

NEWS

1. On the international foreign exchange markets, the US dollar weakened across the board against its major international trading partners. It lost the most (2%) against the Pound, by 1% against the Australian \$, by 0.7% against the Canadian \$, 0.3% each against the Japanese Yen and the Swiss franc and by 0.6% against the Danish krona. There was no change in the greenback vis-à-vis the Euro.
2. The number of Americans filing new claims for unemployment benefits rose marginally last week, while staying near the 15-year low level. Claims for the previous week were unrevised at 262,000, which was the lowest reading since April 2000. There was an increase of 223,000 in non-farm payrolls, although the March number was revised downwards to a 85,000 gain, the smallest since June 2012. The jobless rate fell to 5.4%, the lowest since May 2008 as more Americans entered the labor force and found work. Average hourly earnings climbed less than forecast. In a separate and contrasting development, as has become customary with US economic data, the economic confidence index dropped to its lowest weekly score since December.
3. In the U.K., in an election that was widely predicted and expected to be an exceedingly close run race, incumbent David Cameron's Conservative party has returned to 10 Downing Street. A surprisingly clear majority means that the Tories will likely go it alone, without their supporters from 2010, the Liberal Democrats. The British pound had suddenly soared after exit polls showed a Tory victory. Having started the night at USD 1.52 and EUR 1.35, it had jumped to USD 1.55 and EUR 1.38.
4. China's exports for April fell by 6.2% (in Yuan terms) over the year and imports too contracted by 16.1%, resulting in a trade surplus of CNY 210 billion (\$32.4 billion). Imports slowed on account of a housing slump and reduced demand for commodities while exports continue to remain subdued due to an uncertain global environment.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 63.31-64.28 per \$, and the rupee ended the week with a loss of 48 paise to close at Rs 63.94 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 7.68%, 7.55%, 7.44% and 6.91% p.a. against 7.51%, 7.47%, 7.3% and 6.89% last week. RBI's foreign exchange reserves rose by \$7.3 billion over the previous week, to \$352 billion for the week ended May 1, 2015. The sharp jump likely came as a result of maturing forward contracts and strength in the non-dollar currencies. RBI's outstanding position in the forward market was \$5.8 billion as of February end.
6. The Indian rupee was not the only major Asian currency to experience weakness against the greenback. Most Asian currencies, notably the South Korean Won (0.7%), the Malaysian ringgit (0.6%) and the Indonesian rupiah (0.5%) declined against the US dollar, over the week. The yield on the benchmark 10-year GoI bond almost touched 8% before retracting a bit. Foreign investors have sold almost \$900 million in debt and \$1.03 billion in equity so far in May.

VIEWS

1. The past week witnessed heightened volatility not just in the Indian markets, but around the world, across major asset classes. The rupee tumbled to a 20-month low, as foreign investors pulled out large sums from the Indian equity and debt markets. However, the exit of the foreign institutional investors (FIIs) should be viewed as a symptom of rupee weakness rather than its cause. There have been substantial reversals in macro-economic trends especially in Europe and the US in the last fortnight or so, and the ensuing volatility is a culmination of these trends. Global bond markets are facing redemption pressures of the kind that have been witnessed only twice in the last decade-and-a-half and traders and investors alike are scratching their heads as to the plausible cause behind the massive sell-off. The narrative seems to have shifted to inflationary green shoots appearing in Europe and America, primarily on the back of a reversal in oil prices. A case in point is the 10-year German bund, yields on which were lumbering in the near-zero region (with shorter maturities offering negative yields) only a couple of weeks back and have now risen to almost 0.8%. The sudden strength in the Euro (which got exacerbated after a dovish FOMC statement) has also resulted in large losses for traders on their short positions in the common currency, stoking further uncertainty in the market.
2. In the short term, the bear pressure on the rupee is expected to abate in the coming weeks, more so if the FIIs are convinced that the government is serious about resolving the MAT issue. RBI intervention is highly unlikely in the face of FIIs leaving the Indian markets, as the central bank in the past has seen little point in subsidizing their exit by selling dollars. However, the overall Balance of Payments remains robust, and RBI is expected to buy \$ 30-50 bn during the current fiscal year. Importers are advised to cover their near-term payables. Any exposure maturing in June and beyond should be hedged using OTMF call options only. It would also be advisable to calculate the forward rate at which one is comfortable with the overall cost and then cover the payable whenever such a rate is available. The cost comparison should be made with that of available rupee financing. The other alternative is to have a trailing stop loss level, which when triggered, will mandate the covering of all exposures. For exporters, the current spot levels coupled with higher forward premia present an excellent opportunity to hedge their medium as well as long-term receivables. A 12-month forward rate upward of Rs 68.50 per \$ looks highly attractive.
3. As Brent reached more than \$68/barrel on Wednesday, oil analysts started to backtrack on their earlier predictions of \$40-\$50/barrel range. The fact that actual supply of crude in the market is 92.5 million barrels per day while the turnover in the futures market is well over a billion barrels per day, points to the undue influence speculation has on determining the commodity's price in the short run. We are changing our ranges for the Euro and the Pound, primarily to reflect the sharp movement in these currencies vis-à-vis the dollar:

\$1.50 – 1.60 per GBP
\$1.06 – 1.16 per EUR and
JPY 115 – 125 per \$.

May 8, 2015

CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	63.94
PDS	98.82
EUR	71.61
YEN (100)	53.39
SFr	68.73
DKK	9.60
CAD	52.97
AUD	50.72
SGD	48.13
CNY	10.30

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
May-15	64.18	7.21
Jun-15	64.60	7.72
Jul-15	65.01	7.43
Aug-15	65.41	7.56
Sep-15	65.80	7.41
Oct-15	66.18	7.37
Nov-15	66.56	7.39
Dec-15	66.93	7.26
Jan-16	67.28	7.22
Feb-16	67.64	7.18
Mar-16	68.00	7.11
Apr-16	68.36	7.10

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.88	6.97

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
63.00	-	17
63.50	-	30
64.00	-	50
64.50	61	-
65.00	43	-
65.50	30	-

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
65.00	-	111
65.50	-	139
66.00	-	170
66.50	71	-
67.00	59	-
67.50	48	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.86	7.97	7.94

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.32	7.24
MIOCS	6.88	6.97

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5455
EUR	1.1199
YEN	119.76
SFr	0.9303
DKK	6.6626
CAD	1.2071
AUD	0.7932
SGD	1.3285
PKR	101.59
CNY	6.2093

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.52	4.17	1.75
1.54	2.82	2.82
1.56	1.94	3.96

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.10	3.71	1.65
1.12	2.57	2.57
1.14	1.72	3.73

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
121.71	2.19	0.88
119.71	1.45	1.45
117.71	0.84	2.32

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.18	0.28	0.42	0.73
EUR	-0.06	-0.01	0.06	0.17
PDS	0.51	0.57	0.70	1.00
YEN	0.07	0.10	0.14	0.26
SwFr	-0.82	-0.79	-0.71	-0.59

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.88	1.70	2.24
EUR	0.10	0.40	0.90
PDS	1.01	1.58	1.96
YEN	0.17	0.31	0.65
SwFr	-0.59	-0.16	0.37

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	59.5	DJIA	18,191
GOLD (\$/ounce)	1,188	FTSE	7,047
COPPER (\$/ton)	6,396	DAX	11,710
ALUMINIUM (\$/ton)	1,864	NIKKEI	19,379

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

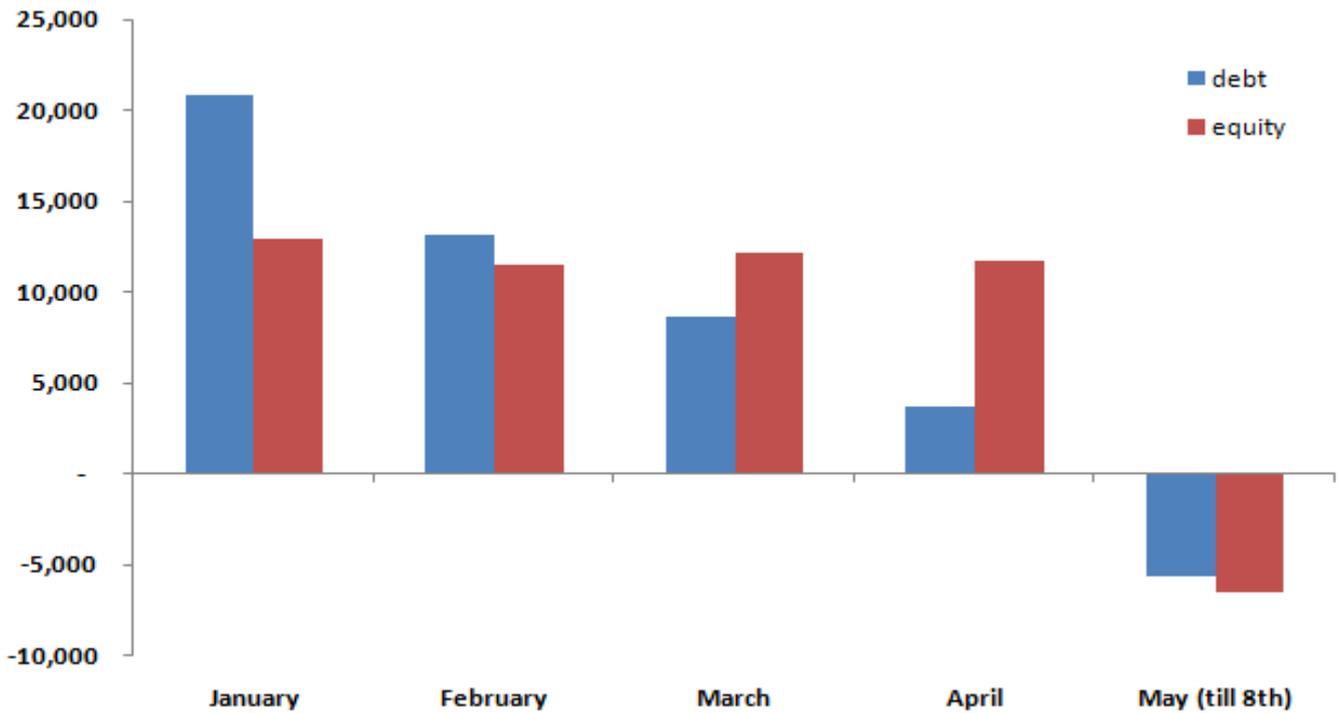
* indicative only

for payables

Office: 9, Sumer Kendra, Ground Floor, Pandurang Budhkar Marg, Behind Mahindra Towers, Worli, Mumbai – 400 018
Tel. Off.: +91 22 24913034 Tel. Fax: +91 22 24913044

Email id.: info@avrco.com

FII investments in the Indian market (Rs crores)



INR per USD
(Jan '15 - 8th May '15)

