

# LIQUIDITY, VALUATIONS AND EVENTS

Jan-Mar  
2014

# MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	31 <sup>st</sup> Mar 2013	31 <sup>st</sup> Dec 2013	31 <sup>st</sup> Mar 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	18,836	21,171	22,386	6%	19%
CNX Nifty Index	India	5,683	6,304	6,704	6%	18%
Dow Jones	US	14,579	16,577	16,458	-1%	13%
NYSE	US	9,107	10,400	10,528	1%	16%
Nasdaq	US	3,268	4,177	4,199	1%	29%
Bovespa	Brazil	56,352	51,507	50,415	-2%	-11%
Hang Seng	Hong Kong	22,300	23,306	22,151	-5%	-1%
Jakarta Composite	Indonesia	4,941	4,274	4,768	12%	-3%
KLSE Composite	Malaysia	1,674	1,867	1,849	-1%	10%
Nikkei 225	Japan	12,336	16,291	14,828	-9%	20%
Seoul Composite	South Korea	1,994	2,011	1,986	-1%	0%
CAC 40	France	3,731	4,296	4,392	2%	18%
DAX	Germany	7,795	9,552	9,556	0%	23%
FTSE 100	UK	6,412	6,749	6,598	-2%	3%
Shanghai Composite	China	2,236	2,116	2,033	-4%	-9%
RTS Index	Russia	1455	1443	1,186	-18%	-18%

# MOVEMENT OF SECTORAL INDICES

Sectoral Index	31 <sup>st</sup> Mar 2013	31 <sup>st</sup> Dec 2013	31 <sup>st</sup> Mar 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	9,994	12,259	13,280	8%	33%
S&P BSE BANKEX	13,033	13,002	14,572	12%	12%
S&P BSE Capital Goods	9,018	10,264	12,011	17%	33%
S&P BSE Consumer Durables	7,095	5,821	6,526	12%	-8%
S&P BSE FMCG	5,919	6,567	6,971	6%	18%
S&P BSE Health Care	8,008	9,966	10,084	1%	26%
S&P BSE METAL Index	8,758	9,964	10,059	1%	15%
S&P BSE OIL & GAS Index	8,327	8,834	9,486	7%	14%
S&P BSE PSU	6,481	5,910	6,355	8%	-2%
S&P BSE Realty Index	1,780	1,433	1,468	2%	-18%
S&P BSE SENSEX	18,836	21,171	22,386	2%	19%
S&P BSE TECK Index	3,901	5,051	4,905	-3%	26%
S&P BSE Power Index	1,647	1,701	1,725	1%	5%

# FOREIGN INSTITUTIONAL INVESTOR (FII) FLOWS

## • FII Flows in Equity

(in Rs. Million)	Jan-14	Feb-14	Mar-14	TOTAL
Gross Purchase	6,44,789	4,84,285	8,79,473	20,08,547
Gross Sale	6,37,644	4,70,242	6,78,699	17,86,585
Net Investment	7,143	14,043	2,00,772	2,21,958

## • FII Flows in Debt

(in Rs. Million)	Jan-14	Feb-14	Mar-14	TOTAL
Gross Purchase	3,40,738	2,76,570	3,01,286	9,18,594
Gross Sale	2,14,655	1,63,201	1,85,425	5,63,281
Net Investment	1,26,086	1,13,370	1,15,861	3,55,317

**Total Net FII Flows in  
Jan-Mar**

**Rs. 5,77,275 Million**

# DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Million)	Jan-14	Feb-14	Mar-14	TOTAL
Gross Purchase	2,56,884	2,01,339	2,85,623	7,43,847
Gross Sale	27,143	1,98,470	41,694	8,86,844
Net Investment	-14,555	2,870	-1,31,312	-1,42,997

# MF ACTIVITY

## •Equity

(in Rs. Million)	Jan-14	Feb-14	Mar-14	TOTAL
Gross Purchase	93,488	84,688	115,781	293,957
Gross Sale	118,643	98,141	153,124	369,908
Net Investment	-25,153	-13,454	-37,346	-75,953

## •Debt

(in Rs. Million)	Jan-14	Feb-14	Mar-14	TOTAL
Gross Purchase	1,436,137	1,181,527	2,083,958	4,701,622
Gross Sale	981,984	561,381	1,058,262	2,601,627
Net Investment	454,154	620,148	1,025,698	2,100,000

**Total Net MF Activity in  
Jan-Mar**

**Rs. 2,024,047 Million**

# DOMESTIC EVENTS

# Key issues

- **RBI Monetary Policy**
- **Inflation**
- **GDP Growth**
- **Current Account Deficit**
- **Fiscal Deficit**
- **Interim Budget**



# RBI MONETARY POLICY

- **JANUARY: 3<sup>rd</sup> Quarter Monetary Policy Review**
  - Repo rate increased by 0.25% to 8%
  - Cash Reserve Ratio (CRR) unchanged at 4%
  - It was decided that Policy Review to take place every 2 months going forward
- **APRIL: First bi-Monthly Monetary Policy Statement**
  - Repo Rate unchanged at 8 percent
  - CRR unchanged at 4%
  - Increase the liquidity provided under 7-day and 14-day term repos from 0.5 per cent of Net Demand and Time Liabilities (NDTL) of the banking system to 0.75 per cent, and decrease the liquidity provided under overnight repos under the LAF from 0.5 per cent of bank-wise NDTL to 0.25 per cent

# INFLATION

- Inflation was at a 24-month low of 8.79% in January, which further eased in the month of February.

	January'14	February'14
WPI	8.79	8.10
CPI	5.05	4.68

- In the intermediate term, RBI proposed the goal would be to bring it down to 8 percent by January 2015 and 6 percent by January 2016.

# GROWTH

- **Growth slowdown**

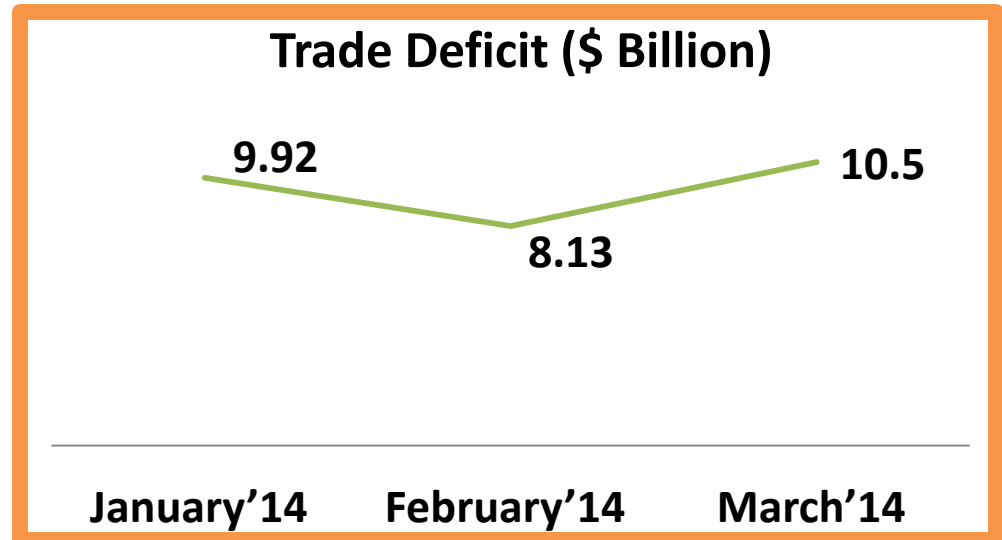
- The Gross Domestic Product (GDP) in India expanded 4.7 % in the December 2013 quarter, lower than expectations
- According to the Central Statistical Organisation (CSO) the GDP growth for FY 2014 is estimated at 4.9%

- **Optimistic outlook for FY15:**

- According to the International Monetary Fund, the GDP is likely to improve to 5.4% in FY 2015

# CURRENT ACCOUNT DEFICIT

- **CAD softens due to government curbs on gold imports and RBI's subsidy for NRI dollar deposits**
  - The CAD for the December'13 quarter dropped to 0.9% of GDP – the lowest level in 8 years
  - For the April-December period it was 2.3% of the GDP, down from 5.2% the same period earlier (RBI data)
- **Trade Deficit**
  - The trade deficit in the last fiscal (FY2014) declined to \$138.6 billion from \$190.3 billion in FY13.



# FISCAL DEFICIT

- The government decided to roll over fuel subsidy of Rs. 45,000 crore from 4<sup>th</sup> quarter of 2012-13 and Rs. 35,000 crore from 4<sup>th</sup> quarter of 2013-14 into the next fiscal
- The fiscal deficit has exceeded both the revised estimate (RE) as well as budget estimate (BE). The deficit was Rs 5.99 lakh crore during April-February of 2013-14, about 14.3 per cent higher over the RE of Rs 5.24 lakh crore. The BE was set at Rs 5.42 lakh crore.

# INTERIM BUDGET: 2014

- Income tax rates unchanged
- 10 % surcharge on 'super-rich' having annual income above Rs 1 crore to continue
- 10 % surcharge on domestic corporates with income of Rs 10 crore
- Fiscal deficit at 4.6% in 2013-14 and 4.1% next year, revenue deficit at 3% in 2013-14
- Excise duty on small cars, motorcycles and commercial vehicles cut from 12 to 8%
- Excise duty on SUVs cut from 30 to 24% and large and mid-segment cars from 27-24% to 24-20%
- Excise duty on mobile handsets to be 6% on CENVAT credit to encourage domestic production
- Excise duty cut on capital goods, non-consumer durables cut from 12 to 10%
- Moratorium on interest on student loans taken before March 31, 2009, to benefit 9 lakh borrowers

# GLOBAL EVENTS

# Key Factors

- **USA – Employment and Growth**
- **Euro Area:**
  - Growth, Employment, Deflation, Currency
  - Spain
  - Greece
- **China**
- **Japan**
- **Ukraine - Russia**



# US

- **Employment Data:**

	January'14	February'14	March'14
Jobs added	129,000	175,000	192,000
Unemployment Rate	6.6%	6.7%	6.7%
No of long-term unemployed (those jobless for 27 weeks or more)	3.6 million	3.8 million	3.7 million

- US Federal Reserve Report cited extreme weather conditions as one of the factors responsible for taking a toll on the economy
- The 4<sup>th</sup> quarter GDP grew at 2.4% annual rate, lower than 4.1% growth in the 3<sup>rd</sup> quarter

# EUROPEAN CRISIS

- **Growth Forecasts by European Commission for 28-country European Union:**
  - GDP Growth of 1.5% in 2014 and 2% in 2015
  - Germany will be the strongest contributor which is predicted to grow by 1.8%; Cyprus will be the weakest with contraction of 4.8%
  - However, the recovery will not be strong enough to make a big impact on the unemployment situation.
- **No improvement in employment yet**
  - Eurozone unemployment remained at 12% in January for the fourth month despite some economic recovery in the second half of 2013
  - Total no of unemployed people: 26 million
  - Worst unemployment figures: Greece (28%) followed by Spain (26%)
- **Deflation**
  - Annual inflation was 0.7% in February, further falling to 0.5% in March
  - The European Central Bank (ECB) considers inflation below 1% to be dangerous
- **Euro hits highest level this year against US dollar**
- **4 countries already bailed out : Greece, Ireland, Portugal, Cyprus**

# SPAIN

- **Negative indicators indicate that the trouble is likely to continue**
  - Recession continues: In the 1<sup>st</sup> quarter of 2014 the GDP shrank for the seventh quarter in a row.
  - Unemployment: At a record 27%
  - Credit Crunch: Credit for SMEs remains costly compared to other countries
  - Weak domestic demand
  - Corporate bankruptcies at 10 times pre-crisis levels.
- **Some Positive indicators, however, have shown up:**
  - Budget deficit: Reduced from 11% of GDP in 2009 to 7% due to fiscal consolidation
  - Long-term bond yields have fallen from 4.14% on 1<sup>st</sup> January'14 to 3.23% on 31<sup>st</sup> March'14
  - Current account: Improved from deficit of 10% of GDP in 2008 to a surplus
  - Some results from the government restructuring and reform programme are beginning to show
    - 38 financial institutions have been merged, mainly local *cajas* brought down by property lending
    - Unlike many other euro-crisis countries, the public sector is shrinking

# GREECE

- **Greece still struggling with debt:**
  - Debt to GDP ratio is 176%
  - The IMF has called on the Eurozone to write off debts to allow Greece to reduce its debts by 66% to below 110% of GDP by 2021
  - Germany's refusal to write off debt and continued insistence on a stepped austerity drive has stalled talks between Greece and the "troika" of creditors- the IMF, European Central Bank and European Commission
- **A 3<sup>rd</sup> Bailout package for Greece (up to €20 billion) is likely to be decided in April, to top up the existing loans totaling €240 billion.**
- **According to EU officials, Greece has implemented only about half the measures it signed up to last summer**
- **Unemployment is the highest in Eurozone at 28% with youth unemployment being more than 60%**

- **Few positive indicators:**

- The October-December was the best quarter in terms of GDP growth since 1<sup>st</sup> quarter of 2010 – with contraction of 2.3%
- According to budget forecasts the economy will expand by 0.6% in 2014
- Eurostat is likely to confirm a primary budget surplus of €1.5 billion in 2013

# CHINA

- **Manufacturing Slowdown:**

- The Markit/HSBC Purchasing Managers' Index (PMI), which focuses more on the private sector, fell to an eight-month low of 48.0 in March. The index has been below the 50 level since January, indicating a contraction this year.

	January'14	February'14	March'14
PMI	49.5	48.3	48.0

- **GDP growth target is 7.5% for the 3<sup>rd</sup> consecutive year in 2014. The government believes a growth rate of at least 7% to create enough jobs for its population**
- **The economy exceeded the target in 2013 and grew at 7.7%**

- **China's Cabinet announced the following plans**
  - To expand railways
  - Renovate dilapidated urban housing
  - New tax breaks for small businesses
- **Bond Defaults: China witnessed its first ever bond default, followed by another one in March**
  - Shanghai Chaori Solar Energy, followed by Haixin Steel defaulted on corporate debt and bank loans respectively
  - The economy is slowing down and the Prime Minister wants to encourage free market behaviour by not bailing out small companies
  - China's Premier, Li Keqiang warned that more defaults are likely due to financial deregulation

# JAPAN

- **Growth**
  - The economy grew by 0.7% annualised rate in 4<sup>th</sup> quarter of 2013 and 1.5% for calendar year 2013
- **The government will hike the national sales tax from 5 to 8 percent from 1<sup>st</sup> April to manage rising welfare costs**
  - Since the middle of last year, sales of apartments, houses, cars and durable goods have been rising as consumers look to buy big-ticket items before the tax increase. Some economists fear the tax hike will hamper consumption
- **The Markit Manufacturing PMI hit an 8-month high in January after which it fell for 2 consecutive months**

	January'14	February'14	March'14
Manufacturing PMI	56.6	55.5	53.9



# RUSSIA-UKRAINE CRISIS

- **The crisis has led to a severe impact on the economies of Russia, Ukraine and countries bordering that area.**
  - The ruble has declined almost 10% this year, making it one of the weakest currencies this year.
  - The Russian benchmark index is down 18% YTD
  - Interest rates are rising
  - Russia faces possibility of a slowdown this year
  - European leaders feel that Russia should begin talks with Ukraine or else
  - ECB President Mario Draghi said that so far the impact on Eurozone has been limited but the crisis has the potential of high geopolitical risks

# EVENTS TO LOOK FORWARD TO- DOMESTIC

- **General Election Outcome:**
  - 3 Possible Scenarios
    - NDA with Modi as PM: Markets will become more bullish
      - Sensex may touch 25000 points within calendar year 2014
    - UPA III: Fast Correction , but eventual recovery
    - 3<sup>rd</sup> Front: Sharp correction and slow recovery
- **Monsoon and possible impact of El Nino:**
  - Rainfalls expected to 94% of normal
  - Food price inflation will see upside pressure
  - Interest rates may remain elevated for longer.
  - Economic recovery may be delayed by 2 more quarters, may become visible from 3Q or 4Q of 2015

# EVENTS TO LOOK FORWARD TO- DOMESTIC..... contd

- **RBI Monetary Policy**
  - Interest rates will hold the key to inflation expectations
  - Moderation of inflation may get derailed due to monsoon
  - Industry looking at signals for revival of investment climate
  - Stability of currency also important
- **Budget and Economic Policies of the New Government**
  - Will be eagerly watched in a background of high expectations
  - Proposals may range from Bold to Mediocre
  - Outlook on management of twin deficits important
  - Implementation road map especially in Infrastructure will be keenly watched

# EVENTS TO LOOK FORWARD TO- GLOBAL

- **Russia-Ukraine crisis**
- **US**
  - Pace of US recovery
  - US Fed tapering
- **Europe**
  - European Parliament election in May
  - Italy's steps to fix banking sector
  - European Court's decision on ECB's Outright Monetary Transactions (OMT) program
- **China**
  - Factory output
  - Bond defaults
- **Japan**
  - Impact of tax hikes on consumption

# OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q1CY14	Start to End Value In Q1	Outlook for Q2CY14	Remarks
Debt	10-Year Gilt: Down 0.3% 3-M T Bill: Up 2% 3-M CP: Up 6% 3-M CD: Up 6% 1-Yr CD: Down 1% 1-Yr AAA Corp Bond: Down 3% 3- Yr AAA Corp Bond: Down 3% 5-Yr AAA Corp Bond: Flat	8.83 - 8.80 8.69- 8.86 8.96-9.51 8.68- 9.20 9.29- 9.18 9.73 – 9.44 9.85 – 9.56 9.63 – 9.63	Yields likely to be stable with a downward bias across various maturities	The risk to this view is Monsoon
Equity	Sensex: Up 6% Nifty : Up 6%	21,171 – 22,386 5,683 – 6,704	Upward bias in the event of a stable Government coming to power at the centre	There is possibility of the Sensex touching 25,000 points between now and Dec'14. However, intermittent corrections not ruled out

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