GEM Economics | Asia | India
10 April 2013

How badly is India doing?

Indranil Sen Gupta +91 22 6632 8653
India Economist
DSP Merrill Lynch (India)
indranil.sengupta@baml.com
Asia FI Strategy & Economics
Merrill Lynch (Singapore)

Bottom line: Slowdown: In line with other BRICs

How badly is India doing?, clients ask. We believe that growth has bottomed, like other BRICs, but there is no sign of a bottom out as yet. Our lead indicators are tracking March quarter growth at 4.8%, lower than 7.9% we forecast for China but higher than Brazil's 2.5% or Russia's 2%. The good news: the RBI has relatively greater firepower to ease to support growth. We expect it to cut rates by 75bp and CRR by 50bp in FY14. The iffy news: India (and Brazil) faces polls in 2014 amidst economic crisis. Political uncertainty will thus cloud the progress of fiscal consolidation, reforms and revival of the capex cycle in 1H14. The ugly news: India's FX reserves are beginning to trail BRIC levels. We thus expect the RBI to buy FX at Rs52/USD and defend Rs56/USD.

Rates: RBI most firepower in BRICs; 75bp lending rate cuts

The good news is that the RBI has relatively greater firepower to ease to support growth among BRIC central banks. In fact, India is the only BRIC in which lending rates are still stuck at their 2008 peak. At the same time, India's inflation, at 1.3x of growth, is no worse than Brazil's 6x and Russia's 1.5x. Against this backdrop, we expect the RBI to cut rates by 75bp and CRR by 50bp in FY14.

Shallow recovery driven by rains, rate cuts

Our shallow recovery in growth to 6% from 5% in FY13 turns on better rains and lending rate cuts. We have decomposed the 300bp growth slowdown into 4 factors: (1) global slowdown (150bp); (2) RBI tightening (75bp); slowing investment (50bp) and (4) poor rains (25bp). Our economists expect global growth to stagnate at 3%. We also do not expect a turn in the capex cycle till the summer 2014 polls and stabilization in the G-3. India's investment slowdown, at 2.5%, is no worse than Brazil's -4% or Russia's 5.3%.

Polls: Political uncertainty during economic crisis

The iffy news is that India (and Brazil) will face polls in 2014 amidst economic crisis while China and Russia are done. While we do not expect a ratings downgrade in 2013, political uncertainty will surely put a question mark on fiscal consolidation. Second, it remains to be seen if Delhi is able to pass legislation hiking the FDI+FII limit to 49% from 26% of equity for insurance companies. Finally, we do not expect the capex cycle to revive till the polls, although Delhi's recent measures to revive investment could boost sentiment.

FX reserves: Trailing BRIC levels; RBI to hold Rs52-56/USD

The ugly news is that India's FX reserves are beginning to trail BRIC levels. Import cover has halved to 7 months in the past 4 years. It is for this reason we expect it to buy at Rs52/USD if the US Dollar stabilizes at 1.30s/€ and defend Rs56/USD at 1.20s/€. We thus expect the MoF/RBI to: (1) cut withholding tax for corporate bonds and gilts; (2) hike FII debt limits, with the RBI buying the FX leg; and (3) float NRI bonds.

Table 1: Worst over

Variable	FY12	FY13E	FY14E	FY15E
Real GDP	6.2	5.0	6.0	7.5
Agriculture	3.6	1.8	4.0	3.5
Industry	2.7	2.1	4.1	7.3
Services	7.9	6.6	7.0	8.3
M3	13.0	13.6	16.0	17.0
Commercial credit	17.0	14.1	16.0	18.0
WPI inflation (eop)	7.7	6.6	6.7	6.5
Fiscal deficit (% of GDP)	-8.4	-7.3	-7.2	-7.1
Current account balance (% of GDP)	-4.2	-5.1	-4.3	-3.0
Forex reserves (US$bn)	294.4	293.0	315.0	295.0
RBI's LAF reverse repo rate	7.50	6.50	5.75	6.75
RBI's LAF repo rate	8.50	7.50	6.75	7.75
Cash reserve ratio (% of bank book)	4.75	4.00	3.50	3.75
10-year GoI yields	8.25	8.00	7.5	7.5
PLR	14.25	13.50	12.75	13.25
US$/INR	49.6	53.0	49.0$	

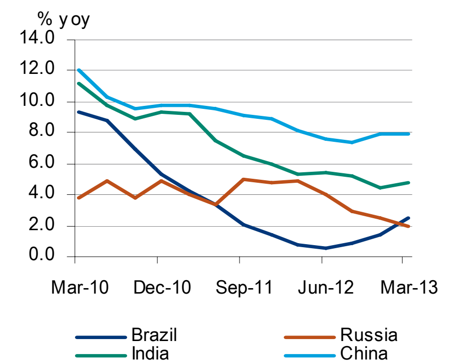
Source: BofA Merrill Lynch Global Research estimates. $ December.

India Macro Weekly

Refer to important disclosures on page 6 to 7. Link to Definitions on page 5.

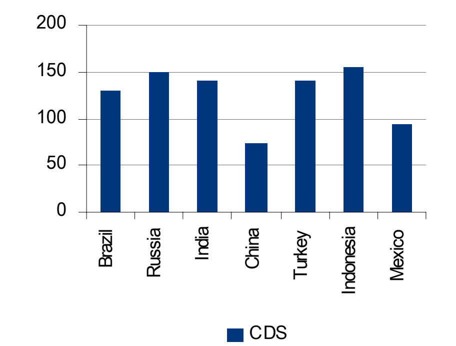
How badly is India doing?

Chart 1: India bottoming like other BRICs...



Source: BofA Merrill Lynch Global Research estimate.

Chart 2: ... country risk also at BRIC levels



Source: BofA Merrill Lynch Global Research estimates. # SBI5y CDS spread adjusted for differential with gilts.

How badly is India doing?, clients ask. We believe that growth has bottomed, like other BRICs, but there is no sign of a bottom out as yet. Our lead indicators are tracking March quarter growth at 4.8%, lower than 7.9% we forecast for China but higher than Brazil's 2.5% or Russia's 2%. The good news: the RBI has relatively greater firepower to ease to support growth. We expect it to cut rates by 75bp and CRR by 50bp in FY14. The iffy news: India (and Brazil) faces polls in 2014 amidst economic crisis. Political uncertainty will thus cloud the progress of fiscal consolidation, reforms and revival of the capex cycle in 1H14. The ugly news: India's FX reserves are beginning to trail BRIC levels. We thus expect the RBI to buy FX at Rs52/USD and defend Rs56/USD. Do read our last-how-safe-is-India report here.

Bottom line: Slowdown in line with other BRICs

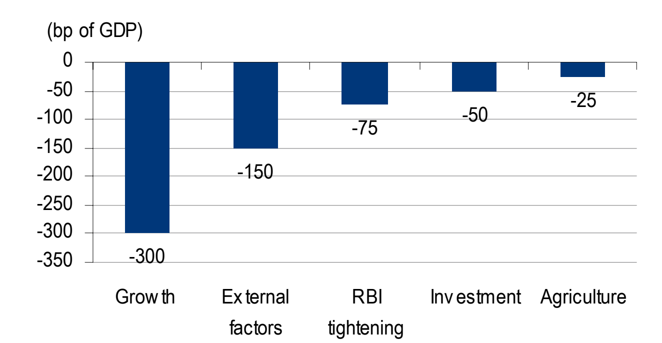
We believe India has bottomed, like other BRICs, but there is no sign of a bottom out (Chart 1). Our shallow recovery in growth to 6% from 5% in FY13 turns on better rains and lending rate cuts (Chart 2). On our part, we expect growth to see a shallow recovery to 6% in FY14 from 5% in FY13 driven by better rains and lending rate cuts (75bp BofAMLe). We have decomposed the 300bp growth slowdown into 4 factors: (1) global slowdown (150bp); (2) RBI tightening (75bp); slowing investment (50bp) and (4) poor rains (25bp) (Chart 3). Our economists expect global growth to stagnate at about 3%. We also do not expect a turn in the capex cycle till the summer 2014 polls and stabilization in the G-3.

Rates: RBI has more firepower than other BRICs

The good news is that the RBI has relatively greater firepower to cut rates. In fact, India is the only BRIC in which lending rates are still stuck at their 2008 peak (Table 2). At the same time, India's inflation, at 1.3x of growth, is no worse than Brazil's 6x and Russia's 1.5x (Table 3). Against this backdrop, we now expect a 25bp CRR cut on May 3, 25bp rate cuts in June and July, 25bp CRR rate cut in October and a 25bp rate cut in January. Do read our latest RBI views here.

Can rate cuts spur growth if investment doesn't pick up? A lower price of money, Econ 101 surely teaches us, supports growth (and investment) more than a higher cost of funds. In our view, capex is unlikely to turn around until the G-3 stabilizes. After all, Table 4 shows that investment has slowed down not only in India but also in most BRICs and TIMs. Do read our capex report here.

Chart 3: Recovery = Rains + rate cuts



Source: BofA Merrill Lynch Global Research estimate.

Table 2: India's lending rates still at 2008 peak

	2004-07	2008-10	Current
BRICs			
India	13.75	11.75	13.5
Brazil	31.8	25.5	18.9
Russia	17.4	8.0	9.6
China	7.5	5.3	6.0

Source: BofA Merrill Lynch Global Research estimate.

Table 3: India's stagflation in line with BRIC + TIM levels

	Growth			Inflation		
	Pre-crisis	Crisis	Current	Pre-crisis	Crisis	Current
BRICs						
India	9.3	6.7	5.7	7.7	1.6	7.0
Brazil	6.1	-0.3	2.4	3.6	4.9	6.1
Russia	8.1	-7.9	3.7	9.0	11.7	6.5
China	14.2	9.2	7.8	4.8	-0.7	3.7
TIMs						
Turkey	4.7	-4.7	5.1	8.8	6.3	7.6
Indonesia	6.3	4.6	6.2	6.0	4.9	5.2
Mexico	3.3	-6.0	3.6	4.0	5.3	3.8

Source: BofA Merrill Lynch Global Research estimate.

Table 4: Investment slowing across BRICs

Real Investment growth (% yoy)	Pre-crisis	Crisis	Current
BRICs			
India	16.2	7.7	4.0
Brazil	13.9	-6.7	1.9
Russia	22.7	-15.7	5.8
China	15.2	17.8	8.3
TIMs			
Turkey	5.8	-28.6	7.2
Indonesia	9.3	3.3	9.4
Mexico	6.9	-11.8	6.1

Source: BofA Merrill Lynch Global Research estimate.

Polls: Political uncertainty during economic crisis

The iffy news is that India (and Brazil) faces polls in summer 2014 amidst economic crisis while China and Russia are done with their government leadership changes (Table 5). While growth (and the BSE Sensex) has done well and badly across all regimes (Chart 4), it would be naïve to deny that political uncertainty will cloud markets in 2H13.

We do not expect a ratings downgrade in 2013 but political uncertainty could constrain the progress of fiscal consolidation at a time India's fiscal deficit is still extremely high relative to other BRICs and TIMs (Tables 6-7). Second, it remains to be seen if the government is able to pass legislation hiking the FDI+FII limit to 49% from 26% of equity for insurance companies. Finally, we do not expect the capex cycle to revive till the 2014 General Elections, although Delhi's recent measures to step up investment could boost sentiment once the BSE Sensex bottoms out.

FX reserves: Trailing BRIC levels

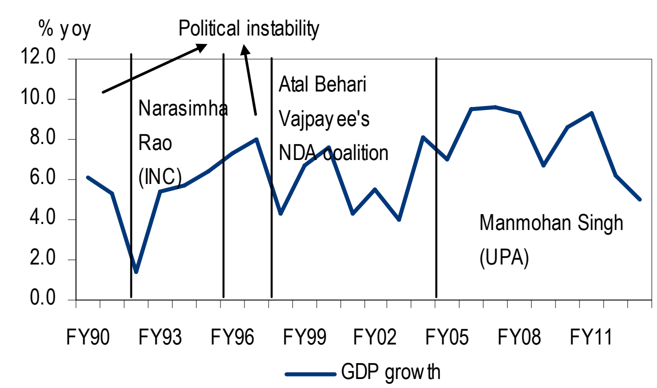
The ugly news is that India's FX reserves are beginning to trail BRIC levels (Table 8). Not surprisingly, the INR has depreciated next after the BRL in the current European crisis (Chart 5).

Table 5: Political uncertainty ahead...

State	Elections due	Incumbent Party
Karnataka	May 2013	BJP
Rajasthan	Nov 2013	Congress
MP	Nov 2013	BJP
Chhattisgarh	Nov 2013	BJP
Delhi	Nov 2013	Congress
Mizoram	Nov 2013	Congress
Sikkim	April 2014	Sikkim Democratic Front
Andhra Pradesh	April 2014	Congress
Odisha	April 2014	BJD
General Elections	April 2014	Congress+

Source: GOI

Chart 4: ...but growth not that sensitive to politics



Source: BofA Merrill Lynch Global Research estimate.

Table 6: Ratings downgrade unlikely in 2013...

Countries	Moody's	S&P	Fitch
China	Aa3	AA-	A+
Brazil	Baa2	BBB	BBB
Russia	Baa1	BBB	BBB
India	Baa3	BBB-u	BBB-

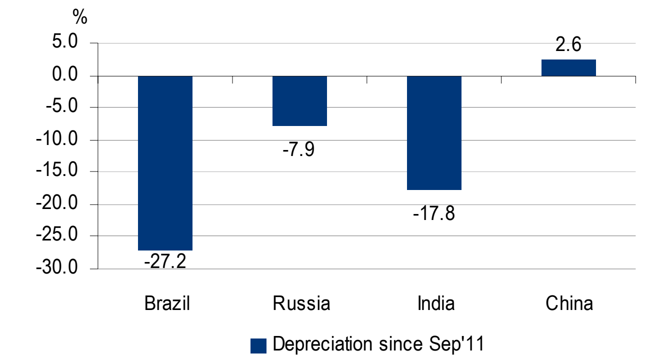
Source: Bloomberg.

Table 7: ... but high fiscal deficit a risk

	Central Government budget balance		
	Pre-crisis	Crisis	Current
BRICs			
India	-2.5	-6.5	-5.3
Brazil	-2.2	-3.4	-1.7
Russia	5.4	-6.0	0.1
China	-0.2	-2.8	-1.7
TIMs			
Turkey	-1.6	-5.5	-1.9
Indonesia	-1.3	-1.9	-2.0
Mexico	-1.9	-2.2	-2.3

Source: BofA Merrill Lynch Global Research estimate.

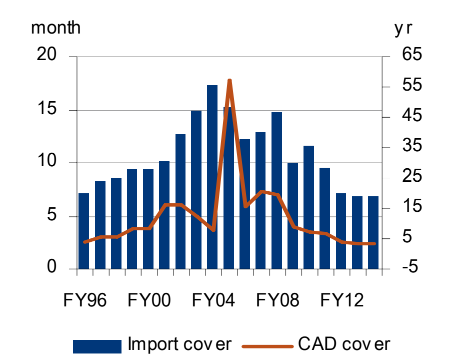
Chart 5: INR has depreciated only next to BRL...



Source: BofA Merrill Lynch Global Research estimate.

Import cover has halved to 7 months in the past 4 years after the RBI tried to appreciate the INR against imported inflation at the cost of buying FX in 2H09-1H11 (Chart 6). It is for this reason we expect it to buy at Rs52/USD if the US Dollar stabilizes at 1.30s/€ and defend Rs56/USD at 1.20s/€. Do read our latest Rupee dilemma report here.

Chart 6: ... with import cover falling



Source: RBI, BofA Merrill Lynch Global Research estimate.

Can the RBI really hold Rs52-56/USD with the current account deficit spiking? Yes, because the *actual* current account deficit is a still high - but not exploding - 3.5% of GDP in FY13-14. In our view, the jump in the current account deficit to 5.1% of GDP in FY13 from 2.7% in FY11 is largely statistical. It reflects: (1) discrepancies in oil import data and (2) shift of non-resident Indians to NRI deposits (in capital account) from remittances (in current account) after NRI deposit rate hikes. It is for this reason that volatility is abating in the FX market despite a rising current account deficit (Chart 7). Do read our latest current account deficit report here.

RBI to focus on funding current account deficit

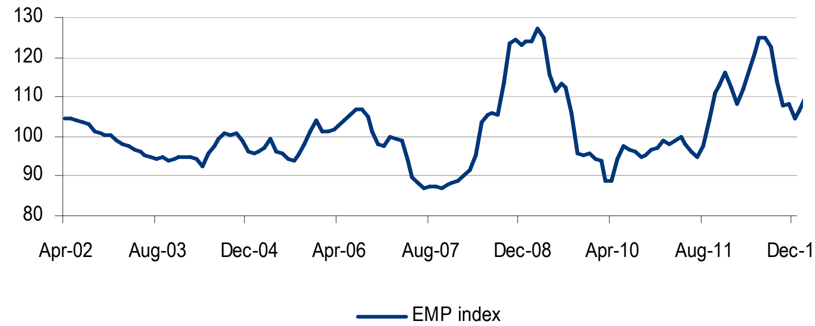
We expect the RBI's FX policy to increasingly focus on funding the current account deficit instead of trying to ineffectually compress it. In our view, the current account deficit is unlikely to come off as long as we live in a world of low growth - hurting engineering and textiles export demand - and high liquidity - pumping up the oil import bill. It is not until 2015 that our US economist, Ethan Harris, expects growth to be robust enough for the Fed to hike rates. We thus expect the MoF/RBI to: (1) cut withholding tax for corporate bonds and gilts; (2) hike FII debt limits, with the RBI buying the FX leg; and (3) float NRI bonds.

Table 8: India's BoP indicators trailing BRICs...

	Pre-Crisis			Crisis			Current		
	FX reserves (% of GDP)	Import cover	FX reserves/ Short-term EXD	FX reserves (% of GDP)	Import cover	FX reserves/ Short-term EXD	FX reserves (% of GDP)	Import cover	FX reserves/ Short-term EXD
Brazil	13.2	17.9	2.9	14.7	22.4	3.0	16.8	18.5	3.1
Russia	36.7	25.7	4.9	35.9	27.5	6.6	27.6	18.9	7.7
India	25.0	14.4	3.9	21.5	11.1	2.7	15.9	6.9	1.9
China	43.7	20.3	12.5	48.1	30.2	15.9	39.9	21.2	7.4

Source: BofA Merrill Lynch Global Research estimate.

Chart 7: ... but FX market volatility has abated



Source: BofA Merrill Lynch Global Research estimate.

Link to Definitions

GEM Macro

Click here for definitions of commonly used terms.

Macro

Click here for definitions of commonly used terms.

Special Disclosures

In accordance with the SEBI (Foreign Institutional Investors) Regulations and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved by SEBI and the Reserve Bank of India (RBI). Each investor who transacts common stock of Indian companies will be required to certify approval as a foreign institutional investor or as a sub-account of a foreign institutional investor by SEBI and RBI. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. BofA Merrill Lynch reserves the right to refuse copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depository Receipts (GDR) and the Global Depository Shares of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs will be made available to persons who are not QIBs.

DSP Merrill Lynch Limited
SEBI Regn no. : BSE - INB/INF 011348134 NSE – INB/INF 231348138
Address – Mafatlal Centre, 8th Floor, Nariman Point, Mumbai, India. 400021
Tel : +91 22 6632 8000

Important Disclosures

BofA Merrill Lynch Research personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking revenues.

Other Important Disclosures

Individuals identified as economists do not function as research analysts under U.S. law and reports prepared by them are not research reports under applicable U.S. rules and regulations. Macroeconomic analysis is considered investment research for purposes of distribution in the U.K. under the rules of the Financial Services Authority.

BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

"BofA Merrill Lynch" includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report.
"BofA Merrill Lynch" and "Merrill Lynch" are each global brands for BofA Merrill Lynch Global Research.

Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name): Merrill Lynch (France): Merrill Lynch Capital Markets (France) SAS; Merrill Lynch (Frankfurt): Merrill Lynch International Bank Ltd., Frankfurt Branch; Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd.; Merrill Lynch (Milan): Merrill Lynch International Bank Limited; MLI (UK): Merrill Lynch International; Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited; Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd.; Merrill Lynch (Canada): Merrill Lynch Canada Inc; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa; Merrill Lynch (Argentina): Merrill Lynch Argentina SA; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd.; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch); Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd.; DSP Merrill Lynch (India): DSP Merrill Lynch Limited; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia; Merrill Lynch (Israel): Merrill Lynch Israel Limited; Merrill Lynch (Russia): OOO Merrill Lynch Securities, Moscow; Merrill Lynch (Turkey I.B.): Merrill Lynch Yatirim Bank A.S.; Merrill Lynch (Turkey Broker): Merrill Lynch Menkul Değerler A.Ş.; Merrill Lynch (Dubai): Merrill Lynch International, Dubai Branch; MLPF&S (Zurich rep. office): MLPF&S Incorporated Zurich representative office; Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V.; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A.; Merrill Lynch KSA Company, Merrill Lynch Kingdom of Saudi Arabia Company.

This research report has been approved for publication and is distributed in the United Kingdom to professional clients and eligible counterparties (as each is defined in the rules of the Financial Services Authority) by Merrill Lynch International and Banc of America Securities Limited (BASL), which are authorized and regulated by the Financial Services Authority and has been approved for publication and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Services Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorized by the Central Bank of Ireland and is subject to limited regulation by the Financial Services Authority – details about the extent of its regulation by the Financial Services Authority are available from it on request; has been considered and distributed in Japan by Merrill Lynch Japan Securities Co., Ltd., a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is distributed in Hong Kong by Merrill Lynch (Asia Pacific) Limited, which is regulated by the Hong Kong SFC and the Hong Kong Monetary Authority; is issued and distributed in Taiwan by Merrill Lynch Securities (Taiwan) Ltd.; is issued and distributed in India by DSP Merrill Lynch Limited; and is issued and distributed in Singapore by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively) and Bank of America Singapore Limited (Merchant Bank). Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. are regulated by the Monetary Authority of Singapore. Bank of America N.A., Australian Branch (ARBN 064 874 531), AFS License 412901 (BANA Australia) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distributes this report in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of BANA Australia, neither MLEA nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil and its local distribution is made by Bank of America Merrill Lynch Banco Múltiplo S.A. in accordance with applicable regulations. Merrill Lynch (Dubai) is authorized and regulated by the Dubai Financial Services Authority (DFSA). Research reports prepared and issued by Merrill Lynch (Dubai) are prepared and issued in accordance with the requirements of the DFSA conduct of business rules.

Merrill Lynch (Frankfurt) distributes this report in Germany. Merrill Lynch (Frankfurt) is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates.

General Investment Related Disclosures:

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Certain investment strategies and financial instruments discussed herein may only be appropriate for consideration in accounts qualified for high risk investment.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at http://www.ml.com/media/43347.pdf.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

Copyright and General Information regarding Research Reports:

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such companies in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving companies mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them.

All opinions, projections and estimates constitute the judgment of the author as of the date of the report and are subject to change without notice. Prices also are subject to change without notice. BofA Merrill Lynch is under no obligation to update this report and BofA Merrill Lynch's ability to publish research on the subject company(ies) in the future is subject to applicable quiet periods. You should therefore assume that BofA Merrill Lynch will not update any fact, circumstance or opinion contained in this report.

Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to a company or issuer prior to making an investment decision.

In some cases, a company or issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such company or issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies.

Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.