

Currency Risk Management Report

(for the week ended February 26, 2016)

A.V.RAJWADE & Co. PVT. LTD.

RISK MANAGEMENT CONSULTANTS

Forex, Interest Rates & Derivatives



Rajwade Treasury Consultants LLP
Risk Management Consultants
Forex, Interest Rate & Derivatives

NEWS

1. This week the British pound remained under pressure as concerns surrounding the “Brexit” continued to cast a shadow over the currency market. Sterling was down by 3.7% against the dollar hitting a low of \$1.3852 before closing at \$1.3880. Also, it lost 1.9% against the euro, though the prospect of UK’s exit hit the bloc currency too. Against the greenback, the euro dropped by 1.7%, closing at \$ 1.0940 per euro. Overall, the US dollar gained ground across the currencies and the US dollar index, which measures the greenback against a basket of its major trading partners rose by 1.55%. However, it lost 1.8% against the Canadian \$.
2. Billionaire investor Warren Buffett in an annual letter to shareholders at Berkshire Hathaway, stated that the nation's economy is in better shape than the presidential candidates make it seem. Supporting the point, the recent releases confirmed that the US economy expanded at an annual rate of 1% in the fourth quarter of 2015, an improvement from an earlier estimate of 0.7%, and consumer spending increased by 0.5% in January higher than the small 0.1% gain reported in December. However, there was a deviating economic indicator too, with the services purchasing manager’s index (PMI) falling below the 50 level in February for the first time since October 2013, indicating that activity levels across the sector were contracting.
3. Brexit concerns pushed the implied volatility for the pound to 13.9% as investors sought insurance from big currency swings during the next six months. Meanwhile, Fitch, the credit rating agency, said the “precise impact” of any Brexit was “highly uncertain”. UK services sector grew by 0.7% while production output, which includes heavy industry, energy and manufacturing, contracted by 0.5% in the fourth quarter compared with the previous three months. Overall, economic growth in the last three months of 2015 has been confirmed at 0.5%, and the growth estimate for 2015 was also unchanged at 2.2%.
4. Jens Weidmann, Germany’s top central banker and the leading hawk on the European Central Bank’s governing council, stated that other ECB members are reading too much into the Inflation expectations data which itself exaggerate fears of Eurozone deflation. Though Mr. Weidmann won’t have any voting power in the March meeting, the statement influences debate on monetary policy in Germany and are a signal of how far the ECB can push its monetary easing. Euro-area composite PMI, an important indicator of the bloc’s economic health fell to 52.7, the lowest in a year.
5. On the domestic interbank market, this week the ₹/\$ exchange rate traded in a band of ₹ 68.45-68.79 per \$, and ended the week with a loss of 16 paise to close at ₹ 68.63 per \$. The forward premium crossed 7% and is ruling at 7.6%, 7.45%, 6.85% & 6.50% for 1, 3, 6 & 12 month respectively. The Economic Survey, has projected real GDP growth for 2016-17 to be in the 7-7.75% band, and estimated growth at 7.6% for the current fiscal year. It also expects inflation in the range of 4 -5% and current account deficit to stay low at 1 – 1.5% in 2016-17.

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

info@avrco.com

VIEWS

1. On the domestic front, the cynosure of the financial markets will surely be the Union budget. The Railway budget is hardly an encouraging sign – no increase in fares and freight rates (despite a disconcerting rise in the operating ratio), a string a new trains (with no clarity on routes or frequency) and services, and a freight corridor which makes no sense unless the contentious GST bill is passed quickly (an unlikely prospect). As a wag would say, it is deliciously vague on the mathematics and details!
2. If the Railway budget is any indication, a government seemingly rattled by disappointment in its performance by the chattering classes will turn to populist measures in a bid to appease its support base. We do expect the government to show that the fiscal deficit has been kept within the targeted number of 3.9%, largely due the sharp decline in oil prices and the consequent swing from petroleum subsidies to huge tax revenues. The Finance Minister may not stick to the target of reducing the deficit to 3.5% in the next year, no doubt blaming the jump in salaries and pensions on the back of the 7th Pay Commission report – the Railway budget has made full provision on the account, so the Union budget can be expected to follow suit. However, some reduction to 3.7% or 3.8% is likely. This should be good enough to persuade the Reserve Bank of India to bring down interest rates a notch – with rising Consumer Price Index-based inflation rate in each month since November 2015, this can at best be another quarter percentage point drop.
3. Although the rupee-dollar exchange rate remained tantalizingly close to its previous record high of Rs 68.85 per \$, we reiterate our expectation of greater probability of rupee strength rather than weakness in the coming weeks on the back of strong dollar supplies. We continue to forecast a range of Rs 65 – 68 for the next fiscal year. Having witnessed such a sharp rupee weakness in the current year (if the Rs/\$ exchange rate ends the fiscal year at the current level, the rupee would have fallen by 8.8% during the year), it is unlikely that there would be a similar bout of dollar strength. We therefore continue to recommend purchasing dollars in the forward market only in respect of near-term payables (say, one week in advance). Indeed, we advise exporters to take advantage of the combination of a weak rupee and high forward premium levels for hedging the bulk of their dollar (and other currency) receivables.
4. On the international front, not surprisingly, the British pound has remained under bear pressure. Markets, in general, do not like to deal with uncertainty, and the June referendum on the issue of Britain's exit from the European Union will keep the markets on edge, unless opinion polls start showing that a preponderant majority of Britishers are likely to vote in favour of staying in the Union. We are not changing any of our ranges for the non-\$ currencies, as follows:

\$1.42 – 1.54 per GBP,
\$1.03 – 1.15 per EUR, and
JPY 115 – 125 per \$.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	68.63
GBP	95.26
EUR	75.08
JPY	0.6073
CNY	10.49
CHF	68.82
DKK	10.06
CAD	50.79
AUD	48.95
SGD	48.73

FORWARD EXCHANGE RATES*#

Month-enc	₹/USD	Premium % p.a.
Mar-16	69.04	7.29
Apr-16	69.44	7.31
May-16	69.89	7.38
Jun-16	70.25	7.12
Jul-16	70.59	6.95
Aug-16	70.98	6.83
Sep-16	71.34	6.77
Oct-16	71.68	6.73
Nov-16	72.09	6.72
Dec-16	72.42	6.61
Jan-17	72.78	6.57
Feb-17	73.09	6.52

CURRENCY SWAPS

	2-Year	5-Year
₹/USD	6.81	6.96

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
68.50	--	32
68.75	--	42
69.00	--	52
69.25	50	--
69.50	40	--
69.75	30	--

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
68.75	--	50
69.00	--	67
69.50	--	90
70.00	100	--
70.50	74	--
71.00	60	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	7.40	7.77	7.74

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	6.77	6.77
MIFOR	6.81	6.96

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
GBP	1.3880
EUR	1.0940
JPY	113.00
CNY	6.5415
CHF	0.9973
DKK	6.8200
CAD	1.3512
AUD	0.7133
SGD	1.4085
PKR	104.90

3-MONTH CURRENCY OPTIONS*

Option on EUR 1, price in US cents		
Strike	Call	Put
1.07	4.00	1.30
1.09	2.80	2.15
1.11	1.85	3.22

Option on GBP 1, price in US cents		
Strike	Call	Put
1.37	4.30	2.50
1.39	3.30	3.50
1.41	2.40	4.65

Option on JPY 100, price in US cents		
Strike	Call	Put
111.00	1.40	3.80
113.00	2.20	2.80
115.00	3.10	2.00

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1-Month	3-Month	6-Month	12-Month
USD	0.44	0.64	0.88	1.16
EUR	0.27	0.22	0.13	0.02
GBP	0.51	0.59	0.73	1.00
JPY	0.05	0.01	0.00	0.08
CHF	0.88	0.81	0.77	0.69

INTEREST RATE SWAPS

	2-Year	3-Year	5-Year	10-Year
USD	0.82	0.94	1.15	1.60
EUR	0.18	0.14	0.02	0.56
GBP	0.74	0.78	0.92	1.35
JPY	0.14	0.16	0.11	0.13
CHF	0.86	0.81	0.61	0.12

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
Crude Oil (\$/barrel)	32.80	DJIA	16,640
Gold (\$/ounce)	1,222	FTSE	6,096
Copper (\$/ton)	4,680	DAX	9,513
Aluminium (\$/ton)	1,588	NIKKEI	16,188

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

* indicative only

for payables

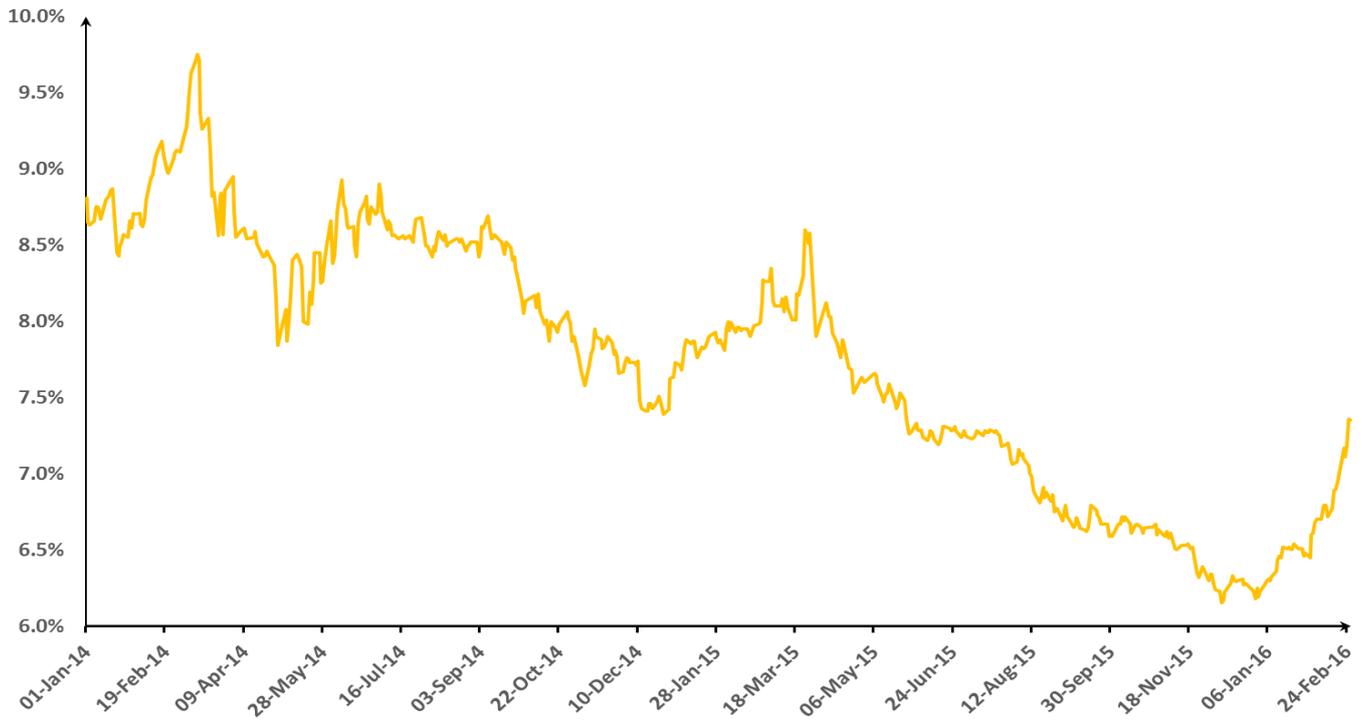
Negative

Office: 9, Ground Floor, Sumer Kendra, Pandurang Budhkar Marg, Behind Mahindra Towers, Worli, Mumbai – 400 018

Tel. Off.: +91 22 24913034 Tel. Fax: +91 22 24913044

info@avrco.com

USD: INR Forward Premium
3-month



USD: INR Forward Premium
12-month

