

NEWS

1. The US\$ strengthened across the board this week against its major international trading partners. Its strongest showing was a 2.9% rise against the Australian \$, followed by 1.8% against the Canadian \$. It also strengthened by 1.7% each against the Singapore \$ and the Swiss Franc, by 1.6% against the Japanese Yen and by 1.2% against the British Pound. Finally, it ended the week with a gain of 1.1% each against the Euro and the Danish Kroner.
2. US consumer prices fell 0.4% in April, the second straight month of declines. Besides, initial jobless claims increased by 32,000 to a seasonally adjusted 360,000 in the week ended May 11, the largest one-week gain in new benefit requests since November 2012.
3. The 17-nation euro zone's GDP (Gross Domestic Product) contracted at an annualized pace of 0.9% in the first quarter. That was the sixth-straight quarter of a recession that began in late 2011. Germany's economy grew by a lower-than-expected annualized 0.3%. Belgium and Slovakia were the only other euro-zone countries to report growth in the quarter. Meanwhile, the trade surplus for the euro zone hit its highest level in March since the bloc was formed in 1999, driven by a continued decline in imports reflecting weak demand at home and steadily rising exports. Exports rose in March compared with the previous month, but compared with the previous year, exports were flat, while imports were 10% lower. Germany continued to be the main source of the surplus, running a seasonally adjusted surplus of €14.4 billion with nations outside the EU in March. The consumer price index dropped in April for the fourth straight month, the longest stretch since 2009.
4. Foreign direct investment (FDI) in China sputtered in the first four months of the year. Average wages for employees at non-private enterprises were

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up 11.9% from the year before in nominal terms, compared with a 14.4% pace in 2011. With inflation taken into account, wages of employees at non-private companies were up 9% in 2012 from a year earlier, exceeding 2011's 8.5% pace. The continued rise in wages, even as China's economic growth slowed to 7.8% last year from 9.3% in 2011, could put fresh pressure on manufacturers.

5. Japan's GDP grew at an annualized pace of 3.5% in the first three months of the year, as consumers loosened their purse strings and exports to the U.S. picked up. Japanese core machinery orders (which exclude those from electric power companies and orders for ships) rose 14.2% in March from the previous month, the largest increase since April 2005.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 54.54 – ₹ 55.02 per \$, ending the week with a loss of 8 paise for the rupee at ₹ 54.89 per \$. The forward premium levels are at 7.4%, 6.8%, 6.5% and 6.2% from the preceding week-end levels of 7.0%, 6.9%, 6.5% and 6.2% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic front, the rupee-dollar exchange rate did flirt briefly above the psychologically important level of Rs 55 per \$. According to the mumbo jumbo of charting theory, a crucial break-out of a triangular formation has now taken place. It has also been sustained for several days, although there is some dispute about whether the break can be considered "significant". In any case, the consensus is that the chart is showing that the dollar could strengthen sharply in the coming weeks, and if certain key resistance levels are broken (the first one is Rs 55.20), an exchange rate of even Rs 57 per \$ should not be ruled out. However, as written by columnist Philip Cogan, "Technical analysis is so rife with subjective interpretations that it must be regarded as more of a religion, with priests who bewilder the unwashed at high-priced seminars".

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2. Especially insofar as the rupee-dollar exchange rate is concerned, it should not be forgotten that the Reserve Bank of India (RBI) remains a strong influence in the market. RBI would worry about exacerbating inflationary pressures in the economy, if there is a sudden tumble of the rupee. We believe that Rs 56 per \$ is the key level to look out for in order to gauge signs of impending trouble for the rupee. In the past, RBI has reportedly intervened to prevent a breach of this level, and it would be reasonable to expect similar action from RBI if warranted by market movements in the future also.
3. We continue to expect the rupee-dollar exchange rate to trade in a band of Rs 54 – 55 in the short term, and therefore recommend that the bulk of the dollar receivables should be covered. Dollar payables should be hedged by using out-of-the-money call option contracts (i.e. where the strike rate or exercise price is worse than ruling market forward rate). This will ensure that for a relatively smaller premium the downside risk of a rupee fall will be protected, and simultaneously the upside potential of rupee appreciation will be kept open.
4. On the international front, the sharp Japanese economic recovery has been a big surprise, with a new term coined for the Japanese Prime Minister's policies – "Abenomics". Meanwhile, there is growing speculation that the U.S. Federal Reserve Board may begin to reduce the pace of its monthly asset purchases (widely known as the third quantitative easing program, or QE3 – sometimes also called QE4, since the original amount of \$ 40 bn in September 2012 was increased to \$ 85 bn in December 2012) in the next few months, and even end the program entirely later this year.
5. We are not making changes in our forecasted ranges for the US dollar against any of the major currencies, as follows:

JPY 92 – 104 per \$,
\$ 1.24 – 1.36 per EUR, and
\$ 1.46 – 1.58 per GBP.

**DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	₹/Currency
USD	54.89
PDS	83.26
EUR	70.47
YEN (100)	53.18
SFr	56.43
DKK	9.46
CAD	53.39
AUD	53.41
SGD	43.59
CNY	8.94

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
May-13	55.02	7.29
Jun-13	55.32	7.20
Jul-13	55.65	6.94
Aug-13	55.94	6.80
Sep-13	56.22	6.72
Oct-13	56.50	6.51
Nov-13	56.78	6.43
Dec-13	57.04	6.39
Jan-14	57.33	6.31
Feb-14	57.57	6.25
Mar-14	57.82	6.19
Apr-14	58.12	6.21

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	6.27	6.43

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise		
Strike	Call	Put
54.00	--	14
54.50	--	25
55.00	--	43
55.50	40	--
56.00	23	--
56.50	13	--

3-mth Option on USD 1, price in paise

Strike	Call	Put
54.50	--	45
55.00	--	61
55.50	--	80
56.00	87	--
56.50	66	--
57.00	50	--

INTEREST RATE MARKETS

GOI BOND	2-Year	5-Year	10-Year
	7.26	7.31	7.17

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.77	6.77
MIFOR	6.27	6.43

**INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	Against USD
PDS	1.5169
EUR	1.2839
YEN	103.21
SFr	0.9727
DKK	5.8049
CAD	1.0281
AUD	0.9730
SGD	1.2591
PKR	98.38
CNY	6.1412

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.50	3.18	1.18
1.52	2.04	2.04
1.54	1.21	3.21

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.26	3.47	1.03
1.28	2.04	2.04
1.30	1.37	2.93

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
105.18	3.29	1.37
103.18	2.22	2.22
101.18	1.35	3.44

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.20	0.27	0.42	0.69
EUR	0.06	0.12	0.20	0.37
PDS	0.49	0.51	0.59	0.88
YEN	0.12	0.16	0.24	0.44
SwFr	0.00	0.02	0.08	0.24

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.39	0.97	2.05
EUR	0.36	0.78	1.58
PDS	0.63	1.07	2.02
YEN	0.30	0.54	0.98
SwFr	0.13	0.46	1.13

OTHER MARKETS

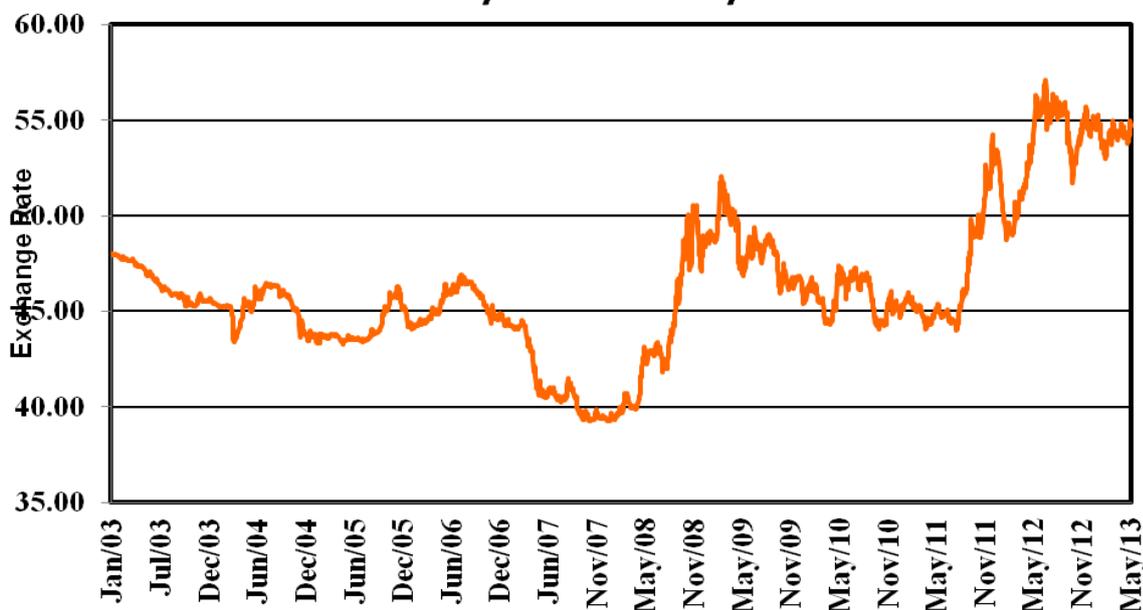
COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	96.0	DJIA	15,354
GOLD (\$/ounce)	1,364	FTSE	6,723
COPPER (\$/ton)	7,329	DAX	8,398
ALUMINIUM (\$/ton)	1,840	NIKKEI	15,138

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

* indicative only # for payables

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**Rupee per US Dollar Exchange Rate
January 2003 to May 2013**



**6-Month Forward Premia (%p.a)
January 2003 to May 2013**

