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## Market Bulletin

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### Summary

**Economic Analysis:** FOMC minutes out on Wednesday, limited market impact expected.

**Commodities:** Natural gas inventories up 105 bcf, but storage still 44% below 5-year average.

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### Commentary – Indian markets surge on BJP’s landslide victory

*Narendra Modi’s election as Prime Minister may usher in more pro-business policies*

*India-based ETFs offer cost-effective option for investing in the subcontinent*

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India’s BSE Sensex index closed at a record of 24,121.74 (Figure 1) – after reaching an intra-day high of 25,375.63 – and the rupee rallied almost 1% against the US dollar after the right-wing Bharatiya Janata Party (BJP) won a landslide victory in general elections in the world’s largest democracy. The BJP was poised to win 282 Parliament seats, the most by a single party since 1984, and in combination with its allies looked to win about 340 seats, well above the 272 seats needed for an absolute majority in India’s 543-member Lok Sabha (“House of the People”). The BJP’s electoral gain of 191 seats has been wholly at the expense of the ruling Congress coalition, which looked likely to lose 175 seats in its worst-ever performance.

The euphoric reaction to the BJP victory is based on confidence that Modi as Prime Minister will be able to replicate the success that his pro-business policies promoted in the western Indian state of Gujarat. While Gujarat has been an industrial powerhouse for decades, Modi accelerated its annual growth to 10% since 2001, when he was voted in as chief minister.

India had a record turnout of voters in these elections, and the overwhelming electoral mandate handed to the BJP has also stoked optimism that the party will be able to push through the reforms and policies needed to revitalize the Indian economy. The economy has been hampered by political infighting between Congress and its regional coalition partners, which has delayed decisions on key initiatives and stalled critical projects worth \$230 billion. Populist measures that pander to specific sectors of the electorate have also resulted in the overall bill for subsidies rising fivefold over the past decade to 2.6 trillion rupees annually, according to Bloomberg. The Indian economy has also slowed to a 4.5%-5.0% growth pace in recent years, while inflation of over 8% is the second-highest in Asia.

A faster growth pace in India would be a shot-in-the-arm for the floundering BRIC bloc, whose giant economies have been slowing down in recent years. The current optimism surrounding India can be gauged by the performance of its Sensex index, which is up 13.94% YTD, compared with +4.83% for Brazil's Bovespa, -4.23% for China's Shanghai Composite and -12.53% for Russia's RTS \$ index.

But investors should be wary of being swept up in the euphoria. Modi has been accused by his critics of crony capitalism, and also of complicity in the savage religious riots that rocked Gujarat in 2002 and claimed almost 1,000 lives. Modi was subsequently absolved of any role in the riots by a Special Investigative Team appointed by the Supreme Court of India. It should be noted that Modi's BJP party is also staunchly nationalist and espouses an aggressive brand of "Hindutva" (Hinduism). However, the party had toned down its religious rhetoric when it formed the Indian government from 1998 to 2004.

Table 1 provides a snapshot of six India-based ETFs. The two India ETFs that trade on the TSX are minnows compared to their much bigger U.S. counterparts. These ETFs have already gained 55%-65% from their August 2013 lows, which could imply that the easy money on India plays has already been made. That said, with an average expense ratio of 0.83%, these ETFs offer a cost-effective option to investors looking to add India exposure to their portfolios.

**Table 1: Select India-based ETFs**

ETF	Symbol	Index tracked	Assets (\$mm)	Price	52-week range	Exp.ratio	YTD perf.
iShares India Index ETF	XID	CNX Nifty	\$36	\$23.88	\$14.24-\$23.88	0.99%	18.86%
BMO India Equity Index ETF	ZID	BNYM India Select DR	\$13	\$15.21	\$9.25-\$15.32	0.75%	18.46%
WisdomTree India Earnings Fund	EPI	WisdomTree India Earnings	USD 969	USD 21.79	12.99-\$21.79	0.84%	18.19%
iShares MSCI India ETF	INDA	MSCI India	USD 817	USD 29.22	\$18.76-\$29.22	0.67%	12.80%
iShares India 50 ETF	INDY	CNX Nifty	USD 541	USD 28.74	\$17.60-\$28.74	0.93%	16.12%
PowerShares India Portfolio	PIN	Indus India	USD 384	USD 20.83	\$13.50-\$20.82	0.82%	12.59%

**Figure 2: India's BSE Sensex Index and Indian Rupee – 2009 to Present**



Source: Bloomberg

## Economic Analysis

### Fed releases minutes of April 30 FOMC meeting on Wednesday

*Limited market impact seen, a year after Bernanke first roiled markets with taper talk*

The release of the Federal Reserve’s FOMC meeting minutes – which are released three weeks after a meeting concludes – is generally not a major market mover, although it can have a significant impact once in a while. The release of the March 19 minutes on April 9, for instance, triggered a 1.1% advance in the DJIA and S&P 500, as the minutes assuaged concern that interest rates may rise faster than previous predictions. Those concerns had gained credence after new Fed President Janet Yellen’s infamous “around six months comment” in her first post-FOMC meeting press conference on March 19. But the biggest impact of the release of the FOMC minutes was probably seen a year ago – on May 22, 2013 – when comments from Fed officials in the minutes, as well as Bernanke’s Senate testimony the same day, triggered widespread worries that the Fed was poised to taper its bond buying program imminently.

Although the Fed put off tapering last year, it commenced scaling back the program in January this year, reducing its bond-buying by \$10 billion at each of the past four FOMC meetings. The Fed’s moves have done little to derail market sentiment, with the DJIA and S&P 500 reaching new highs last week. Yields on US Treasuries have also declined significantly this year (Figure 2). The 30-year Treasury has had its best start to a year since 1995, resulting in its yield tumbling from a high of 3.97% on December 31, 2013, to 3.35% presently, while the yield on the 10-year Treasury has declined from 3.03% at end-2013 to 2.52% presently.

The Fed said in its post-FOMC meeting announcement on April 30 that growth in economic activity had picked up, led by household spending, although it expressed caution about business investment and the slow housing recovery. So while the upcoming FOMC minutes will (as always) be closely scrutinized by investors, their impact should be limited.

**Figure 2: US 10-year and 30-year Treasury yields – 2013 to Present**



Source: Bloomberg

## Commodities

### Nat gas inventories rose 105 bcf in week of May 10, storage 44% below 5-year average Heat-map of last 10 years shows modest strength in spring / early-summer

U.S. natural gas inventories increased by 105 billion cubic feet (bcf) or 10% to 1.16 trillion cubic feet in the week ended May 10, the sixth week of the gas “injection” season. While the headline number was above analysts’ average estimate of 99 bcf, the actual number injected into storage was 97 bcf, as 8 bcf of gas was reclassified to working gas from base supply. Gas inventories were severely depleted by the record North American winter and are currently 44.1% below the five-year average, leading some analysts to question whether they can be built up to the 3.8 tcf level required by November, before the onset of winter heating demand. The heat-map below of the average monthly change in natural gas prices over the past 10 years shows that nat-gas typically shows modest strength in spring and early summer.

**Figure 3: Average monthly change in natural gas (1<sup>st</sup> month futures) – May 2004 to April 2014**



Source: Bloomberg

## Market Snapshot

At close on Friday, May 16, 2014

S&P TSX	14514.74	-74.15	Commodities		Yields (%)		Can.	US
TSX Venture	976.55	+1.90	Canadian \$ (US cents)	92.07	+0.19	90 Day T-Bill	0.91	0.02
DJIA	16491.31	+44.50	Gold (Spot)-US\$	1293.46	-2.71	2-Year Bond	1.04	0.36
S&P 500	1877.86	+7.01	Oil (WTI-June)	102.02	+0.52	10-Yr. Bond	2.26	2.52
NASDAQ	4090.59	+21.30	CRB Index	305.92	-1.15	30-Yr. Bond	2.79	3.35



## Thought for the Day

“Live your life so that you would not be ashamed to sell the family parrot to the town gossip.” – Will Rogers

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