MONTHLY MONITOR

Prepared by
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Highlights

Sharp fluctuation in Industrial activity	The annual growth of Index of Industrial Production for the month of November 2012 declined by 0.1 percent year on year, while in October 2012 it rose to an unexpectedly high level of 8.2 per cent against a marginal dip of 0.4 per cent in September, a growth of 2.7 per cent in August, a marginal growth of 0.1 per cent in July, a substantial decline of 1.8 per cent in June, a growth of 2.4 per cent in May and 0.1 per cent in April 2012. This decline in November 2012 is largely explained by the large dip in the growth of manufacturing sector. When the industrial activity was showing the signs of pick up, the high policy rates are squeezing the demand and pulling down the growth. If the RBI comes out with a supportive stance soon, the growth will pick up.
Headline inflation is down marginally	The year on year WPI inflation decreased marginally to 7.18 percent in December 2012 from 7.24 per cent in November 2012, 7.45 per cent in October 2012, 7.81 per cent in September and 7.55 per cent in August, 2012 The inflation in the same month of the previous year was 7.74 per cent. This marginal decrease in inflation is largely explained by lower food articles inflation. The high fiscal deficits and the depreciated rupee were adding to the inflationary woes.
CPI inflation fell very marginally	The Consumer Price Index (CPI) Number for Industrial Workers fell very marginally to 9.55 percent in November 2012 from 9.60 per cent in October 2012. The rise of CPI is primarily attributable to increase in the prices of food items. The CPI was 9.34 per cent during the same month of the previous year. The much sensitive food Inflation increased to 10.85 percent in November 2012 from 9.91 per cent in October.
Rupee stabilizing at a lower level	The monthly average rupee-dollar rate depreciated very marginally to 54.78 for the month till January 16, 2012 as compared to 54.70 till December 27, 2012 and 54.20 till November 2012, 52.88 till October 24, 2012 and 55.33 till September 21, 2012 due to the change in the reform orientation of the government. The Rupee is not appreciating though the short term portfolio inflows in the stock market have picked up substantially as trade deficit is very large.
	Foreign exchange reserves as on January 11, 2013 stood at US$ 296.25 billion to which the foreign currency assets contributed US$

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Reserves are stabilizing	262.28 billion, as against US$ 296.63 billion in December 14, 2012 and US$ 293.56 billion on November 9, 2012. The accumulation of reserves is not going to go up unless the uncertainties in the implementation of domestic policy reforms are reduced. The stimulus packages announced, not so long ago, by USA are helping in this accumulation process.
Exports deceleration slows down	Exports have contracted by 1.92 percent in December 2012 in dollar terms over the corresponding month of the previous year as against contractions 4.17 per cent in November 2012, 1.63 per cent in October, 10.78 per cent in September, 9.7 per cent in August, 14.8 per cent in July and 5.45 per cent 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.
Lower non-oil imports	Imports during November, 2012 have shown a growth of 6.26 per cent in dollar terms over the corresponding month in 2011 as against a growth of 6.35 per cent in November 2012 and 7.37 per cent in October, 5.09 per cent in September 2012. Cumulative value of imports for the period April-December 2012-13 stood at US$ 361.27 billion registering a negative growth of 0.71 per cent over the same period last year. The imports increased in December 2012 due to the huge increase in oil imports. Non-oil imports during April - December 2012-13 pegged at US$ 236.75 billion was lower by 6.37 per cent over the corresponding period last year. The substantive fall in non-oil imports during recent months, though it is increasing now, shows the demand side was not able to sustain at higher level due to high interest induced contraction.
Trade deficit remains high	The trade deficit for December 2012 was estimated at US $ 17.67 billion as against US $ 14.67 billion for the same period last year. The trade deficit for April-December, 2012-13 was at US $ 147.17 billion, which was 7.17 per cent higher than the deficit during the corresponding period of the previous year.

IEG FORECAST

Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	7.18% in December2012	7.11%,6.98%,6.68%
Inflation rate (CPI)	9.55% in November 2012	9.82%,9.69%,9.52%
Growth rate of IIP	-0.1% in November 2012	1.09%, 3.26%, 4.32%
Growth rate of M3	11.2% on December28, 2012.	12.01 %,12.12%,12.27%
Re/$ exchange rate	54.78 monthly average till January16, 2013.	54.68, 54.50, 54.33
Forex reserves	US$ 296.25 billion on January 11, 2013	$296.98, $297.32, $296.72
FII inflows (Net)	US$4284.74 million for the month till January16, 2013	To be substantive
Growth rate of exports	-1.92% in December 2012	1.0% on average for next three months
Growth rate of imports	6.26% in December 2012	9.79% on average for next three months

Inflation

WPI inflation is down marginally

The year on year WPI inflation decreased marginally to 7.18 percent in December 2012 from 7.24 per cent in November 2012, 7.45 per cent in October 2012, 7.81 per cent in September and 7.55 per cent in August, 2012 The inflation in the same month of the previous year was 7.74 per cent. This marginal decrease in inflation is largely explained by lower food articles inflation.

In December 2012, the year on year primary articles inflation, with a weight of 20.12 per cent in the index, was 10.61 per cent of which the food articles inflation was 11.16 per cent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 per cent in the index, was 9.38 per cent and the inflation for the principal sector, the manufacturing products with a weight of 64.97 per cent in the index, was 5.04 per cent year on year.

Since August 2010 when the new series was introduced, the inflation rate was always higher than 8 per cent. However, 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 the short run Euro zone uncertainties are stabilizing and USA stimulus package putting a huge amount of cash in the market.

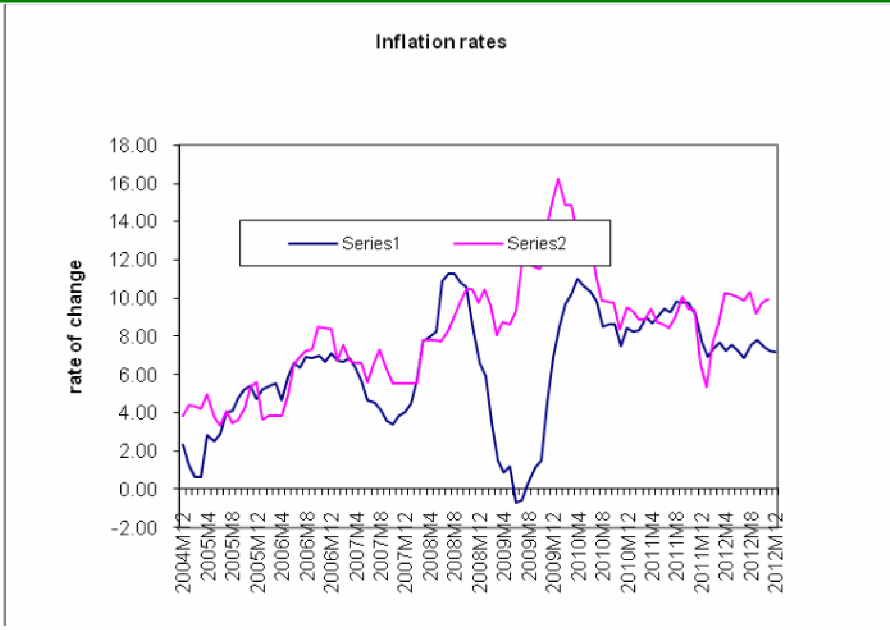
On balance, the inflation is likely to go down in January, February and March 2013.

A very marginal decrease in CPI inflation

The Consumer Price Index (CPI) Number for Industrial Workers fell very marginally to 9.55 percent in November 2012 from 9.60 per cent in October 2012 and 9.14 per cent in September. The rise of CPI is primarily attributable to increase in the prices of food items. The CPI was 9.34 per cent during the same month of the previous year. The much sensitive food Inflation increased to 10.85 percent in November 2012 from 9.91 per cent in October 2012 and 11.00 per cent in September 2012. It was 8.16 per cent in March, 5.08 per cent in February and the low of 0.49 per cent in January, 2012. The food inflation was 7.61 per cent during the same month of the previous year. The opening up FDI in multi brand retail will help in decreasing retail prices in long run.

Forecast:

The WPI inflation forecasts are 7.11%, 6.98 %, 6.68% for January, February and March 2013, respectively. The CPI inflation forecasts are 10.16%, 10.01%, 9.89% for December 2012, January and February 2013, respectively.



Industrial Production

Sharp fluctuations in Industrial activity

The annual growth of Index of Industrial Production for the month of November 2012 declined by 0.1 percent year on year, while in October 2012 rose to an unexpected level of 8.2 per cent against a marginal dip of 0.4 per cent in September, a growth of 2.7 per cent in August, a marginal growth of 0.1 per cent in July, a substantial decline of 1.8 per cent in June, a growth of 2.4 per cent in May and 0.1 per cent in April 2012. However, the IIP had a 3.5 per cent contraction in March 2012. The IIP growth figure for May 2011 was 9.5 per cent. This decline in November 2012 is largely explained by the large dip in the growth of manufacturing sector.

The Mining, Manufacturing and Electricity sectors grew by (-) 5.5 per cent, 0.3 per cent and 2.4 per cent, respectively for the month of November 2012, as compared to the same month in the previous year. The cumulative growth in the above-mentioned three sectors has been (-) 1.5 per cent, 1.0 per cent and 4.4 per cent, respectively, during April-November, 2012-13 over the corresponding period of the last year. This moved the overall cumulative growth of the General Index to 1.0 per cent.

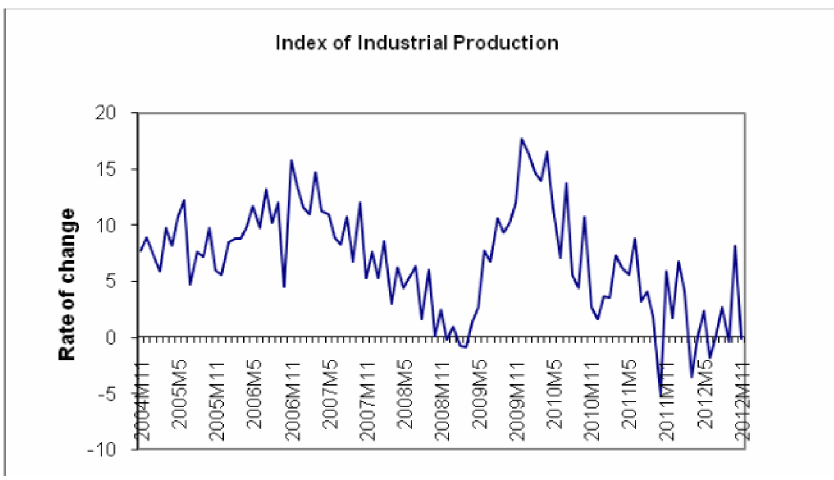
Out of the twenty-two industry groups, thirteen groups have shown negative growth during November 2012. Industry groups like 'Electrical machinery & apparatus n.e.c.', 'Luggage, handbags, saddlery, harness and footwear; tanning and dressing of leather products' and ''Radio, TV and communication equipment and apparatus have recorded growth rates of 25.1, 15.7 and 15.3 per cents, respectively, arresting further fall in the general index.

In November 2012, the annual growth rates in Basic goods and in Intermediate goods stood at 1.7 per cent and (-) 1.1 per cent, whereas the crucial Capital goods sector contracted by 7.7 per cent. The capital goods sector contracted by 11.1 per cent during April- November 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 sector expanded by 1.0 per cent, the Consumer durables recorded a growth of 1.9 per cent, whereas the Consumer nondurables registered a growth of 0.3 per cent in November 2012.

Besides the high interest rates, the land acquisition issues are also affecting the industry sector as a whole. The uptrend in the industrial activity is faltering though the IIP rose unexpectedly at a very high rate in October 2012. The revival in demand supported by the low base for the year 2009 was able to deliver continuous higher growth rates later on. However, the pace of growth got tapered off afterwards as the base effect wore off and withdrawal of the stimulus picked up and the 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 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 from the existing high level.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 1.09%, 3.26%, 4.32% for December 2012, January 2013 and February 2013, respectively.



Money and Credit

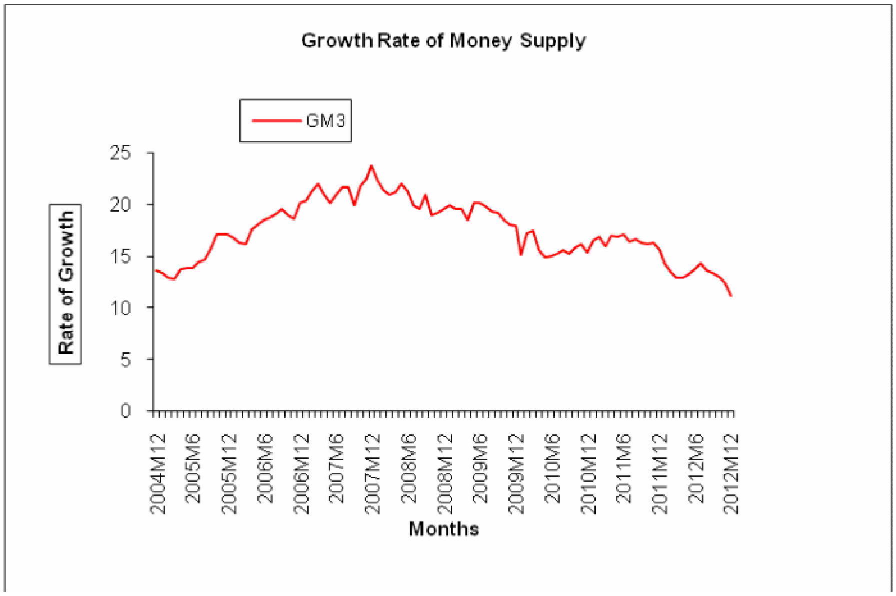
Money supply growth declines

The year-on-year growth rate of broad money (M3) supply clocked 11.2 percent on December 28, 2012 as against12.5 percent on November 30, 2012. This is lower than its growth of 16.0 percent for the last year. This is also a substantive 4.4 per cent lower than its projected growth of 15.5 per cent set for the whole year. The expansion in money supply was contributed by the net credit to the Government increasing at 15.8 per cent and credit to the commercial sector at 15 per cent. Overall credit growth has slowed down.

Money supply is slowing down, even though the FIIs are pouring in large sums of money to the equity markets in India as expectations of implementation of policy reforms are high. It is expected that the policy rates may not be revised in the next policy review. The money supply is forecast to grow by above 12 per cent for the next three months.

Forecast:

The growth rates of money supply (M3) are forecast to be 12.01 %, 12.12%, 12.27% for January, February and March 2013, respectively.



Interest rates

Interest rates declining marginally

The growth in the economy is faltering though inflation has become sticky at an uncomfortably high level. The RBI gave a positive surprise by reducing the repo rate by 50 basis points to 8 per cent in last April. The subsequent CRR cuts down to 4.25 per cent are also helpful. As India is showing the sign of moving towards a stagflation like situation, RBI should go for a reduction in policy rates in the next policy review in this January itself. On the positive side, the government is announcing measures since September 2012 which are expected to help in checking the fiscal deficit though uncertainties about implementation at ground level remains.

Earlier, 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 increase 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 believe that the market interest rates may come down in the next three months.

Rupee depreciates very marginally

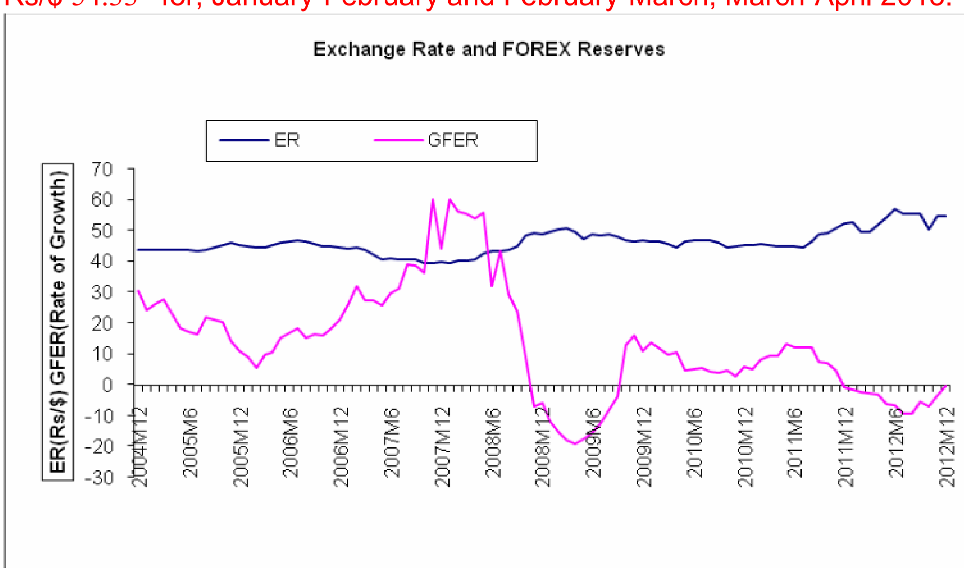
Exchange rate

The monthly average rupee-dollar rate depreciated only very marginally to 54.78 for the month till January 16, 2012 as compared to 54.70 till December 27, 2012 and 54.20 till November 2012, 52.88 till October 24, 2012, 55.33 till September 21, 2012 due to the change in the reform orientation of the government. The Rupee is not appreciating much though the short-term portfolio inflows in the stock market have picked up substantially as there is a large trade deficit. Earlier, the exchange rate slipped to 54.41 for the month of May from 51.73 for the month of April and 50.21 for the month of March 2012, as the current account deficit widened to 4 per cent of GDP. The monthly average of exchange rate went down further to 56.00 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. The widening of trade deficit caused by the rise in crude prices as well as the negative export growth rates in recent months were putting pressure on the rupee.

However, the low value of rupee is proving to 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. The monthly average of the rupee-dollar rates were 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 October 4, 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 per cent during the year 2009-10 as against a depreciation of 25.5 per cent in the previous year. This appreciation was mainly due to macroeconomic recovery during that period.

Forecast:

In coming months, the exchange rate is expected to be around Rs/$ 54.68, Rs/$ 54.50, Rs/$ 54.33 for, January-February and February-March, March-April 2013.



Foreign Exchange Reserves

Reserves are stabilising

Foreign exchange reserves as on January 11, 2013 stood at US$ 296.25 billion to which the foreign currency assets contributed US$ 262.28 billion, as against US$ 296.63 billion in December 14, 2012 and US$ 293.56 billion on November 9, 2012. The total reserves stood at US$ 294.88 billion on October 12, US$ 294.48 billion on September 14, US$ 289.17 billion on August 10, US$ 288.62 billion on June 22, and US$ 288.26 billion on May 25, 2012.

Foreign exchange reserves went up impressively from US$ 273.72 billion in May 28, 2010 to US$ 297.99 billion on November 19, 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 recent rise in reserves is mainly due to the rise in inflow of foreign investment into Indian market. The rise in the stock market indices attracting 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 domestic policy uncertainty is not helpful to the accumulation of reserves. On balance, we forecast a stabilisation in the forex reserves for the next three months.

Forecast:

Forex reserves expected to be $296.98, $297.32, $296.72 in February, March, April 2013.

Foreign Institutional Investment

High FII inflows

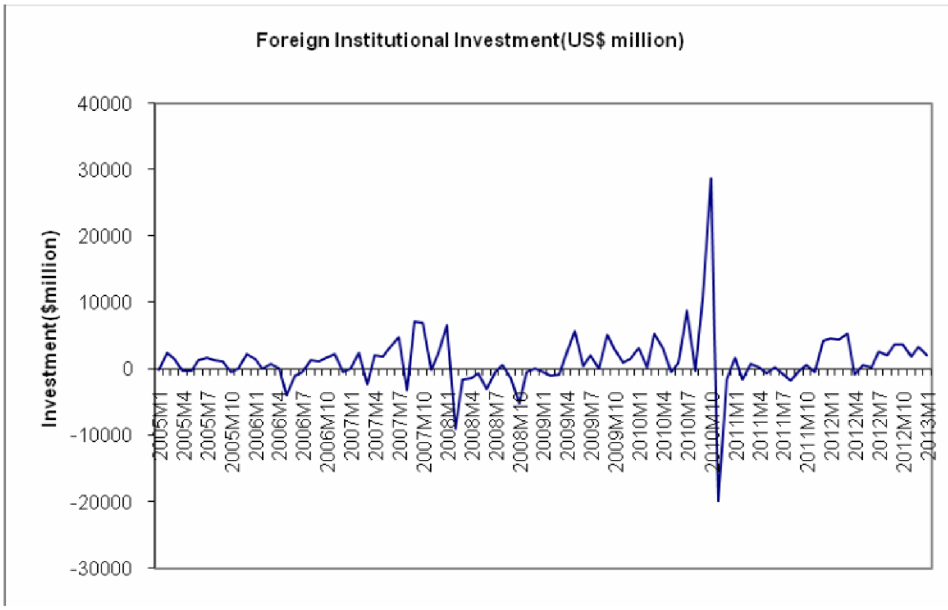
The average monthly foreign institutional investments (FIIs) in the Indian economy was at US$ 4416.89 million till January 16, 2013 of which equity was US$ 4284.74 million, as against US$ 5572.55 million till December 27 of which investments in equity was US$ 5082.47 million, US$ 2319.28 million till November 15, an equally impressive US$ 4318.77 million till October 24, US$ 2585.66 million till September 21 and US$ 1965.2 million till August 17, 2012 even if uncertainties about the reform process in the domestic economy still remains. The reform packages by the Indian government if implemented at the ground level then inflows may rise pushing up the stock market indices further.

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 US$ 29047 million as against US$ -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 is now above the 20,000 mark.

Forecast:

Inflows expected to be substantive in the next three months.



Exports and Imports

Exports deceleration slows down

Exports have contracted by 1.92 percent in December 2012 in dollar terms over the corresponding month of the previous year as against contractions 4.17 per cent in November 2012 and 1.63 per cent in October, 10.78 per cent in September, 9.7 per cent in August, 14.8 per cent in July and 5.45 per cent in June 2012. The incentives announced in 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. The exports growth fluctuated in a very wide range from an astonishing 82 per cent expansion in July 2011 to a 14.8 per cent contraction in July 2012. The cumulative value of exports for the period April-December 2012 -13 was US$ 214.09 billion registering a negative growth of 5.5 per cent in Dollar terms over the same period last year. The stimulus announced not so ago in USA and Japanese economy may help exports to pick up.

Imports during November, 2012 have shown a growth of 6.26 per cent in dollar terms over the corresponding month in 2011 as against a growth of 6.35 per cent in

High growth in Oil imports

November 2012 and 7.37 per cent in October, 5.09 per cent in September, contractions of 5.08 per cent in August and 6.47 per cent in July 2012. The imports decreased in December 2012 due to the huge increase in oil imports. Cumulative value of imports for the period April-December 2012-13 stood at US$ 361.27 billion registering a negative growth of 0.71 per cent over the same period last year.

Oil imports during December, 2012 were pegged at US$ 14.42 billion up by 23.56 per cent over the corresponding period last year. Oil imports during April-December, 2012-13 were at US$ 124.52 billion up by 12.18 per cent higher over the corresponding period last year. Non-oil imports during December, 2012 were estimated at US$ 28.11 billion was 0.87 per cent lower over the corresponding period last year. Non-oil imports during April-December, 2012-13 pegged at US$ 236.75 billion lower by 6.37 per cent 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 high policy rates 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. It is a big positive that in policy front, there is a lot of action since September 2012 though uncertainties in implementation remains.

Trade deficit falls

The trade deficit for December 2012 was estimated at US $ 17.67 billion as against US $ 14.67 billion for the same period last year. The trade deficit for April-December, 2012-13 was at US $ 147.17 billion, which was 7.17 per cent higher than the deficit during the corresponding period of the previous year.

Forecast:

Exports growth rate is forecast to be at a monthly average of 1.0% and import growth rate at a monthly average of 9.75% for January, February and March 2013.