MONTHLY MONITOR

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Highlights

Industrial activity is sharply down

The annual growth of Index of Industrial Production for the month of October 2011 has come out at -5.1 percent. The cumulative growth for the period April-October 2011-12 stands at 3.5 percent over the corresponding period of the previous year. This negative growth in October is largely explained by a sharp fall of 25.5 percent in the crucial capital goods sector. The repeated rate hikes and the global uncertainties are taking their toll.

WPI inflation is marginally down

The year on year WPI inflation was 9.1 percent in November, lower than the 9.7 percent for October 2011, and is largely explained by decline in food articles inflation. Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent, except in November when it was marginally lower at 7.48 percent. The rapid growth of GDP, the slow growth of agriculture, the large fiscal deficit and the rise in crude prices explains this high inflation for the last many months. The current depreciation of rupee is adding to the inflation

CPI inflation also in declining trend

The annual growth in all India Consumer Price Index Number for Industrial Workers declined to 9.39 percent in October as against 10.06 percent in September 2011. The much sensitive food Inflation prevented a sharper decline in CPI as it went up to 8.72 percent in October from 8.29 percent in September 2011.

Sharp depreciation in Rupee

The monthly average of rupee depreciated to a low of 52.39 till December 23, 2011 due to the combined effect of Eurozone crisis and high and persistent domestic inflation rates. The expected widening of trade deficit caused by the rise in crude prices also putting pressure on rupee. The RBI has taken several measures to curb speculation and reduce volatility which has turned out to be effective in the short run. However, there is no alternative building growth momentum and revving confidence in the economy to reverse the trend.

Foreign exchange reserves went up almost progressively from US$ 273 billion on May 28, 2010 to US$ 318 billion on October 7, 2011. This is a substantial progress from not long ago when reserves reached below the 250 billion mark. It also surpassed the peak of 314 billion of May 2008. These impressive figures amid so much

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Exchange Reserves down	global uncertainties clearly show the foreign investors' confidence about India's long term growth prospects. However now it is down at 302 billion as on December 16, 2011. The depreciation of rupee, the lowering of GDP growth projections, the Euro zone crisis, the increasing outflow of Indian FDI to other countries are putting downward pressure on accumulations.
Exports growth keeps growth momentum	The export grew at a healthy 17 per cent in November 2011 against a stunning 81.8 percent in July 2011. The cumulative value of exports for the period April-November 2011-12 has grown at a high of 33.2 per cent over the same period last year. Imports grew at 29.14 percent during November, 2011 as against a huge 51.5 percent growth in July, 2011. Non-oil imports during April 2010 – October 2011 are 27.15 per cent higher than the non-oil imports in the same period last year. The substantive rise in non-oil imports during last one year shows the demand side is stabilizing at a higher level due to the rapid recovery process in the domestic economy. The April-November, 2011 trade deficit increased to US$ 93.7 billion from US$ 85.7 billion during the same period a year ago**.** The deficit is a concern though it is increasing at a slower rate due to the lower growth of imports.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	9.11% in November 2011	8.79%, 8.23%, 7.43%
Inflation rate (CPI)	9.39% in October 2011	8.48%,8.22%,7.68%
Growth rate of IIP	-5.1% in October 2011	1.3%, 2.03% , 3.73%
Growth rate of M3	16.3% on December2, 2011	16.39 %,16.44%,16.52%
Re/$ exchange rate	. 52.39 monthly average till December 23, 2011	53.29, 52.98, 51.29
Forex reserves	US$ 302.10 billion on December 16, 2011	$303.74, $305.56, $306.98
FII inflows (Net)	US$ 3368.82 million for the month till December 23 , 2011	Inflows expected to in the positive zone in the next three months
Growth rate of exports	17.99% in November 2011	29.85%,32.78%,30.23%
Growth rate of imports	29.14% in November 2011	27.42%,24.89%,22.08%

Inflation

WPI inflation marginally down

The year on year WPI inflation was 9.1 percent in November, lower than the 9.7 percent for October 2011, and is largely explained by decline in food articles inflation. The decline in food inflation was almost 2 percent from the last month. The general inflation and the food inflation were 8.20 percent and 10.14 percent, respectively, in same month of the previous year. Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent, except in November when it was marginally lower at 7.48 percent. The new WPI index tracks 676 commodities in contrast to the old index which was based on 435 commodities. The rapid growth of GDP, the slow growth of agriculture, the large fiscal deficit and the rise in crude prices explains this high inflation for the last many months. The current depreciation of rupee is adding to the inflation.

In November 2011, the primary articles index with a weight of 20.12 percent rose by 8.53 percent while the index for fuel, power, light and lubricants with a weight 14.91 percent was up by 15.48 percent, and the index for the principal sector, the manufacturing products with a weight of 64.97 percent was up by 7.70 percent over November 2010.

Since last many months, though accelerated food price increase, the increase in input prices for manufacturing, the increasing trend of crude prices and the short-term falling trend of rupee were putting an upward pressure on inflation, while the withering of the base effect, the continuing monetary tightening of RBI and the other government measures were putting a downward pressure on inflation. The middle east crisis along with the recovery in the western economies has caused a sharp rise in oil prices. On the positive side, there is record foodgrains production and the area under Rabi crops has gone up for the 2011-12 agricultural year is positive. Further the upward revision of the policy rates putting a downward pressure on demand. On balance, the inflation is likely to marginally go down in the next three months.

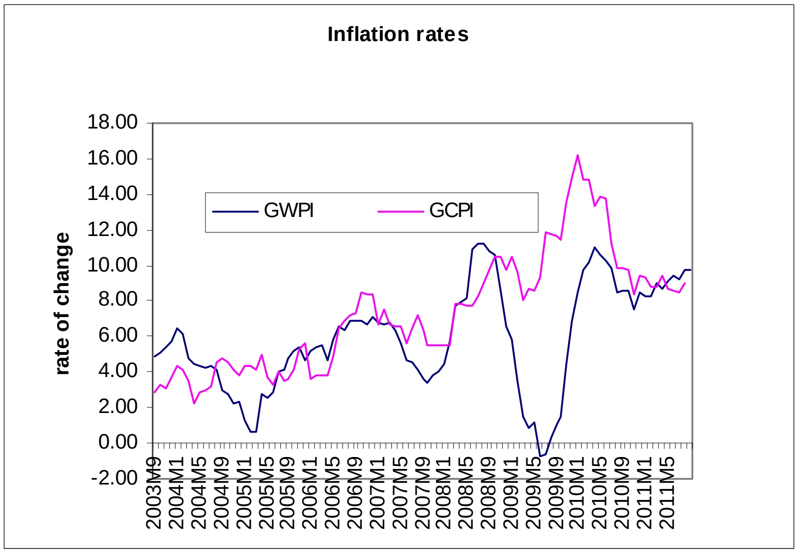
CPI inflation also in declining trend

The annual growth in all India Consumer Price Index Number for Industrial Workers declined to 9.39 percent in October as against 10.06 percent in September and 8.29 percent in August 2011. The much sensitive food Inflation prevented a sharper decline in CPI as it went up to 8.72 percent in October from 8.29 percent in September 2011. Even though the CPI is still high for October 2011, it is a steep climb down from the 13.73 percent in June 2010. 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.

Forecast:

The WPI inflation forecasts are 8.79%, 8.23 %, and 7.43 % for December 2011,January and February2012 respectively. The CPI inflation forecasts are 8.48%, 8.22% and 7.68% for November, December 2011and January

2012 respectively.



Industrial Production

The annual growth of Index of Industrial Production for the month of October 2011 has come out at -5.1 percent. The cumulative growth for the period April-October 2011-12 stands at 3.5 percent over the corresponding period of the previous year. This positive growth in October is largely explained by a sharp fall of 25.5 percent in the crucial capital goods sector.

The Mining, Manufacturing and Electricity sectors for the month of October 2011 grew at -7.2 percent, -6.0 percent and 5.6 percent, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been -2.2, 3.7 and 8.9 percents, respectively, during April- October, 2011-12 over the corresponding period of the last year.

Industrial activity is sharply down

It is not a good sign that out of the twenty-two industry groups, only thirteen have shown positive growth during August 2011. Industry groups like 'Electrical machinery & apparatus', 'Machinery and equipment' and 'Rubber and plastics products' have declined at high rates of 58.8 percent, 12.1 percent and 11.4 percent, respectively, and have helped in bringing down the IIP.

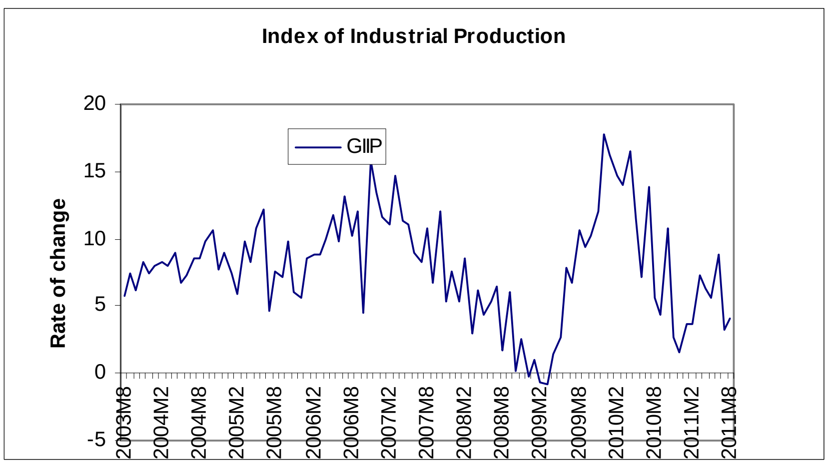
The mining sector may not pick up in the short to medium run as environmental as well as displacement issues may take time to resolve. Similarly, land acquisition issues also affecting the industry sector as whole. Even though the domestic demand remains reasonably strong, unless the supply constraints are progressively reduced the growth may retard in the Manufacturing sector in the future as well. The crisis in Europe is adding to the problem of uncertainty.

In October, 2011, the annual growth rates in Basic goods and in Intermediate goods are -0.1 percent and -4.7 percent, whereas the crucial Capital goods contracted by a hefty 25.5 percent. 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 decreased at 0.8 percent while the Consumer durables went down by 0.3 percent and Consumer non-durables by 1.3 percent.

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. However, the pace of growth got tapered off and recently turned negative as the low-base effect wore off and the impact of rate hikes and withdrawal of stimulus picked up. The global uncertainty is adding fuel to the fire. The inflation pushed rate hikes will pull the growth down in medium run. However, the record grain production is a great relief. Recently, the IIP growth has become extremely volatile. The healthy growth in exports is a positive sign for industrial growth. The government needs to be more active in reducing the fiscal deficit and addressing the long run supply concerns in Agriculture.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 1.3%,2.03% and 3.73% for November ,December 2011and January 2012



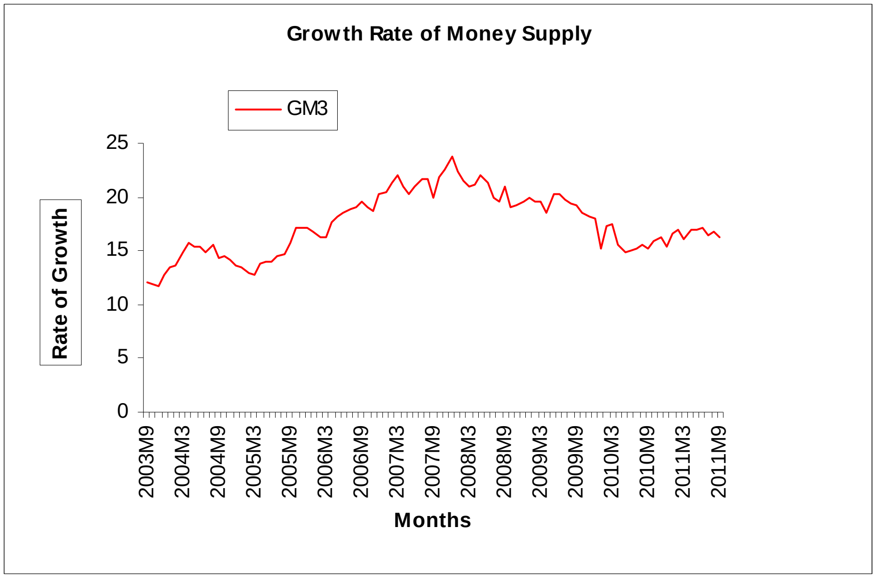
Money and Credit

As on December 2, 2011, Money supply grew annually at 16.3 percent. It is growing around 16 percent since last eleven months. Though the monetary tightening of RBI has reduced the liquidity in the system, the picking up of credit off take has helped the money supply to increase. However, now the credit off take has become sluggish due to high interest rate regime. It is expected that the policy rates may be revised downwards if the inflation comes down below 7 percent. The expansion in money supply is contributed by the net credit to the Government increasing at 22.3 percent and credit to commercial sector at 17.0 percent. Overall credit uptake has been high in comparison to last year. The FIIs are not investing much money in India due to the euro zone problem and the S & P downgrade of USA. However, this is a short run problem. The money supply is forecasted to grow slightly above 16 percent for the next three months.

Money supply is sticky at almost at the same level

Forecast:

The forecast for the growth rate of money supply (M3)is16.39 %,16.44% and 16.52% for January ,February and March 2012



Interest rates

As the positive signs of the revival of the economy are sustaining itself and inflation has become sticky at an unacceptably high level, the RBI started withdrawing from its low policy rates regime gradually went on increasing the policy rates. However, the trend may be reversed soon as the inflation is showing the sign of coming down, the Europe is getting threatened with a recession and GDP growth rate is tapering off. The RBI has already raised its repo rate by 375 basis points since March 2010 to 8.50 percent. The reverse repo rate is now 7.50 percent. The oil prices are not coming down substantially though the western economies are facing huge uncertainties. Though the growth momentum has slowed down, the large fiscal deficit in the economy is also putting pressure on prices. The prime lending rates are seeing upward revision both due to the continuous upward revision of policy rates, upward revision of deposit rates and the uncertainty in the global scenario. In the medium term, decreases in inflation and GDP growth will reduce the growth in demand for money while monetary easing by RBI will increase the supply softening pressure on the market interest

Interest rates are in upward spiral

rates. The corporates may not increase their borrowings from outside the country as the rupee is depreciating even though interest rates are low there, which may have a hardening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may increase further.

Exchange rate

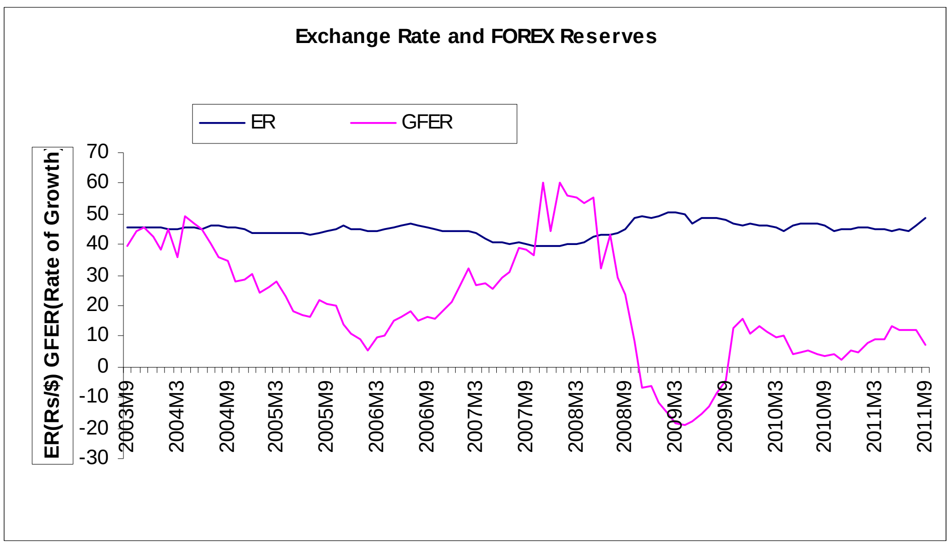
The monthly average of rupee depreciated to a low of 52.39 till December 23, 2011 due to the combined effect of Eurozone crisis and high and persistent domestic inflation rates. The expected widening of trade deficit caused by the rise in crude prices may put pressure on rupee. The rupee has depreciated by about 17 per cent the US government downgrade. The RBI has taken several measures to curb speculation and reduce volatility which has turned out to be effective in the short run. However, there is no alternative building growth momentum and revving confidence in the economy to attract inflows.

Rupee depreciated sharply

However, it may be a short run phenomenon. In long run, the ruppee is expected to appreciate. It was 44.7 till August 24, 44.62 till May 20 and 45.18 till March 17, 2011. The continuous flow of FIIs into Indian stock market and the strong growth of Indian economy in last few months have assisted in strengthening the Indian rupee. The rupee hit a five month high on the 4th October 2010 at 44.24 rupees per dollar. 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 economic recovery.

Forecast:

In coming months, exchange rate is expected to be around Rs/$ 53.29Rs/$ 52.98 and Rs/$ 51.29 for January ,February and March 2012



Foreign Exchange Reserves

Foreign exchange reserves stood at US$ 302.10 billion on December 16, 2011.
Foreign exchange reserves stood at US$ 318.36 billion on October 7, 2011.
It was US$ 318.36 billion on October 7, US$ 317.23 billion on August 5, US$ 307.49 billion on May 13, 2011 and billion on January 21, 2011. It went up progressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November19 and US$ 295.03 billion on December 24, 2010. This is a substantial progress from a little over a year ago when reserves reached below 250 billion mark. Now it is above 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 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. However, the depreciation of rupee, the lowering of GDP growth projections, the Euro zone crisis could restrain the accumulation of reserves. The increasing outflow of Indian FDI to other countries is also restraining the accumulation. On balance, we forecast modest increases in reserves for the next three months.

Forecast:

Forex reserves expected to be $303.74 billions, $305.56billions and $ 306.98billions in January, February and March 2012

Exchange reserves are down

Foreign Institutional Investment

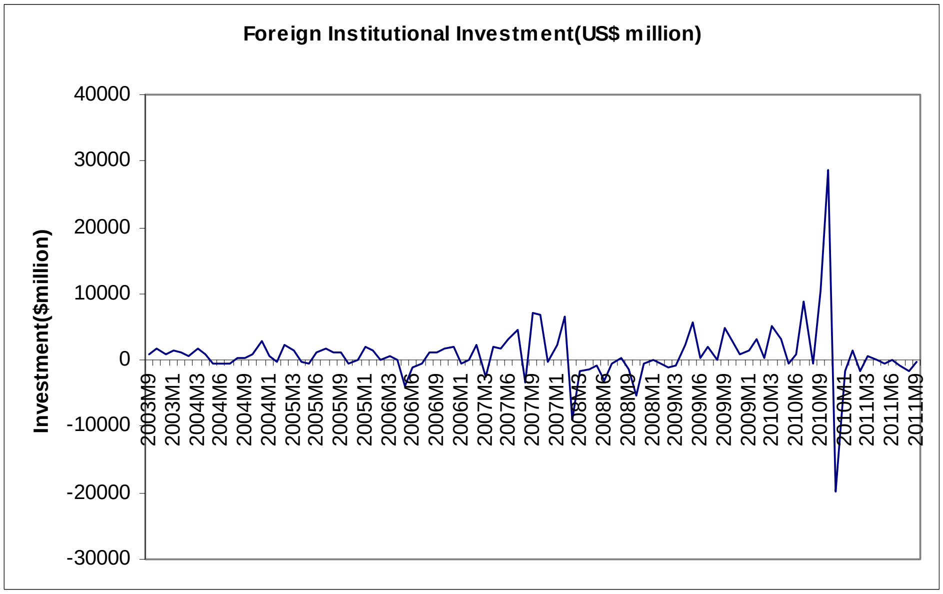
The monthly foreign institutional investments (FIIs) in Indian market turned positive at US$ 3368.82 million till December 23, 2011. It was US$ 211.46 million till October 28, US$ -1790.59 million till August 24, US$ -651.93 million till May 20 and US$ -721.13 million for February 2011. This is mainly due to the Euro zone uncertainty. Whereas the FIIs were 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 figures clearly show the foreign investors' confidence about India's long term growth story though in the last few months they are quite low and negative. The expected medium term appreciation of rupee and the prospects of returns are making Indian economy attractive for FII inflows in medium to 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 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 16000 due to the repeated hike of policy rates by RBI. It is forecasted that the flows are likely to pick up in the next three months as the crisis in the Western economies may subside.

FIIs flows are positive

Forecast:

Inflows expected to be in the positive zone in the next three months



Exports and Imports

The export grew at 17.99 per cent in November 2011 year on year. The revival in the external demand following the recovery in industrialized nations and large base effect has resulted in this sustained positive growth in exports. The exports to USA, Asia and the newer markets of Africa and Latin America have helped sustaining the high growth. The cumulative value of exports for the period April-November 2011 -12 has grown at a healthy of 33.2 per cent over the same period last year.

It is expected that the exports would grow at an average of 30.95% in next three month. Depreciation of rupee is helping the exports. However, higher inflations at home may not be a good sign for exports. How and when Euro zone crisis is solved will be a big impact on India's external trade.

Imports grew at 29.14 percent during November, 2011 in dollar terms over the same period last year. Cumulative value of imports for the period April-November, 2011-12 grew at 30.2 per cent in dollar terms.

In October 2011, non-oil imports grew at 22.07 percent, while oil imports rose by 20.73 percent over the corresponding period last year. Non-oil imports during April 2010 – October 2011 are 27.15 per cent higher than the non-oil imports in the same period last year while the figure for oil imports is 40.82 percent. The substantive rise in non-oil imports during last

Exports keeps healthy momentum

Imports grows at 29.14 percent

Trade deficit increases

twelve months shows the demand side is stabilizing at a higher level due to the rapid recovery process in the domestic economy.

The trade deficit increased to US$ 19.6 billion in October 2011 from US$ 14.5 billion a year ago. The April-November, 2011 trade deficit also increased to US$ 93.7 billion from US$ 85.7 billion during the same period a year ago. The deficit is a concern though it is increasing at a slower rate due to the lower growth of imports. The exports are forecasted to increase at a faster pace than the imports, as the rupee is depreciating, for the next three months bringing down the growth in deficits further. The Euro zone crisis and the not so good economic outlook in USA is a concern for our exports.

Forecast:

Exports growths are forecasted as 29.85%,32.78%,30.23% and import growths are 27.42%,24.89%,22.08% for December 2011,January,February 2012