

NEWS

1. The US\$ weakened this week against all its major trading partners. Its steepest declines were against the Japanese Yen and the Australian \$ by 1.8% and 1.3% respectively. It also fell against the Canadian \$ by 1.2% and by 1.0% against the British Pound, and weakened by 0.9% against the Singapore \$, and by about 0.5% each against the Euro, the Danish Kroner and the Swiss franc.
2. The U.S. economy expanded less than forecast in the first quarter. The GDP (Gross Domestic Product), the value of all goods and services produced in the U.S., rose at a 2.2% annual rate after a 3% pace in the preceding quarter. Consumer spending, which accounts for about 70% of the economy, contributed 2 percentage points to first-quarter growth, the most since the final three months of 2010. Americans dipped into savings as the saving rate from January through March eased to 3.9% from 4.5%. Another report showed the consumer confidence index rising to the highest level in a year during April.
3. UK's GDP shrank 0.2% in the first quarter of 2012 after the 0.3% reduction in the final quarter of 2011. Two consecutive quarters of contraction is the technical definition of a recession. Construction-sector output contracted 3% in the first quarter – its biggest quarterly decline since the first quarter of 2009 – and industrial production activity fell 0.4%. The UK's dominant services sector eked out growth of just 0.1%.
4. China's current-account surplus more than halved in the first quarter on weaker export growth. The surplus was \$24.7 bn compared with \$60.5 bn in the fourth quarter of last year. Chinese export growth, racing at 20.3% in 2011, slowed to an annual 7.6% in the first quarter. China's capital and financial account—a measure of net capital inflows—swung to a \$49.9 bn surplus in the first three months of the year from a deficit of \$29 bn in the

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fourth quarter. China's current-account surplus for all of 2011 was \$201.7 bn, down 15.2% from 2010.

5. Japan's industrial production rose a weaker-than-expected 1% in March from the previous month. However, the core consumer price index was up 0.2% in March from a year earlier, rising for the second straight month. In other data, the government said that the jobs-to-applicants ratio, which measures the number of available jobs for each job seeker, rose to 0.76 from 0.75 in February, the highest level since October 2008. The jobless rate for the month was unchanged at 4.5%.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of Rs 52.01 – 52.87 per \$, ending the week with a loss of 46 paise for the rupee at Rs 52.54 per \$. The forward premium levels have increased a little to 9.13%, 7.92%, 7.27%, and 6.28% p.a. as compared to 8.75%, 7.83%, 6.98%, and 6.07% p.a. in the preceding week for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the domestic front, the rupee-dollar exchange rate appears to have stabilized around Rs 52.50 per \$, although it is too early to state that further depreciation should be ruled out. No doubt, the current level is close to the REER level and further sharp falls are more likely to be inflationary rather than pro-growth. From a central bank perspective, a further sharp decline is not necessary.
2. We remain skeptical about the possibility of a sharp rupee decline. However, it is a truism of the financial markets that irrespective of the strength of one's views there is always the likelihood of the view turning out to be wrong. Keynes' advice holds good even to-day – “The markets can remain irrational longer than you can remain solvent.” We therefore advise corporate treasury managers to use out-of-the-money option

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contracts for hedging both dollar payables and dollar receivables. Although the upfront premium levels are high, with equal probability of a sharp movement in either direction, this is better than locking into a forward contract or keeping the exposure open.

3. On the international foreign exchange markets, the euro has improved in dollar terms, but weakened vis-à-vis both the Japanese yen and the British pound. The euro remains undermined by persistent doubts that Europe's debt crisis is spreading. Standard & Poor's downgraded Spanish debt, and kept the outlook negative stating that the recession undermines efforts to bring Spain's fiscal deficit under control. Besides, Francois Hollande, the leading candidate to become France's next president, said that the country will not ratify Europe's fiscal pact in its current form if he is elected.
4. Interestingly, the current interest rate swap (IRS) quotes for all the major currencies up to 3 years maturity are almost equal to the current ruling 6-month LIBOR interest rates for the respective currencies. Corporates with foreign currency borrowings with a remaining maturity of average 3 years should consider undertaking IRS i.e. converting from floating interest rate liability to fixed rate. The upside potential of interest rate declines is limited, especially since the rates are very low, while the downside risk of a sudden increase remains high.
5. We are changing our range for pound to \$ 1.55 – 1.67 per GBP, but for the other non-\$ currencies keeping them unchanged, as follows: JPY 77 – 85 per \$ and \$ 1.25 – 1.37 per EUR.
6. Tailpiece: In March 2012, the Belgium-based SWIFT (Society for Worldwide Interbank Financial Telecommunication), which is the global inter-bank settlement mechanism, removed 30 Iranian banks out of the system completely. This is the equivalent of having all of your bank accounts frozen, as funds cannot be transferred. Earlier, Libya's US assets had been frozen, but this action has taken economic warfare to a different level!

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DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	52.54
PDS	85.46
EUR	69.64
YEN (100)	65.45
SFr	57.96
DKK	9.36
CAD	53.58
AUD	55.01
SGD	42.45
CNY	8.37

changed	PROJECTIONS	SUGGESTED COVER [#]
	₹/USD	(Payables)
	16-Mar-12	
1st Fn	49.00 - 50.50	20
2nd Fn	49.00 - 50.50	20
2nd Mth	48.00 - 50.50	20
3rd Mth	48.00 - 51.00	20

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Apr-12	52.58	9.26
May-12	52.98	8.99
Jun-12	53.30	8.14
Jul-12	53.62	7.79
Aug-12	53.95	7.67
Sep-12	54.22	7.38
Oct-12	54.48	7.11
Nov-12	54.71	6.85
Dec-12	54.96	6.69
Jan-13	55.22	6.58
Feb-13	55.41	6.41
Mar-13	55.64	6.28

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	5.95	6.40

INR/USD CURRENCY OPTIONS*

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
52.50	--	58
53.00	--	78
53.50	--	102
54.00	88	--
54.50	71	--
55.00	58	--

INTEREST RATE MARKETS

GOI BOND	2-Year	5-Year	10-Year
	7.88	8.48	8.73

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.70	7.63
MIFOR	5.95	6.40

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
PDS	1.6266
EUR	1.3254
YEN	80.27
SFr	0.9065
DKK	5.6125
CAD	0.9805
AUD	1.0471
SGD	1.2376
PKR	90.95
CNY	6.2785

PROJECTIONS

changed	\$/PDS	\$/EURO	YEN/\$	SFr/\$
	27-Apr-12	24-Feb-12	24-Feb-12	24-Feb-12
1st Fn	1.55 - 1.67	1.25 - 1.37	77 - 85	0.88 - 1.00
2nd Fn	1.53 - 1.69	1.23 - 1.39	75 - 87	0.86 - 1.02
2nd Mth	1.51 - 1.71	1.21 - 1.41	73 - 89	0.84 - 1.04
3rd Mth	1.49 - 1.73	1.19 - 1.43	71 - 91	0.82 - 1.06

SUGGESTED COVER[#]%

	\$/PDS	\$/EURO	YEN/\$	SFr/\$
1st Fn	40	40	40	20
2nd Fn	40	40	40	40
2nd Mth	40	40	40	40
3rd Mth	40	40	40	40

USD CURRENCY OPTIONS*

	(Put option against USD, prices in US cents)		
	STRIKE	1 MONTH	3 MONTH
PDS	1.61	0.62	1.66
EUR	1.31	0.71	1.75
YEN(100)	81.00	0.54	1.41

INTEREST RATE MARKETS

OFFSHORE CURRENCY

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.24	0.47	0.73	1.05
EUR	0.35	0.64	0.96	1.31
PDS	0.69	1.01	1.33	1.86
YEN	0.14	0.20	0.34	0.55
SwFr	0.08	0.11	0.19	0.39

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.57	1.13	2.08
EUR	1.00	1.50	2.25
PDS	1.36	1.69	2.47
YEN	0.37	0.45	0.96
SwFr	0.22	0.50	1.13

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	104.9	DJIA	13,228
GOLD (\$/ounce)	1,665	FTSE	5,777
COPPER (\$/ton)	8,356	DAX	6,801
ALUMINIUM (\$/ton)	2,041	NIKKEI	9,521

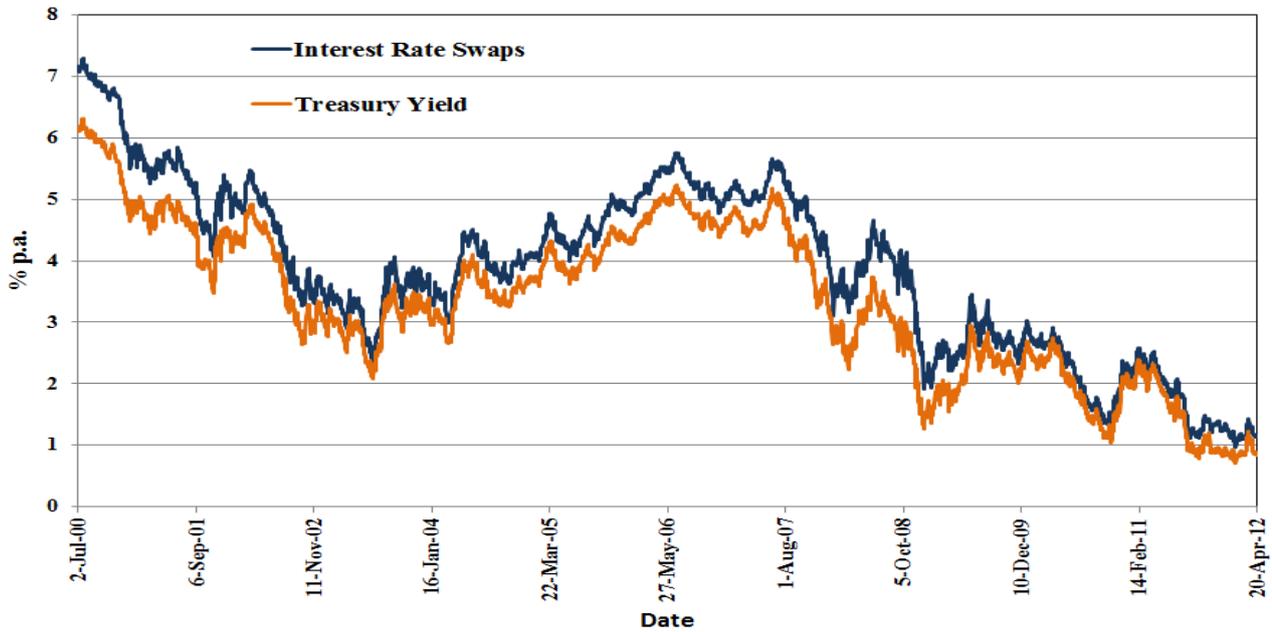
Information herein is believed to be reliable, but AVRCO does not warrant its completeness or accuracy

* indicative only # for payables

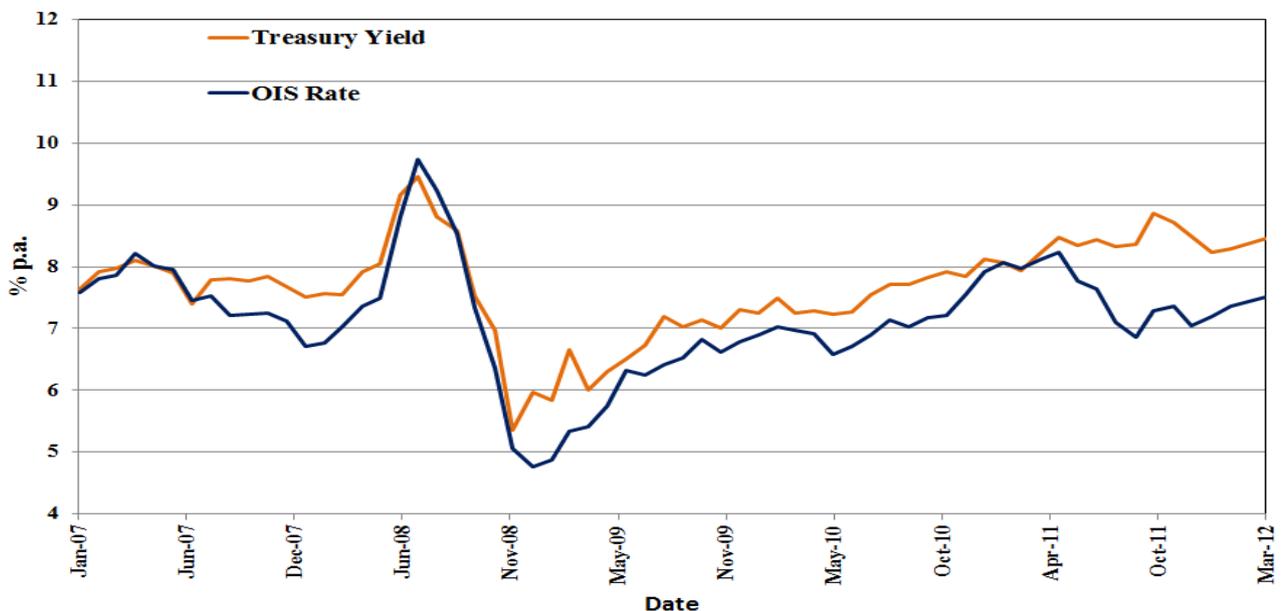
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USD (\$)
 Treasury Yield vs Interest Rate Swaps
 Maturity: 5-year



INR (₹)
 Treasury Yield vs Interest Rate Swaps
 Maturity: 5-year



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