



Confederation of Indian Industry
Since 1895

Economy Update

Weekly Newsletter

14-20 March 2011

INDICATORS

Inflation Rate for the week ending 5 March 2011

Categories	Weekly	Annual
Primary articles	0.0	12.3
Fuel, power, light & lubricant	3.6	12.3

- The annual **inflation** in **all commodities** for the month of February stood at 8.3% despite moderation in food inflation, as the index for **Non food articles** saw an increase of 4.1% over the previous month due to rising prices of yarn.
- The annual **inflation** in **food articles** decreased to 9.4% for the week ended 5 March 2011, from 9.5% in the previous week.
- **Foreign Exchange Reserves** as on 11 March 2011 stood at US \$ 301.8 billion, down by US \$ 0.8 billion over previous week.
- The **call money rates** as on 18 March 2010 traded in the range of 6.2 – 7.6%.
- At the **Treasury bills auctions** held during the week, the YTM for 91-day T-Bills stood at 7.2%.



Dear Reader,

With inflation not moderating along expected lines, the RBI has had little choice but to raise interest rates by 25 basis points at its mid-quarter policy meeting. The inflation data for February 2011 shows that the prices of global commodities such as fuel, minerals and fibre have increased. As a result, inflation has remained high even as food prices have come under control. The persistent shortage of liquidity in the banking system has also driven up both deposit and lending rates. Industry is therefore facing a dual challenge of rising raw material costs and rising interest costs.

Chandrajit Banerjee

Director General, CII

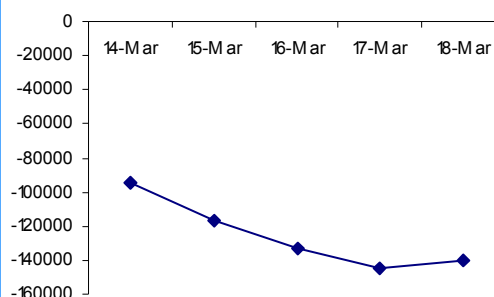
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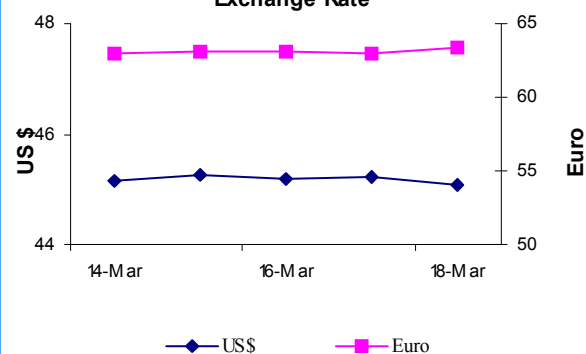
MID QUARTER MONETARY POLICY REVIEW

- On the basis of the current macro economic scenario, the RBI made the following policy changes in the March Mid Quarter Review:
 - Increase the **Repo Rate** under Liquidity Adjustment Facility (LAF) by 25 basis points from 6.5% to 6.75%
 - Increase the **Reverse Repo Rate** under the LAF by 25 basis points from 5.5% to 5.75%.
- Also, the RBI has revised up its inflation target for March 2011 from 7% to 8%, in the pretext of higher international crude oil prices and consequently rise in inflation in manufactured products.

Net Absorption through LAF (Rs Crore)



Exchange Rate



BANKING INDICATORS

Indicators	Outstanding as on 25 February, 2011	% Variation over	
		Fortnight	Year
Total Bank Credit	38,10,445	0.7	23.2
Food Credit	65,292	2.0	36.3
Non Food Credit	37,45,153	-1.1	23.1
Aggregate Deposit	50,83,852	0.8	16.4
Broad Money (M3)	63,59,197	0.8	16.5
Credit Deposit Ratio	75.0		

Source: RBI

EQUITY MARKETS

- Overall global sentiments continued to remain weak in the week ending 18 March 2011, due to increasing uncertainty in the Middle East and North Africa, fears of a nuclear meltdown in Japan and rising crude oil prices.
- Asian markets remained volatile due to fear of Nuclear meltdown in Japan. Nikkei fell by 12.6% in the week ending 18 March.
- Indian key benchmark indices remained in red due to large sell off due to further monetary tightening by the RBI to tame inflation, firm crude oil prices and political uncertainty due to corruption allegation against the UPA. Also, large sell off was observed in Reliance shares following reports that the company's gas sales from D1 and D3 fields in the KG-D6 block may drop in the financial year 2013.
- Total turnover during the week on BSE stood at Rs 17,047 crore and at NSE at Rs 56,162 crore.

COMMODITY MARKETS

- NYMEX **light sweet Crude Oil** for April delivery remained flat at US \$ 101.1 per barrel on 18 March 2011, from the previous week.
- New York **spot price for Gold** was US \$ 1,416.8 per ounce as on 18 March 2011, decreasing by US\$ 5.0 per ounce.

Global Stock Indices	Closing Value as on 18 March 2011	Weekly Change (%)
NYSE: DJIA	11,858.5	-1.5
FTSE 100	5,718.1	-1.9
Nikkei 225	8,962.7	-12.6
Straits Times	2,935.8	-3.5
KOSPI	1,981.1	1.3

Source: Yahoo Finance

Indian Equity Indices	Closing Value on 18 March 2011	Week's % Change
BSE SENSEX	17,878.8	-1.7
BSE 500	6,925.8	-1.0
S&P CNX NIFTY	5,373.7	-1.3
S&P CNX 500	4,298.4	-1.0

Source: NSE, BSE

Net Institutional Activity

	Equity	Debt
Weekly FII (US \$ Million)	-4.1	215.2
Year -to-date FII (US\$ million)	-1,654.7	3125.3
Weekly Mutual Funds# (Rs Crore)	298.9	6,086.2

Source:SEBI

#as on 17 March 2011

Commodity Spot Indices	Closing Value as on 19 March 2011	Week's % Change
MCX AGRI	2,793.1	0.0
MCX METAL	4,396.2	1.6
MCX ENERGY	3,167.7	1.8
MCX COMDEX	3,431.8	1.4

Source: MCX, NCDEX

INDUSTRY NEWS

Banking and Finance

- The RBI may reactivate the defunct bank rate (BR) by providing banks liquidity under a new collateralized Exceptional Standing Facility (ESF) at this rate. A working group on the operating procedure of monetary policy has recommended the institution of a collateralized ESF at the BR up to 1% of bank deposits.

Telecom and Broadcasting

- In order to encourage a speedy conversion of analogue to digital cable services, the government is set 49% cap on FDI for the Local Cable Operators (LCOs).

Pharmaceuticals and Drugs

- The Ministry of health has asked the drug price regulator to study the prices of cancer drugs to ascertain if they need to be brought under price control, as a study by the National Pharmaceutical Pricing Authority (NPPA) found that drugs with similar combinations had a price difference of almost 10 times, hence increasing healthcare costs of consumers.
- National Pharmaceutical Pricing Authority (NPPA) increased the price cap of locally manufactured insulin brand by up to 18.55%.

BSE Indices	Closing Value on 18 March 2011	Week's % Change
AUTO INDEX	8,485.3	-3.2
BANKEX	12,184.3	-0.1
BSE CAPITAL GOODS	12,372.3	-1.5
BSE CONSUMER DURABLE	5,774.8	1.0
BSE FMCG	3,395.8	-2.7
BSE HEALTHCARE	5,786.8	-0.5
BSE INFOTECH	6,000.0	-2.4
BSE MID CAP	6,509.7	-0.3
BSE SMALL CAP	7,797.8	-1.3
BSE TECK INDEX	3,530.7	-1.9
METAL INDEX	15,275.2	-0.6
OIL & GAS INDEX	9,688.4	-0.3

Source: BSE

CNX Segment Indices	Closing Value on 18 March 2011	Week's % Change
CNX NIFTY Junior	10,616.6	-0.7
CNX MIDCAP	7,592.3	-0.2
BANK NIFTY	10,715.9	-0.2
CNX IT	6,552.7	-2.5
CNX Realty	272.8	-2.8
CNX Infrastructure	2,835.5	-0.6

Source: NSE

GLOBAL NEWS

USA

- In the week ending March 12 2011, the advanced figures for seasonally adjusted initial claims was 385,000, a decrease of 7,000 from the previous week's revised average of 393,250.
- US current account deficit for the fourth quarter of 2010 decreased to US\$ 113.3 billion from US\$ 125.5 billion in the third quarter.

Europe

- The Euro Area trade deficit for the month of January 2011 stood at 14.8 billion euro, as compared to a deficit of 9.7 billion in January 2010.
- In January 2011 compared with December 2010, seasonally adjusted industrial production grew by

0.3% in the Euro Area and by 0.6% in the EU 27.

- Euro Area and EU 27 employment increased by 0.1% in the fourth quarter of 2010 as compared with the previous quarter.
- Euro Area annual inflation was 2.4% in February 2011, up from 2.3% in January 2011 and 0.8% in February 2010.

Asia

- People's Bank of China raises the required reserve ratios of banks by 50 basis points-the ninth hike since the beginning of 2010. The RRR for large commercial banks will stand at 20% from March 25.

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**.
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