

3 reasons why Feb RBI rate cut is on track

Bottom line: 2015 to see lower rates to support growth

Happy 2015! We continue to expect RBI governor Raghuram Rajan to cut rates 25bp on February 3. In our view, inflation is well set to achieve the RBI's 8% January 2015 and 6% January 2016 CPI inflation targets. What would change by February? Gov Rajan will likely have the confidence of meeting his 8% January 2015 target. We are now tracking December CPI inflation at 5.5%. There is also greater visibility of a close-to-normal winter wheat crop that should contain agflation. Sowing is picking up after a delayed start due to late rains, adjusted for base effects of last year's bumper crop. Finally, there should be greater comfort that 'imported' inflation is abating as the Fed rate hike expectations (September BofAMLe) keep global commodity prices in check. Dated Brent has fallen to US\$55/bbl. Should the RBI wait to cut 50bp in April after the Budget as some suggest? We can only quote from Sant Kabir's dohes/couplets in response: "...kaal kare so aaj kar, aaj kare so ub..." This translates to: "...tomorrow's work do today, today's work now..." Do read our last RBI report [here](#).

Sant Kabir: Medieval Indian saint and poet who preached oneness of God.

1st RBI rate cut February 3, 75bp in 2015

We continue to expect Gov Rajan to cut rates 25bp on February 3 (Chart 1). The December policy was dovish in line with our expectation that the RBI will find the balance of risks to its January 2016 6% inflation target to be neutral relative to the September policy that stated upside risks. It stated: "... if the current inflation momentum and changes in inflationary expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle..."

Should the RBI wait to cut 50bp in April after seeing if the Budget sticks to fiscal consolidation? We do not see how what is to be gained by putting a 25bp RBI rate cut in February. The BJP's Election Manifesto has made a commitment to fiscal consolidation. Media reports suggest that Finance Minister Jaitley will likely target a conservative 3.8-4% of GDP fiscal deficit, marginally above the unduly strict 3.6% projected by former FM Chidambaram.

Lending rate cuts key to recovery

We continue to believe that lending rate cuts hold the key to recovery. Our lead indicators suggest that December quarter growth could fall below 5% if agricultural growth is 0% (Table 1). A RBI rate cut in February will likely lead to a lending rate cut only after the slack season sets in April and support growth after September. Although we fancy ourselves hawks, we cannot but acknowledge that RBI tightening since 2012 has become increasingly counter-productive given our belief that much of inflation is "imported". Against this backdrop, we agree with the Finance Minister Jaitley's view that: "...the cost of capital is one singular factor which has contributed to the slowdown in manufacturing..."

Bank of America 
Merrill Lynch

Indranil Sen Gupta +91 22 6632 8653

India Economist
DSP Merrill Lynch (India)
indranil.sengupta@baml.com

Abhishek Gupta +91 22 6632 8682

India Economist
DSP Merrill Lynch (India)
a.gupta@baml.com

Asia FI Strategy & Economics
Merrill Lynch (Singapore)

BofA Merrill Lynch does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Refer to important disclosures on page 11 to 12.

05 January 2015

In our view, high rates are proving a disincentive to produce and invest. While the consumer faces CPI inflation, the producer's pricing power is better measured by non-food manufacturing WPI inflation. On ex post basis, real lending rates, at 12.5%, are at historical highs relative to average of 8.8% since 1997 (Chart 2). This is clearly hurting recovery (Chart 3). The MoF's mid-year review arrives at a similar conclusion using a real policy rate and a monetary conditions index. It concludes that "... the similarity of real rates today and in recent previous episodes (2004 and 2007) is especially striking because then the economy was close to overheating while today it is just beginning to recover..."

We are not able to understand how some market participants claim that growth will rebound on "project clearances" or even bizarre, "sentiment", without the cost of capital coming down. Has any cycle turned up since the 20th century with high interest rates? Although much is made of how the last cycle was driven by higher investment, it is often forgotten that this itself was driven by Gov Jalan's sustained monetary easing (Chart 4).

#1. Inflation to meet RBI's 8% Jan 2015 target

What would change by February? Gov Rajan will likely have the confidence of meeting his 8% January 2015 target. We are tracking December CPI inflation at 5.5% (Chart 5). January CPI inflation should come in around 6%. Table 2 shows that food prices are rising in December and January primarily on account of reversal of yoy base effects in vegetable prices, even though prices have stabilized on mom basis. However, pulses' inflation continues to be elevated with below normal rabi sowing atop a poor *kharif* harvest.

#2. Relatively ok wheat crop to contain agflation

There is greater visibility of a close-to-normal winter wheat crop containing agflation (Tables 3-4). Sowing has picked up after a delayed start due to late rains, adjusted for base effects of last year's bumper crop.

Oilseed cropping is also lagging but this is not likely to pressure agflation. This apparently reflects the disincentive from cheaper imports due to soft CPO prices. In fact, the government has just raised import duty on crude and refined edible oils by 5% recently to incentivize oilseed farmers. A 5% increase in edible oils increases CPI inflation by 20bp.

The fall in pulses sowing poses a risk. We estimate that a 5% change in pulses' prices impacts CPI inflation by 13bp.

A relief is rivers are running at close to normal levels after late rains (Table 5).

#3. Fed rate hike expectations check 'imported' inflation

There should be greater comfort that 'imported' inflation is abating as the Fed rate hike expectations (September BofAMLe) keep global commodity prices in check. In fact, Dated Brent has fallen to US\$55/bbl with the OPEC refusing to cut production. Note, our numbers are based on our oil strategists' forecast of US\$77/bbl in 2015. That said, our 6% January 2016 forecast holds good up to US\$105/bbl. Do read our 6% inflation report [here](#).

FX reserves, not rates, key to INR stability

Doesn't the RBI need to hold high rates to support the INR at a time of stronger US Dollar? Not really, in our view, with Gov Rajan recouping FX reserves. Experience suggests that high import cover – rather than high rates – hold the key to INR stability

05 January 2015

(Chart 6). Our FX strategist, Adarsh Sinha, sees Rs62/USD in March 2015. The INR would appreciate (depreciate) when the RBI cuts (hikes) rates. That is because the FII equity portfolio, at about US\$330bn, that responds to growth, is 6x the FII debt portfolio, that may respond to higher rates. In fact, July 2013 shows that expectations of MTM gains on perceived rate peak off have been a bigger driver for FII debt inflows. In any case, the rate differential with the Fed, at 800bp, is already far higher than the average 460bp since January 2003 (Chart 7). Do read our last FX report [here](#).

Token resistance at Rs62-63/USD

We continue to expect the RBI to continue to mount a token defense at Rs62-63/USD levels, selling, say, US\$500mn-US\$1bn, as it is doing. It is only at Rs65/USD that we see full-scale FX intervention of, say, US\$15bn. The RBI should ideally want to hold Gov Rajan's preferred Rs60-62/USD zone. At the same time, it will not spend too much of precious FX at a time the INR has outperformed most BRIC/TIM currencies (Chart 8).

In our view, the RBI may not be required to exert itself too much if the US Dollar settles at 1.20-.25/€ as our FX strategists expect. With US Dollar strength pulling down oil prices in US Dollar terms, there is a natural offset. Further, we expect corporate FX loans and bonds (of US\$5.6bn) maturing in 1Q15 to be rolled over (Chart 9). If there is any stress, the RBI will likely elongate its forwards with banks as well.

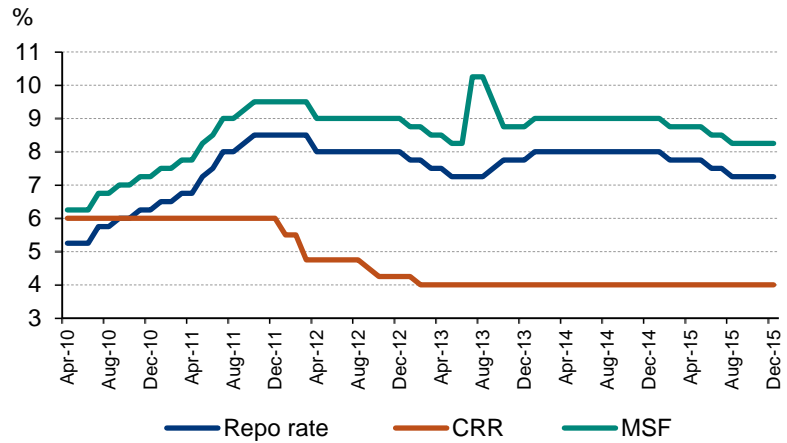
Fiscal consolidation on track

Can fear of fiscal slippage be a reason to hold back RBI rate cuts till the February 27 Budget? We really do not see why. First, Chart 10 shows that the Center's fiscal deficit, at 4-4.5% of GDP, is already the lowest in 35 years (barring the upcycle years of FY04-08). Given that growth is far below our estimated 7.5% potential, we welcome the Government's decision – as reported in the media – to relax the FY16 fiscal deficit target to 3.8-4% of GDP from 3.6%. Our estimates in Table 6 show that FY16 fiscal deficit will come out to Rs5750bn or 4% of GDP, which would result in a net G-sec borrowing program of Rs5350bn. Do read our last fiscal report [here](#).

Second, any overshoot of the 4.1% of GDP FY15 fiscal deficit target would be essentially statistical, as the Center has a buffer in the form of a Rs1,284bn surplus with the RBI (as of March 31 2014) to protect net borrowing. In any case, MoF appears to want to stick to the 4.1% of GDP fiscal deficit by cutting/deferring expenditure. Its 1Q15 T-Bill borrowing calendar is actually quite reasonable with a net maturity of Rs46bn.

Finally, lower rates would revive growth, improve tax buoyancy and improve the fiscal position a la FY04-08. In this connection, we agree with MoF chief economic adviser Arvind Subramanian "...to revive growth going forward, public investment may have to play a greater role to complement and crowd in private investment..."

Chart 1: RBI - first cut of 25bp on Feb 3; 75bp in 2015



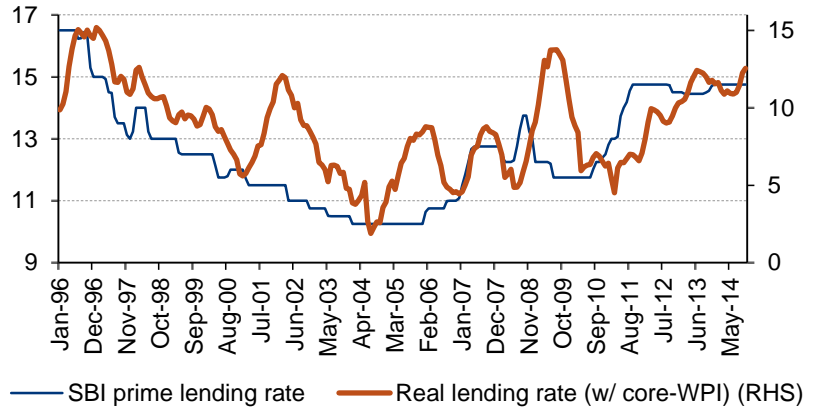
Source: BofA Merrill Lynch Global Research Estimates, RBI

Table 1: December GDP growth could disappoint

	Jun Q (% yoy)	Sep Q (% yoy)	Dec Q E (% yoy)
Agriculture	3.8	3.2	0
Rabi harvest (food grains)	5.0	-	-
Kharif harvest (food grains)	-	-7.0	-7.0
Industrial production	4.0	1.2	0.5
Construction	4.8	4.6	
Cement	9.5	9.8	5.0
Steel	1.6	3.1	1.8
Trade, hotels, transport & communication	2.8	3.8	
Railway goods traffic	4.2	4.1	8.5
Commercial vehicles sales	-13.0	-1.9	4.0
Cellular subscribers	9.8	11.1	4.5
Trade (industrial production)	4.0	1.1	0.5
Imports	-5.8	10.3	15.0
Finance, Insurance & other services	10.4	9.5	
Credit growth	13.1	10.8	10.9
Deposit growth	13.3	12.7	11.8
Social services	9.1	9.6	
Fiscal deficit	13.3	-5.6	-11.5
Government expenditure	8.2	5.1	0.0

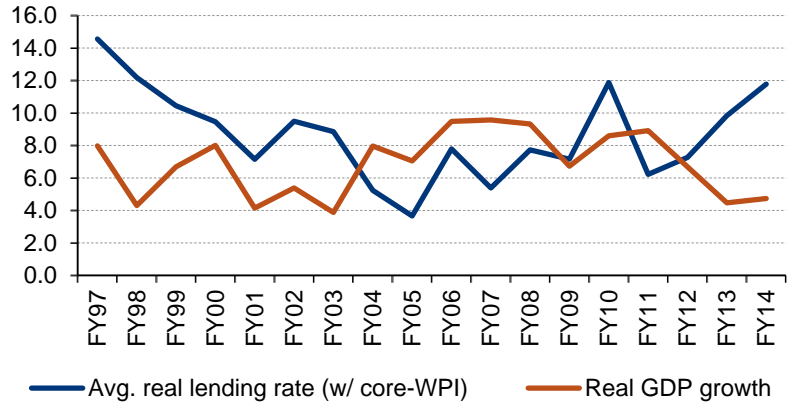
Source: BofA Merrill Lynch Global Research Estimates, RBI, MoSPI, Bloomberg, CEIC

Chart 2: Real lending rates at historical highs...



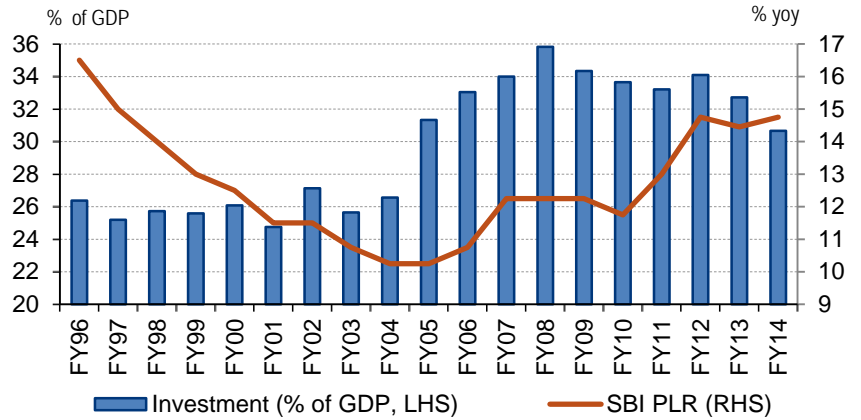
Source: BofA Merrill Lynch Global Research Estimates, RBI, Bloomberg

Chart 3: ...are hurting economic recovery



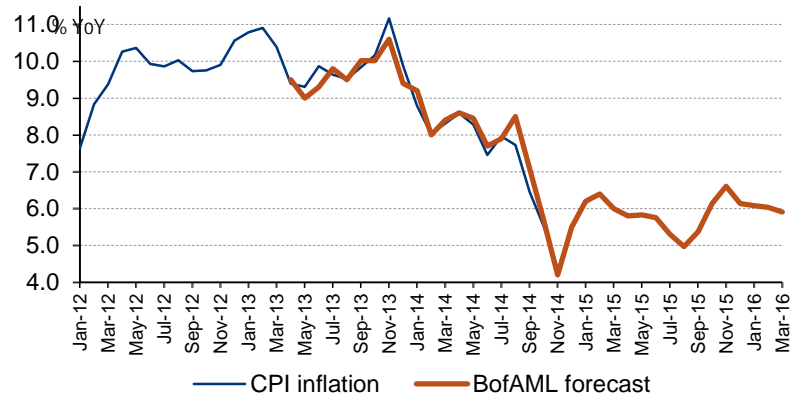
Source: BofA Merrill Lynch Global Research Estimates, MoSPI, Bloomberg

Chart 4: Lending rate cuts key to reviving capex cycle



Source: BofA Merrill Lynch Global Research, CSO

Chart 5: CPI on track to meet 8% Jan-15 and 6% Jan-16 RBI targets



Source: BofA Merrill Lynch Global Research Estimates, MoSPI

Table 2: Rise in food inflation due to reversal of base effects in vegetables

Retail food price inflation (%) (yoy)	Weight in CPI	Aug'14	Sep'14	Oct'14	Nov'14	Dec'14	Jan'15*
Rice	7.1	6.5	7.0	5.6	2.3	1.6	0.6
Wheat	5.5	3.1	7.1	5.2	4.3	1.4	-5.2
Atta	1.9	3.6	5.0	4.0	3.0	2.4	-3.8
Gram dal	0.4	-9.6	-10.1	-10.0	-10.4	-9.9	-7.6
Tur/Arhar dal	1.5	4.8	7.0	6.6	7.0	7.4	8.4
Urad dal	0.1	29.4	31.4	25.6	20.2	20.3	17.9
Moong dal	0.5	19.8	21.7	20.5	23.7	25.3	22.7
Masoor dal	0.2	16.3	18.2	19.6	19.8	22.8	23.7
Groundnut oil	1.9	-6.2	-7.0	-5.6	-4.9	-5.1	-1.8
Mustard oil	0.1	-0.2	0.8	1.5	-0.9	-1.0	-2.3
Vanaspati	0.1	7.7	4.0	2.7	0.9	1.0	0.7
Soyaoil	0.7	0.6	-0.4	-0.3	-1.5	-2.3	-0.6
Sunflower	0.3	-3.4	-5.4	-4.7	-5.8	-3.4	-1.8
Palm oil	0.8	1.7	-5.2	-3.6	-6.3	-6.9	-4.0
Potato	1.8	49.7	62.8	54.5	18.9	12.5	7.0
Onion	1.8	-36.6	-51.2	-55.1	-52.5	-23.8	12.8
Tomato	1.8	52.4	23.9	-7.2	-45.0	-25.3	18.4
Sugar	1.8	0.7	0.2	0.5	0.6	-0.3	-1.9
Gur	0.1	-0.8	0.2	1.6	-0.2	0.0	-5.1
Milk	7.7	11.6	9.4	9.8	10.1	9.9	8.7
Tea loose	1.8	0.9	3.5	3.2	0.8	0.8	-0.9
Salt pack	0.2	7.6	7.4	6.8	7.9	7.0	6.0
Vegetables inflation	5.4	9.7	-10.4	-22.2	-35.6	-15.4	12.9
Total/ Weighted Avg.	38.2	3.8	2.1	0.7	-2.1	0.7	2.2
CPI food inflation	49.7	9.1	7.6	5.7	-	-	-

*Avg prices until January 4th

Source: BofA Merrill Lynch Global Research Estimates, Department of Consumer Affairs, PMC

Table 3: Rabi sowing catching up after late rains

Rabi crops sown till 2nd January	FY15 YTD (lakh hectare)	FY14 YTD (lakh hectare)	FY 15 YTD (% yoy)
Wheat	293.2	294.3	-0.4
Total Pulses	130.0	144.8	-10.2
Gram	79.7	95.0	-16.2
Coarse cereals	51.2	56.2	-8.9
Oilseeds	75.4	80.9	-6.8
Total Rabi Area	549.8	576.2	-4.6

Source: BofA Merrill Lynch Global Research Estimates, Ministry of Agriculture

Table 4: FY15 sowing close to normal levels, relative to a bumper crop in FY14

% of Normal	FY15YTD -			
	26th Dec	FY14	FY13	FY12
Wheat	101.7	106.9	106.2	105.7
Total Pulses	97.1	96.8	104.4	104.1
Coarse cereals	89.4	94.1	94.4	90.1
Gram	93.0	117.5	105.8	103.0
Oilseeds	92.7	98.3	89.1	86.1
Total Rabi Area	98.0	105.2	100.5	99.4

Source: BofA Merrill Lynch Global Research Estimates, Ministry of Agriculture

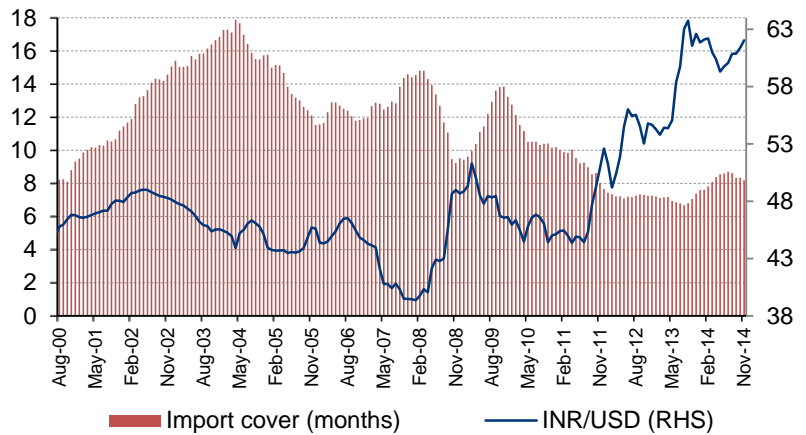
Table 5: With late rains, river storage close to normal levels

Name of Basin	This Year's storage	Last year's storage	% departure w.r.t. Avg. of 10 years
Ganga	60.1%	75.9%	25.7
Indus	51.4%	65.3%	-10.0
Narmada	72.0%	74.3%	33.8
Tapi	61.4%	83.8%	-11.8
Mahi	73.9%	80.8%	10.5
Sabarmati	47.8%	57.3%	-9.5
Rivers of Kutch	22.3%	58.2%	-52.4
Godavari	56.9%	82.2%	-7.6
Krishna	42.7%	52.9%	-35.4
Mahanadi & EFRS	80.2%	88.6%	8.1
Cauvery & EFRS	62.1%	49.5%	3.3
West Flowing Rivers of South	74.4%	78.6%	4.1
Total	60.0%	70.8%	-1.6

* Week ending 24-December 2014

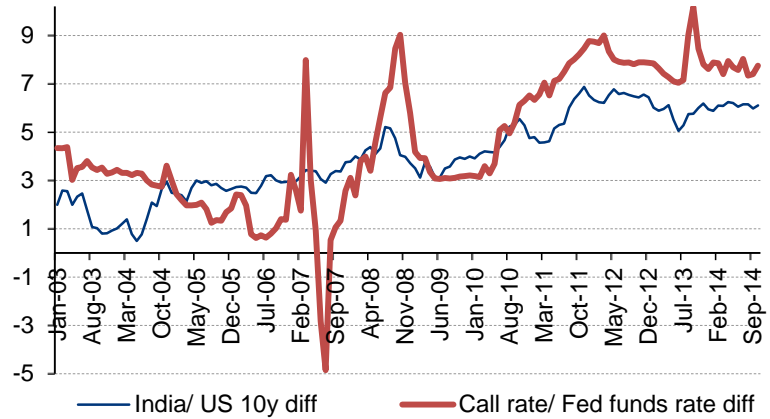
Source: BofA Merrill Lynch Global Research Estimates, Central Water Commission

Chart 6: 8-10 months import cover needed for INR stability



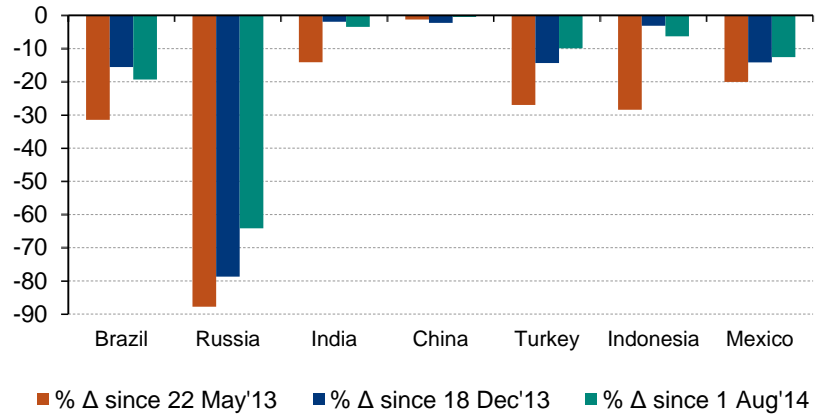
Source: BofAMerrill Lynch Global Research Estimates, RBI

Chart 7: Fed-RBI rate differentials, at 800bps, are at a recent peak



Source: BofA Merrill Lynch Global Research Estimates, Bloomberg

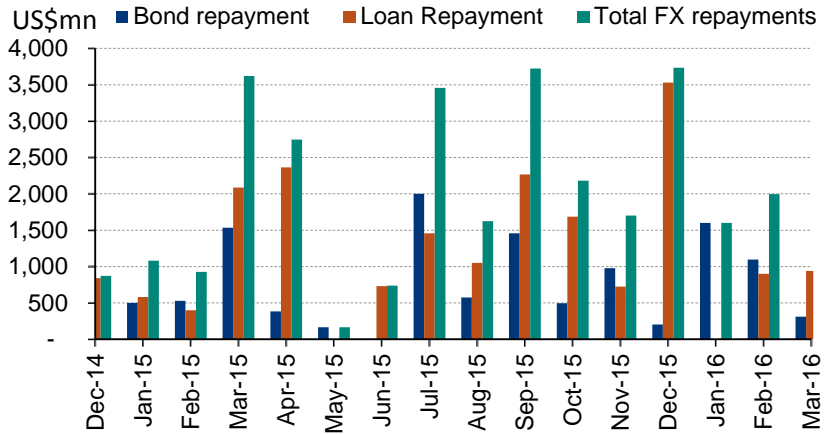
Chart 8: INR: Stabilized since December 2013



Note: As on 12 December 2014

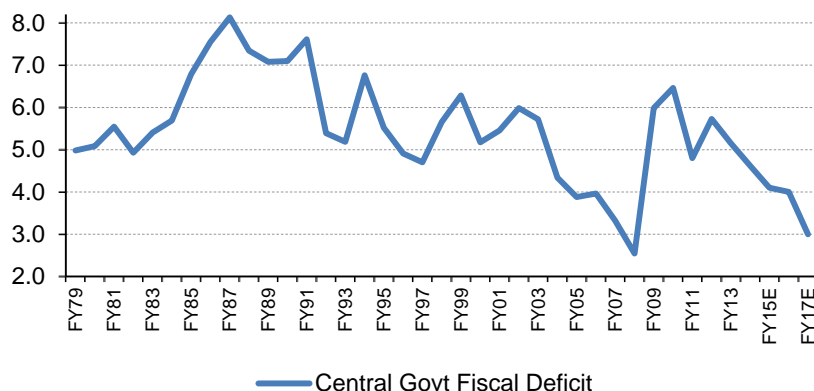
Source: BofA Merrill Lynch Global Research Estimates, Bloomberg

Chart 9: FX repayments to be rolled over



Source: BofA Merrill Lynch Global Research Estimates, Bloomberg

Chart 10: Fiscal deficit at historically low levels of 4-4.5% levels



Source: BofA Merrill Lynch Global Research Estimates, MoSPI

Table 6: FY16 fiscal deficit at 4% of GDP

Item/Rsbn	FY14 RE	FY 15-BE	FY15 BAMLe	FY16 BAMLe
1. Revenue receipts	10153	11898	11010	12806
Tax revenue	8160	9773	9010	10606
Non-tax revenue	1992	2125	2000	2200
2. Non-debt capital receipts	401	740	655	675
Recovery of loans	125	105	105	125
Other receipts	276	634	550	550
3. Total receipts (1+2)	10553	12637	11665	13481
4. Non-plan expenditure	11104	12199	12078	13600
4.1 On revenue account	10230	11146	11178	12500
4.1.1 of which: Int. payments	3775	4270	4270	4650
4.1.2 of which: Oil Subsidy	855	634	634	400
4.2 On capital account	874	1053	900	1100
5. Plan expenditure	4531	5750	4800	5634
5.1 On revenue account	3525	4535	3700	4292
5.2 On capital account	1005	1215	1100	1342
6. Total expenditure (4+5)	15635	17949	16878	19234
7. Gross fiscal deficit (6-3)	5081	5312	5213	5753
8. Revenue deficit (4.1 + 5.1 - 1)	3603.1	3783.5	3868.0	3986.0
% of GDP				
9. Gross fiscal deficit	4.5	4.1	4.1	4.0
10. Revenue deficit	3.2	2.9	3.0	2.8
11. States fiscal deficit (%)	2.1	2.1	2.1	2.1
12. Combined fiscal deficit (%)	6.6	6.2	6.2	6.1

Source: BofA Merrill Lynch Global Research estimates, CGA

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 Depositary Receipts (GDR) and the Global Depositary 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 Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International and Bank of America Merrill Lynch International Limited, which are authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, and is distributed in the United Kingdom to retail clients (as defined in the rules of the Financial Conduct Authority and the Prudential Regulation Authority) by Merrill Lynch International Bank Limited, London Branch, which is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority - details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us 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 to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch International Bank Limited (Merchant Bank) and Merrill Lynch (Singapore) Pte Ltd. (Company Registration No.'s F 06872E and 198602883D respectively). 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 Multiplo 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. Hong Kong recipients of this research report should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities or provision of specific advice on securities. Singapore recipients of this research report should contact Merrill Lynch International Bank Limited (Merchant Bank) and/or Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this research report.

General Investment Related Disclosures:

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Merrill Lynch.

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

05 January 2015

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:

Copyright 2015 Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. This research report is prepared for the use of BofA Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Merrill Lynch. BofA Merrill Lynch research reports are distributed simultaneously to internal and client websites and other portals by BofA Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BofA Merrill Lynch.

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.