

# THE WEEKLY BUZZ

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## THE TEN LARGEST SOVEREIGN WEALTH FUNDS IN THE WORLD

Rk	Fund	Assets (\$ billion)
1	<b>Abu Dhabi Investment Authority (Abu Dhabi)</b>	<b>600</b>
2	<b>The Government Pension Fund – Global (Norway)</b>	<b>507</b>
3	SAMA Foreign Holdings (Saudi Arabia)	439
4	SAFE Investment Company (China)	350
5	<b>China Investment Corporation (China)</b>	<b>322</b>
6	Kuwait Investment Authority (Kuwait)	295
7	Hong Kong Monetary Authority Investment Portfolio (Hong Kong)	291
8	<b>Government Of Singapore Investment Corp. (Singapore)</b>	<b>185</b>
9	<b>Temasek Holdings (Singapore)</b>	<b>133</b>
10	<b>National Social Security Fund (China)</b>	<b>130</b>

*Note: The Funds highlighted in red are registered with SEBI*

## SOVEREIGN WEALTH FUNDS CALLING ON INDIA

In a clear trend that has arisen since the global financial crisis and gathered momentum as a result of the ongoing political crisis in North Africa and West Asia, some of the largest sovereign wealth funds in the world have started looking at India as an investment destination. 6 of the 10 largest sovereign wealth funds are now registered with SEBI. 5 of these have entered India since 2008. The latest to jump onto the bandwagon was China Investment Corporation (the world's 5th largest) in 2010. These 6 funds are giants, by any standards. They cumulatively have \$1.88 trillion of assets under management!

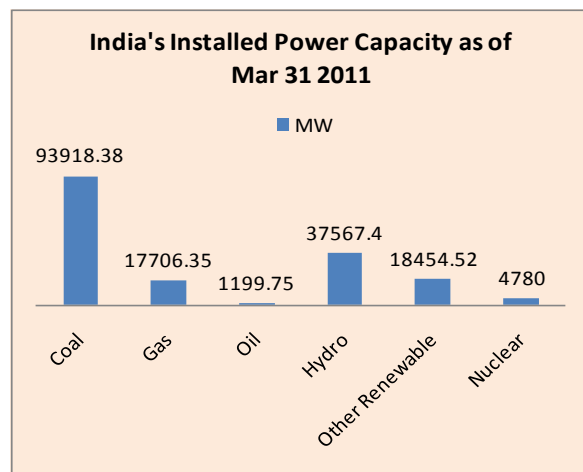
Sovereign wealth funds are special purpose investment funds, owned by governments established by money derived from a country's reserves. These funds are generally long-term investors and thus add stability to the overall investment environment in any country that they invest in.

The entry of these giants into the Indian stock market augurs well since, as they increase their exposure to India, they will not only increase the depth of the markets but also reduce volatility and provide a good counter-balance to the short-term international hedge funds that form a substantial portion of FII investment in India currently. Unlike hedge funds or investment funds, sovereign funds are not affected by investor redemptions and liquidity concerns, thus their investments are considered to be more stable than other conventional funds. With increasing investments from sovereign funds, many other investors who have been shy of India so far may now follow suit with their investments.

## INDIA IS GOING GREEN... SLOWLY BUT SURELY

We've always associated our country with pollution. Thus, to know that 32% of India's power generation installed capacity is from renewable sources should come as a pleasant surprise. According to the website of the Power Ministry, out of the 173,626 mw power generation capacity in the country as of March 31, 2011, 56,022 mw is by way of renewable sources. A major portion of this (37,567 mw) is by way of hydropower while the balance is from wind, biomass, solar and waste.

Wind power accounts for about 14,000 mw of total installed power capacity in the country and is expected to be the dominant renewable energy source (excluding hydropower) for the next decade or so until the technology to develop other renewable resources like biofuels and solar power becomes cost-effective. Wind power capacity is so high today because many corporate installed wind farms to take advantage of a scheme of the government wherein entities setting up wind power



capacity were allowed accelerated depreciation (and thus, less taxes). The problem with this scheme was that nobody was really interested in running and maintaining the wind farms once the depreciation benefit had been availed! Therefore, the government had to come up with a subsidy scheme in December 2009 (Rs.500 per mw of power generated and fed to the national power grid).

Although the subsidy scheme was to be discontinued on March 31, 2012, indications are that it will be extended. The accelerated depreciation scheme is likely to be discontinued next year, though, once the Direct Tax Code comes into effect.

## **THE BIGGEST IS NOT NECESSARILY THE STRONGEST**

Every once in a while you see lists in financial journals that celebrate the biggest. "Fortune 500" (The 500 largest companies in the US by revenues), "Businessweek Global 1000" (The 1000 largest companies in the world by market capitalization), "Forbes 400" (The richest people in the US). Thus, one is ingrained into thinking that the biggest corporations are necessarily the best. Not so. The financial crisis of 2008 was a stark reminder that big companies can fall as fast and as badly as small ones. The strongest companies, in our opinion, are the ones that can survive the longest, with the least problems.

Thus, it's no surprise that a relatively small bank like Singapore's Overseas-Chinese Banking Corporation (OCBC) should top Bloomberg Markets' list of the world's strongest banks. The ranking includes banks with at least \$100 billion in assets. It weighs and combines five criteria, including Tier 1 capital (a bank's share capital, cash reserves and some classes of preferred stock, all of which combine to act as a shock absorber against losses when the economy hits a rough patch) compared with risk-weighted assets; non-performing assets compared with total assets; and efficiency, a comparison of costs against revenues.

Singapore, in fact, has 3 banks in the top six – DBS Group Holdings at No.5 and United Overseas Bank (UOB) at No.6. Little wonder that Singapore scores strongly on banking strength as the Monetary Authority of Singapore has always required Singaporean banks to keep a higher Tier 1 capital than banks in other countries.

## **US TO RETURN TO GOLD STANDARD IN 5 YEARS?**

If Steve Forbes, publisher of the American investment magazine, *Forbes* is to be believed, a return to the gold standard by the United States within the next five years now seems likely, because that move would help the country solve a variety of economic, fiscal and monetary ills. The United States used gold as the basis for valuing the U.S. dollar successfully for roughly 180 years before President Richard Nixon embarked upon an experiment to end the practice in 1971 that has contributed to a number of woes that the country is suffering from now, Forbes added.

Gold standard means fixing the price of a country's currency in terms of a specified amount of gold. For example, if a country under the gold standard would set a price for gold, say \$100 an ounce and would buy and sell gold at that price. This effectively sets a value for the currency. In our example \$1 would be worth 1/100th of an ounce of gold.

What would a return to the gold standard mean? One obvious effect of this would be stabilisation of the US dollar by deterring excess fiscal spending and reckless money printing. If the gold standard hadn't been abandoned, the dollar would not only have been stronger but also less volatile. In fact, the housing bubble which was a precursor to the financial crisis was largely pumped up by the US Fed's loose monetary policy. A gold standard would also make it difficult to borrow too heavily, a reality that exists today.

Though a return to the gold standard may seem implausible given the Fed's current slant, the chorus in support of a gold-backed currency is gaining momentum. Many believe the gold standard will be the perfect cure for many of the current financial maladies plaguing the global economy.

# FOOD INFLATION FALLS TO 18 MONTH LOW

Food inflation declined to an 18-month low of 7.7 per cent for the week ended April 30 on the back of falling prices of pulses and vegetables. Food inflation stood at 8.53 per cent during the last week ending April 23. The primary reason for the decline was because a higher output in the rabi crop cooled food prices.

“While this lower weekly food inflation is encouraging, it is important to monitor the movement going forward. Usually rate spikes are seen in the post monsoon period due to seasonality of agricultural output and supply side inefficiencies,” said chief economist and director of Religare Capital Investments Jay Shankar.

The Finance Minister, too, seems circumspect about the fall in food inflation. According to Pranab Mukherjee, sustained high non-food primary prices are creating cost-push inflationary conditions in the manufacturing sector. Therefore, even though food inflation is declining, the concern on higher core inflation remains.

## Did You Know?

Samoa, the tiny Pacific island nation will soon go forward in time by one day to boost its economy. It will switch to the west side of the international date line so it can be on the same day as neighbours, New Zealand and eastern Asia. It reverses a decision made 119 years ago to go to the east of the line, (which roughly runs north to south down the Pacific and separates calendar days) following lobbying by Samoa’s merchants who wanted better to accommodate business with trading ships from the US and Europe.

## Weekly Spotlight

	May 6	May 12/13	% chg
Sensex	18,518.81	18,531.28	↑ 0.07
Nifty	5,551.45	5,544.75	↓ (0.12)
US (last close)	12,638.74	12,695.92	↑ 0.45
China	2,863.89	2,863.89	↑ 0.00
Japan	9,859.20	9,859.20	↑ 0.00
Hong Kong	23,159.14	23,159.14	↑ 0.00
Germany (last close)	7,492.25	7,443.95	↓ (0.64)
UK (last close)	5,976.77	5,944.96	↓ (0.53)
Brazil (last close)	64,417.34	64,003.16	↓ (0.64)
NYMEX Crude (\$ per barrel)	97.20	99.00	↑ 1.85
Gold (\$ per oz)	1,486.50	1,489.50	↑ 0.20
Weekly DII Inflow (Rs.cr)	3,264.62	406.64	
Weekly FII Inflow (\$ mn)	(681.22)	53.24	
Cumulative DII Inflow - YTD (Rs.cr)	13,483.36	13,890.00	
Cumulative FII Inflow - YTD (\$ mn)	477.59	530.83	
Food Inflation (%)	8.63	7.70	

Many people become long-term investors after they lose money, postponing their decision to sell as part of their denial.

- Nassim Nicholas Taleb

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