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 December 2012 declined by 0.6 percent, while in October 2012 it rose to an unexpected level of 8.2 per cent against a marginal dip of 0.4 per cent in September and a growth of 2.7 per cent in August 2012. This decline in December 2012 is largely explained by the large dip in the growth of mining sector. When the industrial activity was showing the signs of pick up, the high policy rates are squeezing the demand and pulling the growth down.
Headline inflation is down marginally	The year on year WPI inflation decreased marginally to 6.62 percent in January 2013 from 7.18 percent in December 2012, 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 7.23 per cent. This marginal decrease in inflation is largely explained by lower food articles inflation. The high fiscal and current account deficits are adding to the inflationary woes.
Marginal rise in CPI inflation	The Consumer Price Index (CPI) Number for Industrial Workers rose to 11.62 percent during January 2013 from 11.17 percent in December 2012. The rise of CPI is primarily attributable to increase in the prices of major food items. The CPI was 5.32 percent during the same month of the previous year. The much sensitive food Inflation increased to 14.08 percent during January 2013 from 13.53 percent in December 2012, 10.85 percent in November 2012 and 9.91 per cent in October 2012. It was at a low of 0.49 per cent during the same month of the previous year.
Rupee fluctuating at lower level	The monthly average rupee-dollar rate appreciated to 53.75 for February, 2013, though it has started depreciating again, as against 54.78 till January 14, 2012; 54.70 till December 27, 2012 and 54.20 till November 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.
	Foreign exchange reserves as on February 22, 2013 stood at US$ 291.92 billion to which the foreign currency assets contributed US$

Reserves declined

258.23 billion, as against US$ 296.25 billion on January 11, 2013; US$ 296.63 billion on December 14, 2012 and US$ 293.56 billion on November 9, 2012. The accumulation of reserves is not going to go up substantially 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.

Reversal in Exports deceleration

Exports grew by 0.82 percent in January 2013 in dollar terms over the corresponding month of the previous year as against contractions of 1.92 percent in December 2012. The incentives announced in recent foreign trade policy (FTP) helped in arresting the further fall in exports. The government is planning to provide further support to 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.

Lower non-oil imports

Imports during January 2013 have shown a growth of 6.12 per cent in dollar terms year-on-year as against 6.26 per cent in December 2012. Cumulative value of imports for the period April-January 2012-13 stood at US$ 406.85 billion registering a growth of 0.01 per cent over the same period last year. The substantive fall in the growth 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 elevated 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 remains high

The trade deficit for January 2013 was estimated at US $ 19.10 billion as against US $ 17.57 billion for the same period last year. The trade deficit for April-January, 2012-13 was at US $ 167.17 billion which was 7.93 per cent higher than the deficit during the corresponding period of the previous year.

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Variables	Latest Information available	Forecast for next three months
Inflation rate (WPI)	6.62% in January2013	6.68%,6.57%,6.37%
Inflation rate (CPI)	11.62% in January 2013	11.23%,11.04%,10.62%
Growth rate of IIP	-0.6% in December 2012	1.23%, 3.34%, 4.52%
Growth rate of M3	12.7% on February 8, 2013.	13.32 %,13.46%,13.76%
Re/$ exchange rate	53.75 average for February, 2013.	53.64, 53.46, 53.30
Forex reserves	US$ 291.92 billion on Feburary22, 2013	$294.18, $294.89, $295.03
FII inflows (Net)	US$ 5318.26 million for month of February, 2013	Forecast to be higher in the next three months
Growth rate of exports	0.82% in January 2013	Monthly average of 1.5% for next three months
Growth rate of imports	6.12% in January 2013	Monthly average of 9.68% for next three months

Inflation

WPI inflation is down marginally

The year on year WPI inflation decreased marginally to 6.62 percent in January 2013 from 7.18 percent in December 2012, 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 7.23 per cent. This marginal decrease in inflation is largely explained by lower food articles inflation.

In January 2013 the year on year primary articles inflation, with a weight of 20.12 per cent in the index, was 10.31 per cent of which the food articles inflation was 11.88 per cent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 per cent in the index, was 7.06 per cent and the inflation for the principal sector, the manufacturing products with a weight of 64.97 per cent in the index, was 4.81 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.

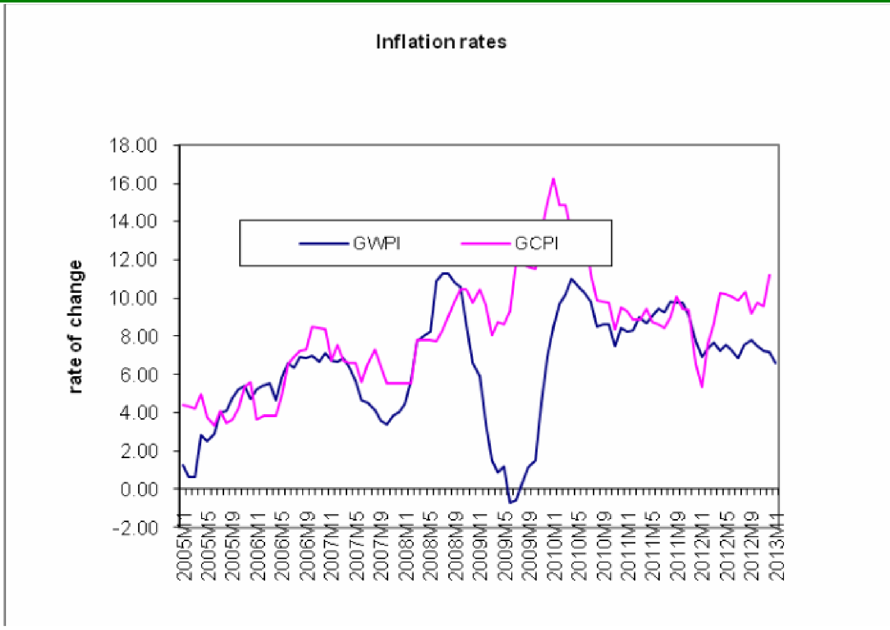
On balance, the inflation is not likely to change much in February, March and April 2013.

A marginal rise in CPI inflation

The Consumer Price Index (CPI) Number for Industrial Workers rose to 11.62 percent during January 2013 from 11.17 percent in December 2012, 9.55 per cent in November 2012, 9.60 per cent in October 2012 and 9.14 per cent in September 2012. The rise of CPI is primarily attributable to increase in the prices of some of the food items. The CPI was 5.32 percent during the same month of the previous year. The much sensitive food Inflation increased to 14.08 percent during January 2013 from 13.53 percent in December 2012, 10.85 percent in November 2012, 9.91 per cent in October 2012 and 11.00 per cent in September 2012. It was the low of 0.49 per cent in percent during the same month of the previous year.

Forecast:

The WPI inflation forecasts are 6.68%, 6.57% and 6.37% for February, March and April 2013, respectively. The CPI inflation forecasts are 11.23%, 11.04% and10.62% for January, February and March 2013, respectively.



Industrial Production

Sharp fluctuations in Industrial activity

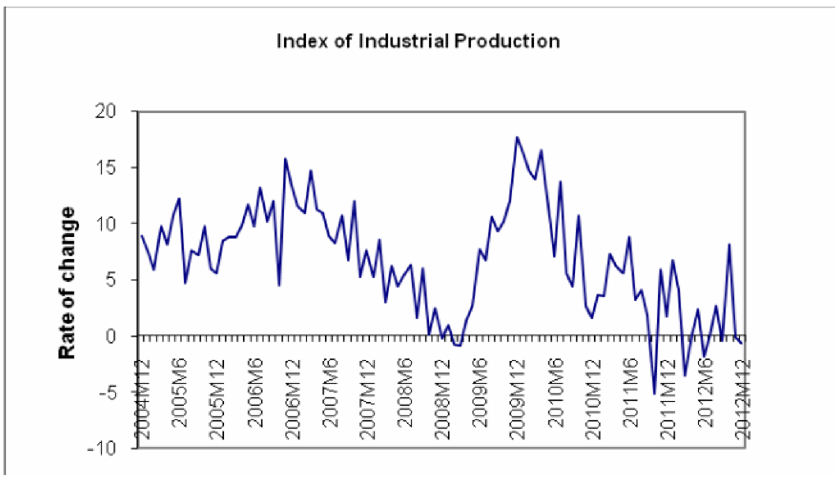
The annual growth of Index of Industrial Production for the month of December 2012 declined by 0.6 percent, while in November 2012 it declined by 0.1 percent, in October 2012 rose to an unexpected level of 8.2 per cent against a marginal dip of 0.4 per cent in September, a growth of 2.7 per cent in August, 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 December 2012 is largely explained by the large dip in the growth of mining sector.

The Mining, Manufacturing and Electricity sectors having weights of 141.57, 755.27 and 103.16, grew by (-) 4.0%, percent, (-) 0.7 percent and 5.2 percent, respectively for the month of December 2012, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been (-) 1.9 per cent, 0.7 per cent and 4.6 per cent, respectively, during April-December, 2012 over the corresponding period of the last year. This led to an increase of 0.7 percent in the overall cumulative growth of the General Index.

Out of the twenty-two industry groups, twelve groups have shown negative growth during December 2012. Industry groups like 'Electrical machinery & apparatus n.e.c.', 'Furniture; manufacturing n.e.c', and 'Coke, refined petroleum products & nuclear fuel' have recorded growth rates of 48.2, 18.8 and 9.3 percents, respectively, arresting further fall in the general index.

In December 2012, the annual growth rates in Basic goods and in Intermediate goods stood at 2.6 per cent and (-) 0.1 per cent, whereas the crucial Capital goods sector contracted by 0.9 per cent. The capital goods sector contracted by 10.1 per cent during April- December 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 contracted by 4.2 percent, the Consumer durables recorded a fall of 8.2 percent, whereas the Consumer nondurables registered a dip of 1.4 percent in December 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 situation 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 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.



Money and Credit

The year-on-year growth rate of broad money (M3) supply clocked 12.7 percent on February 8, 2013 as against 11.2 per cent on December 28, 2012, 12.5 percent on November 30, 2012. This is lower than its growth of 14.4 percent for the last year. This is also a substantive 2.8 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 15.3 per cent and credit to the commercial sector at 16 per cent.

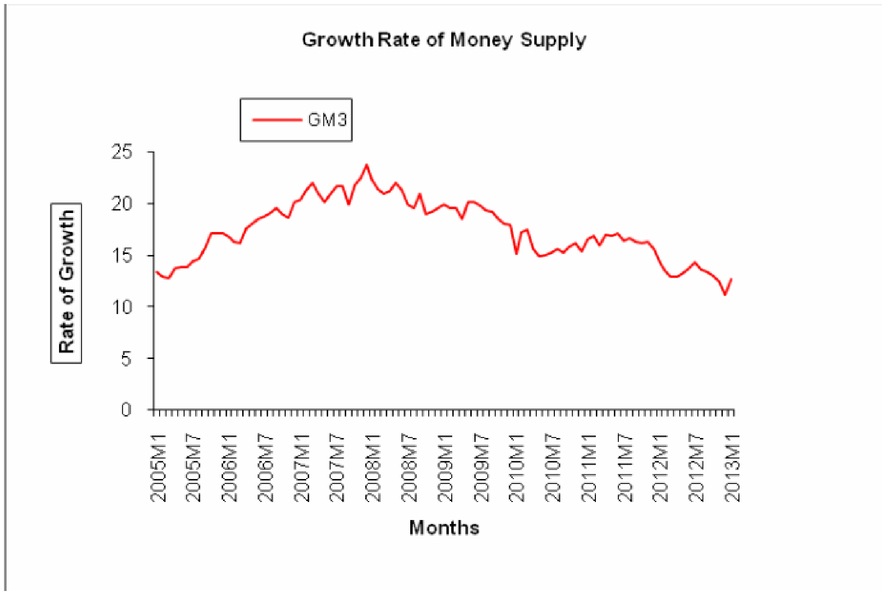
Money supply growth increases

Money supply has slowed down even if the FIIs are pouring in large sums of money to the equity markets in India as expectations of implementation of policy reforms are high. The money supply is forecast to grow by above 13 per cent for the next three months.

Forecast:

The growth rates of money supply (M3) are forecast to be 13.32 %, 13.46% and

13.76% for February, March and April 2013, respectively.



Interest rates

Interest rates are declining marginally

The growth in the economy is faltering though inflation is not coming down fast enough. The RBI gave a positive surprise by reducing the repo rate by 50 basis points to 8 per cent in April 2012. There is a further cut last month by 25 basis points The subsequent CRR cuts down to 4.00 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 by another 50 basis points in the next policy review in this March 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.

Exchange rate

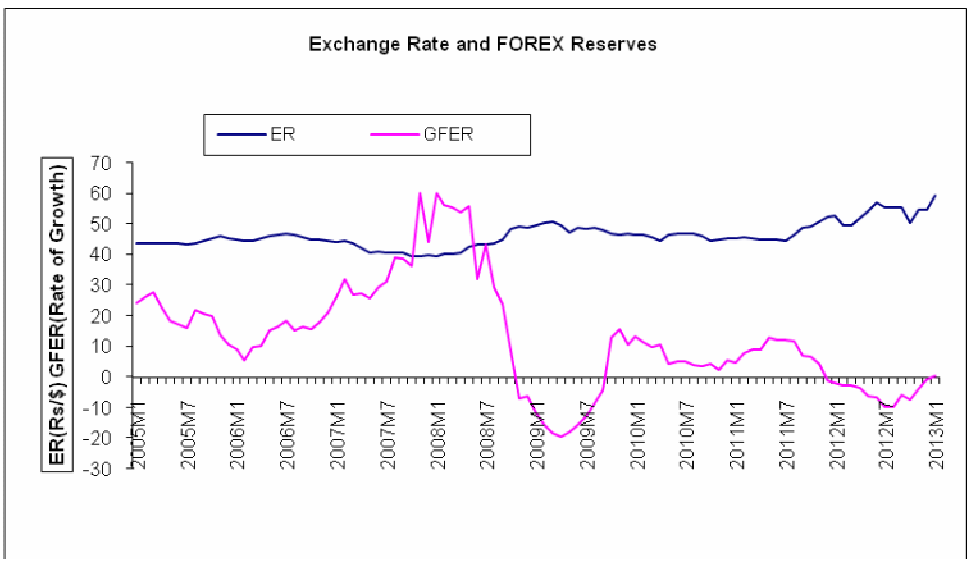
The monthly average rupee-dollar rate appreciated to 53.75 monthly average for February, 2013 as against 54.78 till January 14, 2012; 54.70 till December 27, *Rupee depreciates very marginally*

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 middle of the next 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 the 4th October 2010 at 44.24 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/$ 53.64, Rs/$ 53.46 and Rs/$ 53.30 for, March, April and May 2013.



Foreign Exchange Reserves

Foreign exchange reserves as on February 22, 2013 stood at US$ 291.92 billion as to which the foreign currency assets contributed US$ 258.23 billion, as against US$ 296.25 billion on January 11, 2013; 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.

Reserves are declining

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, though there is a fall in last few days, 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 an increase in the forex reserves for the next three months.

Forecast:

Forex reserves expected to be US$294.18 billion, US $294.89 billion and US $295.03 billion in March, April and May respectively 2013.

Foreign Institutional Investment

The average monthly foreign institutional investments (FIIs) in the Indian economy was at US$5318.21 million for February, 2013 of which equity was US$ 4575.26 million as against US$ 4416.89 million till January 16, 2013 of which equity was US$ 4284.74 million, US$ 5572.55 million till December 27, 2012 of which equity was US$ 5082.47 million, 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.

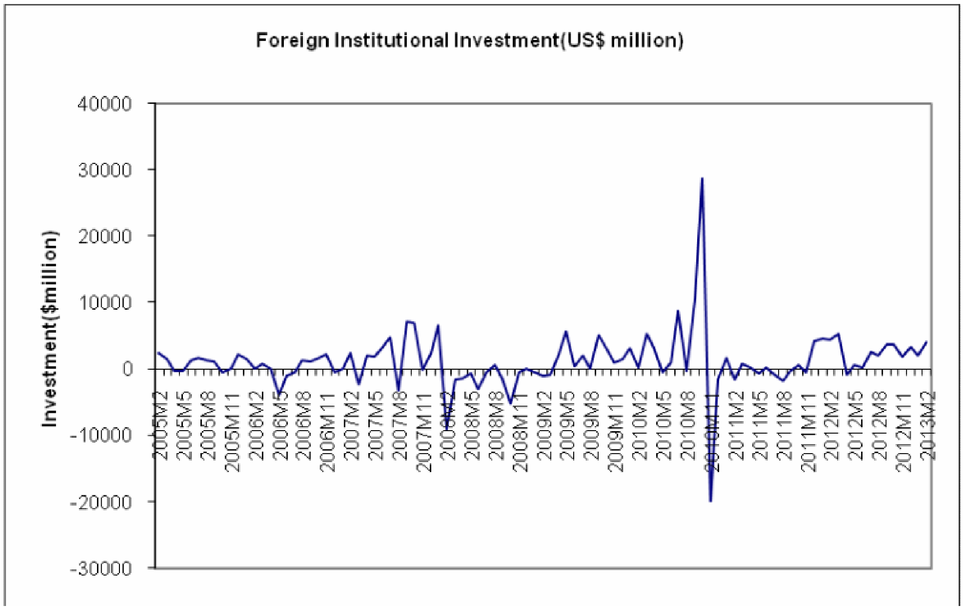
High FII inflows

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 crossed the 20,000 mark, and now hovering around 19250.

Forecast:

Inflows expected to be substantive in the next three months.



Exports and Imports

Exports rose marginally

Exports grew by 0.82 percent in January 2013 in dollar terms over the corresponding month of the previous year as against contractions of 1.92 percent in December 2012, 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. The incentives announced in recent foreign trade policy (FTP) helped in arresting the further fall in exports. The government is planning to provide further support to 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-January 2012 -13 was US$ 239.68 billion registering a negative growth of 4.86 per cent in dollar terms over the same period last year.

Imports during January 2013 have shown a growth of 6.12 per cent in dollar terms year-on-year as against a growth of 6.26 per cent in December 2012, 6.35 per cent in 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. Cumulative value of imports for the period April-January 2012-13 stood at US$ 406.85 billion registering a growth of 0.01 per cent over the same period last year.

Oil imports during January 2013 were pegged at US$ 15.89 billion up by 6.91

High growth in Oil imports

percent over the corresponding period last year. Oil imports during April-January, 2012-13 were at US$ 140.42 billion up by 11.56 percent over the corresponding period last year. Non-oil imports during January, 2013 were estimated at US$ 29.68 billion which was 5.71 per cent higher over the corresponding period last year. Non-oil imports during April-January, 2012-13 pegged at US$ 266.43 billion lower by 5.17 per cent over the corresponding period last year.

The substantive fall in the growth 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 elevated 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 at high level

The trade deficit for January 2013 was estimated at US $ 19.10 billion as against US $ 17.57 billion for the same period last year. The trade deficit for April-January, 2012-13 was at US $ 167.17 billion which was 7.93 per cent higher than the deficit during the corresponding period of the previous year.

Forecast:

Exports growth rate is forecast to be at monthly average of 1.5% and import growth rate at monthly average of 9.68% for February, March and April 2013.