

October 10, 2011

Economic Weekly



Indian Economy

***New Export Incentives To Be Announced:** Commerce Minister Anand Sharma said on Friday that the government will soon announce export incentives to allay concerns of an exports slowdown. In a possible early trend, exports in August dropped sharply to \$24.3 billion from \$29.3 billion in the previous month. Trade deficit in August expanded to \$14 billion from \$11.1 billion in July. Trade deficit widened as exports growth in August slowed to 44% on a year-on-year basis compared with 82% in the previous month. Exports are expected to decline as Duty Entitlement Pass Book Scheme expired on September 30.

***WPI Primary Articles Inflation:** Wholesale Price Index primary articles annual inflation for the week ended September 24 decelerated to 10.84% from 11.43% a week ago. Primary articles inflation slowed because of a high base and a decline in non-food articles prices during the week.

***Money Supply And Credit Growth:** Money supply and credit growth in the fortnight ended September 24 came down to 16.27% and 19.50% on a year-on-year basis, respectively.

***Forex Reserves Fell \$1.2 billion:** Forex reserves in week ended October 1 fell \$1.2 billion to \$311.5 billion largely due to a fall in foreign currency assets.

*** Governor's Speech:** Reserve Bank of India Governor D. Subbarao Friday delivered the opening remarks at a talk delivered by economist Arvind Subramanian on 'Will the Reminibi Eclipse the Dollar'.

*** Currency Trends:** Global Currency trends and expectations for this week.

Global Economy

*** Spain, Italy Downgraded:** Fitch, a leading global ratings agency, downgraded Spain and Italy Friday citing high debt and poor economic prospects. Moody's had earlier downgraded Italy. Fitch downgraded the credit rating for Spain to AA- from AA+ and Italy's to A+ from AA-.

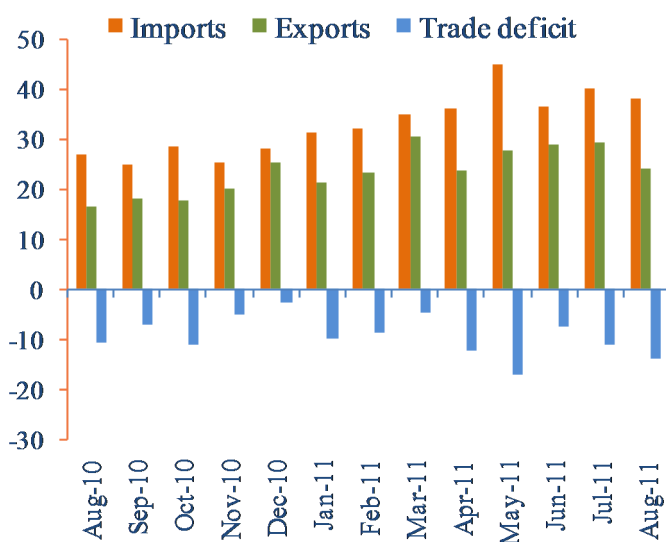
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Trade Deficit Widens; New Export Incentives On The Cards

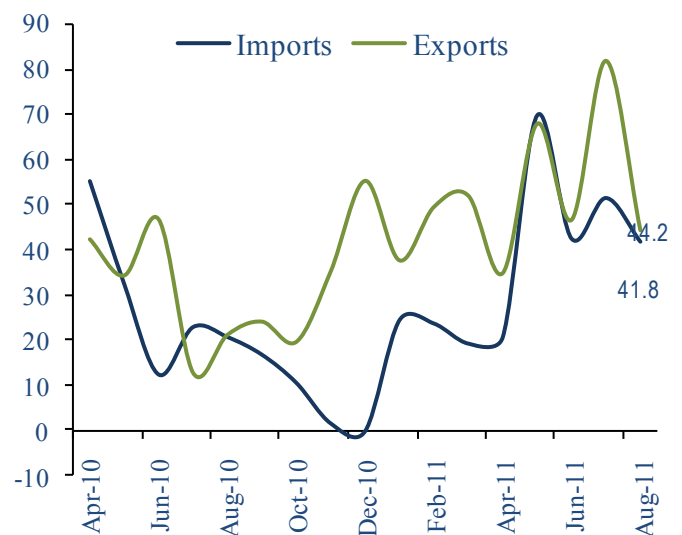
Trade deficit increased to \$14 billion in August from \$11.1 billion in the previous month. Trade gap widened as exports growth slowed to 44% on a year-on-year basis compared with 82% in July. While both imports and exports declined in August, the slowdown in exports was sharper. As we have discussed earlier, exports growth was higher primarily due to frontloading of exports to avail of the Duty Entitlement Pass Book Scheme benefits, that expired in September. Officials in commerce ministry pointed out that high exports growth may not continue once DPEB Scheme is withdrawn. To boost exports, Commerce Minister Anand Sharma said Friday government will soon announce fresh export incentives.

- ◆ **Exports Growth Fell August:** Exports growth in August fell to 44% from 82% a month ago. Exports stood lower at \$24.3 billion compared with \$29.3 billion in July. The commerce minister confirmed our view that high exports growth was due to the DPEB Scheme. “The high growth rates witnessed during the first two quarters was because the exporters wanted to utilise the benefit of the DEP scheme,” the minister said.
- ◆ **Expanding Trade Deficit:** Trade deficit expanded to \$14 billion in August. Higher trade deficit raises concern on current account deficit that stood at 3.1% of gross domestic product in April-June compared with 2.8% in the previous quarter. Current account deficit rose due to higher trade deficit despite improvement in flow of invisibles such as software and services. Financing current account deficit with volatile inflows can create economic instability on the external front. Pressure on rupee is seen with expanding trade deficit.
- ◆ **Exports Could Get Further Impacted:** Indian exports could get further impacted due to global slowdown. Also tightening on domestic front puts Indian exporters at a disadvantage against other countries. With higher cost of credit and withdrawal of incentives, exports could be exposed to more challenges. Rupee volatility is another area which has impacted exporters. Thus, exporters are lobbying for exports incentives.
- ◆ **New Exports Incentives To Be Announced Soon:** The commerce minister acknowledged that withdrawal of DEP scheme at a time when world demand is slowing and there is exchange rate volatility can hit exports. He said cost of rupee credit for exporter has also gone up with RBI’s monetary tightening. He said new exports incentives will be announced after a discussion with the Board of Trade on Tuesday.
- ◆ **Imports in August:** Imports in August stood at \$38.4 billion compared with \$40.4 billion in July. Imports growth stood at 42% on an annual basis compared with 52% in the previous month. Both imports and exports declined in August while slowdown in exports was sharper.

Foreign Trade, \$ billion



Exports & Imports Growth, % YoY



More Details:

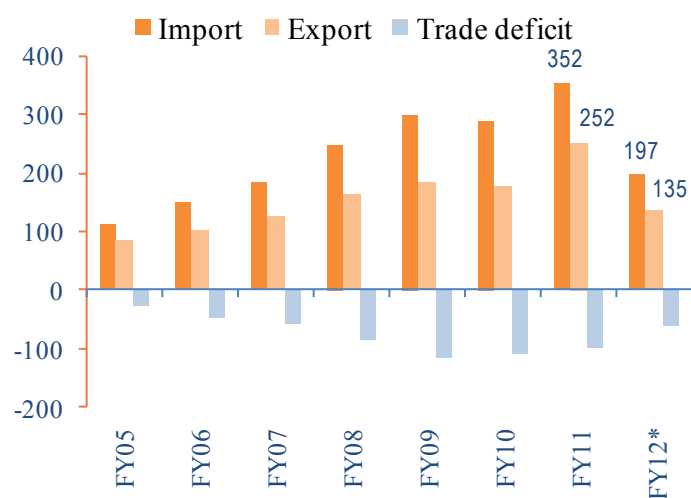
Press release of commerce minister's statement : <http://pib.nic.in/newsite/erelease.aspx>

Foreign Trade Trends, \$ Billion

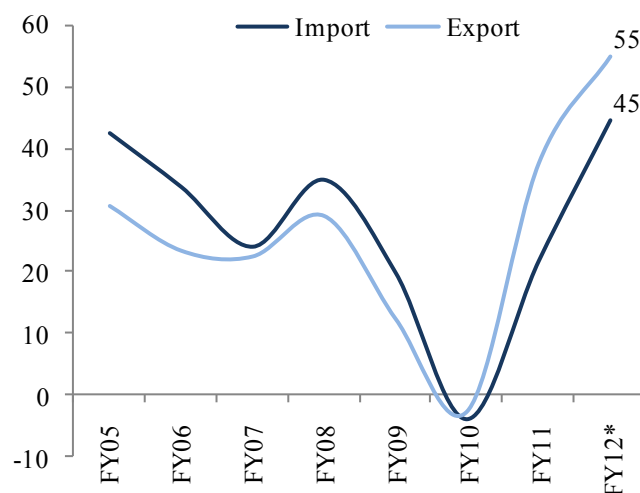
\$ billion	Import	Export	Trade deficit
FY05	111	84	-28
FY06	149	103	-46
FY07	185	126	-59
FY08	250	163	-87
FY09	299	183	-116
FY10	288	178	-109
FY11	352	252	-100
FY12*	197	135	-62

* April-August

Foreign Trade, \$ billion



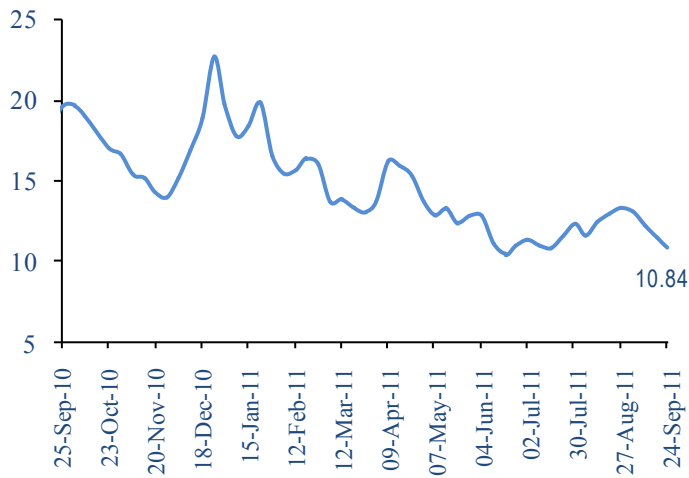
Exports & Imports Growth, % YoY



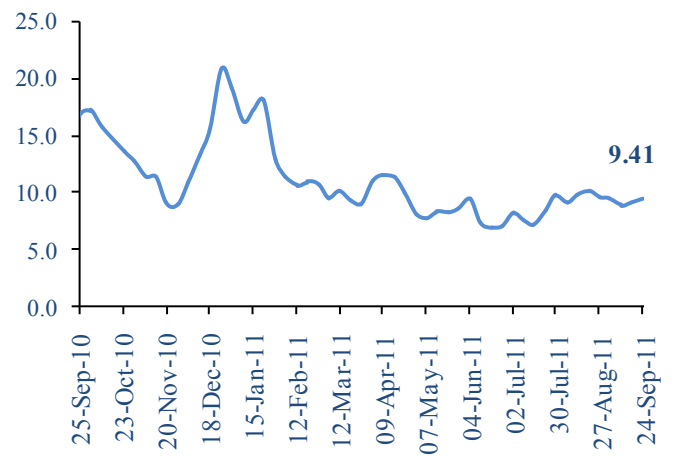
WPI Primary Articles Inflation

WPI primary articles inflation for the week ended September 24 stood at 10.84% on an annual basis compared with 11.43% a week ago. Primary articles inflation slowed because of a high base and a decline in non-food articles prices during the week. Food inflation increased to 9.41% from a year ago, compared with 9.13% in the previous week.

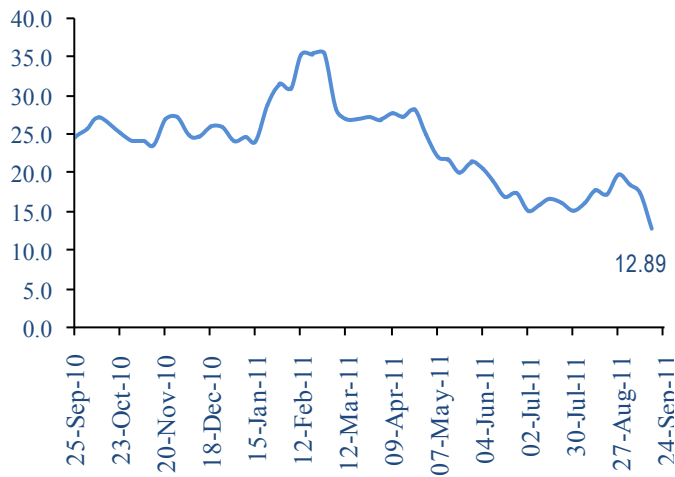
Primary Articles Inflation, % YoY



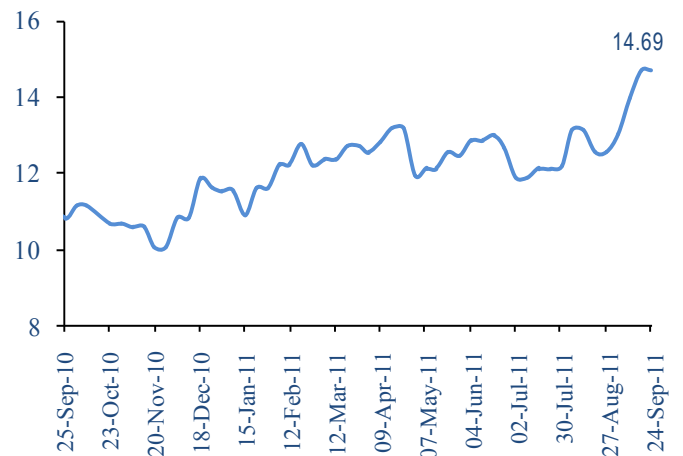
Food Inflation, % YoY



Non Food Inflation, % YoY



Fuel Inflation, % YoY



Trends In Primary Articles Inflation:

- ◆ Annual food inflation in the week ended September 24 stood at 9.41% compared with 9.13% a week ago. Food inflation was up due to rise in food prices 0.20% compared with the previous week. Food prices rose during the week due to higher prices of pulses, condiments, fish marine and fruits and vegetables.
- ◆ Non-food articles inflation stood at 10.77% on an annual basis compared with 12.89% a week ago due to decline in prices during the week. Non-food articles index fell 1.52% from the previous week due to decline in oilseeds, silk and cotton prices during the week.
- ◆ Minerals inflation eased to 21.05% from a year ago compared with 24.74% in the previous week due to a high base. Minerals index remained unchanged during the week.

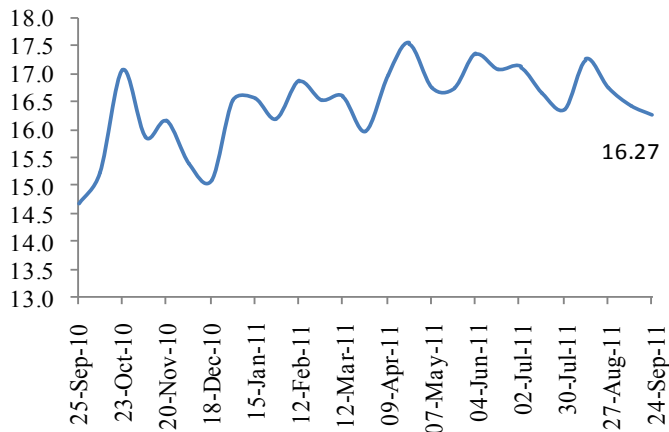
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	24-Sep-11	24-Sep-11	17-Sep-11	24-Sep-11	17-Sep-11
Primary articles	202.4	10.84	11.43	-0.15	0.40
Food Articles	197.7	9.41	9.13	0.20	0.82
Non Food Articles	182.1	10.77	12.89	1.50	-0.32
Minerals	303.6	21.05	24.73	0.00	-0.88
Fuel	169.4	14.69	14.69	0.00	0.71

Fuel inflation remained unchanged at 14.69% YoY during the week ended September 17,2011.

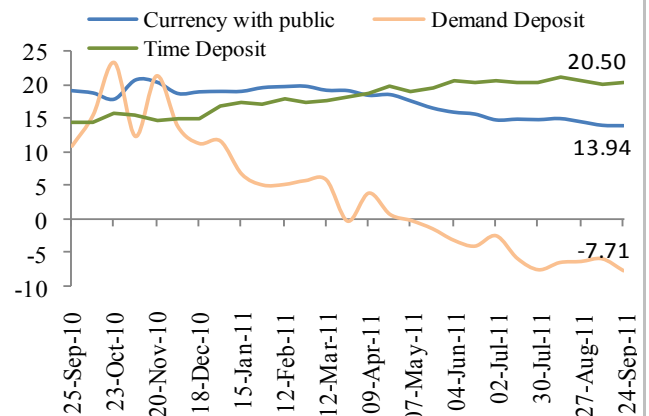
Money Supply, Credit Growth

- ◆ Money supply and credit growth both declined in the fortnight ended September 24. Money supply and credit growth have fallen continuously in the last three fortnights, pointing to slowing industrial activity.
- ◆ Money supply (M3) growth in the fortnight ended September 24 stood at 16.27% on a year-on-year basis, compared with 16.44% in the previous fortnight. Money supply growth eased as currency with public and demand deposits growth declined during the week.
- ◆ Growth of currency with public declined to 13.94% on an annual basis from 14% in the previous fortnight. Demand deposits growth contracted further to (-7.71)% from (-5.93)% before. Time deposit growth improved to 20.50% on a year-on-year basis from 20.30% before. Time deposits growth has improved in the past few months as term deposits are offering attractive interest rates. Interest rates have gone up both on credit and deposits due to RBI's monetary tightening.
- ◆ Credit growth in the fortnight ended September 24 stood at 19.50% on a year-on-year basis from 20.42% before. Credit growth fell due to decline in both food and non-food credit growth.
- ◆ Non-food credit growth slowed to 19.26% on a year-on-year basis during the fortnight from 20.06% before. While food credit also came down to 35.86% from 43.62% before.

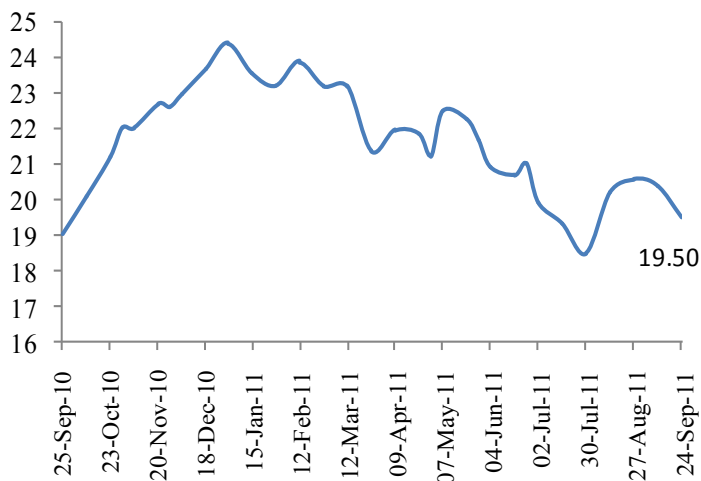
Money Supply, % YoY



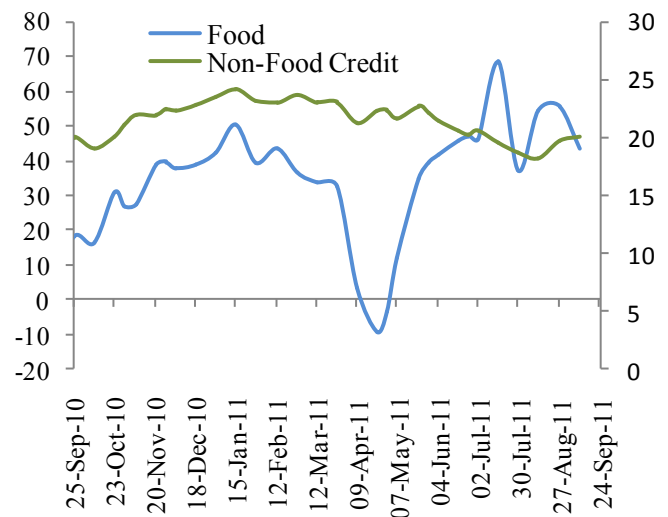
Currency And Time Deposits Growth, % YoY



Credit Growth, % YoY



Food & Non Food Credit Growth, % YoY



Forex Reserves Fall by \$1.2 Billion

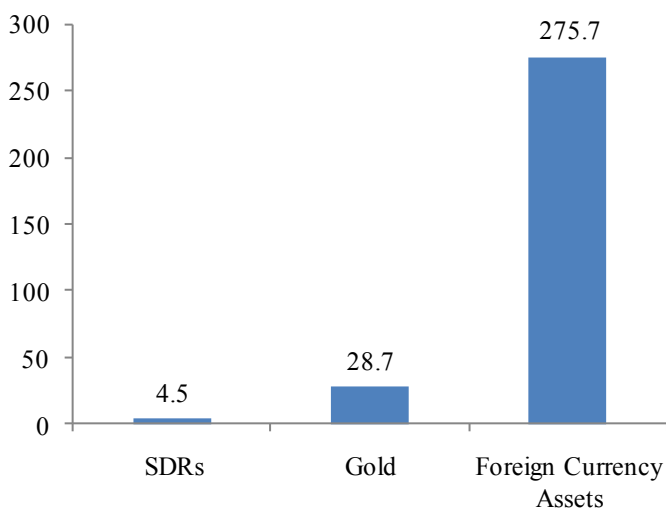
Forex reserves in the week ended October 1 fell by \$1.2 billion to \$311.5 billion largely due to a fall in foreign currency assets.

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

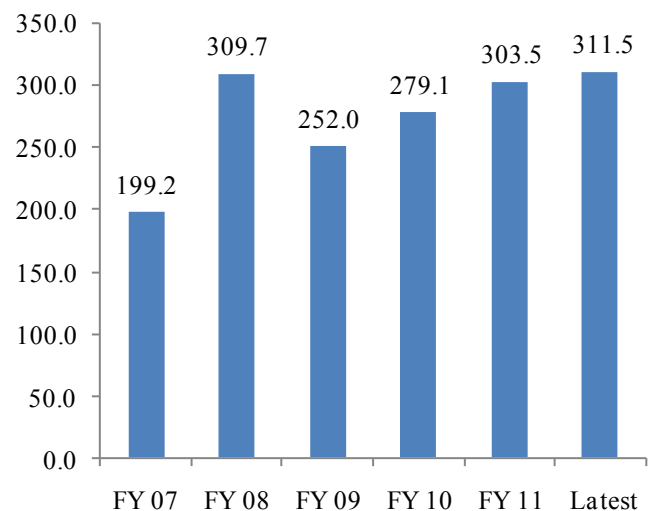
- ◆ In the week ended October 1, foreign currency assets declined by \$1.2 billion to \$275.7 billion due to revaluation changes, which led to fall in overall position in forex reserves.
- ◆ Position in gold increased by \$0.4 billion, while reserve position with International Monetary Fund fell \$0.4 billion during the week. Position in SDRs remained unchanged during the week.

US\$ bn	Forex reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
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
24-Sep-11	312.7	4.5	3.0	28.3	276.9
01-Oct-11	311.5	4.5	2.6	28.7	275.7

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)



Speeches by RBI's Governors:

On Friday, RBI Governor D Subbarao delivered the opening remarks at a talk by economist Arvind Subramanian on the topic 'Will the reminiibi eclipse the dollar'. Subramanian is a senior fellow at Peterson Institute and an expert on global economic growth.

Dr Subbarao said Subramanian thesis has three chief points:

- ◆ As measured by an index made up of the share of world GDP, trade and investment, China will overtake US as the world's dominant economic power sooner than many people think. By 2030, China's share of global economic power will match US in the 1970's and UK's a century before.
- ◆ The three forces that will dictate this race to the top by China will be (a) demography, (b) convergence, which is the scope for 'catch up' and (c) 'gravity' which is a measure of the trade potential of a country.
- ◆ His has projected that China's rise to the top is imminent. The world should prepare for this through policies for reconciling China's rise with continued openness in the global economic order.

Link for the complete welcome address:

http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=605

Spain Downgraded:

Fitch, a leading global ratings agency, downgraded Spain and Italy on Friday citing high debt and poor economic prospects. Moody's had earlier downgraded Italy. Fitch downgraded Spain's credit rating to AA- from AA+ and Italy's to A+ from AA-.

- ◆ **Reasons For Spain's Downgrade:** Fitch said the ratings downgrades were due to severity of the crisis in Europe, which at a time of recession impairs ability of governments to bail out their respective economies. **Fitch in a statement said "till sizeable structural budget deficit, high level of net (although not gross) external debt and the fragility of the economic recovery as the process of deleveraging and rebalancing continues render Spain especially vulnerable to such an external shock".**
- ◆ **Portugal May Get Further Downgraded :** Fitch said it could further downgrade Portugal's credit rating by end of this year. Portugal is the third eurozone country that received bailout and its rating is currently under watch by Fitch.
- ◆ **Moody's Downgrades Portugal Banks:** Moody's, another leading global ratings agency, downgraded standalone ratings of six Portuguese banks. The banks downgraded are Caixa Geral de Depósitos, Banco Comercial Português SA, Banco Espírito Santo SA, Banco BPI SA, Banco Santander Totta and Caixa Económica Montepio Geral. Earlier in July, three banks were downgraded. Of the nine banks, six banks now have junk ratings.

Trends in Currency:

	USD-INR	EUR-USD	GBP-USD	USD-JPY
Open:	49.45	1.3336	1.5572	77.14
High:	49.57	1.3524	1.5644	77.26
Low:	49.00	1.3144	1.5270	76.49
Close:	49.15	1.3375	1.5558	76.71

USD/INR:

Last week, INR traded in range of 49.00–49.60. For this week, we expect INR to trade in a range of 49.00–50.25. INR Weekly Support and Resistance are as follows for the coming week:

Resistance 1:	49.4800	Support 1:	48.9100
Resistance 2:	49.8100	Support 2:	48.6700

EUR/USD:

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

Resistance 1:	1.3551	Supports 1:	1.3171
Resistance 2:	1.3728	Support 2:	1.2968

GBP/USD:

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

Resistance 1:	1.5711	Supports 1:	1.5337
Resistance 2:	1.5865	Support 2:	1.5117

USD/JPY:

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

Resistance 1:	77.1500	Supports 1:	76.3800
Resistance 2:	77.5900	Support 2:	76.0500



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