NEWS

1. During the week the US dollar continued its upward trend of the preceding week. The greenback gained half a percentage point against both the Euro and the British pound while strengthening sharply by 1.7% against the Japanese yen. The greenback gained 2.2% and 1.2% against the Swiss franc and the Canadian dollar, but was up merely by 0.3% each vis-à-vis the Danish krone, the Australian dollar and the Singapore dollar.

2. US retail sales in October rose by 1.2%, the fastest rate since March, on the back of a 5% surge in vehicle sales. Compared to a year earlier, retail sales increased by 7.3%. The US index of producer prices, which measures how much manufacturers and wholesalers pay for goods and materials, rose by 0.4% in October. US housing starts plunged to a near-record low in October while building permits were virtually flat. Construction of new homes dropped by nearly 12% from September, to an annual rate of 519,000 units while building permits edged up 0.5% from September to an annual rate of 550,000.

3. Britain's consumer price index in October increased by 3.2% on a year-over-year basis. This is well above the Bank of England's target level of 2%. However, the number of British workers claiming jobless benefits declined by 3,700 during October to total 1.47 mn. The unemployment rate over the three months ending in September fell to 7.7% from 7.8% in the previous quarter. In October, UK retail sales were up by 0.5% as compared to the preceding month.

4. The euro area's current account deficit widened to €13.1 bn in September, despite an increase in its trade surplus to €1.8 bn. In October, consumer prices in the euro area went up by 0.4% on a monthly basis and by 1.9% on an annual basis. The German ZEW institute said its economic

sentiment index came in at 1.8 in November rising sharply from -7.2 in October.

5. Japan's economy grew by 3.9% in annualized terms in the July-September period, up from revised 1.8% growth in April-June. Sequentially, it was up by 0.9%. The Japanese Tertiary Industry Index fell by 0.9% in September 2010 following a decrease of 0.2% in August.

6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹44.92 – ₹45.58 per $. The rupee ended the week with a loss of 48 paise at ₹45.29. Forward premia level for one-month maturity was down to 7.3% from 7.8%, but was unchanged for 3, 6 and 12 months at 6.8%, 6.5% and 5.9% respectively. In November (till today), the FIIs have been net buyers to the tune of $ 3.8 bn and $ 968 mn in the equity and debt market respectively.

VIEWS

1. On the international foreign exchange markets, the euro has received support on expectations of an early resolution of the Irish banking crisis, amidst the Ireland's central bank governor's statement that he expected to receive a package (from the IMF, ECB and others) worth "tens of billions" of euros to help the nation's banks. Although the markets believe that the crisis is unlikely to spread to other European countries (Portugal and Spain are the prime suspects), the overhang of debt problems will continue to weigh on the euro.

2. Meanwhile, China has taken additional steps to rein in its inflation rate. The People's Bank of China has raised the reserve ratio requirement for Chinese commercial banks. Chinese monetary tightening measures have put further bear pressure on global commodity prices. During the last week, cotton futures have tumbled by over 8% (the highest weekly fall in 20 months), sugar prices have fallen by 7%, while oil prices have dropped by 4%. Commodity currencies like the Australian dollar and the

Canadian dollar, whose countries depend heavily on commodity exports, have reacted negatively.

3. We are keeping our ranges for all the non-dollar currencies unchanged, as follows:

JPY 78 – 88 per $,
$ 1.30 – 1.43 per EUR, and
$ 1.52 – 1.64 per GBP. Irish

4. On the domestic front, the rupee's weakness has once again brought to the fore the "panic and greed" policy that some treasury managers continue to follow. Having decided not to hedge when the spot rupee-dollar exchange rate was below Rs 44.50 per $, despite getting an ultra-low effective rupee interest rate of less than 3% p.a. on some of their short-term dollar loans (suppliers'/buyers' credits or FCNR(B)-linked loans), there was a rush to cover the dollar payables when the spot exchange rate crossed Rs 45.50 per $. Of course, the subsequent rupee strength meant a round of regret!

5. We continue to hold the view that in the short term (next 4-6 weeks), rupee stability / strength is likely to continue. We therefore advise exporters to keep a cover percentage of 70-80% for the next couple of months in respect of dollar receivables. The percentage should be progressively reduced to say, 40-50% for Jan-Mar 2011, and 20-30% for exposures beyond March 2011.

6. However, the mounting current account deficit is extremely worrying. The Balance of Payments remains the most likely candidate for creating the next economic crisis, and the longer we wait for ensuring a reasonable exchange rate the greater will be the magnitude of the crisis. We strongly recommend treasury managers with dollar payables to keep an eye out for an improvement in the inflation rate or a deterioration in the trade data as warning signs of a sudden, sharp rupee fall.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	45.29
PDS	72.37
EUR	61.89
YEN (100)	54.27
SFr	45.44
DKK	8.30
CAD	44.32
AUD	44.54
SGD	34.91
CNY	6.82

	PROJECTIONS	SUGGESTED COVER # %
	₹ /USD	
changed	01.10.10	
1st Fn	44.00 - 46.00	40
2nd Fn	43.50 - 47.00	40
2nd Mth	43.00 - 48.00	40
3rd Mth	42.50 - 49.00	40

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Nov-10	45.36	7.38
Dec-10	45.62	6.56
Jan-11	45.86	6.57
Feb-11	46.07	6.35
Mar-11	46.28	6.02
Apr-11	46.51	6.07
May-11	46.67	5.78
Jun-11	46.83	5.52
Jul-11	46.99	5.39
Aug-11	47.14	5.20
Sep-11	47.29	5.08
Oct-11	47.44	5.00

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	5.21	5.81

INR/USD CURRENCY OPTIONS*

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
44.50	--	29.4
45.00	--	43.4
45.50	--	61.6
46.50	66.8	--
47.00	50.5	--
47.50	37.8	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.16	7.85	8.04

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.76	7.26
MIFOR	5.21	5.81

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5980
EUR	1.3665
YEN	83.45
SFr	0.9967
DKK	5.4565
CAD	1.0220
AUD	0.9835
SGD	1.2975
PKR	85.40
CNY	6.6394

PROJECTIONS

	$/PDS	$/EURO	YEN/$	SFr/$
changed	01.10.10	15.10.10	15.10.10	15.10.10
1st Fn	1.52 - 1.64	1.30 - 1.43	78 - 88	0.92 - 1.04
2nd Fn	1.50 - 1.66	1.28 - 1.45	76 - 90	0.90 - 1.06
2nd Mth	1.48 - 1.68	1.27 - 1.47	74 - 92	0.88 - 1.08
3rd Mth	1.46 - 1.70	1.25 - 1.49	72 - 94	0.86 - 1.10

SUGGESTED COVER # %

	$/PDS	$/EURO	YEN/$	SFr/$
1st Fn	40	40	60	60
2nd Fn	40	40	60	60
2nd Mth	40	40	60	60
3rd Mth	40	60	60	60

USD CURRENCY OPTIONS*

(Put option against USD, prices in US cents)			
	STRIKE	1 MONTH	3 MONTH
PDS	1.58	1.18	2.69
EUR	1.35	1.37	2.92
YEN(100)	84.00	1.07	2.19

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.25	0.28	0.44	0.76
EUR	0.79	0.98	1.22	1.50
PDS	0.57	0.74	1.03	1.49
YEN	0.12	0.20	0.38	0.62
SwFr	0.14	0.17	0.24	0.52

	INTEREST RATE SWAPS		
	2-Year	5-Year	10-Year
USD	0.70	1.80	3.09
EUR	1.73	2.39	3.08
PDS	1.51	2.53	3.55
YEN	0.45	0.63	1.23
SwFr	0.56	1.26	1.96

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude ($/barrel)	81.2	DJIA	11173
GOLD ($/ounce)	1,345	FTSE	5706
COPPER ($/ton)	8,385	DAX	6815
ALUMINIUM ($/ton)	2,262	NIKKEI	10022

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

** indicative only* *# for payables*

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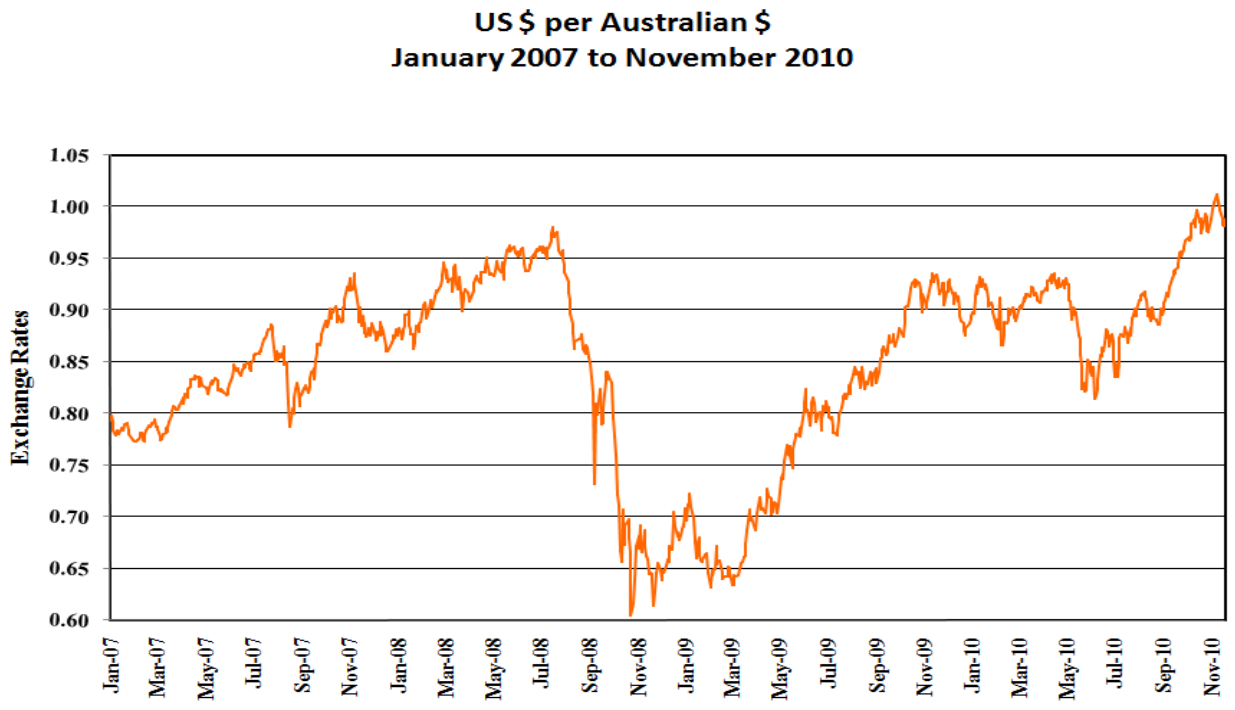

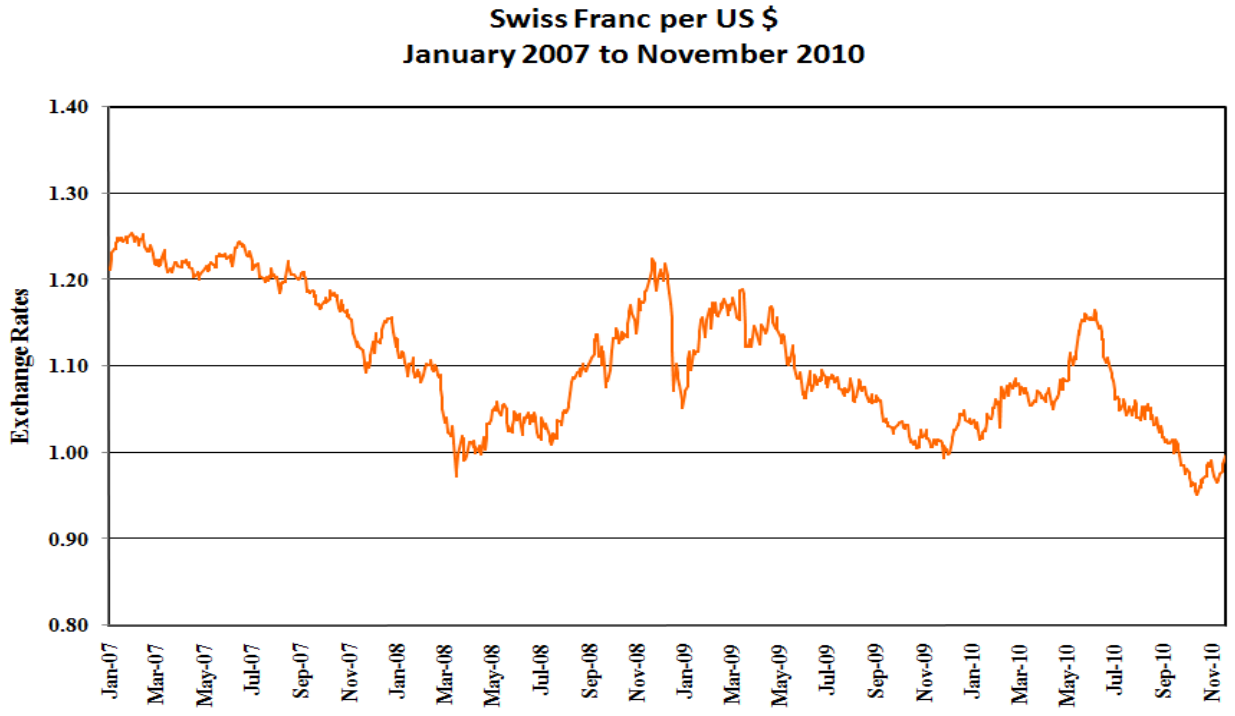

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