



INDIA REPORT

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LALCAP

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Source: chart & following table: Bloomberg

Close: 29 Oct 2012	Level	Index Pts Chg- Day	% Chg YTD	PE 2012/13	High	5 Year PE Low	Avg
SENSEX 30	18,635	+ 10	+20.5%	15.5x	25.0x	8.1x	18.4x
NIFTY 50	5,665	+ 1	+22.5%	14.8x	N/A	N/A	18.0x

BOMBAY

INR ₹ / USD \$1= Rs53.55

INR ₹ / GBP £1= Rs86.22

INR ₹ / EUR €1= Rs69.61

The SENSEX closed virtually flat in directionless trade. Reliance Industries rose on hopes that the appointment of a new Oil Minister would improve relations with the Government. The SENSEX is about 11% below its all time high of 21,005 (Nov 2010).

LONDON / NEW YORK

Most GDRs/ADRs we follow show gains. L&T is + 67% YTD. US markets are shut today due to the impending storm Sandy, feared to be among the worst the US has seen.

ECONOMIC AND POLITICAL NEWS

- ⇒ **Seen as increasing political pressure on the Reserve Bank of India (RBI) to cut interest rates tomorrow, at a press conference today, the Finance Minister Mr Chidambaram said that fiscal consolidation will be pursued to reduce the fiscal deficit to 3% by 2017.** The press conference was unusual for the haste with which it was called and for the timing - just one day before the RBI's monetary policy announcement on interest rates tomorrow. The RBI has not cut interest rates over the last three policy meetings due to stubbornly high inflation, the Government's lack of reforms (until September) and no concrete plans on the ballooning fiscal and current account deficit. For the last fiscal year to March 31, 2012 the fiscal deficit was 5.8% of GDP and the Government has forecast a deficit of 5.1% for the year to March 2013. We believe this forecast is unachievable and forecast a figure of around 6% because of higher fuel, food and fertiliser subsidies and lower tax revenues. **The target of 3% by 2017 (ie, to be almost halved in 4 years) appears very ambitious, especially since no specific plans are outlined apart from a statement to economise existing expenditure, cut wastages and raise revenue from privatisation of state-run firms. With state elections due later this year, and general elections due latest by May 2014, cutting subsidies will be recognised by the populist ruling Congress party as being politically dangerous.**
- ⇒ **So will a "token" 0.25% cut in interest rates be made by the RBI tomorrow?** Until the press conference today by the FM Mr Chidambaram it was seen as unlikely. It is a close call now. India's policy interest rate of 8% is among the highest among major economies. The RBI has resisted pressure to cut interest rates because anchoring stubbornly high inflation has been given greater priority over stimulating growth. Inflation last month crept up to 7.81% YoY. **Inflation has remained above 7% in each month since late 2009 - far higher than the Central Bank's comfort level of 5%.**
- ⇒ **The RBI which was first set-up in April 1935 under British rule**

is not statutorily independent. But, it has enjoyed a high degree of autonomy in the last few years and Governor Dr Subbarao has successfully resisted pressure from New Delhi to ease policy. **Senior bureaucrats in the Finance Ministry in Delhi believe the degree of autonomy may partly be due to the fact that the current Prime Minister, Dr Manmohan Singh, was himself a Governor of the RBI (from September 1982 to January 1985). And better appreciates the challenges and need for autonomy felt by a Governor of the RBI.**

- ⇒ **PM Dr Singh yesterday announced a cabinet shuffle, most likely the last one before the 2014 General elections.** Key portfolios including oil, foreign affairs, railways, human resources and justice saw ministerial changes. A glaring absence from entry was Mr Rahul Gandhi, 42, scion of the Nehru-Gandhi dynasty that has governed India for much of the 65 years since independence from Britain in August 1947. He has been an MP since 2004 and is General Secretary of the Congress Party, of which his mother is President.
- ⇒ **Mr Gandhi comes from a family of past Prime Ministers and is viewed as a PM-in-waiting.** His great-grandfather, Mr Jawaharlal Nehru, was India's first PM and was one of India's founding fathers. Mr Nehru's daughter, Mrs Indira Gandhi (Rahul's grandmother) was also Prime Minister. She is not related to Mahatma Gandhi, but married a gentleman called Feroze Gandhi. Mr Rajiv Gandhi, son of Indira Gandhi and Rahul's father, was also PM.
- ⇒ **Rahul Gandhi decided not to join the cabinet at this juncture. Speculation is that he may become Secretary General or Vice-President of the Congress Party.** There are no signals that he would not like to follow the footsteps of his family to become a PM one day. Although his family name carries utmost clout in the Congress Party the name appears surprisingly to have less relevance with voters as is evidenced by the results of assembly elections this year in Uttar Pradesh, India's most populous state. Rahul Gandhi's untiring campaigning efforts did not bear fruit and Congress fared very poorly. His non-entry to cabinet now will add to the lack of idea that voters have of where he stands on various important policy issues like the economy (containing deficits, funding infrastructure, pushing through tough reforms, kick-starting the economy), on foreign policy (China, Pakistan, Kashmir, trade with the East and West) and home affairs.



2012 YEAR-TO-DATE : PERFORMANCE OF ASIA PACIFIC/WESTERN EQUITY MARKETS IN LOCAL CURRENCY & US\$:

- The table below shows year-to-date returns in local currency and also currency adjusted returns in US\$;
- In Asia half of the markets show gains;
- India, despite all its woes, leads BRIC countries with a local currency gain over 20% as bold reforms are introduced. Gains of about 20% in US\$ terms are seen. The SENSEX is now only 11% below its all-time closing high of 21,005 touched on 5 November 2010;
- Drivers for relatively good performance in Asia are: despite slowing economies a perception of a growth region compared to developed markets and optimism that interest rates will be reduced and aid profitability;
- In Western markets US's NASDAQ leads with +15%;
- Europe still suffers from the ongoing sovereign debt problem there;
- In US\$ terms all markets in the table show positive returns apart from : China, Sri Lanka and Brazil.

INDEX PERFORMANCE	Index at 29.10.12	YTD 2012 %Chg	YTD 2012 %Chg
ASIA PACIFIC		In local Currency	in US\$
S&P ASIA CME 50	3347	+12	+12
MSCI APEX 50	837	+13	+13
AUSTRALIA 200 INDEX	4,477	+ 10	+ 12
CHINA SHANGHAI COMP	2,059	- 6	- 5
CHINA SHENZEN COMP	839	- 3	- 2
HONG KONG HANG SENG	21,511	+17	+ 17
INDIA NIFTY 50	5,665	+22	+20
INDIA SENSEX 30	18,635	+20	+18
INDONESIA JAKARTA COMP	4,331	+13	+ 7
JAPAN NIKKEI 225	8,929	+ 5	+ 1
MALAYSIA K.L. COMP.	1,672	+ 9	+13
PAKISTAN KSE 100	15,813	+39	+30
PHILIPPINES PSEi	5,397	+24	+31
SINGAPORE STI	3,029	+14	+21
SRI LANKA ALL SHARE	5,551	- 8	- 21
STH. KOREA KOSPI	1,892	+ 3	+ 9
TAIWAN TAIEX	7,092	+ 1	+ 4
THAILAND SET INDEX	1,280	+25	+ 28
VIETNAM STOCK INDEX	391	+ 11	+ 12
WESTERN			
UK FTSE 100	5,795	+ 4	+ 7
US D.J. IND	13,107	+ 7	+ 7
USA NASDAQ	2,988	+ 15	+ 15
BRAZIL BOVESPA	57,060	+ 1	- 8
RUSSIA MICEX 10	3,292	+ 3	n/a

Source : Bloomberg

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