



Confederation of Indian Industry
Since 1895

Economy Update

Weekly Newsletter

24-30 January 2011

INDICATORS

Inflation Rate for the week ending 15 January 2011

Categories	Weekly	Annual
Primary articles	0.3	17.3
Fuel, power, light & lubricant	0.0	10.9

- The annual inflation for **Primary Articles** increased to 17.3% in the week ending 15 January 2011 from 17.0% in the previous week.
- The annual **inflation** in **food articles** increased to 15.6% for the week ended 15 January 2011, from 15.5% in the previous week.
- **Foreign Exchange Reserves** as on 21 January, 2011 stood at US \$ 299.4 billion, up by US\$ 2.0 billion over the previous week.
- The **call money rates** as on 28 January 2010 traded in the range of 5.8– 7.0%.
- At the **Treasury bills auctions** held during the week, the YTM for 91-day T-Bills stood at 7.2%.



Dear Reader,

As expected, the RBI raised the repo and reverse repo rates by 25 basis points at its third quarter review of monetary policy. It also set the stage for

further rate hikes by giving priority to its anti-inflationary monetary stance. While we understand the RBI's concern over rising inflation, CII is concerned about current liquidity conditions which have not yet shown any signs of improvement. With the credit-deposit ratio rising steadily, interest rates are already on their way up. A significant hardening of interest rates would lead to some concerns on the sustainability of the current growth rate.

Chandrajit Banerjee

Director General, CII

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POLICY UPDATE

Third Quarter Monetary Policy Review

- In the third quarter review of monetary policy 2010-11 the RBI increased the repo and reverse repo rate by 25 basis points each. The repo rate stands at 6.5% and the reverse repo rate at 5.5%.
- Additionally, to manage the current liquidity situation, the RBI has extended the two special measures currently in operation, viz:

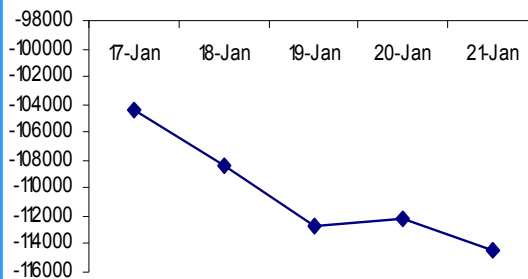
➤ The additional liquidity support to scheduled commercial banks under the liquidity adjustment facility (LAF) to the extent of up to one percent of their NDTL

➤ A daily second LAF up to April 8, 2011.

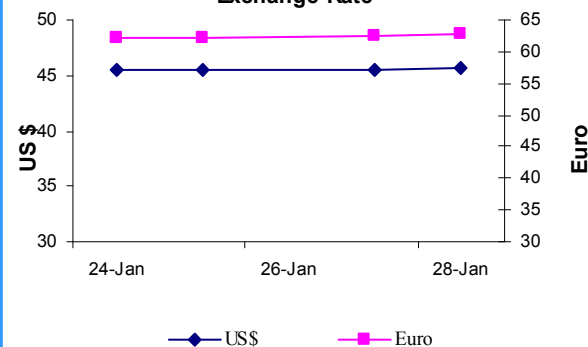
Others

- The Union Cabinet approved the proposal by the power ministry to increase the share of host states to 50% in allocation of electricity generation from centrally owned thermal power plants.

Net Absorption through LAF (Rs Crore)



Exchange Rate



BANKING INDICATORS

Indicators	Outstanding as on 14 January 2011	% Variation over	
		Fortnight	Year
Total Bank Credit	37,19,885	-1.2	23.6
Food Credit	63,953	-3.0	50.4
Non Food Credit	36,55,933	-1.2	23.2
Aggregate Deposit	49,45,648	-0.5	16.4
Broad Money (M3)	62,00,420	2.8	16.6
Credit Deposit Ratio	75.2		

Source: RBI

EQUITY MARKETS

- Investors in the US were disappointed to hear economic growth in the fourth quarter was slightly less than the expected 3.5%. As a result New York DJIA showed a moderation of 0.4%.
- Asian stocks remained subdued as fears of interest rates hike by South Korea and China loomed, as inflation continue to remain high.
- All Indian key benchmark indices slipped to red, fuelled by foreign funds sell off amid fears of further interest rate hike on high inflation and weak global markets. The worst hit were stocks from interest rate sensitive sectors like Consumer Durable, Auto and Realty. Stocks in Consumer Durable sector, Auto and Realty showed a decline of 9.4%, 5.0% and 8.8% respectively.
- Total turnover during the week on BSE stood at Rs 16,234 crore and at NSE Rs 66,010 crore.

COMMODITY MARKETS

- NYMEX **light sweet Crude Oil** for February delivery closed at US \$ 89.3 per barrel on 28 January 2011, up by US \$ 0.2 per barrel over the previous week.
- New York **spot price for Gold** was US \$ 1,340.4 per ounce as on 28 January 2011, down by US \$ 0.8 per ounce over the week.

Global Stock Indices	Closing Value as on 28 January 2011	Weekly Change (%)
NYSE: DJIA	11,823.7	-0.4
FTSE 100	5,881.4	-0.3
Nikkei 225	10,360.3	0.8
Straits Times	3,229.7	1.4
KOSPI	2,107.9	1.8

Source: Yahoo Finance

Indian Equity Indices	Closing Value on 28 January 2011	Week's % Change
BSE SENSEX	18,396.0	-3.2
BSE 500	7,137.5	-3.6
S&P CNX NIFTY	5,512.2	-3.2
S&P CNX 500	4,427.5	-3.6

Source: NSE, BSE

Net Institutional Activity

	Equity	Debt
Weekly FII (US \$ Million)	-161.6	-35.3
Year -to-date FII (US\$ million)	-924.0	2,372.7
Weekly Mutual Funds# (Rs Crore)	-96.0	803.9

Source:SEBI

#as on 27 January 2011

Commodity Spot Indices	Closing Value as on 29 January 2011	Week's % Change
MCX AGRI	2,932.7	0.1
MCX METAL	4,071.5	-0.7
MCX ENERGY	2,807.9	-3.1
MCX COMDEX	3,196.4	-1.4

Source: MCX, NCDEX

INDUSTRY NEWS

Cement

- December sales of top cement companies Jaiprakash, Ambuja and ACC recorded an increase of 27.4%, 5.6% and 2.3% respectively, thus showing that the cement industry is back on positive territory.

Steel

- Tata Steel has formed a 51:49 joint venture with Japan's Nippon Steel for building auto-grade steel plant in India. The project will be set up at a capital cost of approximately Rs 2,300 crore.

Pharmaceuticals

- US drug maker Merck & Co has called off its two year research alliance with India's largest drug company, Ranbaxy.
- Hyderabad based Dr Reddy's Laboratories has entered into a research partnership with UK based contract research organization Argenta.

FMCG

- With the expectation that the toothpaste category will grow to 12-15% of the total toothpaste market, GlaxoSmithKline forays into this category with its biggest global brand, Sensodyne Toothpaste.

BSE Indices	Closing Value on 28 January 2011	Week's % Change
AUTO INDEX	8,841.9	-5.0
BANKEX	11,986.7	-2.9
BSE CAPITAL GOODS	13,099.2	-3.2
BSE CONSUMER DURABLE	5,923.2	-9.4
BSE FMCG	3,435.1	-3.0
BSE HEALTHCARE	6,191.3	-5.3
BSE INFOTECH	6,466.2	-2.5
BSE MID CAP	6,898.4	-4.1
BSE SMALL CAP	8,546.3	-4.5
BSE TECK INDEX	3,791.0	-2.5
METAL INDEX	16,076.0	-3.9
OIL & GAS INDEX	9,367.5	-3.9

Source: BSE

CNX Segment Indices	Closing Value on 21 January 2010	Week's % Change
CNX NIFTY Junior	11,403.7	1.0
CNX MIDCAP	8,215.9	0.1
BANK NIFTY	10,889.4	4.4
CNX IT	7,249.8	2.6
CNX Realty	300.7	-8.8
CNX Infrastructure	3,020.9	-3.3

Source: NSE

GLOBAL NEWS

USA

- In the week ending January 22 2011, the advanced figures for seasonally adjusted initial claims was 454,000, an increase of 51,000 from the previous week's revised figure of 403,000.
- US Real GDP increased at an annual rate of 3.2% in the fourth quarter of 2010 as compared to 2.6% growth in the second quarter.
- US announces plan to cut defence budget by US \$ 78 billion over five years.

Europe

- In the third quarter of 2010, in both the euro area and the EU, the seasonally adjusted household saving rate continued to decrease to 13.8% and 11.5% respectively compared with 14.2% and 11.9% respectively in the previous quarter.
- In the EU, the gross investment rate of households

remained stable at 8.0% in the third quarter of 2010, while in the Euro Area the household investment was 8.8%, unchanged from the previous quarter.

Asia

- Japan's factory output in December 2010 climbed 3.1%, the most in 11 months.
- South Korea's industrial production increased by 9.8% in December, after rising a revised 10.7% in November.
- South Korea's manufacturers' confidence fell to 91 for February from 92 in January, a two month low as rising commodity prices and an appreciation in the won clouded the outlook for exporters.

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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