

August 29, 2011

Economic Weekly



Indian Economy

* **RBI's Annual Report:** RBI on August 25, 2011 released its Annual report for 2010-11. The report covers assessment of macro economy during 2010-11 and prospects for 2011-12. It also includes details of financial operations of RBI. RBI acknowledged downside risks to growth. RBI expects inflation to remain high and moderate towards the end of financial year to 7% levels. It expects Fiscal deficit to overshoot the budgeted levels in FY12, while Current account deficit (CAD) is expected in 2.7%-3% of GDP range.

* **WPI Primary Articles Inflation:** WPI primary articles inflation on August 13, 2011, increased to 12.40% YoY from 11.64 % YoY a week ago due to rise in both food and non food articles prices during the week. Primary articles index rose by 0.51% WoW.

* **Money Supply & Credit Growth:** Money Supply (M3) & Credit growth improved during the fortnight ending Aug 13,2011. Money supply growth rose to 17.26% YoY compared with 16.36% YoY a fortnight ago. Credit growth improved to 20.22% YoY from 18.50% YoY a fortnight ago. Money supply and credit growth had been declining in past few months due to growth concerns.

* **Forex Reserves Increased By \$1.6 bn:** Forex reserves increased to \$318.2 billion in the week ending August 20, 2011, due to a rise in foreign currency assets. During the week, forex reserves increased by \$ 1.6 billion.

* **Currency Trends:** Highlights of currency trends last week.

Global Economy

* **Japan's Debt Downgrade:** Moody one of the world's leading rating agency on Aug 24, 2011 down graded Japan's sovereign debt rating to Aa3 from Aa2 before. Moody cited huge budget deficits and the build-up in Japanese government debt since the 2009 global recession as a reason to lower debt rating. Japan had lost its AAA position in 1998. Moody had raised Japan's rating in May 2009 to Aa2.

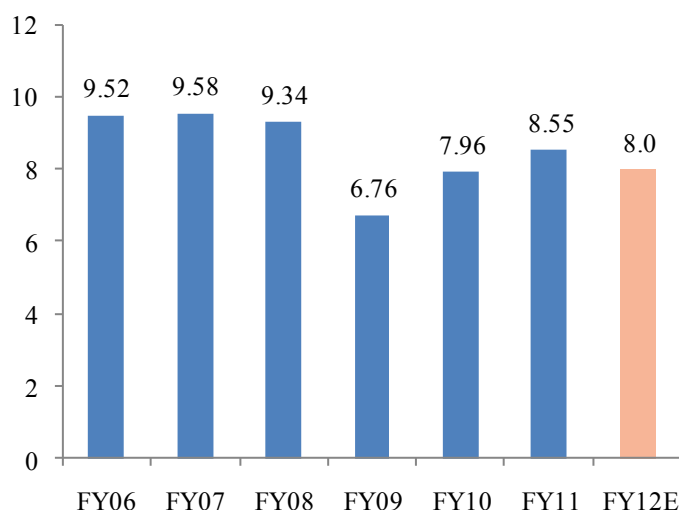
Table of Contents	
	Page
RBI's Annual Report	2
WPI Primary Articles Inflation	3
Money Supply & credit Growth	5
Forex Reserves	6
Japan's Debt Downgrade	7
Currency Trends	8

RBI's Annual Report 2010-11:

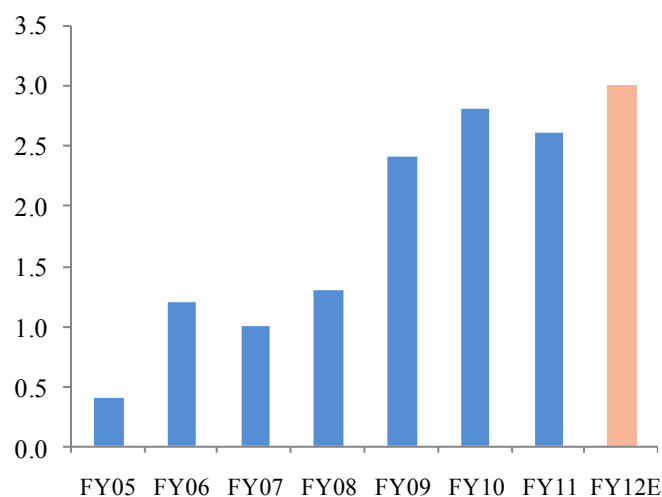
RBI on August 25, 2011 released its Annual report for 2010-11. The report covers assessment of macro economy during 2010-11 and prospects for 2011-12, It also includes working and financial operations of RBI. RBI acknowledged downside risks to growth in the annual report. It expects inflation to remain high and moderate towards the end of the financial year to 7% levels. It expects Fiscal deficit to overshoot the budgeted levels in FY12, while Current account deficit (CAD) is expected in 2.7%-3% of GDP range.

- ◆ **Assessment of 2010-11:** RBI's assessment of the economic performance in 2010-11 was satisfactory as economy returned to high growth path. Fiscal deficit target ratio in 2010-11 turned out to be better than budgeted expectations. Exports led to improvement in Current Account concerns during the past year. Banks performance was resilient according to RBI's stress tests.
- ◆ **Prospects for 2011-12:** RBI expects global uncertainty, sticky high inflation and higher interest rates to moderate growth in 2011-12. RBI expects that global commodity prices might have plateaued and inflation will moderate towards the end of financial year through monetary transmissions of interest rates. Investment can see moderation while private consumption can see deceleration in 2011-12.
- ◆ **Outlook on Twin Deficit:** In context of weakening global environment RBI stressed for a close watch on twin deficits. RBI expects Fiscal deficit to overshoot the budgeted levels, while on Current account deficit (CAD) is expected to remain moderate in 2.7%-3% of GDP. While exports growth has been robust so far but growth slowdown in advanced economies could impact exports growth. US and Euro growth can impact invisibles exports as they account for bulk of software exports.
- ◆ **Medium Term Challenges:** RBI stressed on immediate challenge to sustain high economic growth and need to lower inflation by addressing the structural bottle necks. It enumerated six medium term challenges namely ; Lowering inflationary expectations, harnessing technology for agriculture, maintaining balance between consumption and investment, facilitating energy security, facilitating infrastructure finance and promoting inclusive growth.
- ◆ **Working and Operations of RBI:** During 2010-11, the centre's cash balance with the Reserve Bank and currency in circulation were key drivers of autonomous liquidity. The Reserve Bank actively managed liquidity to contain inflation while promoting adequate flow of funds to productive sectors of the economy. RBI expects managing market borrowings in light of tighter liquidity and excess of SLR holdings with banks will be a challenge in 2011-12.

GDP Growth, % YoY



CAD as % of GDP



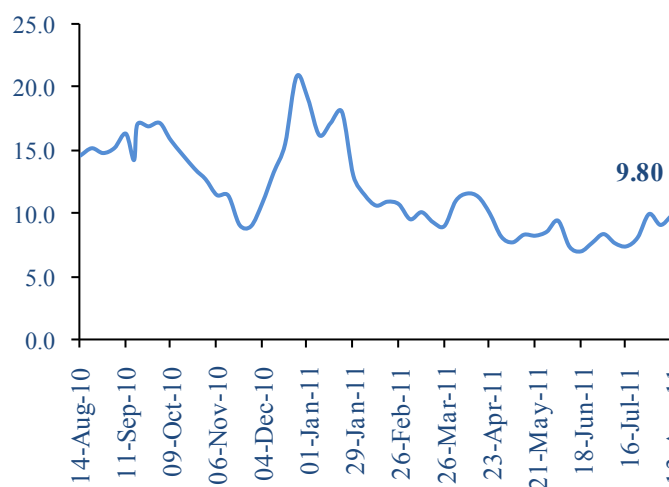
WPI Primary Articles Inflation Rises to 12.40% YoY:

WPI primary articles inflation on August 13, 2011, increased to 12.40% YoY from 11.64 % YoY a week ago due to rise in both food and non food articles prices during the week. Primary articles index rose by 0.51% WoW.

Primary Articles Inflation, % YoY



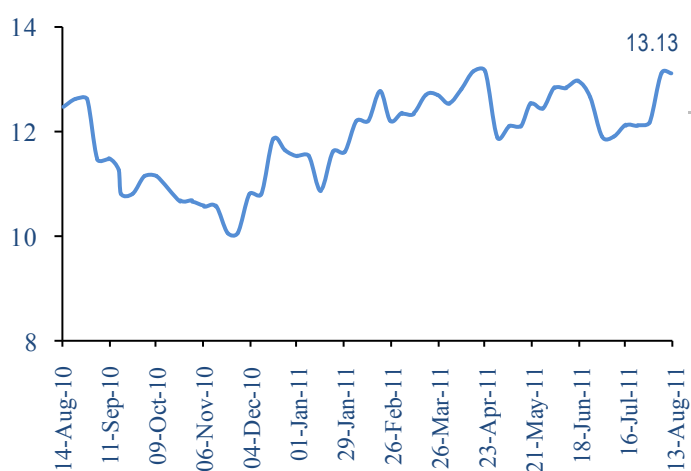
Food Inflation, % YoY



Non Food Articles Inflation, % YoY



Fuel Inflation, % YoY



Trends In Primary Articles Inflation:

- ◆ Food inflation jumped to 9.80% YoY in the week ending August 13, 2011, compared with 9.03% YoY a week ago. Food articles index increased by 0.42% WoW due to rise in prices of fruits & vegetables, marine fish and pulses.
- ◆ Non-food Inflation rose to 17.80% YoY in the week ending August 13, 2011, compared with 16.07% YoY a week before. Non food index increased by 1.63% WoW due to a rise in prices of oilseeds during the week.
- ◆ Minerals inflation stood at 20.69% YoY. Minerals index declined by 0.46% WoW.

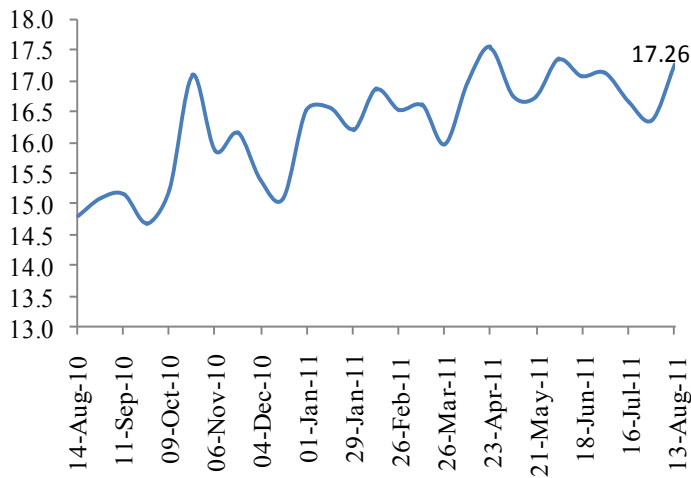
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	13-Aug-11	13-Aug-11	06-Aug-11	13-Aug-11	06-Aug-11
Primary articles	198.50	12.40	11.64	0.51	-0.90
Food Articles	192.70	9.80	9.03	0.42	-1.74
Non Food Articles	181.30	17.80	16.07	1.63	1.48
Minerals	301.60	20.69	21.25	-0.46	0.00
Fuel	167.20	13.13	13.13	0.00	0.91

Fuel Inflation stood at 13.13% YoY unchanged from last week as there was no change in index during the week..

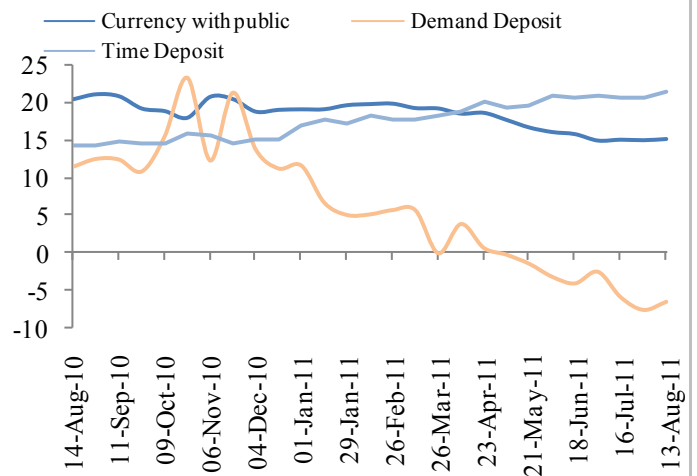
Money Supply & Credit Growth Improved

- ◆ Money Supply (M3) & Credit growth improved during the fortnight ending Aug 13, 2011. Money supply growth rose to 17.26% YoY compared with 16.36% YoY a fortnight ago. Credit growth improved to 20.22% YoY from 18.50% YoY a fortnight ago. Money supply and credit growth had been declining in past few months due to economic concerns.
- ◆ During the fortnight ending August 13, 2011 money supply growth improved due to rise in time deposits growth during the fortnight. Time deposits growth improved to 21.36% YoY compared with 20.50% YoY a fortnight ago. Currency with public also improved to 15.01% YoY from 14.85% YoY a fortnight ago.
- ◆ Credit growth improved to 20.22% YoY compared with 18.50% YoY a fortnight ago due to rise in non food credit growth. Credit growth had so far declined due to concerns on deteriorating economic environment due to higher inflation.
- ◆ Non food credit growth improved sharply to 19.74% YoY compared with 18.22% YoY a fortnight ago. Food credit growth also improved to 54% YoY compared with 37% YoY a fortnight before.

Money Supply (M3), % YoY



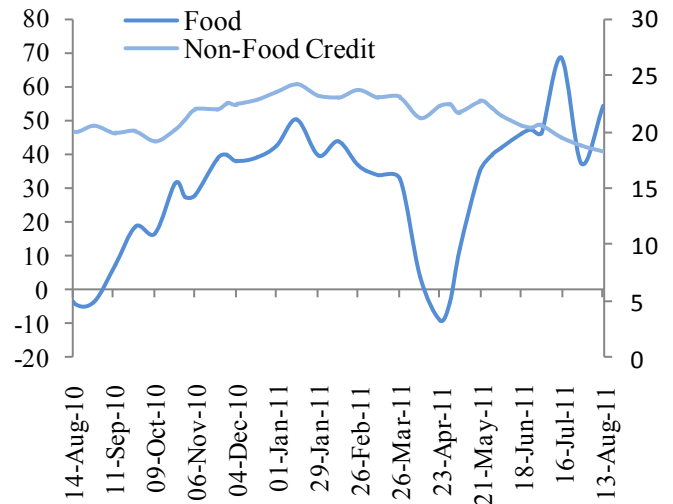
Time & Demand Deposits, % YoY



SCBs Credit Growth, % YoY



Food & Non Food Credit Growth, % YoY



Forex Reserves Improved To \$318.2 billion

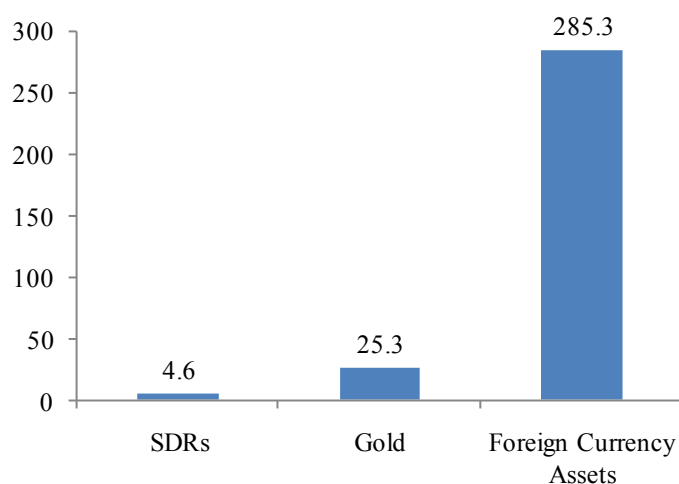
Forex reserves increased to \$318.2 billion in the week ending August 20, 2011, due to a rise in foreign currency assets. During the week, forex reserves increased by \$ 1.6 billion.

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

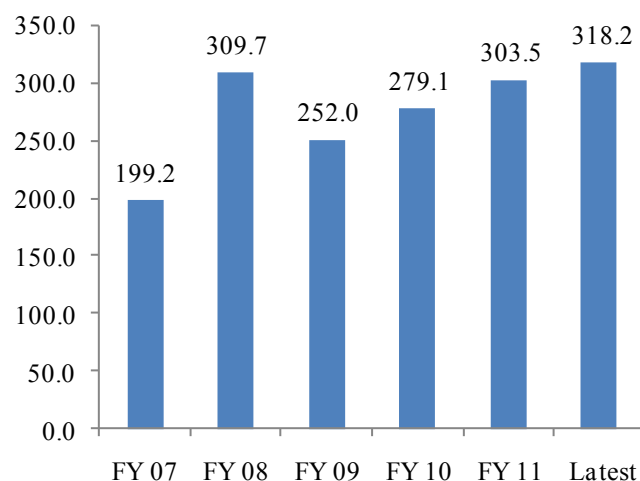
- ◆ During the week ending August 20, 2011, foreign currency assets increased by \$1.6 billion to \$285.3 billion due to revaluation changes which led to fall the overall position in forex reserves.
- ◆ Position in Gold , Reserve position with IMF and SDRs remained unchanged during the week.

US\$ bn	Forex reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
30-Jul-11	319.1	4.6	-3.0	25.3	286.2
06-Aug-11	317.2	4.6	-3.0	25.3	284.3
13-Aug-11	316.6	4.6	-3.0	25.3	283.7
20-Aug-11	318.2	4.6	-3.0	25.3	285.3

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)

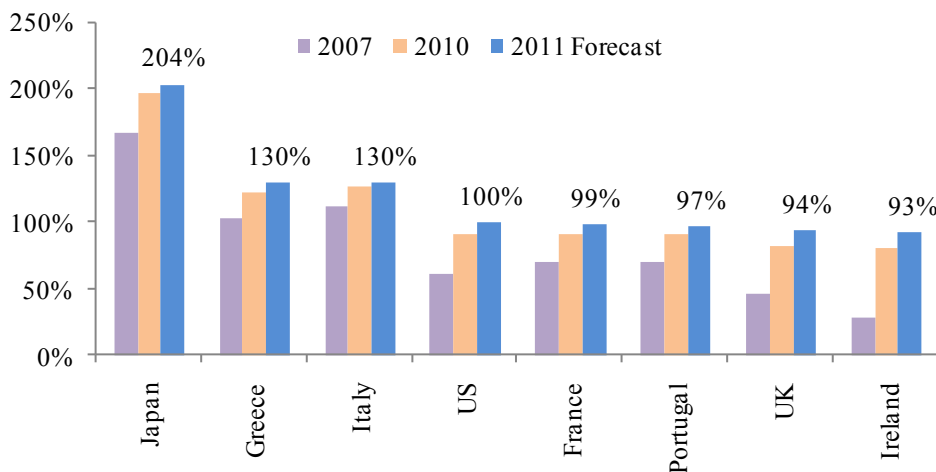


Japan's Debt Downgrade:

Moody one of the world's leading rating agency on Aug 24, 2011 downgraded Japan's sovereign debt rating to Aa3 from Aa2 before. Moody cited huge budget deficits and the build-up in Japanese government debt since the 2009 global recession as a reason to lower debt rating. Moody had raised Japan's rating in May 2009.

- ◆ **Moody at Par:** Moodys' recent debt downgrade puts its par with S&P and Fitch which have a similar rating for Japan's debt. S&P and Fitch have both maintained a negative outlook for Japan's economy.
- ◆ **Japan's Debt Situation:** Japan's economic position has deteriorated with recent earthquake and nuclear crisis. Its debt as a percentage of GDP has increased to 200% of GDP. Despite the debt load there has been reluctance among politicians in Japan to stem the rising debt levels.
- ◆ **Impact of Downgrade:** Debt downgrade is unlikely to have much impact on the financial markets. However the downgrade is a reminder of the high debt levels the economy faces. Japan had lost its AAA position in 1998. Its debt is still considered a high grade for investment.

IMF Estimates, Debt as % of GDP



Currency Movement:

	USDINR	EURUSD	GBPUSD	USDJPY
Open:	45.915	1.4374	1.6475	76.77
High:	46.215	1.4513	1.6570	77.69
Low:	45.555	1.4325	1.6206	76.39
Close:	46.150	1.4500	1.6341	76.68

USD/INR:

Last week, INR traded in range of 45.50 - 46.25. For this week, we expect INR to trade in a range of 45.50 – 46.25. INR Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	46.3917	Support 1:	45.7317
Resistance 2:	46.6333	Support 2:	45.3133

EUR/USD:

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

Resistance 1:	1.4567	Supports 1:	1.4379
Resistance 2:	1.4634	Support 2:	1.4258

GBPUSD

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

Resistance 1:	1.6539	Supports 1:	1.6175
Resistance 2:	1.6736	Support 2:	1.6008

USDJPY

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

Resistance 1:	77.4500	Supports 1:	76.1500
Resistance 2:	78.2200	Support 2:	75.6200



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