APAC Economic Perspectives
India by the Numbers (November 2014)

Economics

Asia Pacific

Edward Teather
Economist
edward.teather@ubs.com
+65-6495 5965

Lower oil prices – icing on the cake

What stands out? The decline in oil prices should be helpful for India. Generally, lower oil prices transfer income from oil producers to oil consumers – helping to reduce India's external deficit (Figure 1). The reduced cost of oil as an input into the production process should also enhance potential growth. On the downside, part of the reason for lower oil prices is weaker external demand and reduced oil-exporter surpluses may retard the flow of petrodollar liquidity into global financial markets. Nevertheless, lower oil prices make us more optimistic on Indian growth, more optimistic on lower inflation and more confident in our call for lower market interest rates. Our view that inflation would fall sharply was not predicated on lower oil prices – but lower oil prices should make the process more palatable, like icing on the cake.

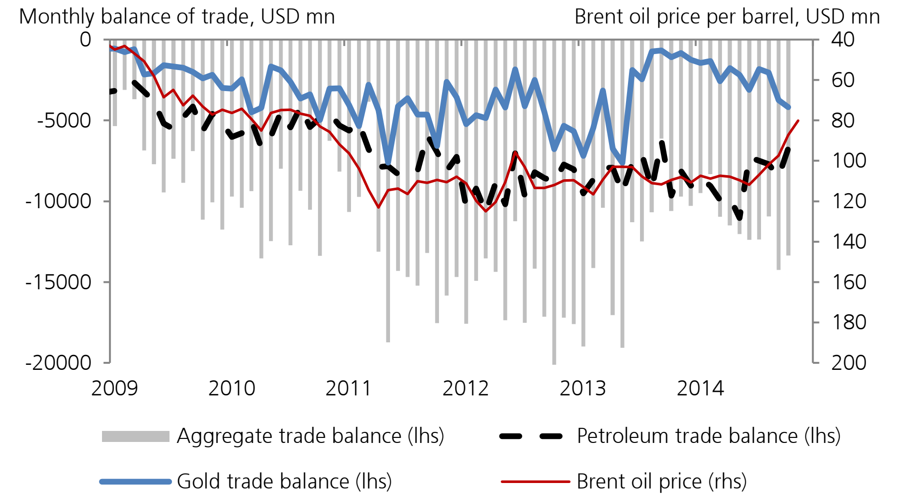
UBS outlook includes lower oil prices

We adjusted our Indian growth and inflation projections in Asian Outlook 2015-2016 to reflect Brent oil prices of around USD 85 a barrel. In that document we increased forecast real GDP growth to 5.5% for FY 2014-15 and 5.8% for FY 2015-16 from 5.3% and 5.5% respectively. That still implies a moderation in the remainder of FY 2014-15 from the 5.7% yoy real GDP growth recorded in the June quarter (Figure 2). Consistent with this, we note that corporates at the 10th Annual UBS India Conference in Mumbai on 19-21 November were hopeful but expected positive sentiment to translate into numbers only one or two quarters out, at the earliest. Our projected current account balance for FY 2015-2016 was revised to -0.6% of GDP from -1.6% of GDP previously and we revised lower our CPI forecast to 6.1% from 6.4% for FY 2015-16. We now project inflation of 6.7% in January 2015 and 5.7% in January 2016, below the RBI's goals of 8% and 6% respectively.

Inflation down, market interest rates lower, RBI easing round the corner

October CPI inflation at 5.5% and WPI inflation at 1.8% were the lowest prints for over 6 and 5 years respectively. This, plus lacklustre activity data in the September quarter, has increased the weight of expectation on Governor Rajan to lower RBI policy rates. We have expected for some time that the first (25bp) policy rate cut from the RBI will come in the March quarter and this remains our base case. A policy rate cut on 2 December is possible, but we expect the RBI to underline its determination to achieve a lasting decline in inflation by delaying the reduction in policy rates and moving only gradually when policy rates are actually reduced. We note that CPI inflation excluding food, fuel, transport and communication at 6.4% in October is still above the January 2016 goal of 6%, but down from over 8% on average in FY 2013-14. In any case, market rates have already fallen since we argued, in a note published 27 August, for a 200bps decline in market interest rates within two years. 3m MIBOR has fallen about 30bp to 8.6% and 10 year government securities have fallen circa 40bps to 8.2% since the end of August (Figure 3). We expect that dynamic to continue.

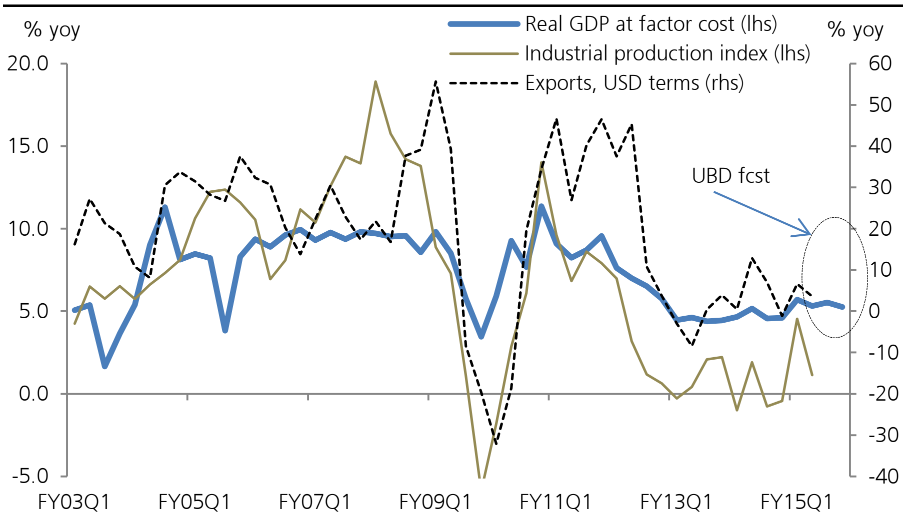
Figure 1: Oil trade balance gains offset by gold



Source: UBS, Haver, CEIC

Lower oil prices are a positive for India's economy, in part through a narrower external deficit. The trade balance gains were partially offset in September and October by higher gold imports. However, we note that oil prices fell further in November and the authorities are considering fresh measures to curb gold demand.

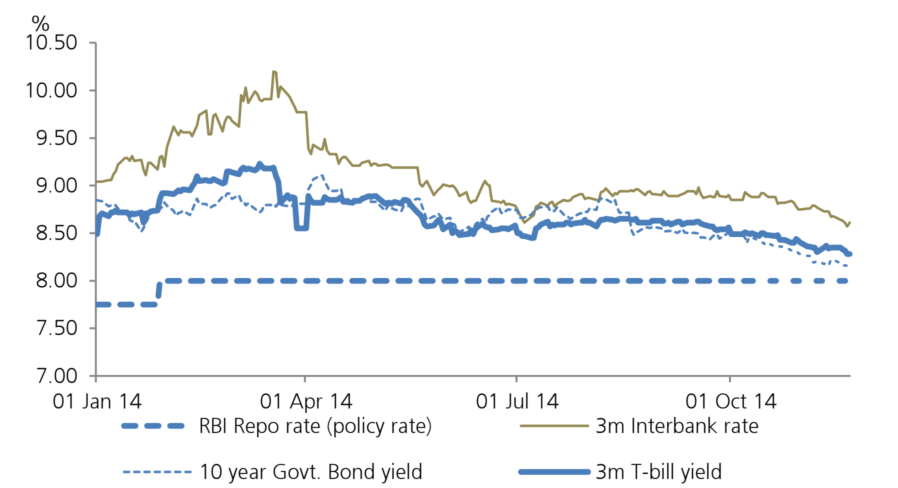
Figure 2: Real GDP growth – upward momentum to pause



Source: UBS, Haver, CEIC

September quarter GDP is due on 28 November. We expect real GDP growth momentum to slow modestly after the manufacturing and public sector led acceleration in the June quarter.

Figure 3: Interest rates falling



Source: UBS, Haver, CEIC, Reuters

The next policy decision is on 2 December. Our base case is that the RBI waits under the March quarter before cutting policy rates. However, market interest rates are already falling. We expect improved banking system liquidity and 75bps of RBI rate cuts to deliver a 10 year government bond yield of 6.5% within two years.

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Our guide to India monthly data - what the numbers are, what they mean, and our outlook going forward:

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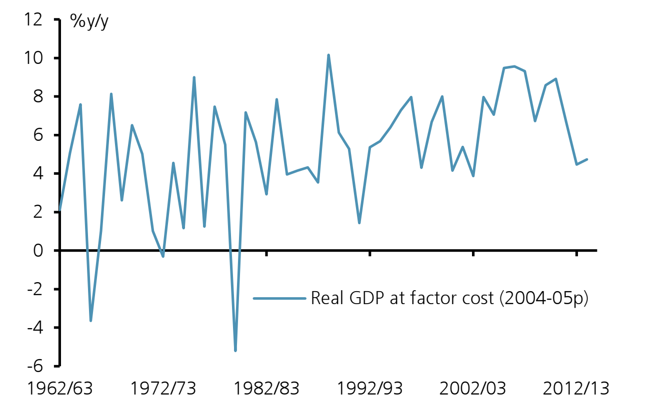
Gross Domestic Product

- *What the numbers say:* Real GDP growth in June quarter was the highest in 9 quarters at 5.7% y/y, above 4.7% in FY 2014 and 4.6% in the March quarter. Growth in June was driven on the expenditure side by exports and government consumption which grew 11.5% y/y and 8.9% y/y respectively, the latter coinciding with elections. In terms of output, manufacturing picked up after two quarters and construction strengthened, while community, social and personal services jumped (to 9.1% y/y from 3.3% y/y in March) in line with government spending. Domestic demand improved due to government consumption and investment while private consumption slowed. Exports continue to support growth.

- *What they mean*: GDP is the broadest measure of economic activity. It is strongly correlated with the profit cycle and provides important clues about inflation and the direction of policy. Strong GDP often suggests policy will tighten; weak GDP implies a policy bias for pro-growth.

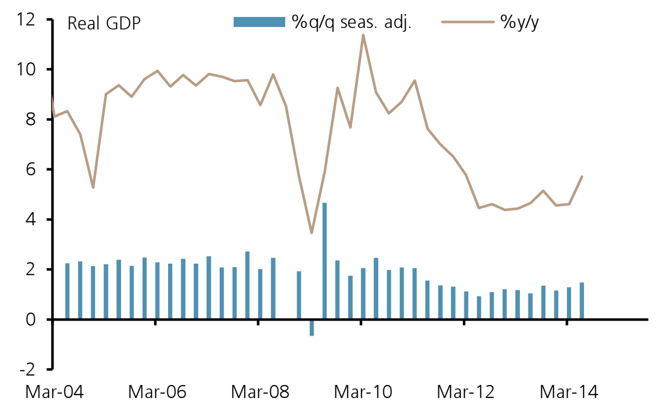
- *12-month outlook*: We expect real GDP to grow 5.5% in FY15, which is sub-par but nonetheless an improvement on the 4.7% recorded in FY14. Improving exports could give the economy a lift as could debottlenecked public investment projects. There will be headwinds from a delayed monsoon this year. Investment activity should pick up given enthusiasm regarding the new government. However, we do not expect a return to robust private investment growth in FY15 or FY16. Balance sheet repair, lower inflation and successful economic reforms will be necessary for that.

Figure 4: Real GDP growth – the long run



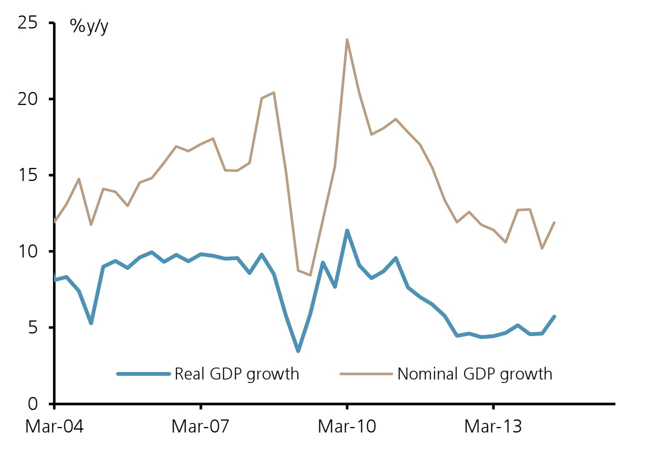
Source: CEIC, UBS. Note: 2013/14 data is government advance estimate

Figure 5: Real GDP growth – recent history



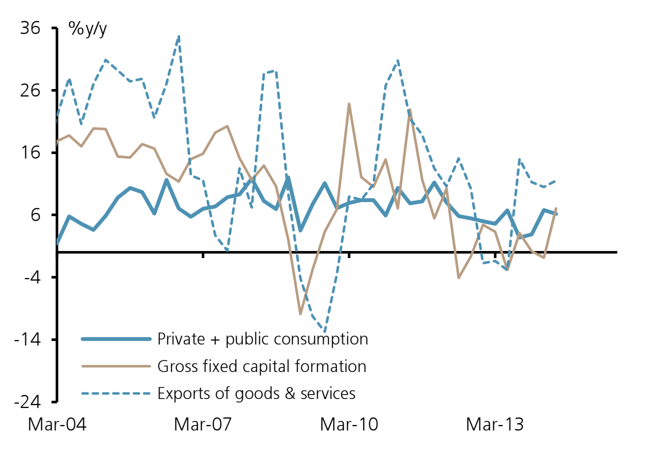
Source: CEIC, UBS

Figure 6: Real and nominal GDP growth



Source: CEIC, UBS

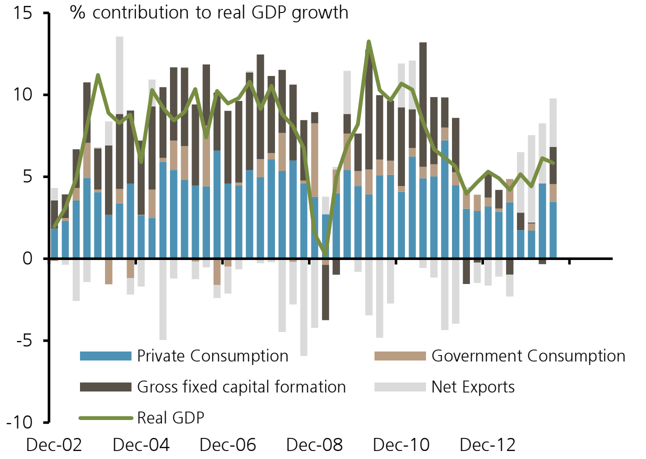
Figure 7: Domestic and external demand



Source: CEIC, Haver

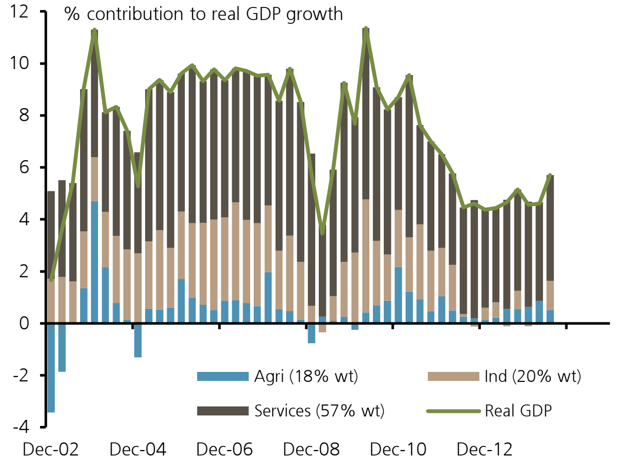
Gross Domestic Product, continued

Figure 8: Real GDP growth – by expenditure contribution



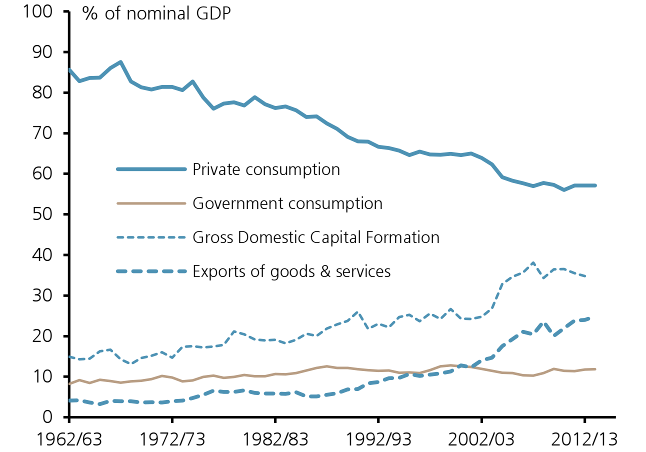
Source: CEIC, UBS

Figure 9: Real GDP growth – by industry contribution



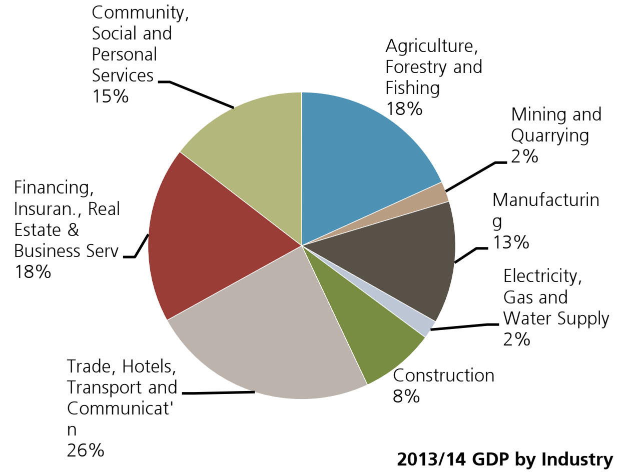
Source: CEIC, Haver

Figure 10: GDP by expenditure share over time



Source: CEIC, UBS Note: 2013/14 data is government advance estimate

Figure 11: GDP by industry share



Source: CEIC, UBS

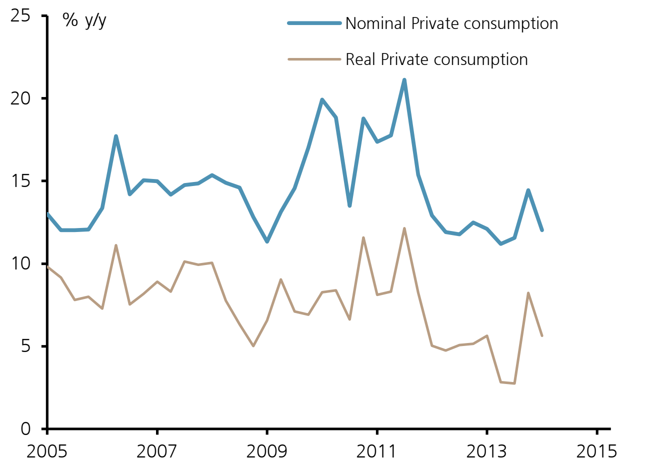
Consumption

- *What the numbers say:* Private consumption growth slowed in the June quarter to 5.6% y/y from 8.2% in March (which was the best in two years), but higher than c. 5% in FY13 and FY14. However, this is well below 9.2% in FY12. Four wheeler sales growth, after picking up strongly in June and August following negative growth for over a year, fell in October. Two wheeler sales growth too fell in October being strong from March to September. Air cargo has strengthened while rail freight has improved. Consumer credit growth has slowed further to around 13% y/y in September quarter after being around 17% in H1 FY13.

- *What they mean:* Consumption is, ultimately, the end result of the production and income formation process. However, the decision to consume output rather than accumulate capital can adversely impact future growth in output and income. In India, consumption is 56% of GDP, a moderate level for an Asian economy.

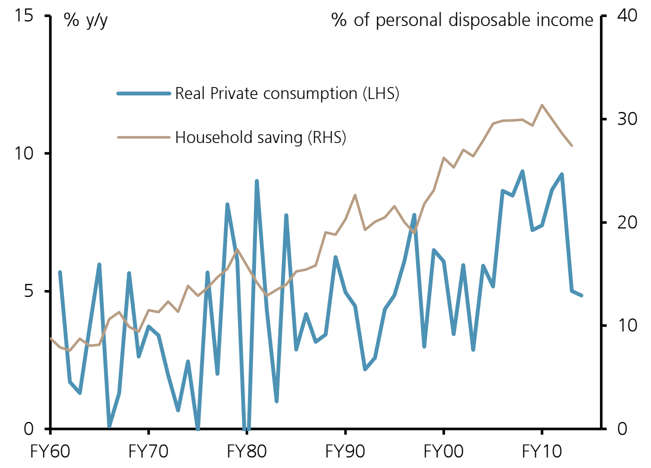
- *12-month outlook:* Lower inflation should support consumption in coming months. However, the lagged effects of balance sheet repair on employment demand mean we do not expect a robust recovery over the next twelve months.

Figure 12: Real and nominal consumption growth



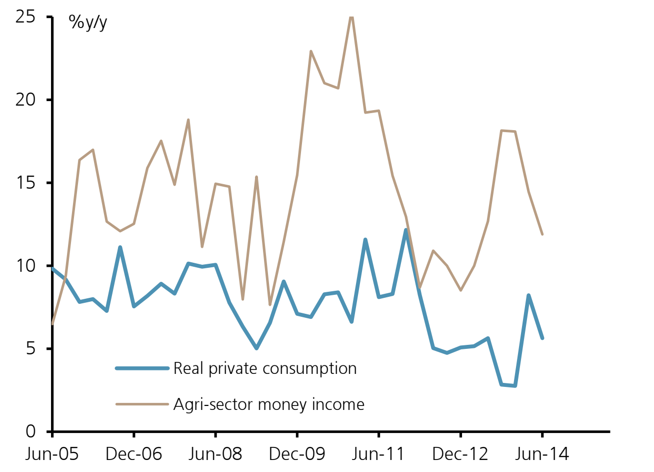
Source: CEIC, UBS

Figure 13: Real consumption growth, household saving



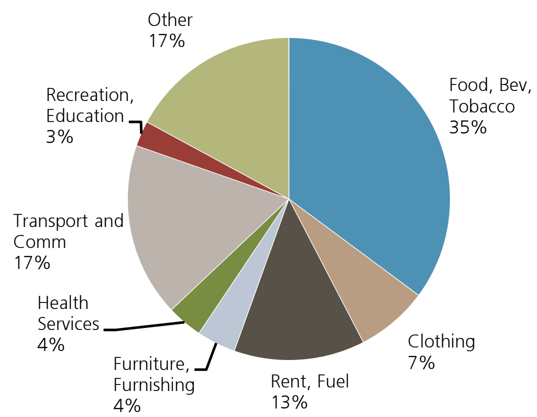
Source: CEIC, UBS Note: 2013/14 data is government advance estimate

Figure 14: Real consumption growth & agri sector income



Source: CEIC, Haver

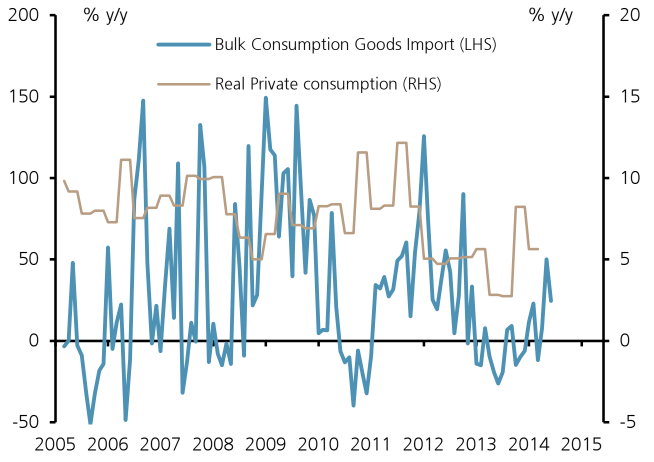
Figure 15: Consumption expenditure by type



Source: CEIC, Haver

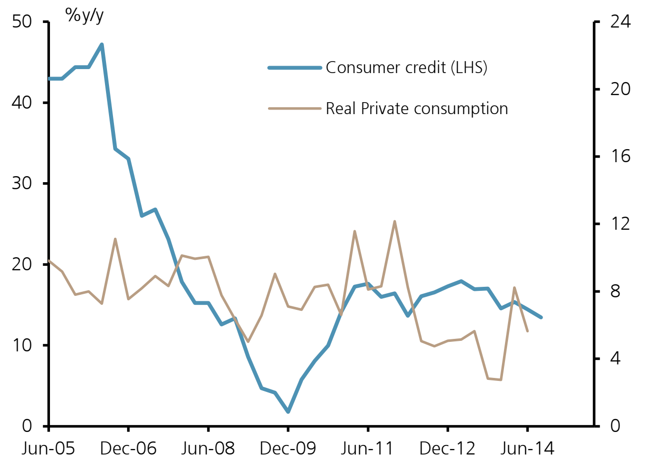
Consumption, continued

Figure 16: Consumer goods imports and real consumption



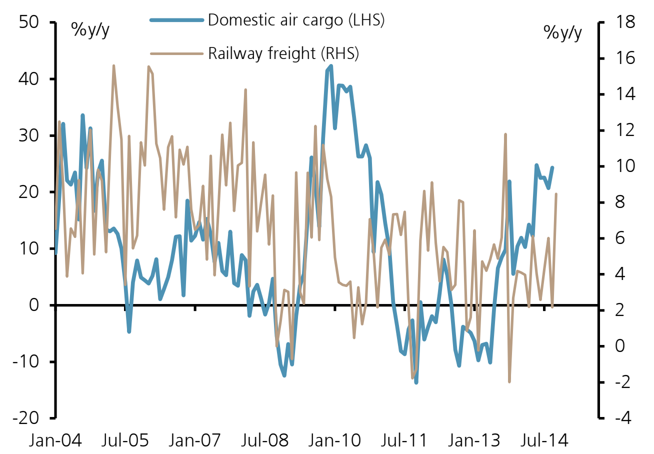
Source: CEIC, UBS

Figure 17: Consumer credit and real consumption



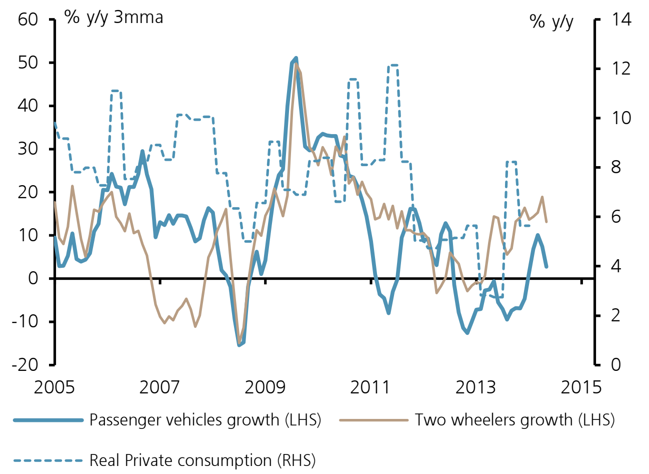
Source: CEIC, UBS

Figure 18: Goods shipments and real consumption



Source: CEIC, UBS

Figure 19: Vehicle sales and real consumption



Source: CEIC, UBS

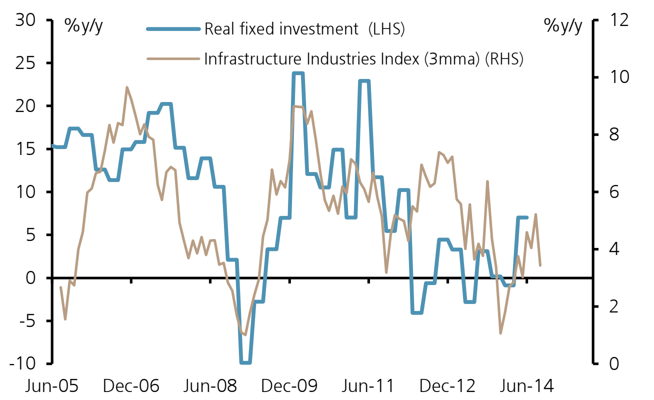
Investment

- *What the numbers say:* Real fixed investment growth picked up 7% y/y in the June quarter from -0.9% in March and -0.1% in FY14. Capital goods import growth has stayed. Surveyed expectations of capacity utilisation improved in September and December quarters after falling in June but business optimism fell over the same period. Our LEI and the Indian composite PMI which strengthened for a while have fallen more recently (page 11). Infrastructure industry output growth turned negative in October 2013 but improved since then, although the acceleration in the June quarter 2014 slowed in the September quarter.

- *What they mean:* High savings and investment ratios have long been the key ingredient to sustained high growth in Asia. Asia's investment to GDP ratio averages around 25% of GDP, which means India is above average. Investment is a key driver of employment and income growth. While not as large as private consumption, it can have a larger impact on the economic cycle due to higher volatility.

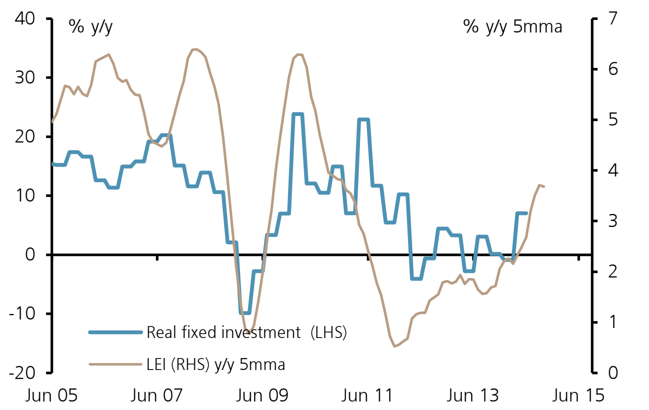
- *12-month outlook:* Weak investment growth is part of the adjustment in domestic demand forced by the reduction in last year's current account deficit. The now reduced current account deficit implies less correction pressure. There are still headwinds: (i) limited FDI, (ii) non-performing loans, (iii) possible foreign borrowing difficulties, (iv) profits recession. More time for balance sheet repair is probably needed but new government's strong mandate and policy adjustments over the last year help (Cabinet Committee on Investment to expedite clearances and now inflation policy responses).

Figure 20: Real investment, infrastructure industry output



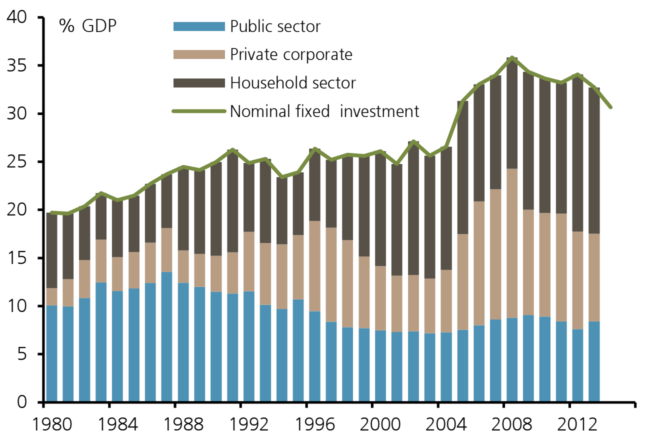
Source: CEIC, UBS

Figure 21: Real investment, UBS Lead Economic Indicator



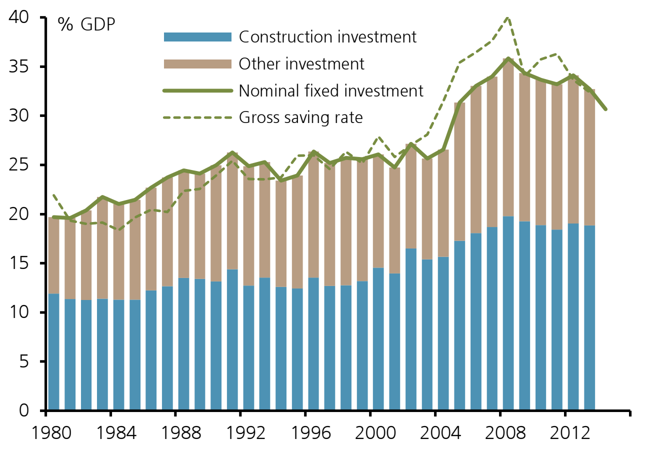
Source: CEIC, UBS

Figure 22: Fixed investment by investor



Source: CEIC, UBS

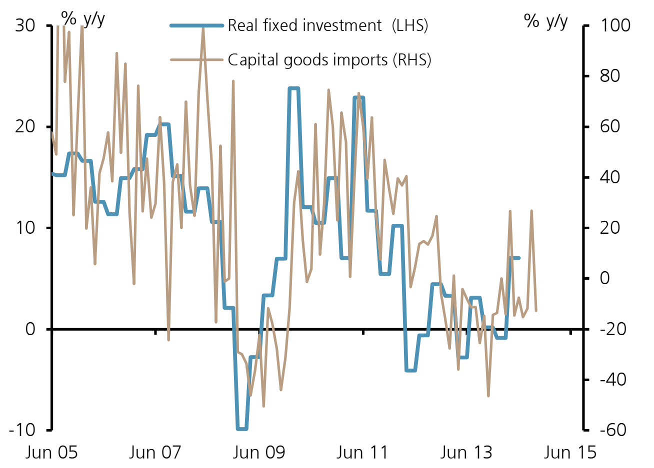
Figure 23: Fixed investment by type and the savings rate



Source: CEIC, UBS

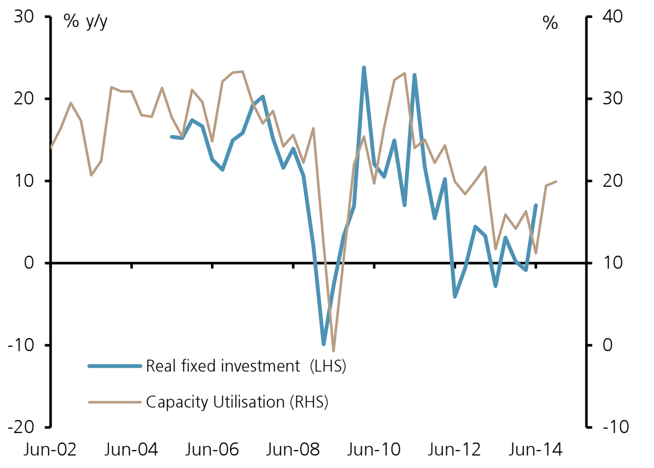
Investment, continued

Figure 24: Real investment and capital goods imports



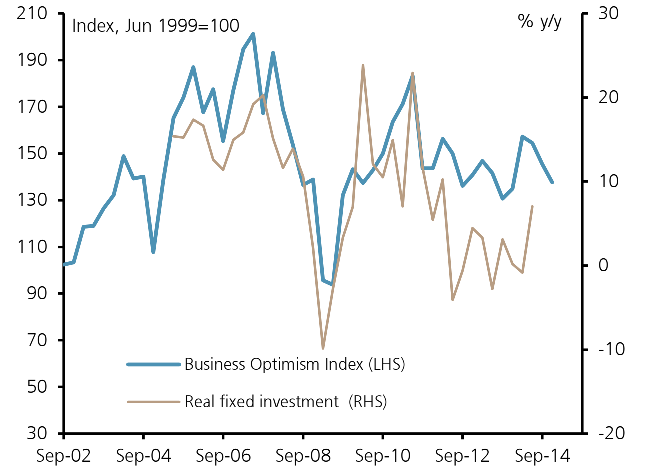
Source: CEIC, UBS, Datastream

Figure 25: Real investment and capacity utilisation



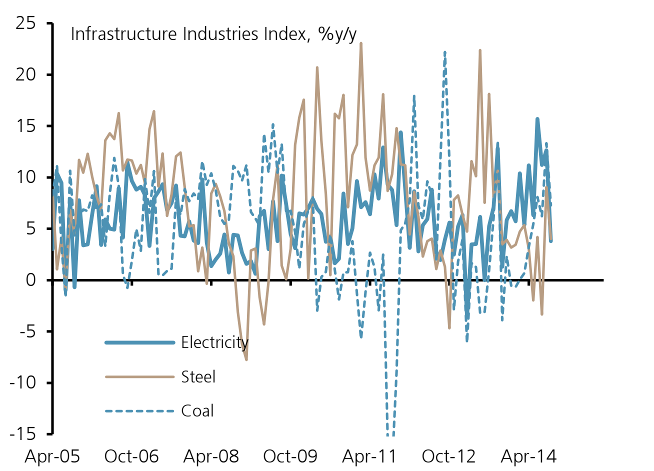
Source: CEIC, UBS, RBI

Figure 26: Real investment and business optimism



Source: CEIC, UBS

Figure 27: Growth in prominent infrastructure industries



Source: CEIC, UBS

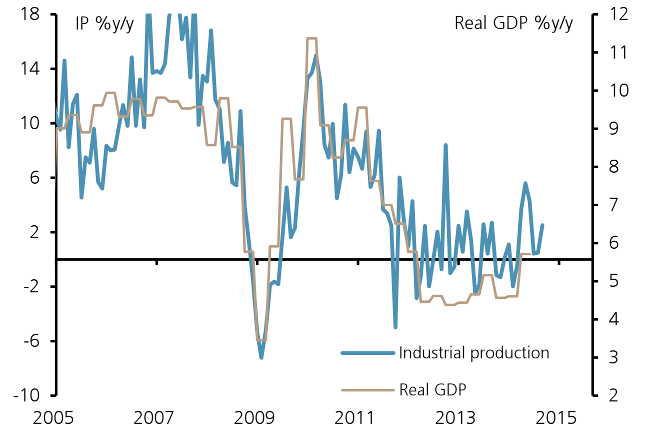
Industrial Production

- *What the numbers say:* The industrial production index, having moderated since June, picked up again in September. This broadly echoes the recent pickup in exports. Motor vehicle production growth fell in October after picking up in H1 FY 2015. By sector, production growth in basic goods improved so far in 2014 while growth in intermediate goods recovered in September after falling in August. Growth in capital goods picked up intermittently in June and September but has been soft otherwise. Within the consumer goods space, growth in both durables and non-durables picked up in May but has been weak after that, with durables in particular turning strongly negative again.

- *What they mean:* Swings in manufacturing explain most of the employment cycle and the profit cycle. Hence, this should be tracked closely to assess if profits margins are rising or falling, employment is likely to turn up/down, and pressures on producer prices. In fact, we can generally assume that the manufacturing cycle reflects the profit cycle.

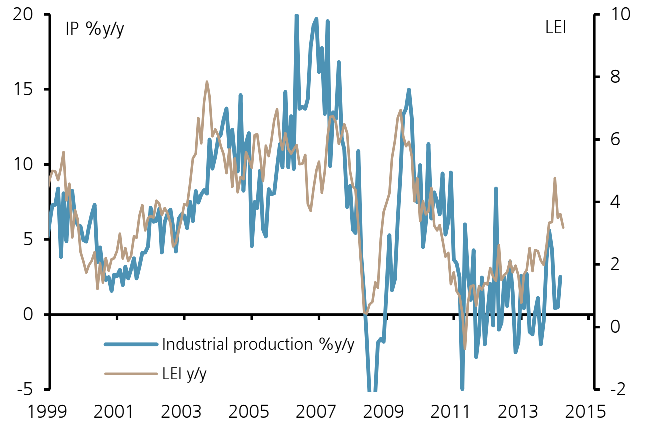
- *12-month outlook:* A lack of domestic demand is still a drag for production despite improved exports. Improvement is possible in H1 FY15 given the scale of pickup in exports and the seeming turn in the auto sector (although exports are part of the story here). Better conditions in financial markets and infrastructure sectors are helpful and necessary for a sustained recovery in domestically orientated production.

Figure 28: Industrial production and real GDP



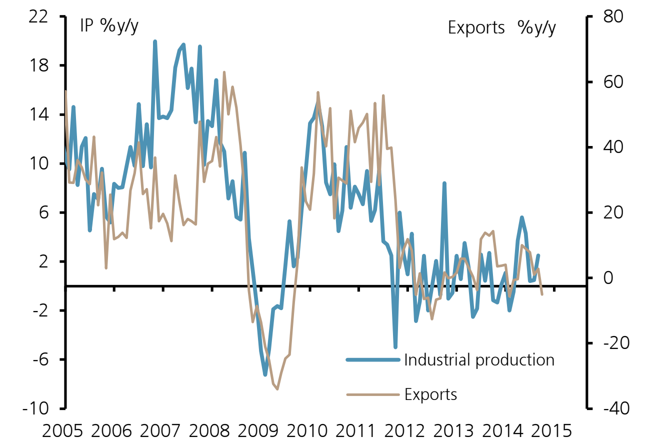
Source: CEIC, UBS

Figure 29: Industrial prod. & UBS Lead Economic Indicator



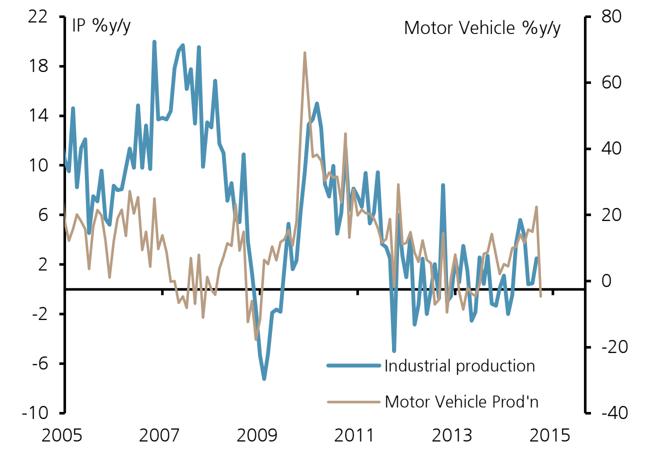
Source: CEIC, UBS

Figure 30: Industrial production and USD export growth



Source: CEIC, UBS

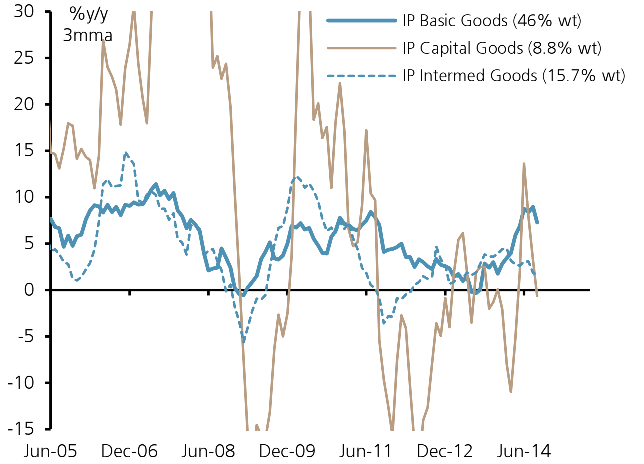
Figure 31: Industrial production, motor vehicle production



Source: CEIC, UBS

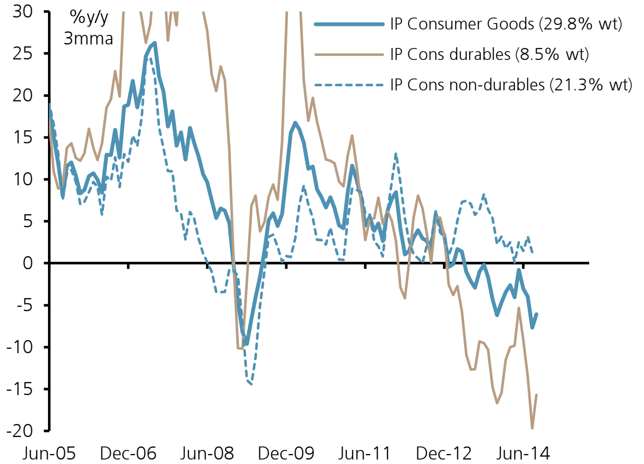
Industrial Production, continued

Figure 32: Ind. production by type – industrial goods



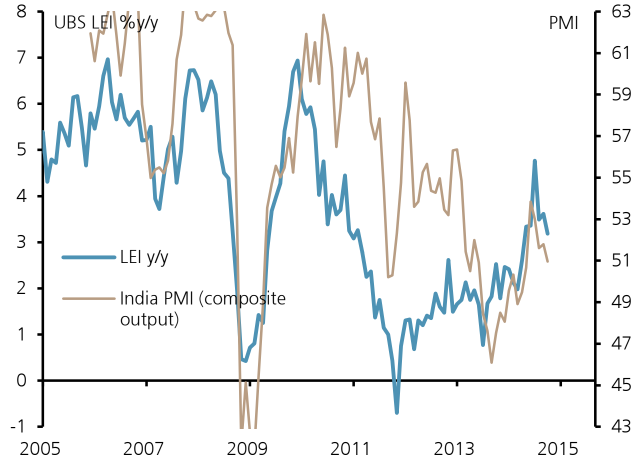
Source: CEIC, UBS, Haver

Figure 33: Ind. production by type – consumer goods



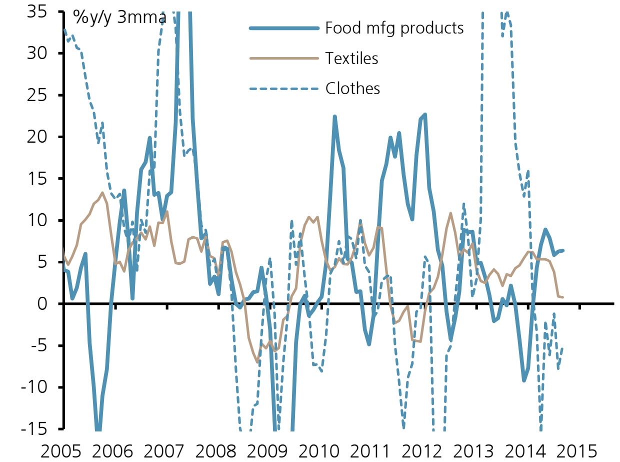
Source: CEIC, UBS

Figure 34: UBS Lead Economic Indicator and the India PMI



Source: CEIC, UBS, Haver

Figure 35: Industrial production – selected light industries

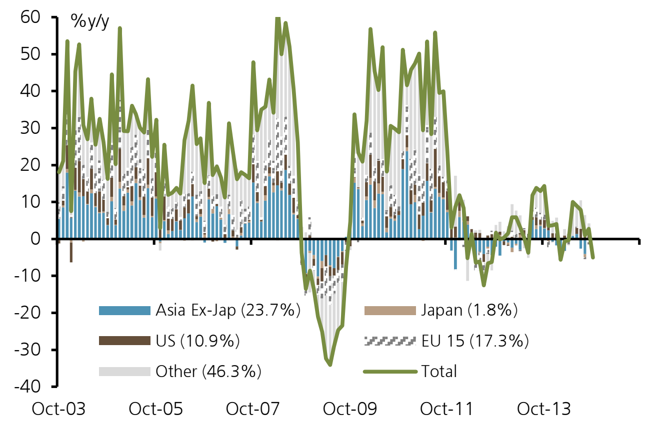


Source: CEIC, UBS, Haver

Trade

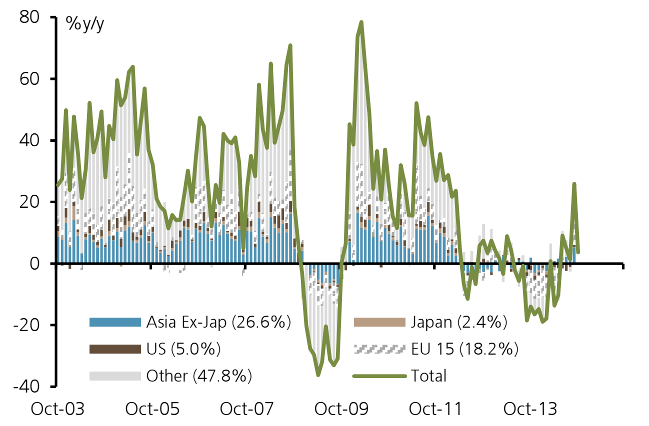
- *What the numbers say:* The trade deficit narrowed to USD 13.4bn in October from USD 14.2bn in September, below the H1 CY 2013 average of USD 16bn. Export growth weakened after being strong for a while to -5% y/y in October while imports moderated to USD 39.5bn (3.6% y/y) from USD 43.2bn (26% y/y). Lower oil prices probably helped lower export and import growth, but the decline in oil imports was partially offset by higher gold imports. Gold imports, after falling 26% y/y in July to USD 1.8bn, surged again from August to USD 4.2bn (280% y/y) in October, which could be due to festive season demand. At their peak, gold imports averaged USD 5bn in Q1 2013.
- *What they mean:* Exports are a key source of income for Asia and are a primary determinant of the Asian business cycle. Trade links producers and consumers in one country with another, forming a channel through which income and confidence dynamics can be transmitted. The impact of these linkages on the broader economy depends both on the net trade position and on the share of the economy engaged in trade-related activities. The share of India's economy exposed to trade is trending higher but is still low by international standards.
- *12-month outlook:* We project a current account balance of circa 0.6% of GDP in FY 2015, with the incremental improvement being driven by oil prices. Gold imports will likely not be allowed to cause a blow out in the current account. We assume Brent oil around USD 85 a barrel. Below par domestic demand should also help restrain the current account deficit.

Figure 36: Exports – contribution by country



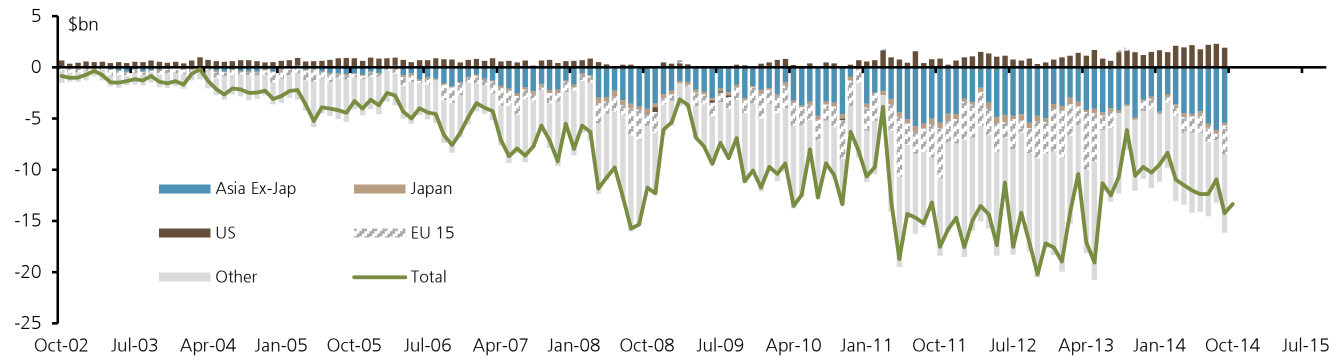
Source: CEIC, UBS

Figure 37: Imports – contribution by country



Source: CEIC, UBS

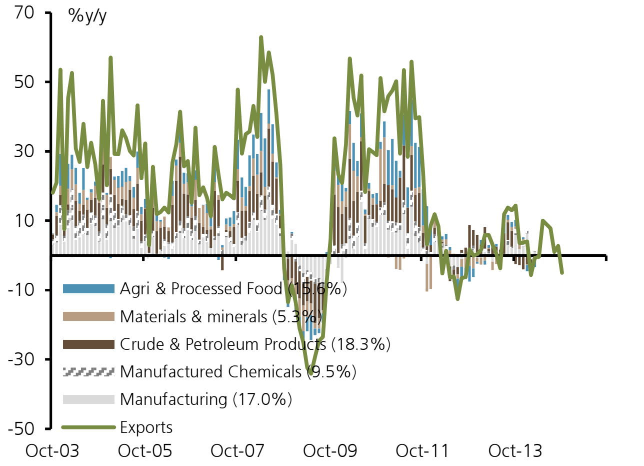
Figure 38: Trade balance – by country



Source: CEIC, UBS

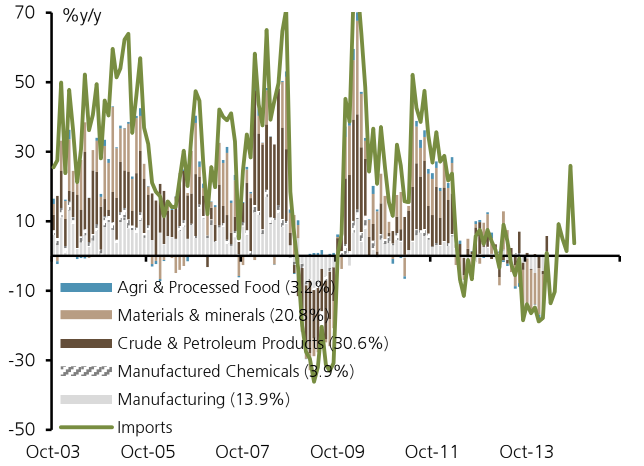
Trade, continued

Figure 39: Exports – contribution by sector



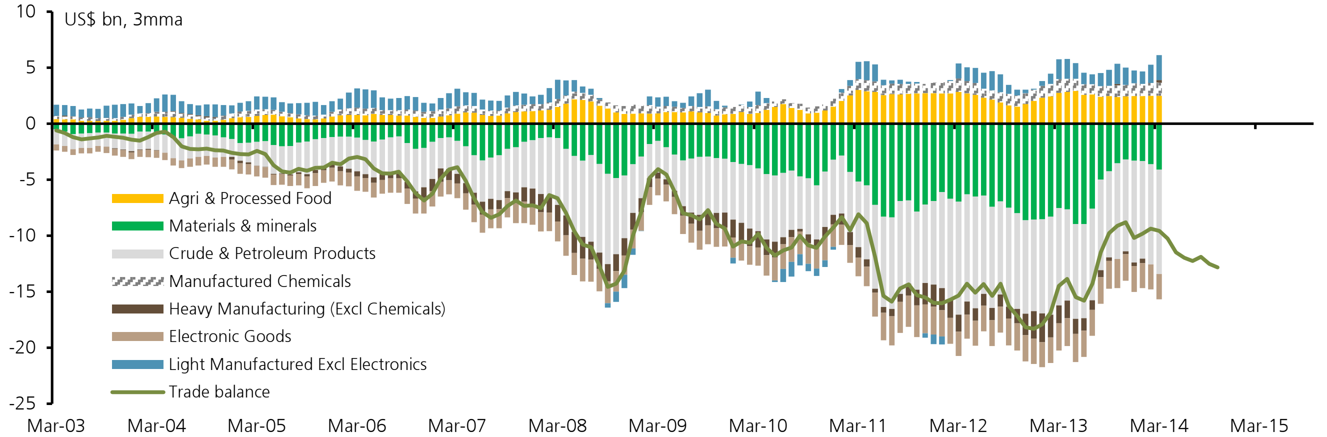
Source: CEIC, UBS

Figure 40: Imports – contribution by sector



Source: CEIC, UBS

Figure 41: Trade balance



Source: CEIC, UBS

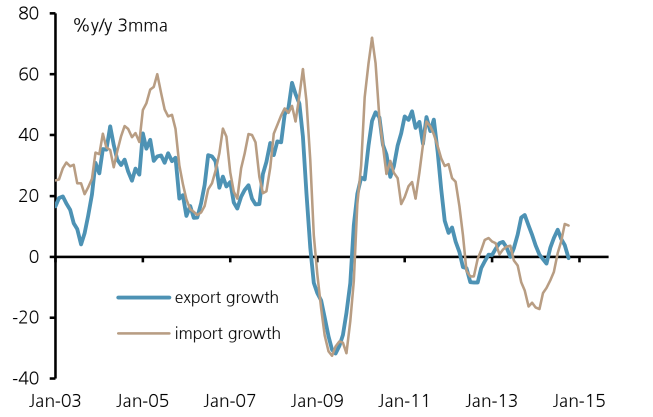
Balance of Payments

- *What the numbers say:* The current account deficit in the June quarter was at 1.7% of GDP (USD 7.8bn), up from 0.3% of GDP in the March quarter (USD 1.2bn) and close to the FY 2014 deficit of 1.7% of GDP (USD 32.4bn). This is however well below the average deficit of USD 22bn in FY 2013. The seasonally adjusted deficit increased only marginally to 1.4% of GDP from 1.3%. FX reserves have increased by around USD 43bn since their August 2013 low. The RBI's policy focus is now inflation, not the current account balance.

- *What they mean:* The balance of payments includes information on the real economy's competitive position – the current account. It also shows the capital flows into and out of the economy – signalling if the economy has excess or insufficient savings to fund investment. If a central bank is intervening to stabilise a currency, current account and capital flow data will signal the strength and direction of pressures on the currency.

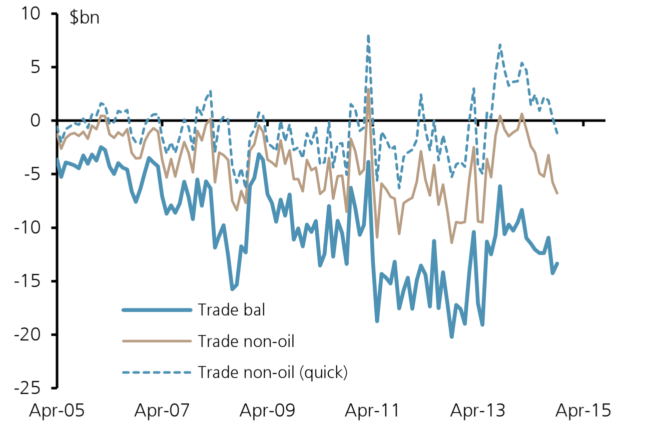
- *12-month outlook:* Into FY 2015 and FY 2016, we project the current account to stay much narrower (at around 0-1.0% of GDP) than in FY 2013 on weak imports, lower oil prices and a gradual export recovery. Things that would boost overall balance of payments are: lower oil and improved global demand for exports. Potential headwinds include: a higher oil price, overly simulative domestic policy or a deterioration of the external demand environment.

Figure 42: Merchandise trade



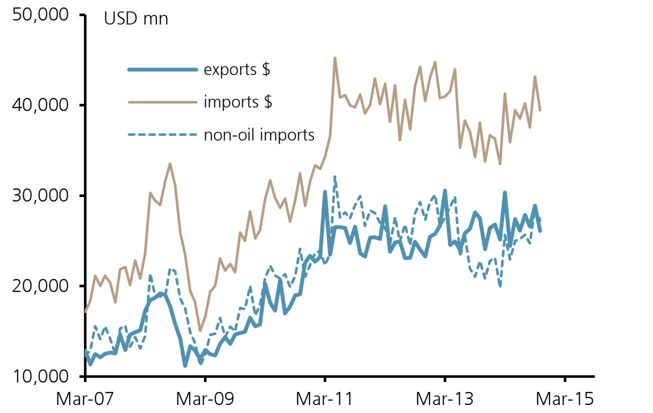
Source: CEIC, UBS; Note: Custom clearance trade data

Figure 43: Trade balance and non-oil trade balance



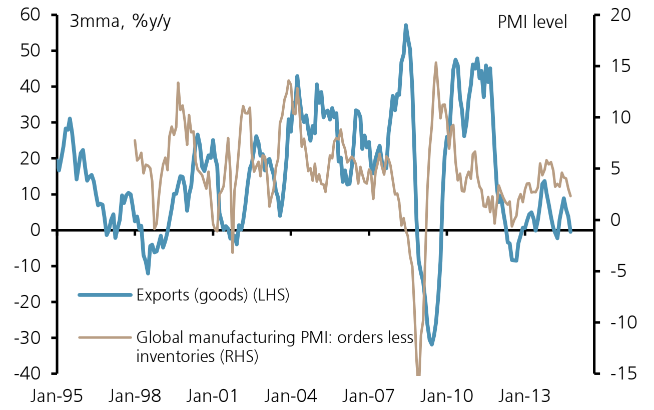
Source: CEIC, UBS; Note: Customs trade data. Quick measure subtracts imports only due to timeliness.

Figure 44: Exports & imports - levels



Source: CEIC, UBS; Note: Custom clearance trade data

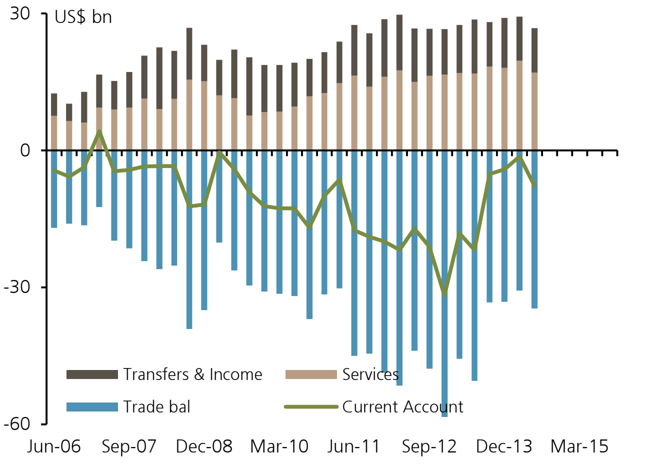
Figure 45: Global lead indicators and export growth



Source: CEIC, UBS

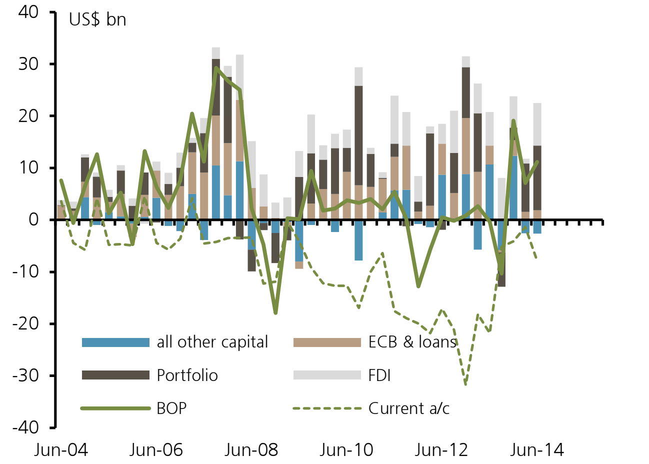
Balance of Payments, continued

Figure 46: Current account by component



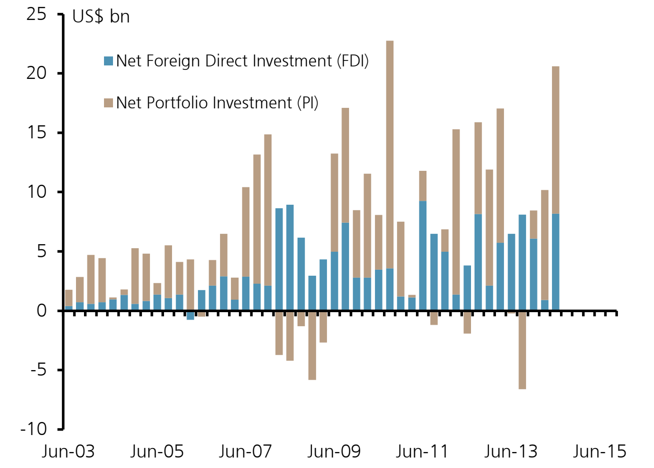
Source: CEIC, UBS estimate

Figure 47: Balance of current and financial accounts



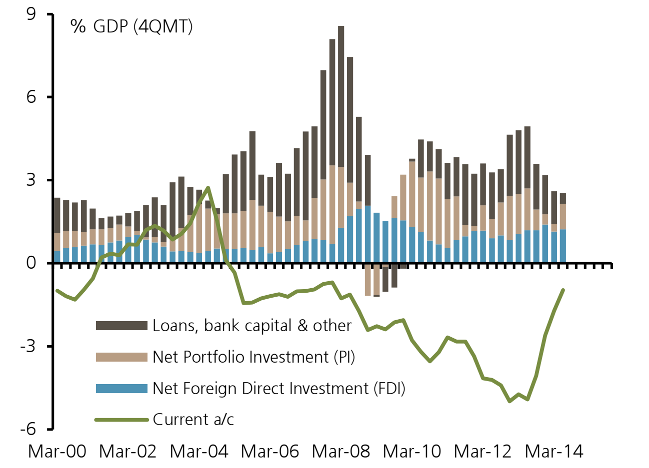
Source: CEIC, UBS

Figure 48: Balance of current and financial accounts, USD billion



Source: CEIC, UBS

Figure 49: Capital composition, % GDP

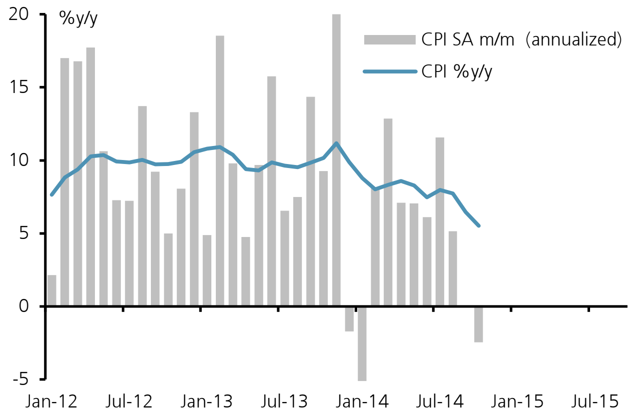


Source: CEIC, UBS

Inflation

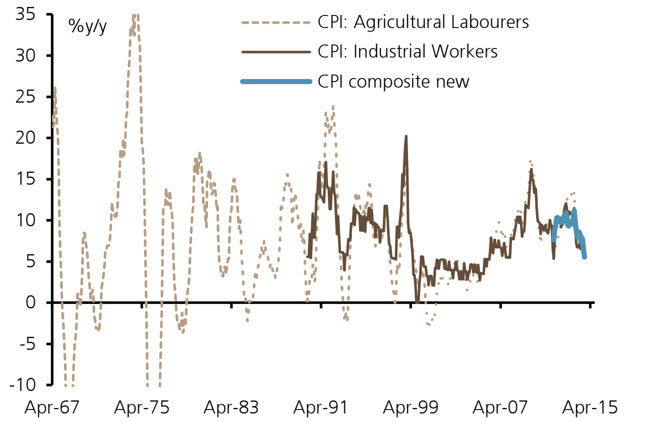
- *What the numbers say:* CPI inflation moderated for the third month to 5.5% in October from 8% in July, driven by low food (mainly vegetable) and fuel prices. Core CPI too fell to 5.8% in October from 8% early this year. WPI headline inflation (with a lower food weight of 14.3% vs. 50% in the CPI) decreased to 1.8% in October from 5.4% in July. Non-food manufacturing WPI inflation measure fell to 2.5% in October from an average of 4% in H1 2014. Broader measures of national accounts deflator price inflation descended to 7-8% and then 5.5% in the March quarter but increased to 6.2% in the June quarter.
- *What they mean:* Inflation provides critical hints about the direction of monetary policy. High inflation, when combined with above-trend economic growth and low unemployment, typically provokes monetary tightening, whereas low inflation, when coupled with below-trend economic growth and high unemployment, tends to produce the opposite policy. The RBI has an unofficial inflation target of circa 5% for inflation (often interpreted with regard to WPI non-food manufacturing inflation).
- *12-month outlook:* Slow growth suggests inflation should be on a downward path. The latest inflation prints probably exaggerate the downward trend due to declines in volatile commodity prices and food. Inflation should rise back above 6% in the March quarter 2015. We expect CPI inflation to average 6.1% in FY 2016 and 5% in FY 2017.

Figure 50: CPI inflation – recent history



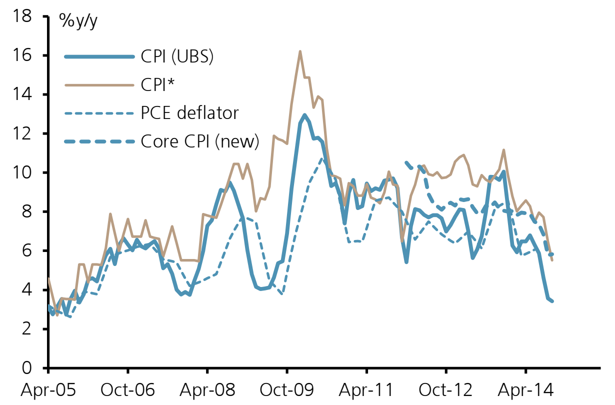
Source: CEIC, UBS

Figure 51: CPI inflation – long run



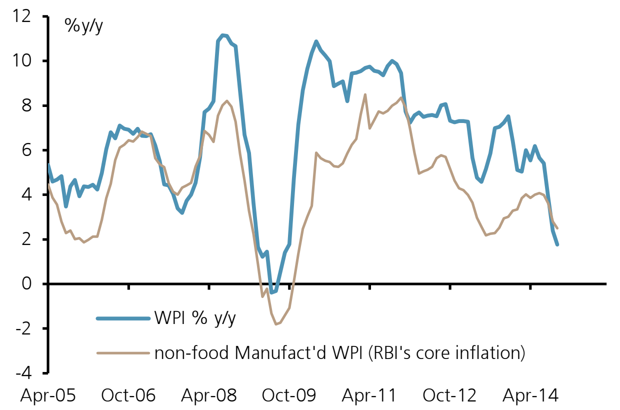
Source: CEIC, UBS

Figure 52: Alternative inflation measures



Source: CEIC, UBS; *New official CPI since Jan-12, Industrial workers CPI before

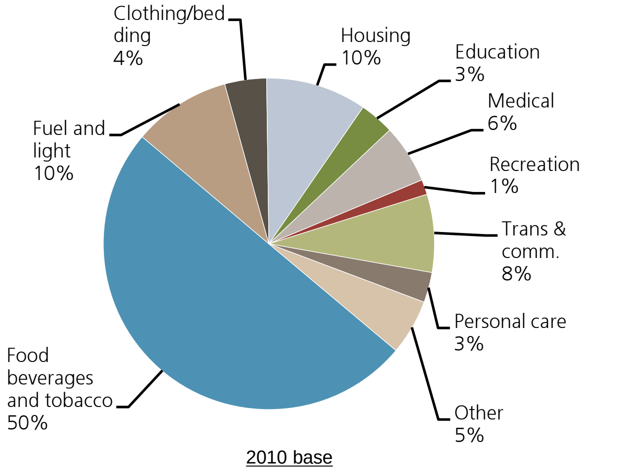
Figure 53: WPI inflation, headline and core



Source: CEIC, UBS estimate

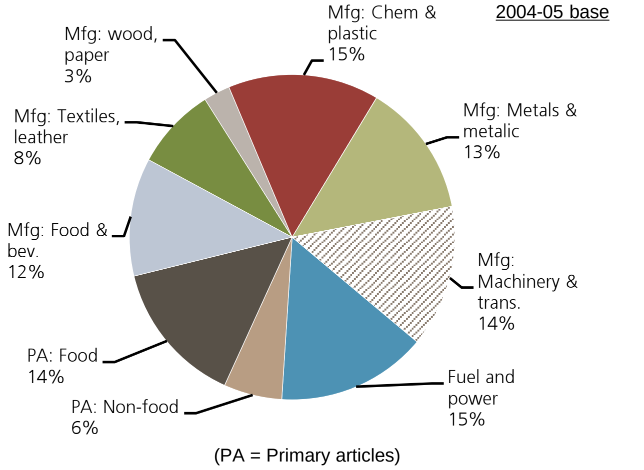
Inflation, continued

Figure 54: Official CPI weights



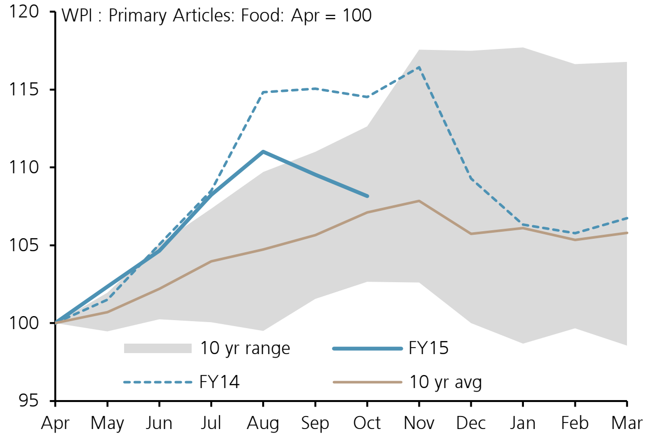
Source: CEIC, UBS

Figure 55: WPI weights



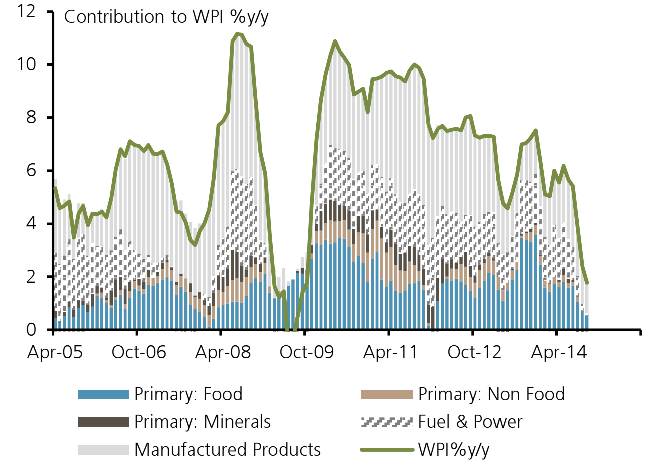
Source: CEIC, UBS

Figure 56: WPI food prices



Source: CEIC, UBS, Datastream

Figure 57: Contribution to WPI inflation



Source: CEIC, UBS

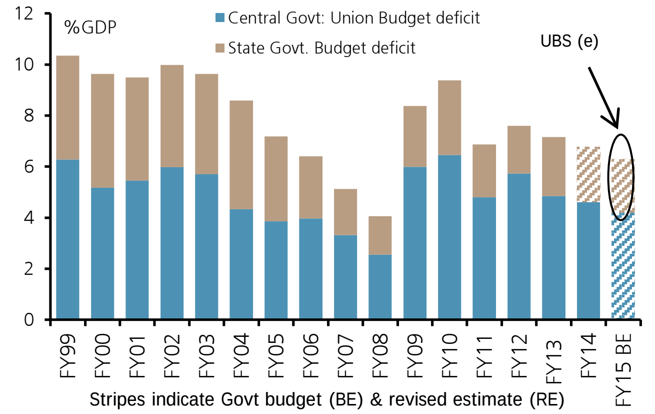
Government

- ***What the numbers say:*** The final FY 14 central government deficit was at 4.5% of GDP, lower than the initially budgeted 4.8% of GDP. Including the states, the government deficit for FY 14 was at 6.9% of GDP. The FY 2015 Budget presented on 10 July by the new government retained the 'vote on account' budget deficit target of 4.1% of GDP and targets 3.6% in FY 16. September data showed the year to date deficit to be 83% of the full-year FY 2015 budget estimate (79% same time last year) from 45% in May. Revenue appears weak but spending seems restrained since June after the new government assumed office, except in September which could be due to state elections held recently.

- ***What they mean:*** Governments typically try to provide infrastructure and services where markets are unable or unwilling to participate appropriately. In doing so, governments may attempt to replace deficient private sector demand or may compete with the private sector for resources, bidding up the price of money or materials.

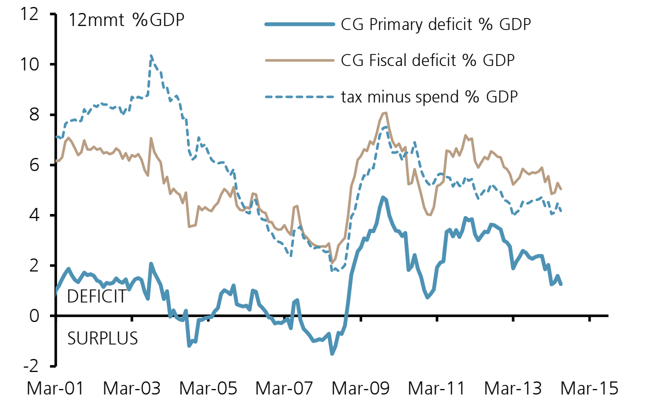
- ***12-month outlook:*** Official projections for the FY 2015 budget are consistent with trend consolidation of the deficit by 0.5ppts a year to 3% by FY 2017. Achieving the FY 2017 target will be difficult because some of the deficit improvement in recent years was achieved by pulling forward revenues from and pushing back spending to future budgets. However, we believe the new government will stick to the fiscal consolidation framework as part of its reform program and to keep a lid on inflation. Subsidy reform remains an important driver of future deficit consolidation as does GST and efficiency gains (regarding both tax and spending).

Figure 58: Government budget



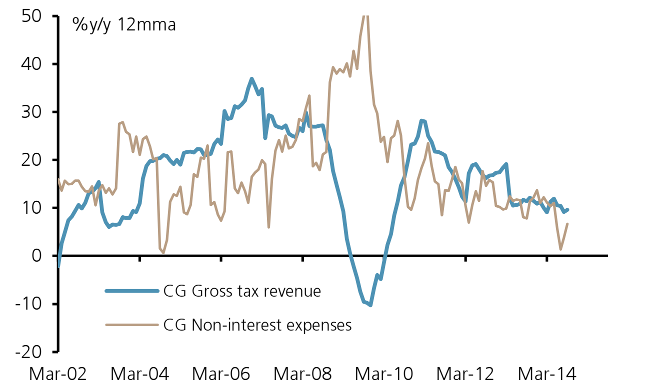
Source: CEIC, UBS

Figure 59: Central government fiscal balances



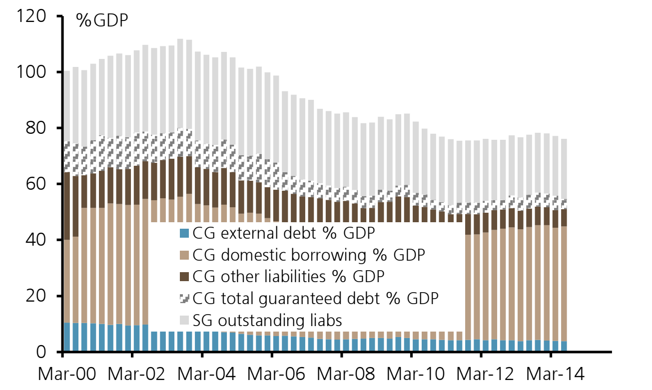
Source: CEIC, UBS

Figure 60: Central govt. revenue and expenditure growth



Source: CEIC, UBS

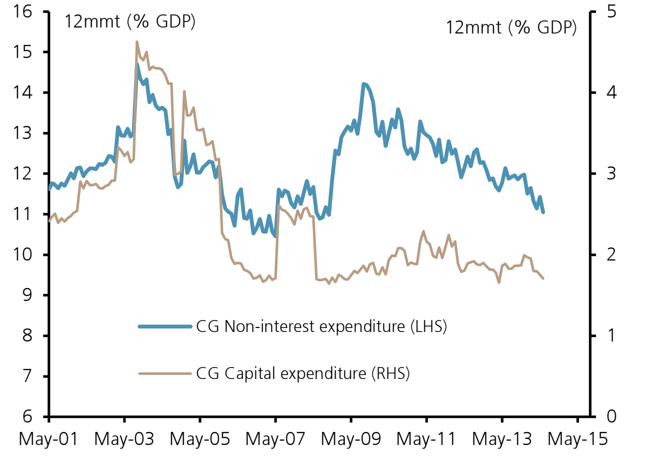
Figure 61: Central and state government debt



Source: CEIC, UBS

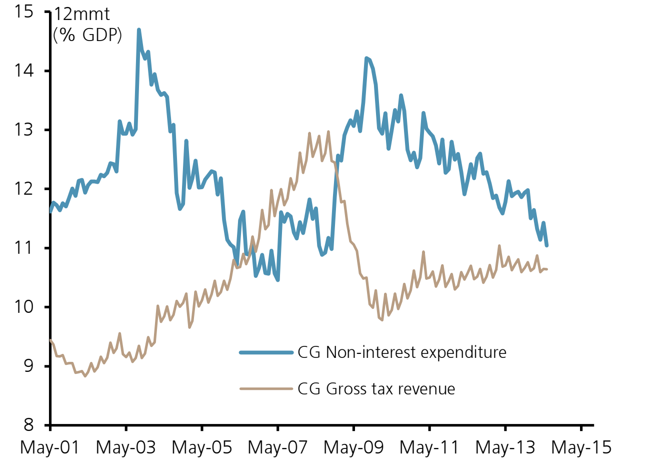
Government, continued

Figure 62: Key central government expenditure items



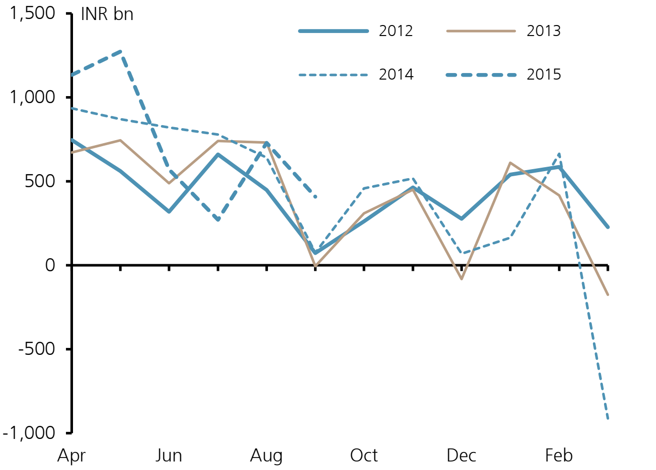
Source: CEIC, UBS

Figure 63: Central govt. revenue and expenditure gap



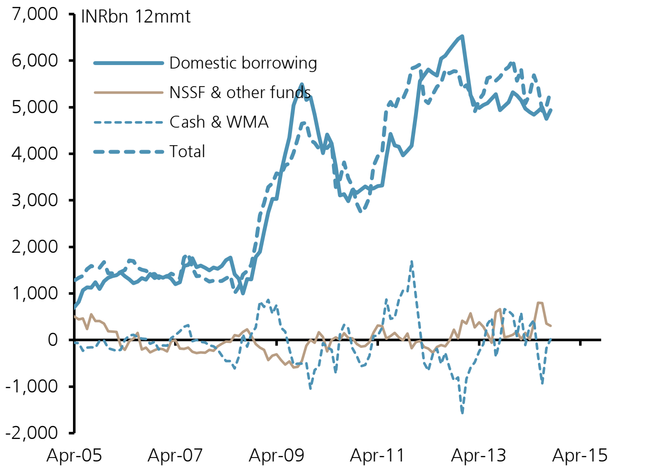
Source: CEIC, UBS

Figure 64: Central government deficit by month



Source: RBI, CEIC, UBS

Figure 65: Government borrowing by type



Source: CEIC, UBS

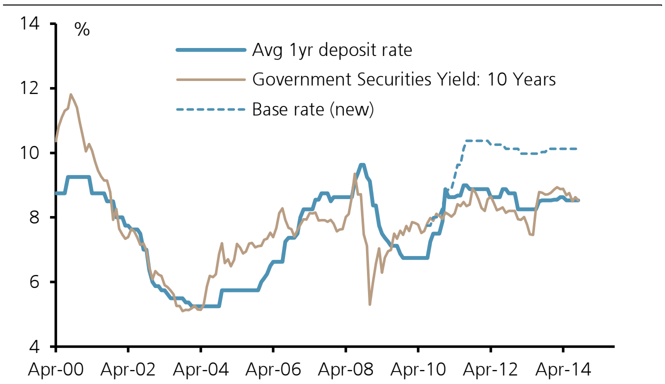
Monetary policy

- *What the numbers say:* The RBI left policy rates unchanged on 30 September, in line with expectations. The central bank acknowledged improved growth prospects but reiterated its focus on disinflationary goals. It cut the liquidity under Export Credit Refinance (ECR) facility to 15% from 32% of eligible export credit, after slashing it in June from 50% to 32% and introducing a special term repo facility up to 0.25% of NDTL to offset this. In August, it cut the banks' Statutory Liquidity Ratio (SLR) further by 50 bps to 22% of Net Demand and Time Liabilities (NDTL) after the 50bps cut in June. Earlier, the RBI increased liquidity under 7-day and 14-day term repos from 0.5% of NDTL to 0.75%, and decreased provision under overnight repo from 0.5% of NDTL to 0.25%. In January the RBI adopted a revised policy framework that focuses on CPI inflation and aims for a disinflationary process with a near term objective of 8% inflation in January 2015 and 6% inflation in January 2016. On 30 September, the RBI emphasised the January 2016 objective.

- *What they mean:* The RBI is targeting a disinflationary trajectory for CPI inflation. Intermediate targets are below 8% inflation in Jan 2015 and below 6% inflation in Jan 2016. Thereafter a 4% +/-2ppt inflation target is recommended. Money and credit are pro-cyclical and correlate strongly with inflation in the long term. Part of base money growth is driven by foreign reserve accumulation. Foreign reserves are also an important macro prudential indicator and in Asia a key source of changes in base money. Thus, rising FX reserves necessarily mean upward pressure on domestic liquidity.

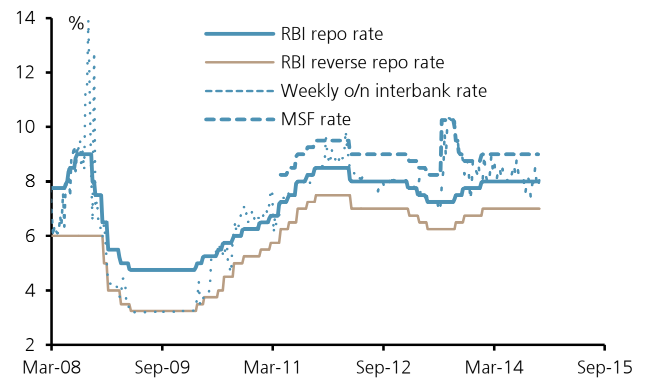
- *12-month outlook:* RBI's monetary policy focus is on CPI inflation. This is a shift from a multi indicator approach. The goal is a disinflationary process. We expect excess capacity to deliver inflation below the RBI's objective rate of 8% in January 2015. However, the RBI's focus on the January 2016 goal with a view to ensuring lower medium term inflation means we only expect a 25bp cut in the March quarter and 50bp of cuts in FY 2015-2016. Key risks to the potential for lower rates are the weather and oil prices pose risks. Next RBI meeting: 02 December.

Figure 66: Key interest rates



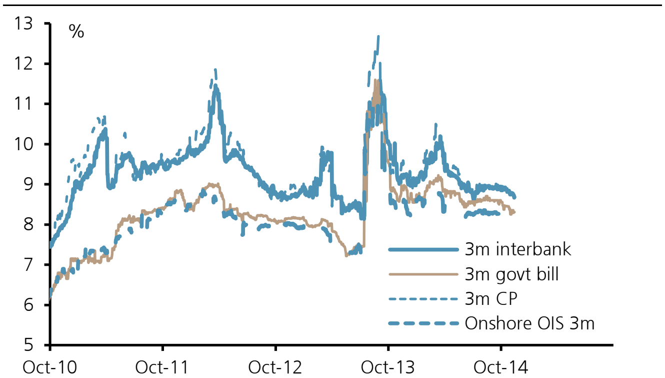
Source: CEIC, UBS

Figure 67: Policy rates



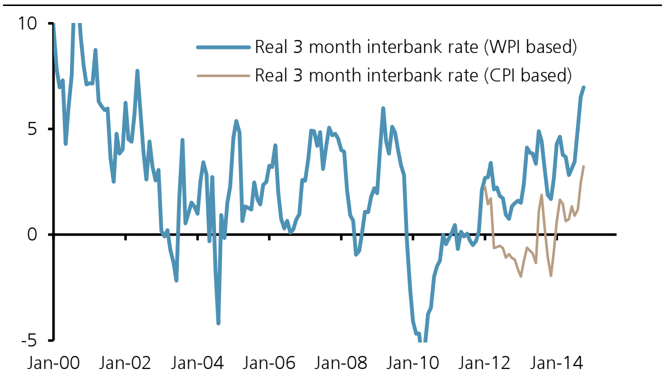
Source: CEIC, UBS

Figure 68: Money market rates



Source: CEIC, UBS

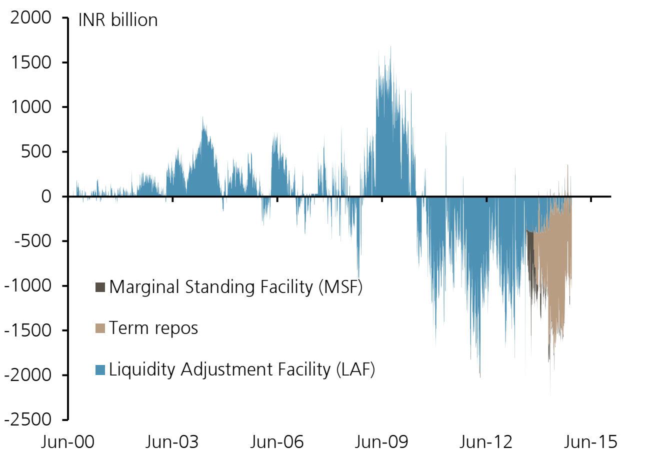
Figure 69: Real and nominal short term rates



Source: CEIC, UBS

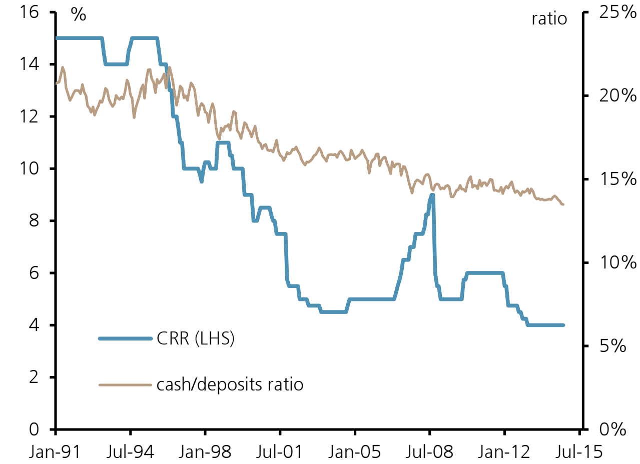
Monetary policy, continued

Figure 70: Liquidity Management Facilities



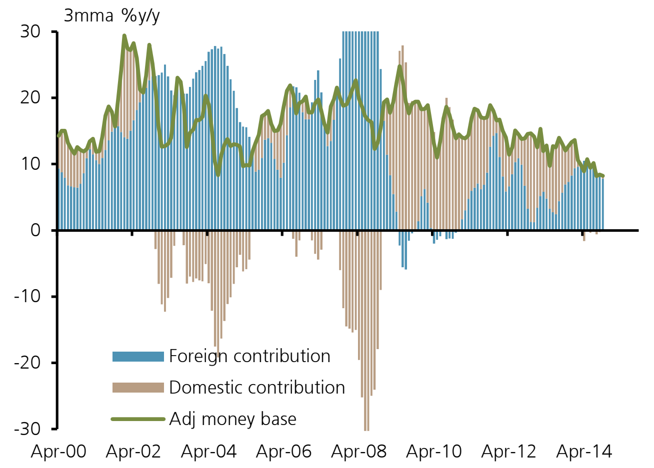
Source: UBS estimates, Bloomberg

Figure 71: Official Cash Reserve Ratio and liquidity ratio



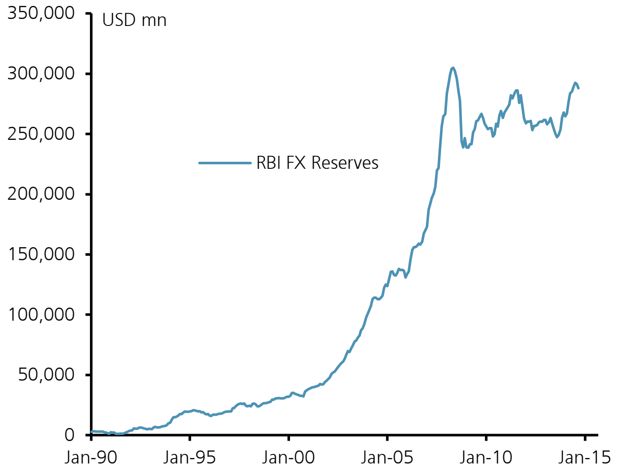
Source: CEIC, Haver, UBS

Figure 72: Monetary base adjusted for CRR and cont.



Source: CEIC, Haver, UBS

Figure 73: Foreign exchange reserves

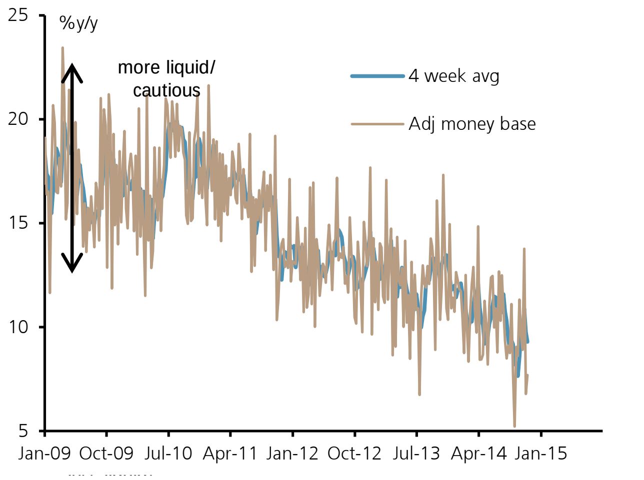


Source: CEIC, Haver, UBS

Money and Credit

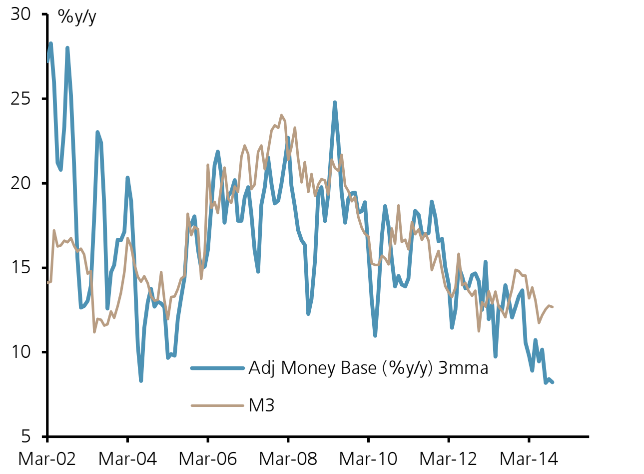
- *What the numbers say:* Bank credit to the commercial sector has been slow for almost a year now. Monetary growth, after improving in the December quarter and most of the March quarter, has been slow thereafter. Loan to deposit ratios remain elevated but has come down slightly since July.
- *What they mean:* Money and credit are pro-cyclical and correlate strongly with inflation in the long term.
- *12-month outlook:* Credit growth should continue to slow on weak growth and balance sheet repair. Money growth is low relative to history and should help underpin a deceleration in inflation over the coming quarters.

Figure 74: Base money growth adjusted for CRR changes



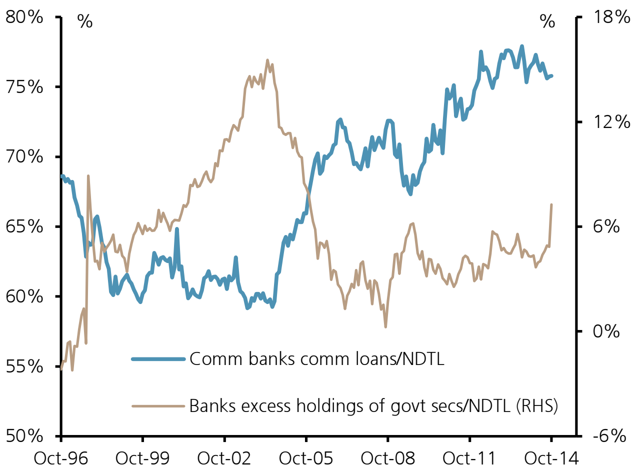
Source: CEIC, UBS

Figure 75: Central bank money and M3



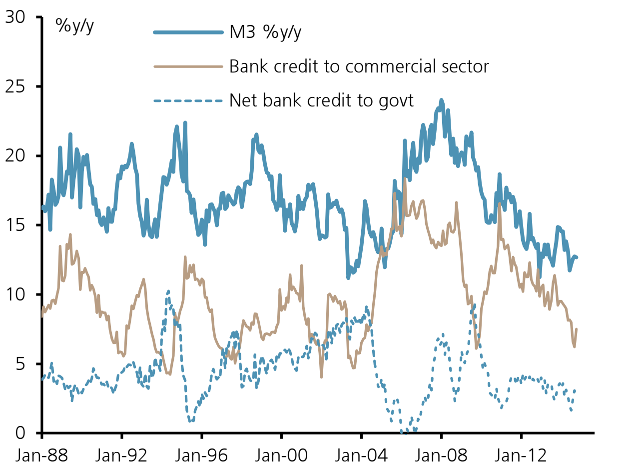
Source: CEIC, UBS

Figure 76: Key bank balance sheet ratios



Source: CEIC, UBS, RBI

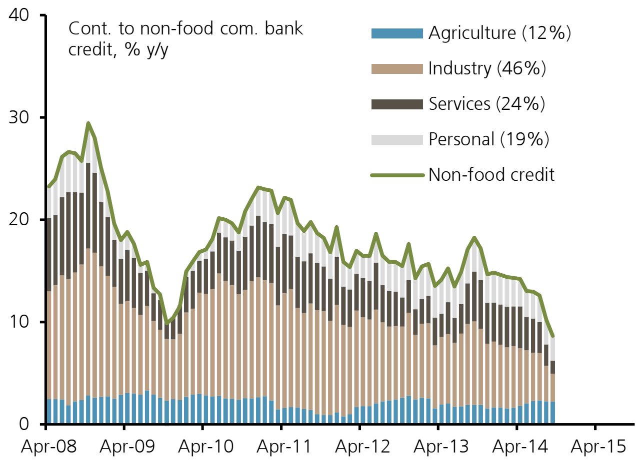
Figure 77: M3 and counterpart contributions



Source: CEIC, UBS

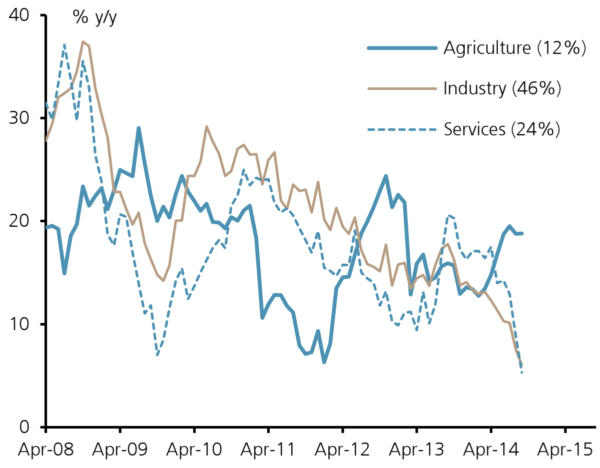
Money and Credit, continued

Figure 78: Credit by type



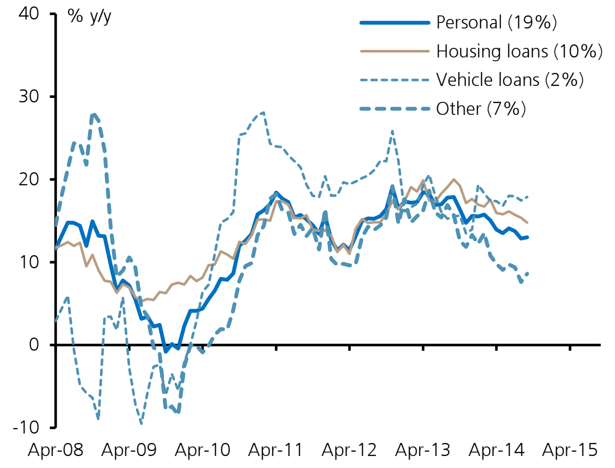
Source: CEIC, UBS

Figure 79: Industry credit by type



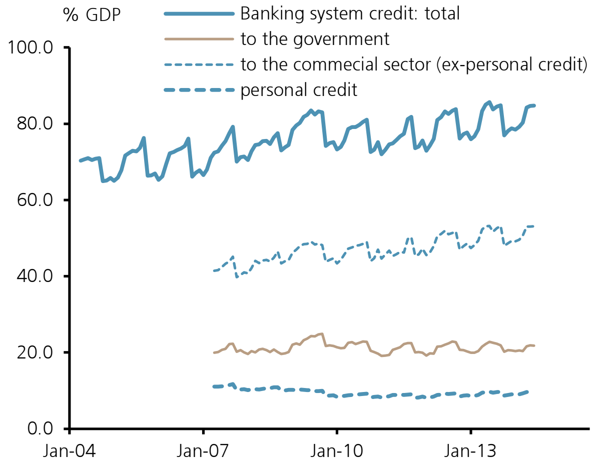
Source: CEIC, UBS

Figure 80: Personal credit by type



Source: CEIC, UBS, RBI

Figure 81: Credit to GDP

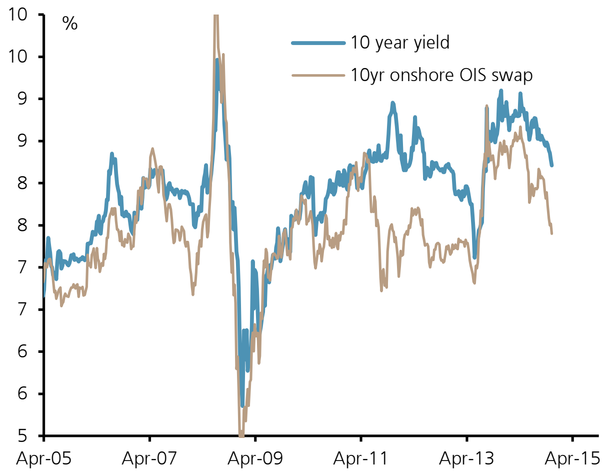


Source: CEIC, UBS

Interest Rates

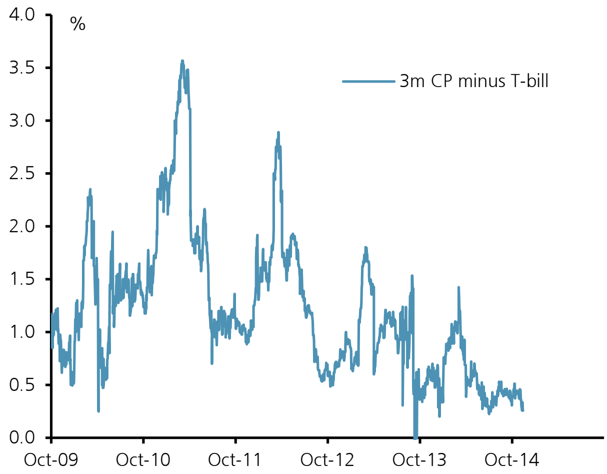
- *What the numbers say:* 3-month MIBOR is below 9% and drifting lower. The yield curve is flat. Credit spreads, which indicate stresses (or the lack thereof) in the financial system, are low.
- *What they mean:* Low interest rates are often used to stimulate or restrain economic growth via different channels; e.g., portfolio shifts in assets, asset price appreciation, reduced debt-service burden, lowering the cost of finance for investment or durable consumption, etc.
- *12-month outlook:* We suspect prospects for lower policy rates as inflation falls more than hoped may appear by mid FY 2015. That and the credibility we expect to ultimately be attached to the RBI's disinflation policy should ultimately bode well for lower long term bond yields, which are at the high end of their historical ranges. We look for 10 year yields to fall to 6.5% from 8.5% in less than 2 years.

Figure 82: Long term govt. bond yields and swap rates



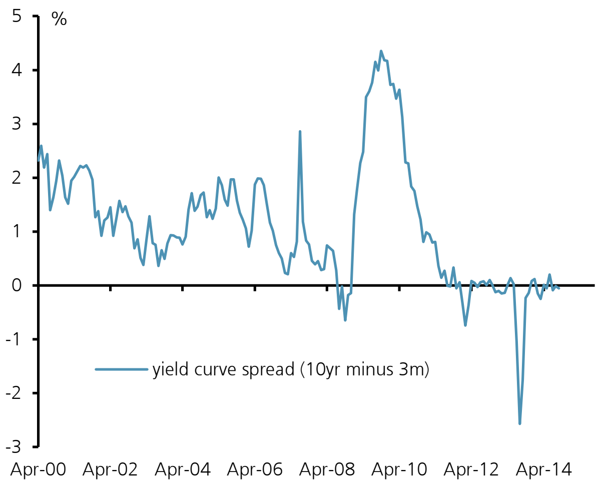
Source: CEIC, Bloomberg

Figure 83: Credit spreads



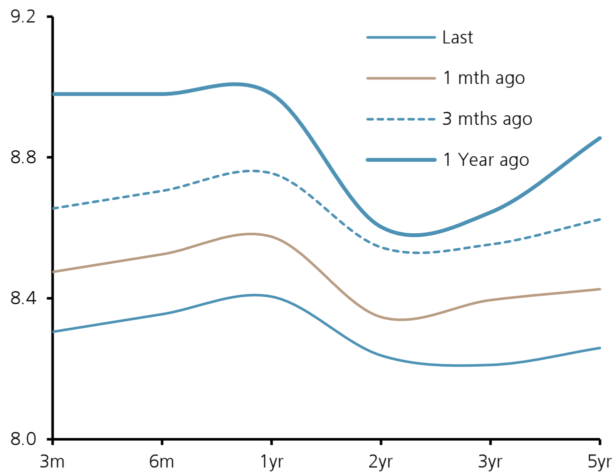
Source: CEIC, UBS

Figure 84: Yield curve



Source: CEIC, UBS

Figure 85: Yield curve shape



Source: CEIC, Bloomberg

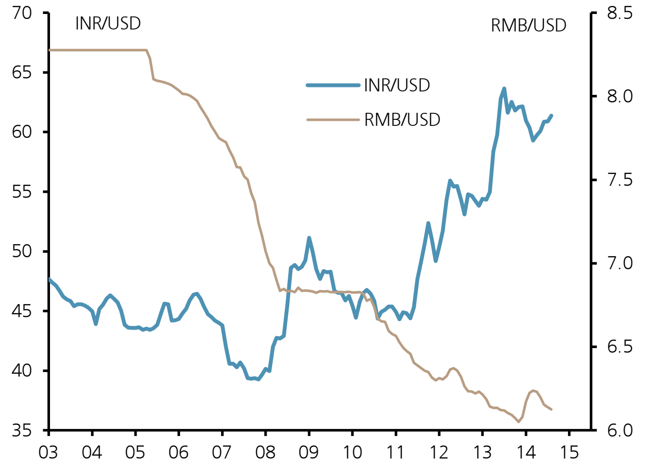
Exchange Rate

- *What the numbers say:* The rupee has strengthened by almost 10% from its lowest point at end August 2013, after falling by around 20% from June 2013. The improvement in India's external balance position appears to have helped delink it from 'Fragile Five' currency movements.
- *What they mean:* Obviously exchange rates affect inflation and trade. However, one of the reasons to look at exchange rates in Asia is because most central banks like to "lean against the wind" and in doing so affect domestic liquidity conditions. Many Asian central banks, RBI included, buy US dollars (increasing foreign reserves) when their currencies are under pressure to appreciate and this causes the domestic money supply to expand, which then must be sterilized usually with central bank debt or by adjusting reserve requirement ratios on deposits. The process flows in the other direction when currencies are under pressure to depreciate.
- *12-month outlook:* Ultimately the INR should benefit from the RBI's focus on inflation. However, the INR is still vulnerable due to: (1) higher than trading partner inflation (2) oil prices and the potentially resurgent trade gap, (3) headwinds to domestic reform (4) slow domestic economy (5) general US dollar strength. On balance we expect a slightly weaker INR against a stronger USD in FY 2015 and FY 2016.

Figure 86: USDINR – recent moves

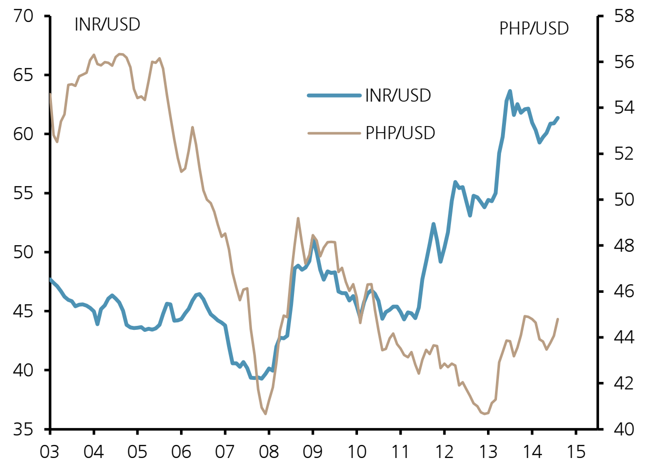
Source: CEIC, UBS

Figure 87: Manufacturing competition – INR and CNY



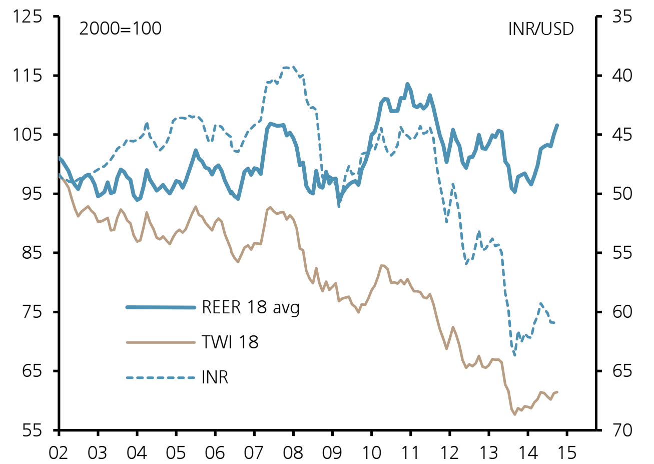
Source: CEIC, UBS (data is month average)

Figure 88: Services competition – INR and PHP



Source: CEIC, Bloomberg, UBS (data is month average)

Figure 89: Trade weighted and effective exchange rates

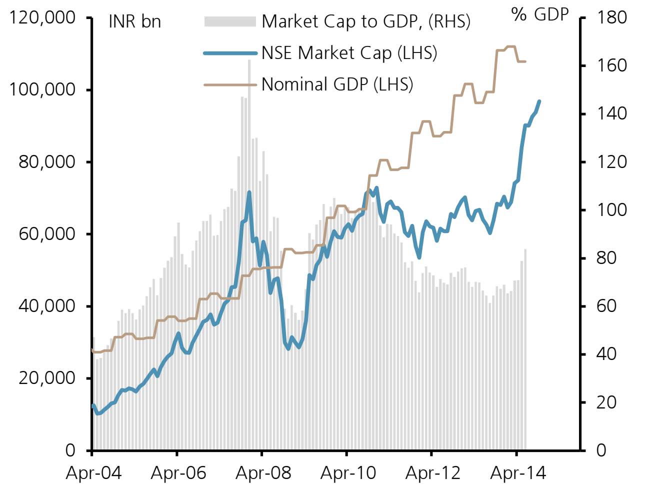


Source: CEIC, UBS

Asset Markets

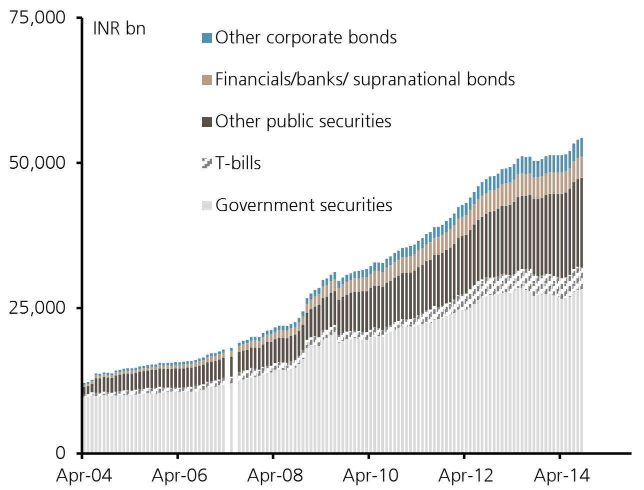
- *What the numbers say:* Asset prices weakened alongside global and regional markets in recent months but picked up since May on optimism about the new government. Foreign funds flowed out of the bond market until November 2013 but turned positive since (except for an outflow in April). Foreign investors continued to show interest in equities but net investment turned negative in October.
- *What they mean:* Asset prices, valuations and yields reflect investor perceptions of risk and return. Rising asset prices imply a reduced cost of capital, which should support the economy.
- *12-month outlook:* With the current account curtailed, capital flows pose less of a risk – but are still a risk. The macro issue domestically could be the government and RBI's pursuit of lower inflation in the face of threats from weather phenomena and oil prices. If the authorities are successful, foreign investors could be attracted to the bond market.

Figure 90: Stock market cap



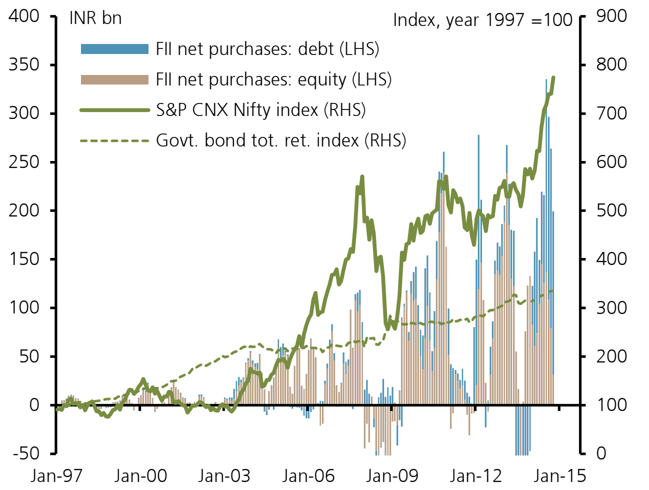
Source: CEIC, UBS

Figure 91: Wholesale debt market cap



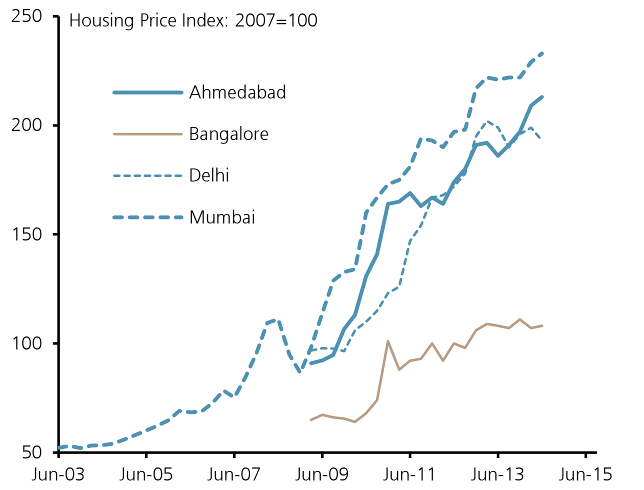
Source: CEIC, UBS

Figure 92: Stock and bond markets vs. net foreign buying



Source: CEIC, UBS

Figure 93: House prices



Source: CEIC, UBS

Macroeconomic data and forecast

Year starting April 1	08/09	09/10	10/11	11/12	12/13	13/14E	14/15E	15/16E	16/17E
National Accounts (% YoY)									
Nominal GDP at factor cost, INR bn	53,035.7	61,089.0	72,488.6	83,916.9	93,888.8	104,728.1	116,671.5	129,708.7	143,574.7
Nominal GDP at factor cost, USD bn	1,156.9	1,289.0	1,593.3	1,755.3	1,727.2	1,735.3	1,909.7	2,063.0	2,217.4
GDP per capita, USD	1,006.1	1,105.2	1,343.6	1,460.3	1,419.3	1,408.3	1,539.0	1,599.6	1,721.9
Real GDP (% YoY)	6.7	8.6	8.9	6.7	4.5	4.7	5.5	5.8	6.5
Agriculture (% YoY)	0.1	0.8	8.6	5.0	1.4	4.7	1.8	3.2	4.1
Industry (% YoY)	4.4	9.2	7.6	7.8	1.0	0.4	4.5	6.1	7.0
- Mining (% YoY)	2.1	5.9	6.5	0.1	-2.2	-1.4	3.3	5.8	7.3
- Manufacturing (% YoY)	4.3	11.3	8.9	7.4	1.1	-0.7	3.7	5.8	6.7
- Electricity (% YoY)	4.6	6.2	5.3	8.4	2.3	5.9	7.8	5.0	7.1
Services (% YoY)	10.0	10.5	9.7	6.6	7.0	6.8	6.7	6.3	6.7
Financial Markets									
Exchange Rate - INR/USD, year-end	48.58	46.40	44.80	53.01	54.86	61.92	62.00	63.00	65.00
Exchange Rate - INR/USD, year-average	43.39	48.34	45.64	46.62	53.36	58.49	61.02	62.63	64.25
3M MIBOR (Period End)	8.89	4.60	9.00	9.84	8.92	9.06	8.00	7.10	6.35
Repo rate (Period End)	6.50	4.75	6.25	8.50	8.00	7.75	7.75	7.25	6.00
Balance of Payments (US$ bn)									
Exports (US$ bn)	185.3	178.8	251.1	306.0	300.4	314.4	323.8	335.2	355.3
Exports (US$, % YoY)	13.7	-3.5	40.5	21.8	-1.8	4.7	3.0	3.5	6.0
Imports (US$ bn)	303.7	288.4	369.8	489.3	490.7	450.2	445.7	450.2	477.2
Imports (US$, %YoY)	20.8	-5.0	28.2	32.3	0.3	-8.3	-1.0	1.0	6.0
Trade Balance (US$ bn)	-118.4	-109.6	-118.6	-183.4	-190.3	-135.8	-121.9	-115.0	-121.9
Current Account (US$ bn)	-27.9	-38.2	-45.9	-78.2	-88.2	-32.4	-17.9	-13.0	-11.9
Current Account (% of GDP)	-2.3	-2.8	-2.7	-4.1	-4.7	-1.7	-0.9	-0.6	-0.5
FDI (USD bn)	22.4	18.0	9.4	22.1	19.8	21.6	20.0	25.0	30.0
Other Capital Flows	-15.0	33.7	52.6	45.7	69.5	27.2	50.0	10.0	10.0
Balance of Payments	-20.1	13.4	13.1	-12.8	3.8	15.5	52.1	22.0	28.1
FX Reserves	241.4	254.7	274.3	260.1	259.7	276.4	328.5	350.5	378.6
Prices and Money (% YoY)									
Consumer Prices, year-average	9.1	12.3	10.5	8.8	10.2	9.5	7.0	6.1	5.0
M3 (% YoY, Average of Period)	20.5	19.2	16.2	15.9	13.5	13.5	13.0	15.0	15.0
Credit, year-average	24.0	14.5	21.4	18.5	16.3	15.0	10.0	10.0	12.0
Fiscal Accounts (% of GDP)									
Revenue	9.6	8.8	10.1	8.3	8.7	8.9	9.3	9.5	10.0
Overall Balance	-6.0	-6.5	-4.8	-5.7	-4.8	-4.5	-4.1	-3.6	-3.0
Primary Balance	-2.6	-3.2	-1.8	-3.0	-1.8	-1.2	-0.8	-0.3	0.3
Public Debt (% of GDP)									
General government Debt	50.5	49.2	45.7	46.3	46.9	46.8	46.4	45.2	43.9
External	4.7	4.3	3.9	3.9	3.6	3.6	3.6	3.6	3.6
Domestic	45.8	45.0	41.8	42.4	43.3	43.2	42.8	41.6	40.3
Total Public Sector Debt	76.7	74.9	70.5	70.1	70.5	70.4	70.0	68.8	67.5
External Debt (US$ bn)									
Total Private and Public External Debt	224.5	260.9	317.9	360.8	409.4	442.2	467.1	487.1	517.1
Public	58.4	62.7	70.6	72.5	71.5	73.1	73.0	73.0	73.0
Private	166.1	198.2	247.3	288.2	337.9	369.1	394.1	414.1	444.1
Short-term	43.3	52.3	65.0	78.2	96.7	89.2	95.0	100.0	105.0
Medium- and Long-term	181.2	208.6	252.9	282.6	312.7	353.0	372.1	387.1	412.1
Credit Ratings									
Moody's	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	N/A	N/A	N/A
S&P	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	N/A	N/A	N/A
Fitch	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	N/A	N/A	N/A

Note: Fiscal data and public debt data is for central government only; Exchange rate and repo rate forecasts are for calendar year-end.
Source: CEIC, Bloomberg, UBS estimates

Notes:

Notes:

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Security Recommendations			
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CDS Recommendation	Buy Protection; Sell Protection	Up to 3 months	Recommendation to hedge a company's creditworthiness

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