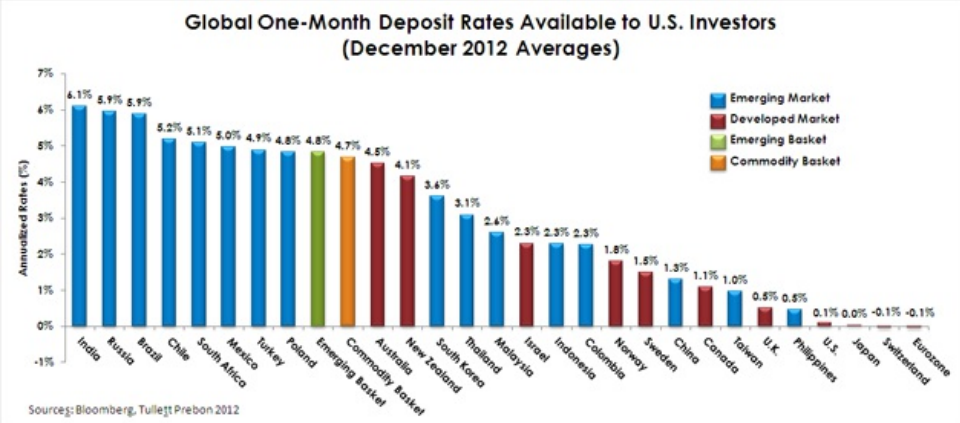
# COULD INDIA FINALLY BE TURNING THE CORNER?

**Rick Harper — CIO, Fixed Income**
**02/07/2013**

With the Indian rupee coming off historic lows, we believe potential foreign direct investment could provide the necessary boost for further currency appreciation. 2011 and 2012 were not great years for the Indian rupee. Persistent concerns about inflation and a slowing global economy created an environment that policy makers and investors found very difficult to navigate. However, 2013 is off to an encouraging start, with strong flows forcing the currency up from its historic lows reached in June 2012. With moderating inflation giving it some flexibility to cut interest rates, and in an effort to revive growth, on January 29 the Reserve Bank of India (RBI) went ahead with a 0.25% rate cut for the first time since April of 2012. While current foreign exchange forecasts are calling for only a moderate appreciation of 2.6%,[1] the high levels of interest carry could be an attractive cushion for investors looking to make an allocation to one of the world's largest and fastest-growing economies.




The deposit rates are historical and do not represent the returns of any WisdomTree ETFs.
Global one-month deposit rates represent the annualized rate of interest offered by banks in exchange for one-month deposits. U.S., U.K., eurozone, Japan and Switzerland deposit rates are represented by the London Interbank Bid Rate (LIBID) for one-month deposits. LIBID rates are the daily reference rates at which a consortium of British banks are prepared to borrow or accept deposits. Bloomberg composite rates for one-month deposits were used for Australia, Canada, Israel, Mexico, New Zealand, Poland and Sweden. The Norway Interbank Deposit Rate and the Johannesburg Interbank Agreed Rate were used to proxy one-month deposit rates for Norway and South Africa, respectively. Each rate is an average of the rates indicated by local and international banks for one-month deposits in the specified currency. For Brazil, China, Chile, Colombia, India, Indonesia, Malaysia, Russia, South Korea, Taiwan and Thailand, the implied yields for one-month non-deliverable forward contracts were used to represent the rates available to U.S. investors. For Turkey, the implied yields for one-month deliverable forwards were used to represent available rates. Given restrictions on direct access to local short-term deposits, implied yields on currency forward contracts are often used to represent the short-term rates available to foreign investors in emerging market countries. Implied yields on forward currency contracts incorporate both the difference between the forward currency and spot currency rates as well as the potential interest earned from investment in the underlying cash collateral.
The yield on the Emerging Basket is simply an average of the yields on the following 15 emerging currencies: Brazil, China, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, Thailand and Turkey. The yield on the Commodity Basket is simply the average of the yields on the eight commodity-exporting countries Australia, Brazil, Chile, Canada, New Zealand, Norway, Russia and South Africa.

Even among its emerging market contemporaries, India, after largely holding rates steady in the previous two years, now sports an attractive level of carry over most other currencies. Specifically, the WisdomTree Indian Rupee Fund (ICN) has a 5.98% embedded income yield as of December 31, 2012. (For standardized performance, including the SEC 30-day yield for ICN click here.) The combination of exposure to local interest rates and movement in the rupee against the U.S. dollar could provide investors with an attractive rate of return in 2013. However, the health and the perception of risk assets in the global economy are crucial. In 2013, flows could prove to be key. Should money continue to flow into the Indian debt and equity markets, the rupee could finally break its recent bout of underperformance. As our equity group has published in a recent blog, India has an attractive long-term growth story and is a country they consider underappreciated and undervalued. As investor dollars flow into the country, they must be converted to rupees in order to buy locally denominated assets. While the currency is undervalued by nearly 62%[2] on a purchasing power basis, we believe that the path of modest appreciation seems the most likely. Other potential upside surprises could develop as politicians

position themselves for the 2014 elections. After a frustrating series of false starts and missteps, politicians may finally come together to push through structural reforms. We believe even minor steps in this direction could have a significant impact on investor sentiment and tolerance for risk. While it is still far too early to call 2013 a victory for investors with exposure to India, a series of positive developments have primed the pump for positive performance. With some stimulative policy from the RBI and a generally positive outlook for emerging markets in Asia, we believe India has the potential to be a solid performer in 2013. [1]Source: Bloomberg, as of 1/29/2013. [2]Sources: World Bank, International Monetary Fund, WisdomTree, as of 12/31/2012.

Important Risks Related to this Article

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