

LIQUIDITY, VALUATIONS AND EVENTS

Apr-Jun
2013



MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	31st March 2012	1st January 2013	31st March 2013	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	17,404	19,581	18,836	-4	8
CNX Nifty Index	India	5,296	5,951	5,683	-4	8
Bovespa	Brazil	64,511	60,952	56,352	-8	-13
CAC 40	France	3,424	3,641	3,731	2	9
DAX	Germany	6,947	7,612	7,795	2	12
Dow Jones	US	13,212	13,104	14,579	11	10
FTSE 100	UK	5,769	5,898	6,412	9	11
Hang Seng	Hong Kong	20,556	22,657	22,300	-2	8
Jakarta Composite	Indonesia	4,122	4,317	4,941	14	20
KLSE Composite	Malaysia	1,596	1,689	1,672	-1	4
Nasdaq	US	3,092	3,020	3,268	7	5
Nikkei 225	Japan	10,084	10,395	12,398	19	20
NYSE	US	8,207	8,444	9,107	8	11
RTS Index	Russia	1,638	1,527	1,460	-4	-12
Seoul Composite	South Korea	2,014	1,997	2,005	0	-1
Shanghai Composite	China	2,263	2,269	2,237	-2	-1

MOVEMENT OF SECTORAL INDICES

Sectoral Index	30th March 2012	1st Jan 2013	28th March 2013	3-Month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	10,135	11,525	9,994	-14	-2
S&P BSE BANKEX	11,751	14,555	13,033	-10	12
S&P BSE Capital Goods	10,028	10,993	9,018	-17	-9
S&P BSE Consumer Durables	6,402	7,794	7,095	-9	11
S&P BSE FMCG	4,493	5,946	5,919	0	32
S&P BSE Health Care	6,626	8,166	8,008	-1	22
S&P BSE METAL Index	11,346	11,307	8,758	-23	-24
S&P BSE OIL & GAS Index	8,088	8,535	8,327	-2	3
S&P BSE Power Index	2,091	2,009	1,647	-17	-20
S&P BSE PSU	7,311	7,410	6,481	-12	-11
S&P BSE Realty Index	1,777	2,169	1,780	-14	6
S&P BSE TECh Index	3,562	3,439	3,901	14	10
S&P BSE SENSEX	17,404	19,581	18,836	-4	8

COMMODITY PRICES

	Unit	31-Mar-12	1-Jan-13	31-Mar-13	3-Month Returns	1-Year Returns
Gold	USD/ounce	1,663	1,658	1,598	-4%	-4%
Crude	USD/MT	124	112	109	-2%	-12%
Steel	USD/MT	51	55	54	-1%	7%
Copper	USD/MT	8,475	7,907	7,510	-5%	-11%
Aluminum	USD/MT	2,099	2,040	1,882	-8%	-10%
Zinc	USD/MT	1,995	2,050	1,865	-9%	-7%
Silver	USD/ounce	32	30	29	-6%	-12%
Lead	USD/MT	2,037	2,317	2,091	-10%	3%

FII FLOWS

- FII Flows in Equity

(in Rs. Million)	Jan-13	Feb-13	Mar-13	TOTAL
Gross Purchase	778,588	788,883	667,666	2,235,137
Gross Sale	557,998	544,491	576,427	1,678,916
Net Investment	220,592	244,393	91,243	556,228

- FII Flows in Debt

(in Rs. Million)	Jan-13	Feb-13	Mar-13	TOTAL
Gross Purchase	179,182	149,710	29,471	358,363
Gross Sale	361,656	148,395	213,262	723,313
Net Investment	250,194	192,245	57,951	500,390

Total Net FII Flows in Jan-March

Rs. 1,056,618 million

DOMESTIC EVENTS



INFLATION & MONETARY POLICY

	December	January	February	March
Wholesale Price Index	7.31	6.62	6.84	5.96
Consumer Price Index	10.56	10.79	10.91	10.39

- December inflation has been revised to 7.31 per cent from 7.18 per cent.
- Consumer Price Index (CPI) continued its upward journey while the Wholesale Price Index (WPI) unexpectedly rose in February after falling in January. The inflation figures fell in the month of March.
- The Reserve Bank of India (RBI) cut the Repo Rate and the Cash Reserve Ratio (CRR) by 25 basis points in January to 4 per cent followed by a further cut in Repo Rate of 25 basis points in March to 7.5 per cent.

DOMESTIC GROWTH

- Central Statistics Organisation (CSO) slashed the FY 2013 growth to 5 per cent.
- The GDP growth fell to 4.5 per cent in the third quarter (October-December) which is the lowest quarterly growth in a decade. The first and second quarter growth was 5.5 and 5.3 per cent respectively.
- The HSBC Markit manufacturing Purchasing Managers' Index (PMI)
 - January: 53.2
 - February: 54.2
 - March: 51.4
- However, a Grant Thornton survey showed that business confidence is among the top five in the world although businesses are concerned about infrastructure and red tape. HSBC also reports that despite the slowdown businesses remain optimistic about the future.

SOARING TWIN DEFICITS: CURRENT ACCOUNT DEFICIT

- For the September-December quarter the Current Account Deficit (CAD) reached all-time high of \$ 32.6 billion which is equivalent to 6.7 per cent of GDP.
- RBI expects the CAD for the year ending March 31st 2013 to be not less than 5 per cent
- Steps taken by the government and RBI
 - Rise in import duty of gold and platinum
 - On January 21st the government hiked the import duty on gold and platinum from 4 to 6 per cent.
 - The RBI decided to introduce inflation-indexed bonds with both the principal and interest being indexed to inflation.
 - The government removed the sub-limits within the \$25 bn limit for FII investment in government securities, and \$51 bn limit for corporate debt.



SOARING TWIN DEFICITS: FISCAL ACCOUNT DEFICIT

The government achieved its target of 5.2 per cent for FY13. It has targeted a fiscal deficit to GDP ratio of 4.8 per cent for FY14

- Diesel Price Hike
 - On January 17 the government decided to move towards deregulating diesel prices from state control and gave powers to state-owned oil firms to raise prices in small measures every month till all of their losses are wiped out.
 - It was decided in February to increase diesel prices by 40-50 paise per litre per month till losses on diesel are completely wiped out.
- Disinvestment
 - 9.5 per cent stake sale in NTPC fetched Rs. 11,500 crore to the government after raising Rs. 3,000 crore from OIL (Oil India Limited). Rs. 1,500 crore was raised from an Offer for Sale in SAIL.
 - The government achieved Rs. 23,800 crores against a target of Rs. 30,000 crore of disinvestment proceeds for fiscal 2012-13.



UNION BUDGET: HIGHLIGHTS

- To Control CAD the government wants to divert savings from gold into financial assets
 - Rajiv Gandhi Equity Savings Scheme (RGESS) -Increase in applicability to individuals - Rs12 Lacs income limit from Rs10 lacs, scheme extended for 3 yrs
 - First home loan upto Rs. 25 lacs in FY14 will have additional deduction of interest upto Rs 1 lac (in addition of existing deduction up to Rs 1Lac under section 80C of Income Tax Act 1961)
 - RBI to launch inflation-indexed bonds
- Investment Push
 - Investment allowance 15% of investment for minimum capex of Rs 1bn in FY14 and FY15
 - MSMEs to continue benefits for three years even after they move out of the category
- Tax Increases
 - For companies above Rs. 100 million revenue surcharge increased from 5 to 10 per cent
 - For individuals with income above Rs. 1 crore additional 10 per cent surcharge
 - Dividend Distribution Tax increased from 5 to 10 per cent
 - Excise duty on cigarettes increased by 18% and SUVs increased from 27 to 30 per cent
 - TDS of 1% has been introduced for properties costing more than Rs50 lakh.



UNION BUDGET: HIGHLIGHTS

- The government has set a disinvestment target of Rs. 40,000 crore for FY14 to meet the fiscal deficit target.
- STT on mutual fund (MF) and exchange traded fund (ETF) redemptions at fund counters has been slashed from 0.25 per cent to 0.001 per cent; STT on MF/ETF purchase and sale on exchanges is reduced from 0.1 per cent to 0.001 per cent, only on the seller.
- Infrastructure
 - Infrastructure Debt Funds (IDF) will be encouraged.
 - India Infrastructure Finance Corporation (IIFCL) will offer credit enhancement to infrastructure companies that wish to access the bond market to tap long term funds.
 - Some institutions will be allowed to issue tax - free bonds up a total sum of Rs 50,000 crore (as against Rs 25,000 crore in 2012-13).

- The government will implement the modified version of GAAR from April 1, 2016



GLOBAL EVENTS



EUROZONE CRISIS

The quarter saw crisis in Italy, Spain and Cyprus. Euro zone gross domestic product (GDP) contracted 0.6% in Q4 2012, the worst since the first quarter of 2009.

European Union leaders finally reached a consensus and finalised a deal on 960-billion euro (USD 1.3 trillion) budget for the next seven years.

- Italy Elections

- Italian elections proved to be inconclusive with no party having an outright majority in the Senate. This prompted Fitch to lower the credit rating from A- to BBB+.

- Spain

- Spanish real estate prices continue to fall – the property prices are reported to be 40 per cent down from 2007 levels and is one of the major reasons for the problems of banks
- The economy shrunk by 0.7 per cent in the last quarter of 2012
- There is a series of corruption scandals against the government



EUROZONE

- Cyprus Bailout
 - Cyprus reached a deal with international lenders for a 10 billion euro bailout
 - The country's second-largest bank, Laiki, will be restructured and holders of bank deposits of more than 1 lakh euros will have to take losses.
 - Cyprus is required to reduce budget deficits and adjust its wage and pension systems.
 - Laiki will be immediately dissolved and guaranteed deposits will be transferred to Bank of Cyprus
- UK Credit downgrade
 - Moody's downgraded the United Kingdom's government bond ratings by one notch to Aa1 in February. In March Fitch and warned of a downgrade due to high debt levels and growth slowdown.
- Unemployment
 - The unemployment rate for Eurozone has been revised up from 11.9 to 12 per cent.
 - The highest jobless rates were 26.4% in Greece and 26.3% in Spain.

USA

- GDP Growth:
 - US gross domestic product (GDP) increased at an annual rate of 0.4% in the fourth quarter of 2012. The number was lower on account of cuts in defense spending and fears of fiscal cliff. The economy has expanded for fourteen consecutive quarters now which is encouraging.
- Sequestration: It's a series of automatic, across-the-board cuts to government agencies, totaling \$1.2 trillion over 10 years to control the national debt
 - On 1st March President Barack Obama signed the order to cut \$ 85 billion in federal spending through September 30, 2013.
 - Cuts of \$42.7 billion to discretionary defense spending, \$28.7 billion in nondefense discretionary spending, \$9.9 billion from Medicare, and \$4 billion in other mandatory reductions
 - Some projections show that the unpaid furloughs will be equivalent to reducing the GDP by 0.6 per cent for the year.
 - Workers and poor sections of society are likely to be hit the hardest

USA

- **Monetary Policy**
 - The Federal Reserve has said it would keep its policy of buying \$85 billion a month of Treasury bonds and mortgage-backed securities in order to lower borrowing costs for households and businesses.
- **Unemployment:**
 - 148,000 jobs were added in the month of January; 268,000 in February and 88,000 in March
 - US unemployment rate increased to 7.9% in January compared to 7.8 per cent in December. It fell to 7.6 per cent in March.
 - February's rise in hiring, the biggest since March 2012, can be attributed to health-care providers and the hospitality industry, including hotels and restaurants.

CHINA

- Growth:
 - China's GDP growth was 7.9 per cent in the last quarter of 2012, higher than 7.4 per cent growth in the third quarter.
 - The government targets a growth rate of 8 per cent this year compared to 10 per cent target which was set for 2012
- The central bank has resorted to open market operations after cutting interest rates twice in 2012 so as to avoid fueling the property bubble.
- Xi Jinping has been elected as the new President of China
- Exports:
 - Chinese government figures show a 19.8% rise in the country's exports for the three months to February. The data reported a 25 per cent increase in exports for January.
 - Analysts suspect that these numbers are over-stated. There are several theories to explain these apparently fake numbers including mislabeling of domestic sales as exports for tax advantage, collusion to move foreign currency into China and so on.

CHINA

- Trade Deficit
 - For the first quarter, China posted a trade surplus of \$43.07 billion
 - The country posted a trade deficit of \$884 million for March, after reporting a \$15.25 billion surplus in February. This indicates a rise in imports.
 - Some believe this to be on account of the Lunar New Year Holiday when factories shut down while other analysts suspect a rising domestic demand which is positive for the economy which was earlier dependent on exports

JAPAN

- Japan's economy contracted 0.4% in the fourth quarter, compared with a 3.8% contraction in the third quarter; growth for all of 2012 was 1.9%, after a 0.6% contraction in 2011.
- Haruhiko Kuroda, the newly appointed Governor of the Bank of Japan has launched an aggressive monetary easing plan with an aim to double the money base in two years in order to overcome deflation and growth slowdown. The inflation target is 2 per cent in two years.
 - This is likely to inject massive liquidity into global markets
 - It will lead to depreciation of Yen

DOMESTIC EVENTS TO LOOK OUT FOR

- Monetary Policy

- Inflation to moderate but we may not see any further rate cuts by RBI this quarter. Rally on cards if RBI cuts
- There is a scope for another CRR cut

- Current account deficit

- Will be a keenly watched number for a view on currency and health of the economy
- There may be some relief on this front as global commodity prices soften

- Politics

- Passage of crucial bills in the Budget Session

- Land Acquisition Bill, Companies Bill, National Food Security Bill Insurance and Pension bills etc

- UPA's relationship with its coalition partners



IMPORTANT DOMESTIC EVENTS FOR THIS QUARTER...contd

- Politics: contd..
 - Karnataka State Election
- Policies and Projects
 - Clearance of Infrastructure projects
 - Disinvestment programme
- Monsoons: Onset and geographical spread
- Corporate Performance:
 - 4QFY13 results
 - Earnings revisions



GLOBAL EVENTS TO LOOK OUT FOR

- USA
 - Impact of sequestration on growth
- Japan
 - Inflation & GDP growth
- Eurozone
 - Italian politics and possibility of new elections
 - Portugal's austerity measures
- China
 - GDP growth and Trade Deficit
 - Inflation containing measures



OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q4CY12	Start to End Value In Q4	Outlook for Q2CY13	Remarks
Debt	10-Year Gilt: Down 0.4% 3-M T Bill: Down 1.4% 3-M CP: Up 4.5 %	7.99 – 7.96 8.13 – 8.02 8.95 – 9.35	Down	Though RBI may not cut rates in the next couple of policies, moderating commodity prices will soften inflation outlook
Equity	Sensex: Down 4% Nifty : Down 4%	19,581 – 18,836 5,951 – 5,638	Volatile within a wide range.	A strident govt initiative on projects and policies may revive the mkt. Or else, it will drift under the influence of FII flows

Domestic economy and politics is in a state of flux. Global events are also hazy. 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



OUTLOOK FOR KEY SECTORS

The sectoral outlook will be closely linked to the market movement with cyclicals underperforming in a negative market and defensives outperforming and vice versa.

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