

NEWS

1. On the international foreign exchange markets, the US dollar largely strengthened against its major international trading partners weakening only against the Australian \$ (by 0.8%). It strengthened the most (by 0.6% each) against the Canadian \$ and the Swiss franc, by 0.4% each against the Singapore \$ and the Danish krona, 0.2% against the Japanese Yen and by 0.1% each against the Euro and the Pound.
2. The Swiss central bank is widely expected once again to cut short term deposit rates (currently at -0.75%) in an effort to stave off the negative economic impact from the franc's rise in value after its peg to the Euro was scrapped in January. The SNB President indicated that "*there is room for a further easing*" and predicted that "*growth will lose pace and the economy may even shrink for one quarter.*" Sight deposits (the cash commercial banks hold with the central bank) are expected to offer as low as -1.5% by the end of this month.
3. Japan's trade deficit for January plunged by almost 60% from a year before as exports increased and imports contracted mainly on the back of falling oil prices. Exports surged by 17% over the year to JPY 6.1 trillion, mainly led by strong shipments of vehicles and machinery. Imports fell by 9% to JPY 7.3 trillion, with the oil and gas import bill shrinking by 25%. The trade deficit stood at JPY 1.18 trillion; it was JPY 2.8 trillion in January 2014. Separately, the BoJ announced a continuation of its ongoing bond-buying program.
4. With the talks between the Greek government and the European governing council not showing signs of a clear cut resolution, reports emerged of possible capital controls being mulled by Greece to stem the run on bank deposits. The Syriza-led government termed as "*absurd*" and "*unacceptable*" the euro ministers' resolve to hold Athens to the terms of its much-debated EUR 172 billion bailout agreement. While the deadline for an administrative decision expires only on the 28th of February, markets anticipate a decisive announcement by early next week.
5. Saudi Arabia shipped 6% (7.1 million barrels per day) less oil in 2014, marking the lowest level in 3 years. China, the kingdom's biggest buyer, imported 8% less crude last year, even though it marginally increased its imports from Iran, Iraq and Kuwait. Saudi Arabia needs to keep exports at a minimum of 7 mbpd (at current prices) for the \$230 billion 2015 budget and Brent must average \$80/barrel this year for the budget to break even.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in the somewhat narrow range of Rs 62.08-62.35 per \$, and the rupee ended the week with a loss of 2 paise to close at Rs 62.23 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 8.08%, 7.87%, 7.70% and 6.73% p.a. as against 7.74%, 7.88%, 7.57% and 7.08% respectively in the previous week. Earlier this week, the RBI permitted banks to import gold on a consignment basis, lifting the ban which was in place. The central bank's reserves stood at a record \$ 333 billion for the week ended 13th February 2015.

VIEWS

1. For much of the week, the rupee did not show signs of any significant movement in either direction. The central bank, over the previous few weeks has been consistently buying dollars in the market and this is evident from the fact that its forex reserves have risen for the fifth straight week to an all-time high of \$333 billion. The firming up of government and corporate bond yields have lent a slight upward push to forward premia, which appear attractive for locking into medium / long-term receivables. One could expect a little bit of volatility in the run up to the budget and maintaining a square position for the near term by end-February would be a prudent strategy for both importers and exporters. Incidentally, the period coincides with Greece's deadline for agreeing to extend the existing EU bail-out package and any negative news originating from Europe could have an impact on currency markets world-wide. On the trade front, services exports for the period Oct-Dec'14 suggest that we could be looking at a single digit current account deficit for the third quarter, which is almost certain to turn into a double-digit surplus in the last quarter of 2014-15.
2. 2015 has opened on a particularly volatile note for international currency markets. Not even a couple of months into the year and there have already been 19 instances of monetary easing by central banks around the world. Almost exceptionally affected are the countries whose currencies are pegged either to the dollar or the Euro. A case in point is Denmark where the central bank has effected 5 interest rate cuts in order to protect the krona's peg to the Euro (it targets 7.5 krona per euro in a 2% band). The Danish central bank has been trying hard to keep speculators at bay, who believe that Denmark's ultimate fate could mirror that of Switzerland. In this backdrop, it is not surprising that emerging market currencies have remained a little wobbly.
3. The US Fed noted that the dollar's rising value is a "*persistent source of restraint*" and a stronger dollar is "*de-facto tightening*." US companies are living with a strong domestic currency that doesn't really reflect a particularly robust economy and complaints about too strong a greenback have been growing. The Dollar index, after touching a 10-year high has retreated as speculation has grown about a delay in interest rate increase. As markets continue to play this game, we can only wait as the Fed tries to make sense of the paradox of falling inflation and falling unemployment. By some estimates, the dollar's gain against a basket of 6 currencies since 2014 would have the same impact on industrial output as a 10-15 bps rate increase by the Fed would.
4. Highlighting the undercurrents of weakness in international trade, the Baltic Dry index (BDI) dropped for the 56th day of the last 60 and at 509 is down over 65% from November's high. Expectedly, several causative factors point towards a growth slowdown in China. Meanwhile, we are not changing our ranges for any of the non-US dollar currencies, as follows:

\$ 1.45 – 1.57 per GBP,
\$ 1.08 – 1.18 per EUR, and
JPY 112 – 122 per \$

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency	
USD	62.23	
PDS	95.83	
EUR	70.82	
YEN (100)	52.28	
SFr	66.33	
DKK	9.49	
CAD	49.66	
AUD	48.80	
SGD	45.75	
CNY	9.95	

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Feb-15	62.29	6.75
Mar-15	62.71	7.96
Apr-15	63.14	7.92
May-15	63.51	7.79
Jun-15	63.91	7.80
Jul-15	64.30	7.62
Aug-15	64.68	7.64
Sep-15	65.05	7.52
Oct-15	65.42	7.47
Nov-15	65.77	7.44
Dec-15	66.11	7.29
Jan-16	66.42	7.20

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.76	6.79

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
61.50	-	19
62.00	-	34
62.50	-	56
63.00	48	-
63.50	32	-
64.00	22	-

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
62.50	-	58
63.00	-	78
63.50	-	103
64.00	80	-
64.50	64	-
65.00	51	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.71	7.71	7.68

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.20	6.91
MIOCS	6.76	6.79

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.5399
EUR	1.1381
YEN	119.03
SFr	0.9382
DKK	6.5570
CAD	1.2531
AUD	0.7842
SGD	1.3602
PKR	101.67
CNY	6.2562

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.52	4.23	2.36
1.54	3.23	3.23
1.56	2.35	4.34

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.12	3.45	1.57
1.14	2.41	2.41
1.16	1.56	3.56

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
120.98	2.42	1.10
118.98	1.69	1.69
116.98	1.06	2.56

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.17	0.26	0.39	0.68
EUR	0.00	0.02	0.09	0.22
PDS	0.50	0.56	0.68	0.98
YEN	0.08	0.10	0.14	0.27
SwFr	-0.93	-0.90	-0.79	-0.68

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.90	1.72	2.22
EUR	0.14	0.33	0.74
PDS	0.99	1.53	1.91
YEN	0.16	0.25	0.58
SwFr	-0.72	-0.38	0.22

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	50.1	DJIA	18,140
GOLD (\$/ounce)	1,201	FTSE	6,915
COPPER (\$/ton)	5,706	DAX	11,050
ALUMINIUM (\$/ton)	1,796	NIKKEI	18,322

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

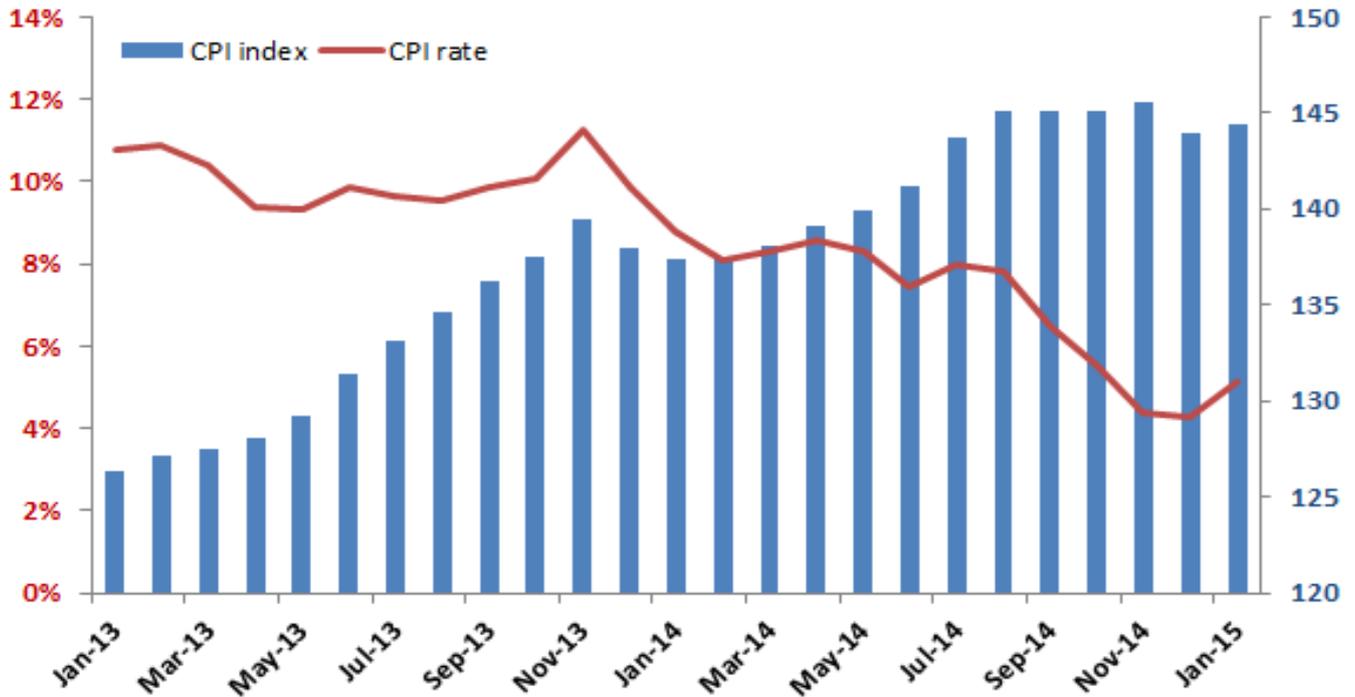
* indicative only

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India: CPI index & inflation
(Jan'13 - Jan'15)



India: WPI index & inflation
(Jan'13 - Jan'15)

