

# Currency Risk Management Report

(for the week ended June 26, 2015)

**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. On the international foreign exchange markets, the US dollar strengthened across the board against its major international trading partners this week. It gained the most (by 1.7% each) against the Euro, the Swiss franc and the Danish krona, by 1.5% against the Australian \$, by 1.2% against the Singapore \$, by 0.9% each against the Pound and the Japanese Yen and by 0.5% against the Canadian \$.
2. The US Labor Department announced that jobless claims rose 3,000 last week to a seasonally adjusted 271,000, not too far from the 15-year low of 262,000 reached in April. The four-week moving average, considered a less volatile measure, declined to 273,750. Separately, consumer spending recorded its largest increase in 6 years in May on strong demand for automobiles (up by 2.2%) and other big-ticket items. Also, in a second revision to the first quarter GDP, a contraction of 0.7% was revised upwards to -0.2%. When adjusted for inflation, consumer spending increased 0.6%, in the largest jump since August.
3. Japan's economic data presented a murky picture, with inflation nearly flat in May (an increase of just 0.1%) despite BoJ's unprecedented and ongoing monetary stimulus program. The unemployment rate though remained low at 3.3% and household and business spending rose (by 4.8%) for the first time in an year. According to independent estimates, the Japanese economy is expected mark zero growth in the second quarter, revised lower from an earlier estimate of 1.5% annualized growth.
4. British factory orders grew at their slowest pace this month in almost two years, affected by a slowdown in export demand. The BoE in its research paper noted that, *"improving momentum in the euro zone was being offset by the effect of the strengthening Pound on UK manufacturers."* Separately, figures from the Society of Motor manufacturers and traders revealed a steady growth in car manufacturing in May (2.3% over the year). Domestic demand for vehicles grew by 13%, outweighing a small dip in production for exports.
5. China is planning to scrap the loan-to-deposit ratio for mainland commercial banks in yet another move to overhaul the sector and bolster lending. The State Council had approved a draft amendment to the nearly two decade rule that would end a cap on banks lending a maximum of 75% on their deposits. Meanwhile manufacturing remained in a rut with the HSBC flash PMI indicating contraction (at 49.6) for the fourth straight month. Companies have continued to downsize, with the latest reduction the sharpest in 6 years.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in the range of Rs 63.47-63.70 per \$ and the rupee ended the week with a loss of 9 paise to close at Rs 63.65 per \$. The forward premia levels across maturities of 1-month, 3-month, 6-month and 12-month stood at 7.05%, 7.17%, 7.18% and 7.16% p.a. RBI's forex reserves for the week ended June 19, stood at a little over \$355 billion, an increase of \$1.17 billion over the previous week. Foreign currency assets rose by \$1.1 billion to \$330 billion. Gold reserves remained unchanged at \$20 billion.

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## VIEWS

1. The RBI on Thursday, released draft guidelines on “*Writing of plain vanilla European currency options by resident exporters and importers*” (it can be found here: [https://rbi.org.in/Scripts/bs\\_viewcontent.aspx?Id=3029](https://rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3029)). Given that Governor Rajan has voiced his concern about high levels of un-hedged foreign currency exposures in the corporate sector time and again, the introduction of these guidelines seems strange. While exporters/importers will be allowed to sell plain vanilla options to the extent of their contracted exposures only (and not probable exposures), the amount for which, options will be sold shall be considered as un-hedged exposure by the banks. This, apart from the fact that cash flow implications of a sold option position could be potentially destabilizing for the corporate in times of heightened exchange rate volatility, if the strategy is not accompanied by sufficiently sophisticated treasury skills. Banks, which are already saddled by growing NPAs and bad loans, will likely keep heavy margining requirements before taking on the opposite side of such a transaction. Needless to say, corporate treasuries will need to tread carefully.
2. The rupee traded in a rather tight range through the week, showing momentum towards strengthening and forward premia levels (and bond yields) have remained elevated. This combination presents exporters an opportunity to continue locking in receivables. Importers on the other hand must continue to leave their medium and long term exposures un-hedged, while considering only OTMF call options or a stop-loss strategy to manage their short term payables. A major negative development in Europe could bring about some weakness in the rupee, however any downside movement could prove to be short-lived.
3. One would like to believe that there is a reason why Europe has spent so much time and energy is realizing a deal with Greece, despite innumerable obstacles and the latter’s obstinacy. At the height of the Euro zone crisis some years back, the ECB President Mario Draghi had committed to do “*anything it takes*” to keep the euro zone together. This perhaps underscores the message that membership of the union is irrevocable. Failure on Greece’s part to pay \$1.7 billion it owes to the IMF, on 30<sup>th</sup> June will not be technically qualified as a ‘default’, since under the IMF’s charter countries that miss payments are deemed to be in ‘arrears’ rather than having defaulted. Of much larger significance however, is the upcoming payment (on the 20<sup>th</sup> July) to the tune of \$4 billion to the ECB, which if missed, could lead to a freeze on emergency liquidity facility to Greece’s banks. If the troubled island nation manages to win a new bail-out agreement by Tuesday, many in the financial markets will come to question to sanctity of their promises to pay what is already outstanding. Be that as it may, amidst all the political drama, is the oft-ignored fact that outlook for the currency will be shaped more by the ECB’s ongoing bond purchase program (currently at \$1.2 trillion) irrespective of what happens with Greece.
4. We are keeping our ranges for the other non-dollar currencies unchanged as below:  
\$1.48 – 1.60 per GBP  
\$1.08 – 1.18 per EUR and  
JPY 118 – 128 per \$.

**DOMESTIC MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	INR/Currency
USD	63.65
PDS	100.22
EUR	71.08
YEN (100)	51.39
SFr	68.20
DKK	9.53
CAD	51.66
AUD	48.72
SGD	47.16
CNY	10.25

**FORWARD EXCHANGE RATES**

Month-end	INR/USD	Premium % p.a.
Jul-15	64.05	6.91
Aug-15	64.44	7.28
Sep-15	64.82	7.11
Oct-15	65.20	7.14
Nov-15	65.58	7.21
Dec-15	65.96	7.11
Jan-16	66.32	7.11
Feb-16	66.70	7.13
Mar-16	67.08	7.09
Apr-16	67.48	7.18
May-16	67.86	7.18
Jun-16	68.21	7.10

**CURRENCY SWAPS**

	2-Year	5-Year
₹/USD	7.12	7.11

**INR/USD CURRENCY OPTIONS\***

1-mth Option on USD 1, price in paise		
Strike	Call	Put
63.00	-	9
63.50	-	21
64.00	-	43
64.50	28	-
65.00	16	-
65.50	9	-

**3-mth Option on USD 1, price in paise**

Strike	Call	Put
64.00	-	53
64.50	-	74
65.00	-	100
65.50	63	-
66.00	49	-
66.50	38	-

**INTEREST RATE MARKETS**

	2-Year	5-Year	10-Year
GOI BOND	7.84	8.08	7.85

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.25	7.24
MIOCS	7.12	7.11

**INTERNATIONAL MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	Against USD
PDS	1.5746
EUR	1.1167
YEN	123.85
SFr	0.9333
DKK	6.6814
CAD	1.2321
AUD	0.7655
SGD	1.3498
PKR	101.72
CNY	6.2112

**PDS 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.55	4.86	2.51
1.57	3.59	3.59
1.59	2.70	4.70

**EUR 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.10	2.77	1.03
1.12	1.78	1.78
1.14	0.97	2.97

**YEN 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
125.79	2.01	0.80
123.79	1.33	1.33
121.79	0.75	2.16

**INTEREST RATE MARKETS**

**OFFSHORE CURRENCY**

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.19	0.29	0.44	0.78
EUR	-0.07	-0.01	0.06	0.17
PDS	0.51	0.57	0.74	1.05
YEN	0.06	0.10	0.14	0.25
SwFr	-0.82	-0.78	-0.72	-0.62

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.93	1.83	2.49
EUR	0.13	0.55	1.22
PDS	1.16	1.78	2.23
YEN	0.17	0.31	0.66
SwFr	-0.68	-0.21	-0.42

**OTHER MARKETS**

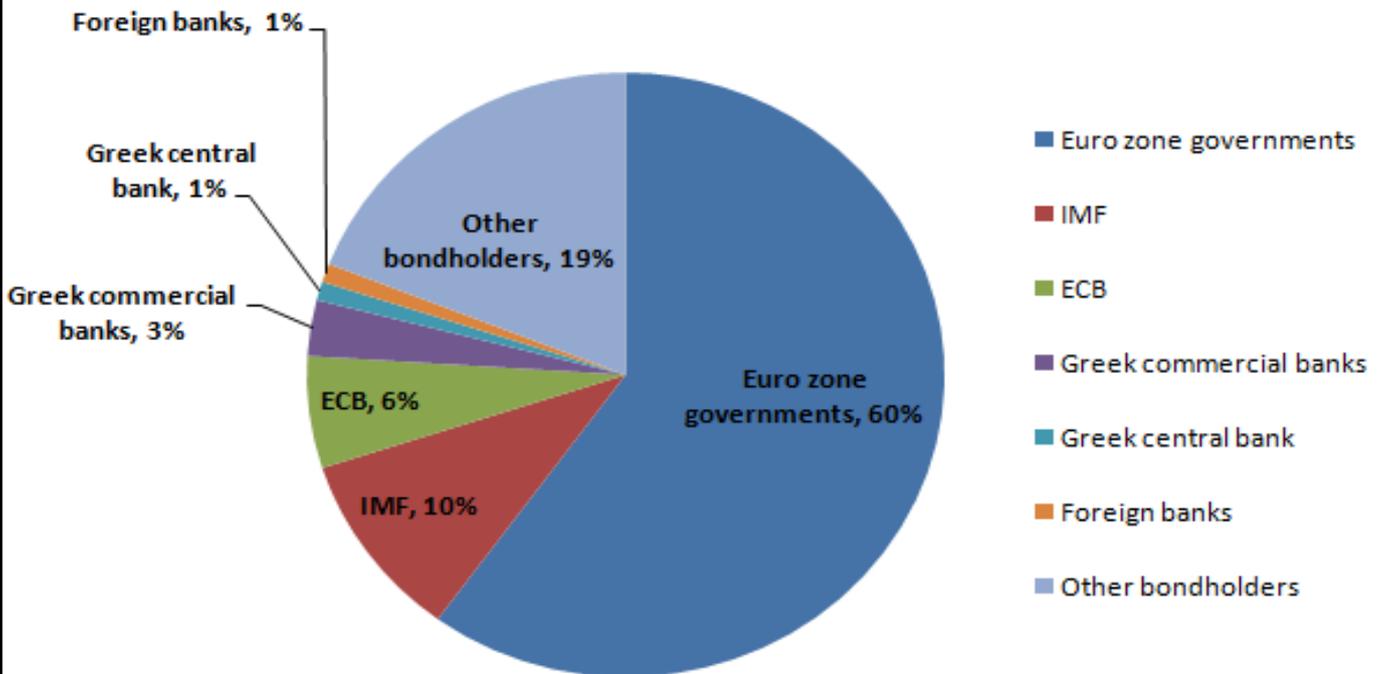
COMMODITIES	EQUITY INDICES		
NYMEX crude (\$/barrel)	59.7	DJIA	17,947
GOLD (\$/ounce)	1,173	FTSE	6,754
COPPER (\$/ton)	5,730	DAX	11,492
ALUMINIUM (\$/ton)	1,668	NIKKEI	20,706

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

\* indicative only

# for payables

Who does Greece owe its total debt of EUR 323 billion?



Bank holding of Greek sovereign debt (by country)

