

NEWS

1. This week the greenback weakened by one percentage point against the British pound, 0.7% each against the euro, the Danish krone and the Swiss franc and by 0.5% against the Japanese yen. The US\$ was virtually unchanged against the Australian, Canadian and the Singapore dollars.
2. US consumer prices in July jumped 0.5% on stronger gasoline and food costs. Year-on-year, overall CPI inflation worsened to 3.6% from 3.4% in June. Also, the producer price index rebounded 0.2% in July, following a 0.4% drop the month before. The US housing market is showing no improvement in July as indicated by housing starts which dipped 1.5% and existing home sales which fell sharply by 3.5%. Besides, housing permits slipped 3.2%, following a 1.3% rise in June reflecting a very bearish outlook. Meanwhile, industrial production in July posted a 0.9% gain.
3. Britain's consumer price index in July stands at 4.4% – that is more than double the UK government's mandated target of 2%. The number of people claiming joblessness benefits in July grew by the highest level since May 2009. In Q2 2011, the unemployment rate increased to 7.9% from 7.7% in the preceding quarter. British retail sales expanded by 0.2%, after June's revised 0.8% gain. On a yearly basis, the sales volume remained flat.
4. The euro area reported a trade surplus of € 0.9 in June as compared with € 0.2 bn reported in May. Exports fell by 4.7% and imports by 4.1%. Euro area annual inflation was 2.5% in July 2011, down from 2.7% in June. A year earlier the rate was 1.7%. In second quarter of 2011, the euro area economy expanded by 0.2% as compared with previous quarter and by 1.7% as compared with the same quarter of the previous year.
5. Japan's merchandise trade balance showed a surplus of ¥ 72.5 billion in July, although exports fell by 3.3% while imports jumped sharply by 9.9%.

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This marks the second successive month of surplus for an export-led economy that continues to recover from the March 11 disaster. In the second quarter of the year, the Japanese economy contracted by a year-over-year 5.7% or by 1.4% compared with the preceding quarter.

6. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of ₹45.17 – ₹45.75 per \$, before ending the week with a 41 paise loss for the rupee at ₹45.75 per \$. Forward premium levels for all maturities were unchanged as compared to last week's level when the forward premium had crashed sharply. Currently, forward premium 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 \$ 1.5 billion and \$ 138 million in equity and debt market respectively.

VIEWS

1. On the international foreign exchange markets, the US dollar is being battered against all the major currencies across the board. The Japanese yen touched a record high of JPY 75.95 per \$, but the market remains wary of central bank intervention. In the last one year, the Bank of Japan has intervened thrice to prevent yen appreciation. The Japanese finance minister has stated that he would “keep monitoring markets carefully”, and was ready to make another “surprise” intervention in markets.
2. Meanwhile, gold zoomed to a record high above \$ 1,880 an ounce. (Ominously, housewives have started buying “biscuits” to take advantage of rising gold prices – generally, an early indicator of a trend reversal.) Amidst a Morgan Stanley report stating that the U.S. and Europe are “dangerously close to recession”, there has been a plunge in global equity markets -- the Standard & Poor's 500 Index has declined for four consecutive weeks. However, bond markets continue to rally with yields on U.S. Treasury ten-, seven- and five-year notes falling to record lows.

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3. We are not making any changes in the forecasted ranges as follows:
- JPY 76 – 84 per \$,
\$ 1.37 – 1.45 per EUR, and
\$ 1.58 – 1.65 per GBP.
4. On the domestic interbank market, the rupee has remained under pressure apparently due to the oil import payments. This is no doubt exacerbated by the bear hug on the domestic stock market. In any case, we believe that a spot exchange rate above Rs 45.50 per \$ is an opportunity to sell near-term dollar receivables. With the domestic inflation rate expected to remain above 8% for a few more months, it would be surprising if the RBI were to allow a sharp rupee decline which would worsen the inflation outlook, and undo its monetary policy tightening. For corporate treasuries holding large EEFC balances, we strongly advise liquidation of the foreign currency balances. The low forward premia levels across the board also mean that for exporters it is better to take packing credit in foreign currency (PCFC) rather than in rupees as the forward premium given up is much lower than the interest rate differential.
5. Meanwhile, the Reserve Bank of India has issued a circular on 2nd August amending the regulations relating to use of derivatives. The new provisions will make use of even plain vanilla forward contracts more onerous for corporate treasury managers. The RBI now requires a risk management policy approved by the Board of Directors which inter alia should “articulate specific products that can be transacted”, “explicitly mention the limits assigned to a particular person”, and “ensure separation of duties between front, middle and back office”. This means that every time the treasury personnel change, a board resolution would become necessary! Again, it is not clear what the RBI expects to be the job of a corporate treasury middle office (a concept more relevant to banks which have risk management functions embodied in the mid office). As it is, very few SME corporate treasuries are large enough to warrant even separate back and front offices!

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DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES	
	₹/Currency
USD	45.75
PDS	75.33
EUR	65.88
YEN (100)	59.76
SFr	58.28
DKK	8.84
CAD	46.21
AUD	47.60
SGD	37.81
CNY	7.16

changed	PROJECTIONS	SUGGESTED COVER [#] %
	18-Aug-11	₹/USD
1st Fn	45.00 - 46.00	20
2nd Fn	44.75 - 46.25	40
2nd Mth	44.50 - 46.50	40
3rd Mth	44.00 - 47.00	40

FORWARD EXCHANGE RATES		
Month-end	₹/USD	Premium % p.a.
Aug-11	45.78	2.18
Sep-11	45.86	2.14
Oct-11	45.98	2.59
Nov-11	46.11	2.80
Dec-11	46.24	2.90
Jan-12	46.36	2.96
Feb-12	46.47	2.92
Mar-12	46.58	2.94
Apr-12	46.70	2.97
May-12	46.81	2.93
Jun-12	46.92	2.93
Jul-12	47.03	2.93

CURRENCY SWAPS		
₹/USD	2-Year	5-Year
	3.44	5.58

INR/USD CURRENCY OPTIONS*		
Strike	3-mth Option on USD 1, price in paise	
	Call	Put
44.75	--	28
45.25	--	42
45.75	--	62
46.50	60	--
47.00	44	--
47.50	32	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.20	8.28	8.28

INTEREST RATE SWAPS		
	2-Year	5-Year
OIS	7.13	6.76
MIFOR	3.44	5.58

INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES	
	Against USD
PDS	1.6465
EUR	1.4400
YEN	76.55
SFr	0.7850
DKK	5.1735
CAD	0.9900
AUD	1.0405
SGD	1.2100
PKR	86.40
CNY	6.3925

changed	PROJECTIONS			
	\$/PDS	\$/EURO	YEN/\$	SFr/\$
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

changed	SUGGESTED COVER [#] %			
	\$/PDS	\$/EURO	YEN/\$	SFr/\$
1st Fn	20	20	20	60
2nd Fn	20	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	1.63	0.60	1.87
EUR	1.42	1.57	3.30
YEN(100)	77.00	0.30	1.15

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.22	0.30	0.47	0.78
EUR	1.29	1.48	1.71	2.04
PDS	0.65	0.87	1.15	1.63
YEN	0.14	0.19	0.33	0.55
SwFr	0.00	0.01	0.07	0.30

INTEREST RATE SWAPS			
	2-Year	5-Year	10-Year
USD	0.49	1.18	2.20
EUR	1.47	2.08	2.77
PDS	1.26	1.78	2.76
YEN	0.35	0.45	1.01
SwFr	0.16	0.76	1.42

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	82.2	DJIA	10,818
GOLD (\$/ounce)	1,852	FTSE	5,041
COPPER (\$/ton)	8,803	DAX	5,480
ALUMINIUM (\$/ton)	2,330	NIKKEI	8,719

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

* indicative only # for payables

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**USD per AUD Exchange Rate
August 2008 to August 2011**



**CAD per USD Exchange Rate
August 2008 to August 2011**



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