Currency Risk Management Report

(for the week ended July 10, 2015)

A.V.RAJWADE & CO. PVT. LTD.
RISK MANAGEMENT CONSULTANTS
Forex, Interest Rates & Derivatives

Rajwade Treasury Consultants LLP
Risk Management Consultants
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NEWS

1. The US dollar had a mixed response against its major international trading partners this week. It gained the most (1%) against the Australian $, by 0.7% against the Canadian $ and by 0.4% each against the British Pound and the Singapore $. It weakened against the Euro and the Danish krona by 0.4% and by 0.2% against the Swiss franc. It hardly changed against the Yen.
2. The US Labor Department announced that employers added a healthy 223,000 jobs in June, even though average hourly wages remained flat. For the week gone by, the seasonally adjusted initial claims for unemployment benefits stood at 297,000, an increase of 15,000 from the previous week's revised figure. The unemployment rate stands at 5.3%. Separately, the trade deficit for the month of May widened by $1.2 billion to $42 billion, fueled by a drop in exports. The effect of the dollar's strength vis-à-vis the Euro has been telling by way of reduced exports to the region. Outbound consignments to Germany fell 6% and those to France dropped by 4%.
3. In what will go down as the biggest interruption to US stock trading in two years, the NYSE on Thursday suspended all trading after a glitch was discovered in their communications systems. Although the exact nature of the fault was not made public, the exchange reported it as a "*configuration issue with software update*." Meanwhile in China, well over 1,000 companies halted trading on the mainland exchanges, bringing to a halt nearly $2.5 trillion worth of share (or 40% of the country's market value). The flagship Shanghai Composite index is now trading at a 30% discount to the peak reached in the second week of June.
4. European Finance Ministers were unable to reach a deal on the outlines of a third bail-out package for Greece this weekend, as last-chance talks broke down. With Greece on the verge of exiting the union, finance ministers met after experts from the "troika" said that new fiscal proposals "*were good enough to form a basis for negotiations*". However, this view was dismissed by Germany and a few other Northern nations. Greece had earlier attempted to secure a new three year EUR 80 billion bail-out package. The Greek Finance Ministry announced that the country's banks will remain closed through 13th July.
5. Japan's core machinery orders in May grew for the third straight month, with the total value reaching a seven-year high. The 0.6% rise in core orders, regarded as an indicator of capital spending in the coming six to nine months beat the consensus estimate of a 5% drop. Compared with the year earlier, core orders, which exclude those for ships and utilities, rose 20% in May.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 63.31-63.65 per $ and the rupee ended the week with a gain of 4 paise to close at Rs 63.40 per $. The forward premia levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 7.2%, 7.19%, 7.17% and 6.87% p.a. The RBI's forex reserves were down by $237 million over the previous week and stood at $355 billion.

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VIEWS

1. Ever since the sub-prime crisis shook the foundations of global finance and banking, haphazard market participants, caught in the web of uncertainty, have evoked central bank intervention to assuage fears. The omniscient central bankers on the other hand have pledged to do "*whatever it takes*" to quell any and all volatility, pledging a perennial back-stop to financial wisdom gone awry. The ECB and the PBoC have been the biggest proponents of this hand-holding as both mammoth institutions continued interfering in the markets, as though writing a put option on asset prices. In both these systemically important regions, the sun appears to be setting on the party. Of the two, a Chinese slowdown might have greater ramifications for India. While positives include falling commodity prices, an under-utilized Chinese manufacturing sector implies dumping of raw materials (and finished goods) on the international stage. A case in point is iron ore, cheap imports of which have started finding their way into India. Given that our traditional export markets of the US and Europe are barely growing, this poses challenges for our trade account.
2. The heavily indebted corporate sector has long clamored for an interest rate cut from the RBI. Part of the problem is of course the RBI's making. Its singular focus on the consumer price inflation has ensured that rates have remained high relative to our major Asian peers, while India's two-speed inflation continues to complicate the situation of price stability. If any of the fears pertaining to the monsoon are realized, a cut in the repo rate is unlikely to come about. This has also led to higher preference for forex borrowings to save on interest cost. Given how high hedging costs remain and the fact that various indicators point to an extended period of macro-economic stability, there appears little merit in hedging long term ECBs. Meanwhile, the central bank is worried about the exchange rate risk they carry.
3. We continue to advise exporters to hedge the bulk of their dollar receivables in the forward market and lock into the elevated premia levels. Importers should either use OTMF call option contracts to cover their short and medium term payables, or leave them open with a pre-determined stop loss level.
4. Recently released minutes from the June FOMC meeting suggest that central bankers in the US seriously contemplated an interest rate hike cycle by the end of the year. The committee felt that "*economic conditions are continuing to approach those consistent with warranting a start*". Their analysis however, was colored by their apprehensions about a possible Grexit and China's impending slowdown. Other concerns were related to whether the weakness in productivity growth recently, would be reversed or continue. The report noted that "*most participants judged that the conditions for policy firming had not yet been achieved and a number of members cautioned against premature tightening*." Considering that the Greek and Chinese factors have intensified in seriousness, a September lift-off seems unlikely at this stage, as it would prove to be anything but prudent.
5. We are keeping our ranges for the non-USD currencies unchanged from last week, as below:

   $1.03-1.13 per EUR,

   $1.48-$1.60 per GBP and

   JPY118-128 per $

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CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	63.40
PDS	98.38
EUR	70.77
YEN (100)	51.64
SFr	67.54
DKK	9.48
CAD	50.09
AUD	47.21
SGD	46.92
CNY	10.22

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Jul-15	63.62	6.59
Aug-15	64.01	7.32
Sep-15	64.39	7.11
Oct-15	64.77	7.16
Nov-15	65.15	7.23
Dec-15	65.53	7.12
Jan-16	65.88	7.11
Feb-16	66.26	7.13
Mar-16	66.64	7.08
Apr-16	67.04	7.17
May-16	67.41	7.17
Jun-16	67.76	7.08

CURRENCY SWAPS

	2-Year	5-Year
`/USD	7.18	7.20

INR/USD CURRENCY OPTIONS*

	1-mth Option on USD 1, price in paise	
Strike	Call	Put
63.00	-	16
63.50	-	34
64.00	-	60
64.50	23	-
65.00	14	-
65.50	8	-

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
63.50	-	33
64.00	-	52
64.50		76
65.00	60	-
65.50	45	-
66.00	33	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.70	7.94	7.81

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.21	7.22
MIOCS	7.18	7.20

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5517
EUR	1.1162
YEN	122.78
SFr	0.9387
DKK	6.6857
CAD	1.2658
AUD	0.7446
SGD	1.3511
PKR	101.72
CNY	6.2060

PDS 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.53	4.85	2.50
1.55	3.50	3.50
1.57	2.68	4.70

EUR 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.10	2.85	0.95
1.12	1.74	1.74
1.14	1.00	2.88

YEN 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
124.72	2.05	0.78
122.72	1.31	1.31
120.72	0.70	2.20

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.19	0.28	0.45	0.78
EUR	-0.08	-0.03	0.06	0.16
PDS	0.50	0.58	0.75	1.04
YEN	0.06	0.10	0.14	0.23
SwFr	-0.83	-0.80	-0.73	-0.65

	INTEREST RATE SWAPS		
	2-Year	5-Year	10-Year
USD	0.91	1.79	2.51
EUR	0.12	0.52	1.21
PDS	1.14	1.75	2.18
YEN	0.15	0.30	0.65
SwFr	-0.72	-0.25	-0.45

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude ($/barrel)	52.8	DJIA	17,760
GOLD ($/ounce)	1,158	FTSE	6,674
COPPER ($/ton)	5,561	DAX	11,315
ALUMINIUM ($/ton)	1,652	NIKKEI	19,780

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

** indicative only*

 # for payables

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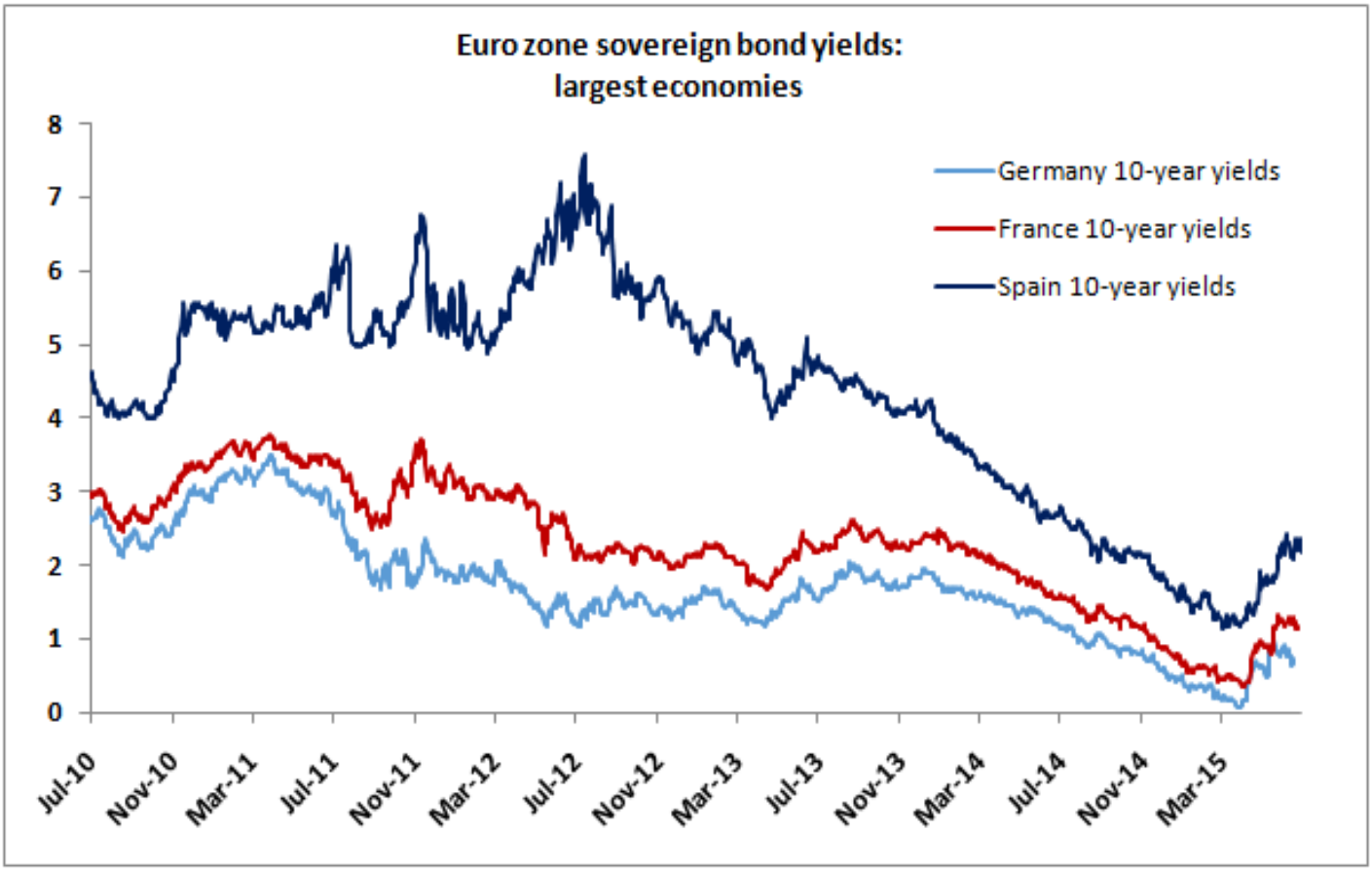

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