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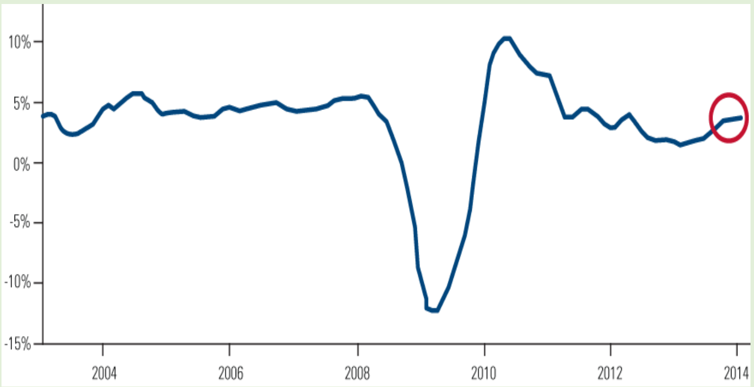
Global Industries and Markets: Unprecedented march towards amelioration

As the macroeconomic environment of the world gets better with global economies registering greater growth rates; increased demand has been increasing the optimism for global industries and markets have been showing positive signs. Almost all the industries have seen a surge in demand in 2013 and especially manufacturing. This has led manufacturing to boost its orders. Financial services industry is expected to face increased regulation in 2014; however, it is expected of the industry to get back to its pre-slump period in terms of its book values.

In this report, we bring you the briefings on global industries and global markets in 2013 until May 2014.



The rising world industrial output, 2014

Source: www.usfunds.com

With global economies recovering at positive growth rates, with balance sheets regaining strength and increasingly positive consumer confidence, global industries are facing increased optimism about their businesses.

Globally, waves of betterment that have been long due are expected to be realized in the utility industry. While the markets are expected to be less volatile and more supportive to the global industries, the manufacturing sector is expected to have a mixed year ahead.

Financial services industry is expected to have good business in 2014, despite tough regulations and accelerate itself this year. Healthcare sector is expected to have a good but challenging year, due to increasing demand and also increasing costs.

Overall, a surge in global demand and increased growth rates across the world are expected to drive the global industries to better positions in 2014.

Global utilities & energy – the change that was long due finally arrived

Global energy sector is underway to rapid and more integrated changes with new inventions. As global investments into R&D of finding newer ways of producing renewable energy have borne fruits, novel ways of energy generation such as geo-thermal energy, concentrated solar power have been on the rise. 2013 was a big year for renewable sector with over 2847 MW of Photo Voltaic (PV) and 410 MW of Concentrated Solar Power (CSP) installations. This coupled with rapid transitions with already established ways such as hydro, solar and photovoltaic energy generations have been making the global energy sector mark its unprecedented march towards a rapid change.

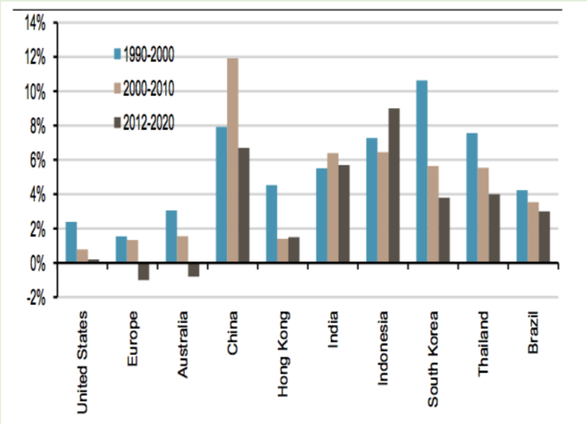
The age of energy generation led by renewable resources has finally arrived.

The change is led by solar energy. Insistent on stringent regulations, countries worldwide are relying on solar power. In the year 2013, according the US Energy Information Administration (EIA) the demand for solar power has increased 32% in the US alone. The new environmental policy under the Obama administration has further restricted the generation of power from coal reserves has give the much needed boost to the solar industry. This has given a shot in the arm to the renewable based power utility stocks in the US such as **First Solar Inc. (FSLR)**

Yet, the US is far from done with this regulation. However, the US solar industry has grown by 41% in 2013, according to the Solar Energy Industries Association (SEIA), the trade union of over 1000 US solar based utility companies. About 30% of all the new power generation in the US in 2013 has come from solar industry, making solar the 2nd largest source of power in the US behind natural gas.

According to the European Pohotovoltaic Industry Association (EPIA), the overall installed capacity of PV stood at 136.7 Gig Watt, an increase of 35% from the past year and with the US losing its edge to Asia as the leader in installed capacity.

India has recently planned for the establishing of the world's largest solar power plant worth $ 4.4 billion and has been increasingly becoming the leader among the new joiners into the global solar club.



Global power demand (CAGR) for various periods.

Source: EIA, UBS

Global real exchange rates and financial markets: streamlining is in order

Financial markets across the globe are going through significant and important transitions with advanced economies strengthening their growth and the monetary stimuli being slowing withdrawn globally. During the spring and the summer of 2013 the global real exchange rates of emerging economies across the world have begun to appreciate heavily. So did the real interest rates on the US sovereign debt. These have been the end results of the US Fed beginning to taper the monetary stimulus that it has issued as a measure to put an end to the great recession of 2008.

While the global real exchange rates of emerging economies are expected to further appreciate, currency is expected to be strengthened by various monetary and fiscal measures among high income countries, in short, streamlining the turbulence caused by the recession is in order.

The US dollar has failed to rally in 2014, despite the beginning of its withdrawal of monetary stimulus program. Although the US Fed officials reiterate their commitment to tapering off the stimulus, the dollar is expected to be fairly accommodating this year. This is primarily because tapering will have cascading effects on the global economy and largely emerging economies. Nevertheless, the US is projected to grow over 2.4% in 2014 despite harsh winter in the first quarter and this coupled with the strengthening of S&P 500 and other US financial market indices enable us to predict a stable if not a weakening US dollar. The Canadian Dollar has positive data on its side; however the central bank is expected to hike the key interest rates, allowing the CAD to be the biggest risk to the economy yet.

The Ukraine crisis has been affecting the international money markets significantly. With Russia easing the tensions by allowing for peaceful elections in Ukraine and a series of positive statements, the markets have been in positive spirits. Earlier on, Russia was selling its Foreign exchange reserves steadily to finance its interests in Ukraine. OAO TMK which has recently sealed a $ 400 billion gas supply deal with China has jumped its value by 6.3% among others in Russian markets. The ruble appreciated 4.5% against the dollar, highest among the emerging economies' currencies this month.

Almost all the emerging economies have seen their currencies appreciate in 2013-14 with China, oil-exporting nations included. This is primarily because of the tapering of monetary stimulus by the US Federal Reserve. It has been expected that this withdrawal of unconventional monetary policy measure would be followed by an increasing key interest rates in the US. This has allowed capital flight from the emerging economies, with the Indian rupee being worst affected.

The Chinese Yuan has depreciated against the USD by 4.5% this year. With its international reserve capital of over $ 4 trillion, China has very strong currency capabilities. However, global investors for the near term prefer to have a normally depreciated Chinese Yuan.

With a stable government being formed after general elections, currency optimism has skyrocketed for the Indian Rupee (INR). Inflow of capital and strengthening of the INR has been observed besides a rallying capital markets after the results were declared on May 16th.

Retail and Consumer Goods: Tough Competition

With both growth and demand revivals across the globe, the retail and consumer goods industry is set to have a good year. However, slow growth in the developed markets for the industry has come into acceptance and hence, expectations are high for the industry among the developing nations. Despite the revival of growth engines across the world, developed markets are poised to continue with a recessionary mindset and are expected to affect the industry negatively.

With technology being embraced increasingly in developing markets, e-commerce industry is expected to have a good year in business.

This year will mark a big transition, with companies in this industry adjusting to changing consumer tastes and preferences.

European retailers have been facing troubles ever since the recession in 2008. They still continue to face problems. Since the last few years, a few top European retail companies' sales have grown meagerly a couple of percentage points above inflation. Earnings before interest and taxes have been about 1.5% of sales.

Continued economic stresses, the advent of e-commerce and changing consumer tastes and preferences have changed the dynamics the retail industry all together.

While the consumption patterns pre 2007 are expected to resume in Europe, global retail companies are expected to move to stable growth by the end of the year, as economies globally continue recovery from the recession and demand is expected to be improved globally.

Asia remains to be the biggest opportunity for the retail industry. A continued rise of middle class and positive growth forecasts make consumer products' market bigger in Asia.

Retail industry is expected to grow at the rate of 9% in China, largely driven by e-commerce industry. While big firms have big plans for China, if growth would not be as well as expected, the industry would find itself heavily exposed.

India would be very closely watched by the retail industry in 2014. With a new pro-business government in power, India is expected to ease its stance of not allowing FDI in retail industry.

While establishing the single brand retail has happened well, multi-brand retail FDI has failed to be legislated in 2012 because of the opposition's strong stance against it. Ironically, the then opposition has come into power today and despite being pro-business, it is not expected to favor the industry right away.

Manufacturing: A mixed year to expect

2014 would see a great deal of technologies that power and transform the way manufacturing business has been functioning. Improving the visibility and transparency of the supply chains and reliance on the advent of predictive analytics, which analyses the changing customer dynamics across globe are expected to be the leading strategies of manufacturing firms globally in 2014.

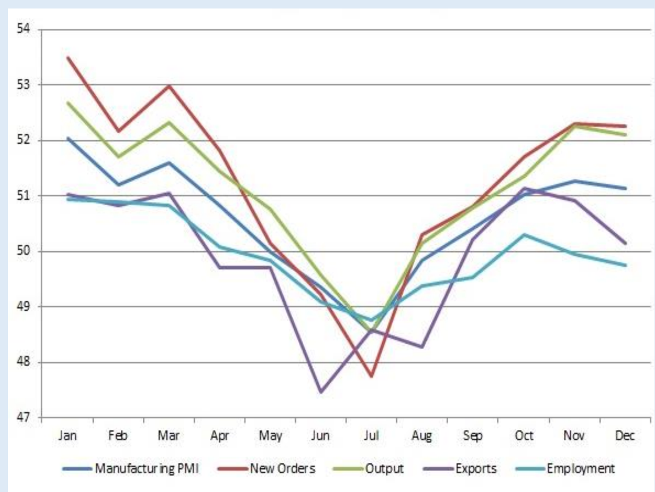
While Japan and China are expected to show some contraction due to policy, US, EU are expected to boost their orders and business. India and other emerging economies may lose their competitive advantages of having lesser costs of manufacturing due to the rise of regionalism across the globe and due to complex policy frameworks in the emerging economies.

Overall, manufacturing will witness greater integration of technology and data analytics than before in the way the business would be conducted. However, with changing dynamics of cost structures across the world, manufacturing will have a mixed year in 2014.

Japanese manufacturing output and new orders fell due to an increased sales tax that has been levied in the economy. This is expected to be brief as the economy is poised to be revived, according to a survey conducted by J.P. Morgan.

Europe and America are expected to boost their orders and business due to improved outlook. The UK has grown at a 3 month high rate and marginally missing the 3 year high rate that was achieved in January. Chinese manufacturing output also fell sharply, while India, Indonesia witnessed slower growth. Brazil and Russia also have witnessed lower production. 22 out of 26 nations whose data was available for April have registered an increase in manufacturing employment. The only exceptions were Brazil, China, Russia and France.

Europe, which traditionally was a manufacturing superpower, is lagging further behind in terms of costs to doing business. Few countries from Western Europe have worsened their positions in the aspect. Costs rose by 6% in Belgium, 9% in France and 10% in both Switzerland and Italy. Rising electricity costs and lower productivities are the chief reasons.



HSBC Emerging Markets Manufacturing Purchasing Managers' Index, 2013

Financial Services:

Global Financial services companies will see good business in 2014. However, the industry is not expected to retreat to its former self. It is expected to be yet under much of regulated environment and be more because of low cost offerings. Firms have already begun to give back the capital aid they received because of the government stimulus after the 2008 global recession besides recapitalizing themselves. The recent rise in asset prices globally has also worked in favor of the industry, especially the rise in property and equity.

However, with central banks cautioning that they will pull off the stimulus they have provided so far, the industry is expected to be affected too.

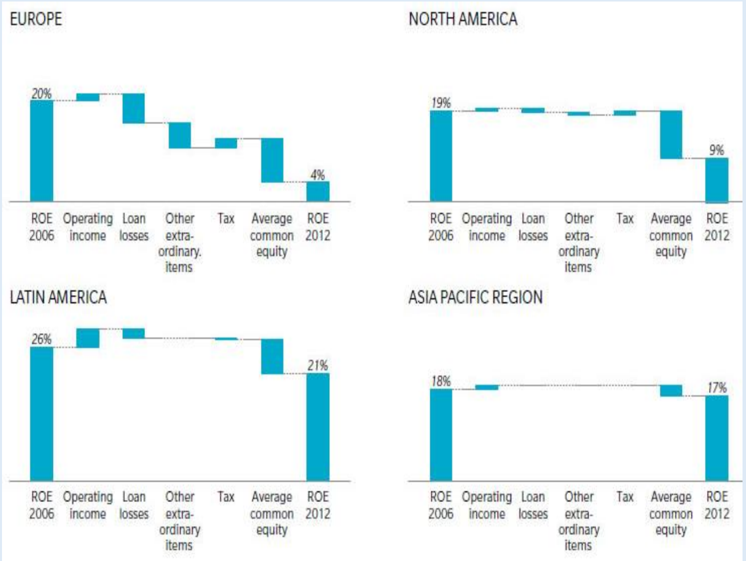
Overall, it is expected to be a good year to the financial services industry.

The US Fed's program to taper the stimulus is expected to raise the interest rates. This is good news to banks, which could operate better under high interest rate regime. This is also expected to make the bond markets offer higher yield, because the benchmark interest rate could also go up.

The implementations of the Volcker rule and Qualified Residential Mortgage risk retention rule have been due since 2013 and the US agencies are due to comply by the rule latest on July 21, 2015. Any further delay is expected to affect the industry.

Another area where regulation is rapidly changing is in the OTC derivatives market. Centralized clearing and exchange trading among other regulations are expected to weaken the dominance of traditional players. Banks are expected to raise their capital by few more rounds because of the Basal III norms, which would run until 2019.

The US has witnessed a flood of capital into the economy right when the interest rates are expected to go up, because of low interest rates in Europe and elsewhere. The US government bonds were oversubscribed by about 3.07 times through May this year. Also, the benchmark 10 year Treasury bill closed at 2.44% on May 28th, the lowest since June last year.



2014 Drivers of Financial markets
Source: Oliver Wyman

Healthcare: High on optimism

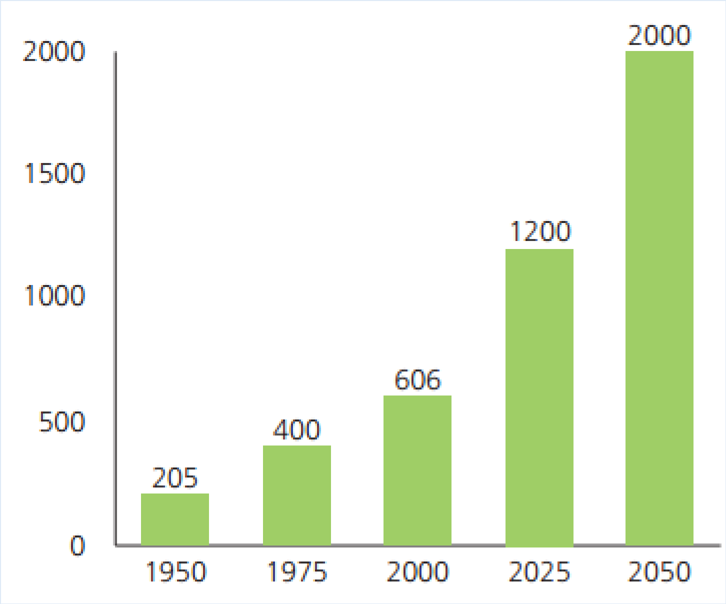
With global health spending to rise by an average of 5.4% over the next 4 years, the industry is expected to have a shot in the arm. With companies increasingly getting 'glocalized' the term used to describe the process of adaptation of global products and services to cater the needs of the local people, healthcare is poised to become very competitive. There were never so many healthcare challenges the world has faced. With a high necessity for newer scientific products, cheaper medical drugs and a globally ageing population, healthcare has become the heart of policymaking across the world.

With the US, being the largest market for the industry, implementing its landmark healthcare reforms, the global healthcare spending is set to increase to a new high in 2014. However, with globally increasing spending, ageing population and other issues, healthcare has an opportunity that was never existent before. 2014 should be a great year for global healthcare industry.

Life expectancy globally is expected to increase to 73.7 by 2017. This will increase the number of people above the age of 65 years to 560 million. That will be 10% of global population. In Japan it would be 27% and in Western Europe, a center for global manufacturing, it will hit 20%. These figures indicate the importance of having healthcare as a social policy, implying the spend that the government is expected to make.

2014 will be a good and challenging year to the healthcare industry globally. With rising demand, surging costs, insufficient care facilities and growing public demands for affordable healthcare, the industry's growth prospects are not too bright. However, considering the ageing population, growing demand, if the industry could remodel its business operational procedures accordingly it should grow well.

India has recently advanced its primary healthcare policy. India is expected to have a raise of 17% in its spend, followed by China at 14% while the whole of Asia region is expected to expand its healthcare spend at 7.1% on average.



World population whose age is more than 60 years

Source: Deloitte

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