

NEWS

1. On the back of the sharp fall of international crude oil prices, the greenback strengthened sharply against commodity currencies. It was up by 1.9% against the Australian dollar, followed by 1.7% against the Canadian dollar. It also gained 0.7% against the Japanese Yen and 0.3% against the Singapore dollar. However, it weakened by almost half a percentage point against the euro and other European currencies – the Danish krone, the British pound and the Swiss franc. The Chinese yuan moved lower by 0.3% trading at CNY 6.1434 as against previous weak close of 6.1248.
2. US, the world's largest economy expanded by 3.9% in the July-September period, up from its initial estimate of 3.5% last month. There were significant upgrades in consumer spending (2.2%) and business investment (7.1%). Meanwhile, in October, new home sales increased by 1.8% (to an annual rate of 458,000 units), indicating that construction industry is continuing to recover, albeit slowly. Separately, pending home sales also grew by 2.2% on an annual basis.
3. Mario Dragi, the head of European Central Bank, has warned member countries that "Lack of structural reforms raises the specter of permanent economic divergence between members". Separately, France, Italy and Belgium have sent letters to the European Commission pledging structural reforms and possible extra fiscal steps to win more time before a ruling on whether their budget policies have broken EU rules. On macro-economic data, consumer prices in the euro area rose by a mere 0.3% in November, suggesting that deflation remains a real threat for the European Central Bank. Core inflation, stripping out volatile energy and food prices, was 0.7%, unchanged from October. In Germany, the inflation rate as measured by the consumer price index was at 0.6% on a year-over-year basis, and individual claiming unemployment benefits were down by 14,000.
4. UK's GDP expanded by 0.7% during the third quarter of 2014, unchanged from the previous estimate. Meanwhile, UK's house prices were up 0.3% month-on-month in November, rising for the second straight month.
5. Bank of Japan's Governor, Haruhiko Kuroda, stressed the bank's readiness to expand stimulus further to meet its price goal and reiterated that the "BOJ will continue to take action" to vanquish deflation. Japan's consumer price gains slowed for a third straight month. However, consumer prices excluding fresh food increased by 0.9% in October from a year earlier.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 61.66 – ₹ 62.07 per \$, before ending the week with a loss of 25 paise for the rupee at ₹ 62.03 per \$. The forward premium levels across maturities of 1-month, 3-month, 6-month and 12-month are 7.7%, 7.6%, 7.5% and 7.1% respectively. In November, FIIs invested \$ 2.2 bn in equity and \$ 1.9 bn in debt market. The total investment by FIIs in 2014, stands at \$ 40.3 bn (\$ 15.9 bn in debt and \$ 24.4 bn in equity), crossing the previous high of \$ 39.4 bn seen in 2010.

VIEWS

1. The big news of the last few months has been the nosediving of oil prices in the international markets. A global nerve-wrecking game is emerging, and it will take a year, if not longer, to judge who will survive the likely bloodbath and who will not. The Saudi plan which effectively results in an overproduction of 2 mn barrels per day appears to be to slowdown if not stop production in the less profitable US shale gas areas, some of which become uneconomic at an oil price below \$ 80 per barrel. However, it is estimated that only about 4% of shale production needs \$80 or more to be profitable. Most drilling in the Bakken formation, one of the main drivers of shale oil output, returns cash at or below \$42 a barrel. Meanwhile, countries ranging from Iran to Russia and Canada to Nigeria are expected to be hurt by the falling oil prices. Russia depends on oil and gas taxes for almost 50% of its budget revenue. A survey of economists has estimated that Russia is facing a 75% chance of a recession next year. Nigeria last week devalued the naira and increased interest rates for the first time in 3 years. Venezuela's President recently announced that the country's revenues are expected to drop by 35%!
2. No doubt, the biggest beneficiaries would be the oil importers, including India. Our net oil import bill at current prices should contract by over \$ 3 bn per month. The fall in the Brent oil price will inevitably lead to a fall in dollar demand on the domestic interbank market in the weeks, and months, to come. The current account is almost certain to move into a surplus during the next quarter, unless the oil price moves back into triple digits, a highly doubtful scenario at present. In turn, this should lead to oversupply of dollars. Strangely, this positive development seems to be having little impact on the fortunes of the Rupee, which once again weakened past Rs 62 per \$. However, this could change sooner rather than later.
3. Besides, there would be a sharp drop in the forward premium levels across the board if any interest rate cut is announced. We doubt that the Reserve Bank of India will loosen monetary policy on the coming Tuesday. However, with the inflation rate expected to come down further both in November as well as December (now that petrol and diesel prices have again been cut) a cut can be expected in February, or latest by April.
4. We therefore continue to advise corporate treasury managers with net dollar receivables to hedge the bulk of their net open position in the forward market. On the other hand, net payables should be kept open with pre-determined stop loss levels or hedged by using out-of-the-money call option contracts. We reiterate that whenever a stop loss principle is being used, the moment the stop loss level is hit one has to stop thinking. The exposure must be hedged immediately and automatically.
5. In the international markets, we are keeping our ranges for the non-\$ currencies unchanged, as follows:

\$ 1.53 – 1.65 per GBP,
\$ 1.20 – 1.32 per EUR, and
JPY 108 – 120 per \$.

DOMESTIC MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	₹/Currency
USD	62.03
GBP	96.96
EUR	77.28
JPY	0.5228
CHF	64.21
DKK	10.37
CAD	54.32
AUD	52.77
SGD	47.57
CNY	10.10

FORWARD EXCHANGE RATES*#

Month-enc	₹/USD	Premium % p.a.
Dec-14	62.41	6.58
Jan-15	62.82	7.26
Feb-15	63.16	7.23
Mar-15	63.55	7.21
Apr-15	63.95	7.34
May-15	64.23	7.00
Jun-15	64.66	7.20
Jul-15	65.02	7.15
Aug-15	65.38	7.19
Sep-15	65.73	7.09
Oct-15	66.07	7.03
Nov-15	66.39	6.97

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	6.82	6.89

INR/USD CURRENCY OPTIONS*

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
61.50	--	11
62.00	--	19
62.50	--	40
63.00	31	--
63.50	19	--
64.00	9	--

Strike	3-mth Option on USD 1, price in paise	
	Call	Put
62.00	--	27
62.50	--	42
63.00	--	65
63.50	80	--
64.00	61	--
64.50	45	--

INTEREST RATE MARKETS

	2-Year	5-Year	10-Year
GOI BOND	8.21	8.31	8.34

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	7.32	7.15
MIFOR	6.82	6.89

INTERNATIONAL MARKETS

FOREIGN EXCHANGE MARKETS

SPOT EXCHANGE RATES

	Against USD
GBP	1.5631
EUR	1.2459
JPY	118.66
CHF	0.966
DKK	5.98
CAD	1.1419
AUD	0.8507
SGD	1.3040
PKR	101.9
CNY	6.1434

3-MONTH CURRENCY OPTIONS*

Option on EUR 1, price in US cents			
Strike	Call	Put	
1.23	3.08	1.42	
1.25	1.91	2.12	
1.27	1.08	3.36	

Option on GBP 1, price in US cents			
Strike	Call	Put	
1.59	3.62	1.25	
1.56	2.30	1.95	
1.63	1.37	3.07	

Option on JPY 100, price in US cents			
Strike	Call	Put	
116.00	1.45	2.72	
119.00	2.11	1.84	
121.00	3.20	1.14	

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1-Month	3-Month	6-Month	12-Month
USD	0.16	0.23	0.32	0.56
EUR	0.01	0.06	0.15	0.30
GBP	0.50	0.55	0.68	0.97
JPY	0.08	0.11	0.15	0.27
CHF	-0.01	0.00	0.05	0.15

	INTEREST RATE SWAPS			
	2-Year	3-Year	5-Year	10-Year
USD	0.71	1.10	1.63	2.32
EUR	0.22	0.28	0.41	0.92
GBP	0.95	1.15	1.50	2.00
JPY	0.17	0.18	0.26	0.60
CHF	0.02	0.08	0.20	0.67

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
Crude Oil (\$/barrel)	66	DJIA	17,828
Gold (\$/ounce)	1,168	FTSE	6,723
Copper (\$/ton)	6,515	DAX	9,980
Aluminium (\$/ton)	2,071	NIKKEI	17,460

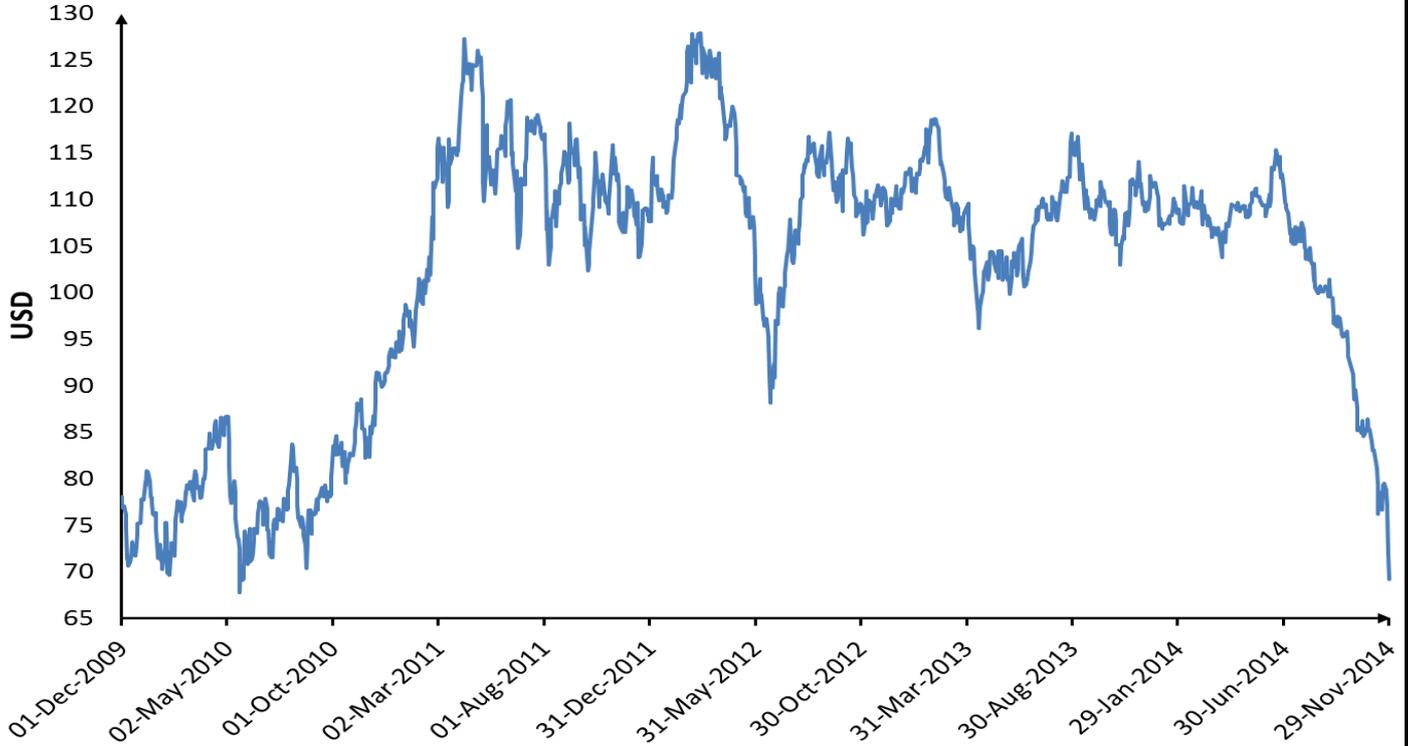
Information herein is believed to be reliable, but
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* indicative only # for payables

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

Email id.: info@avrco.com

**Brent Crude Oil Price (\$ per barrel)
Last 5 Years**



**Gold Price (\$ per ounce)
Last 5 Years**

