

NEWS

1. The US\$ strengthened across the board this week against its major international trading partners. The highest increase was against the Australian \$ by 2.9%, followed by 2.7% against the Japanese Yen and by 2.3% against the Swiss Franc. It further rose by 1.4% against the British Pound, by 1.0% each against the Euro and the Danish Kroner and by 0.4% against the Singapore \$ before ending the week marginally up by 0.2% against the Canadian \$.
2. The US four-week moving average of weekly jobless claims, a figure that can smooth out short-term fluctuations, dropped to the lowest since November 2007. The number of Americans seeking new unemployment benefits decreased by 4,000 to a seasonally adjusted 323,000 in the week ended May 4, while the number of continuing unemployment benefit claims -- those drawn by workers for more than a week -- decreased by 27,000 to 3.00 mn. However, sales of U.S. wholesale goods dropped the most in four years in March, contributing to a gain in wholesalers' inventories of 0.4%. The figures are consistent with other indicators showing retail sales dipping in March and business demand for capital equipment easing.
3. The Greek unemployment rate rose to 27.0% in February from a downwardly revised 26.7% in January -- this was the highest level among the euro-zone nations, and more than double the rate for the currency area as a whole, which was 12.0% in February. Over 64% of Greek youth were unemployed in February, compared with 24% in the euro zone as a whole, and 7.6% in Germany, the zone's largest member. The Portuguese unemployment rate rose to 17.7% in the first three months of the year, from 16.9% in the final quarter of 2012. Once again, young people were the hardest hit, with their jobless rate rising to 42.1% from 40%.

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

3, Pranamghar, Ground Floor, Ram Mandir Road, Off Malaviya Road, Vile Parle (East), Mumbai – 400 057
Tel. Off.: +91 22 26124213 Tel. Fax: +91 22 26124214

BA-112A, BA - Block, Ground Floor, Near Tilak Nagar Metro Station, Janak Puri , New Delhi - 110058
Tel. Off: +91 9999 33 6094

Email id.: info@avrco.com

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4. Japan's bank lending in April rose 2.1% from a year earlier, the largest percentage gain since July 2009. Separate data showed the country's current account, the broadest measure of trade with the rest of the world, stood at ¥1.25 trillion (\$12.4 billion) in March before seasonal adjustment, the largest surplus in the last 12 months, despite a sharply wider trade-deficit component.
5. Chinese producer prices (a measure of prices of goods before they reach consumers) dropped 2.4% in April, the sharpest decline since October, and the 14th successive monthly decline. Falling producer prices make it tougher for makers of industrial goods and commodities to make profits, pay off their debts and pay their suppliers on time.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 53.76 – ₹ 54.81 per \$, ending the week with a loss of 87 paise for the rupee at ₹ 54.81 per \$. The forward premium levels are at 7.0%, 6.9%, 6.5% and 6.2% from the preceding week-end levels of 7.6%, 7.2%, 6.9% and 6.5% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the international front, the US dollar strengthened beyond JPY 101 per \$ for the first time since April 2009 aided by a Japanese government report which showed that Japanese investors have been sharply increasing their holdings of overseas bonds. Japanese investors have been particularly enthusiastic about the improving prospects of the U.S. economy. The dollar has also gained ground vis-à-vis the euro, and has crossed the psychologically important level of \$ 1.30 per EUR. Dollar strength has been accompanied by a secular deterioration in international commodity prices, including both oil and gold.
2. Among the minor currencies, the Australian dollar suffered its biggest weekly decline since November 2011 versus the greenback. The Aussie dollar was undermined by the Reserve Bank of Australia's action lowering

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its benchmark interest rate to a record 2.75%. Indeed, the central bank has cited unusual strength in the currency as the reason for loosening monetary policy. The currency has dropped to US\$ 0.9961 per Aus\$, moving below parity with its U.S. counterpart for the first time since June 2012. The drop in international commodity prices would also surely be a further deterrent to Aussie dollar bulls.

3. Although we expect the dollar's bullish trend to continue in the weeks, and months, to come, we are not yet making changes in our forecasted ranges for the US dollar against the any of the major currencies, as follows:

JPY 92 – 104 per \$,
\$ 1.24 – 1.36 per EUR, and
\$ 1.46 – 1.58 per GBP.

4. On the domestic front, the rupee suddenly, albeit not surprisingly, weakened against the dollar, in line with the trend in the international markets. Neither the rise in domestic equity prices nor the decrease in international commodity prices could arrest the rupee's drop. We reiterate the view that the rupee-dollar exchange rate is expected to trade in the interbank market in a band of Rs 54 – 55 per \$, with temporary aberrations by one rupee on either side. It would be advisable to keep the bulk of the dollar receivables hedged. In respect of dollar payables, it would also be prudent to have a pre-determined forward rate at which the exposure would be covered. This could either be an absolute level such as say Rs 54.50 per \$ or in case of short-term forex borrowings, it could be the forward rate at which the effective cost of finance is kept below a particular level, say 5% p.a. Alternatively, one should use out-of-the-money option contracts with a strike rate 50 – 100 paise worse than the ruling forward rate as an insurance against further rupee depreciation. This will ensure that the upfront premium is kept low and simultaneously there is complete protection at the strike rate, while the advantage of any favourable movement, including a reduction in the forward premium, is not lost.

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DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	54.81
PDS	84.18
EUR	71.19
YEN (100)	53.94
SFr	57.28
DKK	9.55
CAD	54.27
AUD	54.95
SGD	44.26
CNY	8.92

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
May-13	55.01	6.87
Jun-13	55.30	6.95
Jul-13	55.63	6.86
Aug-13	55.94	6.82
Sep-13	56.20	6.67
Oct-13	56.49	6.49
Nov-13	56.76	6.42
Dec-13	57.01	6.35
Jan-14	57.31	6.30
Feb-14	57.54	6.23
Mar-14	57.80	6.19
Apr-14	58.10	6.21

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.33	6.48

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise		
Strike	Call	Put
54.00	--	15
54.50	--	28
55.00	--	46
55.50	36	--
56.00	21	--
56.50	12	--

3-mth Option on USD 1, price in paise		
Strike	Call	Put
54.50	--	47
55.00	--	63
55.50	--	83
56.00	82	--
56.50	63	--
57.00	47	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.37	7.41	7.65

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.88	6.86
MIFOR	6.33	6.48

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5358
EUR	1.2989
YEN	101.62
SFr	0.9568
DKK	5.7395
CAD	1.0100
AUD	1.0025
SGD	1.2383
PKR	98.43
CNY	6.1417

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.51	3.20	1.21
1.53	2.07	2.07
1.55	1.06	3.57

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.28	3.16	1.22
1.30	2.06	2.06
1.32	1.21	3.27

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
103.59	3.03	1.59
101.59	2.25	2.25
99.59	1.58	3.14

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.20	0.28	0.43	0.70
EUR	0.06	0.12	0.20	0.39
PDS	0.49	0.51	0.59	0.88
YEN	0.12	0.16	0.24	0.44
SwFr	0.00	0.02	0.08	0.25

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.36	0.91	1.94
EUR	0.39	0.80	1.58
PDS	0.63	1.02	1.93
YEN	0.28	0.41	0.78
SwFr	0.13	0.43	1.07

OTHER MARKETS

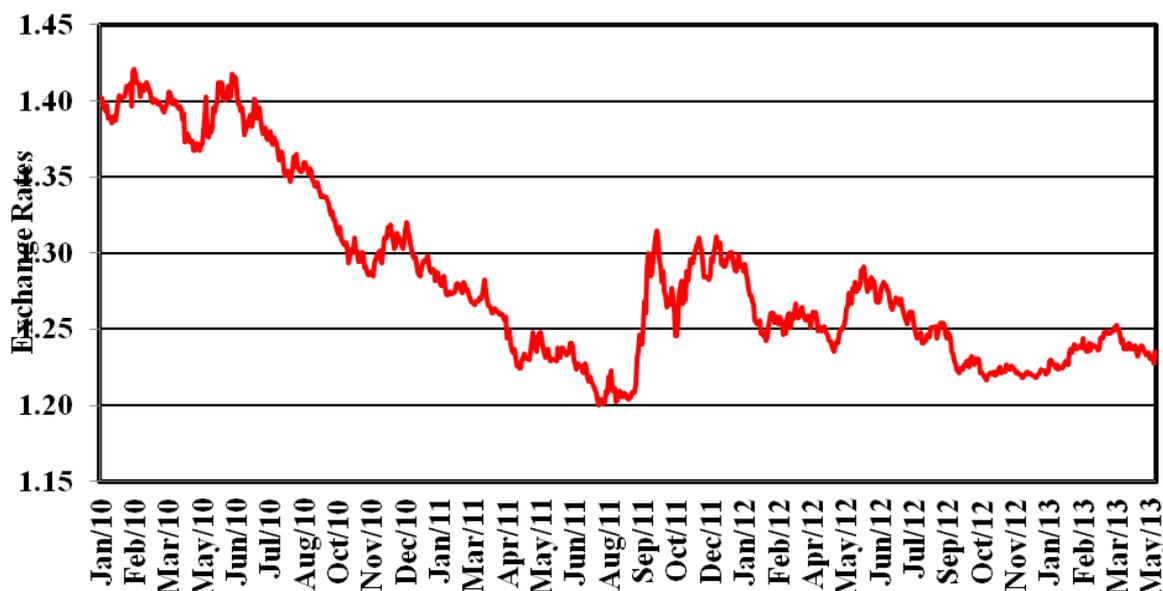
COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	96.0	DJIA	15,119
GOLD (\$/ounce)	1,436	FTSE	6,625
COPPER (\$/ton)	7,390	DAX	8,279
ALUMINIUM (\$/ton)	1,847	NIKKEI	14,608

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

* indicative only # for payables

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SGD/USD Exchange Rate January 2010 to May 2013



Chinese Yuan Renminbi Exchange Rate January 2010 to May 2013

