

NEWS

1. The US\$ had a mixed response this week against its major international trading partners. It strengthened the most by 2.0% against the Australian \$ followed by 1.1% against the Japanese Yen. It further rose by 0.7% against the Canadian \$ and by 0.3% against the Singapore \$. However, it weakened by 0.9% against the Swiss Franc, by 0.7% against the British Pound and by 0.5% each against the Euro and the Danish Kroner.
2. In the US, initial claims for jobless benefits, a measure of layoffs, decreased by 7% in the week ended Nov. 16. The four-week moving average of claims, which evens out volatility in the weekly data, dropped marginally to 338,500. However, the number of continuing unemployment benefit claims, i.e. those drawn by workers for more than a week, rose by 2.3% to 2.9 mn in the preceding week. The producer-price index, which measures how much companies pay for everything from food to computers, declined 0.2% last month from September. Core prices, which exclude the volatile food and energy components, rose 0.2%. Consumer prices for October fell slightly from the prior month. But excluding food and energy costs, prices rose 1.7% from a year earlier.
3. The German business confidence index rose by 1.9 points to 109.3 in November, more than compensating for October's surprise decline. Germany's gross domestic product (the broadest measure of goods and services produced across the economy) increased 0.3% in the third quarter from the preceding period, or 1.3% at an annualized rate, following annualized growth of 2.9% in the second quarter. German companies said that both the current business situation and the trade outlook improved in November. The Ifo subindex for business expectations climbed to 106.3 from a revised 103.7 in October, while the subindex for current conditions rose to 112.2 from 111.3.

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4. A preliminary gauge of China's manufacturing activity showed a mild weakening of growth momentum in November, weighed down by sluggish new export orders, and suggesting the third-quarter rebound in the world's second-largest economy may be losing steam. The Purchasing Managers' Index slipped to 50.4 in November from 50.9 in October. That leaves it in positive territory, holding above the key 50-mark that separates expansion from contraction compared with the previous month. Despite the weaker expansion, the result was still the second-best reading in the past seven months.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 61.87 – ₹ 63.06 per \$, ending the week with a gain of 24 paise for the rupee at ₹ 62.88 per \$. The forward premium levels are at 9.3%, 9.0%, 8.8% and 7.7% from the preceding week-end levels of 9.1%, 8.9%, 8.7% and 7.7% for 1, 3, 6 and 12 month maturities respectively

VIEWS

1. On the domestic interbank market, the Rs/\$ exchange rate remained mostly below Rs 63 per \$, albeit with the market convinced that the Reserve Bank of India had intervened to prevent the rupee from straying above that level. No doubt, as the RBI Governor reiterated recently, the improvement on the current account front has almost certainly happened although actual data for the second quarter will be known only at the end of this quarter.
2. Indeed, we believe that he may have erred on the side of caution. Already, both manufacturing and software exports are showing signs of doing well in the current year. During the second quarter of 2013-14 (July – September), merchandise exports had increased by 12.2%. If only non-oil exports are considered, the performance would be even better! Besides, services inflows (which are mainly software exports) expanded by 9.1% on a year-over-year basis. Consequently, while the trade deficit in the

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second quarter has shrunk by 38% to \$ 29.6 bn, the services surplus has grown by 17% to \$ 17.8 bn. Even if transfers from Indians working abroad have been negatively affected by the gold smuggling (which is generally financed by inward remittances getting routed through unofficial channels), a dramatic improvement should be expected when the Balance of Payments data for the second quarter are released.

3. Markets tend to interpret data from a short-term rather than the medium term perspective. Several examples come to mind. The rupee's depreciation is a negative factor because it increases the forex loss of the current quarter, but the fact that it improves the business prospects of manufacturing industry is ignored. The tapering of the QE3 monetary easing program is viewed as another negative factor, as it could result in lower capital flows to emerging markets, including India. However, to the extent such a development will also dampen commodity prices, thereby reducing our imports, our BoP could actually improve over the medium term. A similar unfolding event is the nuclear agreement between the major countries led by the U.S. and Iran. It is a positive development for us, as the possible lifting of sanctions would allow us easier access to Iranian oil. However, it could also lead to dollar demand in the short term to pay the old dues.
4. We continue to advise corporate treasury managers to hedge dollar payables by using out-of-the-money call option contracts. Alternatively, a pre-determined stop loss level may be used. Receivables up to April 2014 should be hedged. A small percentage of receivables for 2014-15 should also be covered.
5. On the international foreign exchange markets, there is no change in our forecasted ranges for the non-dollar currencies, as follows:

JPY 95 – 107 per \$,
\$ 1.27 – 1.39 per EUR, and
\$ 1.55 – 1.65 per GBP.

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DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	62.88
PDS	102.03
EUR	85.25
YEN (100)	62.09
SFr	69.35
DKK	11.43
CAD	59.81
AUD	57.74
SGD	50.30
CNY	10.32

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Nov-13	62.94	5.80
Dec-13	63.44	9.29
Jan-14	63.94	9.05
Feb-14	64.36	8.95
Mar-14	64.79	8.80
Apr-14	65.30	8.95
May-14	65.70	8.75
Jun-14	66.12	8.71
Jul-14	66.54	8.64
Aug-14	66.93	8.46
Sep-14	67.35	8.42
Oct-14	67.75	8.29

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	8.10	8.15

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
62.00	164	29
62.50	130	44
63.00	100	64
63.50	76	89
64.00	57	120
64.50	42	155

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
62.50	242	64
63.00	210	81
63.50	181	100
64.50	131	148
65.00	112	177
65.50	95	210

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.50	8.78	8.79

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.40	8.50
MIFOR	8.10	8.15

INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.6226
EUR	1.3558
YEN	101.27
SFr	0.9067
DKK	5.5008
CAD	1.0514
AUD	0.9183
SGD	1.2500
PKR	107.66
CNY	6.0936

PDS 3mth CURRENCY OPTIONS*
(Prices in US cents)

Strike	Call	Put
1.60	3.67	1.53
1.62	2.47	2.47
1.64	1.66	3.52

EUR 3mth CURRENCY OPTIONS*
(Prices in US cents)

Strike	Call	Put
1.34	2.98	1.38
1.36	2.09	2.09
1.38	1.13	3.53

YEN 3mth CURRENCY OPTIONS*
(Prices in US cents)

Strike	Call	Put
103.24	3.39	1.62
101.24	2.42	2.42
99.24	1.49	3.72

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.17	0.24	0.35	0.57
EUR	0.11	0.18	0.26	0.44
PDS	0.49	0.52	0.60	0.88
YEN	0.11	0.14	0.20	0.37
SwFr	-0.01	0.02	0.07	0.21

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.39	1.46	2.81
EUR	0.47	1.10	2.03
PDS	0.83	1.77	2.76
YEN	0.23	0.38	0.83
SwFr	0.14	0.63	1.51

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	94.8	DJIA	16,064
GOLD (\$/ounce)	1,244	FTSE	6,674
COPPER (\$/ton)	7,065	DAX	9,219
ALUMINIUM (\$/ton)	1,746	NIKKEI	15,381

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

* indicative only # for payables

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Rupee: Dollar vs 3-months forward rate (3-months back)
October 2010 to November 2013



Rupee: Dollar - Spot vs 6-months forward rate (6-months back)
October 2010 to November 2013

