MONTHLY MONITOR

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	Highlights
Industrial activity is marginally up	The annual growth of Index of Industrial Production for the month of August 2011 has come out at 4.1 percent. The cumulative growth for April-August 2011-12 stands at 5.6 percent over the corresponding periods of the previous year. This positive growth in August is largely explained by a rise of 5.4 percent in the growth of intermediate goods. Though the industrial activity is showing the signs of pick up again, the inflationary concern and the global uncertainties remain.
WPI inflation is sticky at high level	The year on year WPI inflation was 9.72 percent in September, marginally lower than the 9.78 percent for August 2011, and is largely explained by the high base effect. The inflation in same month of the previous year was 8.98 percent. Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent, except in November when it was 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 inflationary woes.
CPI inflation shoots up	The annual growth in all India Consumer Price Index Number for Industrial Workers is sharply up at 10.06 percent in September as against 8.29 percent in August. The much sensitive food inflation also contributed to the rise in CPI as it went up to 8.29 percent in September from 7.33 percent in August 2011. The CPI inflation was at 8.82 percent both in March and February 2011.
Rupee depreciated sharply	The continuous flow of FIIs into Indian stock market and the strong growth of Indian economy in recent months have assisted in strengthening the Indian rupee. The rupee fluctuated in a narrow range. The monthly average value of dollar was 44.79 till August 24, 2011. However, very recently, it is touching 49 rupees mainly due to the downgrading of USA economy and Euro zone crisis.
Exchange Reserves up marginally	Foreign exchange reserves went up almost progressively from US$ 273.72 billion on May 28, 2010 to US$ 318.36 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 314.61 billion of May 2008. These impressive figures amid so much

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	global uncertainties clearly show the foreign investors' confidence about India's long term growth prospects.
Exports growth keeps healthy momentum	The export grew at a healthy 36.36 per cent in September 2011 against a stunning 81.8 percent in July 2011. The cumulative value of exports for the period April-September 2011 -12 has grown at a staggering of 52.08 per cent over the same period last year. Imports grew at 17.2 percent during September, 2011 as against a huge 51.5 percent growth in July, 2011. Non-oil imports during April 2010 – September 2011 are 28.52 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-September, 2011 trade deficit increased to US$ 73.46 billion from US$ 71.12 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)	9.72% in September 2011	9.40%, 9.25%, 8.96%
Inflation rate (CPI)	10.06% in September 2011	10.21%,10.09%,9.89%
Growth rate of IIP	4.1% in August 2011	5.98%, 6.23% , 6.73%
Growth rate of M3	16.2% on October 7, 2011	16.31 %,16.39%,16.43%
Re/$ exchange rate	. 49.28 monthly average till October 28, 2011	49.36, 49.11, 48.91
Forex reserves	US$ 318.36 billion on October 21, 2011	$317.84, $318.38, $319.01
FII inflows (Net)	US$ 211.46 million for the month till October 28 , 2011	Inflows expected to pick up in the next three months
Growth rate of exports	36.3% in September 2011	Average for the next three months 36.98%
Growth rate of imports	17.2% in September 2011	Average for the next three months 27.98%

Inflation

WPI inflation marginally down

The year on year WPI inflation was 9.72 percent in September, marginally lower than the 9.78 percent for August 2011, and is largely explained by the high base effect. The inflation in same month of the previous year was 8.98 percent. Since August 2010 when the new series was introduced, the inflation was always higher than 8 percent, except in November when it was 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 September 2011, the primary articles index with a weight of 20.12 percent rose by 1.3 percent while the index for fuel, power, light and lubricants with a weight 14.91 percent was up by 0.8 percent, and the index for the principal sector, the manufacturing products with a weight of 64.97 percent was up by 0.2 percent over the previous month.

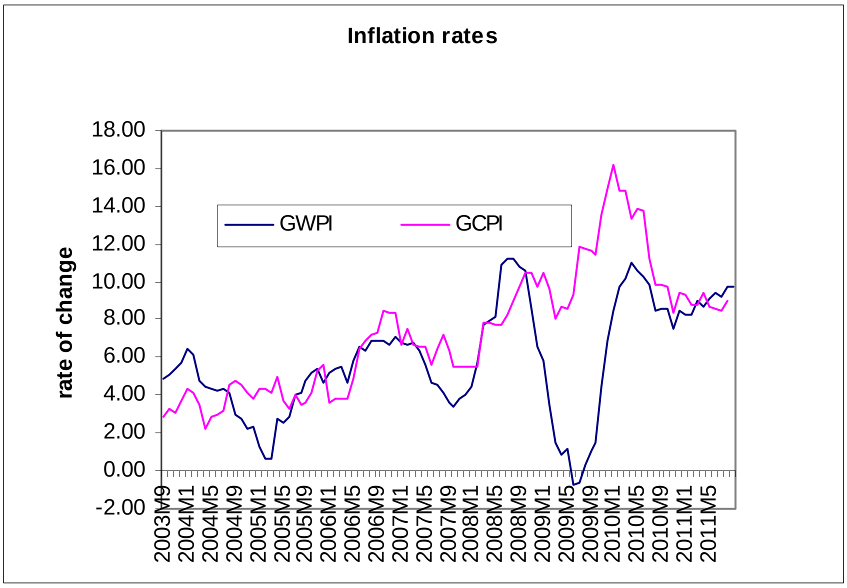
Since last many months, though accelerated food price increase, the increase in input prices for manufacturing, the increasing trend of crude prices and the short-term falling trend of rupee were putting an upward pressure on inflation, the withering of the base effect, the continuing monetary tightening of RBI and the other government measures were putting a downward pressure on inflation. Recently the food prices have again started shooting up though the manufactured goods inflation is down a bit indicating the dominance of supply led 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, the area under Rabi crops has gone up and the monsoon forecast for the 2011-12 agricultural year is positive. On balance, the inflation is likely to marginally go down in the next three months.

CPI inflation sharply up

The annual growth in all India Consumer Price Index Number for Industrial Workers is sharply up at 10.06 percent in September as against 8.29 percent in August. The much sensitive food Inflation contributed to the rise in CPI as it went up to 8.29 percent in September from 7.33 percent in August 2011. The CPI inflation was at 8.82 percent both in March and February 2011. Even though the CPI is high for September 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 9.40%, 9.25 %, and 8.96 % for October, *November and December 2011 respectively. The CPI inflation forecasts are 10.21%, 10.09% and 9.89% for October , November and December 2011 respectively.*



Industrial Production

The annual growth of Index of Industrial Production for the month of August 2011 has come out at 4.1 percent. The cumulative growth for April-August 2011-12 stands at 5.6 percent over the corresponding periods of the previous year. This positive growth in August is largely explained by a rise of 5.4 percent in the growth of intermediate goods.

Industrial growth marginally up

The Mining, Manufacturing and Electricity sectors for the month of August 2011 grew at -3.4 percent, 4.5 percent and 9.5 percent, respectively, as compared to the same month in the previous year. The cumulative growth in the above mentioned three sectors has been 0.2, 6.0 and 9.5 percents, respectively, during April-August, 2011-12 over the corresponding period of the last year.

It is not a good sign that out of the twenty-two industry groups, only eleven have shown positive growth during August 2011. Industry groups like 'Radio, TV and communication equipment & apparatus', 'Other transport equipment' and 'Fabricated metal products, except machinery & equipment' have increased at reasonably high rates of 12.5 percent, 12.1 percent and 11.6 percent, respectively, and have helped the IIP to maintain its positive trend.

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 strong and the uncertainty associated with the global demand is reducing, unless the supply constraints are progressively reduced the growth may retard in the Manufacturing sector. The crisis in the middle east and Europe is adding to the problem of uncertainty.

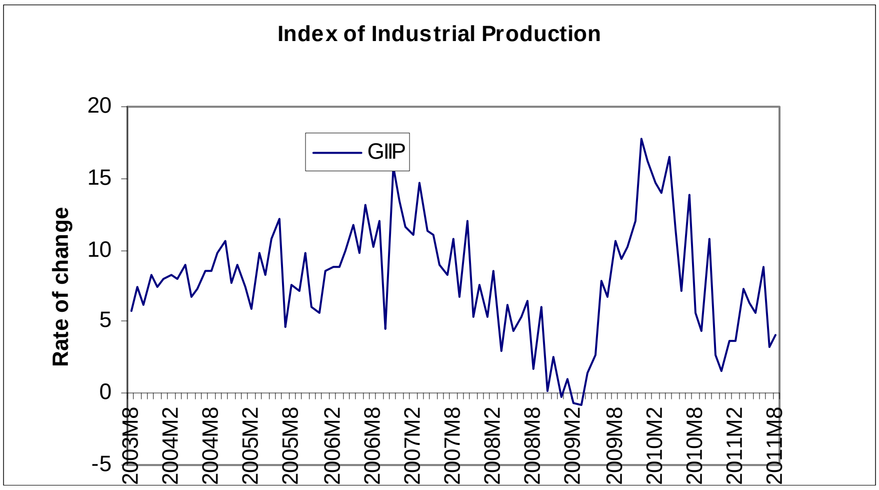
In August, 2011, the annual growth rates in Basic goods and in Intermediate goods are 5.4 percent and 1.3 percent, whereas the crucial Capital goods increased by a measly 3.9 percent. This is not a very good sign for sustaining the overall growth rate in the economy especially when the output gap is closing up in the economy. The Consumer goods rose at 3.7 percent while the Consumer durables grew at 4.6 percent and Consumer non-durables increased at 2.9 percent.

The Consumer durables and Consumer non-durables have recorded growth of 4.6% and 2.9%. ‘Food Products and beverages’ have increased at a rate of 8.3 percent in August 2011 and 14.6 percent during period April –August 201-2012

The uptrend in the industrial activity is getting consolidated. 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 as the low-base effect wore off and the impact of rate hikes and withdrawal of stimulus picked up. Though global recovery is picking up, the inflation pushed rate hikes will pull the growth down. However, the forecast of a normal monsoon will provide a great relief. Recently, the IIP growth has become extremely volatile. The high growth in exports is a positive sign for industrial growth. However, the Euro zone crisis is a worrying sign in short run. The IIP growth is likely to be around 6 percent in the next three months.

Forecast:

Based on the available information we forecast the IIP growth rate for the next three months to be 5.98%,6.23% and 6.73% for September ,October and November 2011



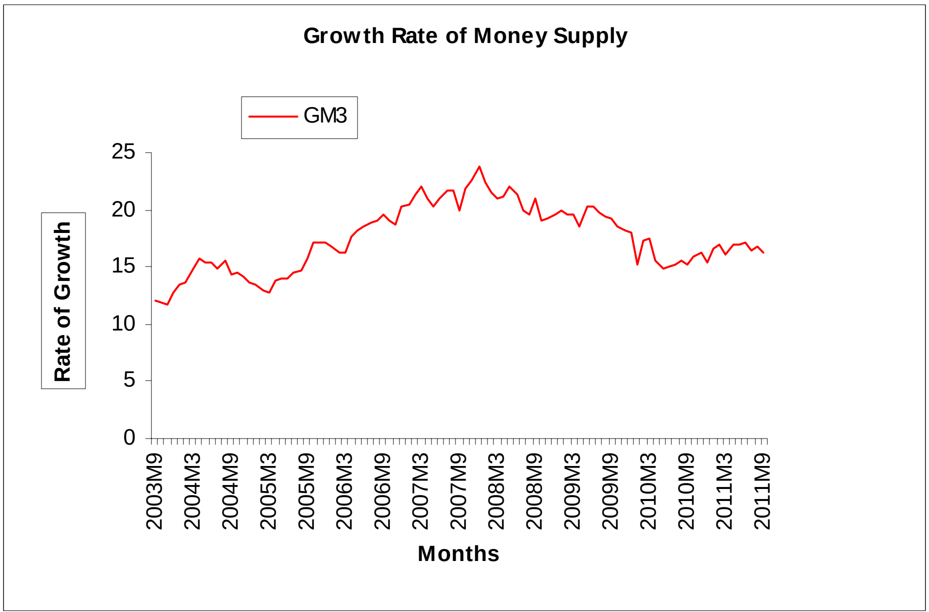
Money supply is sticky at almost the same level

Money and Credit

As on October 7, 2011, Money supply grew annually at 16.2 percent. It is growing around 16 percent since last nine 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 by another 25 basis points in coming December. The expansion in money supply is contributed by the net credit to the Government increasing at 22.9 percent and credit to commercial sector at 18.7 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.

Forecast:

The forecast for the growth rate of money supply (M3)is16.31 %,16.39% and 16.43% for , November, December 2011 and January 2012



Interest rates

As the positive signs of the revival of the economy are sustaining itself and inflation has become sticky at an unacceptable level, the RBI started withdrawing from its low policy rates regime gradually went on increasing the policy rates. The trend is going to continue, even though at a slower pace, given the inflationary expectations in the economy. 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 7.25 percent. The inflation rates (WPI) are touching the double digits as the oil prices has gone up sharply

Interest rates are in upward spiral

due to the middle east crisis as well as revival in western economies. The growth momentum as well as the large fiscal deficit in the economy backed by domestic demand is putting pressure on prices. The prime lending rates are also 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, increases in prices and GDP will increase the demand for money while monetary tightening by RBI will reduce the supply putting further pressure on the market interest rates. The corporates may increase their borrowings from outside the country as interest rates are low there, which may have a softening effect on the domestic interest rates. On balance, we would like to believe that the market interest rates may increase further.

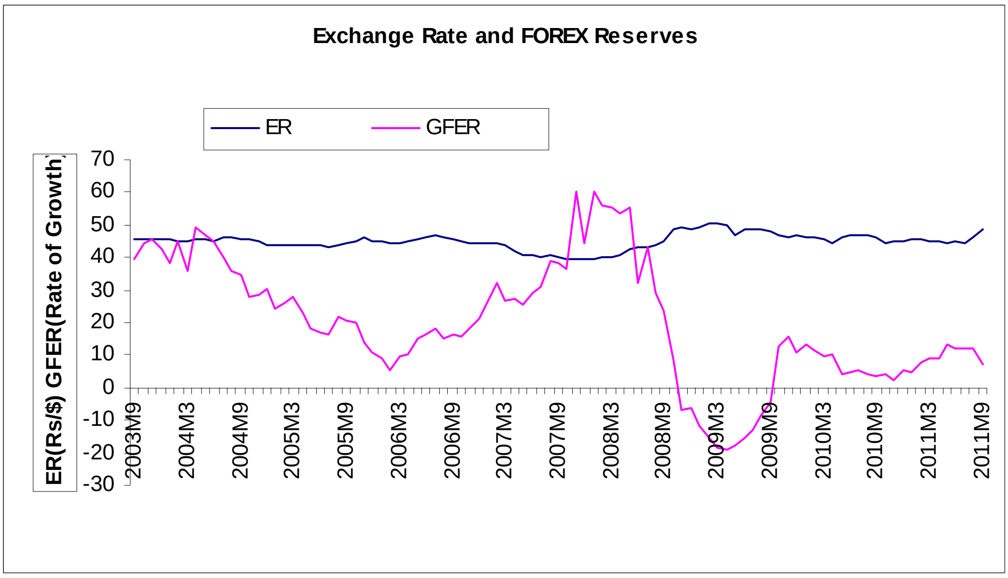
Exchange rate

Rupee depreciate sharply

The monthly average of rupee depreciated to a low of 49.28 till October, 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. However, it may be a short run phenomenon. In medium to long run, 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/$49.36 , Rs/$49.11 and Rs/$48.91 for November, December 2011 and January 2012



Foreign Exchange Reserves

Foreign exchange reserves stood at US$ 318.36 billion on October 7, 2011. It was 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, due to the middle east crisis and the predicted higher growth rate for world economy, the high oil import prices could restrain the accumulation of reserves. The increasing outflow of Indian FDI to other countries is also restraining the accumulation. The current Euro Zone crisis is also restraining the FII flows to Indian stock markets. On balance, we forecast not much change in reserves for the next three months.

Forecast:

Forex reserves expected to be $317.84 billions, $318.38billions and $ 319.01billions in November, December 2011and January 2012

Exchange reserves are up

Foreign Institutional Investment

The monthly foreign institutional investments (FIIs) in Indian market turned positive at US$ 211.46 million till October 28, 2011. It was 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.

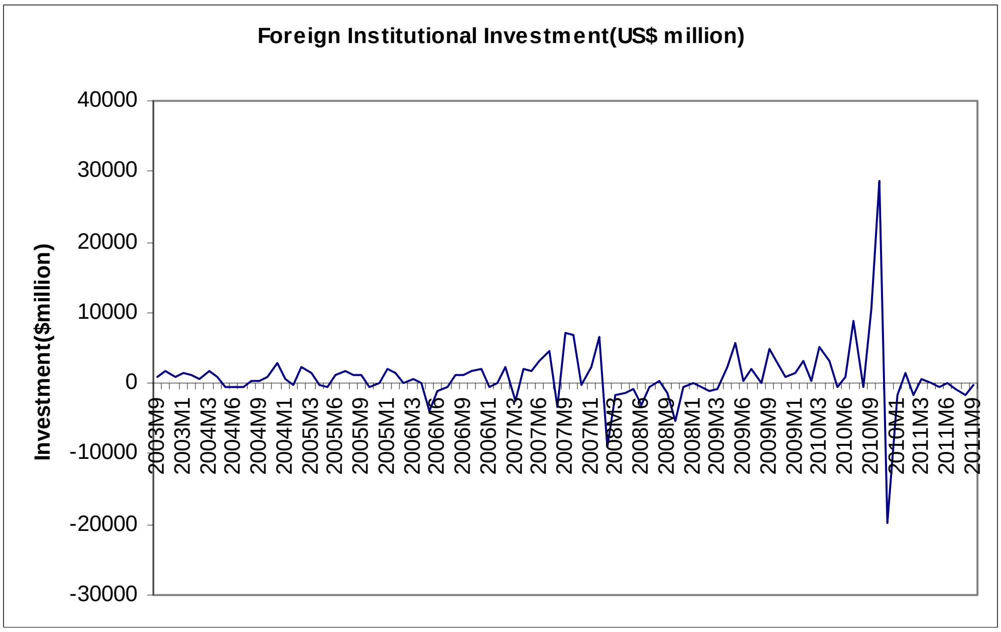
For 2009-10, the cumulative FIIs were 29047 million as against -15017 million for 2008-09. The revival in major global economies along with the improvement in Indian share markets had helped in reversing the negative trend of foreign institutional investments of the crisis period of the economy. After 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 17000 due to the repeated hike of policy rates by RBI. The high

FIIs flows are positive

inflation indicating further rise in interest rates, expected falling rate of profit due to increase in input prices are also weighing down the Sensex. 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.

Forecast:

Inflows expected to pick up in the next three months



Exports and Imports

The export grew at 36.36 per cent in September 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 exports rose at a healthy 37.5 percent during April 2010- march 2011. The cumulative value of exports for the period April-September 2011 -12 has grown at a staggering of 52.08 per cent over the same period last year.

It is expected that the exports would grow at an average of 36.98 percent 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 7.2 percent during September, 2011 in Dollar terms over the same period last year. Cumulative value of imports for the period April-September, 2011-12 grew at 32.41 per cent in Dollar terms over April-

September 2010-11.

Exports keeps healthy momentum

In September 2011, non-oil imports grew at 18.17 percent, while oil imports rose by 14.62 percent over the corresponding period last year. Non-oil imports during April 2010 – September 2011 are 28.52 per cent higher than the non-oil imports in the same period last year while the figure for oil imports is 42.39 percent. The substantive rise in non-oil imports during last ten months shows the demand side is stabilizing at a higher level due to the rapid recovery process in the domestic economy.

Imports grows at 17.2 percent

The trade deficit declined to US$ 9.77 billion in September 2011. It was up at US$ 11.3 billion a year ago. However, the April-September, 2011 trade deficit increased to US$ 73.46 billion from US$ 71.12 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 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.

Trade deficit declines

Forecast:

Exports growths and import growths are forecasted as average of 36.98% and 27.98% for the next three months.