

**NEWS**

1. On the international foreign exchange markets, the US dollar strengthened across the board against its major international trading partners this week. It strengthened the most (by 3.3%) against the Swiss franc, by 3.1% each against the Euro and the Danish krona, 2.6% against the Pound, by 1.2% against the Australian \$, by 1% each against the Japanese Yen and the Singapore \$ and by 0.9% against the Canadian \$.
2. Job creation in the US continued to exceed expectations even as wages remained stagnant. Employers added 295,000 workers to their payrolls, although many of the new jobs are low-paid, low-skilled ones. Besides, the unemployment rate dropped to 5.5%, the lowest level in almost seven years. February marked the 12<sup>th</sup> straight month when payrolls have increased by at least 200,000. In 2014, they had risen 3.1 million, the most in fifteen years. Labor force participation rate, which indicates the share of working-age population employed or looking for a job, stood at 62.8%.
3. In Britain, the services PMI stood at 56.7 for the month of February, a few shades lower than the preceding month's reading of 57.2. The bulk of this increase was led by an increase in commercial construction and civil engineering activity (the sector accounts for over 75% of UK's growth). The sub-index for construction rose to a four month high of 60.1 as retailers showed evidence of higher wages and a rebalancing away from the consumer and services sectors.
4. The European Central Bank (ECB) has announced that it will launch a EUR 1.1 trillion program of bond purchases on Monday, in order to avert deflation and revive lending. The announcement came immediately after the central bank raised the 2015 growth forecast for the currency union to 1.5%. Year-on-year retail sales have jumped 3.7% in January as the delayed impact of declining oil prices seeped through to household spending. Under the scheme, each national central bank in the ECB system is responsible for buying its own debt, while nearly 80% of the ECB's bond portfolio will comprise German, French, Spanish and Italian debt.
5. The Chinese government said that it will "pursue expansionary fiscal policies this year", to prevent its growth from stalling. The country is targeting a fiscal deficit of 2.3% of GDP (after taking into account the \$18 billion that was allocated to the previous budget but was not yet spent). The annual parliamentary board set itself a GDP growth target of 7% for the year. With disinflationary pressures mounting, the consumer price based inflation rate fell to a five-year low of 0.8% in January.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 61.65-62.34 per \$, and the rupee ended the week with a loss of 33 paise to close at Rs 62.17 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 8.3%, 8.1%, 7.9% and 7.2% p.a. as against 8.4%, 8.2%, 8% and 7.4% respectively in the previous week. RBI's forex reserves soared to a new record high of \$ 338 billion for the week ended February 27, 2015.

**VIEWS**

1. Considering how stable the rupee has been of late, there was a sudden increase in volatility of the rupee-dollar exchange rate. The domestic currency gyrated by 70 paise during the week, losing some strength towards the end. The second quarter percentage point interest rate cut by the RBI is being perceived as the institution's vote in favor of the government's fiscal consolidation roadmap. While the timing of the rate cut may seem sudden, the action by itself was neither surprising nor unwarranted by the macro-economic picture.
2. Forward premia have not fallen substantially post-announcement, pointing to the possibility that a 25 basis point reduction was factored in by the markets, although RBI action also appears to be keeping the forward rates high. In any case, an interest rate cut by less than 50 basis points does not amount to significant monetary easing. We would not be surprised if the central bank announces another 25 basis points cut at the monetary policy review on 7<sup>th</sup> April (or even before 31<sup>st</sup> March). If that happens, there will certainly be a reduction in premium levels.
3. We have maintained that a consistent policy of selling receivables forward proves to be a profitable strategy (as is illustrated by the table below). This is especially so, during bouts of sudden rupee depreciation. Importers should look to leave their medium and long term exposures open, while buying only plain vanilla call options (if at all) to cover immediate payables. However, as recent movements show, any opportunity to buy dollars below Rs 62 per \$ should not be foregone.
4. We give below a comparison of the month-end and average spot Rs/\$ exchange rates for February 2015 with the forward rates available in earlier months:

	Month-end	Average
Spot (February 2015)	61.84	62.05
1 month forward (January)	62.17	62.65
2 months forward (December)	64.17	63.53
3 months forward (November)	63.08	62.93
4 months forward (October)	63.04	63.40
5 months forward (September)	63.75	63.21
6 months forward (August)	63.01	63.48
12 months forward (February 2014)	67.29	67.33

5. Amid China's growth slowdown, iron ore prices have fallen to below \$60-- a record low -- and that is having a considerable impact across many regions, most notably Australia. Following the ECB's announcement about kicking-off its QE program, the Euro witnessed substantial weakness against the greenback. We are keeping our ranges for the non-US dollar currencies unchanged, as follows: \$ 1.45 – 1.57 per GBP, \$ 1.08 – 1.18 per EUR, and JPY 112 – 122 per \$.

March 6, 2015

CRMR

**DOMESTIC MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	INR/Currency
USD	62.17
PDS	93.49
EUR	67.42
YEN (100)	51.45
SFr	63.05
DKK	9.05
CAD	49.25
AUD	47.97
SGD	45.13
CNY	9.93

**FORWARD EXCHANGE RATES**

Month-end	INR/USD	Premium % p.a.
Mar-15	62.47	8.39
Apr-15	62.91	8.20
May-15	63.29	8.02
Jun-15	63.70	8.02
Jul-15	64.10	7.81
Aug-15	64.50	7.86
Sep-15	64.89	7.75
Oct-15	65.27	7.71
Nov-15	65.65	7.71
Dec-15	66.02	7.59
Jan-16	66.35	7.50
Feb-16	66.67	7.40

**CURRENCY SWAPS**

	2-Year	5-Year
\$/USD	6.89	6.88

**INR/USD CURRENCY OPTIONS\***

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
61.50	-	11
62.00	-	24
62.50	-	44
63.00	36	-
63.50	23	-
64.00	14	-

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
62.50	-	53
63.00	-	73
63.50	-	98
64.00	72	-
64.50	56	-
65.00	44	-

**INTEREST RATE MARKETS**

	2-Year	5-Year	10-Year
GOI BOND	7.71	7.75	7.70

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.26	6.97
MIOCS	6.89	6.88

**INTERNATIONAL MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	Against USD
PDS	1.5037
EUR	1.0844
YEN	120.83
SFr	0.9860
DKK	6.8687
CAD	1.2624
AUD	0.7716
SGD	1.3776
PKR	101.77
CNY	6.2631

**PDS 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.48	4.23	1.97
1.50	2.98	2.98
1.52	2.15	4.05

**EUR 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.07	3.03	1.53
1.09	2.22	2.22
1.11	1.38	3.38

**YEN 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
122.78	2.22	0.94
120.78	1.51	1.51
118.78	0.90	2.36

**INTEREST RATE MARKETS**

**OFFSHORE CURRENCY**

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.17	0.27	0.39	0.69
EUR	0.00	0.03	0.08	0.21
PDS	0.50	0.56	0.68	0.98
YEN	0.07	0.10	0.14	0.25
SwFr	-0.87	-0.85	-0.73	-0.62

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.92	1.76	2.25
EUR	0.11	0.31	0.74
PDS	1.06	1.63	2.00
YEN	0.15	0.26	0.57
SwFr	-0.70	-0.30	0.30

**OTHER MARKETS**

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	49.8	DJIA	17,857
GOLD (\$/ounce)	1,167	FTSE	6,911
COPPER (\$/ton)	5,826	DAX	11,550
ALUMINIUM (\$/ton)	1,784	NIKKEI	18,971

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

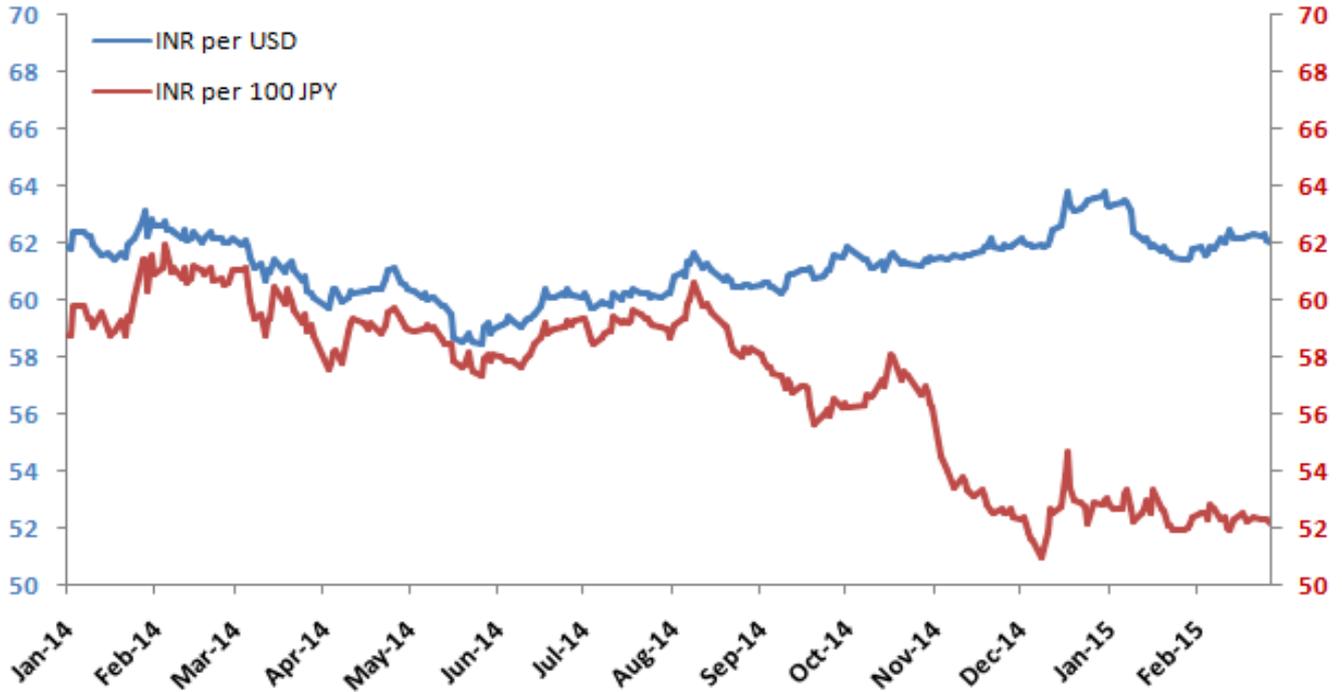
\* indicative only

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INR per USD & INR per 100 JPY  
(Jan'14-Feb'15)



INR per EUR & INR per GBP  
(Jan'14-Feb'15)

