



Confederation of Indian Industry  
Since 1895

# Economy Update

Weekly Newsletter

2-8 May 2011

## INDICATORS

### Inflation Rate for the week ending 23 April 2011

| Categories                     | Weekly | Annual |
|--------------------------------|--------|--------|
| Primary articles               | 0.8    | 12.1   |
| Fuel, power, light & lubricant | 0.0    | 13.5   |

- The annual **inflation** in **primary articles** decreased to 12.1% for the week ended 23 April 2011, from 12.8% in the previous week.
- The annual **inflation** in **food articles** decreased to 8.5% for the week ended 23 April 2011, from 8.7% in the previous week.
- The **Index of Six Core industries** registered a growth of 7.4% in March 2011 as compared to 6.8% in March 2010.
- **Foreign Exchange Reserves** as on 29 April 2011 stood at US\$ 313.5 billion, up by US\$ 3.8 billion from the previous week.
- The **call money rates** as on 6 May 2011 traded in the range of 5.8– 7.0%.
- At the **Treasury bills auctions** held during the week, the YTM for 91-day T-Bills stood at 7.9%.



**Dear Reader,**

The RBI ended up taking the more aggressive step of hiking the repo rate by 50 bps in its annual monetary policy. The RBI's guidance also made it clear that it is ready to trade off growth against moderation in inflationary pressure. Thus, its baseline projection for GDP growth was kept at 8.0% for 2011-12 while inflation is expected to moderate to 6.0% by Mar-2012. Meanwhile, the week saw some moderation in the price of all commodities including oil as indications of weakness in US employment data prompted a sell-off.

**Chandrajit Banerjee**

Director General, CII

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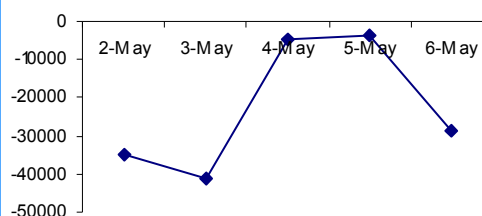
- Markets
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## MONETARY POLICY 2011-12

### Changes in Operating Procedure of Monetary Policy

- The weighted average overnight call money rate will be the operating target of monetary policy of the Reserve Bank.
- Repo rate will be the only independently varying policy rate.
- The reverse repo rate will continue to be operative but it will be pegged at a fixed 100 basis points below the repo rate. Hence, the reverse repo rate will no longer be an independent variable.
- A new Marginal Standing Facility (MSF) will be introduced whereby banks can borrow overnight MSF up to one percent of their respective net demand and time liabilities (NDTL). The rate of interest on amounts accessed from this facility will be 100 basis points above the repo rate.
- As per the above scheme, the revised corridor will have a fixed width of 200 basis points. The repo rate will be 100 basis points below it, and the MSF will come into force immediately.

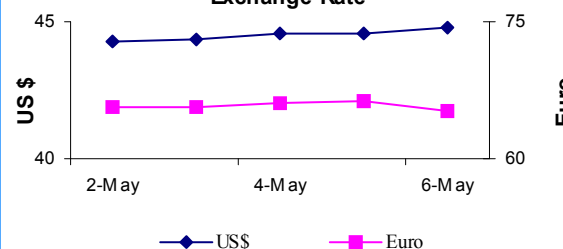
Net Absorption through LAF (Rs Crore)



### Monetary Measures

- The repo rate has been increased by 50 basis points from 6.75% to 7.25% .
- The reverse repo rate stands adjusted at 6.25%.
- The Marginal Standing Facility (MSF) rate, determined with a spread of 100 basis points above the repo rate gets calibrated at 8.25%.
- The bank rate remains same at 6.0%
- The Cash reserve ratio remains unchanged at 6% of NDTL of scheduled banks.

Exchange Rate



## BANKING INDICATORS

| Indicators                  | Outstanding as on<br>22 April ,2011 | % Variation over |             |
|-----------------------------|-------------------------------------|------------------|-------------|
|                             |                                     | Fortnight        | Year        |
| <b>Total Bank Credit</b>    | <b>39,19,000</b>                    | <b>-0.9</b>      | <b>21.9</b> |
| <b>Food Credit</b>          | <b>43,628</b>                       | <b>-12.6</b>     | <b>-9.1</b> |
| <b>Non Food Credit</b>      | <b>38,75,372</b>                    | <b>-0.8</b>      | <b>21.4</b> |
| <b>Aggregate Deposit</b>    | <b>53,19,432</b>                    | <b>0.4</b>       | <b>17.9</b> |
| <b>Broad Money (M3)</b>     | <b>66,40,947</b>                    | <b>0.2</b>       | <b>17.6</b> |
| <b>Credit Deposit Ratio</b> | <b>74.3</b>                         |                  |             |

Source: RBI

## EQUITY MARKETS

- US stocks were pushed down as unemployment increased to 9% in April from 8.8% a month ago.
- All major Asian indices fell as emerging central banks have started tightening monetary policy to slow inflation. India and Brazil both hiked interest rates in the past week and there is a possibility that China will further hike their RRR.
- Key Indian benchmark indices continued to remain in red in the week ending 6 May 2011 because of unexpected 50 bps increase in the repo rate. Investors remained risk averse due to concerns over rising interest cost and lower margins on corporate earnings. Metal Index followed by Realty and Infrastructure Index showed the largest dip.
- Total turnover during the week on BSE stood at Rs 11,251 crore and on NSE at Rs 48,265 crore.

## COMMODITY MARKETS

- NYMEX **light sweet Crude Oil** for May delivery stood at US\$ 97.2 per barrel on 6 May 2011, down by US\$ 16.1 per barrel from the previous week.
- New York **spot price for Gold** was US\$ 1,491.6 per ounce as on 6 May 2011, down by US\$ 65.0 per ounce from the previous week.

| Global Stock Indices | Closing Value as on 6 May 2011 | Weekly Change (%) |
|----------------------|--------------------------------|-------------------|
| <b>NYSE: DJIA</b>    | <b>12,638.7</b>                | <b>-1.3</b>       |
| <b>FTSE 100</b>      | <b>6,069.9</b>                 | <b>-1.5</b>       |
| <b>Nikkei 225</b>    | <b>9,849.7</b>                 | <b>0.1</b>        |
| <b>Straits Times</b> | <b>3,099.5</b>                 | <b>-2.5</b>       |
| <b>KOSPI</b>         | <b>2,147.5</b>                 | <b>-2.0</b>       |

Source: Yahoo Finance

| Indian Equity Indices    | Closing Value on 6 May 2011 | Week's % Change |
|--------------------------|-----------------------------|-----------------|
| <b>BSE SENSEX</b>        | <b>18,518.8</b>             | <b>-3.2</b>     |
| <b>BSE 500</b>           | <b>7,180.7</b>              | <b>-3.3</b>     |
| <b>S&amp;P CNX NIFTY</b> | <b>5,551.5</b>              | <b>-3.4</b>     |
| <b>S&amp;P CNX 500</b>   | <b>4,460.6</b>              | <b>-3.4</b>     |

Source: NSE, BSE

### Net Institutional Activity

|   | Equity        | Debt            |
|---|---------------|-----------------|
| <b>Weekly FII (US \$ Million)</b>       | <b>-620.3</b> | <b>-606.3</b>   |
| <b>Year -to-date FII (US\$ million)</b> | <b>477.7</b>  | <b>3,136.3</b>  |
| <b>Weekly Mutual Funds# (Rs Crore)</b>  | <b>-78.5</b>  | <b>-2,995.7</b> |

Source: SEBI

#as on 5 May, 2011

| Commodity Spot Indices | Closing Value as on 7 May 2011 | Week's % Change |
|------------------------|--------------------------------|-----------------|
| <b>MCX AGRI</b>        | <b>2,651.4</b>                 | <b>-0.9</b>     |
| <b>MCX METAL</b>       | <b>4,332.0</b>                 | <b>-9.9</b>     |
| <b>MCX ENERGY</b>      | <b>3,121.0</b>                 | <b>-10.6</b>    |
| <b>MCX COMDEX</b>      | <b>3,362.2</b>                 | <b>-8.9</b>     |

Source: MCX, NCDEX

## INDUSTRY NEWS

### Gas & Energy

- The government is likely to deregulate the price of LPG soon. This will double the price of a 14.2 kg cylinder to Rs 700. The move will save the exchequer Rs 11,000 crore this financial year.

### FMCG

- FMCG companies like HUL, ITC, Godrej Consumer products, Dabur and Marico are planning another rate hike due to increasing fuel prices. This will be the third revision of FMCG prices this year. The prices of soaps, biscuits, packaged food products, hair oil could witness a 3-5% price hike.

### Logistic

- Rising prices of aviation turbine fuel (ATF) are making logistics companies with prominent air express divisions and cargo aircraft to look at cost effective fuel alternatives, as well as to pass on the rise partly to customers. Currently, fuel constitutes 60% of their operational expenses.

| BSE Indices                 | Closing Value on 6 May 2011 | Week's % Change |
|-----------------------------|-----------------------------|-----------------|
| <b>AUTO INDEX</b>           | <b>9,218.9</b>              | <b>-3.6</b>     |
| <b>BANKEX</b>               | <b>12,670.7</b>             | <b>-3.1</b>     |
| <b>BSE CAPITAL GOODS</b>    | <b>12,769.9</b>             | <b>-2.0</b>     |
| <b>BSE CONSUMER DURABLE</b> | <b>6,214.7</b>              | <b>-2.8</b>     |
| <b>BSE FMCG</b>             | <b>3,642.5</b>              | <b>-3.0</b>     |
| <b>BSE HEALTHCARE</b>       | <b>6,064.2</b>              | <b>-2.7</b>     |
| <b>BSE INFOTECH</b>         | <b>6,056.8</b>              | <b>-1.4</b>     |
| <b>BSE MID CAP</b>          | <b>6,863.8</b>              | <b>-3.2</b>     |
| <b>BSE SMALL CAP</b>        | <b>8,342.6</b>              | <b>-4.3</b>     |
| <b>BSE TECK INDEX</b>       | <b>3,611.0</b>              | <b>-2.6</b>     |
| <b>METAL INDEX</b>          | <b>15,363.2</b>             | <b>-5.1</b>     |
| <b>OIL &amp; GAS INDEX</b>  | <b>9,815.1</b>              | <b>-1.9</b>     |

Source: BSE

| CNX Segment Indices       | Closing Value on 6 May 2011 | Week's % Change |
|---------------------------|-----------------------------|-----------------|
| <b>CNX NIFTY Junior</b>   | <b>10,993.7</b>             | <b>-3.4</b>     |
| <b>CNX MIDCAP</b>         | <b>7,965.4</b>              | <b>-2.9</b>     |
| <b>BANK NIFTY</b>         | <b>11,145.1</b>             | <b>-2.9</b>     |
| <b>CNX IT</b>             | <b>6,627.0</b>              | <b>-1.4</b>     |
| <b>CNX Realty</b>         | <b>276.3</b>                | <b>-4.5</b>     |
| <b>CNX Infrastructure</b> | <b>2,903.8</b>              | <b>-3.9</b>     |

Source: NSE

## GLOBAL NEWS

### USA

- In the week ending April 30 2011, the advanced figure for seasonally adjusted initial claims was 474,000, an increase of 43,000 from the previous week's revised average of 431,000.
- Nonfarm payroll employment rose by 244,000 in April 2011 and the unemployment rate edged up to 9.0% from 8.8% a month ago.

### Europe

- Germany's exports surged to record US\$ 141.4 billion in March, showing a 7.3% growth from February when it gained 2.8%.
- Irish Consumer Sentiment Index in April declined to 57.9 from 59.5 in March as companies plan to cut

jobs and the cost to bail out the nation's banks rose.

- In the fourth quarter of 2010, household saving rate decreased to 13.4% in the euro area and 11.3% in the EU 27.
- In March 2011, the industrial producer price index rose by 0.7% in the Euro Area and by 1% in the EU 27 compared with February 2011.
- Volume of retail trade fell by 1% in the Euro Area and by 0.8% in the EU 27 in March 2011 over the preceding month .

### Disclaimer

The data used here are from various published and electronically available primary and secondary sources. We have taken care to verify and cross-check the accuracy of such data. However, despite due diligence, the source data may contain occasional errors. In such instances, CII is not responsible for such errors.

CII Economy Update is a weekly report prepared by the **CII Economic Research Group**.  
Reach us at: [ecopolicy@cii.in](mailto:ecopolicy@cii.in)



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Since 1895

249-F, Sector 18, Udyog Vihar, Phase IV, Gurgaon - 122 015, Haryana, INDIA  
Tel: +91-124-401 4060-67 • Fax: +91-124-401 4080 • Email: [ecopolicy@cii.in](mailto:ecopolicy@cii.in) • Website: [www.cii.in](http://www.cii.in)