

NEWS

1. The US\$ fell this week against most of its international trading partners. Its highest fall was against the Australian \$ by 1.2%, followed by 0.9% each against the Euro and the Danish Kroner. It further weakened by 0.8% against the Swiss Franc, by 0.4% against the Canadian \$ and by 0.3% against the Singapore \$. It however strengthened by 0.8% against the Japanese Yen, before ending the week virtually unchanged vis-à-vis the British Pound.
2. Initial jobless claims, a measure of layoffs, decreased by 42,000 to a seasonally adjusted 346,000 in the week ending April 6. This was the biggest weekly drop since November. Overall prices of imported goods decreased 0.5% last month from February. March prices for petroleum imports declined 1.9%, and are down more than 10% from a year earlier. However, retail sales fell by 0.4%, although market expectations were centered on a flat growth. This was the sharpest decline in 9 months. Besides, the consumer confidence index dropped sharply in April from 78.6 a month earlier to 72.3, a nine-month low, as households grew more pessimistic about the outlook for the economy.
3. House prices in large parts of the euro zone fell in the fourth quarter of 2012 adding to the euro zone's economic woes. House prices in the euro zone declined by 0.5% from the third quarter of 2012, and were down 1.8% from the fourth quarter of 2011. House prices in Spain were 12.8% lower than in the fourth quarter of 2011, while in Portugal prices were down 6% and in Italy they were down 4.6%. However, other estimates suggest German house prices rose in 2012, gaining 4% on the same period of 2011.
4. China's mountain of reserves has reached \$3.44 trillion – roughly the size of the German economy – in the first quarter, in an indication that the

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

economy is once again facing heavy capital inflows. The \$128 bn jump in the first quarter was the biggest quarterly increase since the second quarter of 2011. Separately, its sovereign credit rating has been cut by a major international agency for the first time since 1999 with Fitch raising concerns that the country's rising debt problems will require a government bailout.

5. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ` 54.34 – ` 54.84 per \$, ending the week with a gain of 28 paise for the rupee at ` 54.53 per \$. The forward premium levels have receded to 7.7%, 7.6%, 7.3% and 6.8% compared to the preceding week-end levels of 8.3%, 7.9%, 7.5% and 6.9% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic front, the rupee-dollar exchange rate continues to trade on the interbank market within the relatively narrow band of Rs 54 – 55 per \$. The exit of the foreign institutional investors (FIIs) from the domestic stock market has not affected the rupee so far. This could either reflect a lower current account deficit in the preceding quarter reducing the demand-supply imbalance with a lag, or it could be the result of FIIs shifting from the stock market to the debt / money markets so that the dollars are not leaving the system.
2. In recent weeks, there has been a sharp drop of almost \$ 7 in the international oil price to \$ 103 per barrel. If sustained, this has the potential to effect a reduction of over \$ 10 bn in our oil import bill. Besides, this would reduce the domestic petroleum price, and even more importantly the subsidy on diesel by almost Rs 5 per litre. This aids both in containing inflation and in keeping a leash on the fiscal deficit. Clearly, lower oil prices could become the single biggest driver for an improvement in our economic fundamentals. Besides, there has been a

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sharp fall in international gold prices. Gold is another big import item, considering the insatiable Indian appetite for the yellow metal and virtually no domestic production or re-cycling of the commodity. Interestingly, gold imports in 2011-12 were \$ 60 bn, which constituted over three-fourths of the country's current account deficit. Gold has plummeted by almost 21% since its record high of \$ 1,892 per ounce in August 2011, and it is now technically supposed to be in the grip of a bear market. Meanwhile, silver has slumped to its lowest level since 2010. Other metals too are in decline, which surely augurs well for a drop in India's overall imports, and consequently the trade and current account deficits.

3. Meanwhile, our advice to corporate treasury managers is unchanged. The bulk of the receivables should be hedged to the extent of the risk management horizon (typically, 6 months for the manufacturing sector and 12 months for the service sector). We also recommend that the bulk of the short-term payables should be covered. The recent decline in option prices on the back of greater stability of the rupee-dollar exchange rate is a further incentive to prefer out-of-the-money call option contracts (with a strike rate say 50 paise worse than the forward exchange rate) rather than forward contracts for hedging dollar payables.
4. On the international front, the Japanese yen came within a whisker of the psychologically important level of JPY 100 per US dollar. This is a significant level that it has not crossed in the last four years. The yen had briefly touched JPY 99.95 before it gained by over 1%, after a technical indicator signaled it had dropped too much, too quickly. We are amending the range for the Japanese yen to JPY 92 – 104 per \$.
5. There is no change in our forecasted ranges for the US dollar against the other major currencies, as follows:

\$ 1.24 – 1.36 per EUR, and

\$ 1.46 – 1.58 per GBP.

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DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	54.53
PDS	83.67
EUR	71.51
YEN (100)	55.43
SFr	58.81
DKK	9.59
CAD	53.80
AUD	57.30
SGD	44.09
CNY	8.81

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Apr-13	54.69	7.56
May-13	55.08	7.79
Jun-13	55.39	7.68
Jul-13	55.74	7.51
Aug-13	56.06	7.42
Sep-13	56.35	7.28
Oct-13	56.68	7.18
Nov-13	56.95	7.05
Dec-13	57.22	6.95
Jan-14	57.54	6.91
Feb-14	57.80	6.83
Mar-14	58.07	6.77

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.78	6.95

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
53.50	--	8
54.00	--	17
54.50	--	32
55.00	43	--
55.50	25	--
56.00	14	--

3-mth Option on USD 1, price in paise

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
54.00	--	36
54.50	--	50
55.00	--	68
56.00	74	--
56.50	57	--
57.00	43	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.58	7.78	7.91

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.15	7.16
MIFOR	6.78	6.95

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5343
EUR	1.3113
YEN	98.37
SFr	0.9273
DKK	5.6861
CAD	1.0136
AUD	1.0508
SGD	1.2368
PKR	98.27
CNY	6.1921

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.51	3.69	1.35
1.53	2.26	2.26
1.55	1.53	3.19

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.29	3.43	1.25
1.31	2.12	2.12
1.33	1.34	3.16

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
100.34	3.32	1.63
98.34	2.40	2.40
96.34	1.51	3.82

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.20	0.28	0.44	0.72
EUR	0.06	0.13	0.22	0.42
PDS	0.49	0.51	0.60	0.90
YEN	0.12	0.16	0.25	0.45
SwFr	0.00	0.02	0.08	0.25

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.38	0.88	1.90
EUR	0.46	0.85	1.60
PDS	0.61	0.95	1.88
YEN	0.31	0.46	0.84
SwFr	0.14	0.49	1.15

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	91.2	DJIA	14,865
GOLD (\$/ounce)	1,501	FTSE	6,384
COPPER (\$/ton)	7,508	DAX	7,744
ALUMINIUM (\$/ton)	1,840	NIKKEI	13,485

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

* indicative only # for payables

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Swiss Franc/USD Exchange Rate January 2010 to April 2013



Chinese Yuan/USD Exchange Rate January 2010 to April 2013

