

Economy Update



» WEEKLY NEWSLETTER

» 13-19 August 2012

Dear Reader,

Inflation (WPI) unexpectedly moderated in July 2012. However, this respite may prove to be temporary as a weak monsoon and the recent renewed strength in global crude oil prices have once again raised the upside risks for inflation. On the external front, the situation is far from comforting. Merchandise exports once again contracted in July 2012, highlighting the grim global macroeconomic scenario which we are witnessing currently. The good news however is that imports too have been declining- a trend which looks propitious for our trade deficit this fiscal.

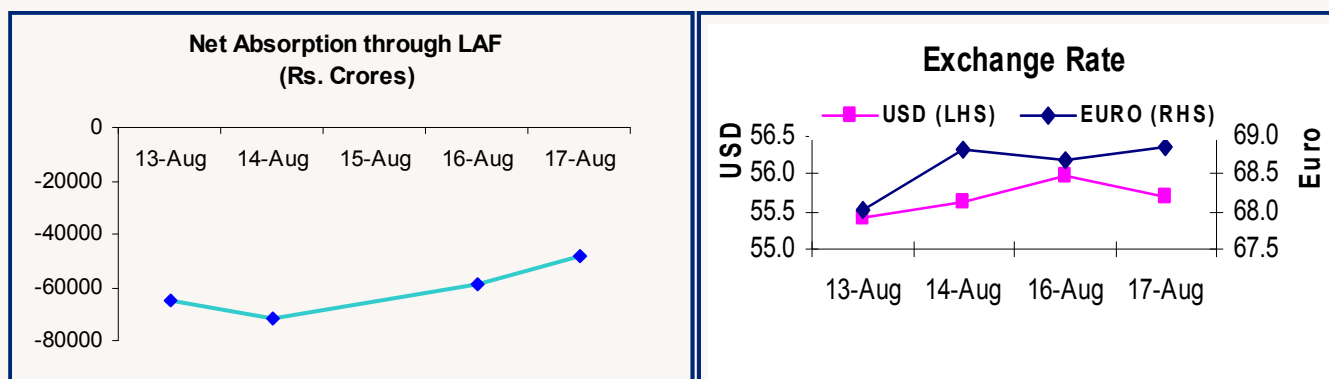
Chandrajit Banerjee
(Director General, CII)

INDICATORS

- » **Wholesale Price Index (Inflation)** moderated to 6.9% in July 2012 as compared to 7.3% in the previous month mainly due to softening in fuel inflation. Primary articles inflation remained firm at 10.4%, with primary non-food inflation doubled to 13.1% in July 2012 from 6.8% in June 2012. Fuel inflation almost halved to 6.0% in July 2012 from the previous month on the back of decline in prices of ATF, naphtha, light diesel oil and petrol. Inflation in manufacturing category, however, showed a marginal uptick to 5.6% in July 2012 from 5.0% in the previous month.
- » **Indirect tax collections** increased by 23.2% to Rs. 39,787 crore in July, as compared to Rs 32,289 crore in the same month last year. Robust growth in service tax and excise tax collection of 37.4% and 27.6% respectively in July has led to this surge. Collection from custom duties could surge only by 8.2% to Rs. 12,486 crore from last year.
- » **Exports** plunged by 14.8% to US\$ 22.4 billion during July 2012, from US\$ 26.3 billion in the same period last year, while imports fell by 7.8% to US\$ 37.9 billion as against US 41.1 billion in July 2011.
- » **Foreign Exchange Reserves** as on 10 August, 2012 stood at US\$ 289.2 billion, up by US\$ 0.02 billion from the previous week.
- » At the **Treasury Bills Auctions** held during the week, the YTM for 91-day T-Bills stood at 8.3%.
- » The **Call Money Rates** as on 17 August July 2012 traded in the range of 7.1-8.1%.

POLICY DEVELOPMENT

- » A standing committee on Finance has suggested government to make corporate social responsibility (CSR) spending compulsory for companies above a certain threshold. Additionally, it wants the government to clearly define the term ‘private placement’ in the Companies Bill.
- » Reserve Bank of India is planning to limit banks’ total exposure to own group entities to 20% of net worth, whereas the limit for exposure for a single entity (a non-finance company or an unregulated finance entity) in a group will be up to 5% of paid-up capital plus reserves. This is planned to avoid concentration and contagion risk from intra-group transactions.
- » Finance Ministry is mulling a proposal to link tax exemption of life insurance policies to the term of the cover, rather than the sum assured.



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 marginally last week being affected by EU's GDP figure. Fear of further slow down in EU Zone has surfaced again with the decline in their GDP from no growth in Q1, 2012 to -0.2% during the second quarter of 2012.
- » **Indian stocks** price also rallied but too little in the last week. Almost all BSE indices showed some improvement except FMCG and Metal indices. Highest gains were registered by BSE Oil and Gas and BSE Capital Goods.
- » **Total turnover** during the week on BSE stood at Rs. 6,200 crore and on NSE at Rs. 28,436 crore.

Global Stock Indices	Closing Value as on 17 August, 2012	Weekly Change (%)
NYSE: DJIA	13,250.1	0.6
FTSE 100	5,834.5	-0.2
Nikkei 225	9,092.8	2.3
Straits Times	3,062.9	0.3
KOSPI	1,957.9	0.6

Source: Yahoo Finance

Net Institutional Activity

	Equity	Debt
Weekly FII (US \$ Million)	137.5	194.4
Year -to-date FII (US\$ million)	11,378.6	4,756.8
Weekly Mutual Funds# (Rs Crore)	113.1	2,511.3

Source: SEBI

#as on 16 August, 2012

Indian Equity Indices	Closing Value as on 17 August, 2012	Week's % Change
BSE SENSEX	17,657.2	0.6
BSE 500	6,763.8	0.8
S&P CNX NIFTY	5,363.0	0.8
S&P CNX 500	4,222.7	0.9

Source: NSE, BSE

COMMODITY MARKETS

- » **NYMEX West Texas Intermediate Crude Oil** on 17 August 2012 was US\$ 96.0 per barrel, up by US\$ 3.1 per barrel from the previous week.
- » **New York spot price for Gold** was US\$ 1,616.5 per ounce as on 17 August 2012, down by US\$ 3.3 per ounce from the previous week.

Commodity Spot Indices	Closing Value as on 17 August, 2012	Week's % Change
MCX AGRI	3,861.0	0.0
MCX METAL	4,887.2	0.6
MCX ENERGY	3,568.0	3.3
MCX COMDEX	3,977.7	1.4

Source: MCX, NCDEX

INDUSTRY NEWS

Manufacturing

- » Kerala government to establish a National Investment & Manufacturing Zone in the Kochi-Palakkad Industrial Corridor region at an estimated cost of Rs 52,000 crore. The state has identified some sectors to promote sustainable and eco-friendly development such as IT and IT-enabled services, knowledge & education, tourism, healthcare, food and agro processing, ports and others.

Coal

- » The Supreme Court appointed Central Empowered Committee (CEC) has approved 16 iron ore mining lessees in Karnataka for resuming operations. However, these can only produce up to a third of their earlier annual sanctioned capacity. Together these mines are being allowed to produce 8.24 million tonnes per annum, as oppose to their original sanctioned capacity of 26.48 million tonnes.

Mineral

- » National Aluminum Company is planning an investment of Rs 7,500 crore for its third phase brown field expansion at its existing facilities in Odisha. The company is also mulling a 500 MW power plant involving a cost of Rs 2,522 crore at its present captive power plant for meeting additional power requirement.

BSE Indices	Closing Value as on 17 August, 2012	Week's % Change
AUTO INDEX	9,476.6	1.2
BANKEX	11,976.0	0.7
BSE CAPITAL GOODS	10,134.5	2.3
BSE CONSUMER DURABLE	6,339.9	1.2
BSE FMCG	5,140.3	-1.7
BSE HEALTHCARE	7,289.3	0.0
BSE INFOTECH	5,548.1	0.1
BSE MID CAP	6,155.0	0.9
BSE SMALL CAP	6,614.1	1.0
BSE TECK INDEX	3,202.5	0.4
METAL INDEX	10,483.6	-0.4
OIL & GAS INDEX	8,525.5	2.6

Source: BSE

CNX Segment Indices	Closing Value as on 17 August, 2012	Week's % Change
CNX NIFTY Junior	10,207.1	1.3
CNX MIDCAP	7,286.3	0.6
BANK NIFTY	10,426.8	0.7
CNX IT	5,915.9	0.2
CNX Realty	220.8	1.7
CNX Infrastructure	2,393.2	1.8

Source: NSE

GLOBAL NEWS

USA

- » In the week ending August 11, the advance figure for seasonally adjusted initial claims of unemployment benefits was 366,000, an increase of 2,000 from the previous week's revised figure of 364,000. The 4-week moving average was 363,750 a decrease of 5,500 from the previous week's revised average of 369,250.
- » U.S. consumer prices remained almost unchanged in July for a second straight month, surged marginally by 0.2% on y-o-y basis. It is the smallest gain in more than 1.5 years. This may give more space to the Federal Reserve for easing monetary policy to contain high unemployment rate at 8.3%.

Europe

- » GDP of EU17 declined by 0.2% during April to June 2012 as compared to the zero percent growth in the previous quarter. This is mainly an outcome of strict austerity measures taken by the Euro Zone economies. Grim outlook in the first half of 2012, is raising serious doubts about any likely improvement in the coming quarters.

Japan

- » Japan's economy grew by mere 0.3% during April-June 2012 after a much better expansion of 1.3% in January-March 2012 on account of weak private consumption.

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