Macquarie
India Essentials

The Asia Specialist

Thursday, 8 April 2010

India earnings preview — 2

Earnings recovery continues — Rakesh Arora

We preview our 4QFY3/10E earnings for our coverage universe. We expect 29% aggregate PAT growth for our universe (ex oil and gas) on the back of 18% and flat PAT growth as reported in 3QFY3/10A and 1HFY3/10A respectively. PAT growth is likely to be driven by 400bp YoY margin expansion even as sales recover.

Macro Mantra — 3

India: Decoding the RBI's next move — Rajeev Malik

The Reserve Bank of India (RBI) is scheduled to announce the annual policy for FY11 on 20 April. In our assessment, there is scope—and the need—for a 25bp hike in policy rates and a 25bp increase in the cash reserve ratio (CRR). However, since the RBI does not always believe in acting in scheduled policy meetings, it is less clear whether the central bank will move on both tools or only one on 20 April, with the second one being an inter-meeting move.

Indian Power sector (Outperform / Outperform) — 4

Maoists at the coal face — Jeff Evans

We highlight the importance of fuel security on Indian power producers against the recent backdrop of political instability with Maoist insurgents in Chhattisgarh. Much of India's thermal coal reserves sit in highly-moderately affected Naxalite regions – just one of the potential problems faced by coal producers, in addition to land acquisition and forestry clearances.

HDFC Bank (Outperform) — 5

Takeaways from meeting with head of retail assets business — Suresh Ganapathy

We met with the head of the retail assets business at HDFC Bank, Mr Pralay Mondal. Growth has come mainly due to a significant focus on cross-selling products to internal customers (mostly customers who have liability-based products). Incrementally internal customers form 30–40% of total auto loan disbursements, up from single digits three years ago.

Weekly US oil data ... — 6

Near-term fundamentals are weak — Jan Stuart

US crude oil inventories, including those at Cushing, OK, are rising, as are imports, indicating that short-term physical oil markets are still weak. Crude oil benchmarks are setting new highs for reasons that have nothing to do with near-term fundamentals. These other factors are moving crude oil prices to 18-month highs.

Macquarie Oil and Gas 360 — 7

United States Edition – 7 April 2010 — Macquarie - Oil & Gas Research

Roughneck Chronicle, HAWK US, FTI US, FEL CN, NXY CN, CVU.A CN, TT CN, RYD CN, AUL LN, HOIL LN, AKSO NO, DGO LN, PELE LN, CTX AU , Asian oil & petrochemicals WTI: Closed at US$86.84/b (+$0.22) / overnight: US$86.33/b (-$0.51). Brent: Closed at US$86.15/b (+$2.14) / overnight: US$85.94/b (-$0.21). Dubai: Closed at US$82.54/b (+$1.02) / overnight: US$82.77/b (+$0.23).

Macquarie Commodities Comment — 8

A strong March for commodity prices — Colin Hamilton

We review commodity price and inventory performance in March. Improving macroeconomic sentiment and continued demand strength underpinned price gains through the month, providing strong momentum as we move into Q2. Base metals edged downwards on Wednesday, amid talk of profit-taking after recent price strength.

India Market performance — 9

China Industrials Tour: Shanghai, Nanjing and Beijing, 12-14 May

Macquarie invites you to our tour of Chinese companies competing in global industrial markets. Our tour aims to provide insight into developments in the rapidly growing domestic Chinese market as well as into the companies' international ambitions. We will visit Chinese companies active in global markets such as power generation equipment, locomotives, wind turbines and transmission & distribution transformers. Registration closes 7 May. To register please speak to your local representative.

Fresh Money Ideas

Company	Rec	Target px (lcy)	Closing (lcy)	Upside/Downside (%)
Bharat Petroleum (BPCL IN)	OP	695.00	505.45	38
Jubilant Organosys (JOL IN)	OP	450.00	351.35	28
Maruti Suzuki India (MSIL IN)	OP	1,770.00	1,400.40	26
Tata Power (TPWR IN)	OP	1,651.00	1,380.70	20
Grasim Industries (GRASIM IN)	OP	3,404.00	2,894.00	18
Larsen & Toubro (LT IN)	OP	1,841.00	1,643.20	12
Adani Power Ltd. (ADANI IN)	OP	130.00	119.00	9
State Bank of India (SBIN IN)	UP	1,640.00	2,112.40	-22
MTNL (MTNL IN)	UP	47.00	76.00	-38
Idea Cellular (IDEA IN)	UP	35.00	67.15	-48

OP = Outperform, UP = Underperform, N = Neutral
Source: Factset, Macquarie Research estimates
Data as at 08/04/2010

INDIA

India earnings preview

Earnings recovery continues

Event

- We preview our 4QFY3/10E earnings for our coverage universe. We expect 29% aggregate PAT growth for our universe (ex oil and gas) on the back of 18% and flat PAT growth as reported in 3QFY3/10A and 1HFY3/10A respectively. PAT growth is likely to be driven by 400bp YoY margin expansion even as sales recover. We expect strong results by GAIL, HDFC, JSP, and NJCC, while SBI and UTCEM are likely to disappoint.

Impact

- **Strong top line –broad-based recovery.** We expect aggregate sales to be up by 17% YoY for the quarter vs 13% YoY in 3Q10. This strong number reflects broad based recovery and revival in the overall demand environment.
- **Robust margin expansion – driven by lower input costs.** Lower input costs should drive a 400bp YoY EBITDA margin expansion.
- **Growth leaders: auto, metals and infra; laggard: telecom.** We expect PAT growth to be strongest in auto, metals and infra and weakest in telecoms.
- **Autos** should report strong YoY growth due to higher sales and lower material costs. For MSIL we expect margins to show strength and no significant loss in market share leading to a re-rating of the stock.
- The **materials** sector is showing positive trends, while metals should show stellar growth on better price realization and higher volumes; cement is also expected to show positive growth. JSP could surprise again on better merchant power realisations.
- Order inflow in the **infra** sector would start witnessing strong positive growth while execution would clearly improve from bottom of Q310. We expect CRG and NJCC to surprise on earnings growth on back of robust topline growth.
- In **pharma**, focus on profitable growth adopted by sector leaders has started to pay dividends. DRRD should show robust growth, as it has now got its act right in key markets of India, Russia and the US.
- 4Q results of **telecom** should be weak as ARPM and MoUs remain under pressure due to roll out of networks by greenfield operators and increase in multiple SIM usage. 4Q will also see full impact of new launches in mid 3Q.
- The **petroleum** sector's earnings should decline, primarily due to a drop in profits for oil marketing companies in the absence of oil bonds. Among stocks, we think GAIL and RIL should report strong operating performance.
- **Banks** are likely to have a muted quarter with lower treasury profits and continued high provisions likely to offset loan growth and margin recovery. SBI should face earning headwinds in our view.

Outlook

- Profitability for our coverage should improve on a pickup in demand and margin expansion. We think investors should cherry pick stocks with strong earnings momentum. Our top picks are GAIL, HDFC, JSP, TCS and LT.

Sector earnings growth

Sector	% change (YoY)	% change (QoQ)
Media (3)	1721%	-21%
Pharma (7)	282%	-3%
Properties (4)	135%	14%
Auto (5)	133%	15%
Metals (10)	53%	25%
Infrastructure (15)	42%	118%
Information Technology (3)	14%	-3%
Cement (5)	5%	19%
Power (4)	2%	-6%
Banks (15)	0%	-6%
Telecom (6)	-10%	41%
Petroleum (9)	-31%	62%
Macquarie's total universe	4%	25%
Macquarie's total universe (excl Oil & Gas)	29%	15%

Source: Macquarie Research, April 2010

Top Picks

Company	Ticker	Rec.	Price (Rs)	TP (Rs)	Upside
HDFC	HDFC	OP	2805	3,280	17%
GAIL	GAIL	OP	426	506	19%
Jindal Steel & Pwr	JSP	OP	715	955	34%
Larsen & Toubro	LT	OP	1,652	1,841	11%
Tata Consultancy	TCS	OP	794	925	17%

Price as of 7 April 2010

Source: Bloomberg, Macquarie Research, April 2010

Least preferred

Company	Ticker	Rec.	Price (Rs)	TP (Rs)	Upside
ABB India	ABB	UP	840	499	-41%
Bajaj Auto	BJAUT	UP	2,087	1,550	-26%
State Bank of India	SBI	UP	2,126	1,640	-23%

Price as of 7 April 2010

Source: Bloomberg, Macquarie Research, April 2010

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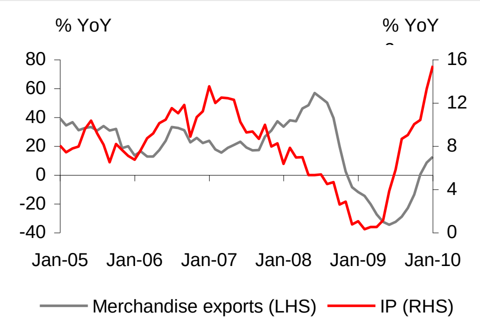
8 April 2010

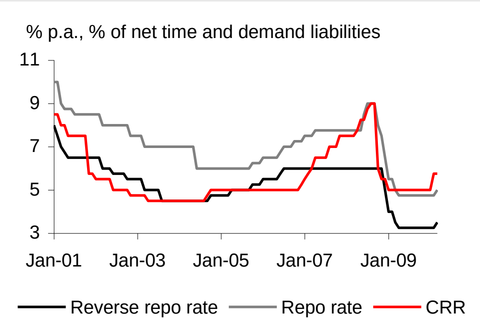
INDIA

Industrial production and exports



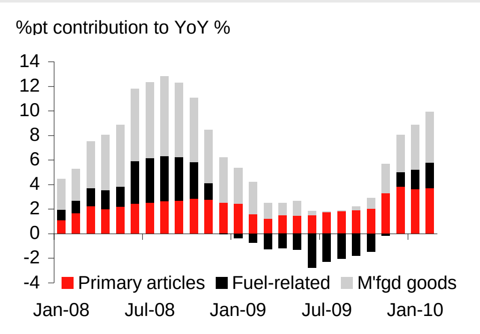
Source: CEIC, Macquarie Research, April 2010

Policy rates and cash reserve ratio



Source: CEIC, Macquarie Research, April 2010

WPI inflation



Source: CEIC, Macquarie Research, April 2010

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8 April 2010

Macro Mantra

India: Decoding the RBI's next move

All eyes on the next RBI policy meeting

- The Reserve Bank of India (RBI) is scheduled to announce the annual policy for FY11 on 20 April. In our assessment, there is scope—and the need—for a 25bp hike in policy rates and a 25bp increase in the cash reserve ratio (CRR).
- However, since the RBI does not always believe in acting in scheduled policy meetings, it is less clear whether the central bank will move on both tools or only one on 20 April, with the second one being an inter-meeting move. In any case, both moves are likely before the end of June quarter.
- In the monetary normalisation that began in January, the RBI announced a 75bp hike in CRR at the January policy review, and also announced on March 19 an earlier-than-expected increase of 25bp in policy rates.

Solid growth, increasing worries over non-food inflation

- Two important data points before the policy will be industrial production (IP) for February (due April 12), and WPI inflation for March (due April 14). On our expectations, IP is likely to increase 16-17% YoY, while WPI inflation will likely come in the 10-11%YoY range.
- We expect the IP details will reinforce that the growth momentum remains solid and the profile is also broadening, with capital goods complementing the recent jump in consumer durables, especially motor vehicles. However, YoY vehicle sales are already rolling over, as their recent stratospheric pace is unsustainable.
- Food inflation will come off further, but non-food inflation is becoming a bigger worry owing to a combination of strengthening domestic demand, higher international commodity prices, and the infamous local supply constraints and bottlenecks.
- Indications are that GDP growth in calendar 1Q10 could be around 8.5% YoY following a below-trend 6.0% in 4Q09. In its forthcoming policy, the RBI will likely forecast GDP growth for FY11 in the 8.0-8.5% range. The WPI inflation forecast for end-March 2011 will probably be forecast around 6.0%, and credit growth at 18-20%.
- The RBI should adopt a double barrel approach, and hike policy rates and CRR each by 25bp. Even after the CRR hike, we expect the excess liquidity will be sufficient to facilitate government borrowing and add to loan growth.

Monsoon rainfall remains an important risk

- Apart from higher international commodity prices, the monsoon season will have an important impact on growth and inflation. A normal/good monsoon might actually prompt the RBI to step up its tightening even if it is positive for inflation, as economic growth will get an additional tailwind.
- Conversely, a poor monsoon could push up food inflation but may not prompt the RBI to be more aggressive due to the monsoon's hit to growth.
- It is still unclear whether the government will finally undertake meaningful reform of subsidies, especially for fuels. We believe moves, if any, will surely have a one-off effect on inflation.

INDIA

Indian Power sector

Maoists at the coal face

Event

- We highlight the importance of fuel security on Indian power producers against the recent backdrop of political instability with Maoist insurgents in Chhattisgarh. Much of India's thermal coal reserves sit in highly-moderately affected Naxalite regions – just one of the potential problems faced by coal producers, in addition to land acquisition and forestry clearances.
- Our preferred power plays are Tata Power (TPWR IN, Rs1,380, OP, TP: Rs1,651) and Adani Power (ADANI IN, Rs119, OP, TP: Rs130), largely driven by their competitive fuel supply positions.

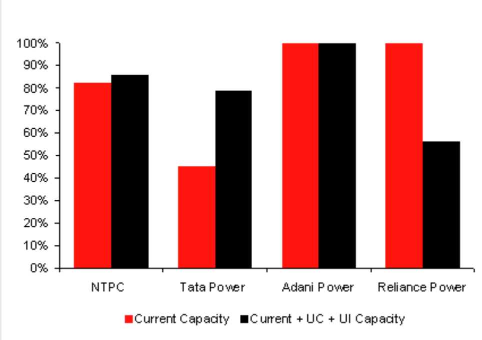
Impact

- **Maoists at the coal face:** There is a clear overlap between highly affected Naxalite (Maoist) regions and India's major coalfields. High levels of insurgency could potentially impact thermal coal production and development in these regions, such as Chhattisgarh and Jharkhand. Land acquisition and environmental clearances are also significant challenges.
- **Indian power and domestic coal production is inter-related:** Most of India's power is generated from coal-fired power plants (~70%) while most of India's thermal coal is consumed by the power sector (~80%). New capacity additions in India are largely driven by coal-fired units, while domestic coal linkages are expected to supply around 80% of new plants in the 11th plan.
- **TPWR currently has the least exposure to coal-fired generation:** As a percentage of its current power portfolio, while after considering plant under construction/implementation, RPWR's coal-fired capacity would be the lowest as a percentage of total generation. However, we remain cautious on the execution of some of RPWR's projects.
- **TPWR and ADANI use a greater proportion of imported coal:** and are therefore less reliant on domestic coal production – lower fuel supply risk. Cost risk is hedged by TPWR due to its 30% stake in the Indonesian KPC and Arutmin assets. ADANI has a high exposure to merchant power prices, which, on our forecasts, largely off-sets higher imported coal costs.

Outlook

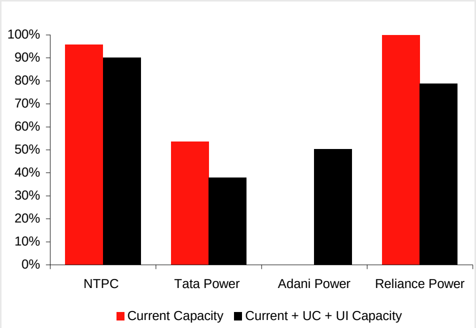
- In our view, coal supply is one of the biggest challenges to the Indian Power sector. Domestic fuel supply constraints would also likely be positive for power prices. We therefore prefer IPPs that are vertically integrated (upstream), have short-medium term merchant power price exposure or have some tariff pass-through ability (NTPC). Our preferred sector picks remain TPWR (net-long 20-22mtpa thermal coal over the next 7yrs) and ADANI, with access to Bunyu Island coal and exposure to merchant power prices.

% coal-fired capacity vs. total capacity



Source: Macquarie Research, April 2010

% coal-fired capacity using domestic coal



Source: Macquarie Research, April 2010

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8 April 2010

INDIA

HDFCB IN Outperform

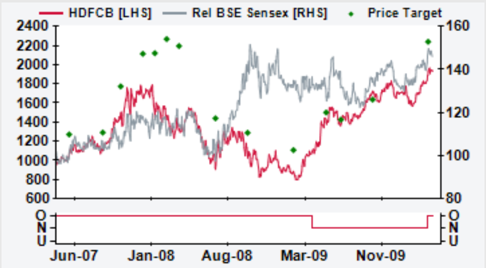
Price 7 Apr 10 Rs1,934.15

12-month target	**Rs**	**2,240.00**
Upside/Downside	**%**	**15.8**
Valuation	**Rs**	**2,240.00**
- Gordon growth		
GICS sector		**Banks**
Market cap	**Rsm**	**885,260**
30-day avg turnover	**US$m**	**3.1**
Market cap	**US$m**	**19,893**
Number shares on issue	**m**	**457.7**

Investment fundamentals

Year end 31 Mar		2009A	2010E	2011E	2012E
Net interest Inc	bn	74.2	82.9	106.6	130.5
Non interest Inc	bn	32.9	38.1	43.2	51.1
Underlying profit	bn	51.8	63.8	80.4	96.9
PBT	bn	33.0	42.2	56.2	70.9
PBT growth	%	44.7	28.0	33.0	26.2
Adjusted profit	bn	22.4	29.4	38.2	48.9
EPS adj	Rs	52.78	65.00	84.59	108.31
EPS adj growth	%	17.6	23.2	30.1	28.0
PER rep	x	36.6	29.8	22.9	17.9
PER adj	x	36.6	29.8	22.9	17.9
Total DPS	Rs	10.00	11.50	13.00	13.50
Total div yield	%	0.5	0.6	0.7	0.7
ROA	%	1.4	1.5	1.6	1.8
ROE	%	16.9	16.1	16.6	18.3
Equity to assets	x	8.2	9.9	9.7	9.6
P/BV	x	5.5	4.1	3.6	3.0

HDFCB IN rel BSE Sensex performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2010

(all figures in INR unless noted)

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8 April 2010

HDFC Bank

Takeaways from meeting with head of retail assets business

Event

- We met with the head of the retail assets business at HDFC Bank, Mr Pralay Mondal.

Impact

- Growth has come mainly due to a significant focus on cross-selling products to internal customers (mostly customers who have liability-based products). Incrementally internal customers form 30–40% of total auto loan disbursements, up from single digits three years ago. In the case of credit cards, internal customers form 70–80% of disbursements.
- Focus has also been to source more from branches, which we believe ensures good asset quality in the long run. From a mere 7% only three years ago, branches now contribute roughly 30% to the overall loan book.
- Dependence on DSA (direct selling agents) is less, which ensures better asset quality. Twenty percent of business comes from DSAs for auto loans, 35% from personal loans and 15% from credit cards.
- LTVs have come down in the auto loans business, and sales due to financing have come down from 80–85% a year ago to 60–65% currently, indicating customers are now putting in more equity to buy cars and affordability has gone up.
- The commercial vehicles segment has shown good traction so far, and loss rates continue to remain low in this business.
- **Competition.** Most banks are not even thinking of re-entering the unsecured business, and as such, HDFC Bank is one of the few banks continuing to witness some traction on this part of the loan book. So far they haven't felt any impact of some old players trying to re-enter the auto loans market. They continue to enjoy very strong relationships with the dealer/manufacturer network.
- **NIMs may decrease but overall RoA should be maintained.** The bank's decision to focus more on secured assets and a gradual rundown of high-yielding CBoP's personal and SME loan portfolio is likely to exert pressure on margins. However, on a risk-adjusted basis, profitability is likely to be kept at similar levels, and the bank will strive to maintain its RoA at 1.4–1.5% levels.
- **Asset quality:** Loss rates currently are well in line with budgeted estimates. There were some issues in credit cards, where loss rates were higher than those budgeted. However, there currently aren't any issues on this portfolio.
- **CBoP synergy benefits yet to be fully realized**: There are branches of CBoP that are yet to operate at the efficiency and productivity levels of HDFC Bank's branches. Further cost efficiencies and growth could come from better utilization of these branches.

Earnings and target price revision

- No change.

Price catalyst

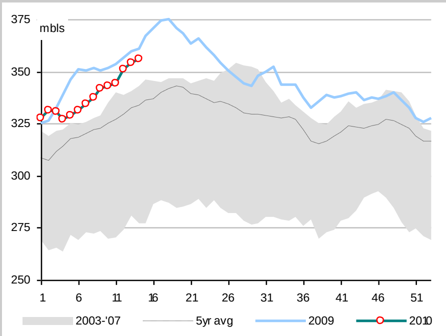
- 12-month price target: Rs2,240.00 based on a Gordon growth methodology.
- Catalyst: Continued outperformance on loan growth, margins and asset quality.

Action and recommendation

- We maintain an Outperform rating on HDFC Bank with a TP of Rs2240. HDFC Bank is one of our top picks in the sector.

GLOBAL

US crude oil inventory building higher



Source: EIA, Macquarie Research, April 2010

Key inventory data points

	Wk ends 2-Apr	chg. wk/wk	chg YoY	%chg 5yr avg
(mbls)				
Crude oil	356.2	**+2.0**	-4.9	7%
Gasoline	222.4	**-2.5**	+4.9	4%
Mid-distillates	145.7	**+1.1**	+4.9	23%
Total products	693.4	**+5.2**	+0.0	5%

Source: EIA, Macquarie Research, April 2010

Key demand data points

	Latest 4wk avg	**% chg YoY**	Latest one wk	chg wk/wk
(mb/d)				
Oil Demand	19.02	**0.9%**	18.91	-0.11
Gasoline	9.02	**-0.4%**	9.08	0.02
Mid-distillates	5.10	**-4.6%**	5.01	-0.16
Fuel oil	0.55	**-0.5%**	0.54	0.05
Oth. products	4.35	**11.5%**	4.28	-0.01

Source: EIA, Macquarie Research, April 2010

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7 April 2010

Weekly US oil data ...

Near-term fundamentals are weak

US crude oil inventories, including those at Cushing, OK, are rising, as are imports, indicating that short-term physical oil markets are still weak. Crude oil benchmarks are setting new highs for reasons that have nothing to do with near-term fundamentals. These other factors are moving crude oil prices to 18-month highs. Broader optimism is being driven by improving macro economic indicators, particularly in the United States, and this sentiment is being reflected across global equity markets. Renewed commodity index and other investor inflows into the market are also lending a hand to the crude oil rally.

The US fundamentals data show that refinery runs are too high, and imports already are elevated for these current run levels, let alone where these levels should be. Crude oil inventory builds were still very large and oil demand is falling. The result was felt downstream with an unseasonally large build in total oil products. All in all, there is no bullish turn of US oil fundamentals visible in the numbers yet.

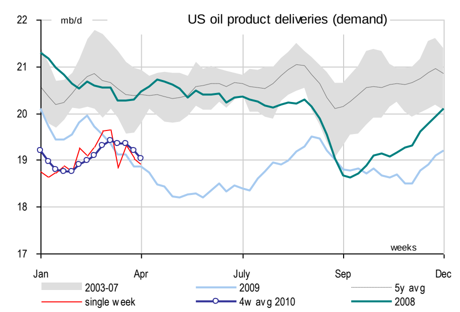
Top three numbers in this morning's weekly US oil data

- Crude oil imports spiked by 501,000 barrels per day, completely erasing last week's correction in inflows. Their 4-wk MA is above 9.1mb/d, a 6-month high. Last week stocks built 2.0mbs, mostly on the Gulf Coast, Midwest, and at Cushing.
- Middle distillate production growth was very high, helped by higher refiner output, which contributed to a downstream inventory build that began a week earlier.
- The mini demand growth rally took a bit of a pause. Decline rates for nearly all product categories accelerated, the exception being little change in gasoline.

The window for a brief downturn in prices still open, a little

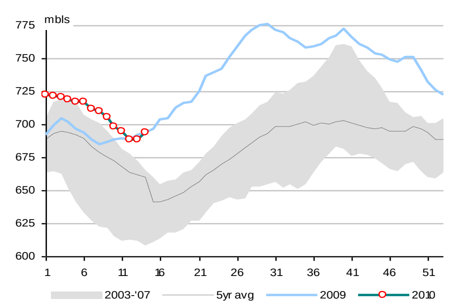
Crude has risen sharply and is due for a correction downward, likely during April as weakness in physical markets presides. Expect global refiner demand for crude oil to pick up again in May as supply tails off seasonally, which should tighten crude markets materially.

Weekly oil demand falls sharply



Source: EIA, Macquarie Research, April 2010

Oil product inventory is building



Source: EIA, Macquarie Research, April 2010

Please refer to the important disclosures and analyst certification on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

GLOBAL

Commodities			
Crude Oil	**Current**	**Chg.**	**% Chg.**
WTI-Near month (US$/Bbl)	$86.33	($0.51)	(0.6%)
12 month (US$/Bbl)	$88.46	($0.20)	(0.2%)
WTI-Lloyd Diff (US$/Bbl)	$21.35		
Exchange (US$/C$)	$0.9998		
Brent (US$/Bbl)	$85.94	($0.21)	(0.2%)
Dubai (US$/Bbl)	$82.77	+$0.23	+0.3%
Natural Gas			
NYMEX-1m (US$/mmbtu)	$4.11	+$0.01	+0.3%
12 month (US$/mmbtu)	$4.85	+$0.01	+0.3%
US Rockies (US$/mmbtu)	$3.94	+$0.16	+4.2%
AECO - Spot (C$/Gj)	$3.70	+$0.08	+2.2%
AECO - Fwd Gas Year (C$/Gj)	$4.63	($0.14)	(2.9%)
UK - NBP spot (US$/mmbtu)	$5.15	+$0.23	+4.6%
UK - NBP spot (p/therm)	34.00p	1.50p	+4.6%
UK - NBP 1m (p/therm)	31.00p	0.00p	-

Energy Market Indices			
North America	**Current**	**Chg.**	**% Chg.**
S&P/TSX Oil & Gas Index	3,027	(16.3)	(0.5%)
S&P/TSX Oil & Gas Producers	3,261	(24.5)	(0.7%)
S&P/TSX Oil & Gas Integrateds	3,257	(17.3)	(0.5%)
S&P/TSX Oil & Gas Services	1,661	+2.5	+0.1%
S&P/TSX Energy Index	2,881	(15.1)	(0.5%)
OSX	217	+0.9	+0.4%
International			
Europe BE500 Energy Index	108	(0.8)	(0.7%)
UK FTSE 350 O&G Index	8,683	(2.5)	(0.0%)
UK FTSE O&G Producers	8,746	+161.9	+1.9%
Asia Pacific O&G Producers	513	+2.4	+0.5%
Australia S&P/ASX300 Energy	17,185	(24.3)	(0.1%)
Hang Seng Energy Index	13,326	+461.2	+3.6%

Previous Day's Most Active			
Region / Ticker	**Price**	**Up/Dn**	**Vol (m)**
United States			
SD US	$7.81	▲ 3%	31.3
XOM US	$67.90	▼ (0%)	19.8
EP US	$11.66	▲ 2%	10.8
Canada			
SU CN	$35.17	▼ (0%)	9.7
CLL CN	$1.76	▲ 3%	9.3
TLM CN	$17.83	▼ (2%)	4.8
Europe			
BP/ LN	643.70	▼ (0%)	9.1
MTA LN	5.58	▲ 5%	6.9
DES LN	44.00	▼ (7%)	6.6
Southeast Asia + Australia			
ENRG IJ	156.00	▼ (5%)	597.2
386 HK	6.56	▼ (0%)	208.1
883 HK	13.92	▲ 6%	170.5

Source: Bloomberg, Macquarie Research, March, 2010

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7 April 2010

Macquarie Oil and Gas 360

United States Edition – 7 April 2010

Roughneck Chronicle, HAWK US, FTI US, FEL CN, NXY CN, CVU.A CN, TT CN, RYD CN, AUL LN, HOIL LN, AKSO NO, DGO LN, PELE LN, CTX AU , Asian oil & petrochemicals

Commodities

Crude oil

- **WTI:** Closed at US$86.84/b (+$0.22) / overnight: US$86.33/b (-$0.51).
- **Brent:** Closed at US$86.15/b (+$2.14) / overnight: US$85.94/b (-$0.21).
- **Dubai:** Closed at US$82.54/b (+$1.02) / overnight: US$82.77/b (+$0.23).
  - ⇒ Crude Oil closed the day slightly higher, trading in a fairly narrow range. Positive economic news continues to drive price action.
  - ⇒ **Weekly API Oil Inventory Actual:** Crude +1.07mmb; Gasoline -2.96mmb; Distillates +0.72mmb; Refinery runs +3% to 85%.
  - ⇒ **Weekly DOE Oil Inventory Consensus Estimates:** Crude +1.35mmb expected; Gasoline -1.00mmb; Distillate -1.125mmb; Refinery utilization +0.5%.

Natural Gas

- **NYMEX:** Closed at US$4.10/mmBtu (-$0.18) / overnight: US$4.11/mmBtu (+$0.01).
- **AECO:** Closed at C$3.70/GJ (+$0.08); US$3.90/mmBtu, HH - AECO: +US$0.26/mmBtu.
- **UK NBP:** 34.00p/therm (+1.50p) or US$5.15/mmBtu.
  - ⇒ Nat Gas retreated today as traders speculated that the increasing levels of both inventories and production be more than sufficient to meet demand.

Currency

- **US/C$:** Closed at US/C$0.9984 (+0.0006) / overnight: US/C$0.9998 (+0.0014).
- **US/Euro:** Closed at US/€1.3399 (-0.0085) / overnight: US/€1.3355 (-0.0044).
- **US/Pound:** Closed at US/£1.5267 (-0.0029) / overnight: US/£1.5150 (-0.0117).
- **Yen/US:** Closed at ¥/US$ 93.79 (-0.58) / overnight: ¥/US$ 93.89 (+0.10).

Macquarie
Commodities Research

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The Global Commodities Specialist

GLOBAL

LME cash price

	US ¢/lb	% Change day on day
Aluminium	105.3	-0.5
Copper	359.0	-0.6
Lead	102.6	-0.4
Nickel	1119.4	-0.5
Tin	839.4	0.9
Zinc	107.3	-2.0

Other prices

		% Change day on day
Gold ($/oz)	1142.00	0.8
Silver ($/oz)	17.97	0.3
Platinum ($/oz)	1710.00	0.6
Palladium ($/oz)	508.00	0.8
Oil WTI	86.11	-0.2
Cobalt (99.8%)	23.40	2.9
$US/€ exchange rate	1.34	-0.1
US$/A$ exchange rate	0.93	0.4

LME/COMEX stocks

	Tonnes	Change
LME Aluminium	4,590,825	2,400
LME Copper	510,650	-1,925
Comex Copper	91,742	0
Lead	175,600	-125
Nickel	156,012	-834
Tin	24,185	-70
Zinc	546,200	75

Source: LME, Comex, Nymex, SHFE, Metal Bulletin, Reuters, LBMA, Macquarie Research, April 2010

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8 April 2010

Commodities Comment

A strong March for commodity prices

- We review commodity price and inventory performance in March. Improving macroeconomic sentiment and continued demand strength underpinned price gains through the month, providing strong momentum as we move into Q2.

Latest news

- Base metals edged downwards on Wednesday, amid talk of profit-taking after recent price strength. Meanwhile, copper and nickel stock levels in LME warehouses fell again, down 0.4% and 0.5% respectively on the day.
- China's Nonferrous Industry Association (CNIA) has stated that the government is seeking to close all domestic aluminium smelters with capacity of less than 100,000tpa by 2011. Chinese primary aluminium producers operating on this scale have a combined capacity of ~1.4mtpa, equal to ~7% of the country's total capacity, according to CNIA. However, even if the government succeeds in implementing this policy, the scale of these closures will be more than offset by planned expansions elsewhere in China, which we estimate will add ~4.2mtpa to capacity in 2010 and ~1.4mtpa in 2011. In addition, expansions in other countries will add over 1mtpa to aluminium smelting capacity in both 2010 and 2011.
- Presenting to the CESCO / CRU Copper Conference in Chile, Rio Tinto has said that it expects the copper market to move from balance this year to deficit in 2011, as China draws down stocks to meet demand. Rio reported that its own copper mine production rose by ~15% YoY to ~805,000t copper-in-concentrate in 2009 (~5% of the world total) following expansion at its Kennecott Utah mine, but cautions that it will struggle to maintain output over the next three years due to declining ore grades. Similarly, Anglo American advanced the view that global copper supply will be constrained by limits on mine output in the coming years. We expect the copper market to record a small deficit (<100,000t) this year, moving into a more substantial shortfall of over 550,000t in 2011, and remain positive on copper prices on a 12-24 month view.
- Iron ore shipments from Port Hedland rebounded to 14.84mt in March, up 2.7% MoM on an annualised basis. However, shipments to China were slower at an annualised rate of 109.8mt in March, with annualised shipments in February (not accounting for Chinese New Year) at 113.8mt. Meanwhile, initial customs statistics suggest Brazilian iron ore exports were strong in March, up 5.4%MoM on an annualised basis. We believe this is due in a large part to the completion of shiploader repair work at Vale's Ponta de Madeira terminal in late February, which had been constraining throughput.
- The Cobalt Development Institute has released its 2009 global refined production estimate for the metal. At 59,851t, this represents a 5.3% rise YoY, aided by a 26.9% YoY rise in Chinese production. We estimate that cobalt supply will grow 8.7% in 2010, as a number of new projects come onstream.
- Further evidence of an OECD recovery in the steel sector has come from Salzgitter, which plans to restart its 0.65mtpa blast furnace C at its Flachstahl works in mid-2010, according to Steel Business Briefing, taking the plant back to full capacity. In addition, AMM reported that ArcelorMittal USA will restart the 1.4mtpa #4 blast furnace at its Indiana Harbour facility this week.

Market performance

INDIA

Derivatives (open interest)

(US$)	Last	% chg 1D	% chg YTD
Stock futures (06/04)	7635.2	0.6	-0.6
Index futures (06/04)	3726.8	-0.4	-13.1

Market turnover

	US$ m	% chg 1D
BSE turnover	1,240	5.1
NSE turnover	3,547	4.6

BSE (Top 5)

Top Gainers	Last price	% chg 1D
Grasim	2891.1	2.8
Tata Motors	795.4	2.7
ACC	976.5	2.6
Maruti	1402.9	1.9
Reliance Infrastructure	1108.5	1.9

BSE (Bottom 5)

DLF	331.6	0.9
Tata Power	1380.8	0.8
NTPC	211.5	0.8
Reliance	1129.7	0.6
BHEL	2535.1	0.6

Source: Bloomberg, Macquarie Research, April2010

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8 April 2010

Market performance

	Last	% chg 1D	% chg YTD
BSE Sensex	17,970	0.2	2.9
NSE NIFTY	5,375	0.2	3.3
CNX Mid-cap	7,958	0.4	7.1
S&P 500	1,189	0.2	6.7
NASDAQ	2,437	0.3	7.4
FTSE 100	5,758	-0.4	6.4
NIKKEI - 225	11,293	0.1	7.1

Source: Bloomberg, Macquarie Research, April 2010

Fixed income, currencies, commodities

	Last	% chg 1D	% chg YTD
10-year govt bond	7.8	-0.3	2.8
Interbank rate	3.5	16.7	4.5
US$1 = Rs	44.5	-0.2	4.4
Gold (US$/oz)	1135.4	0.1	3.5
Crude (US$/bbl)	85.2	-0.6	10.4

Source: Bloomberg, Macquarie Research, April 2010

ADR/GDR (US$)

	Last price	% chg 1D	Prem/Disc
Satyam	5.6	5.4	29.6
MTNL	3.5	3.6	1.7
Ranbaxy (GDR)	10.8	1.3	1.4
ICICI Bank	45.8	1.0	3.3
Satyam Infoway	1.8	0.6	NA
Cognizant Technologies	52.3	0.5	NA
SBI (GDR)	98.0	0.5	3.4
HDFC Bank	146.1	0.4	12.3
Reliance Industries (GDR)	51.3	0.2	1.1
Infosys	61.1	0.1	3.0
Tata Steel (GDR)	14.5	0.0	-5.8
Sterlite Industries	19.5	-0.5	-0.3
Dr Reddy	29.1	-1.0	1.1
Tata Motors	19.0	-1.9	6.4
Wipro	24.0	-2.4	49.6
Rediff.com	2.7	-4.7	NA

Source: Bloomberg, Macquarie Research, April 2010

Daily net flows (US$m)

	Date	Last	MTD	YTD
Foreign funds equity (Net)	05/04/2010	21.8	3807.6	4447.6
Indian Mutual funds equity (Net)	06/04/2010	-3.3	-61.6	-1371.7
FII Net stock futures	06/04/2010	15.9	-62.2	2293.0
FII Net index futures	06/04/2010	15.9	55.7	-177.3

Source: Bloomberg, Macquarie Research, April 2010

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Australian/NZ/Canada stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 March 2010

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)
Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)
Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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George Platt (Australia)	(612) 8232 6539
Patrick Hansen (Japan)	(813) 3512 7876

Strategy/Country

Michael Kurtz (Asia)	(8621) 2412 9002
Daniel McCormack (Asia)	(852) 3922 4073
Mark Matthews (Asia)	(852) 3922 3585
Jal Irani (India)	(9122) 6653 3040
Ferry Wong (Indonesia)	(6221) 515 7335
David Gibson (Japan)	(813) 3512 7880
Peter Eadon-Clarke (Japan)	(813) 3512 7850
Chan Hwang (Korea)	(822) 3705 8643
Prem Jearajasingam (Malaysia)	(603) 2059 8989
Edward Ong (Malaysia)	(603) 2059 8982
Alex Pomento (Philippines)	(632) 857 0899
Tuck Yin Soong (ASEAN, Singapore)	(65) 6231 2838
Daniel Chang (Taiwan)	(8862) 2734 7516
Alastair Macdonald (Thailand)	(662) 694 7741

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Sales

Regional Heads of Sales

Chris Gray (ASEAN)	(65) 6231 2888
Justin Crawford (Asia)	(852) 3922 2065
Peter Slater (Boston)	(1 617) 598 2502
Jeffrey Shiu (China & Hong Kong)	(852) 3922 2061
Thomas Renz (Geneva)	(41) 22 818 7712
Andrew Mouat (India)	(9122) 6653 3200
Stanley Dunda (Indonesia)	(6221) 515 1555
Kenneth Yap (Indonesia)	(6221) 515 1555
JJ Kim (Korea)	(822) 3705 8799
Jason Lee (Malaysia)	(603) 2059 8888
Gino C Rojas (Philippines)	(632) 857 0761
Greg Norton-Kidd (New York)	(1 212) 231 2527
Luke Sullivan (New York)	(1 212) 231 2507
Scot Mackie (New York)	(1 212) 231 2848

Regional Heads of Sales cont'd

Sheila Schroeder (San Francisco)	(1 415) 835 1235
Angus Kent (Thailand)	(662) 694 7601
Michael Newman (Tokyo)	(813) 3512 7920
Charles Nelson (UK/Europe)	(44) 20 3037 4832
Rob Fabbro (UK/Europe)	(44) 20 3037 4865
Nick Ainsworth (Generalist)	(852) 3922 2010

Sales Trading

Adam Zaki (Asia)	(852) 3922 2002
Mike Keen (Europe)	(44) 20 3037 4905
Yat Quan Tan (Hong Kong)	(852) 3922 2028
Stanley Dunda (Indonesia)	(6221) 515 1555
Mario Argyrides (Korea)	(822) 3705 8610
Edward Robinson (London)	(44) 20 3037 4902

Sales Trading cont'd

Chris Reale (New York)	(1 212) 231 2616
Michael Santos (Philippines)	(632) 857 0813
Matthew Ryan (Singapore)	(65) 6231 2888
Isaac Huang (Taiwan)	(8862) 2734 7582
Dominic Shore (Thailand)	(662) 694 7707
Phil Sellaroli (Tokyo)	(813) 3512 7837

Alternative Strategies

Convertibles - Roland Sharman	(852) 3922 2095
Depository Receipts - Robert Ansell	(852)3922 2094
Derivatives - Wayne Edelist	(852) 3922 2134
Futures - Tim Smith	(852) 3922 2113
Structured Products - Andrew Terlich	(852) 3922 2013