

LIQUIDITY, VALUATIONS AND EVENTS

**July-September
2014**

MOVEMENTS OF MAJOR INDICES

Index	Country	30 th June 2013	31 st Mar 2014	30 th June 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	19,396	22,340	25,100	12%	29%
CNX Nifty Index	India	5,842	6,696	7,509	12%	29%
Dow Jones	US	14,910	16,323	16,852	3%	13%
NYSE	US	9,113	10,435	10,974	5%	20%
Nasdaq	US	3,403	4,156	4,398	6%	29%
Bovespa	Brazil	47,457	49,768	53,157	7%	12%
Hang Seng	Hong Kong	20,803	22,066	23,222	5%	12%
Jakarta Composite	Indonesia	4,819	4,768	4,845	2%	1%
KLSE Composite	Malaysia	1,774	1,851	1,881	2%	6%
Nikkei 225	Japan	13,677	14,696	15,095	3%	10%
Seoul Composite	South Korea	1,863	1,981	1,989	0%	7%
CAC 40	France	3,739	4,411	4,437	1%	19%
DAX	Germany	7,959	9,587	9,815	2%	23%
FTSE 100	UK	6,216	6,616	6,758	2%	9%
Shanghai Composite	China	1,979	2,047	2,037	-1%	3%
RTS Index	Russia	1,275	1,186	1,377	16%	8%

MOVEMENT OF SECTORAL INDICES

Sectoral Index	30 th June 2013	31 st Mar 2014	30 th June 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	10,716	13,280	15,198	14%	42%
S&P BSE BANKEX	13,258	14,572	17,182	18%	30%
S&P BSE Capital Goods	9,111	12,011	15,854	32%	74%
S&P BSE Consumer Durables	6,135	6,526	8,821	35%	44%
S&P BSE FMCG	6,458	6,971	6,626	-5%	3%
S&P BSE Health Care	8,845	10,084	11,260	12%	27%
S&P BSE METAL Index	7,754	10,059	12,940	29%	67%
S&P BSE OIL & GAS Index	8,900	9,486	10,990	16%	23%
S&P BSE PSU	6,163	6,355	8,413	32%	37%
S&P BSE Realty Index	1,511	1,468	2,056	40%	36%
S&P BSE SENSEX	19,396	22,386	25,100	12%	29%
S&P BSE TECK Index	3,679	4,905	5,222	6%	42%
S&P BSE Power Index	1,623	1,725	2,254	31%	39%

COMMODITY PRICES

	Unit	30-June-13	31-Mar-14	30-June-14	3-Month Returns	1-Year Returns
Gold	USD/ounce	1,212	1,283	1,322	3%	9%
Crude	USD/MT	97	102	105	3%	8%
Copper	USD/MT	6,750	6,625	6,932	5%	3%
Aluminum	USD/MT	1,775	1,773	1,884	6%	6%
Zinc	USD/MT	1,854	1,993	2,196	10%	18%
Silver	USD/ounce	18	20	21	5%	17%
Lead	USD/MT	2,058	2,066	2,158	4%	5%

FOREIGN INSTITUTIONAL INVESTOR (FII) FLOWS

• FII Flows in Equity

(in Rs. Million)	Apr-14	May-14	June-14	TOTAL
Gross Purchase	749,854	1,150,473	1,122,555	3,022,882
Gross Sale	653,833	1,010,413	984,915	2,649,161
Net Investment	96,024	140,061	137,639	373,724

• FII Flows in Debt

(in Rs. Million)	Apr-14	May-14	June-14	TOTAL
Gross Purchase	158,677	404,781	361,625	925,083
Gross Sale	250,526	207,061	179,744	637,331
Net Investment	-91,849	197,723	181,881	287,755

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

Rs. 661,479 Million

DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Million)	Apr-14	May-14	June-14	TOTAL
Gross Purchase	2,26,947	3,63,426	2,99,609	8,89,982
Gross Sale	2,95,537	4,24,115	3,43,840	10,63,493
Net Investment	-68,590	-30,508	-44,231	-1,43,329

MF ACTIVITY

•Equity

(in Rs. Million)	Apr-14	May-14	June-14	TOTAL
Gross Purchase	1,20,175	2,03,995	1,75,987	5,00,157
Gross Sale	1,47,154	2,02,941	1,50,752	5,00,847
Net Investment	-26,981	1,056	25,234	-691

•Debt

(in Rs. Million)	Apr-14	May-14	June-14	TOTAL
Gross Purchase	14,99,346	15,54,493	14,94,124	45,47,963
Gross Sale	10,00,009	10,47,692	8,18,559	28,66,260
Net Investment	4,99,338	5,06,802	6,75,565	16,81,705

**Total Net MF Activity in
April-June**

Rs. 16,81,014 Million

DOMESTIC EVENTS

GENERAL ELECTIONS: Bring cheer to the markets...

- Largest ever election in the world
- Average election turnout – 66.38% - the largest ever in Indian history
- The National Democratic Alliance, led by Bhartiya Janata Party (BJP) won by a sweeping majority.
 - The BJP itself won 31% of votes and 51.9% of the seats
- The stock markets rallied with Narendra Modi's leadership bringing hopes of economic revival

INFLATION

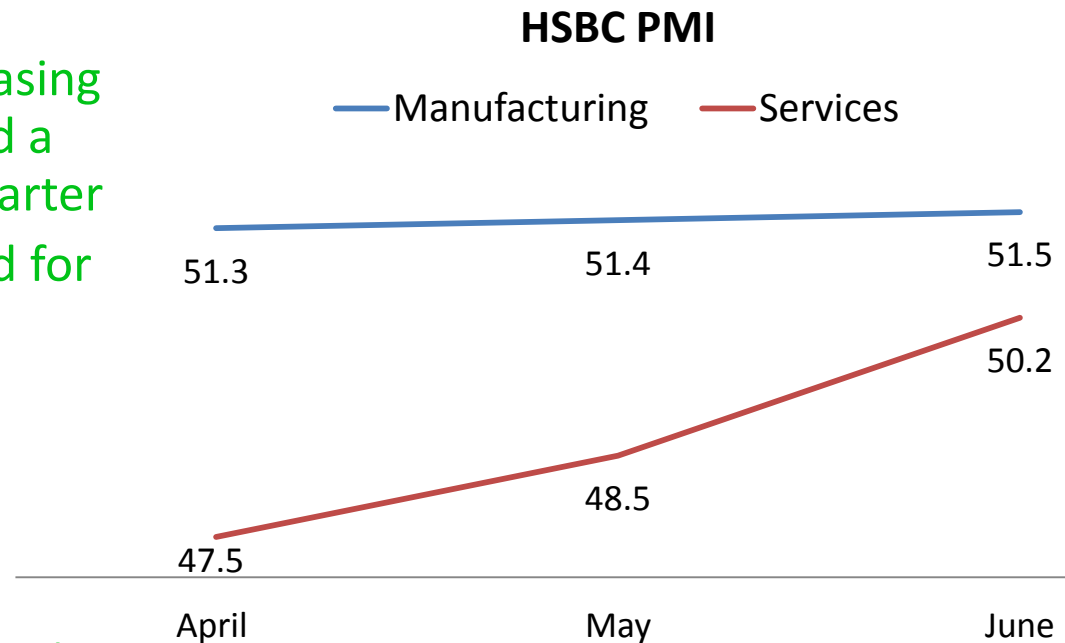
	April'14	May'14	June'14
WPI	5.2%	6.0%	5.4%
CPI	8.6%	8.3%	7.3%

- The last quarter saw some easing on the inflation front
- However, analysts expect the inflation to shoot up again due to delayed monsoon and its impact on vegetable prices

INDIA GROWTH: Witnessing a turnaround

PMI

- The growth indicator of Purchasing Managers' Index (PMI) showed a positive trend in April-June quarter
- Operating conditions improved for eighth month in a row
- Growth in new contracts, especially from overseas



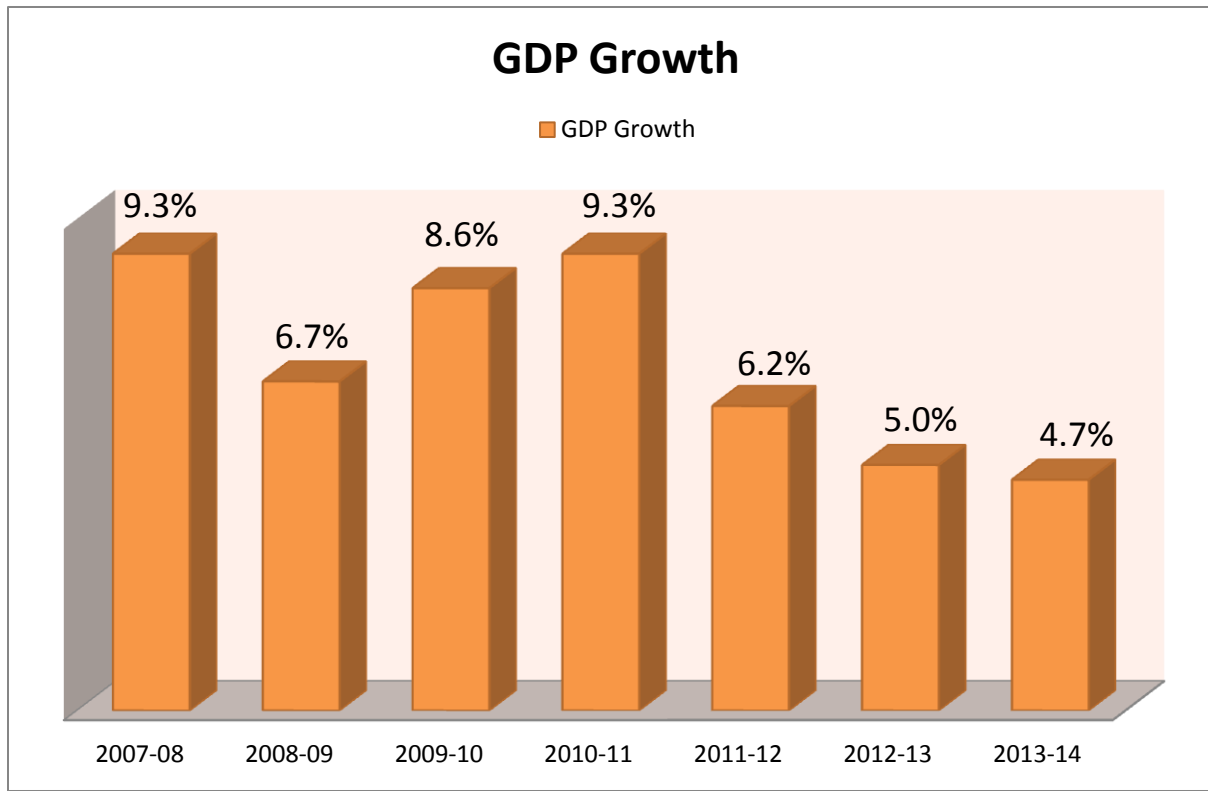
GDP

- GDP Growth of 4.6% in Jan-March 2014 quarter
- Monthly GDP estimate (mGDP) published by ZyFin Research shows a year-on-year growth of 3.9% in April compared to 3.3% in March
- While manufacturing and services expanded, agriculture slowed in April

Positive factors – expanding manufacturing sector, growth in IT and financial services, improvement in exports, stabilising exchange rate

INDIA GROWTH: Witnessing a turnaround

- GDP Forecast by the new government for 2014-15 is between 5.4 and 5.9 %.
- Domestic ratings agency ICRA forecasts GDP growth rate of 5.5% in 2014-15



RBI MONETARY POLICY

- 1st April'14: 1st Bi-Monthly Monetary Policy Statement
 - Repo rate unchanged at 8.0%
 - Increased the liquidity provided under 7-day and 14-day term repos from 0.5 % of NDTL of the banking system to 0.75%, and decrease the liquidity provided under overnight repos under the LAF from 0.5% of bank-wise NDTL to 0.25 %
- 3rd June'14: Bi-Monthly Monetary Policy Statement
 - The repo rate under the liquidity adjustment facility (LAF) unchanged at 8.0 percent.
 - The cash reserve ratio (CRR) of scheduled banks unchanged at 4.0 percent of net demand and time liabilities (NDTL).
 - Reduced the statutory liquidity ratio (SLR) of scheduled commercial banks by 50 basis points from 23.0 percent to 22.5 percent of their NDTL with effect from 14 June 2014
 - Introduce a special term repo facility of 0.25 percent of NDTL to compensate fully for the reduction in access to liquidity under the ECR with immediate effect.
 - The policy is continued to provide liquidity under 7-day and 14-day term repos of up to 0.75 percent of NDTL of the banking system.

FISCAL DEFICIT

- Fiscal Deficit for FY 2013-14 was 4.5% of GDP – lower than 4.9% in the previous year
- The new government has decided to stick to the challenging target of 4.1% for FY2014-15 which was set by the UPA government in its interim budget. The target for FY2016-17 is 3%

POOR START TO MONSOON SEASON

- India experienced a delayed monsoon this year
- The rainfall by June end was 43% below average – the weakest rainfall in June in 5 years
- Lackluster monsoon adds to the problem of high inflation which has plagued the economy since over 4 years

GLOBAL EVENTS

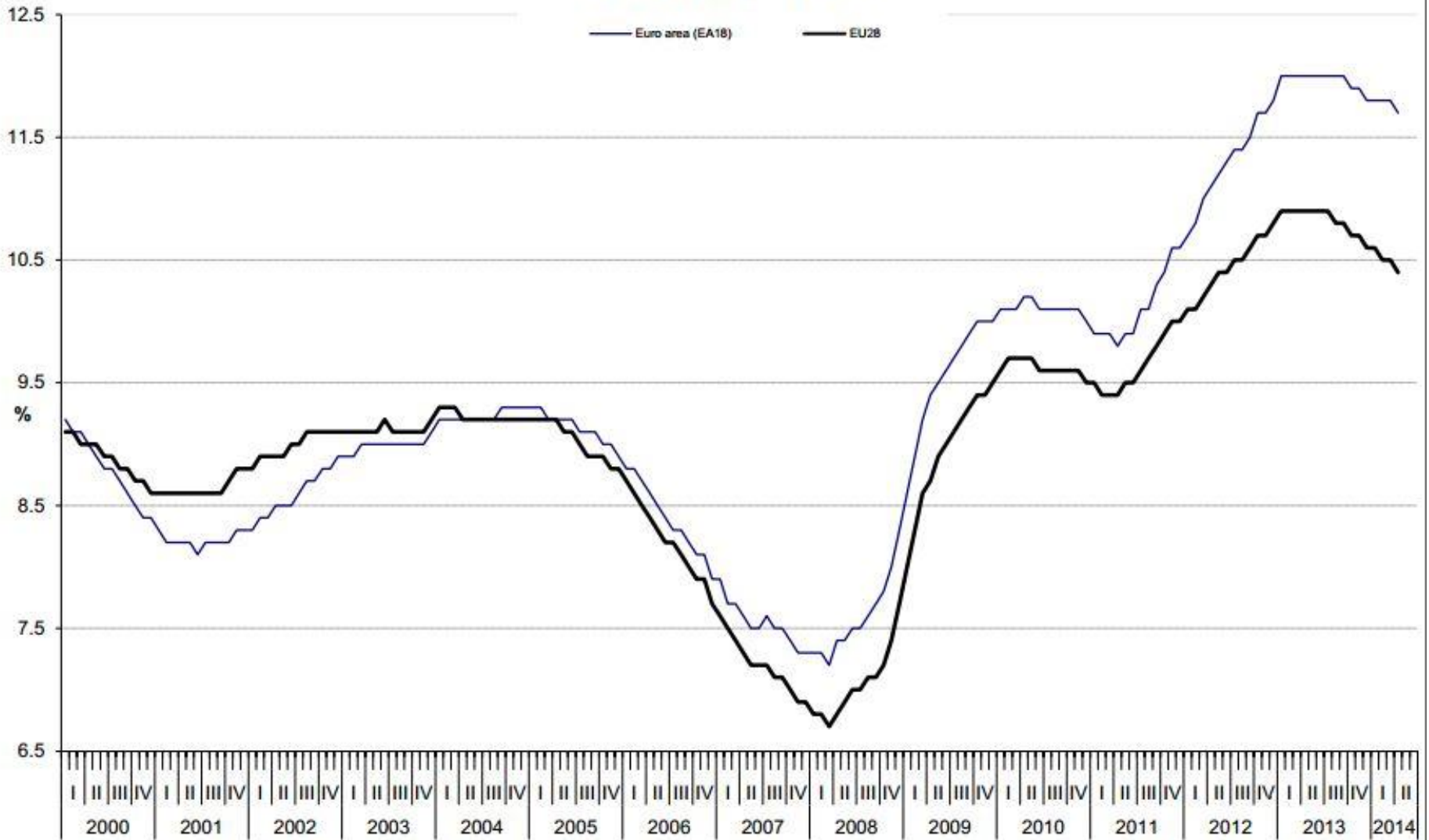
EUROZONE

- Weak economic recovery
- Very low inflation a cause on concern
 - 0.5% in May, down from 0.7% in April
- Unemployment
 - Unemployment Rate down to 11.7% in April
 - Heterogeneous : Austria and Germany with around 5% jobless while Greece and Spain have joblessness beyond 25%
 - Youth unemployment in Eurozone: 23.5%
- European Central Bank (ECB) introduced negative interest rates to tackle extremely low inflation:
 - Reduced the main refinancing rate (rate at which banks borrow from ECB) from 0.25% to 0.15%
 - The deposit rate (rate at which banks deposit money with ECB) was reduced from 0 to -0.1%.
 - ECB has tried to make it more attractive to borrow and spend rather than save in order to stimulate growth

ECB MEASURES

- Introduction of Targeted Longer-Term Refinancing Operations (TLTROs):
 - The ECB will lend to banks at lower rates of interest in a bid to encourage them to lend to households and non-financial corporations.
- ECB has also undertaken preparatory work to introduce a bond-buying program similar to the QE program of the US Federal Reserve
- ECB has also decided to stop ‘sterilizing’ the liquidity injected from the Securities Markets Programme (SMP)
 - SMP involves bond purchases from troubled Euro Zone countries and sterilizing them meant that the ECB drained the same amount of liquidity from the money markets that the purchases injected into the markets.

Euro area and EU28 unemployment rates Seasonally adjusted series



- Source: Eurostat

EUROZONE

• SPAIN

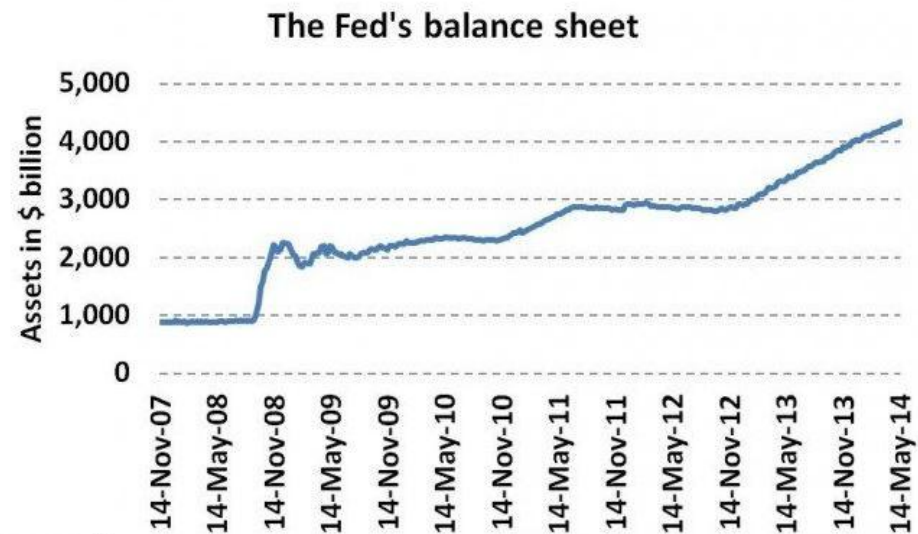
- The GDP expanded for the 3rd consecutive quarter in Jan-March period – registering a growth of 0.4% over the previous quarter which is the fastest quarterly growth in 6 years
- Unemployment
 - Generally, long-term unemployment includes jobless workers who have not been employed for more than 27 weeks. The recent study shows that this category in Spain has transformed to very long-term unemployment, with hundreds of thousands people without a job for at least three years, and is now represented by over 23 percent of the total jobless population in Spain.
- 26% of the population is on government benefits, 2nd highest in Europe after Greece

• PORTUGAL

- Portugal exited its international bailout package in May making it the second such country after Ireland
- It managed to build up a cash buffer before the end of the aid program with the country having a treasury cash of 15.3 billion euros by the end of 2013
- Challenges:
 - The GDP shrank 1.4 % last year – which is the most in Euro region apart from Greece and Cyprus
 - Unemployment is 15%

US

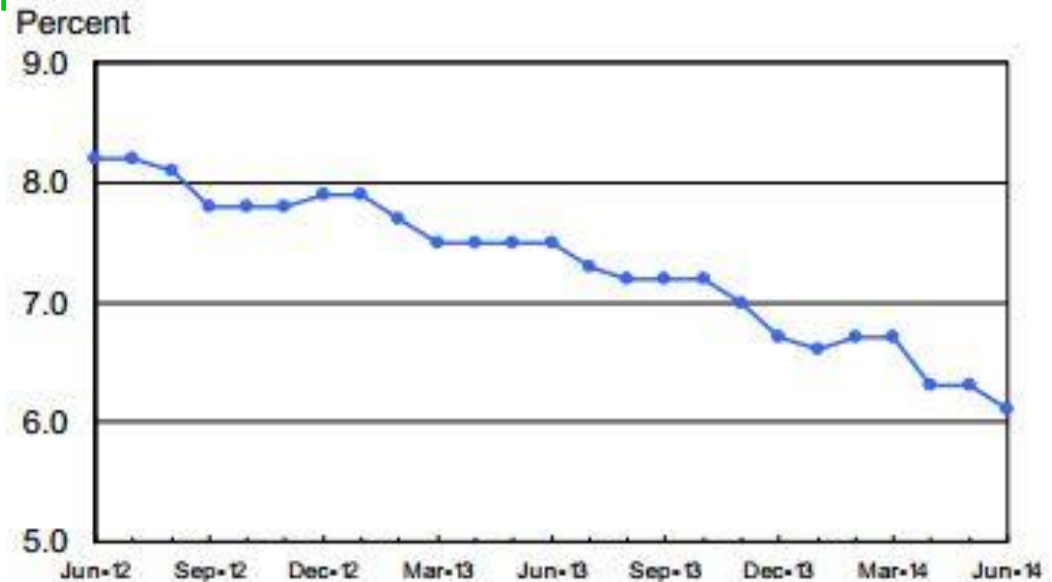
- Real GDP growth declined at an annualised rate of 2.9% in 1st quarter of 2014 – its first contraction in the last 3 years
- Analysts expect the growth to pick up in the 2nd quarter and attribute this contraction to very strong inventory build-up in second half of 2013 and an unusually harsh winter
- Quantitative Easing Taper
 - In June the Federal Reserve further reduced the asset purchase program through QE by another \$ 10 billion – reducing the total monthly asset purchase to \$ 35 billion (\$15 billion for mortgage-backed securities and \$10 billion for Treasury securities)
 - QE tapering is expected to continue through 2014 and end by the December quarter



US

- No of jobs added
 - 288,000 in April, 217,000 in May and 288,000 in June
 - Unemployment rate fell from 6.3% in April to 6.1% in June which is a five and a half year low
 - Number of long term unemployed (for 27 weeks or more) stood at 3.5 million in April, 3.4 million in May and 3.1 million in June – showing a marginal decline

- Unemployment Rate:



Source: US Bureau of Labor Statistics

IRAQ CRISIS

- The Northern Iraq offensive began in mid-June when the Islamic State of Iraq and the Levant (ISIS) began a major offensive against the Iraqi government.
- ISIS and several forces captured several cities and oil refineries
- By late June, Iraq lost control of its border with Jordan and Syria
- Iraq's oil production has surged in recent years and it passed Iran as the second-largest producer of crude oil in OPEC at the end of 2012.
- Currently production is at about 3.3 million barrels of oil a day.
- This event led to global oil prices rising due to speculation
- Crude oil reached a 10-month high of \$107.26 on June 20.
- However with only about ten percent of Iraq's recent oil exports going through the northern area of the country where ISIS has established a stronghold for now, the convulsive situation is not significantly impacting production.

RUSSIA-UKRAINE CRISIS

- Background: Tension between Russia and Ukraine escalated in February when protests by people who wanted closer ties with the European Union drove pro-Russian President Viktor Yanukovich from office. Russia called that an illegal coup and seized Ukraine's Crimea region, saying it was protecting the rights of people there who speak Russian as their main language.
- On June 14, pro-Russian fighters shot down a Ukrainian military transport jet.
- Ukrainian President Petro Poroshenko has abandoned a unilateral cease-fire in the conflict with pro-Russian separatists and sending military forces back on the offensive after talks with Russia and European leaders failed to start a broader peace process.
- IMPACT
 - According to the IMF, economic growth in central, eastern and south-eastern Europe have shrunk in recent months and could plunge further if the Ukraine crisis escalates.
 - IMF has cut the growth forecast of Russia from 3% (6 months ago) to 1.3%. Many investors have fled the country
 - The IMF has cut its growth forecast for 22 central and eastern European countries to 1.9%, down from 2.7% in October
 - The European Union as a whole relies on Russia for around a third of its natural gas imports, 40% of which comes via pipelines through Ukraine

CHINA

- GDP grew by 7.5% in the 2nd quarter compared with 7.4% in the 1st quarter
- Gradual slowdown continued to be seen – some economists expect growth in 2014 to decrease marginally to 7.6% from 7.7% in 2013
- Structural transformation as growth drivers shifting from manufacturing to services on the supply side and from investment to consumption on the demand side
- World Bank report: China's corporate debt-to-GDP ratio of 125% is among the highest in Asia
- Housing sales in first half of 2014 fell 9.2% year-on-year
- Policies taken up by the government:
 - Mini fiscal stimulus packages
 - Cut in reserve requirement of banks
 - The Chinese Renminbi has fallen by 3% since January
 - People's Bank of China lessened the required loan-to-deposit ratio for commercial banks in order to increase credit quotas for lenders

EVENTS TO WATCH OUT FOR - DOMESTIC

- Progress of the monsoons and its impact on:
 - Agri output and consequently GDP
 - Inflation
- Corporate earnings
 - Earnings growth needs to be sustained in double digits
 - Quality of earnings needs to improve
- RBI Monetary Policy Review
 - Tone and signals will be keenly watched
 - 1st rate cut may be announced within this Quarter
- Move from Policy to execution
 - Union Budget has set out a lot of aggressive target across sectors
 - The NDA completes 100 Days in the 1st week of Sep – a statement of achievements will be the 1st comprehensive statement from new Govt.

EVENTS TO WATCH OUT FOR - GLOBAL

- US
 - GDP Growth in the second quarter
 - Timing of future interest rate increases
- Europe
 - Unemployment
 - GDP Growth & inflation levels
 - Greece, Spain, Portugal, Italy bond yields
 - Possibility of stimulus package by ECB
- Iraq and Ukraine-Russia Crisis
 - Impact on crude prices
 - Polarisation of global opinions
- Central banks across the world dealing with a problem of falling inflation and rising asset prices

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q2CY14	Start to End Value In Q2	Outlook for Q3CY14	Remarks
Debt	10-Year Gilt: Down 1% 3-M T Bill: Down 3% 3-M CP: Down 12% 3-M CD: Down 9% 6-M CP: Down 9% 6-M CD: Down 6% 1-Yr CP: Down 5% 1-Yr CD: Down 3% 1-Yr AAA Corp Bond: Down 5% 10-Yr AAA Corp Bond: Down 4%	8.80 – 8.75 8.86 – 8.56 9.95 – 8.80 9.40 – 8.55 9.95 – 9.05 9.30 – 8.73 9.70 – 9.25 9.20 – 8.95 9.40 – 8.9 9.55 – 9.13	Yields expected to come down at the longer end of the curve prompted either by dovish tone by RBI or by actual cut	A sharp spike in inflation may be only counterpoint to this view
Equity	Sensex: Up 12% Nifty : Up 12%	22,340 – 25,100 6,696 – 7,509	Upward trend to continue	Global factors may be more significant in derailing this trend than any local factor.

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