

NEWS

1. The US\$ had a mixed response this week against its major international trading partners. It strengthened the most by 1.7% against the Australian \$, followed by 1.6% against the Canadian \$. It also rose by 1.2% against the Japanese Yen, by 0.7% against the Singapore \$ and by 0.4% against the British Pound. However, it weakened by 0.5% against the Swiss Franc and by 0.4% each against the Euro and the Danish Kroner.
2. U.S. initial jobless claims, a proxy for layoffs, increased by 4% to a seasonally adjusted 336,000 in the week ended Aug. 17. The number of continuing unemployment-benefit claims, a representation of total recipients, rose by 1% to almost 3 million in the week ended Aug. 10. U.S. flash manufacturing Purchasing Managers' Index (based on approximately 85% of usual monthly replies) was up slightly from July's 53.7 to 53.9, signaling the strongest improvement in manufacturing business conditions in five months during August.
3. Euro-zone business activity increased at its fastest pace in two years. The euro-zone PMI increased 1.2 points in August to 51.7. The index, which includes manufacturing and services firms, was the highest since June 2011. Index readings above 50 signal expansion in activity. Germany's PMI rose to 53.4, a seven-month high, in part because of rising exports. In contrast, France's index slipped further below the 50 threshold, to 47.9 from 49.1. However, despite the perceptible improvement in the region's business activity, employment declined in August for a 20th straight month. Spain's official unemployment rate is above 25%, and far higher for young people.
4. China's crucial manufacturing sector picked up steam in August. The initial reading of the HSBC PMI, issued about a week before the final figure, climbed to 50.1 in August from an 11-month low of 47.7 in July.

Offices: 9, Sumer Kendra, Gr. Floor, Pandurang Budhkar Marg, Behind Mahindra Towers, Worli, Mumbai – 400 018
Tel. Off.: +91 22 24913034 Tel. Fax: +91 22 24913044

3, Pranamghar, Ground Floor, Ram Mandir Road, Off Malaviya Road, Vile Parle (East), Mumbai – 400 057
Tel. Off.: +91 22 26124213 Tel. Fax: +91 22 26124214

BA-112A, BA - Block, Ground Floor, Near Tilak Nagar Metro Station, Janak Puri, New Delhi - 110058
Tel. Off: +91 9999 33 6094

Email id.: info@avrco.com

That takes it above the 50-mark that separates improving from deteriorating conditions for factories. That follows better-than-expected data on industrial production and exports in July. It indicates that the Chinese economy, which slowed to 7.5% year-over-year growth in the second quarter from 7.7% in the first quarter, may now be regaining some of its lost momentum.

5. On the domestic interbank market, the US dollar scaled a new record high of ₹ 65.56 per \$. The rupee-dollar exchange rate traded in a rather large range of ₹ 63.20 – ₹ 65.56 per \$, before ending the week with a loss of 155 paise for the rupee at ₹ 63.21 per \$. The forward premium levels are at 10.3%, 9.3%, 8.3% and 7.0% from the preceding week-end levels of 10.2%, 9.7%, 9.4% and 8.2% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic front, the speed with which the rupee declined (scaling a new record low every day for four days in a row) took corporate treasury managers by surprise. A sudden turnaround on Friday, no doubt aided by a small dose of central bank intervention, has left them bewildered. It is difficult to take hedging decisions when any hedge starts looking “wrong” within a day of being taken!
2. There is no change in our advice. Despite the increase in option premium levels, one should use only out-of-the-money option contracts for hedging both payables and receivables, especially at a time when a sharp movement in either direction is likely.
3. In a welcome development, it has been decided by FEDAI (Foreign Exchange Dealers Association of India) that the spot rate used for a currency swap should be the one that is prevailing in the market at the time of booking of currency swap. Banks should not use any historical rate, or draw down rate, or any other rate for this purpose. This will bring in

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greater price transparency in swap transactions between banks and corporates.

4. On the international front, the markets seem to be hooked on to the issue of the timing of the Federal Reserve Board's tapering of its bond purchase program (also called quantitative easing, or QE3). Every bit of news, whether economic data or any other, is analysed from just one angle – what does it mean to the prospects for QE3. If the likelihood of an early withdrawal is increased (as happened when the minutes of the Fed's previous meeting showed that the other members were in agreement with Bernanke's schedule), the dollar gains, bond markets drop, and stocks and currencies in emerging markets come under bear pressure. On the other hand, any bad news on the U.S. economic front (like the recent home sales data) gives the opposite impact. We believe that the decision on tapering will be taken only after a new Fed Governor is announced, as unless extreme circumstances warrant otherwise, Bernanke would prefer at least to consult the incumbent informally before a final decision is taken. Else, the new Governor will be given a *fait accompli*! Therefore, it is unlikely that any firm news on the issue will be known before October. Of course, as usual, markets will continue to yo-yo on the back of speculative rumours and conjectures.
5. Meanwhile, we are not amending our forecasted ranges for the US dollar against the major currencies, as follows:
 - JPY 91 – 101 per \$,
 - \$ 1.28 – 1.38 per EUR, and
 - \$ 1.50 – 1.60 per GBP.
6. Tailpiece: The Chinese stock index has tumbled 40% from its August 2009 high, erasing about \$644 billion in market value. Chinese stocks have been undermined by a slowing economy and by the large scale exit of local investors who have emptied more than 2 million equity trading accounts. Only Greece's ASE Index has fallen more in percentage terms.

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DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES		
	₹/Currency	
USD		63.21
PDS		98.41
EUR		84.59
YEN (100)		64.03
SFr		68.54
DKK		11.34
CAD		60.22
AUD		57.08
SGD		49.43
CNY		10.33

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Aug-13	63.27	7.22
Sep-13	63.81	10.19
Oct-13	64.31	9.48
Nov-13	64.75	9.17
Dec-13	65.15	8.89
Jan-14	65.54	8.46
Feb-14	65.86	8.18
Mar-14	66.18	7.90
Apr-14	66.56	7.80
May-14	66.91	7.69
Jun-14	67.26	7.62
Jul-14	67.61	7.54

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	7.44	7.50

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise			
Strike	Call	Put	
63.00	147	75	
63.50	120	97	
64.00	97	124	
64.50	78	155	
65.00	62	188	
65.50	49	225	

3-mth Option on USD 1, price in paise			
Strike	Call	Put	
63.00	245	82	
63.50	215	100	
64.00	187	121	
65.50	121	202	
66.00	104	234	
66.50	89	268	

INTEREST RATE MARKETS

GOI BOND	2-Year	5-Year	10-Year
	8.91	8.97	8.36

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.76	8.44
MIFOR	7.44	7.50

INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES	
	Against USD
PDS	1.5569
EUR	1.3383
YEN	98.72
SFr	0.9222
DKK	5.5737
CAD	1.0496
AUD	0.9030
SGD	1.2789
PKR	103.58
CNY	6.1220

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

Strike	Call	Put
1.54	3.24	1.64
1.56	2.37	2.37
1.58	1.37	3.78

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

Strike	Call	Put
1.32	3.12	1.25
1.34	2.07	2.07
1.36	1.19	3.32

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

Strike	Call	Put
100.69	3.79	1.47
98.69	2.48	2.48
96.69	1.76	3.43

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.18	0.26	0.40	0.68
EUR	0.08	0.15	0.27	0.49
PDS	0.49	0.51	0.59	0.88
YEN	0.12	0.15	0.22	0.41
SwFr	0.00	0.02	0.08	0.25

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.58	1.82	3.01
EUR	0.68	1.44	2.27
PDS	0.88	1.85	2.84
YEN	0.10	0.51	1.03
SwFr	0.29	0.91	1.71

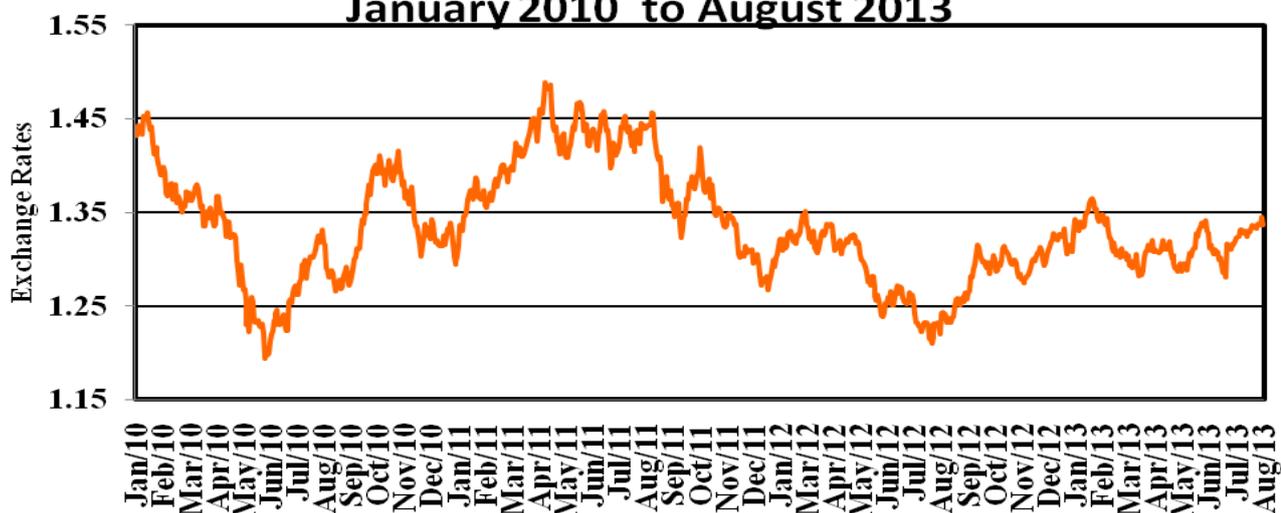
OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	106.4	DJIA	15,010
GOLD (\$/ounce)	1,396	FTSE	6,492
COPPER (\$/ton)	7,300	DAX	8,417
ALUMINIUM (\$/ton)	1,834	NIKKEI	13,660

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

* indicative only # for payables

Dollar/Euro Exchange Rate January 2010 to August 2013



Rupee/Euro Exchange Rate January 2010 to August 2013

