

NEWS

1. The US\$ weakened across the board rising only against the Australian \$ by 0.2%. It declined the most by 2.0% against the Japanese Yen followed by 1.9% each against the Euro and the Danish Kroner. It also weakened by 1.8% each against the Swiss Franc and the Canadian \$, and by 1.5% each against the British Pound and the Singapore \$.
2. Initial jobless claims in the U.S., a proxy for layoffs, increased by 4.4% to a seasonally adjusted 360,000 in the week ended July 6. The four-week moving average of claims, which smoothens week-to-week volatility, increased by a much lower 1.7% to 351,750. Besides, the number of continuing unemployment benefit claims -- those drawn by workers for more than a week -- rose by 0.9% to almost 3 mn in the week ended June 29. Continuing claims are reported with a one-week lag. Meanwhile, the U.S. government posted a record June budget surplus of \$116.50 billion, compared with a \$59.74 billion deficit a year earlier. The budget deficit for the first three-quarters of the fiscal year, which started Oct. 1, at \$509.8 billion is down about 44% from the same period a year earlier. The deficit is projected to fall to \$642 billion for 2012-13, and get as low as \$378 billion in 2015. The deficit for the prior year was \$1.089 trillion. The last time the deficit was under \$1 trillion was 2008, when spending outpaced revenue by \$458.55 billion.
3. China exports shrank 3.1% in June on a year-over-year basis, compared to the 1% growth in May and the first contraction in a non-holiday month since the height of the financial crisis in November 2009. Imports fell 0.7% year-on-year, pointing to weak demand at home as well as abroad. Exports to a debt-ridden Europe slumped 8.3% year-on-year in June, and sales to the U.S. were down 5.4%. Despite the slowdown, China's labor markets remain robust as demand for workers continues to outstrip supply.

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For every 100 job seekers in the second quarter, there were 107 job opportunities, slightly lower than the 110 job opportunities in the first quarter.

4. Consumer sentiment in Japan fell for the first time in six months in June. The index of monthly consumer sentiment worsened to 44.3 from May's 45.7, adding to a string of recent data indicating a softening of consumer sentiment and real spending.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 59.35 – ₹ 61.21 per \$, ending the week with a gain of 67 paise for the rupee at ₹ 59.57 per \$. The forward premium levels are at 6.7%, 6.4%, 6.1% and 5.7% from the preceding week-end levels of 6.3%, 6.2%, 6.0% and 5.8% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic interbank market, the Ministry of Commerce has released the trade data for June 2013. The picture remains a cause for concern with the month's trade deficit widening on a year-on-year basis to \$ 12.2 bn (albeit sharply lower than the preceding month's gap of \$ 20 bn). Exports decreased by 4.6% to \$ 23.8 bn, while imports were only marginally lower at \$ 36 bn. For the first quarter (April – June) of the fiscal year 2013-14, exports have dropped by 1.4% to \$ 72.5 bn, while imports have grown by 6% to \$ 122.6 bn resulting in a 19% jump in the trade deficit to \$ 50.2 bn. Significantly, despite the sharp fall in gold imports during June, almost the entire increase in the quarter's trade deficit was accounted for by the incremental gold imports during the quarter. If the June trend continues, the gold imports for the entire year may not be significantly larger than in 2012-13. Indeed, in view of the considerable drop in the international gold price gold imports may contract at least in dollar terms. It would then not be surprising to see a narrowing of the trade deficit in the months to come, perhaps even for the full year.

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2. The near-term outlook for the rupee-dollar exchange rate remains uncertain. A strong argument can be made for a sharp movement in either direction. No doubt, the Reserve Bank of India is showing increasing signs of its discomfort with the current level. Curiously, some of its other actions result in higher demand for dollars in the short term. In a bid to curb gold imports it had earlier decreed that gold for domestic consumption could be imported only on payment in advance. This led to a jump in dollar demand in May. Similarly, it has recently issued a notification that “for availment of trade credit, the period of trade credit should be linked to the operating cycle and trade transaction”. In general, this would shorten the credit period, thereby leading to dollar demand being preponed.
3. We continue to advise corporate treasury managers to prefer use of option contracts where the cost is limited to the option premium paid. This is very different from the forward contract where although no upfront premium is payable, the opportunity cost can be very large, as exporters are now finding out.
4. On the international front, Fitch Ratings has stripped France of its triple-A credit rating. The credit-ratings company has painted a bleak picture of France's finances, saying debt would rise further and faster than it previously expected, and forecasting economic contraction this year after stagnation in 2012. Fitch also pointed to the country's 15-year-high unemployment rate of 10.9% as a cause for concern. Clearly, despite the French President's assertion last month that “the crisis in the euro zone is over” the euro remains vulnerable to bad economic data.
5. We are not changing our forecasted ranges for the US dollar against all the major currencies, as follows:

JPY 95 – 107 per \$,
\$ 1.22 – 1.34 per EUR, and
\$ 1.43 – 1.55 per GBP.

DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	59.57
PDS	89.99
EUR	77.84
YEN (100)	60.04
SFr	62.94
DKK	10.44
CAD	57.31
AUD	53.90
SGD	47.19
CNY	9.70

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Jul-13	59.76	6.85
Aug-13	60.07	6.52
Sep-13	60.38	6.53
Oct-13	60.68	6.24
Nov-13	60.95	6.08
Dec-13	61.25	6.13
Jan-14	61.56	6.07
Feb-14	61.83	6.05
Mar-14	62.11	6.01
Apr-14	62.46	6.11
May-14	62.73	6.05
Jun-14	63.01	6.04

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.27	6.57

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise

Strike	Call	Put
58.50	168	28
59.00	132	43
59.50	101	62
60.50	56	115
61.00	40	149
61.50	28	187

3-mth Option on USD 1, price in paise

Strike	Call	Put
59.00	210	61
59.50	178	78
60.00	149	98
61.00	102	149
61.50	83	180
62.00	68	214

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.59	7.77	7.58

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.45	7.51
MIFOR	6.27	6.57

INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5107
EUR	1.3067
YEN	99.22
SFr	0.9465
DKK	5.7070
CAD	1.0395
AUD	0.9049
SGD	1.2623
PKR	100.18
CNY	6.1382

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
1.49	3.16	1.18
1.51	2.03	2.03
1.53	1.19	3.21

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
1.29	3.03	1.32
1.31	2.08	2.08
1.33	1.15	3.43

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
101.19	3.31	1.49
99.19	2.31	2.31
97.19	1.40	3.59

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.19	0.27	0.40	0.69
EUR	0.07	0.14	0.25	0.45
PDS	0.49	0.51	0.59	0.88
YEN	0.12	0.16	0.23	0.42
SwFr	0.00	0.02	0.08	0.25

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.52	1.57	2.77
EUR	0.55	1.11	1.90
PDS	0.78	1.46	2.46
YEN	0.31	0.51	1.04
SwFr	0.20	0.73	1.49

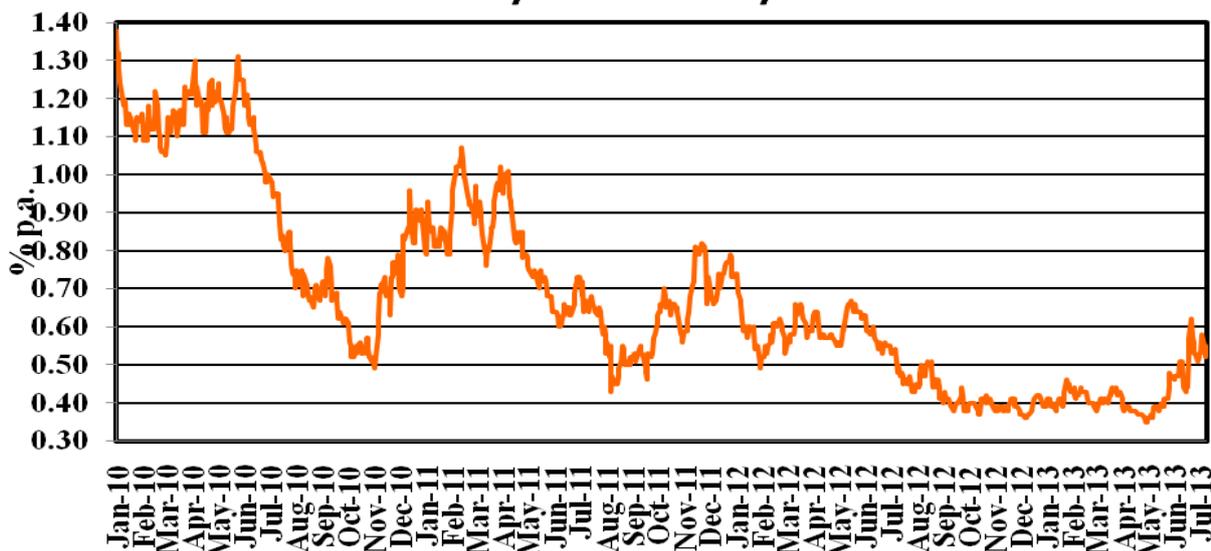
OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	106.0	DJIA	15,464
GOLD (\$/ounce)	1,277	FTSE	6,545
COPPER (\$/ton)	6,923	DAX	8,212
ALUMINIUM (\$/ton)	1,790	NIKKEI	14,506

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

* indicative only # for payables

**USD\$ 2 Year IRS
January 2010 to July 2013**



**USD\$ 5 Year IRS
January 2010 to July 2013**

