

NEWS

1. The US\$ weakened across the board against its major international trading partners. Its highest fall was by 3.4% against the Australian \$ followed by 2.8% against the Japanese Yen and by 1.3% against the British Pound. It also weakened by 1.1%, 1.0% and 0.7% against the Singapore \$, the Canadian \$ and the Swiss Franc respectively, before ending the week down by 0.4% each against the Euro and the Danish Kroner.
2. U.S. initial jobless claims, a proxy for layoffs, increased by 1.5% in the week ended August 3. However, the four-week moving average of claims, which smoothens week-to-week volatility, fell by 1.9%, the lowest level since November 2007, just before the recession began. The unemployment rate did move down to 7.4% last month. The number of continuing unemployment-benefit claims, a representation of total recipients, had increased by over 2% by end-July, partially reversing declines in the two preceding weeks.
3. U.K. has recorded a 0.6% increase in the gross domestic product in the second quarter, aided by a 1.1% increase in industrial production in June. In the euro zone, French industrial production unexpectedly dropped sharply in June by 1.4% from May. The drop in industrial production in June followed a 0.3% contraction in May. Meanwhile, Germany recorded a 2.4% rise in June from May. Even in recession-plagued Italy, there was a 0.3% increase.
4. China's trade rebounded in July, a positive sign for the world's second-largest economy. Exports were up 5.1% from a year earlier, reversing a 3.1% drop in June. Imports grew even more strongly from a year earlier, by 10.9%, a sign that domestic demand is also picking up. China had a merchandise trade surplus (the difference between exports and imports) of \$17.8 billion, narrowing from June's \$27.1 billion. That lower figure could

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take some pressure off China to appreciate its currency in order to correct the persistently large trade surpluses.

5. Japan logged a smaller-than-expected current-account surplus in June. The surplus, the broadest measure of Japan's trade with the rest of the world, stood at ¥336.3 billion (\$3.48 billion) in June before seasonal adjustment. The merchandise trade component of the data showed a deficit of ¥139.2 billion.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 60.72 – ₹ 61.80 per \$, ending the week with a gain of 21 paise for the rupee at ₹ 60.88 per \$. The forward premium levels remained high at 9.7%, 9.3%, 8.8% and 7.9% from the preceding week-end levels of 9.7%, 9.1%, 8.7% and 7.7% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. Will Raghuram Rajan in 2013 have the same impact on the domestic financial markets as Chidambaram had in 2012? It may be recalled that last year when the markets were in turmoil and the rupee was under bear pressure (falling to the then record low of Rs 57.40 per \$), a measure of calm was restored almost immediately after Chidambaram replaced Pranab Mukherjee as the country's Finance Minister. The rupee subsequently climbed almost 5% before settling in a range of Rs 54 – 56 per \$, which lasted over 10 months. The Reserve Bank of India (RBI) is getting a new Governor from 5th September, and it would not be surprising to see a similar reaction in the markets. Market movements are more often than not driven by confidence in the authorities' ability to bring back calm. Certainly, Mr. Rajan despite his comments of not having "a magic wand" for solving problems has the credentials to restore market confidence.
2. Meanwhile, the short term exchange rate policy appears to favour limited intervention at the end of the day in order to push back the Rs/\$ rate

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towards Rs 60 per \$. During the day, it often remains undermined by the dollar outflows. Even in the past, the RBI has been reluctant to give support to the rupee when it is perceived that the demand-supply imbalance is primarily being caused by the exit of the foreign institutional investors (FIIs) from the domestic stock market. In our opinion, this is a logical policy since there is no reason for the central bank to support the rupee by selling dollars at a cheaper rate, which will effectively subsidise the exit of the FIIs (by giving them higher amount of dollars for the rupees received on sale of shares).

3. We continue to expect stability to come through in the rupee-dollar exchange rate. However, how far it will go, and when the turn will occur are questions that are impossible to answer. We therefore continue to recommend that whether one is a net exporter or importer, one should keep the bulk of one's exposures hedged, preferably by using out-of-the-money option contracts (i.e. where the strike rate under the option contract is worse than the forward rate). This will ensure that if the exchange rate movement is favourable, the full benefit will accrue (less the upfront premium paid), while if the movement is adverse the net rate will at worst be the strike rate (adjusted for the premium paid).
4. On the international front, the dollar is losing ground on the back of better than expected news from Europe. It is now being widely anticipated that the euro-zone's gross domestic product will show its first expansion when the second quarter GDP data is released shortly, after six successive quarters of contraction. Meanwhile, Japan's public debt burden has crossed JPY 1 quadrillion (15 zeros after 1), and now exceeds the combined GDP of Germany, France and U.K.! We are amending our forecasted ranges for the US dollar against the major currencies, keeping them at a random walk from the week-end levels, as follows:

JPY 91 – 101 per \$,
\$ 1.28 – 1.38 per EUR, and
\$ 1.50 – 1.60 per GBP.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	60.88
PDS	94.35
EUR	81.23
YEN (100)	63.28
SFr	66.00
DKK	10.89
CAD	59.17
AUD	56.05
SGD	48.42
CNY	9.94

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Aug-13	61.17	9.15
Sep-13	61.66	9.74
Oct-13	62.14	9.33
Nov-13	62.56	9.07
Dec-13	63.00	9.08
Jan-14	63.43	8.84
Feb-14	63.79	8.68
Mar-14	64.17	8.54
Apr-14	64.60	8.51
May-14	64.94	8.34
Jun-14	65.29	8.24
Jul-14	65.62	8.10

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	7.51	7.45

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
60.00	164	28
60.50	129	42
61.00	99	61
62.00	54	115
62.50	38	150
63.00	27	188

3-mth Option on USD 1, price in paise

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
61.00	202	73
61.50	171	91
62.00	144	113
62.50	120	138
63.00	100	167
63.50	83	198

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.89	8.68	8.17

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.54	8.32
MIFOR	7.51	7.45

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5498
EUR	1.3342
YEN	96.21
SFr	0.9224
DKK	5.5911
CAD	1.0289
AUD	0.9206
SGD	1.2574
PKR	102.19
CNY	6.1220

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.53	3.40	1.52
1.55	2.36	2.36
1.57	1.46	3.58

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.31	3.50	1.05
1.33	2.06	2.06
1.35	1.39	2.94

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
98.19	3.63	1.66
96.19	2.55	2.55
94.19	1.68	3.72

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.19	0.26	0.39	0.66
EUR	0.08	0.15	0.26	0.47
PDS	0.49	0.51	0.59	0.87
YEN	0.12	0.16	0.23	0.41
SwFr	0.00	0.02	0.08	0.25

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.49	1.54	2.76
EUR	0.59	1.22	2.04
PDS	0.77	1.57	2.61
YEN	0.29	0.45	0.96
SwFr	0.23	0.75	1.53

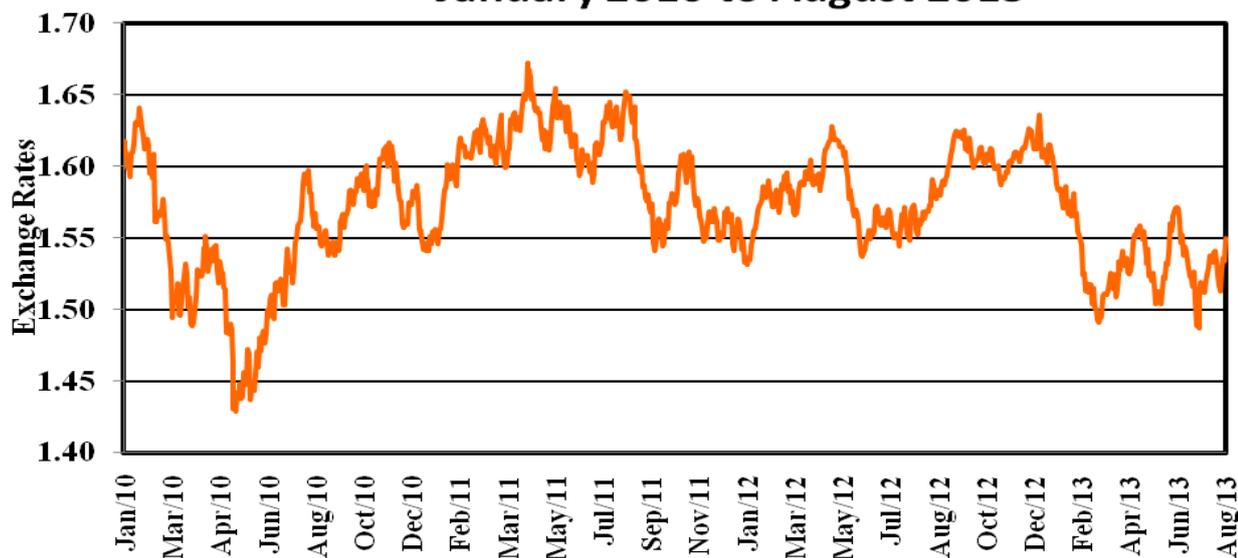
OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	106.0	DJIA	15,425
GOLD (\$/ounce)	1,312	FTSE	6,583
COPPER (\$/ton)	7,185	DAX	8,338
ALUMINIUM (\$/ton)	1,821	NIKKEI	13,615

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

* indicative only # for payables

Dollar/Pound Exchange Rate January 2010 to August 2013



Rupee/Pound Exchange Rate January 2010 to August 2013

