

## NEWS

1. On the international foreign exchange markets, the US dollar dropped across the board against its major international trading partners this week. It weakened the most (by 3.1% each) against the Euro, the Danish krona and the Swiss franc, by 1.8% each against the Canadian \$ and the Australian \$, by 1.4% against the Pound and by 1.1% against the Japanese Yen. Immediately following the perceptibly dovish press release by the FOMC, the greenback lost most of its gains of the previous fortnight, before gaining lost ground by the end of the week. Ironically, strong payroll data this week was met by a drop in equity indices as well as the dollar index.
2. After some stability in the last few weeks, initial jobless claims in the major shale oil producing states in the US started to rise again, with Texas most affected for now. Overall jobless claims rose modestly to 291,000, but left the 4-week moving average above 300,000 for the second week in a row (first time in six months). The economy on the whole added 295,000 jobs in February with the unemployment rate falling to a seven-year low of 5.5%. Another report showed that current account deficit widened in the fourth quarter, growing by 14.7% to \$113.5 billion, the biggest in more than four years.
3. Minutes from the Bank of England (BoE) monetary policy meeting suggest that officials remained at loggerheads over whether they should decide to increase or decrease benchmark interest rates. For now, the committee has voted to keep the policy rate at an all-time low of 0.5%, a level decided back in 2009. Earlier the British pound had risen to a seven-year high against the Euro (at EUR 1.36 per GBP), and is now up nearly 20% in the last two years. Separately, the Office for National Statistics announced that inflation had fallen to just 0.3%. BoE Governor Mark Carney remarked that “*a temporary period of deflation could follow this spring.*”
4. Greece agreed on Friday to give its creditors a new list of reforms to get its bail-out back on track after the Greek Prime Minister held crucial talks with European leaders. Angela Merkel has been leading the effort to make Greece honor its commitments. The island nation’s creditors in February had agreed to extend its \$ 240 billion bail-out package in exchange for promise of yet more austerity measures. Athens wants the final EUR 7 billion tranche of the money to stay afloat as the deadline draws near. Greece must pay EUR 300 million to the IMF and redeem EUR 1.6 billion in Treasury debt.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 62.35-62.98 per \$, and the rupee ended the week with a gain of 50 paise to close at Rs 62.47 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 8.73%, 8.21%, 7.9% and 7.1% p.a. as against 8.7%, 8.1%, 7.8% and 7% respectively in the previous week. RBI’s foreign exchange reserves have declined by over \$2 billion to \$ 335.7 billion for the week ended March 13, 2015. Foreign currency assets, which comprise the major chunk of the forex reserves, fell by \$1.98 billion to \$310 billion during the week.

## VIEWS

1. The Federal Open Market Committee's pronouncement hinted at a delay in the long-anticipated interest rate hike. This was greeted by the financial markets with a bout of dollar weakness. The fact that trading algorithms have been embedded with statistical significance for the word "patience" is both an absurdity and reality of the financial markets. Be that as it may, Ms Yellen's acknowledgement that the dollar has become "too strong" has effectively (although perhaps temporarily) put a cap on the dollar rise vis-à-vis the Euro, its most important trading partner. Interestingly, like the Reserve Bank of India, the FOMC has stated that its monetary policy actions will be dependent on economic data. The central bank is clearly concerned about importing low inflation from the rest of the world via a strong domestic currency, the effect of which has already started telling on the American car makers competing with cheaper Japanese imports. The greenback losing a little bit of ground has ramifications not only for the US economy, but also for emerging market currencies, which have experienced considerable volatility in recent weeks.
2. When the RBI surprised with a rate cut in the first week of March, it had noted that its monetary policy actions endeavored to take into account the US Fed's interest rate stance. With no conclusive outcome emerging from Wednesday's FOMC meeting, Mr Rajan could well consider reducing the repo rate by another 25 basis points by the first week of April, if not as early as next week. While negative wholesale price inflation for February might not pose an immediate concern, it implies that inflation is well and truly on a downward trajectory.
3. The rupee has clawed back to under Rs 62.50 per \$. Indeed, the dollar remains supported by RBI purchases. For corporate treasuries managing exposures beyond the 6-month horizon, it makes sense to try and lock into receivables as far forward as 12 months (a forward rate upwards of Rs 67 is worth locking into). We lay emphasis on this point because the interest rate easing cycle in India is increasingly going to be dictated by domestic inflation, and could well coincide with a rate hike in the US, thereby shrinking the forward premia. Importers should look to use OTMF call options to hedge their short term payables as these have become all the more attractive following reduced volatility in the Rs/\$ pair.
4. As the dovish implications of the Fed's downward forecasts for growth, interest rates and inflation sank in, the Euro gained in strength, ending that day at \$ 1.09, up sharply from \$ 1.06 the previous day. As it has so often happened in the past in financial markets, when sentiment on any market becomes unidirectional, the market soon orchestrates a U-turn. While the dollar had its worst day since November 2009, it continued to be overbought and even though the Euro had its best day since July 2012, it remained oversold. Our projections for the non-US dollar currencies are unchanged, as follows:
  - \$ 1.43 – 1.55 per GBP,
  - \$ 1.00 – 1.10 per EUR, and
  - JPY 115 – 125 per \$.

March 20, 2015

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**DOMESTIC MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	INR/Currency	
USD	62.47	
PDS	93.39	
EUR	67.60	
YEN (100)	52.04	
SFr	64.06	
DKK	9.07	
CAD	49.77	
AUD	48.57	
SGD	45.31	
CNY	10.07	

**FORWARD EXCHANGE RATES**

Month-end	INR/USD	Premium % p.a.
Mar-15	62.58	8.97
Apr-15	63.04	8.54
May-15	63.42	8.16
Jun-15	63.84	8.14
Jul-15	64.25	7.92
Aug-15	64.65	7.94
Sep-15	65.04	7.82
Oct-15	65.44	7.80
Nov-15	65.82	7.80
Dec-15	66.20	7.67
Jan-16	66.55	7.62
Feb-16	66.90	7.55

**CURRENCY SWAPS**

	2-Year	5-Year
₹/USD	7.09	7.13

**INR/USD CURRENCY OPTIONS\***

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
62.00	-	13
62.50	-	28
63.00	-	51
63.50	28	-
64.00	17	-
64.50	10	-

**3-mth Option on USD 1, price in paise**

Strike	Call	Put
62.50	-	37
63.00	-	55
63.50	-	76
64.00	79	-
64.50	61	-
65.00	47	-

**INTEREST RATE MARKETS**

	2-Year	5-Year	10-Year
GOI BOND	7.70	7.82	7.74

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.17	7.02
MIOCS	7.09	7.13

**INTERNATIONAL MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	Against USD
PDS	1.4949
EUR	1.0821
YEN	120.04
SFr	0.9752
DKK	6.8897
CAD	1.2552
AUD	0.7775
SGD	1.3787
PKR	102.10
CNY	6.2046

**PDS 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.47	4.62	2.28
1.49	3.35	3.35
1.51	2.45	4.59

**EUR 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.06	3.51	1.49
1.08	2.38	2.38
1.10	1.52	3.59

**YEN 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
121.99	1.78	0.52
119.99	1.08	1.08
117.99	0.49	1.85

**INTEREST RATE MARKETS**

**OFFSHORE CURRENCY**

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.18	0.26	0.39	0.72
EUR	0.00	0.03	0.08	0.20
PDS	0.50	0.54	0.68	0.99
YEN	0.05	0.09	0.12	0.25
SwFr	-0.84	-0.79	-0.70	-0.59

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.96	1.75	2.22
EUR	0.09	0.28	0.65
PDS	1.01	1.52	1.88
YEN	0.15	0.31	0.58
SwFr	-0.65	-0.28	0.22

**OTHER MARKETS**

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	46.5	DJIA	18,127
GOLD (\$/ounce)	1,185	FTSE	7,023
COPPER (\$/ton)	5,919	DAX	12,039
ALUMINIUM (\$/ton)	1,762	NIKKEI	19,560

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

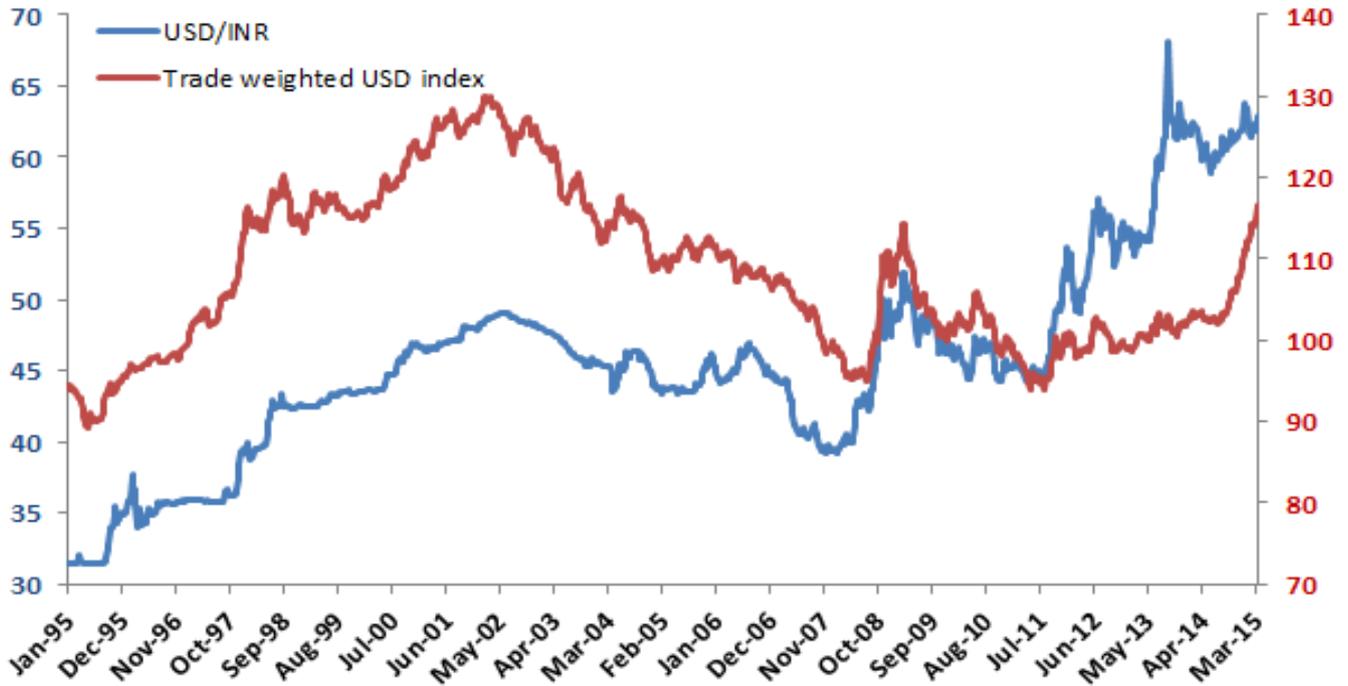
\* indicative only

# for payables

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USD index vis-a-vis USD/INR  
(Jan'95 - Mar'15)



US non-farm payroll  
(Jan'95 - Feb'15)

