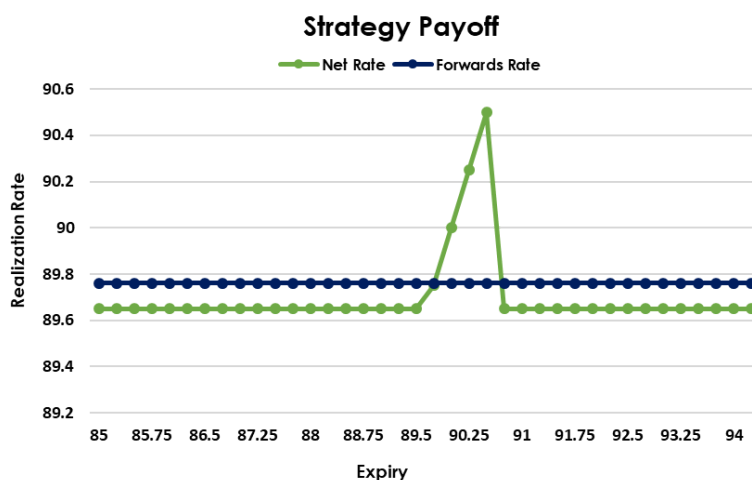
Importer Option Strategy (Seagull)

Spot ref 88.78
Tenor 3m
Buy call Atmf (89.25)
Sell put atmf
Sell call 90.50
Net Zero cost



Exporter Option Strategy (KIKO)

Spot ref 88.78
Tenor 6m
Atmf 89.76
Buy put at 89.65
Sell call at 89.65 with eki at 90.60
Net Zero cost



Our Views: What we like?

FX

We continue to remain bearish on the Dollar, especially against majors. The dollar may not weaken as much against EM currencies. Rupee may continue to underperform amid Dollar weakness. It is likely to be used as a lever to offset the impact of tariffs.

IFA Global Hedging barometer unchanged at 130 indicates a moderately bearish outlook on the Rupee over the medium term (Implied range 88.30-89.50 over the next 6 weeks). Barometer range is 36-180, with 36 indicating peak USDINR bearishness.

Fixed Income

Close to 6.60% levels on the 10y are attractive for adding duration to the portfolio. Current levels on 5y OIS are attractive to convert floating-rate INR exposures to fixed.

Commodities

We continue to remain bullish on precious metals given the weak Dollar outlook and shutdown-induced uncertainty. **We believe Silver may outperform Gold.** We are also upbeat on base Metals. We remain neutral on Brent.

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