Currency Risk Management Report

(for the week ended November 06, 2015)

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RISK MANAGEMENT CONSULTANTS
Forex, Interest Rates & Derivatives

Rajwade Treasury Consultants LLP
Risk Management Consultants
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NEWS

1. The dollar index, which measures the US currency's strength against major currencies, closed at 99.17, up 2.28% from its previous week close of 96.95. The US$ was up 2.5% each against the euro, the British pound and the Danish krone, 2.1% against the Japanese yen, 1.8% each against the Swiss franc and the Canadian dollar and lastly 1.4% each against the Australian dollar and the Singapore dollar.

2. The US unemployment rate fell to a fresh seven-year low of 5% in October as employers added 271,000 jobs. The wages were also up by 9 cents to $25.20. However, initial jobless claims, a sign of the pace of layoffs were up by 16,000 to 276,000 for the week ended Oct 31. In September, the US trade deficit declined to $40.8 bn from a downwardly revised $48 bn in August. Exports were up by 1.6% while imports fell by 1.8%. In October, the Institute for Supply Management's (ISM) service index rose to 59.1 from 56.9 in September while manufacturing index was unchanged at 50.1.

3. Euro area retail sales were 0.1% lower in September, but 2.9% year-on-year. Retail sales were flat month-on-month in the euro zone's biggest economy Germany. In September, industrial producer prices in the euro area were down by 0.3%. German industrial output had its steepest drop (1.1%) in a year in September due to a decline in production in all sectors except energy.

4. The Bank of England maintained the bank rate at 0.5% and the size of its asset purchase program at £375 billion. The UK trade deficit fell by £1.6 bn to £1.4 bn in September, the narrowing being attributed to a decrease in the deficit in trade in goods to £9.4 bn compared to the £10.8 bn seen in August. On a quarterly basis the picture in not so good -- in the three months to September, the deficit was £8.5 bn, a widening of £5.1 bn compared to the three months to June. Separately, UK's purchasing manger's composite index (PMI), which combines services, manufacturing and construction, rose to a three-month high of 55.7 in October from September's 53.9.

5. Japan's PMI rose to 52.4 in October, a solid improvement from 51.0 in September. The leading economic indicators index dropped to 101.4 in September from 103.5 in the previous month. The coincident index that indicates current economic activity and the lagging index that reflects past economic activity were also down.

6. On the domestic interbank market, the Rs/$ exchange rate traded in a band of ₹ 64.36 - 65.84 per $, and the rupee ended the week with a loss of 49 paise to close at ₹ 65.76 per $. The forward premium level is ruling at around 6.60% across all maturities. In November, FIIs sold $ 408 mn in equity market and around $ 666 mn in debt market.

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VIEWS

1. The BJP's second successive debacle in elections – it has lost in Bihar by a stunning margin – is bound to have a strong impact on the politics and economics of this country. The belligerence of the opposition should increase, effectively derailing the economic agenda of the government. Certainly, anything that requires legislative action is going to be difficult to push through. The first casualty is likely to be the GST bill – in the election rallies, the Congress leadership has been accusing the government of favouring GST, calling it a pro-industry anti-poor measure! In general, we believe the government will have to try and work within the constraints of the existing laws, making only those changes that can be made through executive action.

2. We expect further bear pressure on the rupee in the coming weeks, as the financial markets in general and the foreign institutional investors (FIIs) in particular become wary of the government's ability to undertake economic reforms. We are changing our rupee script. We expect the rupee-dollar exchange rate to move to a band of Rs 66 – 66.50 per $, possibly higher, for the next few weeks. It will be interesting to see at what level the Reserve Bank of India decides to step in to prevent a freefall of the rupee.

3. It should be borne in mind that RBI does not intervene aggressively when the dollar demand arises from an FII exit for two reasons. Firstly, the RBI would not like to subsidize the exit of the FIIs, as lesser dollars would flow out on the back of a weaker rupee. Secondly, it has often been seen in the past that such bear pressure on the rupee does not last for more than 4-6 weeks. The period up to mid-December, therefore, remains vulnerable. However, with the rupee having already declined in the last week, we recommend hedging of dollar payables (beyond mid-December 2015) using out-of-the-money option contracts. Option contracts are ideally suited for use when the upside potential of rupee appreciation is greater than the downside potential of a rupee decline in excess of the forward rate.

4. With commodity prices remaining low, we expect the current account to register a large surplus in the last quarter of the fiscal year. This should result in over-supply of dollars, and likely a stronger rupee in that quarter. Exporters are therefore advised to hedge dollar receivables (both short term and long term), especially once the rate climbs above Rs 66.50 per $.

5. On the international foreign exchange markets, prospects of an interest rate hike in the US at the next FOMC meeting during December have increased after the recent sharp drop in the unemployment rate. However, we are not yet making any changes in our ranges for the non-$ currencies, as below:

   $1.45 – 1.57 per GBP,
   $1.05 – 1.15 per EUR and
   JPY 115 – 125 per $.

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November 06, 2015

CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	65.76
GBP	99.03
EUR	70.66
JPY	0.5338
CHF	65.33
DKK	9.47
CAD	49.42
AUD	46.30
SGD	46.26
CNY	10.35

FORWARD EXCHANGE RATES*#

Month-enc	₹/USD	Premium % p.a.
Nov-15	66.00	6.66
Dec-15	66.37	6.64
Jan-16	66.72	6.66
Feb-16	67.08	6.60
Mar-16	67.43	6.53
Apr-16	67.81	6.65
May-16	68.17	6.66
Jun-16	68.51	6.55
Jul-16	68.84	6.52
Aug-16	69.22	6.51
Sep-16	69.56	6.49
Oct-16	69.88	6.42

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.89	6.84

INR/USD CURRENCY OPTIONS*

	1-mth Option on USD 1, price in paise	
Strike	Call	Put
65.50	--	25
65.75	--	35
66.00	--	45
66.25	45	--
66.50	35	--
66.75	25	--

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
65.50	--	35
66.00	--	50
66.50	--	70
67.00	80	--
67.50	55	--
68.00	40	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.42	7.70	7.69

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.86	6.85
MIFOR	6.89	6.84

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
GBP	1.5060
EUR	1.0745
JPY	123.20
CHF	1.0066
DKK	6.9423
CAD	1.3307
AUD	0.7041
SGD	1.4215
PKR	105.40
CNY	6.3533

3-MONTH CURRENCY OPTIONS*

Option on EUR 1, price in US cents		
Strike	Call	Put
1.05	4.00	1.40
1.07	2.80	2.30
1.09	1.90	3.40

Option on GBP 1, price in US cents		
Strike	Call	Put
1.49	3.35	1.80
1.51	2.30	2.80
1.53	1.45	4.00

Option on JPY 100, price in US cents		
Strike	Call	Put
121.00	1.20	2.70
123.00	1.90	1.80
125.00	2.80	1.10

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1-Month	3-Month	6-Month	12-Month
USD	0.19	0.34	0.57	0.90
EUR	-0.14	-0.08	-0.01	0.09
GBP	0.51	0.58	0.73	1.03
JPY	0.05	0.08	0.12	0.23
CHF	-0.77	-0.76	-0.72	-0.63

	INTEREST RATE SWAPS			
	2-Year	3-Year	5-Year	10-Year
USD	0.97	1.26	1.65	2.19
EUR	0.00	0.08	0.34	1.03
GBP	1.06	1.27	1.59	2.01
JPY	0.11	0.12	0.19	0.49
CHF	-0.85	-0.78	-0.54	0.11

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
Crude Oil ($/barrel)	44.30	DJIA	17,910
Gold ($/ounce)	1,090	FTSE	6,353
Copper ($/ton)	4,995	DAX	10,988
Aluminium ($/ton)	1,491	NIKKEI	19,265

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

**** indicative only*** ***# for payables***

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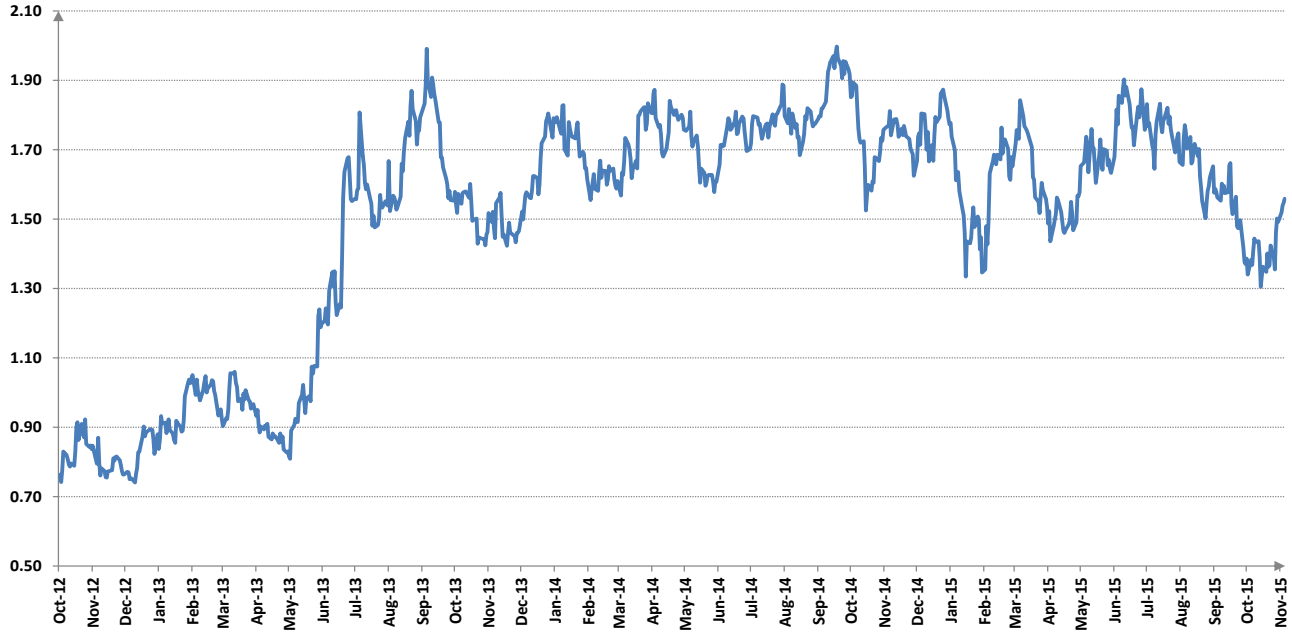
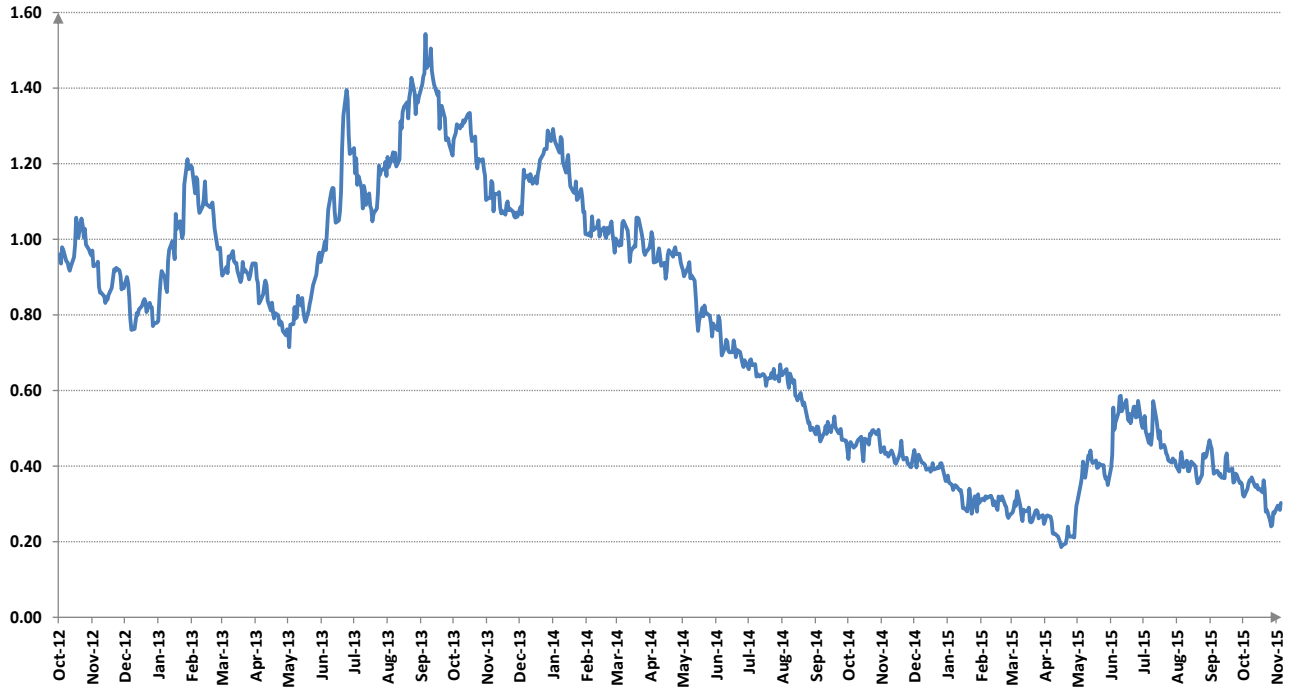
USD IRS (% p.a.)
5-Year
October 2012 to November 2015



EUR IRS (% p.a.)
5-Year
October 2012 to November 2015



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