MONTHLY MONITOR

Prepared by
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	Highlights
Industrial activity stagnates	The annual growth of Index of Industrial Production for the month of July 2012 has recorded a growth of 0.1 percent from a substantial decline of 1.8 per cent in June, a growth of 2.4 percent in May and 0.1 per cent in April 2012. However, the IIP had a 3.5 percent contraction in March 2012. This contraction in July 2012 is largely explained by the sharp fall in the capital goods sector. Though the industrial activity was showing the signs of pick up, the high policy rates are squeezing the demand and pulling down the growth.
WPI inflation is up marginally	The year on year WPI inflation increased marginally to 7.55 in August from 6.87 percent in July, 7.25 percent in June and 7.55 per cent in May 2012. The high food prices are not allowing general inflation to come down. The inflation in the same month of the previous year was 9.78 per cent. The high fiscal deficits, the depreciation of rupee and expected shortfall in rains were adding to the inflationary woes. The prices of oil and other commodities are again in the upward trend as the uncertainties in the western markets are perceived to be going down.
Marginal decline in CPI inflation	Consumer Price Index Number for Industrial Workers marginally decreased to 9.84 percent in July from 10.05 per cent in June and 10.16 percent in May 2012. Food prices put the maximum pressure on the index whereas the Transport and Communication sector help in arresting the prices. The much sensitive food inflation increased marginally to 11.27 percent in July from 10.45 per cent in June, and 10.61 percent in May 2012. The opening up FDI in multi-brand retail will help in decreasing retail prices in medium to long run.
Rupee appreciating	The monthly average rupee-dollar rate clocked 55.33 till September 21, 2012 as against 56 till August 17, 55.48 in July and 55.99 in June 2012 contributed by internal policy lethargy and a not so comforting external situation. However, the low value of rupee may be a short run phenomenon. In medium to long run, the rupee is expected to be stronger. By the end of current fiscal, when growth starts picking up, rupee will start gaining. In fact it has already started appreciating in response to the current policy announcements. The rupee was 53.54 per US dollar on September 21, 2012.
	Foreign exchange reserves as on September 14, 2012, stood at a

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Reserves are up substantially	healthy US$ 294.48 billion as against US$ 289.17 billion, on August 10, US$ 288.62 billion on June 22 and US$ 288.26 billion on May 25, 2012, to which the foreign currency assets contributed US$ 261.52 billion. The accumulation of reserves is expected to be high as domestic policy reforms are likely to be continued. The stimulus packages announced by USA and Japan will help in this accumulation process.
Exports are down sharply	Exports have contracted by 9.7 percent in August 2012 in dollar terms over the corresponding month of the previous year as against contractions of 14.8 per cent in July and contractions of 5.45 percent in June 2012. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. Contraction in IIP and higher inflation at home is not a good sign for exports.
Imports are down substantially	Imports in August 2012 have shown a negative growth of 5.08 percent in dollar terms over the corresponding month in 2011 as against negative growths of 6.47 percent in July, 13.76 percent in June and 7.36 per cent in May 2012. Cumulative value of imports for the period April-July 2012-13 stood at US$ 153.2 billion registering a negative growth of 6.5 percent over the same period last year. The substantive fall in non-oil imports during recent months shows the demand side was not able to sustain at higher level due to high interest induced demand contraction and policy lethargy. However, it is a big positive that in policy front, there is a lot of positive action in September 2012.
Trade deficit continues to decline	The trade deficit for August, 2012 was estimated at US $ $15.7 billion as against US $ 15.5 billion for July 2012. The trade deficit for April-July, 2012-13 was estimated at US $ 55.6 billion which was lower by 9 percent over the same period last year as imports have contracted more than the exports.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	7.55% in August 2012	7.59%,7.46%,7.24%
Inflation rate (CPI)	9.86% in July 2012	9.94%,10.06%,10.32% .
Growth rate of IIP	0.1% in July 2012	1.01%, 2.34%, 3.52%
Growth rate of M3	13.7% on September 7, 2012.	13.89 %,14.39%,14.52%
Re/$ exchange rate	55.33 monthly average till September 21, 2012	54.25, 53.19, 52.89
Forex reserves	US$ 294.48 billion on September 14, 2012	$300.76, $306.32, $309.56
FII inflows (Net)	US$ 2585.66 million for the month till September 21, 2012	Inflows expected to be high in the next three months
Growth rate of exports	-9.7% in August 2012	5.02%, on average for next three months
Growth rate of imports	-5.08% in August 2012	4.32%, on average for next three months

Inflation

WPI inflation is up marginally

The year on year WPI inflation increased marginally to 7.55 in August from 6.87 percent in July, 7.25 percent in June, 7.55 per cent for May 2012, and is largely explained by higher food price inflation. The inflation in the same month of the previous year was 9.78 per cent.

In August 2012, the year on year primary articles inflation, with a weight of 20.12 percent in the index, was 10.08 percent of which the food inflation was 9.14 percent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 percent in the index, was 8.32 percent, and the inflation for the principal sector, the manufacturing products with a weight of 64.97 percent in the index, was 6.14 per cent.

Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent. But this trend saw a decline from December 2011 as the WPI has come down to a relatively more comfortable orbit of less than 8 per cent. The new WPI index tracks 676 commodities in contrast to the old index which was based on 435 commodities.

The high fiscal deficit, the increasing trend of crude prices and the falling trend of the rupee were putting an upward pressure on inflation. The recently announced reforms by the government may help contain the fiscal deficits. Further, the high policy rates are putting a downward pressure on demand. However, crude prices are again on uptrend as Eurozone uncertainties are declining and USA stimulus package putting a huge amount of cash in the market.

On balance, the inflation rate is likely to remain almost unchanged in September, October and October 2012.

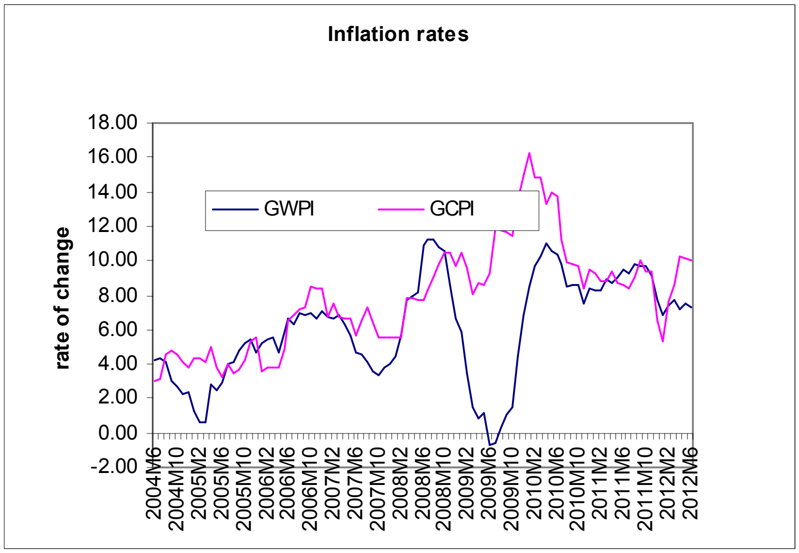
Marginal decline in CPI inflation

Consumer Price Index Number for Industrial Workers marginally decreased to 9.84 percent in July from 10.05 per cent in June 2012, 10.16 percent in May 2012. It was 10.22 per cent in April, 8.65 per cent in March, 7.57 percent in February and 5.32 percent in January 2012. Food prices put the maximum pressure on the index whereas the Transport and Communication sector help in arresting the prices. The much sensitive food Inflation also increased marginally to 11.27 percent in July from 10.45 per cent in June, 10.61 percent in May 2012. It was 10.66 percent in April, 8.16 percent in March, 5.08 percent in February and the low of 0.49 percent in January, 2012. The gap between inflation rates as measured by the wholesale price index and as measured by consumer price index is explained by the higher weightage given to primary products and food items in CPI, whereas WPI covers a wider range of the outputs of various commodities. The opening up FDI in multi-brand retail will help in decreasing retail prices in medium to long run.

Forecast:

The WPI inflation forecasts are 7.59%, 7.46% and 7.24% for September, October and November 2012, respectively. The CPI inflation forecasts are

9.94%, 10.06% and 10.32% for August, September and October 2012, respectively.



Industrial Production

Industrial activity stagnates

The year on year Index of Industrial Production for the month of July 2012 has recorded a growth of 0.1 percent from a substantial decline of 1.8 per cent in June, a growth of 2.4 percent in May and 0.1 per cent in April 2012. However, the IIP had a 3.5 percent contraction in March 2012. The IIP growth figure for May 2011 was 9.5 per cent. This contraction in July 2012 is largely explained by the sharp fall in the capital goods sector.

The Mining, Manufacturing and Electricity sectors for the month of July 2012 grew by (-) 0.7, (-) 0.2 and 2.8 percents, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been (-) 0.9, (-) 0.6 and 5.5, respectively, during April-July, 2012-13 over the corresponding period of the last year. This moved the overall cumulative growth of the General Index to (-) 0.1 percent.

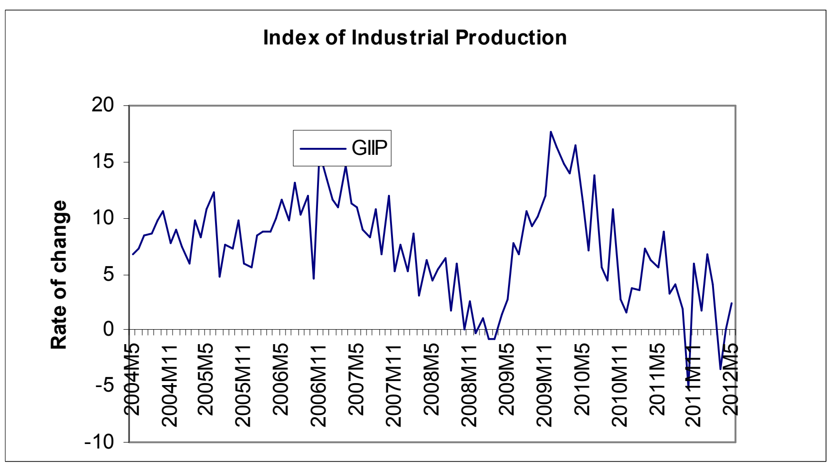
It is not a good sign that, like the previous month, out of the twenty-two industry groups, only eight have shown positive growth during July 2012. Industry groups like ‘Publishing, Printing and Reproduction of Recorded Media’, ‘Machinery and Equipment n.e.c.’ and ‘Textiles’ have increased at high rates of 17.0 percent, 12.5 percent and 8.3 percents, respectively, and have helped in arresting the downturn in the IIP.

In July 2012, the annual growth rates in Basic goods and in Intermediate goods stand at 1.5 percent and (-) 1.1 percent, whereas the crucial Capital goods sector contracted at 5 percent. The capital goods sector contracted by a high 16.8 percent during April-July 2012. This is not a very good sign for sustaining the overall growth rate in the economy especially when the output gap is closing up in the economy. The Consumer goods increased at 0.7 percent while the consumer durables went up by 1.4 percent and consumer nondurables went up by 0.1 percent in July 2012.

The mining sector may continue to underperform in the short to medium run as the environmental as well as displacement issues may take time to resolve. Similarly, the land acquisition issues are also affecting the industry sector as a whole. The uptrend in the industrial activity is faltering. The revival in demand supported by the low base for the year 2009 was able to deliver continuous higher growth later on. However, the pace of growth has got tapered off recently as the base effect wore off and withdrawal of stimulus picked up and impact of high policy rates became effective. The global uncertainty is adding fuel to the fire. The inflation pushed rate hikes are squeezing the demand and pulling the growth down. However, the recent policy announcements and the improvement in monsoon have been the sources of great relief. Recently, the IIP growth has become extremely volatile. The falling in exports is a negative sign for industrial growth. The government needs to keep the tempo of policy reforms in reducing the fiscal deficit and addressing the long run supply concerns in agriculture. It is also time for the RBI to reduce the policy rates further from the existing high level.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 1.01%, 2.34%, 3.52% for August, September and October 2012, respectively.



Money and Credit

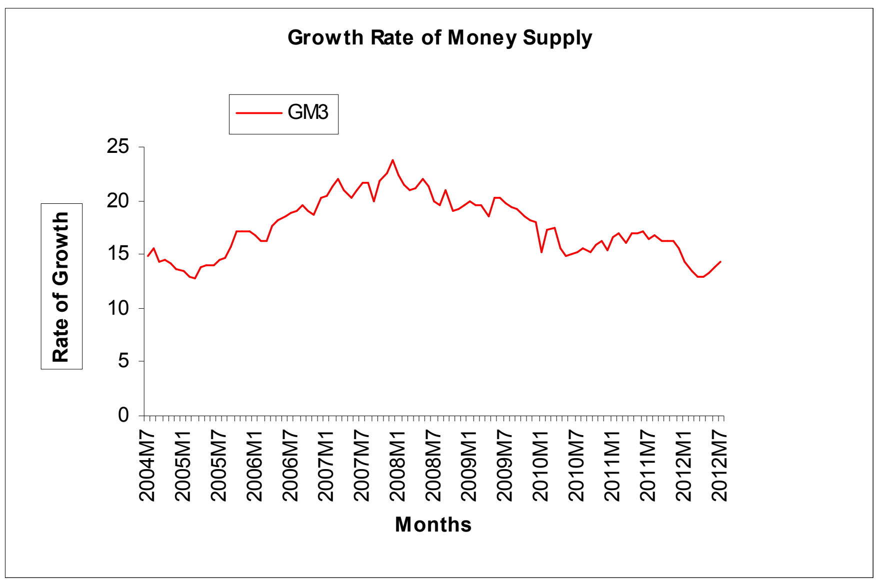
Money supply growth stagnates

The year-on-year growth rate of broad money (M3) supply clocked 13.7 percent as on September 7, 2012. This is much lower than its growth of 16.7 percent for the last year. This is also 2.0 percent lower than its projected growth of 15.5 percent set for the whole year. The liquidity is being eased by the RBI through reduction in reserve. There was a cut of 0.25 percent in CRR and it is expected that the policy rates will be revised downwards in the next policy review.

The expansion in money supply is contributed by the net credit to the Government increasing at 20.2 percent and credit to the commercial sector at 16.1 percent. Overall credit growth has slowed down. The FIIs have started pouring in large sums of money to the equity markets in India as the expectations about policy reforms are becoming positive in Indian economy, the Euro zone problem seems to be subsidizing and the announced stimulus in the USA and Japanese economy. The money supply is forecast to grow by about 14 percent for the next three months.

Forecast:

The growth rates of money supply (M3) are forecast to be 13.89%, 14.39%, 14.52% for September, October and November 2012, respectively.



Interest rates

Interest rates declining

The growth in the economy is faltering though inflation has become sticky at an uncomfortably high level. The RBI has given a positive surprise by reducing the repo rate by 50 basis point to 8 percent in last April. It also cut CRR by 0.25 percent in September 2012. As India is showing the sign of moving towards a stagflation like situation, RBI should go for a reduction in policy rates by another 50 basis points in the next policy review. On the positive side, the government announced several measures in September 2012 which will help in checking the fiscal deficit. The prime lending rates saw upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. However, there are recent announcements by banks in reducing interest rates.

In the medium term, increases in GDP growth will spur the growth in demand for money while monetary easing by RBI will increase the supply softening pressure on the market interest rates. The corporates may increase their borrowings from outside the country as the withholding tax has been reduced, which may have a softening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may come down in next three months.

Exchange rate

Rupee appreciating

The monthly average rupee-dollar rate clocked 55.33 till September 21, 2012 as against 56 till August 17, 55.48 for the month of July and 55.99 in June 2012 contributed by internal policy lethargy and a not so comforting external situation. The exchange rate was 54.41 for the month of May, 51.73 for the month of April and 50.21 for the month of March, 2012, as the current account deficit widened to 4 percent of GDP.

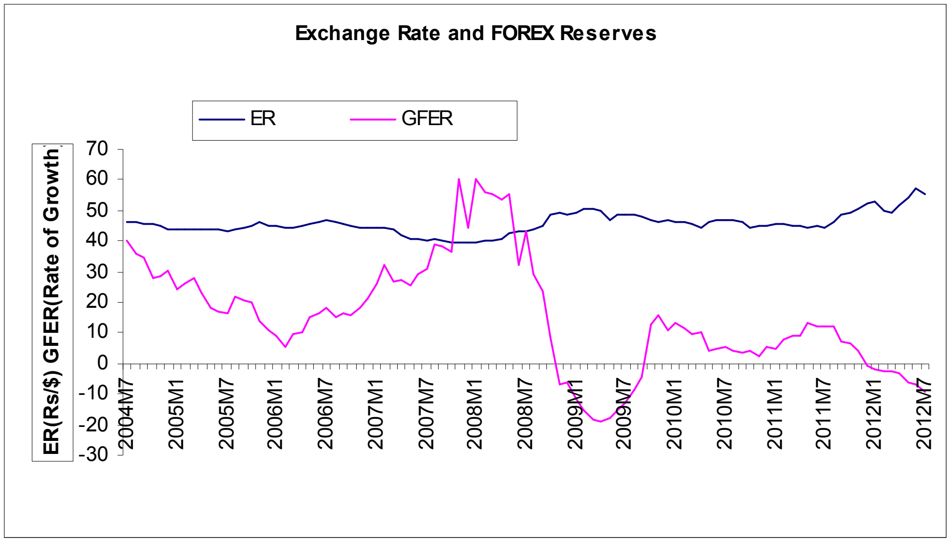
The Rupee is depreciating owing to the short term portfolio outflows in the stock market among other factors. The widening of trade deficit caused by the rise in crude prices as well as the negative export growth rates in recent months are putting pressure on the rupee.

However, the low value of rupee may be a short run phenomenon. In medium to long run, the rupee is expected to be stronger. By the end of current fiscal, when growth starts picking up, rupee will start gaining. In fact it has already started appreciating in response to the current policy announcements. The rupee was 53.54 per US dollar on September 21, 2012. The monthly average of rupee was 44.7 till August 24, 44.62 till May 20 and 45.18 till March 17, 2011. The continuous flow of FIIs into the stock market and the underlying strong growth potential of the economy had assisted in strengthening the Indian rupee during this period.

The rupee hit a five month high on the 4th of October 2010 at 44.24 rupees per dollar and it touched a record low of about Rs 57 against the US dollar in mid-June 2012. Rupee appreciated 12.9 percent during the year 2009-10 as against a depreciation of 25.5 percent in the previous year. This appreciation was mainly due to macroeconomic recovery of that period.

Forecast:

In coming months, the exchange rate is expected to be around Rs/$ 54.23, 53.12, 52.82 for September, October and November 2012.



Foreign Exchange Reserves

Reserves are up substantially

Foreign exchange reserves as on September 14, 2012, stood at US$ 294.48 billion as against US$ 289.17 billion, on August 10, US$ 288.62 billion on June 22 and US$ 288.26 billion on May 25, 2012, to which the foreign currency assets contributed US$ 261.52 billion. Foreign exchange reserves went up impressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November19, US$ 295.03 billion on December 24, 2010 and US$ 318.36 billion on October 7, 2011. This is a substantial progress from the below 250 billion mark during 2009. In the process, it crossed the peak of 314.61 billion of May 2008.

The rise in reserves is mainly due to inflow of foreign investment into Indian market. The rise in the stock market indices attracted huge FII inflows. The high interest rate differentials between India and the rest of the world, which is also likely to continue for some time, must have helped in this increase. The current policy announcements along with Euro zone uncertainties and USA stimulus are helping the accumulation of reserves.

On balance, we forecast a substantial rise in the forex reserves for the next three months.

Forecast:

Forex reserves expected to be $300.76, $306.32, $309.56 billion in September, October and November 2012, respectively.

Foreign Institutional Investments

Substantial FII inflows

The average monthly foreign institutional investments (FIIs) in the Indian market were impressive at US$ 2585.66 million till September 21 and US$ 1965.2 million till August 17, 2012 as the expectation is running high about the reform in the domestic economy. The reform packages by the Indian government and stimulus packages from USA and Japan announce in September 2012 are inducing huge inflows and pushing up the stock market indices.

The monthly foreign institutional investments (FIIs) in the Indian market was modest at US$ 209.14 million for June 2012 though the FIIs in equity market were negative at US$ -86.16 million. The monthly average of FIIs was US$ 211.46 million till October 28, US$ -1790.59 million till August 24, US$ -651.93 million till May 20 and US$ -721.13 million for February 2011. This was mainly due to the Euro zone uncertainty. However, the FIIs were a high US$ 4784 million in November, US$ 5468 million in October, US$ 4262.60 million in September and US$ 5285.33 million in July 2010. These later figures clearly show the foreign investors' confidence about India's long term growth story. The expected long term appreciation of the rupee and the prospects of returns are making the Indian economy attractive for the FII inflows in the long term.

For 2009-10, the cumulative FIIs were 29047 million as against -15017 million for 2008-09. The revival in major global economies along with the improvement in the Indian share markets had helped in reversing the negative trend of foreign institutional investments of the crisis period of the economy.

After registering a huge fall during the crisis, the 30 share index of Bombay Stock exchange, Sensex, went up above the high 20,000 mark though, recently, the index is around 18700.

It is forecast that the inflows are going to be high in the next three months as the domestic policy reform going to continue.

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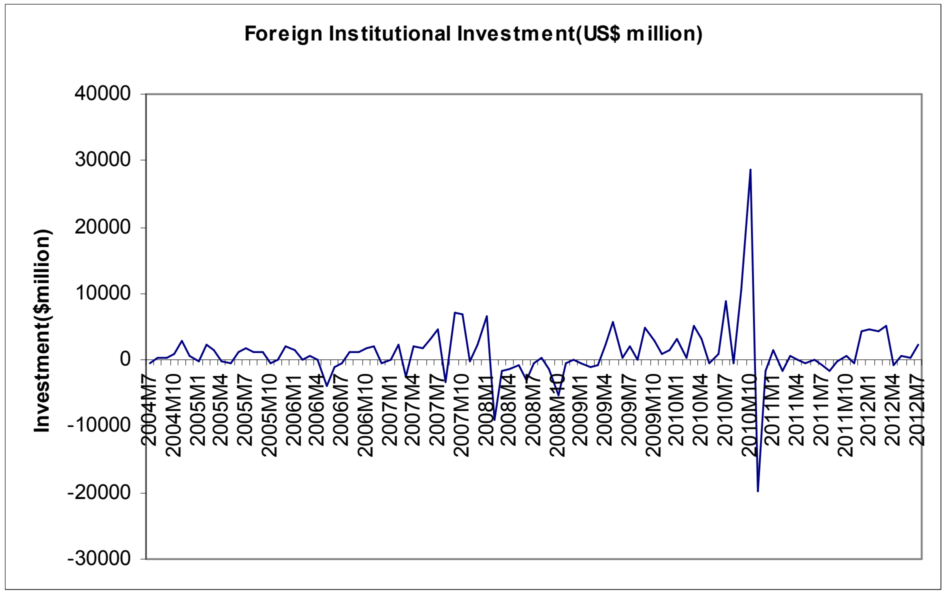
Forecast:

Inflows expected to be high in the next three months



Exports and Imports

Exports are down sharply

Exports in have contracted by 9.7 percent in August 2012 in dollar terms over the corresponding month of the previous year as against contractions of 14.8 per cent in July, contractions of 5.45 percent in June 2012. The exports of engineering, petroleum products, Gems and jewellery and pharma declined substantially putting pressure on overall export growth. The incentives announced in the recent foreign trade policy (FTP) helped in arresting the further fall in exports. High base effect, slow growth in USA and the Euro zone crisis were pulling down the exports growth even if depreciation of rupee was very substantial. Contraction in IIP and higher inflation at home is not a good sign for exports. Cumulative value of exports for the period April-July 2012-13 stood at US$ 97.60 billion registering a negative growth of 9.49 per cent over the same period last year. The exports growth fluctuated in a very wide range from an astonishing 82 percent expansion in July 2011 to a 14.8 percent contraction in July 2012. The recent stimulus in USA and Japanese economy may help exports to pick up.

Imports are down substantially

Imports in August 2012 have shown a negative growth of 5.08 percent in dollar terms over the corresponding month in 2011 as against negative growths of 6.47 percent in July of 13.76 percent in June and 7.36 per cent in May 2012. The imports had a positive growth of 3.83 percent in April 2012. The figures for March, February and January 2012 were not much different from each other at 24.28, 20.65 and 20.25 percents of positive growths, respectively. Cumulative value of imports for the period April-July 2012-13 stood at US$ 153.2 billion registering a negative growth of 6.5 percent over the same period last year.

Oil imports during July, 2012 pegged at US$ 12.94 billion decreased by 5.52 percent over the corresponding period last year. Oil imports during April-July, 2012-13 pegged at US$ 52.37 billion grew up by 2.76 percent over the corresponding period last year. Non-oil imports during July, 2012 estimated at US$ 28.17 billion contracted by 8.57 per cent over the corresponding period last year. Non-oil imports during April–July, 2012-13 pegged at US$ 99.38 billion contracted by 10.82 percent over the corresponding period last year.

The substantive fall in non-oil imports during recent months shows the demand side is not able to sustain at higher level due to Euro zone crisis externally and policy paralysis internally. The high domestic inflation and the euro zone crisis have pulled down the export growth to negative zone in recent times. The low export growth and high oil prices resulted in huge trade deficits. However, the recent fall in crude prices was helping in arresting the deficit. It is a big positive that in policy front also, there is a lot of action in September 2012.

Trade deficit continues to decline

The trade deficit for August, 2012 was estimated at US $ $15.7 billion as against US $ 15.5 billion for July 2012. The trade deficit for April-July, 2012-13 was estimated at US $ 55.6 billion which was lower by 9 percent over the same period last year as imports have contracted more than the exports.

Forecast:

Exports growth rate is forecast as monthly average of 5.02% and import growth rate as monthly average of 4.32% for September, October and November 2012.