

# 2012: No bull market in sight

## A broader market range...

We expect the Indian equities to head lower in 1H2012 led by the falling growth, worsening domestic macro fundamentals, deteriorating earning profile, slowing global economy and elevated risk of more adverse outcome from Europe. We also expect the market to get slightly de-rated, given the Indian equity valuations are still at premium to peers.

## ...would provide better trading opportunities

Nonetheless, we see the likely fall in equity prices as a 'big' trading opportunity. The current cycle is proving to be quite similar to 1990's where markets remained in a broad trading range during 1994-1999. The long term (5yr) Sensex returns chart suggests that 2012 may see market record the bottom of the cycle. Though, a new secular bull market does not appear to be in sight as yet.

## The upside to be driven by rate cuts and policy initiatives

We see tough times for markets near term and believe that market could recover in later part of the year, to end 2012 with a positive return. The recovery would be triggered by the RBI easing the policy stance, cutting rates and Government taking policy decisions to kick-start investment spend. In our view, RBI should start easing from March and lending rates may fall by 150bps during April-September period.

## Strategy: gingerly buy the dips below 15K, sell above 18K

Given our view that on top down basis Sensex may fall to 14500 level in 1H2012 and see a recovery to 19K level by the year end, we suggest buying the dips below 15K and selling above 18K levels. As we expect rate cuts to be a key theme for the market in 2012, we suggest rate sensitives for trading. However, we would prefer to play rate sensitives through consumer discretionary, i.e., passenger auto, and defensive large private sector banks rather than infrastructure and real estate.

## GDP growth to slow; downgrades likely

We expect FY13 GDP to slow to 6.8% and consensus to cut GDP forecasts over the next few months. GDP growth in the next few quarters is likely to come even lower at around 6.5%. A slower GDP will be led by: (a) a slowing global economy, (b) impact of high rates and (c) slowing investment spend.

## Earnings downgrades to continue

We continue to expect earnings downgrades, led by slowing sales and sustained margin pressure from rising labor and interest costs. We expect the bottom-up Sensex EPS of Rs1,275 to be downgraded to Rs1,200 (growth of under 10% vs. expectations of nearly 15%).

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Table 1: return on asset or change in values

	Returns/Change			
	Current	1 month	3 month	YTD
BSE SENSEX	15454.92	-8.3%	-6.1%	0.0%
CNX NIFTY	4624.3	-8.4%	-6.5%	0.0%
GOI 10 Year Bond Yield	8.567	-2.0%	1.6%	8.2%
GOI 365 Days T-Bill Yield	8.43	-3.0%	0.0%	15.5%
GOI 91 days T-Bill Yield	8.52	-3.7%	1.2%	20.0%
INR vs. US\$	53.065	1.6%	8.4%	0.0%
Brent Crude Oil Spot	107.58	-3.4%	3.2%	14.1%
GOLD SPOT \$/OZ	1563.7	-10.5%	-3.7%	10.1%
WPI Yoy	9.11	NA	NA	NA

Source: Bloomberg, price data as on 31 December 2011

## 2012: key trends

### Market may move in a broader trading range

Unlike 2011, where market was bound in the most narrow range in at least two decades, 2012 is expected to see a wider trading range, making it attractive to trade actively.

### Long term Sensex returns may bottom out

Long term (5yr rolling) Sensex returns at the end of 2011 were close to 12%. In the previous cycle, long term returns had bottomed out at (-)9% in 1998. A close in the range of 18000-19000 in December 2012 would result in *negative* 5yr rolling returns to the tune of 11 to 6%.

### Volatility may rise, more big daily moves likely

Market tops and bottoms have usually been associated with higher volatility. In past two years volatility in Indian markets has been low to moderate. In recent months volatility has shown a tendency to rise. We expect volatility to inch up as the markets look out for a bottom.

### GDP growth to slow; downgrades likely

We expect FY13 GDP to slow to 6.8% and consensus to cut GDP forecasts over the next few months. GDP growth in the next few quarters is likely to come even lower at around 6.5%. A slower GDP will be led by: (a) a slowing global economy, (b) impact of high rates and (c) slowing investment spend.

### Earnings downgrades to continue

We continue to expect earnings downgrades, led by slowing sales and sustained margin pressure from rising labor and interest costs. We expect the bottom-up Sensex EPS of Rs1,275 to be downgraded to Rs1,200 (growth of under 10% vs. expectations of nearly 15%).

### Valuations will see slight de-rating

Based on analysts' forecasts, Sensex at 13x one-year forward PE is at a slight discount to long-term averages. Slow down in GDP and earnings growth as well as falling RoEs will likely lead markets to trade lower. Secondly, on a relative basis, India still trades at substantial premium to GEM vs. a 10yr average of 17%.

### Inflation and rates to peak off

We expect inflation to peak off in 1H12 with a good harvest dousing agflation, commodity prices stabilizing and a tight monetary policy curbing demand. RBI may start cutting rates by 100bp from March onwards. We expect, in follow up to RBI easing, lending rates should ease by 150bps.

### Strong US Dollar, weak INR

We expect the US Dollar to appreciate to sub-1.30/Euro levels through 2012 on the European crisis. It is expected to peak at 1.25/Euro in March and June and then moderate to 1.30/Euro by December 2012 and 1.35/Euro by December 2013. In tandem, the INR is seen to persist at Rs50/USD levels for the most of the year and appreciate to Rs49/USD by December 2012. Do not expect significant foreign flows in Indian equities in 2012

### Political stability to continue

We believe the stability of the Congress-led UPA Government is not an issue since: (a) most political parties do not want an election so soon and (b) none of the allies of the Congress want to see the Government fall. They seem content to

distance themselves from some measures of the Government and make a show of opposing it, without withdrawing support to the Government. We do not see the situation changing materially post state assembly elections in 5 opposition ruled states in 2012.

#### Global equities: the beginning of the end of great bear market in sight

Despite our short-term caution, we [believe](#) that global equities on a 2-3 year view look compelling. Investors enter 2012 in a fearful state, but *we believe any sharp falls in equities in 2012 should be bought*. The ingredients for equity outperformance over the medium-term are being put in place and 2012 could represent *the beginning of the end of the great bear market in equities*.

#### The US economy to slow down sequentially

While 2011 is ending on a strong note, we [expect](#) the US and European fiscal crises to lower growth to just 1% in Q4 2012.

#### Large scale deleveraging will pull down DM growth in 2012

We [expect](#) the need for higher Tier 1 capital ratios in Europe and falling real estate values in US will likely keep developed economies on a deleveraging mode. In fact, the deleveraging cycle that affects 50% of the global GDP and two-thirds by wealth will likely remain a significant impediment to growth in developed markets. Burgeoning government deficits, unfavorable demographics, and fractious politics will likely continue to prevent the textbook Keynesian response.

#### Easy policy and high liquidity will keep markets afloat

Easy policy and high liquidity has so far helped to counterbalance large-scale deleveraging in developed economies by holding down debt service ratios and supporting asset values. Heading into 2012, real interest rates should remain low, and we [expect](#) the Fed and the European Central Bank to fight the growing deflationary pressures with quantitative monetary easing.

#### Global inflation to remain elevated, EMs may suffer more

The *quid pro quo* of easy liquidity is higher tolerance of inflation, which is already hitting real incomes as energy, food and other commodity prices keep on rising fuelled by negative real rates, in our [view](#). The impact of higher commodity prices is greater on emerging markets where energy and food make up 9% and 27% of the CPI basket respectively, although rising incomes somewhat mitigate the higher costs. On the other hand, G5 economies face stagnant incomes, while energy and food make up 8% and 15% respectively.

#### Commodities - headwinds for cyclicals, gold to reach US\$2000/oz

Given expectations that demand growth for cyclical metals will slow, micro fundamentals are important and we see substantial divergence on that front. We see limited upside in Crude oil on improved demand supply balance, dated Brent crude oil to average US\$108/bbl in 2012. We [expect](#) gold reach US\$2000/oz led by continued Central Bank demand and persistent negative real rates.

#### Key global risks: Euro break-up, Iran & China hard-landing

A deeper-than-expected Euro zone recession could lead to a sequential drop in both equity and commodity prices. US Treasuries would outpace credit in this case. Meanwhile, increased Middle East tensions could lead to another large-scale physical oil supply disruption and exacerbate the recession in Europe. Finally, we think two key risks worth highlighting are those coming from faster than expected US fiscal tightening next year, and the perennial China hard-landing scenario. ([See](#))

Like 2011, capital preservation continues to be the overriding theme in 2012 as well.

Relatively cheaper Pharma is our preferred defensive play.

Constructively positive on staples, but high valuations is a concern.

Gingerly buy below 15K and sell above 18K. Autos and large private sector banks preferred ideas.

Buy volatility.

## Investment strategy

### Moderate strategic asset allocation, u/w equities

We expect the markets to continue moving in a broad range in 2012. During next several months the Sensex may keep oscillating mostly between the range seen in 2011 with occasional violations on either side. Given the high opportunity cost of holding equities, we continue to suggest a moderate strategic asset allocation — predominantly high yielding debt, adequate cash and select large cap defensive equity portfolio.

- Overweight high yielding debt
- Overweight cash
- Underweight equities

### We prefer expensive defensives vs. inexpensive cyclicals

One of the key decisions facing investors at the moment is whether to continue paying a premium for expensive defensives or to position in inexpensive cyclicals in preparation for the next economic upturn.

In our view, expensive defensives are preferable at this stage, for the simple reason that in slowing growth environment, fraught with significant uncertainties, defensives have historically outperformed.

### Pharma is our top defensive play

In past couple of years, the defensive sectors have done very well, led by consumer staple companies. Given our view of slowing domestic and global growth, we believe defensives will continue to do well over the next few months. Given that the consumer staple companies are extremely expensive, we prefer the pharma sector, which is relatively cheaper. Moreover, the pharma sector should benefit from the rupee's depreciation over the past few months.

### Positive on staples, valuations not attractive

We are constructively positive on the consumer staples. We are though worried on valuations in the sector. Volume growth for organized players is expected to remain robust despite price hikes led by rural demand as well as growth in modern trade. Raw material costs are expected to stabilize. A strong correction in raw material costs can provide an upside to margins. Also, while competitive intensity will remain high, margin destructive competition will likely be limited as per channel checks

### Avail the trading opportunity

Given our view that Sensex may slip below 15K in early part of 2012, and end the year with positive returns, we expect the market to provide an attractive trading opportunity during 2012. We suggest investors should avail this opportunity.

Given our belief that monetary easing and subsequent rate cut will be a key theme for the market in 2012, we suggest availing this opportunity through buying rate sensitives on dips below 15K level.

However, we would prefer to play rate sensitives through consumer discretionary, i.e., passenger auto, and defensive large private sector banks rather than infrastructure and real estate.

Underweight on investment theme.  
Within the space prefer capital goods  
over industrials and utilities.

Expect gold to reach US\$2000/oz.

#### Prefer consumer discretionary as rate-sensitive plays

We prefer consumer-oriented rate sensitives rather than investment plays currently. Autos are our current preference to play the pause and subsequent cut in the rate cycle. Another positive trigger for the auto sector could be a possible fall in commodity prices.

#### Banks is the other rate-sensitive overweight

Presently our preference currently is for the defensive large private sector banks. However, we expect to get more aggressive on the PSU banks later in 2012 after the NPA cycle has played out.

#### Buy volatility

We expect volatility to increase as the market begins the process of forming a strong cyclical bottom. We suggest this trade, at opportune moment, through buying deep out of money calls or selling deep out of money puts

#### Very selective in investment space

We are underweight the investment space as we expect the capex cycle to slow down further. However, within this space we prefer the capital goods players to the infra/utility companies. Prefer large capital goods companies with strong balance sheets and industry leadership.

#### Avoid utilities, industrials

We expect weakness in utility stocks on account of (a) lack of fuel and business case certainty, (b) the relatively expensive valuations of large IPPs, (c) increase in competition (regulated utilities) post the closure of MoU window (in Jan 2011) for winning projects as India moves to a competitive bidding regime and (d) limited near-term growth catalysts. Competition for new generation capacity could make returns volatile and we believe that merchant power is a new 'hype' and potentially a 'fad'.

#### Buy gold

We expect the tighter fiscal policies in the US, Europe and Japan to be offset by accommodative monetary policies around the world, aided by lower inflation. Importantly, our economists expect fresh rounds of quantitative easing by mid 2012 in both the US and Europe. This will prove to be an important inflection point for risk assets. We suggest buying gold to take advantage of likely quantitative easing. Incidentally, BofAML Commodity [Strategy](#) has a 12-month gold price target of \$2000/oz.

Please refer to the following for more details and important disclosures.

["Will get worse before it gets better"](#), 05 December 2011

["EM: China breaks support, India may be next"](#), 13 December 2011

## Market may hit the rock, recover

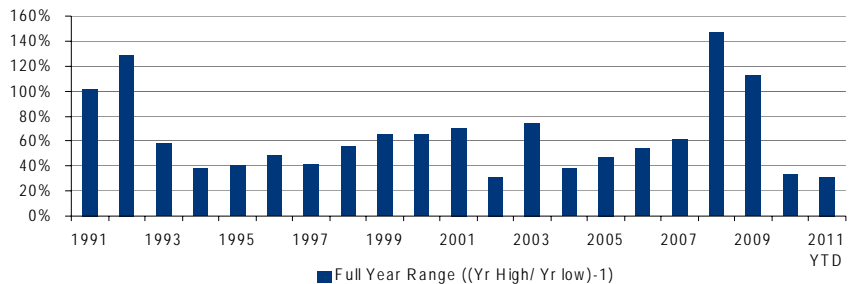
We expect the Indian equities to head lower in 1H2012 led by the falling growth, worsening domestic macro fundamentals, deteriorating earning profile, slowing global economy and elevated risk of more adverse outcome from Europe. We also expect the market to get slightly de-rated, given the Indian equity valuations are still at premium to peers. Strictly in technical terms, in our view, Sensex can test levels of 13500-12200 next year.

Nonetheless, we see the likely fall in equity prices as a 'big' trading opportunity. The current cycle is proving to be quite similar to 1990's where markets remained in a large trading range during 1994-1998. The long term (5yr) Sensex returns chart suggests that 2012 may see the market recording the bottom of the cycle, but a new secular bull market does not appear to be in sight.

## Large trading range for 2012

Unlike 2011, where market were bound in the most narrow range in at least two decades, 2012 is expected to see a wider trading range, making it attractive to trade actively.

Chart 1: 2011 was the most range-bound year in at least two decades

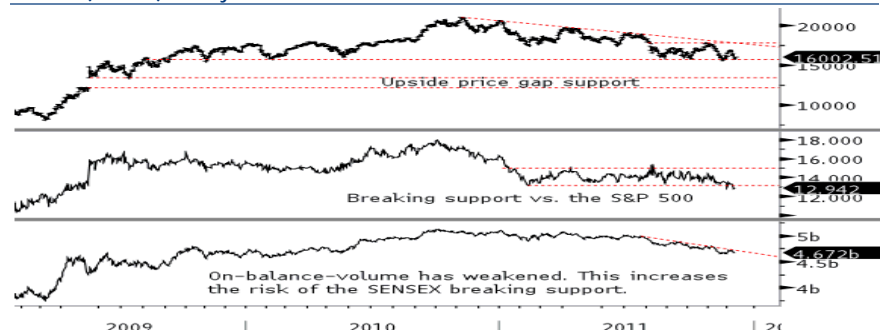


Source: BofA Merrill Lynch Global Research

## Technically a decline to 13,500-12,200 area favored

The Sensex has recently broken down below the key support in 16,000 area. The on-balance-volume (OBV) has also weakened in recent weeks, pointing to distribution (selling) and increased the downside risk. Under this scenario, a decline into the 13,500 to 12,200 area is favored, which is approximately 16% to 24% from current levels. To improve the pattern, the Sensex must regain the 18,000 area

Chart 2: India's BSE Sensex 30 Index (top), relative to the S&P 500 (center), and on-balance-volume (bottom) – daily chart



Source: BofA Merrill Lynch Global Research, Bloomberg

## Rate cuts to help positive year-end index move to 19,000

While we see tough times for markets near term, we believe we could end 2012 with a positive return if we see aggressive rates cuts by the RBI and Government takes policy decisions to kick-start investment spend.

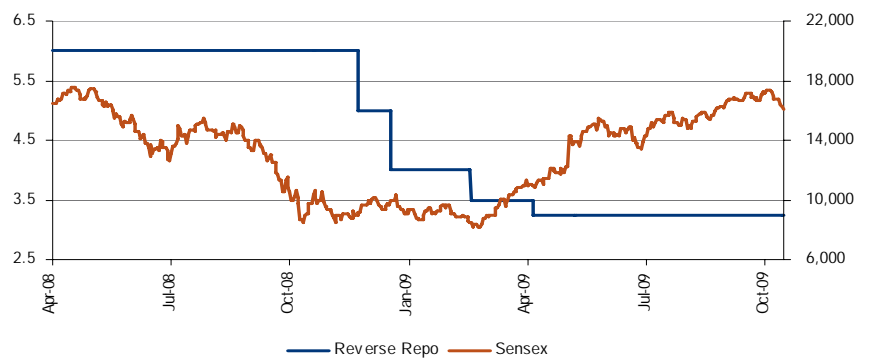
### Market will stop panicking when policymakers start panicking

We believe an aggressive rate cut by the RBI will help the market in late 2012. While the past history of rate cuts in India is limited with only two rate-cut cycles over the past 20 years, there are three conclusions we can draw:

#### 1. Market bottoms out 3-6 months after the first rate cut

During both the previous two rate cuts, the market bottomed out 3-6 months after the first rate cut.

Chart 3: Market bottomed out after three months of the first Reverse Repo cut in 2009



Source: BofA Merrill Lynch Global Research

#### 2. Market rally on rate cuts may not be sustainable

History shows that the market does rally sharply after a few rate cuts, without waiting for growth to pick up. However, buying the first rate cut has not made money for investors. Secondly, the sustainability of the rally is driven by the subsequent performance of the economy.

Table 2: Market performance after rate cut

Sensex Performance after 1st Rate cut			
Period	3 Month	6 Month	1 Yr
2008-09	-13.5%	-29.1%	4.8%
1997-98	7.7%	19.5%	5.7%
Sensex Performance after bottom			
Period	3 Month	6 Month	1 Yr
2008-09	85.4%	97.6%	109.0%
1997-98	21.8%	8.4%	14.8%

Source: BofA Merrill Lynch Global Research

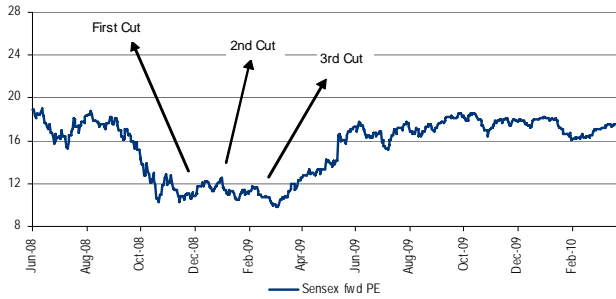
#### 3. Market tends to re-rate as rates are cut

On both the previous rate cycles, the market re-rated as rates were cut and traded at PE multiples higher than long-term averages.

Three reasons why markets rally on rate cuts:

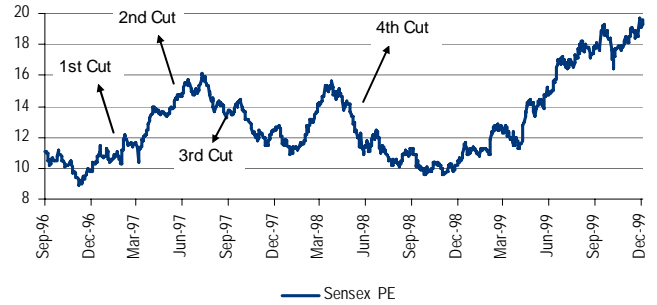
1. Rate cuts will help economic growth.
2. Deposit rate cuts will lead to money moving from debt to equity.
3. Valuations get cheaper on a DCF and earnings yield basis as interest rates fall

**Chart 4: 2008-09: Sensex PE rose after 3 rate cuts to c.18x (30% higher than avg) within 1 yr**



Source: BofA Merrill Lynch Global Research, \* Note: Based on RBI's Reverse Repo rate cuts

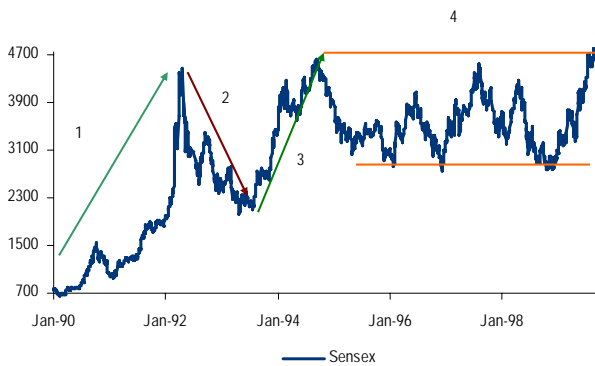
**Chart 5: 1997-98: Sensex PE went up after 4 rate cuts to c.18x (30% higher than avg) within a yr**



Source: BofA Merrill Lynch Global Research, \* Note: Based on HDFC's mortgage rate cuts

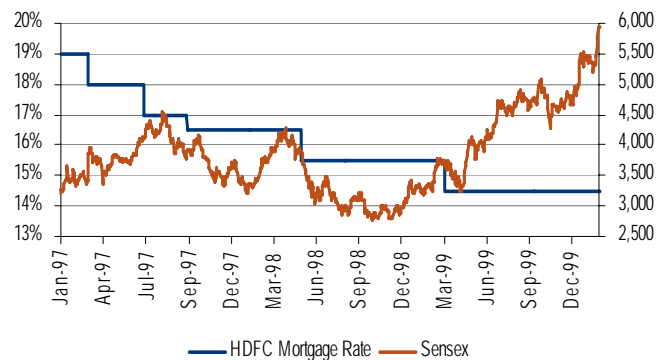
**Current market cycle had been similar to 1990's**

**Chart 6: 1994-1998 market was in a large trading range...**



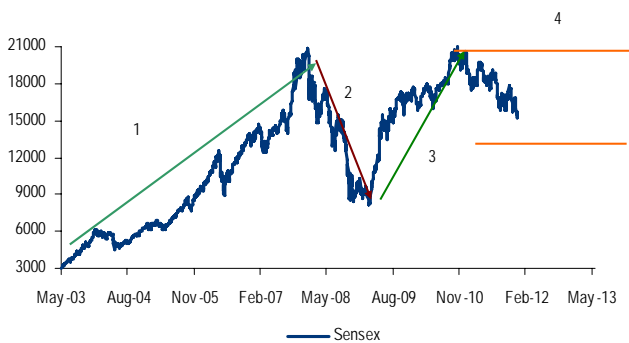
Source: BofA Merrill Lynch Global Research, Bloomberg

**Chart 7: ...before rate cuts triggered the break out**



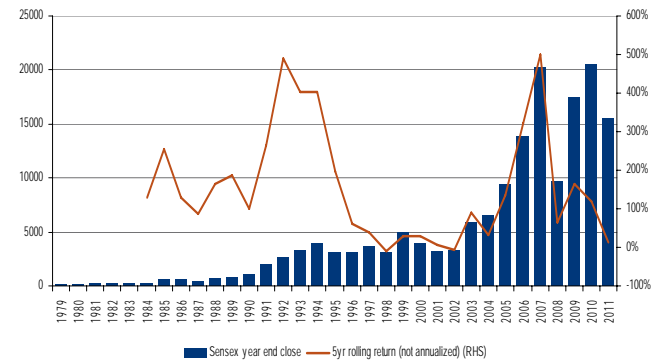
Source: BofA Merrill Lynch Global Research

**Chart 8: Current cycle appears replicating the same**



Source: BofA Merrill Lynch Global Research, Bloomberg

**Chart 9: Sensex long term (5yr) returns may also bottom in 2012**



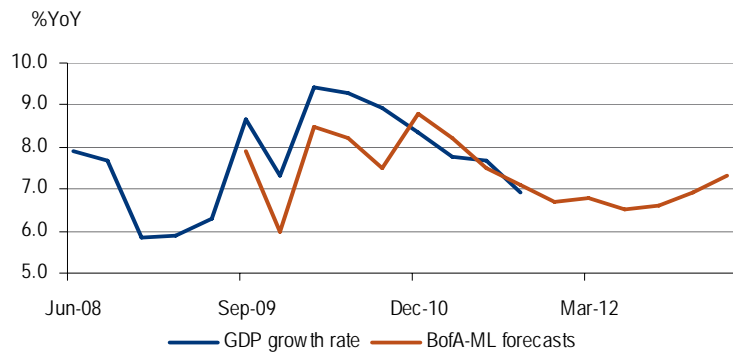
Source: BofA Merrill Lynch Global Research, Bloomberg



## Growth to stay below potential

We expect FY13 growth to slow to 6.8% – well below the 7.5-8% potential – in our base case of the US growing 2% in 2012. This reflects the impact of higher rates as well as global uncertainties that will contract export demand as well as undermine business confidence, pushing back the capex cycle. In our view, growth will likely bottom out in mid-2012 on rates coming off and base effects. However, GDP growth in the next few quarters is likely to come even lower at around 6.5%. A slower GDP will be led by: (a) a slowing global economy, (b) impact of high rates and (c) slowing investment spend. The growth will likely fall to 6% if the US double dips or the European crisis blows up.

**Figure 1: Growth to may bottom out mid-2012, but still stays below potential**



Source: CSO, BofA Merrill Lynch Global Research estimates.

**Table 3: Industry recovers on low base, services contract, agriculture flat**

Sector wise growth forecast (% , yoy)

Item (%)	Weight	FY09	FY10	FY11	FY12	FY13
Agriculture and allied activities	16.8	-0.1	0.4	6.6	3.0	3.0
Industry	20.3	4.0	8.3	7.8	4.6	5.7
Mining and quarrying		1.3	6.9	5.8	0.5	3.0
Manufacturing		4.2	8.7	8.3	4.0	6.0
Electricity, gas and water supply		4.9	6.4	5.7	8.0	6.0
Services	62.8	9.5	9.7	9.2	8.7	8.0
Construction		5.4	7.0	8.1	4.0	4.0
Trade, hotels, transport, storage and communication		7.5	9.5	10.3	10.0	8.0
Financing, insurance, real estate and business services		12.5	9.3	9.9	10.0	9.5
Community, social and personal services		12.7	12.1	7.0	7.0	8.0
Real GDP at Factor Cost	100	6.8	8.0	8.5	7.0	6.8

Source: CSO, BofA Merrill Lynch Global Research estimates.

**Table 4: A US recession can result in India's GDP growth falling to 6%**

Global 2012 GDP Growth forecast

	Good	Bad (Base case)	Ugly
Euro zone	1.0	-0.6	-2.5
US	2.5	1.9	-0.5
EM	6.3	5.5	3.8
Global	4.3	3.5	1.0
Probability	10	50	40

Source: BofA Merrill Lynch Global Research

## Twin deficit worsening, but still manageable

We believe India's twin deficit risks are overdone. Our expected fiscal deficit, at 8.3% of GDP, should not crowd out the private sector significantly. After all, the very softening in growth that is slowing tax collections is also pulling down loan demand. It is for this reason we expect the government to be able to put through its Rs6331bn/US132bn net borrowing program without stressing interest rates, especially with the RBI likely to subscribe to about a third *via* open market operations to provide liquidity. This should contain the 10y at 8.5% levels.

Table 5: 8.8% of GDP FY13 fiscal deficit with a Rs950bn food subsidy

Item/Rsbn	FY10	FY11E	FY12BE	FY12E (US\$108/bbl)	FY13E (US\$112/bbl)
1. Revenue receipts	5728	7839	7899	7678	8563
Tax revenue	4565	5637	6645	6413	7298
Non-tax revenue	1163	2201	1254	1265	1265
2. Non-debt capital receipts	332	317	550	500	500
Recovery of loans	86	90	150.2	100	100
Other receipts	246	227	400	400	400
3. Total receipts (1+2)	6060	8156	8449	8178	9063
4. Non-plan expenditure	7211	8216	8162	9393	11006
4.1 On revenue account	6579	7267	7336	8542	10106
4.1.1 of which: Interest payments	2131	2408	2679	2841	3361
4.2 On capital account	632	948	826	851	900
5. Plan expenditure	3034	3950	4415	4120	4367
5.1 On revenue account	2539	3269	3636	3439	3645
5.2 On capital account	495	681	779	681	722
6. Total expenditure (4+5)	10245	12166	12577	13513	15373
7. Gross fiscal deficit (6-3)	4185	4009	4128	5535	6310
% of GDP	6.4	5.1	4.6	5.8	6.1
8. States fiscal deficit					
% of GDP	3.3	2.5	2.5	2.5	2.7
10. Combined fiscal deficit % of GDP	9.7	7.6	7.1	8.3	8.8

Source: Government of India, BofA Merrill Lynch Global Research estimates.

## Balance of payments risks overdone

We also believe that balance of payments risks are overdone. Our expected current account deficit, of 3% of GDP, should be funded by capital flows in our base case.

Table 6: 3% of GDP FY13 current account deficit

Item	FY09	FY10 (US\$69/bbl)	FY11 (US\$88/bbl)	FY12 (US\$108/bbl)	FY13 (US\$112/bbl)	FY13 (US\$135/bbl)
Current Account	-28.8	-38.4	-44.2	-63.0	-65.8	-84.8
% of GDP	-2.4	-2.8	-2.6	-3.2	-3.0	-3.9
Trade balance	-118.7	-118.4	-130.4	-155.0	-165.8	-184.8
- Exports	189.0	182.2	250.5	290.0	326.3	334.4
- Imports	307.7	300.6	380.9	445.0	492.0	519.2
o/w Oil imports	93.7	87.1	101.5	136.0	147.0	176.5
Invisibles	89.9	80.0	86.2	92.0	100.0	100.0
o/w income from forex reserv.	10.9	5.9	7.0	7.0	9.0	9.0
Capital Account	7.4	53.5	59.8	67.0	80.0	72.0
Foreign investment	3.5	51.2	37.4	26.0	30.0	18.0
- FDI	17.5	18.8	7.1	18.0	20.0	18.0
- FII+	-14.0	32.4	30.3	8.0	10.0	0.0
Banking capital	-3.2	2.1	5.0	11.0	10.0	10.0
- NRI deposits	4.3	2.9	3.2	8.0	10.0	8.0
Short term credit	-1.9	7.6	11.0	12.0	16.0	20.0
ECBs	7.9	2.8	11.9	14.0	18.0	18.0
External assistance	2.6	2.9	4.9	4.0	6.0	6.0
Others	-1.5	-13.0	-10.4	0.0	0.0	0.0
Overall balance	-21.4	15.1	15.6	4.0	14.2	-12.8
Memo						
RBI's forex intervention	-34.9	-2.7	1.7	-7	-0.8	-27.8

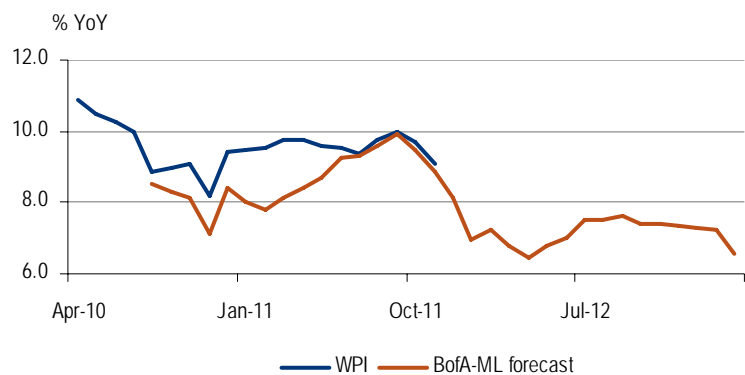
Source: RBI, BofA Merrill Lynch Global Research estimates.

## Inflation to peak off

We expect inflation to peak off in 1H12 with a good harvest dousing agflation, commodity prices stabilizing and a tight monetary policy curbing demand. This, in turn, should allow the RBI to start cutting rates by 100bp from April onwards. We expect inflation to come off to 7.2% in March 2012 from 9.1% in November 2011.

Inflation will likely turn up to 7.5% levels in 2H12 after Delhi hikes oil prices after the summer UP polls. Besides, we also expect hikes in coal prices (7%) and power tariffs (15%) by June. This, in turn, should force the RBI back on hold in 2H12. We expect policy rate cuts (by 100bp) to resume again in the March quarter as inflation comes off.

Chart 10: Inflation peaking off...



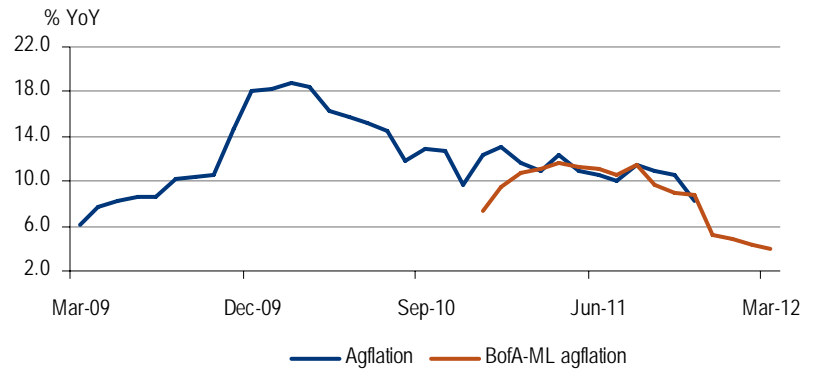
Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates.

Table 7: ...to come off to 7% levels by March

Major group / Item	Weight (New)	Impact of a 5% change (bp)	FY10	FY11	Current	FY12E	FY13E
<b>All commodities</b>	<b>100</b>		<b>10.2</b>	<b>9.8</b>	<b>9.1</b>	<b>7.2</b>	<b>6.7</b>
Primary articles	20.1	120	22.2	13.4	8.5	7.2	8.7
Food articles	14.3	80	20.6	9.4	8.5	7.3	8.1
<b>Fuel, power, light and lubricants</b>	<b>14.9</b>	<b>77</b>	<b>13.8</b>	<b>12.5</b>	<b>15.5</b>	<b>9.0</b>	<b>11.1</b>
Mineral oils	9.4	51	18.6	14.7	19.5	11.0	11.5
<b>Manufactured products</b>	<b>65.0</b>	<b>301</b>	<b>5.2</b>	<b>7.5</b>	<b>7.7</b>	<b>6.7</b>	<b>4.6</b>
Food products	10.0	52	15.1	2.4	6.8	6.1	8.1
Sugar, Khandasari and Gur	2.1	14	41.7	-7.8	5.2	10.0	12.0
Cotton textiles	2.6	11	12.7	33.1	9.2	5.0	5.0
Chemicals and chemical products	12.0	53	3.7	7.4	9.5	11.6	6.0
Basic metals, alloys & metal products	10.8	51	1.4	11.7	13.0	7.0	0.0
Machinery and machine tools	8.9	39	1.5	3.2	3.5	5.0	4.0

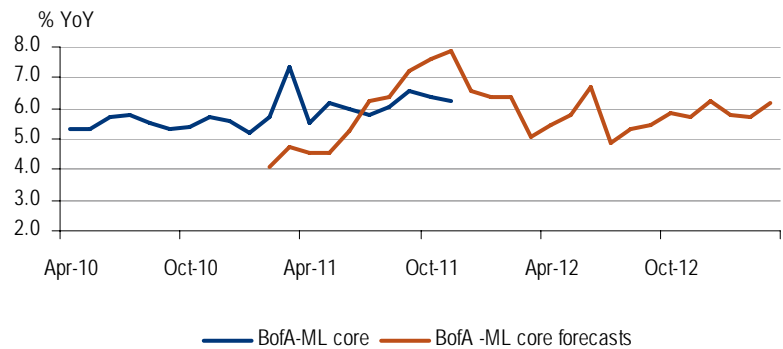
Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates.

**Chart 11: Agflation falling**



Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates.

**Chart 12: Core inflation peaking off...**



Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates.

**Table 8: ... with monetary tightening curbing pricing power**

Major group / Item	Weight	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11
Core	47.8	5.2	5.7	7.4	6.3	6.2	6.0	5.8	6.0	6.5	6.4	6.3
Minerals	1.5	16.1	17.7	15.2	23.6	29.6	23.4	25.8	21.5	26.1	20.4	18.0
Coal	2.1	0.1	3.9	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3	13.3
Electricity	3.5	3.6	3.6	3.6	3.6	-1.3	-1.3	-1.3	-1.3	1.7	2.6	2.6
Beverage and Tobacco	1.8	9.6	8.6	8.8	7.7	9.7	12.6	12.6	13.5	13.6	12.5	13.2
Man - made textiles	2.2	11.6	13.6	12.6	11.8	10.4	10.1	7.2	5.3	7.6	7.2	5.9
Wood and wood products	0.6	4.6	3.8	3.6	2.9	5.3	9.5	9.6	8.6	8.4	8.5	8.3
Paper & paper products	2.0	5.7	7.1	8.4	6.9	7.9	7.8	6.4	4.9	5.3	5.4	5.4
Leather & leather products	0.8	-2.5	-1.2	-1.5	-0.2	-0.5	1.2	1.0	0.6	1.1	1.2	1.6
Rubber & plastic products	3.0	9.2	9.6	10.6	9.5	8.1	8.0	7.8	7.9	7.4	6.8	5.1
Chemicals & chemical products	12.0	5.5	6.6	7.4	6.9	7.5	8.0	8.7	8.5	9.0	9.3	9.5
Non -metallic mineral products	2.6	2.5	2.5	3.7	3.6	3.6	4.5	3.5	3.9	5.0	4.3	6.1
Machinery & machinery tools	8.9	3.3	3.4	3.2	2.8	3.1	3.0	3.1	3.1	3.4	3.5	3.5
Transport equipment and parts	5.2	2.9	3.0	3.6	2.1	1.4	3.0	3.2	4.4	4.6	4.3	4.6

Source: Ministry of Industry, BofA Merrill Lynch Global Research estimates.

Please refer to "[December: 2012](#)", 07 December 2011, for more details and important disclosures.

**Table 9: INR forecasts**

	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
USD-INR	51.50	55.00	53.00	52.00	49.00

Source: BofA Merrill Lynch Global Research

**Table 10: Major macro forecasts**

India	2011F	2012F	2013F
Real GDP (% yoy)	7.0	6.8	7.6
CPI (% yoy)	8.8	7.2	6.5
Policy Rate (end of period)	7.50	6.50	6.50
Fiscal Bal (%/GDP)	-5.8	-6.1	-5.8
CurAct Bal (%/GDP)	-3.1	-3.0	-3.0

Note: Inflation measure is the WPI indicator

Source: BofA Merrill Lynch Global Research

## INR: revised weaker

### Themes: India to remain second growth haven

2012 will be a battle of nerves, in our view. Growth will likely notch a much more modest sub-trend 6.8%, in our base *bad* case, with global uncertainty impacting export demand and business confidence. High rates will likely pull growth down to 6.5-7.0% levels until mid 2012. With inflation likely to peak off in December, we expect the RBI to cut rates by 100bp April onwards to combat the slowdown. A rebound in inflation, on administered fuel price hikes, however, would force the RBI to pause in 2H2012. Rate cuts would likely resume after inflation peaks off in early 2013. In response, growth should bottom out to 7.5% in H2 FY2013.

We still expect India to be the second growth haven after China. We think India's ability to fight a global meltdown has come off like every other economy. Still, strong domestic demand should prevent growth from slipping below 6%. The bad news is that the fiscal stimulus option has been exhausted, as the gross fiscal deficit has almost doubled to 8.5% levels since 2007. The good news is that the RBI has more room to cut rates. In fact, India is likely the only large EM where lending rates have pierced 2008 peak levels. In addition, FX reserves at over US\$300bn should prove sufficient to fund any portfolio outflows, *a la* 2008.

We believe that concerns over both the fiscal and current account deficits are overdone. We do not expect the fiscal deficit to crowd out the private sector significantly. Even if risk aversion results in capital outflows, the RBI would still have sufficient FX reserves to fund the gap in the current account. FX reserves also remain a relatively comfortable 2.3x of short-term external debt due in a year.

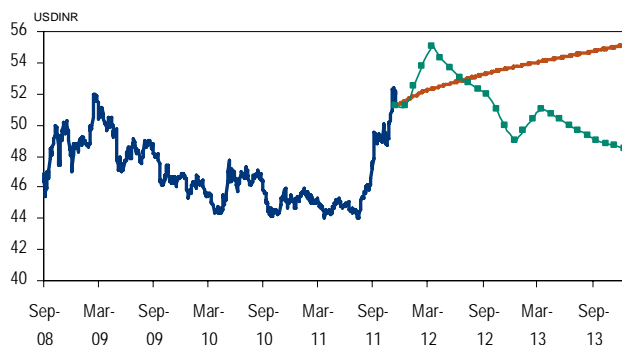
### Forecasts: USD/INR revised higher

We believe that the INR remains vulnerable to global risk sentiment. The INR is likely to be pressured in 2012 as global funding stresses increase and current account deficits prove more difficult to fund. For India this means the balance of payments will clear at a higher exchange rate. And with domestic growth slowing quite sharply due in part to rate hikes by the RBI, we expect foreign equity inflows, an important current account financing flow, to slow. The RBI is likely to intermittently attempt to smooth any disorderly moves in the INR.

### Risks: US recession

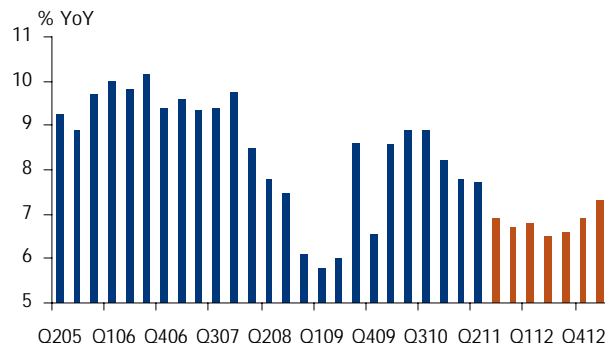
A US double dip is the main risk, in our view. Our US economists forecast a 40% chance of a recession. We believe India would clock 6% growth

**Chart 13: Forecast vs. Forwards**



Source: Bloomberg, BofA Merrill Lynch Global Research

**Chart 14: 7.0% FY 2013 growth**



Source: Bloomberg, BofA Merrill Lynch Global Research

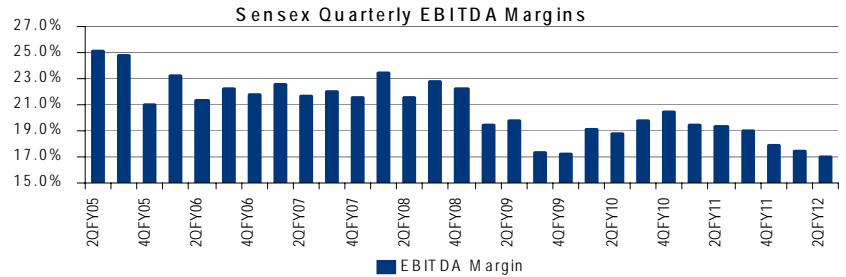
## Earnings profile to deteriorate

We have seen earnings being constantly downgraded since the beginning of 2011. FY12 and FY13 earnings are down nearly 15% each since Jan 2011. We believe FY12 earnings growth is now getting closer to reality. However, we still see substantial downgrades for FY13 earnings which we believe will see a growth of under 10%. In our view, FY13 Sensex EPS will be Rs1,200 compared to our current bottom-up estimate of Rs1,275.

## Margins at multi year lows, sales still strong

Chart 15: 2QFY12 Sensex EBITDA margin at a seven-year low

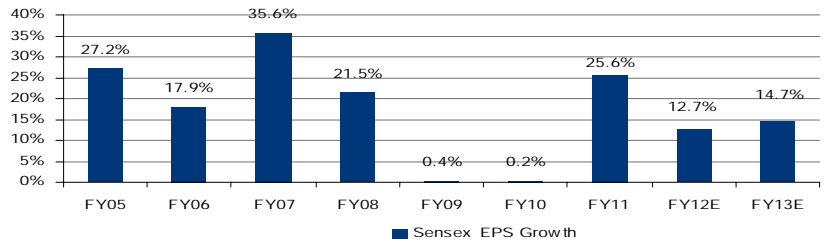
Operating margins dropped to the 2008 crisis low levels. Sensex EBITDA margins in 2QFY12 were at a seven year low. High wage, capital and RM material prices have eaten into the margins at a time when pricing power is constrained by slowing demand.



Source: BofA Merrill Lynch Global Research

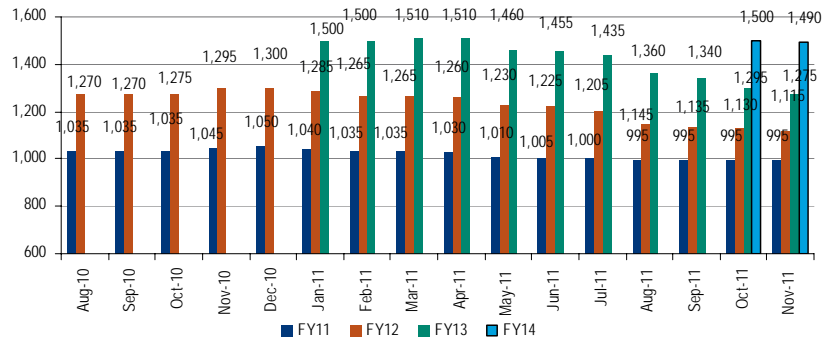
## Chart 16: Sensex EPS growth remains weak

FY12e Sensex EPS is expected to grow 12.7%, almost half the FY11% growth of 25.6%.



Source: BofA Merrill Lynch Global Research

## Chart 17: Earnings downgrade continued



Source: BofA Merrill Lynch Global Research

## ...leading to valuation de-rating

In spite of the market falling ~20% in 2011, valuations are not really cheap since earnings expectations too have seen a sharp downgrade.

### Valuations below historical averages...

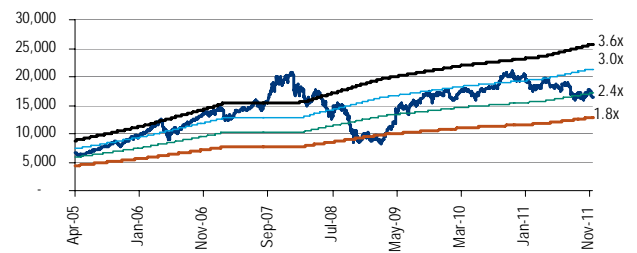
The good news is valuations are slightly below historical averages, both on a PE and P/B basis. The markets currently trades at a PE of 13x, a slight 8% discount to the historical average of 14.1x. Similarly, on a PB, the market trades at 2.3x, an 18% discount to the historical average of 2.8x.

Chart 18: India PE ratio marginally below historical average



Source: BofA Merrill Lynch Global Research

Chart 19: Price to Book also below historical mean



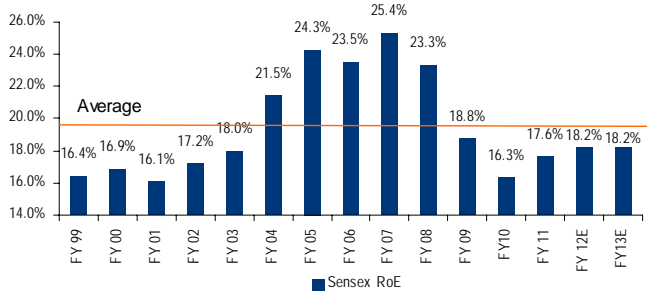
Source: BofA Merrill Lynch Global Research

### ...de-rating may be justified

There are three reasons why the de-rating may be justified:

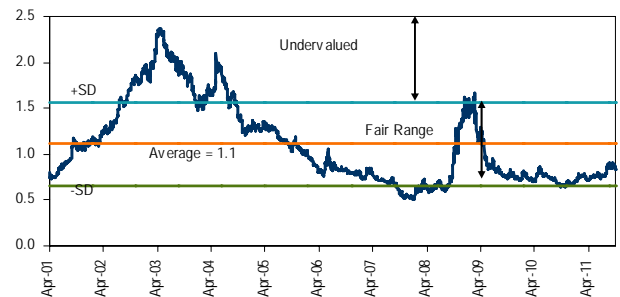
- Earnings are seeing downgrades and, hence, the PEs may be higher than currently believed based on existing analyst forecasts. Secondly, there is a risk to growth estimates (both GDP and earnings) that may mean valuation de-rating is justified.
- Secondly, RoEs in India are significantly lower than the historical average, which means a lower PB is justified.
- Lastly, the market is more expensive than the average on earnings yield basis. Thus, we need interest rates to come down before the markets goes back to historical PE levels

Chart 20: RoEs below average



Source: BofA Merrill Lynch Global Research

Chart 21: Still not cheap on earnings yield basis

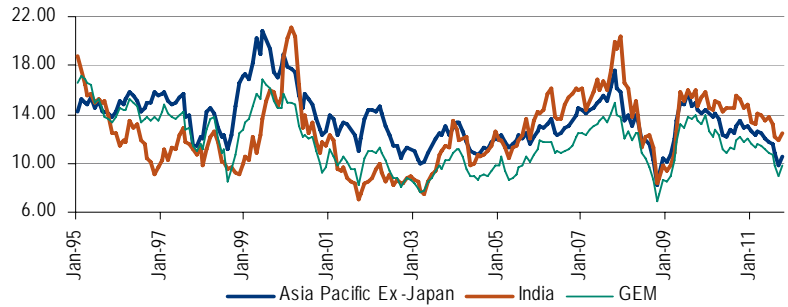


Source: BofA Merrill Lynch Global Research

**India still at premium, but no longer the most expensive**

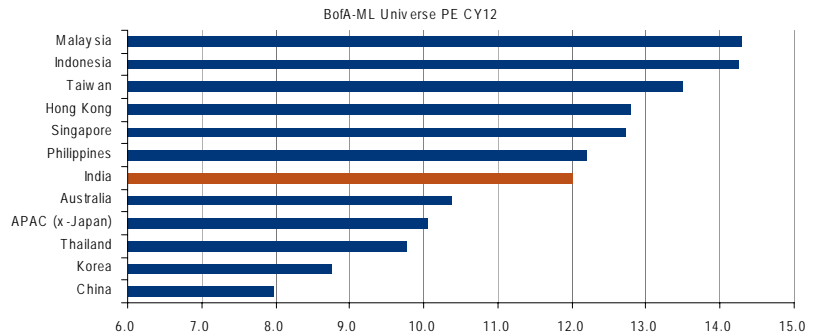
Though India is no longer the most expensive regional market, it still remains among the more expensive markets in the Asia Pacific region. Moreover, relative to other emerging markets, India trades at a 27% premium on PE, well above the 10-year average of 17%.

**Chart 22: India still trades at a premium to the EMs**



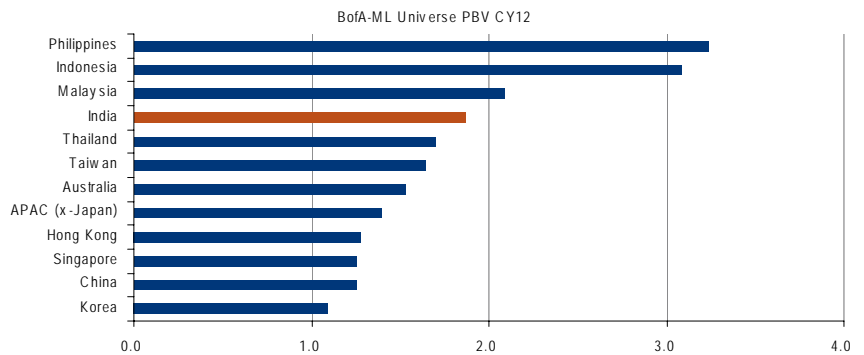
Source: BofA Merrill Lynch Global Research

**Chart 23: Regional CY12 PER– India middle of the pack**



Source: BofA Merrill Lynch Global Research

**Chart 24: Still expensive on P/BV**



Source: BofA Merrill Lynch Global Research, I/B/E/S estimates



## Volatility may rise

The market volatility has been persistently low in past couple of years. Although in last couple of months it has shown some upward tendency, but it still continues to be modest. In 2011, the Sensex has recorded daily move of 3% or more only on 9 occasions. None of these moves was larger than even 4%. In the year 2008 when market recorded all time high level there were 67 large moves of more than 3%, out of which 25 were larger than 5%. The year 2009 when the market created a cyclical bottom also saw 42 large daily moves, out of which 6 were more than 5%.

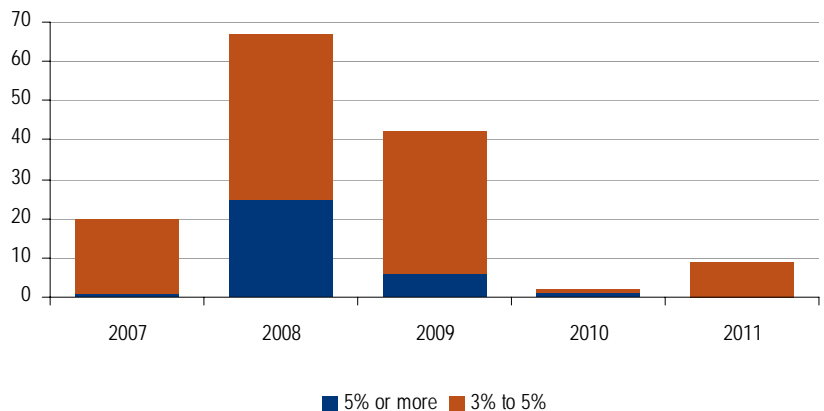
In our view, as the market moves towards bottoming out in 2012, the daily volatility may increase substantially.

**Chart 25: Volatility has shown some upward tendency in 4Q2011, but remains modest**



Source: Bloomberg, BofA Merrill Lynch Global Research

**Chart 26: ...and certainly nowhere closer to 2008-09 levels**



Source: Bloomberg, BofA Merrill Lynch Global Research

## Global equities

### The beginnings of the end

Please refer to [“The beginning of the end”](#), 02 December 2011, for more details and important disclosures.

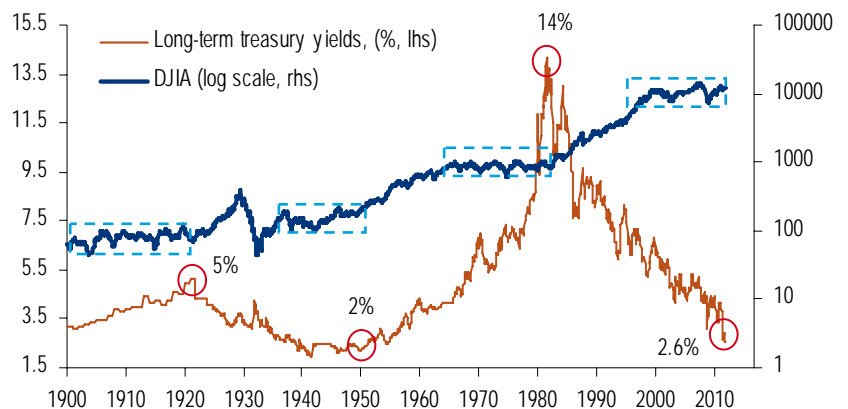
- We expect global equities to underperform credit and commodities in 1H12. Modest absolute equity upside forecast: 2012 MSCI ACWI target is 330; S&P 500 target is 1350.
- We remain convinced that the true equity bull market is in stocks and sectors that provide *high growth, high quality and high yields*. That’s why 2012 portfolios should continue to be tilted toward *Creditors over Debtors, Growth over Value, Large over Small, Quality over Junk, US over Europe and EM over Japan*.
- Favorite trades: long deflation, short inflation; spring rotation to global cyclicals, aggressively buy Europe Best of Breed stocks; long European basic materials; long US Staples & Tobacco; long Japanese Discretionary, short US Discretionary; long Australia Banks, short China Banks; long EM Energy; long Russia, short Turkey.

### Catalysts for re-rating in 2012

What factors in 2012 could cause a true multi-year re-rating of equities to begin?

- In the US, a recovery in *property prices* that provokes equity leadership from the much-despised financial sector.
- In Europe, political and social change that embraces the need for fiscal austerity and smaller public sectors leading to a huge rally in *EU sovereign bonds*; an announced ECB QE target for lower periphery sovereign bond yields would also help.
- In Asia, confidence in the consumer story being rekindled by a supply rather than demand-driven reduction in *oil and commodity prices* as well as lower inflation and interest rates.

Chart 27: No secular bull market in equities without a bear market in bonds



Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg, Haver

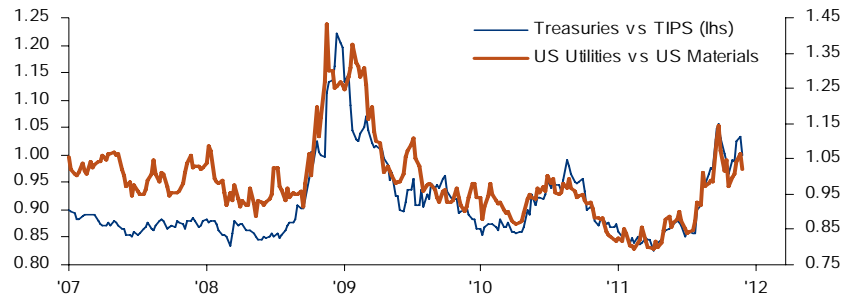
## Top ten global trades for 2012

### 1) Long deflation, short inflation trades until ECB capitulates

- Treasuries (a deflation play) have significantly outperformed TIPS (an inflation play) three times over the past three years. The prior two periods ended when the Fed announced QE.
- The current outperformance of deflation plays ends when 1) the ECB announces a QE program of + €1 trillion; and, 2) further weakness in US real estate causes an MBS-targeted QE3 by the Fed.
- Until then the best deflation over inflation pair trades are: *long large-cap/short small-cap, long Staples/short Semiconductors, and long Utilities/short Materials*.

Long large-cap/short small-cap,  
Long Staples/short Semiconductors  
Long Utilities/short Materials

Chart 28: Deflation trades are outperforming inflation trades



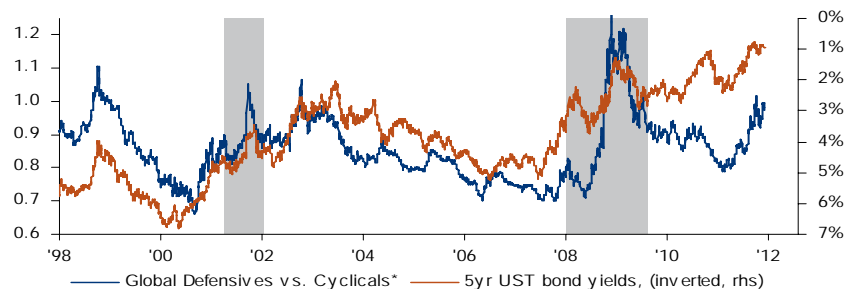
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

### 2) Spring rotation to global cyclicals

- We enter 2012 still underweight cyclical sectors as global PMI's continue to weaken sharply. *But defensives have already completed 75% of their normal recessionary outperformance.*
- Bond yields have been a good barometer of appetite for cyclical stocks, so it is notable that our fixed income strategists are looking for a trough in Treasury yields by early 2Q12. Active policy-making in Q4 and Q1 has the potential to arrest the decline in lead indicators early next year. Investors should start rotating to global cyclicals in the spring.

Defensives have already completed 75% of their normal recessionary outperformance.

Chart 29: Global Defensives v Cyclicals and 5yr UST bond yields



\* Cyclicals = materials, industrials, financials, tech & cons disc; Defensives = healthcare, staples, utilities & telecoms. Grey columns = recession shading

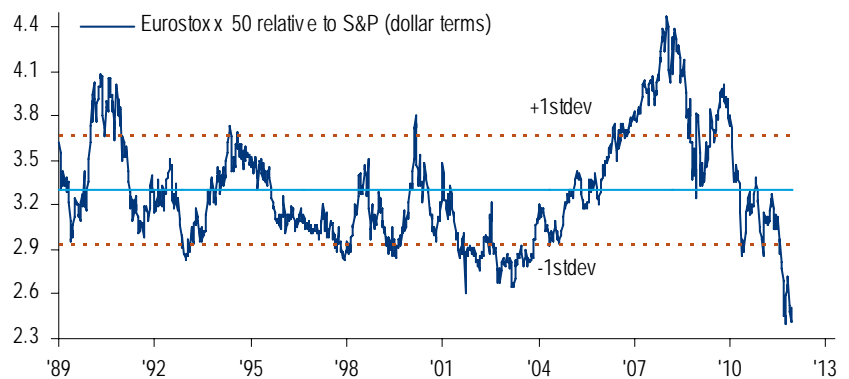
Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

Now is the time to go hunting for quality companies in Europe.

### 3) Aggressively buy Best of Breed stocks in Europe

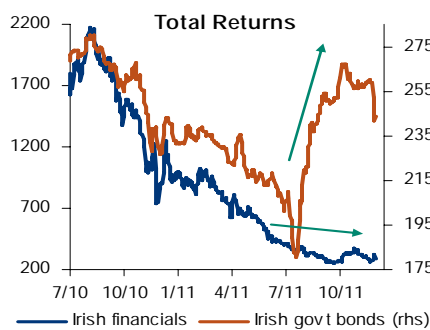
- European equities are the most oversold they have been relative to US equities in the past 20 years. Look for policy and debt headlines to cause periodic violent trading rallies in Europe.
- But while deleveraging will be very growth-negative and will be a tough obstacle for bank stocks, now is the time to go hunting for quality companies in Europe. We believe the best European equity opportunities over the medium term will be in Best of Breed stocks – strong earnings, good corporate management, healthy balance sheets, and solid margins.
- Note the level of corporate cash in Europe is just as high as the US (more than \$1tn for non-financial large-caps), and the big surprise in Europe next year could be a major revival in M&A and corporate restructuring activity.

Chart 30: Europe is extremely oversold



Source: BofA Merrill Lynch Global Equity Strategy, DataStream

Chart 31: Irish bonds rallied, bank stocks didn't

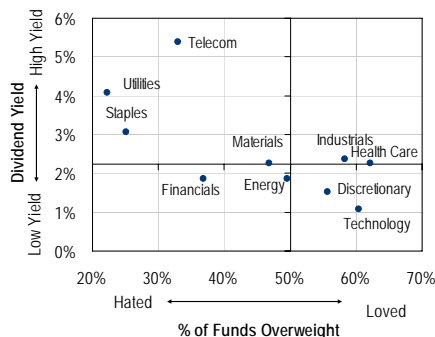


Source: BofA Merrill Lynch Global Equity Strategy, Bloomberg

### 4) The contrarian trade: buy European basic materials

- European banks are the world's biggest contrarian trade. While we will no doubt see violent rallies, we do not expect banks to have sustained outperformance without a recovery in real estate and bonds. Note that even in markets where fiscal austerity has been accepted (UK, Ireland) and bond markets have rallied, bank stocks have struggled. In 2012, banks will remain a sector to rent, not to own.
- Basic materials are European Equity Strategist Gary Baker's preferred beta play in Europe. Materials should benefit from the next round of global liquidity injections from central banks and our "soft" landing scenario for China and EM will provide a floor for resources demand. And note *European Materials are second only to banks in their un-loved sector status.*

**Chart 32: High yielding sectors are underloved**



Source: BofA Merrill Lynch Equity and Quant Strategy

### 5) Long US Staples and Tobacco

- Consumer Staples offer both dividend growth potential and a high current dividend yield of 3.2%. Staples is the second most under-owned sector by US fund managers (based on 3Q11 13F disclosures).
- Staples offer defensive growth. It is also the only US sector expected to have higher projected EPS growth in 2012 in part because of its exposure to faster-growing EM. Further, US Equity and Quantitative Strategist Savita Subramanian notes that Staples has been the best performing US sector during periods of decelerating profit growth.
- Within Staples, Tobacco is our recommended overweight industry, as it trades at a relative discount on EV/NOPAT despite offering superior economic returns (ROCE - WACC) of almost 16%.

### 6) Long Japanese discretionary, short US discretionary

- Our US economics team doubts the sustainability of the recent surge in consumer spending. Consumers have tapped into savings to compensate for anemic income growth and falling home prices. Fiscal tightening and policy dysfunction will further drag on US consumption next year.
- Japan is projected to have GDP growth of 2.3% in 2012, the strongest in the G7. Valuations for Japanese Consumer Discretionary stocks are cheap (P/B of 0.93x, a 42% discount to their long-term average) and the sector has the *fastest projected 2012 EPS growth (68%) in the world*.
- A weaker yen and a stronger dollar add additional support to the reversal of the recent outperformance of US Consumer Discretionary.

**Chart 33: US vs. Japan consumer discretionary stocks at all-time high**



Source: BofA Merrill Lynch Global Equity Strategy, DataStream

### 7) Long Australia banks, short China banks

- Be defensive in Asia. As the global economy continues to slow in 2012, our Asia-Pac Strategist Nigel Tupper recommends owning classic defensive country-sector combinations.
- Relative to the region, Australia Banks tend to be one of the best performing sectors during economic downturns as they are high quality stocks with lower beta (0.93) and higher dividends (6.5%).
- Although valuations for Chinese banks appear attractive, China strategist David Cui points out that the increasing systematic risks in China's financial system such as deterioration in LGFV loans and a collapse in the property market are still significant.

## 8) Buy EM Energy

- Despite slowing global growth and bearish macro headlines, the supply/demand fundamentals for energy remain strong. Commodity Strategist Francisco Blanch forecasts Brent crude oil to average \$108/ bbl on tight global inventories and high global liquidity.
- EM resource stocks are much oversold and current valuations are compelling. EM Energy stocks are currently trading at 6.9x forward earnings (vs 9.5x for all EM), and their steepest discount to DM Energy since April 2009.
- Energy stocks could be a stagflation hedge. If we have a massive, simultaneous policy easing in 1H12 (ECB, Fed, rate cuts by EM CB's), commodities will benefit from the flood of liquidity. Oil rose 48% and 39% in QE1 and QE2, respectively. Over the same periods, EM Energy stocks rose 96% and 23%.

## 9) Long Russia (creditor), Short Turkey (debtor)

- EEMEA strategist Mike Harris believes the relative risk/reward for Russia is compelling, as oil prices remain elevated and Russia benefits from a supportive political cycle in 2012. Further, Russia could attract additional flows if risk appetite recovers. Russia is under-owned by non-dedicated investors and that will change as oil prices stay high. Russia runs a huge current account surplus.
- Turkey, a huge debtor, is exposed to the downside risk of European contagion and risks a hard landing. The central bank has already used much of its ammunition in unconventional policy over the last year. Marked further weakness in the near-term could leave them with diminished fire power.

## 10) The contrarian trades

We would be remiss in a marketplace that has proved very punishing to the consensus not to point out the contrarian trades for 2012.

- The biggest contrarian trade based on current investor positioning would be long European Banks/ short Tech.
- The biggest contrarian trade based on price extremes would long French Banks/ short US Utilities.

Table 11: Positioning extremes\* (end-Nov'11)

Most UW	Most OW
Banks (-35% UW)	Tech (+36% OW)
Insurance (-19% UW)	Health Care (+31% OW)
Utilities (-16% UW)	Energy (+20% OW)
Industrials (-11% UW)	Staples (+18% OW)
Eurozone (-30% UW)	EM (+27% OW)
Japan (-19% UW)	US (+20% OW)

\*based on Global FMS Net % OW/UW

Source: BofA Merrill Lynch Global Equity Strategy, Global Fund Manager Survey

Table 12: Price extremes\* (end-Nov'11)

Most Oversold	Most Overbought
France Financials (-44.7%)	US Utilities (+5.3%)
Italy Financials (-42.0%)	Korea Tech (+4.4%)
India Financials (-32.0%)	UK Staples (+3.5%)
Poland (-30.8%)	US Staples (+3.2%)
Korea Materials (-29.4%)	Brazil Staples (+2.3%)
Brazil Materials (-26.3%)	UK Healthcare (+2.2%)
Korea Industrials (-25.7%)	US Tech (+1.6%)
France Industrials (-24.0%)	China Telcos (+0.7%)
Taiwan Tech (-21.2%)	US Healthcare (+0.2%)
Eurozone Utilities (-20.1%)	UK Energy (+0.1%)

\*based on % deviation from 200dma; each country/ sector has at least \$50bn free-float market cap

Source: BofA Merrill Lynch Global Equity Strategy, DataStream

Please refer to [“We’re all European now”](#), 01 December 2011, for more details and important disclosures.

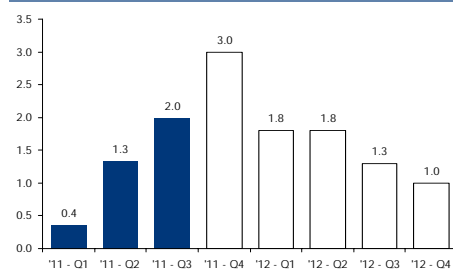
**Table 13: For a few euros more**  
**2012 GDP Growth**

	Good	Bad*	Ugly
Euro zone	1.0	-0.6	-2.5
US	2.5	1.9	-0.5
EM	6.3	5.5	3.8
Global	4.3	3.5	1.0
Probability	10	50	40

\*Bad = Baseline forecast

Source: BofA Merrill Lynch Global Research

**Chart 34: GDP growth peaking**  
**Real GDP (qoq % change annualized)**



Note: Unshaded bars represent BofA Merrill Lynch forecasts.

Source: BofA Merrill Lynch Global Research, Bureau of Economic Analysis

## Global economy

### Recession in Europe, slow growth elsewhere

The past year has featured a lot of dramatic events – Japan’s tsunami, the escalating crisis in Europe and the US debt debacle, to name a few. However, from an economic forecasting point of view, the big story was oil. Oil prices surged in the spring, averaging about \$20/bbl more than expected. That “supply shock” fully explains both the downside surprise in GDP growth and the upside surprise on inflation.

#### Mild recession in Europe

With the oil shock steadily fading into history, the big story in 2012 will likely be the growing crisis in Europe. In particular, our key themes are:

- In our base case, Europe slips into a mild recession, driven by tighter credit, fiscal austerity and weakening confidence.
- Historically, Europe has had a small impact on other regions, but the banking and confidence linkages from Europe have grown over time. In a worst case scenario, if the European crisis spins out of control, a global recession is likely.
- With this weak growth backdrop, the recent inflation spurt will likely recede quickly, triggering monetary easing in many countries.
- Investors are on alert for a bad outcome. The surprise would be if the global economy performs well in the year ahead. The key upside risk is decisive actions from both the ECB and Italian fiscal authorities.

#### US: growth to gradually slow

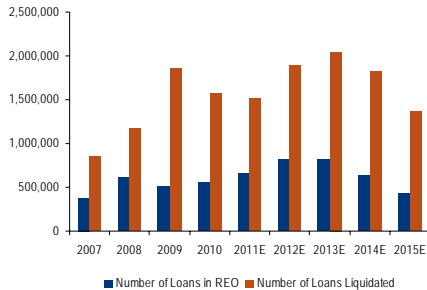
The US economy approaches 2012 with considerable momentum. With the oil and Japan shocks fading, GDP growth has picked up from sub-1% at the start of the year to an estimated 3% growth in the current quarter.

- We expect growth to gradually slow as three shocks hit: fiscal tightening, a recession in Europe and a policy uncertainty shock prior to the election.
- Inflation will likely slow as commodities level off and firms face increasing resistance from cash constrained consumers.
- The Fed will continue to respond to signs of weakness. In the spring, we expect it to extend the interest rates on hold promise into 2014 and next summer we expect it to start QE3.
- The risks are primarily to the downside: if the Euro zone crisis spins out of control it will likely push the US economy into a mild recession.

#### Elevated concerns about fiscal policy

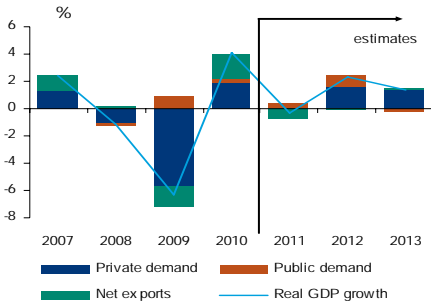
Fiscal policy remains one of the key risks to the US outlook in 2012 and beyond. Put simply, US policy makers have made haphazard progress on deficit reduction to date. Indeed, current fiscal policy is arguably the opposite of what it should be: policy is set to tighten notably in the near term as a weak economy remains susceptible to downside risks. Meanwhile, the failure of the so-called “Super Committee” illustrates the lack of progress toward a credible longer-term plan. The US does not face an imminent risk of a fiscal crisis, in our view, but we are approaching a crossroads. The US’s “exorbitant privilege” can be used either to

Chart 35: Foreclosure forecasts: Liquidations to peak in 2013 (# of homes)



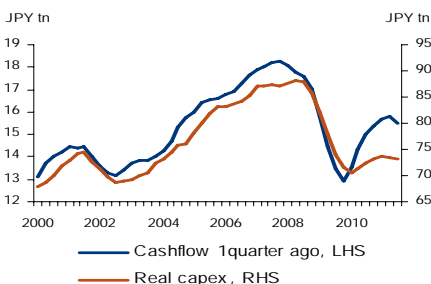
Source: BofA Merrill Lynch Global Research, CoreLogic

Chart 36: Composition of GDP growth



Sources: Cabinet office, BofA Merrill Lynch Global Research

Chart 37: Capex level remaining low



Note: Cash flow = recurring profit x 0.5 + depreciation

Source: MoF, cabinet office

buy time to fix its budgetary problems, or to procrastinate until more difficult and painful choices cannot be avoided. We are concerned about the latter.

### Housing still hurts, may recover

2011 marked the sixth consecutive year of the housing recession. It is a somber anniversary – housing has been central to both the biggest recession in the post war period and one of the weakest recoveries. In a normal expansion, the housing market pulls the economy out of the doldrums, adding an average of 0.7pp to growth in each of the first two years of recoveries from construction. In this “recovery”, housing construction added only 0.1pp during the first year and subtracted 0.2pp during the second.

Eventually the housing market will turn, and when it does, the strength will likely come as a surprise, in our view. The crucial factor when timing the turn in the housing market is the magnitude of foreclosures and the pace by which they are cleared. Little was accomplished this year in reducing the shadow inventory of homes in the foreclosure pipeline. We believe foreclosure timelines – the time it takes to transition from seriously delinquent to liquidation – will increase next year and policy initiatives will be taken to reduce excess inventory.

### Japan: the time for reconstruction and reform

We estimate that Japan’s economic growth will return to positive territory at +2.3% yoy in 2012 as fiscal spending for reconstruction increases. The growth rate is likely to slow down to 1.3% in 2013 as the fiscal stimulus peaks out.

#### Growth in mid 2% range feasible

The March earthquake triggered supply constraints, and growth was negative in both 1Q and 2Q 2011. But growth rebounded to an annualized 6.0% in 3Q as supply constraints were overcome in the near term. We expect exports to soften through the end of 2011 as Euro zone economic weakness takes its toll. We estimate that growth will slow to just about flat in 4Q, keeping annual growth in 2011 in negative territory at -0.3%.

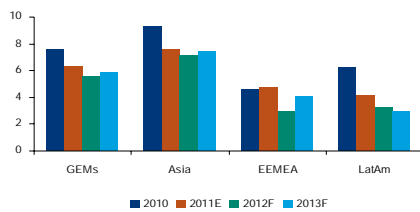
We expect exports to stop falling in 1H 2012 due to some pick-up in Asian economies as the impact of monetary easing comes through. Even then, however, we envisage a tug-of-war with the weakening European and US economies, and estimate external demand’s contribution to the Japanese economy will be close to zero in 2012. That said, growth in the mid-2% range is feasible, in our view, boosted by domestic demand from two points: (1) a 0.7pp fillip to growth from fiscal policy as earthquake restoration budgets are implemented; and (2) something of a rebound in consumption, housing investment and capital expenditure as they return to normal after the declines triggered by the financial crisis and earthquake.

In 2013, the impact of fiscal stimulus will likely peak, and European and US economic recovery is likely to remain limited. But the post-crisis rebound in consumption and the increase in capex to deal with the labor shortage would support 1.3% growth, which is close to Japan’s potential.

As a result of higher energy imports after the earthquake and the impact of yen appreciation, Japan’s trade surplus likely has been reduced significantly to 0.0-0.5% of GDP. But Japan still has more than ¥550tn in external financial assets and will continue to have an income surplus larger than 2% of GDP. We still project current account surpluses of ¥11.1tn (2.4% of GDP) in 2011, ¥11.4tn (2.4%) in 2012 and ¥12.9tn (2.7%) in 2013.



**Chart 38: GEMs growth slowing**



Source: BofA Merrill Lynch Global Research

## GEM: growth heading lower in 2012

We expect GEM GDP growth to slow down to 5.5% in 2012, from 6.3% in 2011. The slowdown will be partially due to domestic factors, as monetary policy was tightened earlier this year to deal with the resurgence in commodity prices. However, external factors should play a large part as well; export growth will be muted next year primarily due to the slowdown in global activity and strains in financing channels.

### Not completely immune to DM slowdown

While developed market growth shocks result in less persistent effects on GEM growth, emerging markets are not completely immune; exports remain a sizeable part of GEM GDP and, importantly, financial linkages have increased. We see downside risks to our growth forecasts heading into a tumultuous year.

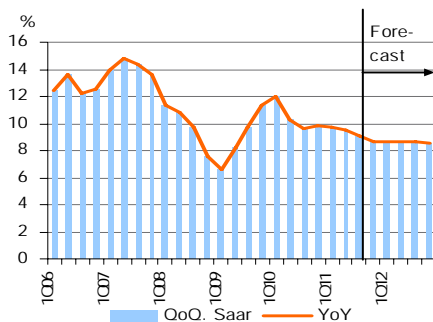
### Asia most resilient, EEMEA most affected

All regions will slow down in 2012, by our estimates, but Asia should remain the most resilient, with growth slowing 40bp to 7.1%. We expect LatAm to decelerate 90bp to 3.3% and EEMEA's growth rate to slow the most by 190bp to 3.0%. With the Euro zone contracting 0.6% next year, EEMEA will be the most affected region due to its significant export and financial ties with developed Europe. For GEM-10 (the 10 largest GEM economies in GDP terms), we expect growth to decelerate to 6.1% in 2012, from 6.8% in 2011.

### Decoupling on track but downside risks prevail

- We expect the 10 largest emerging market economies (GEM-10) to grow 6.1% yoy in 2012, below our 6.8% estimate for 2011 and compared to our 1.3% forecast for developed economies.
- We think risks are to the downside, as muted export growth remains a concern and bank deleveraging globally is lurking.
- As risks of a European contraction increase, threatening to disturb liquidity and global trade, GEMs will not come out unscathed. Rebalancing toward domestic activity is under way, however, cushioning a big chunk of the potential blow.

**Chart 39: China soft landing of GDP growth**



Source: BofA Merrill Lynch Global Research, CEIC

## China: Slower growth on weaker exports

We forecast that China's economic growth is likely to slow further to 8.6% in 2012 from around 9.2% in 2011. Part of the slowdown reflects reduced potential, driven mainly by a labor shortage, and part of the slowdown is cyclical, as China will be faced with a possible Euro zone recession in 2012. We expect GDP growth in 2013, 2014 and 2015 to gradually slow to 8.5%, 8.0% and 7.0-8.0%, respectively. Inflation concerns will likely be greatly allayed, thanks to a weaker global economy and a high comparison base. We expect CPI and PPI inflation to drop to 3.5% and 2.0% in 2012 from 5.5% and 6.2% in 2011, respectively.

### Loose fiscal, tight money policy to continue

With this macro backdrop plus the leadership change in 2012-13, the Chinese government should continue its "loose fiscal, tight money" policy stance, though falling inflation risks could allow Beijing to be slightly more pro-growth by avoiding over-tightening credit supply. Put differently, it's unlikely for Beijing to make a U-turn on policy stance, in our view, but we do expect some further fine tuning in a changing macro environment. A conservative tone dominates among top politicians during leadership changes, so structural reforms unfortunately will likely take a back seat.

**Table 14: Emerging Asia's latest GDP forecasts**

	2010	2011	2012	2013
GDP Growth (yoy)	Actual	F'cst	F'cst	F'cst
Emerging Asia	9.3	7.5	7.1	7.4
China	10.3	9.2	8.6	8.5
Hong Kong	7.0	5.1	3.9	4.6
India	8.5	7.0	6.8	7.6
Indonesia	6.1	6.4	6.0	6.3
Korea	6.1	3.8	3.6	4.3
Malaysia	7.2	4.8	3.6	5.0
Philippines	7.3	3.7	4.4	5.9
Singapore	14.5	4.5	2.8	4.0
Taiwan	10.9	4.4	3.2	4.4
Thailand	7.8	1.8	4.0	3.9

Source: BofA Merrill Lynch Global Research, CEIC

## Emerging Asia: weathering turbulence

In 2011 Asia was severely affected by Japan's earthquake in March, with disruptions to the auto and tech supply chain, followed by the US debt ceiling debacle in August and Europe's worsening sovereign debt crisis. In our view, 2012 will probably be as turbulent. We expect a meaningful slowdown, but no recession: emerging Asia GDP is forecast to expand 7.1% in 2012, down from 7.5% in 2011. China (+8.6%), India (6.8%) and Indonesia (+6%) remain anchors; we forecast most of the rest will grow at below 4%.

### Water Dragon year: plenty of thunder and lightning

Europe's slide into recession and escalating debt crisis will hurt Asian exports and increase financial stress. Our Europe team is forecasting three negative quarters, starting from 4Q 2011. Negative impact from trade on Asia is more quantifiable. Europe is Asia's largest trading partner, accounting for 16.8% of emerging Asia's exports and 5.2% of Asia's GDP. Europe makes up a large share of exports for China (21.2%), India (19.2%) and Singapore (14.1%).

Negative impact via the financial channel is less easy to quantify because Europe's bank deleveraging could be a long, drawn out affair. Risk of a bank crisis could trigger a sudden freeze in credit markets and hit Asia harder. European bank claims on emerging Asia stand at US\$1.4trn, accounting for 12.6% of Asia's GDP. European bank claims are disproportionately concentrated in Hong Kong and Singapore, given their financial hub status, but most of the funding is destined for the immediate neighbourhood. As a percentage of GDP, European bank claims are also high for Malaysia (25%), Taiwan (21.3%), Korea (18.7%) and India (9.2%). European banks have a large presence in trade financing. Disruptions could hurt Asian trade volumes and growth significantly.

## LatAm: growth to decelerate

We expect LatAm growth to decelerate to 3.3% in 2012, from 4.1% in 2011 and 6.2% in 2010. In 2012 we expect Brazil and Mexico, which represent 70% of LatAm's GDP at current market prices, to grow 3.4% and 3.0%, respectively.

### Loose money, higher wage income to support Brazil

Brazil's growth has sputtered in 3Q, and our US economists expect sluggish growth in 2012. Two facts support our relatively positive forecast for Brazil. First, fiscal and monetary policy tightening has impacted 2011 growth. By contrast, in the coming months we expect monetary policy to become significantly looser. Second, the minimum wage should increase by about 14% in 2012, bringing with it about a 1.7% of GDP income boost ([Brazil: minimum wage to boost income in 2012](#)).

### Weaker peso, employment growth to boost Mexico

Mexico's 3% growth forecast is predicated on still resilient US industrial production. In addition, the real depreciation of the peso as well as some productivity gains in the manufacturing sector will keep the external sector moving, in our view. Plus, domestic demand has been catching up and there is still room for more, as we expect credit to continue growing. The labor market is giving Mexico a bonus: with fewer Mexicans migrating to the US, employment is growing fast but not generating inflationary pressures, as unemployment is high.

**Table 15: Growth slowdown in 2012 (%)**

	2011E	2012E
LatAm	4.2	3.3
Argentina	5.5	1.0
Brazil	3.1	3.4
Chile	6.3	3.5
Colombia	5.6	4.1
Mexico	4.0	3.0
Peru	6.5	5.2
Uruguay	6.1	4.0
Venezuela	4.1	5.0

Source: BofA Merrill Lynch Global Research

Please refer to [“€-Day”](#), Global Asset Allocation year ahead report, 05 December 2011 for more details and important disclosures.

## Global asset allocation

### Position for low growth, large-scale monetary easing

As the Eurozone’s fiscal union nears, we see two scenarios for liquid assets in 2012. In our base case, Europe goes into a modest recession and the rest of the world shrugs it off (global GDP growth: 3.5%). In our ugly scenario, inadequate policy response in Europe drags the world economy down with it (global GDP growth: 1%). In our central scenario, credit & gold markets rally after monetary easing, and equities lag. In our ugly case, equities drop sharply, commodity prices fall by at least 25%. Treasuries outperform. There is a chance of a stagflationary outcome as well, where aggressive policy easing and Middle East tensions push inflation higher, leading commodities to outperform other liquid assets.

### Resilient EMs support credit, EM equity and commodities

Politics in Europe and the US are creating large tail risks for portfolios, but economic growth will once again come from EMs next year (5.5% in 2012 under our central scenario). EM government debt-to-GDP ratios are well below those in DMs. Moreover, the differential of EM over G-5 real rates is near its 15 year average. This leaves ample room for more aggressive policy in EMs. As recent monetary easing in Brazil, Russia, Turkey or Indonesia suggests, EM central banks will not stand still and will likely continue to take pre-emptive steps to fight the ongoing growth risks from DMs. Under a scenario of continued EM and DM easing, we see good support to EM equities, IG credit and commodity markets.

### Negative real rates force risk assets into liquid portfolios

Negative real rates allow borrowers to reduce their debt load, and force investors to accept risky assets or face real losses on cash balances. As such, high cross-asset correlations—a feature of deleveraging environments—limit the benefits of diversification. Low growth periods are generally negative for stocks and negative real rates erode the value of cash, so IG credit should perform well. In both equity and credit markets we prefer US over EU risk. In order to protect against principal erosion, we include a modest overweight in commodities and EM equity. We also suggest hedging downside tail-risks with Asian equity, AUD, and Aluminium puts, while we prefer European cyclical vs. defensive equity calls for upside risks.

### Key global risks: Euro break-up, Iran & China hard-landing

There are a number of key risks to our base case scenario. In particular, a deeper-than-expected Eurozone recession could lead to a sequential drop in both equity and commodity prices. USTs would outpace credit in this case. Meanwhile, increased Middle East tensions could lead to another large-scale physical oil supply disruption and exacerbate the recession in Europe. Finally, we think two key risks worth highlighting are those coming from faster than expected US fiscal tightening next year, and the perennial China hard-landing scenario.

### Asset allocation

- **Equities:** Underweight
- **Fixed income:** Overweight
- **Commodities:** Overweight (Energy and precious metals)

## Commodities outlook for 2012

Table 16: BofA Merrill Lynch Commodity Research Themes and Outlook

<b>Macro outlook</b>	<ul style="list-style-type: none"> <li>For 2012, we see two key global energy scenarios. In our baseline scenario, Europe goes into a modest recession and the rest of the world shrugs it off (global GDP growth of 3.5%). In an ugly scenario, Europe drags the world economy down with it (global GDP growth of 1%).</li> <li>In our view, global current account (CA) imbalances are at the heart of ongoing economic woes. In an oil supply constrained world, oil demand in CA deficit countries has to adjust lower to make room for fast growing surplus nations.</li> <li>Negative USD real rates further discourage output and investment in the oil sector, skewing regional supply responses.</li> <li>For 2012, we believe the global economy cannot afford oil prices above \$130/bbl, the point at which energy as a share of global GDP reaches 9% and the world economy experiences a severe crisis. Still, we think this is unlikely to occur.</li> <li>We remain concerned that a broader Syrian conflict could rattle Middle East security, exacerbating oil price volatility.</li> </ul>
<b>WTI and Brent crude oil</b>	<ul style="list-style-type: none"> <li>We see limited upside to crude oil prices in 2012 as the balance improves. Global oil demand growth will be weak at 1 mn b/d, non-OPEC supply recovers and OPEC spare capacity rises as Libya returns. Equally, price downside will be tempered by below-average stock levels.</li> <li>In 2H12, low inventories and further monetary policy loosening will likely support oil prices.</li> <li>Overall, we see Brent crude oil prices average \$108/bbl in 2012, \$101/bbl for WTI. Low inventories will keep Brent in backwardation.</li> <li>For 2013, the secular bull story for oil remains intact as the recovery in the global economy leaves oil markets undersupplied relative to the expected pace of economic growth. As such, we believe crude oil prices will average \$118/bbl for Brent, \$111/bbl for WTI in 2013.</li> <li>WTI-Brent spreads should trade at \$7/bbl until 2014 as regional imbalances means rail will anchor the Midwest oil transportation system.</li> </ul>
<b>Atlantic Basin petroleum products</b>	<ul style="list-style-type: none"> <li>Despite strong EM demand growth for transportation fuels in 2012, we believe global demand for petroleum products will continue to be overwhelmed by CDU capacity additions. Thus, Atlantic Basin cracks should decline further in 2012.</li> <li>Global gasoline utilization rates will likely drop in 2012 given a strong bias of refiners to supply gasoline, outweighing demand.</li> <li>The outlook for distillates is relatively better, as demand continues to be supported by EM growth despite the weakness in Europe. Still, with upgrading capacity expanding strongly, any immediate upward pressure on crack spreads will be limited.</li> <li>We do not expect Atlantic Basin residual fuel oil margins to strengthen as CDU capacity growth outweighs upgrading capacity.</li> </ul>
<b>US natural gas</b>	<ul style="list-style-type: none"> <li>We expect natural gas prices to stay low in 2012 given record storage levels, record-setting production, and a weakening demand picture. As such, we expect very low average US natural gas prices of \$4.30/MMBtu in 2012.</li> <li>With increased onshore oil development, dry gas is becoming a by-product of oil. Combined with productivity gains, the supply glut persists.</li> <li>Watered-down environmental rules (CSAPR) eased the burden of compliance until 2014, further reducing expectations of natural gas demand.</li> <li>Assuming a meaningful reduction to the gas rig count in 2012, we believe prices can rise to an average of \$4.70/MMBtu in 2013.</li> </ul>
<b>LNG</b>	<ul style="list-style-type: none"> <li>In 2012, LNG prices will likely be supported by strong Asian demand, driven by regas capacity growth in China and India, on top of ongoing maintenance in Qatar. The lack of major supply additions until 2015 will likely keep markets tight.</li> <li>Given the premium of LNG delivered to Asia over Europe, spot Atlantic cargoes may increasingly be diverted to Asia.</li> <li>Japan's nuclear power future remains uncertain. In a worst case scenario, spot LNG prices may rise to 2008 levels of \$25/MMBtu.</li> </ul>
<b>Thermal coal</b>	<ul style="list-style-type: none"> <li>In our view, coal will be hit by a double-whammy in the next 6 months: a negative demand shock and steadily improving supplies.</li> <li>In 2012, we expect front-month API2 prices to weaken and the contango to widen across the API2 and API4 forward curves given physical oversupply in both the Atlantic and Pacific markets, lackluster demand in Europe and softening economic activity in Asia.</li> <li>Medium-term, coal should continue to underpin power generation and import needs in Asia, soaking up expanding global supplies.</li> </ul>
<b>Aluminium</b>	<ul style="list-style-type: none"> <li>Although the spot market remains tight, it has eased off somewhat. Overall, aluminium can still be tied up in financing deals economically.</li> <li>Smelters boosted operations and global alum output has hit a new record. The Chinese aluminium market has been comparatively tight on healthy demand.</li> <li>Smelters will need to show production restraint in the coming years to restore normality on the aluminium market; there are signs of hope in China.</li> </ul>
<b>Copper</b>	<ul style="list-style-type: none"> <li>With global economic growth slowing, demand growth is set to decelerate in 2012.</li> <li>Still, the concentrates market remains tight and mine supply will likely constrain refined output in the coming years.</li> <li>China has hardly any excess stocks, so imports should be better supported. As Chinese demand is set to expand steadily, US offtake is ok and European demand should contract.</li> </ul>
<b>Lead</b>	<ul style="list-style-type: none"> <li>Demand has been rising in 2010 as battery shipments have picked up. Offtake has also increased in 2011.</li> <li>Given continued steady activity levels in the automotive industry, this is set to carry over into 2012.</li> <li>Lead mine supply is not abundant and the scrap market is tight, so prices should respond to the better demand backdrop.</li> </ul>
<b>Nickel</b>	<ul style="list-style-type: none"> <li>Refined supply has been increasing, hitting a series of all-time highs recently.</li> <li>The project pipeline is relatively full. However, we do not anticipate a severe supply glut as higher cost operators (like nickel pig iron facilities) close shop, thereby supporting prices.</li> <li>The scrap market was tight, increasing nickel demand at mills. However, more scrap is now becoming available.</li> </ul>
<b>Zinc</b>	<ul style="list-style-type: none"> <li>Zinc demand has been not been able to push the refined market into a deficit. Meanwhile, galvanised steel producers have been ramping up production, operating at record rates.</li> <li>Mine supply has been relatively tight. Concentrates supply is set to constrain refined zinc production, making a hugely oversupplied market unlikely in 2012.</li> <li>Fundamentals are not extremely strong, but huge oversupplies are unlikely.</li> </ul>
<b>Gold</b>	<ul style="list-style-type: none"> <li>Central banks by and large maintain loose monetary policies, with scope for more aggressive balance sheet use in the US and Europe; negative real rates are positive for gold and they should persist through 2012 in the US. Investors will likely remain net gold buyers. Our 12-month price target is \$2,000/oz.</li> <li>Reserve diversification into gold is set to continue, for instance by central banks. Gold demand from countries like China looks set to increase.</li> </ul>
<b>Platinum</b>	<ul style="list-style-type: none"> <li>Production in South Africa remains challenged. Demand from auto catalyst producers has been rebounding, though Japan caused temporary disruptions to global supply chains</li> <li>The platinum market is too small to sustain several ETFs, and inflows into these vehicles are set to support prices.</li> </ul>
<b>Silver</b>	<ul style="list-style-type: none"> <li>Demand from the photography sector has fallen steadily; scope for further large reductions in offtake is limited. Usage in applications like solar panels should increase going forward.</li> <li>Investors raise their exposure to silver due to increased usage in new applications, higher offtake from EMs and continued concerns over the stability of the global macro economy.</li> </ul>
<b>Grains</b>	<ul style="list-style-type: none"> <li>Although lower global GDP growth generally does not bode well for grains, we believe global corn prices should be reasonably supported in 2012 on strong demand, low yields, and low stocks. Once the economy turns around, the market will likely focus on the tight supply situation.</li> <li>Fundamentals in the global wheat market are set to weaken in 2012 on improved production and strong inventories, despite some near-term upside risk on feed com-to-wheat substitution.</li> <li>The outlook for soybeans looks favorable, in our view, benefitting from a continued drawdown in inventories due to supply tightness and strong demand.</li> </ul>

Source: BofA Merrill Lynch Global Commodities Research

**Table 17: Price forecasts, fundamental drivers and risks**

	Price forecasts		Risks (D = downside; U = upside)
	2012E	2013E	
Aluminium	\$2,275/t \$1.03/lb	\$2,375/t \$1.08/lb	<ul style="list-style-type: none"> <li>■ D: Deterioration of macro picture in Europe/ US.</li> <li>■ D: Contagion from Europe/ US to EM.</li> <li>■ D: Financing deals are broken and metal becomes available.</li> <li>■ D: There is considerable uncertainty over global aluminium production volumes in the medium term.</li> <li>■ U: Smelters show restraint and/or production disruptions reduce output.</li> <li>■ U: quantitative easing in Europe and the US</li> </ul>
Copper	\$7,750/t \$3.52/lb	\$7,313/t \$3.32/lb	<ul style="list-style-type: none"> <li>■ D: Deterioration of macro picture in Europe/ US.</li> <li>■ D: Contagion from Europe/ US to EM.</li> <li>■ D: China slows by more than currently factored in.</li> <li>■ U: Production disruptions in a tight concentrates market.</li> <li>■ U: China restocks.</li> <li>■ U: quantitative easing in Europe and the US.</li> </ul>
Lead	\$2,200/t \$1.00/lb	\$2,500/t \$1.16/lb	<ul style="list-style-type: none"> <li>■ D: Deterioration of macro picture in Europe/ US.</li> <li>■ D: Contagion from Europe/ US to EM</li> <li>■ D: Destocking in China or higher lead exports from the country.</li> <li>■ D: Lead production is correlated with zinc output. As zinc output may be expanding (see below), there is a risk that supply comes back more quickly than we currently factor in.</li> <li>■ U: quantitative easing in Europe and the US</li> </ul>
Nickel	\$17,375/t \$7.88/lb	\$18,250/t \$8.28/lb	<ul style="list-style-type: none"> <li>■ D: Deterioration of macro picture in Europe/ US.</li> <li>■ D: Contagion from Europe/ US to EM</li> <li>■ D: NPI producers don't close shop.</li> <li>■ D: Projects in the pipeline will go live on time.</li> <li>■ U: With the nickel market more consolidated now, producers could show restraint in boosting output.</li> <li>■ U: quantitative easing in Europe and the US.</li> </ul>
Zinc	\$2,075/t \$0.94/lb	\$2,425/t \$1.10/lb	<ul style="list-style-type: none"> <li>■ D: Deterioration of macro picture in Europe/ US.</li> <li>■ D: Contagion from Europe/ US to EM.</li> <li>■ D: Unreported inventories exist on the zinc market. More metal could become available.</li> <li>■ D: The zinc market is fragmented. There is evidence that miners consider further output increases.</li> <li>■ U: Subdued mine production increases.</li> <li>■ U: quantitative easing in Europe and the US.</li> </ul>
Gold	\$1,850/oz	\$1,750/oz	<ul style="list-style-type: none"> <li>■ D: Deterioration of investor sentiment; immediate increase of risk aversion leads to cross-asset reduction of risk;</li> <li>■ D: Gold could take a back seat in asset allocation if the global economy continues to expand at a steady pace.</li> <li>■ D: High gold prices deter buyers of physical gold.</li> <li>■ D: Increased scrap supply.</li> <li>■ U: quantitative easing in Europe and the US</li> </ul>
Silver	\$34.03/oz	\$37.00/oz	<ul style="list-style-type: none"> <li>■ D: Non-commercial, trend-following money has had a significant impact on recent price movements; fast money leads to price volatility.</li> <li>■ D: Industrial usage slows on subdued global economic growth.</li> <li>■ U: Investors raise exposure to hard assets like silver on concerns over continued structural macro risks in advanced nations.</li> <li>■ U: quantitative easing in Europe and the US</li> </ul>
Platinum	\$1,663/oz	\$1,700/oz	<ul style="list-style-type: none"> <li>■ D: Deterioration of investor sentiment.</li> <li>■ D: GDP growth rates fall/ concerns over sovereigns.</li> <li>■ D: Jewellery demand suffers due to rising prices.</li> <li>■ D: Miners may bring back production.</li> <li>■ U: Production disruptions reduce availability of platinum</li> <li>■ U: quantitative easing in Europe and the US</li> </ul>

Source: BofA Merrill Lynch Global Commodity Research

(Please refer to ["2012 Commodity Outlook"](#), 01 December 2011, for more details and important disclosures.)

Please refer to ["2012 – Year of Drag-on?"](#), 06 December 2011 for more details and important disclosures.

## What if the world is OK in 2012?

The global macro team at Bank of America Merrill Lynch places just 10% probability of a bullish scenario for the global economy in 2012. It's a low probability scenario, but one that deserves pondering given how out-of-consensus it is.

### The US

Our US Economist, Ethan Harris, is forecasting GDP growth of 1.8% in 2011 and 2.1% in 2012. No recession. He also predicts the Fed will not raise rates until 2014. A more bullish scenario than is currently forecast by most investors would be for the recent improving trend in jobless claims to continue and for US unemployment to moderate. If the oil price also moderates then US consumer confidence could improve, which could feed through, at the margin, to stronger demand for US property. With short-rates and bond yields low, and a whiff of improvement in the economy, retail investors could start reallocating funds towards equities.

### Europe

Our Europe Economist, Laurence Boone, is currently forecasting GDP growth of 1.5% in 2011 and -0.6% in 2012. Continuing with a more bullish scenario than most investors expect, Europe could muddle through and avoid a recession. European countries could implement moderate austerity measures which could encourage the ECB to respond with more aggressive policy easing, probably via quantitative easing. In addition, Europe could either move closer towards fiscal union, or issue Eurobonds so that funds could be allocated to governments in need. Credit spreads could start to narrow.

### China

From the perspective of Asia, in the scenario in which the US stabilizes and Europe muddles through, external low growth may help moderate inflation in China, which in turn may allow it to ease policy more aggressively to sustain growth. If property prices fall by a reasonable amount in the short-term, genuine demand could emerge and transaction volume would start to accelerate (without generating upward pricing pressure). Falling property prices coupled with rising income growth and a better social safety net could result in domestic consumption improving. In response to easing inflation pressures, the government could raise utilities prices across the board. If growth holds up well, the government would be able to implement structural reforms including deregulating interest rates. As economic growth re-accelerates and sentiment improves as a result of better regulations implemented by the new CSRC regime, investors could warm up to A-shares again.

### Japan

Improving global demand would be positive for Japan equities. The Yen has been somewhat of a safe haven during the weak macro environment, but falling risk aversion could see the currency depreciate. In that scenario, Japanese exporters could recover some of their competitiveness against Europe and Korea. Japan autos and consumer electronics could benefit from not only the depreciation of the Yen but also the recovery of US demand.

### Emerging Asia

Our Emerging Asia Economist, Hak Bin Chua, forecasts a baseline GDP growth for the region of 7.1% in 2012. He places a 10% probability on the bull case which would see GDP growth rise to a forecast 7.9% in 2012. In ASEAN, the increase in intra-regional trades in recent years, as well as solid government, corporate and

consumer balance sheets has made ASEAN increasingly defensive. The outperformance this part of the region has enjoyed during turbulent times could reverse if the risk trade were to be placed back on. Thailand and Indonesia could benefit if monetary policy is eased globally, as was the case following the two rounds of quantitative easing in the US (QE1 and QE2). The more defensive countries – Philippines and Malaysia – may underperform in this scenario.

**Table 18: Bull & Bear Scenarios in 2012**

	Baseline	Bull Case	Bear Case
Probability	50%	10%	40%
US	1.8	2.5	-0.5
Europe	-0.6	1.0	-2.5
<b>EM Asia</b>	<b>7.1</b>	<b>7.8</b>	<b>5.7</b>
China	8.6	9.2	7.5
Hong Kong	3.9	4.5	1.7
India	6.8	7.5	6.0
Indonesia	6.0	6.8	4.5
Korea	3.6	4.4	1.8
Malaysia	3.6	5.8	-1.0
Philippines	4.4	5.2	3.7
Singapore	2.8	5.0	-3.0
Taiwan	3.2	4.2	1.2
Thailand	4.0	5.0	1.5

Source: BofA Merrill Lynch Global Research estimates, CEIC

**Australia**

In Australia, the RBA is well positioned to react to slowing local and external forces. If the RBA were to ease monetary policy aggressively, the A\$ could fall as the interest differential to other countries diminishes. Given that the strong A\$ appears to currently be one of the main reasons that keep offshore investors from returning to the market, a significant fall in the A\$ without a collapse in commodity prices would be a precursor for a bull case for Australia.

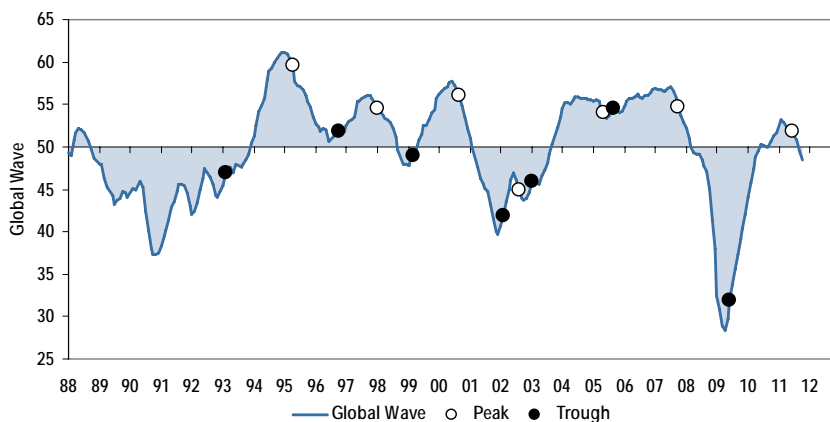
**India**

If the US economy starts to recover, improved demand could drive the Indian software sector. Also, in a scenario in which commodity prices moderate, inflationary pressure could ease which would allow the RBI to start cutting rates. Moderating oil prices could help the current and fiscal deficits. A renewed focus on government reforms could also be part of a more bullish scenario.

**Global Wave**

Our Global Wave macro indicator captures trends in economic data around the world. In the second half of 2011, the majority of the components of the Global Wave have deteriorated as macro data globally has weakened. Global industrial and consumer confidence fell, unemployment increased, capacity utilization moderated, credit spreads widened and earnings expectations deteriorated.

**Chart 40: The Global Wave is falling as macro data globally deteriorates**



Source: BofAML Global Quantitative Strategy

An improvement in some or all of the seven components of the Global Wave could trigger a positive signal on the cycle. This could include an improvement in industrial and consumer confidence, while unemployment could moderate, capacity utilization could resume its uptrend, produce price could remain resilient, credit spreads could narrow, or earnings expectations could stop being cut at the same rate.

**Investment Styles**

In Asia Pacific, the investment styles that tend to work best in a moderating macro environment include Value, Stable Growth, Quality, Price Momentum, and

Dividend based strategies. As the cycle has slowed in 2011, Quality, Momentum and Dividend styles have been the best performing styles.

In the early stages of an upturn, the styles that tend to perform best include Value, Risk and Small Size. That was the case in 2009 when small, inexpensive, high beta stocks dramatically outperformed the market as the consensus shifted from being extremely defensive to increasingly positive on the cycle.

## Key trade ideas

**Trade #1:** Buy Value, Small, Risk. Inexpensive small cap high beta stocks tend to perform well in the early stages of an upturn.

**Trade # 2:** Buy Japanese exporters – Autos and consumer electronics.

**Trade # 3:** Buy cyclical sectors such as Australian Materials, Taiwan Tech Hardware, Korean Industrials, Thailand Materials. Sell defensives such as Australia Banks, Hong Kong Utilities, Malaysia Banks, Singapore Consumer Staples, China Telecom.

**Trade # 4:** China – Buy Developers, low to mid-end Consumer names, Property Developers, IPPs and Water stocks, Sell Banks.

**Trade # 5:** Long Asian High Yield credit. Buy Asian HY credit, particularly Chinese real estate bonds. China HY bonds are offering the widest spreads and even if we incorporate a discount over US HY, we still see significant spread upside potential.

**Trade # 6:** Sell JPY against buying KRW. The JPY/KRW cross is highly sensitive to risk aversion and is relatively pro-cyclical. Moreover, from a valuation perspective we still see KRW as fundamentally undervalued by 12%. A normalization of global conditions would allow currencies to better reflect their underlying fundamentals. Finally, Korea would continue to benefit from foreign inflows into its equity and local bond markets that are attracting an increasing share of global portfolio flows.

**Trade # 7:** Sell JPY/KRW. While not our central scenario, positive surprises to global growth and risk sentiment would weigh significantly on the Yen, which has been a major beneficiary of global risk reduction, while Asian currencies, particularly high-beta ones such as KRW, would resume appreciation.

**Trade # 8:** As in the 2008 financial crisis, Asian markets have underperformed most developed markets despite superior economics. We may therefore expect that once again Asian markets will bottom earlier and outperform to the upside if all turns out to be well in the world. Asian volatility levels have retreated recently and do not price in the EM risk they used to. We like HSI out-of-the-money (OTM) call options as an upside hedge. Their cost could be offset by selling OTM puts or put spreads, taking advantage of some of the steepest skews in history, and low forwards. They can also be traded against S&P500 calls or call spreads. For example, buy HSI 110% 6Mth call for 3.71%, vs. sell a HSI 85% 6Mth put for 4.13%.



## Global economic forecasts

Table 19: Global economic forecasts

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2009	2010	2011F	2012F	2009	2010	2011F	2012F	Current	2010	2011F	2012F
<b>Global and Regional Aggregates</b>												
<b>Global</b>	-0.8	5.1	3.8	3.5	1.6	3.2	4.3	3.5	3.28	2.60	3.01	2.94
<b>Global ex US</b>	-0.1	5.6	4.4	4.0	2.2	3.7	4.6	4.0	4.15	3.28	3.78	3.74
Developed Markets	-3.8	2.9	1.5	1.2	0.0	1.4	2.7	1.7	0.63	0.58	0.59	0.43
G5	-4.0	2.7	1.4	1.1	-0.1	1.4	2.7	1.6	0.52	0.46	0.46	0.27
Emerging Markets	2.6	7.5	6.3	5.5	3.5	5.2	6.1	5.0	6.52	4.83	5.56	5.17
Europe, Middle East and Africa (EMEA)	-4.2	2.6	2.3	0.6	3.1	3.2	4.1	3.2	2.73	2.54	2.60	2.31
European Union	-4.0	1.9	1.6	-0.1	0.9	2.0	3.1	2.0	1.28	1.20	1.28	0.88
Emerging EMEA	-3.6	4.3	4.5	2.8	7.7	5.8	6.2	5.7	6.75	6.09	6.15	5.97
PacRim	4.0	8.1	5.9	6.2	0.5	3.5	4.7	3.5	4.58	2.87	3.60	3.39
PacRim ex Japan	6.1	8.9	7.2	6.9	0.9	4.4	5.7	4.2	5.69	3.47	4.30	4.01
Emerging Asia	6.6	9.2	7.5	7.1	0.9	4.6	5.8	4.2	5.95	3.52	4.40	4.05
Americas	-3.1	3.9	2.6	2.3	1.4	2.9	4.1	3.2	2.64	2.50	2.87	2.65
Latin America	-2.0	6.3	4.5	3.5	6.4	6.3	6.7	6.7	9.38	8.88	10.17	9.44
<b>G5</b>												
US	-3.5	3.0	1.8	1.9	-0.4	1.6	3.2	1.8	0.250	0.130	0.125	0.125
Euro area	-4.2	1.8	1.5	-0.6	0.3	1.6	2.7	1.8	1.00	1.00	1.00	0.50
Japan	-5.5	4.4	-0.7	2.4	-1.3	-1.0	-0.4	-0.4	0.10	0.05	0.05	0.05
UK	-4.4	1.8	0.9	0.3	2.2	3.3	4.5	2.3	0.50	0.50	0.50	0.50
Canada	-2.8	3.2	2.4	2.1	0.3	1.8	3.0	2.8	1.00	1.00	1.00	0.25
<b>Euro area</b>												
Germany	-4.7	3.6	2.7	-0.5	0.2	1.2	2.4	1.4	1.00	1.00	1.00	0.50
France	-2.6	1.4	1.5	-0.6	0.1	1.7	2.2	1.5	1.00	1.00	1.00	0.50
Italy	-5.2	1.2	0.6	-0.7	0.8	1.6	2.8	1.6	1.00	1.00	1.00	0.50
Spain	-3.7	-0.1	0.7	-1.0	-0.2	2.0	3.1	1.7	1.00	1.00	1.00	0.50
Netherlands		1.6	1.8	-0.6	1.0	0.9	2.6	1.5	1.00	1.00	1.00	0.50
Belgium	-2.7	2.3	2.1	-0.4	0.0	2.3	3.5	1.8	1.00	1.00	1.00	0.50
Greece	-2.3	-4.4	-5.3	-1.8	1.3	4.7	3.2	3.1	1.00	1.00	1.00	0.50
Austria	-3.8	2.3	2.8	-0.4	0.4	1.7	3.5	1.9	1.00	1.00	1.00	0.50
Portugal	-2.5	1.3	-2.2	-2.0	-0.9	1.4	3.4	2.0	1.00	1.00	1.00	0.50
Finland	-8.2	3.6	2.6	-0.7	1.6	1.7	3.3	1.6	1.00	1.00	1.00	0.50
Ireland	-7.0	-0.4	2.1	1.6	-1.7	-1.6	1.1	0.9	1.00	1.00	1.00	0.50
<b>Other Developed Europe</b>												
Sweden	-5.1	5.3	4.7	2.2	-0.5	1.2	2.9	2.2	2.00	1.25	2.00	2.00
Switzerland	-1.9	2.7	1.9	0.2	-0.5	0.7	0.3	-0.2	0.00	0.25	0.00	0.00
Norway	-1.6	1.8	2.6	2.4	2.2	2.4	1.3	1.2	1.75	2.00	2.25	2.25
<b>Asia Pacific</b>												
China	9.2	10.3	9.2	8.6	-0.7	3.3	5.5	3.5	6.56	2.75	3.50	3.75
India	8.0	8.5	7.0	6.8	3.6	9.5	8.8	7.2	7.50	5.75	7.50	5.50
Korea	0.3	6.2	3.8	3.6	2.7	3.0	4.4	3.2	3.25	2.50	3.25	3.25
Indonesia	4.5	6.1	6.4	6.0	4.9	5.0	5.4	4.7	6.00	6.50	6.00	5.50
Australia	1.3	2.7	2.0	4.3	1.8	2.8	3.5	3.0	4.25	4.75	5.00	5.75
Taiwan	-1.9	10.9	4.4	3.2	-0.9	1.0	1.5	1.6	1.88	1.63	1.88	1.88
Thailand	-2.5	7.8	1.8	4.0	-0.9	3.3	3.9	3.4	3.25	2.00	3.25	3.00
Malaysia	-1.7	7.2	4.8	3.6	0.6	1.7	2.9	2.6	3.00	2.75	3.00	2.50
Philippines	0.9	7.3	3.7	4.4	3.2	3.9	4.4	3.3	4.50	4.00	4.50	4.00
Hong Kong	-2.7	7.0	5.1	3.9	0.5	2.4	5.2	4.5	0.50	0.25	0.25	0.45
Singapore	-0.8	14.5	4.5	2.8	0.6	2.7	5.2	3.6	0.18	-	-	-
New Zealand	-2.1	1.5	1.4	4.5	2.1	2.3	4.2	2.5	2.50	3.00	2.75	4.50
<b>Latin America</b>												
Mexico	-6.1	5.4	4.0	3.0	5.3	4.2	3.4	3.9	4.50	4.50	4.50	4.00
Brazil	-0.6	7.5	3.1	3.4	4.9	5.0	6.6	5.5	11.00	10.75	11.00	9.50
Argentina	0.9	9.2	8.7	2.5	6.3	10.5	9.8	9.9	18.88	11.08	19.50	19.75
Colombia	0.8	4.3	5.6	4.1	4.2	2.3	3.4	3.5	4.75	3.00	4.75	5.25
Venezuela	-3.3	-1.7	4.1	5.0	28.6	29.1	26.2	32.4	18.03	29.50	29.50	29.50
Chile	-1.5	5.2	6.3	3.5	0.4	1.4	3.2	3.1	5.25	3.25	5.00	4.00
Peru	0.9	8.8	6.5	5.2	2.9	1.5	3.3	3.4	4.25	3.00	4.25	4.00
Uruguay	2.9	8.5	6.1	4.0	5.9	6.9	8.1	6.5	8.00	6.50	8.00	7.00

02 January 2012

**Table 19: Global economic forecasts**

	GDP growth, %				CPI inflation*, %				Short term interest rates**, %			
	2009	2010	2011F	2012F	2009	2010	2011F	2012F	Current	2010	2011F	2012F
<b>EEMEA</b>												
Russia	-7.9	4.0	4.0	3.6	11.7	6.9	8.6	5.7	8.25	7.75	7.75	7.00
Turkey	-4.7	9.0	7.9	0.0	6.3	8.6	6.5	9.3	6.50	6.50	5.75	5.75
Poland	1.6	3.8	3.8	2.6	4.1	2.7	4.1	3.0	4.50	3.50	4.50	4.00
South Africa	-1.7	2.8	3.2	2.5	7.1	4.3	5.1	6.7	5.50	5.50	5.50	6.50
Egypt	4.7	5.1	1.8	3.0	16.2	11.7	11.1	9.2	9.25	8.25	8.25	9.25
Ukraine	-15.1	4.3	4.9	2.7	15.9	9.4	8.7	14.0	7.75	7.75	7.75	8.25
Romania	-7.1	-1.3	1.5	3.5	5.6	6.1	6.3	2.8	6.00	6.25	6.25	5.75
Czech Republic	-4.1	2.3	1.9	1.7	1.1	1.5	2.2	2.7	0.75	0.75	0.75	0.25
Israel	0.8	4.5	3.9	3.5	3.3	2.7	3.7	2.8	2.75	2.00	2.75	2.50
Hungary	-6.8	1.4	1.5	-0.6	4.2	4.9	3.9	4.2	6.50	5.75	7.00	7.00
<b>GCC</b>												
Saudi Arabia	0.2	3.8	6.8	4.2	5.1	5.4	5.2	4.8				
United Arab Emirates	-2.0	1.4	3.9	3.1	1.6	1.0	1.0	2.0				
Kuwait	-2.9	2.4	4.1	5.0	4.0	3.0	4.0	3.0				
Qatar	8.6	14.5	17.4	7.5	-4.9	-2.9	2.5	3.5				
Oman	1.1	4.0	4.2	4.0	3.5	4.0	4.3	3.0				
Bahrain	3.1	4.1	2.0	2.9	2.8	2.5	-0.5	2.0				

Notes: Global and regional aggregates are based on the IMF PPP weights unless stated otherwise. Countries within each region are ordered according to these weights.

\* Annual averages. The HICP measure of inflation is used for Euro area economies. \*\* Central bank target rate, year-end, where available, short-term rates elsewhere. † US short-term rate forecast for 2008, 2009 and 2010 year end is 0-0.25%. Midpoint used in table above for global and regional aggregation purposes. Source: BofA Merrill Lynch Global Research

**Table 20: Commodity Price Forecasts**

	units	4Q11F	2011F	1Q12F	2Q12F	3Q12F	4Q12F	2012F	2013F
<b>Energy</b>									
WTI Crude Oil	(\$/bbl)	94.00	95.12	92.00	96.00	106.00	110.00	101.00	111.00
Brent Crude Oil	(\$/bbl)	108.00	110.65	100.00	104.00	112.00	116.00	108.00	118.00
US Natural Gas	(\$/MMBtu)	4.00	4.16	4.10	4.30	4.20	4.60	4.30	4.70
Thermal coal, Newcastle FOB	(\$/t)	125.00	124.58	108	112	116	125	115	
<b>Industrial metals</b>									
Aluminium	(\$/t)	2,020	2,386	1,950	2,250	2,400	2,500	2,275	2,375
Copper	(\$/t)	7,251	8,786	7,000	8,000	7,500	8,500	7,750	7,313
Nickel	(\$/t)	17,500	22,725	17,000	18,500	16,000	18,000	17,375	18,250
Zinc	(\$/t)	1,871	2,190	1,750	2,100	2,150	2,300	2,075	2,425
Lead	(\$/t)	1,984	2,406	2,150	2,000	2,450	2,200	2,200	2,550
<b>Precious metals</b>									
Gold	(\$/oz)	1,680	1,573	1,850	1,750	1,800	2,000	1,850	1,750
Silver	(\$/oz)	32.11	35.46	33.50	32.00	34.60	36.00	34.03	37.00
Platinum	(\$/oz)	1,549	1,732	1,600	1,700	1,600	1,750	1,663	1,700
Palladium	(\$/oz)	589	726	600	650	700	750	675	725
<b>Bulks</b>									
Iron ore, spot fines	(\$/t, CIF)	140	169	140	150	155	155	150	145

Source: BofA Merrill Lynch Global Commodity Research estimates

## FX forecasts

**Table 21: Quarterly Forecasts- G10 currencies**

	Spot	Dec '11	Mar '12	Jun '12	Sep '12	Dec '12	Mar '13	Jun '13	Sep '13	Dec '13
<b>G3</b>										
EUR-USD	1.34	1.30	1.25	1.25	1.28	1.30	1.32	1.34	1.35	1.35
USD-JPY	78	76	74	73	74	76	78	79	81	83
EUR-JPY	105	99	93	91	95	99	103	106	109	112
<b>Dollar Bloc</b>										
USD-CAD	1.02	1.07	1.09	1.09	1.07	1.05	1.04	1.03	1.02	1.01
AUD-USD	1.02	0.98	0.92	0.94	0.95	0.96	0.94	0.93	0.92	0.90
NZD-USD	0.78	0.77	0.72	0.74	0.76	0.77	0.76	0.75	0.75	0.75
<b>Europe</b>										
EUR-GBP	0.86	0.85	0.81	0.82	0.83	0.85	0.87	0.89	0.90	0.92
GBP-USD	1.56	1.53	1.54	1.52	1.54	1.53	1.52	1.51	1.50	1.47
EUR-CHF	1.24	1.23	1.23	1.24	1.25	1.26	1.27	1.28	1.29	1.30
USD-CHF	0.92	0.95	0.98	0.99	0.98	0.97	0.96	0.96	0.96	0.96
EUR-SEK	9.05	9.30	9.40	9.40	9.20	9.10	9.00	8.95	8.90	8.85
USD-SEK	6.76	7.15	7.52	7.52	7.19	7.00	6.82	6.68	6.59	6.56
EUR-NOK	7.75	7.90	7.95	7.95	7.90	7.85	7.80	7.75	7.75	7.75
USD-NOK	5.79	6.08	6.36	6.36	6.17	6.04	5.91	5.78	5.74	5.74

Note: The left of the currency pair is the denominator of the exchange rate.

Source: BofA Merrill Lynch Global Research

**Table 22: Quarterly Forecasts- EM currencies**

	Spot	Dec '11	Mar '12	Jun '12	Sep '12	Dec '12	Mar '13	Jun '13	Sep '13	Dec '13
<b>Latin America</b>										
USD-BRL	1.79	1.88	1.90	1.90	1.88	1.85	1.88	1.90	1.93	1.95
USD-MXN	13.51	13.80	13.70	13.70	13.50	13.30	13.25	13.20	13.10	13.00
USD-CLP	514	530	540	540	520	500	505	510	515	515
USD-COP	1,936	1,975	2,000	2,000	1,950	1,925	1,931	1,937	1,944	1,950
USD-ARS	4.29	4.35	4.60	4.80	5.00	5.20	5.50	5.80	6.10	6.50
USD-VEF	4.29	4.30	4.30	4.30	4.30	4.30	7.50	7.50	7.50	7.50
USD-PEN	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70	2.70
<b>Emerging Europe</b>										
EUR-PLN	4.46	4.45	4.45	4.45	4.30	4.30	4.30	4.30	4.30	4.30
EUR-HUF	300	305	315	315	300	300	300	300	300	300
EUR-CZK	25.12	25.50	26.00	26.00	25.00	25.00	25.00	25.00	25.00	25.00
USD-UAH	8.02	8.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
USD-RUB	30.89	31.00	31.00	32.00	30.00	30.00	30.00	30.00	30.00	30.00
USD-ZAR	8.02	8.30	8.10	8.00	7.50	7.60	7.60	7.60	7.60	7.60
USD-TRY	1.83	1.85	1.85	1.80	1.70	1.70	1.70	1.70	1.70	1.70
EUR-RON	4.35	4.35	4.40	4.30	4.30	4.30	4.30	4.30	4.30	4.30
USD-EGP	6.01	6.00	6.00	7.50	7.50	7.50	7.50	7.50	7.50	7.50
USD-ILS	3.73	3.75	3.75	3.75	3.65	3.65	3.65	3.65	3.65	3.65
USD-AED	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67	3.67
USD-KWD	0.28	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
USD-SAR	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
USD-QAR	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64	3.64
<b>Asian Bloc</b>										
USD-KRW	1,130	1,160	1,220	1,180	1,160	1,140	1,120	1,050	1,000	980
USD-TWD	30.17	30.00	32.00	31.50	31.00	30.50	31.00	30.50	30.00	29.00
USD-SGD	1.28	1.29	1.38	1.35	1.33	1.32	1.30	1.30	1.28	1.27
USD-THB	30.80	30.80	32.50	32.00	31.00	30.80	30.00	30.00	30.50	30.80
USD-HKD	7.77	7.82	7.83	7.80	7.76	7.78	7.75	7.76	7.76	7.78
USD-CNY	6.36	6.35	6.40	6.35	6.30	6.20	6.30	6.25	6.20	6.20
USD-IDR	9,038	9,000	9,300	9,200	9,100	9,000	9,000	9,100	9,000	9,000
USD-PHP	43.24	43.00	45.00	44.00	43.00	41.00	42.00	41.00	42.00	42.00
USD-MYR	3.13	3.20	3.25	3.20	3.15	3.10	3.00	2.90	2.90	3.00
USD-INR	51.42	51.50	55.00	53.00	52.00	49.00	51.00	50.00	49.00	48.50

Note: Spot exchange rate as of 05 December 2011. The left of the currency pair is the denominator of the exchange rate.

Source: BofA Merrill Lynch Global Research

## Link to Definitions

### Macro

Click [here](#) for definitions of commonly used terms.

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