NEWS

1. The US$ strengthened this week across the board against its major international trading partners weakening only against the Australian $ by 0.6%. It advanced the highest by 1.2% against the Swiss Franc, followed by 1.1% against the Canadian $ and by 1.0% against the British Pound. It also gained ground by 0.9% each against the Euro, the Japanese Yen and the Danish Kroner before ending the week up by 0.7% against the Singapore $.

2. In the U.S., the number of people filing for first-time jobless benefits increased slightly last week but remained near a three-month low. Initial jobless claims, a measure of layoffs across the U.S. economy, increased by 5,000 to a seasonally adjusted 320,000 in the week ended March 15. A broader figure that evens out week-to-week volatility, the four-week moving average of claims, fell by 3,500 to 327,000. That was the lowest figure since the end of November 2013. Besides, the number of workers receiving continuing unemployment benefits also increased by 41,000 (1.5%) to 2,889,000 in the week ended March 8. Continuing claims, which are those drawn by workers for more than a week, are reported with a one-week lag.

3. The euro zone's current account surplus rose to a record high in January. According to the European Central Bank, the current account balance, a broad measure of an economy's international financial position, increased in seasonally adjusted terms to a surplus of €25.3 billion ($34.9 billion) in January from a downwardly revised €20 billion in December, reaching a new all-time high for the euro zone since records began in 1997. The bloc's surplus in the trade of goods increased to €15.9 billion from €14.5 billion in December. The surplus in services also increased, to €11.8 billion from €9.6 billion.

4. Japan's merchandise trade deficit in February narrowed sharply from the previous month's record high. The monthly trade balance came to a deficit of ¥800.3 billion ($7.9 billion). The figure compared favourably with January's record deficit of ¥2.8 trillion, and a revised year-ago deficit of ¥773.3 billion. The run of trade deficits has now extended to the 20th straight month, a record under the current data format that started in 1979. Exports increased by 9.8% on a year-over-year basis in February, while imports expanded by 9%.

5. On the domestic interbank market, the rupee-dollar exchange rate repeatedly moved below ₹ 61 per $, trading in a range of ₹ 60.88 – ₹ 61.38 per $, ending the week with a gain of 29 paise for the rupee at ` 60.90 per $. The forward premium levels are at 11.9%, 9.9%, 9.0% and 7.8% from the preceding week-end levels of 9.5%, 9.2%, 8.6% and 7.8% for 1, 3, 6 and 12 month maturities respectively

VIEWS

1. We have always maintained that the rupee-dollar exchange rate is primarily influenced by local factors. The chief, if not the only, factor in the medium term is the domestic inflation rate, which eats into the domestic purchasing power of the rupee, necessitating a correction in its external purchasing power. At times, the rupee appears to move in tandem with the gyrations in the stock market, sometimes it follows the pattern of the euro vis-à-vis the US dollar, and at other times it could be some other development in the international markets. However, this is what markets refer to as “noise”.

2. Last week, indeed for the last several months, Asian currencies reeled under the twin blows from the US Federal Reserve Board which increased its 2015 interest-rate forecast and the Bank of China which doubled the yuan’s trading band. Not only did the Chinese yuan drop to CNY 6.1475 per $, but other Asian currencies also had their steepest weekly loss in nine months. The Philippine peso sank 1.5% to 45.31 per $, the Malaysian

ringgit fell 0.9% to 3.3085, the Taiwanese dollar slid 0.9% to 30.652, the Indonesian rupiah lost 0.6% to 11,423, the South Korean won weakened 0.7% to 1,080.4, and the Thai baht dropped 0.3% to 32.381. The notable exception was the Indian rupee which gained 0.4% to Rs 60.92 per $, clearly gaining from a non-existent current account deficit combined with capital flows on both the debt and equity fronts.

3. We expect rupee stability / strength to continue for some more weeks, possibly until the first week of May, until the exit polls which are likely to come out on May 12 after the end of the last polls. We therefore continue to advise the use of out-of-the-money call option contracts for hedging dollar payables. As regards dollar receivables, exporters should cover the bulk (say, 70 – 80%) of their short-term exposures (say, the next 6 weeks) as well as a part (say, 10 – 20%) of their medium-term exposures, using forward contracts. In case of exposures beyond mid-May, rather than locking into a forward contract, we suggest the use of option contracts (with the spot rate as the strike rate) up to end-June 2014.

4. On the international markets, in line with market expectations, the U.S. central bank trimmed its bond-buying program by a third successive cut of $10 billion to $55 billion. However, it surprised the market by indicating that although the target rate will stay at zero to 0.25% in 2014, it could reach 1% by the end of 2015, higher than the 0.75% that had been predicted previously. The US dollar strengthened, aided also by economic data showing weakness in other countries, notably the U.K. We are not making any changes in our ranges for the non-$ currencies -- $ 1.59 – 1.69 per GBP, $ 1.27 – 1.39 per EUR, and JPY 95 – 107 per $.

5. Tailpiece: According to circumstantial evidence, Russia may have recently withdrawn tens of billions of dollars in assets out of a custodial account at the US Federal Reserve Board, possibly to keep it from being frozen by the US authorities. As of December 2013, Russia held $139 bn in Treasuries, making it the 9th largest holder, accounting for over 1% of the total country holdings.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	60.90
PDS	100.40
EUR	84.01
YEN (100)	59.56
SFr	68.98
DKK	11.25
CAD	54.27
AUD	55.30
SGD	47.79
CNY	9.78

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Mar-14	61.05	17.98
Apr-14	61.63	11.51
May-14	62.05	10.14
Jun-14	62.48	9.76
Jul-14	62.90	9.44
Aug-14	63.26	8.90
Sep-14	63.72	8.94
Oct-14	64.13	8.72
Nov-14	64.50	8.60
Dec-14	64.94	8.56
Jan-15	65.34	8.50
Feb-15	65.70	8.44

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	8.10	8.09

INR/USD CURRENCY OPTIONS*

	1-mth Option on USD 1, price in paise	
Strike	Call	Put
60.50	118	28
61.00	86	45
61.50	59	68
62.00	40	99
62.50	26	134
63.00	16	174

	3-mth Option on USD 1, price in paise	
Strike	Call	Put
61.50	173	99
62.00	145	121
62.50	122	147
63.00	102	176
63.50	85	207
64.00	70	241

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.44	8.88	8.82

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.43	8.53
MIFOR	8.10	8.09

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	1.6486
EUR	1.3794
YEN	102.25
SFr	0.8829
DKK	5.4118
CAD	1.1221
AUD	0.9081
SGD	1.2742
PKR	97.88
CNY	6.2258

PDS 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.63	3.11	1.38
1.65	2.14	2.14
1.67	1.22	3.47

EUR 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.36	3.01	1.09
1.38	1.91	1.91
1.40	1.06	3.14

YEN 3mnth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
104.23	2.98	1.16
102.23	1.96	1.96
100.23	1.08	3.25

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.15	0.23	0.33	0.56
EUR	0.21	0.28	0.38	0.55
PDS	0.48	0.52	0.62	0.90
YEN	0.10	0.14	0.19	0.35
SwFr	-0.01	0.03	0.08	0.20

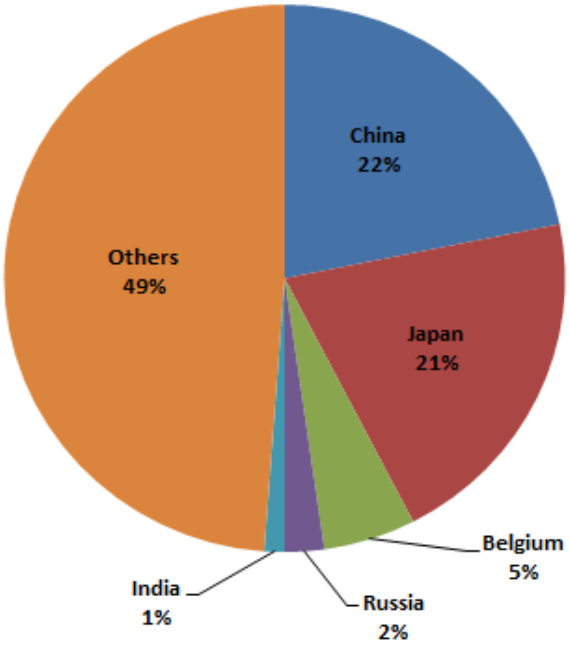
	INTEREST RATE SWAPS		
	2-Year	5-Year	10-Year
USD	0.57	1.80	2.86
EUR	0.54	1.07	1.89
PDS	1.05	2.06	2.85
YEN	0.23	0.35	0.82
SwFr	0.15	0.57	1.39

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude ($/barrel)	99.5	DJIA	16,303
GOLD ($/ounce)	1,336	FTSE	6,557
COPPER ($/ton)	6,539	DAX	9,343
ALUMINIUM ($/ton)	1,676	NIKKEI	14,224

** indicative only* *# for payables*

Foreign holders (by geography) of US Treasuries (as on 31st Jan'14)



The chart to the left shows the percentage foreign holdings of US Treasuries for the top three countries along with Russia and India. The top 5 countries, namely- China, Japan, Belgium, Brazil and Taiwan, account for 55% of the total foreign treasury holdings of USD 5.8 Tn.

In Nov'13, the then Ukrainian President Victor Yanukovych had announced his intention of abandoning an agreement with the EU in favor of one with Russia. Russia's Crimean occupation has attracted calls of private economic sanctions from the US and the EU, which have only grown stronger with time. According to recent data released by the US Federal Reserve, Russia's holding has come down from USD 139 bn in Dec'13 to USD 132 bn in Jan'14.

Ruble and Hryvnia per US Dollar (Jan'13 - 20th Mar'14)

Ever since tensions have escalated in Ukraine and the Russian military has been occupying the region of Crimea, the Ruble has come under pressure and has fallen 13% in 4 months. The Russian stock index MICEX has fallen from 1500 levels in January to 1250 and thereabouts in March this year.

The Ukrainian Hryvnia, which has remained stable against the Dollar since January of 2013, also has shown signs of weakness ever since Russia's military occupied the strategic Black Sea peninsular region of Crimea. In February, as a response to a sharply falling currency, the Central Bank of Ukraine imposed temporary limits to withdrawing money from foreign currency deposits to sums of 15,000 hryvnias (or about USD 1500 a day).