



Decide with Confidence

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Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	0.20% - 0.40% (May-09)	0.44% (Apr-09)
Inflation C.P.I (I.W)	8.4% - 8.6% (Apr-09)	8.03% (Mar-09)
INR/US\$	48.80 - 49.10 (May-09)	50.06 (Apr-09)
I.I.P Growth	0% - 1.0% (Apr-09)	(-)2.30% (Mar-09)
15-91 day's T-Bills	3.9% - 4.1% (May-09)	3.63% (Apr-09)
10 year G-Sec yield	6.7% - 6.9% (May-09)	7.42% (Apr-09)
Bank Credit*	18.2% - 18.5% (May-09)	18.5% (Apr-09)

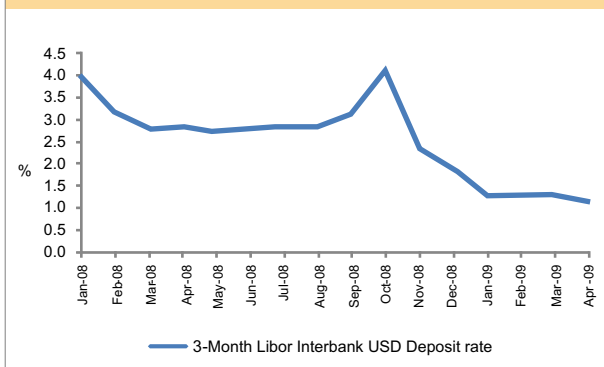
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q4 FY09)	Latest Period (Q3 FY09)
GDP	6.2%	5.3%
Agriculture	2.5%	(-)2.2%
Industry	3.3%	2.4%
Services	8.7%	9.9%

Liquidity conditions began to ease



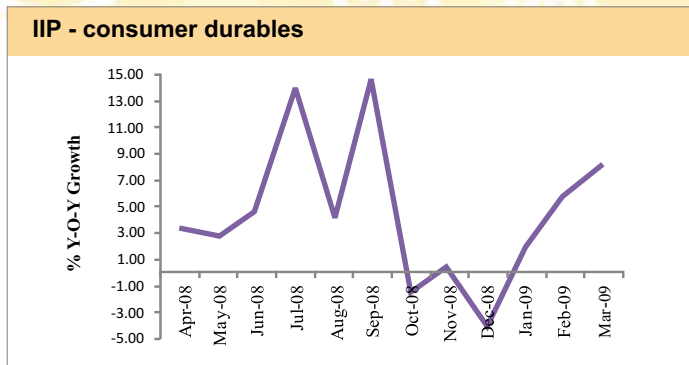
Source: European Central Bank

Given that exports are estimated to be weak and domestic demand conditions to be subdued in the short run, growth in industrial production is expected to remain low during most of H1 FY10. While the IIP figures for the last two months have been pointing towards subdued industrial production, the de-seasonalized IIP data reveals that rapid contraction in the industrial output has been arrested to a certain extent. Further, an increase in rail freight loading during Mar-Apr 09 as well as modest improvement in sectors such as cement, steel, consumer durables (auto) and capital goods can be viewed as incipient signs of stability entering the economy. Easing of liquidity conditions and interest rates in the domestic and international markets should provide some support to investment and industrial activity in H2 FY10. In fact, with a sharp decline in three-month Libor, spread over Libor has narrowed significantly in the international markets. This might enable Indian corporates to raise funds from abroad at cheaper rate.

Although liquidity conditions in the banking system have improved significantly, credit growth has remained moderate owing to substantial slowdown in overall economic activity and increased risk aversion on the part of banks. The RBI therefore eased its monetary stance further in its annual monetary policy review in order to boost credit off-take and support the domestic economy. However, despite a 300 bps cut in the repo rate by the RBI since Oct-08, the reduction in BPLRs by banks has not been commensurate. Nonetheless, D&B expects lending rates (BPLR) to ease gradually going forward. Furthermore, D&B expects the RBI to take more measures such as easing of lending norms and putting a ceiling on funds parked under the reverse repo window, in order to induce banks to facilitate credit for productive purposes.

On inflation front, inflation in food grains is not showing any signs of tapering and is likely to be an added concern. Nonetheless, the near normal monsoon forecasts for 2009 by the Indian Meteorological Department has raised hopes for good crops. This might ease inflationary pressures in primary food articles segment. Going forward, D&B expects the headline inflation to touch sub-zero level somewhere in Jun-09, as the impact of the high statistical base starts to show up. The economy will continue to experience sub-zero level of inflation for a few months after that.

Real Economy



Source: CSO

- IIP growth drops to a record low of -2.3% during Mar-09.
- IIP growth numbers for Feb-09 revised upwards to -0.7% from the initial estimate of -1.2%.
- Consumer durables posted positive growth for the third month in a row.
- Capital goods production declined by 8.23% during Mar-09 after registering double digit growth in previous two months; base effect at play.
- Infrastructure growth improves marginally; Index of six core-infrastructure industries grew by 2.9% in March, the highest since Sep-08.
- Electricity production grew by 6.25% during Mar-09 as against 3.65% in Mar-08.

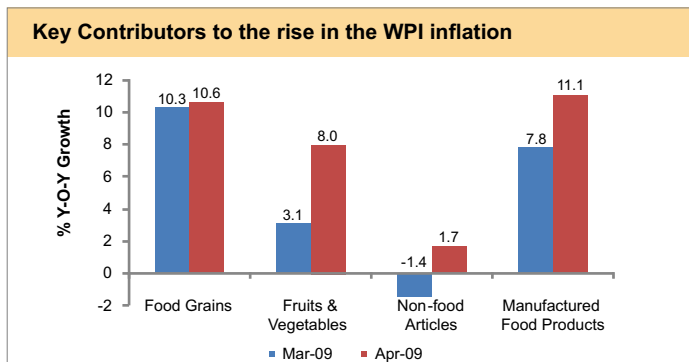
	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	0.0% - 1.0% (Apr-09)	(-)2.30% (Mar-09)	(-)0.72% (Feb-09)

A long-term analysis of IIP data reveals that the March numbers tend to be higher than the February numbers by 25 points on an average – this time, this number stands at around 24 points, thus in line with long term trend. However, given that Feb itself was in the negative, Mar 09 looks dismal.

De-seasonalized IIP data, which shows an average m-o-m growth in industrial production of 0.4% during Feb-Mar FY09, as against a decline of 1.1% during Oct-Jan FY09, provides some glimmer of hope. Further, improvement in consumer durables growth coupled with increase in passenger vehicle sales reflects some consolidation in domestic demand conditions. Positive growth in the capital goods sector during Jan-Mar quarter, modest improvement in cement production, pick-up in auto sales and rail freight loading are some early signs that stability may be setting in. While it may be too early to conclude a sustained demand recovery in the economy based upon these indicators, they do provide a base for the inevitable economic revival to take place.

As lending conditions and rates in the domestic and international markets ease, we should see improvement in production and investment. Also uncertainty in terms of demand revival, which was more pronounced in Mar 09, seems to be abating now and is likely to aid industrial production in the medium to long run period. However, exports are likely to remain weak in the next few months and would hamper production in export oriented industries.

Price Scenario



Source: Ministry of Commerce

- The WPI inflation inched up to 0.4% during Apr-09.
- Given the significant rise in prices of food grains and fruits & vegetables, inflation in primary food articles surged to 7.3% during Apr-09.
- In fact, if we exclude food grains and fruits & vegetables categories from the WPI basket, the WPI inflation rate falls into a negative zone (approximately -0.2%) during Apr-09.
- Prices of non-food articles which witnessed some decline during Mar-09, surged by 1.7% during Apr-09 owing to rise in prices of fibres and oil seeds.
- Fuel group registered deflation of 5.9% during Apr-09.
- Despite soaring prices of manufactured food products, a substantial decline in prices of basic metal alloys & metal products led to a further moderation in manufactured products inflation to 0.9% during Apr-09.

	Forecast	Actuals	
		Latest Period	Previous Period
Inflation W.P.I	0.20% - 0.40% (May-09)	0.44% (Apr-09)	0.43% (Mar-09)
Inflation C.P.I (I.W)	8.4% - 8.6% (Apr-09)	8.03% (Mar-09)	9.63% (Feb-09)

All figures are monthly averages

The rise in inflation rate during Apr-09 comes as a surprise; as we were expecting it to turn negative. Unexpected rise in prices of primary food articles (particularly food grains and fruits & vegetables) coupled with increase in international crude oil prices have contributed to the increase in the headline inflation during Apr-09. Moreover, given the sharp rise in prices of primary food articles, consumer price inflation is likely to remain high during Apr-09.

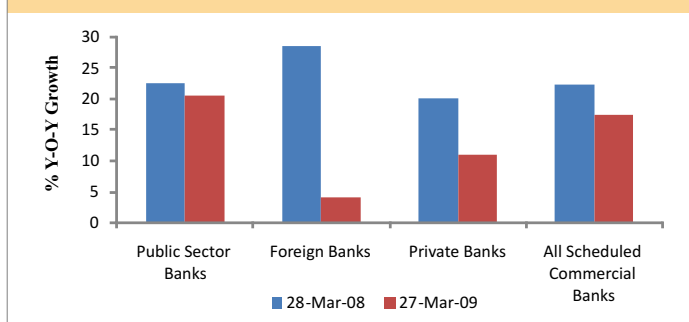
Inflation in food grains is not showing any signs of tapering and is likely to be an added concern. The rise in prices of food grains such as wheat, rice and other cereals is possibly due to higher Minimum Support Price (MSP) paid to farmers.

The near normal monsoon forecasts for 2009 by the Indian Meteorological Department has raised hopes for good crops. This might ease inflationary pressures in primary food articles segment in future.

Going forward, D&B expects the headline inflation to touch sub-zero level somewhere in Jun-09, as the impact of the high statistical base starts to show up. The economy will continue to experience sub-zero level of inflation for a few months after that. D&B expects the WPI inflation to average between 0.20%-0.40% during May-09.

Money & Finance

Credit flow from schedule commercial banks



Source: RBI

- RBI reduced the Repo and Reverse Repo rates under the LAF by 25 basis points each to 4.75% and 3.25%, w.e.f. 21-Apr-09.
- RBI projects growth in money supply (M3) for FY10 to be at 17%.
- Given the abundant liquidity in the system, the RBI decided to conduct only one LAF auction from 6-May-09 as against two auctions conducted since 16-Sep-08. The RBI will conduct the second LAF only on reporting Fridays.
- Growth in bank credit moderated to 18.1% as on 24-Apr-09 as compared to 23.2% during year ago period.
- According to latest available data, the deceleration in credit expansion was observed across the banking system, but it was sharper for the private and foreign banks.

	Forecast	Actuals	
		Latest Period	Previous Period
15-91 day's T-Bills	3.9%-4.1% (May-09)	3.63% (Apr-09)	4.55% (Mar-09)
10 year G-Sec yield	6.7%-6.9% (May-09)	7.42% (Apr-09)	7.25% (Mar-09)
Bank Credit*	18.2%-18.5% (May-09)	18.5% (Apr-09)	17.7% (Mar-09)

All figures are monthly averages

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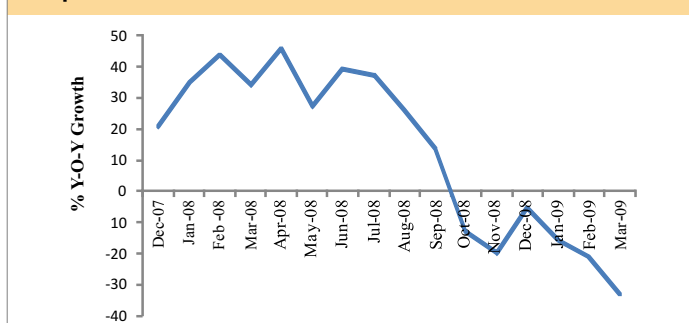
Significant slowdown in overall economic activity along with increased risk aversion on the part of banks (especially foreign and private sector banks) seems to have resulted in considerable moderation in bank lending so far. These factors might continue to weigh down credit growth at least in near future.

While the recent policy rate cuts could result in lowering of short-term rates, the long end of the yield curve is expected to remain elevated owing to the Government's huge borrowing programme. Moreover, the reduction in bank's BPLR has not been in tandem with the RBI rate cuts. However, the G-sec yields have declined marginally in April and May so far and imply that cost of borrowing for the first class corporates, which are generally charged interest rates equivalent to 50 bps above 5 year G-sec yield, might ease. Further, D&B expects lending rates (BPLR) to ease gradually going forward.

Despite many measures such as reduction in reverse repo rate, decision to conduct only one LAF etc, banks continue to park significant amount of funds in the reverse repo window. However, directing flow of credit to the productive sectors of the economy is essential. Hence D&B expects RBI to ease the lending norms further and take certain other measures such as putting a ceiling on funds parked under the LAF.

External Sector

Exports decline for the sixth consecutive month



Source: Ministry of Commerce & Industry

- In Mar-09, India's exports declined by 33.3% (y-o-y, US\$ terms) taking the cumulative growth in exports during FY09 to 3.4%.
- Exports for FY09 stood at US\$ 168.7 bn and were lower than even the Government's revised target of US\$ 175 bn.
- In rupee terms, exports declined by 15.3% (y-o-y) in Mar-09.
- While oil imports declined by as much as 58.1% (y-o-y, US\$ terms), non oil imports fell by 19% during Mar-09.
- With imports declining at a greater pace than exports, trade deficit narrowed to US\$ 4.04 bn during Mar-09 as against 6.32 bn in Mar-08.
- Rupee appreciated from 50.3 per US\$ on 2-Apr-09 to 49.23 per US\$ on 11-May-09.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	48.80-49.10 (May-09)	50.06 (Apr-09)	51.23 (Mar-09)

All figures are monthly averages

According to the IMF forecast, although the rate of decline in the world economic growth is likely to moderate from Q2 2009 onward, it is expected to register a decline of as much as 1.3% in 2009 as a whole. Given the gloomy outlook of the global economic growth the world trade is likely to remain grim. Further, with many countries resorting to protectionism in order to provide support to the domestic economy, downside risks to global trade have been on a rise.

With bleak growth outlook for developed countries like US & EU, which account for substantial proportion of India's exports, Indian exports are likely to remain weak in short term. India's imports, both oil as well as non-oil, are also expected to be muted given subdued demand conditions in the domestic economy. However, increase in prices of international crude oil might constraint the rapid fall in oil-imports bill, witnessed during past few months.

With some early signs of stability entering in the global economy and easing of liquidity conditions in the global financial system, some FII inflows have begun to resume in the domestic stock markets. The FIIs have been net buyers in equity to the tune of US\$ 2 bn between 1-Apr-09 and 8-May-09. Going forward, we do not expect any sharp surge in the inflow of FII in short-term. Hence rupee is expected to remain around the current levels and average at 48.80-49.10 during May-09.