MONTHLY MONITOR

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	Highlights
Industrial activity stagnates	The annual growth of Index of Industrial Production for the month of April 2012 has recorded a marginal growth of 0.1 per cent from 3.5 percent contraction in March 2012 and 4.1 percent growth in February 2012. The IIP growth figure for April 2011 was 5.3 per cent. This low growth in May 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 very marginally to 7.55 percent in May 2012, from7.23 per cent in April 2012, and is largely explained by higher food price inflation. The inflation in the same month of the previous year was 9.56 per cent. The high fiscal deficits and the current depreciation of rupee are adding to the inflationary woes. However, the Euro zone uncertainty has brought the oil prices down in the international market. The other commodity prices are also in the downward trend. If this continues, the inflation may fall to a comfortable level of below 6 percent in a few months time.
Marginal decline in CPI inflation	Consumer Price Index Number for Industrial Workers decreased very marginally to 10.16 percent in May from 10.22 per cent in April 2012. The much sensitive food Inflation also declined very marginally to 10.61 per cent in May from 10.66 percent in April 2012. It was 8.16 percent in March, 5.08 percent in February and the low of 0.49 percent in January, 2012.
Rupee depreciates sharply	The value of rupee continued its sharp declining trend. The rupee-dollar rate clocked 55.99 for the month of June as against 54.41 for the month of May in 2012 contributed largely by the internal policy lethargy and a not so comforting external situation. The Rupee is depreciating owing to the short term portfolio outflows in the stock market among other factors. The falling of crude prices is expected to help the rupee to recover.
	Foreign exchange reserves as on June 22, 2012, stood at US$ 288.62 billion as against US$ 288.26 billion on May 25, 2012 to which the foreign currency assets contributed US$ 255.78 billion. Foreign exchange reserves went up progressively from US$ 273.72 billion in

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Exchange Reserves almost unchanged	May 28, 2010 to 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. These impressive figures amid so much global uncertainties clearly showed the foreign investors' confidence about India's long term growth prospects. However, the current depreciation of rupee, the lowering of GDP growth projections, the Euro zone crisis is pulling down the reserves. The increasing outflow of Indian FDI is contributing to this process.
Exports growth turns negative again ***Imports are down sharply***	Exports in May 2012 have contracted by 4.16 per cent in dollar terms over the corresponding month of the previous year. High base effect and the Euro zone crisis are pulling down the export growth even if depreciation of rupee is very substantial. Higher inflation at home is not a good sign for exports. Imports in May, 2012 have shown a negative growth of 7.36 per cent in dollar terms over the corresponding month in 2011 as against a positive growth of 3.83 percent in April 2012. Non-oil imports during April–May, 2012 pegged at US$ 50.99 billion decreased by 8.49 percent over the corresponding period last year showing that the demand side is faltering.
Decline in trade deficit	The trade deficit for April-May, 2012 was estimated at US $ 29.75 billion which was lower than the deficit of US $ 31.38 billion during 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 May 2012	7.44% 7.23%,7.08%
Inflation rate (CPI)	10.16% in May 2012	9.26%,9.02%,8.76%
Growth rate of IIP	0.1% in April 2012	2.12%, 2.98%, 4.16%
Growth rate of M3	13.8% on June15, 2012.	13.96 %,14.12%,14.36%
Re/$ exchange rate	Monthly average of 55.99 in June, 2012	55.39, 54.22, 53.93
Forex reserves	US$ 288.127 billion on June22, 2012	$290.12, $291.83, $293.63
FII inflows (Net)	US$ 209.14 million for the month of June, 2012	Inflows expected to be moderate in the next three months
Growth rate of exports	-4.16% in May 2012	Monthly average of 12.12% for next three months
Growth rate of imports	-7.36% in May 2012	Monthly average of 6.63% for next three months

Inflation

WPI inflation marginally up

The year on year WPI inflation increased marginally to 7.55 percent in May 2012, from7.23 per cent for April 2012, and is largely explained by higher food price inflation. The inflation in the same month of the previous year was 9.56 per cent. The Euro zone uncertainty has brought the oil prices down in the international commodity market. The other commodity prices are also in the downward trend. If this continues, the inflation may fall to a comfortable level of below 6 percent in a few months time.

In May 2012, the year on year primary articles inflation, with a weight of 20.12 percent in the index, was 10.88 percent of which the food inflation was 10.74 percent, while the inflation for fuel, power, light and lubricants, with a weight of 14.91 percent in the index, was 11.53 percent, and the inflation for the principal sector, the manufacturing products with a weight of 64.97 percent in the index, was 5.02.

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.

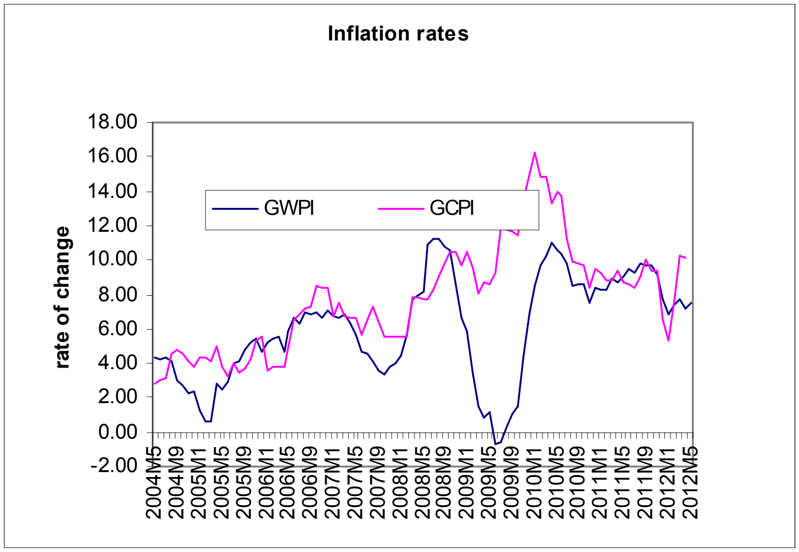
The high fiscal deficit, the increasing trend of crude prices and the falling trend of the rupee were putting an upward pressure on inflation. The recent slow down in the economy and the decreasing crude prices are helping to arrest the rise in the inflation rate. Further, the high policy rates are putting a downward pressure on demand. On balance, the inflation is likely to go down in June, July and August, 2012.

CPI inflation marginally down

Consumer Price Index Number for Industrial Workers very marginally decreased to 10.16 percent in May from 10.22 per cent in April 2012. It was 8.65 per cent in March, 7.57 percent in February and 5.32 percent in January 2012. The much sensitive food Inflation also declined very marginally to 10.61 per cent in May from 10.66 percent in April 2012. It was 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.

Forecasts:

The WPI inflation forecasts are 7.44%, 7.23%, 7.08% for June, July and August 2012, respectively. The CPI inflation forecasts are 9.26%, 9.02%, 8.76% for June, July and August 2012, respectively.



Industrial Production

Industrial activity stagnates

The annual growth of Index of Industrial Production for the month of April 2012 has recorded a marginal growth of 0.1 per cent from the 3.5 percent contraction in March 2012. The IIP growth figure for April 2011 was 5.3 per cent. This low growth in May is largely explained by the sharp fall in the capital goods sector.

The Mining, Manufacturing and Electricity sectors for the month of April 2012 grew by (-)3.1, 0.1 and 4.6 percents, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been (-)1.9, 3.0 and 8.2 percent, respectively, during April-May, 2012-13 over the corresponding period of the last year. This moved the overall cumulative growth of the General Index to 2.8 percent.

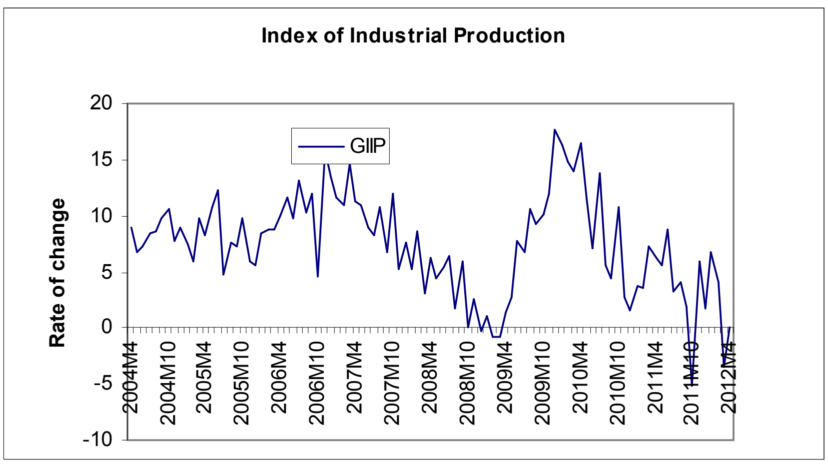
It is not a good sign that out of the twenty-two industry groups, only twelve (12) have shown positive growth during April 2012. Industry groups like 'Publishing, Printing and Reproduction of Recorded Media', 'Medical, precision & optical instruments, watches and clocks' and 'Radio, TV and Communication Equipment and Apparatus' have increased at high rates of 52.7 percent, 29.4 percent and 21.4 percents, respectively, and have helped in arresting the downturn in the IIP.

In April 2012, the annual growth rates in Basic goods and in Intermediate goods stand at 2.3 percent and -1.4 percent, whereas the crucial Capital goods sector contracted at a high 16.3 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 increased at 5.2 percent while the Consumer durables went up by 5.0 percent and Consumer nondurables went up by 5.4 percent in April 2012.

The mining sector may continue to under perform in the short to medium run as the environmental as well as displacement issues may take time to resolve. Similarly, the land acquisition issues 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 record grain production and a normal monsoon forecast have been the sources of great relief. Recently, the IIP growth has become extremely volatile. The low growth in exports is a negative sign for industrial growth. The government needs to be more proactive 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.

Forecasts:

Based on the available information we forecast the IIP growth rate for the next three months to be 2.12%, 2.98% and 4.16% for May, June and July 2012, respectively.



Money and Credit

The year-on-year growth rate of broad money (M3) supply clocked 13.8 percent as on June 15, 2012. This is much lower than its growth of 17.3 percent for the last year. This is also 1.7 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 requirements and decreasing the policy rates. However, recently the liquidity tightened as the Reserve Bank sold dollars to manage the downward pressure on the rupee and due to the advance tax payments.

Money supply is up marginally

It is expected that the policy rates will be revised in the next policy review. The expansion in money supply is contributed by the net credit to the Government increasing at 21.5 percent and credit to the commercial sector at 17.4 percent. Overall credit growth has slowed down. The FIIs have withdrawn large sums of money from the equity markets in India as the Euro zone problem seems not to be stabilizing and the USA economy is very slow in recovery. The money supply is forecast to grow by about 14 percent for the next three months.

Forecasts:
The growth rates of money supply (M3) are forecast to be 13.96 %, 14.12%, and 14.36% for July, August and September, 2012, respectively.

Interest rates

Interest rates are stuck at higher levels

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. 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 policy review due this month. And this may be a trend reversing stance if commodity prices fall resulting lower domestic inflation. On the positive side the oil prices have come down substantially as the Euro Zone economies are facing recession possibilities. This 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. 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 rates. The corporates may not increase their borrowings from outside the country as the rupee may not appreciate much in the short run, 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 come down in next three months.

Exchange rate

The rupee-dollar rate clocked 55.99 for the month of June as against 54.41 for the month of May in 2012 contributed by internal policy lethargy and a not so comforting external situation. The exchange rate was 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.

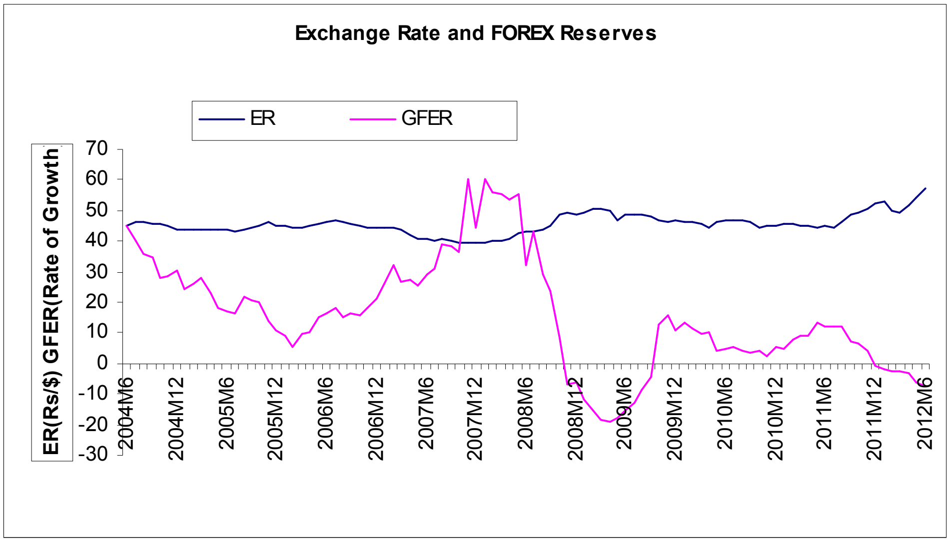
Rupee depreciated sharply

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 low export growth rates in recent months are putting pressure on the rupee. The recent fall in crude prices will help the rupee to recover in the short run.

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. 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 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 macroeconomic recovery of that period.

Forecasts:

In coming months, the exchange rate is expected to be around Rs/$ 55.39, Rs/$ 54.22 and Rs/$ 53.93 for July, August and September 2012.



Foreign Exchange Reserves

Foreign exchange reserves as on June 22, 2012, stood at US$ 288.62 billion as against US$ 288.26 billion on May 25, 2012 to which the foreign currency assets contributed US$ 255.78 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.

Exchange reserves are sticky

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. However, the current depreciation of the rupee, the lowering of GDP growth projections and the Euro zone crisis are pulling down the reserves. The increasing outflow of Indian FDI is contributing to this process. The current Euro Zone crisis is also restraining the FII flows to the Indian stock markets.

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

Forecast:
Forex reserves are expected to stand at US $290.12, $291.8 and, $293.63 billion in July, August and September 2012, respectively.

Foreign Institutional Investment

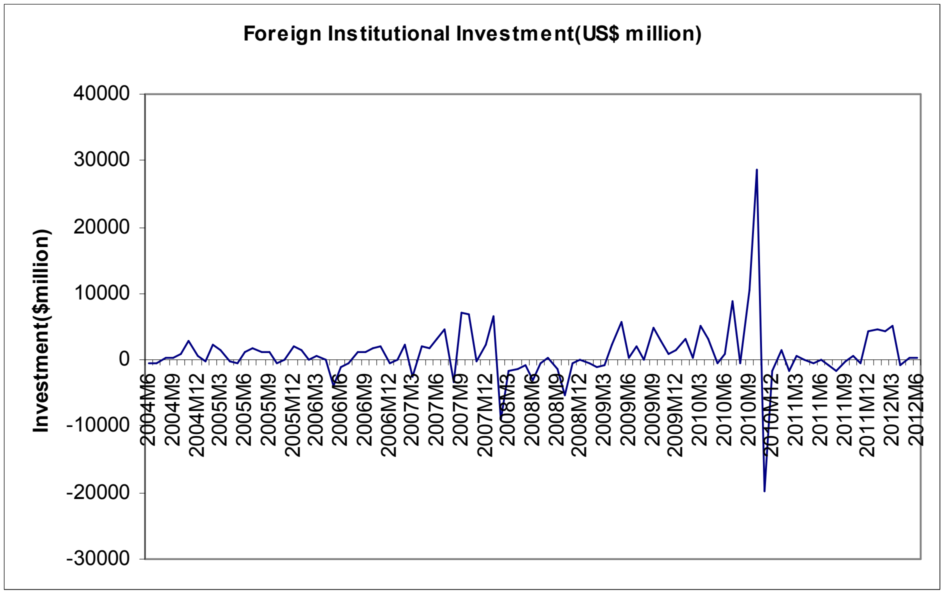
The monthly foreign institutional investments (FIIs) in the Indian market was modest at US$ 209.14 million for June 2012 though the FIIs in equity market were negative at US$ -86.16 million. The monthly average of FIIs was US$ 211.46 million till October 28, US$ -1790.59 million till August 24, US$ -651.93 million till May 20 and US$ -721.13 million for February 2011. This is 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 though in the last few months they are quite low and, at times, negative. 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.

FIIs flows are positive

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 17600 due to the high policy rates of RBI, and low value of the rupee. It is forecast that the inflows are going to be moderate in the next three months as the crisis in the Western economies are not subsiding.

Forecast:
Inflows expected to be moderate in the in the next three months.



Exports and Imports

Exports growth turns negative

Exports in May 2012 have contracted by 4.16 per cent in dollar terms over the corresponding month of the previous year. The figures for April, March, February and January 2012 were 3.23, 5.71, 4.28 and 10.10 percents expansion, respectively. In May, petroleum products, engineering goods, gems and jewellery and readymade garments sectors saw substantial contraction in exports. High base effect and the Euro zone crisis is pulling down the export growth even if depreciation of rupee is very substantial. Higher inflation at home is not a good sign for exports. Cumulative value of exports for the period April-May 2012-13 stood at US$ 50.14 billion registering a negative growth of 0.69 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 5.7 percent contraction in March 2012. The recent foreign trade policy may help exports to pick up.

Imports are down sharply

Imports in May, 2012 have shown a negative growth of 7.36 per cent in dollar terms over the corresponding month in 2011 as against 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 respectively. Cumulative value of imports for the period April-May 2012-13 stood at US$ 79.89 billion registering a negative growth of 2.42 per cent over the same period last year. The fall of imports of plant and machinery by 8 percents in May reinforces the fact that investment in the economy is slowing down.

Oil imports during May, 2012 pegged at US$ 14.99 billion grew up by 14.02 percent over the corresponding period last year. Oil imports during April-May, 2012-13 pegged at US$ 28.90 billion grew up by 10.51 percent over the corresponding period last year. Non-oil imports during May, 2012 estimated at US$ 26.96 billion contracted by 16.11 per cent over the corresponding period last year.

Non-oil imports during April–May, 2012-13 pegged at US$ 50.99 billion decreased by 8.49 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 low levels in recent times. The low export growth and high oil prices resulted in huge trade deficits. However, the recent fall in crude prices will help in arresting the deficit.

Trade deficit declines

The trade deficit for April-May, 2012-13 was estimated at US $ 29.75 billion which was lower than the deficit of US $ 31.38 billion during the same period last year as imports have contracted more the exports.

Forecast:

Exports growth rate is forecast as monthly average of 12.12% and import growth rate as monthly average of 6.63% for June, July and August 2012.