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Indian Economy

***Draft Guidelines for New Banking Licences**: Reserve Bank of India (RBI) has issued draft guide lines for allowing new entrants into the banking industry, particularly from the corporate sector and for Non-Banking Financial Companies. It has also invited feedback from stakeholders and the general public on the content, the last date for which is October 31, 2011.

***WPI Primary articles inflation**: WPI primary articles inflation for the week ending September 10, 2011 stood at 12.17% YoY compared with 13.04% YoY a week ago. Primary articles inflation stood lower due to a high base and decline in minerals prices over the week. Food & non-food articles prices saw an in crease during the week.

***Money Supply & Credit Growth**: Money Supply and credit growth in the fortnight ending September 10, 2011 came down to 16.40% YoY and 20.40% YoY respectively.

* **Forex Reserves improved marginally:** Forex reserves during the week ending September 17, 2011, increased marginally by $0.3 billion. Forex reserves stood at $316.8 billion largely due to increase in foreign currency assets.

* **Currency Trends:** Currency trends against greenbacks and expectations for the coming week.

Global Economy

* **Fear of Contagion in Europe:** Standard & Poor's, a leading credit rating agency, cut Italy's credit rating on September 21, 2011, by a notch to 'A'. S&P has cited economic conditions and political instability as reasons for the downgrade. The downgrade came as one more bad news for Europe as Greece is still battling default over loan eligibility.

* **World Bank & IMF Annual Meeting:** World Bank and IMF annual meeting was held recently in Washington on September 23-25 2011.The Board of Governors of the International Monetary Fund (Fund) and the Boards of Governors of the World Bank Group (Bank) normally meet once a year to discuss the work of their respective institutions. The annual meeting at the conclusion said it will work towards strong and in -clusive growth and also asserted that it is committed to Millennium goals and food security.

Draft Guidelines on New Banking Licences

The Reserve Bank of India (RBI) has issued draft guidelines for allowing new entrants into the banking industry, particularly from the corporate sector and for Non-Banking Financial Companies. It has also invited feedback from stakeholders and the general public on the content, the last date for which is October 31. The draft guidelines can be accessed here.

As was widely expected, the draft allows corporate houses to apply for banking licences. This is the first time since banks were nationalized -- in two phases in 1969 and 1971 – that corporates have another shot at launching their own bank. In the two-phase wave of nationalization, many prominent industrial houses lost their banks – the Birlas (Uco Bank), the Tatas (Central Bank of India), the Thapars (Oriental Bank of Commerce), the Sahu-Jain combine (Punjab National Bank), the Pai family of Manipal (Syndicate Bank), among others.

However, it may not be as easy as it sounds for many of the companies wishing to launch their own bank. Apart from the onerous conditions prescribed in the draft guidelines, which is likely to limit the field to only a handful, the time-line also looks pretty long-drawn. Reserve Bank has stated quite unequivocally in the draft that it will not move ahead with the process of issuing new licences until Parliament passes four amendments to the Banking Regulation Act of 1949.

Here is what the draft actually states: "It may be pertinent to mention that certain amendments to the Banking Regulation Act, 1949 are under consideration of the Government of India including a few which are vital for finalization and implementation of the policy for licensing of new banks in the private sector. These vital amendments are: removal of restriction of voting rights and concurrently empowering RBI to approve acquisition of shares and/or voting rights of 5% or more in a bank to persons who are 'fit and proper'; empowering RBI to supersede the Board of Directors of a bank so as to protect depositors' interest; and facilitating consolidated supervision. The final guidelines will be issued and the process of inviting applications for setting up of new banks in the private sector will be initiated only after the Banking Regulation Act is amended as above."

Here is how the time-line looks at this point:

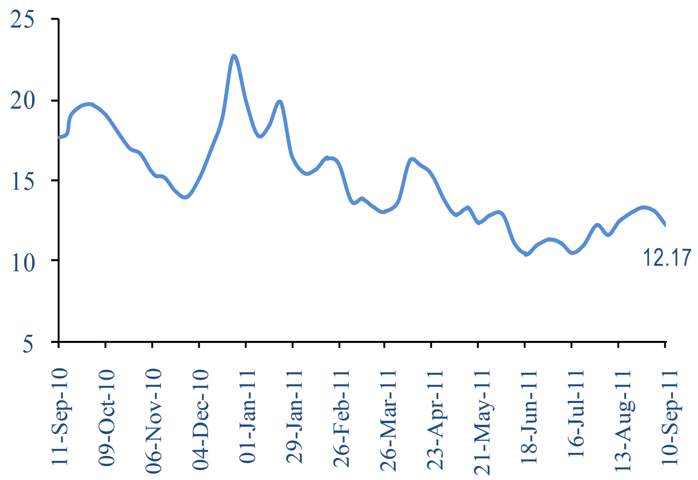
- RBI accepts suggestions and general feedback on the draft guidelines from stakeholders and public by October 31.
- The amendments to Banking Regulation Act, as demanded by RBI, go to Parliament in the winter session. The waiting (and hoping) game begins.
- Assuming that the amendments sail through, the RBI will take all the suggestions on board and issue final guidelines. It will then invite applications.
- Once the applications are in, the RBI will apply the first elimination test: "RBI may seek feedback on applicants on these aspects from other regulators and enforcement and investigative agencies like Income Tax, CBI, Enforcement Directorate, etc. as appropriate."
- RBI may apply another second round of elimination: "RBI may apply additional criteria to determine the suitability of applications…" in addition to the minimum criteria prescribed.
- The shortlist will then be sent to a High Level Advisory Committee, to be set up by RBI, comprising "eminent personalities with experience in banking, financial sector and other relevant areas".
- This Committee can set up its own rules and separate set of eligibility criteria for screening the applications. It will submit its recommendations of the shortlisted applicants to RBI.
- RBI may or may not accept these recommendations. RBI's decisions will be final

It is abundantly clear that the entire process of issuing new banking licences will now hinge on how soon the four amendments to the Banking Regulation Act get Parliament's approval. In case the amendments do not go through during the Winter Session (given the turbulent political situation), then the proposed amendments will have to be taken up in the Budget session. Every time a Parliament session defers the passage of these amendments, the entire process will continue to remain on hold.

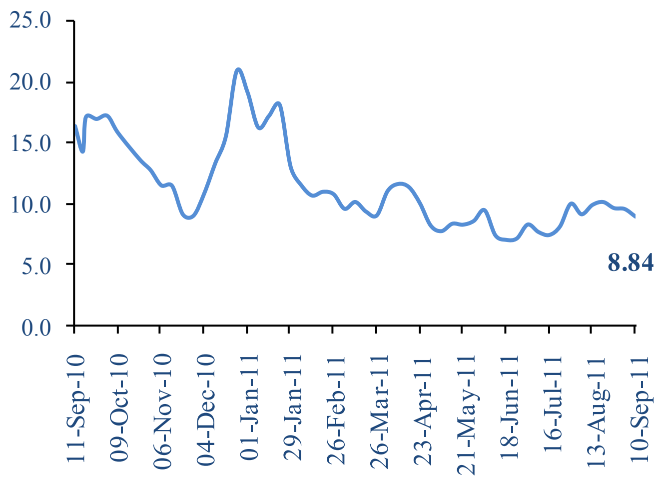
WPI Primary Articles Inflation

WPI primary articles inflation for the week ending September 10, 2011, stood at 12.17% YoY compared with 13.04% YoY a week ago. Primary articles inflation stood lower due to high base and decline in minerals prices over the week. Food & non-food articles prices saw an increase during the week.

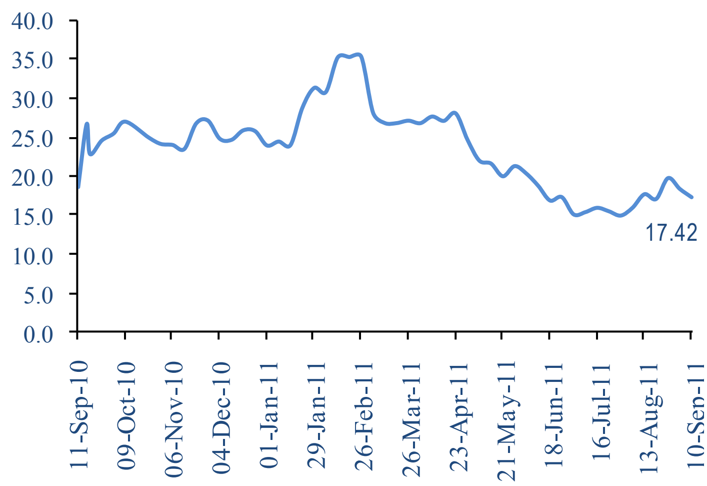
Primary Articles Inflation, % YoY



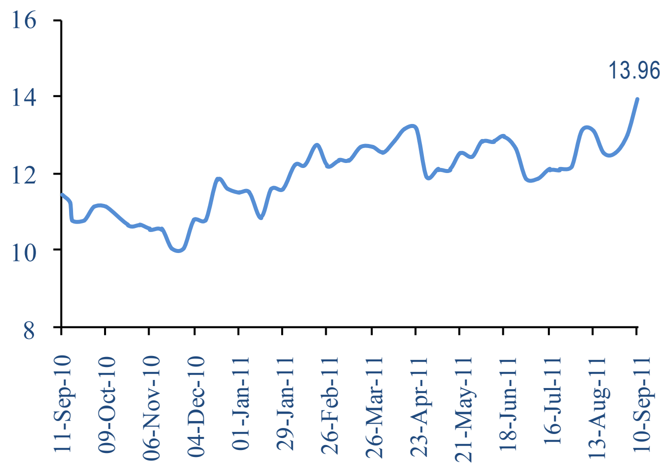
Food Inflation, % YoY



Non Food Inflation, % YoY



Fuel Inflation, % YoY



Trends In Primary Articles Inflation

- Food inflation for the week ending September 10, 2011, stood at 8.84% YoY compared with 9.47% YoY a week ago. Food inflation stood lower due to the high base in the comparable period of previous year, despite a rise in food prices by 0.15% WoW.
- Non-food articles inflation stood 17.42% YoY compared with 18.49% YoY a week ago also due to a high base. Non-food articles index grew by 0.11% WoW.
- Minerals inflation came down to 25.84% YoY compared with 27.69% YoY a week ago due to 1.14% WoW decline in the index. Minerals prices declined due to lower prices of crude petroleum by 3% over the week.

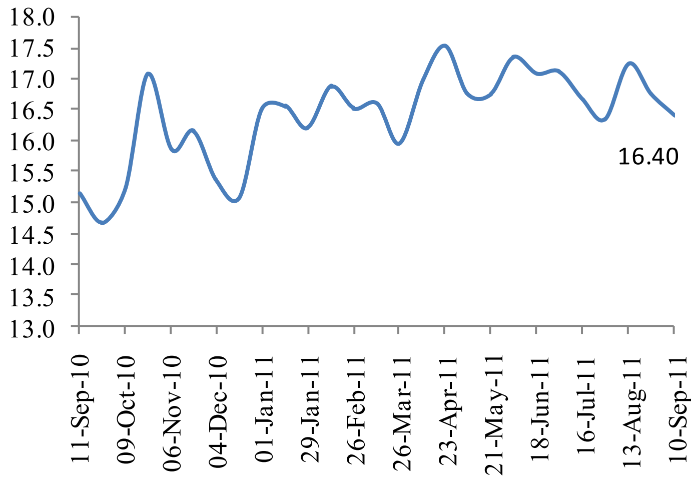
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	10-Sep-11	10-Sep-11	03-Sep-11	10-Sep-11	03-Sep-11
Primary articles	**201.9**	**12.17**	13.04	-0.05	0.30
Food Articles	**195.7**	**8.84**	9.47	0.15	0.15
Non Food Articles	**185.4**	**17.42**	18.49	0.11	1.04
Minerals	**306.3**	**25.84**	27.69	-1.45	0.00
Fuel	**168.2**	**13.96**	13.01	0.84	0.00

Fuel inflation rose to 13.96% YoY compared with 13.01% YoY a week ago due to rise in the index by 0.84% WoW. Fuel prices rose during the week due to a rise in prices of electricity. Electricity prices grew by 7% WoW for industry, 6% for agriculture, 4% for domestic and 4% for railways.

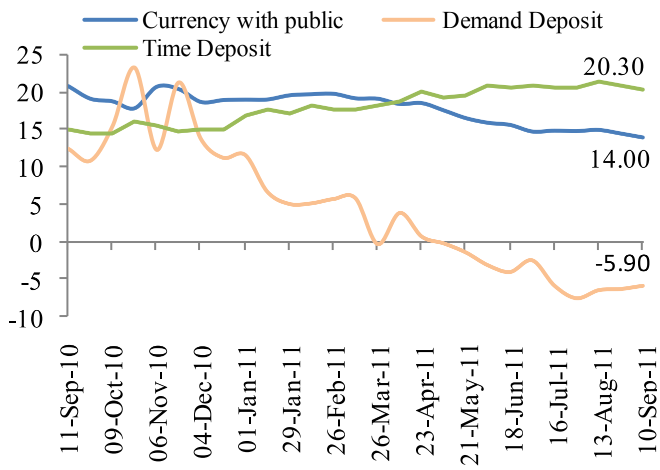
Money Supply & Credit Growth Decline

- Money supply and credit growth declined during the fortnight ending September 10, 2011, and is indicative of the slowing industrial activity. However, money supply and credit growth are both currently higher compared with the RBI's target for FY12.
- Money Supply (M3) growth in the fortnight ending September 10, 2011, came down to16.40% YoY from 16.75% YoY a fortnight ago. Money supply growth eased as currency with public and time deposits growth eased during the fortnight.
- Growth of "currency with public" eased to 14% YoY compared with 14.53% YoY a fortnight ago. Time deposits growth came down to 20.30% YoY compared with 20.79% YoY a fortnight ago.
- Credit growth for the fortnight ending September 10, 2011, came down to 20.4% YoY compared with 20.6% YoY. Credit growth declined as both food and non-food credit growth eased during the fortnight.
- Non-food credit growth eased to 20.06% YoY from 20.10% YoY a fortnight ago. Food credit growth eased to 30.37% YoY from 55.61% YoY a fortnight ago.

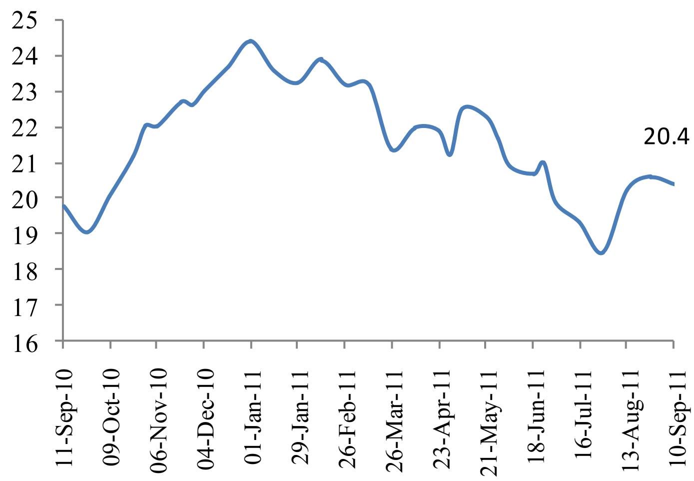
Money Supply, % YoY



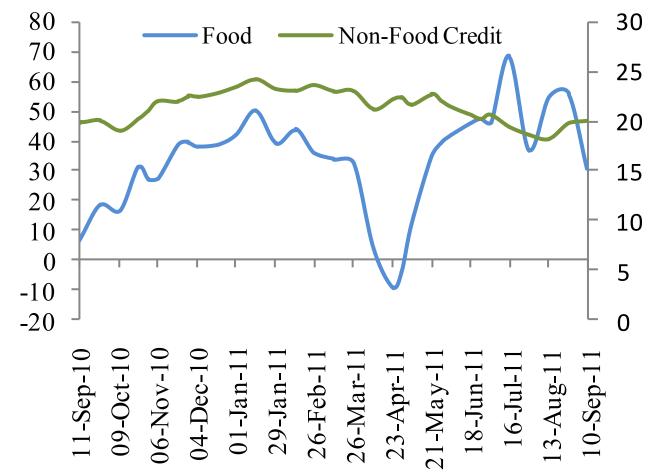
Currency & Time Deposits Growth, % YoY



Credit Growth, % YoY



Food & Non Food Credit Growth, % YoY



Forex Reserves Improve by $0.3 Billion

Forex reserves during the week ending September 17, 2011, increased marginally by $0.3 billion. Forex reserves stood at $316.8 billion largely due to an increase in foreign currency assets.

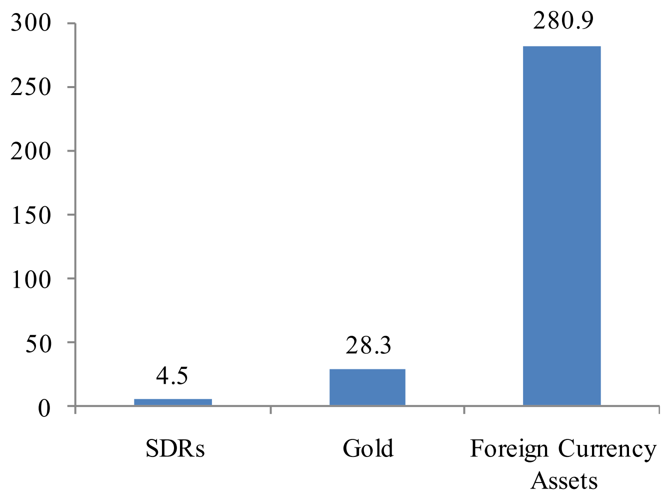
Total forex reserves comprise foreign currency assets, SDRs and the central bank's position in gold, all of which are measured in US dollars.

- During the week ending September 17, 2011, foreign currency assets grew by $0.2 billion to $280.9 billion due to revaluation changes which led to an increase in the overall position in forex reserves.

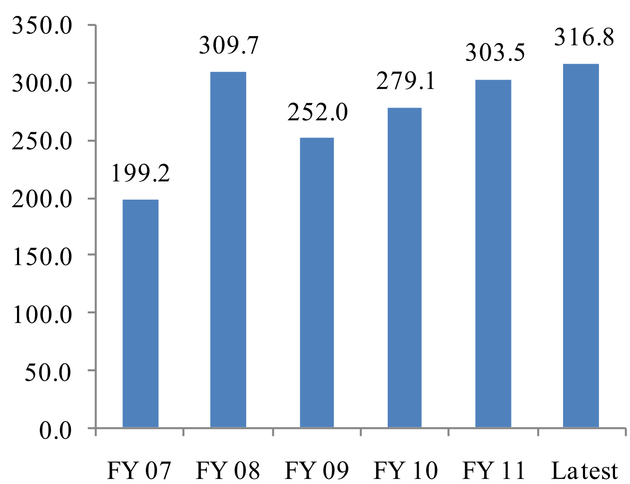
- Position in Gold, reserve position with IMF and SDRs remained largely unchanged during the week.

US$ bn	Forex reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
27-Aug-11	319.2	4.6	3.0	25.3	286.2
03-Sep-11	320.8	4.6	3.0	28.3	284.9
10-Sep-11	316.5	4.5	3.0	28.3	280.7
17-Sep-11	316.8	4.5	3.0	28.3	280.9

Forex Reserves Components (in $ billion)



Forex Reserves Annual Trends (in $ billion)



Italy Downgraded

Standard & Poor's cut Italy's credit rating on September 21, 2011, by notch to from A+ to A . S&P has cited economic conditions and political instability as reasons for the downgrade. The downgrade came as one more bad news for Europe as Greece is still trying to wrangle fresh funds from a clutch of international lenders, including the International Monetary Fund (IMF), to stave off a loan default. Greece will have to first agree to a strict austerity plan as a condition to obtaining the bailout package. The markets remained nervous about a possible default by Greece.

- Italy's rating is now at par with Slovakia and Malta. S&P's rating is three notches below Moody's.
- S&P in a statement said that: "We believe the reduced pace of Italy's economic activity to date will make the government's revised fiscal targets difficult to achieve."
- Italy now joins Ireland, Spain, Greece, Portugal and Cyprus which saw a rating downgraded this year.
- Italy's banks also saw ratings downgrade. Intesa Sanpaolo SpA and Mediobanca SpA are two major banks and saw ratings downgrade for the first time in the past five years.

World Bank & IMF Annual Meeting: The annual Fall meetings of the World Bank and IMF were held recently in Washington DC on September 23-25, 2011.The Board of Governors of the International Monetary Fund (Fund) and the Boards of Governors of the World Bank Group (Bank) meet once a year. The general norm is to hold Annual Meetings, in September-October, in Washington for two consecutive years and in another member country in the third year.

- The first Annual meeting was held in Washington in 1946.
- The Annual meeting is held before IMF and development committee meetings, G-10, G-24 and various other meetings.
- The last Annual meeting outside Washington was held in Istanbul in 2009.
- As the annual meetings bring together a large number of member country officials, it provide opportunities for consultations as well as discussions of a formal and informal nature.
- According to World Bank, "The Annual Meetings Program of Seminars is designed to foster creative dialogue among the private sector, government delegates and senior Bank and Fund officials".
- World Bank and IMF at the end of meeting in a joint communiqué said that: "We commit to do everything within our means to support strong and inclusive growth in all our member countries. We reaffirm the need to work cooperatively to meet our development commitments to achieve the Millennium Development Goals by 2015 and to support the poor in developing and emerging countries through this period of instability, as well as in the long-term".
- Commenting on volatile commodity prices and food security it remarked that: "Volatile commodity prices and pressures on food security are critical challenges. We are alert to the possible global impacts of these issues, particularly for the poor. While developing countries have been the main contributors to recent economic growth, the crisis has reduced their capacity to withstand further shocks"
- The IMF was joined by the USA in urging the European Central Bank to use its "firepower" to bolster the 440-billion-euro rescue fund. This fund could be used to bail out Greece.
- During the meeting, a move by major bankers to postpone or dilute some of the Basel-III capital norms met with a cold shoulder.

Trends in Currency:

	USD/INR	EUR/USD	GBP/USD	USD/JPY
Open:	47.55	1.367	1.5727	76.95
High:	49.885	1.3788	1.5754	76.98
Low:	47.55	1.3382	1.5325	76.09
Close:	49.43	1.3496	1.5466	76.58

USD/INR:

Last week, INR traded in range of 49.90–47.55. For this week, we expect INR to trade in a range of 48.70–49.80.
INR Weekly Support and Resistance are as follows for the coming week:

Resistance 1: 50.3600
Resistance 2: 51.2900

Support 1: 48.0250
Support 2: 46.6200

EUR/USD:

EUR/USD Weekly Support and Resistance are as follows for the coming week:

Resistance 1: 1.3729
Resistance 2: 1.3961

Supports 1: 1.3323
Support 2: 1.3149

GBP/USD:

GBPUSD Weekly Support and Resistance are as follows for the coming week:

Resistance 1: 1.5705
Resistance 2: 1.5944

Supports 1: 1.5276
Support 2: 1.5086

USD/JPY:

USDJPY Weekly Support and Resistance are as follows for the coming week:

Resistance 1: 77.0100
Resistance 2: 77.4400

Supports 1: 76.1200
Support 2: 75.6600