

NEWS

1. On the international foreign exchange markets, the US dollar strengthened against most of its international trading partners. It gained the most (by 1.2%) against the Yen, by 0.7% against the Euro, 0.67% against the Danish Krona, 0.57% against the Swiss Franc and by 0.05% against the Pound. It weakened by 0.54% against the Australian \$, 0.37% against the Canadian \$ and by 0.05% against the Singapore \$.
2. The index of leading US economic indicators rose by 0.8% in the month of September, while revised data indicate that the index was unchanged in August. The higher than expected increase in the lead indicator was on account of an uptick in nine out of ten constituent parameters, the major being credit spread for businesses, average weekly jobless claims, trade sales and new industrial orders. Separately, the initial jobless claims climbed to 283,000, an increase of 17,000 from the previous week's revised level of 266,000. However, the four-week moving average fell to 281,000 from last week's 284,000.
3. With growth in Germany stumbling, the Euro zone risks falling into its third recession in six years. While manufacturing PMI rose to 52.2 from 52 in September, latest data suggest that prices have indeed fallen in eight countries and the union's overall inflation rate has slipped to 0.3%, not very far from where nobody would want it to go. Business activity in France painted a particularly gloomy picture as new orders fell and businesses cut jobs for the 12th month in a row. The results of the asset quality review (AQR) of the European banks, which would be undertaken by the ECB, will be keenly anticipated.
4. UK's economy grew at a slower pace in the third quarter of 2014, at 0.7% from 0.9% witnessed in the previous quarter. The figures which suggest seven consecutive quarters of GDP expansion saw some degree of moderation on account of a weaker housing market, slower consumer spending and a dip in manufacturing demand (which particularly grew at the slowest pace in about 18 months). Compared with the year-ago period, GDP was up 3%, albeit lower than the annual growth of 3.2% seen in the second quarter.
5. Japan's exports rose at the fastest pace in seven months in September on account of increased shipments to Asia (by 8.1%). The 6.9% annualized increase in exports follows a 1.3% yearly decline in August. However, the trade deficit, which widened to JPY 958 billion (\$8.96 billion) was a record for the month and was up from JPY 943 billion seen a year ago. In a separate announcement the BoJ mentioned that there was a "greater chance" now of inflation slipping below the 1% mark, a development that could force the central bank to consider seriously yet more monetary easing.
6. On the domestic interbank market, the USD/INR traded in a range of Rs. 61.16 – 61.37 per \$, before ending the week with a gain of 17 paise for the rupee at Rs. 61.28 per \$. The forward premium levels across maturities of 1-month, 3- month, 6-month and 12-month are 7.66%, 7.87%, 7.89% and 6.91% respectively as against 8.12%, 8%, 7.85% and 7.45% in the previous week.

VIEWS

1. The jury is still out on whether the continuous fall in international crude oil prices are symptomatic of a broad based global slowdown, or a consequence of a sustained increase in supplies. No doubt, the most commonsensical deduction appears to be a combination of both. However, if a deeper analysis of global trends points in the direction of the former scenario, this could be a worrying sign. Repeated confirmations of slowdown from China, Europe and Japan have ensured that the mood in financial markets is far from upbeat (volatility as indicated by VIX has more than doubled in the last 2 months). A rather interesting development has been the falling bond yields in the US, despite speculations of an interest rate increase doing the rounds. This trend has remained more so after the IMF recently revised its growth forecast for the year from 3.7% in April to 3.3%. In the UK, while GDP is now 3.4% higher than its pre-recession peak, it is around 1% lower in real terms, which partly explains why the general public is yet to experience the effects of an upturn.
2. Even as countries dependent on commodity exports (read Australia) struggle in the wake of a general decline in prices, India finds itself in a sweet spot. At the industry level, it might take a couple more months for this moderation in input prices to trickle down into corporate profitability, with the exception of metals and mining sector. On the oil imports front alone, the savings for the year could touch \$ 10 bn. However, a significant lowering of dollar demand will not happen for at least a few more months as most such purchases entail a supplier's credit of one month followed by a few (generally 2 – 4) months of buyers' credits.
3. In the USD/INR market, as interest rates in India start to embark on a lower trajectory, there are reasonable chances of forward premia softening. The current levels of spot USD/INR rate present a good opportunity for exporters to sell the bulk of their receivables for the next 6-12 months. Corporates with Dollar payables must continue to consider only OTMF call options (or alternatively leaving their exposures open, whilst keeping a pre-determined stop loss level). We do not expect the Rupee to move outside the band of INR 60.50-61.50 per USD for at least the next couple of weeks, possibly longer.
4. In the international markets, the Russian Ruble weakened to a record low of 47 against the Bank of Russia's target Dollar-Euro basket as the central bank spent nearly \$17 billion in October to slow down the steepest currency fall in the world. Meanwhile, the British pound after losing steam for three trading days pared some of its losses on the back of economic data meeting analysts' expectations.
5. We are retaining our bands for the major non-Dollar currencies as follows:

\$ 1.53 – 1.65 per GBP,

\$ 1.20 – 1.32 per EUR, and

JPY 103 – 115 per \$.

October 24, 2014

CRMR

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	INR/Currency
USD	61.28
PDS	98.60
EUR	77.65
YEN (100)	56.66
SFr	64.38
DKK	10.43
CAD	54.56
AUD	53.88
SGD	48.05
CNY	10.02

FORWARD EXCHANGE RATES

Month-end	INR/USD	Premium % p.a.
Oct-14	61.33	5.96
Nov-14	61.70	7.54
Dec-14	62.14	7.72
Jan-15	62.54	7.82
Feb-15	62.91	7.81
Mar-15	63.31	7.83
Apr-15	63.73	7.83
May-15	64.07	7.73
Jun-15	64.45	7.69
Jul-15	64.81	7.56
Aug-15	65.17	7.55
Sep-15	65.52	7.44

CURRENCY SWAPS

	2-Year	5-Year
/USD	7.24	7.33

INR/USD CURRENCY OPTIONS*

Strike	1-mnth Option on USD 1, price in paisa	
	Call	Put
60.50	-	6
61.00	-	17
61.50	-	36
62.00	33	-
62.50	19	-
63.00	11	-

3-mnth Option on USD 1, price in paisa

Strike	Call	Put
61.00	-	26
61.50	-	40
62.00	-	58
62.50	83	-
63.00	63	-
63.50	48	-

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.27	8.36	8.36

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.61	7.50
MIOCS	7.24	7.33

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	1.6090
EUR	1.2671
YEN	108.16
SFr	0.9519
DKK	5.8760
CAD	1.1231
AUD	0.8793
SGD	1.2753
PKR	103.00
CNY	6.1165

PDS 3mnth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
1.59	3.15	1.38
1.61	2.17	2.17
1.63	1.33	3.32

EUR 3mnth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
1.25	2.90	1.13
1.27	1.90	1.90
1.29	1.08	3.07

YEN 3mnth CURRENCY OPTIONS*

(Prices in US cents)

Strike	Call	Put
110.13	2.37	0.75
108.13	1.43	1.43
106.13	0.72	2.51

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.15	0.23	0.32	0.54
EUR	0.01	0.06	0.15	0.31
PDS	0.50	0.55	0.68	1.00
YEN	0.08	0.11	0.16	0.30
SwFr	0.00	0.01	0.06	0.16

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.66	1.67	2.40
EUR	0.26	0.51	1.15
PDS	1.12	1.79	2.33
YEN	0.18	0.27	0.65
SwFr	0.06	0.25	0.83

OTHER MARKETS

	COMMODITIES	EQUITY INDICES
NYMEX crude (\$/barrel)	81.3	DJIA 16,805
GOLD (\$/ounce)	1,231	FTSE 6,389
COPPER (\$/ton)	6,759	DAX 8,987
ALUMINIUM (\$/ton)	1,950	NIKKEI 15,292

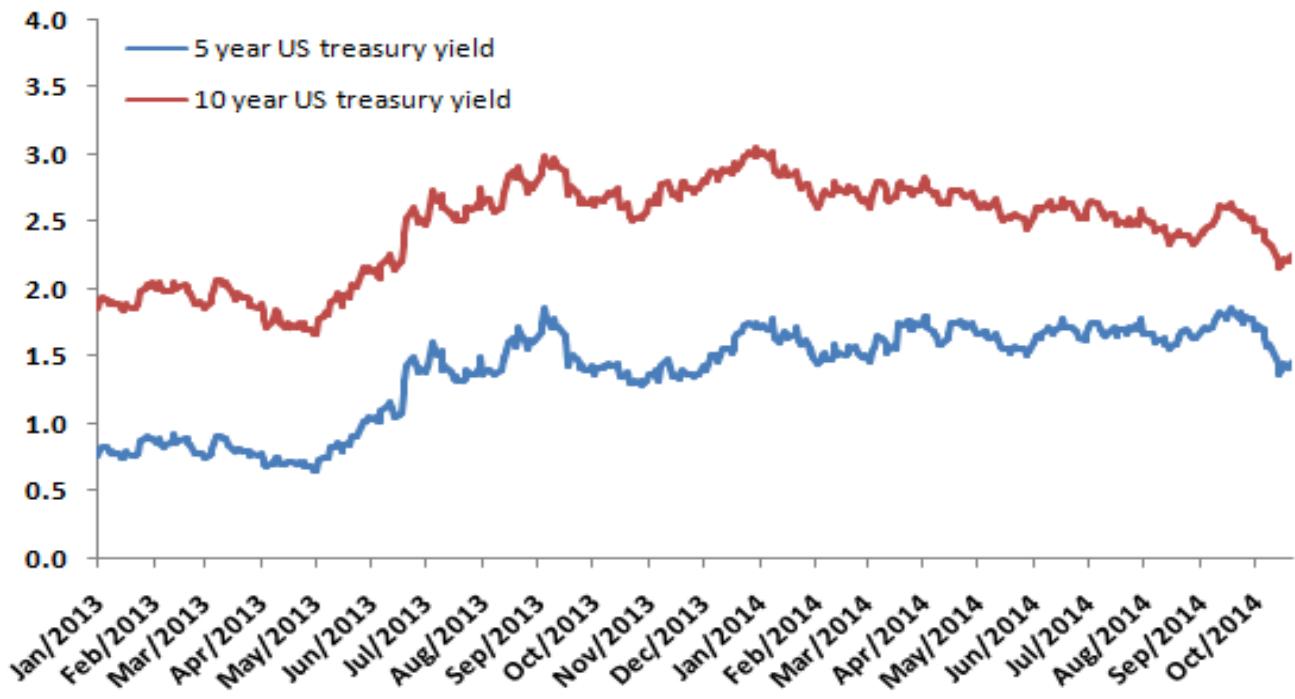
* indicative only

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**5-year & 10-year US treasury yields
(Jan'13-22nd Oct'14)**



**3-year & 5-year USD IRS
(Jan'13-22nd Oct'14)**

