

LIQUIDITY, VALUATIONS AND EVENTS

October-December
2014

MOVEMENTS OF MAJOR INDICES

Sectoral Index	Country	30 th Sept 2013	30 th June 2014	30 th Sept 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE SENSEX	India	19,380	25,414	26,631	5%	37%
CNX Nifty Index	India	5,735	7,611	7,965	5%	39%
Dow Jones	US	15,130	16,827	17,043	1%	13%
NYSE	US	9,621	10,979	10,703	-3%	11%
Nasdaq	US	3,771	4,408	4,493	2%	19%
Bovespa	Brazil	52,338	53,168	54,116	2%	3%
Hang Seng	Hong Kong	22,860	23,191	22,933	-1%	0%
Jakarta Composite	Indonesia	4,316	4,879	5,138	5%	19%
KLSE Composite	Malaysia	1,769	1,883	1,846	-2%	4%
Nikkei 225	Japan	14,456	15,162	16,174	7%	12%
Seoul Composite	South Korea	1,997	2,002	2,020	1%	1%
CAC 40	France	4,143	4,423	4,416	0%	7%
DAX	Germany	8,594	9,833	9,474	-4%	10%
FTSE 100	UK	6,462	6,744	6,623	-2%	2%
Shanghai Composite	China	2,175	2,048	2,364	15%	9%
BTS Index	Russia	1,422	1,366	1,126	-18%	-21%

MOVEMENT OF SECTORAL INDICES

Sectoral Index	30 th Sept 2013	30 th June 2014	30 th Sept 2014	3- month Returns (%)	1-Year Returns (%)
S&P BSE AUTO Index	10,997	15,249	17,747	16%	61%
S&P BSE BANKEX	10,964	17,475	17,615	1%	61%
S&P BSE Capital Goods	7,707	16,200	14,268	-12%	85%
S&P BSE Consumer Durables	5,773	8,870	9,851	11%	71%
S&P BSE FMCG	6,838	6,676	7,631	14%	12%
S&P BSE Health Care	9,464	11,462	14,352	25%	52%
S&P BSE METAL Index	8,371	13,100	11,409	-13%	36%
S&P BSE OIL & GAS Index	8,216	11,151	10,729	-4%	31%
S&P BSE PSU	5,446	8,634	7,783	-10%	43%
S&P BSE Realty Index	1,170	2,077	1,581	-24%	35%
S&P BSE SENSEX	19,380	25,414	26,631	5%	37%
S&P BSE TECK Index	4,437	5,266	5,919	12%	33%
S&P BSE Power Index	1,523	2,319	1,978	-15%	30%

FOREIGN INSTITUTIONAL INVESTOR (FII) FLOWS

• FII Flows in Equity

(in Rs. Million)	July-14	August-14	September-14	TOTAL
Gross Purchase	981,998	740,092	981,998	2,657,026
Gross Sale	850,760	685,794	883,911	2,420,465
Net Investment	131,238	54,298	51,025	236,561

• FII Flows in Debt

(in Rs. Million)	July-14	August-14	September-14	TOTAL
Gross Purchase	325,491	374,721	383,110	1,083,323
Gross Sale	95,715	207,682	224,420	527,817
Net Investment	229,777	167,039	158,690	555,506

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

Rs. 792,067 Million

DOMESTIC INSTITUTIONAL INVESTOR (DII) FLOWS

(in Rs. Million)	July-14	August-14	September-14	TOTAL
Gross Purchase	1,002,176	654,918	358,820	2,015,914
Gross Sale	1,022,357	642,933	370,190	2,035,479
Net Investment	-20,180	11,985	-11,370	-19,565

MF ACTIVITY

•Equity

(in Rs. Million)	July-14	August-14	September-14	TOTAL
Gross Purchase	215,265	178,765	203,222	597,252
Gross Sale	164,628	109,189	161,508	435,325
Net Investment	50,638	69,574	41,715	161,927

•Debt

(in Rs. Million)	July-14	August-14	September-14	TOTAL
Gross Purchase	1,284,168	1,497,877	1,511,401	4,293,446
Gross Sale	1,096,297	778,930	1,277,233	3,152,460
Net Investment	187,871	718,949	234,166	1,140,986

**Total Net MF Activity in
July-September**

Rs. 1,302,913 Million

DOMESTIC EVENTS

INFLATION

	July'14	August'14	September'14
WPI	5.19%	3.74%	2.38%
CPI	7.96%	7.8%	6.46%

In a sign of great relief inflation cooled off significantly in the July-September quarter.

ECONOMY

- **GDP**

- 1st quarter (Apr-June) GDP at 2.5-year high at 5.7%; dramatically up from 4.6% in the previous quarter

- **PMI**

- Manufacturing activity contracted
- Services sector contracted in August and then picked up again in September

	July	August	Sep
Manufacturing	53	52.4	51
Services	52.2	50.6	51.6

- **Index of Industrial Production (IIP)** hit a 5-month low of 0.4% in August 2014 from 0.5% in July 2014.
- **Consumer Confidence**
 - Indians were the most bullish for the 2nd consecutive quarter as per a global Consumer Confidence survey conducted by Nielsen
- **Standard & Poor's** raised the **outlook** for India's "BBB-minus" rating back to "stable" from "negative"

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%

RBI MONETARY POLICY

- 5th August'14: 3rd 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 %
- 30th Sept'14: 4th 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).
 - Reduce the liquidity provided under the export credit refinance (ECR) facility from 32 per cent of eligible export credit outstanding to 15 per cent with effect from October 10, 2014;

MONSOON 2014

- June-September monsoon rainfall to be 87 percent of the long-term average
- A late revival in the monsoon has improved water levels at main reservoirs, easing worries of a drinking water crisis.
- But overall sowing for most summer crops continued to be lower than a year ago.

BY ELECTIONS

- The bypolls for 33 seats spread over 10 states were held Aug - Sep.
 - Bihar
 - BJP could win only 4 out of the 10 seats. JD (U) and RJD won the remaining 6
 - Uttar Pradesh
 - BJP won only 3 of 11 seats that went to the polls for the legislative assembly of Uttar Pradesh
 - The remaining seats were won by the ruling Samajwadi Party
 - Rajasthan
 - BJP won 1 out of 4 seats
 - Gujarat
 - For the 9 seats in Gujarat, ruling BJP won 4 while Congress bagged 2

KEY REFORMS ANNOUNCED

- **FDI** : The **Insurance Laws (Amendment) Bill** aims to raise the ceiling on foreign direct investment (FDI) in insurance to 49 per cent from the current 26 per cent limit.
 - Increase FDI limit in **Railways and Defence**
- Fiscal/Budget: **Raised passenger and freight railway fares**
- **'Make in India'** Program: Focus on Mining, oil & gas, aviation, textiles & garments, automobile, leather, biotechnology, roads, highways, thermal power, renewable energy, defence manufacturing, pharmaceuticals, electrical machinery, ports and railways.
- **PM Jan Dhan Yojana**: Unveil an initiative to improve access to financial services for the two-fifths of Indians who lack a bank account and are often at the mercy of moneylenders who charge extortionate interest.
- The nationwide **Swachh Bharat Abhiyan** that aims to improve the cleanliness in the country in the next five years.

OTHER REFORMS ANTICIPATED

- Modi promised in his election campaign to **revive economic growth** that has fallen below 5 percent, choking off **job opportunities** for the one million people who enter the workforce every month, and dangled the prospect of **new roads, factories, power lines, high-speed trains** and even **100 new smart cities**.
- Many of his supporters have been disappointed that he has not cut food aid and other costly welfare schemes to channel money into more effective poverty reduction steps. However, economists said it was too early to expect dramatic initiatives.

GLOBAL EVENTS

USA

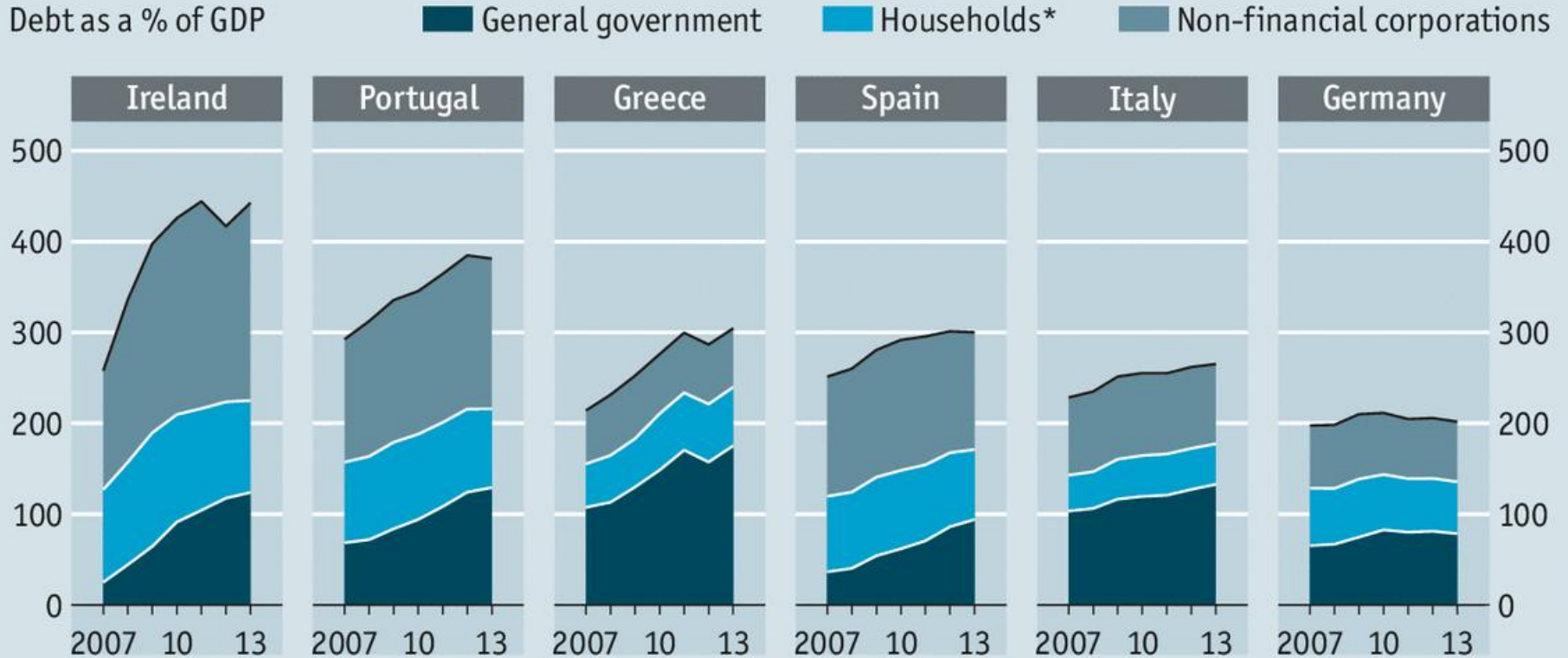
- Jobs added
 - 209,000 in July, 142,000 in August and 248,000 in September (which was the 48th straight month of job growth)
 - Unemployment Rate: Down to 5.9% from 6.1%
 - The flipside is that the unemployment numbers have come down partly because 97,000 people dropped out of the labour force. These people cannot be considered to be 'unemployed'.
- Pick up in new home sales
 - New home sales climbed 18% in August from July. It rose by 0.2% in September
- GDP Growth:
 - The economy grew at an annualised rate of 4.6% in the 2nd quarter, which is the highest in the last 2 years. It is relative to 1st quarter in which the GDP fell by 2.1%
 - The growth was on account of rising personal consumption, private inventory investment, exports, residential as well as non-residential fixed investment and exports

EUROZONE

- Unemployment:
 - Rate was 11.5% for July, August and September 2014 – marginally down from 11.6% recorded in June
 - The highest rates : Greece (27% in June 2014), Spain (24.4%)
 - The lowest rates: Austria (4.7%), Germany (4.9%)
- Growth
 - GDP of Euro area grew by 0.2% in 2nd quarter
 - Bright Spots: Growth rebounded in the 2nd quarter in Spain (0.6%), Netherlands (0.5%), Portugal (0.6%) in absolute terms
 - Weak spots: GDP fell in Germany, Italy while France stagnated
- Fears of Deflation
 - Inflation fell to 0.4% in July, well below European Central Bank's target of 2%
- Low inflation and low growth rates increase the real debt burden
- A recent analysis by Fitch, a rating agency, suggests that it will be very hard for any highly indebted euro-zone government to reduce its debt-to-GDP ratio by 20 percentage points over the next eight years, still less return it to its pre-crisis level.

EUROZONE

- Debt-to-GDP Ratio



Source: ECB

*Includes some non-profits

EURO ZONE – Glimmers of hope

- **SPAIN:** Improvement in GDP growth, employment rate, bond yields.
- **GREECE:** Unemployment down, tourism improves, festering issues regarding bailout programme remain
- **ITALY:** State of the banks a cause for worry.

A more detailed review in the Annexures

CHINA

- Growth – cooling down

- The economy expanded at 7.3% in the 3rd quarter – which is a 5 year low
- The IMF projects that Chinese growth will slow almost imperceptibly over the next five years to 6.3%

	July-14	Aug-14	Sep-14
Manufacturing	51.7	51.1	51.1
Services	50	54.1	53.5

- Manufacturing growth declined; Services growth picked up in August and again slowed in September

CHINA

- Inflation – on a downward trajectory

	July-14	Aug-14	Sep-14
Consumer Price Inflation	2.3	2	1.6

- The government has set inflation target for 2014 at around 3.5 percent.

- Credit defaults – a worrying trend

- The small companies that dominate China's private market for high-yield bonds face rising default risks as their debt obligations soar to a record and economic growth slows to the lowest in more than two decades.

- Companies like Tianjin Tianlian Binhai Composite Materials Co, Huzhou Jintai Science and Technology Co, Huaikuang Modern Logistics Co etc defaulted on their bond payments last quarter

- Credit-default swap contracts insuring the nation's debt against non-payment have climbed 12.8 basis points in September to 81.5 basis points

- High debt:

- Overall debt, including government, corporate and household, has reached about 250% of GDP, up from 150% six years ago.

DOMESTIC EVENTS TO LOOK FORWARD TO

- State Elections
 - Jammu & Kashmir, Jharkhand
- RBI Monetary Policy
 - High expectations of a rate cut in the next policy
- Reforms in the pipeline
 - Infrastructure reforms and award of projects, FDI in more sectors like media & construction, GST etc
- Pick up in key economic parameters:
 - IIP numbers, sustained levels of low inflation, auto and real estate sales

GLOBAL EVENTS TO LOOK FORWARD TO

- Europe
 - Greece
 - Review of the bailout programme by ‘troika’
 - Stress Test of Banks especially in Italy
 - Inflation
- US
 - Fed Policy Action
 - Unemployment
 - New home sales numbers
- China
 - Default risks & growth

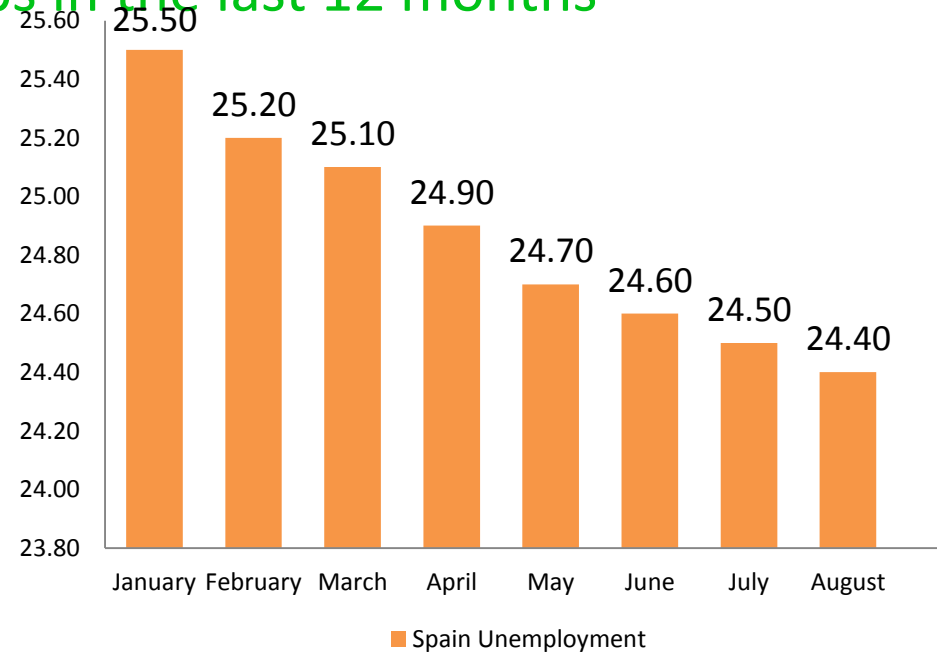
OUTLOOK FOR ASSET CLASSES

Asset Class	Performance in Q3CY14	Start to End Value In Q3	Outlook for Q4CY14	Remarks
Debt	10-Year Gilt: Down 24 bp 3-M T Bill: Down 1 bp 3-M CP: Down 5 bp 3-M CD: Down 4 bp 6-M CP: Up 0.4% 6-M CD: Up 0.1% 1-Yr CP: Up 2% 1-Yr CD: Up 1% 1-Yr AAA Corp Bond: Down 2% 10-Yr AAA Corp Bond: Down 3%	8.75 – 8.51 8.56 – 8.55 8.8 – 8.75 8.55 – 8.51 9.05 – 9.09 8.73 – 8.74 9.25 – 9.43 8.95 – 9.01 8.9 – 8.76 9.13 – 8.84	Gilt yields to fall sharply. Cut in Dec Lower duration papers to see decline in yields.	Trend to accelerate if RBI follows through with a rate
Equity	Sensex: Up 5% Nifty : Up 5%	25,414 – 26,631 7,611 – 7,965	Positive bias	Supported by strong FII flows and Risk on environment

ANNEXURES

SPAIN

- SPAIN – signs of recovery
 - 2nd quarter GDP growth accelerated to 2.4% (annualised) making it one of the strongest performers in Euro zone
 - Unemployment rate has eased from 26% to 24.5%
 - Created more than 190,000 jobs in the last 12 months
 - The government has increased the growth forecast from 0.7% to 1.2% for this year
 - However, the country needs strong reforms.
 - Around 550,000 people left Spain last year



GREECE

- GREECE
 - Unemployment
 - Unemployment rate fell to 26.4% in July compared to 26.7% in June (its 3rd consecutive month of fall in unemployment)
 - Growth
 - According to EU and the IMF, the GDP will grow by 0.6% in 2014 and 2.9% in 2015. This, if comes true will be after 24 quarters of negative growth
 - 2nd quarter GDP estimated to have grown at -0.3%
 - Business confidence indicators at 6-year high
 - Best year for tourism since the Olympics in 2004
 - Signs of political instability
 - Bailout Programme
 - Greece has received €200 in loans. Any new loans depend on Greece's completion of 542 measures aimed at liberalising the economy, imposing job losses in the public sector and making it easier to fire employees in the private sector.
 - According to reports the New Democracy has been able to carry out only half of the reforms.
 - The troika (European Commission, IMF and ECB) will conduct a joint review as the EU loan programme ends this year.
 - IMF plans to disburse another €16 billion in 2015 and the first quarter of 2016.

ITALY

- ITALY

- Banks in crisis

- Italy's seven biggest banks are seeking to borrow as much as 30.3 billion euros (\$40 billion) in the European Central Bank's first auction of cheap cash designed to boost loans to companies and individuals
 - These loans are part of longer-term refinancing operations, or TLTROs – part of ECB measures to increase credit to business and households

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