

MONEY MATTERS
I Wish Rajan Was Running the US Fed
Jim Rogers on US central bank-induced inflation ► **PAGE 9**

NIFTY 50

The index the world admires.

Nifty 50 derivative contracts are the world's largest traded index derivatives contracts.*

*Source: WFE Statistics, Nov 2015

Market Trends

STOCK INDICES	% CHANGE
Nifty 50	7568.3 ▲ 2.23
Sensex	24851.83 ▲ 2.18
MSCI India	621.04 ▲ 2.54
MSCI EM	1527.65 ▲ 2.67
MSCI BRIC	370.98 ▲ 3.16
MSCI World	6111.61 ▲ 0.81
SX 40	14906.9 ▲ 2.21
Nikkei	17767.34 ▲ 2.33
Hang Seng	20333.34 ▲ 3.09
Strait Times	2729.91 ▲ 2.65

Values in US \$, Gross At 7 pm IST

OIL (\$)	BOND
DUBAI CRUDE	10-YR YIELD
28.22 ▲ 1.73	7.74 ▲ 0.00
Absolute Change	Figures in %

GOLD RATE	
Prices per Troy Ounce (\$)	
US	India
OPEN 1093.70	1198.90
LAST 1098.20	1207.27

*At 10.30pm. After adjusting for import duty, Indian spot gold lower by \$ 0.75 to US Comex gold price on Thursday. The premium on local gold is due to tight supply following import curbs.

FOREX RATE (₹-₹ Exchange Rate)	
OPEN	LAST
66.90	66.93

ET MARKETS QUIZ

QUESTION ■■■
Assets under management have seen a rise of 72% for which category of Mutual Funds?
A) Debt B) Equity
C) Fixed Income D) Balanced
HOW TO PLAY ■■■
Play every day from Monday to Friday to win daily voucher worth ₹1000.
SMS ETM<space> A/B/C/D<space> Your name to 58888 before 5 PM today.

YESTERDAY'S WINNER ■■■
Saroj Swami

Aviation Stocks Fly High on D St
Stocks of Jet Air, InterGlobe and Spicejet have gained 1-9% on the bourses this year against a 5% fall in the benchmarks.
►► Smart Investing

We would love to hear from you on what you think about our new Markets pages. Share your feedback on ET Markets at et.markets@timesgroup.com

Amid China Chill, Stay Healthy with 'Shuddh Desi' Companies

China may be thousands of miles away and the best Chinese restaurant a tough trace amid traffic snarls, but China is never far away from investors' minds these days. Hassled investors were given a rude shock in August and September last year when China devalued the yuan, sending global markets into a tailspin. Things are no better now. Thursday's global sell-off is a reminder that global stock market recovery is contingent upon stability returning to the yuan and an end to the Chinese

stock market's tantrums. Both appear difficult at this stage. For Indian investors, another harsh reality is inescapable. Stocks of commodity companies and those with high global exposure are now rapidly losing appeal. Wild price swings cannot be ruled out in the future. All is not lost however. The sell-off is a good time to focus on stocks with a high exposure to the domestic economy. The pace of recovery is uneven, but there is no doubt the Indian economy is recovering. Several sectors like retail, private sector banking, media,

and companies focused on urban consumption and infrastructure, like roads, are doing well. They are not affected by global turmoil and opportunities in the country are enough to keep them busy for a long time. The 'Shuddh Desi' companies are so called for their complete dependence on the Indian market and economy. What kept markets afloat last year was the surge in subscriptions to domestic mutual funds and the performance of companies outside of the BSE 100.

—Ashutosh R Shyam & Rajesh Naidu

BANKS & HOUSING FINANCE

HDFC Bank, IndusInd, HDFC, LIC Housing, Can Fin Homes, Bajaj Finance
Private banks to deliver a 20% CAGR in loans between 2015 and 2018 against 10% for PSU banks. Growth in the retail loans stronger at 18% in 2015 compared with 6% for corporate loans

POWER UTILITIES

Power Grid, NTPC
Revenue growth delinked from vagaries of global commodity cycle and global growth. Annuity based income stream and high dividend yield

URBAN CONSUMPTION

Page Industries, PC Jeweller, Westlife Development, Speciality Restaurant, Orient Paper
Same stores growth has shown a decent recovery

AUTO ANCILLARIES

Fiem Industries, Suprajit Engineering, Wabco, Mindia Corp, Munjal Showa, Setco, Jamna Auto, Gabriel. Sole suppliers to OEMs such as Munjal Showa, Setco, Gabriel, Wabco are preferred

MEDIA

PVR, Dish TV
Dominant market share. Scalability of business in Tier-2 and Tier-3 cities

ROAD/CONSTRUCTION

IRB Infra, Sadbhav Engineering, PNC Infratech
India aims to spend \$78 billion on building road infrastructure in five years. Key beneficiaries will be asset-owner and debt-free construction companies. Project commencement for national highways picked up to 20 km per day since NDA came to power



BACK IN VOGUE Assets of balanced funds zoomed 72% in a year to touch ₹42,200 crore in December 2015

Markets On A Swing, Investors Seek Balance

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Seeking Safety

Scheme Name	AUM - Nov '14 (Cr)	AUM - Nov '15 (Cr)	Rise in AUM (Cr)
ICICI Pru Balanced Adv	4,721	10,160	5,439
Tata Balanced	1,533	5,140	3,607
HDFC Balanced	2,813	4,783	1,970
SBI Magnum Balanced	1,127	2,977	1,849
ICICI Pru Balanced	1,352	2,483	1,130

Source: Accord Fintech, Compiled by ETIG Database

Mumbai: Heightened volatility in the equity markets is driving retail investors to balanced funds, which invest 65% of their corpus in equities and the balance in debt. The assets under management (AUM) of balanced funds has surged to ₹42,200 crore in December 2015, from ₹24,490 crore in December 2014, a rise of 72% (see table). "The mutual fund industry has added more than 25 lakh first-time investors in 2015. Balanced funds being low volatility products, many investors make their first investments through these funds," says Raghav Iyengar, executive vice president, ICICI Prudential Mutual Fund. He expects balanced funds to continue attracting higher flows in the first half of 2016 from investors. Wealth managers are recommend-

ing first-time investors to invest in this category as valuations were high and earnings are taking time to recover. The Nifty is trading at a PE of 20.47, while the Nifty Midcap 100 trades at a PE of 26.89. Balanced funds, which have 65-75% of their portfolio in equity with the balance in debt, have a lower volatility than plain vanilla equity mutual funds. "A set of investors fixed income

investors are also moving up to balanced funds for dual benefits of higher returns and tax benefits," says Himanshu Vyapak, deputy chief executive officer, Reliance Mutual Fund. Taxation benefits are another attraction. Investors in the high tax bracket gain as these funds are treated as equity funds from a taxation perspective.

NO LONG-TERM LOCK-IN 10-Year NSCs Discontinued

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Bengaluru: National Savings Certificate (NSC) issue IX, which had a term of ten years, has been discontinued. The move was approved and notified by the Ministry of Finance on December 1, 2015, and the postal department stopped issuing these certificates December 20, 2015 onward. Observers believe that the instrument was discontinued because it locked in the government into a long-term commitment in a falling rate regime. The small-savings instrument that was launched in the December 2011 were available in denominations of ₹100 to ₹10,000 that offered a rate of interest of 8.80%. This was higher than the 100-month Kisan Vikas Patras which offers a 8.7% per annum. The Public Provident Fund (PPF), another long-term savings instrument with 15-year lock-in, also provides a rate of 8.7%, but the rates get revised every year.

FALL SEASON Rupee ends the day 10 paise weaker at 66.93 per dollar Rajan and RBI May Not Ride to Rupee's Rescue

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Mumbai: The Reserve Bank of India would not aggressively defend a falling rupee to make exports competitive, and instead allow it to slip along with the Chinese yuan, as it reckons that it's the only way to preserve the currency's competitiveness. The Indian currency, in terms of the real effective exchange rate (REER), appears to be overvalued to many of its peer currencies. "The rupee may see a new (record) low, based on deteriorating external factors like China," said KN Dey, executive director at Mecklai Financial. "A moderate or stable market driven rupee-dollar range adds confidence to global investors while limiting space for speculative bets."

With a relative higher interest rate, if the rupee keeps rising, it will attract "hot money" from foreign portfolio investors. That, in turn, may prompt speculative bets arising out of arbitrage opportunities. REER, calculated on a trade-weighted basis against a basket of 36 currencies and adjusted for inflation, is about 10% higher at 110.57 as of November this year against 99.63 three years ago, shows data from the Reserve Bank of India. The rupee on Thursday weakened 10 paise, or 0.15%, to close at 66.93 per dollar. Higher overseas investor buying in sovereign debt securities capped the local unit's losses with the central bank intervening to check intra-day volatility.

"The RBI would not like a situation where the rupee continues to strengthen materially in real terms as that would result in disruptive adjustments required later," said Brijen Puri, managing director, head of markets, JPMorgan (India). "The rupee will lose value against the dollar following depreciation in other emerging market currencies, albeit with a lower beta." Last year around August, currency volatility peaked after China deval-



VARUN SAHU

EXPORT FOCUS

The rupee will fall gradually against the dollar as India needs to ensure its share of export growth in a world struggling to grow

ANINDYA BANERJEE
Currency Analysts, Kotak Securities

ued the yuan by 3.5% collectively. Since then, it has lost about 8% against the greenback. The country, struggling for export competitiveness, may still make its currency weaker by another 10% going forward, according to market estimates. On Wednesday the People's Bank of China again surprised markets by setting the official midpoint rate on the yuan at 6.5646 per dollar, the lowest since March 2011. A few weeks earlier, it had also extended yuan trading hours to 11.30 pm local time, a move aimed at attracting more market participants leading to speculative bets. Last year, the rupee's total investment returns, including spot exchange rate and interest income, were at about 25%, against China's 0.20%.

'CHINA HAS A MAJOR ADJUSTMENT PROBLEM'

George Soros Sees Crisis in Markets That Echoes 2008

Bloomberg

Colombo: Global markets are facing a crisis and investors need to be very cautious, billionaire George Soros told an economic forum in Sri Lanka on Thursday. China is struggling to find a new growth model and its currency devaluation is transferring problems to the rest of the world, Soros said in Colombo. A return to positive interest rates is a challenge for the developing world, he said, adding that the current environment has similarities to 2008.

Global currency, stock and commodity markets are under fire in the first week of the new year, with a sinking yuan adding to concern about the strength of China's economy as it shifts away from investment and manufacturing toward consumption and services. Almost \$2.5 trillion was wiped from the value of global equities this year through Wednesday, and losses deepened in Asia on Thursday as a plunge in Chinese equities halted trade for the rest of the day. "China has a major adjustment problem," Soros said. "I would say it amounts to a crisis. When I look at the financial markets there is a serious challenge which reminds me of the crisis we had in 2008."

Soros has warned of a 2008-like catastrophe before. On a panel in Washington in September 2011, he said the Greece-born European debt crunch was "more serious than the crisis of 2008." Soros, whose hedge-fund firm gained about 20% a year on average from 1969 to 2011, has a net worth of about \$27.3 billion, according to the



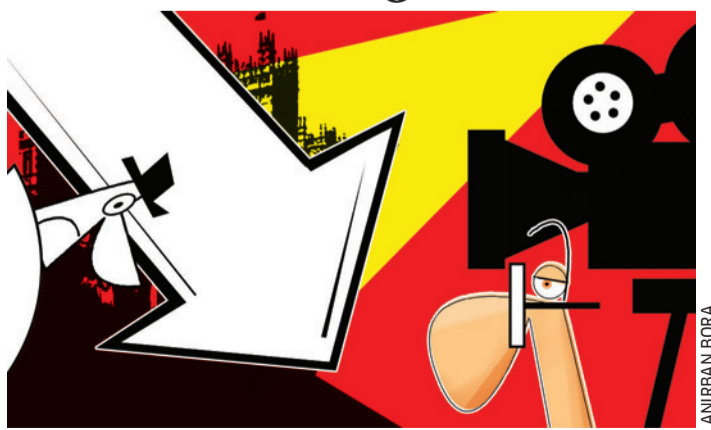
Bloomberg Billionaires Index. He began his career in New York City in the 1950s and gained a reputation for his investing prowess in 1992 by netting \$1 billion with a bet that the UK would be forced to devalue the pound. Measures of volatility are surging this year. The Chicago Board Options Exchange Volatility Index, known as the fear gauge or the VIX, is up 13%. The Nikkei Stock Average Volatility Index, which measures the cost of protection on Japanese shares, has climbed 43% in 2016 and a Merrill Lynch index of anticipated price swings in Treasury bonds rose 5.7%. China's Communist Party has pledged to increase the yuan's convertibility by 2020.

Markets & Tragedies Make for a Heady Mix

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Mumbai: Downton Abbey, the super-hit British serial about life in an aristocratic house in early 19th century UK, might seem as distanced as possible from the current chaos of the finance markets. Yet as its devoted viewers, who have probably just finished downloading and binge-watching its final season, would know, financial turmoil lies at the heart of even such escapist TV watching. Leaving aside the innumerable upstairs/downstairs sub-plots among masters and servants, there are broadly two practical devices driving the plot. One is the lack of male heirs for Lord Grantham, who presides over the titular property; in their absence his family might lose the place, and this drives his daughters to various matrimonial schemes. And the second is his unwise investments in a Canadian railway scheme that collapses, potentially bankrupting him, which forces him to accept changes to his way of life that continued prosper-

ty would never have allowed. Downton Abbey shows how matrimony and money moves the world, a truth so universal that a British period drama set in a lost, near-fantasy era, can have resonance across the world. Matrimonial plots will always have plenty of personal issues to drive them, but when it comes to money few things are better than a good financial crisis or stock market crash. Just when a novel or film or play starts dragging, the telegram will arrive or TV is switched on to announce that a bank has failed or markets plunged, the mother collapses, the father has a heart attack, the kids have to leave home and the plot is recharged. This has probably been seen with financial panics dating back to antiquity, for example, the bizarre Tulip Mania of the 17th century Netherlands (which indirectly in-



spired Alexandre Dumas' 1850 novel The Black Tulip). But as a major literary device it dates to the early 19th century when European empires were past their initial era of conquest and were busy establishing links of commerce that created the first truly global investment schemes, which inevitably led to the first global panics. India was intrinsic to these, with

Calcutta based financiers conjuring up promises of vast Oriental riches for credulous British investors. William Makepeace Thackeray, for example, was born in Calcutta, but was all set to enjoy life as wealthy young man in England when, in the 1830s, the Indian banks in which his money was invested failed and he had to turn to writing as a full-time profes-

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