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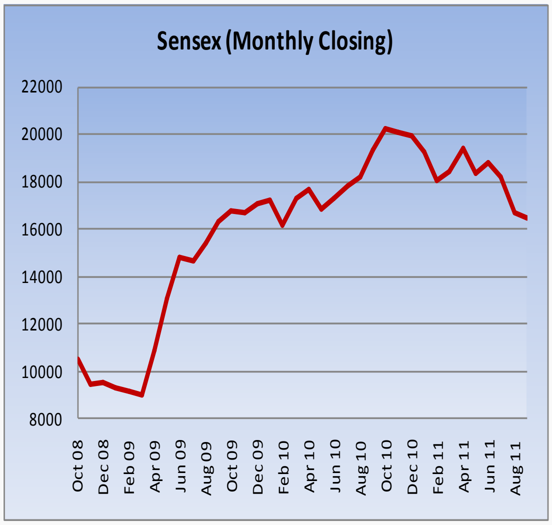
THE MACRO OVERVIEW

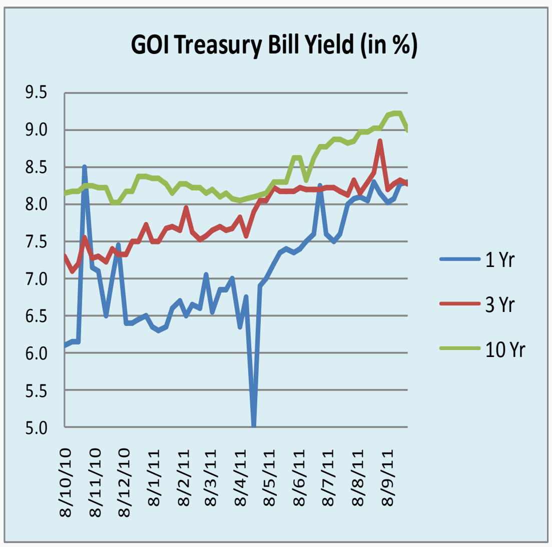
October 2011

DOMESTIC MARKETS - EQUITY



- The government tabled the Land Acquisition Bill that aims to help infrastructure investment while providing better compensation to farmers and land-owners.
- The government eased overseas borrowing regulations for Indian companies allowing them to raise upto $750 million (previously $500 million) overseas without taking prior approval of the RBI.
- Exports continued to grow strongly in September at $24.8 billion (36.5% increase year-on-year), defying predictions that this sector would fall in the face of a slowing global economy. For the first half of the current fiscal, exports were valued at $160 billion, up 52% from a year ago.
- In its latest edition of the World Economic Outlook, the International Monetary Fund (IMF) has revised India's growth forecasts for 2011 and 2012 to 7.8% and 7.5%, from 8.2% and 7.8%.
- FII net inflow in September was a mere $6.97 million. In stark contrast, FIIs had pumped in a net amount of $5.43 billion in September 2010. FII net inflow for the first 9 months of the current calendar year stands at $51.30 million.
- The BSE Sensex closed the month at 16453.76, a decline of 1.34%. However, high intra-day volatility was the norm, rather than the exception during the month. The Sensex is down 19.78% for the calendar year.

DOMESTIC MARKET - FIXED INCOME



- The government has announced a higher second-half borrowing of Rs 2.2 lakh cr. (Rs 52,800 cr. higher than earlier estimated). Lower collection from small savings is the reason given for the higher borrowing. The fiscal deficit (targeted 4.6% of GDP) is not expected be impacted as the shortfall was in internal financing and not for any slippage in revenues or expenditure.
- FIIs pulled out a net amount of $349.33 million from the Indian debt markets during September. FIIs had pumped in a net amount of $1.67 billion in September 2010. FII net inflow for the first 9 months of the current calendar year stands at $4.0 billion.
- The European debt crisis and fears of global recession had a major impact on the Indian Rupee. The Rupee fell 7.14% during the month against the US Dollar, closing at Rs.49.08 on September 30. While a weak rupee is beneficial to exporters, it is detrimental to the economy as a whole since India's imports have always been greater than its exports.
- The Reserve Bank of India (RBI) continued to maintain its strong anti-inflationary stance, by raising the repo rate by 25 basis points to 8.25% on September 16. This was the 12th consecutive rate hike in 18 months.
- The yield on 10-year Government of India bonds was 8.99%, marginally less than the 9.03% at the end of August. The yield on 1 year bonds was unchanged at 8.30%.
- Foreign exchange reserves slumped by $9.30 billion during the month. Forex reserves was $311.48 billion, compared to an all-time high of $320.78 billion at the end of August. However, the value of gold reserves rose to a record high of $28.66 billion.

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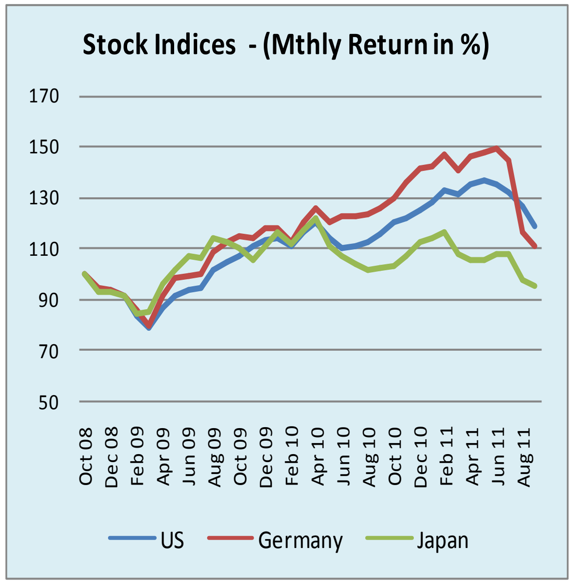
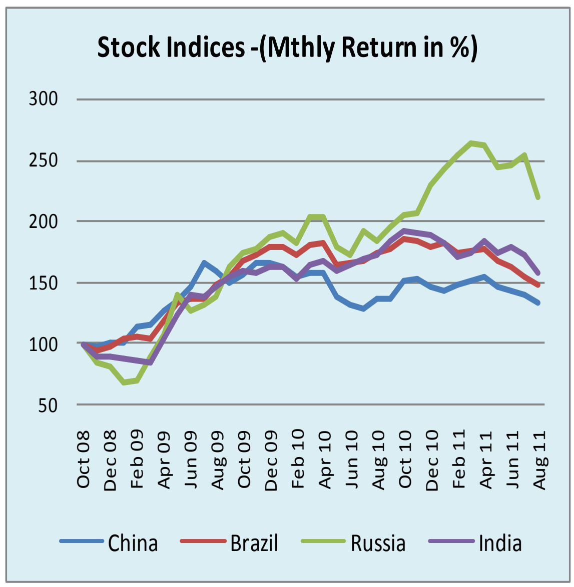
GLOBAL MARKETS – DEVELOPED

- The US Federal Reserve announced its plans to exchange $400bn of short-term Treasuries for longer-term debt in a move towards countering "significant downside risks". This "Operation Twist" is designed to place downward pressure on borrowing costs and keep the US economy growing, the magnitude of which also leaves the Fed with nearly no scope to increase the size of the policy further.
- The European Central Bank (ECB) revised the Euro Zone's growth estimates downwards to 1.4%-1.8% in 2011 and o.4%-2.2% in 2012. Economic data showed mixed trends – Germany's Industrial Production fell 1% in August, following a 3.9% rise in July. The UK's trade deficit narrowed in August as the export of goods hit a record high but unemployment hit a 17 year high.
- The U.S. trade deficit was little changed at a four-month low of $45.6 billion in August as near- record exports helped keep the economy expanding. Exports, at $177.6 billion were the second-highest ever. However, consumer confidence remained low in the US as Americans grew more concerned with their financial situation and the buying climate worsened. To boost the economy, President Obama announced a proposal of $450 billion to fund employment insurance programmes and higher infrastructure spending.
- The German parliament voted overwhelming in favour of strengthening the lending capacity of the European Financial Stability Facility (EFSF) by to Euro 440 billion, from the existing Euro 250 billion. The EFSF is a special purpose vehicle financed by members of the Eurozone, aimed at preserving financial stability in Europe by providing financial assistance to eurozone states in economic difficulty.



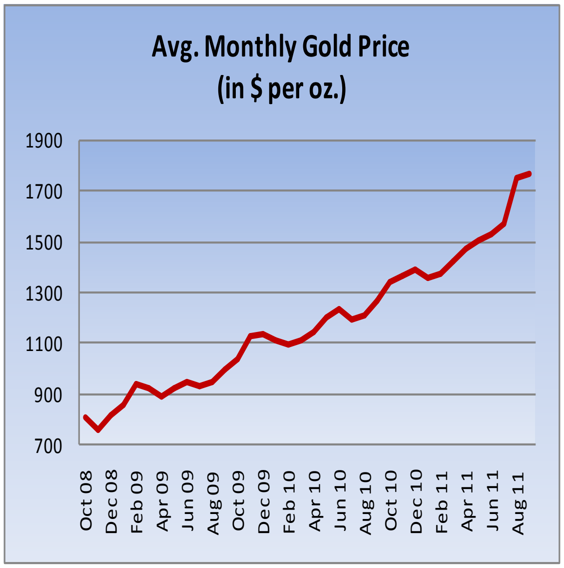
GLOBAL MARKETS – EMERGING

- China's trade surplus narrowed for a second straight month in September to $14.5 billion, with both imports and exports lower than expected, reflecting global economic weakness and domestic cooling that will deepen policy quandaries facing Beijing.
- China's inflation at 6.1% in September exceeded the 6% mark for the 4th straight month. Elevated inflation is limiting Premier Wen Jiabao's room for easing monetary policy as Europe's debt crisis cuts demand for exports and small businesses in China report a credit squeeze.
- Economic activity in Brazil slid in August from July with activity in previous months also weaker than first thought, the latest sign of a slowdown in Latin America's biggest economy. The IBC-Br economic activity index slipped 0.53% from July. Economists now expect the Brazilian economy to expand about 3.5% this year, down from earlier forecasts of around 4%.
- According to the IMF, Russia's economy will expand less than expected this year and next because of Europe's sovereign- debt crisis and lower oil prices. GDP is expected to grow 4.3% in 2011, down from a previous estimate of 4.8%, and 4.1% next year, compared with an earlier forecast of 4.5%. However, with Russia's finance minister predicting that oil prices may fall to $60 per barrel in the next 18-24 months, the Russian economy may not grow at all in 2013.



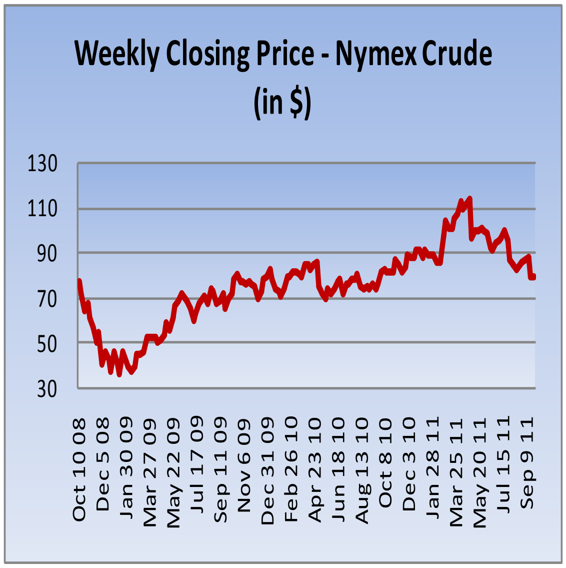
PRECIOUS METALS

- Gold prices fell 10.7% in September, from $1813.50 per oz. on August 31, to $1620 on September 30. This is biggest percentage fall in gold prices since October 2008, when prices fell 17.4%.
- The fall was primarily because speculators unwound their open positions due to concerns over funding issues for European banks and also due to liquidations to cover losses in other asset markets. Nevertheless, physical demand for gold continues to remain strong especially at current price levels.
- Silver prices fared much worse, falling 26.4% in September, from $41.35 per oz. to $30.45. This is 2nd time in 5 months that silver prices have tumbled over 20% in a month, the previous time being in May 2011, indicating an increasingly speculative market in silver.
- The carnage continued in platinum, which fell 18.1%, from $1845 to $1511. Amazingly, at the end of September, platinum was quoting less than gold, something not seen since 1995!



COMMODITIES

- Commodities plummeted to a 9-month low, largely led by routs in metals, on fears that governments are already exhausting their tools to avert a global recession, ebbing demand for raw materials.
- Copper imports by China, the biggest consumer, climbed to the highest level in 16 months in Sept, 2011 as lower prices lured traders to place orders. Inbound shipments of the refined metal, copper alloy and products rose 12 percent to 380,526 metric tons from 340,398 tons in Aug, 2011.
- Nymex crude prices fell sharply in September, from $88.80 per barrel on August 31 to $79.20 per barrel on September 30, a drop of almost 11%.
- Oil prices continue to face upward price pressure due to supply uncertainty and downward price pressure because of lowering expectations of economic growth.
- Upside uncertainty to the crude oil price outlook remains as a result of ongoing unrest in oil-producing regions. Heightened turmoil in Syria, which produced an average 400 thousand bbl/d in 2010, and the potential for more sanctions on the country's energy sector is one source of risk to non-OPEC supply.
- At the same time, downside demand risks predominate, as fears persist about the rate of global economic recovery, contagion effects of the debt crisis in the European Union, and other fiscal issues facing national governments. On the supply side, there may be downward price pressure if Libya is able to ramp up oil production and exports sooner than anticipated.
- The International Energy Agency (IEA) on Wednesday, revised down its forecasts for global oil demand by 50,000 barrels a day for 2011 and by 210,000 barrels a day for 2012, citing lower than expected economic growth.
- Now global oil demand is expected to rise 1.1 percent to 89.2 million barrels a day in 2011 and will grow by 1.4 percent to 90.5 million barrels a day in 2012.
- The Food and Agriculture Organisation (FAO) of the United Nations has estimated that the world rice production may touch a record 480.5 million tonnes (mt) this year on the back of higher output in Asia, the US and Russian Federation.



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ON THE CORPORATE FRONT

- Pfizer Inc., the world's largest drug maker, settled a patent infringement lawsuit with **Dr. Reddy's Laboratories** over the cholesterol drug, Lipitor. Pfizer had sued Dr. Reddy's in December 2009 to block generic copies of Lipitor from coming out before Pfizer's patent for the drug expired in 2017. With annual sales in excess of $12 billion, Lipitor is the largest-selling branded drug in the world.

- In FY11, **Sun TV Networks** paid promoter Kalanidhi Maran (Chairman & Managing Director) and his wife Kaveri Kalanithi (Joint Managing Director), Rs.128.8 cr. (Rs.64.4 cr. each) in salaries. Kalanithi Maran owns 77% of Sun TV Networks. Interestingly, the Sun TV remuneration committee comprises entirely of independent directors.

- **NTPC** signed a joint venture agreement with Sri Lanka's Ceylon Electricity Board for building a 500 MW power plant north of Trincomalee. The plant, which requires an investment of $500 million, is NTPC's first overseas project.

- **Yahoo Inc.**'s board fired CEO Carol Bartz in an abrupt move, after growing impatient with a lack of turnaround at the once high-flying Internet company. Yahoo, once the No. 1 Internet search engine, has lost a lot of ground over the last few years to Google and has been hurt by social network firm Facebook.

- Carl-Peter Forster, Group CEO and Managing Director of **Tata Motors** resigned owing to "unavoidable personal circumstances". Forster, who earlier headed General Motor's European operations joined Tata Motors in February 2010. His mandate included managing Tata Motors' global operations, including Jaguar Land Rover.

- The 10-month uncertainty over **Axis Bank's** acquisition of Enam Securities has finally ended with the board of Axis Bank approving a revised deal structure mandated by the RBI. Under the revised structure, Axis Bank will issue 13.8 million shares to the shareholders of Enam Securities on the previously agreed swap ratio of 5.7 shares of the bank for every share of Enam. In addition, Axis Bank will now sell the acquired business to its subsidiary, Axis Securities and Sales for Rs. 274 cr. in cash.

- Infrastructure developer, **GVK Group** has acquired a 79% stake in a large coal resource and infrastructure development project in Queensland Australia from Hancock Prospect for $1.26 billion. The project which has 7.9 billion tonnes of coal, involves the development, ownership and operation of an integrated infrastructure development project consisting of a 495 km rail line and a 60 million tonne per annum port at Abbot Point.

- A 31 year old trader of **UBS** was arrested in London on September 15 for causing a $2 billion loss to the Swiss banking giant on account of unauthorized trading at the bank's London office. This huge loss comes at a time when UBS is struggling to put its house in order.

- Brewing giant **SABMiller** agreed to buy Australia's largest beer company, Foster's Group for $10.2 billion. The purchase is the largest deal in the brewing industry, since the 2008 take-over of Scottish & Newcastle jointly by Heineken and Carlsberg for 9.5 billion pounds.

- **Fortis Healthcare** is acquiring its Singapore-based sister entity, Fortis Healthcare International to consolidate its domestic and international operations into a $1 billion healthcare company which will be Asia's largest.

- Warren Buffett's **Berkshire Hathaway** announced its first share buyback programme in 40 years. Berkshire said that it was willing to upto 10% more than the book value per share of the company. Berkshire's book value was $98,716 per Class A share as of June 30. The company said it would use cash on hand to fund the buybacks, but would not buy any shares if doing so took the company's cash position below $20 billion. Berkshire had $47.89 billion cash at June 30 but has spent at least $15 billion between July and September on acquisitions and investments,

FIXED MATURITY PLAN (FMP) – IDEAL FOR THE RISK-AVERSE INVESTOR

- Fixed Maturity Plans (FMPs) are close-ended mutual fund debt schemes that have a predetermined maturity date.

- They invest in government securities, corporate debt and money market instruments, and aim at generating steady returns over a fixed period.

- The objective of a FMP is to provide protection of capital. Thus, the returns are marginally higher than from pure debt investments.

- FMPs do not guarantee any rate of return unlike products such as bank fixed deposits. On the basis of the investment tenure, FMPs are invested in a range of debt products of similar maturity dates. Based on the underlying instruments, an indicative rate of return is computed.

- FMPs are tax-efficient, but subject to capital gains tax and dividend distribution tax. The dividend is tax-free in the hands of the investor. In case of an investment in the growth option of a FMP, held for less than a year, the gains are added to your income and taxed at your applicable income tax slab rate. If the FMP is held for more than a year, long-term capital gains tax is applicable. You have the option of choosing either capital gains tax with indexation or without indexation.

- It should be noted that FMPs are not risk-free. FMPs are exposed to certain liquidity risk as the product is designed to be held till maturity. Investors must stick to the FMP till maturity and must not contemplate withdrawing prematurely. There is a credit risk associated with these instruments. There is a probability that the debt issuing company may not repay the principal. Credit rating agencies rate debt instruments on the basis of the financial health of companies floating them.

- Temporary volatility in the FMP's NAV in the intermittent period will not dent the investor's pocket. There is minimal churning and portfolio review carried out by the fund manager because the underlying assets are held till maturity. Hence, FMPs are tagged with low expense ratio.

- The yield of a FMP is indicative unlike a fixed deposit, and is dependant on yields of assets that make it up.

- With short-term rates turning attractive, fund houses have lined up several short-term FMPs. However, as of now, most of these short-term FMPs are being launched to cater to institutional investors.

- At the fag end of the previous financial year, fund houses had launched long-term FMPs, typically above 1 year, to let investors avail of double indexation benefit.

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