

Economy Update




» WEEKLY NEWSLETTER

» 6-12 August 2012

Dear Reader,

Although the RBI disappointed by refraining from another reduction in interest rates in its first quarter review of monetary policy announced last week, the reduction in SLR lead to a welcome increase in liquidity. However, with banks now able to offload some of their holdings of government securities, bond yields have moved up with the 10-year now trading at 8.28%. Concerns about a fiscal slippage and persistently high food inflation are likely to keep interest rates high in any case. CII feels that the slowdown in growth and the moderation in non-food inflation should provide sufficient headroom to the RBI to reduce policy rates through the year.

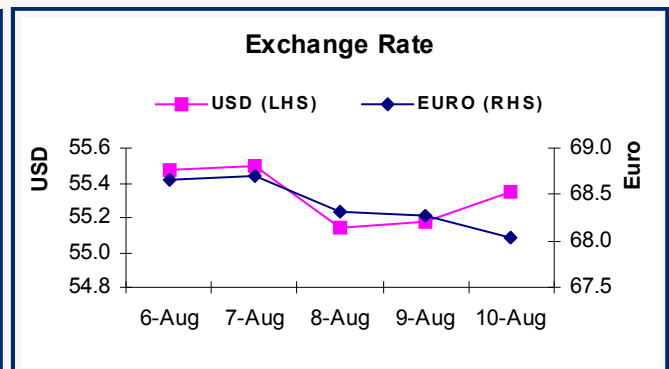
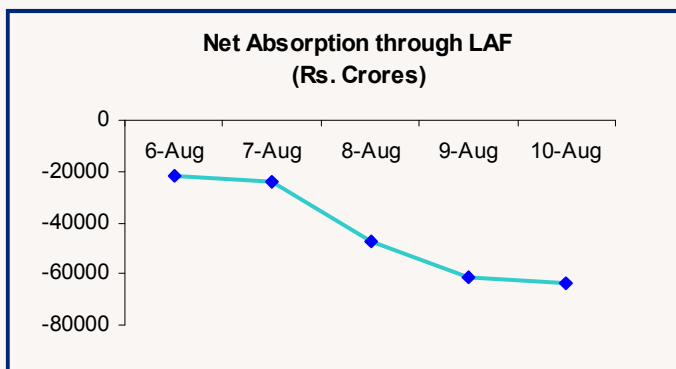

Chandrajit Banerjee
(Director General, CII)

INDICATORS

- » **Index of industrial production (IIP)** growth contracted by 1.8% in June 2012 as compared to 2.5% growth in the previous month. Manufacturing sector contracted by 3.2% in June as compared to 2.6% growth in the previous month, while output of electricity sector accelerated to 8.8% as against 5.9%. In the user based segments, capital goods contracted by nearly 28.0%, far more than the last month's contraction of 8.8%; followed by marginal decline of 1.0% in non-durable consumer goods.
- » According to Ministry of Agriculture, there has been some pick up in the **area sown under major Khariff crops**. As on 9 August 2012, area sown under rice stood at 264.39 lakh ha, coarse cereals (140.89 lakh ha), pulses (74.48 lakh ha), oil seeds (151.82 lakh ha), cotton (109.23 lakh ha) and jute and mesta (8.41 lakh ha), whereas, that for sugarcane remained same at 52.88 lakh ha as compared to last week.
- » **Railways** total earnings during April - July 2012 were estimated at Rs. 39,632.02 crore compared to Rs. 33,061.33 crore during the same period last year, an increase of 19.9%. Income from cargo traffic increased at a robust rate of 24.0%, while revenue from passenger traffic augmented by 12.0%.
- » **Foreign Exchange Reserves** as on 3 August, 2012 stood at US\$ 289.2 billion, up by US\$ 0.5 billion from the previous week.
- » At the **Treasury Bills Auctions** held during the week, the YTM for 91-day T-Bills stood at 8.2%.
- » The **Call Money Rates** as on 10 August July 2012 traded in the range of 7.0-8.0%.

POLICY DEVELOPMENT

- » Insurance Regulatory and Development Authority (IRDA) is likely to increase equity exposure of Life Insurance Corporation (LIC) in a single company from 10% at present to 20%.
- » Prime minister's office has paved the way for round the clock customs clearances at selected sea ports and airports. This facility would be available at four airports viz. Delhi, Bangalore, Chennai, and Mumbai; for the ports the locations are Chennai, Kolkata, Kandla and JNPT and Mumbai. The facility, however, would be available for certain categories of imports and exports– imports under “No assessment no examination” and exports not claiming benefits.
- » Finance Ministry to take corrective measures in order to regain the investors' confidence which dipped considerably after the announcement of General Anti-Avoidance Rules (GAAR) and tax on the indirect transfer of Indian assets by foreign residents.



BANKING INDICATORS

| Indicators | Rs. Billion | | |
|----------------------|---------------------------------|----------------------------|------|
| | Outstanding as on 27 July, 2012 | % Variation over Fortnight | Year |
| Total Bank Credit | 47,029.7 | -0.5 | 17.2 |
| Food Credit | 977.9 | -4.6 | 38.8 |
| Non Food Credit | 46,051.8 | -0.7 | 16.9 |
| Aggregate Deposit | 62,439.6 | 0.4 | 13.8 |
| Broad Money (M3) | 77,338.2 | 0.4 | 13.5 |
| Credit Deposit Ratio | 75.3 | | |

Source: RBI

EQUITY MARKETS

- » **Global share** prices gained last week, not being impacted by the decline in China's exports and imports growth for the month of July 2012.
- » **Indian stocks** gained last week. Almost all BSE indices rallied except Consumer Durables. Highest gains were registered by BSE Auto, Infotech and Metal indices.
- » **Total turnover** during the week on BSE stood at Rs. 8,411 crore and on NSE at Rs. 41,112 crore.

| Global Stock Indices | Closing Value as on 10 August, 2012 | Weekly Change (%) |
|----------------------|-------------------------------------|-------------------|
| NYSE: DJIA | 13,165.2 | 0.5 |
| FTSE 100 | 5,847.1 | 1.0 |
| Nikkei 225 | 8,891.4 | 1.9 |
| Straits Times | 3,054.2 | -0.9 |
| KOSPI | 1,946.4 | 3.1 |

Source: Yahoo Finance

Net Institutional Activity

| | Equity | Debt |
|----------------------------------|----------|----------|
| Weekly FII (US \$ Million) | 494.4 | 0.9 |
| Year -to-date FII (US\$ million) | 11,217.0 | 4,602.8 |
| Weekly Mutual Funds# (Rs Crore) | -469.5 | -1,244.0 |

Source: SEBI

#as on 9 August, 2012

| Indian Equity Indices | Closing Value as on 10 August, 2012 | Week's % Change |
|-----------------------|-------------------------------------|-----------------|
| BSE SENSEX | 17,557.7 | 2.1 |
| BSE 500 | 6,707.1 | 1.4 |
| S&P CNX NIFTY | 5,320.4 | 2.0 |
| S&P CNX 500 | 4,187.0 | 1.4 |

Source: NSE, BSE

COMMODITY MARKETS

- » **NYMEX West Texas Intermediate Crude Oil** on 10 August 2012 was US\$ 92.9 per barrel, up by US\$ 1.5 per barrel from the previous week.
- » **New York spot price for Gold** was US\$ 1,619.8 per ounce as on 10 August 2012, up by US\$ 14.3 per ounce from the previous week.

| Commodity Spot Indices | Closing Value as on 10 August, 2012 | Week's % Change |
|------------------------|-------------------------------------|-----------------|
| MCX AGRI | 3,862.4 | -0.8 |
| MCX METAL | 4,859.9 | 0.8 |
| MCX ENERGY | 3,452.3 | 2.5 |
| MCX COMDEX | 3,923.1 | 1.0 |

Source: MCX, NCDEX

INDUSTRY NEWS

Infrastructure

- Uttar Pradesh Chief Minister has announced developed projects worth Rs 6,000 crore, especially in the road infrastructure sector. UP State Highways Authority will develop four important road links under the public-private partnership model at an estimated investment of Rs 5,305 crore which includes the Delhi-Saharanpur-Yamunotri road, Varanasi-Shanktinar road, Meerut-Karnal road and Bareilly-Almoda-Bageshwar road.

FMCG

- FMCG companies have reported a strong 15-20% growth in revenue for the quarter ending June 2012, owing to buoyant demand for daily-use items despite inflationary pressure. The growth is aided largely by surge in volume. Operating margins for most companies grew by 100 to 160 basis points on an average during the quarter. This is due to softening in the prices of commodities in this quarter.

Energy

- Renewable energy sector likely to attract investments worth Rs 2,500 crore in Odisha during 2012-17. The state is targeting a capacity augmentation of 350 MW from solar (150 MW), wind (100 MW) and bio-mass (100 MW) sources during this period.

| BSE Indices | Closing Value as on 10 August, 2012 | Week's % Change |
|----------------------|-------------------------------------|-----------------|
| AUTO INDEX | 9,366.9 | 3.9 |
| BANKEX | 11,889.5 | 0.5 |
| BSE CAPITAL GOODS | 9,904.8 | 1.7 |
| BSE CONSUMER DURABLE | 6,264.1 | -1.8 |
| BSE FMCG | 5,226.6 | 2.8 |
| BSE HEALTHCARE | 7,291.8 | 0.2 |
| BSE INFOTECH | 5,542.3 | 3.6 |
| BSE MID CAP | 6,099.6 | 0.4 |
| BSE SMALL CAP | 6,549.8 | 0.1 |
| BSE TECK INDEX | 3,188.7 | 0.9 |
| METAL INDEX | 10,521.0 | 3.1 |
| OIL & GAS INDEX | 8,309.6 | 2.5 |

Source: BSE

| CNX Segment Indices | Closing Value as on 10 August, 2012 | Week's % Change |
|---------------------|-------------------------------------|-----------------|
| CNX NIFTY Junior | 10,077.0 | -0.2 |
| CNX MIDCAP | 7,239.7 | -0.1 |
| BANK NIFTY | 10,359.0 | 0.4 |
| CNX IT | 5,905.2 | 3.7 |
| CNX Realty | 217.2 | -0.4 |
| CNX Infrastructure | 2,350.4 | -0.7 |

Source: NSE

GLOBAL NEWS

USA

- » In the week ending August 4, the advance figure for seasonally adjusted initial claims of unemployment benefits was 361,000 a decrease of 6,000 from the previous week's revised figure of 367,000. The 4-week moving average was 368,250, an increase of 2,250 from the previous week's revised average of 366,000.
- » In USA non-farm productivity climbed at a faster than the expected annual rate of 1.6% during April to June 2012 which is a positive sign. Similar, trend also noticed in the labour cost, unit labor costs increased by 1.7% during the period, much faster than the expected 0.6% growth.

Europe

- » UK trade deficit rose to £4.3 billion in June 2012 from £2.7 billion in May. Exports fell by 8.4% while imports plunged by 1.2%. Exports declined primarily due to decline in exports of oil, cars and chemicals.

China

- » China's export growth slashed sharply to a six month low in July 2012 on sluggish foreign demand, grew by 1.0% on y-o-y basis to US\$ 176.9 billion as compared to 11.3% in June 2012. Imports grew by 4.7% to US\$ 151.8 billion, slightly lower than 6.3% in the previous month. This has strengthened anticipation for weak trade performance for the full year and may require government to support economy.

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Confederation of Indian Industry

The Mantosh Sondhi Centre
23, Institutional Area, Lodi Road, New Delhi – 110 003 (India)
T: +91-11-24629994-7 • F: +91-11-24626149 • E: ecoresearch@cii.in • W: www.cii.in
Reach us via our Membership Helpline: 00-91-11-435 46244 / 00-91-99104 46244
CII Helpline Toll free No: 1800-103-1244