

LIQUIDITY, VALUATIONS AND EVENTS

Oct-Dec
2013

MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	30th Sep 2012	1st July 2013	30th Sep 2013	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	18,763	19,577	19,380	-1	3
CNX Nifty Index	India	5,703	5,899	5,735	-3	1
Bovespa	Brazil	59,176	47,230	52,338	11	-12
CAC 40	France	3,355	3,767	4,143	10	24
DAX	Germany	7,216	7,984	8,594	8	19
Dow Jones	US	13,437	14,975	15,130	1	13
FTSE 100	UK	5,742	6,308	6,462	2	13
Hang Seng	Hong Kong	20,840	20,803	22,860	10	10
Jakarta Composite	Indonesia	4,263	4,777	4,316	-10	1
KLSE Composite	Malaysia	1,637	1,775	1,769	0	8
Nasdaq	US	3,116	3,434	3,771	10	21
Nikkei 225	Japan	8,870	13,853	14,456	4	63
NYSE	US	8,251	9,168	9,621	5	17
RTS Index	Russia	1,476	1,277	1,422	11	-4
Seoul Composite	South Korea	1,996	1,856	1,997	8	0
Shanghai Composite	China	2,086	1,995	2,175	9	4

MOVEMENT OF SECTORAL INDICES

Sectoral Index	30th Sep 2012	1st July 2013	30th Sep 2013	3-Month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	10,413	10,915	10,997	1	6
S&P BSE BANKEX	13,139	13,383	10,964	-18	-17
S&P BSE Capital Goods	10,958	9,364	7,707	-18	-30
S&P BSE Consumer Durables	6,940	6,209	5,773	-7	-17
S&P BSE FMCG	5,507	6,594	6,838	4	24
S&P BSE Health Care	7,528	8,954	9,464	6	26
S&P BSE METAL Index	10,528	7,906	8,371	6	-20
S&P BSE OIL & GAS Index	8,662	9,039	8,216	-9	-5
S&P BSE Power Index	2,049	1,668	1,523	-9	-26
S&P BSE PSU	7,416	6,253	5,446	-13	-27
S&P BSE Realty Index	1,847	1,591	1,170	-26	-37
S&P BSE TECK Index	3,417	3,663	4,437	21	30
S&P BSE SENSEX	18,763	19,577	19,380	-1	3

COMMODITY PRICES

	Unit	30-Sep-12	1-Jul-13	30-Sep-13	3-Month Returns	1-Year Returns
Gold	USD/ounce	1,776	1,243	1,327	7%	-25%
Crude	USD/MT	113	103	109	6%	-4%
Steel	USD/MT	53	60	63	5%	18%
Copper	USD/MT	7,722	6,981	7,290	4%	-6%
Aluminum	USD/MT	2,094	1,754	1,803	3%	-14%
Zinc	USD/MT	2,064	1,858	1,881	1%	-9%
Silver	USD/ounce	35	20	22	11%	-37%
Lead	USD/MT	2,274	2,077	2,091	1%	-8%

FOREIGN INSTITUTIONAL INVESTOR (FII)

• FII Flows in Equity FLOWS

(in Rs. Million)	Jul-13	Aug-13	Sep-13	TOTAL
Gross Purchase	603,710	693,084	731,238	2,028,032
Gross Sale	666,242	752,311	600,665	2,019,218
Net Investment	-62,533	-59,225	130,578	8,820

• FII Flows in Debt

(in Rs. Million)	Jul-13	Aug-13	Sep-13	TOTAL
Gross Purchase	120,361	174,676	204,516	499,553
Gross Sale	230,154	272,404	261,299	763,857
Net Investment	-109,792	-97,729	-56,783	-264,304

**Total Net FII Flows in
July-September**

Rs. -255,484 million

DOMESTIC EVENTS

RBI POLICIES

- On July 15, RBI announced some dramatic liquidity tightening measures to control the exchange rate volatility which had a huge impact on the bond yields:
 - The Marginal Standing Facility (MSF) was recalibrated at 300 basis points above the policy rate, making it 10.25 per cent.
 - The overall allocation to Liquidity Adjustment Facility (LAF) was capped at 1 per cent of the Net Demand and Time Liabilities (NDTL) of the banking system or Rs. 75,000 crore
- On August 20, RBI announced the following
 - Repurchase of government bonds to make cash available
 - Banks incurred huge mark-to-market (MTM) losses due to hardening of long-term yields because of the measures announced on July 15.
 - Current regulations require banks to bring down their statutory liquidity ratio (SLR) securities in held to maturity (HTM) category from 25% to 23% of their NDTL in a required time frame. This requirement was relaxed by allowing banks to retain SLR holdings in HTM category at 24.5%

RBI POLICIES

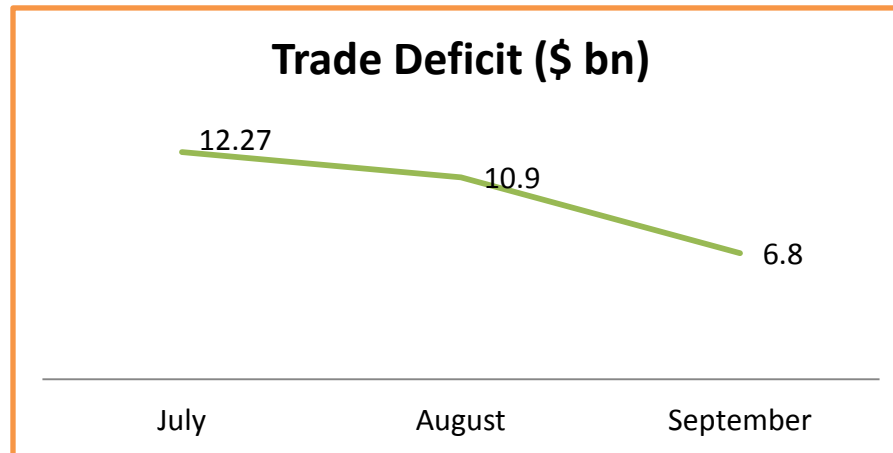
- Banks were allowed to transfer SLR securities to HTM category from available for sale (AFS) / held for trading (HFT) categories up to the limit of 24.5 per cent as a one-time measure
- Banks were allowed to spread over the net depreciation on account of MTM valuation of securities held under AFS/HFT over the remaining period of the current financial year
- On August 29, RBI opened a forex swap window for public sector oil marketing companies (OMCs) in order to curtail volatility of exchange rate
- In the mid-quarter Monetary Policy Review (September) the RBI decided to:
 - Reduce the marginal standing facility (MSF) rate by 75 basis points from 10.25% to 9.5 %
 - Reduce the minimum daily maintenance of the cash reserve ratio (CRR) from 99% of the requirement to 95%
 - Increase the repo rate by 25 basis points from 7.25% to 7.5%

FISCAL DEFICIT

- Fiscal deficit remains a major cause of concern
- India has exhausted 74.6% of its annual projection of fiscal deficit in the April-August period.
- Fitch expects India to miss its fiscal deficit target of 4.8% of GDP for 2013-14
- Every department has been asked to cut its non-plan expenditure by 10% in the current fiscal

CURRENT ACCOUNT DEFICIT (CAD)

- The trade deficit for the quarter ending September showed a declining trend due to a plunge in gold, oil and silver imports.
- The trade deficit for April to September this year fell to \$80.12 billion from \$91.81 billion in the same period last year



- Foreign Direct Investments (FDI) into the country fell to an 8-month low of USD 1.4 billion in August, down 38% year-on-year
- The government is confident of meeting the CAD target of \$ 70 billion

GROWTH INDICATORS

- Growth Forecast:

- GDP growth forecast for this fiscal year was slashed by some leading agencies
IMF: 3.75%; Fitch: 4.8%; World Bank: 4.7%

- HSBC PMI:

- The overall HSBC manufacturing purchasing managers' index (PMI), which gauges business activity in Indian factories but not its utilities, contracted in August but improved marginally in September. However, it remained below 50 which implies contraction.

July	August	September
50.1	48.5	49.6

- Services PMI was 47.9 in July, after which it declined to 47.6 in August and 44.6 in September (its lowest since April 2009)

- IIP:

- The index of industrial production (IIP) grew by 2.6% in July, followed by a sharp fall to 0.6% in August

INFLATION

- The Wholesale Price Index (WPI) increased in July from 4.86% in June. It continued its rising trend in the last quarter. Food inflation has been the major contributor.

	July	August	September
Wholesale Price Index	5.79	6.1	6.46
Consumer Price Index	9.64	9.52	9.84

- The CPI inflation reduced in July from 9.87% in June. It declined further in August but rose again in September back to June levels.

CURRENCY CRISIS

- The Indian Rupee depreciated by 5% in the July-September quarter. The movement was largely negative till end of August. The fall in the month of July and August was largely due to speculation, higher current account deficit, weak economy and strengthening of US Dollar.
- It reached an all-time closing low of 68.83 on August 28.
- The currency started stabilising in the month of September. The appreciation in the month of September was due to RBI policy actions, resumption of capital inflows, passage of economic reform bills, lower current account deficit
- While the rupee was the worst-performing currency in August 2013, it became one of the best performing ones in the emerging markets in the first fortnight of September 2013, showing a 4.2 per cent appreciation against USD between end-August 2013 and 13 September 2013

STEPS TAKEN TO REDUCE RUPEE VOLATILITY

- Measures to curb gold imports and consumption
 - July: Mandatory 20% minimum re-export of gold imported by nominated banks and agencies
 - August: Increase in import duty on gold to 10% and disallowing leasing of gold
- Capital and FDI Measures
 - July: FDI liberalised in sectors like insurance, telecom, defense, commodity exchanges and power exchanges
 - August: Overseas remittances by Resident Indians reduced to \$75,000 from \$200,000; Overseas Direct Investment (ODI) reduced to 100% of net worth from 400% under automatic route
- Monetary Measures
 - July: Borrowing under Liquidity Adjustment Facility (LAF) restricted to Rs. 750 billion for the banking system
 - July: RBI banned banks from trading in currency futures and exchange traded currency options
 - July: SEBI reduced limits on open positions and mandated higher margin requirements for currency derivatives

GLOBAL EVENTS

CHINA

- The economy grew at an annualised rate of 7.5% in the April-June quarter, down from 7.7% in the first quarter. The July-September quarter growth was at a higher rate of 7.8%
- HSBC Purchasing Managers Index (PMI) data picked up after a contraction in June
 - PMI Numbers - July: 50.3; August: 51; September: 51.1
- The Services PMI accelerated from 51.3 in July to 53.9 in August to 55.4 in September.
- The government has made efforts to prevent slowdown by investing in railways, public housing and a series of measures to help smaller companies such as tax cuts.
- China's government has set a growth target of 7.5% in 2013

EUROZONE

- Eurozone unemployment was at a record 12.2% in September, worse than analyst estimates
- Portugal
 - Portugal is struggling to meet the terms of its bailout of €78 billion accepted over 2 years ago.
 - The National Statistics Institute expects debt to reach 127.8% of GDP this year
 - S&P, in September, warned of a sovereign rating downgrade as it saw a threat of a second international bailout
 - Although the second-quarter GDP grew at 1.1% (the strongest in Eurozone) the 10-year government bond yields have remained above 7% from 5.23% in May
 - Portugal's 3-year bailout is coming to an end with €14 billion of bonds maturing next year
- Greece
 - Markit's purchasing managers' index for manufacturing rose from 47.0 in July to 48.7 in August (its highest reading in 44 months). However, it slipped to 47.5 in September
 - Unemployment continued to rise and reached 27.6% in July vis-à-vis 27.5% in June. 58.8% people under 25 are unemployed
 - Greeks took to streets in September in protest against the austerity measures and layoff of public workers. This is despite PM Antonis Samaras expressing confidence in the economy and expecting a budget surplus in 2013

EUROZONE

- Spain
 - Spain ends a 2-year recession by posting a growth of 0.1% in the July-September quarter. It had contracted for the previous nine quarters
 - The Spanish Economy Ministry forecasts the public debt to decrease in 2014 from 99.8% to 98.9% of GDP
 - Unemployment remained 26.6% in September
- UK
 - UK's Manufacturing PMI showed an encouraging trend – increased from 54.8 in July to 57.2 in August. It fell to 56.7 in August
 - New orders and output grew at their fastest pace in nearly 20 years in August
- Germany
 - Angela Merkel was re-elected as the Chancellor of Germany in September. This implies that Germany will continue insisting that Greece follows strict budget austerity.

USA

- US GDP growth for the second quarter was at 2.5% annualised rate compared to 1.1% in the first quarter.
- Employment Data
 - The number of jobs added was 162,000 in July, 169,000 in August and 148,000 in September
 - However, the unemployment rate reduced from 7.4% to 7.2% in the quarter.
- The **Federal Open Market Committee** in its September meet caught financial markets off guard when it refrained from cutting the pace of its \$ 85-billion monthly program of buying Treasury and mortgage bonds. This came as a good news for emerging markets like India.
- Barack Obama nominated US Federal Reserve Vice-Chairman Janet Yellen to replace Ben Bernanke to be the Fed Chairman. She is the first woman to head the American central bank

EVENTS TO LOOK FORWARD TO- DOMESTIC

- Rupee/Dollar Movement
- Corporate Earnings
- Winter session of Parliament
- State elections
- RBI Monetary Policy
- Government Reforms
- FII Inflows

EVENTS TO LOOK FORWARD TO- GLOBAL

- Eurozone
 - Budget deficits of Spain, Greece, Portugal
- USA
 - Jobs data
- China
 - Growth data

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q3CY13	Start to End Value In Q3	Outlook for Q4CY13	Remarks
Debt	10-Year Gilt: Up 17% 3-M T Bill: Up 29% 3-M CP: Up 20% 6-M CP: Up 19% 3-M CD: Up 24% 1-Yr CD: Up 17%	7.46 – 8.76 7.52 – 9.69 8.35 – 10.00 8.50 – 10.10 7.85 – 9.70 8.25 – 9.65	Yields to harden. More at the upper end of the yield curve	RBI may continue with a hard stand on interest rates Easing liquidity may temper CP and CD rates
Equity	Sensex: Down 1% Nifty : Down 3%	19,577 – 19,380 5,899 – 5,735	Upwards with elevated level of risk in the medium term	Trend may reverse on: Any major upset in the State elections FII flows being negative for too long Clarity on easing of QE by USA

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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