

NEWS

1. The US\$ strengthened across the board this week against its major trading partners weakening only against the Singapore \$ by 0.7%. It rose by 1.3% against the British Pound and the Japanese Yen, by 1.1% against the Swiss Franc, and by 0.9% each against the Euro, the Danish Kroner and the Australian \$, before ending the week up 0.6% against the Canadian \$.
2. US initial jobless claims fell by 9,000 to a seasonally adjusted 346,000 in the week ended June 22. The decline was consistent with other measures of the labor market that showed a strengthening pace of hiring this year, compared with average monthly gains in 2012. Personal spending, which measures purchases ranging from cars & clothes to health care & heating, rose 0.3% in May from a month earlier. A 0.5% rise in personal incomes underpinned the May increase, a boost that helped support a rise in the savings rate to 3.2%, up 0.2 percentage point. Meanwhile, the estimate of first-quarter economic growth was lowered to an annualized 1.8% from 2.4% previously. This was mainly due to slower growth in consumption, which eased to a 2.6% gain from the earlier estimate of 3.4%.
3. The European Commission's headline Economic Sentiment Indicator that aggregates surveys of businesses and consumers across the currency area rose to 91.3 in June from 89.5 in May, reaching its highest level since May 2012. German jobless claims in June fell 12,000 on the month in seasonally adjusted terms, following a downwardly revised increase of 17,000 in May. Across the euro zone as a whole, the outlook for employment is less positive, with businesses in many member countries continuing to cut jobs. The euro zone's unemployment rate hit a record high of 12.2% in April.
4. Britain's economy was 3.9% smaller at the end of the first quarter than it was at its pre-recession peak five years earlier. Households ate into their

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savings in the first quarter as their disposable incomes fell 1.7% -- the biggest quarterly drop since 1987. However, that a mild recovery may be taking hold. Output rose 0.3% between January and March and is expected to rise again in the second quarter. Exports also grew in the first quarter, helping the U.K.'s trade deficit to narrow to £6.1 billion (\$9.34 billion), the smallest deficit since late 2011.

5. Japan's core consumer price index stayed flat in May compared with a year earlier. Other data released showed that the economy appears to be on a recovery track, with industrial production posting a 2% gain in May from the previous month, while retail sales rose 0.8% from the same time last year. However, household spending fell 1.6% in May from the same time last year.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 59.21 – ₹ 60.75 per \$, ending the week with a loss of 13 paise for the rupee at ₹ 59.40 per \$. The forward premium levels are at 6.3%, 6.0%, 5.9% and 5.7% from the preceding week-end levels of 7.1%, 6.5%, 6.0% and 5.7% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. The rupee, as the wags are gleefully commenting, has finally become, howsoever briefly, a senior citizen! Despite intervention by the Reserve Bank of India, albeit half-heartedly, the rupee-dollar exchange rate did cross the psychologically important barrier of ₹ 60 per \$. Clearly, the million-dollar question is whether it will be sustained, or even worsened, or will the tide turn as swiftly as it came in.
2. In a fresh signal to the market about its discomfort with the exchange rate, RBI advanced the release of the Balance of Payments data for the last quarter of the fiscal year 2012-13. Not surprisingly, there has been a sharp improvement in the current account deficit (CAD) in the Jan-Mar quarter (a seasonal feature). However, the year has ended with a CAD at record

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levels both in absolute (\$ 88 bn) and relative (4.8% of GDP) terms. Other external data also show a clear deterioration – the invisibles surplus has declined (on the back of rising interest payments), the external debt has jumped to \$ 390 bn. Importantly, RBI's forex reserves marginally improved by \$ 3.8 bn – a significant swing from the drawdown of \$ 12.8 bn in 2011-12 – but remain a concern especially relative to the size of the external debt.

3. If chartists are to be believed the dollar's advance to ₹ 65 per \$, perhaps even ₹ 70, is seen as inevitable. It would be useful to remember that chartists had predicted a gold price of \$ 2,500 per ounce less than a year back. Instead, the gold price has moved sharply lower – indeed, it is already below half the predicted level. Not surprisingly, today, chartists are equally confidently forecasting a collapse to \$ 800 per ounce. The recent slump in international bullion prices is not reflected in domestic prices, partly due to the equally severe rupee decline and in case of gold also due to the increase in import duty. (Interestingly, the gold price crash in the international markets is being attributed to reduced buying from Indian consumers.)
4. We remain skeptical about the rupee's ability to maintain at current levels. A reversal of the rupee's fortunes remains more likely than further dollar appreciation. Financial markets also abide by Newton's law: "What goes up must come down". However, when this will happen, and how far it will go before it happens, is impossible to know. Meanwhile, we continue to advise treasury managers with both dollar payables and receivables to use option contracts to hedge their exposures.
5. On the international front, we have not changed our forecasted ranges for the US dollar against all the major currencies, as follows:

JPY 90 – 102 per \$,
\$ 1.26 – 1.38 per EUR, and
\$ 1.50 – 1.62 per GBP.

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DOMESTIC MARKETS			
FOREIGN EXCHANGE MARKETS			
SPOT EXCHANGE RATES			
	₹/Currency		
USD	59.40		
PDS	90.37		
EUR	77.28		
YEN (100)	59.92		
SFr	62.86		
DKK	10.36		
CAD	56.47		
AUD	54.28		
SGD	46.85		
CNY	9.68		
FORWARD EXCHANGE RATES			
Month-end	₹/USD	Premium % p.a.	
Jul-13	59.71	6.14	
Aug-13	60.02	6.25	
Sep-13	60.28	6.01	
Oct-13	60.59	5.94	
Nov-13	60.85	5.82	
Dec-13	61.15	5.91	
Jan-14	61.44	5.83	
Feb-14	61.69	5.79	
Mar-14	61.95	5.74	
Apr-14	62.28	5.82	
May-14	62.54	5.78	
Jun-14	62.81	5.77	
CURRENCY SWAPS			
	2-Year	5-Year	
₹/USD	6.16	6.50	
INR/USD CURRENCY OPTIONS*			
1-mth Option on USD 1, price in paise			
Strike	Call	Put	
58.00	--	17	
58.50	--	28	
59.00	--	43	
60.00	63	--	
60.50	45	--	
61.00	31	--	
3-mth Option on USD 1, price in paise			
Strike	Call	Put	
58.50	--	49	
59.00	--	64	
59.50	--	82	
61.00	91	--	
61.50	74	--	
62.00	60	--	
INTEREST RATE MARKETS			
	2-Year	5-Year	10-Year
GOI BOND	7.56	7.59	7.45
INTEREST RATE SWAPS			
	2-Year	5-Year	
OIS	7.36	7.35	
MIFOR	6.16	6.50	

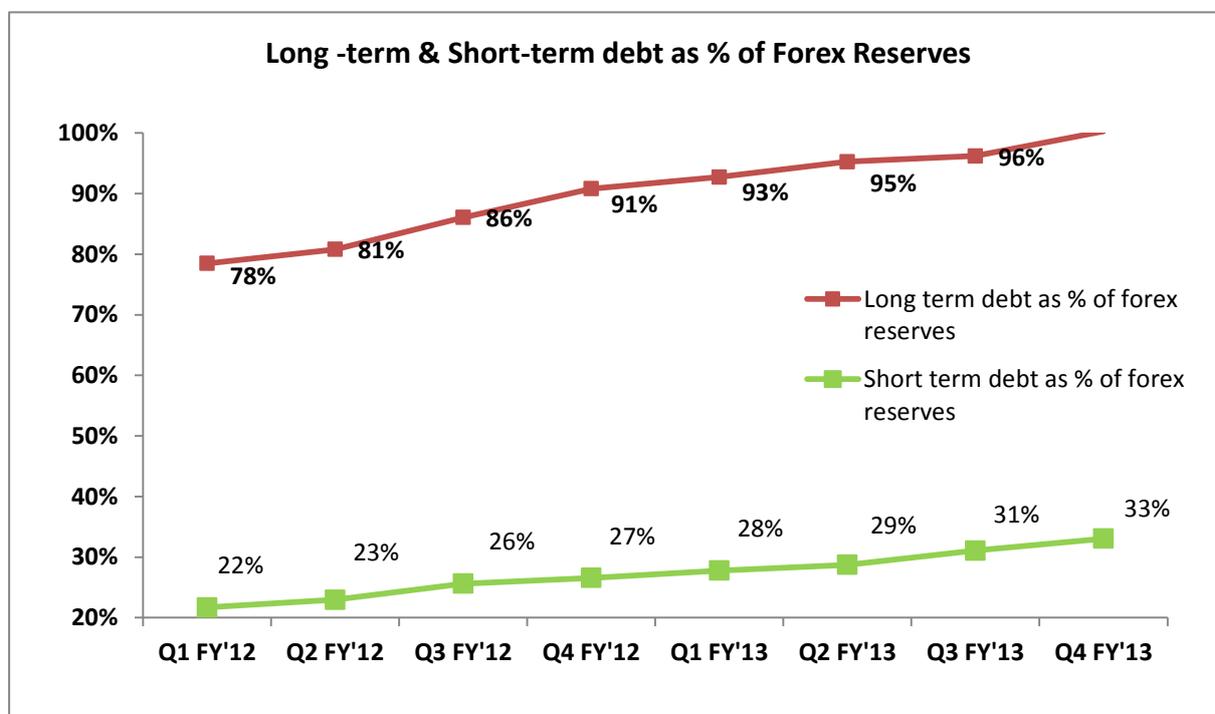
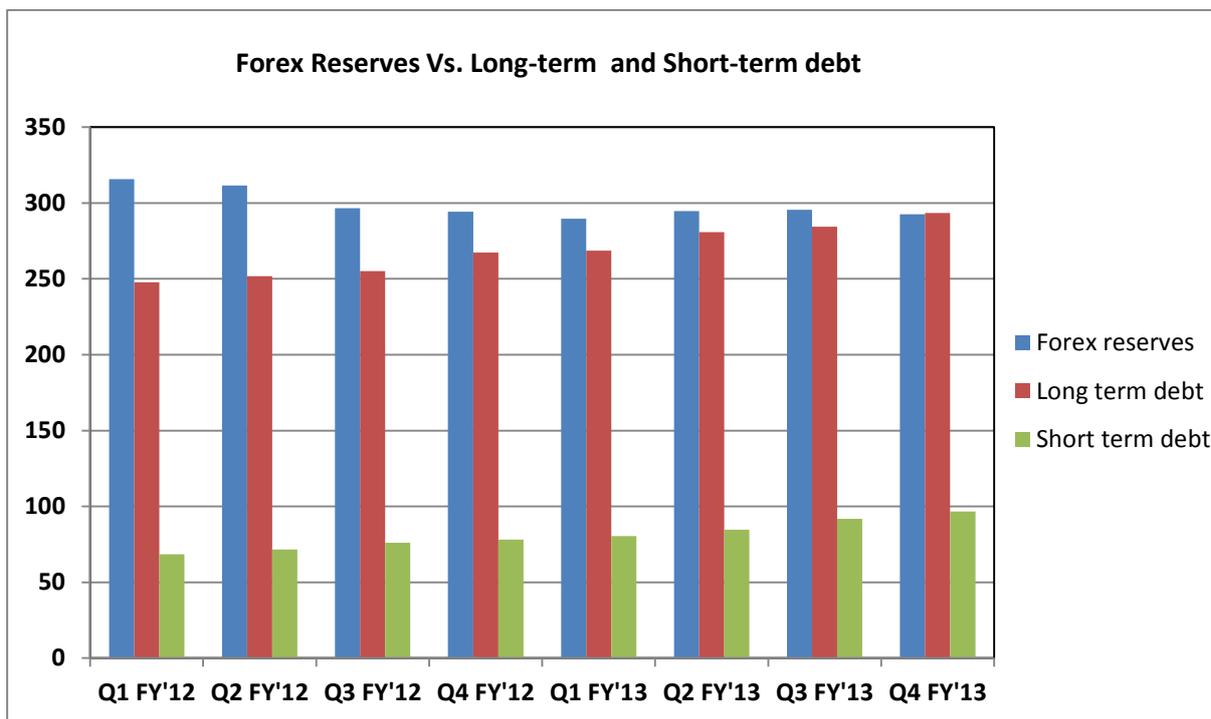
Information herein is believed to be reliable, but AVRCO does not warrant its completeness or accuracy

INTERNATIONAL MARKETS				
FOREIGN EXCHANGE MARKETS				
SPOT EXCHANGE RATES				
	Against USD			
PDS	1.5213			
EUR	1.3010			
YEN	99.14			
SFr	0.9450			
DKK	5.7331			
CAD	1.0519			
AUD	0.9138			
SGD	1.2679			
PKR	99.60			
CNY	6.1375			
PDS 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
1.50	3.19	1.19		
1.52	2.05	2.05		
1.54	1.23	3.19		
EUR 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
1.28	3.29	1.16		
1.30	2.07	2.07		
1.32	1.28	3.14		
YEN 3mth CURRENCY OPTIONS*				
(Prices in US cents)				
Strike	Call	Put		
101.11	3.36	1.47		
99.11	2.31	2.31		
97.11	1.43	3.54		
INTEREST RATE MARKETS				
OFFSHORE CURRENCY				
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.19	0.27	0.41	0.69
EUR	0.07	0.15	0.26	0.47
PDS	0.49	0.51	0.60	0.90
YEN	0.12	0.16	0.23	0.42
SwFr	0.00	0.02	0.08	0.25
INTEREST RATE SWAPS				
	2-Year	5-Year	10-Year	
USD	0.53	1.57	2.69	
EUR	0.62	1.24	2.02	
PDS	0.82	1.57	2.57	
YEN	0.30	0.53	1.05	
SwFr	0.25	0.81	1.57	
OTHER MARKETS				
COMMODITIES		EQUITY INDICES		
NYMEX crude (\$/barrel)	96.6	DJIA	14,909	
GOLD (\$/ounce)	1,223	FTSE	6,215	
COPPER (\$/ton)	6,720	DAX	7,959	
ALUMINIUM (\$/ton)	1,730	NIKKEI	13,677	

* indicative only # for payables

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