

FX Risks: Deleveraging < Delhi < Dollar

12th Research Meeting of NIPFP-DEA Research Program

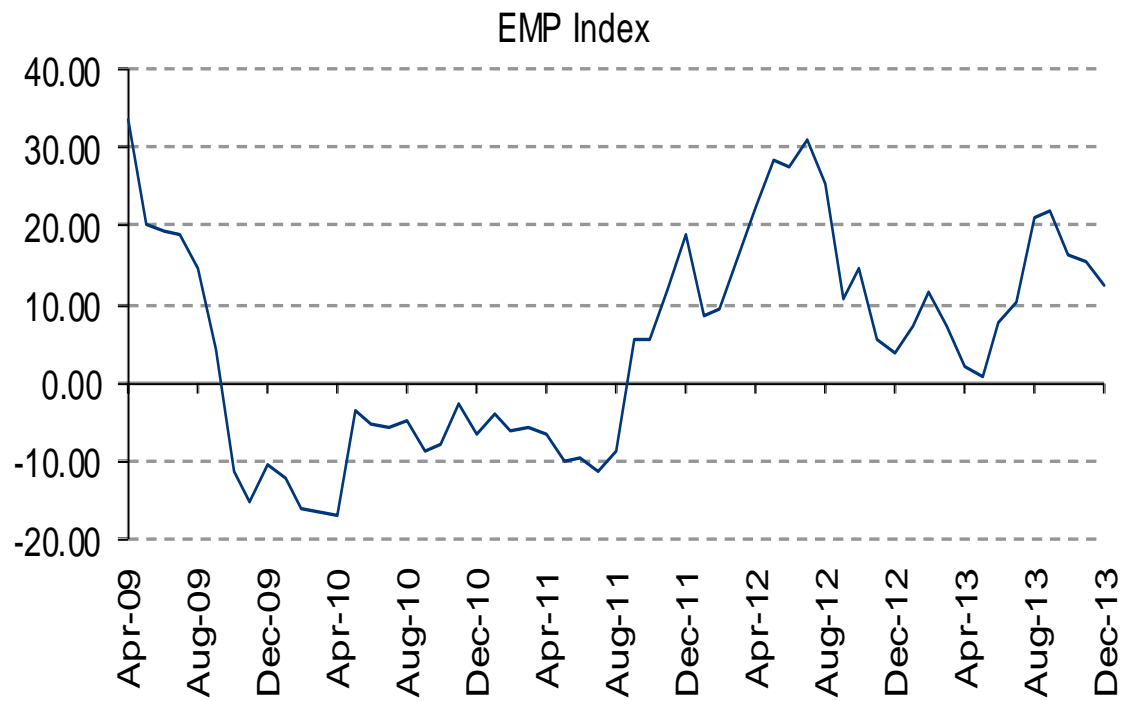
13 March 2014

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Overview of the talk

- **Highlight the FX risks**
- **Show deleveraging not a thorn in the INR**
- **Delhi doesn't matter much for the INR**
- **Fortunes of INR linked to the Dollar**

Rupee pressures rising...



Source: BofA Merrill Lynch Global Research estimates

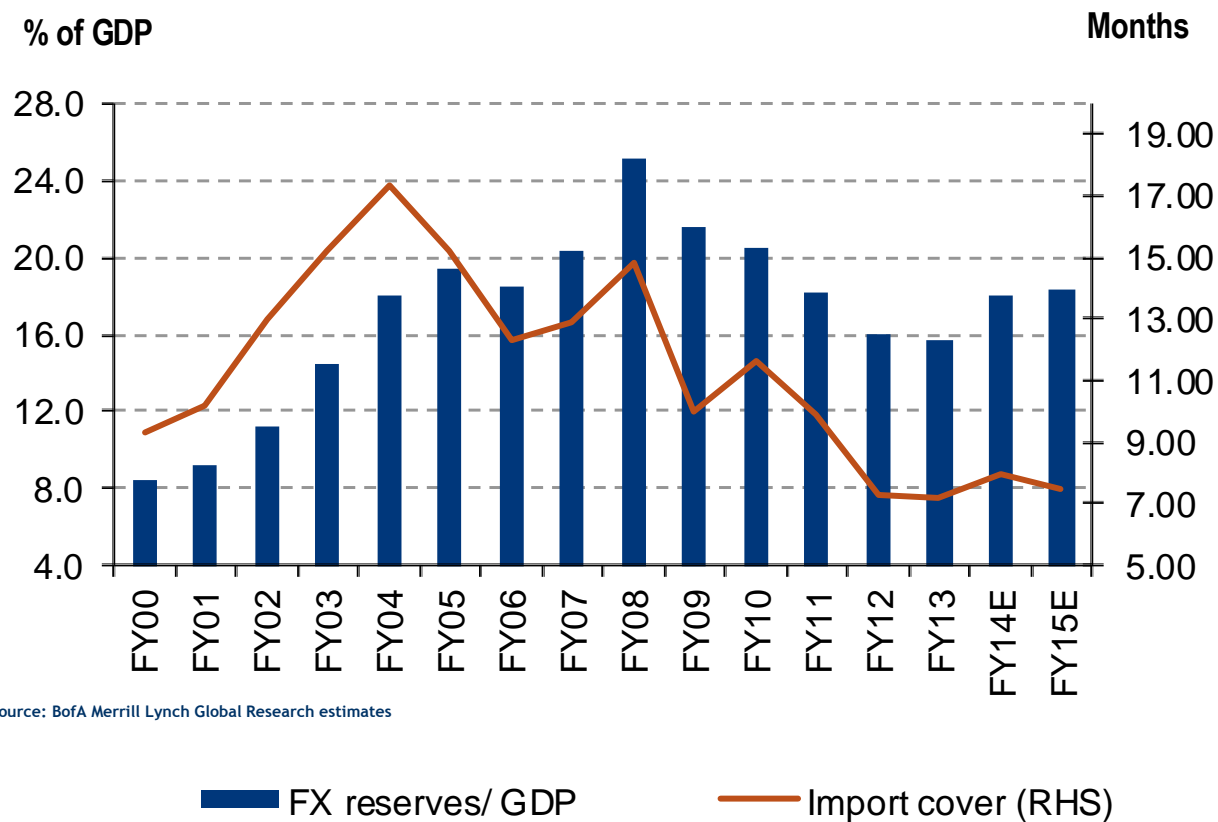
Current situation still worse than pre-crisis

... as India's BoP indicators lag BRICs

	FX reserves (as % of GDP)			Import cover			FX reserves/ Short-term EXD		
	Pre-Crisis (2007)	Crisis (2009)	Current (2013)	Pre-Crisis (2007)	Crisis (2009)	Current (2013)	Pre-Crisis (2007)	Crisis (2009)	Current (2013)
Brazil	13.2	14.7	16.2	17.9	22.4	17.9	2.9	2.9	3.1
Russia	36.7	35.9	27.3	25.7	27.5	17.6	5.1	6.4	6.5
India	24.9	20.3	18.1	14.8	11.6	8	4.1	3.1	2.3
China	43.7	48.1	39.7	19.2	28.6	22.6	12.5	15.4	6.3
Turkey	11.4	11.5	12.2	5.2	6	4.8	1.2	1.3	1.1
Indonesia	13.2	12.2	11.1	8	8.9	6.8	1.9	2.1	1.8
Mexico	7.5	10.1	13.9	3.3	4.6	5.4	2.3	2.5	3.2

Source: BofA-ML Global Research Estimates, Bloomberg, IMF

Import cover below 10 months key to INR stability



INR has recovered some lost ground

... from underdog to relative value...

	Since Sep'11	Since May'13	Since Dec'13
Brazil	-48.7	-15.3	-1.4
Russia	-26.7	-16.7	-11.1
India	-32.2	-9.9	1.9
China	3.7	-0.1	-1.1
Turkey	-30.7	-21.4	-9.4
Indonesia	-33.6	-16.7	6.3
Mexico	-7.5	-7.2	-1.9

Note: As on 11th March 2014

Source: BofA-ML Global Research Estimates, Bloomberg

India has benefitted from strong equity inflows...

India got 31.5% of equity flows to BRICs + TIMs since 2009

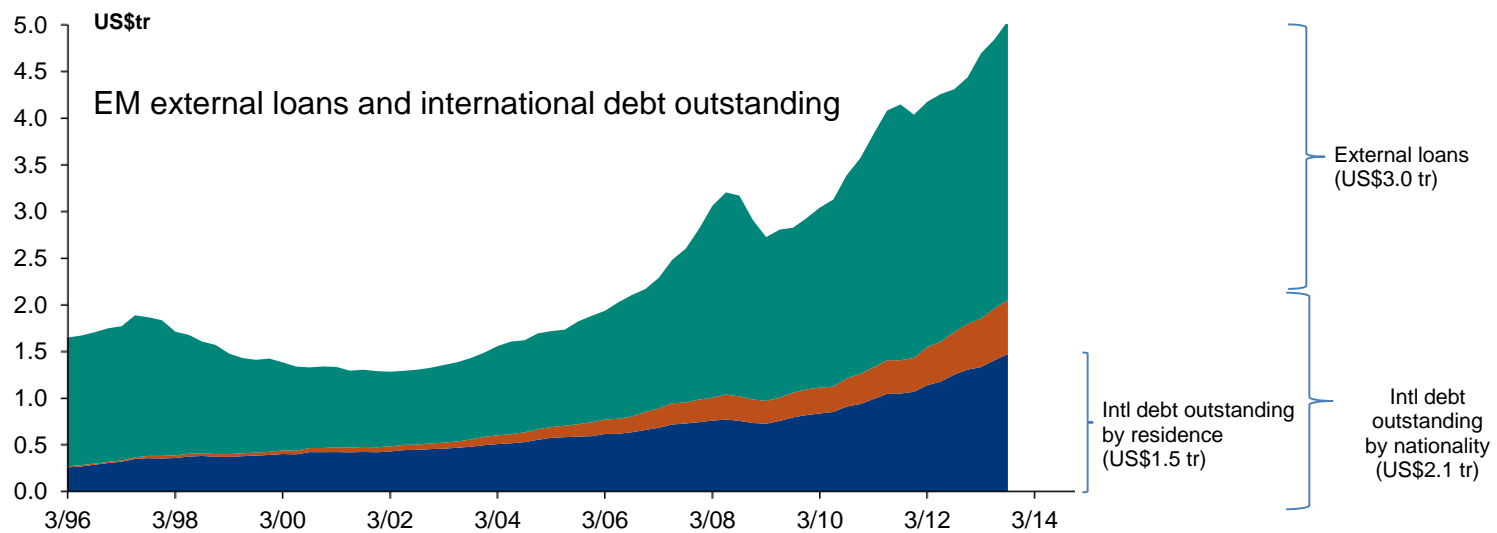
	Equity portfolio inflows		Bond portfolio inflows		Foreign bond holdings		International reserves		FX daily turnover	Foreign bond holdings/ FX turnover
	USD bn	% /GDP	USD bn	% /GDP	USD bn	% of total	USD bn	% /GDP	USD bn	Ratio
BRICs										
Brazil	94.142	4.2	88.9	3.9	137	17.2	376	16.7	2	61.7
Russia	-10.47	-0.5	41	2	8.5	7	464.2	23	7.5	1.1
India	82	4	20	1	8.7	1	281	15	5	2
China	77	1	38	0	16.5	1	3663	44	25	1
TIMs										
Turkey	9.3	1.2	84.5	10.7	61.5	30	112	14.2	11	4
Indonesia	7	1	20	2	27.9	32	97	11	2	19
Mexico	1.64	0.1	66	5.6	84.6	56.1	174	14.8	10	6.5

Source: BofA Merrill Lynch Global Research estimates

- **International debt outstanding by residence**
- **International debt outstanding by nationality**
- **Since 2008 the gap has widened**
 - **International debt outstanding by residence fell, by nationality increased**
- **The gap explained by debt raised by foreign subsidiaries for acquisitions**
- **Is India Inc. in a position to repay/ rollover this debt?**

QE led to an increase in EM debt

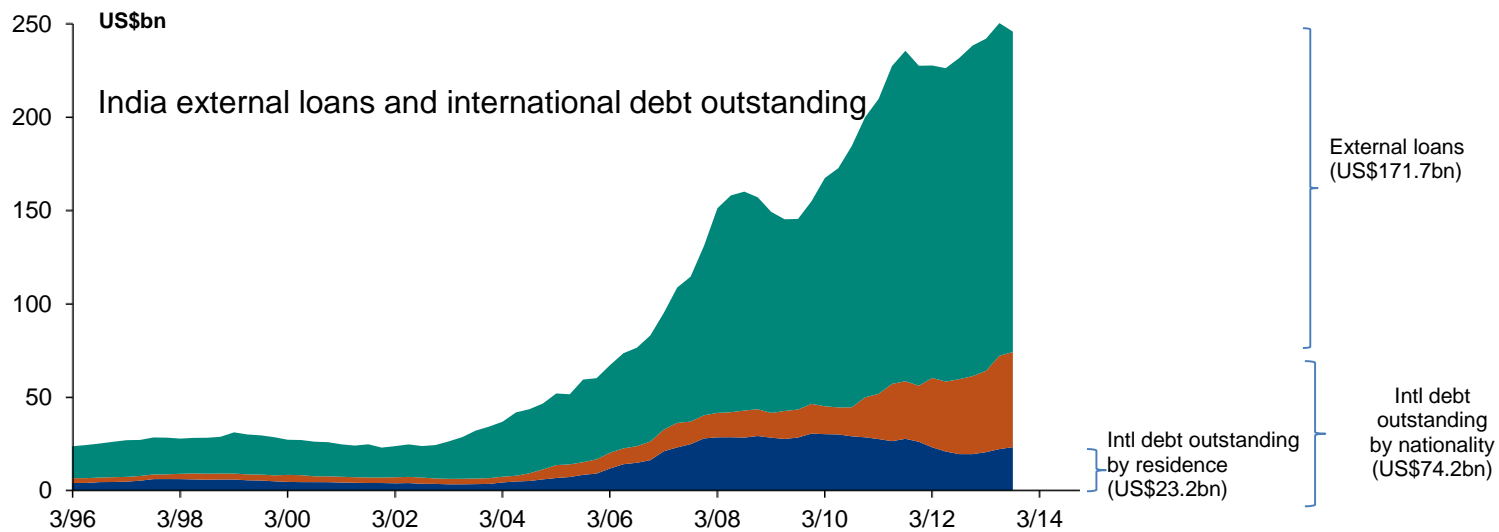
EM debt has risen after QE...



Source: BofA Merrill Lynch Global Research estimates

India also benefitted from QE flows

... as has India's



Source: BofA Merrill Lynch Global Research estimates

- **No. Indian debt is backed by assets**

Foreign subsidiaries raised money for acquisitions...

Subsidiary Name	Loans	Bonds	Total	% of all subsidiary issuance
Bharti	13845	4377	18222	30.1
Vedanta	3847	9523	13370	22.1
Reliance	820	6000	6820	11.3
Tata	2602	363	2965	4.9
Essar	1611	550	2161	3.6
Total	22725	20813	43538	71.8

Source: BofA Merrill Lynch Global Research estimates

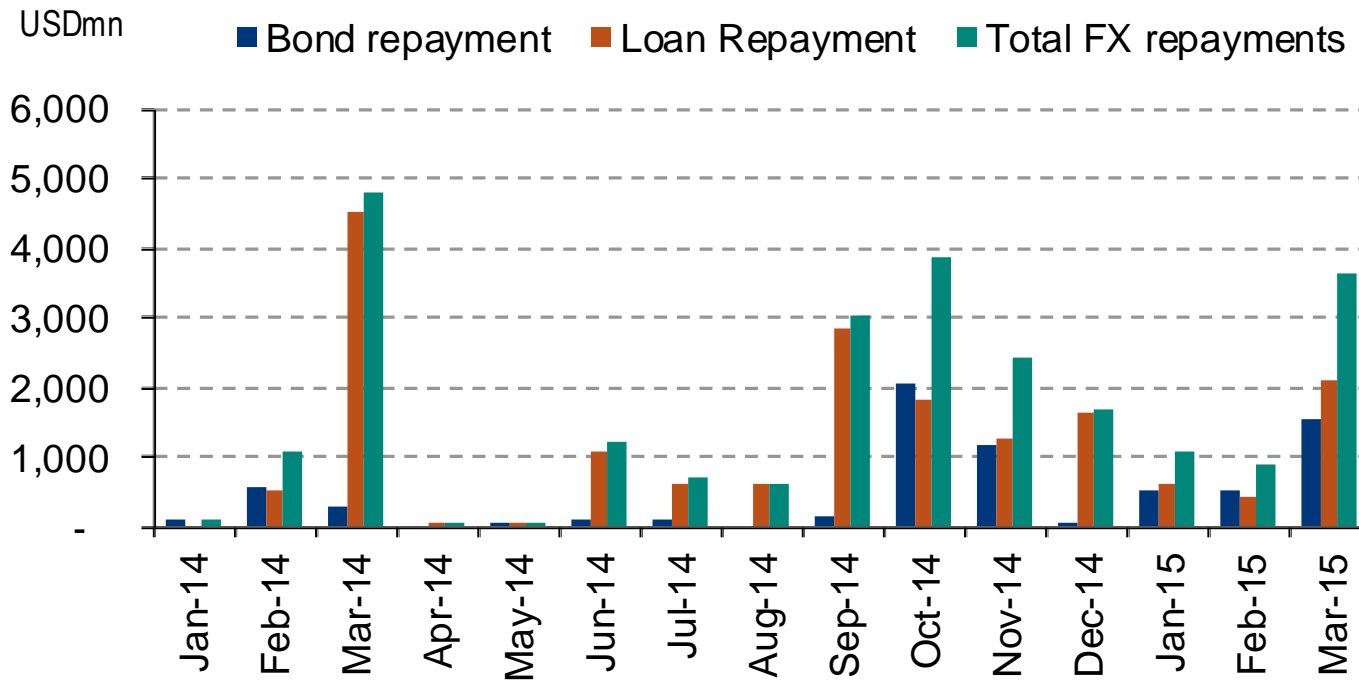
FX repayments spread out.

... their repayment schedule is spread out

Maturity Profile	Loans (US\$m)	Bonds (US\$m)	Total (US\$m)
FY15	3341.3	29.0	3370.2
FY16	7529.6	972.6	8502.2
FY17	14206.9	2842.3	17049.2
FY18	1902.8	647.0	2549.8
FY19	6561.0	6050.1	12611.1
FY20	1381.1	0.0	1381.1
Post FY20	2112.6	13043.1	15155.7
Total	37035.2	23584.0	60619.2

Source: BofA Merrill Lynch Global Research estimates

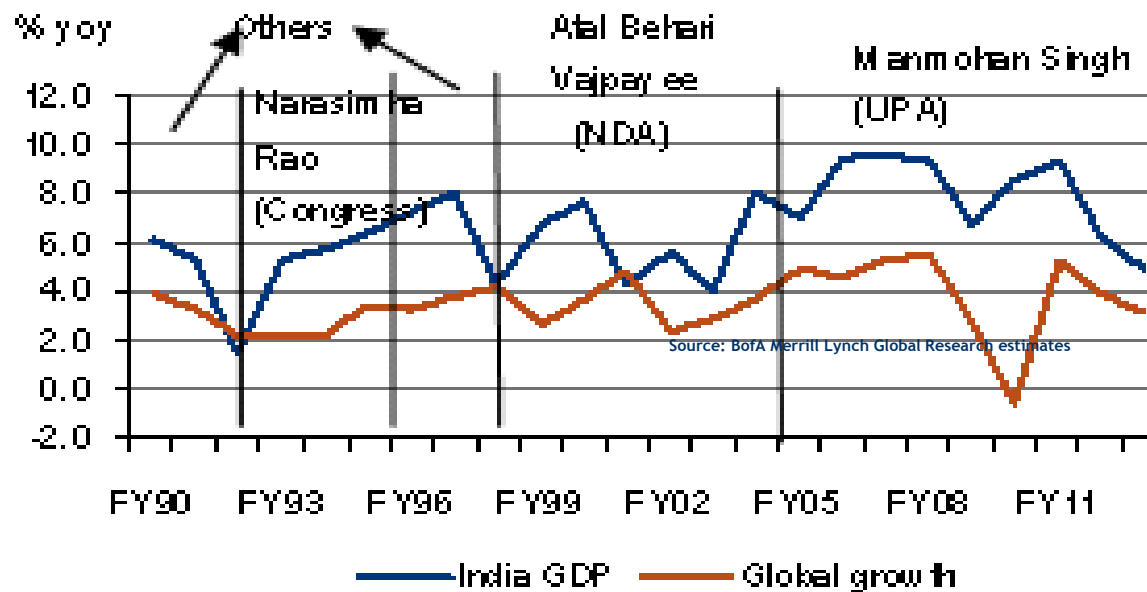
FX repayment schedule reasonably spread out



- **Do markets favor one government over the other?**
- **Would elections in April-May decide the fortune of the INR?**

Does politics matter for the economy?

Growth across political regimes...



Does politics matter for the economy?

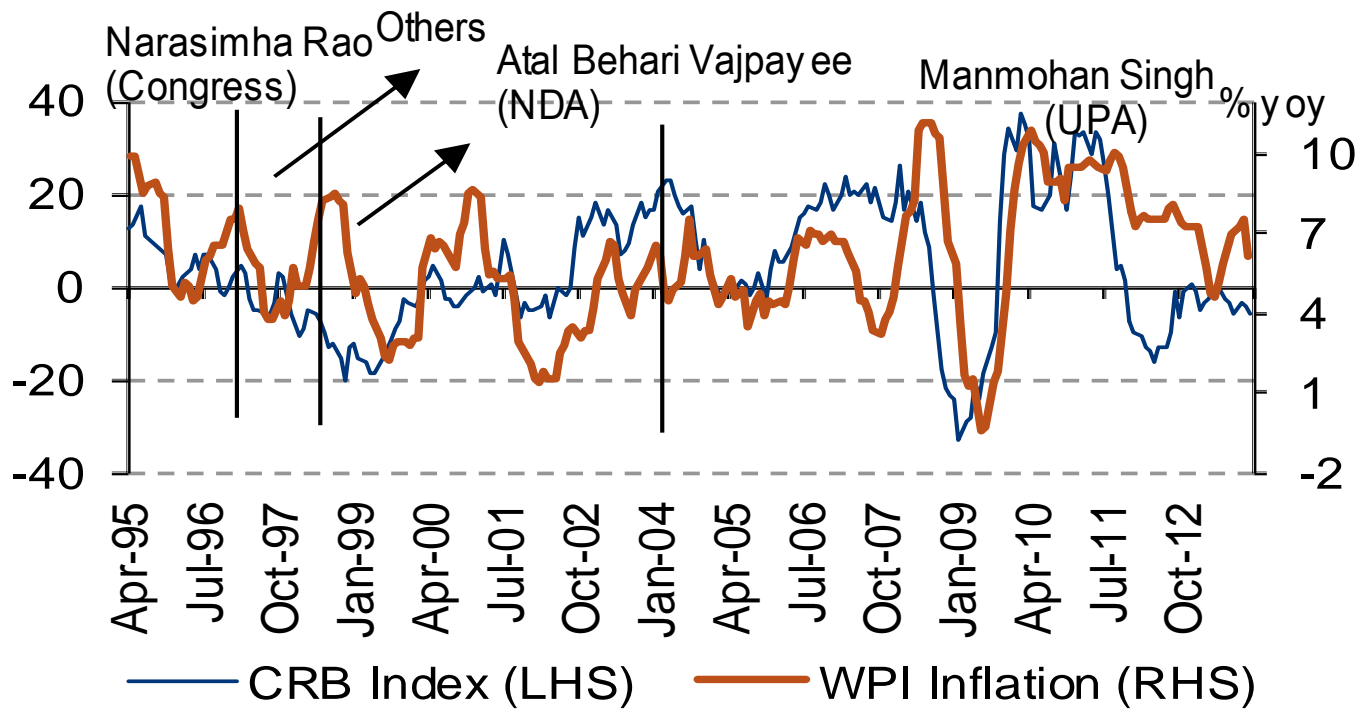
...moves in line with global growth

	2004-08 (UPA I)	2009-2012 (UPA II)
BRICs:		
Brazil	4.8	2.6
Russia	7	1.2
India	8.4	6.7
China	11.6	8.9
TIMs:		
Turkey	6	3.8
Indonesia	5.7	5.8
Mexico	3.4	1.92

Source: BofA Merrill Lynch Global Research estimates

Does politics matter for the economy?

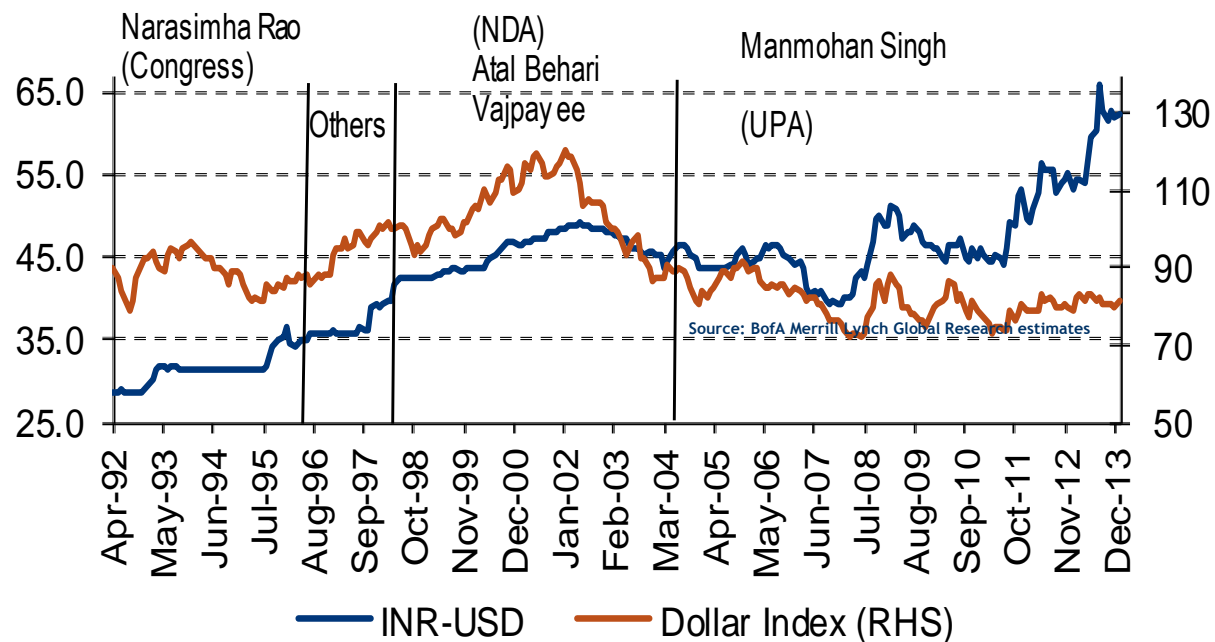
Inflation tracks global commodity cycle



Source: BofA Merrill Lynch Global Research estimates

Does politics matter for the economy?

Rupee has seen 2-way movement in all regimes



Polls impact BSE Sensex far more than INR

General Elections	Polling period impact		Announcement impact	
	Δ in BSE Index	Δ in INR-USD	Δ in BSE Index	Δ in INR-USD
2004 (20Apr04-13May 04)	-1300	1.6	-853.2	0.15
(percent change)	(-22.4%)	(3.6%)	(-15.9%)	(0.33%)
2009 (16Apr09-16May 09)	3336.8	-1.8	2110.8	-1.5
(percent change)	(30.5%)	(-3.7%)	(15%)	(-3.1%)

Note: Positive change in INR-USD implies a depreciation

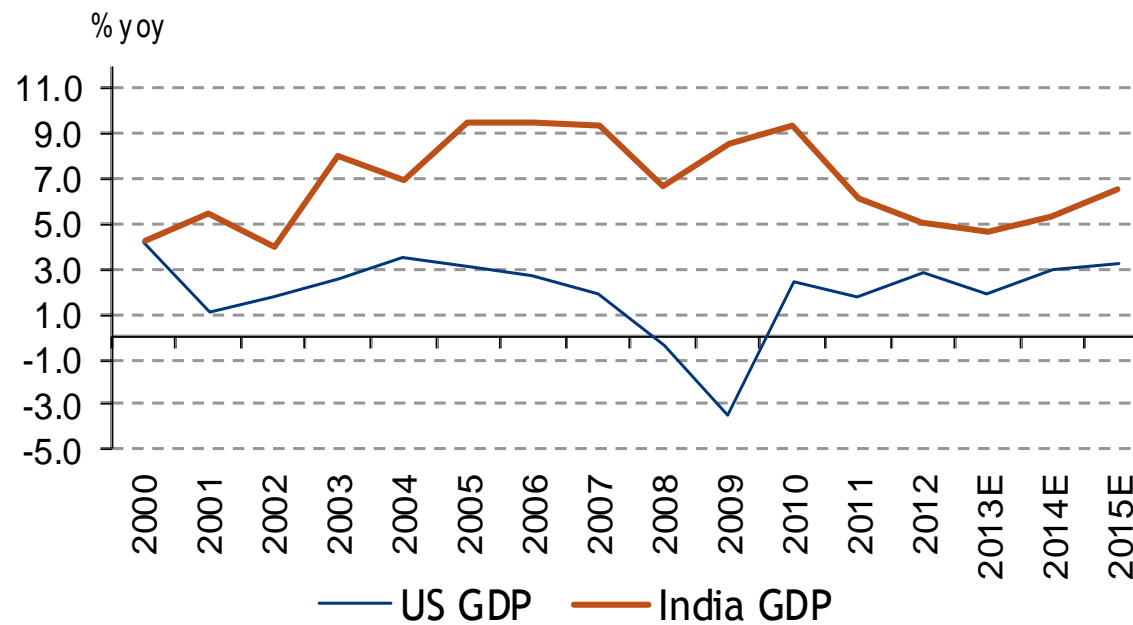
Source: BofA Merrill Lynch Global Research estimates

So what matters for the INR over the short run?

- **If US sneezes, India catches a cold**

US recovery positive after tapering jitters

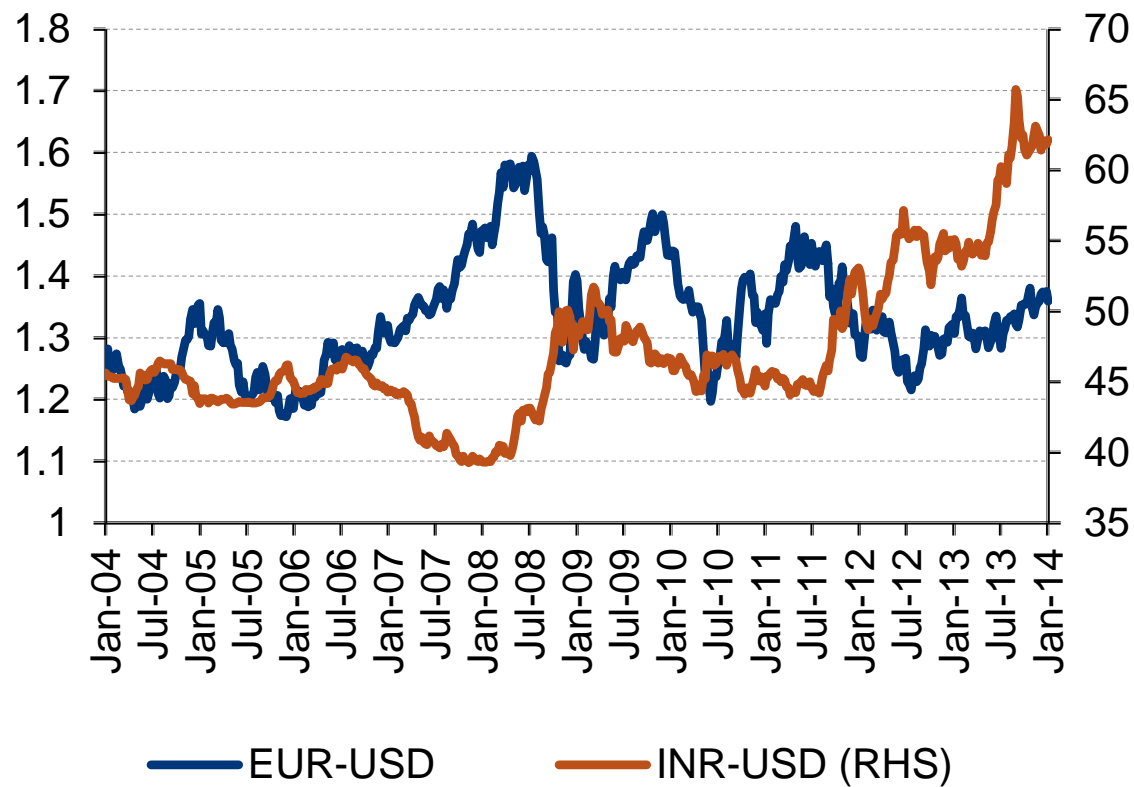
A rising tide lifts all boats...



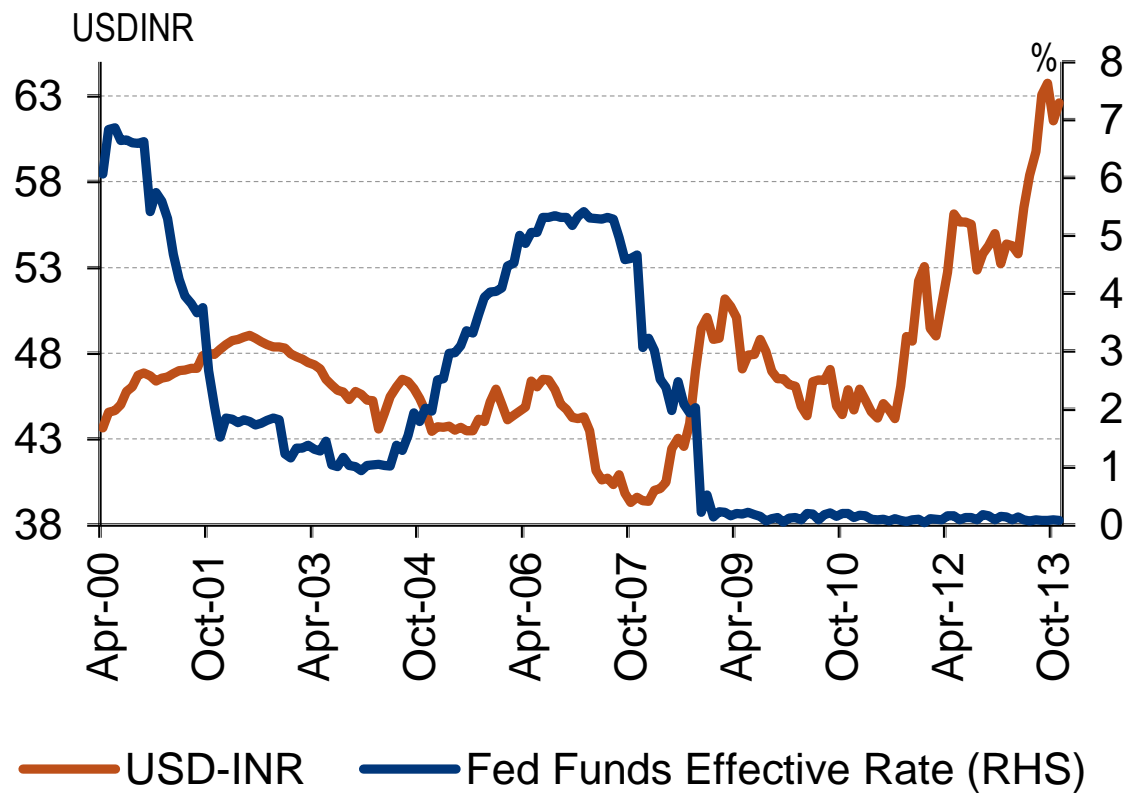
Source: BofA Merrill Lynch Global Research estimates, Bloomberg

If USD BAMLe forecast of 1.25/€ materialises?

Stronger USD, weaker INR

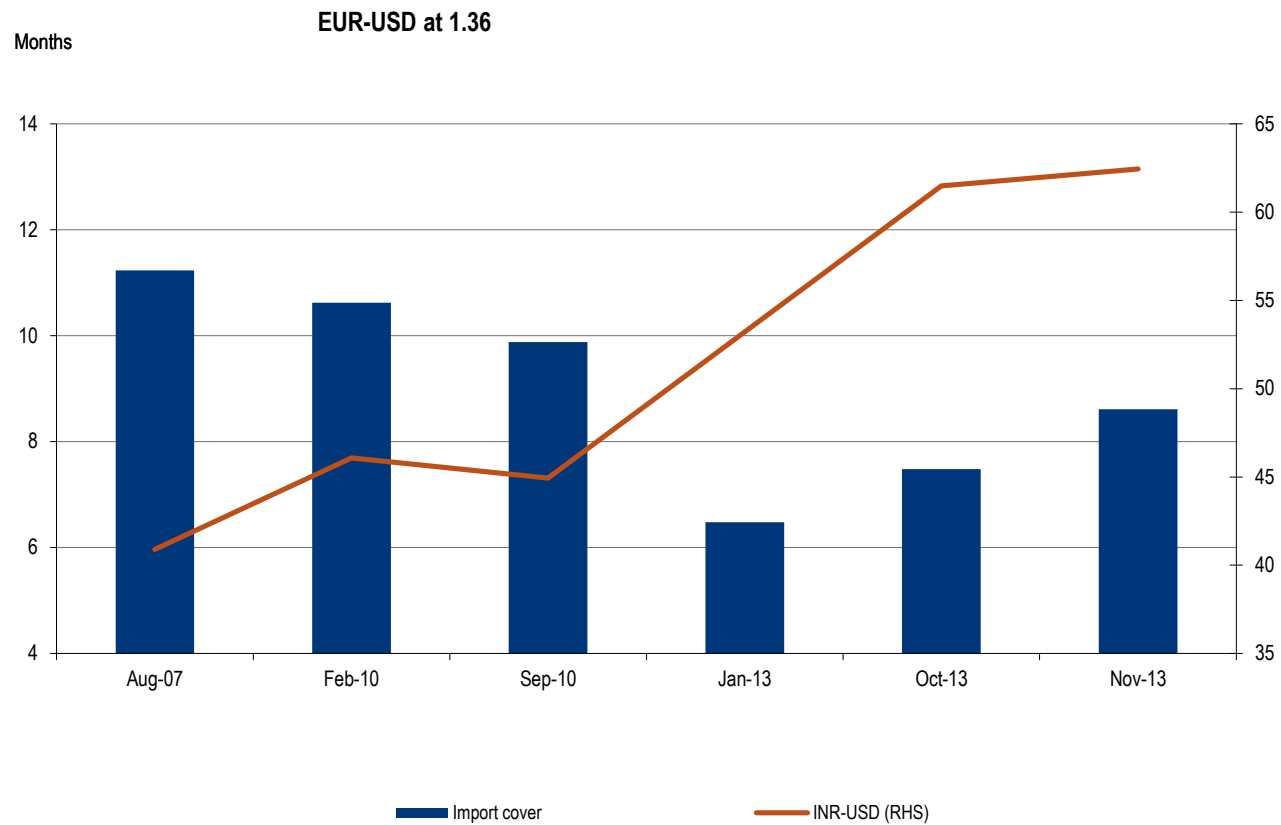


INR appreciates when Fed hikes rates



Decline in import cover → Weaker INR

Stronger USD, weaker INR



Thank You!



India has benefitted from strong equity inflows...

India got 31.5% of equity flows to BRICs + TIMs since 2009

	Equity portfolio inflows		Bond portfolio inflows		Foreign bond holdings		International reserves		FX daily turnover	Foreign bond holdings/ FX turnover
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Note: Portfolio inflows are aggregates from July 2009 to Oct 2013. Foreign bond holdings are as of October 2013. International reserves are foreign exchange reserves as of October 2012. FX daily turnover data refer to spot transactions except for Brazil, which uses futures transactions.

Source: BofA Merrill Lynch Global Research, Haver Analytics, IMF, BIS