NEWS

1. On the international foreign exchange markets, the US dollar largely strengthened against its major international trading partners. It gained the most (by 2.1%) against the Swiss franc, 1.9% each against the Danish krona and the Euro, by 0.63% against the Yen, 0.5% against the Pound, 0.16% against the Canadian $ and by 0.08% against the Singapore $. It weakened only against the Australian $ (by 1.42%).
2. The US services PMI dropped to 53.6 in December from 56.2 last month, thereby marking the sixth consecutive month of decline. The seasonally adjusted composite PMI registered 53.8 in December, down from 56.1 in November and the lowest reading since October 2013. While a reading above 50 indicates growth, slowdown in the services sector along with a similar easing in the manufacturing sector could mean that GDP growth for the last quarter could come in at an annualized 2%.
3. The Swiss franc fell against the Euro and the US dollar after Switzerland's central bank (SNB) announced that it would set a negative interest rate, -0.25%, on deposits above a threshold of CHF 10 million ($10.2 million) from 22nd January. In the face of investors flocking to the Swiss franc, seeking a safe haven, the central bank is determined not to allow its currency to appreciate too much too fast. The SNB said that the aim of the rate change was to take the 3-month LIBOR (from a previous official range of 0 to 0.25%) into negative territory (intended range of -0.75 to 0.25%).
4. UK's consumer price inflation fell to a 12-month low of 1% for the month of November, primarily as a result of falling oil prices (petrol prices were down 5.9%) after generally rising for the first few months of 2014 and reaching 1.9% in June. Inflation as measured by a separate retail price index (RPI) fell to a 5-year low of 2%, from an earlier 2.3%. Additionally, food prices fell 1.7%. While the recent low rate of inflation means earnings are rising faster than prices after years of failing to keep up, the BoE would be wary of the remotest possibility of hovering anywhere near Europe's predicament.
5. China revised the size of its $9.6 trillion economy by $309 billion (almost the size of Malaysia's entire output) marking a 3.4% upward revision to its earlier reported estimate. Meanwhile, the central bank (PBoC) noted that GDP growth for 2014 could come in at 7.1% from an earlier expected 7.4%, held back by a sagging property sector. The PBoC also forecasts that exports and imports will likely grow by 6.9% and 5.1% respectively in 2015, as compared to an acceleration of 6.95% and 1.9% seen this year.
6. On the domestic interbank market, the rupee-dollar exchange rate experienced considerable gyrations through most part of the week, weakening up to Rs 63.89 per $ before paring some of its losses. It ended the trading week with a loss of one rupee to close at Rs 63.30 per $. This is the weakest closing rate for the rupee in 45 weeks. Meanwhile, the forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month continued to tread lower at 7.56%, 7.4%, 7.2% and 6.35% p.a. as against 7.6%, 7.42%, 7.27% and 6.56% respectively in the previous week.

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VIEWS

1. On the domestic interbank market, after trading for several months in a relatively narrow band, the rupee-dollar exchange rate underwent a bout of volatility. The preceding stability had induced a modicum of calm (even complacency) amongst market participants, both traders and hedgers. Not surprisingly, the move to over Rs 63.75 per $ created a hint of panic, more so within the trading community. We believe that the rupee's decline was primarily generated by the foreign institutional investors (FIIs) seeking to encash their gains on portfolio investments. For many of them, year-end bonuses are linked to realised profits, and Indian stock markets have given stupendous returns over the last one year – by the first week of December, the Sensex had risen by 36% in dollar terms! Meanwhile, the Reserve Bank of India (RBI) which had been reportedly intervening earlier even at Rs 62.20 per $, has often refrained from dollar sales when they perceived that the rupee had come under bear pressure due to the exit of the FIIs from our markets. This allowed the rupee to tumble, with a bounce-back when RBI sold dollars once FIIs appeared to have completed their dollar purchases against the equity sales.

2. Trade data for November indicate that total imports grew by 26% on a year-over-year basis. Considering that our exports include about 20% of oil exports, which would have declined by around 10% on account of lower oil prices, this would imply that non-oil exports likely expanded by 10 – 12% in November. This, coupled with the fact that oil imports (the single largest component of our import basket) fell by 10%, indicate that things might be starting to turn the corner on the macro-economic front. Notably, the entire incremental trade deficit has come through the gold route. Meanwhile, inflation (both wholesale and consumer price) has decelerated to the point, where the most prudent thing for the RBI to do, seems to be a dispassionate re-look at its interest rate policy. While the next monetary policy review might be two months away, an indicative cut in policy rates now will send out the right signals to the industry.

3. The present level of over Rs 63 per $ is an opportunity for exporters to further sell their receivables forward. Exporters should look to reap the benefit of still elevated forward premia, as a consistent policy of selling receivables forward has shown to give a better reward than procrastinating about the exchange rate. Importers would be best served by waiting out this period, except for covering immediate (within December'14) exposures. We expect interbank dollar supply to far outstrip demand in the coming months.

4. Major equity indices across the world rose immediately after Ms. Janet Yellen's rather unexpected comment that the Fed would not hike rates "*foreseeably for the next couple of meetings*". Even though this means that starting from April 2015 a tightening of monetary policy may take place, the Fed is rightly concerned about falling inflation (now 1.7%). We are keeping our ranges for the major non-$ currencies unchanged, as follows:

   $ 1.50 – 1.62 per GBP,
   $ 1.18 – 1.30 per EUR, and
   JPY 116 – 128 per $.

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December 19, 2014

CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	63.30
PDS	98.91
EUR	77.41
YEN (100)	52.97
SFr	64.31
DKK	10.41
CAD	54.57
AUD	51.46
SGD	48.14
CNY	10.18

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Dec-14	63.42	6.92
Jan-15	63.82	7.50
Feb-15	64.17	7.38
Mar-15	64.55	7.35
Apr-15	64.95	7.32
May-15	65.28	7.18
Jun-15	65.64	7.14
Jul-15	65.98	6.96
Aug-15	66.33	6.96
Sep-15	66.67	6.87
Oct-15	67.00	6.82
Nov-15	67.32	6.78

CURRENCY SWAPS

	2-Year	5-Year
`/USD	6.34	6.41

INR/USD CURRENCY OPTIONS*

	1-mth Option on USD 1, price in paise	
Strike	Call	Put
63.00	-	15
63.50	-	34
64.00	-	62
64.50	20	-
65.00	12	-
65.50	7	-

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
63.50	-	40
64.00	-	59
64.50	-	83
65.00	63	-
65.50	48	-
66.00	36	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.89	8.11	7.96

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.50	7.34
MIOCS	6.34	6.41

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5626
EUR	1.2229
YEN	119.50
SFr	0.9843
DKK	6.0829
CAD	1.1600
AUD	0.8130
SGD	1.3149
PKR	100.58
CNY	6.2211

PDS 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.54	3.46	1.32
1.56	2.24	2.24
1.58	1.40	3.39

EUR 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.20	3.59	1.25
1.22	2.25	2.25
1.24	1.40	3.40

YEN 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
121.46	2.58	1.26
119.46	1.86	1.86
117.46	1.22	2.71

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.17	0.25	0.34	0.61
EUR	0.01	0.06	0.15	0.30
PDS	0.50	0.56	0.68	0.97
YEN	0.08	0.11	0.15	0.27
SwFr	-0.02	-0.05	-0.01	0.07

	INTEREST RATE SWAPS		
	2-Year	5-Year	10-Year
USD	0.86	1.76	2.29
EUR	0.21	0.41	0.89
PDS	0.98	1.54	1.96
YEN	0.17	0.25	0.56
SwFr	-0.06	0.11	0.56

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude ($/barrel)	57.8	DJIA	17,805
GOLD ($/ounce)	1,196	FTSE	6,545
COPPER ($/ton)	6,445	DAX	9,787
ALUMINIUM ($/ton)	1,888	NIKKEI	17,621

** indicative only* *# for payables*

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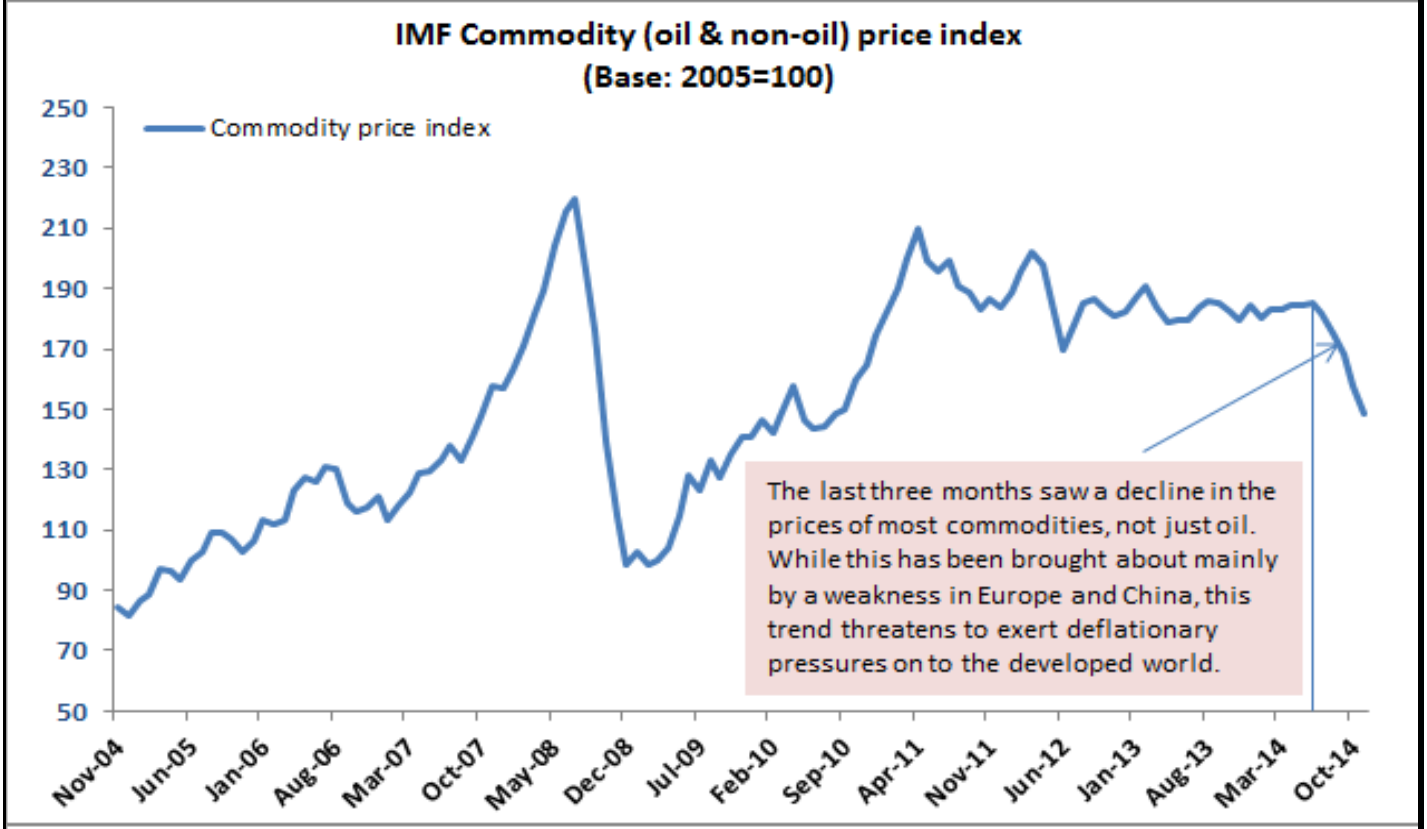

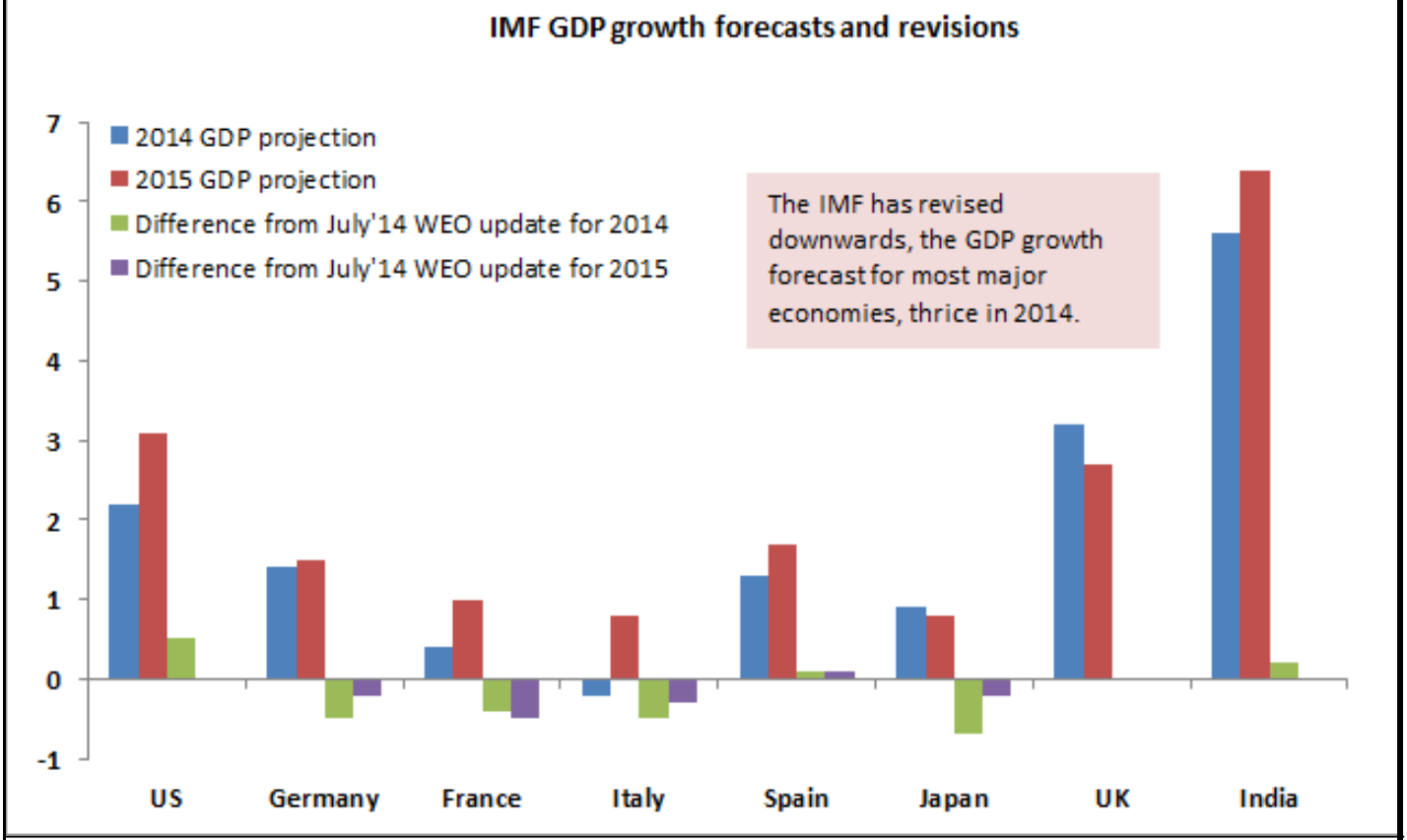

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