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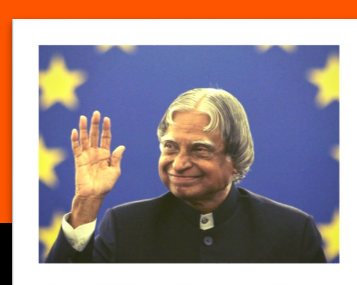
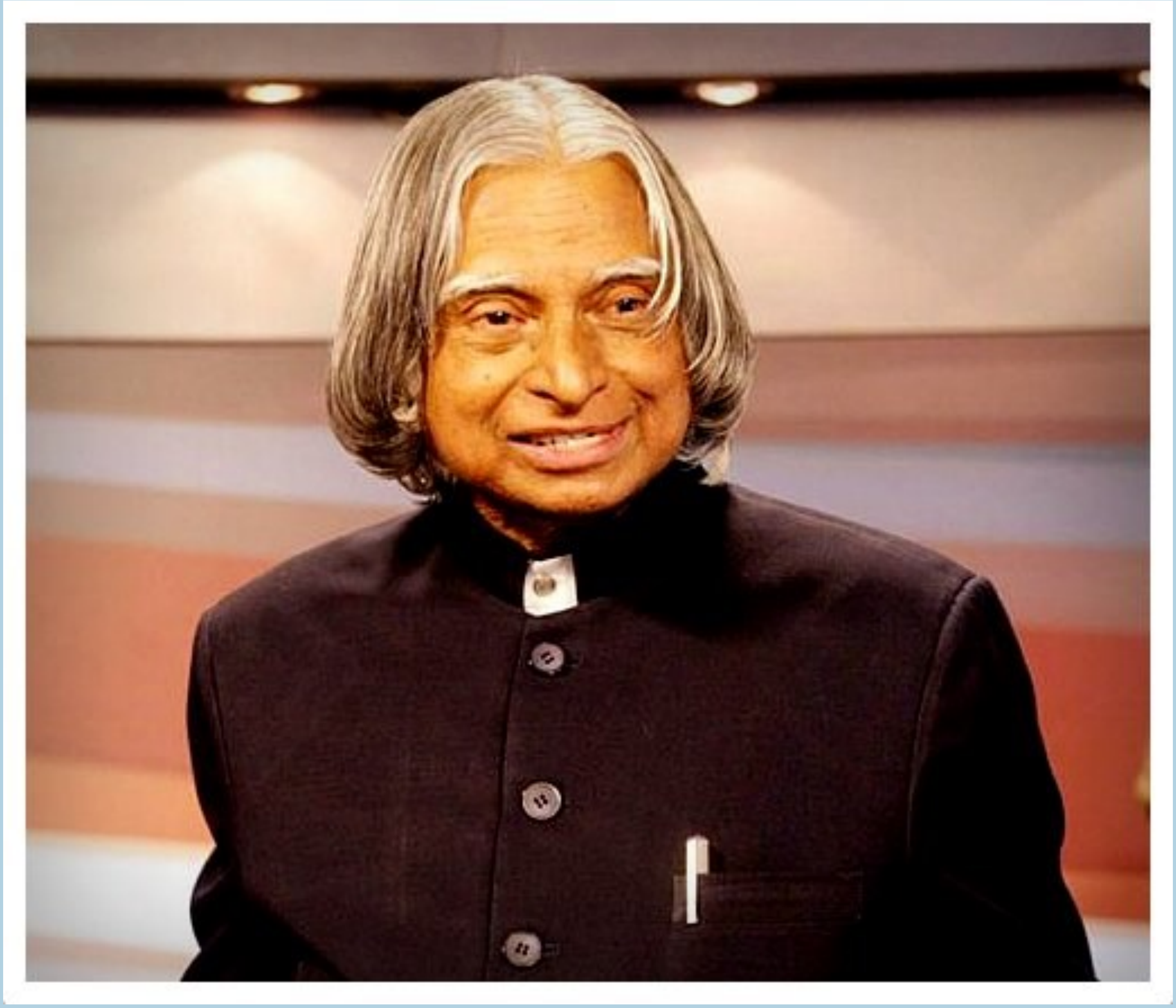
A FINANCIAL NEWSLETTER

WHEN EVERYTHING TURNED GREEK & CHINESE



Remembering The People's President



PC: www.newsgram.com

15th October 1931 - Forever

"Thinking should become your capital asset, no matter whatever ups and downs you come across in your life."

- Bharat Ratna Dr A.P.J. Abdul Kalam

REMEMBERING THE PEOPLE'S PRESIDENT

27th July 2015, 06:35 PM IST. When Helios, the Sun God who ignites himself and lights up the whole universe, was about to end his journey driving his chariot across the sky towards west, down here the man who ignited a billion minds, the visionary who taught a whole nation to dream, the People's President, the Missile Man left planet earth and his fellow mortal beings and began his journey to the cosmic world beyond our imagination. The great son of Mother India was doing what he loved the most and what he was known for when he left this world, as if even death had respect for what the legend really loved.

Indescribable is the word which is apposite to describe Kalam. The more we try to describe him, the more he becomes indescribable. Beneath that long hair, under the cranium, there was something beyond scientific explanation that took the thoughts and efforts of a nation beyond the Kármán line into the infinity.

Born into a Tamil Muslim family in Rameshwaram, Kalam led a simple and humble life. But his dreams were limitless and thoughts seamless. He believed that whatever we ardently desire, sincerely believe and enthusiastically act upon must inevitably come to us. God knows he would have actually dreamt of becoming the Chief of the Armed Forces when he was denied the post of becoming a fighter pilot. Seems like the whole universe conspired in helping the Missile Man achieve his dream.

The journey from Rameshwaram to Rashtrapathi Bhavan was not an easy sail for him. The man of the people, donned several roles before entering the Rashtrapathi Bhavan as the 11th President of the World's largest democracy. Scientist, Chief Scientific Advisor to the Prime Minister, author, poet, speaker, teacher and more. These are just a few roles from an endless list. Once he was asked how he wished to be remembered – President, Vision 2020, Missile Man or a Writer? The man who taught a billion minds to dream, never went for a second thought for answering this question. He always wished to be remembered as a teacher. A teacher who taught a generation that dream is not what we see while sleeping rather it is something that doesn't let us sleep.

May his great and pure soul rest in peace. Our humble pranam….!

Rajesh R

1420222

nishka

IN THIS ISSUE

Naik Amit Prashant
1420320

GREXIT: THE BEGINNING OF THE END OF EUROZONE

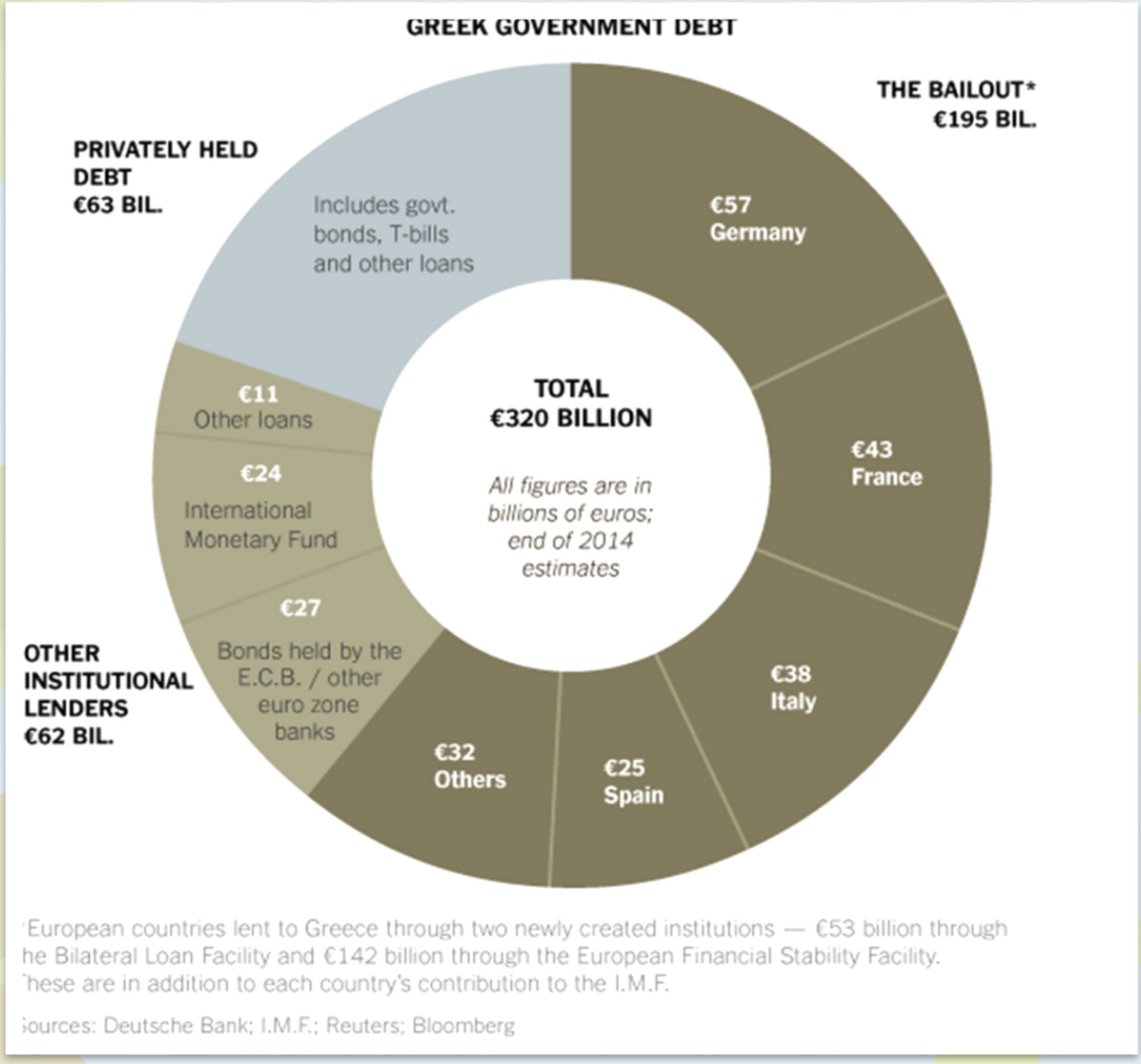
“Oxi”!!! “Nai”!!! Ever heard these words before? If you are an avid social media user, you would have observed that these words were trending on all social media platforms since the beginning of June and continue to draw our attention towards another trending topic on social media platforms- “Grexit”. The term Grexit was coined by Willem Buiter and Ebrahim Rahbari, both fellow Economists at Citigroup Inc. in February 2012 signifying the possibility of Greece’s exit from the Eurozone and the crisis that would follow. Apart from the already existing question in your mind as to what those above two trending words mean, a new question might arise as to why Greece would exit Eurozone. This article intends to provide you all most of the answers to those questions.

What led to the Greek Crisis?

Greece joined the European Union in 1981. However, it was not before 2001 that Greece adopted Euro as its official currency thereby replacing the ailing Drachma and securing the Euro-area member status. In order to secure the coveted Euro-area member status, Greece had to meet certain eligibility criteria with the most important being that the country needed to have a budget deficit of less than 3% of GDP. At the same time Greece had to lose its power to devaluate its currency at the time of crisis intended towards moderating and balancing the economy. Actual budget deficit of Greece, however, at that time was 6.44%. In spite of the numbers not favouring its economic position and the subsequent title of Euro-area member, Greece was able to manipulate the deficit with some creative accounting with the assistance provided by some wall street investment banks and bring the overall budget deficit down to 2.90%, which was well within the prescribed limit of 3%. This was however not known to the world until 2004, when the Finance Minister of Greece during a Television interview admitted to have fudged the budget figures. All these manipulative practices helped Greece secure inexpensive loans from European Commercial Bank (ECB)-(The Central Bank of European Union) and also tricked International Financial lenders in assessing Greece’s credit worthiness based on the overall performance of EU which is dominated by superpowers like Germany, France and Italy. Even after knowing where this was heading, the ECB and International Monetary Fund (IMF) continued offering inexpensive loans to Greece to facilitate its socialist policies, which were aimed at the greater good of its citizens.

However, all the hypocrisy surrounding Greece was finally exposed in 2008 when the Global Financial Crisis hit the entire European Union massively. While Germany and France, being the two foremost economically stable economies of EU, were impacted substantially from the crisis, Greece was not too far and also felt the jitters surrounding the crisis. The Yawning gap between the revenues and expenditure and the collapse of the tax collection mechanism were some of the immediate effects that the Greece government had to face as a result of the financial crisis.

By the late 2009, Greece was facing a severe Sovereign debt crisis when the government announced that the budget deficit was 12.7% of Gross GDP instead of the forecasted 3.7%.



In addition, the then Finance minister reiterated the claims made by the former Finance Minister about having understated the deficit figures since Greece's entry into the EU. This caught the eyes of the international investors and as a result Greece was prevented from borrowing in the global financial markets and by the spring of 2010 Greece was heading towards bankruptcy which threatened to bring about a new financial crisis.

In order to avert such a catastrophe from happening, The European Troika comprising of European Central Bank, International Monetary Fund and European Commission, issued a bailout package of €110 billion in May 2010. Soon to follow was another bailout package of €130 billion in April 2012. However this time the bailout came at a high cost. The troika laid a series of conditions which included substantial wage and pension cuts, increase of retirement age from the current 61 years to 67 years, introduction of sales tax and other duties and austerity measures. However, this was not implemented by any of the successive Greek governments as it amounted to defying the expectation of the Greek citizens.

Has Greece Crisis been averted for now?

At the outset of 2015, Greece economy was plagued with severe economic recession with the overall unemployment rate reaching a staggering 26% of the total population, while the youth unemployment rate rose to 50%. The real GDP of Greece had almost fallen by over 25% over the last 3 years. Amidst the entire crisis, the Greek citizens gave a historic mandate to the Syriza party, which fell short of two seats to secure a majority in the Greek general elections and Syriza's leader Alexis Tsipras was sworn as the Prime Minister of Greece on 26th January 2015. While the government promised to bring Greece out of the crisis, it also promised to not fall prey to the demands of the international funding agencies with respect to the revival of Greek economy. On 20th February 2015, the finance ministers of the Euro-area members collectively resolved to broker a deal between Greece and the European Central Bank for a four month extension of loan payment which was due on 28th February 2015. As a result the loan repayment date had been moved to 30th June 2015. A similar postponement of loan repayment amounting to €1.6 billion was sought by Greek government that was due to IMF on 5th June 2015 for 30th June 2015 which was agreed upon.

With all eyes on 30th June 2015, came another shocking revelation from Prime Minister Alexis Tsipras who on 26th June 2015 announced that Greece will not be able to repay its international creditors and is likely to default. This sent shockwaves across the Global Financial Markets with almost all the major Stock Indices reeling in red. The situation further worsened when the Central Bank of Greece recorded the lowest deposit level in 11 years, indicating a surge in withdrawal by the Greeks on fears of the collapse of banking system in Greece. This compelled the Greek government to announce capital controls on withdrawal from banks to the extent of €60 a day apart from limiting pensioners to withdraw up to € 120 per week and closure of the banking system till 7th July 2015. After having missed the deadline of 30th June 2015, the international creditors vowed to take a call on 7th July 2015. Unable to reach an agreement with its international creditors on bailout package, Tsipras called for a referendum on 5th July 2015 and gave the ultimate power to the citizens of Greece wherein the citizens had to either select Oxi (No) or Nai (Yes) to the question posed to them on whether Greece should stay in European Union and concede to the demands of the International lenders or reject the terms of the bailout package thereby putting on line its Euro member status. The Outcome of the referendum astonished the international community as 61% of the eligible Greek voters had voted in favour of rejecting the terms of bailout package. This compelled the government to further extend the capital controls and bank holiday till 20th July 2015.

The Greece crisis virtually came to an end on 13th July 2015, Greece entered into an agreement with Eurozone countries to accept € 86 billion as a bailout package over a 3 year period depending upon the progress economy undergoes during this duration while Greece has agreed on implementing terms and conditions of the bailout package.

What's in store for the future for Greece?

Though the crisis has been averted for now, it appears that this crisis will come to haunt the Eurozone in the near future. Lending funds to Greece is not the ultimate solution to the problem. We need to look at the bigger picture which involves bringing Greece's economy back on track. It is the prerogative of the lenders to ensure that Greece adheres strictly to the guidelines laid by them so that such a crisis situation can be avoided in the future.

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GREECE IN OR OUT?

Vignesh J || 1420434

The birthplace of democracy, Olympics and famous philosophers, now, a nation of unemployment, austerity and a confused Government. Greece had only two options ever since it borrowed heavily from the European Union (EU) and the International Monetary Fund (IMF). Either to stick with bailout, enduring the austerity or reject the terms of bailout, defaulting and GREXIT.

WHY GREECE WANTED TO BE A PART OF EUROPEAN UNION?

When the EU was formed, Greece entered the Union as it wanted support and the status that European Union member nations enjoyed.

Single Market

Resulting in low prices of goods.

More jobs

Citizens can move to member countries freely.

Development of deprived regions

European Structural funds.

Louder voice

Bigger the size of the market.

Apart from the listed advantages of being in EU, there were other advantages such as increased employment opportunities.

It also considered the protection of the workers through the European Working Time Directive which regulates the holidays, working hours, breaks and other labour related issues.

For Greece, it was more about the gratification it derived from being an EU member.

WHY GREECE SHOULD EXIT THE EUROPEAN UNION?

Everything would have been good, if only, the objective of the EU, to remove the uncertainty and unemployment was monitored closely. The EU is one of the remedy for the endless wars between countries like France and Germany, also, supported by other institutions such as the European Coal and Steel Community and European Economic Community.

LANGUAGE

Language is the major barrier amongst the members of the EU. If the economy is strong in Spain, can a Greek labour move to Spain for a job? Yes, however, not without knowing Spanish. Unlike US, where English knowledge is cardinal, Europe has diversified cultures and languages which make it less flexible.

MONETARY POLICY

In India, if there is an economic slowdown, RBI can adjust the monetary policy in order to control the money supply in the economy. Can the same happen in Greece? No, Greece has to look up to European Central Bank (ECB) for any fiscal policy changes. It is very unlikely that ECB will tweak its monetary policy to empower Greece when there are 18 other member states.

If Greece was not a part of EU, after the Global Economic Crisis of late 2000's, instead of turning "recession into depression", it could have printed drachma, increasing its exports by reducing the value of its currency, in order to recover from recession which became impossible, as different member countries had different impacts on their economy.

Should Greece stay a part of EU? Or not? There are discussions and debates on the same. For all that we know, Greece economy is getting worse and the citizens are not happy either. Should it follow Argentina? Or, should it just hope on the future? It is for the Greece Government to decide now.

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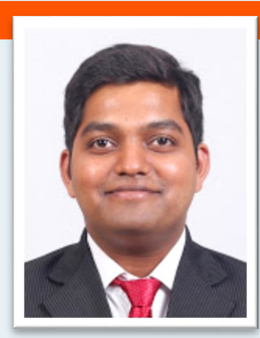
DID YOU KNOW?

No one in Greece can choose not to vote. Voting is required by law for every citizen who is 18 years or older.



GREECE CRISIS AND ITS IMPACT ON INDIA

Sagar S G || 1420224

Countries which are connected globally have a contagion effect, so if one market falls on the trap, the other market has the odds of falling on same track. Does Greece crisis show evidence for this? Greece has just got its third bailout and it is one of the trading partners of India, will that have any implications on the Indian economy?

Though India's exports to Greece form a meagre $381mn (0.14% of total exports), India's trade with EU is significantly high, where the leading countries are UK, Germany and Switzerland. Current scenario in FX market shows that, the Euro stands at a risk of high volatility and likelihood of Euro to depreciate against dollar are high. As India's major trading partner is EU, it will hit India's exports (esp., software and engineering exports) negatively, since India ought to receive fewer Euros in exchange to rupee for its exports which stand at $56.9 bn to European countries.

The world financial markets operate on the basis of certain conservatism, where; if one market falls, institutional investors tend to withdraw their investments from developing markets to safe guard their money. Greece is a part of EU, to whom the exports from India is around 40% of its total exports and this association with troubling European economy makes India look more vulnerable. But the aforementioned scenario will occur only when the Greece crisis trigger other struggling European nations like Spain and Italy to follow the queue of Greece and worsen the situation in EU. The resulting EU crisis will increase the volatility of Indian capital market due to flight of foreign investment which in turn affects the rupee.

Situations like these push the prices of bond market higher and it will lead to higher borrowing costs. Higher borrowing costs would lead to higher amount paid for imports, which will in turn lead to inflation. Apart from Greece crisis, country's domestic factors will determine the market outlook in long term though market shock prevails. India cannot afford external factors contributing towards worsening the business outlook. It is indeed heartening that the government had sensed the challenges as early as in 2012 and had decided to cut down its exports to EU and channelled the same towards developing economies. Though the earnings will not be as high as those in developed economies, there is at least greater amount of guarantee in terms of investment being safe.

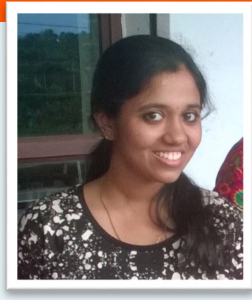
The best reference to this situation can be when the Indian rupee came to a 13 month low of Rs.63.59 against USD when Russian central bank hiked their interest rate from 10.5% to 17% to attract foreign funds and Sensex slumped 583 points (Dec'17,2014) and it was not entirely driven by domestic factors. Though falling oil prices caused it, India had to bear the brunt. The above mentioned situation might trigger currency risk pulling all the economies to suffer. After struggling for a long time to put India on track by containing Inflation target, stabilising rupee, servicing the CAD through favourable oil prices, any impact from Greece crisis will give tough time for India to bounce back.

The situation though is unfavourable; India can still capitalize on the opportunity. The value and demand for dollar will probably increase against euro and USD appreciation could make Janet Yellen, Chair of the Federal Reserve to rethink about interest rate hike. It will lead to favourable market scenario for India and other developing economies. Indian markets tumbled intraday but closed in green signal which shows that it was just a knee-jerk reaction and the Indian economy will not be impacted for a long period of time, since it has been safeguarded by diverting the exports to UAE, Asian and African economies. Hence, short term volatility is only due to panic prevailed due to Greece bailout and Indian economy is determined mainly by domestic factors like interest rates, inflation, trade etc.

It can be concluded that, though the Greece crisis does pose an indirect threat to export earnings and currency depreciation, India is well prepared with adequate foreign exchange reserves of $353.648bn. Greece crisis shall persist. But shall not be a major threat to the growth of India.

DID YOU KNOW?

Greece isn't really the country's name. The Greeks refer to their country as Hellas or Ellada and its official name is the Hellenic Republic. However, the vast majority of the world calls Greece. The English word derives from the Latin Graecia, which was used by the Romans, and literally means "The land of the Greeks."

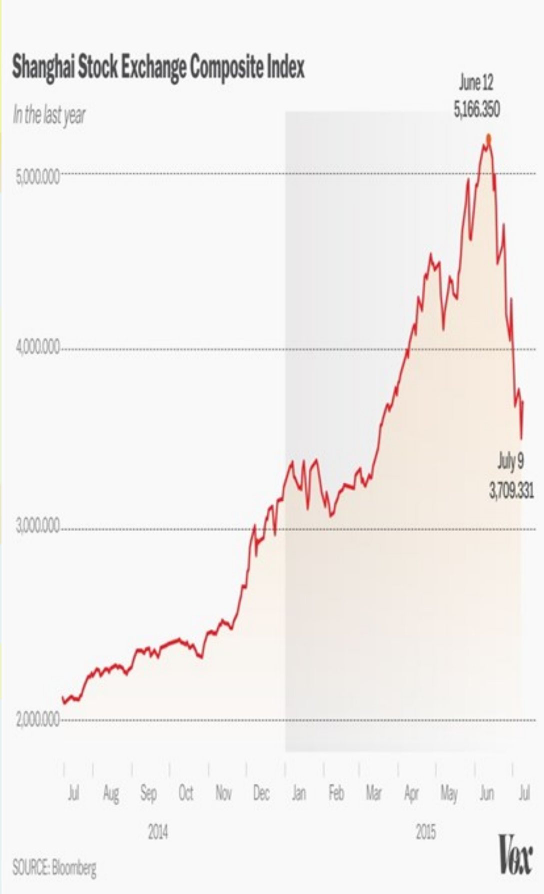


Akshya R K || 1420437

WILL PBOC AND THE CHINESE GOVERNMENT SUCCEED IN STABILIZING THE 'CASINO'?

It is no wonder that the Chinese market is being called a 'CASINO'. The complete detachment of China's stock market from its economy was one of the major causes for the worst plunge seen in the market. The Chinese market showed an extremely growth of 76% till May'15, after which it experienced a severe fall of 30% in a span of one month. It was said, that when it comes to speculation on stocks, more than $564bn (RMB 3.5 trillion) is linked to debt. Which means that if Chinese stock market declines at a rate of 30% in one month, a severe impact on the debt of the country would be seen. To avoid this, China has been taking quite a few measures to stabilize its market. China is not the first country to prop up a declining stock market; America, a few European countries and Japan have already experienced the similar situations.

From the graph shown, it is clear that domestic stock market in China, (measured by the Shanghai Composite Index) has experienced a steep fall of about 30% from its position in May'15. There has been a drastic fall of more than 10% in major stocks relating to medical care, e-commerce, smart phone appliances etc. The biggest victim of this crash would be the common man in China as he has invested a huge share of his savings in the stock market. Chinese government had to take certain drastic measures by introducing a buffer to reduce the wide fluctuations in the market rather than taking steps to keep the index above the benchmark level.



To stabilize the stock market and to create a positive impact about China in the global market, Public Bank of China (PBOC) has taken a series of measures. The country was surprised by the PBOC's decision to cut down the reserve requirement ratio (RRR) from 5.10% to 4.85%, which the banks must hold from its deposits to meet the demands of the depositors. PBOC decided to cut down RRR with the aim of substantially increasing liquidity in to the economy, so as to prepare itself against slowdown in the performance of the economy. The world has not witnessed such a huge cut in RRR after the subprime crisis in late 2008. This shows that China is in real trouble and it has no option but to ease the monetary policy and inject money into the economy to counter the looming deflation. When the market was expecting a cut by 0.5% in RRR, PBOC declared a full percentage cut to 19.5%, which released 1.5 trillion Yuan to the economy. This gave the avenue for banks to cut their lending rate as well.

In the same lines as what US Federal reserve did on the infamous "Black Monday", when the stock markets globally imploded during 2008. PBOC took the path of cutting the lending rate by 25bps from 5.10%, after witnessing a drop in stock market value of more than 25%. US federal, at that time, had encouraged financial service institutions to continue lending money to boost confidence in the investors. China also took a similar stand and wished to give the impression that the ease in monetary policy would bring stabilization in the stock market. Both these measures, which were intended to stabilize the price of stocks, failed miserably in the Chinese stock market.

To boost the confidence of the investors, the China Security Finance Corporation, also joined the issue and made a public comment stating that trading in the stock market is not very risky and is controllable. For first time in history of China, the local government injected pension funds of 1 trillion Yuan, amounting to about 30% of net value on pension fund, into the equity market, with an expectation that this would enhance the liquidity in the market. However, this did not bring an end to the deleveraging condition of the stock market.

A few intimidating measures were also taken by the Chinese government to prop up its market. Traders who resorted to short sell and bet on decline in stock market were threatened of arrest by the government. The China Financial Futures Exchange (CFFEX) and China Security Regulator Commission (CSRC) had set up a team to probe into the market to find the investors who used to short sell in the stock market (as on 20th July'15, 19 accounts were suspended on the suspicion of illegal manipulation of the stock market). As a result of this a few investors who short sold in the market, (the top 21 securities brokerages of China), decided to invest a minimum of 120 billion Yuan to nullify the damage done by them. Following their footsteps, China's state owned Central Huijin Investment limited (CHIL) also decided to take a few steps to reverse the effect created by market manipulators by purchasing exchange trade funds. CHIL made a comment upfront that they will continue purchasing ETF to increase the cash inflow for the economy.

Unlike in any other situation, this year China's stock market was flooded with investments from ordinary Chinese. People who owned more than 5% of the stocks from particular businesses were banned from selling their shares for another six months by the Chinese government. Bloomberg published data stating that more than 40% of the Chinese companies halted their trading in the market. It accounted for 1300 companies, which froze $206 trillion of shares. As stoppage in trading would weaken the investors' confidence, Chinese stock also lost value of more than $3.5 trillion owing to this temporary trading suspension.

The final measure that China took was more comforting than threatening i.e., they loaded up a cash pile which was distributed among the public who wished to buy shares in stocks to stabilize the market; this was called ‘Bazooka’. PBOC decided to print currency. This was expected to be used for buying stocks in order to stabilize both the stock market and the currency. This would help the small (retail) investors who have just entered stock market and faced dramatic failure, to face the situation with some confidence. The small-scale investors have witnessed a growth of nearly 150% in stock market in the first half of this year, resulting in an increased number of people who have invested in stocks. It was a complete shock for these small-scale investors when the unpredicted drop in the prices came about.

If PBOC’s ‘Bazooka’ fails, then China Securities Finance Corporation (CSF) plans to buy a few blue chip stocks to stabilize the market price. Another gamble taken by China was to devalue the Chinese Yuan, which was done with the target of making exports cheaper and also expecting the same to kick-off growth in the economy. All the measures which have been taken by China so far have failed to soothe the Chinese market. However, without any policy intervention by PBOC, the economic correction would have been a disorderly process. These herculean efforts taken by the Chinese government are expected to show a positive impact through soft landing of the stock market in the long run.

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Savita H || 1420454

WHAT POWERED UP THE CHINESE STOCK MARKET BUBBLE??

Introduction:

The recent stock market crash in China has reduced the value of Shanghai composite by 1/3rd of the value within a span of three weeks. Can this be considered as the bursting of a tech bubble? Also, what caused this bubble? Can this be compared with the tech bubble burst in 2000? The essence of this article is to elucidate the answers to these questions.

Was there a Stock Market bubble in China?

Let us first examine whether the situations prevailing in the Chinese market exhibit the characteristics of a tech bubble. A tech bubble is characterized by very high levels of speculation in the stocks of a particular industry, where prices of these stocks rise beyond a threshold limit without any fundamental backing. When the bubble reaches its pinnacle, a sea of tech companies try to raise capital by way of IPOs in an attempt to ride on the speculative market interest. In this case, the Shanghai composite index rose in value by approximately 50 in the preceding year. On an average, stocks traded at an implausible 220 times their reported profits, making the dot com bubble look meek in comparison. During the year 2000, technology companies showed a mean price earnings ratio of 156. In the past year, China witnessed a total of 147 tech IPOs; companies fetched as much as 1,871 times their offer price. With these facts, it can be concluded that there was indeed a technology bubble in China.

Comparison between Dow Jones and Shanghai composite:

The Shanghai Composite is not completely representative of the Chinese economy, unlike Dow Jones, that aims to provide a fair representation of the US Economy. The portrayal of manufacturing companies in the Shanghai composite is minimal. Manufacturing firms in the country, are state owned and are not listed in stock market, as China is a communist economy. Hence the Shanghai composite's value does not give a true depiction of the economy. Another key difference is that companies from all over the world can be listed in Dow Jones whereas even the stocks of companies from Hong Kong are not included in the Shanghai composite. The other difference was that the composition of the technology sector in Chinese equity market was less than the composition of U.S technology sector in Dow

Jones during 2000s.Adding to these, is the fact that retail investors are the key contributors to the Shanghai markets whereas Institutional investors are the key contributors in other dominant markets.

Efforts by the Chinese government to boost the economy and the consequences:

The slowdown of the Chinese economy is evident, seeing the fact that an economy which has posted double digit growths for years together is now growing at 7.5%. The Chinese Government sought to diversify so as to decrease the over dependence of the economy on manufacturing. The Chinese government being the biggest net importer of oil, made huge savings in the past year due to the oil glut. Chinese savings had increased but the domestic demand and other economic indicators had slowed down implying that the economy was entering a deflationary phase. In order to trigger growth in the real economy, the government owned banks reduced the interest rates to create a boom in realty sector. As a result, the common man in China, taking advantage of the lower interest rates, borrowed heavily and subsequently invested in the markets, predominantly in technology stocks.

'A-Shares' were initially available for trade only by citizens of China and were listed in stock exchanges in the main land of China. 'H -shares' were shares of Chinese companies listed in Hong Kong Exchange, which were denominated in Hong Kong Dollars and could be traded by anyone but had to abide by conditions put forth by Chinese regulators. Certain companies (86) were listed as both 'A Shares' and 'H Shares'. There always existed a price differential between the two; however, arbitrage was not possible due to the restrictions. The rally in A-shares started in the third quarter of 2014 not only due to local investors' expectations for policy easing but also a shift in investment appetite away from the slowing Chinese property market into equities. This had spill over effects in Hong Kong markets. In November 2014,the Shanghai-Hong Kong Stock Connect was launched which proved to be a great boost to market sentiment as an inflow of foreign funds into A-Shares were expected. However, it is noteworthy that this linkage only promised a daily quota based trade and not a free link. Theoretically, an arbitrage was expected until the price differential became zero hence creating expectation for fair valuations of all the stocks. But this did not happen due to structural limitations. On the contrary, the premium of A Shares over H shares went up to as much as 130. In 2006-07, when a similar bubble was building in the main land stock markets, economic tightening was enforced, but in the recent case, due to the fear of recession, further monetary easing ensued leading to added inflation of the bubble.

Profile of the investors:

In the past five years nearly 80% of the market turnover could be attributed to retail investors. This rocketed to 90% this year after 4-million new accounts were opened in March, bringing the total to 182-million.A recent survey showed that a shocking 67% of the investors were not even high school graduates. Unlike the Wall Street, most of the investors who inflated the Chinese bubble were novice investors- house wives, farmers and workmen who actually borrowed to invest in markets. Clearly they were speculators who had minimal understanding and only just ensured that it was a technology stock before investing.

Marginal Financing:

The stock market bubble was mainly fuelled by easy availability of credit. In the past year, USD 339 million worth marginal financing was done (Marginal financing as a percentage of market capitalization in the main land China Stock Exchanges and NYSE is approximately same). However, the worrisome factor is that the amount of marginal financing taken had almost doubled in a year. However, it is important to note that there is a minimum threshold on the amount that can be borrowed from these brokerages and this also offered some scope for regulation. The most precarious trend was set when peer to peer online lending portals started blooming-these portals did not have a minimum threshold limit on borrowing and hence invited retail investors from the economically weaker strata to speculate. However, the annualized interest rates these online lending portals were charging were a whopping 22%. This offered extremely high leverage but what the retail investors failed to see was that it was a double edged sword and could result in extremely high losses if the returns on the stocks they invested fell.

Magnitude of devastation caused by the bubble burst:

It is estimated that when the markets fell, the investors lost money equivalent to 1.2% of China's GDP. This is greater than the 'combined' value of losses that investors incurred during the 2000 dot com bubble burst and the 2008 financial crisis.

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DID YOU KNOW?

Greek ships make 70% of the European Union's total merchant fleet. According to Greek law, 75% of a ship's crew must be Greek.

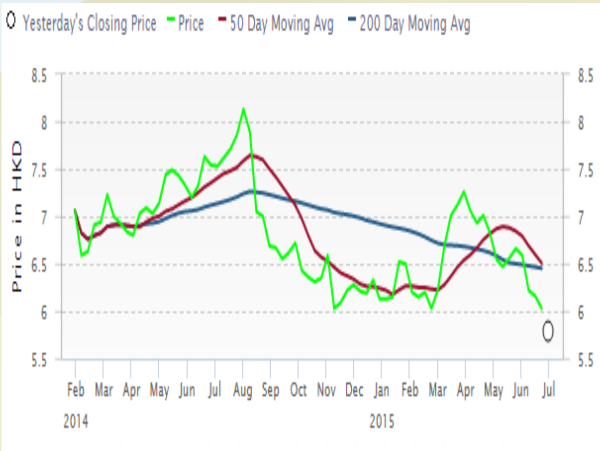
Aravind Nair
1420106

FACING UPSTREAM - IS THE CRISIS FOR OIL & GAS THE NEW NORMAL?

Oil and Gas price crisis is not a new phenomenon, previous instances in 1970s and 1980s had resulted in skyrocketing of oil prices. But the issue is making headlines because of the scarcity of the resource, this means that such emergency will manifest later on too. The statistics does not support the preposition altogether though with better technology and expertise in the field of oil extraction and other conventional oil resources, the oil reserves have increased by 60% of what they were about two decades ago and the production of oil has gone up by 25% too. The current crisis can be attributed to the sudden emergence of the US, as its production to a half a century high. This has put pressure on the OPEC countries which house maximum of the world's oil reserves. Since this questions their supremacy in the oil industry OPEC has not budged and reduced its production. This has created a competitive environment in the industry by achieving a record low prices per barrels. Future Estimates put china as one of the biggest consumers of oil with an increase in demand by 9.4 million barrels per day by 2030 (source: IJAR, overview of global oil scenario). The regions with spurting refinery capacities are OPEC nations, India. US and China. This spells out an excellent opportunity for capacity augmentation as the consumption trends will increase in these regions especially Asia. Estimates also say that several field in China are yet to reach their peak output.

The Company I am focusing here is not a part of the Major two geographies discussed above i.e. the US and the OPEC, Sinopec is a Chinese oil and gas company based in Beijing, it is a state owned company and in terms of the revenue generated, it is one of the largest oil companies in the world. Apart from oil and gas refining and exploration Sinopec is also into production and sales of petrochemicals, chemical fibres, chemical fertilizers, and other chemical products; storage and pipeline transportation of crude oil and natural gas; import, export and import/export agency business of crude oil, natural gas, refined oil products, petrochemicals, and other chemicals. Sinopec has made some good acquisition in Europe and Africa, specifically Africa (Angola, Nigeria, Cameroon, Egypt, Ethiopia, Sudan and Gabon).

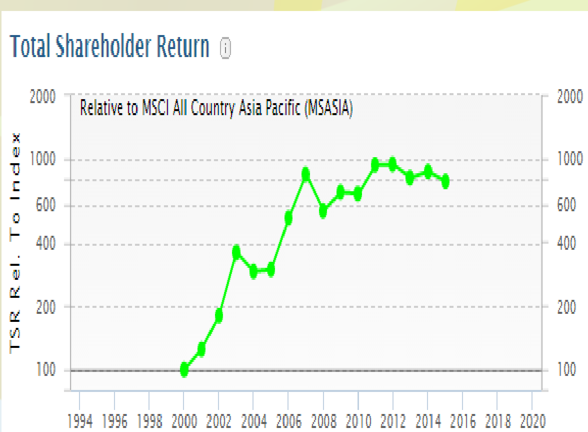
Taking a look at the Market Performance of the Sinopec stock over one year:

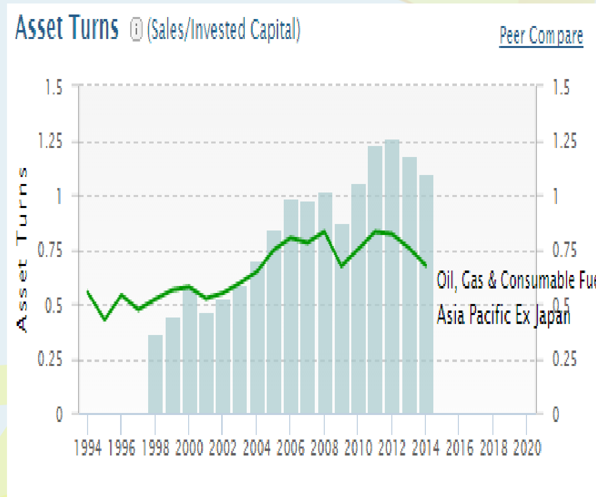


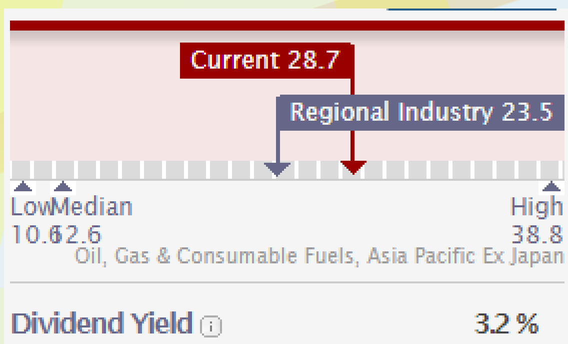
The Stock has shown great signs of bullish movement with the stock price breaching the 200 day moving average from below in the month of March. However though the current picture is not so rosy. It is because of the tumultuous Stock market in China which wiped off close to 3.5 trillion and trading of stocks of many companies were suspended.

The Shareholder returns have been fairly stable over the past 6-7 years

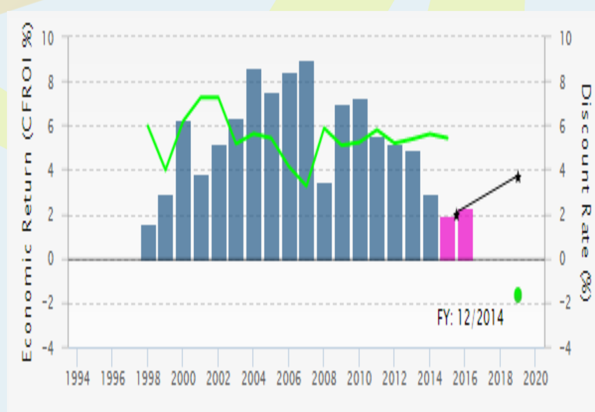
This is a level of how well Sinopec has used its assets and how efficiently have they been utilised. We can see that the asset utilisation is better than the industry average.







The Holt P/E multiple is better than the industry average reflecting the stock holders confidence in the company.



The HOLT CFROI i.e. the cash flow return on investment is a measure of how much economic wealth the company is creating, it is basically surplus value created on an investment. This model considers that it is the cash flow that drives the returns and not just the corporate performance and earnings.

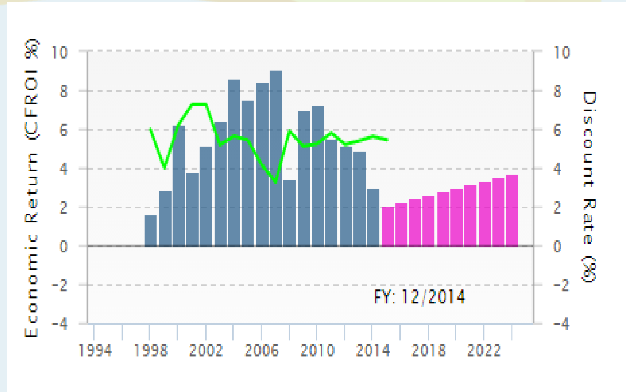
The cash flows are compared with the cost of capital of the corporation. It must exceed the cost of capital of the project to satisfy debt financing and the investors expected return.

The CFROI trend of Sinopec has more or less been in sync with the market the Holt model pegs the 2019 industry return at -1.6% while the company is giving returns at close to 4%.

The HOLT FLEX VALUATION model in a ten year outlook presents a picture that compliments the industry outlook for china. In the next ten years or so, with the increase in demand for oil in the Asian subcontinent, Chinese oil companies will emerge as front runners having strategic reserves around the world as well as expanding their reach to other countries as well, such as the recent shipping of its second ever jet fuel cargo to Europe, once considered a rare trade route, as the refiner looks to expand its global market share.

Valuation Matrix | Advanced Options — Years: 10 (Max:20)

	2011	2012	2013	2014	T+1	T+10
CFROI %	5.56	5.21	4.95	2.97	2.07	3.73
Real Asset Growth %	5.00	4.86	7.54	3.95	2.16	2.16



This rosy picture for the Chinese oil and Gas industry can be disrupted by some factors both internal and external.

Internal Factors:

Brittle Politics: the Chinese Political Scenario is such that it has not opened it markets freely. The Government was slow to approve new IPO's for promising start-ups. The financial system also inflated the bubble during the recent crisis as large sums of money were pumped into the market. The problem also arises with the inability to find investments with good returns which has started investment frenzies in various sectors, also the fact that when the markets do well the Medias project it as though it is the result of the financial measures taken by the government. Now that it's falling the regulators want to shore up the leaderships reputation.

The Structure of the Markets: the communist government has never minced its words while describing the feeling of distrust for the market forces. Therefore, the markets have played a smaller role in China. The amount available for trading in Chinese markets is a third of the GDP, compared to 100% in developed countries. Hence a panicked response to the July crisis will only cast a doubt on the minds of the investors about the government's stance over such crisis situations.

External Factors:

Competition:

Even though the growth in capacity and refining capabilities is immense in China, OPEC countries still have the maximum reserves and have strength to control prices.

The balance between returns on capital and host countries' interests is a delicate matter. A number of countries, for political reasons, have limited the access of international companies, if China has to have a view of the bigger picture, it has to relax a lot of regulations. Also the emergence of US as a strong produces will also hamper China's market. The current weakness in the oil market, which stems in large part from strong growth in tight oil production in the US, is likely to take several years to work through.

Conclusion:

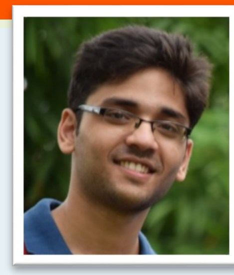
The current scenario pegs china in a favourable position in the oil and gas industry against its contemporaries in Asia. The main competition will arise only from US and the OPEC.

I feel, Sinopec with its current position is a favoured investment, as it has decent offshore projects as well the capability to build on the existing local demand.

Note: the Credit Suisse HOLT methodology uses Tools which facilitate the aggregation of markets, indices, sectors and industries, letting you confidently compare asset classes, regions/ countries, and investment styles. Conduct objective portfolio reviews to balance risks within your portfolio, and facilitate comparisons with the most relevant benchmark.

DID YOU KNOW?

Greece is almost five times as big as Massachusetts, but Massachusetts' GDP is twice that of Greece. Greece's gross domestic product is $242.2 billion, while Massachusetts' is $420.75 billion. Massachusetts is 10,554 mi^2 (27,336 km^2), while Greece is 50,949 mi^2 (131,957 km^2).

RBI COLUMN

Aaradhya Shukla & Rishab Khanna
1420101 & 1420128

Licenses for Small Banks & Payment Banks

- In its aim to achieve financial inclusion, the RBI has said that it would issue licenses to small and payment banks within a period of two months.
- The move has been initiated to offer saving vehicles and credit to small businesses, farmers and the unorganised entities.
- The payment banks are expected to offer differentiated banking services to the people such as payment/remittance service, accepting only demand deposits, issuance of pre-paid payment instruments etc.

RBI to support farm produce aggregation

- To support the Indian farmer community, the RBI is expected to aggregate the agricultural produce and facilitate credit flow to the sector.
- The new priority sector lending rules have been extended to the foreign banks and the RBI has issued a roadmap along with timeframes to meet the PSL targets.
- The foreign banks are expected to provide financial assistance to the Farmer Producer Organisation (farmers forming groups and getting it registered as a company), and thus satisfy their PSL targets easily.

RBI issued ₹ 100 notes with new numbering pattern

- In a move to ensure better security for the people and to avoid counterfeiting of money, the RBI issued a new numbering pattern in the 100 rupee note of the Mahatma Gandhi Series – 2005.
- The new numbering pattern will be having numerals in both the panels of the banknotes in ascending size from left to right while the alphanumeric numerical characters will remain constant in size.

RBI allows the issue of semi-closed Prepaid Payment Instruments

- RBI allowing issuance of Prepaid Payment instruments will help the government initiative to move from cash based economy to a digital one.
- These cards will facilitate purchase of goods and services but will not permit any cash withdrawals.
- RBI has held the country's economy in a strong position during tough times and has ensured that its action are in sync with the overall efforts of the government to achieve better stability and growth for the Indian economy. In the coming monetary policy review of 4th august, the RBI is expected to cut down its prime lending rate by a few basis points on the ground of lower oil prices, better monsoon and a controlled inflation regime.

Srinu T || 1420132

STOCK MARKET ANALYSIS

BSE Sensex started the month of July, 2015 at 27823 and ended at 28114 showing an upward change of 291 points, reflecting an average change of 1.28%. The highest price for the month of July, 2015, was 28578 and the lowest price was 27416. Sensex was very volatile during this month. It started on a positive note by gaining 400 points in the first week but went down by almost 700 points during the second week due to the fall in the Chinese markets and even worse than expected retail inflation data dented hopes of an interest rate cut by the central bank. It gained 1000 points in the third week due to a landmark nuclear deal with Iran giving some support to stocks but again fell by 1100 points by the start of the last week, due to the deep fall of the Chinese Markets. In the last three days of the month it recovered and gained back 650 points. The top gainers in Sensex were Dr. Reddy's Labs (13.96%), Cipla (11.99%) and BHEL (8.46%). The top losers were Vedanta Ltd. (-26.01%), Tata Steel (-19.33%) and Tata Motors (-13.59%). While in the NSE, CNX Nifty went up by 156.6 points reflecting a 2.03% average overall change, from the last month, with the highest at 8654 points and the lowest it went to was 8315 points. Nifty closed at 8532 points by the end of the month. The top gainers in Nifty for the month of July, 2015 were Bank of Baroda (18.10%), Asian Paints (16.04%), Dr. Reddy's Labs (14.06%), Cipla (11.68%) and IndusInd Bank (11.67%). The top losers in Nifty for this month were Vedanta Ltd (-25.99%), Tata Steel (-19.56%), NMDC (-13.79%), Tata Motors (13.64%) and Oil & Natural Gas (-13.13%).

Improved performances were seen in the Technology, IT, FMCG, Capital Goods, Consumer Durables and Auto Sectors. There was an average performance in the Banking, Healthcare, Power and Oil & Gas sectors. The sectors which performed poorly for the month of July, 2015 were Realty and Metal.

Some news on the big market movers:

- Sun Pharmaceuticals Industries which fell by about 15% on July 21st after the company warned that its sales in 2016 would be flat at best.
- ICICI Bank dragged down the market on July 24th due to its exposure towards the debt laden Jaiprakash Associates, which was downgraded by CARE.
- Reliance Industries too fell ahead of its Quarterly results. Maruti Suzuki an-

nounced its quarter one profits. The sales for the April-June rose about 18% to Rs.130.8 billion compared to Rs.110.7 billion and a net profit of Rs.11.9 billion compared to Rs. 7.6 billion, of the last year's first quarter results.

- SpiceJet announced a net profit of Rs.718 million compared to Rs.1.24 billion loss of last year's first quarter results. It plans to buy new Jets either from Boeing or Airbus and set a deal worth $11 billion.
- Bank of Baroda and Dr. Reddy's Labs also posted good positive numbers in their Quarterly results.

On the commodities front, the crude oil prices went down gradually. The whole month saw a change of -22% from July 1st to July 31st due to over production of Oil and excess supply of oil from the US and other OPEC countries. It started the month with the price of $59.35 and ended the month at $47.78. The lowest price of crude during the month of July, 2015 was $46.68. The prices of Gold also went down and recorded a change of -6.70%. The price of Gold started to rise in the first week of July but eventually declined during the rest of the month. The last traded price as on July 31st, 2015 was Rs. 24592.

The currencies were also volatile this month. The USD/INR value saw an average change of .45% in the month of July, 2015 and ended up on USD/INR 63.89. The highest value was USD/INR 64.34 and the lowest value was USD/INR 63.24. The EUR/INR saw a negative change of -0.17%. Its price ended at EUR/INR 70.71, on July 31st, 2015. The highest value was EUR/INR 71.44 and the lowest value was EUR/INR 68.74 in the month of July, 2015. The GBP/INR also depicted a negative change of -0.13%. The highest value was GBP/INR 100.58 and the lowest value was GBP/ INR 97.11. The last traded price as on July 31st, 2015 was GBP/INR 99.72.

DID YOU KNOW?

Back in the fourth century B.C., 13 Greek city-states borrowed from the Temple of Delos. Most of the borrowers, however, never made good on the loans and the temple took an 80% loss on its principal.

Naveen Anil
1420121

INSIDE FINANCE

A COLLECTION OF EVERYDAY TERMS AND CONCEPTS

Chattel Mortgage - is similar to a hire-purchase agreement although the business owns the asset from the start. Chattel mortgages require regular ongoing payments and typically provide the option of reducing the payments through the use of a final 'balloon' payment.

Dual Pricing: Is when one price is presented at the beginning of an online shopping experience and gradually, incremental fees and charges are added (or 'dripped') as you progress, for example, when buying a plane ticket. Drip pricing can result in the customer paying a higher price for a service or product than they first thought. As a business owner, you are required to show fees and charges at the beginning of an online shopping process and not gradually add them in.

Crowd funding: Is a way of financing your business idea through donations of money from the public. This is usually done online, through a crowd funding website.

Back Taxes: Taxes that have not been paid on the due date or were underreported either by accident or by intention on a past tax return. The tax authorities can demand payment of back taxes plus a penalty and/or interest.

Backwardation: In the futures market, a condition in which a price is lower in the distant delivery months than in the near delivery months. Normally, the price of a contract for future delivery of a commodity trades above the spot price because the owner of the contract is deemed to have the advantage of holding cash until the time of delivery and is assumed to be able to earn interest on that cash. When the spot price exceeds the futures price, it is known as backwardation, or an inverted market.

Dawn Raid: The practice of buying shares from a potential target at the beginning of a trading day in the hope that the rest of the market will be slow to react to the buying spree and that the price will therefore not rise until after the raid is complete.

Reference:

http://www.finance-glossary.com
economictimes.indiatimes.com/definition

Priyanka Rane
1420452

MARKET ROUND UP

JUNE 2015

- Credit growth was tepid at 3.7% in first 9 months of FY15 : The number of borrowal accounts increased by 3.7% to 12.2 Cr in Dec'14 from 11.7 Cr in Mar'14.
- Gold prices down more than 40% from its 2011 peak of $1,921per ounce and crashing back towards $1000 per ounce. Gold prices kept falling from $1286.72 per ounce in Jan'15 to $1,171 per ounce in June'15 over a period of 6 months.
- India's Forex reserves jumped by USD 1.575 billion to record a new high of $354.29 billion: Due to surge in core currency assets.
- The Mumbai Income Tax Appellate Tribunal allowed for long-term capital loss on sale of shares to be offset against long-term capital gain on sale of land: Raaptakos Brett & Co Ltd vs. DCIT.
- Russ Koesterich, MD and Global Chief Investment Strategist at Blackrock, says that emerging Asian markets like India are in a better position to withstand Fed's expected move, with lower current accounts and fiscal deficits.
- Consumer price inflation hit a four-month low of 4.87 percent in April, well within the RBI's target range of 2 to 6 percent. Hence, RBI reduced rates on June 2nd 2015, to 7.25%. The RBI cut came just weeks after China made its third interest rate reduction in six months.

JULY 2015

- RIL becomes first Indian issuer to sell Bonds in Taiwan to raise $200 Million.
- IMF expects India to beat China as fastest growing economy at 7.5% in 2016.
- 16 amendments on Companies Act 2013 Passed in Rajya Sabha after lower house of the parliament, Lok Sabha, approved the Companies Act 2013 bill.
- BSE says mechanism of Public Offer of Government Bonds to be in place in coming 6-9 months.
- Roadmap for ending Corporate Tax exemptions to be presented by Government in 45 Days as on July'01, 2015.
- Rs 30,000 crore worth Defense deals sanctioned by Defense Ministry. This has increased investor interests in the defense sector.
- SC's verdict on regulation of network rates by Petroleum and Natural Gas Regulatory Board (PNGRB) gave major boost to investment in CGD sector.
- Global Rating Agency Fitch lowered India's economic growth projection from 8% to 7.8%
- RBI Governor Raghuram Rajan has assured that Greece default will have limited impact on Indian economy due to little exposure of Indian economy to European countries.

Shishir Nayak
1420031

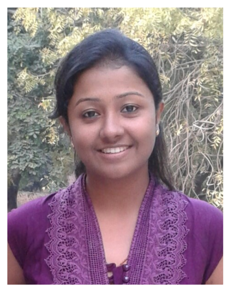
ECONOMIC ROLLERS

Rates	2015	2014
Cash Reserve Ratio	4.00%	4.00%
Statutory Liquidity Ratio	21.50%	22.50%
Cash Deposit Ratio	4.70%	4.83%
Policy Repo Rate	7.25%	8.00%
Reverse Repo Rate	6.25%	7.00%
Marginal Standing Facility	8.25%	9.00%
Call Money Rate (Weighted Average)	7.03%	8.67%

Forward Premia of USD	2015	2016
1-month	7.32	8.18
3-month	7.2	8.71
6-month	7.2	8.68

RBI Reference Rate and Forward Premia	2015	2014
INR-US$ Spot Rate (₹ Per $)	63.89	60.14
INR-Euro Spot Rate (₹ Per €)	70.12	81.02

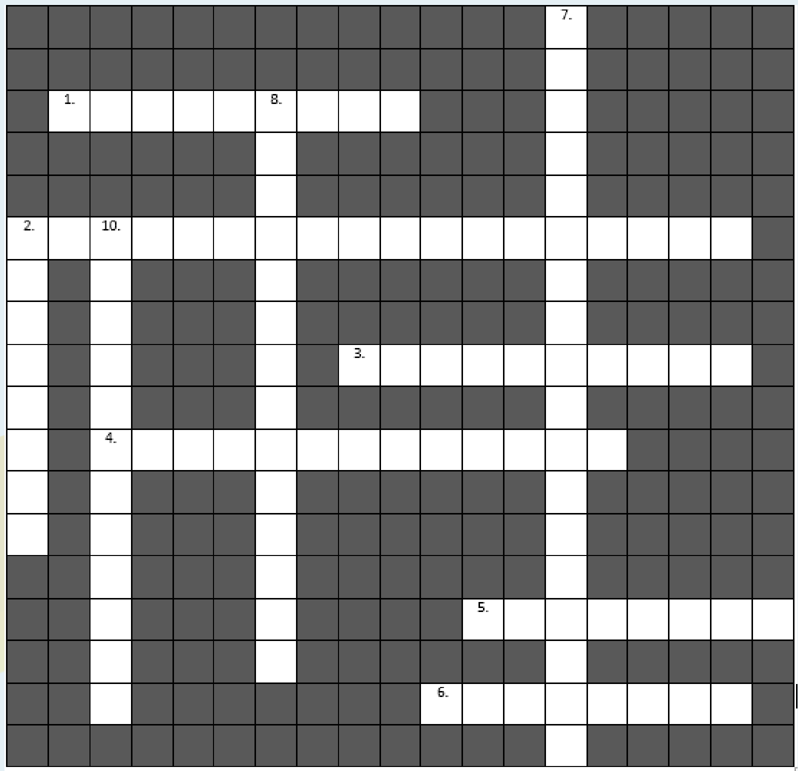
Index	31-07-2015	31-07-2014
SENSEX	₹ 28,114.56	₹ 25,894.97
NIFTY	₹ 8,532.85	₹ 7,721.30



Nimmy Mathew

1420054

CROSSWORD



Across:

1. Sale of one or more undertakings for a lump sum consideration without values being assigned to individual assets and liabilities.
2. A line that reflects investment's risk versus return.
3. An organization which holds securities of investors in electronic form.
4. Margin money deposited as a percentage of contract price whenever a future contract is booked.
5. Situation where future price is more than the expected spot price of a commodity.
6. Single business broken into one or more components either to operate on their own, to be sold or to be dissolved.

Down:

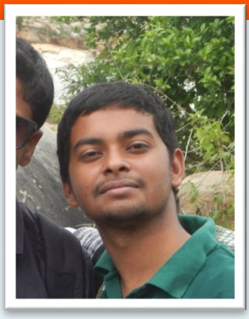
7. A technique of capital budgeting that takes ratio between cash inflow and outflow. Important for capital rationing problems.
8. Risk inherent to all the securities in the market and not just a particular stock.
2. An option strategy where investor buys one call and one put option, such that whether the price of the commodity goes up or down, he makes a profit.
10. Subtracting marginal cost from sales revenue of a given activity gives .

HIT THE BUZZER

Akhil Aggarwal

1420303

1. IMF is likely to include which currency in its basket of benchmark currencies?
2. Where was the plan to add the Yuan to the basket of currencies discussed?
3. Virtual Currency that is used for lending to countries in financial difficulty is known as?
4. Many Greeks have converted Euros into a "digital crypto-currency". This currency is controlled by a peer-to-peer system of individual computers, without government supervision. What is it called?
5. The "Greferendum" on July 5 saw an overwhelming vote of "Oxi" ("no" in Greek). Greece has a national holiday on "Oxi Day", every October 28. What happened on October 28?
6. Greece is on the brink of becoming the first country to leave __________ .
7. Greece is one of the _____ countries that share the Euro.
8. In Jan 2015, newly elected Prime Minister _______ sought to reopen negotiations with Greece's creditors.
9. The European Commission, European Central Bank and International Monetary-Fund are called the ___________.
10. Greece was forced to close its banks & limit ATM withdrawals to_____ Euros a day.
11. Where is Brazil, Russia, India, China and South Africa (BRICS) nations Bank headquartered?
12. Who is the first President of New Development Bank (BRICS)?
13. Recently which country's national bank entered into a currency SWAP agreement with RBI for an amount of 1.1 billion dollars?
14. Which US pharmaceutical giant was acquired by LUPIN for 880 million US Dollars?
15. Which are the 3 Committees set up by IRDAI in insurance sector?



Saquib Anwer

1420428

PHOTO FIND

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3. 

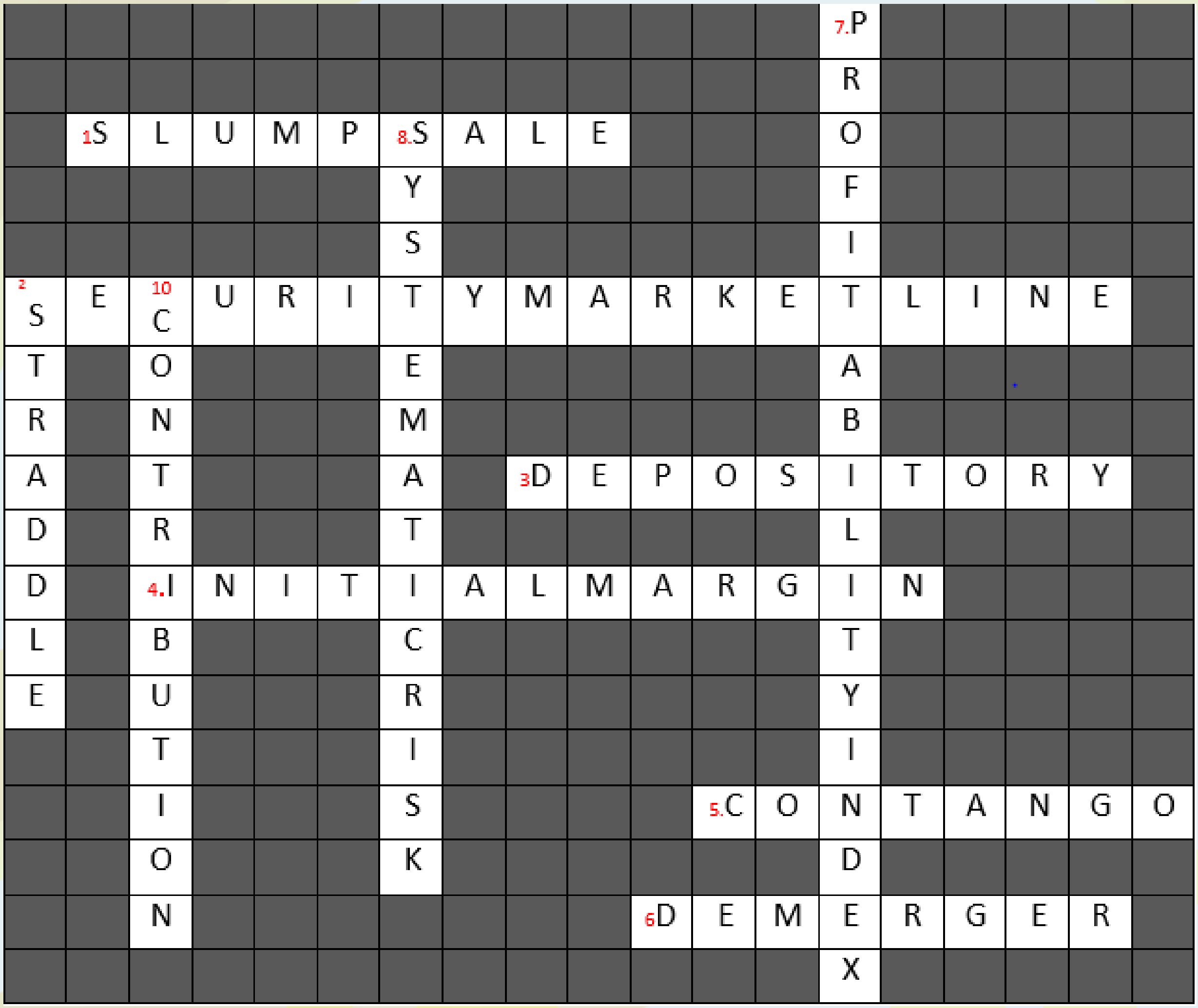
4. 

5. 

6. 

ANSWERS

CROSSWORD



HIT THE BUZZER

1. Chinese Renminbi
2. G7 finance ministers' meeting in Germany
3. SDR (Special Drawing Rights)
4. The Bitcoin.
5. Italian invasion
6. Euro Zone
7. 19
8. Alexis Tsipras
9. Troika
10. 60
11. Headquarters in Shanghai, China
12. Bank's first President KV Kamath from India
13. Central Bank of Sri Lanka (CBS)
14. GAVIS Pharmaceuticals and Novel Laboratories (GAVIS)
15. The Life Insurance Committee, the General Insurance Committee & the Reinsurance Committee.

PHOTO FIND

1.

Jin Liqun, is the secretary-general of the Asian Infrastructure Investment Bank (AIIB)

2..

Xi Jinping: General Secretary of the Communist Party of China, the President of the People's Republic of China,

3.

Euclid Tsakalotos, he is minister of Finance in Greek Government

4.

Yannis Stournaras, is the Governor of the Bank of Greece

5.

Angela Dorothea Merkel: the Chancellor of Germany since 2005.

6.

K. V. Kamath, the first president of the New Development Bank (BRICS)

team nishka

Nishka is a quarterly newsletter brought by the students of the Finance Club of Christ University Institute of Management, Kengeri Campus. Nishka aims at nurturing the writing skills and establishing a learning amongst the students, which helps them to gain an insight about the world of finance.

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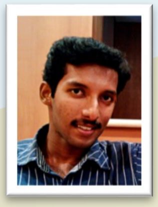
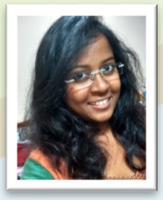


Rajesh R

Ahrthee P K



REVIEW & EDITING

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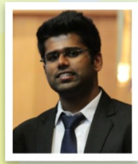

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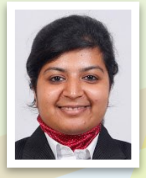

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