

Economy Update & Outlook - 2014



ECONOMY UPDATE & OUTLOOK FOR 2014

The below table highlights what we feel was the economic picture for the Indian economy in CY 2013.

How 2013 looked like

The Good	The Not So Good	The Bad
Remittances	Corporate Earnings	Fiscal Deficit
FII Flows	GDP	Current Account Deficit
Economic Reforms	WPI Inflation	Currency Depreciation
	Interest Rates	CPI Inflation

The 2014 table highlights the change we expect in the economic parameters in CY 2014. A number of economic concerns will recede and hence we feel the current Indian economic environment will change for the better in CY 2014.

How 2014 may look like

The Good	The Not So Good	The Bad
Remittances	GDP Growth	Fiscal Deficit – is a question?
FII Flows	Currency Depreciation	
Economic Reforms	Inflation – CPI & WPI	
Corporate Earnings	Interest Rates	
	Current Account Deficit	

Current Account Deficit – A Remarkable Turnaround

India's Current Account Deficit (CAD) narrowed sharply to USD 5.2 billion or 1.2 percent of GDP, in the July-September quarter of 2013-14 on the back of turnaround in exports and decline in gold imports. CAD was USD 21 billion, or 5 percent of the GDP, in the second quarter of last fiscal.

While weak domestic demand and a pickup in exports helped, it was the sharp reduction in gold imports that have been a key driver of the improvement. This is partly due to the restrictions on gold imports imposed by the government and RBI, as well as weak investment demand as gold prices remained weak. A sharp fall in the volume of oil imports after domestic administered prices were raised, also contributed to the improvement.

India's large current account deficit was one of the key vulnerabilities which precipitated a large outflow of capital and sharp INR depreciation in 2013.

Economy Update & Outlook - 2014



Our View

US\$ Billion	2011/12	2012/13	2013/14F	2014/15F
Current account				
Merchandise exports	310	304	326	348
Merchandise imports	500	500	478	513
Service exports	141	145	148	159
Service imports	77	81	82	85
Income and transfer	47	43	38	40
Current account balance	-78	-90	-49	-51
As per GDP share (%)	-4.2	-4.9	-2.7	-2.6
Capital Account				
Foreign Direct Investment	22	21	22	24
Portfolio Investment	17	27	15	15
Loans - all	19	31	24	25
Others*	9	13	5	0
Capital account balance	68	92	66	64
As per GDP share (%)	3.6	5	3.6	3.3
Basic balance of payments**	-39	-42.2	-12	-12.1
As per GDP share (%)	-2.1	-2.3	-0.7	-0.6
Overall balance (US\$ bn)	-12.8	3.8	16.6	12.9

* Others include banking capital, rupee debt services and others

** BBOP= Current Account balance + FDI + FII

Source: CEIC, Goldman Sachs Global Investment Research. (28th November 2013).

In FY15, we expect the improvement in the current account deficit to be maintained.

Trade Deficit – Leading the Rebound:

Cumulative value of exports for the period Apr-Nov FY14 stood at US\$ 204.0 bn registering a growth of 6.3%. Cumulative value of imports for the period stood at US\$ 303.9 bn recording a negative growth of 5.4%. The trade deficit for Apr-Nov FY14 was thus at US\$ 99.9 bn which was lower than the deficit of US\$ 129.2 bn during Apr-Nov FY13.

Economy Update & Outlook - 2014



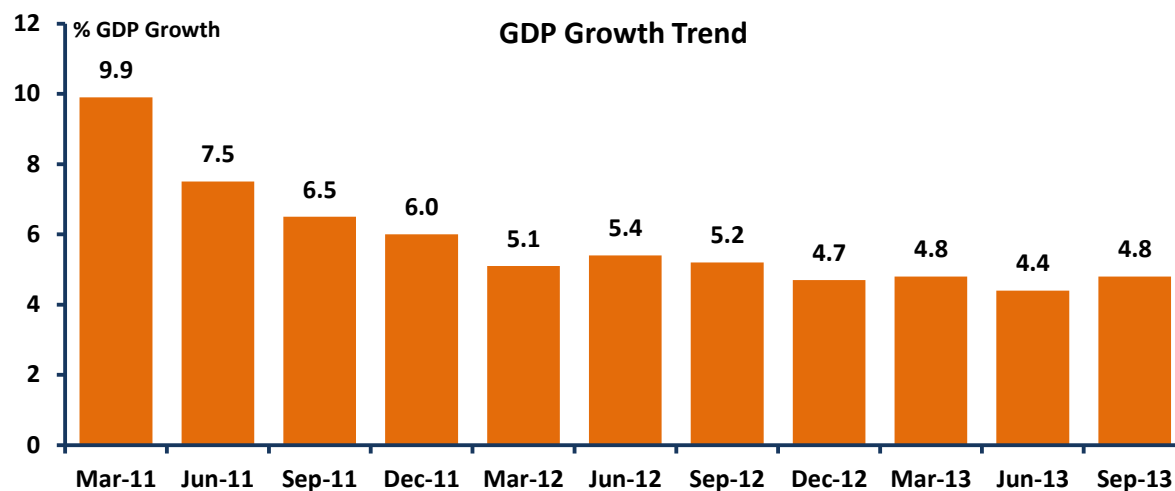
	Nov-12	Apr-13	Jun-13	Sep-13	Oct-13	Nov-13	April-November FY13	FY14
Exports	23.3	24.2	23.8	27.7	27.3	24.6	191.9	204
Imports	40.5	42	36	34.4	37.8	33.8	321.2	303.9
Oil Imports	13.1	14.1	12.8	13.2	13	13	108.1	111.1
Non-Oil Imports	27.3	27.9	23.3	21.2	20.9	20.9	213.1	192.8
Trade Balance	-17.2	-17.8	-12.2	-6.8	-9.2	-9.2	-129.2	-99.9

Source: Ministry of Commerce and Industry, CRISIL Research (figures in USD billion)

GDP Growth—A Gradual Recovery:

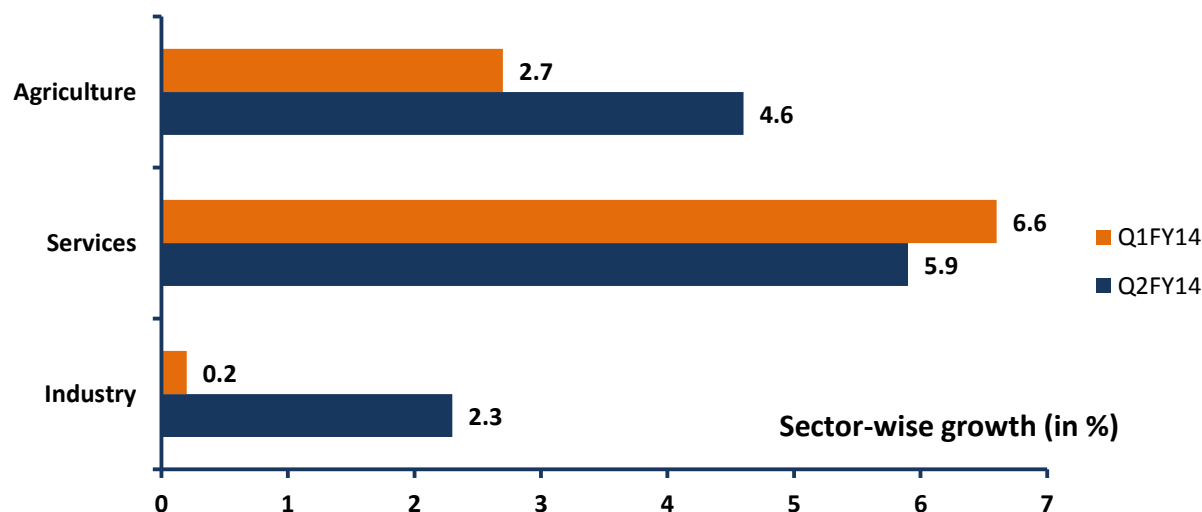
Gross domestic product (GDP) expanded 4.8% in quarter ended 30th September 2013, compared with 4.4% in the preceding quarter.

India's industrial output as measured by the Index of Industrial Production (IIP) remained unchanged (y-o-y) in Apr-Oct FY14. The mining and manufacturing sectors registered a decline of 2.7% and 0.3% respectively, whereas the electricity sector recorded a growth of 5.3% during the same period.



Source: Bloomberg, 31st December 2013

Economy Update & Outlook - 2014



Source: Bloomberg, 31st December 2013

Our View

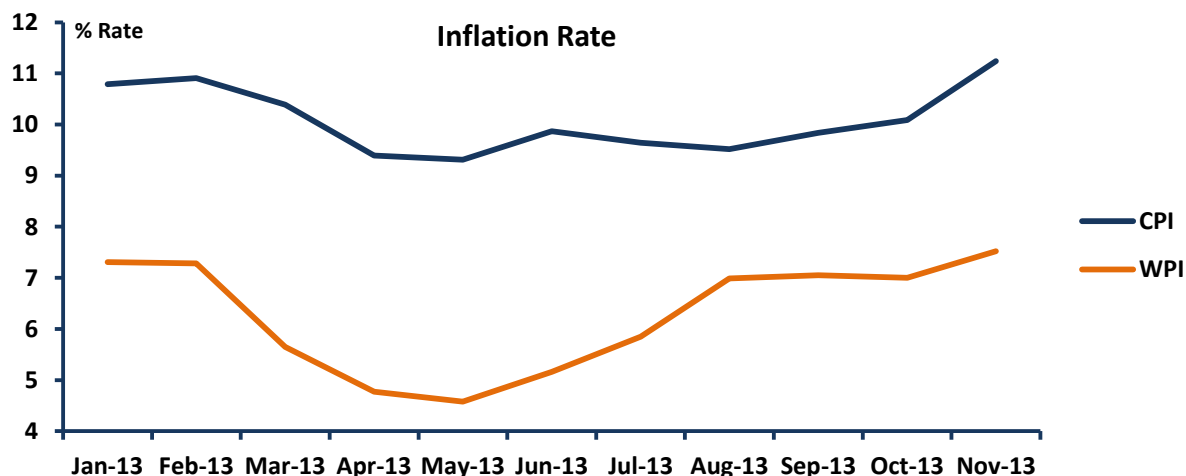
We expect GDP to grow by 5.75% (+/- 0.25%) over the next financial year FY 14-15 from our expectation of 4.8% (+/- 0.25%) over FY 13-14.

The improvement is to be driven by better exports and an improvement in investment spending. We think investment spending will likely pick up from a very low base due to the removal of election uncertainty, and policy moves to de-bottleneck projects. Further, attempts by the government to remove bottlenecks for projects through 2013, will help in 2014. We expect consumption demand to be driven primarily by rural demand, due to a better monsoon and significant rural spending by the government.

Inflation & RBI Monetary Policy:

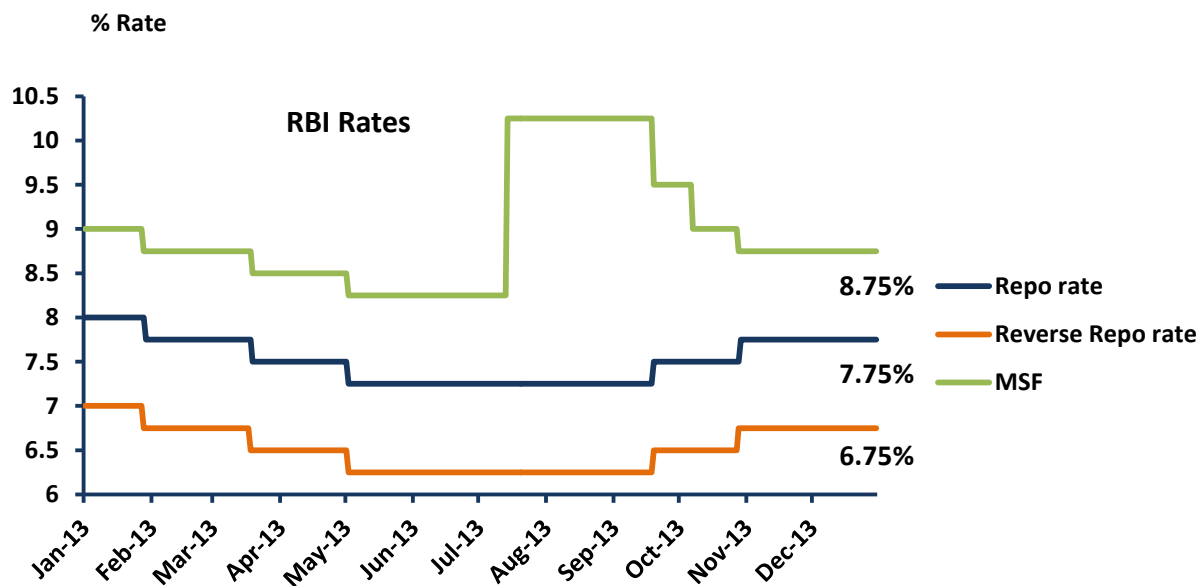
WPI inflation rose to 7.5 per cent in November – 14-month high. Consumer price inflation (CPI) for November also soared to 11.2 per cent from 10.2 per cent in October. WPI inflation rose in November with prices increasing at a faster pace across all categories - fuel, food articles, non-food articles and manufactured products.

Economy Update & Outlook - 2014



Source: Bloomberg, 31st December 2013

After a gap of four months and three policy review meetings, in the December mid quarter review the RBI got a chance to maintain status quo. **(Policy Rates highlighted below)**



Source: RBI, Ministry of Commerce and Industry, CSO, CRISIL Research, 31st December 2013

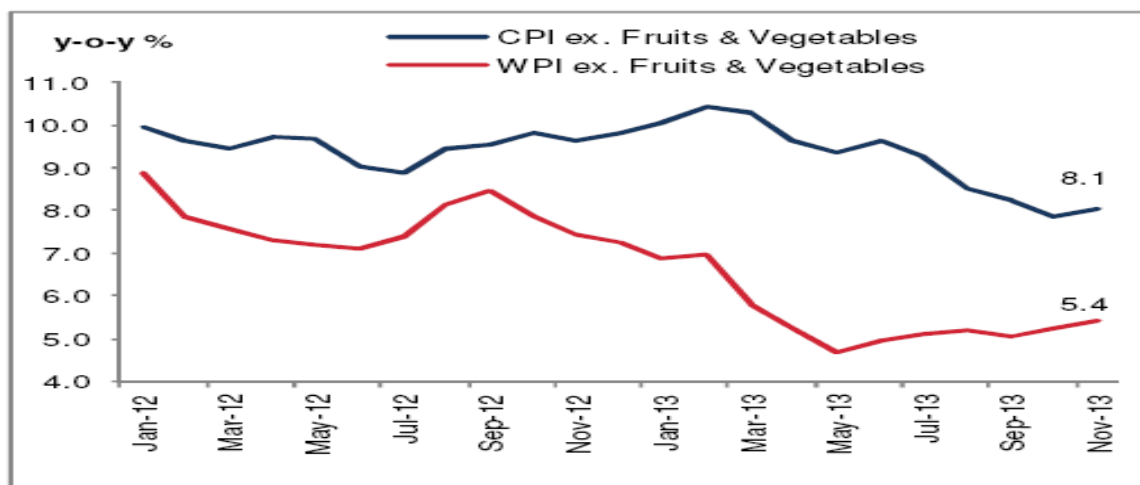
While the expectation had clearly tilted for a rate hike after the huge unanticipated spike in both CPI and WPI inflation, the RBI judiciously opted for caution and avoided any premature reaction before it has concrete evidence of persistent inflationary pressures. The recent spike in inflation was primarily driven by food prices, especially, vegetables. However, anecdotal evidence suggests sharp correction in prices of onion and tomato since the last week of November. This is expected to start reflecting in the

Economy Update & Outlook - 2014



inflation number from December onwards. In addition, the disinflationary impact of the recent exchange rate stability along with continued slack economy activity will help keep inflation expectations rooted.

Inflation ex. fruits and vegetables



Source: RBI, Ministry of Commerce and Industry, CSO, CRISIL Research, 20th December 2013

Our View

Taking note of growth-inflation dynamics we would assign low probability of RBI increasing repo rate further in its upcoming policy review.

The key risks to our view is

1. Inflation risks deepen further and December WPI & CPI numbers shows sharp increase
2. Any disruption in the global markets due to change in US fed stance.

As stability returns to the currency markets, RBI is gradually shifting its focus away from tactical measures (Forex swaps, MSF-Repo corridor) to more structural measures e.g. raising financial savings rate, opening up financial sector, adjusting monetary policy framework.

In 2014 we believe, that overall rates expectations would be derived from currency prospective and RBI may focus on real interest rate enjoyment in order to protect further currency depreciation. We believe emerging growth inflation dynamics and effect of upcoming elections on the fiscal situation may dictate the direction of interest rates.

Economy Update & Outlook - 2014



Economic Reforms: A Positive Sign

A number of policy reforms were announced during the year, which had a positive impact on the market sentiments.

- The Cabinet Committee on Economic Affairs approved fixation of price of domestic natural gas according to the recommendations of the Rangarajan Committee Report on Production Sharing Contract mechanism in the petroleum industry. The approved recommendations known as the Natural Gas Pricing Guidelines, 2013 will be applicable from April, 2014 and will remain valid for five years.
- The Union Cabinet approved the Real Estate (Regulation and Development) Bill, 2013, with an aim to protect the interest of consumers, to promote fair play in real estate transactions and to ensure timely execution of projects.
- The Food Security Bill was passed, guaranteeing subsidized food to two-thirds of the population, and in our view, putting significant upward pressures on the fiscal deficit.
- Forward movement on the Goods and Services Tax, or on the unique ID program was slower than expected.
- The land bill that was passed added additional layers of clearances, which may not expedite the acquisition of land to a pace we expected.
- Restructuring of power distribution companies was a positive development for the entire sector
- Pension Reform Bill was passed by Parliament,
- Diesel prices continued to be raised to reduce the quantum of fuel subsidy
- Cabinet Committee on Investment has cleared 103 projects amounting to US\$57bn, which we expect will progressively come on-stream beginning in 2014

Measures taken by government/RBI Implications

- Banned gold coin/bullion imports
- Hiked import duty on gold, silver and platinum to 10%
- Sale of gold by importers to jewelers/bullion traders/banks only on upfront cash payment
 - Gold imports fell from US\$16bn in June to US\$4bn in September 2013
- Swap facility on non-resident deposits and bank borrowings
- US\$345 billion in FCNR (B) capital inflows so far
- Swap agreement with Japan of US\$50bn; formation of US\$100bn BRICS currency reserve funds
- Boost confidence in FX reserves
- FX swap window for oil marketing companies
 - Reduced daily USD demand in the FX markets

Our View

We think that India will need continuous reform in this year as well, to speed up growth rates and spur investment demand.

Economy Update & Outlook - 2014



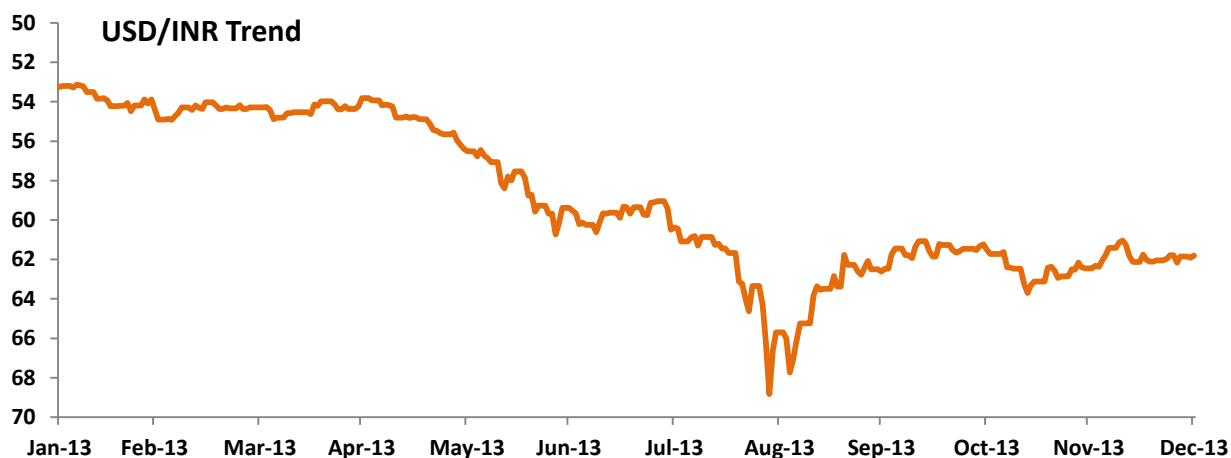
INR – Modest Recovery:

Rupee witnessed significant depreciation during 2013, touching record lows.

Since the start of the year to Apr-13, rupee had remained largely range-bound supported by portfolio capital flows and various reform measures. (decisions to gradually increase the diesel prices; hike in import duty on gold, the RBI's announcement to allow exporters to access the foreign exchange market). Since the US Fed Chairman's (22-May-13) indication regarding the tapering of the monetary stimulus, rupee depreciated significantly till 15-Jul-13. FII outflows as global investors began unwinding their risky positions, widening of trade deficit, rising gold imports, strengthening of dollar and heavy dollar demand by importers impacted the rupee strongly.

The Reserve Bank's measures on July 15, 2013 to address exchange rate volatility followed by the government's proposal to liberalize FDI in a number of sectors helped stabilize the rupee to some extent, however it continued to depreciate following concerns about fiscal deficit, FII outflows over concerns of early tapering of US stimulus and rise in global crude oil prices. Rupee touched a historic low of Rs 68.85 per US dollar (intraday on 28-Aug-13).

The rupee reversed the trend and appreciated during Sept-13 and Oct-13 on the back of various policy measures announced by the Reserve Bank, including opening of a forex swap window for the public sector oil marketing companies, the Fed's decision to maintain the pace of its quantitative easing and FII inflows.



Source: Bloomberg, 31st December 2013

Our View

We think that combination of sharp slowdown in the economy and very high inflation compared to our trading partners has led to sharp fall in the INR. Improvement in GDP, Balance of Payment and possible moderation in CPI will benefit the INR. We feel the INR has seen the worst and can appreciate with revival in growth.

Economy Update & Outlook - 2014



Global Environment

Global Growth is showing signs of bottoming out and reviving led mainly by China and US. IMF's 2014 GDP growth for the World Economy is expected at 3.6%.

	2013	2014 (E)	2018 (E)
World	2.9	3.6	4.1
Advanced Economies	1.2	2	2.5
United States	1.6	2.6	3.1
Euro Area	-0.4	1	1.6
Japan	2	1.2	1.1
Emerging Market and Developing Economies	4.5	5.1	5.5
India	3.8	5.1	6.7
Brazil	2.5	2.5	3.5
Russia	1.5	3	3.5
South Africa	2	2.9	3.5

Source: IMF, GDP Growth (% YoY) E: Estimated

We expect better global liquidity in the first half of 2013-14. The Federal Reserve said that it would gradually end its bond-buying program during 2014, a modest first step toward unwinding the central bank's broader stimulus campaign. FED said even if employment goes below earlier guidance was 6.5% jobless rate it will not raise rate till inflation crosses 2%. As per the survey inflation may cross 2% by 2016 only so interest rate likely to remain low till 2016. The move is positive for USA market

Economy Update & Outlook - 2014



Disclaimer:

Certain information contained in this document is compiled from third party sources. Whilst Mirae Asset Global Investments (India) Private Limited has to the best of its endeavor ensured that such information is accurate, complete and up-to-date, and has taken care in accurately reproducing the information, it shall have no responsibility or liability whatsoever for the accuracy of such information or any use or reliance thereof. This document shall not be deemed to constitute any offer to sell the schemes of Mirae Asset Mutual Fund. Mirae Asset Global Investments (India) Pvt. Ltd/ Mirae Asset Trustee Co. Pvt. Ltd./ Mirae Asset Mutual Fund/ its Directors or employees accepts no liability for any loss or damage of any kind resulting out of the unauthorized use of this document. References to particular sectors, securities or companies are for general information only and are not recommendations to buy or sell a security, or an indication of the author's holdings/ portfolios of the schemes of Mirae Asset Mutual Fund at any one time. **The data mentioned are as on 31st December, 2013.**

Mutual fund investments are subject to market risks, read all scheme related documents carefully