

NEWS

1. The US\$, strengthened across the board against its international trading partners during the week. It gained the most (by 1.7%) against the Pound and the Swiss Franc, by 1.3% against the Euro and the Danish Krona, by 1% against the Australian \$, 0.81% against the Canadian \$, 0.6% against the Singapore \$ and by 0.43% against the Japanese Yen.
2. The US jobless rate declined to a 4-year low of 5.9% in September on the back of employers adding more workers than anticipated. The uptick in payrolls came in at 248,000, while the August number was revised upwards to 180,000. Factories' payrolls expanded by just 4,000 workers, but the retail sector added a healthy 35,300 jobs. However, in order to render the picture complete, it is important to note that the decline in the unemployment rate was also because of workers leaving the labor force. The labor force participation declined to 62.7%, the lowest level on record since 1978.
3. As part of a policy action that is "*bound to have a sizeable impact on the balance sheet*", the ECB announced that it will start purchasing secured debt by mid-October and asset backed securities by the fourth quarter of this year. It also explicitly assured that "*the program will last for at least two years*". Germany's manufacturing sector shrank for the first time in 15 months (the PMI, or purchasing managers' index, a key leading economic indicator dropped to 50.3 from 50.7 in August) and business in France and Italy contracted, marking the slowest pace of activity in commerce for the currency union as a whole for the year.
4. In Britain, the growth in manufacturing activity was the slowest in about 18 months, adversely affected by a slackened demand for British goods in the nearby Euro zone. The UK purchasing managers' index, which combines output, orders, employment and prices, fell to 51.6 in September from 52.2 in August. The PMI for the services sector (which is a pre-

eminent driver of economic and employment growth) fell to 58.7 in September from 60.5 in August.

5. China's services sector grew at its slowest pace in 8 months in September, as orders fell for the first time since the financial crisis. The official non-manufacturing PMI moved lower to 54 from 54.4 in August. The housing sector, which accounts for 15% of China's GDP, continued to remain a drag on the economy, with its PMI reading dropping to 49.5.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a band of Rs 61.32 – Rs 61.95 per \$, ending the week with a loss of 46 paise for the rupee to close at Rs 61.61 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month are 9.61%, 8.57%, 8.47% and 8% respectively as against 8.1%, 8.2%, 8.41% and 8.21% in the previous week.

VIEWS

1. On the international front, the economic data coming out of the US paint a contrasting picture from the canvas taking shape in Europe. Even so, the Fed would be mindful of the fact that the number of people who now are no longer a part of the labor force, stands at a record 92.6 million and has actually increased by 315,000 during the month. What is also a little unnerving is the fact that 230,000 jobs got created in the age-group 55-69 and 10,000 got lost in the bracket 25-54. Across the Atlantic, even as the efficacy of ECB's bond buying program remains under a cloud (it is possible that the ECB manages to grow its balance sheet by no more than half-a-trillion euros), the German Chancellor Angela Merkel cannot seem to stop advocating a contractionary fiscal policy for fellow union members.
2. In a more real but perhaps a subtle manifestation of a slowing down in the world economy, commodity prices in general and crude prices in particular continue to edge lower during the week. The compression in the latter has come about not only as a result of slowing demand from China (amongst

other large importers) but also due to a competitive price-slashing spree that Saudi Arabia has embarked upon, cutting Asia-bound crude prices to lowest levels since 2008. Of late, Saudi Arabia has been losing ground to Latin American countries like Venezuela, Colombia and Ecuador in quenching Asia's oil demand.

3. The Bloomberg Dollar Spot Index gained for a seventh week, the longest rally in four years, with the dollar strengthening vis-à-vis all of its 16 major counterparts. The Aussie \$ hit a 12-month low (USD 0.8660 per AUD) and the Canadian \$ hit a 3-month low (CAD 1.223 per USD) against the US \$ before paring their losses by the end of the trading week. The British pound slipped below \$1.60 per GBP for the first time since November 2013. We are changing, and widening, our ranges for the major currency pairs as follows:

\$ 1.53 – 1.65 per GBP,

\$ 1.20 – 1.32 per EUR, and

JPY 103 – 115 per \$.

4. India's external debt as on end-June 2014 grew to \$450 billion, \$8 billion (1.8%) higher than at end-March. The increment was primarily due to an uptick \$6.3 billion in external commercial borrowings (ECBs). ECBs have continued to remain the largest portion (34.2%) of our gross debt for close to a decade now, while NRI deposits account for nearly 24%. In respect of maturity, close to 80% of our external debt is accounted for by long-term borrowings. Underlining the healthy state of our external account is the fact that, as the graph accompanying this report shows, short-term debt has been falling both as a percentage of total debt and forex reserves.
5. It will be interesting to see how the market will react to the dollar's rise abroad and the central bank's response. We continue to expect relative stability in the Rs/\$ exchange rate on the back of a potential current account surplus albeit with higher volatility on a day-to-day basis. We recommend corporate treasury managers to stick to a consistent risk management policy of managing exposures on a net basis, hedging short-term payables and medium term receivables.

October 3, 2014

CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	61.61
PDS	98.41
EUR	77.11
YEN (100)	56.13
SFr	63.68
DKK	10.36
CAD	54.79
AUD	53.45
SGD	48.05
CNY	10.04

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Oct-14	62.04	9.68
Nov-14	62.42	8.89
Dec-14	62.86	8.51
Jan-15	63.28	8.46
Feb-15	63.66	8.38
Mar-15	64.09	8.38
Apr-15	64.56	8.44
May-15	64.95	8.38
Jun-15	65.37	8.37
Jul-15	65.78	8.26
Aug-15	66.17	8.24
Sep-15	66.54	8.11

CURRENCY SWAPS

	2-Year	5-Year
\$/USD	7.87	7.81

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise		
Strike	Call	Put
60.50	155	3
61.00	112	9
61.50	76	22
62.00	48	44
62.50	30	76
63.00	18	113

3-mth Option on USD 1, price in paise		
Strike	Call	Put
61.00	205	21
61.50	168	33
62.00	135	49
62.50	107	69
63.00	83	94
63.50	64	124

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.31	8.54	8.48

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.05	7.87
MIOCS	7.87	7.81

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5973
EUR	1.2516
YEN	109.76
SFr	0.9675
DKK	5.9480
CAD	1.1244
AUD	0.8675
SGD	1.2822
PKR	102.55
CNY	6.1395

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.58	2.86	1.27
1.60	1.97	1.97
1.62	1.14	3.14

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.23	3.08	0.87
1.25	1.77	1.78
1.27	0.96	2.97

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
111.73	2.39	0.82
109.73	1.49	1.49
107.73	0.79	2.53

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.15	0.23	0.32	0.57
EUR	0.00	0.05	0.14	0.30
PDS	0.50	0.56	0.71	1.05
YEN	0.09	0.11	0.17	0.32
SwFr	0.00	0.00	0.06	0.16

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.83	1.92	2.60
EUR	0.23	0.49	1.16
PDS	1.25	1.97	2.48
YEN	0.19	0.28	0.69
SwFr	0.08	0.28	0.87

OTHER MARKETS

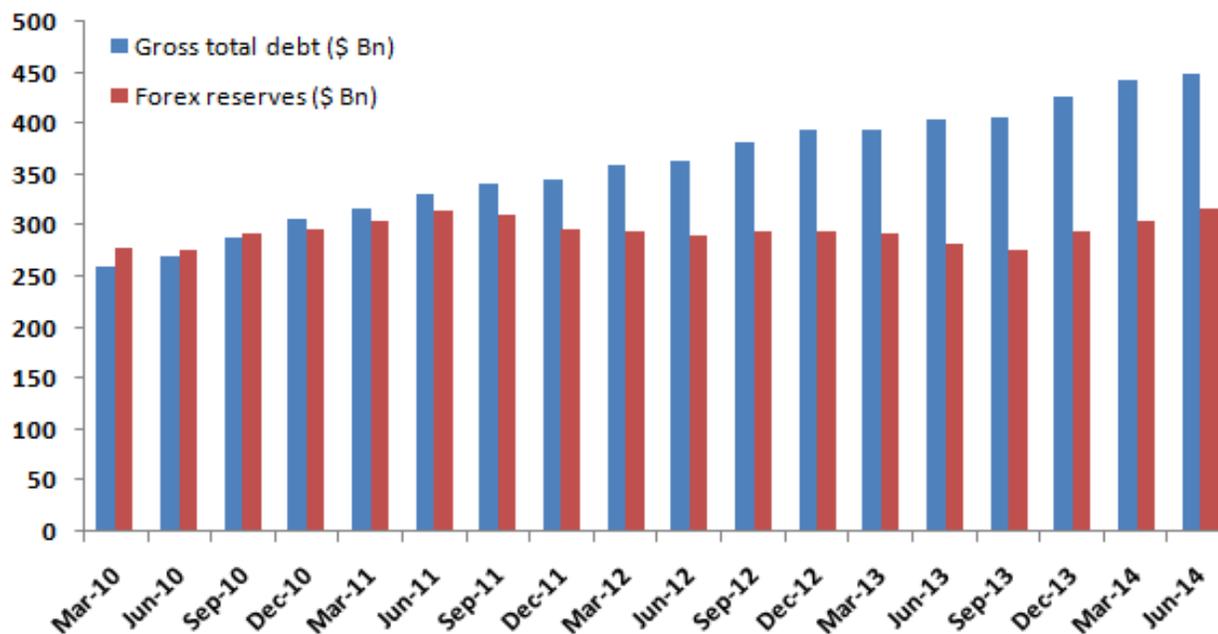
COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	89.7	DJIA	17,010
GOLD (\$/ounce)	1,191	FTSE	6,528
COPPER (\$/ton)	6,660	DAX	9,196
ALUMINIUM (\$/ton)	1,883	NIKKEI	15,709

Information herein is believed to be reliable, but AVRCO does not warrant its completeness or accuracy

* indicative only # for payables

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India's total debt vis-a-vis forex reserves (USD Bn)
(Mar'10-Jun'14)



India's short-term debt as % of forex reserves & total debt
(Mar'10-Jun'14)

