

LIQUIDITY, VALUATIONS AND EVENTS

Jul-Sep
2013

MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	1st July 2012	1st April 2013	30th June 2013	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	17,430	18,865	19,396	3	11
CNX Nifty Index	India	5,279	5,704	5,842	2	11
Bovespa	Brazil	54,355	55,902	47,457	-15	-13
CAC 40	France	3,197	3,731	3,739	0.2	17
DAX	Germany	6,416	7,795	7,959	2	24
Dow Jones	US	12,880	14,573	14,910	2	16
FTSE 100	UK	5,571	6,412	6,216	-3	12
Hang Seng	Hong Kong	19,441	22,300	20,803	-7	7
Jakarta Composite	Indonesia	3,956	4,938	4,819	-2	22
KLSE Composite	Malaysia	1,599	1,668	1,774	6	11
Nasdaq	US	2,935	3,239	3,403	5	16
Nikkei 225	Japan	9,007	12,135	13,677	13	52
NYSE	US	7,802	9,108	9,113	0.1	17
RTS Index	Russia	1,351	1,446	1,275	-12	-6
Seoul Composite	South Korea	1,854	1,996	1,863	-7	0.5
Shanghai Composite	China	2,225	2,234	1,979	-11	-11

MOVEMENT OF SECTORAL INDICES

Sectoral Index	1st July 2012	1st April 2013	30th June 2013	3-Month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	9,458	9,920	10,716	8	13
S&P BSE BANKEX	11,909	13,115	13,258	1	11
S&P BSE Capital Goods	10,025	9,169	9,111	-1	-9
S&P BSE Consumer Durables	6,209	7,124	6,135	-14	-1
S&P BSE FMCG	4,992	5,917	6,458	9	29
S&P BSE Health Care	6,884	8,085	8,845	9	28
S&P BSE METAL Index	10,785	8,652	7,754	-10	-28
S&P BSE OIL & GAS Index	8,076	8,362	8,900	6	10
S&P BSE Power Index	1,988	1,665	1,623	-3	-18
S&P BSE PSU	7,258	6,508	6,163	-5	-15
S&P BSE Realty Index	1,668	1,876	1,511	-19	-9
S&P BSE TECK Index	3,344	3,921	3,679	-6	10
S&P BSE SENSEX	17,430	18,865	19,396	3	11

COMMODITY PRICES

	Unit	30-Jun-12	1-Apr-13	1-Jul-13	3-Month Returns	1-Year Returns
Gold	USD/ounce	1,599	1,598	1,243	-22	-22
Crude	USD/MT	97	110	103	-6	6
Steel	USD/MT	56	54	60	11	7
Copper	USD/MT	7,692	7,436	6,981	-6	-9
Aluminum	USD/MT	1,835	1,862	1,754	-6	-4
Zinc	USD/MT	1,881	1,818	1,858	2	-1
Silver	USD/ounce	28	28	20	-29	-29
Lead	USD/MT	1,849	2,027	2,077	2	12

FOREIGN INSTITUTIONAL INVESTOR (FII)

• FII Flows in Equity FLOWS

(in Rs. Million)	Apr-13	May-13	June-13	TOTAL
Gross Purchase	610,073	744,689	553,214	1,907,976
Gross Sale	555,931	523,004	663,485	1,742,420
Net Investment	54,141	221,686	-110,269	165,558

• FII Flows in Debt

(in Rs. Million)	Apr-13	May-13	June-13	TOTAL
Gross Purchase	251,960	272,050	116,762	640,772
Gross Sale	198,616	212,359	448,110	859,085
Net Investment	53,344	59,690	-331,349	-218,315

**Total Net FII Flows in
Apr-June**

Rs. -52,757 million

DOMESTIC ISSUES

- The fiscal deficit for India in 2012-13 was estimated to be 4.9 per cent compared to 5.7 per cent in 2011-12, which brought some sense of cheer.
- Global rating agency Fitch upgraded India's credit rating outlook from 'Negative' to 'Stable' due to this positive development.
- Rupee depreciated by 9% against the Dollar in the last quarter and has thrown all reforms out of gear
- Foreign flows suffered a setback – while equity flows remained positive, debt segment saw FIIs pull out a record \$ 3 billion in one month alone.

RBI & GOVERNMENT POLICIES

RBI

- In the May policy announcement the RBI cut repo rate by 25 basis points from 7.5% to 7.25% and the Cash Reserve Ratio (CRR) was unchanged at 4%.
- However, the rates remained unchanged in the June

SEBI & Government

- Stock market regulator SEBI has merged FIIIs, Sub-Accounts and Qualified Foreign Investors (QFIs) into a single and new investor class called “Foreign Portfolio Investors” (FPIs). It has decided to do away with prior direct registration of FIIIs and Sub-Accounts.
- The Finance Minister clarified to foreign investors that a tax residency certificate (TRC) will be enough to claim tax concessions on investments routed through countries like Mauritius. The withholding tax is reduced from 20% to 5%.
- Petrol Prices have been hiked thrice in the month of June – 75 paise, Rs. 2 and Rs. 1.82 per litre respectively.

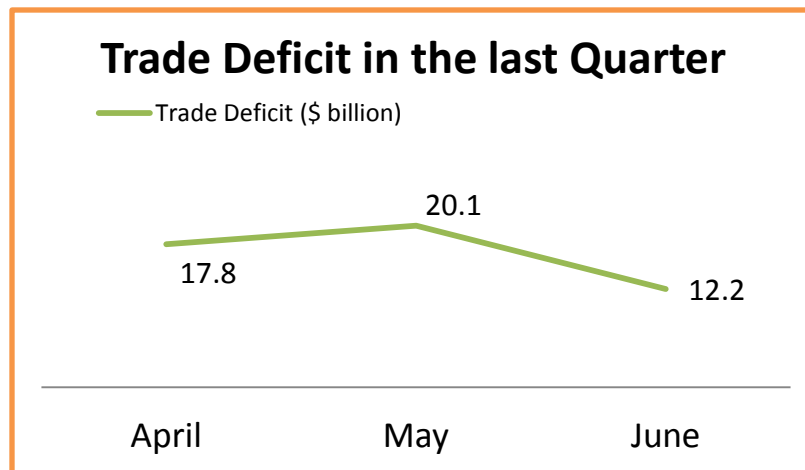
STEPS TAKEN CONTD.:

INDIA DIVESTMENT PROGRAMME

- MMTC share sale: The issue got subscribed 1.33 times fetching for the government over Rs. 567 crore
- The Cabinet Committee on Economic Affairs cleared Neyveli Lignite disinvestment of 5%.
- In May the Cabinet Committee on Economic Affairs approved the setting up of a Central Public Sector Enterprises (CPSE) Exchange Traded Fund (ETF).
- The government plans to raise around Rs. 24,000 crore through 10% stake sale in Coal India Limited – which will take care of half of the government's divestment target. Likely to be completed by September 2013
- After CIL, the government will sell 10% stake in Indian Oil
- Other companies in pipeline: Rashtriya Chemicals & Fertiliser, MMTC, Engineers India Ltd, BHEL

CURRENT ACCOUNT DEFICIT (CAD)

- The current account deficit (CAD) for the quarter ending March showed an improvement at 3.6% of GDP vis-à-vis an unprecedented 6.7 per cent in the previous quarter.
- However the figure was 4.8 per cent of GDP for the fiscal year 2012-13 against 4.2 per cent in the previous year.
- The trade deficit widened in April-May due to festival related or seasonal gold imports.



- External debt payments maturing within a year stood at 59% of the foreign exchange reserves as of March 31. This is because the high current account deficit has been financed particularly by trade credit which has led to a rise in external debt.
- Foreign Direct Investments (FDI) into the country fell by 38% in 2012-13 at \$22.4 billion against \$35.1 billion in the previous year.

CAD CONTROL: BOOSTING TRADE AND FLOWS

- Foreign Direct Investments
 - 18 FDI proposals have been approved totaling Rs. 3,341 crore
- Foreign Trade Policy
 - The Government announced a slew of measures in the annual Foreign Trade Policy (FTP) including sops for Special Economic Zones (SEZs) and extension of the popular zero duty Export Promotion Capital Goods (EPCG) scheme to all sectors to boost exports.
- External Commercial Borrowing
 - The RBI in June allowed companies to use external commercial borrowings (ECBs) for importing technical expertise and services and license fee.
- Inflation-indexed bonds
 - In an effort to provide an investment option to sway investors away from gold the RBI launched two tranches of inflation-indexed bonds of Rs. 1,000 crore each.
- Credit Enhancement
 - Japan plans to grant \$2.32 billion aid for infrastructure building

CAD CONTROL: CURBING GOLD IMPORTS

- CURBING GOLD IMPORTS: Gold imports in April increased by 72% from March to \$ 7.5 billion.
 - The RBI announced that banks can import gold only on consignment basis to meet the demands of gold jewellery exporters, implying that imported gold cannot be used to make ornaments for consumption in the domestic market. This rule was later extended to nominated agencies such as the State Trading Corporation.
 - Banks and non-banking finance companies (NBFCs) will not be allowed to extend loans against gold exchange-traded funds (ETFs) and gold mutual funds.
 - In its annual monetary policy the central bank also proposed that banks should ensure that the weight of gold coins does not exceed 50 grams per customer
 - The RBI banned gold imports by domestic consumers through bank credit
 - The government increased the import duty on gold to 8%
 - The RBI asked regional rural banks (RRBs) to not provide loans against gold jewellery and coins to discourage rural demand for gold
 - It also mandated that gold imports against suppliers' or buyers' credit will be on 100 per cent cash margin and on document against payment basis.

GROWTH INDICATORS

- **Historical Growth:**
 - Central Statistics Office (CSO) fourth quarter data revealed that the Indian economy grew at a decade-low growth rate of 5% in 2012-13. The growth rate for the third quarter of the fiscal is a 15-quarter low of 4.7%.
- **Growth Forecast:**
 - IMF growth forecast for FY14: 5.6%; Fitch: 5.7%; World Bank: 5.7%
- **HSBC PMI:**
 - The overall HSBC manufacturing purchasing managers' index (PMI), which gauges business activity in Indian factories but not its utilities, sank to 50.1 in May from 51 in April. It stood at 50.3 in June.

April	May	June
51	50.1	50.3

- Services PMI fell to a one-and-a-half year low of 50.7 in April from 51.4 in March, registering its third straight monthly decline. It rose to 53.6 in May but fell again in June to 51.7.
- **IIP:**
 - The index of industrial production (IIP) grew by 1% in 2012-13. Factory output grew at a low rate of 2% in April, compared to the revised growth rate of 3.4% in March. It contracted by 1.6% in May.
- **New investments in the real estate sector fell by 55% to Rs. 42,000 crore in 2012-13 compared to the last financial year.**

INFLATION

- The Wholesale Price Index (WPI) declined to a 43-month low of 4.7%. After declining for three straight months the Consumer Price Index (CPI) rose again in June.

	April	May	June
Wholesale Price Index	4.77	4.7	4.86
Consumer Price Index	9.39	9.31	9.87

- The inflation in the coming months is like to be under pressure due to an unstable currency and rising food inflation.

REGULATORY REFORMS

- LAND BILL

- India's cabinet approved changes in titling law that will make ownership of land more transparent and more detailed information will be available to the public

- FOOD SECURITY BILL:

- The government failed to get the Food Security Bill passed in the Lok Sabha because the Opposition parties disrupted the proceedings. The bill proposes to supply 5 kg of rice, wheat and coarse grains at Rs 3, Rs 2 and Re 1 per kg respectively, every month to three-fourths of the population in rural India and half the population in urban India.
- Finally, the Cabinet managed to push through an Ordinance to implement the Food Security Bill.

- EASING PORTFOLIO FLOWS

- A SEBI panel recommended waiving the requirement for FIIs to directly register with the market regulator. Other proposals include merging several foreign investor categories into one and simplifying the KYC (know-your-client) norms for certain categories.

INFRASTRUCTURE

- The Finance Minister plans to set up a cell to help in clearing the roadblocks which have stalled many infrastructure projects, especially the ones in the power and roads sectors.
- The Finance Ministry plans to set up a listed feeder fund with the help of the UK government with the intention of attracting sovereign wealth funds and pension funds to invest in Indian infrastructure debt funds.
- The government plans to award port projects worth Rs. 25,000 crore this financial year and also will finalise new tariff guidelines for the 12 major ports, allowing the operators to fix market-linked tariffs
- By June end the Cabinet Committee on Economic Affairs decided to double the price of domestic natural gas from \$4.2 to \$8.4 a million British thermal unit (mBtu) from April next year.

CURRENCY CRISIS

- The rupee saw a huge decline of 9% in the quarter (touching an all-time high of Rs. 60.7 per USD on June 24). The reasons include:
 - The withdrawal by FIIs as a result of an announcement by the US Federal Reserve that it will be preparing to cut back the Quantitative Easing if the US economy improves
 - High current account deficit
 - Inflation
- Among emerging market currencies Rupee weakened the most after South African Rand since May
- In June the government increased the foreign investment limit in government securities by \$ 5 billion.
 - India's forex reserves fell to \$284 billion as on June 28
- Impact of a declining currency:
 - The RBI might stall its rate cut programme till clarity emerges
 - Capital imports are more expensive, which may force companies to delay investments
 - Higher fuel prices and higher inflation
 - Foreign investors may defer investments till the Rupee stabilises

CHINA

- China grew at a 13-year low of 7.8% in 2012
- The economy grew at an annualised rate of 7.5% in the April-June quarter, down from 7.7% in the first quarter.
- HSBC Purchasing Managers Index (PMI) data shows a declining trend whereby factory output shrank for the first time in seven months in May and new orders slumped badly in June
 - PMI Numbers - April: 50.4; May: 49.6; June: 48.2
- In spite of the slowdown foreign direct investment (FDI) in China rose 20% (year-on-year) to \$14.4 billion in June which indicates optimism among foreign investors.
- Policy Measures:
 - China Securities Regulatory Commission (CSRC) decided to increase the quota of the Qualified Foreign Institutional Investor (QFII) scheme to \$150 billion.

EMERGING MARKETS

- Emerging markets saw a sell-off worth more than \$6 billion due to US Fed's signal that the bond buying programme may end in 2014 and also due to the cooling off of the Chinese economy.
- Credit rating agencies have started downgrading their outlook on emerging market economies.
- The indications of an end to QE led to flight of investors to US markets. This took a toll on most emerging markets with Brazil, Korean, Shanghai, Jakarta and Russian markets turning negative last quarter.
- India remained in the green only due to quarter-end upmove triggered by domestic announcements, but still far below its mid quarter peak.

EUROZONE

- The manufacturing data for Eurozone measured by PMI rose to a 16-month high of 48.8 in June compared to 48.3 in May.
 - The data was particularly strong for Italy, followed by Spain and France.
- Euro zone consumer price inflation increased from 1.4% in May to 1.6% in June
- Unemployment touch a record high of 12.1% in May from 12% in April.
- EU Deal
 - The Euro members managed to strike a deal according to which investors and wealthy savers will share the costs of future bank failures.
 - This includes shareholders, bondholders and depositors with more than 100,000 euros.
- Italy
 - Italy's two month long political stalemate ended by end of April with the new left-right government formed by Prime Minister-elect Enrico Letta being sworn in.
 - The benchmark bond yields fell to their lowest since October 2010

EUROZONE

- Portugal
 - Portugal is struggling to meet the terms of its bailout of €78 billion accepted 2 years ago
 - The government stuck well to the creditors' demands so far
 - Resignation of Foreign Minister Vitor Gaspar showing his protest over austerity measures was followed by that of the Finance Minister Paulo Portas, which endangered PM Pedro Passos Coelho's majority.
- Greece
 - The IMF, European Central Bank (ECB) and official from EU want Greece to sack 4,000 state workers by end of the year and reduce the budget deficit before they release the next tranche of its €240bn bail-out.
 - PM Antonis Samaras shut ERT and fired 2,600 people. This back-fired as the Democratic Left decided to abandon to government due to its outrage over these measures.
 - Unemployment continued to rise and reached 26.9% in April vis-à-vis 26.8% in March. For young Greeks, the unemployed figure is 57.5% in April although lower than 58.3% in March.
 - Manufacturing activity picked up slightly in June.

EUROZONE

- Spain
 - The national debt reached a record high of \$1.23 trillion or 88.2% of GDP in the first quarter of 2013. Spain's central bank forecasts the debt to reach 90.5% by the end of the year.
 - Unemployment stands at 27%
 - Standard & Poor's left the debt rating unchanged at BBB- with a 'negative outlook'.
- UK
 - UK's Manufacturing PMI showed an encouraging trajectory – from 49.8 in April and 51.5 in May to a 25-month high of 52.5 in June.

USA

- US GDP growth for the first quarter was revised to 1.8% from 2.4%.
- Disposable income adjusted for inflation fell at an annualised rate of 8.6% which is the biggest drop since the third quarter of 2008.
- Encouraging Employment Data
 - The number of jobs added was 149,000 in April, 175,000 in May and 195,000 in June which implied a rising trend
 - However, the unemployment rate increased from 7.5% to 7.6% in the quarter.
 - Hiring intentions for the next quarter have strengthened according to a survey by Manpower Employment Outlook
- In the later part of June US Federal Reserve Chairman Ben Bernanke signalled that the monetary easing measures could slow down if the US economy improves.
 - As a result stock markets across the world crashed
 - Gold, silver fell to September 2011 lows following the announcement

EVENTS TO LOOK FORWARD TO- DOMESTIC

- Rupee/Dollar Movement
- Advancement of Monsoons in July and August
- Corporate Earnings
- Monsoon session of Parliament
- RBI Monetary Policy
- Government Reforms
- FII Inflows

EVENTS TO LOOK FORWARD TO- GLOBAL

- EUROZONE
 - Germany Elections
 - Eurozone finance ministers to decide whether Greece will receive €6.3bn from its ongoing bail-out
 - Budget deficits of Spain, Greece, Portugal
- USA
 - Federal Reserve Monetary Stance
 - Jobs data
- Middle East Crisis and Crude Oil

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q2CY13	Start to End Value In Q2	Outlook for Q3CY13	Remarks
Debt	10-Year Gilt: Down 6% 3-M T Bill: Down 8% 3-M CP: Down 11% 3-M CD: Down 13%	7.99 – 7.46 8.19 – 7.52 9.35– 8.35 9.00 - 7.85	Down	The surge in yields at the end of the quarter was an aberration. These should move down as RBI reverses some of its recent steps
Equity	Sensex: Up 3% Nifty : Up 2%	18,865 – 19,396 5,704 – 5,842	Sideways to up	The markets have held well despite recent events. If FII flows don't reverse, we should see upmove this qtr

Currency and actions by the Central Bankers across the Globe has occupied centrestage position. In such an environment, a quarterly outlook will be affected by a number of factors. Any exposure to an asset class should therefore be taken for a longer time horizon and with due caution

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