

December 19, 2011

Economic Weekly



Indian Economy

***Foreign Investments Inflow Trends:** Foreign inflows trend has been mixed so far in April-October 2011 period. While foreign direct investments have been higher by 57% in April-October this year, compared with the corresponding period a year ago, foreign institutional flows have been seen a sharp contraction of 99% from same period last year. Despite poor business climate, higher FDI inflow is remarkable. Foreign equity issuances such as ADR/GDRs have been lower which reflects poor appetite of equity investors globally. Total foreign investment inflows — that is, foreign direct investment and portfolio investments in April-October period stood 38% lower at \$28.8 billion compared with \$46.2 billion in the same period a year ago.

***RBI Halts Tightening; Gathers To Aid Rupee:** The Reserve Bank of India (RBI) announced its mid-quarter monetary policy on Friday, December 16, and left interest rates unchanged. RBI also took some measures to aid the rupee, which has depreciated around 17% since August 2011. On Friday it went further and deregulated the interest rates on NRE/NRO deposits to improve dollar inflows .

***WPI Primary Articles Inflation Eases:** Primary articles inflation in the week ended December 03 stood at 5.48% on a year-on-year basis compared with 6.94% in the previous week. Primary articles inflation eased because of fall in prices of food articles during the week. Food inflation eased to 4.35% from a year ago, compared with 6.60% in the previous week.

***Money Supply & Credit Growth:** Money Supply and credit growth in the fortnight ended December 3 increased marginally. Money supply increased to 16.34% on a year-on-year basis during the fortnight while credit growth rose to 17.73%.

***Forex Reserves Fall Marginally:** Foreign exchange reserves declined marginally by \$67 million to \$306.8 billion in the week ended December 10, largely due to a decline in foreign currency assets.

***Currency Trends:** Currency trends of major currencies and expectations for the coming week.

Global Economy

***Fitch Lowers France's Credit Outlook:** Fitch, a leading international rating agency, lowered France's credit outlook last week. France now joins Spain and Portugal whose ratings have been put on review for a probable downgrade. France is one of the Euro nations to have AAA credit rating.

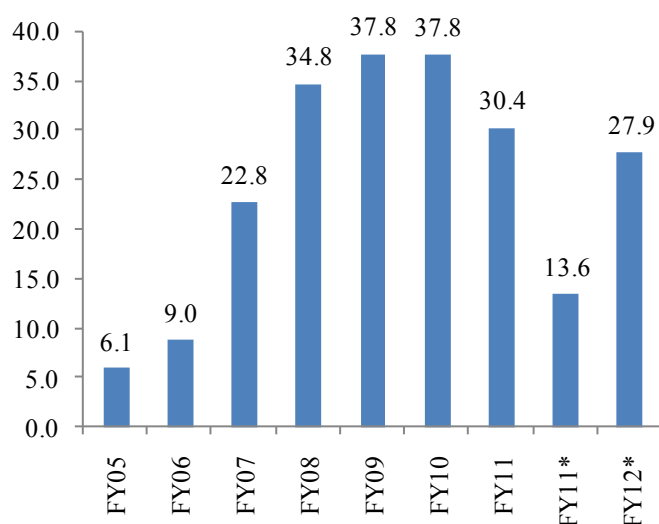
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Foreign Investments Inflow Trends in April-October

Foreign inflows have been mixed so far in the April-October 2011 period. While foreign direct investments have been higher by 57% in April-October this year, compared with the corresponding period a year ago, foreign institutional flows have seen a sharp contraction of 99% from same period last year. Despite poor business climate higher FDI inflows are remarkable. Foreign equity issuances such as ADR/GDRs have been lower which reflects poor equity investment appetite globally. Total foreign investment inflows — that is, foreign direct investment and portfolio investments in April-October period stood 38% lower at \$28.8 billion compared with \$46.2 billion in the same period a year ago.

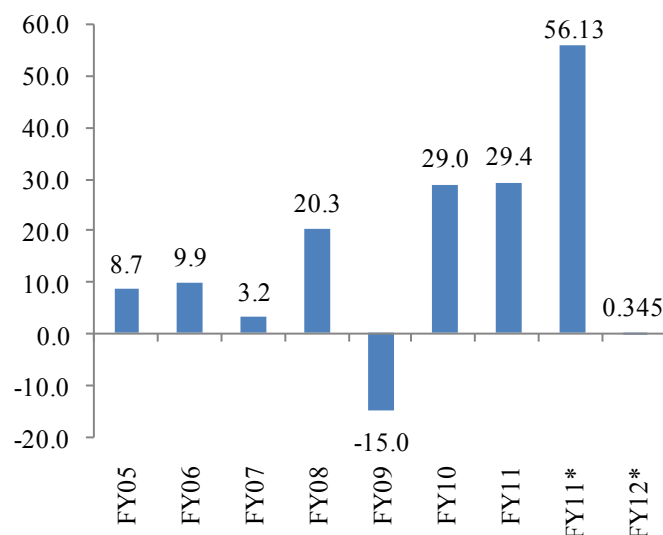
- ◆ **FDI Trends in FY12:** Foreign direct investment (FDI) has been higher by 57% in April-October 2011 compared with same period last year. FDI inflows stood at \$20.2 billion in April-October 2011 compared with \$13.6 billion same period last year. Including reinvestment earnings FDI inflows in April-October period stood at \$27.9 billion compared with \$19.4 billion in same period a year ago. If FDI maintains the trend seen so far it could result in the highest FDI inflow in past. So far the highest FDI inflow stood at \$ 37.8 billion in FY09. However given the loss of business confidence could impact FDI inflow in coming months. FDI could be higher because of two reasons. One, investments of older projects comes in tranches and necessarily doesn't reflect fresh investments. Also, the current year's FDI spike might be due to a lumpy investment coming in.
- ◆ **Net FII Inflow Trends:** Net FII inflows this year have been very poor. Net FII inflows in April-October contracted by 99% compared with same period last year. FII inflows in April-October stood extremely low at \$0.34 billion compared with \$56.13 billion in the same period a year ago. Last year, Coal India's IPO attracted huge FII inflows. Adjusting for over subscription of Coal India IPO, FII inflows would amount to around ~24 billion in April-October 2010 period. FII inflows this year have been sharply lower due to various concerns — inflation, policy paralysis and growth concerns back home in Europe and USA.
- ◆ **Foreign Equity Issues:** Foreign equity issuances such as ADRs /GDRs have also been lower this year. During the April-October period this year, ADR/GDR stood at \$0.58 billion compared with \$1.78 billion in same period a year ago. Foreign equity issuances have been lower by 67% from last year which reflects poor appetite for equity investments globally.
- ◆ **External Commercial Borrowings:** External commercial borrowings has been higher by 81% from same period last year. ECB inflows stood at \$ 20.7 billion in April-October compared with \$ 11.4 billion in same period last year.

FDI inflows, \$ billion



*April-October

FII Inflows, \$ billion



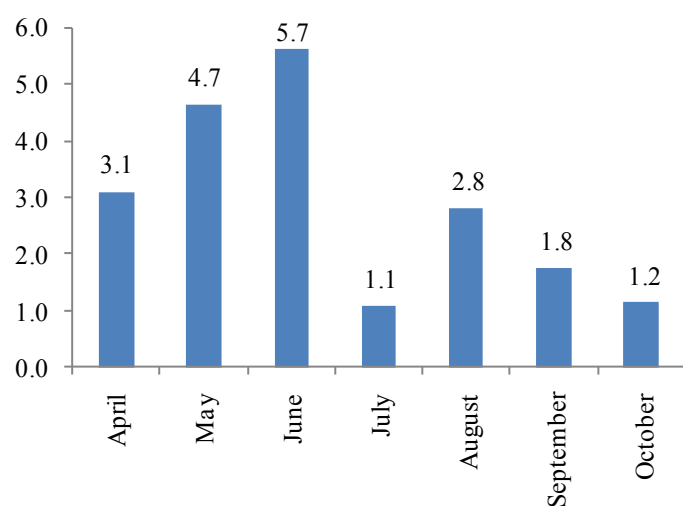
*April-October

Monthly Trends

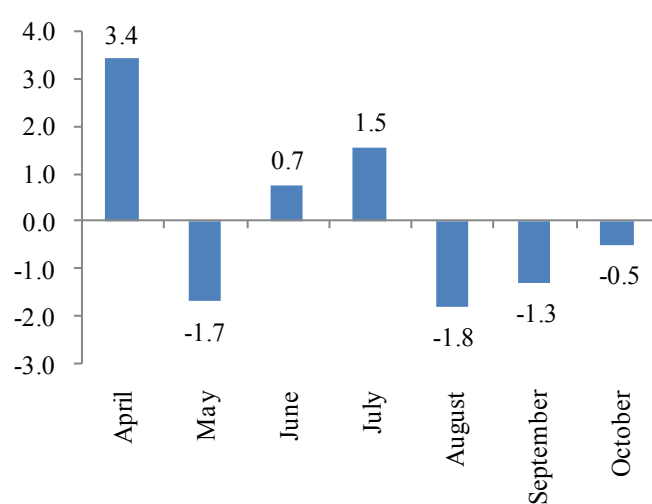
Foreign Investment Flows in FY12

2011-12								
\$ billion	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Apr.-Oct.
A. Direct Investment (I+II+III)	3.1	4.7	5.7	1.1	2.8	1.8	1.2	27.9
I. Equity (a+b+c+d)	3.1	4.7	5.7	1.1	2.8	1.8	1.2	20.8
a. Government (SIA/FIPB)	0.7	0.1	1.0	0.2	0.1	0.1	0.1	2.3
b. RBI	2.3	4.4	2.4	0.8	2.4	1.4	0.9	14.6
c. Acquisition of shares	0.2	0.2	2.2	0.0	0.3	0.2	0.2	3.4
d. Equity capital of un incorporated bodies								0.5
II. Reinvested earnings								5.6
III. Other capital								1.5
B. Portfolio Investment (a+b+c)	3.5	-1.6	0.8	1.6	-1.8	-1.1	-0.4	0.9
a. GDRs/ADRs	0.1	0.1	0.0	0.0	0.0	0.2	0.1	0.6
b. FIIs	3.4	-1.7	0.7	1.5	-1.8	-1.3	-0.5	0.4
c. Offshore funds and others	-	-	-	-	-	-	-	-
Total (A+B)	6.7	3.1	6.4	2.7	1.0	0.6	0.7	28.8

FDI Trends 2011, \$ billion



Net FII 2011 Trends, billion

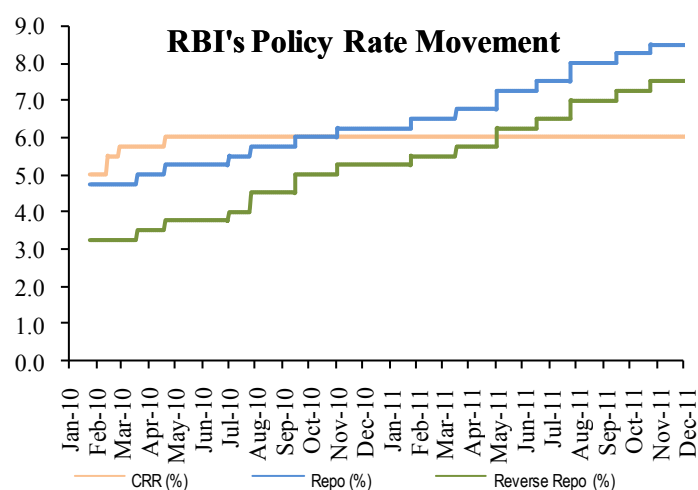


RBI Halts Tightening and Gathers To Aid Rupee

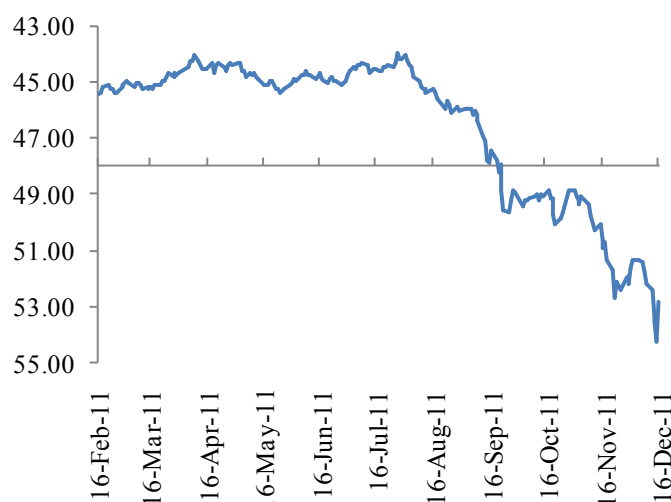
The Reserve Bank of India (RBI) announced its mid-quarter monetary policy on Friday, December 16, and left interest rates unchanged. It stated quite candidly that the interest rate cycle is likely to reverse in the future given the downside risks to growth. The monetary tightening cycle — spanning over 22 months with 13 rate hikes so far — has squeezed economic growth. RBI also took slew of measures to aid the rupee, which has depreciated around 17% since August 2011. RBI had introduced a host of measures in the recent past to improve dollar liquidity and stem rupee's depreciation. On Friday, it deregulated interest rates on NRE deposits and NRO accounts to improve dollar inflows into the country.

- ◆ **RBI To Assist Growth:** RBI's mid quarter monetary policy reflects a shift in focus from combating inflation to assisting growth. As expected, RBI has started weighing the weakening global economic scenario along with the weakening demand pressures in the domestic economy and has, therefore has indicated a reversal of policy rates in future. We feel this is a good sign as the economic slowdown is broad-based. The slowdown in the corporate investments pipeline and deteriorating business confidence can jeopardise GDP growth in FY13 and therefore RBI's change of policy stance augurs well for the economy. We feel that this could be the beginning of an easing cycle, subject to inflation behaving in the weeks ahead.
- ◆ **RBI Steps To Save Rupee:** Rupee has weakened by around 17% since August 2011. RBI has introduced several measures in the recent past to stem the fall in rupee. On November 23, 2011, RBI modified external commercial borrowing norms to encourage dollar liquidity in the system. It also upped interest rates in foreign currency non-residential accounts to raise dollar deposits with banks. On December 15, it also introduced a host of measures to curtail speculation in rupee trade. Finally on December 16, it deregulated interest rates on non resident deposits (NRE) and non resident accounts with banks in India.
- ◆ **New Measures on Interbank Dealings and Hedging:** Observing a one-way slide in rupee and speculation in foreign exchange markets, RBI introduced several measures in interbank dealings and risk management. Now RBI has announced that forward contracts booked by residents, irrespective of type and tenor of underlying exposure, cannot be rebooked if cancelled once. RBI has not only reduced exposure of importers in forward markets, it wants forwards contracts booked by importers or exporters to be on fully deliverable basis. In case of cancellations of forwards contracts, no gain will be passed on to the customers by banks. All cash/tom/spot transactions by the Authorised Dealers on behalf of clients will be undertaken for actual remittances/delivery only and cannot be cancelled/cash settled. To check FIIs exposure in currency markets, RBI has decided that henceforth forward contracts booked by the FIIs, once cancelled, cannot be rebooked. The forward contracts may, however, be rolled over on or before maturity. Net Overnight Open Position Limit (NOOPL) of Authorised Dealers would be reduced across the board. Revised limits in respect of individual banks are being advised to the Authorised Dealers separately.

RBI Policy Rate Movement



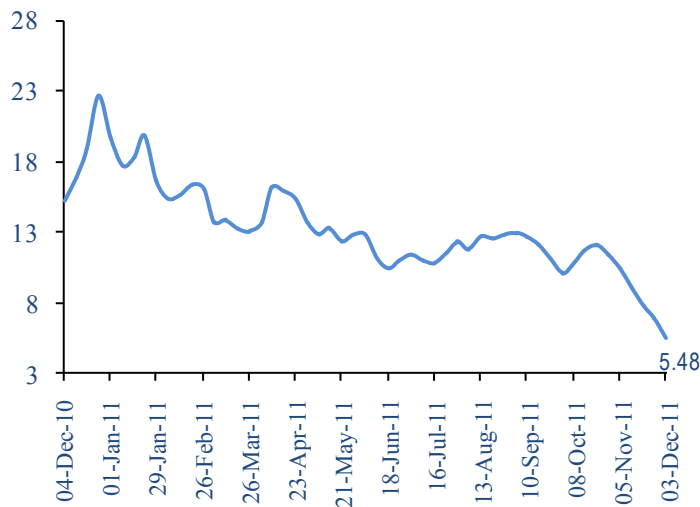
Rupee Movement



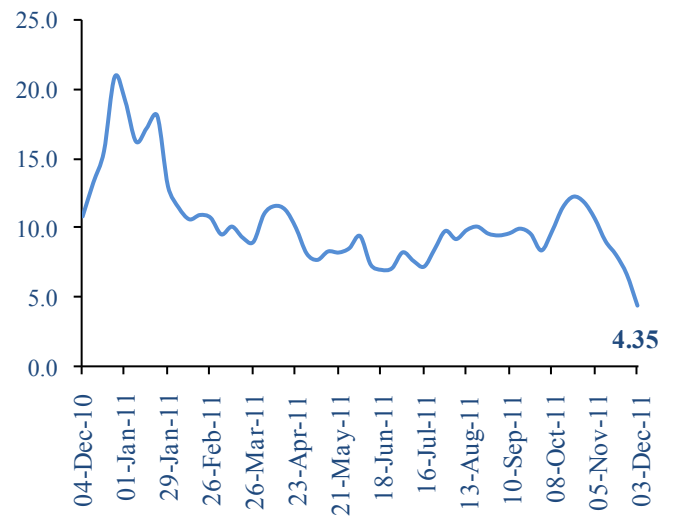
WPI Primary Articles Inflation Eases

Primary articles inflation in the week ended December 3, 2011, stood at 5.48% on a year-on-year basis compared with 6.94% in the previous week. Primary articles inflation eased because of fall in prices of food articles during the week. Primary articles index declined 0.60% on a week-on-week basis. Food inflation eased to 4.35% from a year ago, compared with 6.60% in the previous week.

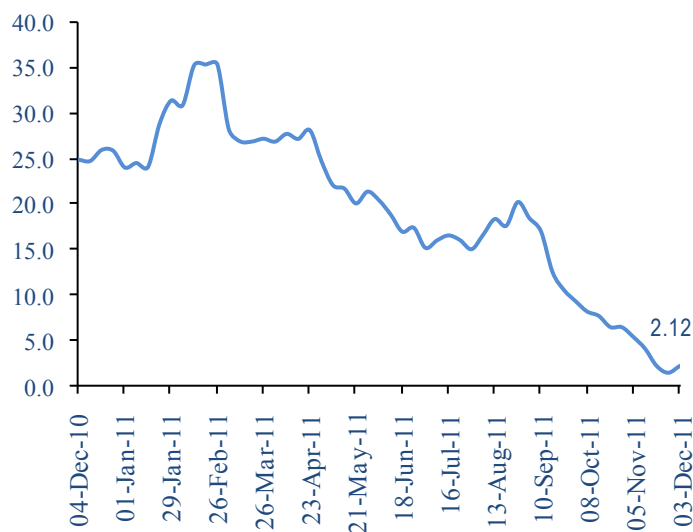
Primary Articles Inflation, % YoY



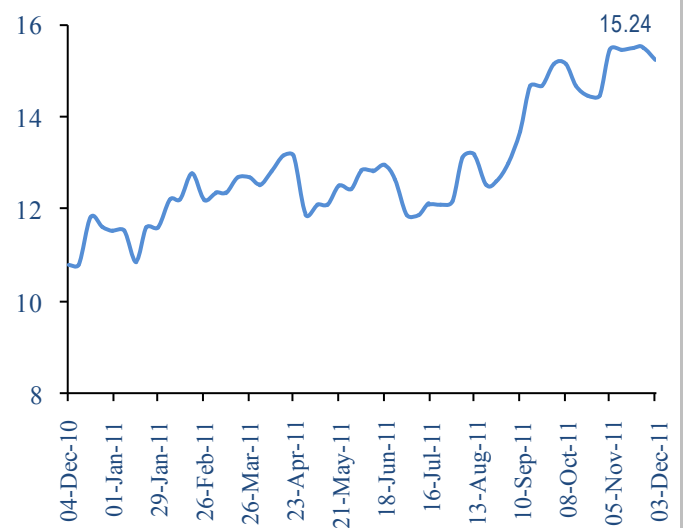
Food Inflation, % YoY



Non-Food Inflation, % YoY



Fuel Inflation, % YoY



Weekly Trends In Primary Articles Inflation

- ◆ Food inflation in the week ended December 3, 2011, stood at 4.35% on a year-on-year basis compared with 6.60% in the previous week. Food inflation slowed during the week due to food prices easing 0.98% from the week before. Food prices fell due to lower prices of jowar, condiments, tea, barley and fruits and vegetables, among others.
- ◆ Non-food articles inflation stood higher at 2.12% on a year-on-year basis, compared with 1.37% a week ago, due to rise in prices of non-food articles by 0.39% over the week. Non-food articles index rose due to higher prices of oilseeds.
- ◆ Minerals inflation stood unchanged to 19.06%, as the index remained unchanged during the week.

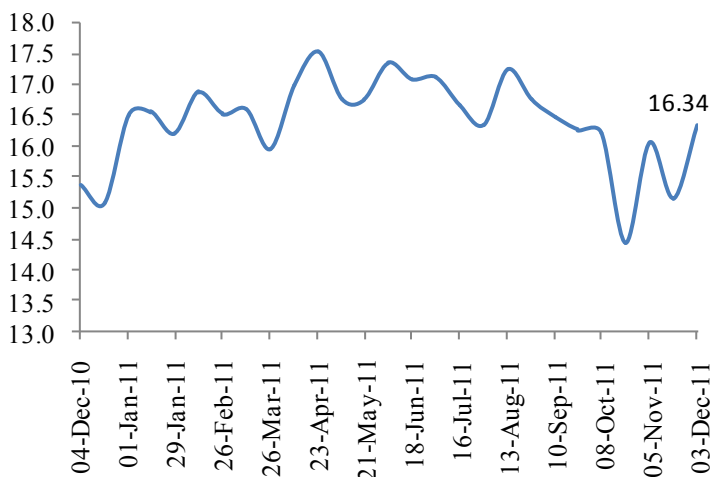
WPI Sub groups	Index	% YoY	% YoY	% WoW	% WoW
	03-Dec-11	03-Dec-11	26-Nov-11	03-Dec-11	26-Nov-11
Primary articles	198.1	5.48	6.92	-0.60	-0.55
Food Articles	191.9	4.45	6.60	-0.98	-0.97
Non Food Articles	178.4	2.12	1.37	0.39	0.57
Minerals	311.1	19.06	19.06	0.00	0.00
Fuel	172.4	15.24	15.53	0.35	0.00

- ◆ Fuel inflation stood lower at 15.24% on a year-on-year basis in the week ended December 3, 2011, compared with 15.53% in the previous week, due to base effect.

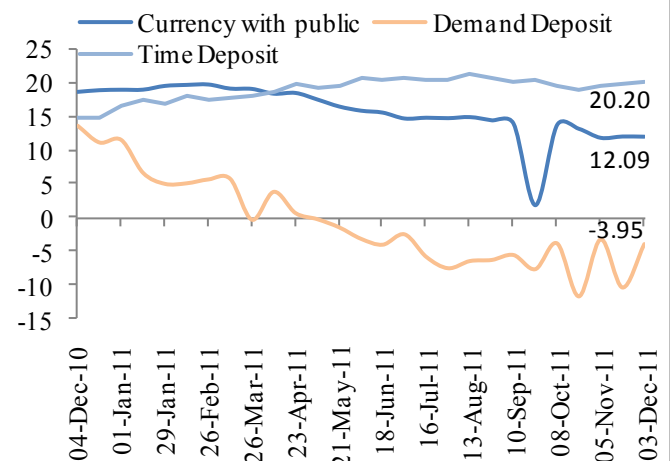
Money Supply & Credit Growth Rises

- ◆ Money supply and credit growth increased in the fortnight ended December 3, 2011. M3, or broad money, supply growth in the fortnight ended December 3 rose to 16.34% from 15.16% a fortnight before. Credit growth in the same fortnight increased marginally to 17.73% on a year-on-year basis from 17.67% in the previous fortnight.
- ◆ M3 growth in fortnight ended December 3 increased as growth of demand and time deposits improved during the fortnight.
- ◆ Growth of currency with public in the fortnight ended December 3 eased to 12.09% on a year-on-year basis from 12.12% in the previous fortnight. Demand deposits shrank 3.95%, much less compared with contraction of 10.46% on year-on-year basis in the previous fortnight. Time deposit growth rose to 20.20% on a year-on-year basis from 19.81%.
- ◆ Credit growth during the fortnight ended December 3 stood at 17.73% on a year-on-year basis, compared with 17.67% in the previous fortnight. Credit growth improved due to rise in non-food credit growth during the fortnight to 17.46% on a year-on-year basis from 17.37% in the previous fortnight while food credit declined 33.11% from 35.70% before.

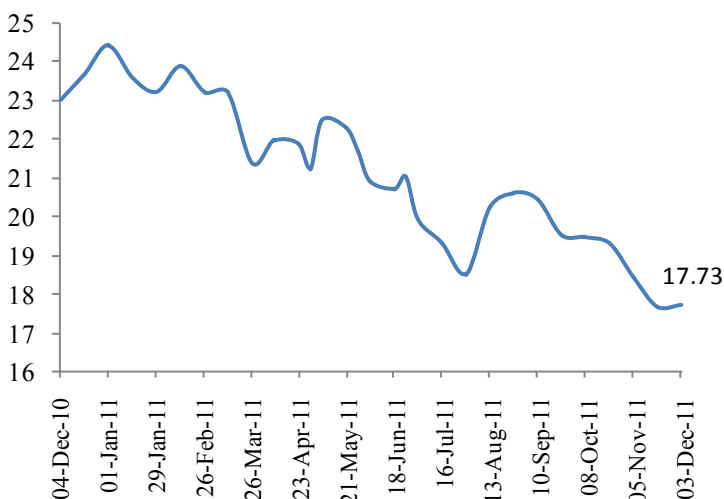
Money Supply, % YoY



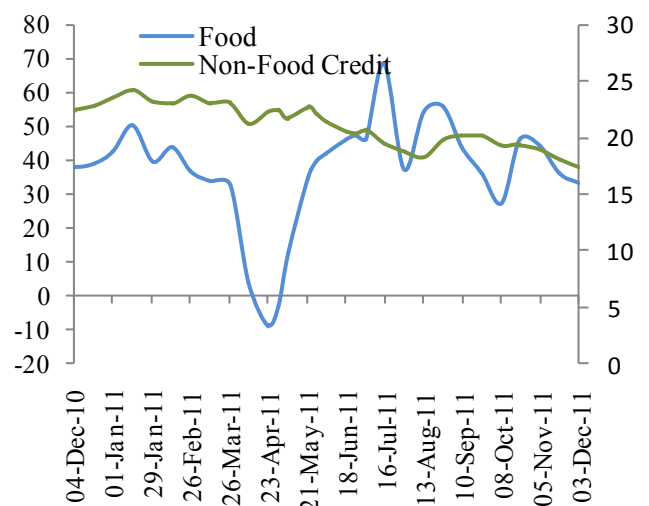
Currency And Time Deposits Growth, % YoY



Credit Growth, % YoY



Food And Non-Food Credit Growth, % YoY



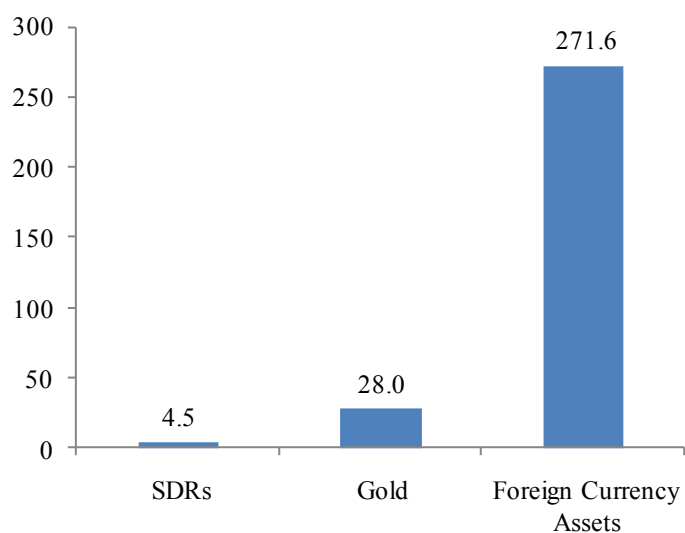
Forex Reserves Fall Marginally

Foreign exchange reserves declined marginally by \$67 million to \$306.8 billion in the week ended December 10, largely due to a decline in foreign currency assets. Total foreign exchange reserves comprise foreign currency assets, special drawing rights and central bank's position in gold, all of which are measured in US dollars.

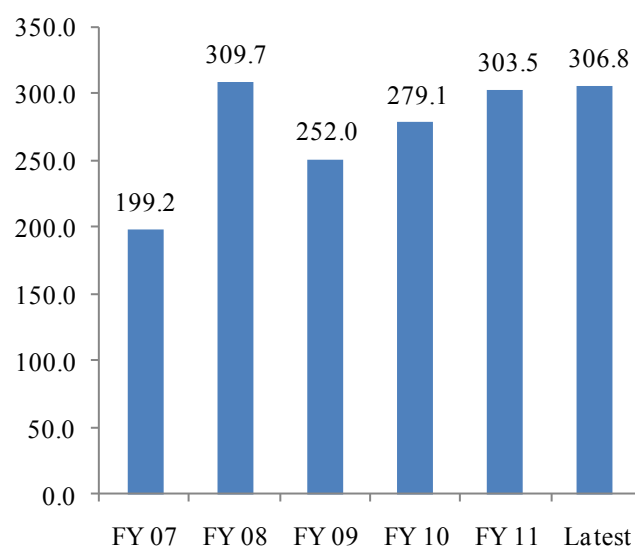
- ◆ In the week ended December 10, foreign currency assets declined by \$67 million to \$271.6 billion. Revaluation changes could have led to an increase in foreign currency assets.
- ◆ Position in gold, reserve position with International Monetary Fund, special drawing rights (SDRs) remained largely unchanged during the week.

\$ bn	Forex Reserves	SDRs	Reserve Position In IMF	Gold	Foreign Currency Assets
19-Nov-11	308.6	4.5	2.6	26.9	274.6
26-Nov-11	304.4	4.5	2.6	26.9	270.4
03-Dec-11	306.8	4.5	2.6	28.0	271.7
10-Dec-11	306.8	4.5	2.6	28.0	271.6

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)



Fitch cuts France Credit Outlook

Fitch, a leading international rating agency, last week lowered France's credit outlook. Now France joins Spain and Portugal whose ratings have been put on review for a probable downgrade. France is one of the Euro nations to have AAA credit rating. Fitch cited Europe's failure to find a "comprehensive solution to debt crisis as reason for lowering credit outlook." Downgrade of France's AAA rating can impact stability in the Eurozone which hasn't been able to reach a proper agreement for solving debt crisis.

- ◆ **Fitch Action:** Fitch action follows S&P and Moody's decision on December 15 to put 15 Euro nations on possible downgrade. There are six AAA rated nations in Eurozone, including France. Lowering the rating of France can lead to further problems in Eurozone.
 - ◆ **EU Summit:** So far the EU summit has not yielded any decisive results to reduce fear and end the debt crisis, which is the reason why ratings of Euro nations are likely to be downgraded. Two weeks ago the possibility of a EU accord was looking probable which could have then given the European Central Bank some space for debt stabilisation. However, until the EU pact is signed the possibility of ECB as the lender of last resort seems remote.
 - ◆ **ECB To Disappoint:** ECB president Mario Draghi recently remarked that it doesn't have the mandate to step up the bond buying programme. He said: "People have to accept that we have to, and always will, act in accordance with our mandate and within our legal foundations." He also said: "The important thing is to restore the trust of the people -- citizens as well as investors -- in our continent. We won't achieve that by destroying the credibility of the ECB."
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