

LIQUIDITY, VALUATIONS AND EVENTS

Jan-Mar
2013



MOVEMENTS OF MAJOR INDICES

Index	Country	1st January 2012	1st October 2012	31st December 2012	3-month Returns (%)	1-Year Returns (%)
BSE SENSEX	India	15,455	18,824	19,427	3	26
S&P CNX Nifty	India	4,624	5,719	5,905	3	28
Bovespa	Brazil	56,754	59,571	60,952	2	7
CAC 40	France	3,160	3,435	3,641	6	15
DAX	Germany	5,898	7,327	7,612	4	29
Dow Jones	US	12,218	13,515	13,104	-3	7
FTSE 100	UK	5,572	5,821	5,898	1	6
Hang Seng	Hong Kong	18,434	20,840	22,657	9	23
Jakarta Composite	Indonesia	3,822	4,236	4,317	2	13
KLSE Composite	Malaysia	1,531	1,643	1,689	3	10
Nasdaq	US	2,605	3,114	3,020	-3	16
Nikkei 225	Japan	8,455	8,797	10,395	18	23
NYSE	US	7,477	8,284	8,444	2	13
RTS Index	Russia	1,382	1,514	1,527	0.9	11
Seoul Composite	South Korea	1,826	1,996	1,997	0.04	9
Shanghai Composite	China	2,199	2,086	2,269	9	3

MOVEMENT OF SECTORAL INDICES

Sectoral Index	1st Jan-2012	1st Oct-2012	31st Dec-2012	3-month Returns	1-year Returns
BSE AUTO	8,144	10,481	11,426	9	40
BSE BANKEX	9,153	13,117	14,345	9	57
BSE Capital Goods	8,068	11,031	10,868	-1	35
BSE Consumer Durables	5,284	6,959	7,719	11	46
BSE FMCG	4,035	5,531	5,916	7	47
BSE Healthcare	5,871	7,561	8,132	8	39
BSE IT	5,752	6,034	5,684	-6	-1
BSE METAL	9,293	10,560	11,071	5	19
BSE OIL & GAS	7,529	8,639	8,519	-1	13
BSE Power	1,796	2,060	1,991	-3	11
BSE PSU	6,365	7,435	7,335	-1	15
BSE Realty	1,376	1,850	2,111	14	53
BSE TECK	3,380	3,469	3,428	-1	1
CNXMEDIA	1,114	1,581	1,768	12	59

*Our previous quarterly study prediction comes true with positive performance of Auto and Banking

COMMODITY PRICES

	Unit	1-Jan-12	1-Oct-12	31-Dec-12	3-Month Returns	1-Year Returns
Gold	USD/ounce	1,531	1,776	1,658	7%	16%
Crude	USD/MT	108	113	112	1%	5%
Steel	USD/MT	53	53	55	-4%	-0.40%
Copper	USD/MT	7,590	8,212	7,907	4%	8%
Aluminum	USD/MT	1,971	2,094	2,040	3%	6%
Zinc	USD/MT	1,827	2,064	2,050	1%	13%
Silver	USD/ounce	28	35	30	14%	24%
Lead	USD/MT	2,011	2,274	2,317	-2%	13%

FII FLOWS

- FII Flows in Equity

(in Rs. Million)	Oct-12	Nov-12	Dec-12	TOTAL
Gross Purchase	568,324	511,438	743,143	1,822,905
Gross Sale	454,682	415,670	492,263	1,362,615
Net Investment	113,642	95,772	250,878	460,292

- FII Flows in Debt

(in Rs. Million)	Oct-12	Nov-12	Dec-12	TOTAL
Gross Purchase	189,041	156,708	185,478	531,227
Gross Sale	110,526	153,789	168,437	432,752
Net Investment	78,517	2,921	17,044	98,482

Total Net FII Flows in Oct-Dec

Rs. 558,774 million

RATING UPGRADES/DOWNGRADES

- According to Credit rating agencies Crisil and ICRA the downgrades in ratings of Indian companies have outnumbered upgrades in the recent quarters due to weakening liquidity and the volatile rupee.

	Sector	Outlook
CLSA	Cement	Positive
Citi	IT	Cautiously optimistic
Bank of America ML	PSU Banks	Positive
Moody's	Banks	Negative
India Ratings & Research (The FITCH Group)	Construction	Negative
CLSA	Power	Positive

PRICE TO EARNINGS (AVERAGE)

Index	CY 2011	CY 2012	CY12 Q4
BSE Bankex	14.4	12.4	12.3
BSE – PSU	14.5	13.5	13.4
BSE – Power	20.0	15.8	16.5
S&P CNX Nifty	19.8	18.1	18.6
CNX IT	22.8	18.3	16.8
CNX Auto	18.1	20.4	21.9
BSE – Teck	26.6	23.7	22.2
BSE – Realty	19.5	24.6	29.2
CNX FMCG	29.7	32.0	35.3
CNX Pharma	27.5	44.4	47.2

Source: www.nseindia.com, www.bseindia.com

DOMESTIC EVENTS

INFLATION

	September	October	November	December
Wholesale Price Index	7.81	7.45	7.24	7.18
Consumer Price Index	9.7	9.75	9.9	10.56

- Inflation in diesel shot up to 14.6 per cent in October from 8.94 per cent in September after the diesel price hike in September
- Core inflation declined to 4.5 per cent in November—a 33-month low.

RBI & MONETARY POLICY

- The Reserve Bank of India (RBI) cut the Cash Reserve Ratio (CRR) by 25 bps to 4.25 per cent. This injected Rs. 170 billion into the system.
- RBI in its mid-quarter review in December kept the key rates unchanged. CRR was kept unchanged at 4.25 per cent.
- The Reserve Bank of India has made it a tad easier for foreign institutional investors (FIIs) to invest in the domestic equity and debt markets.
 - FIIs can now approach any Category I dealer bank, authorised to deal in foreign exchange, for hedging their currency risk on the market value of their entire investment in equity and/or debt.
 - So far, only “designated branches” of AD (Authorised Dealer) Category I banks maintaining accounts of FIIs were allowed to act as market makers for hedging their currency risk.

DOMESTIC GROWTH

- According to estimates by various agencies higher GDP growth rate is expected in financial year 2013-14.

	Projection for FY 2012-13	Projection for FY 2013-14
HSBC	5.2	6.9
OECD	4.5	5.9
Morgan Stanley	5.4	6.1
United Nations	5.9	6.5
World Bank	5.9	6.0
Citibank	5.4	6.2
Goldman Sachs	5.5	6.7

DOMESTIC GROWTH

- Manufacturing: This sector has gained momentum in the last few months.
 - The HSBC India Manufacturing PMI rose to 52.9 in October from 52.8 in the preceding two months, which was on account of new orders.
 - The measure further increased to 53.7 in November and 54.7 in December
 - The index has remained above 50 for the last three years
- Service:
 - The HSBC's Services Purchasing Managers Index (PMI) for October declined significantly to 53.8 in October from 55.8 in September.
 - It further fell to 52.1 in November. However, the activity picked up in December in which it increased to 55.6
 - The index has remained above 50 since November 2011

GOVERNMENT INITIATIVES

- Land Reforms Bill: The long-pending Land Bill draft was finally approved by a Group of Ministers. As per the final draft
 - Approval of 80 per cent of land owners and affected families will be required for acquiring land for PPP and private sector projects with defined public purposes
- Nation-wide Aadhar-based payment system was launched in October
 - Aadhar, as the foundation of electronic transfer of benefits on various social sector schemes should yield significant benefits as the Aadhar-enabled applications would be used for making pension payment, wages under Mahatma Gandhi National Rural Employment Guarantee Scheme (NREGA), public distribution system (PDS), scholarship and payment of social security which would reduce leakage and increase efficiency and accountability in the service delivery system.
 - The government has come up with a roadmap to implement Aadhaar-based direct cash transfer by April 1, 2014. 51 pilot districts will be covered from January 1, 2013 and 18 states from April 1, 2013.

GOVERNMENT INITIATIVES

- **Setting up of CCI:**
 - Union Cabinet cleared the proposal to set up a National Investment Board, later renamed Cabinet Committee on Investment.
 - Will be chaired by Prime Minister and will comprise members from various ministries.
 - It will fast-track approvals such as mining leases, mining plan, forest clearance, environmental management plan and land acquisition for accelerating commencement of mining.
 - Projects of Rs. 1,000 crore and above will be eligible

SOARING TWIN DEFICITS: FISCAL DEFICIT

- The fiscal deficit during the April-November period was Rs. 4.13 trillion (\$76.2 billion)
 - Its 80.4% of the budgeted full fiscal year 2012-13 target.
 - During the same period in the previous fiscal year, the deficit was 85.6% of the budget target.
 - In October, strained finances forced the centre to revise the deficit target to 5.3% against the budgeted 5.1 per cent.
- Government's measures
 - The Finance Minister urged all states to adopt the direct cash transfer scheme
 - The government expects to raise Rs 30,000 crore from stake sales in state-run firms in the current fiscal
 - The auction of second generation (2G) spectrum by which the government expects to raise Rs. 20,000 crore

SOARING TWIN DEFICITS: FISCAL DEFICIT

- Kelkar Committee Recommendations:
 - The Vijay Kelkar Committee recommends that the government can monetise surplus land as thousands of acres are available with port trusts, railways and PSUs. Port trusts and railways together have 60,000 acres of land. This can help in fiscal consolidation
 - Creation of an Exchange Traded Fund (ETF) comprising all listed securities of CPSUs held by the government
 - Disinvestment of minority government equity stakes in private entities, such as the holdings in SUUTI, HZL and BALCO
 - The panel also recommended a comprehensive review of the Direct Taxes Code Bill and bringing in more services in the tax net.
 - Immediately increase the price of diesel by Rupees 4 per litre, of kerosene by Rupees 2 per litre and of LPG by Rupees 50 per cylinder
 - Revision in the price of urea
 - Food subsidy: Need to increase the Central Issue Price (CIP)

SOARING TWIN DEFICITS: CURRENT ACCOUNT DEFICIT

- Current Account Deficit (CAD) reached all-time high of \$ 22.3 billion which is 5.4 per cent of GDP by September-end.
 - Analysts expect it to remain high (above 5 per cent) in December quarter as well.
 - Widening CAD can be largely attributed to steep rise in gold imports, oil imports and Indian exports taking a beating due to global slowdown
 - According to RBI's Financial Stability Report, gold imports responsible for 2/3rd of CAD in last three years.
- Measures planned by the government and RBI:
 - The Reserve Bank of India has proposed the introduction of gold-linked products to promote the use of gold as a financial asset
 - The government is considering imposing duties on gold to make it more expensive to import the yellow metal

SOARING TWIN DEFICITS: CURRENT ACCOUNT DEFICIT

- The RBI has urged the government to do away with sectoral caps with regards to FDI investments.
- RBI has called for allocating debt investment limits on a first-come-first-served basis while giving preference to long-term investors, replacing the current method of auctioning the right to invest in debt - essentially consisting of government securities and corporate bonds.
- RBI has also proposed to increase the overall limit for investment in Indian debt, currently \$60 billion per year.

GLOBAL EVENTS

EUROZONE CRISIS

- New Bailout Fund
 - Eurozone launched a new permanent bailout fund in October.
 - The fund, called the European Stability Mechanism (ESM) replaced the European Financial Stability Facility, which has already lent about €200 billion, or more than \$250 billion, to Greece, Ireland and Portugal over the past two years.
- Credit downgrade
 - By November-end Moody's downgraded the long-term issuer rating of the ESM to Aa1 from Aaa while maintaining a negative outlook.
 - One of the reasons was the downgrade of France from Aaa to Aa1 and high credit risk correlation among largest financial supporters of ESM
- Unemployment
 - Unemployment in Eurozone reached the highest level since 1999 at 11.9 per cent

GREECE

- Bailout Loan following the successful bond buyback
 - The finance ministers of the 17 Euro nations and IMF agreed to hand over the much awaited next tranche of bailout loan of 49.1 billion Euros (\$ 57 billion) between December and March.
 - Greece spent €10bn to buy back its debt at a deep discount from private investors and banks.
- Growth:
 - The Bank of Greece projected that the country's economy would contract by more than 6 percent of GDP this year, and by a further 4-4.5 percent next year.
- Unemployment:
 - Greece has witnessed the biggest rise in unemployment among all Euro nations in the past one year. Unemployment rose to 26 per cent in September
- Debt-to-GDP Ratio:
 - It currently stand at 175 per cent

SPAIN

- **Banking System Overhaul:**
 - Spain is likely to witness one of the largest overhauls of any European banking systems since the start of the financial crisis in 2007.
 - The five-year overhaul comes as a condition of 40 billion euros (\$52 billion) in aid. The funds are part of a \$130.8 million (100 million euro) rescue package for Spanish banks, agreed in June this year by the 16 other European Union countries that fall under the Eurozone.
 - Three nationalised Spanish banks will more than halve their balance sheets in five years, cut jobs and impose losses on their creditor bondholders . Another nationalised bank will be sold off
- **Rating Downgrade:**
 - In October Standard & Poor's downgraded Spain's credit rating by two notches from BBB+ to BBB-. This is just one notch above “junk” status. It also attached a ‘negative outlook’.
- **Unemployment:**
 - It stood at 26.6 per cent at the end of November which is the highest level of unemployment in Eurozone.

USA

- GDP Growth:
 - The third quarter growth was 2 per cent, up from 1.3 per cent in second quarter. It is believed that substantial impact on jobless count occurs if the growth rate is above 2.5 per cent. The higher growth rate was fuelled by higher consumer spending
- Unemployment:
 - 138,000 jobs were added in the month of October
 - US unemployment rate fell to 7.7% as the economy added 146,000 jobs in November. This is the lowest unemployment level since December 2008. Private companies accounted for all of the month's gains

USA

- Presidential Elections:
 - Barack Obama, the leader of Democratic Party was re-elected as the President
 - What it means for India:
 - Obama's re-election means that the monetary easing is likely to continue. This implies steady foreign fund inflows into Indian debt markets
 - Obama's victory ensures that Ben Bernanke will remain in the central bank as its chief for longer and persist with the bond buying programme of \$40 billion every month. This will increase liquidity in offshore markets, some of which may find its way into India. More dollar inflows will make the rupee stronger.

USA: FISCAL CLIFF DEAL

- An agreement to avert the immediate effects of the ‘Fiscal cliff’ was approved by the House of Representatives by the beginning of 2013.
- Key aspects of the compromise deal include:
 - Tax rates preserved as they were by the end of the year except for individuals earning more than \$400,000 and households earning over \$450,000.
 - Capital gains and dividend tax for incomes exceeding \$400,000 for individuals and \$450,000 for families increased from 15 to 20 per cent
 - Delayed the onset of the “sequester”, which is the swift, automatic spending cuts worth \$109 billion, for two months
 - Unemployment benefits preserved
 - 2-percentage-point cut in the payroll tax first enacted two years ago to lapse, which restores the payroll tax to 6.2 per cent.

USA: FISCAL CLIFF DEAL

- Estates would be taxed at a top rate of 40 per cent, with the first \$5 million in value exempted for individual estates and \$10 million for family estates. In 2012, such estates were subject to a top rate of 35 per cent.
- A 27 per cent cut in Medicare payments to doctors blocked
- The deal raises more than \$600 billion in additional revenue over next 10 years

CHINA

- Growth:
 - Growth in China's gross domestic product fell to 7.4 per cent in the third quarter which is lower than the 7.6 per cent growth in the second quarter.
 - The growth is significantly driven by state spending on infrastructure.
 - In October, the Railways Ministry announced it would increase its spending target for the year by 630 billion yuan. That was the second increase this year, following an earlier announcement in July.
 - China HSBC Flash Manufacturing Purchasing Managers Index (PMI) was 49.1 in October which is a three-month high. The new orders index reached a six-month high.
- Exports:
 - China exports continue to get negatively impacted by slowdown in the EU and Japan. Exports growth fell from a high of 11.6 per cent in October to just 2.9 per cent in November.

DOMESTIC EVENTS TO LOOK OUT FOR

- RBI Monetary Policy Review in January
- Inflation
- Union Budget
- Government reforms
- Government disinvestment programme success
- Revival in infrastructure clearances
- 2G Spectrum auction
- 3QFY13 results
- Outlook from IT companies

GLOBAL EVENTS TO LOOK OUT FOR

- USA
 - Onset of sequester in USA and impact on growth
 - Jobless data
- Europe
 - Elections in Italy
 - Spain borrowing
- China slowdown
- Middle East conflagration

OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q4CY12	Start to End Value In Q4	Outlook for Q1CY13	Remarks
Debt	10-Year Gilt: Down 1% 5-Year Gilt: Down 2% AAA 10 Year: Up 0.4% 3-M T Bill: Up 0.6% 3-M CD: Up 0.6 % 1-Year CD: Down 2% 3-M CP: Up 3 % 1-Year CP: Down 1 %	8.16 – 8.05 8.17 – 8.03 8.95 – 8.99 8.14 – 8.19 8.40 – 8.45 8.95– 8.80 8.90– 9.15 9.51 –9.45	Yields to move down	Repo rate cut of 25 – 50 bp expected in Q1CY13
Equity	Sensex : Up 3% Nifty : Up 3%	18,824 – 19,427 5,719 – 5,905	New high	FII flows Rate cuts Progressive Budget

OUTLOOK FOR KEY SECTORS

Sectoral Indices	Q4CY12 Returns	12 month returns	Outlook for Q1CY13	Remarks
Auto	9%	40%	Positive	Launch of new models Cut in auto loan rates to spur demand
Banking	9%	57%	Positive	Valuation gap bet PSU and Private Banks to bridge Pressure on NPAs to ease with improvement in economic environment
Pharma	8%	39%	Positive	Strong growth momentum
IT	-6%	-1%	Negative	Muted forecast expected Rupee appreciation
Capital Goods	-1%	35%	Positive	Onset of investment cycle
FMCG	7%	47%	Neutral	Valuations rich but may not see correction in the short term
Metals	5%	19%	Neutral	Softening of global commodity prices

ANNEXURE: GREECE BAILOUT

- The finance ministers of the 17 Euro nations and IMF agreed to hand over the much awaited next tranche of bailout loan of 49.1 billion euros (\$ 57 billion) between December and March.
 - By its own rules, the IMF can lend money only if the debt is “sustainable” or can be paid back by a recipient country
 - IMF pressed ministers to agree that Greece’s debt should be cut by about 20 per cent of GDP through methods that include the debt buyback programme at discounted prices, lowering interest rates, lengthening the deadlines for debt repayments, and returning profits to Greece made on bonds bought by the European Central Bank.
 - In exchange, the IMF compromised by loosening its debt target to about 124 per cent of Greece’s gross domestic product by the end of the decade. The fund had been insisting on a target of 120 per cent by 2020.
- This followed Greece’s successful completion of its bond buyback programme.
 - Greece spent €10bn to buy back its debt at a deep discount from private investors and banks.
 - Greece set a minimum range of 30.2 percent to 38.1 percent of the bond's face value, and a maximum of between 32.2 percent and 40.1 percent

ANNEXURE: GREECE BAILOUT

- At the last meeting of Greece's bailout lenders, it was agreed to grant the country a two-year delay in the speed of spending cuts, in order to take some of the pressure off Greece's heavily-depressed economy. However, the extension inevitably meant the Greek government would be overspending for longer and would therefore run up bigger debts than previously anticipated.
- Greece has been dependent since May 2010 on international rescue loans from the IMF and its partners in the euro. The funds have prevented the country going bankrupt and possibly leaving the euro.
- In June, creditors froze aid from the current program, valued at Euro 130 billion (\$169 billion), after determining that Greece was failing to meet the conditions of that bailout

ANNEXURE: SPAIN

- According to Spain's Budget Ministry, Spain planned to borrow 207.2 billion euros (\$266.5 billion) in 2013
- Spain's debt-to-GDP ratio will swell to 90.5 per cent in 2013 as Spain will bailout its banks, the power system and other Euro-zone members like Greece, Ireland and Portugal.
- This year's budget deficit will be 7.4 percent of economic output. According to Budget Minister Cristobal Montoro Spain's 6.3 percent target will be met because it can exclude the cost of the bank rescue.
- Industrial production has declined for 13 straight months.

ANNEXURE: SPAIN

- Unemployment: The country's unemployment rate is released separately and quarterly. It stood at 26.6 per cent at the end of November which is the highest level of unemployment in Eurozone.
 - According to the Labour Ministry unemployment rose by 1.5 per cent in November taking the tally of unemployed people to almost 5 million
 - However, there was a slight drop in the number of registered unemployed in December. After two months of heavy job losses, the number of unemployed fell by 1.2 per cent in December. It is believed that December is usually a good month as service providers hire people ahead of Christmas
 - Most economists expect the Spanish unemployment rate to remain above 25 per cent in 2013

ANNEXURE: CHINA SLOWDOWN

- Chinese slowdown, apart from global economic and cyclical factors can also be attributed to the following reasons:
 1. Trade protectionism: WTO has received many complaints from US, the EU and Japan against China
 2. Labour costs are on a rise in China which has a direct impact on its export competitiveness. There are higher instances of labour unrest and industrial relocation
 3. Appreciation of its currency Renminbi has also adversely affected its export competitiveness
 4. Shift in policy: Since 2008 the government has tried to reduce its export dependence so that growth is also fuelled by domestic consumption. Hence it has reduced export-promotion policies. The government has imposed export restrictions on products that consume high energy, cause pollution and are low-value added

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