

Key Developments:

- **The PBOC released its quarterly report on monetary policy. The main message from the report was that the central bank was not too worried about inflation pressures in 2021 that are rising primarily reflecting temporary factors such as the low base of last year. The central bank also believes that recovery still remains uneven at this stage. Lastly, considerable attention was also given to tackle issues related to build of 'financial risks in the system'.**
- **Federal Reserve Governor Lael Brainard said that the economy is still far from the central bank's objectives. She called for policymakers to remain patient.**
- **A key measure of German investors' confidence as measured by the ZEW expectations component moved to a twenty-one year high from 70.7 in April to 84.4 in May reflecting expectations that economic activity is expected to improve in H22021.**
- **ECB Governing Council member said that the Euro-zone might grow by more than 4% YoY that the central bank forecasts for 2021 as savings are unleashed and consumption rebounds.**
- **An increasing number of Republican led states in the US economy are rejecting enhanced federal Covid-19 pandemic unemployment payments on concerns that it might be distorting the supply of labour.**
- **Job openings in the US economy surged to a record high in March-2021 with total overall positions increasing to 8.12 mn underscoring the fact that demand for labour in the US economy remains fairly strong.**
- **OPEC forecasted that demand for its oil, which collapsed during the pandemic last year, would continue to move higher in 2021 in line with expectations. OPEC said that demand will increase by 5.2 mn barrels per day that would be a 20% YoY increase.**

Global Market Developments:

- **GE:** German ZEW survey expectations improved to 84.4 in May from 70.7 in April, better than 72 expected.
- **US stock markets ended lower in the previous trading.** The Dow Jones (-1.36%) and S&P 500 (-0.87%) ended in red.
- **Asian stock markets are trading lower this morning.** Nikkei (-0.59%), Shanghai Composite Index (-0.02%), Australia ASX-200 (-0.57%) and Kospi (-1.30%) are trading in red while Hang Seng (+0.24%) is trading in green.
- **US treasuries are trading flat this morning.** The 10 Y US yield is trading at 1.627% vs the previous close of 1.6217%.

Domestic market developments:

- **The Indian Rupee closed flat at the 73.34 level against the US dollar in the previous trading session.**
- **The Indian bond markets closed flat with the yield on the benchmark 10-year sovereign bond closing at the 6.00% in the previous session.**

	Remarks
DXY	The U.S. dollar (DXY) is trading 0.21% higher at 90.31 level. However, investors are not taking fresh positions waiting for the outcome of the US CPI inflation data as investors wait to see if there is a much sharper acceleration relative to expectations. However, dovish messages from FOMC officials is working to limit any sharp upside in the DXY.
EUR/USD	After the sharp rise seen in the overnight session in response to the ZEW survey, the EUR/USD pair is trading flat in today's session at the 1.2136 level. ECB officials downplaying inflation concerns also worked to cap sharp upside emerging in the pair. More range trading is in store in today's session.
GBP/USD	The GBP/USD is trading 0.17% lower in today's session at 1.4117 level ahead of the key UK Q1 GDP and the US Consumer Price Index (CPI) data for April. UK Q1 GDP is expected to contract while US CPI may keep reflation fears on the table.
USD/JPY	The USD/JPY is trading 0.23% higher at 108.87 level reflecting a 'weak global USD trend' in the global markets. The Bank of Japan (BOJ) policymakers warned of the risk to the recovery as the pandemic curbs negatively impact service consumption, and said that the economic recovery is backed by external demand.
USD/CNY	The pair is trading higher in today's session at 6.4340 level by 0.08% reflecting some positioning square prior to the US CPI inflation release. The PBOC set USD/CNY reference rate at 6.4258 today (vs. yesterday at 6.4425).
AUD/USD	The AUD/USD pair is trading lower in today's session at 0.7819 level by 0.28%. AUD budget for 2021-22 fiscal year which was published on Tuesday, stayed on course to heavy spending, as expected. A pro-growth budget will work to drive growth higher and support more upside potential in the pair. Australia Westpac Consumer Confidence may offer intermediate direction to the investors in the near-term.
USD/CAD	The USD/CAD pair is trading higher in today's session at 1.2109 level by 0.08%. The Canadian dollar steadied against its U.S. counterpart on Tuesday, holding near its strongest level in 3-1/2 years as higher commodity prices added to investors' worries about the outlook for inflation. U.S. stocks fell as speculation that rising inflation pressure could prompt interest rate hikes sooner rather than later dragged on shares.
Indian Equities	Benchmark equity indices may open lower today tracking the weaker global markets, however, it is expected that the downside would be limited due to the resilience displayed in comparison to the global peers. Investors keenly look towards the release of the retail inflation print for April and industrial output numbers for March due to be released today.
Indian Rupee	Indian Rupee may open lower against US dollar today over strengthened greenback and higher US yields. Appreciation of local currency may occur over expectations of dollar sell off for foreign funds for investment in domestic equities but persistent RBI intervention will work to limit any sharp upside in the Rupee.
India G-Sec	Government bond prices may open lower today as US yields have risen. Market participants may choose to wait for details on next round of gilt purchases. Traders are expected to exercise caution ahead of CPI inflation data due to be released tomorrow.
Oil (Brent) (USD/bbl)	Global crude oil prices rose on Wednesday, extending overnight gains, after industry data showed a drop in U.S. crude inventories, which reinforced OPEC's robust demand outlook and as the shutdown of the biggest U.S. fuel pipeline headed into a sixth day. Data from the API industry group showed U.S. crude oil stocks fell by 2.5 million barrels in the week to May 7, slightly less than expected. Oil prices were also supported by the latest outlook from the OPEC, which stuck to a forecast for a strong recovery in world oil demand in 2021 with growth in China and the United States outweighing the impact of the coronavirus crisis in India. Brent crude prices are trading at USD 68.65/bbl.
Gold (USD/oz)	Gold prices fell on Tuesday, weighed by rising U.S. Treasury yields but the decline was capped by a weaker dollar, with investors awaiting U.S. consumer price data to gauge inflation. The yield on 10-year Treasury notes rose to as much as 1.631%, increasing the opportunity cost of holding non-interest bearing bullion. The dollar index hit a more than two-month low in the session, helping gold pare some of its earlier losses. Gold is trading at USD 1829.96/oz.

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