

NEWS

1. The US\$ had a mixed response this week against its major trading partners. It strengthened the most against the Australian \$ by 1.6% followed by 0.9% against the Japanese Yen and by 0.8% against the Canadian \$. It however weakened by 0.3% against the Swiss Franc and by 0.2% each against the Euro and the Danish Kroner, and was virtually unchanged against the British Pound and the Singapore \$.
2. The U.S. economy grew at a 3.1% annual rate in the third quarter, compared with a previously estimated 2.7% rate. The US unemployment rate fell to 7.7% in November, the lowest since December 2008 — but largely because Americans stopped officially looking for jobs. 2012's slow but steady improvement in the jobs market — the economy added 146,000 jobs last month, around its monthly average for the past two years — is becoming broad-based. Meanwhile, consumer spending rose 0.4% in November posted its strongest inflation-adjusted increase since the earliest stages of the recovery in August 2009. Compared with a year ago, inflation-adjusted consumer spending in November was up 2.1%. However, the consumer sentiment index, which had reached a five-year high last month, tumbled in December to 72.9 from 82.7 in November.
3. U.K.'s consumer confidence index also declined in December from an 18-month high as optimism about the outlook for the economy plunged. Retail sales were unchanged in November after dropping 0.7% the previous month.
4. Average housing prices in China rose at a faster pace of 0.24% in November from a month earlier, compared with a 0.05% increase in October. Compared with a year earlier, prices fell 0.6% in November, decelerating from a 1% decrease in October. Meanwhile, data showed investment flows to China dropped 5.4% in November from a year earlier.

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5. Japan's trade deficit widened sharply in November as territorial disputes weighed on exports to China. The balance of trade in goods came to a ¥953.4 billion (\$11.29 billion) deficit in November, widening 38% from a year earlier and marking the fifth straight monthly shortfall, Ministry of Finance data showed. Overall exports fell 4.1% to ¥4.984 trillion, the data showed, marking the sixth consecutive month of decline. The five-month shortfall represents the longest run of monthly deficits since 1980, when a global oil crisis had pushed Japan's import bill higher.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 54.40 – ₹ 55.25 per \$, ending the week with a loss of 58 paise for the rupee at ₹ 55.07 per \$. Forward premium for the first month jumped to 8.1% p.a. compared to 7.5% p.a. in the preceding week. However, the other forward premium levels were stable at 6.7%, 6.6% and 5.9% p.a. from the preceding week-end levels of 6.8%, 6.6% and 6.0% for 3, 6 and 12-month maturities respectively.

VIEWS

1. On the domestic front, the rupee has once again climbed above ₹ 55 per \$. However, the reaction in the corporate treasuries is much more muted this time, compared to the usual worries of a renewed sharp plunge for the rupee. No doubt, there is concern over near-term dollar payables, since a movement of 70-80 paise even during one day is becoming quite frequent. However, we consider this a healthy concern, as it is forcing the treasury manager to recognize the need to hedge short-term exposures whenever a reasonable exchange rate is available.
2. The sudden, often inexplicable, sharp rupee-dollar exchange rate movements are encouraging corporates to take a closer look at using out-of-the-money option contracts as a hedging tool instead of merely considering forward contracts for exposure management. For example, in end-November when the spot rate was ₹ 54.26 per \$ an exporter could

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have taken a one-month forward contract at an exchange rate of ₹ 54.57 per \$. Alternatively, an option contract at ₹ 54 per \$ was available at a cost of 36 paise, ensuring a minimum realization of ₹ 53.64 per \$. This would have kept open the possibility of taking advantage of the subsequent sharp rupee decline. The principal benefit of the option contract is that if this kind of strong movement had been in the opposite direction, an equally likely prospect, there would have been protection at the minimum level.

3. We continue to expect a stable / strong rupee in the weeks, and months, to come. No doubt, the short-term outlook remains vulnerable to more weakness for the rupee, especially as foreign institutional investors (FIIs) are unlikely to invest in the Indian stock market so close to the end of 2012. However, savvy treasury managers with large dollar payables for end-December have already hedged the bulk of their exposures. This is reflected in the jump in the forward premium for the first month. If that is true at a pan-India level, dollar demand may well be muted in the rest of this month. If many exporters are having large carry-forward EEFC balances from the preceding month, which are required to be liquidated before the end of this month, a surge in dollar supplies would ensue.
4. There is no change in our advice to corporates. We suggest that the bulk of the net dollar receivables over the next 6 – 12 months should be hedged. Dollar payables should either be covered by using out-of-the-money call option contracts or by keeping a pre-determined stop loss level at which a hedge would be compulsorily taken. Corporates with both receivables and payables may keep a small net short position (i.e. uncovered payables greater than uncovered receivables).
5. On the international front, we continue to keep our ranges for the US dollar against its major trading partners unchanged, as follows:

JPY 77 – 85 per \$,
\$ 1.22 – 1.34 per EUR, and
\$ 1.54 – 1.66 per GBP.

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DOMESTIC MARKETS			
FOREIGN EXCHANGE MARKETS			
SPOT EXCHANGE RATES			
	*/Currency		
USD		55.07	
PDS		89.06	
EUR		72.63	
YEN (100)		65.37	
SFr		60.17	
DKK		9.73	
CAD		55.45	
AUD		57.25	
SGD		45.11	
CNY		8.84	
FORWARD EXCHANGE RATES			
Month-end	*/USD	Premium % p.a.	
Dec-12	55.14	8.17	
Jan-13	55.52	7.67	
Feb-13	55.78	6.89	
Mar-13	56.05	6.71	
Apr-13	56.38	6.78	
May-13	56.68	6.63	
Jun-13	56.93	6.50	
Jul-13	57.19	6.31	
Aug-13	57.43	6.18	
Sep-13	57.67	6.09	
Oct-13	57.92	5.98	
Nov-13	58.14	5.87	
CURRENCY SWAPS			
	2-Year	5-Year	
*/USD	6.05	6.20	
INR/USD CURRENCY OPTIONS*			
1-mth Option on USD 1, price in paise			
Strike	Call	Put	
54.00	--	18	
54.50	--	29	
55.00	--	46	
55.50	59	--	
56.00	40	--	
56.50	25	--	
3-mth Option on USD 1, price in paise			
Strike	Call	Put	
54.50	--	53	
55.00	--	69	
55.50	--	88	
56.50	91	--	
57.00	73	--	
57.50	57	--	
INTEREST RATE MARKETS			
	2-Year	5-Year	10-Year
GOI BOND	7.95	8.16	8.16
INTEREST RATE SWAPS			
	2-Year	5-Year	
OIS	7.27	7.18	
MIFOR	6.05	6.20	

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

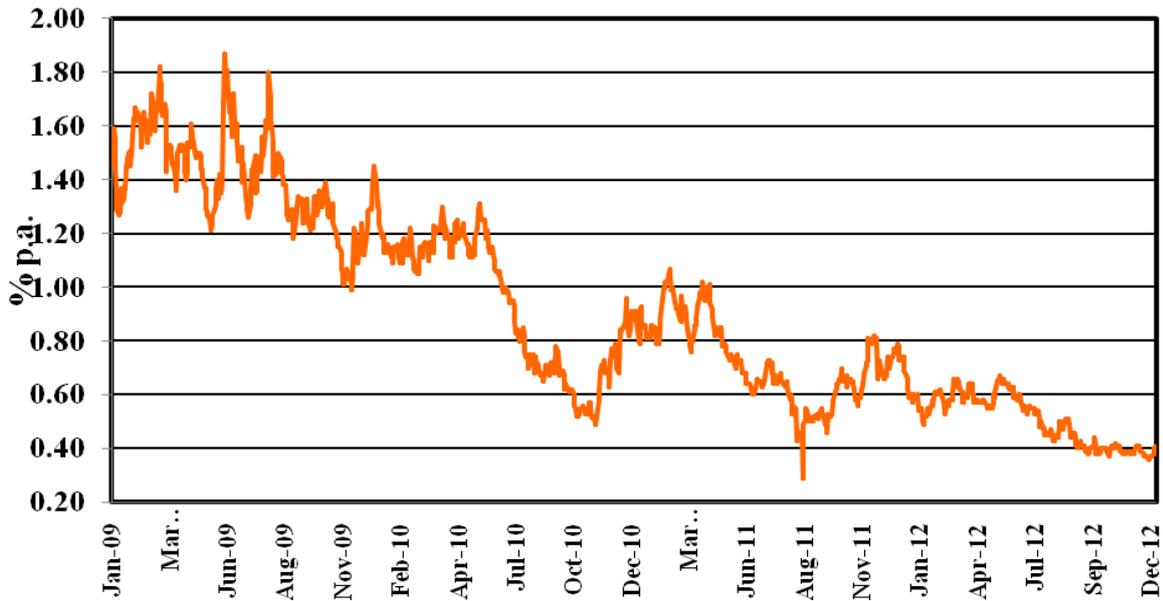
INTERNATIONAL MARKETS				
FOREIGN EXCHANGE MARKETS				
SPOT EXCHANGE RATES				
		Against USD		
PDS		1.6172		
EUR		1.3188		
YEN		84.24		
SFr		0.9153		
DKK		5.6580		
CAD		0.9932		
AUD		1.0396		
SGD		1.2208		
PKR		97.53		
CNY		6.2302		
PDS 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
1.60	3.32	1.33		
1.62	2.11	2.11		
1.64	1.27	3.27		
EUR 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
1.30	3.31	1.37		
1.32	2.16	2.16		
1.34	1.30	3.35		
YEN 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
86.21	3.45	0.70		
84.21	1.78	1.78		
82.21	0.73	3.99		
INTEREST RATE MARKETS				
OFFSHORE CURRENCY				
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.21	0.31	0.51	0.84
EUR	0.05	0.12	0.22	0.44
PDS	0.49	0.52	0.67	1.01
YEN	0.13	0.18	0.29	0.49
SwFr	-0.01	0.01	0.07	0.25
INTEREST RATE SWAPS				
	2-Year	5-Year	10-Year	
USD	0.41	0.88	1.84	
EUR	0.40	0.85	1.66	
PDS	0.75	1.11	1.99	
YEN	0.24	0.32	0.82	
SwFr	0.09	0.35	0.98	
OTHER MARKETS				
COMMODITIES		EQUITY INDICES		
NYMEX crude (\$/barrel)	88.7	DJIA	13,190	
GOLD (\$/ounce)	1,657	FTSE	5,939	
COPPER (\$/ton)	7,826	DAX	7,636	
ALUMINIUM (\$/ton)	2,032	NIKKEI	9,940	

* indicative only # for payables

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**USD IRS (2 Year)
January 2009 to December 2012**



**USD IRS (5 Year)
January 2009 to December 2012**



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