

## NEWS

1. The Japanese yen strengthened by 2.2% against the US\$, trading at ¥ 76.90, up by 2 yen as compared to the preceding week-end level. The US\$ was up by 3.3% against the Swiss Franc, 0.6% each against the Australian \$ and the Canadian \$ and by half a percentage point each against the British pound and the euro. However, the greenback lost 1.1% against the Singapore \$ and 0.9% against the Danish krone.
2. The Federal Reserve Board took an unprecedented step by explicitly committing to an exceptionally low target rate. It has been decided to keep the target range for the federal funds rate at 0 to 0.25% at least through mid-2013. In June, the US trade deficit widened to \$ 53.1 billion following May's deficit of \$ 50.8 billion. Exports dropped by 2.3% while imports dipped by a mere 0.8% despite the lower commodity and oil prices. In the week ended August 6, joblessness claims for the first time since early April fell below 400,000. More significantly, the less volatile four-week average number also declined by about 1%, indicating an improvement for the August employment report.
3. The UK's trade deficit in goods and services widened to £4.5bn in June, up from £4bn in May. The surplus on trade in services of £4.4bn was offset by a larger deficit on trade in goods of £8.9bn. UK manufacturing output fell by 0.4% in June as compared to a 1.8% increase in May while the wider measure industrial production, which includes utilities and oil and gas production, was unchanged over the month.
4. In June, Germany's trade surplus contracted to €12.7 bn from € 14.8 bn recorded in May. (The surplus a year ago was EUR 14.3 bn.) Exports fell by 1.2% on a month-over-month basis while imports dropped by 0.3%. Germany consumer prices in July were up by 0.4% over the month and by 2.4% over the year.

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5. Japan's tertiary industry activity index in June rose by 1.9% as compared to a month before. The main reason for the strong performance was the 2.9% rise in wholesale and retail trade, which accounts for 26.4% of the index. Separately, Japan's core machinery orders, a leading indicator of corporate capital spending rose sharply by 7.7% in June from the previous month. It was the sharpest rise since a 12.8% increase in August 2010.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of ₹44.86 – ₹45.46 per \$, before ending the week with a 60 paise loss for the rupee at ₹45.34 per \$. Forward premium levels for all maturities crashed sharply and at one time the one-month forward was at a discount of 2.5 paise. Currently, forward premia for 1 month is around 7 paise i.e 1.9% p.a., while for 3, 6 and 12 months maturities it is ruling at 2.9% p.a. In August, FIIs were net sellers to the tune of \$ 1.3 billion and \$ 336 million in equity and debt market respectively. In 2011, FIIs' total investment in equity and debt market has totalled only \$ 4.5 bn till date.

## VIEWS

1. On the domestic interbank market, the rupee continued to be under bear pressure. However, exporters who had been waiting for a spot rate of Rs 45 per \$ in order to hedge long-term exposures were dismayed to find that forward premium levels had collapsed. What the market gave with one hand was taken away by the other! Nevertheless, if the level above Rs 45 is sustained next week it would remain an opportunity to sell near-term receivables.
2. The decline in the forward premium across the board makes it even more attractive than earlier to take as much of foreign currency financing as possible. In general, buyers' / suppliers' credits against imports are the cheapest (with the least spread over LIBOR) source, followed by PCFC (packing credit in foreign currency) on export receivables. The highest spread over LIBOR would be charged in respect of FCNR(B)-linked loans,

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which often also involve payment of a front-end fee to brokers. Even in the worst-case scenario of an FCNR(B)-linked loan at a spread of 5.5% over LIBOR, the fully hedged cost of the loan (including LIBOR interest rate and the forward premium) would be around 9% p.a. over six months. This is well below the cost of rupee finance for almost every corporate borrower. On a fully hedged basis, the cost of the forex loan would be identical, irrespective of the convertible currency in which the loan is taken, since the interest rate differential between the USD loan and the non-\$ loan would be reflected in the forward premium / discount of the currency vis-à-vis the USD.

3. Unfortunately, most corporate treasury managers like to calculate the fully hedged cost of the forex loan only for the purpose of justifying the decision to prefer the forex loan. Once the loan is taken, there is invariably a strong desire to “save” the forward premium so that the interest cost can be further reduced. While the objective is laudable, two caveats are necessary. Firstly, there should be a pre-determined “stop loss” level at which a hedge must be compulsorily taken if the rupee starts to slide. This could be the level at which the effective cost rises above the cost of rupee finance. Secondly, there should also be a “stop greed” level if the rupee appreciates – this could be say 3% p.a. (or at least 0% p.a.), so that opportunities are not missed on the back of eternal hope.
4. On the international foreign exchange markets, there has been a remarkable development in recent months. While there have been sharp gyrations between the USD and the non-\$ currencies both inter-day and intra-day, the monthly ranges are much lower than hitherto. Clearly, the market remains confused about what direction the global economy will take. Accordingly, we are narrowing our ranges for all the non-\$ currencies, as follows:

JPY 76 – 84 per \$,  
\$ 1.37 – 1.45 per EUR and  
\$ 1.58 – 1.65 per GBP.

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**DOMESTIC MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	₹/Currency
USD	45.34
PDS	73.88
EUR	64.81
YEN (100)	58.95
SFr	57.36
DKK	8.70
CAD	45.91
AUD	47.24
SGD	37.58
CNY	7.09

**PROJECTIONS SUGGESTED COVER<sup>#</sup>%**

changed	₹/USD	
	13-May-10	
1st Fn	44.25 - 45.75	40
2nd Fn	44.00 - 46.00	40
2nd Mth	44.00 - 46.00	20
3rd Mth	44.00 - 46.00	20

**FORWARD EXCHANGE RATES**

Month-end	₹/USD	Premium % p.a.
Aug-11	45.37	1.42
Sep-11	45.47	2.23
Oct-11	45.60	2.72
Nov-11	45.74	2.97
Dec-11	45.87	3.03
Jan-12	46.01	3.17
Feb-12	46.12	3.10
Mar-12	46.24	3.13
Apr-12	46.36	3.14
May-12	46.46	3.06
Jun-12	46.56	3.03
Jul-12	46.67	3.02

**CURRENCY SWAPS**

₹/USD	2-Year	5-Year
	3.42	5.80

**INR/USD CURRENCY OPTIONS\***

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
44.75	--	31
45.25	--	47
45.75	--	68
46.25	65	--
46.75	47	--
47.25	34	--

**INTEREST RATE MARKETS**

GOI BOND	2-Year	5-Year	10-Year
	8.16	8.28	8.35

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.15	6.86
MIFOR	3.42	5.80

**INTERNATIONAL MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	Against USD
PDS	1.6295
EUR	1.4295
YEN	76.91
SFr	0.7905
DKK	5.2095
CAD	0.9875
AUD	1.0420
SGD	1.2065
PKR	86.40
CNY	6.3920

**PROJECTIONS**

changed	\$/PDS	\$/EURO	YEN/\$	SFr/\$
	12-Aug-11	12-Aug-11	12-Aug-11	12-Aug-11
1st Fn	1.58 - 1.65	1.37 - 1.45	76 - 84	0.74 - 0.82
2nd Fn	1.56 - 1.67	1.35 - 1.47	74 - 86	0.72 - 0.84
2nd Mth	1.54 - 1.69	1.33 - 1.49	72 - 88	0.70 - 0.86
3rd Mth	1.52 - 1.71	1.31 - 1.51	70 - 90	0.68 - 0.88

**SUGGESTED COVER<sup>#</sup>%**

	\$/PDS	\$/EURO	YEN/\$	SFr/\$
1st Fn	40	40	20	60
2nd Fn	40	40	20	60
2nd Mth	40	40	40	60
3rd Mth	40	40	40	60

**USD CURRENCY OPTIONS\***

(Put option against USD, prices in US cents)			
	STRIKE	1 MONTH	3 MONTH
PDS	1.61	1.06	2.50
EUR	1.41	1.94	3.80
YEN(100)	77.00	0.47	1.50

**INTEREST RATE MARKETS**

**OFFSHORE CURRENCY**

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.21	0.29	0.45	0.77
EUR	1.32	1.49	1.71	2.05
PDS	0.65	0.85	1.13	1.60
YEN	0.14	0.19	0.34	0.56
SwFr	0.02	0.05	0.12	0.38

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.47	1.27	2.39
EUR	1.47	2.15	2.91
PDS	1.18	1.79	2.90
YEN	0.37	0.51	1.08
SwFr	0.10	0.79	1.62

**OTHER MARKETS**

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	84.5	DJIA	11,143
GOLD (\$/ounce)	1,758	FTSE	5,188
COPPER (\$/ton)	8,800	DAX	5,846
ALUMINIUM (\$/ton)	2,367	NIKKEI	8,963

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

\* indicative only # for payables

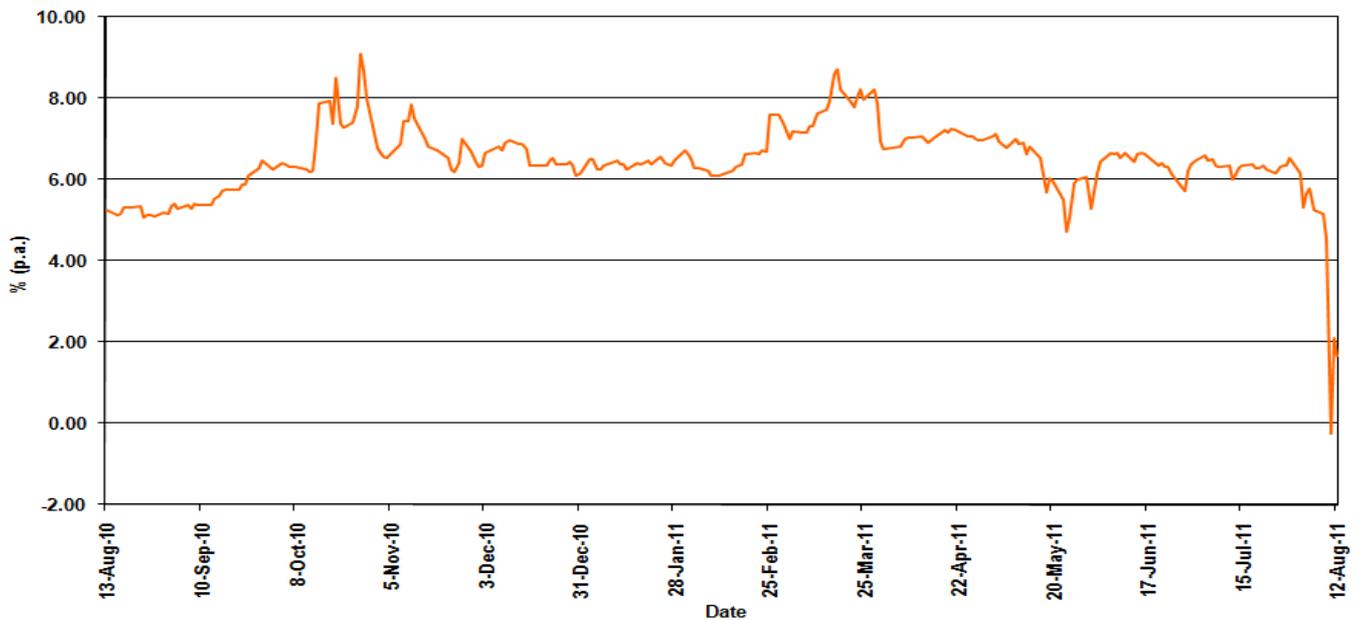
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₹ per US\$  
 12-month Forward Premium (% p.a.)  
 13<sup>th</sup> August 2010 to 12<sup>th</sup> August 2011



₹ per US\$  
 1-month Forward Premium (% p.a.)  
 13<sup>th</sup> August 2010 to 12<sup>th</sup> August 2011



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