

NEWS

1. The US \$ weakened this week against most of its international trading partners. Its highest fall was against the Euro by 2.3% and against the Danish Kroner by 2.0%. It also fell by 1.2% against the Swiss Franc, and by 0.5%, 0.4% and 0.2% against the Australian \$, the British Pound and the Canadian \$ respectively. However, it strengthened by 1.2% against the Japanese Yen, but ended the week stable against the Singapore \$.
2. The U.S. trade deficit surged in November. The nation's trade gap grew by nearly 16% from a month earlier to \$48.7 billion, the biggest deficit since April. Imports climbed 3.8% to \$231.3 billion, while exports rose 1% to \$182.6 billion. The specter of long-term unemployment, one of the most pernicious and persistent challenges bedeviling the U.S. economy, is finally showing signs of easing. The long-term unemployed—those out of work for over six months—made up 39.1% of all job seekers in December, the first time that figure has dropped below 40% in more than three years.
3. The euro-zone unemployment rate rose to a fresh high in November as a net 113,000 people lost their jobs, leaving record numbers without work. The euro zone's jobless rate was 11.8%, up from 11.7% in October and 10.6% in November 2011. Among people age 24 and under, the rate was much higher, standing at 24.4%, hitting the highest level since records began in 1995. Euro-zone retail sales rose 0.1% in November from October, but were down 2.6% from November 2011.
4. Japan recorded a much bigger-than-expected deficit in its current account in November at 222.4 billion yen (\$2.52 billion) before seasonal adjustment, and was the second-largest on record, following a ¥455.6 billion deficit in January 2012. Providing a brighter spot among the gloomy figures were the seasonally adjusted current account figures, which showed an upturn, with a surplus of ¥225.9 billion. The adjusted

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balance had fallen into the red for the first time in more than 30 years in September, before rebounding into slightly positive territory thereafter.

5. China's trade surplus rose sharply in December, widening to \$31.6 bn from \$19.6 bn in November. Exports soared 14% from a year earlier, the fastest pace in seven months, while imports rose 6%. For the full year, China's trade surplus widened substantially in 2012, rising by 48% from a year earlier to \$231.1 bn. Exports for 2012 grew 7.9%, down from 20% growth in 2011. Imports rose 4.3%, down from 12% growth the previous year.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 54.39 – ₹ 55.38 per \$, ending the week with a gain of 32 paise for the rupee at ₹ 54.76 per \$. The forward premium levels are at 7.6%, 7.1%, 6.6% and 6.0% from the preceding week-end levels of 7.2%, 6.8%, 6.4% and 5.8% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the international foreign exchange markets, the euro has had a bull run since the beginning of the year, climbing above \$ 1.33 per EUR for the first time in nine months. The euro made fresh gains last week against all its 16 major trading partners after European Central Bank President Mario Draghi stated that the region's economy would gradually recover, and also kept the benchmark interest rate at a record low of 0.75% p.a. As has been said, "Hope springs eternal in the human breast". The ECB President's statement was enough to give hope that the worst is over for the region, although as yet there is little evidence of improvement in the euro-zone economy.
2. Meanwhile, the Japanese yen weakened for the ninth successive week vis-à-vis the US dollar – this has been the longest stretch of weekly losses since 10 weeks ended in February 1989. It also scaled a low of JPY 89.45 per \$, the weakest level since June 28, 2010, and tumbled by 3.3% against

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the euro to JPY 119.01 per euro, touching a trough of JPY 119.35, the lowest level since May 2011.

3. We are not changing our forecasted ranges for the US dollar against the major currencies, although with some trepidation on the euro front, as follows:

JPY 80 – 92 per \$,
\$ 1.22 – 1.34 per EUR, and
\$ 1.54 – 1.66 per GBP.

4. On the domestic front, the move to resurrect railway finances certainly augurs well both for the much-needed correction of the fiscal deficit and to ensure that foreign investors continue to support the economy. If a Balance of Payments crisis is to be averted in the wake of the large current account deficits (CAD) we continue to run, a downgrade of the country's rating by the international agencies will need to be prevented at any cost. It will take time for the fall of the rupee to influence the economy and bring the CAD within sustainable limits – generally, there is a time lag of 12-15 months between a correction in the exchange rate and a rectification of the CAD. Until then, forex capital inflows must be maintained to nip in the bud any possibility of further bear pressure on the rupee. The Reserve Bank of India is bound to worry about the inflationary impact of a free-falling rupee.
5. We continue to advise corporate treasury managers with net dollar receivables to sell the bulk of their exposures. If the net position is short (i.e. uncovered payables are in excess of uncovered receivables), we suggest that preferably an out-of-the-money dollar call option (i.e. with a strike rate worse than the ruling forward rate) should be taken. However, if this is not feasible, either because the management is unwilling to keep a budget for the option premium or because it is not willing to consider option contracts, a stop loss level at a spot exchange rate of say Rs 56 per \$ should be kept.

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DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	54.76
PDS	88.34
EUR	73.07
YEN (100)	61.40
SFr	59.95
DKK	9.79
CAD	55.61
AUD	57.69
SGD	44.70
CNY	8.81

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Jan-13	54.97	7.78
Feb-13	55.26	7.24
Mar-13	55.55	6.96
Apr-13	55.87	6.95
May-13	56.19	6.81
Jun-13	56.44	6.66
Jul-13	56.73	6.50
Aug-13	56.99	6.39
Sep-13	57.22	6.27
Oct-13	57.47	6.13
Nov-13	57.71	6.04
Dec-13	57.94	5.97

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	5.98	6.25

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
54.00	--	22
54.50	--	36
55.00	--	56
55.50	43	--
56.00	27	--
56.50	16	--

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
54.50	--	57
55.00	--	74
55.50	--	95
56.00	97	--
56.50	77	--
57.00	61	--

INTEREST RATE MARKETS

GOI BOND	2-Year	5-Year	10-Year
	7.78	7.92	7.87

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.24	7.19
MIFOR	5.98	6.25

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.6132
EUR	1.3343
YEN	89.18
SFr	0.9135
DKK	5.5928
CAD	0.9848
AUD	1.0535
SGD	1.2250
PKR	97.28
CNY	6.2158

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.59	3.32	1.32
1.61	2.10	2.10
1.63	1.26	3.26

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.31	3.70	1.22
1.33	2.19	2.19
1.35	1.52	3.03

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
91.15	2.96	0.79
89.15	1.68	1.68
87.15	0.75	3.57

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.21	0.31	0.50	0.82
EUR	0.05	0.13	0.22	0.44
PDS	0.49	0.51	0.66	1.00
YEN	0.13	0.17	0.28	0.48
SwFr	0.00	0.01	0.07	0.26

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.39	0.91	1.92
EUR	0.48	0.95	1.78
PDS	0.77	1.21	2.14
YEN	0.26	0.36	0.88
SwFr	0.13	0.43	1.06

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	93.5	DJIA	13,488
GOLD (\$/ounce)	1,663	FTSE	6,121
COPPER (\$/ton)	8,117	DAX	7,715
ALUMINIUM (\$/ton)	2,075	NIKKEI	10,801

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

* indicative only # for payables

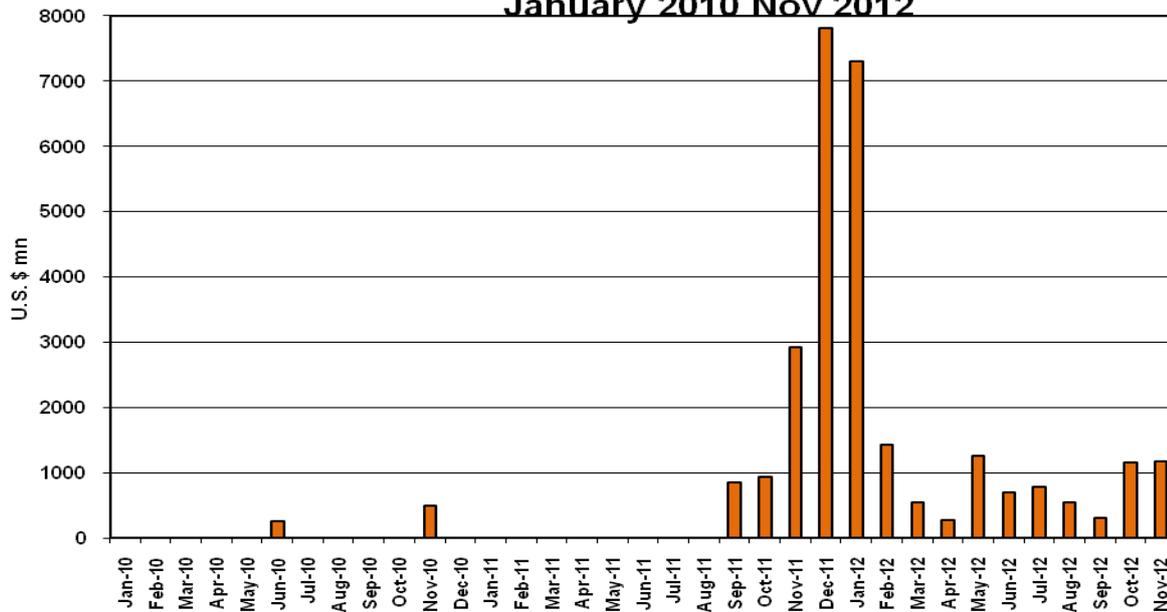
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**India's Reserves (US \$ mn)
January 2010 to 4th January 2013**



**RBI Sales of Dollars (US \$ million)
January 2010 Nov 2012**



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