

Currency Risk Management Report

(for the week ended February 05, 2016)

A.V.RAJWADE & Co. PVT. LTD.

RISK MANAGEMENT CONSULTANTS

Forex, Interest Rates & Derivatives



Rajwade Treasury Consultants LLP
Risk Management Consultants
Forex, Interest Rate & Derivatives

NEWS

1. This week, the US dollar index (DXY) which measures the greenback against a basket of six major currencies, hit 96.65, down 2.5% as compared to last week's closing of 99.53. This is the lowest level in more than three months. The greenback was down across the board, 3.4% against the Japanese Yen, around 3.0% each against the Euro, the Danish krone, and the Swiss franc, 1.8% against the British pound, 1.2% against the Singapore \$, and 0.4% against the Canadian \$. The Australian \$ (\$0.7080 per Aus\$) and the Chinese yuan (CNY 6.5765 per US\$) were unchanged over the week.
2. US non-farm payrolls increased by 151,000 in January and the unemployment rate came in at 4.9%, the lowest since February 2008. The average hourly earnings was up 0.5% month-on-month. The US trade deficit increased to \$ 43.4 bn in December from November's \$ 42.2 bn. Overall, in 2015 the trade deficit widened by 4.6% to \$ 531.5 bn. Exports fell by 4.8% last year, the first drop since 2009, while imports declined by 3.1%. The main causes of the wider trade deficit was the stronger dollar, which has appreciated more than 20% relative to the currencies of its main trading partners over the past 18 months.
3. According to the European Commission's forecast, Ireland's economy will grow by 4.5% this year and will moderate in 2017 to 3.5% but it's still on course to remain the fastest growing economy in the Eurozone. The overall outlook for the euro area is for growth to increase to 1.7% this year from 1.6% last year, and to climb to 1.9% in 2017. In the EU, that growth is expected to be 2%. It also added that gross government debt will drop to 98.4% of gross domestic product in 2016 and to 91.5% in 2017. The Commission noted in its report that unemployment will continue to fall across all sectors, to 8.5% through 2016 and then 7.8% in 2017.
4. The Bank of England cut its economic growth forecasts to 2.2% (from 2.5%) for this year and held its key rate at 0.5% The bank also acknowledged that the outlook was clouded by this year's expected referendum on whether Britain should leave the European Union. Separately, a recent poll conducted for the Times showed that the "out" campaign has achieved a record lead as the survey found that 45% of voters now want to leave the EU against 36% who want to stay. Nineteen percent do not know or would not vote in the referendum.
5. On the domestic interbank market, this week the ₹/\$ exchange rate traded in a band of ₹ 67.54 - 68.26 per \$, and ended the week with a gain of 15 paise to close at ₹ 67.65 per \$. The forward premium for 1, 3, 6 and 12 months is ruling at 6.50%, 6.70%, 6.40% and 6.20% p.a. respectively. Overall, the forward premium levels were up by 20-30 basis point across the maturities. As of January 29, 2016, the forex reserves stood at \$ 349.2 bn, up by \$ 1.6 bn over the previous week. In 2016 (till date), FII's sold equity of \$ 1.56 bn while bought debt of around \$ 640 mn.

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VIEWS

1. Will 2016 witness a reversal of 2015? Although one swallow does not make a summer, so it would be foolhardy to build expectations based on recent market movements, it is tempting to believe that the US dollar is likely to lose a large part of its gains in the current year. This is especially surprising because the US economic recovery, albeit still patchy at best, is much more well-entrenched than its European or Japanese counterparts. However, the focus in the financial markets remains the prospective course of interest rates. Most people, economists as well as market participants, have already started doubting the year-end expectations that US interest rates would increase thrice by quarter percentage point each this year. As we have been reiterating, one, or at best two, such increases are expected, with the first one not likely to be before June.
2. The current accepted wisdom is that an interest rate hike is good for a currency, and it is therefore not at all surprising that there has been bear pressure on the greenback. Not only in the currency markets, but a gradual reversal of last year's trends can also be perceived in the commodity markets. Not only have international oil prices strengthened by almost 20% compared to their recent lows, but lead and zinc prices also have risen sharply in recent weeks (although this could well turn out to be relief rallies). The latest employment data too has been below market expectations, and is expected to lower further any hopes of a tightening of US monetary policy.
3. No doubt, any dollar weakness would be a welcome development for the US authorities, some of whom have expressed concern when the index threatened to move above 100. The US current account deficit has jumped from \$80 billion in the quarter of Oct-Dec 2013 to \$124 billion in Jul-Sep 2015 (despite the sharp drop in energy prices). On the other hand, Germany's current account surplus is at a record high and Chinese exports continue to power ahead in the global markets.
4. On the international front, we are not yet making any changes in our ranges for the non-\$ currencies, as follows:

\$1.42 – 1.54 per GBP,
\$1.03 – 1.15 per EUR, and
JPY 115 – 125 per \$.
5. On the domestic interbank market, any stability in the global financial markets (the buzz-word is "risk-on event") means a bounce-back for the rupee, and vice versa. We continue to expect that the rupee will gain ground as we move forward in the quarter and the current account surplus gets translated into higher dollar inflows. This does not mean that the rupee-dollar exchange rate is on a one-way street. Volatility will remain a market characteristic not just for the rest of this quarter but also for the year. Importers are advised to take forward contracts whenever a pre-determined comfort level is achieved. This is even more important in case of short-term forex borrowings (buyers' credits and FCNR(B)-linked loans). Exporters should continue to hedge the bulk of their receivables in the forward market.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	67.65
GBP	98.13
EUR	75.53
JPY	0.5787
CNY	10.29
CHF	68.23
DKK	10.11
CAD	48.60
AUD	47.90
SGD	48.06

FORWARD EXCHANGE RATES*#

Month-enc	₹/USD	Premium % p.a.
Feb-16	67.90	6.74
Mar-16	68.26	6.45
Apr-16	68.65	6.74
May-16	69.02	6.60
Jun-16	69.36	6.50
Jul-16	69.69	6.44
Aug-16	70.07	6.40
Sep-16	70.42	6.39
Oct-16	70.74	6.36
Nov-16	71.12	6.35
Dec-16	71.45	6.29
Jan-17	71.78	6.24

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.66	6.86

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
67.50	--	25
67.75	--	30
68.00	--	45
68.25	45	--
68.50	35	--
68.75	25	--

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
68.00	--	45
68.25	--	55
68.75	--	75
69.00	80	--
69.50	60	--
70.00	45	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.25	7.64	7.82

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.77	6.78
MIFOR	6.66	6.86

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
GBP	1.4505
EUR	1.1165
JPY	116.90
CNY	6.5765
CHF	0.9915
DKK	6.6925
CAD	1.3920
AUD	0.7080
SGD	1.4075
PKR	105.00

3-MONTH CURRENCY OPTIONS*

Option on EUR 1, price in US cents			
Strike	Call	Put	
1.10	3.40	1.40	
1.12	2.30	2.45	
1.14	1.45	3.60	

Option on GBP 1, price in US cents			
Strike	Call	Put	
1.43	3.90	1.80	
1.45	2.75	2.75	
1.47	1.80	3.80	

Option on JPY 100, price in US cents			
Strike	Call	Put	
115.00	1.45	2.80	
117.00	2.20	1.90	
119.00	3.30	1.20	

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1-Month	3-Month	6-Month	12-Month
USD	0.43	0.62	0.87	1.14
EUR	0.24	0.19	0.11	0.00
GBP	0.51	0.59	0.74	1.00
JPY	0.00	0.03	0.04	0.11
CHF	0.78	0.75	0.69	0.60

INTEREST RATE SWAPS

	2-Year	3-Year	5-Year	10-Year
USD	0.81	0.94	1.19	1.72
EUR	0.17	0.12	0.07	0.65
GBP	0.79	0.89	1.10	1.55
JPY	0.12	0.15	0.09	0.20
CHF	0.73	0.68	0.48	0.01

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
Crude Oil (\$/barrel)	31.00	DJIA	16,205
Gold (\$/ounce)	1,173	FTSE	5,848
Copper (\$/ton)	4,669	DAX	9,286
Aluminium (\$/ton)	1,530	NIKKEI	16,820

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

* indicative only

for payables

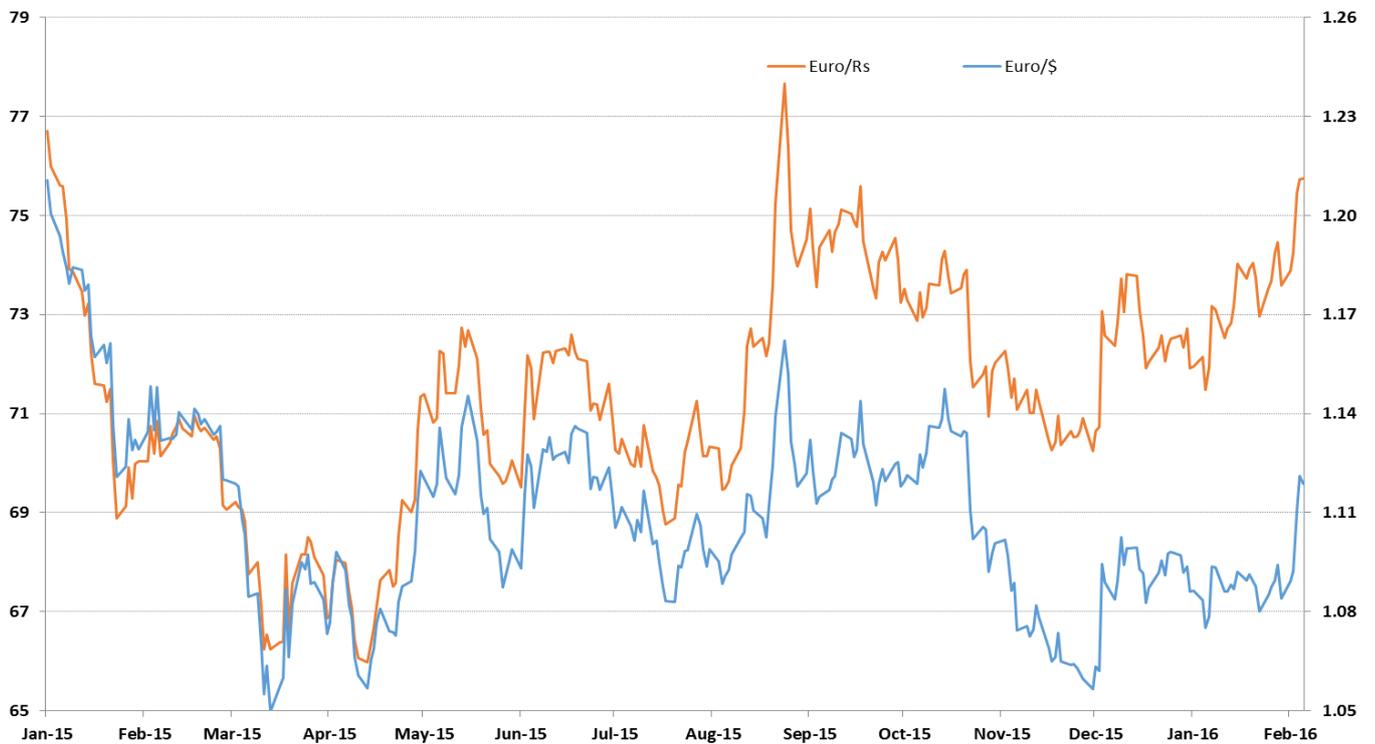
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**Euro Exchange Rate (against \$ and Rs)
January 2015 to February 2016**



**Pound Exchange Rate (Against \$ & Rs)
January 2015 to February 2016**

