

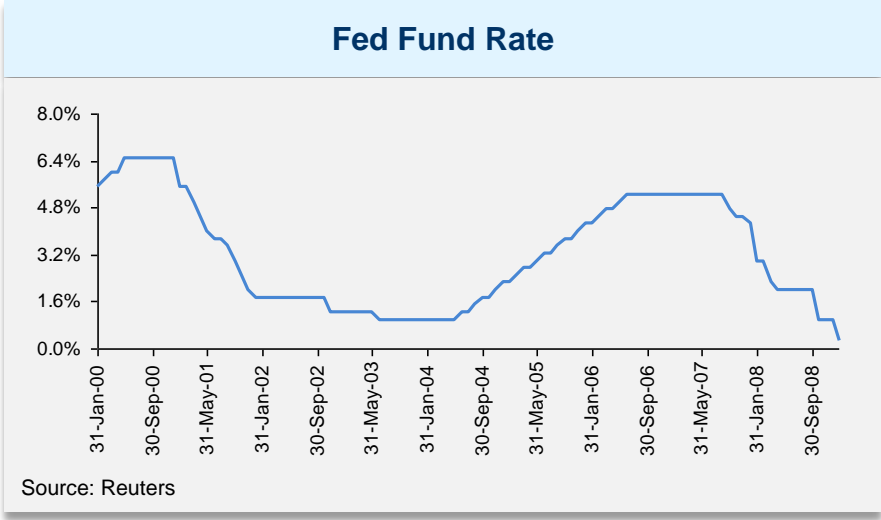
A peep into 2009.... It's the darkest before dawn



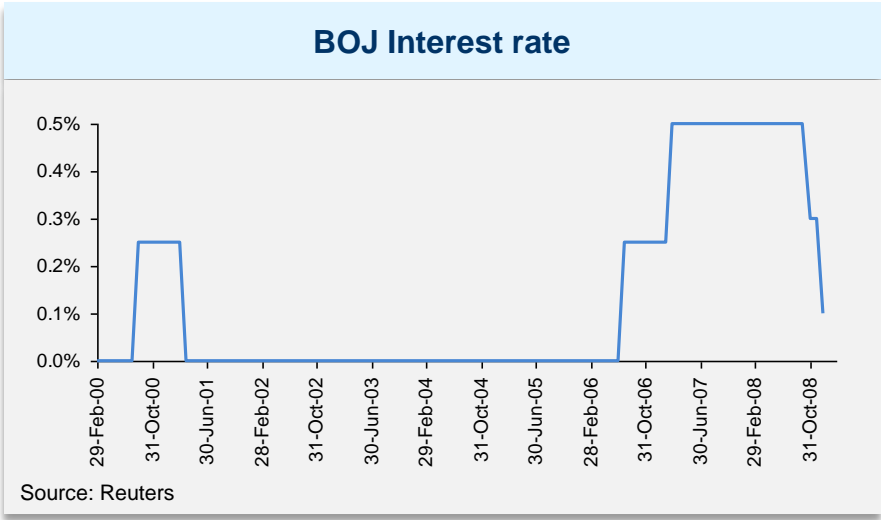
Christmas 2008

Decimal Point Analytics

Fed cuts the Fed Funds rate to a record low



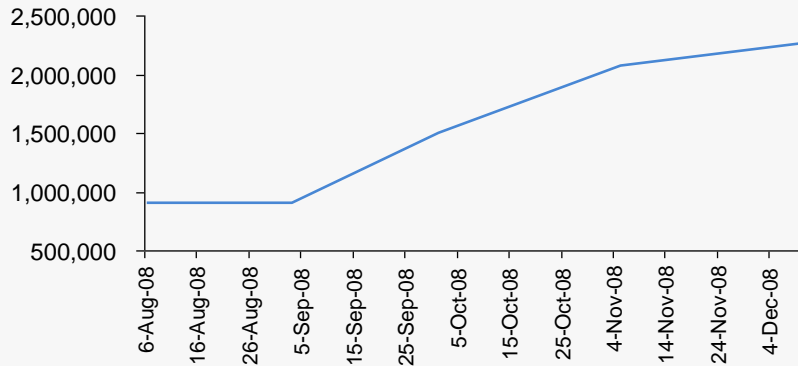
- The Fed announced a series of cuts in the Fed Funds rate, to avoid further deepening of recession, to a range of 0% and 0.25%.
- Short term treasury yields in the US have fallen drastically creating a bubble in short term treasury.



- The Bank of Japan also cut the benchmark interest rate to 0.1%.

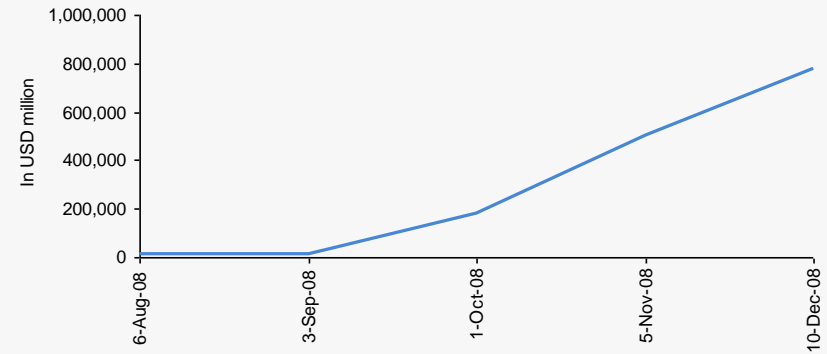
Quantity easing has already began...

US Fed Balance sheet (in USD million)



Source: Federal Reserve

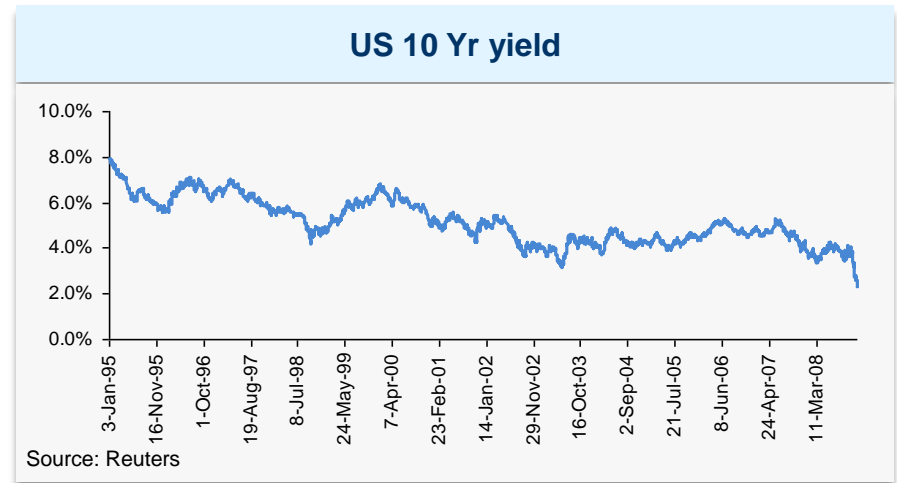
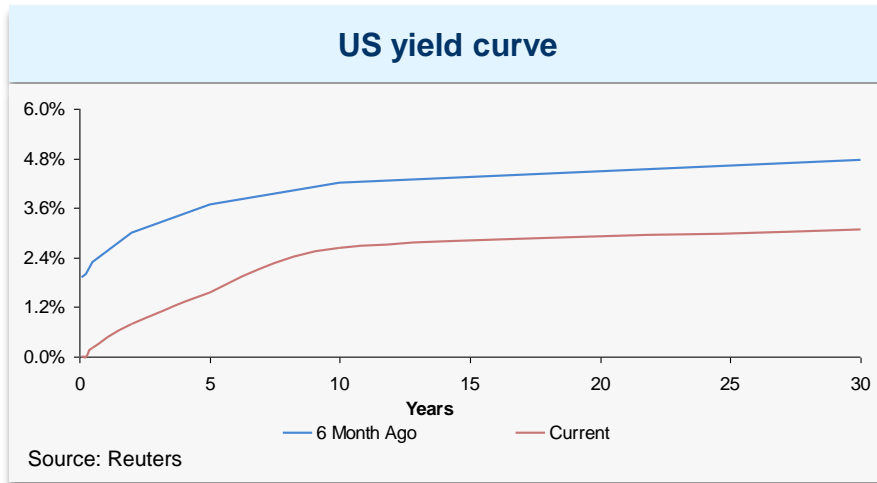
Deposits with Fed (in USD million)



Source: Federal Reserve

- Along with the cut in the interest rate, Fed has been active in injecting money into credit markets, pushing the Fed balance sheet size to a high of \$2.2 trillion.
- The financial institutions' deposit held with Fed has gone up steeply from USD10 billion on August 08 to USD777 billion as on December 10, 2008.

Resulting in a collapse of yield curve



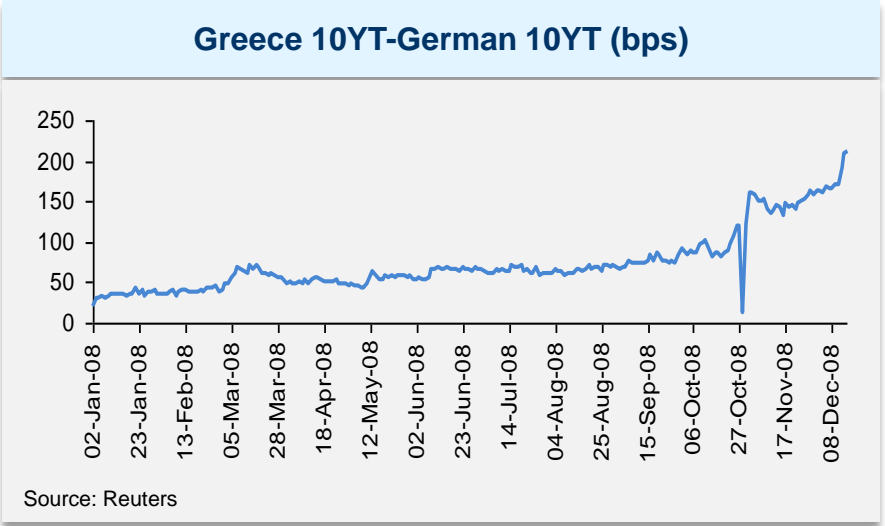
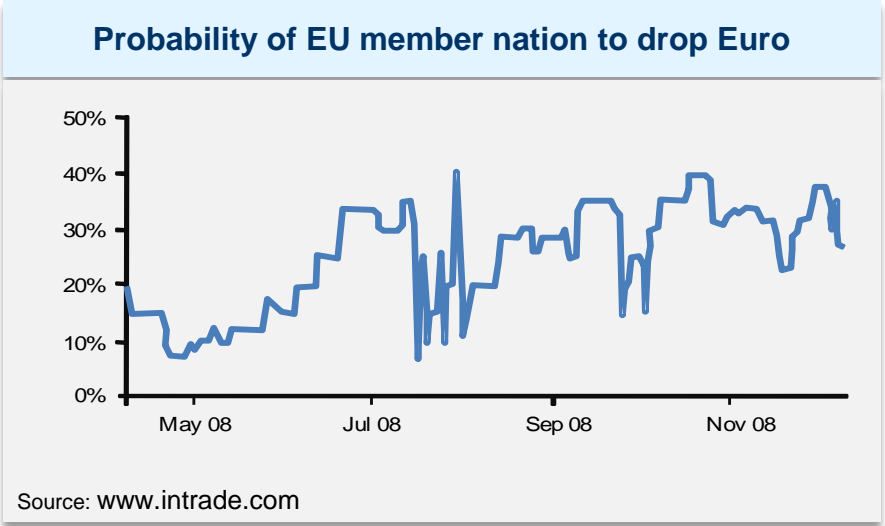
- The treasury yield across the yield curve has come down significantly amid flight to safety.
- The 10-Year treasury yield has come down drastically to 2.2% on December 12, 2008 from 4.2% a year ago.
- Low interest regime will cause the beginning of “Dollar carry trade”, sooner than later, as Dollar has become the lowest yielding currency among G10 nations.



- ▣ This “Dollar Carry Trade”, which we expect to start after reasonable mean reversion of risk premiums, will result in strong inflows in “attractive” asset classes.
- ▣ In our view, the attractive asset classes will include large emerging nations with following characteristics:
 - ⊙ Relatively high interest rates
 - ⊙ Huge, increasing population with attractive demographics, supporting domestic consumption
 - ⊙ Relatively insulated from global trade – Exports not contributing significantly to economy
 - ⊙ Net importer of energy and commodities
- ▣ We do not expect strong flows to Euro Zone.

The Euro's survival becomes a matter of concern

- The Euro continued to fall on high expectation of a further rate cut to boost the economy.



- The spread between 10-Year treasury yield of Greece and 10-Year German treasury yield has continued to rise.
- It is to be seen how long a supra-national currency can bear the burden of constituent sovereigns with large and rapidly increasing differences in credit risk perceptions.
- There is an increased chance of an EU member dropping the Euro as currency.



China

- China announced an economic stimulus package of \$586 billion to sustain growth rate.
- Investment will be directed towards housing and infrastructure through 2010.
- China has enormous domestic market due to its huge population. However dependence on exports is relatively higher than India.
- Inflation rate in China eased to 2.4% (YOY) in November from 4.0% in October.
- Fall in crude oil prices is beneficial for China's economic development and industries.
- China has sound industrial policy favoring foreign investments.

India

- India announced a \$4 billion stimulus package to sustain growth rate.
- The fall in crude oil prices would reduce India's current account deficit burden.
- India is a hugely populated country, which ensures sustainable domestic demand. Relatively lower dependence on exports.
- India has a long term demographic advantage as more than 50% of India's population is below 25 years of age.
- Inflation has also come down to the level of 6.84% (YoY) as of December 6, 2008 from 8.0% a week ago.
- The lower rate of inflation enables the monetary authority to undertake more growth related monetary measures.

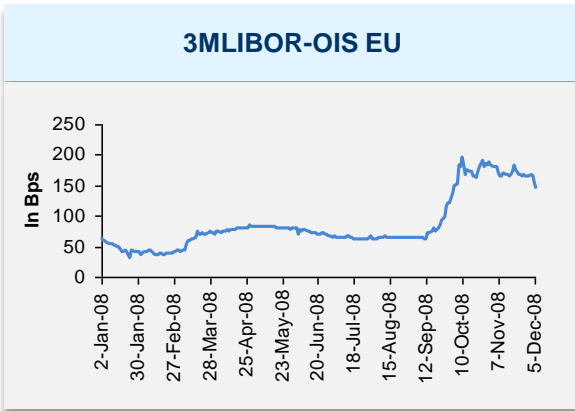
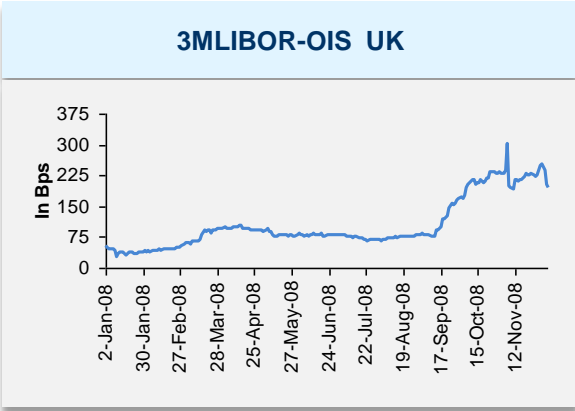
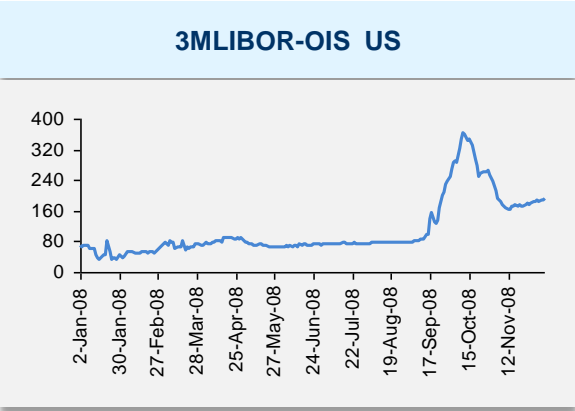
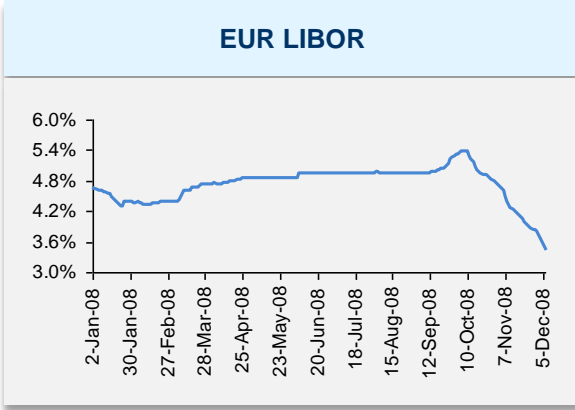
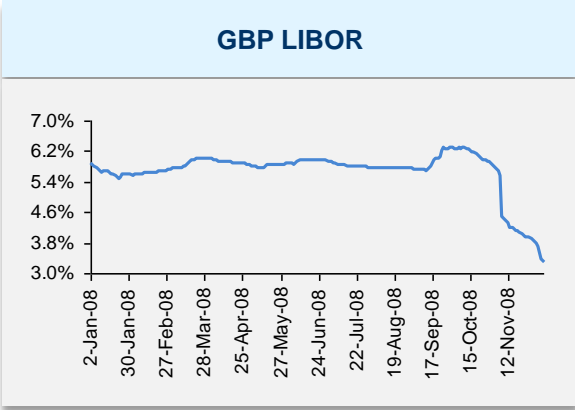
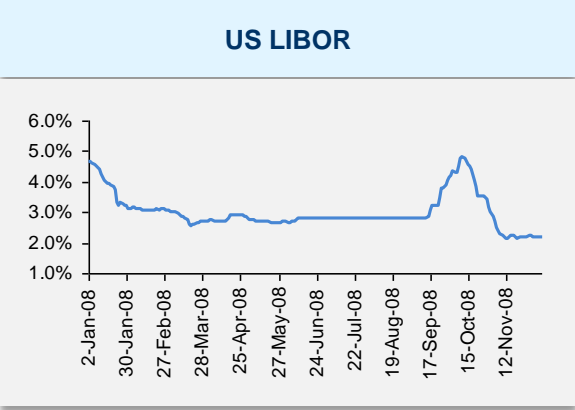
What to expect in near future?

- The strong quantitative easing already resorted to by FED is negative for USD. The pressure on USD will be further increased by the ongoing issues surrounding the consumer balance sheet in USA.
- Japan, the second largest economy in the world, does not appear to be an attractive destination for investments, given the strong movement of JPY in recent past.
- The survival of EUR can be reasonably questioned, and such concerns may create strong resistance to fresh investment flows to Eurozone.
- Russia and Brazil are expected to suffer from the death of the commodity cycle.
- This leaves only China and India as viable investment destinations, and centers of global growth.
- We therefore expect movement of sizeable funds into these two neighboring countries.
- China and India also have their own concerns. For China, it is a question of social stability in the face of slowdown, while for India, it is the external security threats posed by the slow implosion of the State of Pakistan.

And now, a detailed look at the recent events...

LIBOR rate eased following an aggressive rate cut...

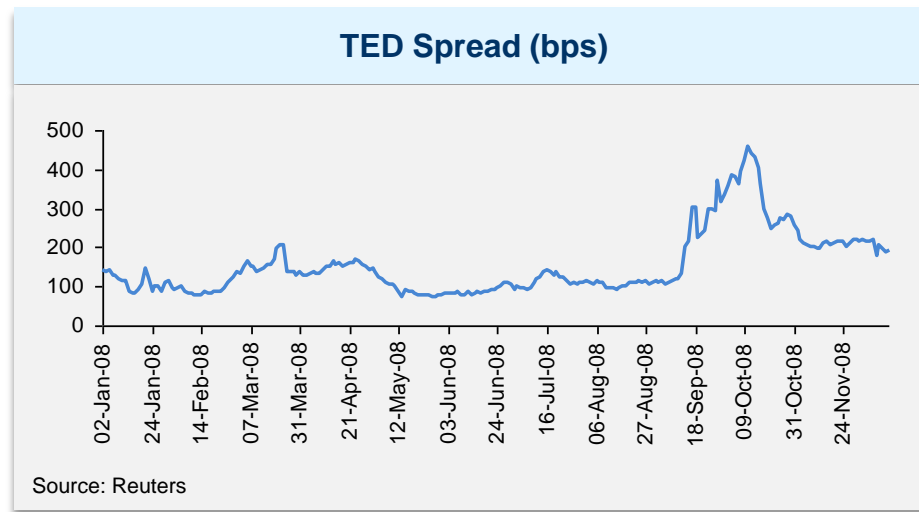
- Three-month Dollar, Sterling and Euro Libor fell amid aggressive cut in official interest rates.



Source: Reuters

- 3M Libor-OIS spread also declines across the region, a sign of ease in the liquidity situation. US LIBOR-OIS spread eased to 191 bps from a year high of 365 bps reached on October 10, 2008.

And TED spread eased as well...

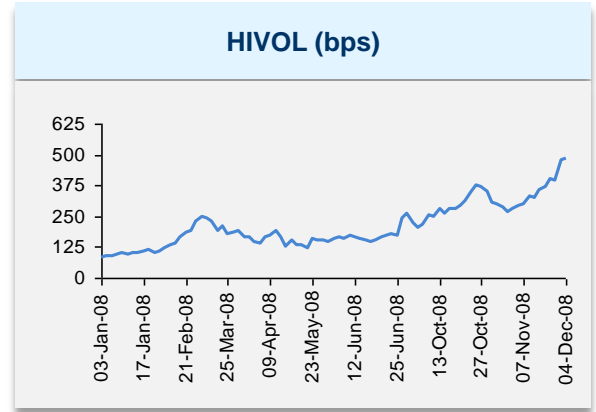
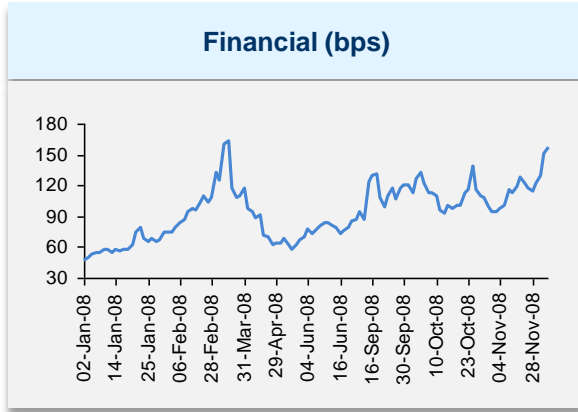
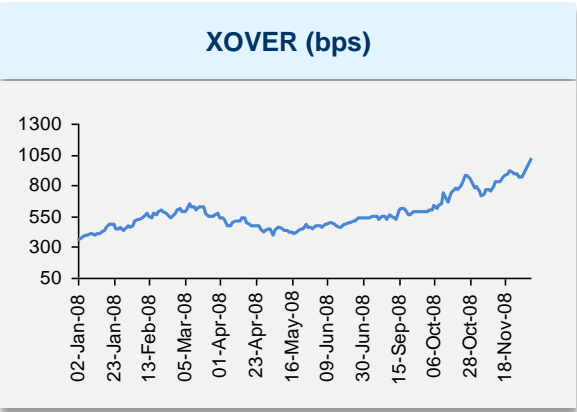
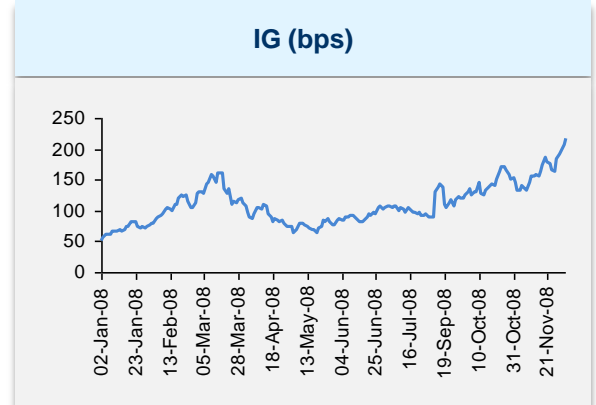
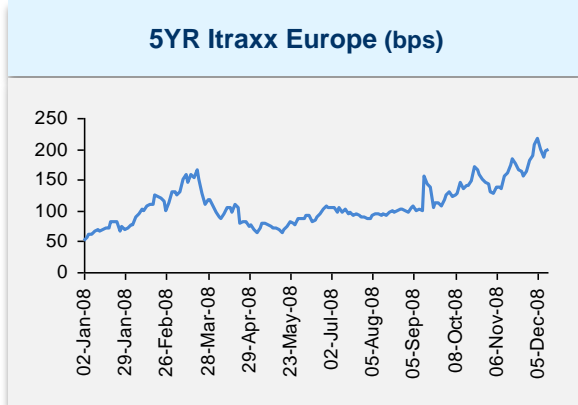
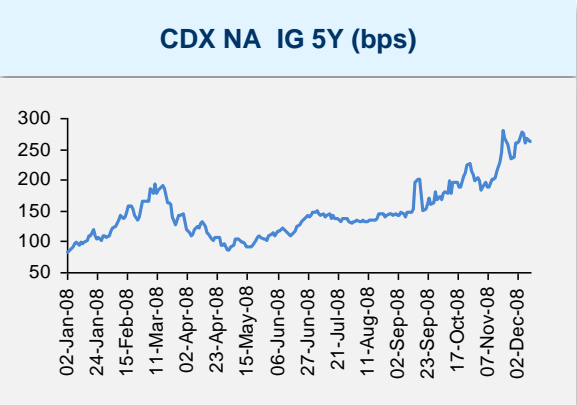


- The TED spread, an indicator of liquidity in the market, eased during the month.
- TED spread, the difference between 3M Treasury and 3M LIBOR, is falling since mid October 2008.



However, credit spread remained high

- The credit crisis, which began with the outbreak of sub prime mortgage market, deepened further.

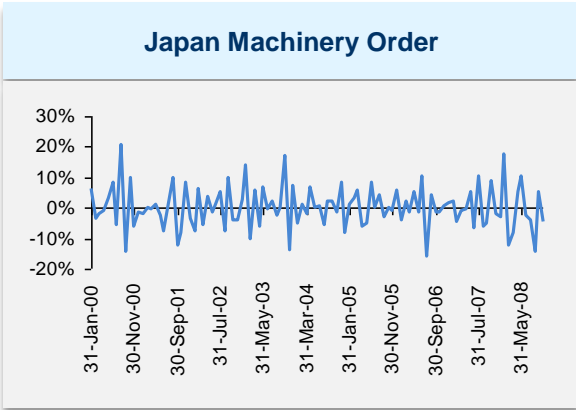
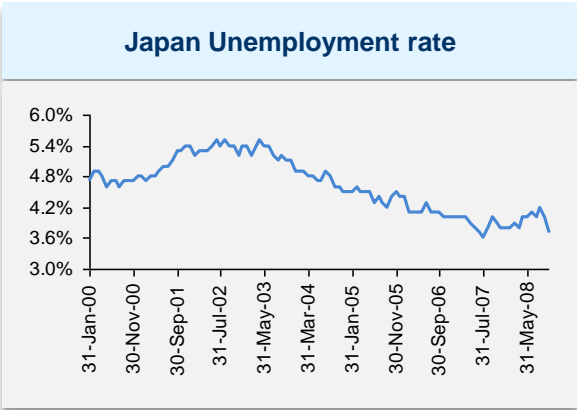
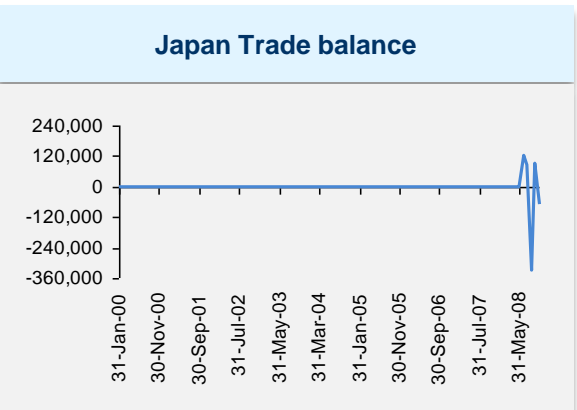
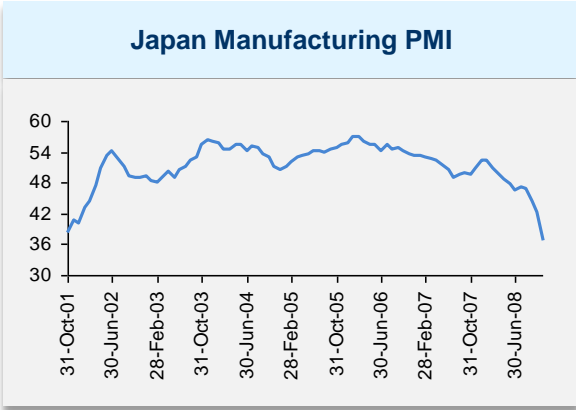
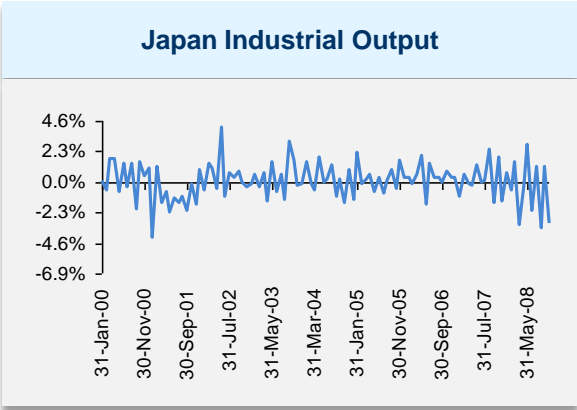
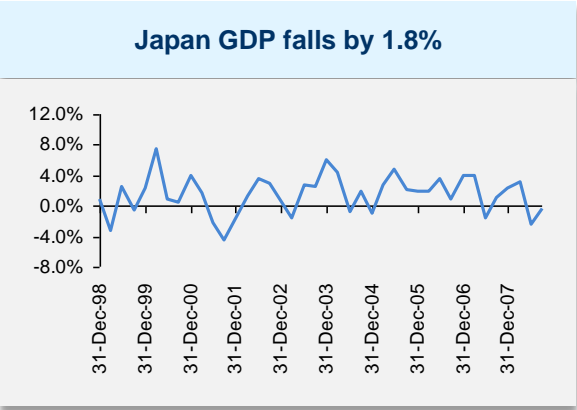


Source: Reuters

- Credit spreads continued to widen even after LIBOR rate settled down.

Japan falls into a deeper recession...

- Japan's GDP declined by a higher than estimated 1.8% in Q3.
- Japan's economic and fiscal policy minister Kaoru Yosano said "The data showed that the economy is in a recession phase. There are risks it may worsen further."

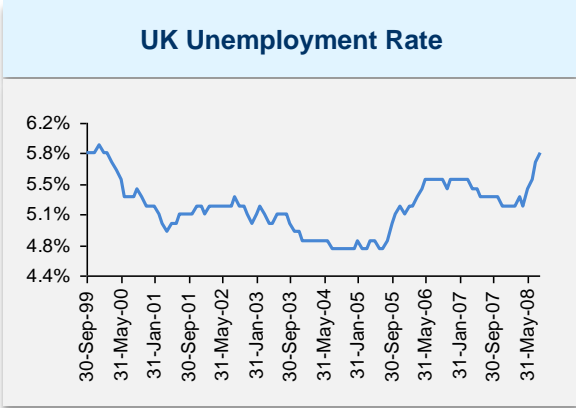
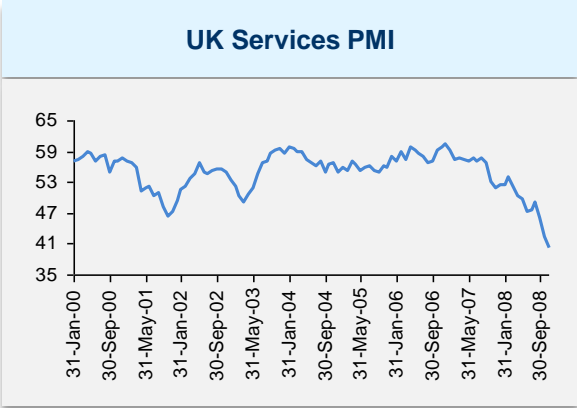
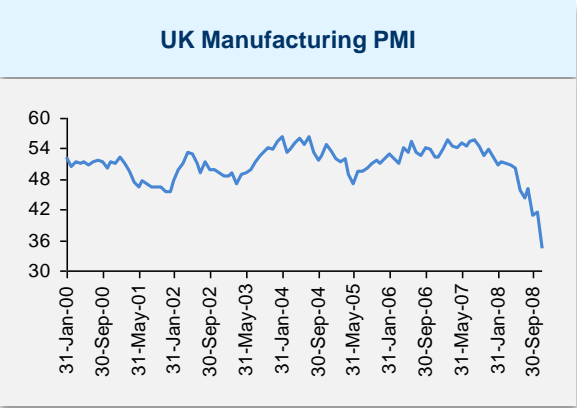
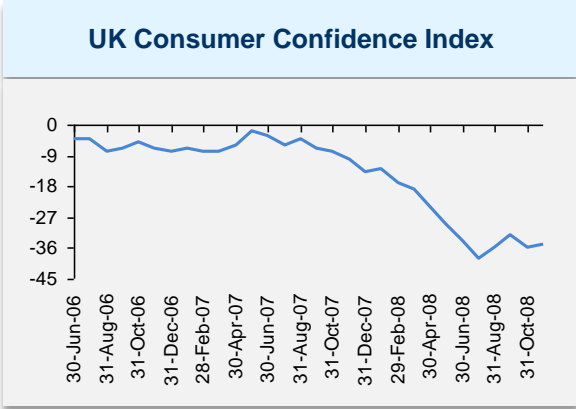
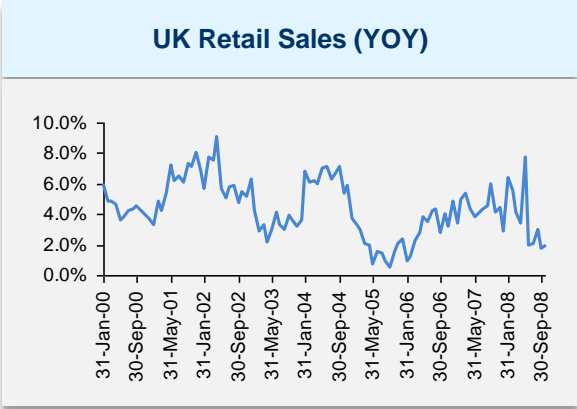
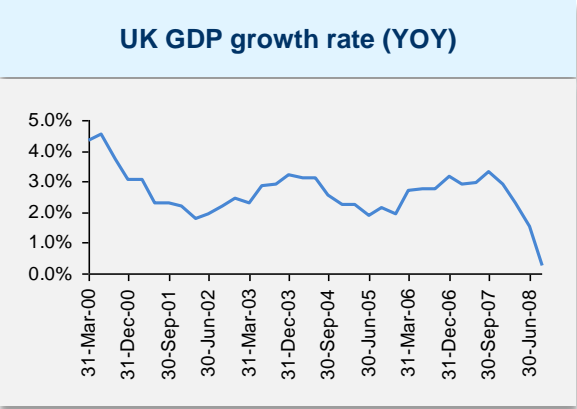


Source: Reuters

- "The world economy is on the brink of a rare global recession," said the World Bank in a forecast released on December 9.

UK economy shrinks as well...

- UK GDP fell 0.5% in Q3, as both the manufacturing and services sectors contracted during the month. Unemployment rate reached 5.8%, last seen in the beginning of 2000.

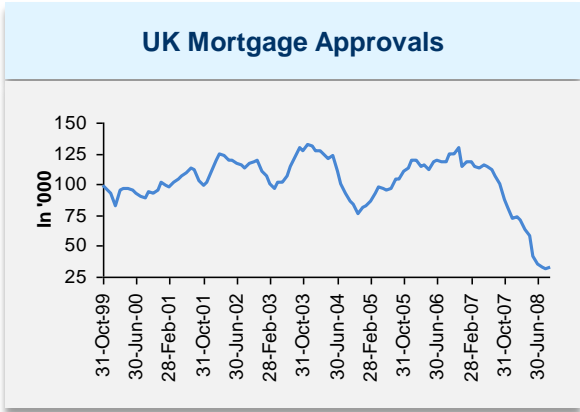
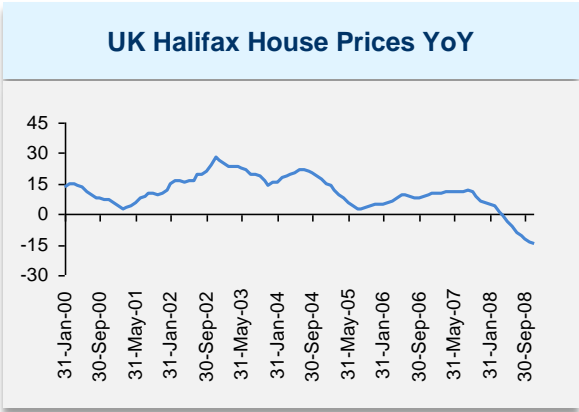


Source: Reuters

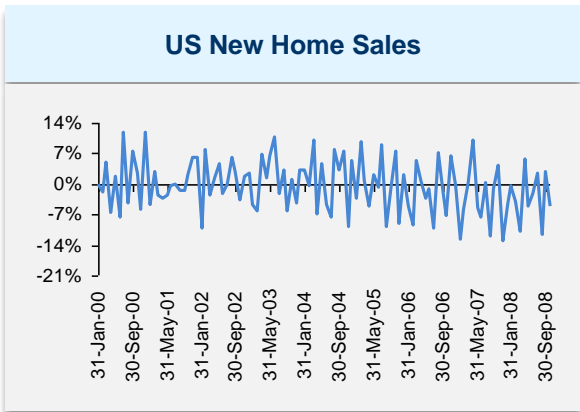
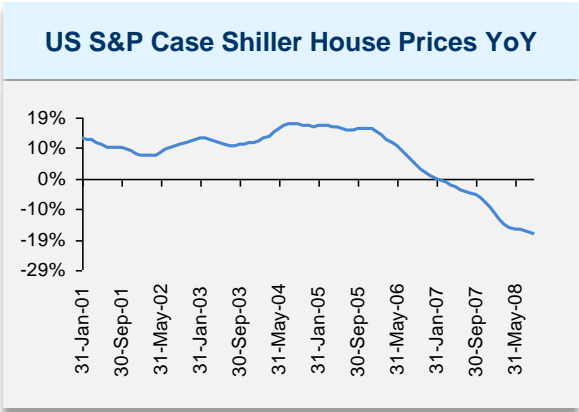
- UK Consumer Confidence index continued to be in the negative territory.

Crisis in housing market continues...

- House prices continued to fall in the UK region since April 2008. The Halifax house prices fell 14.9% in November 2008.



The Federal Reserve announced its decision to inject another \$800 bn into the US economy, in yet another effort to stabilize the financial system.



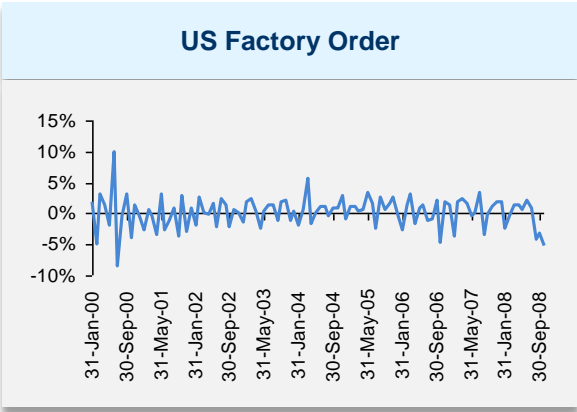
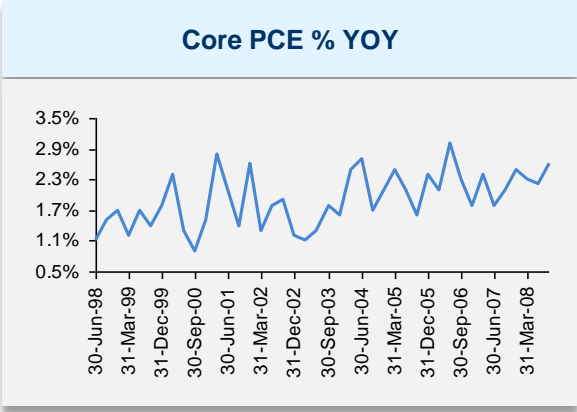
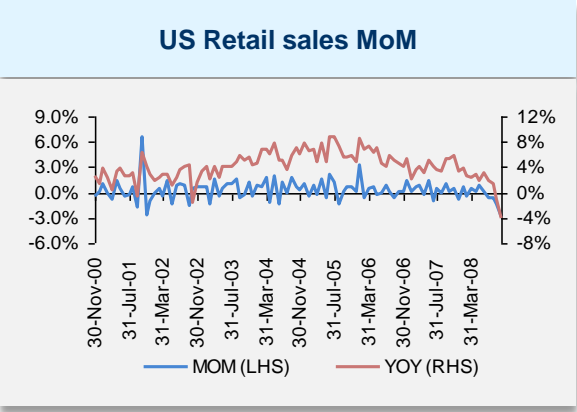
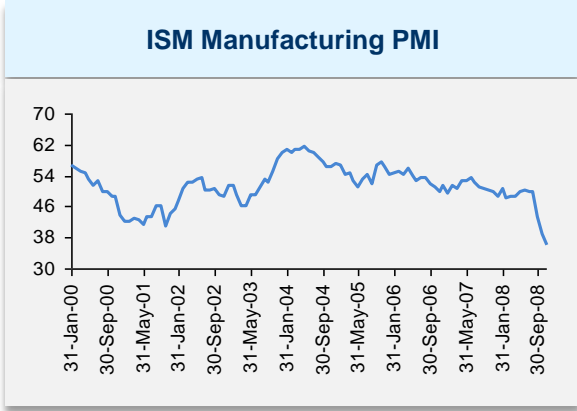
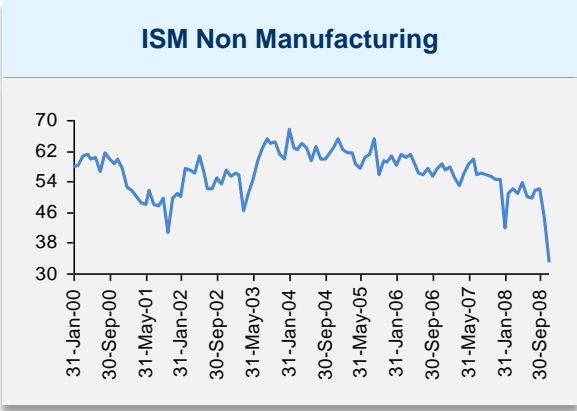
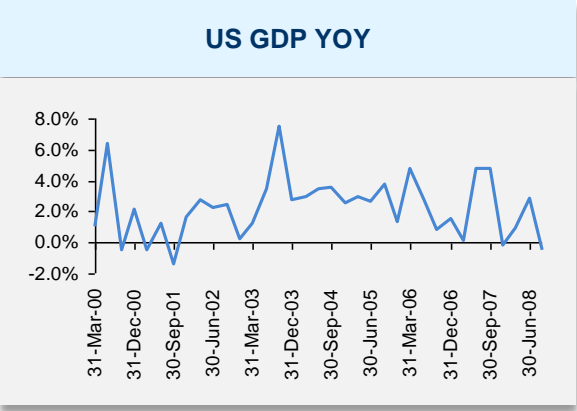
About \$600 bn will be allocated to buy mortgage-backed securities and remaining \$200 bn will be used to boost the consumer credit market.

Source: Reuters

- US completes two years of continuous fall in house prices. House prices continued to slump on tighter lending standards and high mortgage interest rates.

The US downturn worsens

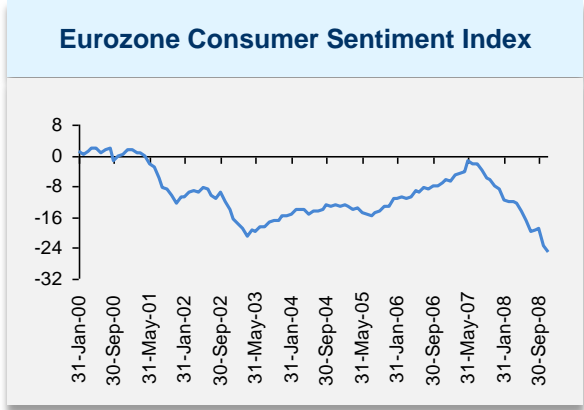
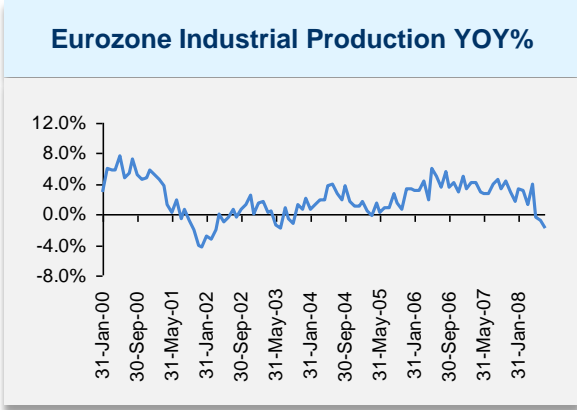
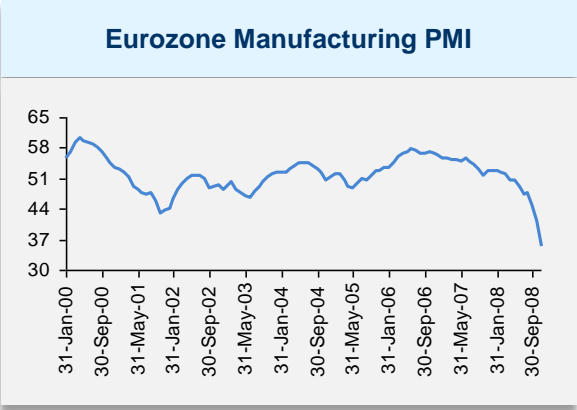
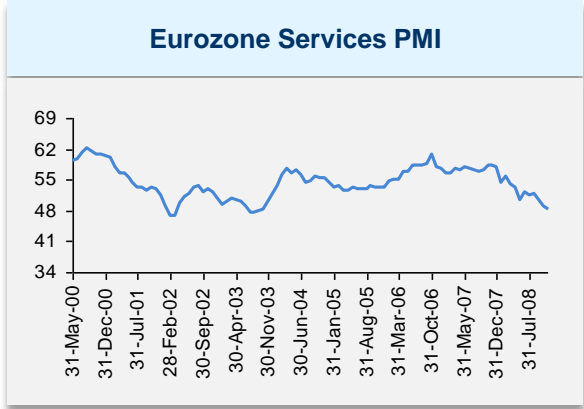
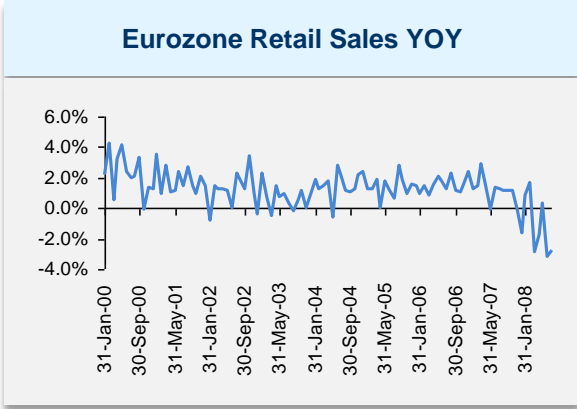
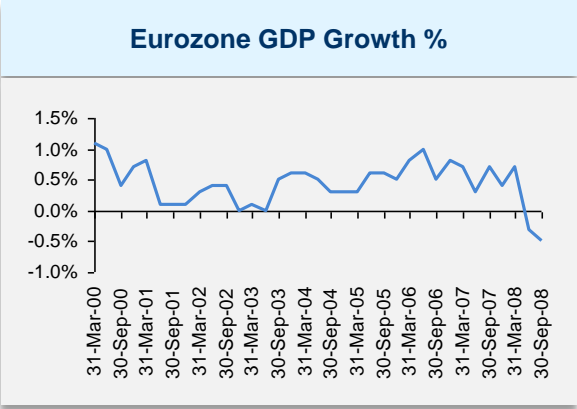
- US retail sales fell sharply in October, by 2.8% on MOM and 4.1% on YOY basis respectively. The contraction in the US ISM manufacturing and non manufacturing index deepened.



Source: Reuters

Eurozone contracts for the first time in a decade

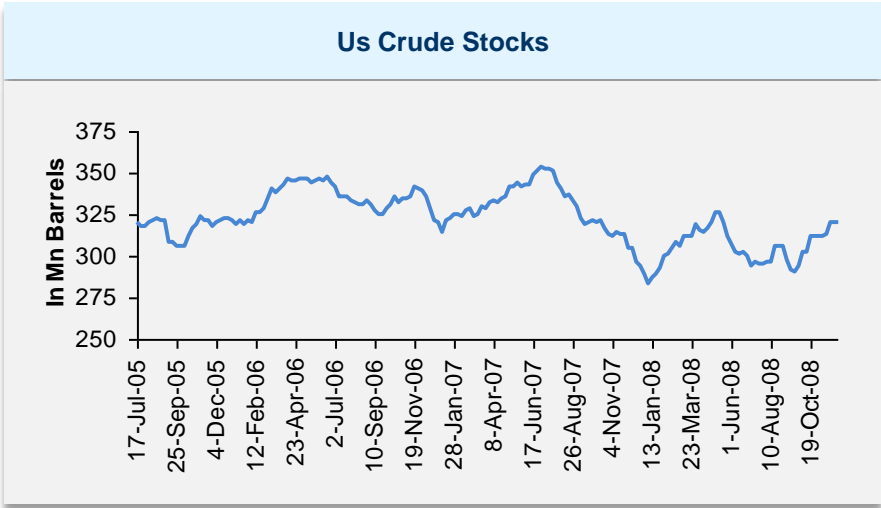
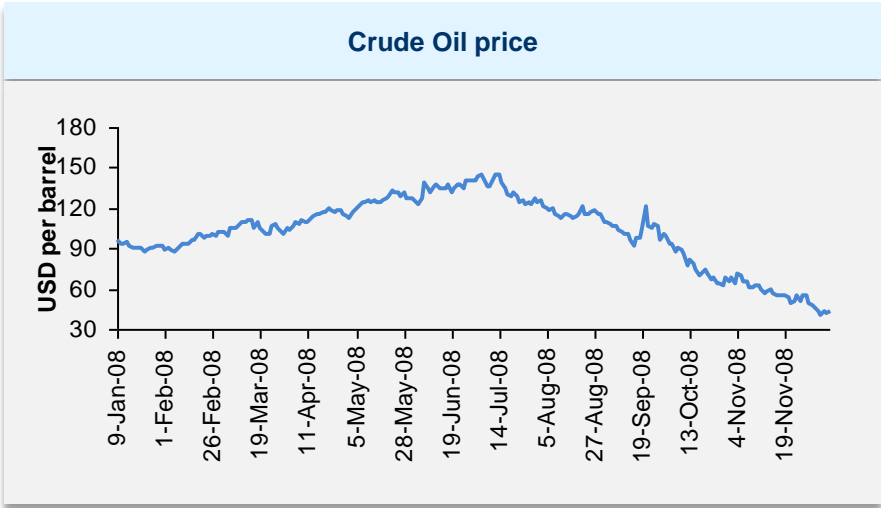
- The Eurozone Manufacturing PMI continued to contract, declining to 35.58 in November, amid slowdown. Retail sales growth rate has continued to decline since November 2007.



Source: Reuters

Global slowdown weighed on crude oil

- Crude oil price corrected sharply by 54.7% from a record closing of \$145.29 on July 3, 2008

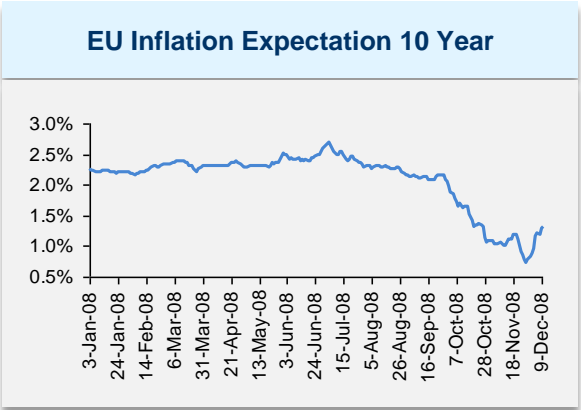
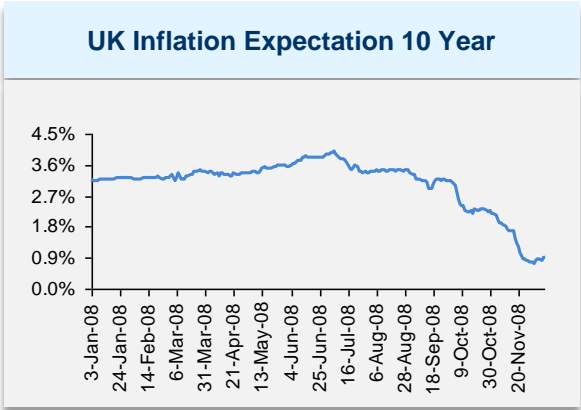
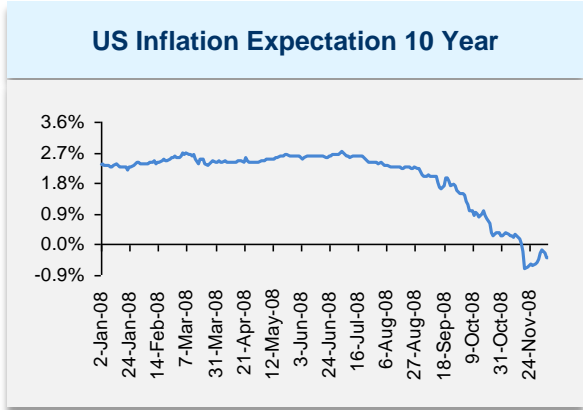
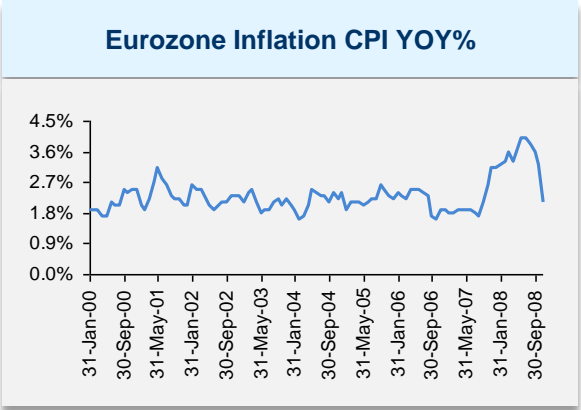
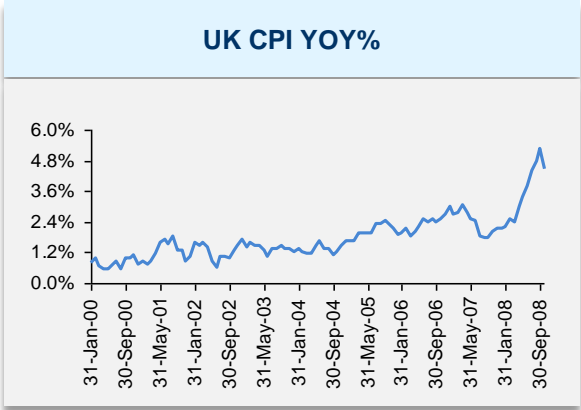
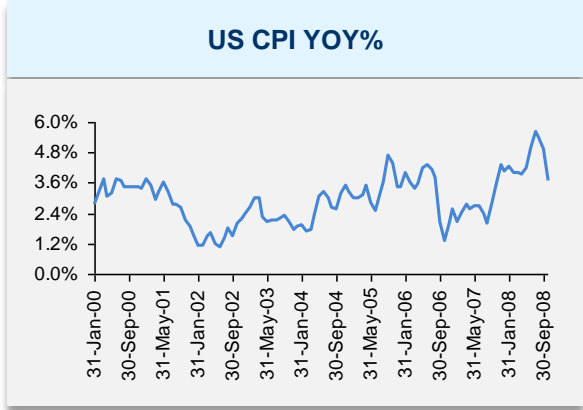


Source: Reuters

- On December 5, 2008, crude price reached a record low of \$40.81 per barrel since February 2005, due to concern over demand amid global slowdown.
- OPEC is planning to cut production to stabilize the falling crude price.

Inflation rate continues to moderate

■ The inflation rate continued to ease in the US, UK and Eurozone amid global meltdown.



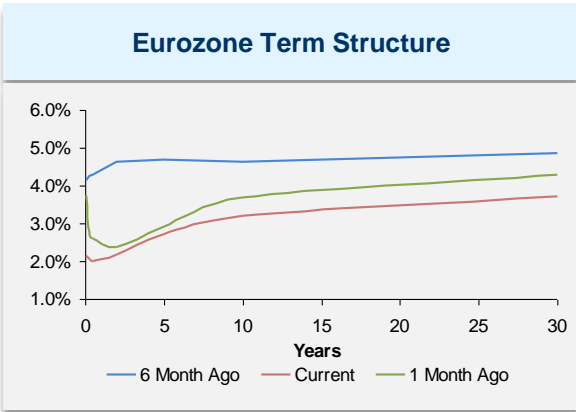
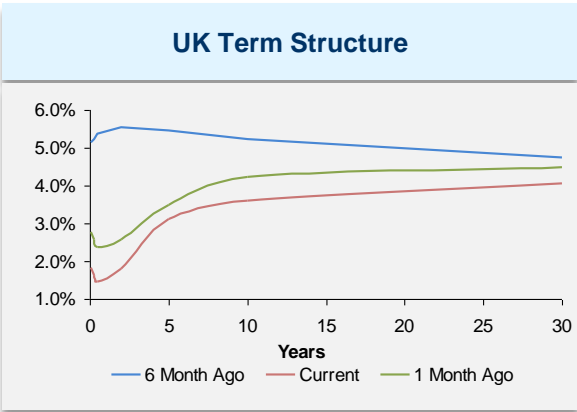
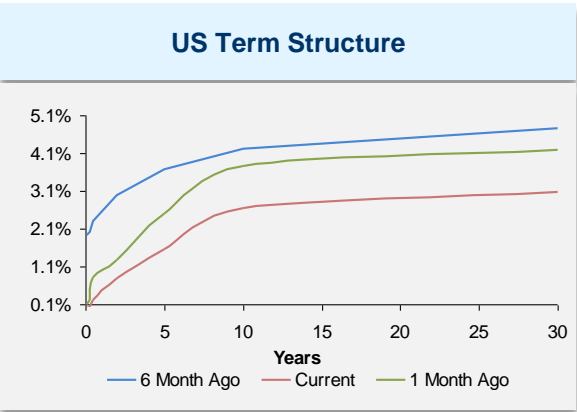
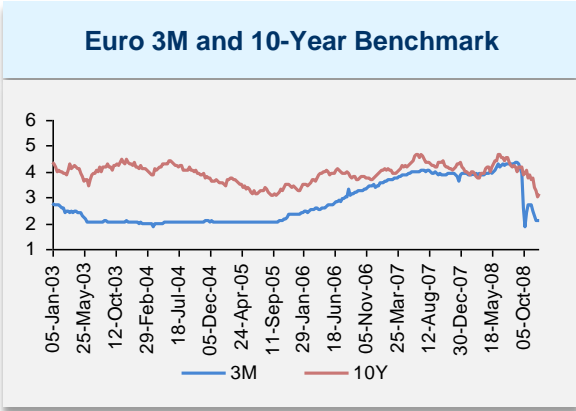
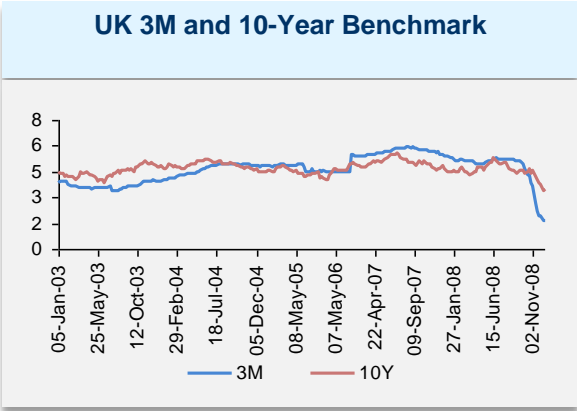
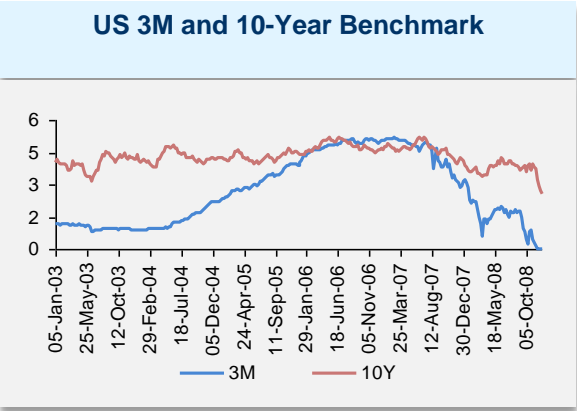
Source: Reuters

■ In the US, inflation expectation turned negative, mainly due to the drop in energy prices.



Falling inflation pushed yields downward

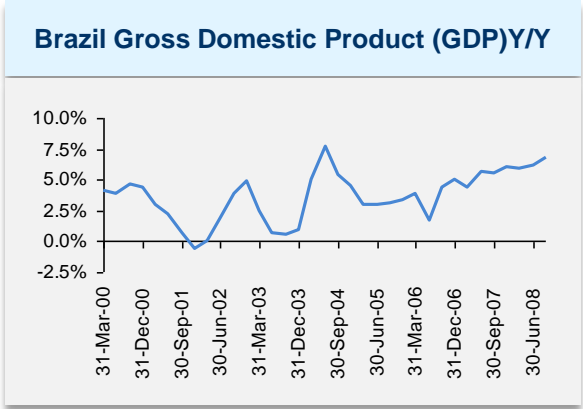
- US, UK and Euro 3M and 10-Year treasury yield fell, as concerns about financial market crisis led to investor flight towards quality.



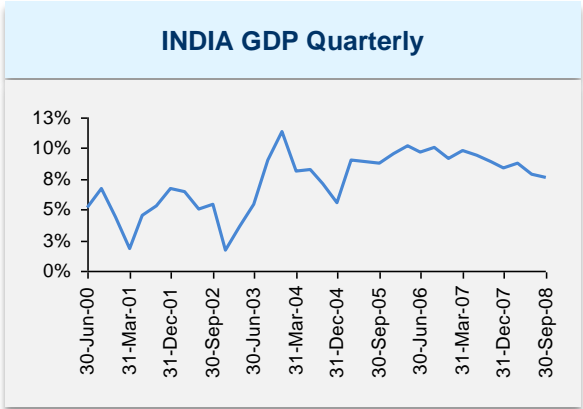
Source: Reuters

Growth moderates in emerging nations except Brazil

- India registered the lowest growth rate in four years in Q3 2008 as the global slowdown negatively impacted the exports and foreign investment.



Brazil continued to register a robust performance as GDP recorded a 6.8% growth in Q3 2008, up from 6.2% in the previous quarter.

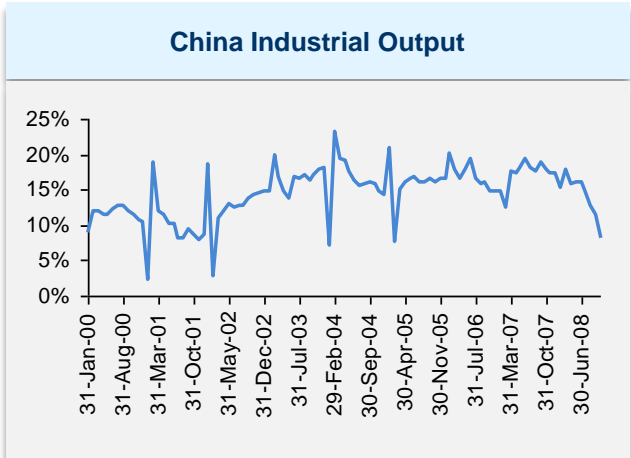
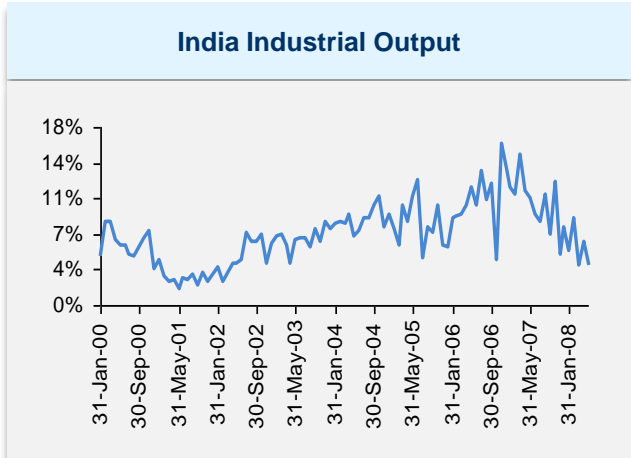
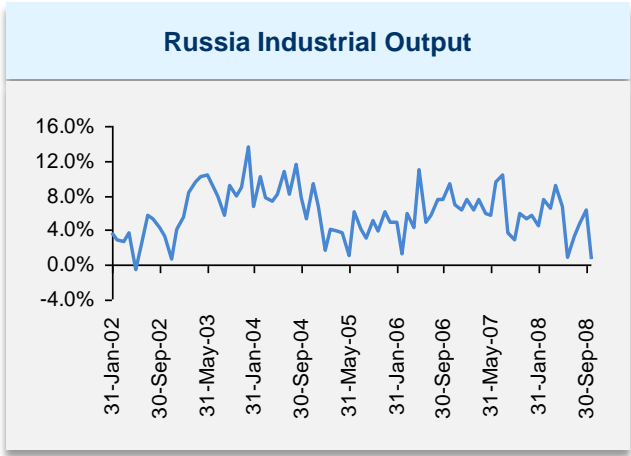
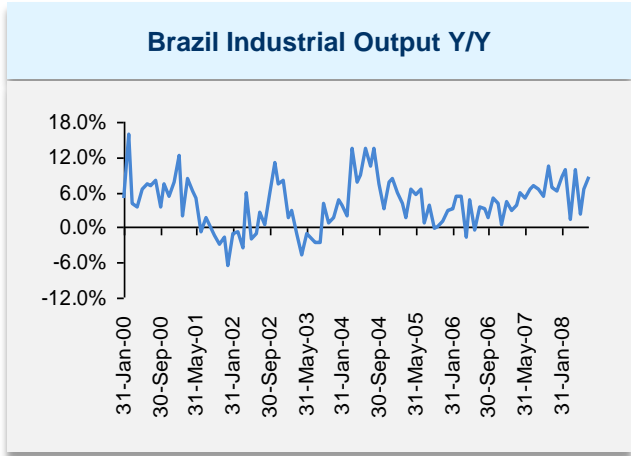


Source: Reuters

- China's GDP growth moderated to 9.0% in Q3 2008, from a high of 12.6% registered in Q2 2007.



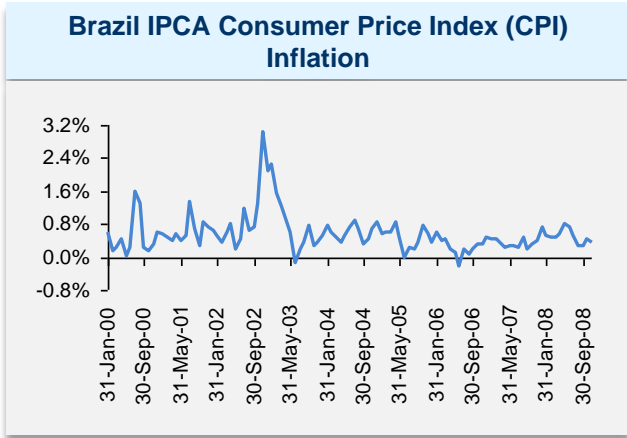
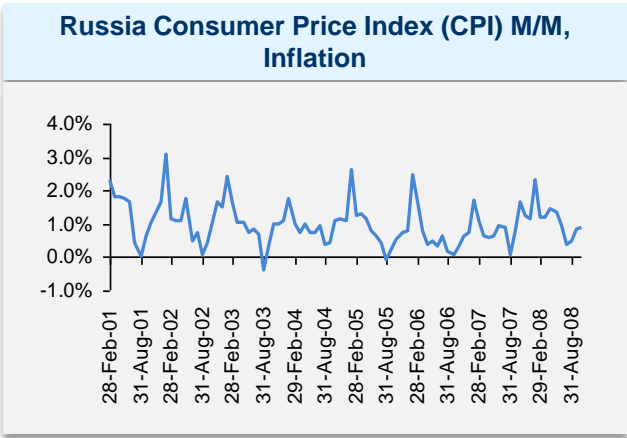
Industrial output growth starts declining in emerging economies



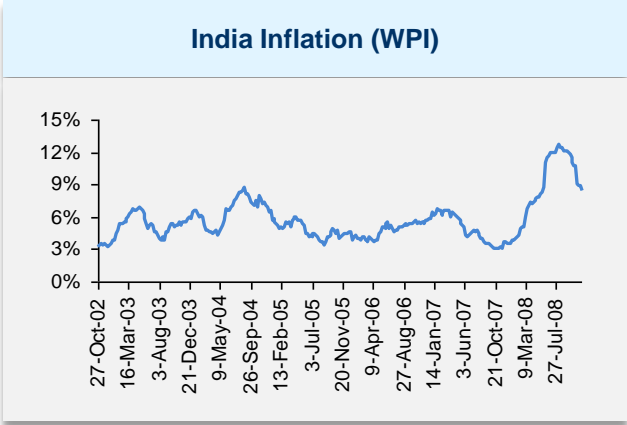
Indian industry registered a negative growth for the first time in 15 years, falling 0.4% in October as against 12.2% expansion in the same month last year, as the impact of the global economic downturn deepened in the country.

Source: Reuters

Inflation comes under control in emerging markets



Inflation has declined in the emerging nations as well, providing a further scope for some proactive measures to give a boost to the economy.

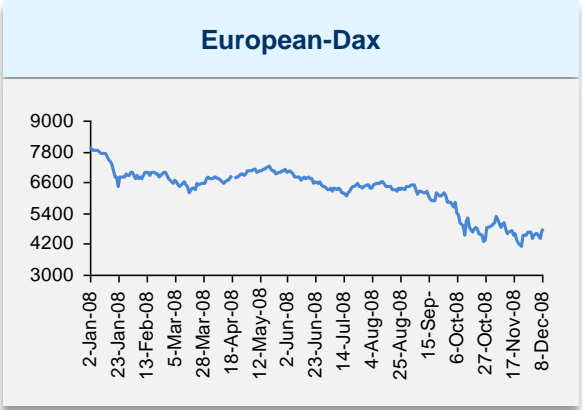
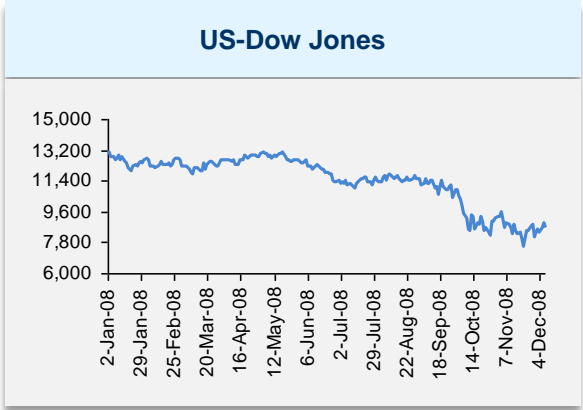


The inflation rate in Russia fell to 0.90% (MOM) in October 2008. The rate of inflation in India came down to 8.40% from a 13-year high of 12.63% in August 2008.

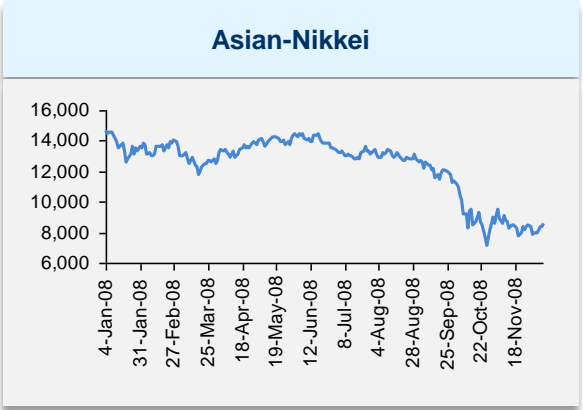
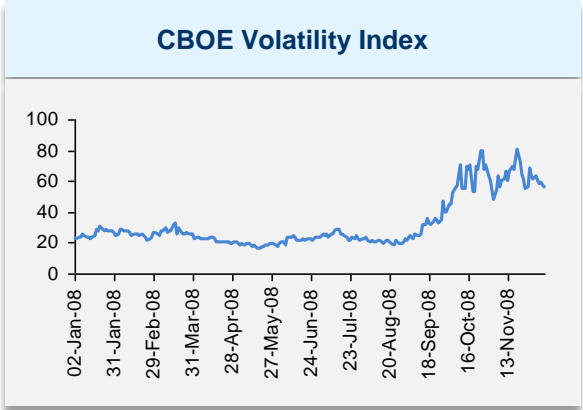
Source: Reuters

Global equity markets weighed down by recession

- Dow Jones Index fell 33.4% from the beginning of the year. German DAX Index also registered a fall of 40.0% in 2008.



The CBOE Volatility Index, a key measure of market expectations of near-term volatility, continued to be at a high level.



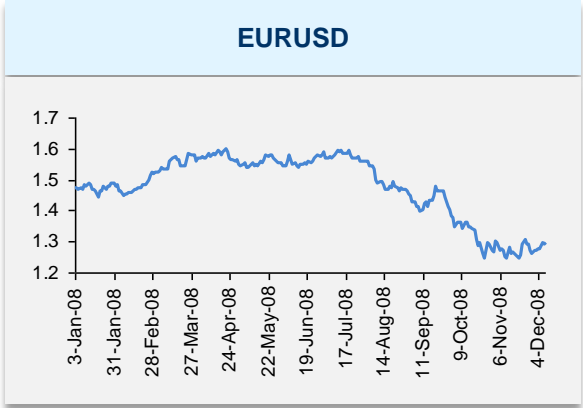
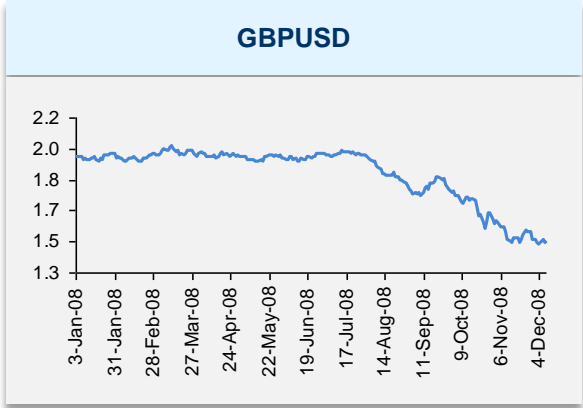
Asian equity index Nikkei registered a fall of 41.3% in the year to date.

Source: Reuters

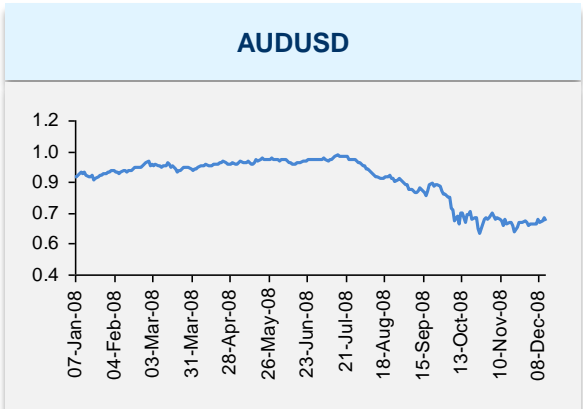
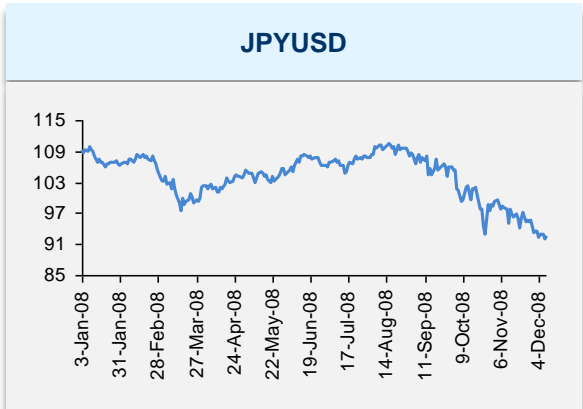
- Equity indexes all around the globe fell amid flight to quality as the credit crisis deepened further in November 2008.

US Dollar remained strong; but for how long?

- US Dollar continued to strengthen against major currencies amid flight to safety and deleveraging seen across the globe.



The Euro continued to fall against USD on expectation that ECB may cut the interest rate further.



However, JPY and AUD continued to strengthen against USD amid reversal of Yen carry trade.

Source: Reuters

Fiscal measures

- China announced an economic stimulus package of \$586 billion.
- India also announced a \$4 billion stimulus package to sustain the growth rate.
- The United States has announced a voluntary Capital Purchase Program (CPP) as part of its Troubled Asset Relief Program (TARP) to purchase up to \$250 billion of preferred shares and warrants from banks and bank holding companies which is convertible into common stock .

Monetary measures

- Fed cut the interest rate to 1.0%.
- UK cut the interest rate to 2.0%, the lowest in more than 50 years.
- The ECB made the biggest rate cut (75 bps) in 10 years to 2.5%.
- The Federal Reserve announced its decision to inject another \$800 billion into the US economy.
- India cut both the cash reserve ratio (CRR) and Repo rate twice to 5.5% and 6.5% respectively, to sustain economic growth.

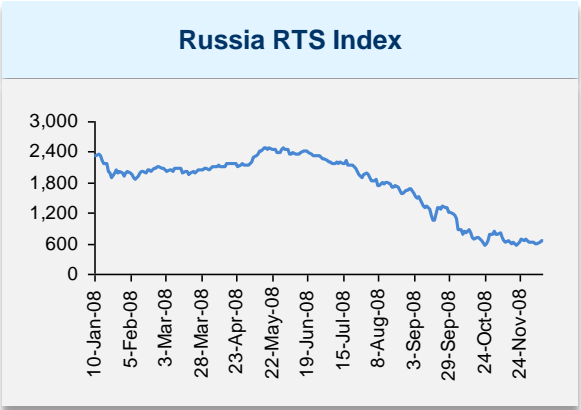
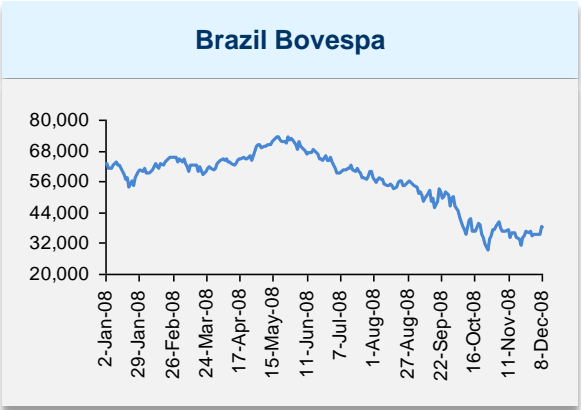
Led to increase in Fed balance sheet size

- As the Fed has undertaken various measures to revive growth, its balance sheet size has increased substantially and may continue to increase further.
- The balance sheet size has increased to \$US2 trillion as on December 11, 2008 from \$1.5 trillion in mid-September 2008.
- The primary reason for the increases are bailouts, loans to lending institutions and debt guarantees.
- The sudden spurt in the balance sheet is caused by term auction credit as well as currency swap arrangements with foreign central banks.

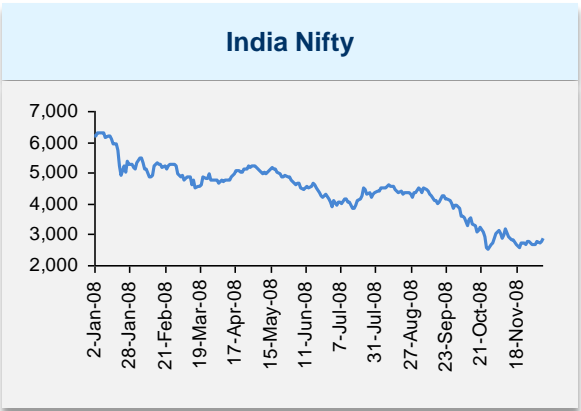


Equity indexes in the emerging markets also take a hit...

- The Brazilian equity index Bovespa could not decouple itself from the global turmoil and fell by 40.0% even though the country's GDP maintained its growth rate.



Russian equity markets led the decline in BRIC nations and fell 72.1% since the beginning of the year.

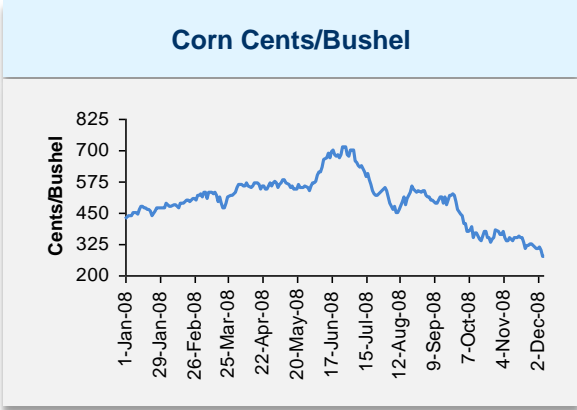
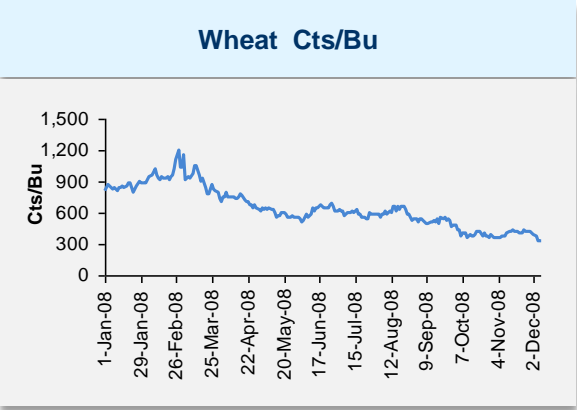


The Shanghai Composite is down 61.3% since the beginning of the year.

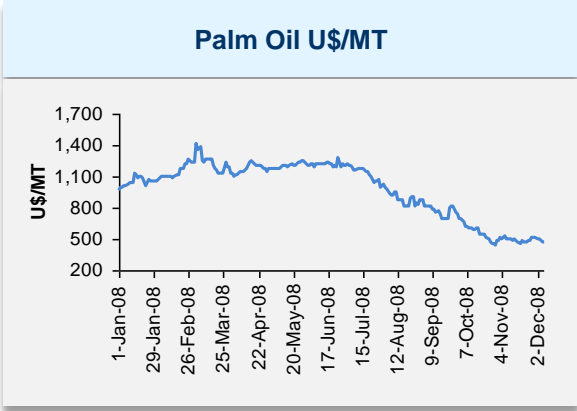
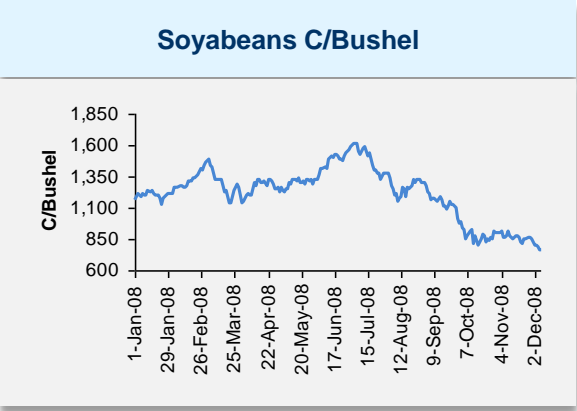
Source: Reuters

Food prices fall as well

- The global financial crisis and economic slowdown have pushed food prices to a new low.



The rising food prices which triggered global political and economic tension last year have finally stabilized.

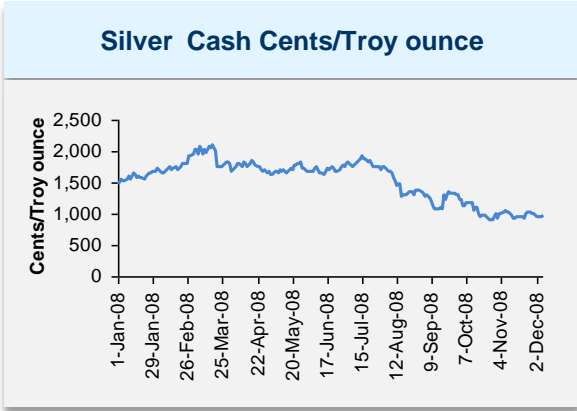
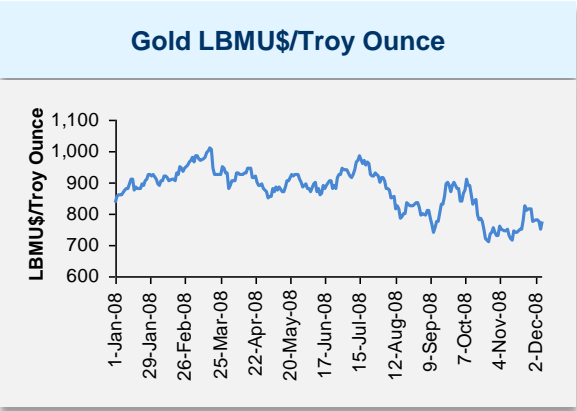


Globally food prices have declined; Wheat, corn and Soya beans have registered a fall of 58.8%, 36.1% and 34.4% respectively.

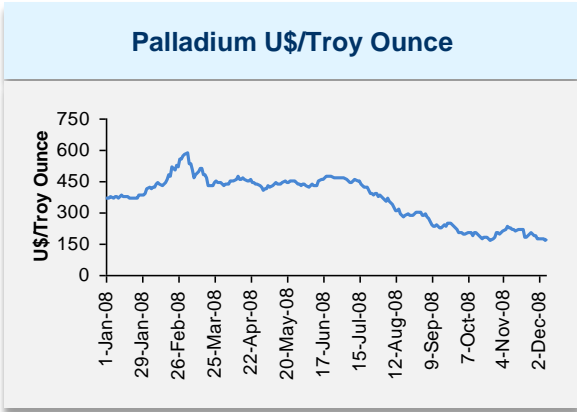
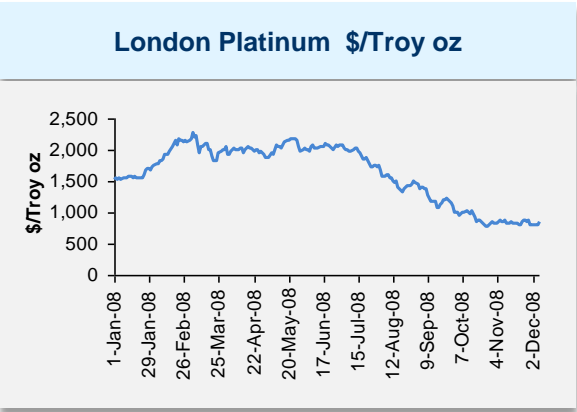
Source: Thomson

Precious metal (except palladium) prices firm up

- Prices of precious metals registered positive movement during the month of November. However, the prices were still lower if compared with the beginning of the year.



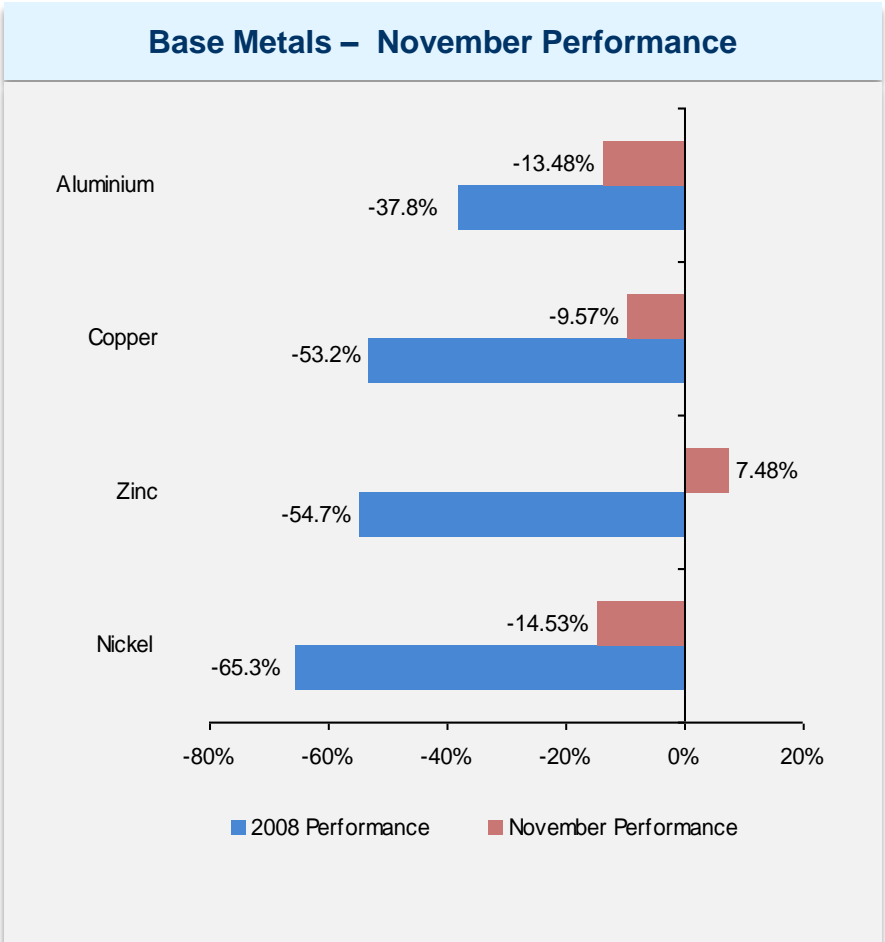
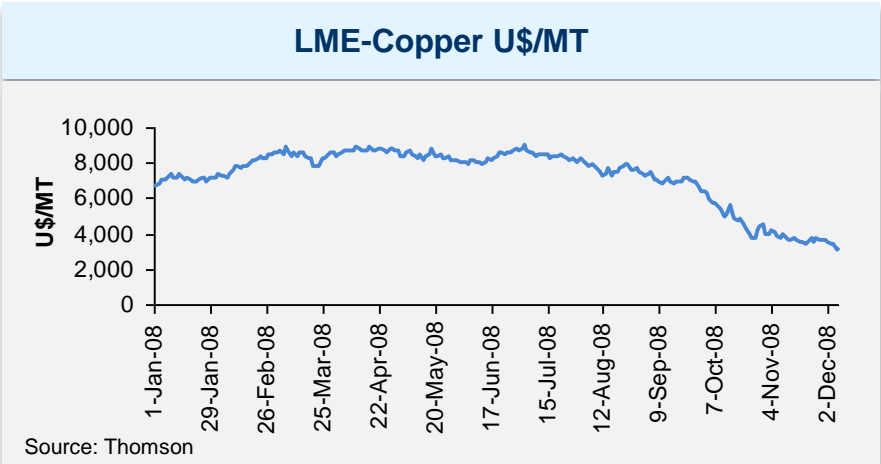
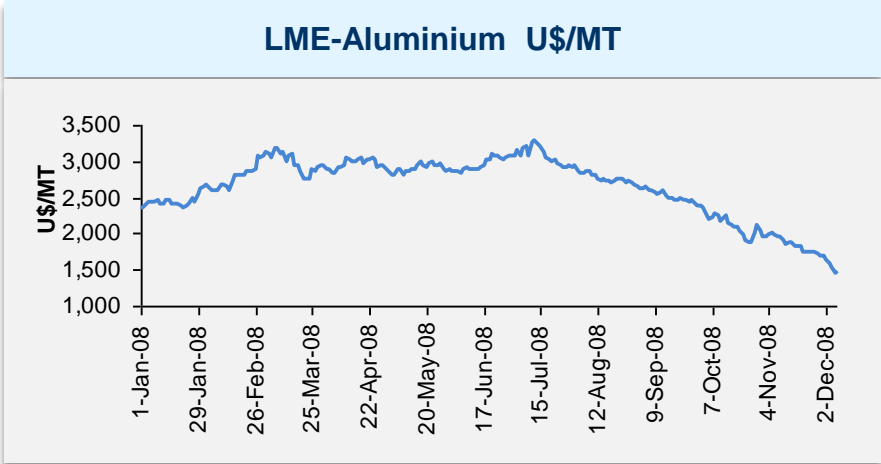
Gold, silver and platinum prices rose 11.7%, 0.7% and 6.7% respectively in November.



Source: Thomson

Demand concerns weigh on base metals

- Negative outlook for global economic growth continued to affect the base metal prices. Aluminum, copper and nickel fell 13.5%, 9.6% and 14.5% respectively.



- ▣ Fall in crude oil and food commodities prices have helped to ease inflationary pressure.
- ▣ Falling retail sales, manufacturing and industrial production have pushed Eurozone economy into recession.
- ▣ Economic data points towards deepening of recession in the UK.
- ▣ Banks across the globe responded to the situation by lowering the key interest rates.
- ▣ The housing markets in the US and UK have further weakened and tighter lending standards including high mortgage interest rates are leading to further downward pressure.
- ▣ Credit crisis is far from over; credit spread has widened further.
- ▣ Dollar remained buoyant against major currencies amid investors' flight to quality.

Appendix Snapshot of Important Data



Country	Real GDP YOY	CPI YOY	10-yr Bond Yield	Key Country Indices	Last Value	1-Yr chg	1-Mn chg	1-Wk chg	P/E
Brazil	6.8%	7.2%	15.0%	Bovespa	35347.0	-46.1%	-6.5%	-3.4%	7.4
China	9.0%	4.0%	2.9%	Shanghai	2018.7	-60.4%	14.7%	7.9%	15.0
France	1.0%	2.7%	3.6%	CAC 40	2988.0	-47.8%	-17.4%	-8.4%	6.7
Germany	0.8%	1.4%	3.0%	DAX	4381.5	-45.2%	-15.2%	-6.2%	9.5
India	7.6%	10.5%	6.8%	Sensex	8965.2	-55.1%	-11.4%	-1.4%	11.5
Japan	0.0%	1.7%	1.4%	Nikkei	7917.5	-50.4%	-16.8%	-7.0%	10.2
Russia	7.5%	14.2%	9.7%	RTSI	589.8	-74.2%	-28.9%	-10.4%	2.7
UK	0.3%	4.5%	3.4%	FTSE 100	4049.4	-38.2%	-10.6%	-5.6%	8.1
US	0.7%	3.7%	2.7%	S&P 500	876.1	-41.8%	-8.1%	-2.3%	10.6

All Data Source: Thomson & Reuters

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