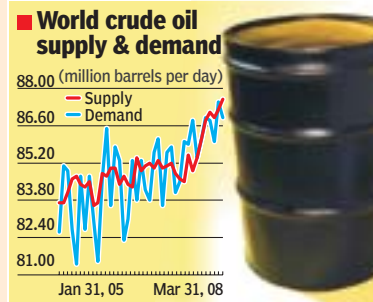


**Culled insights**

**OPEC trims oil forecast**

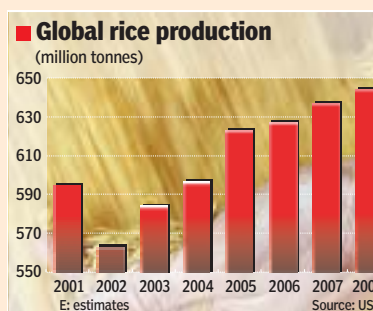


OPEC has trimmed its forecast for global growth in oil demand in 2008, the latest sign that record-high oil prices are putting the brakes on consumption. World oil demand will rise by 1.16 million barrels per day (bpd) this year led by Asia, the Middle East and Latin America, 40,000 bpd less than the previous forecast. Opec said in its Monthly Oil Market Review for May. The report by Opec's economists underlines the group's view that factors beyond oil supply and demand are driving oil prices to all-time highs. Crude oil hit a record high of \$126.98 a barrel on Tuesday. "Oil demand growth is expected to experience the typical seasonal low consumption in the second quarter," the report said. "This year's summer driving season is not likely to show its normal annual growth due to the anticipated weaker gasoline demand in the US," it said.

**Merrill's new rating**

Merrill Lynch has unveiled a new system for rating stocks that suggests Wall Street finally may be mustering up its courage to say "sell" more often, reports the *New York Times*. Starting in June, Merrill will require that its analysts assign "underperform" ratings to 1 out of every 5 stocks they cover. About 12% fall into that category now. The move underscores an industry-wide effort to inject a healthy dose of scepticism into stock research at a volatile and uncertain time for the markets, the broader economy and Wall Street banks themselves, it says. Under its new system, analysts cannot assign "buy" ratings to more than 70% of stocks they cover, "neutral" to more than 30% and "underperform" to less than 20%.

**The rice project**



A project has been announced by University of Washington researchers and IBM's World Community Grid to speed development of better rice which will help in tiding over food crisis, writes *www.businessweek.com*. "By tapping a cluster of nearly 1 million PCs scattered around the world, the researchers hope to develop more nutritious, robust strains of rice sooner by completing complex genetic calculations in just one or two years," it says. Those calculations might have taken 200 years if left to the school's computers. "We can make things happen much faster. We should be able to get new strains to farmers within five years," says Ram Samudrala, associate professor of computational biology at the University of Washington.

**Fund managers favour US**



For the second straight month, global fund managers polled by Merrill Lynch still favour the US over other equities markets, writes *www.asianinvestor.net*. The latest survey shows a continued preference for the US over other equities markets worldwide, proving that last month's turn in sentiment wasn't a mere blip but the start of a trend. Global fund managers polled by Merrill Lynch still favour the US, where the consensus shows they are most overweight. They are also overweight in global emerging markets and in Japan, albeit to a lesser degree. They are still averse to the Eurozone, where the consensus underweight is the heaviest since July 2003. Sector-wise, global fund managers favour resources and technology and are most bearish about banks and consumer stocks. Merrill stresses, however, that global exposure to resources remains subdued and is way below the highs in 2002 and 2006.

# A poor year for infrastructure industries

**Crude output only fractionally higher**

**S Gangadharan**

Despite a rally of sorts in March 2008, the composite index of infrastructure industries rose by a tepid 5.6% during 2007-08; in contrast, the performance was much better in the preceding fiscal at 9.2%.

The composite index stood at 279.8 in March, notching up a rise of 9.6% on a year-on-year basis; though short of the incremental growth of 10.5% in March 2007, given the constraints that the constituent industries — crude oil, petroleum refinery products, coal, electricity, cement and finished steel — are subject to, the output during that month appears to be satis-

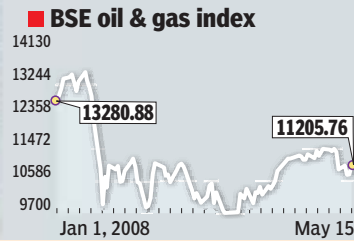


factory. The yearly showing is lacklustre.

But what is instructive is that, generally speaking, the growth

rate of the infrastructure industry index has lagged behind the general index of industrial production.

	Overall	Infrastructure
2002-03	5.7	5.0
2003-04	7.0	6.1
2004-05	8.4	5.8
2005-06	8.2	6.2
2006-07	11.6	9.2
2007-08	8.1	5.6



In 2007-08 while the overall index was up by 8.1% — and the extent of the deceleration was modest compared with the previous

year's spurt of 11.6% — the composite index of infrastructure industries, which has a weight of nearly 27% in the industrial index, has tended to under-perform with the jump being only 5.6% in the last fiscal, down by more than three percentage points from the growth rate in 2006-07.

Infrastructure-led growth of industry is not to be.

Perhaps, the intriguing aspect is that, though the infrastructure industries form part of the larger index, the details of their working have been released days after the overall industry trend has been officially published.

Normally, the information regarding the infrastructure is made available some weeks before the larger picture is placed in the public domain.

Obviously, the latter cannot be ready unless the output data for

the various industry groups are already with the official machinery.

In this sense, the latest information is largely of academic interest and the reason for the delayed release is not clear.

Among the individual industries, difficulties in boosting crude output are still persisting. No wonder then that the crude output during 2007-08 was higher by a mere 0.4% — less than the meager climb of 5.6% in 2006-07. In finished steel, the tempo slumped to 5.1% from 13.1% and in refined petroleum products to 6.5% from 12.9%.

In coal, there was a marginal pick-up in the growth rate at 6%. But cement and power generation were on a low key, with the output in the former slackening to 8.1% from 9.1% and in the latter from 6.3% from 7.3%.

## 'The oil shock is about to come'

*China and India have grown economically and politically in stature over the last two decades. "The rising economic and political power of Asia is the biggest story of our times," writes Bill Emmott in his latest book Rivals: How the Power Struggle Between China, India and Japan will Shape Our Next Decade. From 1993 until March 31, 2006, Emmott was the editor of The Economist, the world's leading weekly magazine on current affairs and business. He has now stepped down from that post to become an independent writer, speaker and consultant, based in London and Somerset. In this interview with Vivek Kaul, he talks about the economic and social changes that China and India are destined to go through in the days to come.*

**Lately there has been a deluge of books on India and China. Nevertheless, this seems to be the first book that talks about India, China and Japan at the same time. What made you write this book?**

I lived in Japan during the 1980s and have written books about it, so I was very familiar with that country. At first, I thought I might write about the tension between China and Japan, but then as I studied further I realised there was a bigger story going on, with Japan and the United States trying to get friendlier with India in order to balance China's growing influence in Asia, and with India too increasingly keen on exerting its influence across the whole of the region.

So I decided to take a look at the big picture in the politics and economics of Asia, rather than just at one country or another. Also, I should confess that I am instinctively something of a contrarian. When everyone is focusing on one particular thing (in recent years, the rapid growth of China and India, and the idea that this is something of a "threat" to the West), I tend to go the other way, and try to see whether that conventional wisdom might, in fact, be wrong. In a nutshell, what I conclude in my book is that the growth in Asia is not at all a question of "East vs West", as so many American and European writers term it. Instead it is a question of "East vs East", in other words of rivalry between the three great powers of Asia itself.

**Till 2001-02 prices of various commodities had been declining. However, since then, the prices have been on their way up. What do you think are the reasons for the same?**

It is a question of supply and demand. Thanks to falling prices in the previous two decades, there was little investment in new mines, oil fields and so on. Now, with China industrialising so fast and building its infrastructure, and with India beginning to do the same, the demand for these commodities has been growing rapidly. Supply cannot keep up. I think this will go on for a while longer, as it takes time to build new mines and oil rigs, but eventually supply will catch up and prices will fall.

**In the past whenever the price of oil has risen rapidly, it has led to oil shocks. Why do you feel that is not happening currently?**

This year, oil-price inflation will, I think, lead to a global economic slowdown. Indirectly, it will even force both India and China to slow down, as both countries need to clamp down on overall inflation. It has taken time, but I think finally the oil price is going to have a real economic impact in consuming countries like the West, China and India. The shock is about to come.

**No country is more diverse than India — and which works against growth. Given the various schisms in the country of caste, religion and class, levels of trust are obviously low — making it more of a problem in terms of governance. Every group wants its own people and does not trust anyone else. What are your observations on this? In addition, do you feel that Indian democracy is coming in the way of India's development?**

I don't agree that diversity is an obstacle to growth. Why shouldn't it, in fact, be a strength, with groups competing and with so many different sources of ideas, enterprise and energy? The real obstacles are lack of trust, yes between groups but also a lack of trust in politics and government at all levels. In China, there is a deep suspicion about the government but at least people believe the government is likely to be consistent and quite strong. In India, the problem is that governments change their minds all the time and that trust in politicians is so low, as so many have criminal records and are corrupt.

**q&a**  
This is not a question of democracy vs dictatorship, it is a question of credibility, effectiveness and trust. As for India's growth rate, I believe that with a credible, trusted set of government institutions the rate could be as high as 12-15%, as the potential is so large. The sacrifice made for lack of trust, ineffective institutions and lack of reform is that growth is only 7-9% (please note that I believe the range is now 7-9% not 8-9%).

**China has largely fixed the rate of the renminbi to the dollar. How does that help?**

The artificially low value for the renminbi has helped boost China's exports, especially of manufactures, just as a cheap yen boosted Japanese exports during the 1960s. But China has paid a price for that, since it kept the renminbi artificially low the central bank has to keep buying dollars using renminbi, which is why its foreign-exchange reserves have now reached \$1.7 trillion (India's are \$220 billion or so). This poses an increasing danger of inflation in China. I believe the Chinese will soon decide to revalue the renminbi in order to prevent inflation from getting out of hand. The result will be a sharp slowdown in Chinese growth, perhaps even a temporary slump. And at that time, there will be a big danger of protests from workers who lose their jobs.

**China currently has both a real estate as well as a stock market bubble. Do you see that changing in the days to come?**

The Shanghai stock market has already fallen by 50% since January this year. I think that this will continue, as the authorities need to restrict money supply in order to control inflation and to revalue the currency, meaning less money is available for speculation in stocks. Eventually, this will also start to bring down real estate prices, although I don't believe there has been such a bubble in property.

**Which one out of India and China do you think will win the race? Do you see any chance of China becoming a democracy?**

China is about 15 years ahead of India, with an



economy almost three times bigger than India's. So it will be very hard for India to catch up or overtake China any time soon. Nevertheless, I think during the next decade, India's growth will start to become faster than China's with the result that the gap will

**“**China is about 15 years ahead of India, with an economy almost three times bigger than India's. So it will be very hard for India to catch up or overtake China any time soon. During the next decade, India's growth will start to become faster than China's with the result that the gap will gradually get narrower

gradually get narrower.

I think that as China's urban middle class grows, the pressure for some sort of democracy will become irresistible. This will become a big issue within the next decade.

**Do you feel that the one child norm that China has been following in its cities will start to hurt sometime?**

If you have a lot of young people it reduces your labour costs. That helped China during the 1990s, but now thanks to its one-child policy of family planning China is running out of young people. The result is that Chinese wages are rising quite rapidly, and China needs to move upmarket to higher value, higher technology activities.

**What are the major things that India can learn from China when it comes to execution?**

One thing is that India should not be afraid of lowering its trade barriers: China executed that policy in the late 1990s and has profited from it as it forced reform. Another is that the most vital contribution of the government is to speed up infrastructure investment, especially in electric power, roads and ports. Without that, other development cannot and will not follow.

**How do you see India and China balancing growth with environmental concerns that come with it?**

It depends chiefly on public opinion in both countries. The Chinese public, especially in cities, is now getting angry about pollution, and I think that is going to force the Chinese government to control pollution more effectively and this to achieve more balanced growth.

In India, public opinion is less angry about pollution in general, so I don't believe the pressure to deal with environmental problems is as strong as it is becoming in China. The reason is that India is so much poorer.

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## SAT relief for Goldman in derivatives case

**Press Trust of India, Mumbai**

International investment banker Goldman Sachs on Thursday received a major relief over issuance of offshore derivatives instruments with appellate body SAT reversing market regulator Sebi's order.

Securities Appellate Tribunal (SAT) in its ruling in the Goldman Sachs case not only deprecated the conduct of the adjudicating officer of Sebi but also directed the regulator to pay Rs 1 lakh to the investment banker as cost of litigation.

Sebi had earlier imposed a penalty of Rs 1 crore on Goldman Sachs Investment (Mauritius) Limited for not submitting the information about issuance of offshore derivatives instruments (ODIs) in a prescribed format and with the requisite declarations.

The present case pertains to issuance of ODIs by Mauritius-based affiliate of Goldman Sachs in November 2002 with shares of Himachal Futuristic Communications as the underlying security. The ODIs, after passing through several hands, reached Magnus Capital Corporation, an overseas corporate body (OCB). Sebi later through a circular in August 2003 revised the format for reporting of investments by foreign institutional investors.

Under the revised format, foreign institutional investors and their sub-accounts were required to give a declaration that no ODIs were issued to Indian residents, NRIs/PIOs/OCBs.

Following the circular, Goldman Sachs filed the report with Sebi along with a declaration that was substantially different than one prescribed by the regulator. Taking objection to the report, Sebi imposed the maximum penalty of Rs 1 crore for furnishing false declarations.

## Blackstone has \$66.5m loss as LBOs dry out

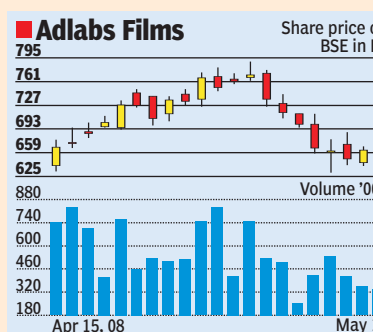
**Jason Kelly, New York**

Blackstone Group LP, manager of the world's largest private-equity fund, said it had a loss of \$66.5 million in the first quarter as leveraged buyouts evaporated and the value of companies it owns declined.

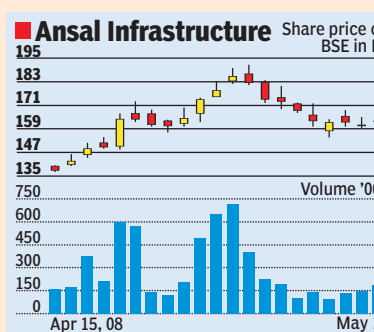
The loss excluding some compensation costs was 6 cents a share, compared with a profit of \$838.5 million, or 75 cents, a year earlier, the company said on Thursday in a statement. Blackstone announced one LBO in the quarter, the \$1.2 billion purchase of food distributor Performance Food Group Co of Richmond, Virginia, compared with \$42 billion in deals a year earlier. The company, which went public at the peak of the buyout boom in June, has fallen 37% since.

"Everyone who thought that private-equity and hedge funds would be the sexy new entrants have been sorely disappointed," said Benjamin Phillips, managing director of strategic analysis at New York-based Putnam Lovell, an investment-banking unit of Jefferies Group Inc. — Bloomberg

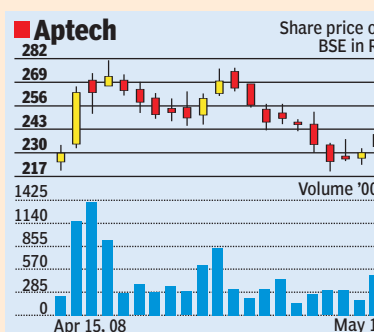
## CHARTS SHOWING BREAKOUTS



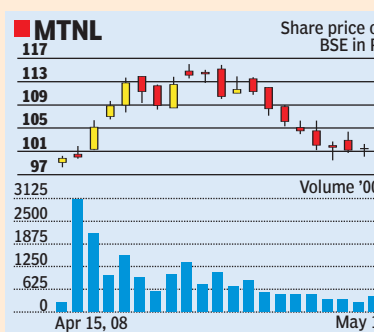
**Buy above Rs 682, target Rs 709.50, stop loss Rs 668** Adlabs Films has closed near its previous high and offers a good trading opportunity



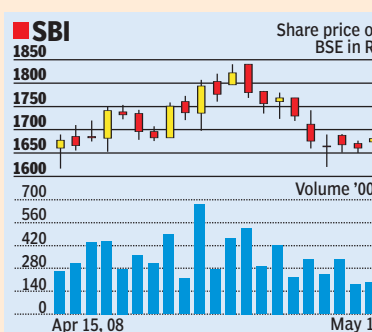
**Buy above Rs 165, target Rs 170, stop loss Rs 162.50** Ansal Infra has closed near its previous high and offers a good trading opportunity



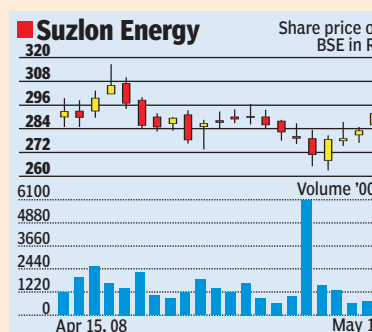
**Buy above Rs 244, target Rs 253.80, stop loss Rs 239** Aptech has closed near its previous high and offers a good trading opportunity



**Buy above Rs 105, target Rs 109.20, stop loss Rs 102.90** MTNL has closed near its previous high and offers a good trading opportunity



**Buy above Rs 1692, target Rs 1743, stop loss Rs 1666** SBI has closed near its previous high and offers a good trading opportunity



**Buy above Rs 296, target Rs 308, stop loss Rs 290** Suzlon Energy has closed near its previous high and offers a good trading opportunity

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**Jatin Rathod & Kamal Nanavati, Midas Touch Capital Advisors**