GLOBAL OUTLOOK 2009

Surviving the Chill

ICICI Bank
Corporate Solutions

Key takeaways

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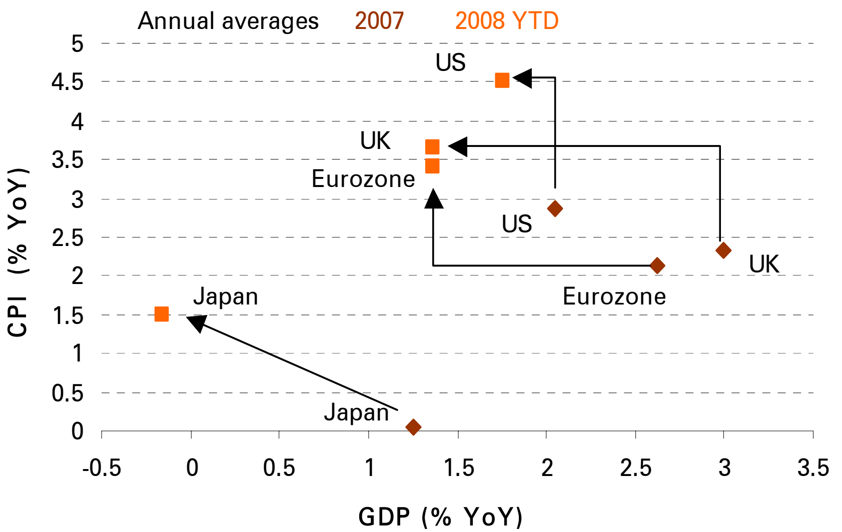
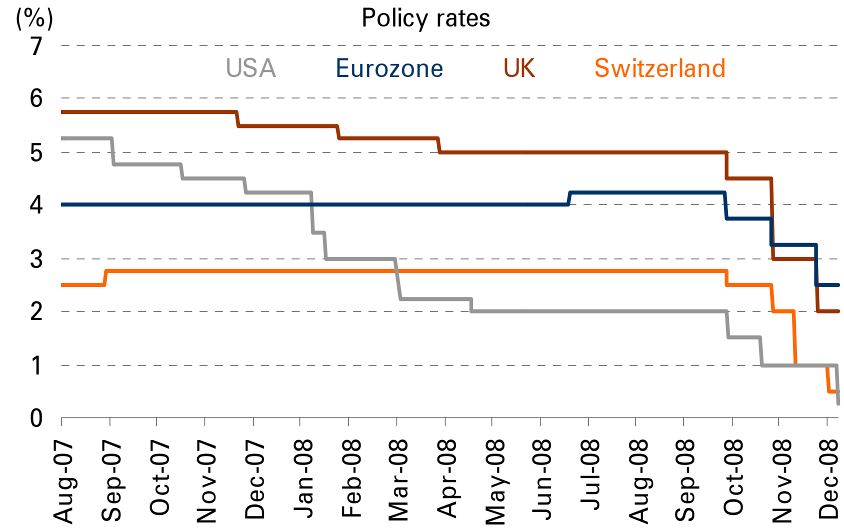
The year that was…

Growing growth concerns…



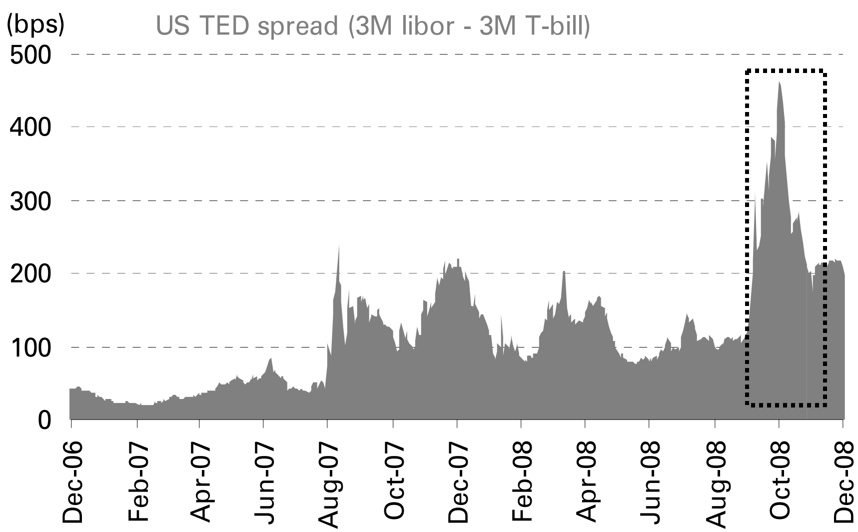
Source: Bloomberg, ICICI Bank Research

…led to substantial monetary easing…



Source: Bloomberg, ICICI Bank Research

…but financial markets remained frigid…



Source:Bloomberg, ICICI Bank Research

…and unprecedented events evoked unprecedented responses

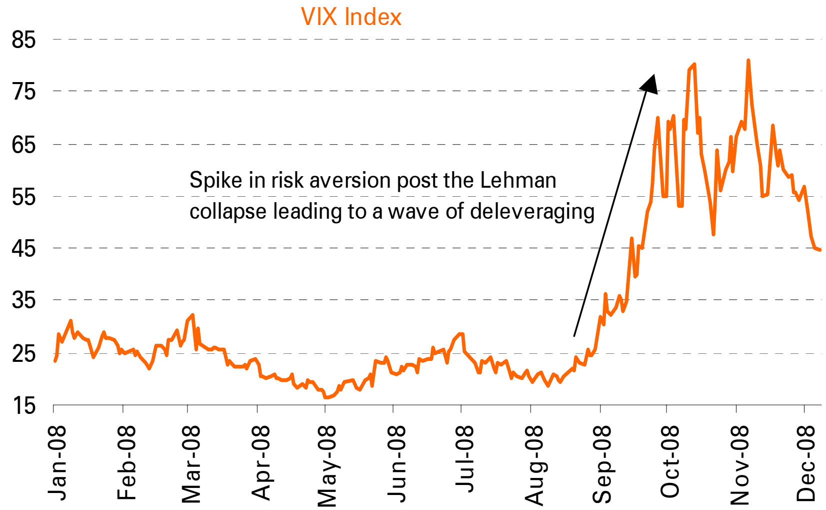
Credit Crises induced losses	
Feb-08	Losses reported by Fannie Mae, Freddie Mac, AIG, UBS
Mar-08	Bear Stearns sold to JPM
Sep-08	Lehman Brothers declares bankruptcy
	Bank of America buys Merrill Lynch
	Goldman Sachs, Morgan Stanley become bankholding Co's
Dec-08	Auto industry in trouble - GM, Ford, Chrysler vying for a bailout

Bailouts announced by the US	
Sep-08	Fannie Mae and Freddie Mac nationalised
	AIG bailout plan of USD 152.5 bn
Oct-08	TARP of USD 700 bn to help financial firms
Nov-08	Citi given a bailout plan of USD 300 bn
	USD 800 bn to finance agency backed securities and bonds
Dec-08	Auto industry bailout of USD 17.4 bn

Source:Bloomberg, ICICI Bank Research

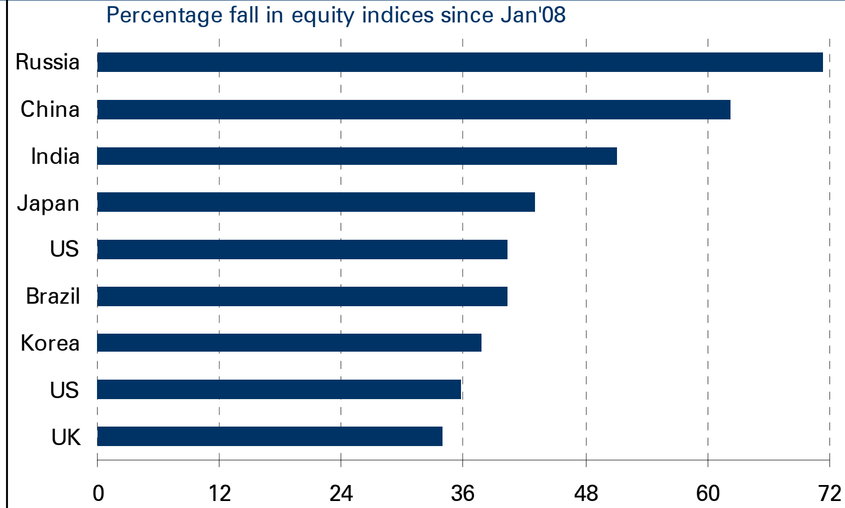
The year that was…

Rising risk aversion and the deleveraging phenomenon…



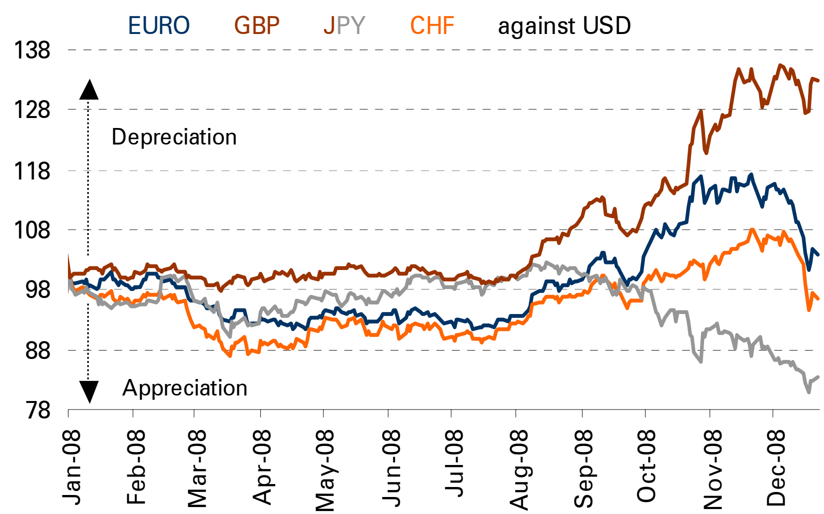
Source Bloomberg, ICICI Bank Research

…led to deep losses in equity markets…



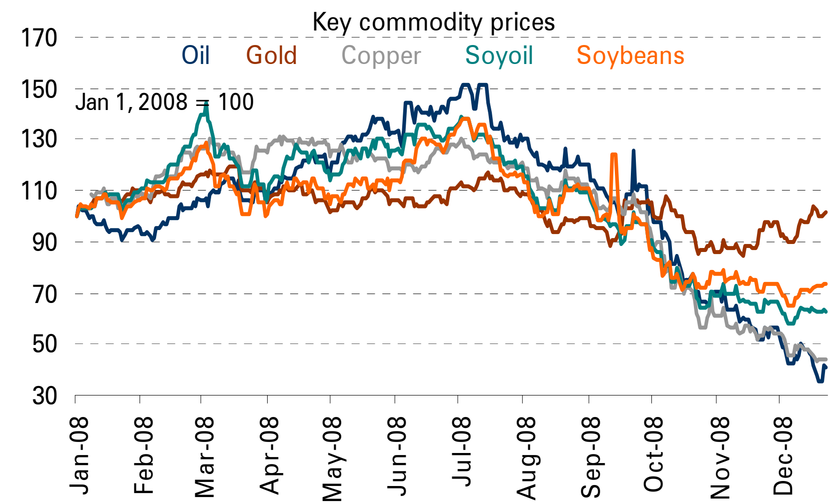
Source: Bloomberg, ICICI Bank Research

…and also led to reversal in the Dollar weakening cycle



Source:Bloomberg, ICICI Bank Research

Commodity prices take a breather – the only silver lining in 2008



Source:Bloomberg, ICICI Bank Research

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Global Themes

The first global recession in 7 years could be a lengthy affair

Drying global liquidity to jeopardize growth outlook further

Deleveraging and wealth effect to weigh on US consumption

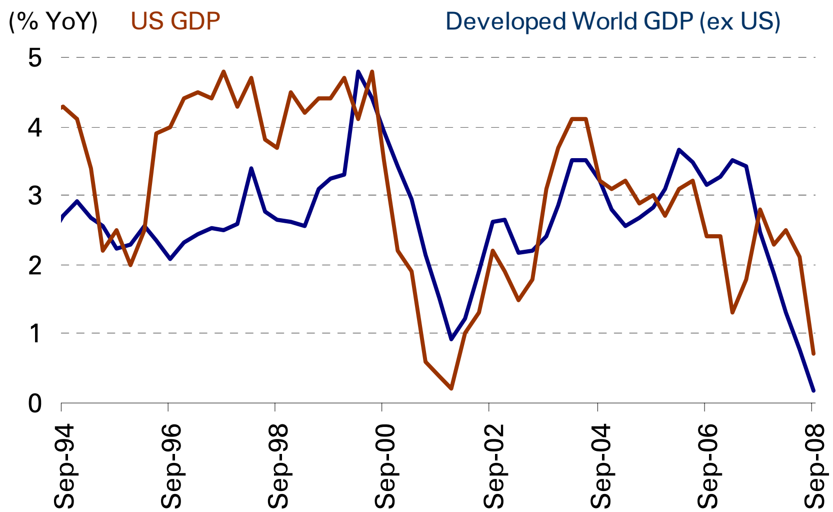
Pro active policy responses – The need of the hour

Any silver linings in the gloomy prognosis for the global economy?

Odds of a challenge to Dollar strength re-emerging

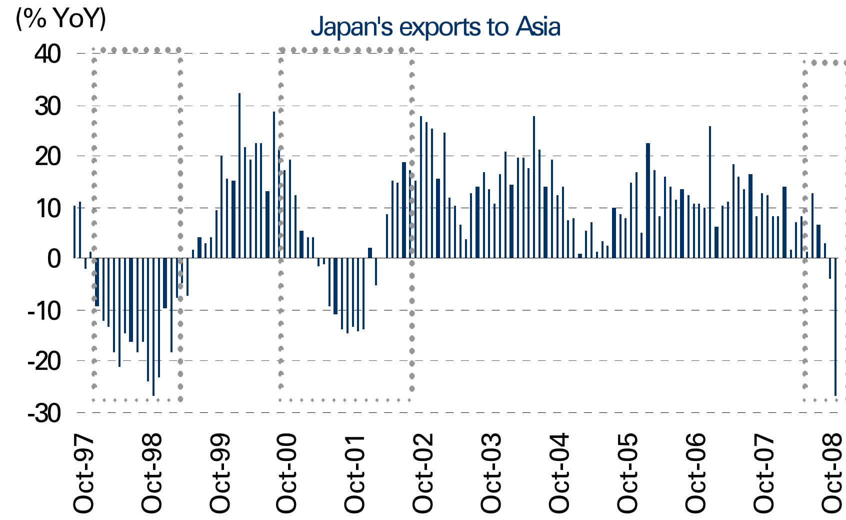
The first global recession in 7 years could be a lengthy affair

Synchronous biz cycles mean no support from rest of the developed world



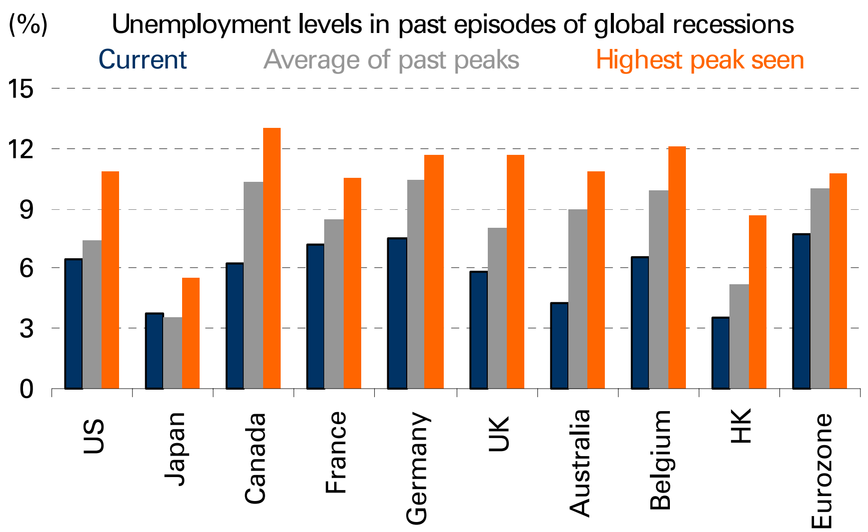
Source: Bloomberg, Reuters Ecowin, ICICI Bank Research

Already, indications that no support forthcoming from EM Asia as well



Source: Bloomberg, ICICI Bank Research

Even history tells us that the growth slowdown is yet to reach bottom

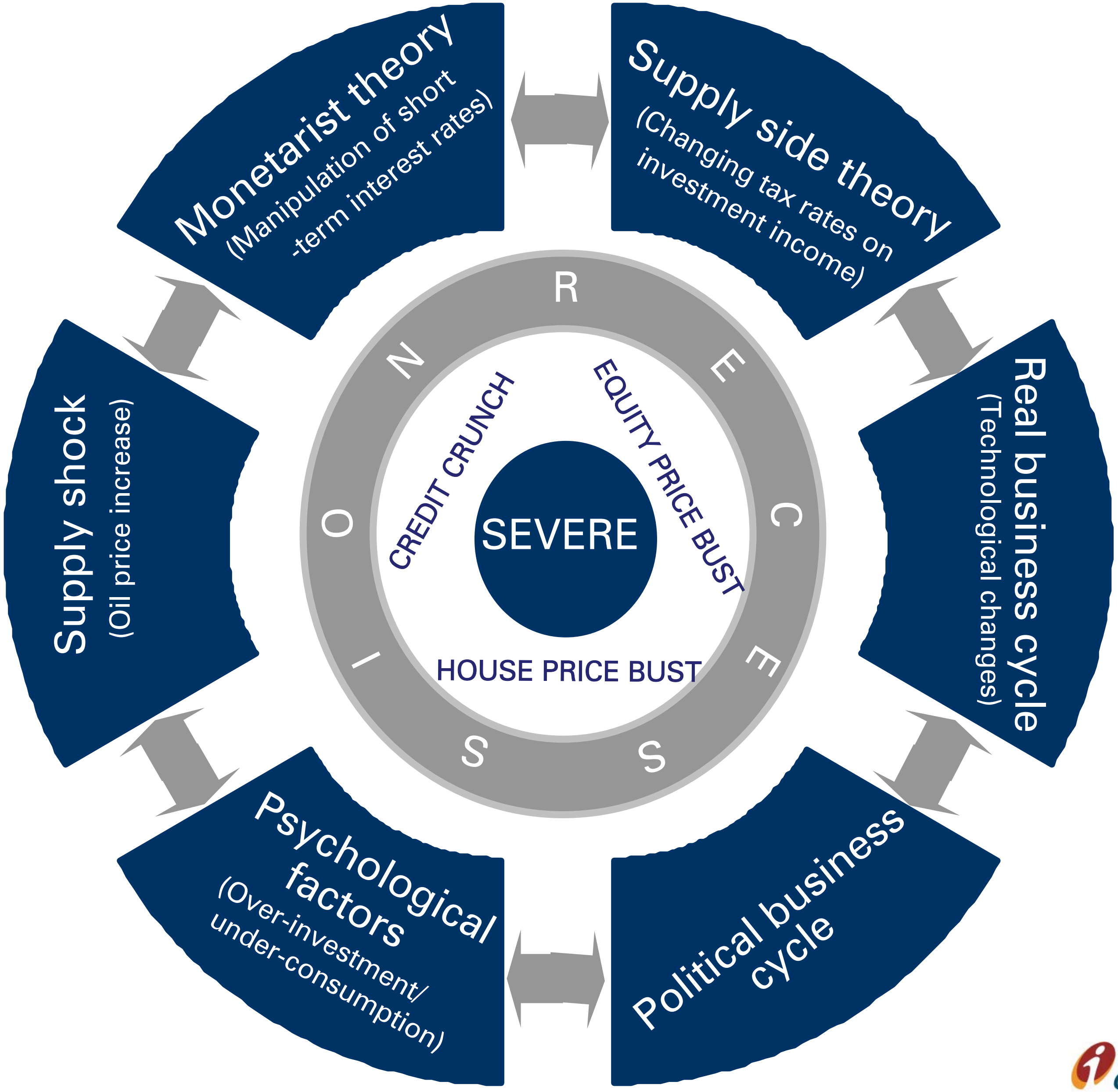


Source: NBER, BEA, ICICI Bank Research

Increased dependence on China might prove to be a bane this time

- A cyclical synchronized downturn in the developed world could have been offset by expansionary monetary policy but spiraling inflation in H12008 laid rest to that possibility
- Simultaneous occurrence of credit market turmoil, asset price deflation and global recession could send major long term reverberations in the global economy
- Emerging markets had carried the baton of world GDP growth in recent years. The BRIC economies alone contributed almost 50% of overall growth in 2007
- With lackadaisical support even from the Chinese economy, the widely touted last bastion of hope for many emerging markets, the outlook looks quite grim for the global economy in coming quarters.

Makings of a Recession



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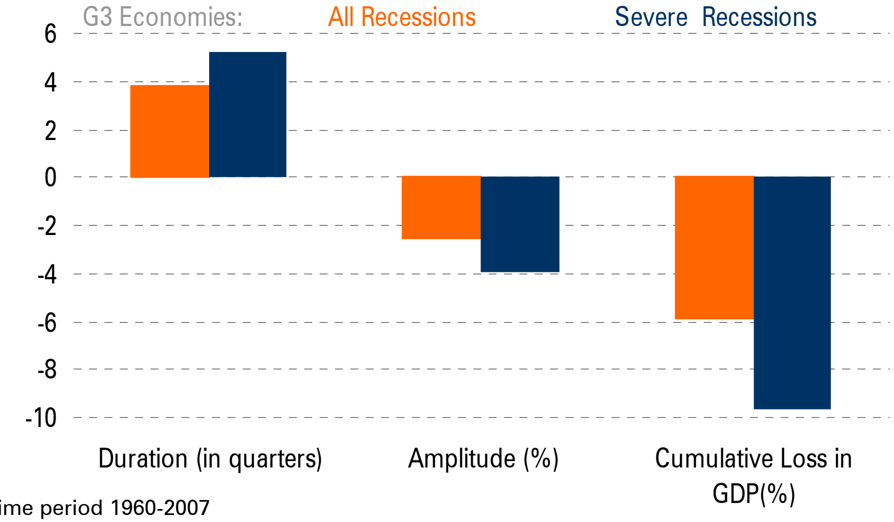
Assessing the impact cost of earlier recessions

Severe recessions in G3 nations last longer & result in greater output loss



Time period 1960-2007

Source: IFS, Ecowin, OECD, ICICI Bank Research

…& this is also true for those followed by a asset bust/credit crunch

For G3 Economies (Period: 1960-2007)			
Events	Duration (in qtrs)	Amplitude (%)	Cumulative loss in GDP (%)
Recession without credit crunches	2.67	-1.23	-3.03
Recession with credit crunches	4.20	-2.92	-6.75
Recession with severe credit crunches	4.20	-3.23	-6.83
Recession without housing crunches	3.33	-1.88	-3.41
Recession with housing crunches	4.00	-2.73	-6.63
Recession with severe housing crunches	4.22	-2.96	-7.28
Recession without equity crunches	4.40	-2.87	-6.59
Recession with equity crunches	3.50	-2.32	-5.46
Recession with severe equity crunches	4.40	-3.08	-7.86

Source: IFS, Ecowin, OECD, ICICI Bank Research

Financial sector take a more severe beating than the real sector

Peak to trough fall (in %)						
	Real sector variables			Financial variables		
	GDP	Consumption	Investment	Bond yields	Real Equity	Real Credit
U.K (1979)	-9.3	-10.9	-18.4	-11.2	-23.4	-32.4
US (1981)	-14.0	-6.7	-32.8	-11.1	-25.4	-11.8
Japan (1997)	-6.7	-7.3	-17.0	-67.5	-37.4	-30.4
US (2001)	-8.7	-4.5	-25.1	-19.8	-34.6	-7.5
US (2007)*	-5.3	-2.4	-18.8	-45.3	-20.6	-54.5

*till current

For real sector variables the peak to trough fall is in growth rates

Source: BEA, CEIC, Ecowin, IFS, Econmagic, Bloomberg, ICICI Bank Research

How much more pain in store in the current crisis episode?

- In our study of G3 economies, we identified 13 recessions during the period 1960- 2007, and found that recessions coinciding with either a credit contraction, a house or an equity price plunge last longer and carry larger output losses than recessions without such events
- While variables tend to behave in a similar fashion in a recession, the magnitude varies, depending on what triggered the economic downturn and how that shock gets transmitted to the rest of the economy. In this sense, each recession is unique and has its own characteristics
- Not only are all three buttressing the current crisis, but the widespread inter-linkages between the real and the financial sector globally, means that we could possibly have a much larger and prolonged cumulative impact

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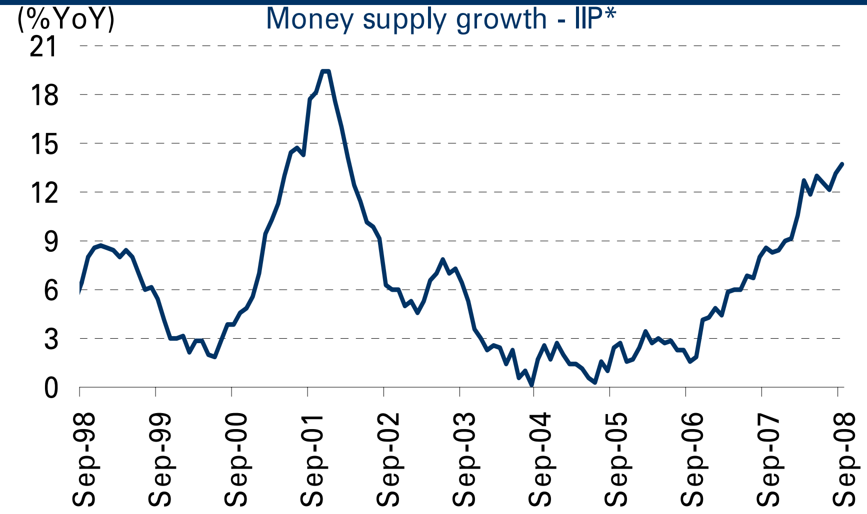
Drying global liquidity to jeopardize growth outlook further

A lot of recent growth performance was driven by the liquidity boom

	Average Growth in		Peak growth in the current cycle	Peak minus average growth(1991-2002)
	1981-2002	1991-2002		
Brazil	2.49	2.54	7.51	4.97
China	9.61	9.88	12.20	2.32
Hong Kong	5.04	3.54	12.00	8.46
India	5.54	5.92	11.30	5.38
Indonesia	4.75	4.14	6.51	2.37
Malaysia	6.30	6.50	8.20	1.70
Philippiness	3.19	2.53	8.30	5.77
S. Korea	7.31	6.08	6.30	0.22
Taiwan	6.72	5.64	9.23	3.59
Thailand	6.04	4.45	8.30	3.85

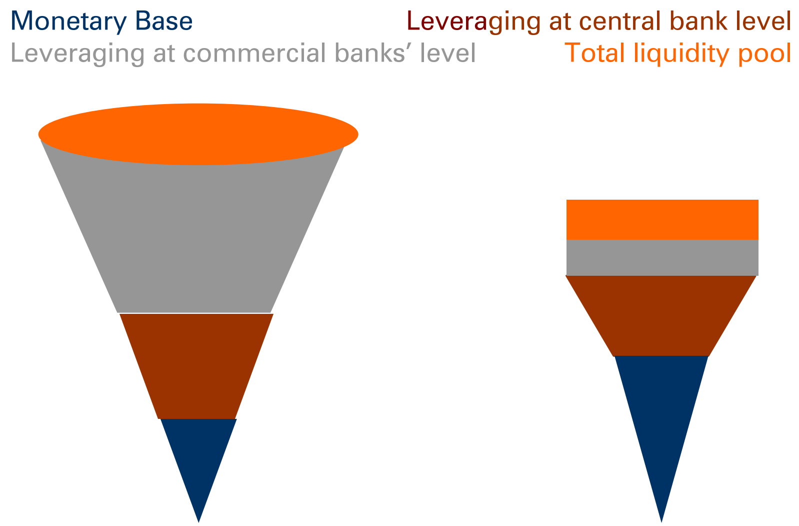
Source: Bloomberg, Reuters Ecowin, ICICI Bank Research

Traditional measures of liquidity may still be looking good



*Average for G5 countries
Source: Bloomberg, Reuters Ecowin, ICICI Bank Research

However, deleveraging restricts overall liquidity pool to a great extent



Source: IMF, ICICI Bank Research

Liquidity bust would hamper growth prospects of these economies now

- Extraordinary low interest rates at the start of the current decade, coupled with liberalized regulatory regimes had contributed to huge spurt in global liquidity
- Emerging markets with their improved fundamentals, stable inflation levels, liberal investment regimes and vast untapped potential provided the ideal destination for this ample liquidity
- Although traditional measures of ample liquidity still depict an optimistic picture, they are misleading as they do not account for the massive deleveraging being witnessed globally
- With global liquidity likely to remain subdued for some time, coupled with stricter regulatory policies this source of growth would no longer be easily available to the EM pack

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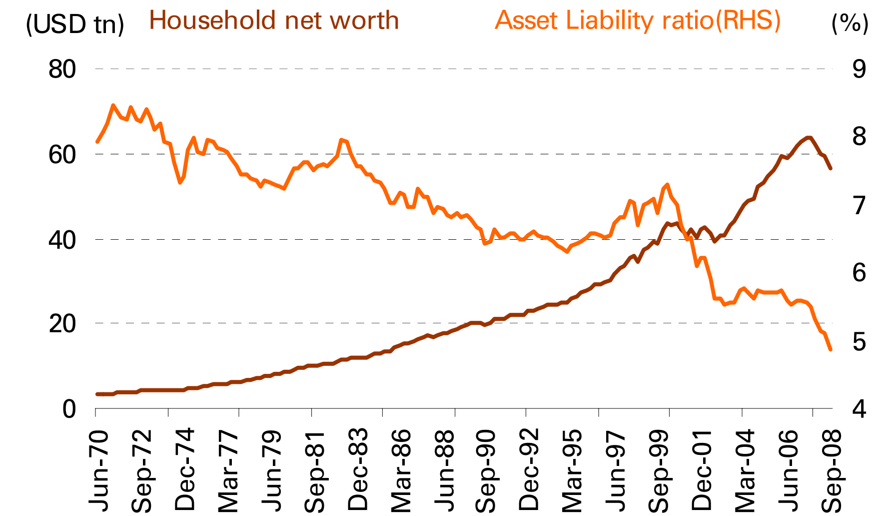
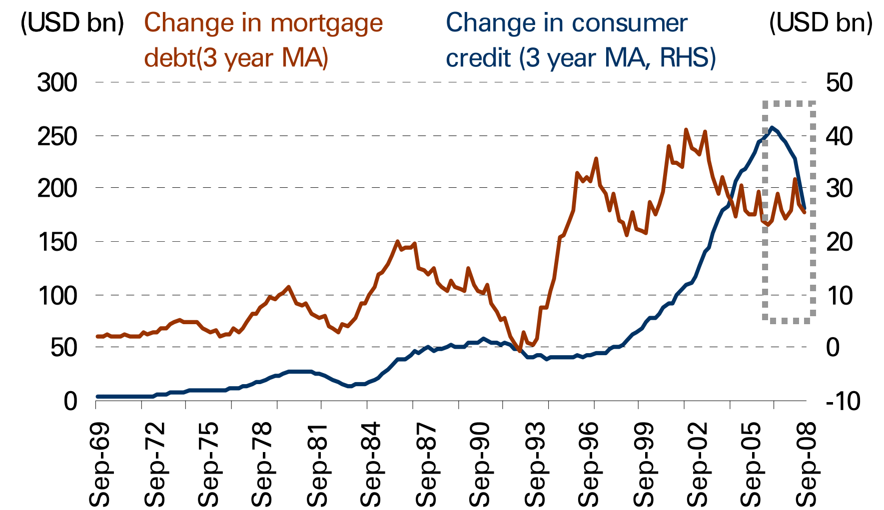
Wealth effect and de leveraging to weigh on consumption

High leverage had fuelled record increases in household net worth



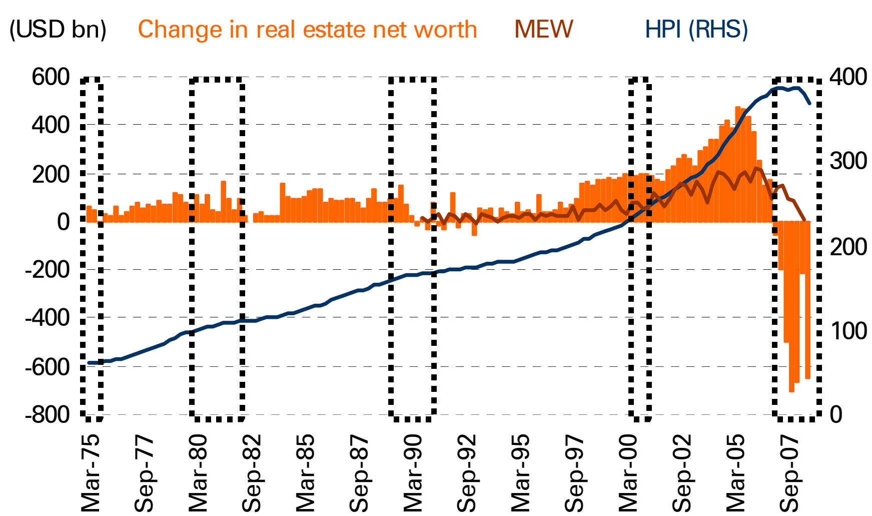
Source: Bloomberg, ICICI Bank Research

However, de leveraging is underway and liabilities are showing a sharp fall



Source:BIS, ICICI Bank Research

Housing bust has led to a massive erosion in real estate wealth

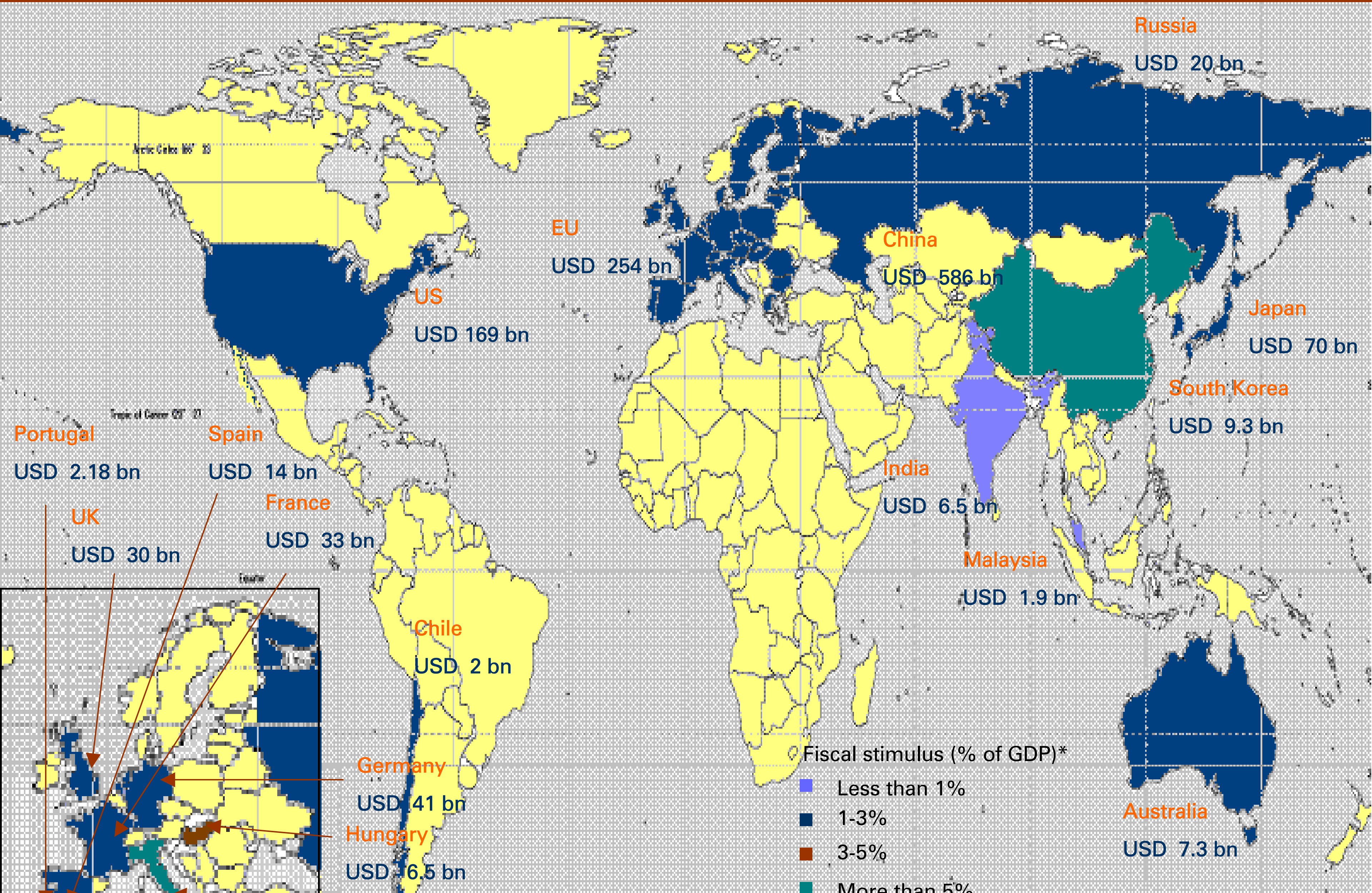


Source: Deutsche Bank Research, ICICI Bank Research

Asset price deflation and de leveraging to weigh on consumption

- The easy availability of credit at low interest rates, coupled with the housing sector boom enabled US households to greatly leverage their balance sheets in recent years.
- However, recent data shows a marked slowdown in fresh liabilities growth, suggesting deleveraging is underway. Commercial banks have also started deleveraging with real estate loans and consumer credit declining substantially over the past few quarters.
- Analysis shows that the combined negative wealth effect from falling real estate wealth and equity valuations could adversely impair consumer spending in coming quarters and thus could prolong an already lengthy recession

Fiscal packages have become the order of the day



Global announced fiscal stimulus to top USD 1.12 tn

* Pure fiscal stimulus. Does not include bank capitalization and guarantees

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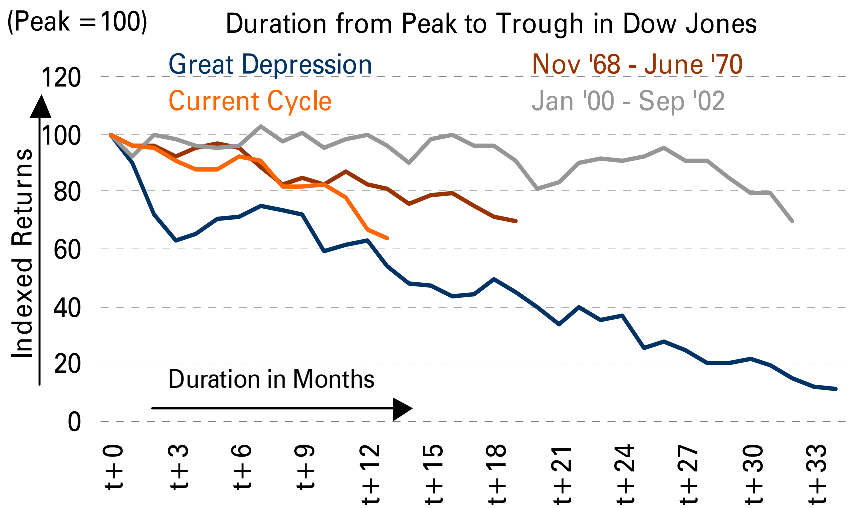
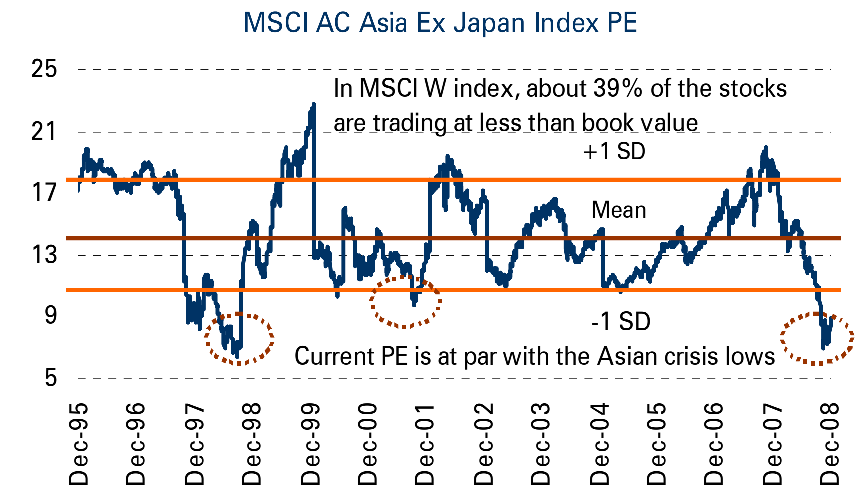
Silver linings: Valuation of asset classes becoming attractive

Credit crisis has forced one of the sharpest fall in equities historically



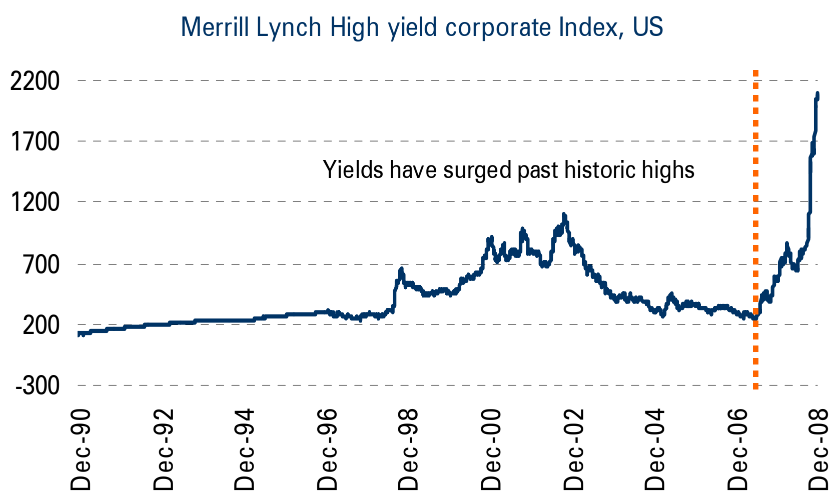
Source: Bloomberg, ICICI Bank Research

Equity valuations have dropped significantly: An investment opportunity



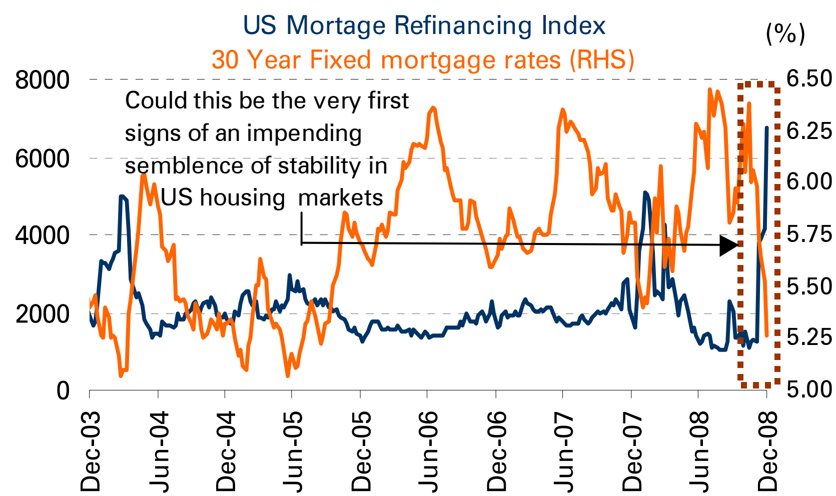
Source: Bloomberg, ICICI Bank Research

Segments of credit markets also enticing buying interest



Source: Bloomberg, ICICI Bank Research

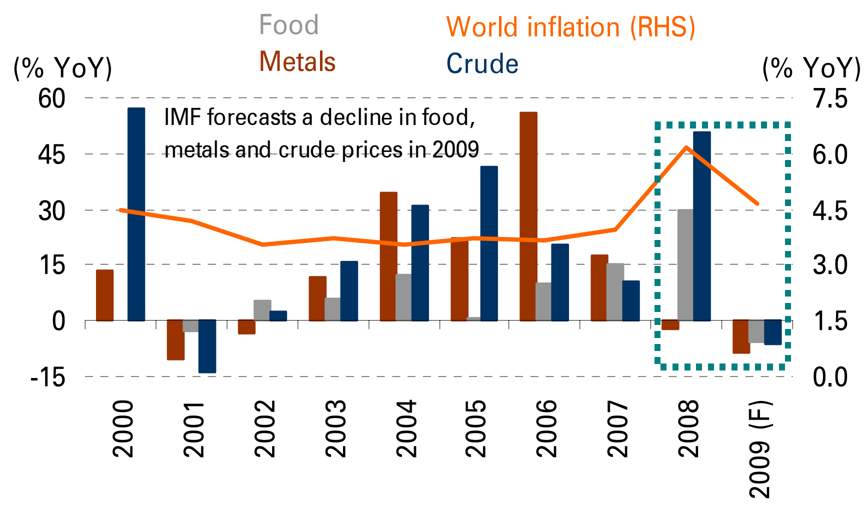
Housing stabilization would pick momentum as refinancing improves



Source: Bloomberg, ICICI Bank Research

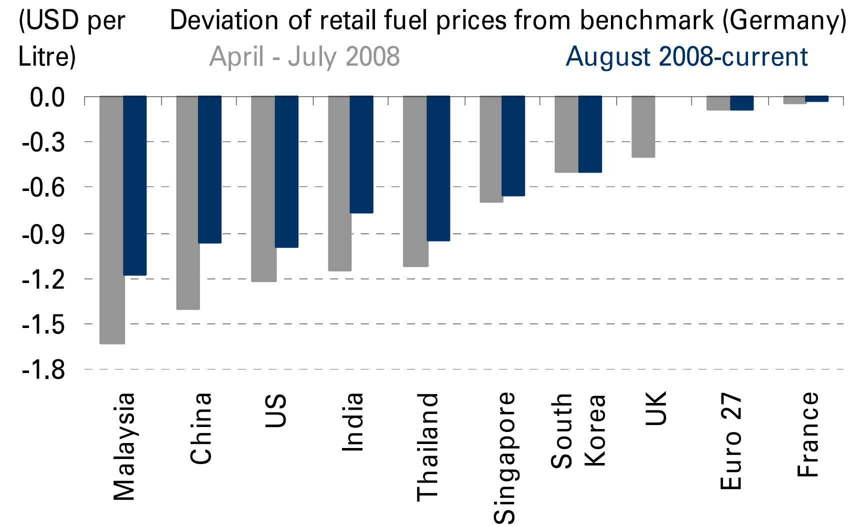
Fall in commodity prices to ease inflation and deficit concerns

A reversal in commodity cycle would help pull down prices next year



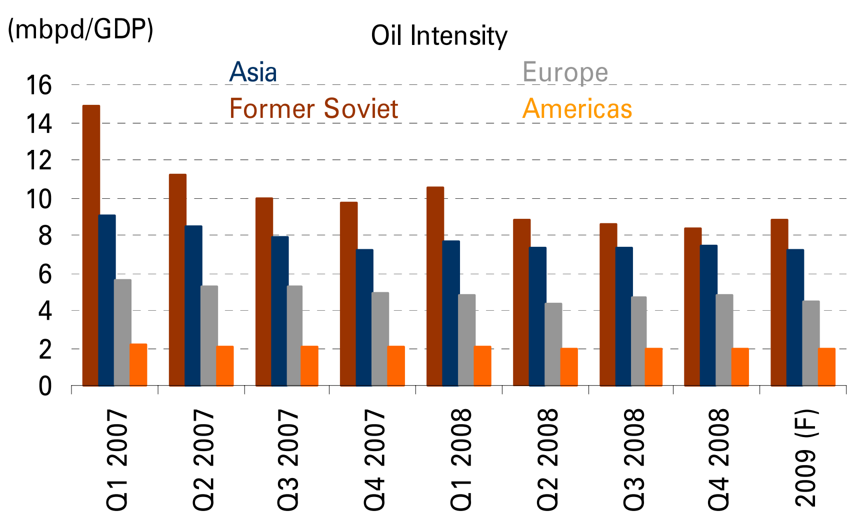
Source: Bloomberg, ICICI Bank Research

Mitigated need for fuel subsidies would alleviate fiscal strains too



Source: IMF, ICICI Bank Research

Shrinking oil import bill to counteract plummeting exports



Source: Bloomberg, ICICI Bank Research

… specially those of Asian economies

- Equity and credit valuations have dipped significantly, hence, creating an investment opportunity
- As refinancing conditions improve and mortgage rates come down, first signs of improvement in the housing market have begun to appear
- Most factors that engineered the boom in commodity prices and increased inflationary levels, have faded into insignificance due to recessionary fears
- Cooling crude prices would help reduce oil subsidy bills, hence easing the pressure on fiscal balances
- Developing economies with high oil intensity would have lower oil import bill as crude prices cool off. This would help them offset partly the deterioration of current account balance due to declining exports

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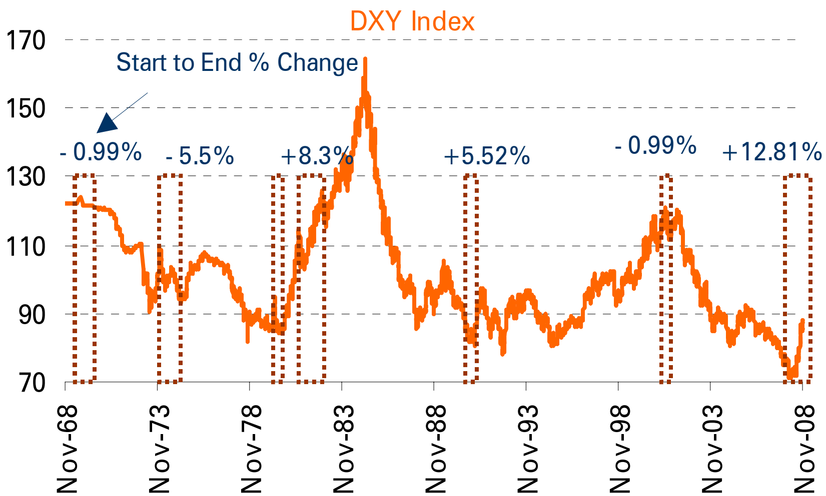
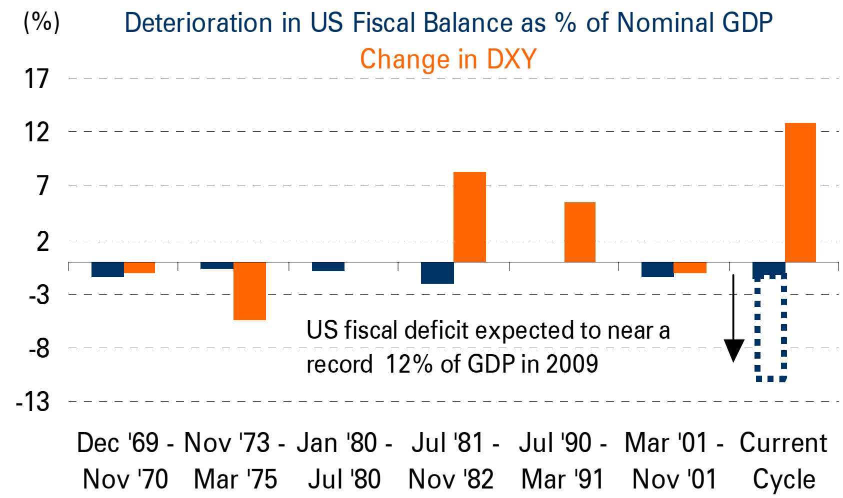
Odds of a challenge to dollar strength re-emerging

Recessions have had no clear impact on long term dollar cycle



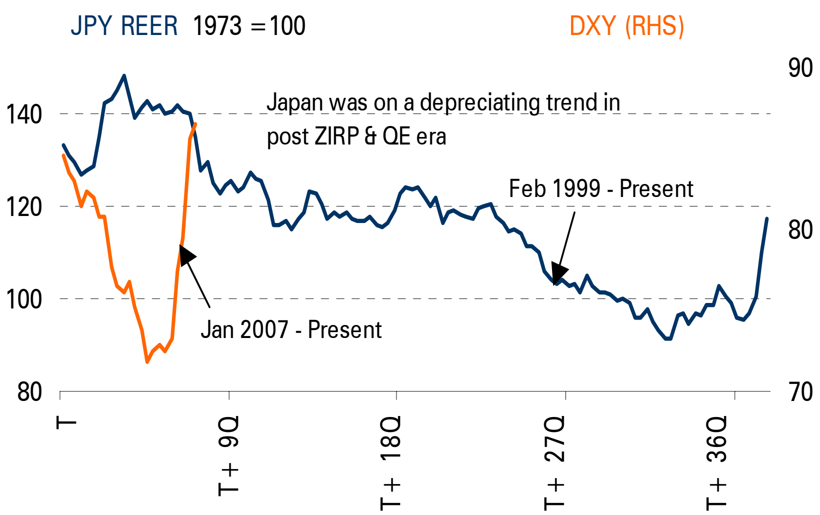
Source: Bloomberg, ICICI Bank Research

Surging fiscal cost likely to be a major destabilizing factor for Dollar in 2009



Source: Bloomberg, ICICI Bank Research

Shift in policy focus to Quantitative Easing could weigh further on Dollar



Source: Bloomberg, ICICI Bank Research

Dollar faces myriad downside risks in the coming year

- Historical observation suggests that long-term dollar cycles have outweighed the impact of past US recessions.
- Risk aversion dynamics, reserve rebalancing, commodity cycle as well as surging fiscal debt would play a prime role in determining dollar movements in 2009.
- With the US fiscal deficit expected to balloon beyond 10% of GDP in 2009, it could be a major destabilizing factor for the dollar in 2009.
- In addition, shift in policy focus to QE would weigh further on dollar owing to flattening of yield curves, along with easing of Dollar shortage.
- Despite myriad challenges, a debasing of dollar is unlikely to be imminent as it still remains the world's most preferred currency for most global transactions.

Country Outlook

United States
Severe recession in the offing amidst a negative feedback loop from turbulent financial markets; Dollar to weaken substantially in H2-09

Euro-zone
The first ever EZ recession could be a rather ugly affair. With inflation risks balanced, ECB rates to go down further. Euro to rise against majors

United Kingdom
High odds of a severe recession, amidst deflationary risks, presage more monetary easing. Sterling to forge subdued gains

Japan
Recessionary risks abound, raising specter of deflation. BoJ poised for an extended pause; Yen to nudge up gradually as uncertainty abates

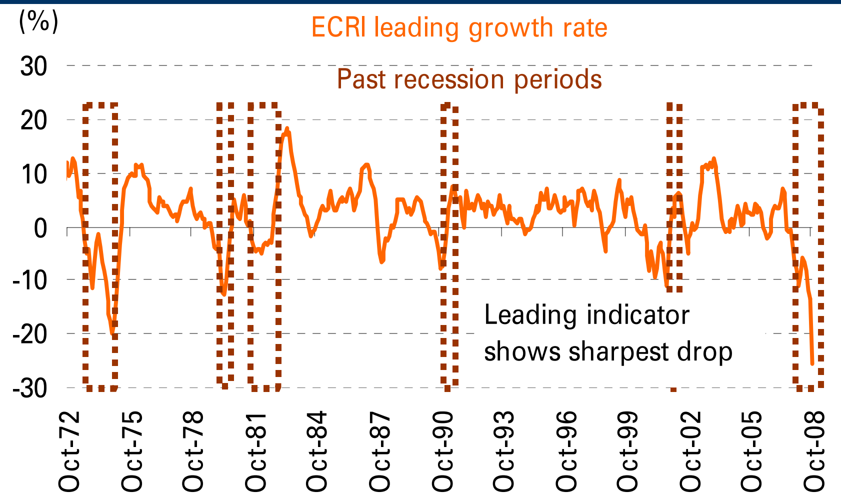
Switzerland
Activity to come to a halt as financial strains persist and global downturn accelerates.. Expansive policy to keep CHF under pressure vs. EUR

China
Grinding to a halt, despite Government pulling out all stops. Reversal in Yuan policy expected next year.

India
Pervasive slowdown in growth and ebbing inflation to pull down rates. Dollar drift to support Rupee but fundamentals remain weak

Economic headwinds + Credit crisis = Severe US recession

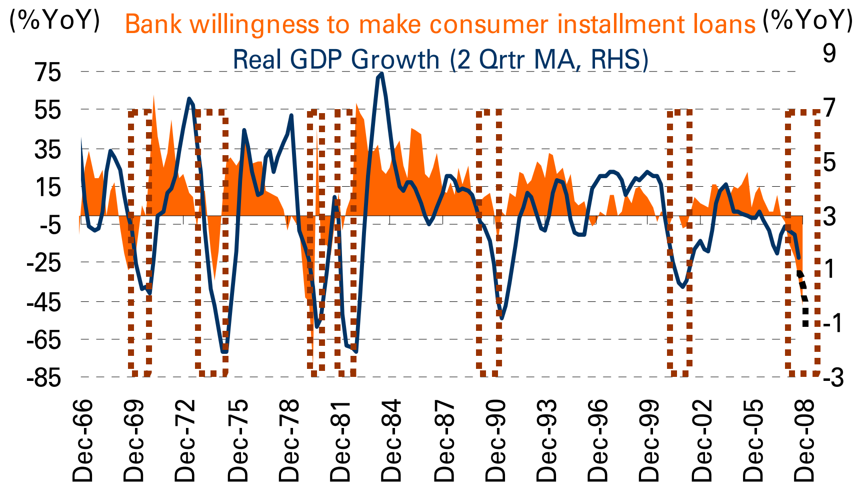
A severe US recession is in the offing…



Box represents recession period

Source: Bloomberg, ICICI Bank Research

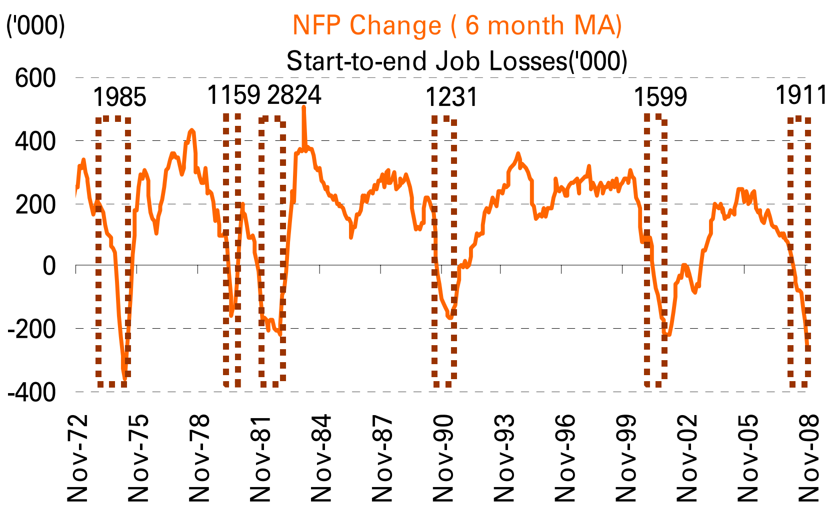
… as ongoing crunch weighs heavily on cash -strapped consumer…



Box represents recession period

Source: Ecowin, ICICI Bank Research

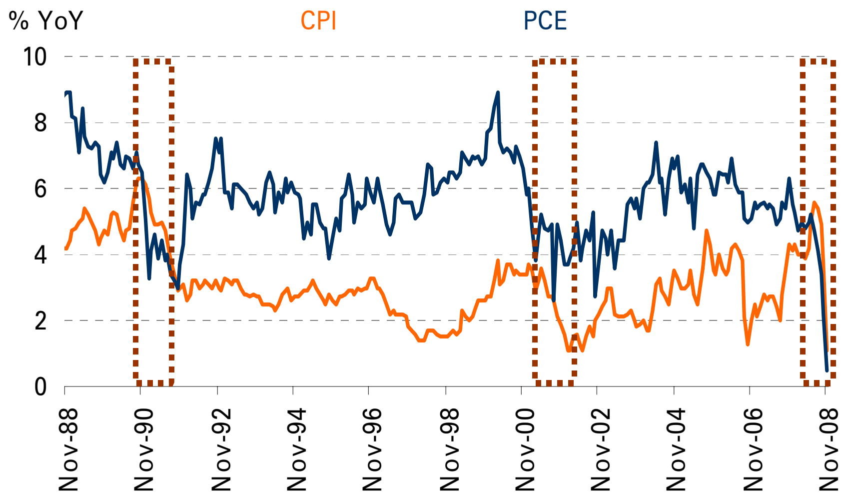
… while rising joblessness feeds the ongoing pullback in spending



Box represents recession period

Source: Bloomberg, ICICI Bank Research

Deteriorating growth outlook increases deflationary risks



Box represents recession period

Source: Bloomberg, ICICI Bank Research

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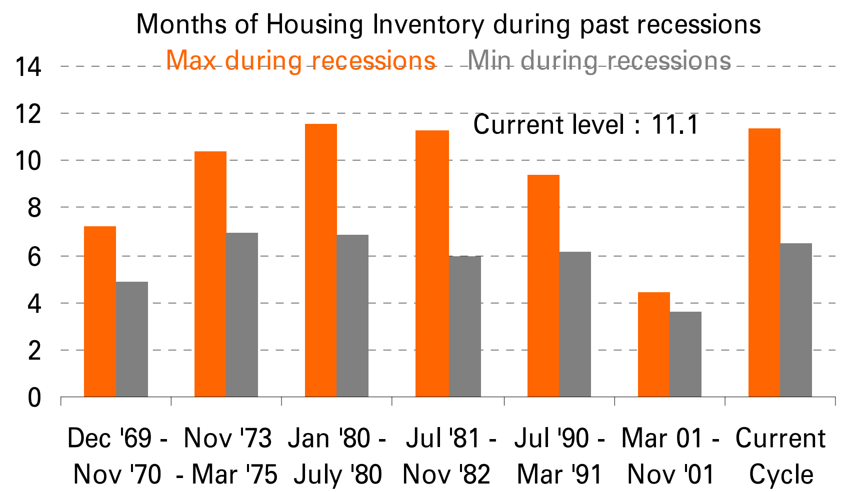
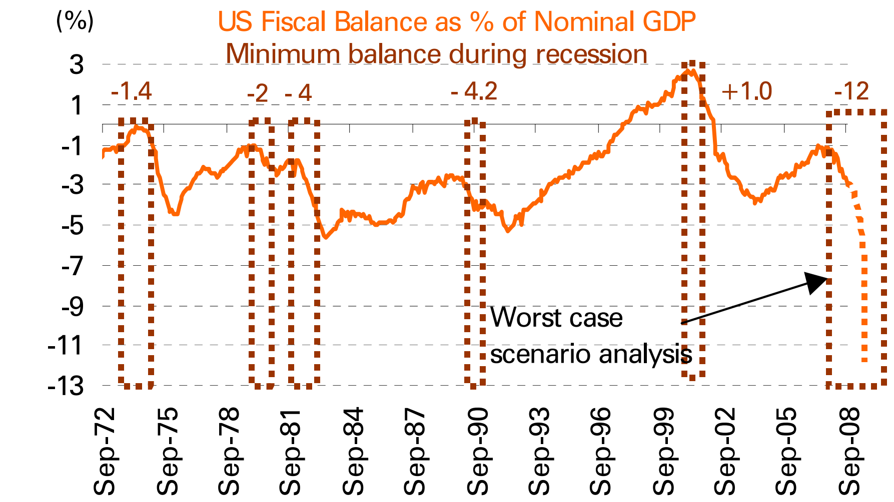
Policy action to move into unchartered territory

Prospects of housing recovery extremely dim amidst strong headwinds



Source: Bloomberg, ICICI Bank Research

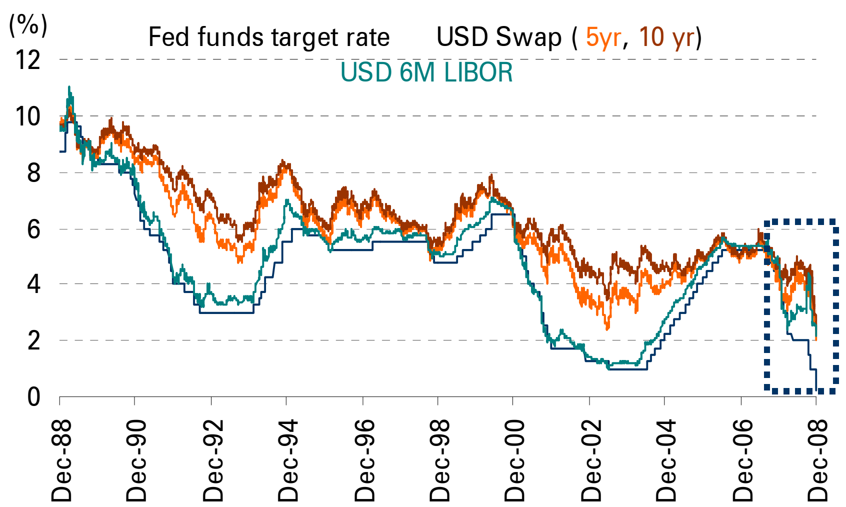
While fiscal policy would play vital role in supporting growth in 2009…



Box represents recession period

Source: Ecowin, ICICI Bank Research

… the coordination between fiscal and monetary policy is extremely crucial



Source: Bloomberg, ICICI Bank Research

Substantial downside risks to US dollar over the medium to long term

- With the Fed having embarked on quantitative easing we expect it to remain on hold for a long time until policy makers are assured that a self feeding cyclical recovery is underway.
- Going into 2009, the distinction between fiscal and monetary policy would fade as the Fed would have to play a vital role in the effective implementation of any fiscal policy by carefully balancing the risks of the ongoing unconventional monetary measures.
- We expect the US dollar to remain under pressure in the later part of 2009 as dollar funding pressures recede amidst massive liquidity injection, and long term US treasuries become a less attractive option following yield declines.

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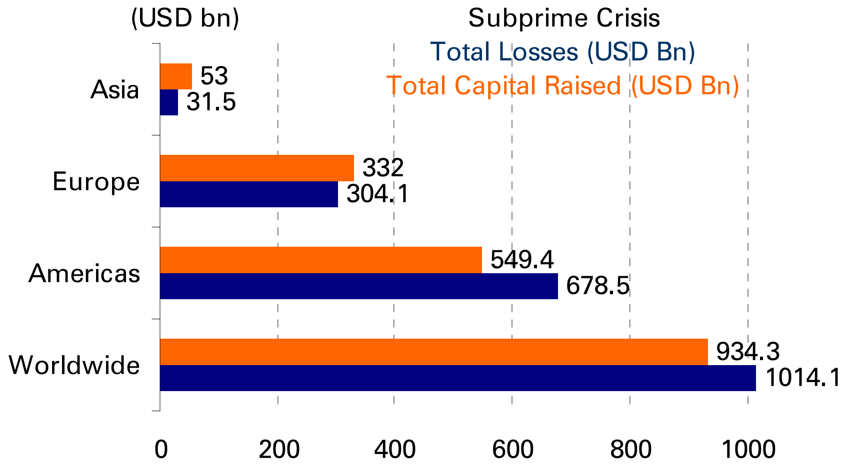
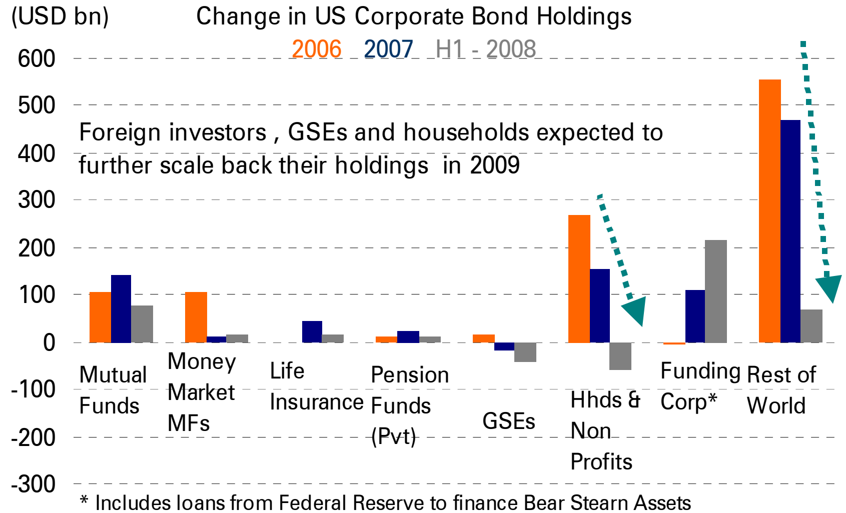
Risk reduction and deleveraging trend to continue in 2009

Capital losses continue to mount, recapitalisation efforts lag behind



Source: Hedge Fund Research, Bloomberg, ICICI Bank Research

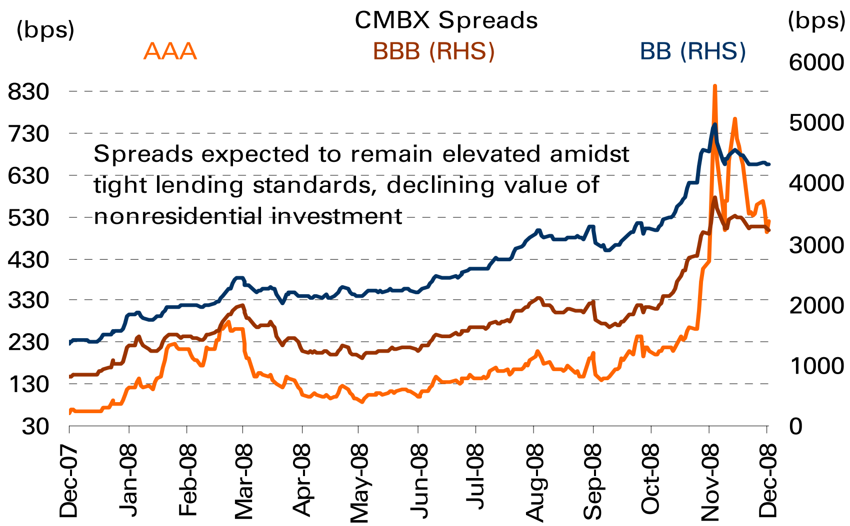
Non guaranteed bond issuance expected to decline further in 2009



* Includes loans from Federal Reserve to finance Bear Stearn Assets

Source: Bloomberg, ICICI Bank Research

Commercial Real Estate – unprecedented downturn in offing



Source: Hedge Fund Research, Bloomberg, ICICI Bank Research

Market conditions set to remain difficult in 2009

- Global Credit markets experienced unprecedented volatility in 2008 amidst massive deleveraging, financial fallouts, dislocation in diverse financial markets and emergence of the worst global recession since two decades.
- A plethora of event risks, including rating downgrades, a collapse of the US commercial real estate and the Auto sector along with massive deleveraging by major financials cloud the US credit outlook in 2009.
- Against this backdrop, liquidity and tradability would be two crucial factors for attracting investor interest across markets in the forthcoming year.
- While the unprecedented levels of market interventions by policy makers would begin to take hold, ongoing real economic weakness will continue to weigh on market fundamentals in 2009.

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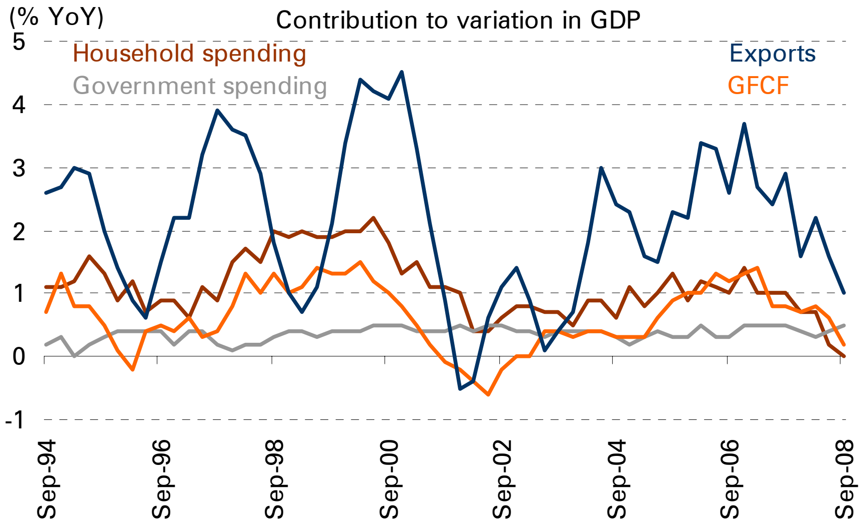
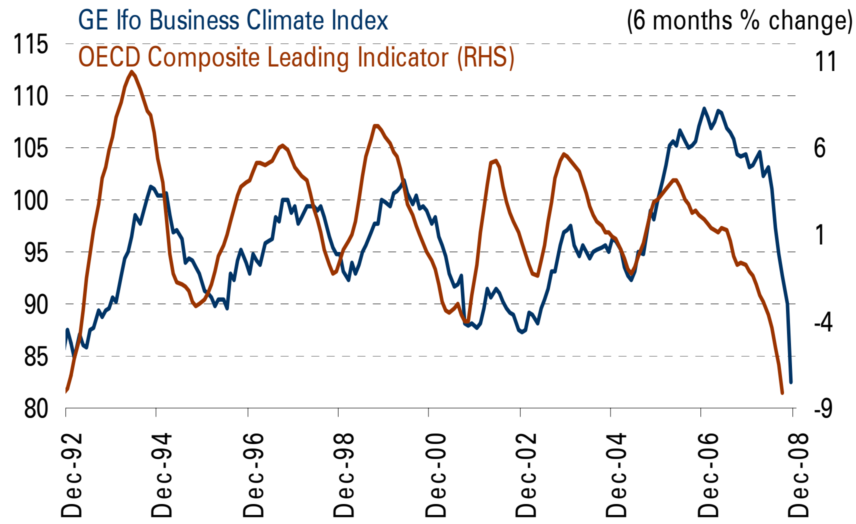
EZ in its first ever recession, & much pain still ahead

EZ enters its first ever recession, as support from all sectors falls through



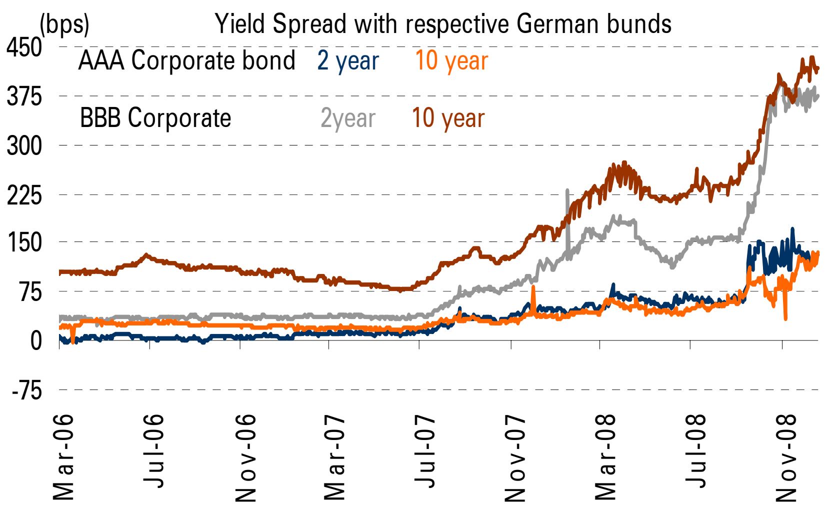
Source: Bloomberg, ICICI Bank Research

Leading indicators are at levels below those seen during 1990s downturn



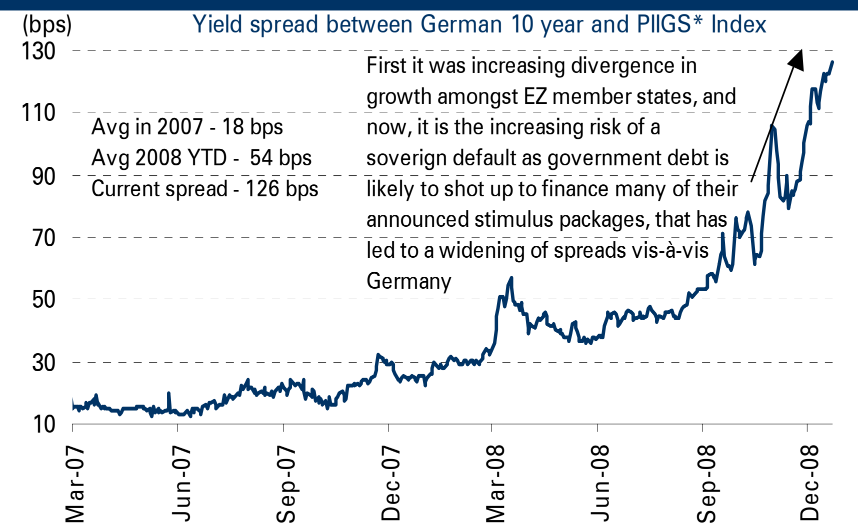
Source: Bloomberg, ICICI Bank Research

Capital scarcity & higher borrowing costs to constrain corporate sector



Source: Reuters Ecowin, ICICI Bank Research

Higher govt borrowing needs has widened spreads as default risk on a rise



* constructed as weighted average of the 10 year yields of Portugal, Ireland, Italy, Greece and Spain

Source: Bloomberg, ICICI Bank Research

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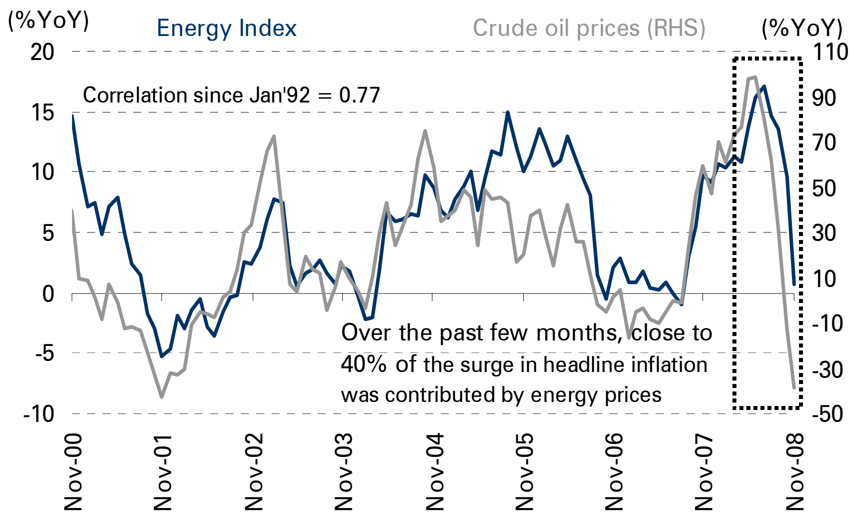
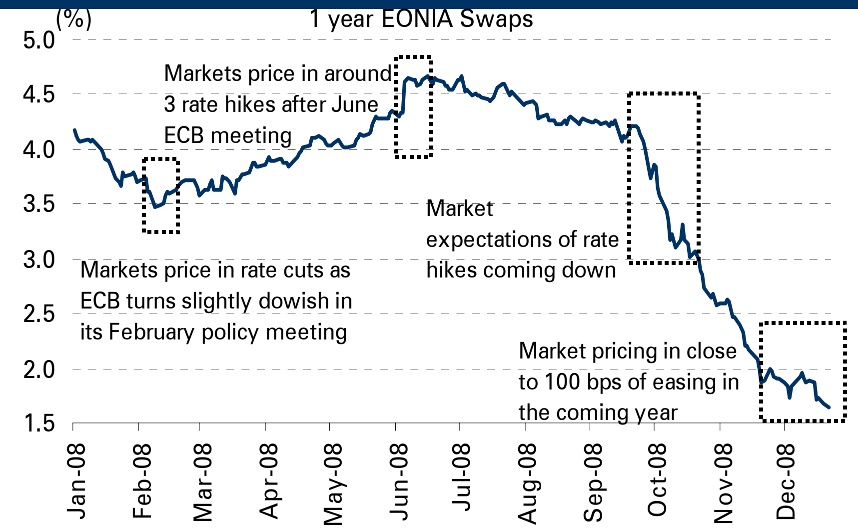
ECB to go lower as inflation risks "balanced", Euro to rise

The near collapse of global energy prices, have brought down price risks…



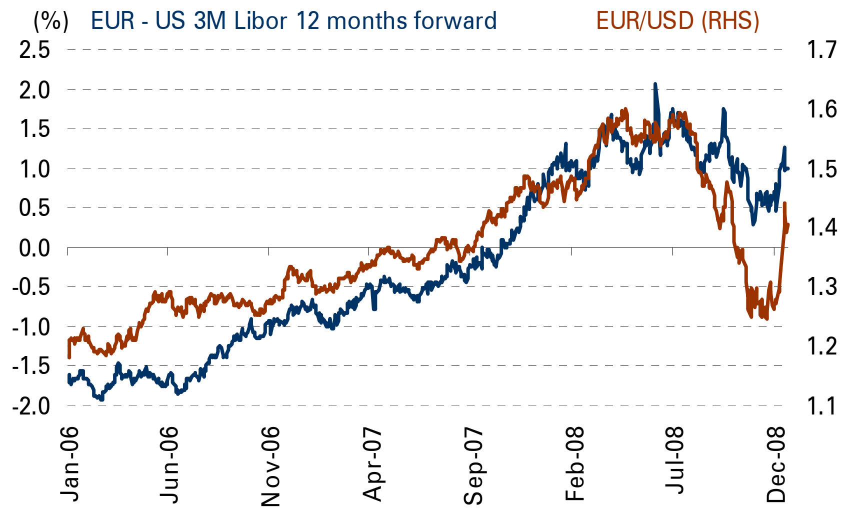
Source: Bloomberg, ICICI Bank Research

& in turn allowed for aggressive ECB cuts. However, ECB to now go down



Source: Bloomberg, ICICI Bank Research

…in a measured fashion. This policy divergence to support euro



Source: Bloomberg, ICICI Bank Research

Policy action to remain key to stimulating growth

- Attention has shifted from shoring up the financial sector to shoring up the real economy. With most EU members announcing stimulus packages, government fiscal health is all set to deteriorate
- ECB has not only aggressively eased rates to 2.5% from a peak of 4.25% on the back of dissipating price risks, but has also injected ample liquidity, widened its collateral framework, expanded its policy corridor (now withdrawn)
- Even though ECB seems reluctant to go down "too low, too fast", it would have no choice but to go lower to foster growth. We look for rates to bottom at 1.5% by Q2'09, with a downward bias.
- QE as a policy action, however seems unlikely, given the operational difficulties associated with it. This together with relatively higher ECB rates vis-à-vis other central banks should support Euro

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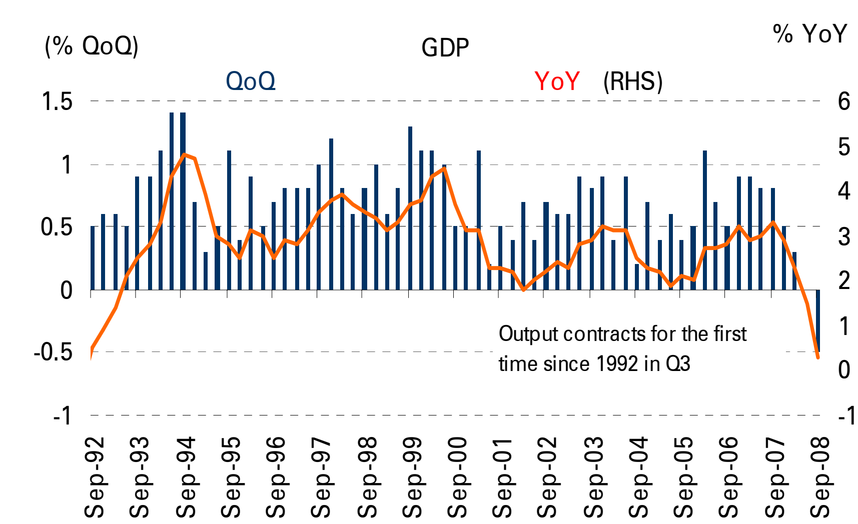
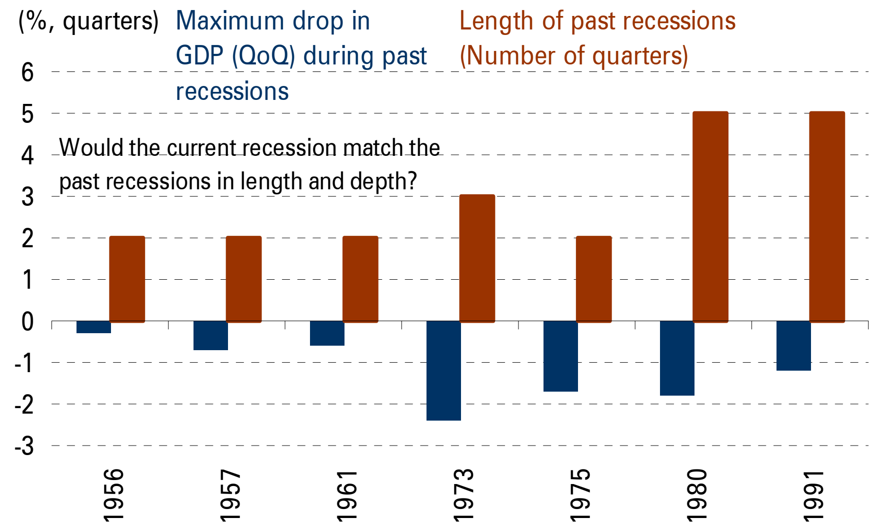
Risks of a prolonged recession loom large in UK

Growth has turned negative for the first time in 16 years..



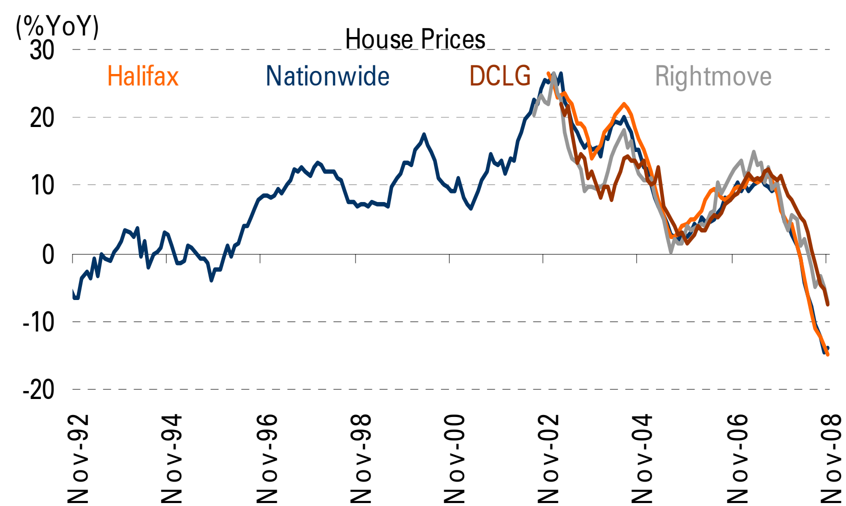
Source: Bloomberg, ICICI Bank Research

…amidst fears that this might be one of the most severe recessions



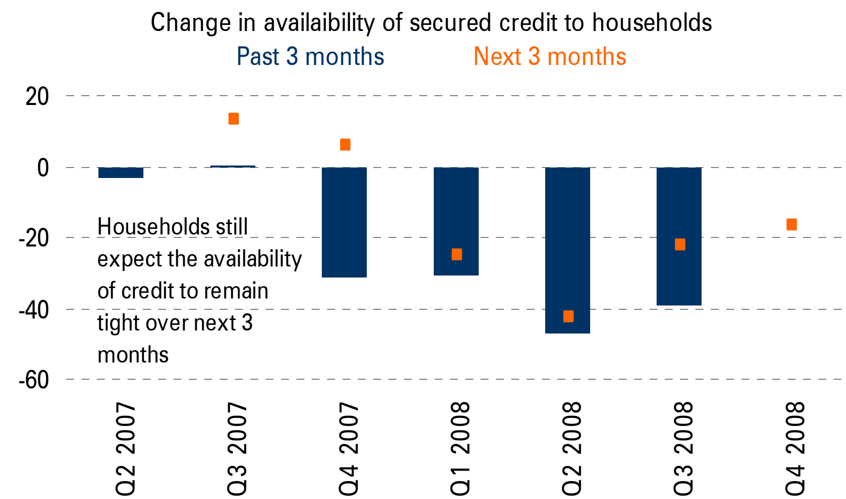
Source: Bloomberg, ICICI Bank Research

House prices have collapsed, eroding housing wealth…



Source: Bloomberg, ICICI Bank Research

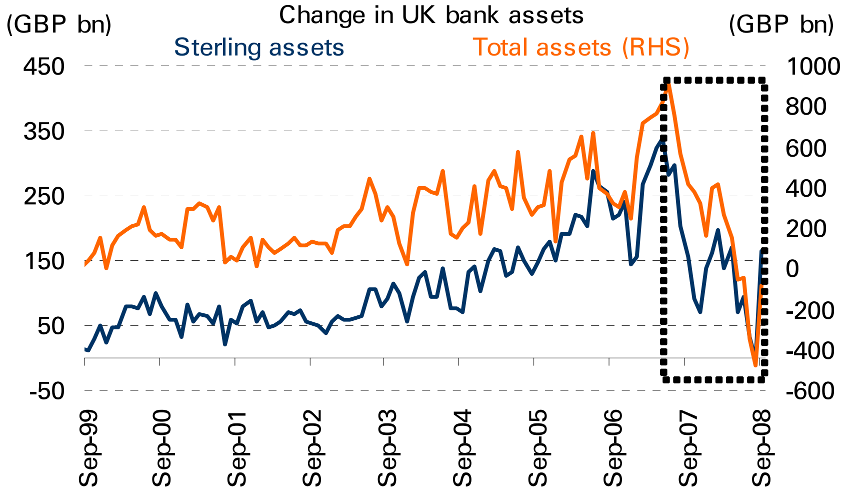
..and credit conditions have also been tightened



Source: BoE, ICICI Bank Research

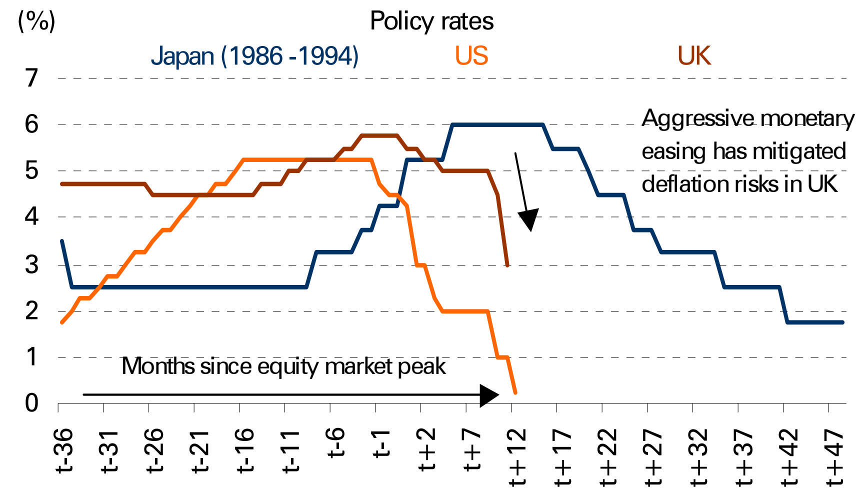
Growth risks & deflation fears demand more easing

Banks have cut back on asset growth to maintain capital adequacy..



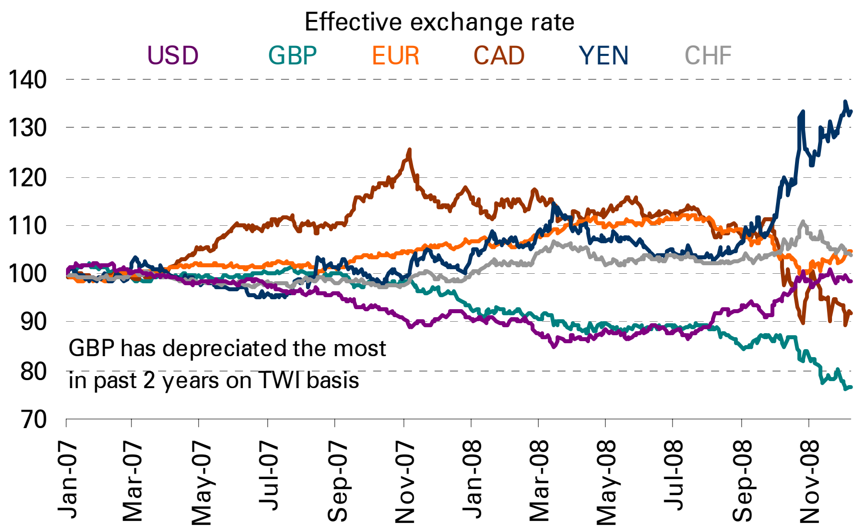
Source: BoE, ICICI Bank Research

..forcing BoE to ease aggressively, as it tries to tackle the acute credit crunch



Source: Bloomberg, ICICI Bank Research

Pressures on sterling likely to persist, though a weak dollar would cap falls



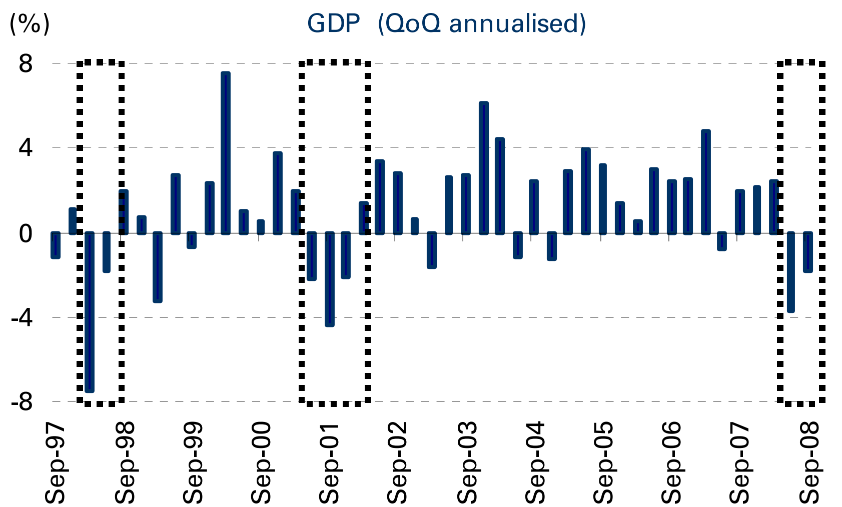
Source: Bloomberg , ICICI Bank Research

Policy and rate outlook

- BoE policy rates, which already stand at lowest since records began in 1694, are poised to go down much below. As deflationary worries pick up with asset prices continuing to fall amidst declining commodity prices and slowing economy, BoE appears set to ease rates to sub 1% levels.
- While fundamentals of sterling remain weak, it already is the worst performer since the onset of credit crisis. Even on a TWI basis, the currency has lost an enormous 27% in the last 18 months. This is one factor that would weigh in heavily on upcoming BoE rate decisions.
- A weaker greenback would help sterling find a floor, but any upside appears limited in medium term. Only as the house prices stabilize in the second half of 2009, and risk appetite returns would a quicker sustained move up be seen.

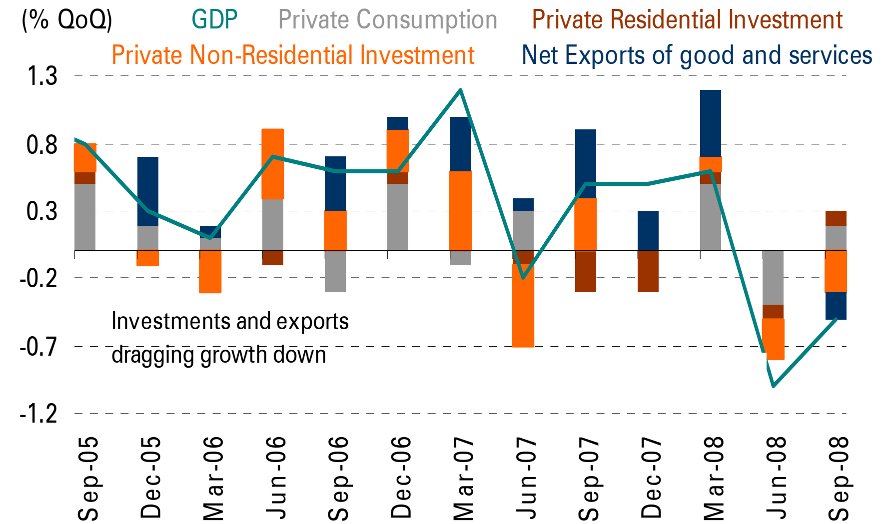
Recessionary risks and deflationary fears loom large in Japan

Japan has entered the "technical recession" after 7 years..



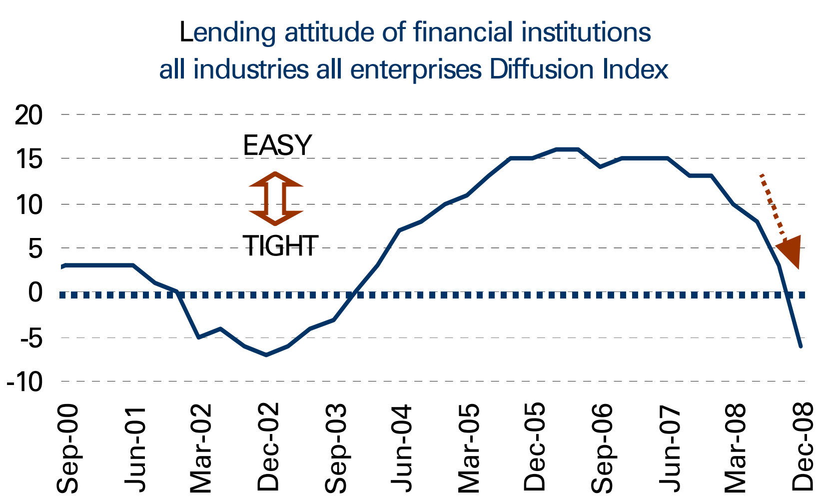
Source: Bloomberg, ICICI Bank Research

…as cracks begin to emerge from all corners



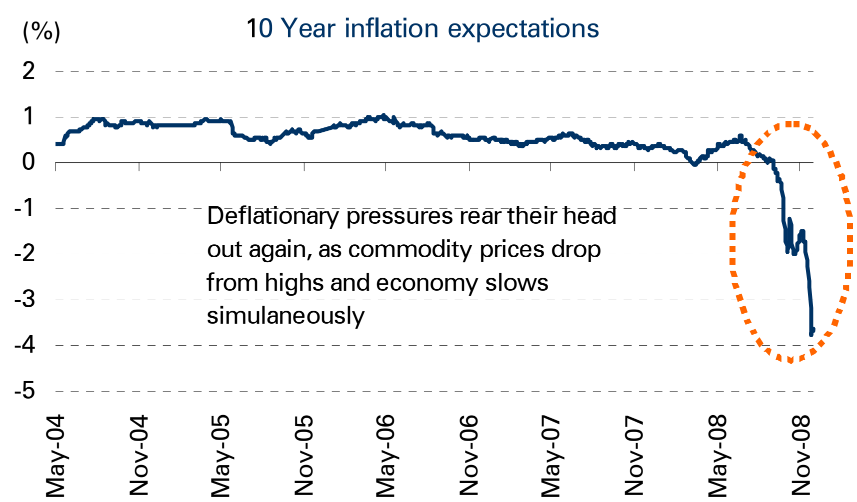
Source: Bloomberg, ICICI Bank Research

Tightening lending standards have added fuel to fire



Source: Bloomberg, ICICI Bank Research

Deflationary fears are rearing their head out again



Source: BoJ, ICICI Bank Research

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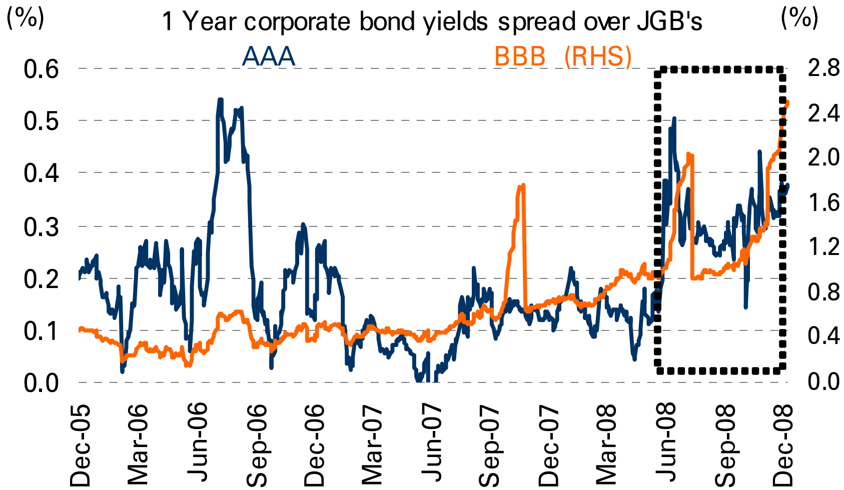
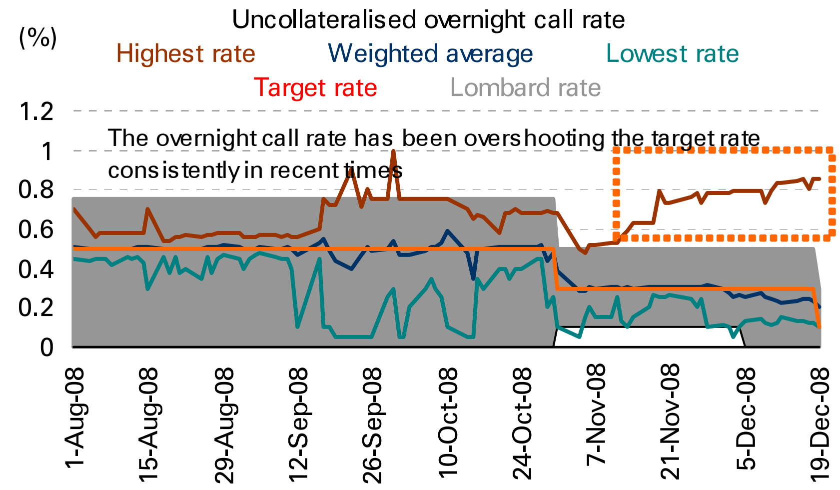
Money market stress & Yen strength, key concerns for BoJ

Money market conditions have also remained stressed..



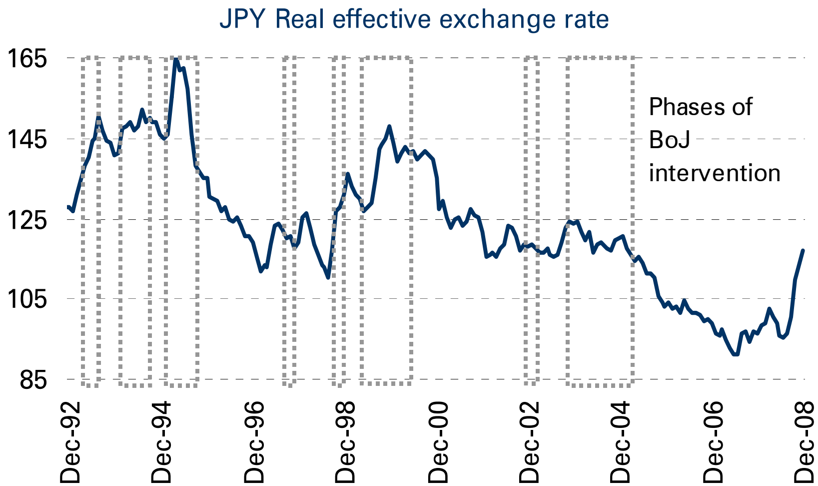
Source: CEIC, ICICI Bank Research

..forcing BoJ to ease rates back to near the nominal zero bound



Source: BoJ, ICICI Bank Research

Further substantial gains for JPY appear doubtful though..



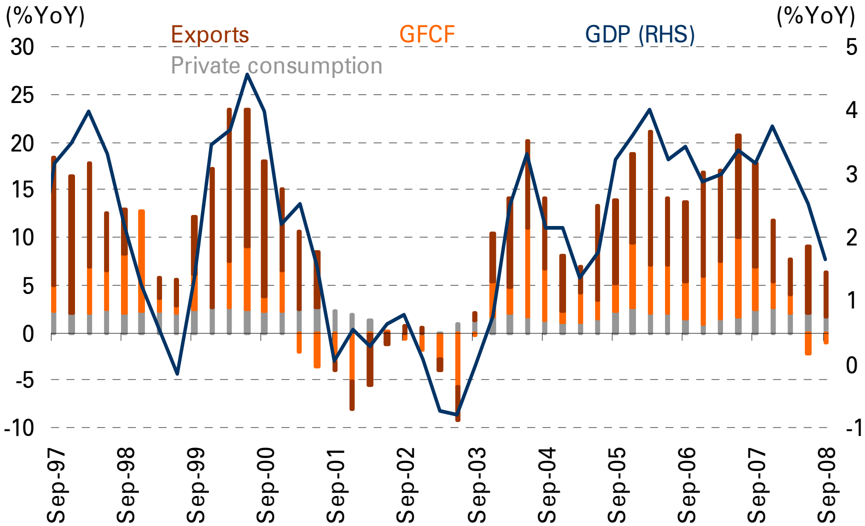
Source: BoJ, ICICI Bank Research

..due to its "undesirable" effect on exports that have already suffered acutely

- BoJ has substantially revised its earlier growth projections of 1.2% and 1.5% for FY08 and FY09 respectively, to around 0% and 0.5%, with growth expected to revert to potential (1.5%) in 2010
- Falling commodity prices and slowing economy have sparked fears of deflation again
- Dismal economic prints, tight financial conditions amidst mounting global pressures have forced BoJ to ease rates to near the nominal zero level bound and elicit initial signs of quantative easing
- From the currency perspective, lack of carry revival and repatriation of foreign bond investments would continue to shoulder Yen strength in medium term. However, any sharp move down is 'undesirable' and looks unlikely, as it sparks intervention prospects

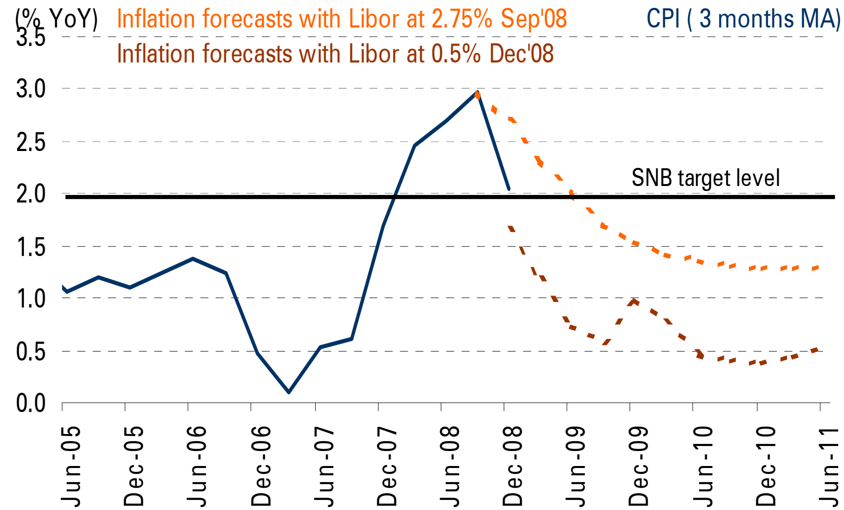
SNB ahead of the curve, CHF strength against EUR a concern

Swiss all set to enter a recession next year as risks materializing



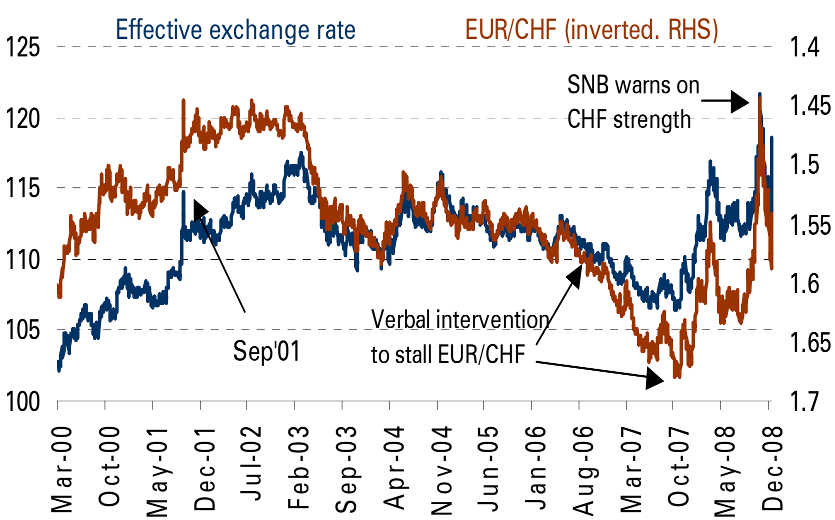
Source: Bloomberg, ICICI Bank Research

This along with sharp fall in energy prices has brought about price stability



Source: Bloomberg, ICICI Bank Research

Even though the aggressive action by SNB has fed into CHF weakness…



Source: Reuters Ecowin, ICICI Bank Research

…vis- à-vis EUR, but CHF strength to remain a concern for SNB

- To boost growth, Swiss government to bring forward CHF 1bn of planned spending in 2009
- The worsening domestic conditions along with an improved inflation outlook behind the 225bps of easing by SNB over 2months
- Even with a policy rate at 0.5%, SNB maintains a highly expansive stance, and is open to using unconventional measures to further loosen policy. Further, with SNB offering 1w, 3m and 12m repos at a mere 0.05%, rates are likely to remain low for a prolonged period of time
- The difference in the monetary policy of SNB and ECB together with a call for a weaker currency by Swiss policymakers is likely to keep CHF relatively weak vs. the Euro. Further, with the Dollar likely to come under pressure as Fed formally undertakes QE, CHF is likely to remain supported against the dollar

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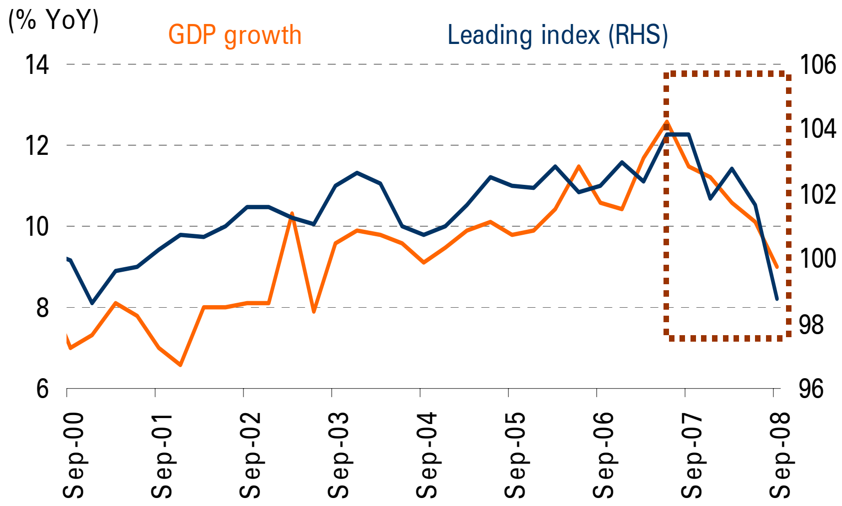
Chinese economy on troubled waters

Leading indicator signaling single digit GDP growth in 2009



Source: Bloomberg, ICICI Bank Research

…with falling exports and investment to weigh on growth

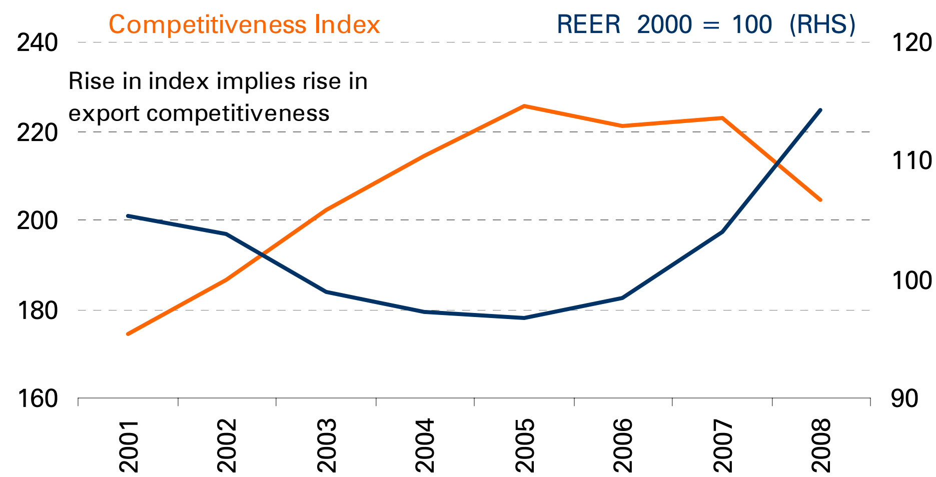
- The cumulative impact of falling exports, past policy tightening cycles and the expected lull after Olympics has hard hit the Chinese economy
- Due in part to past monetary and credit tightening cycles, investment has slowed in 2008, led by real estate sector and feeding into several other important industries
- Deepening recessions in advanced economies' have pummeled exports which is the economy's main driver
- Falling export competitiveness has added to the sector's woes due to sustained currency appreciation. Consequently, a reversal of appreciation stance is likely to be the theme playing out in 2009
- Given this bleak backdrop, the Government is pulling out all stops to attain the 8% growth target

But, Government putting its best efforts to save the ailing economy

Component of policy package	Cost (RMB bn)
Construction of affordable housing	280
Rural infrastructure spending	370
Investment in transportation network	1800
Investment in medical services, culture & education	40
Spending on ecology protection	350
Expedite technical innovation & economic restructure	160
Sichuan earthquake reconstruction	1000

Source:NDRC, ICICI Bank Research

While, falling exports competitiveness likely to reverse PBoC policy



Source: Bloomberg, IIF, ICICI Bank Research

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Reverberations of a Chinese slowdown to be felt globally

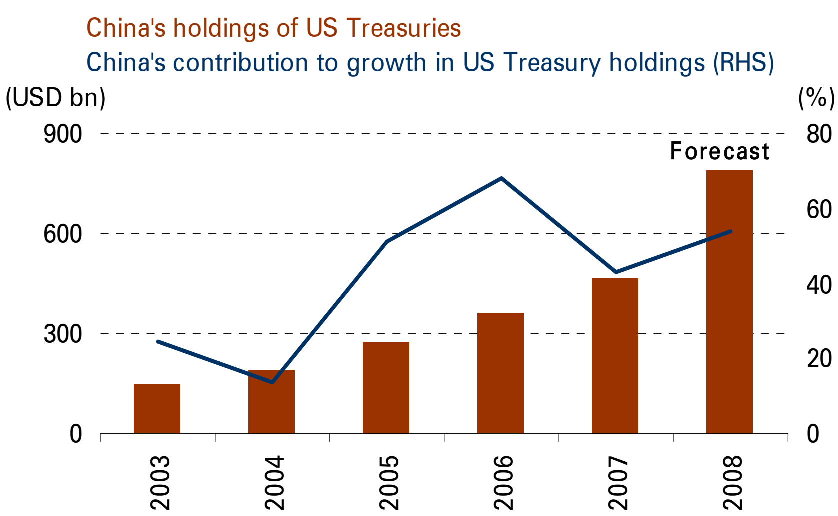
Emerging economies are highly dependent on Chinese import demand

Source: Reuters Ecowin, ICICI Bank Research

…and on Chinese investment abroad

Source: IMF Global Financial Stability report , ICICI Bank Research

Even financing of the US fiscal deficit is critically dependent on China



Source: US Treasury,ICICI Bank Research

Global prospects will be intertwined with growth dynamics in China

- The rising Chinese growth trajectory has made China a leading importer of intermediate goods & raw materials, along with the top capital exporter owing to investment in natural resource industries of Africa and Latin America. Accordingly, Chinese slowdown does not bode well for the entire EM bloc
- The burgeoning forex reserves have helped make China an important financier of the US fiscal deficit. To maintain the current share in treasuries growth, China will have to invest almost USD 750 bn out of the USD 1.5 trillion fresh issuance expected next year. However, with falling forex reserves, the probability of this event is quite low, implying a substantial rise in Fed's burden

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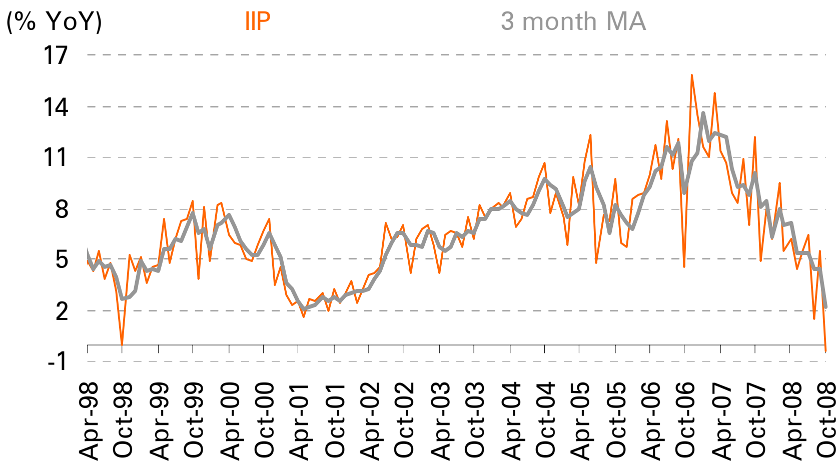
India to see much lower growth leading to gloomy outlook

From double digit growth to negative growth in IIP…



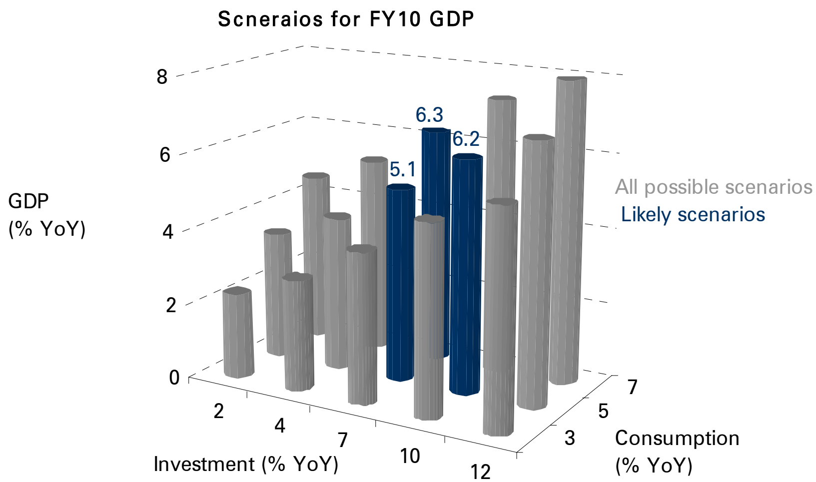
Source: Bloomberg,, ICICI Bank Research

… provides evidence for overall growth slowdown in FY09

Growth rates (%)	GDP	Private consumption	Govt consumption	Investment	Exports	Imports
Average in last 13 years	6.93	5.81	5.51	10.21	14.37	15.51
Average in last 5 years	8.92	7.01	4.76	15.76	15.03	22.12
Average during slowdown	5.11	4.60	6.59	6.44	12.55	9.71
FY08	9.00	8.30	6.96	13.75	7.50	7.60
H1 FY09	7.74	6.50	8.10	11.40	16.00	23.00
FY09 (E)	7.00	6.8	7.3	10.3	15.0	18.6

Source: CEIC, ICICI Bank Research

Growth outlook for FY 10 also clouded with uncertainty



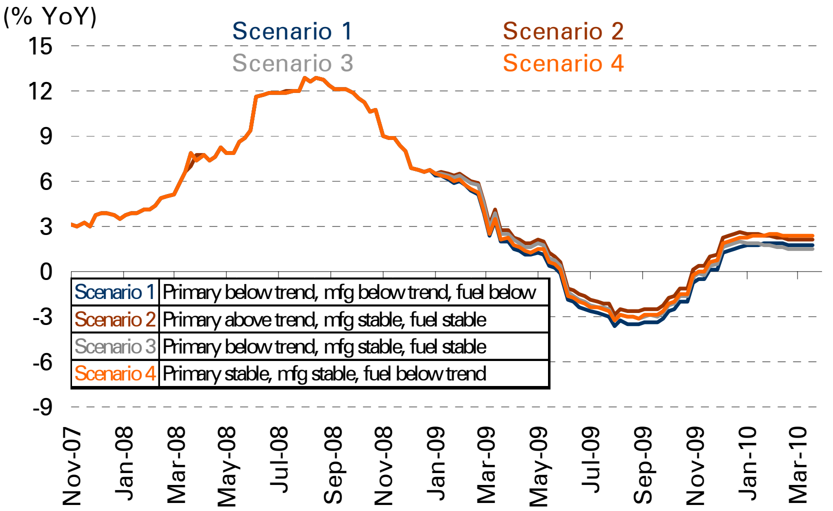
Source: ICICI Bank Research

Monetary and fiscal policy expected to remain expansionary in 2009

- Widespread evidence of pervasive slowdown in growth as latest IIP and export growth figures dip into negative territory
- Investment growth has been the bright spot over the last 5 years helping sustain growth at over 8%, however historically investment growth has been more volatile compared to consumption growth
- Growth for FY09 expected to remain near 7% levels. Forthcoming policy action would help to keep growth on track, however global headwinds and waning domestic demand keep the scenario for FY10 gloomy
- With growth concerns rising and inflation risks ebbing the central bank has upped its ante on maintaining growth momentum and thus we rates could nudge further down

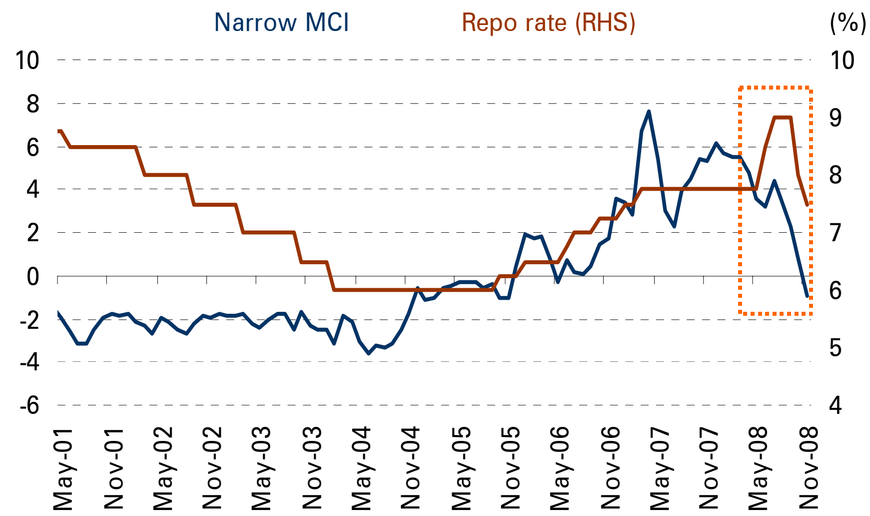
Rates to remain low; Rupee to be guided by Dollar moves

Inflation expected to remain benign in the coming year



Source: Bloomberg,, ICICI Bank Research

Monetary easing soothes the elevated stress on monetary conditions



Source: Bloomberg, ICICI Bank Research

Reversal in global sentiment key to BoP outlook

	(USD bn)	FY07	FY08	FY09f	FY10f Optimistic	FY10f Pessimistic
1	Merchandise	-63.2	-90.1	-127.0	-100.0	-135.0
	- Exports	128.1	158.5	168	185.0	175.0
	- Imports	191.3	248.5	295.0	285.0	310.0
2	Invisibles	53.4	72.7	86.0	94.0	88.0
	Total Current Account	-9.8	-17.4	-41.0	-6.0	-47.0
1	Foreign Investment	15.5	44.8	8.0	22.0	8.0
	- FDI	8.5	15.5	20.0	18.0	8.0
	- Portfolio Investment	7.1	29.3	-12.0	4.0	0.0
2	Loans	24.5	42.0	9.0	10.0	4.0
3	Banking Capital	1.9	11.8	0.0	4.0	0.0
4	Other capital	4.0	9.6	-4.0	0.0	-2.0
	Total Capital Account*	46.4	109.6	13.0	36.0	10.0
	Overall Balance of Payments	36.6	92.2	-28.0	30.0	-37.0

Source:GOI, ICICI Bank Research

Flow outlook remains grim, Dollar cues to help determine moves

- Scenario analysis depicts inflation to drop significantly lower than RBI's comfort zone of 5% next year
- Slowing domestic demand, ebbing inflation and dramatic shift in stance of monetary policy would lead to more rate cuts in the near term
- With difficulty in mobilising private investments, fiscal policy is expected to remain expansionary to stimulate growth
- In the most likely scenario, we are not likely to see much pressure from the BoP front. Therefore, Rupee movements are likely to be more a function of overall Dollar cues rather than its own fundamentals
- With Dollar expected to weaken over the medium to long term, we can expect the Rupee to gain some lost ground in coming quarters

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Summary of Main Forecasts

Currencies

	Mar-09	Jun-09	Sep-09	Dec-09
USD/INR	49.25	47.00	45.00	43.50
EUR/USD	1.35	1.43	1.53	1.55
GBP/USD	1.39	1.44	1.52	1.56
USD/JPY	87	91	96	99
USD/CHF	1.14	1.10	1.07	1.05
AUD/USD	0.64	0.70	0.76	0.80
NZD/USD	0.57	0.60	0.64	0.66
USD/CAD	1.22	1.18	1.12	1.10

Policy Rates

	Mar-09	Jun-09	Sep-09	Dec-09
India	5.00/3.75	4.50/3.25	4.50/3.25	4.50/3.25
US	0.0% to 0.25%	0.0% to 0.25%	0.0% to 0.25%	0.0% to 0.25%
ECB	2.00	1.50	1.50	1.50
Japan	0.10	0.10	0.10	0.10
BoE	1.00	1.00	1.00	1.00
SNB	0 to 0.5%	0 to 0.5%	0 to 0.5%	0 to 0.5%
Australia	3.75	3.75	3.75	3.75
NewZealand	4.75	4.25	4.25	4.25
Canada	1.00	0.75	0.75	0.75

Yields

	Mar-09	Jun-09	Sep-09	Dec-09
India 10yr	4.50	4.00	4.50	5.00
US 10yr	2.00	1.80	1.60	1.80
Japan 10yr	1.20	1.15	1.15	1.30

LIBORs

	Mar-09	Jun-09	Sep-09	Dec-09
USD 6M	1.40	1.20	1.00	0.80
JPY 6M	0.95	0.85	0.85	0.85
CHF 6M	0.75	0.65	0.60	0.50

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