

**INSIDE THIS ISSUE:**

- Oil Stats
- The Plays

**KEY TAKEAWAYS**

- ⇒ *Emerging markets that depend on oil imports could be the chief beneficiary of sustained low energy prices*
- ⇒ *India, one of the biggest and fastest growing economies could be one of the top beneficiaries*
- ⇒ *A country ETF could generate big returns*
- ⇒ *Finance and automotive players, especially the big names should attract major buyers this year*

**KEY STATISTICS**

| <u>Index</u> | <u>Close</u> | <u>2015</u> |
|--------------|--------------|-------------|
| DJIA         | 17737        | -0.04%      |
| S&P 500      | 2045         | -0.06%      |
| NASDAQ       | 4704         | -0.07%      |
| Russell 2000 | 1186         | -1.6%       |

(figures are rounded)

## AN OIL IMPORTER'S DREAM?

We may be beating a dead horse here, but it is difficult to not keep talking about the recent demise of oil and gas prices. The majority of the U.S. now enjoys \$2.20+ per gallon price levels at the pump--something I would bet most of us never thought we would never imagine seeing anytime soon a year ago. The question remains: How sustainable are these low prices? And: Where can you get the most bang for your buck when it comes to trading and investing?

Despite all of its high growth output, emerging Asian markets, have one major Achilles heel: oil and gas imports. A majority of these countries depend heavily on importing oil and gas, and this dependency can be a big barrier to economic expansion as long as they have to pay high oil prices. The table below illustrates the top 10 nations for categories of imports, exports, production, and consumption last year.

Interestingly, some of the largest Asian emerging nations are near the top of the consumption and import lists, but nowhere to be found when it comes to production or exports, with the exception of China. (Japan is not typically considered an emerging market.) The data from the chart drives home our major point: Oil and gas importers, in emerging Asia, could be the biggest huge benefactors of sustained lower prices. Perhaps the biggest benefactor of this phenomenon is India, which ranked fourth in both consumption and imports for 2014.

## Oil Stats

| Rank | Consumption            | Production             | Imports               | Exports              |
|------|------------------------|------------------------|-----------------------|----------------------|
| 1    | United States (18,490) | Saudi Arabia (11,726)  | United States (7,372) | Saudi Arabia (8,865) |
| 2    | China (9,980)          | United States (11,119) | China (5,608)         | Russia (7,002)       |
| 3    | Japan (4,695)          | Russia (10,397)        | Japan (4,559)         | UAE (2,544)          |
| 4    | India (3,450)          | China (4,372)          | India (2,460)         | Kuwait (2,347)       |
| 5    | Russia (3,395)         | Canada (3,856)         | South Korea (2,261)   | Iraq (2,247)         |
| 6    | Brazil (2,864)         | Iran (3,518)           | Germany (2,225)       | Nigeria (2,224)      |
| 7    | Saudi Arabia (2,861)   | UAE (3,213)            | France (1,699)        | Qatar (1,829)        |
| 8    | Germany (2,389)        | Iraq (2,987)           | Spain (1,272)         | Iran (1,728)         |
| 9    | Canada (2,352)         | Mexico (2,936)         | Singapore (1,220)     | Angola (1,714)       |
| 10   | North Korea (2,322)    | Kuwait (2,797)         | Italy (1,216)         | Venezuela (1,712)    |

Source: Goldman Small Cap Research

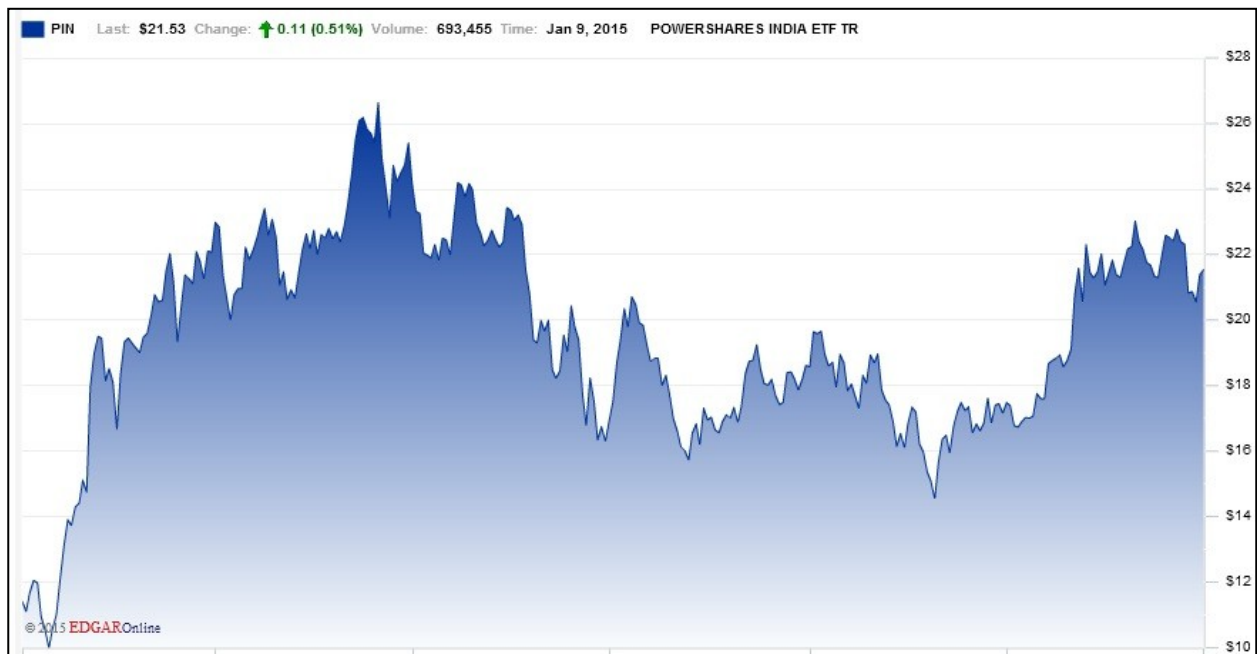
India is in the midst of an enviable growth phase, even by emerging market standards. The Asian nation reported two consecutive quarters of over 5% GDP growth in 2Q14 and 3Q14, which is well above the global average of just under 4%. Additionally, the IMF forecasts 6.4% GDP growth for 2015. Sustained lower oil and gas prices could potentially drive this figure even higher this year. High food prices and inflation have historically been an issue in the Indian economy over the last few years but a drop in oil and gas could help offset these issues as import costs decline and consumer and industrial expenses are reduced, thus freeing up currency to procure and produce more goods. Therefore, India may be a source of one of the top nation-based 'oil trades' this year.

How can we play this opportunity? Below is the 6-year chart for **PowerShares India ETF (NYSE – PIN - \$21.53)**, which is a proxy for the India market since the bottom of the Great Recession in 2009.

## The Plays

### 6-Year Chart for PowerShares India ETF

(Source: [www.otcmartets.com](http://www.otcmartets.com))



As noted above, the Indian markets made a great recovery after the worldwide crash, and are again on a nearly a 45% rise since another bottom in August 2013. Where are some of the most optimal places to put capital to work in India for 2015?

In addition to a country-based ETF, the banking and finance industry is also an interesting place to look for value in India to take advantage of an upswing in economic activity. **ICICI Bank Ltd. (NYSE – IBN -\$11.55)** could offer this opportunity. The Company offers commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking, and treasury products and services. The stock is currently on a 17% accumulation run over the last three months with an average of volume of 6 million shares traded per day. A P/E under 20 is also a decent sign of value. **IBN** appears to be in the ideal price range and a great play in the financial service industry in India.

## ***The Plays (cont'd)***

Another sector play in India could be the well-known **Tata Motors Limited (NYSE – TTM - \$43.83)**. The Company has been around since 1945 and manufactures and sells commercial and passenger vehicles in India and its product portfolio includes compact cars, midsize cars, and utility vehicles; small, light, intermediate, medium, and heavy commercial vehicles; vans, trucks, buses, and defense vehicles; and premium, luxury, and sports cars, as well as all-terrain vehicles. Sustained low oil and gas prices could drive sales for some of the Companies' luxury higher margin vehicles, which are typically less fuel efficient. Margins are an impressive metric for Tata Motors. A gross margin of 33% and operating margin of 11% versus industry averages of 19% and 6% respectively indicate the firm could ensure that EPS stays in line or even grows as a result of increased revenue. **TTM** could climb to \$50 this year if the cheap gas scenario plays out.

There are many potential candidates for the cheap oil trade in 2015, including some oil companies themselves at some point. In the meantime, we believe that India presents some of the most exciting prospects.

Have a great week!



# The Goldman Guide

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