

NEWS

1. The US\$ had a mixed response this week against its major international trading partners. It strengthened the most (by 1.3%) against the Yen, followed by 0.48% against the British Pound and 0.07% against the Euro. It weakened the most against the Canadian \$ (0.69%), followed by 0.54% against the Singapore \$, 0.51% against the Australian \$ and by 0.31% against the Swiss Franc.
2. In the US, although jobless benefit claims climbed by 21,000 (6.7%) to 311,000 in July, job openings climbed to 4.67 million, the highest level seen since February 2001. The number of people getting jobs increased to a 6-year high and payrolls added 209,000 jobs in July, the sixth consecutive month that employment has grown by 200,000 or more. Inflation, which seems to be inching up towards the Fed's target, stood at 1.6% for the year ended June.
3. Euro-zone's factory output contracted 0.3% on the month in June, after witnessing a 1.1% fall in May. The drop was mainly caused by a 1.9% decline in production of non-durable consumer goods and a 0.7% fall in energy output. While the three largest economies saw their production expand for the month, Germany's industrial output declined by 0.4% (year-on-year), in its first drop since July 2013.
4. UK's unemployment rate fell to 6.4% in the second quarter (marking the lowest level since late 2008), as the number of unemployed people fell by 132,000 to 2.08 million. However, the Bank of England recently had expressed concern about low wage inflation, which reflects the level of "spare capacity" in the economy. Average wage (excluding bonuses) rose by a mere 0.6% in the year to June, marking the slowest rate of growth since 2001. Spare capacity is the BoE's measure of the extent to which the economy is underperforming as a result of lack of business investments in machinery, technology or staff.

5. Japan's economy contracted by an annualized 6.8% in the second quarter of 2014, registering the biggest fall in 3 years. This is in sharp contrast to the annualized growth of 6.7% witnessed in the previous quarter. The reduction came largely in response to an increase in government sales tax, which is suspected to have held up retail consumer spending. Private consumption, which accounts for over 60% of economic activity, declined 5% over the quarter. The bump up in the previous quarter's growth numbers had mainly come on the back of forward spending ahead of April's anticipated increase in consumption tax.
6. New lending in China fell sharply in July and housing sales fell by 10% in the first half of the year. The drop has come notwithstanding recently eased restrictions on housing sales. New construction has fallen 13% in the January-July period.
7. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 60.77 – Rs 61.29 per \$, ending the week with a gain of 38 paise for the rupee to close at Rs 60.77 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month are 8.18%, 8.31%, 8.42% and 7.82% respectively as against 8.60%, 8.50%, 8.53% and 8.01% in the previous week.

VIEWS

1. India's trade deficit for July at \$12.2 bn, was marginally lower than the \$12.5 bn seen during the same month last year. Exports grew by 7.3% to \$27.8 bn, while imports rose 4.3% to \$40 bn. The continued sharp fall in official gold imports (by 26%) to \$1.8 bn from \$2.5 bn in 2013, does not appear to be a phenomenon peculiar only to India. Recently, World Gold Council reported that international gold purchases had moderated in the first half of 2014. Non-oil and non-gold imports, which are broad proxies for consumer demand, rose about 3% to \$24 bn during the month. The sign that exports have grown between 7%-10% over the last three months is another indication of industrial activity picking up in the economy slowly but surely. Meanwhile, with the Prime Minister's maiden Independence

day speech emphasizing the importance of unshackling the manufacturing sector, foreign institutional investors would be looking to take cues to glean the intent of the government.

2. India's services sector reported a surplus of \$17 bn for the first quarter of FY'15. Considering we had a trade deficit of \$33 bn for the quarter, the maximum CAD for the quarter would be \$16 bn (assuming there are no personal transfers during the period as compared to a net of \$ 16 bn last year, an unlikely, if not impossible, proposition).
3. After coming under pressure for a good part of the preceding fortnight, the rupee pared its losses and recovered sharply at close of trade. Although we expect the two-way movement in the rupee-dollar exchange rate to remain pretty much the norm going ahead, we do not expect it to trade significantly outside a narrow band of INR 60-61 (perhaps even INR 60-60.5) per USD. As has happened recently, any movement outside this band would be an aberration, and likely to be corrected sooner rather than later.
4. In the international forex markets, the British pound witnessed the sharpest drop amongst all major currencies from its mid-July high of USD 1.72 per GBP to a 3-month low of USD 1.66 per GBP, before recovering a bit. Japanese and Italian 10-year sovereign bond yields hit an all time low (of 0.5% and 2.6% respectively) at about the same time their government debt loads reached a peak of JPY 1,039 Tn (1 Quadrillion) and EUR 2.17 Tn respectively. US Fed Chairperson Janet Yellen has said that the Fed "*does not have a mechanical answer for when to raise rates*" and that "*policy makers must be certain that the economy is on a solid footing*". With the US recovery facing additional head winds from a continued slowdown in Europe, the central bank is unlikely to be in a hurry to raise interest rates.
5. We do not expect that the major non-USD currencies will move out of their projected bands as given below:

\$ 1.62 – 1.72 per GBP,
\$ 1.32 – 1.42 per EUR, and
JPY 95 – 105 per \$.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency	
USD	60.77	
PDS	101.44	
EUR	81.44	
YEN (100)	59.37	
SFr	67.33	
DKK	10.92	
CAD	55.77	
AUD	56.65	
SGD	48.79	
CNY	9.89	

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Aug-14	60.89	6.01
Sep-14	61.36	8.37
Oct-14	61.80	8.21
Nov-14	62.19	8.25
Dec-14	62.65	8.30
Jan-15	63.08	8.36
Feb-15	63.47	8.34
Mar-15	63.90	8.39
Apr-15	64.38	8.46
May-15	64.75	8.38
Jun-15	65.15	8.34
Jul-15	65.52	8.20

CURRENCY SWAPS

	2-Year	5-Year
*/USD	8.06	8.18

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
60.00	129	9
60.50	90	20
61.00	58	38
61.50	36	65
62.00	22	100
62.50	13	141

3-mth Option on USD 1, price in paise

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
62.00	93	85
62.50	72	113
63.00	55	145
63.50	42	181
64.00	32	220
64.50	24	261

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.59	8.59	8.71

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.13	8.05
MIOCS	8.06	8.18

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.6693
EUR	1.3401
YEN	102.36
SFr	0.9026
DKK	5.5636
CAD	1.0897
AUD	0.9322
SGD	1.2455
PKR	99.86
CNY	6.1472

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.65	2.91	1.12
1.67	1.90	1.90
1.69	1.07	3.07

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.32	2.71	0.67
1.34	1.48	1.48
1.36	0.70	2.70

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
104.33	2.37	0.55
102.33	1.28	1.28
100.33	0.52	2.53

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.16	0.23	0.33	0.55
EUR	0.08	0.16	0.26	0.43
PDS	0.50	0.56	0.70	1.03
YEN	0.09	0.13	0.18	0.33
SwFr	0.00	0.02	0.08	0.20

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.64	1.68	2.47
EUR	0.33	0.58	1.24
PDS	1.22	1.96	2.51
YEN	0.21	0.29	0.66
SwFr	0.07	0.27	0.88

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	97.4	DJIA	16,663
GOLD (\$/ounce)	1,305	FTSE	6,689
COPPER (\$/ton)	6,852	DAX	9,092
ALUMINIUM (\$/ton)	1,979	NIKKEI	15,318

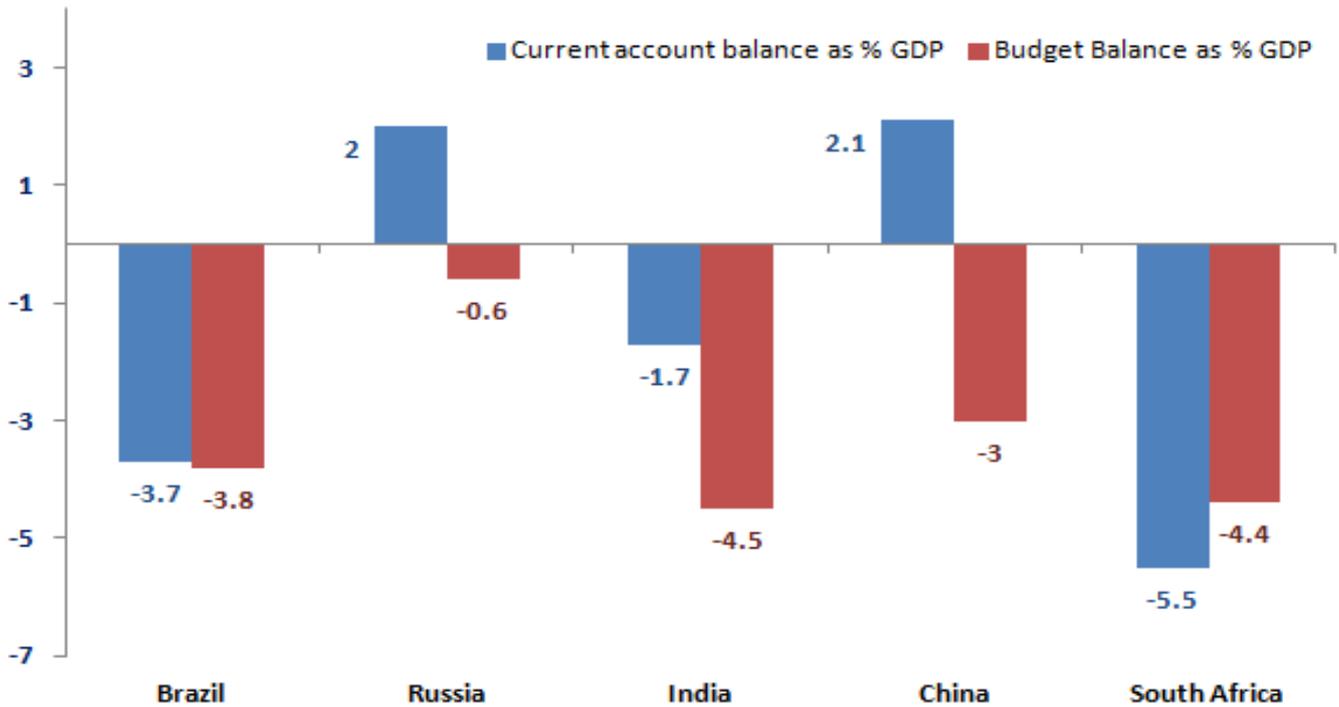
Information herein is believed to be reliable, but AVRCO does not warrant its completeness or accuracy

* indicative only

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**BRICS countries' CAB & Fiscal balance as % GDP
(latest available data)**



**BRICS countries' industrial production & GDP
(latest available data)**

