

## NEWS

1. The US \$ had a mixed response this week against its major international trading partners. It strengthened the most by 1.3% each against the Euro and the Danish Kroner, followed by 0.9% against the Swiss Franc. It further rose by 0.2% each against the British Pound and the Australian \$. It however weakened by 0.6% each against the Singapore \$ and the Canadian \$ and by 0.25% against the Japanese Yen.
2. The U.S. economy advanced at a 0.4% annual rate from October through December. Initial jobless claims, an indication of layoffs, increased by 16,000 to a seasonally adjusted 357,000 in the week ended March 23. Besides, personal consumption expenditures rose 0.7% last month. Adjusted for inflation, consumer spending rose 0.3%, the same as the prior month. Consumer spending accounts for two-thirds of demand in the economy. The price index for personal-consumption expenditures, the Fed's preferred gauge for inflation, was up 1.3% year over year in January. The Fed targets a level of about 2%.
3. The monthly Eurocoin measure of euro-zone output, an indicator that has correctly recorded contractions in the euro zone suggests the currency area's economy shrank for the sixth straight quarter in the three months to the end of March. Separately, French consumer spending dropped unexpectedly in February as households in the euro zone's second-largest economy spent less on clothing and shoes. Consumer spending fell 0.2% in February from January and was 2.9% below the level recorded in February last year.
4. U.K.'s dominant services sector, which accounts for more than three-quarters of its GDP, expanded in January at its fastest pace since August. The U.K. index of services rose 0.3% on the month and 0.8% on the year, aided by growing business services, finance and government services.

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5. Japanese industrial production fell month-on-month in February and core consumer prices continued to fall nation-wide. Industrial output was down 0.1% in February from the previous month. Core CPI, which excludes fresh food, dropped 0.3% year-on-year, far from the central bank's goal of a 2% rise. Meanwhile, spending by households with two or more people increased 0.8% year-on-year in February, and came after a 2.4% rise in January. However, Japan's unemployment rate was at 4.3% in February, up from 4.2% the previous month.
6. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ` 54.02 – ` 54.47 per \$, ending the week with a gain of 5 paise for the rupee at ` 54.29 per \$. The forward premium levels are at 8.0%, 7.6%, 7.3% and 6.7% from the preceding week-end levels of 9.0%, 8.0%, 7.4% and 6.7% for 1, 3, 6 and 12 month maturities respectively.

## VIEWS

1. On the domestic front, the rupee ended the year at Rs 54.29 per \$, a decline by 6.2% during the year. The volatility in the rupee-dollar exchange rate, as measured by the difference between the high and the low of each continues to drop. Compared to 70-80 paise being the norm in the first 8 months of the year, and 30-40 paise in the next three, the last month has witnessed a further moderation to 15-25 paise. This certainly augurs well for corporate treasury managers, especially in the SME sector, as it allows sufficient time between the checking of rates and taking the decision to hedge an exposure. Earlier, decisions had to be postponed, often indefinitely, as the exchange rate had moved too far away by the time the internal approvals were obtained and the decision could be implemented. Another beneficial impact has been the gradual reduction in option prices over the last couple of weeks.
2. There is no change in our expectations. The rupee-dollar exchange rate would remain stable over the next few weeks, even months. Importers

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should therefore prefer taking out-of-the-money call option contracts (i.e. where the strike rate is worse than the ruling forward rate), so that the upfront premium is reasonably low. Exporters should continue to hedge the bulk of their exposures by using forward contracts.

3. Meanwhile, the Reserve Bank of India has released the Balance of Payments data for the third quarter of the fiscal year 2012-13. The current account deficit (CAD) for the quarter was at a record high of 6.7% of the quarter's GDP (gross domestic product), and was certainly large enough to set alarm bells ringing. Indeed, the CAD for the first nine months is already at \$ 71 bn, which is over 80% of the CAD for the preceding fiscal year 2011-12! Almost the entire increase of \$ 12.4 bn in the CAD (on a year-over-year basis) is accounted for by an \$ 11 bn widening of the trade deficit. Stagnant exports and an over 9% jump in imports resulted in an almost 25% rise in the trade deficit. The only ray of hope is that exports have had a better performance in the last quarter (January – March 2013), and import growth has been flat, which should help bring down not only the trade deficit, but also the CAD for the last quarter, and therefore the year.
4. On the international front, despite the Japanese yen's 7.8% fall against the US dollar during the first quarter (its biggest quarterly drop since 1995, the domestic inflation rate continues in negative territory. Prices fell by 0.7% in February, the biggest drop since August 2010 – deflation is generally regarded as a worse disease than inflation, as it reinforces GDP contraction on the back of weak consumer demand. Market participants are once again speculating that a JPY 100 per \$ exchange rate is imminent.
5. We are not changing any of our forecasted ranges for the US dollar, as follows:

JPY 88 – 100 per \$,  
\$ 1.24 – 1.36 per EUR, and  
\$ 1.46 – 1.58 per GBP.

**DOMESTIC MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	₹/Currency
USD	54.29
PDS	82.51
EUR	69.59
YEN (100)	57.62
SFr	57.20
DKK	9.33
CAD	53.36
AUD	56.56
SGD	43.77
CNY	8.74

**FORWARD EXCHANGE RATES**

Month-end	₹/USD	Premium % p.a.
Apr-13	54.62	7.81
May-13	54.99	7.72
Jun-13	55.30	7.61
Jul-13	55.68	7.66
Aug-13	55.97	7.43
Sep-13	56.24	7.25
Oct-13	56.58	7.19
Nov-13	56.84	7.03
Dec-13	57.12	6.97
Jan-14	57.42	6.88
Feb-14	57.65	6.75
Mar-14	57.93	6.72

**CURRENCY SWAPS**

₹/USD	2-Year	5-Year
	6.69	6.88

**INR/USD CURRENCY OPTIONS\***

Strike	1-mth Option on USD 1, price in paise	
	Call	Put
53.50	--	14
54.00	--	26
54.50	--	45
55.00	36	--
55.50	21	--
56.00	11	--

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

Strike	Call	Put
54.00	--	47
54.50	--	63
55.00	--	83
56.00	70	--
56.50	53	--
57.00	40	--

**INTEREST RATE MARKETS**

GOI BOND	2-Year	5-Year	10-Year
	7.74	7.96	7.99

**INTEREST RATE SWAPS**

	2-Year	5-Year
OIS	7.22	7.23
MIFOR	6.69	6.88

**INTERNATIONAL MARKETS**

**FOREIGN EXCHANGE MARKETS**

**SPOT EXCHANGE RATES**

	Against USD
PDS	1.5198
EUR	1.2819
YEN	94.22
SFr	0.9492
DKK	5.8162
CAD	1.0174
AUD	1.0419
SGD	1.2403
PKR	98.43
CNY	6.2102

**PDS 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.50	3.36	1.47
1.52	2.24	2.24
1.54	1.35	3.46

**EUR 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
1.26	3.42	1.19
1.28	2.07	2.07
1.30	1.31	3.08

**YEN 3mth CURRENCY OPTIONS\***

(Prices in US cents)		
Strike	Call	Put
96.19	3.71	1.55
94.19	2.51	2.51
92.19	1.77	3.60

**INTEREST RATE MARKETS**

**OFFSHORE CURRENCY**

	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.20	0.28	0.45	0.73
EUR	0.06	0.13	0.23	0.43
PDS	0.50	0.51	0.60	0.91
YEN	0.12	0.16	0.26	0.45
SwFr	0.00	0.02	0.08	0.26

**INTEREST RATE SWAPS**

	2-Year	5-Year	10-Year
USD	0.42	0.96	2.01
EUR	0.52	0.94	1.69
PDS	0.63	0.99	1.93
YEN	0.25	0.31	0.69
SwFr	0.13	0.47	1.15

**OTHER MARKETS**

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	97.2	DJIA	14,578
GOLD (\$/ounce)	1,595	FTSE	6,411
COPPER (\$/ton)	7,582	DAX	7,795
ALUMINIUM (\$/ton)	1,881	NIKKEI	12,398

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/GBP Exchange Rate January 2010 to March 2013



### Rupee/Pound Exchange Rate January 2010 to March 2013

