

## EMISSARY CAPITAL BUSINESS REPORT

### REPORT HIGHLIGHTS:

- *July industrial production increases 7.8%*
- *Wholesale prices fall 1.74% on the week, steepest in 30 years*
- *India's car sales increase by 31% in July*
- *Oil and Natural Gas Corporation reportedly looking for partner in bid for YPF*
- *China's benchmark money market rates decline for second week*
- *Exports fall for ninth straight month widening the trade gap*
- *China purchases record volumes of oil and iron ore in July*

## INDIA BUSINESS NEWS

### DEAL ANALYSIS:

India (# of deals)	52
India (Deal value)	10 .40B
India Rank (Global)	11
India Rank (Asia)	4

Includes: IPO, FPOs and Convertibles (2009 YTD)

Source: The Economic Times, Business Standard and company filings

### ECONOMIC NEWS:

- Wholesale prices declined 1.74% on the week after falling 1.58% the week prior. It was the steepest decline since June 1978, when prices fell 1.9%, according to the central bank. The RBI left the reverse repurchase rate unchanged at 3.25% and the repurchase rate at 4.75%.
- June industrial production rose 7.8% y/y, the fastest pace in 16 months after a revised 2.2% gain in May. Output has been driven by record low interest rates, which have encouraged consumers to borrow to purchase cars, motorbikes and other factory-made goods. Production of consumer durables such as cars, refrigerators, washing machines and air conditioners rose 15.5% y/y following a 12.5% gain the previous month. Manufacturing increased 7.3%, mining advanced 15.4% and electricity gained 8% in the month. The Purchasing Managers' Index stood at 55.3.
- According to the RBI, a below-average monsoon season is likely to trim as much as one percentage point off economic growth this year to roughly 6%. A normal monsoon remains key to government efforts to push economic expansion back to a 9% pace.
- The rupee declined 0.9% to 48.25 per dollar, completing its first weekly loss in more than a month on speculation the nation's refiners stepped up dollar purchases to pay for costlier crude oil imports. The currency is the second-worst performer among Asian currencies this month after the South Korean won, with a 0.7% loss. Offshore contracts indicate bets the rupee will trade at 48.32 to the dollar in a month versus expectations for a rate of 47.93 at the end of last week.

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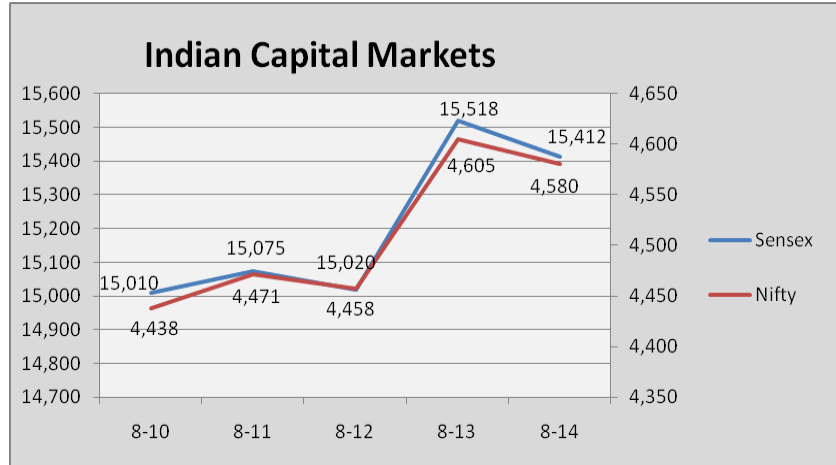
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### INDUSTRY NEWS:

- July domestic vehicle sales rose for the sixth straight month and at the fastest pace in more than two years as lower rates and new model introductions drove demand. July sales increased 31% y/y to 115,067 cars from 87,901, according to the Society of Indian Automobile Manufacturers. Hyundai Motor Co., the country's second-biggest car maker by sales, introduced two new versions of its i20 hatchback in July, and increased overall production by 54% y/y to 23,193 vehicles. Maruti Suzuki India Ltd., which controls half of the domestic market, began selling the Ritz, its seventh small-car model, in May, contributing to the company's 31% growth in July to 60,012 vehicles. Sales of Tata Motors Ltd., which began delivering the Nano in July, increased 21% to 14,537 vehicles.
- India, Asia's largest exporter of soybean meal, is expected to sell more than 3.5 million metric tons next year as farmers increased plantings. Traders have agreed to sell approximately 200,000 tons at \$390-to-\$410 per ton to Japan and South Korea, according to the Soybean Processors Association of India. Indian shipments are expected to total 400,000 tons in the two months to Sept. 30, recouping from a 37% decline to 2.9 million tons in the 10 months to Aug. 31.
- Oil and Natural Gas Corporation is reportedly looking for a partner to push forward a possible \$17 billion bid for YPF, the Argentine arm of Spanish oil group Repsol, according to reports. The news comes after it emerged last month that Repsol, which owns 84% of YPF, was discussing a possible sale of its stake in the Argentine company to PetroChina. CNOOC, was also understood to have had discussions with Repsol about investing in a JV that would house a portion of Repsol's primary exploration and production assets outside Argentina.
- The rally in sugar prices gathered momentum last week amid concerns over tight supplies and low stockpiles. At approximately 21.8 cents per pound, raw sugar prices have risen 84.6% year to date as bad weather has affected output in Brazil and India, the world's two largest producers. Weather projections indicate no significant improvement in this year's monsoon season, raising fears that key agricultural growing regions could face drought. Sugar inventories are estimated to be at record lows as producers and traders maintain minimal stock levels to reduce costs.
- With a proposal to limit stakes of controlling shareholders India's capital markets may trigger as much as 1.9 trillion rupees (\$39 billion) in stock sales, equivalent to five years of equity offerings, according to government sources. The government is reportedly considering a plan that would require at least 25% of a company's stock to be traded. The rule would prompt equity sales in 560 of 3,335 most-active stocks, such as NMDC Ltd. and Steel authority of India Ltd. According to analysts, the sales will be equal to approximately 4% of India's \$1 trillion stock market value. The rule change would require the government to reduce majority stakes in key industries such as steelmaking, oil and electricity supply. The top 10 companies that would be required to sell stock are state-run, accounting for 120 billion rupees at current prices.

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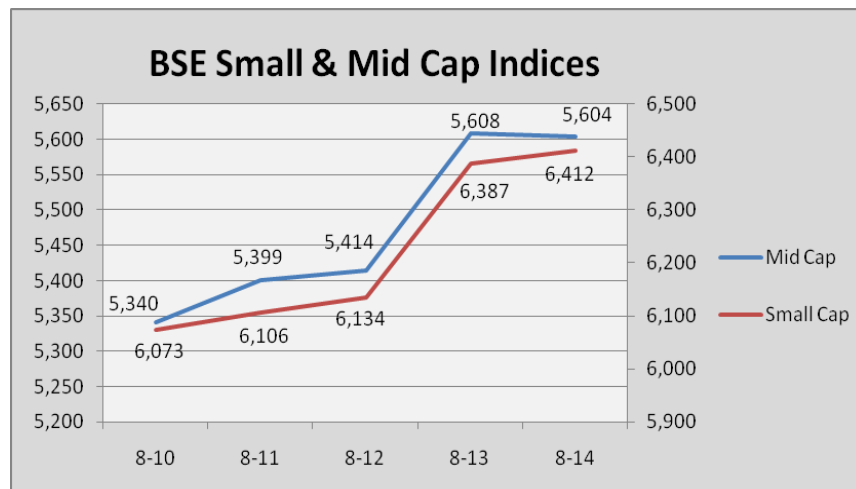
**CAPITAL MARKETS UPDATE:**



Source: The Economic Times, The Financial Times, Yahoo Finance!

- The Sensex declined 0.7% to 15,411.63 on the week's last day of trading, paring a 1.7% gain on week. The S&P CNX Nifty Index on the National Stock Exchange fell 0.5% to 4,580.05.

**SME / SMALL & MID CAP NEWS:**



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**CHINA**

**DEAL ANALYSIS:**

China (# of deals)	116
China (Deal value)	33.79B
China Rank (Global)	4
China Rank (Asia Pacific)	2

Includes: IPO, FPOs and Convertibles (2009 YTD)  
Source: China Daily, Financial Times and company filings

**ECONOMIC NEWS:**

- Exports fell for a ninth straight month on weak global demand, reinforcing the government's case for sticking with a "moderately loose" monetary policy to fuel domestic growth. Overseas sales declined 23% y/y in July versus a 21.4% decline in June, according to data released by China's customs bureau. Imports fell 14.9% from a year earlier after a 13.2% decline in June, widening the July trade surplus to \$10.6 billion up from \$8.25 billion the month prior.
- China's benchmark money-market rate fell for a second week after a central bank report showed business loans plunged in July, leaving more funds available for interbank lending. The seven day repurchase rate has declined 69 basis points in two weeks to the lowest in a month, while increases in yields on bills issued by the central bank have slowed. The seven day repo, which measures funding availability on the interbank market, fell 19 basis points to close at 1.41% in Shanghai, the lowest level since July 15.
- New lending in July fell to approximately 500 billion yuan (\$73.2 billion), a third of June's level, after M2 rose by a record 28.7% last month. Economists estimate that the surge in lending powered a 34% y/y increase in urban fixed-asset investment in the seven months through July and an 11.5% increase in overall industrial production. Property sales surged 60% by value during the same period, fueling ongoing concerns of a bubble.

**INDUSTRY NEWS:**

- Qingdao Haier Co., the air-conditioner and refrigerator unit of China's biggest appliance maker experienced a 1H profit increase of 21% y/y to 666 million yuan (\$97 million). Benefiting from lower cost of sales and manufacturing, net cash flow from operating activities surged over tenfold to 3.66 billion yuan. The government has set aside 7 billion yuan in trade-in subsidies and plans to spend 20 billion yuan in subsidies of home-appliance purchases by farmers.
- Zijin Mining Group Co., China's largest gold producer, experienced a 1H profit increase of 11% y/y on higher gold prices and production. The company sees a recovering world economy and loosening bank credit bolstering copper prices in 2H09, which have already

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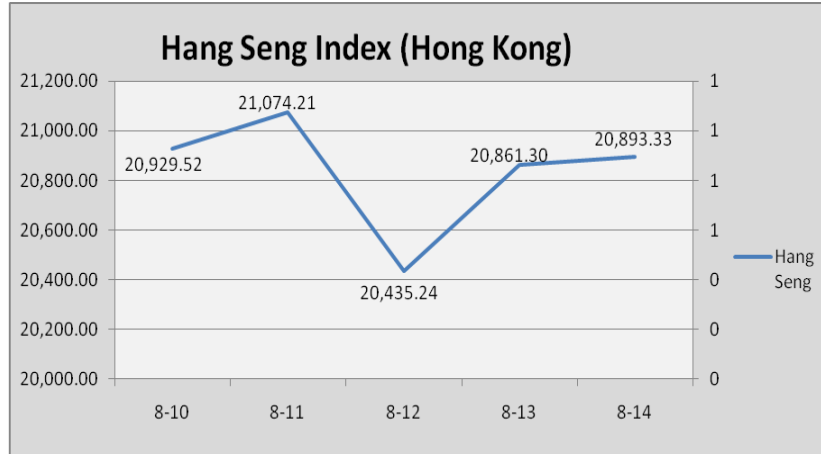
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doubled this year on record imports and stockpiling. Stockpiles of copper grew by 7,750 tons to 292,125 tons last week, the highest level since June. Inventories in Shanghai climbed 24%.

- Sinotrans Shipping Ltd., the dry-bulk arm of China's third-largest shipping group, reported a 1H09 profit decline of 66.4% y/y to \$64 million after rates plunged amid rising overcapacity. Overall sales fell 49% y/y to \$119.5 million - dry bulk shipping sales fell 49% to \$109 million, oil tanker shipping sales fell 87% to \$5 million and container shipping sales rose 49% to \$10.7 million during the period. In addition, Pacific Basin Shipping Ltd., Hong Kong's biggest dry-bulk carrier, reported a profit shortfall after a flood of new vessels caused fees for hauling iron ore, coal and other commodities to plunge. The Baltic Dry Index, a measure of rates, averaged 75% lower in 1H09.
- China purchased record volumes of oil and iron ore in July as automakers, steel producers and builders expanded output to meet rising demand driven by stimulus spending. Oil imports grew 18% y/y to 19.6 million tons and iron ore purchases rose 5% to 58.1 million tons from a month ago, resulting in combined expenditures of \$13.8 billion. Refiners and mills are expected to stockpile commodities in anticipation of rising prices. Benchmark Chinese steel prices have increased 30% since April.
- Great Wall Motor Co., China's largest maker of pick-up trucks, reported a 1H09 net income decline of 36% y/y to 262 million yuan (\$38 million), as costs from the introduction of new passenger cars combined with lower exports offset a doubling in domestic vehicle sales. The company is expected to issue new shares in Shanghai within three years, and expects to sell as many as 190,000 vehicles and increase production capacity to 250,000 vehicles annually by the end of the year.
- Energy companies are expected to boost spending on oil and mining acquisitions by at least 50% this year to take advantage of lower valuations after a slump in commodity prices. State-owned Yanzhou Coal Mining Co. recently agreed to buy Australia's Felix Resources Ltd. for A\$3.5 billion (\$2.9 billion) and Sinochem Corp., China's largest chemicals trader, offered to purchase Emerald Energy Plc for 532 million pounds (\$881 million) to gain oil fields in Syria and Colombia. China National Petroleum Corp.'s plan to buy Repsol YPF SA's Argentine unit could push Chinese purchases of overseas commodity assets by 48% y/y to \$43 billion this year.
- China Merchants Bank Co., the nation's fifth-biggest lender by market value, plans to raise as much as 18 billion yuan (\$2.63 billion) through a rights offer to boost its core capital. Banking regulators are urging publicly traded lenders to raise their capital adequacy ratios to 12% by the end of this year to withstand the impact of the global financial crisis. At the end of 2008, the lender's capital adequacy ratio stood at 11.34% and its core capital ratio at 6.56%.

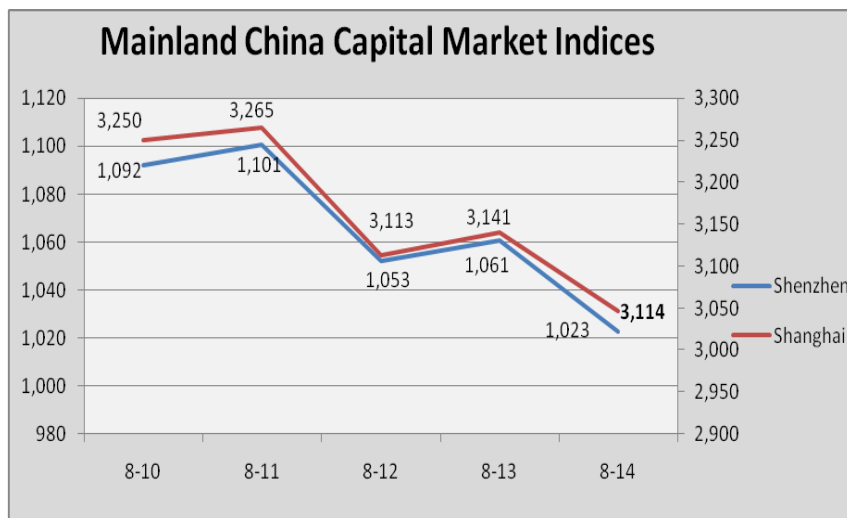
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CAPITAL MARKETS UPDATE:



Source: FT, WSJ, Bloomberg, Xinhua

- The Hang Seng Index added 0.2% on the last day of trade to close at 20,893.33, reversing a drop of as much as 1.1%. The benchmark Hang Seng Index has risen through the 21,000 point level only to retreat four times in the last two weeks. The gauge added 2.5% for the week



Source: FT, WSJ, Bloomberg, Xinhua

- China stocks completed the worst weekly drop since February, sending the benchmark equity index to a six-week low, on concern this year's rally has overvalued the prospects for



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earnings growth. The Shanghai Composite Index, tracking the larger of China's exchanges, tumbled 3%, the lowest level since July 1. It slid 6.6% this week, the most since the five days ended February 27 and paring this year's rally to 67%, on concern a slump in exports and new loans will damp economic growth. The CSI 300 Index, measuring exchanges in Shanghai and Shenzhen, lost 5.9% this week. The Shanghai index entered a correction this week after its retreat from this year's high on August 4 surpassed 10%. The gauge, which ended the week 12% below the peak, trades at 33 times the reported profit of its companies, compared with a price-to-earnings ratio of 18 times for the MSCI Emerging Markets Index.

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