NEWS

1. The US$ had a mixed response this week against its major international trading partners. It strengthened the most by 1.2% against Canadian $, followed by 0.8% against the British Pound. It further rose by 0.7% each against the Japanese Yen and the Singapore $ and by 0.6% against the Australian $. However it weakened by 0.5% against the Swiss Franc and by 0.4% each against the Euro and the Danish Kroner.

2. In the US, initial claims for jobless benefits, a measure of layoffs, decreased by 0.9% to a seasonally adjusted 336,000 in the week ended Feb. 15. The four-week moving average for claims, which irons out volatility, ticked slightly higher to 338,500. The number of continuing unemployment-benefit claims (those drawn by workers for more than a week) rose 1.2% to almost 3 mn in the preceding week. Continuing claims are reported with a one-week lag. U.S. payrolls rose a seasonally adjusted 113,000 in January after December's lackluster gain of 75,000 jobs, marking the weakest two-month stretch of job creation in three years. Meanwhile, the consumer-price index advanced a seasonally adjusted 0.1% in January from the prior month. Compared with a year earlier, consumer prices increased 1.6%. That was the strongest year-over-year gain in six months and a marked acceleration from October, when the annual gain had slowed to 1%. The Fed aims for annual inflation of 2%. Home sales fell in January to their lowest level in 18 months. The median sales price in January was up 10.7% from a year earlier.

3. Greece's current account swung into a surplus for the first time on record in 2013. The current-account surplus for the year came in at €1.2 billion ($1.65 billion), versus a deficit of €4.6 billion in 2012 and a €20.6 billion shortfall in 2011. Plunging consumption and investment brought on by the country's six-year contraction resulted in a 4.5% drop in imports in 2013.

Tourism proved to be a big winner in 2013, helping boost export revenues by 2.3%.

4. Japan posted a record ¥2.79 trillion ($27.3 billion) trade deficit in January, as imports of electronics components and raw materials surged and exporters failed to boost their sales overseas despite a weaker yen. Clearly, domestic demand continues to drive Japan's recovery, as a 25% surge in imports pushed them to the highest level since 1979. Exports rose 9.5%, but the gain was due to the increase in value in yen terms with the volume of goods sold abroad falling 0.2% on a non-seasonally adjusted basis.

5. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 61.83 – ₹ 62.45 per $, ending the week with a loss of 20 paise for the rupee at ₹ 62.13 per $. The forward premium levels are at 8.2%, 8.9%, 8.4% and 7.6% from the preceding week-end levels of 8.6%, 9.1%, 8.6% and 7.8% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic front, the rupee-dollar exchange rate remains stuck in a narrow band of ₹ 61.50 – 62.50 per $. The sharp fall in the current account deficit, accompanied by easy as well as cheap availability not only of short-term suppliers' / buyer's credits but also medium-term external commercial borrowings for Indian entities, ensures over-supply of dollars. However, rupee appreciation is being prevented by the offsetting influence of the unwinding of swaps by the oil marketing companies (against dollars supplied to them by RBI in September – November 2013) and payment of old Iranian dues. This is likely to continue for a few more weeks, possibly until the end of the current financial year.

2. There is no change in our rupee script. A stable-to-strong rupee is expected to prevail until the announcement of the general election results in mid-May. We advise corporate treasury managers to hedge dollar payables only when the rupee appreciates and the exchange rate drops below ₹ 62 per $. One should target a forward rate (i.e. including the premium) better

than ₹ 62 per $ for covering payables. On the other hand, whenever the Rs/$ spot rate is above ₹ 62.25, the bulk of short-term dollar receivables (say 70 – 80%) for the next 2 - 3 months, as well as a part (say 10 – 20%) of the medium-term exposures, should be hedged.

3. On the international markets, among the minor currencies, the Canadian dollar has been undermined by weak economic data – the latest is a much-more-than-expected 1.8% drop in retail sales during December 2013. The loonie, as the currency is called, weakened to C$ 1.1108 per USD, and is just 1% away from the level of C$ 1.1224 touched on Jan. 31, the lowest level since 2009. Meanwhile, the Japanese yen has come under bear pressure, amidst growing market sentiment expecting a continued tapering of the Fed's bond purchase (or QE3) program, and no corresponding action from the Bank of Japan. We are keeping our forecasted ranges for the non-$ currencies unchanged, as follows:

   $ 1.59 – 1.69 per GBP,

   $ 1.27 – 1.39 per EUR, and

   JPY 95 – 107 per $.

4. Tailpiece: The Financial Stability Board, a group of global regulators, have started a review of all foreign-exchange benchmarks following allegations traders colluded to rig rates in the $5.3 trillion-a-day market. At least a dozen regulators on three continents are investigating whether traders in the world's largest financial market colluded with counterparts at other firms to manipulate benchmarks, including the LIBOR interest rates. More than 20 traders have been fired or suspended across the industry. Traders used chat rooms to share information about their clients' positions with counterparts at other banks in the minutes before the fixing of the benchmarks, and agreed to push trades through together during the fix to maximize their impact on the benchmark. Even small movements could affect the value of trillions of dollars in funds, including pension and savings accounts, which track global indexes.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	62.13
PDS	103.24
EUR	85.40
YEN (100)	60.61
SFr	69.99
DKK	11.44
CAD	55.93
AUD	55.77
SGD	49.01
CNY	10.20

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Feb-14	62.19	7.05
Mar-14	62.61	8.06
Apr-14	63.15	9.08
May-14	63.56	8.75
Jun-14	63.98	8.69
Jul-14	64.41	8.64
Aug-14	64.79	8.36
Sep-14	65.22	8.37
Oct-14	65.64	8.25
Nov-14	66.01	8.17
Dec-14	66.44	8.14
Jan-15	66.83	8.10

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	8.10	8.15

INR/USD CURRENCY OPTIONS*

	1-mth Option on USD 1, price in paise	
Strike	Call	Put
61.50	124	16
62.00	89	30
62.50	60	51
63.00	40	80
63.50	25	115
64.00	16	155

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
62.00	211	61
62.50	180	78
63.00	151	98
63.50	126	122
64.00	105	150
64.50	88	181

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.61	8.90	8.81

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.40	8.48
MIFOR	8.10	8.15

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

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.6616
EUR	1.3746
YEN	102.51
SFr	0.8877
DKK	5.4309
CAD	1.1109
AUD	0.8977
SGD	1.2678
PKR	104.95
CNY	6.0912

PDS 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.64	3.32	1.28
1.66	2.16	2.16
1.68	1.33	3.29

EUR 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.35	3.36	0.91
1.37	1.90	1.90
1.39	1.24	2.79

YEN 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
104.48	2.82	1.25
102.48	1.95	1.95
100.48	1.00	3.42

INTEREST RATE MARKETS

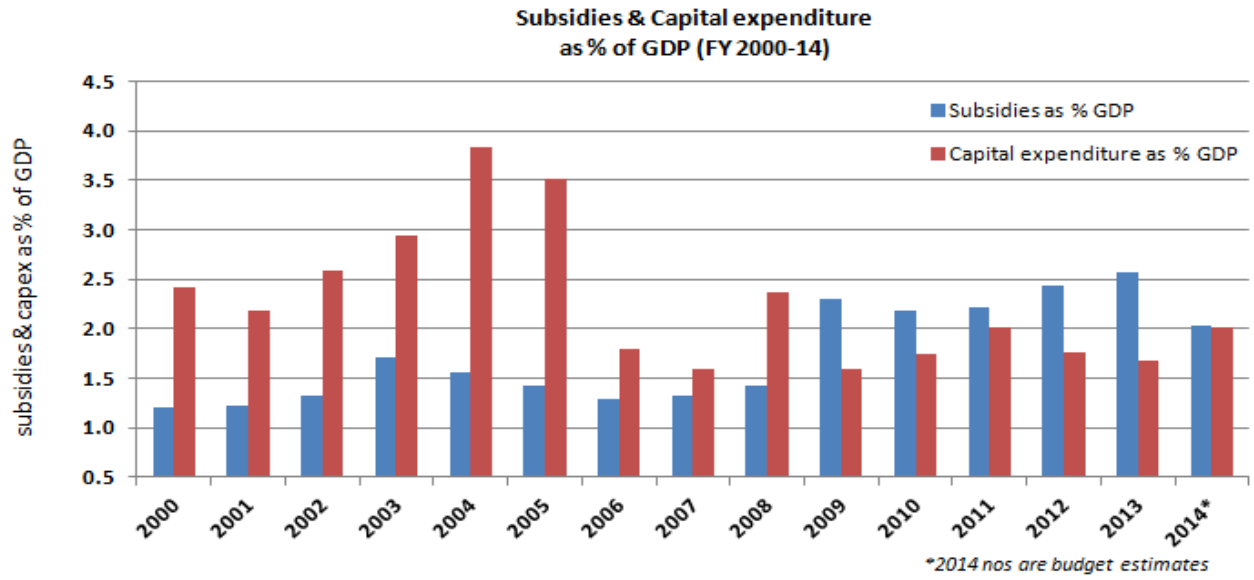
	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.16	0.24	0.33	0.56
EUR	0.20	0.26	0.34	0.51
PDS	0.48	0.52	0.61	0.89
YEN	0.10	0.14	0.19	0.35
SwFr	-0.01	0.02	0.08	0.20

	INTEREST RATE SWAPS		
	2-Year	5-Year	10-Year
USD	0.46	1.66	2.86
EUR	0.46	1.06	1.94
PDS	1.00	2.02	2.88
YEN	0.22	0.34	0.83
SwFr	0.12	0.54	1.39

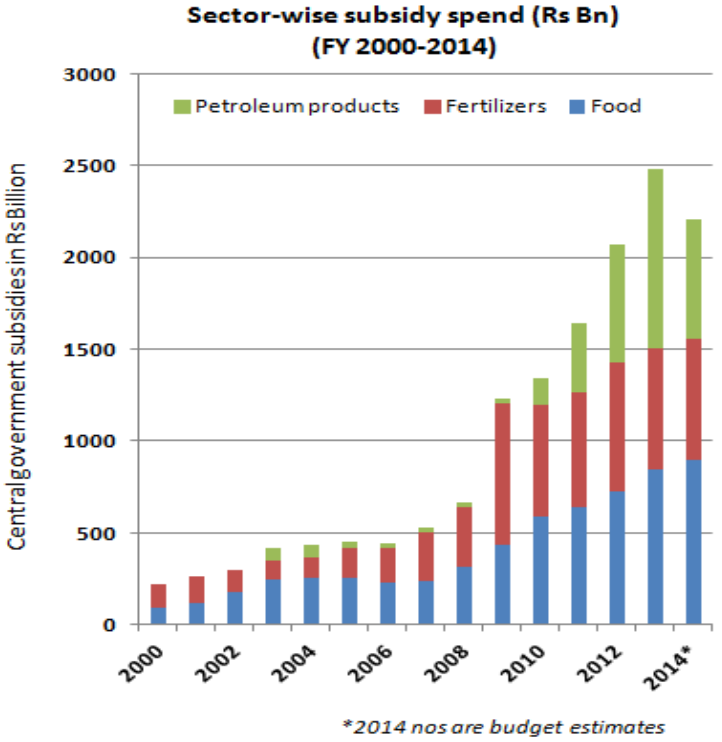
OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude ($/barrel)	102.2	DJIA	16,103
GOLD ($/ounce)	1,324	FTSE	6,838
COPPER ($/ton)	7,185	DAX	9,656
ALUMINIUM ($/ton)	1,734	NIKKEI	14,866

** indicative only* *# for payables*



Broadly speaking, a federal government's capital expenditure comprises money spent on capital goods or creating assets, which last for a long time. Examples are buildings, bridges, schools, etc. Subsidies on the other hand are schemes to keep the price of a service or commodity low. Till about 2008, capital expenditure remained on an average, 75% higher than the central government's subsidy spend. Here, the global financial crisis seemed to emerge as an inflexion point. For the first time in 2009, the 'capex-subsidies' relationship inverted (also in magnitude).



The graph on the left depicts sector-wise subsidy spend for India. During FY 2013, the government had spent around Rs 2,50,000 crores on these three items alone. As a group, this basket has grown at a CAGR of 20.4% over the last decade and the increase has been particularly stark at 30% for petroleum subsidies. Incidentally petroleum subsidies have increased during a period of rising international oil prices.

During the budget speech of FY 2013, the government announced its intention of limiting all central government subsidies to under 2% of GDP; reducing them to 1.7% over the subsequent three years. Currently. the three major subsidies, namely – food (40%), fertilizers (32%) and fuel (23%) almost take up 95% of the total subsidy bill of the country.