

Economy Update




» WEEKLY NEWSLETTER

» 30 July-5 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.

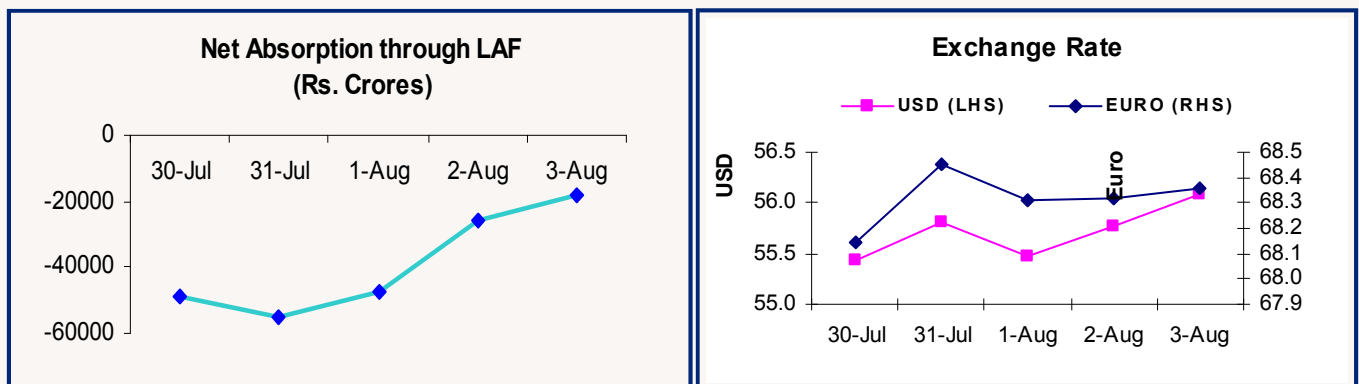

Chandrajit Banerjee
(Director General, CII)

INDICATORS

- » The union government has allocated over Rs. 1,800 crore to States under the **National Food Security Mission** this year. Uttar Pradesh has got the maximum amount, at Rs. 276.9 crore, followed by Madhya Pradesh (Rs. 226.87 crore) and Maharashtra (Rs.196 crore).
- » **Index of Eight Core Industries** rose by 3.6% during June 2012 as compared to 5.6% in June 2011 and is also marginally lower than previous month's growth of 4.0%. Production expanded for coal, refinery products, cement and electricity during June 2012.
- » **Monthly Per Capita Expenditure** at URP has risen by 13.3% from Rs. 1,200.01 in 66th Round to Rs. 1,359.75 in the 68th NSS Round for urban areas and by 18.1% from Rs. 599.06 to Rs. 707.24 for rural.
- » In the second half of 2012, **Rainfall from South West Monsoon** for the country as a whole is likely to remain below normal (<94% of Long Period Average). During April- September, it is expected to be 91% of LPA with a model error of $\pm 8\%$ as stated by India Meteorological Department
- » **Foreign Exchange Reserves** as on July 27, 2012 stood at US\$ 288.6 billion, up by US\$ 1.3 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 3 August July 2012 traded in the range of 7.2-7.8%.

POLICY DEVELOPMENT

- » RBI in its recent first quarter review of the current fiscal year has reduced SLR from 24% to 23%, however has left interest rates unchanged this time. The SLR reduction is expected to inject liquidity of Rs. 60,000 crore in the system which would enable banks to reduce lending rates in the retail segment.
- » To expedite public-private partnership projects in the infrastructure sector, the central government has done away with mandatory cabinet clearance for land transfer. This relaxation will supersede the ban on the transfer of government owned land to any entity except if the transfer is from one government department to another.
- » RBI provided relief to stressed microfinance companies by relaxing provisioning norms and removing the 26% cap on their lending rates to allow operational flexibility.



BANKING INDICATORS

Indicators	Rs. Billion		
	Outstanding as on 13 July, 2012	% Variation over Fortnight	Year
Total Bank Credit	47,244.4	-0.8	17.7
Food Credit	1,027.6	-4.4	34.4
Non Food Credit	46,216.8	-0.7	17.4
Aggregate Deposit	62,217.5	-0.1	14.7
Broad Money (M3)	77,301.2	0.1	14.3
Credit Deposit Ratio	75.9		

Source: RBI

EQUITY MARKETS

- » **Global share** prices surged last week, being positively influenced by the European Central Bank's decision to buy Spanish and Italian bonds which is expected to provide them some respite.
- » **Indian stocks** gained last week as not being impacted by the news of confirmed deficient monsoon this year. All BSE indices rallied, however highest gains were seen in the BSE Capital Goods and Healthcares indices.
- » **Total turnover** during the week on BSE stood at Rs. 7,460 crore and on NSE at Rs. 36,413 crore.

Global Stock Indices	Closing Value as on 3 August, 2012	Weekly Change (%)
NYSE: DJIA	13,096.2	1.6
FTSE 100	5,787.3	3.8
Nikkei 225	8,725.2	1.9
Straits Times	3,080.4	2.7
KOSPI	1,887.2	3.2

Source: Yahoo Finance

Net Institutional Activity

	Equity	Debt
Weekly FII (US \$ Million)	613.4	49.7
Year -to-date FII (US\$ million)	10,665.1	4,591.5
Weekly Mutual Funds# (Rs Crore)	-88.6	-1,718.0

Source: SEBI

#as on 2 August, 2012

Indian Equity Indices	Closing Value as on 3 August, 2012	Week's % Change
BSE SENSEX	17,197.9	2.1
BSE 500	6,615.2	2.5
S&P CNX NIFTY	5,215.7	2.3
S&P CNX 500	4,129.1	2.5

Source: NSE, BSE

COMMODITY MARKETS

- » **NYMEX West Texas Intermediate Crude Oil** on 3 August 2012 was US\$ 91.4 per barrel, up by US\$ 1.3 per barrel from the previous week.
- » **New York spot price for Gold** was US\$ 1,605.5 per ounce as on 3 August 2012, down by US\$ 11.9 per ounce from the previous week.

Commodity Spot Indices	Closing Value as on 3 August, 2012	Week's % Change
MCX AGRI	3,894.5	1.8
MCX METAL	4,823.2	-1.1
MCX ENERGY	3,369.3	-1.1
MCX COMDEX	3,883.5	-0.6

Source: MCX, NCDEX

INDUSTRY NEWS

Agriculture

- » The union government has announced a Rs 1,950 crore relief package for Maharashtra, Karnataka, Gujarat, Rajasthan and Haryana, along with a 50% subsidy on diesel for all low rainfall-affected farmers. This package has been declared as the drought situation in major parts of the country is getting worse. Till date, around 400 of the 640 districts in the country have received deficient rain.

Automobiles

- » Demand for diesel vehicles has pushed July 2012 sales. Nine of the 19 leading automobile manufacturers together reported a growth in volume by 11.8% to 182,822 units in July, compared to 163,572 units sold in the same period last year. The sales improved amid concerns expressed that the sagging economic growth, high fuel prices and interest rates are posing challenges to auto sales in Asia's third largest economy.

Coal

- » Coal India Ltd. (CIL) has agreed to revise the contentious penalty clause in the fuel supply agreements (FSA) which is to be signed with power firms. Additionally, it has agreed to supply at least 80% of the required fuel to firms, while rest will be met through imports.

BSE Indices	Closing Value as on 3 August, 2012	Week's % Change
AUTO INDEX	9,019.0	1.6
BANKEX	11,835.0	1.7
BSE CAPITAL GOODS	9,737.3	4.7
BSE CONSUMER DURABLE	6,379.0	2.0
BSE FMCG	5,081.9	2.1
BSE HEALTHCARE	7,275.2	4.3
BSE INFOTECH	5,351.9	2.4
BSE MID CAP	6,072.5	3.1
BSE SMALL CAP	6,545.7	3.0
BSE TECK INDEX	3,160.2	1.7
METAL INDEX	10,202.2	0.1
OIL & GAS INDEX	8,106.1	2.5

Source: BSE

CNX Segment Indices	Closing Value as on 3 August, 2012	Week's % Change
CNX NIFTY Junior	10,093.9	3.2
CNX MIDCAP	7,244.9	3.1
BANK NIFTY	10,315.6	1.7
CNX IT	5,697.2	2.4
CNX Realty	218.0	4.7
CNX Infrastructure	2,366.5	3.4

Source: NSE

GLOBAL NEWS

USA

- » In the week ending July 28, the advance figure for seasonally adjusted initial claims of unemployment benefits was 365,000 a increase of 8,000 from the previous week's revised figure of 357,000. The 4-week moving average was 365,500, a decrease of 2,750 from the previous week's revised average of 368,250.
- » US ISM Index for services sector rose marginally to 52.6 in July 2012 from 52.1 in the previous month, shows expansion in the sector due to increase in new orders. Forward looking orders surged to 54.3 from 53.3.

Europe

- » European Central Bank (ECB) is likely to buy more Spanish and Italian government bonds to reducing their borrowing costs. However, this is not likely to happen before September and secondly, it will happen only if governments activates the Euro Zone's bail out funds to join the ECB in buying bonds.

China

- » HSBC PMI for the services sector indicates that service sector grew at a healthy pace. It has risen to 53.1 in July 2012 from a 10 month low of 52.3 in June 2012.

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