Confederation of Indian Industry

Economy Update

WEEKLY NEWSLETTER **10-16 September 2012**

Dear Reader

Recognising the potential for liquidity shortage in the economy, the Reserve Bank of India (RBI) cut the Cash Reserve Ratio (CRR) by 25 bps though it decided to keep the repo rate unchanged in its mid-quarter monetary policy meeting held on September 17th, 2012. The Central Bank was widely expected to oblige with a much needed interest rate cut as the government has done its bit on the fiscal side by announcing a slew of policy reforms last week aimed at fiscal consolidation and to boost investment levels in the economy. However, stubbornly high levels of inflation dissuaded the RBI from a rate cut. CII remains hopeful for an interest rate reduction in the next policy review of RBI.

Chandrajit Banerjee
(Director General, CII)

INDICATORS

- **Wholesale price based inflation (WPI)** rose to 7.6% in August 2012 as compared to 6.9% in the previous month mainly driven by higher food prices and fuel inflation. Primary articles inflation remained firm at 10.1% in August 2012, with primary non-food inflation galloping further to 13.8% from 13.1% in July 2012. Fuel inflation rose to 8.3% in August 2012 from 6.0% in the previous month due to higher price of electricity, naptha, ATF and furnace oil. Inflation in manufacturing category increased to a 7 month high of 6.1% in August 2012 due to an acceleration in both its food and non-food components. Total food inflation (primary and manufacturing) jumped to 9.1% in August 2012 as compared to a temporary respite to 8.7% in the previous month.

- **Index of industrial production (IIP)** growth remained flat with a negligible growth of 0.1% in July 2012 as compared to a contraction of 1.8% in the previous month. Contraction in mining and manufacturing sector has been responsible for weak growth in production. In the user segment, persistent contraction in capital goods has pulled down overall production in the country.

- **Diesel price has been hiked** by Rs.5/litre, while the **Excise Duty on Petrol has been reduced** by Rs. 5.30/litre. Additionally, government has **restricted subsidized domestic LPG cylinder** for a consumer to six per year.

- **Foreign Exchange Reserves** as on 7 September, 2012 stood at US$ 292.0 billion, up by US$ 1.6 billion from the previous week.

- At the **Treasury Bills Auctions** held during the week, the YTM for 91-day T-Bills stood at 8.1%.

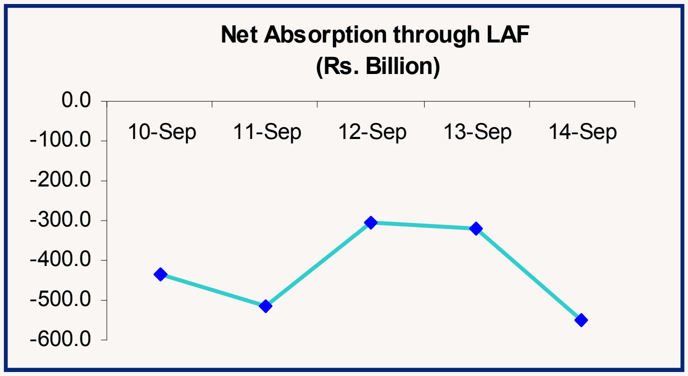
- The **Call Money Rates** as on 14 September 2012 traded in the range of 7.0-8.0%.

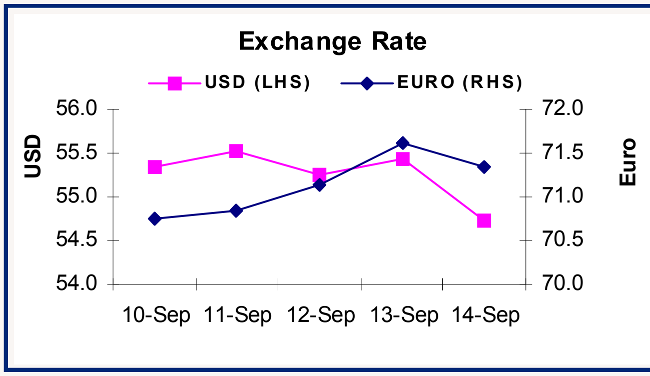
POLICY DEVELOPMENT

- RBI in its mid quarter monetary policy review, has reduced CRR further by 25 basis points to 4.50% from 4.75% earlier, it is to be effective from 22 September 2012. This is expected to infuse around Rs. 170 billion liquidity in the system. However, other key policy rates remained unchanged.

- RBI has liberalised norms on using external commercial borrowings (ECBs) to repay loans, capital expenditure and trade credit availed by infrastructure companies. For availing ECBs to repay rupee loans and fresh capital expenditure, RBI has raised the limit to 75% of average foreign exchange earnings realised from 50% of export earning in the last three years.

- Government raised FDI in aviation sector and power trading exchanges upto 49% each, in multi brand retail upto 51% subject to state permission and upto 74% in broadcasting sector. Besides, it has approved disinvestment in 4 PSUs namely Hindustan copper, Nalco, Oil India and MMTC.





BANKING INDICATORS

Rs. Billion

Indicators	Outstanding as on 24 August, 2012	% Variation over Fortnight	Year
Total Bank Credit	47,217.9	0.0	16.7
Food Credit	968.0	-3.0	31.6
Non Food Credit	46,249.9	0.0	16.4
Aggregate Deposit	62,917.0	0.1	14.1
Broad Money (M3)	77,900.4	0.1	13.7
Credit Deposit Ratio	75.0		

Source: RBI

EQUITY MARKETS

- **Global share** prices rallied last week owing to Federal Reserve's approval to the third round of quantitative easing which includes buying of US$ 40 billion worth of mortgage backed securities every month until the economy recovers.
- **Indian stocks** also gained considerably last week owing to slew of positive news pertaining to rise in FDI limits in several key sectors viz. aviation, multi-brand retail, broadcasting and power trading exchanges. All BSE indices rallied except BSE Healthcare Index that plunged by nearly 2.0%.
- **Total turnover** during the week on BSE stood at Rs. 7,917 crore and on NSE at Rs. 34,591 crore.

Global Stock Indices	Closing Value as on 14 September, 2012	Weekly Change (%)
NYSE: DJIA	13,539.9	1.9
FTSE 100	5,915.6	2.1
Nikkei 225	8,995.2	1.4
Straits Times	3,070.4	1.9
KOSPI	2,007.6	4.0

Source: Yahoo Finance

Net Institutional Activity	Equity	Debt
Weekly FII (US $ Million)	429.4	76.6
Year -to-date FII (US$ million)	12,818.7	4,492.5
Weekly Mutual Funds# (Rs Crore)	-340.3	5,179.7

Source: SEBI *#as on 13September, 2012*

Indian Equity Indices	Closing Value as on 14 September, 2012	Weekly Change (%)
BSE SENSEX	18,464.3	4.0
BSE 500	6,961.3	3.2
S&P CNX NIFTY	5,577.7	4.1
S&P CNX 500	4,348.8	3.3

Source: NSE, BSE

COMMODITY MARKETS

- **NYMEX West Texas Intermediate Crude Oil** on 17 September 2012 was US$ 99.0 per barrel, up by US$ 2.6 per barrel from the previous week.
- **New York spot price for Gold** was US$ 1,772.8 per ounce as on 14 September 2012, up by US$ 32.3 per ounce from the previous week.

Commodity Spot Indices	Closing Value as on 14 September, 2012	Weekly Change (%)
MCX AGRI	3,749.8	-3.1
MCX METAL	5,440.1	4.4
MCX ENERGY	3,667.7	3.0
MCX COMDEX	4,206.3	2.6

Source: MCX, NCDEX

INDUSTRY NEWS

Housing

- The National Housing Bank (NHB) is looking at a disbursal of Rs. 4,000 crore for rural housing in the current fiscal year, a growth of 33% over the previous year. This will help in improving the provision of housing finance to target groups in rural areas, thereby lending support in mitigating the housing shortage in rural areas among the target groups.

Automobile

- Automobile sector is going through a rough phase. In August 2012, passenger car sales declined by 18.6% to 1,18,142 units, sharpest drop in 10 months. Motorcycles sales fell by 8.5% to 7,66,127 units for the first time in over three years. On the other hand, sales of commercial vehicles has improved by 3.9% to 66,767 units from 64,248 units in the same period last year.

Healthcare

- BCG Healthcare has announced two projects in the healthcare sector worth Rs. 335 crore in Kerela. The first project "health village" worth Rs. 225 crore will be for the aged people, to be set up at Kundanoor in Ernakulam district. The second project worth Rs. 110 crore will be a 100 bed super-specialty secondary care hospital at Palarivattom in Kochi.

BSE Indices	Closing Value as on 14 September, 2012	Weekly Change (%)
AUTO INDEX	9,945.5	4.3
BANKEX	12,188.8	4.7
BSE CAPITAL GOODS	10,042.8	5.3
BSE CONSUMER DURABLE	6,576.9	2.8
BSE FMCG	5,406.6	0.8
BSE HEALTHCARE	7,522.0	-1.6
BSE INFOTECH	6,203.7	3.7
BSE MID CAP	6,244.9	1.7
BSE SMALL CAP	6,623.1	2.0
BSE TECK INDEX	3,494.9	3.2
METAL INDEX	10,370.3	5.4
OIL & GAS INDEX	8,717.0	4.1

Source: BSE

CNX Segment Indices	Closing Value as on 14 September, 2012	Weekly Change (%)
CNX NIFTY Junior	10,210.7	1.0
CNX MIDCAP	7,340.0	1.4
BANK NIFTY	10,642.9	4.9
CNX IT	6,599.4	3.8
CNX Realty	216.5	5.5
CNX Infrastructure	2,342.0	3.3

Source: NSE

GLOBAL NEWS

USA

- In the week ending September 8, the advance figure for seasonally adjusted initial claims of unemployment benefits were 382,000, an increase of 15,000 from the previous week's revised figure of 367,000. The 4-week moving average was 375,000 - an increase of 3,250 from the previous week's revised average of 371,750.
- Federal Reserve to buy US$23 billion of mortgage bond by September end. It will also pump US$ 40 billion a month from October to revive economic growth and reduce high unemployment rate.

Europe

- IMF has strongly backed the European Central Bank's plan to contain the Euro zone debt crisis with unlimited bond purchases and has expressed its interest in getting involved with designing and monitoring of this implementation.

China

- Industrial production in China grew by 8.9% in August 2012 from a year ago, slowest since May 2009, while fixed asset investment growth eased to 20.2% in first eight months. This is mainly due to slow down in the constructions activities as investment has fallen in new buildings and other fixed assets.

DISCLAIMER

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