

Currency Risk Management Report

(for the week ended May 15, 2015)

A.V.RAJWADE & Co. PVT. LTD.

RISK MANAGEMENT CONSULTANTS

Forex, Interest Rates & Derivatives



Rajwade Treasury Consultants LLP

Risk Management Consultants
Forex, Interest Rate & Derivatives

NEWS

1. On the international foreign exchange markets, the US dollar weakened across the board against its major trading partners this week. It lost the most (by 2.2% each) against the Euro and the Danish krona, 1.7% against the Pound, by 1.5% against the Swiss franc, 1.2% against the Australian \$, 0.6% against the Singapore \$ and by 0.5% each against the Canadian \$ and the Japanese Yen.
2. In the US, seasonally adjusted unemployment claims stood at 264,000 for the week ending May 9, a decrease of 1,000 over previous week's figure. The four-week moving average of claims stood at 271,750, which was the lowest level since April 2000. Separately, industrial production decreased by 0.3% in April, registering its fifth consecutive monthly loss. Capacity utilization for the industrial sector decreased 0.4 percentage points in April to 78.2%. Meanwhile, the Commerce Ministry said that its initial estimate of the first quarter GDP growth, which came out at an annualized 0.2%, is likely to be revised on May 29 to show a contraction.
3. Data from Eurostat show that Europe's economy expanded by 0.4% during the first three months of the current calendar year. This is not altogether surprising as it follows a slew of economic data indicating that the common currency bloc probably grew faster than the US and the UK for the first time since 2011. While the French economy grew by 0.7% in the first quarter, those of Germany and Britain moved up only by 0.3% each. Greece, which is in the midst of prolonged bail-out talks with its creditors, witnessed its GDP shrink by 0.2% for the period. However Europe's industrial production numbers for March were disappointing, as production fell by 0.3% as compared to a growth of 1.1% witnessed in February.
4. The Bank of England, which earlier this week retained its benchmark interest rate at 0.5%, sounded a pessimistic note on productivity saying it "*remains weak and is expected to stay below past average growth rates.*" Britain's productivity as measured by 'output per man-hour' remains 16% below the pre-recession peak, considerably lower than its developed market peers. In its monetary policy statement, the BoE interestingly noted that "*debt forbearance and low interest rates might have allowed uneconomic businesses to remain operational thereby denting productivity.*" The central bank downgraded its 2015 growth forecast for the British economy from 2.9% to 2.4%.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 63.46-64.27 per \$ and the rupee ended the week with a gain of 43 paise to close at Rs 63.51 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 7.78%, 7.56%, 7.48% and 6.88% p.a. as against 7.68%, 7.55%, 7.44% and 6.91% respectively in the previous week. RBI's foreign exchange reserves as on the week ended May 8, 2015 stood at \$352 billion, increasing by \$262 million over the previous week.

Office: 9, Sumer Kendra, Ground Floor, Pandurang Budhkar Marg, Behind Mahindra Towers, Worli, Mumbai – 400 018
Tel. Off.: +91 22 24913034 Tel. Fax: +91 22 24913044

info@avrco.com

VIEWS

1. Will wholesale prices at a six-month low (-2.65%), consumer prices at a four-month low (4.87%) and factory output at a five-month low (2.1%) provide enough justification for the RBI to cut interest rates at the upcoming monetary policy meeting on June 2? Although the falling trend in wholesale prices is likely to moderate (even reverse) with the wearing off of a favorable base effect in the coming few months, the low industrial output numbers point towards a greater malaise that is affecting the manufacturing sector today. Bank credit, of which non-agricultural credit is a substantial part, has been consistently falling over the last couple of years (as can be seen from the graph below) and several sectors continue to be mired in the slowdown. We expect (rather, hope) that Mr. Rajan will announce an interest rate cut to the extent of at least 25 basis points, perhaps more, by the first week of June.
2. The rupee staged a recovery of sorts by the end of the trading week, as the past week's uncertainty gave way to relative calm in the domestic financial markets. The yield on the benchmark 10-year GoI bond has receded but forward premia levels continue to remain high, making this an opportunity to sell rather than buy dollars. Importers should continue to consider only OTMF call options for hedging their medium term payables. We give below a comparison of the month-end and average spot Rs/\$ exchange rates for April 2015 with the forward rates available in earlier months:

	Month-end	Average
Spot (April 2015)	63.47	62.75
1 Month Forward (March)	63.07	63.00
2 Months Forward (February)	62.70	62.85
3 Months Forward (January)	63.03	63.44
4 Months Forward (December)	64.94	64.27
5 Months Forward (November)	63.85	63.70
6 Months Forward (October)	63.83	63.79
12 Months Forward (April 2014)	65.07	65.34

3. If US businesses and the Federal Reserve have been worried about an unduly strong dollar, they wouldn't be complaining going by how the greenback has moved in the past fortnight, especially against the Euro and the Pound. Recently released national accounts indicate that corporate profits originating from the rest of the world (amounting to over 30% of total profits) went from +4% to -4% during 2014 owing to dollar strength. The Atlanta Fed, which has by far been the most accurate regional central bank in its forecasts for US GDP growth, anticipates the second quarter number in the range of 0.8% to 1%. This challenges the hypothesis that the dismal first quarter growth number (0.2%) was primarily due to the harsh winter. With this as the backdrop, there are no signs on the horizon, that the central bank would even be considering the idea of an interest rate hike any time soon.
4. We are amending our range for the Pound while keeping those for the Euro and the Yen unchanged: \$1.48 – 1.60 per GBP, \$1.08 – 1.18 per EUR, and JPY 112 – 122 per \$

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	63.51
PDS	99.88
EUR	72.73
YEN (100)	53.26
SFr	69.32
DKK	9.74
CAD	52.86
AUD	50.96
SGD	48.09
CNY	10.23

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
May-15	63.65	6.82
Jun-15	64.08	7.77
Jul-15	64.48	7.41
Aug-15	64.88	7.54
Sep-15	65.26	7.40
Oct-15	65.65	7.39
Nov-15	66.03	7.43
Dec-15	66.41	7.31
Jan-16	66.77	7.29
Feb-16	67.15	7.28
Mar-16	67.51	7.21
Apr-16	67.88	7.22

CURRENCY SWAPS

	2-Year	5-Year
\$/USD	6.98	7.06

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise		
Strike	Call	Put
63.00	-	21
63.50	-	39
64.00	-	64
64.50	37	-
65.00	24	-
65.50	16	-

3-mth Option on USD 1, price in paise

Strike	Call	Put
64.00	-	70
64.50	-	93
65.00	-	120
65.50	74	-
66.00	59	-
66.50	47	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.92	7.94	7.95

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.27	7.20
MIOCS	6.98	7.06

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5727
EUR	1.1451
YEN	119.25
SFr	0.9162
DKK	6.5202
CAD	1.2014
AUD	0.8024
SGD	1.3207
PKR	101.55
CNY	6.2065

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.55	4.06	1.90
1.57	2.87	2.87
1.59	2.00	3.99

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.13	3.49	1.90
1.15	2.63	2.63
1.17	1.77	3.78

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
121.20	2.16	0.85
119.20	1.43	1.43
117.20	0.81	2.31

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.18	0.28	0.41	0.73
EUR	-0.06	0.00	0.05	0.15
PDS	0.53	0.55	0.72	0.98
YEN	0.07	0.12	0.15	0.24
SwFr	-0.81	-0.79	-0.75	-0.65

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.95	1.84	2.30
EUR	0.08	0.45	0.88
PDS	0.97	1.55	1.94
YEN	0.15	0.35	0.71
SwFr	-0.65	-0.20	0.29

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	60.0	DJIA	18,273
GOLD (\$/ounce)	1,225	FTSE	6,961
COPPER (\$/ton)	6,356	DAX	11,447
ALUMINIUM (\$/ton)	1,813	NIKKEI	19,733

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

* indicative only

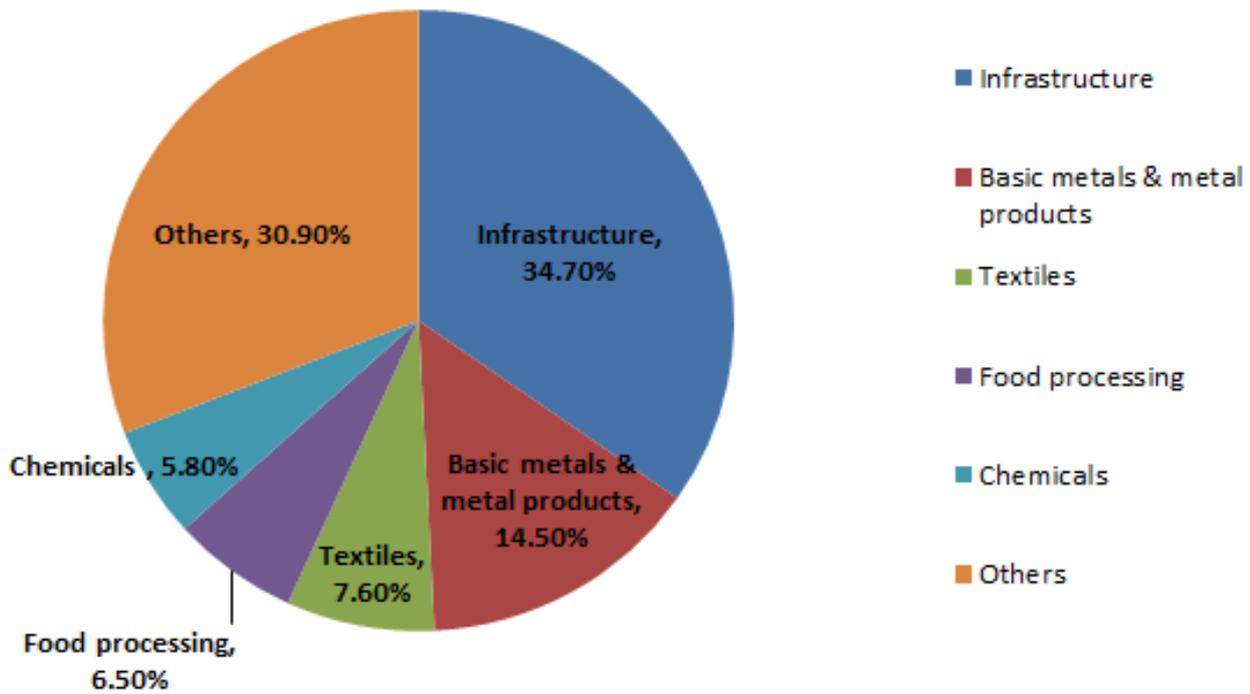
for payables

Office: 9, Sumer Kendra, Ground Floor, Pandurang Budhkar Marg, Behind Mahindra Towers, Worli, Mumbai – 400 018

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Sector-wise bank credit deployment



Bank credit growth (year-over-year change)

