

## NEWS

1. The US\$ strengthened against most of its major international trading partners. It rose the highest by 1.8% against the British Pound followed by 0.9% against the Japanese Yen. It also gained 0.4% each against the Swiss Franc and the Canadian \$ and 0.1% against the Australian \$. It ended the week stable vis-à-vis the Euro, the Danish Kroner and the Singapore \$.
2. US initial jobless claims, a measure of layoffs, decreased by 27,000 to a seasonally adjusted 341,000 in the week ended Feb. 9. The four-week moving average, however, advanced by 1,500 to 352,500. Despite the slight rise last week, the average level remained near a five-year low. Industrial production edged lower in January, decreasing 0.1% over the preceding month. Capacity utilization slid to 79.1% from a revised 79.3% the prior month. Overall industrial production, which includes manufacturing, mining and utility output, was up 2.1% from a year earlier. Separately, consumer confidence jumped more than expected in the first half of this month despite higher payroll taxes since the beginning of the year.
3. Euro-zone exports fell 1.8% in December from November, after growth of 0.6% the previous month. Imports declined 3.0% in December, illustrating the fragile state of domestic demand. The fact that exports fell less rapidly than imports in December meant a further improvement to the euro zone's trade position overall, despite the worsening state of its economy. The trade surplus rose to a seasonally adjusted €12.0 billion (\$16.07 billion) in December. That is the highest level since January 1999. Meanwhile, Euro-zone gross domestic product (GDP) fell 0.6% in the fourth quarter from the third, deepening a contraction that began in April.
4. Japan's real GDP contracted for the third straight quarter, shrinking at an annualized rate of 0.4% in the October-December quarter from 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 11 45047117

**Email id.: [info@avrco.com](mailto:info@avrco.com)**

*Page 1*

previous quarter. Adding to the gloomy picture, figures for the previous July-September quarter were revised to an annualized rate of decline of 3.8% from 3.5%. In the three-month period, exports tumbled for a second straight trimester by an annualized rate of 14%, while imports dropped by an annualized 9%. External demand shaved 0.2 percentage point off the GDP. Private capital outlays decreased an annualized 9.9%, for a fourth straight quarterly decline. This is the worst succession of results since 2009.

5. On the domestic interbank market, the rupee-dollar exchange rate traded in a relatively narrow range of ₹ 53.61 – ₹ 54.23 per \$, ending the week with a loss of 72 paise for the rupee at ₹ 54.23 per \$. The forward premium levels are at 7.1%, 7.6%, 7.2% and 6.6% from the preceding week-end levels of 8.1%, 7.8%, 7.4% and 6.7% for 1, 3, 6 and 12 month maturities respectively.

## VIEWS

1. On the domestic front, there are growing signs that a modicum of stability is returning to the rupee-dollar exchange rate. An analysis of the difference between the high and the low of the exchange rate each day since the beginning of the fiscal year shows that compared to 36% of days between April and November when the differential was less than 30 paise, during the subsequent 10 weeks there have been 54% of such days. More significantly, compared to 15% of days between April and November when the differential was over 60 paise, there have been none since end-November. We are still nowhere close to the stable days of 2010-11 or even the first half of 2011-12, when almost 90% of days had a differential of less than 30 paise. This is important especially for the SME sector treasury managers who often face a delay of a couple of hours between the time an exchange rate is checked and internal approvals are taken for a hedging decision. By the time the approval is received, in a highly volatile market, the exchange rate may have changed too sharply!

*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 11 45047117

Email id.: [info@avrco.com](mailto:info@avrco.com)

2. No doubt, stability of the exchange rate in the near term will depend to a large extent on the Budget for 2013-14. If, as indicated by the Prime Minister recently, the revised estimates for the current year show that the fiscal deficit has been contained at 5.3%, foreign investment flows can be expected to remain buoyant. Indeed, given the shortfall in collections on direct taxes as well as indirect taxes (both excise and custom duties), one wonders what factors would have kept the fiscal deficit under control. Have service tax collections been much higher after the move from positive to negative list? Or has the government been successful in reining in expenditure?
3. We continue to advise treasury managers with dollar payables to keep them largely uncovered. However, as the recent exchange rate movements have again demonstrated, it would be prudent to hedge short-term exposures, especially where short-term foreign currency borrowings have been taken (either buyers' / suppliers' credits or FCNR(B)-linked loans), and the fully hedged cost of the loan has dropped to say 3% p.a. The bulk of near-term dollar receivables should be hedged.
4. On the international foreign exchange markets, the euro was hit by a 0.6% contraction in the euro zone's GDP (Gross Domestic Product) during the last quarter of 2012 from the previous three months. That was the worst economic performance since the first quarter of 2009. Besides, both German and French GDP data was worse than market expectations. Meanwhile, Russia has joined China in protesting against the yen's recent decline, stating that "sharp moves in exchange rates should be predictable, and actually shouldn't happen at all".
5. We are not changing our forecasted ranges for the US dollar against the major currencies, as follows:

JPY 88 – 100 per \$,  
\$ 1.28 – 1.40 per EUR, and  
\$ 1.54 – 1.66 per GBP.

**DOMESTIC MARKETS**  
**FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	₹/Currency
USD	54.23
PDS	84.15
EUR	72.45
YEN (100)	58.00
SFr	58.83
DKK	9.71
CAD	53.89
AUD	55.88
SGD	43.84
CNY	8.69

**FORWARD EXCHANGE RATES**

Month-end	₹/USD	Premium % p.a.
Feb-13	54.35	7.18
Mar-13	54.67	7.39
Apr-13	55.02	7.51
May-13	55.38	7.41
Jun-13	55.65	7.22
Jul-13	55.98	7.07
Aug-13	56.28	7.02
Sep-13	56.55	6.91
Oct-13	56.85	6.79
Nov-13	57.10	6.67
Dec-13	57.36	6.59
Jan-14	57.64	6.51

**CURRENCY SWAPS**

	2-Year	5-Year
₹/USD	6.53	6.75

**INR/USD CURRENCY OPTIONS\***

1-mth Option on USD 1, price in paise		
Strike	Call	Put
53.50	--	20
54.00	--	34
54.50	--	53
55.00	40	--
55.50	25	--
56.00	14	--

3-mth Option on USD 1, price in paise		
Strike	Call	Put
54.00	--	55
54.50	--	71
55.00	--	92
55.50	97	--
56.00	77	--
56.50	60	--

**INTEREST RATE MARKETS**

	2-Year	5-Year	10-Year
GOI BOND	7.73	7.91	7.83

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.30	7.25
MIFOR	6.53	6.75

**INTERNATIONAL MARKETS**  
**FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	Against USD
PDS	1.5518
EUR	1.3360
YEN	93.50
SFr	0.9218
DKK	5.5827
CAD	1.0064
AUD	1.0305
SGD	1.2371
PKR	98.08
CNY	6.2372

**PDS 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.53	3.48	1.48
1.55	2.29	2.29
1.57	1.43	3.43

**EUR 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.32	3.12	1.47
1.34	2.16	2.16
1.36	1.19	3.54

**YEN 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
95.47	3.62	1.63
93.47	2.53	2.53
91.47	1.73	3.74

**INTEREST RATE MARKETS**

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.20	0.29	0.46	0.76
EUR	0.06	0.14	0.26	0.47
PDS	0.49	0.51	0.64	0.97
YEN	0.13	0.16	0.27	0.47
SwFr	0.00	0.02	0.10	0.28

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.43	1.04	2.10
EUR	0.59	1.13	1.93
PDS	0.73	1.23	2.22
YEN	0.24	0.33	0.83
SwFr	0.19	0.54	1.23

**OTHER MARKETS**

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	95.9	DJIA	13,982
GOLD (\$/ounce)	1,609	FTSE	6,328
COPPER (\$/ton)	8,199	DAX	7,593
ALUMINIUM (\$/ton)	2,123	NIKKEI	11,174

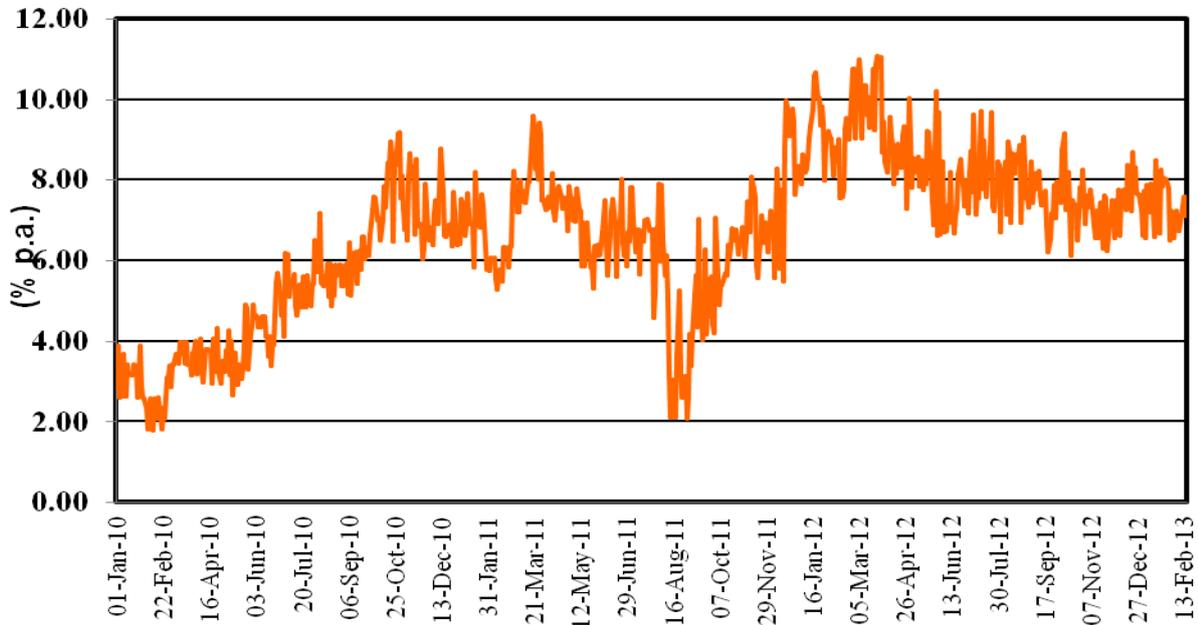
Information herein is believed to be reliable, but  
AVRCO does not warrant its completeness or accuracy

\* indicative only # for payables

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 11 45047117

Email id.: [info@avrco.com](mailto:info@avrco.com)

**1-Month Forward Premia (%p.a)  
January 2010 to February 2013**



**3-Month Forward Premia (%p.a)  
January 2010 to February 2013**

