

NEWS

1. The US\$ had a mixed response this week against its major international trading partners. It strengthened the most by 1.4% each against the Euro and the Danish Kroner followed by 1.3% against the Swiss Franc. It further rose by 0.4% against the Canadian \$ and by 0.3% against the British Pound. However, it weakened by 0.8% against the Australian \$, by 0.3% against the Japanese Yen and by 0.1% against the Singapore \$.
2. US Gross domestic product, the broadest measure of goods and services, grew at a seasonally adjusted annual rate of 3.2% in the fourth quarter, the Commerce Department said. That was less than the third quarter's 4.1% pace, but overall the final six months of the year delivered the strongest second half since 2003. A big driver of growth in the fourth quarter was a rise in consumer spending, which grew 3.3%, the fastest pace in three years. Consumer spending accounts for roughly two-thirds of economic activity. Aside from consumer spending, trade is becoming a reliable source of growth for the economy. U.S. exports soared 11.4% last quarter, the most in three years. Separately, a key gauge of inflation, the price index for personal consumption expenditures, rose at an annualized 0.7% during the quarter. That was well below the Federal Reserve's annual 2% target.
3. Spain's economic recovery picked up the pace in the fourth quarter. In its preliminary GDP estimate, statistics institute INE said that Spain's GDP rose 0.3% in the fourth quarter from the third. For the whole of 2013, the Spanish economy—euro zone's fourth-largest—contracted 1.2%. Consumer sentiment in Germany unexpectedly rose to a six-year high. GfK's forward-looking consumer sentiment indicator rose to 8.2 points going into February from 7.7 points a month earlier, its highest level since August 2007.

4. Japan's economy is displaying a strength not seen in years. The closely tracked core consumer price index, which excludes volatile fresh-food costs, climbed 1.3% in December from a year earlier. For all of 2013, the index was up 0.4%, the first annual rise in five years. Separate employment data also suggested a strongly recovering economy. The jobless rate fell to 3.7% of the workforce in December, down from 4.0% in November and the lowest rate since December 2007. The closely watched ratio of available jobs to applicants also improved to 1.03, meaning 103 jobs were on offer for every 100 job seekers. That's the first time that there has been a surplus of available jobs since October of 2007.
5. On the domestic interbank market, the rupee-dollar exchange rate traded in a range of ₹ 62.10 – ₹ 63.29 per \$, ending the week with a loss of 1 paise for the rupee at ₹ 62.68 per \$. The forward premium levels are at 8.4%, 8.6%, 8.4% and 7.9% from the preceding week-end levels of 8.1%, 8.5%, 8.3% and 7.9% for 1, 3, 6 and 12 month maturities respectively.

VIEWS

1. On the international markets, the US Federal Reserve Board persisted in its tapering mode, further reducing the monthly bond purchase program by \$ 10 bn to \$ 65 bn. While the first round had not even created a flutter, the second one did put bear pressure on financial markets with emerging market stocks and currencies bearing the brunt of the attack. The Hungarian florint was the biggest loser, followed by the Polish zloty. However, the Turkish lira gained ground after its central bank doubled domestic interest rates.
2. The dollar also strengthened against all the major currencies except the Japanese yen. We are keeping our forecasted ranges for the non-\$ currencies unchanged, as follows:

\$ 1.59 – 1.69 per GBP,
\$ 1.27 – 1.39 per EUR, and
JPY 95 – 107 per \$.

3. On the domestic front, the dollar swiftly moved past Rs 63 per \$, before rumoured RBI intervention helped the rupee to recover some ground. We are not changing our rupee script. We expect that with a general election looming over the horizon, the rupee-dollar exchange rate will continue to be kept in a relatively narrow band of Rs 61.50 – 62.50 per \$, with minor intra-day aberrations on either side. We reiterate that any rupee weakness should be regarded by corporate treasury managers as an opportunity to hedge the bulk of short-term dollar receivables (say 70 – 80%) up to April 2014 as well as a part (say 10 – 20%) of the medium-term exposures. If it is desired to hedge dollar payables, it would be preferable to use out-of-the-money call option contracts rather than locking into forward rates at the current high spot and forward premium levels. Not only is there a high probability of the spot exchange rate moving back to the sub-62 level, but any reduction in interest rates (either imminently, or almost certainly later in April) would lead to a softening of the forward premium levels.
4. The latest (December 2013) 6-currency (the US dollar, the euro, the Japanese yen, the British pound, the Chinese yuan and the Hongkong dollar) REER (real, i.e. inflation-adjusted, effective i.e. trade-weighted, exchange rate) index (base year 2004-05) is at 95.58. This implies that compared to the average rate of Rs 61.99 the “neutral” exchange rate was at Rs 59.25 per \$. Clearly, the rupee is significantly undervalued at the current level. Indeed, the much larger 36-currency index was at 87.34, implying a neutral level of Rs 54.20!
5. Tailpiece: The Economist has been regularly publishing its “Big Mac index” since 1986. It is a rough and ready measure of the true value of currencies, based on the theory of purchasing-power parity (PPP). PPP states that in the long run exchange rates should move towards the rate that would equalise the prices of an identical basket of goods and services (in this case, a burger) in any two countries. According to the latest index for January 2014, a Big Mac costs Rs 95 in India and \$ 4.62 in the US, giving an exchange rate of Rs 20.54, one-third of its market exchange rate.

**DOMESTIC MARKETS
FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	₹/Currency
USD	62.68
PDS	103.04
EUR	84.53
YEN (100)	61.43
SFr	69.15
DKK	11.33
CAD	56.33
AUD	54.88
SGD	49.10
CNY	10.34

FORWARD EXCHANGE RATES

Month-end	₹/USD	Premium % p.a.
Feb-14	63.05	8.29
Mar-14	63.45	8.01
Apr-14	63.96	8.57
May-14	64.37	8.41
Jun-14	64.79	8.42
Jul-14	65.22	8.40
Aug-14	65.59	8.15
Sep-14	66.04	8.22
Oct-14	66.45	8.10
Nov-14	66.83	8.06
Dec-14	67.25	8.02
Jan-15	67.64	7.98

CURRENCY SWAPS

₹/USD	2-Year	5-Year
	7.95	7.82

INR/USD CURRENCY OPTIONS*

1-mth Option on USD 1, price in paise		
Strike	Call	Put
62.00	139	26
62.50	105	43
63.00	78	65
63.50	56	93
64.00	40	126
64.50	28	164

3-mth Option on USD 1, price in paise		
Strike	Call	Put
63.00	180	78
63.50	152	98
64.00	127	122
64.50	106	150
65.00	88	182
65.50	74	216

INTEREST RATE MARKETS

GOI BOND	2-Year	5-Year	10-Year
	8.52	8.85	8.81

INTEREST RATE SWAPS

	2-Year	5-Year
OIS	8.46	8.44
MIFOR	7.95	7.82

**INTERNATIONAL MARKETS
FOREIGN EXCHANGE MARKETS**

SPOT EXCHANGE RATES	
	Against USD
PDS	1.6439
EUR	1.3486
YEN	102.04
SFr	0.9065
DKK	5.5325
CAD	1.1128
AUD	0.8756
SGD	1.2767
PKR	105.48
CNY	6.0612

PDS 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.62	3.45	1.18
1.64	2.14	2.14
1.66	1.40	3.12

EUR 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
1.33	2.93	1.07
1.35	1.87	1.87
1.37	1.00	3.15

YEN 3mth CURRENCY OPTIONS*

(Prices in US cents)		
Strike	Call	Put
104.01	3.12	1.09
102.01	1.96	1.96
100.01	1.15	3.12

INTEREST RATE MARKETS

	OFFSHORE CURRENCY			
	1 MONTH	3 MONTH	6 MONTH	12 MONTH
USD	0.16	0.24	0.34	0.57
EUR	0.21	0.26	0.35	0.52
PDS	0.48	0.52	0.62	0.89
YEN	0.11	0.14	0.20	0.36
SwFr	-0.01	0.02	0.08	0.19

INTEREST RATE SWAPS

	2-Year	5-Year	10-Year
USD	0.47	1.62	2.79
EUR	0.46	1.04	1.92
PDS	0.98	1.97	2.79
YEN	0.24	0.36	0.84
SwFr	0.10	0.53	1.38

OTHER MARKETS

COMMODITIES		EQUITY INDICES	
NYMEX crude (\$/barrel)	97.5	DJIA	15,699
GOLD (\$/ounce)	1,239	FTSE	6,510
COPPER (\$/ton)	7,090	DAX	9,306
ALUMINIUM (\$/ton)	1,663	NIKKEI	14,914

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

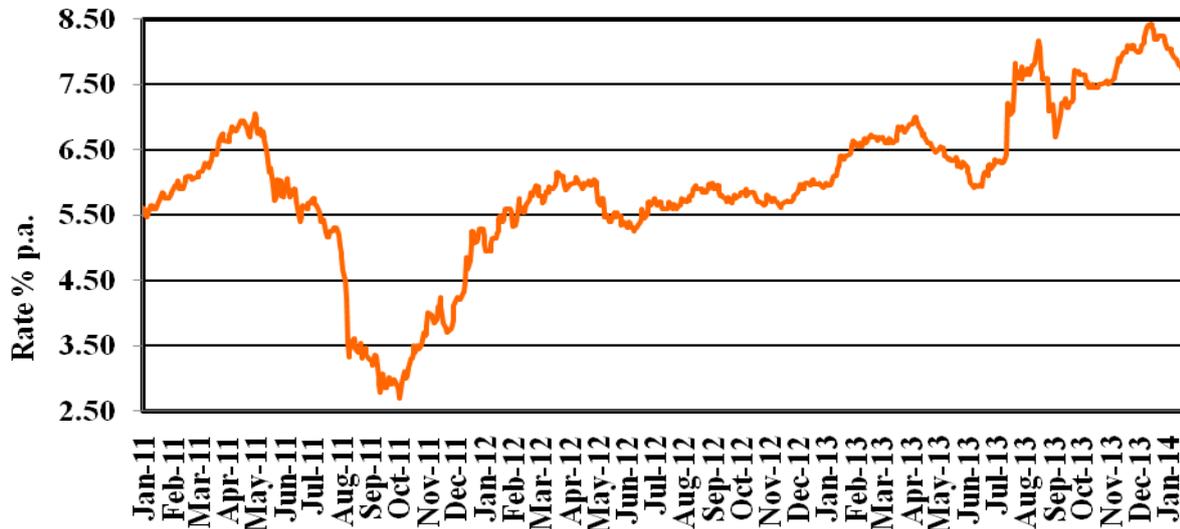
* indicative only # for payables

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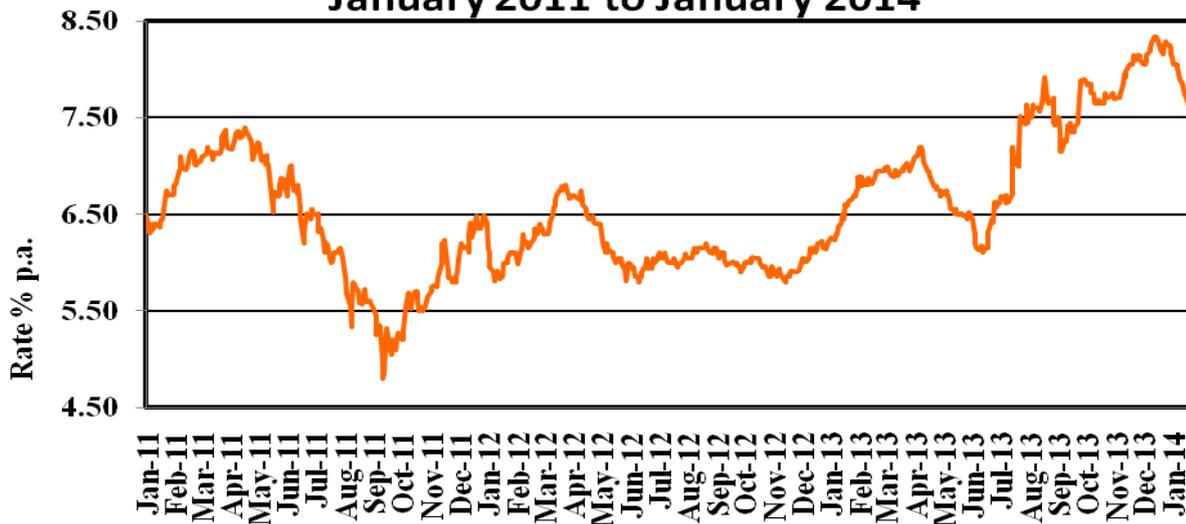
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2 Year MIOCS (% p.a)
January 2011 to January 2014



5 Year MIOCS (% p.a)
January 2011 to January 2014



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