

Economy Update



» WEEKLY NEWSLETTER

» 11-17 June 2012

Dear Reader,

The RBI's decision to keep interest rates unchanged at a time when GDP growth is steadily declining and industrial production has stagnated is surprising. CII is of the view that the inflationary pressures being alluded to by the RBI are a result of structural problems on the supply side or of excessively loose fiscal policy. A coordinated approach from the RBI and the Government of easing supply-side bottlenecks, tightening fiscal policy and easing monetary policy is called for at this time. The depreciation of the currency is also contributing to the rise in inflationary pressure, even though global commodity prices are moderating.

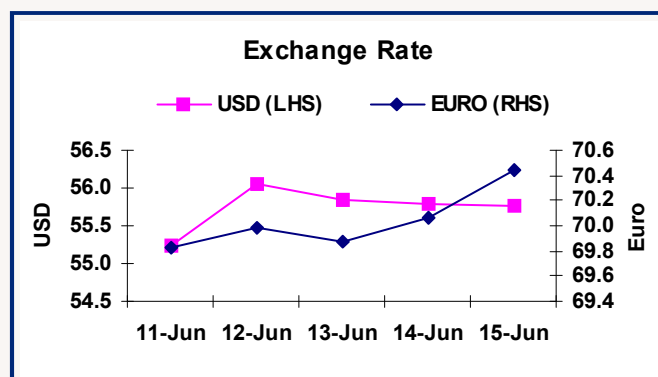
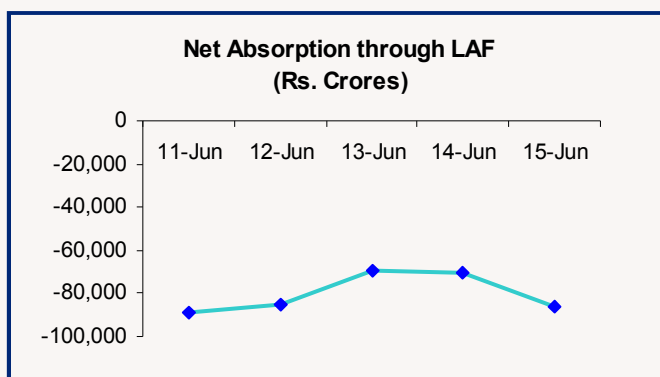
Chandrajit Banerjee
(Director General, CII)

INDICATORS

- » **The Index of Industrial Production (IIP)** for the month of April 2012 grew at a meager 0.1%, with output in the capital goods, mining and intermediate goods sectors declining by 16.3%, 3.1% and 1.4% respectively in April. Consumer goods and electricity saw higher growth vis-à-vis basic goods and manufacturing, with consumer goods growing by 5.2% in April, as opposed to 0.7% in March, and electricity growing by 4.6% in April, as compared to 2.7% in March 2012.
- » **The Wholesale Price Index (WPI)** for all commodities increased by 7.6% in May 2012 from a year back, which is a clear increase from the inflation rate of 7.2% the month before. This was mainly on account of high food inflation (10.7% in May) and fuel inflation (11.5% in May). Further, while WPI for manufactured goods actually decreased by 0.1% from 5.1% in April, WPI for non-food articles climbed to an inflation rate of 8.5% in May, from 1.6% the month before.
- » **India's exports** for the month of May 2012 registered a decline of 4.16%, at US \$ 25.68 billion compared to May 2011 when it stood at US \$ 26.79 billion. During May 2012, the imports were US \$ 41.9 billion with a decline of 7.36%. Balance of Trade stood at US \$ -16.3 billion during the same period.
- » **The weekly rainfall** (June 7 to June 13) for the country as a whole was 50% below the Long Period Average (LPA). Rainfall activity was below normal over all the regions, with northwest, central, south and eastern regions registering a shortfall of 44%, 54%, 44% and 53% against the LPA respectively.

POLICY DEVELOPMENT

- » **RBI's mid-quarter review of monetary policy** on June 18, 2012 revealed that, contradictory to widespread expectations, RBI has **decided not to cut policy rates**. The cash reserve ratio for scheduled banks, repo and reverse repo rate under LAF have been left unchanged at 4.75%, 8%, and 7% respectively. The marginal standing facility and the bank rate also remain the same at 9% as the RBI feels that, having already cut 50 basis points in April, a further reduction in policy rates could exacerbate headline and retail inflation, instead of supporting economic growth.
- » To enhance the credit flow to the **export** sector, RBI also decided to enhance the eligible limit of the **Export Credit Refinance (ECR)** facility for scheduled banks (excluding RRBs) from 15% of the outstanding export credit eligible for refinance to 50%, effective fortnight beginning June 30, 2012. This will provide **additional liquidity** support to banks of over Rs 300 billion.



BANKING INDICATORS

			<i>Rs. Billion</i>
Indicators	Outstanding as on 1 June, 2012	% Variation over Fortnight	Year
Total Bank Credit	47,121.9	1.4	18.3
Food Credit	1,120.5	6.5	51.5
Non Food Credit	46,001.4	1.3	17.6
Aggregate Deposit	61,377.7	1.3	14.4
Broad Money (M3)	76,284.2	0.9	13.7
Credit Deposit Ratio	76.7		

Source: RBI

EQUITY MARKETS

» The global markets closed **broadly up** in the past week as investors grew **more optimistic** ahead of the crucial Greek elections. All three US indices ended higher for a second straight week. The Dow and S&P 500 jumped 1.7% and 1.3% respectively for the week, and the Nasdaq gained 0.5%. European and Asian markets also followed a similar trend.

» On Friday last week, Sensex closed at 16,949.83, up by 1.63%, while Nifty ended at 5,139, up by 1.67%. In fact, Sensex has rallied nearly 1,000 points, or a solid 6.2% in the past two weeks, on account of **rising expectations of a minimum of 25 basis points cut in policy rates** in RBI's mid-quarter monetary policy review (released today), and positive global cues.

» **Total turnover** during the week on BSE stood at Rs. 9,772 crore and on NSE at Rs. 31,079 crore.

Net Institutional Activity		
	Equity	Debt
Weekly FII (US \$ Million)	158.5	281.5
Year -to-date FII (US\$ million)	8555.5	3931.4
Weekly Mutual Funds# (Rs Crore)	-320	13,015

Source: SEBI #as on 14 June, 2012

Global Stock Indices	Closing Value as on 15 June 2012	Weekly Change (%)
NYSE: DJIA	12,767.17	2.5
FTSE 100	5,478.81	0.8
Nikkei 225	8,569.32	1.3
Straits Times	2,811	2.7
KOSPI	1,858.16	1.2

Source: Yahoo Finance

Indian Equity Indices	Closing Value as on 15 June 2012	Week's % Change
BSE SENSEX	16,949.83	1.4
BSE 500	6,487.13	0.9
S&P CNX NIFTY	5,139.05	1.4
S&P CNX 500	4,047.45	0.9

Source: NSE, BSE

COMMODITY MARKETS

» **NYMEX West Texas Intermediate Crude Oil** for July delivery closed up \$0.12 at \$84.03 per barrel on June 15, 2012.

» **New York spot price for Gold** was US\$ 1627.2 per ounce as on June 15, 2012, up by US\$ 37.1 per ounce from the previous week.

Commodity Spot Indices	Closing Value as on 16 June 2012	Week's % Change
MCX AGRI	3467.91	-1.2
MCX METAL	4960.35	1.9
MCX ENERGY	3133.86	3.1
MCX COMDEX	3764.14	1.7

Source: MCX, NCDEX

INDUSTRY NEWS

New and Renewable Energy

» Ministry of New and Renewable Energy said that India is committed to increasing the share of renewable power in the electricity mix to **15 per cent** by the year 2020. An **action plan** has already been developed with a target of 30 GW of renewable power by 2017. Further, the **Jawahar Lal Nehru National Solar Mission** aims to facilitate the installation of 20 GW grid-connected and 2 GW off-grid solar power, 20 million sq. m of solar thermal collector area and 20 million rural households with solar home lighting by 2022. India has already succeeded in setting up about 1 GW solar power capacity. However, broad estimates indicate that the India's investment requirement in renewable energy would be in the **range of at least US \$ 50 billion in the next five years alone.**

Sports Infrastructure

» **Ministry of Youth Affairs & Sports** has approved proposals worth **Rs 23 crore** of States of Chhattisgarh, Haryana, Rajasthan and Manipur for financial assistance under the scheme of **Urban Sports Infrastructure** for creation of sports infrastructure facilities. A **grant-in-aid** of Rs 6 crore would be provided to the Governments of Chhattisgarh, Rajasthan and Manipur to execute the project. The State Government of Haryana will receive a grant-in-aid of Rs 5 crore to do the same.

BSE Indices	Closing Value as on 15 June 2012	Week's % Change
AUTO INDEX	9,213.80	0.2
BANKEX	11,586.65	0.6
BSE CAPITAL GOODS	9,527.34	0.4
BSE CONSUMER DURABLE	6,121.96	1.5
BSE FMCG	4,838.87	3.4
BSE HEALTHCARE	6,580.21	-0.8
BSE INFOTECH	5,765.50	2.6
BSE MID CAP	5,958.50	-0.5
BSE SMALL CAP	6,351.44	0.4
BSE TECK INDEX	3,342.16	2.3
METAL INDEX	10,394.89	0.8
OIL & GAS INDEX	7,824.91	0.6

Source: BSE

CNX Segment Indices	Closing Value as on 15 June 2012	Week's % Change
CNX NIFTY Junior	9,721.70	-0.1
CNX MIDCAP	7,032.30	0.0
BANK NIFTY	10,064.80	0.7
CNX IT	6,134.45	2.7
CNX Realty	216.15	-1.5
CNX Infrastructure	2311.95	0.2

Source: NSE

GLOBAL NEWS

USA

- » The **Consumer Price Index for All Urban Consumers** (CPI-U) decreased 0.3 percent in May on a seasonally adjusted basis. Over the last 12 months, the all items index increased 1.7 percent before seasonal adjustment.
- » The **gasoline index** declined 6.8 percent in May, leading to a sharp decrease in the energy index and the decline in the all items index. The indexes for natural gas and fuel oil declined as well, though the electricity index increased. The food index was unchanged, with a slight decline in the index for food at home offsetting an increase in the food away from home index.
- » **Prices of goods imported** into the U.S. fell in May by the most in almost two years, reflecting lower costs for fuel and food.

Europe

- » The first estimate for the **euro area** (EA17) **trade in goods balance** with the rest of the world in April 2012 gave a 5.2 billion euro surplus, compared with -4.5 billion in April 2011. The March 2012 balance was 7.5 billion, compared with 0.9 billion in March 2011. In April 2012 compared with March 2012, seasonally adjusted exports fell by 1.3% and imports by 3.0%.

Asia

- » From January to May 2012, the **investment in fixed assets** (excluding rural households) in **China** reached 10,892.4 billion yuan, up by 20.1% year-on-year, dropping 0.1 percentage points over the first four months. In May, the investment in fixed assets (excluding rural households) increased by 1.15%.

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