



Decide with Confidence

View from the top

Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	(-)-1.3%-(-)1.1%Aug-09	(-)1.45% Jul-09
Inflation C.P.I (I.W)	9.2%-9.4%Jul-09	9.29% Jun-09
INR/US\$	48.10-48.40 Aug-09	48.48 Jul-09
I.I.P Growth	3.5%-4.5%Jul-09	7.80% Jun-09
15-91 day's T-Bills	3.9%-4.2%Aug-09	3.01% Jul-09
10 year G-Sec yield	7.2%-7.4%Aug-09	7.15% Jul-09
Bank Credit*	15.5%-16.0%Aug-09	15.4% Jul-09*

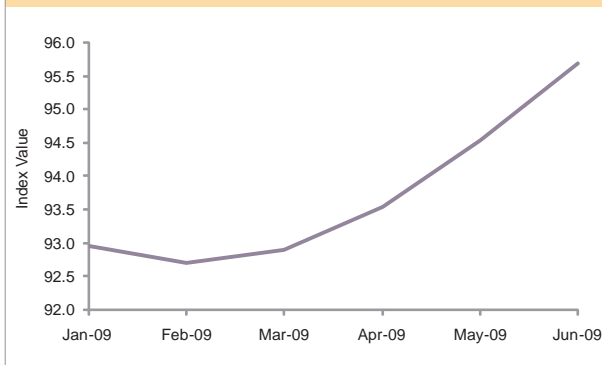
All figures are monthly averages

*Refers to End period
*Outstanding as on 17-Jul-09

Dun & Bradstreet's GDP Forecasts

	Forecast (Q1 FY10)	Latest Period (Q4 FY09)
GDP	6.2	5.8
Agriculture	2.9	2.7
Industry	2.5	1.4
Services	8.9	8.6

Composite Leading Indicator for OECD Countries



Source: OECD

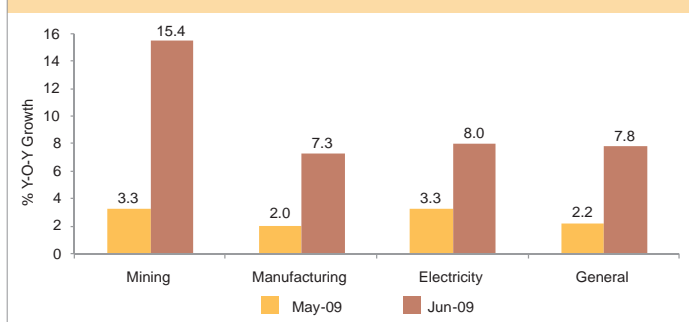
Various indicators such as industrial production, direct tax collection, auto sales, railway revenues, business sentiment have witnessed gradual improvement in the past couple of months, supporting our initial view that the Indian economy would set into the revival phase by H2 FY10. However, the deficiency in the monsoon, which has a potential to weigh down the agriculture output, could prove to be a major impediment on the path towards recovery.

While D&B expected IIP to post a positive growth during the month of June-09, a substantial increase of 7.8% came as a pleasant surprise. The Index has reversed the seasonal pattern of the June Index number typically being below that for May. The Index has registered an increase of 9.5 percentage points (m-o-m) during Jun-09 as against an average decline of 5.6 percentage points m-o-m during the last three years and average decline of 2.4 percentage points m-o-m since 1993-94. Therefore, it may be premature to state that this is a sustained industrial bounce-back, and perhaps cautious optimism needs to be maintained when reading into these numbers. Although, the significant growth in June IIP could prove to be an aberration, the upward trend in industrial production during the recent months indicates some sign of stability returning into the economy. The sharp surge in June IIP can be partly attributed to delay in monsoon. Some production activity especially mining which normally declines in June every year (start of monsoon in India) has continued owing to delay in monsoon.

The deficiency in monsoon could be dampening for the overall economic growth going forward. While the sowing of Kharif crops during this season has improved towards end of July-09 as compared to early July, it is down by about 6% (y-o-y). If the deficiency in monsoon persists, it might affect the agricultural output severely and thereby dampen rural demand, which has shown some sign of improvement in recent past. Further, a persistent monsoon problem might require additional spending by the government to support the struggling farmers and ensure food security which in turn might put upward pressure on the already high fiscal deficit. Another overriding concern in the past few months has been surging primary article prices. Given expected lower agricultural output, excess liquidity in the system coupled with the waning base effect, the WPI inflation is likely to rear its head again. As the potential inflationary pressures begin to mount, maintaining a proper balance between inflationary expectations and growth would be a very crucial task for the RBI and the Government in near future.

Real Economy

Growth in Industrial Production



Source: CSO

- Industrial output as measured by the Index of Industrial Production (IIP) registered a significant growth of 7.8% (y-o-y) in Jun-09 as against 2.2% in May-09. The mining, manufacturing and electricity sectors too recorded a substantial growth of 15.4%, 7.3% and 8% respectively.
- Basic goods sector grew by 10.1% in Jun-09, contributing almost 45.5% to the growth in overall industrial production.
- Given a sustained improvement in the growth of 'textile products', 'paper & paper products', 'leather & leather products', 'basic chemicals & chemical products' sectors, intermediate goods' output grew by 7.9% in Jun-09.
- The Index of six-core industries registered a growth of 6.5% in Jun-09 on account of improvement in the growth of cement & coal production.

	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	3.5%-4.5% Jul-09	7.8% Jun-09	2.22% May-09

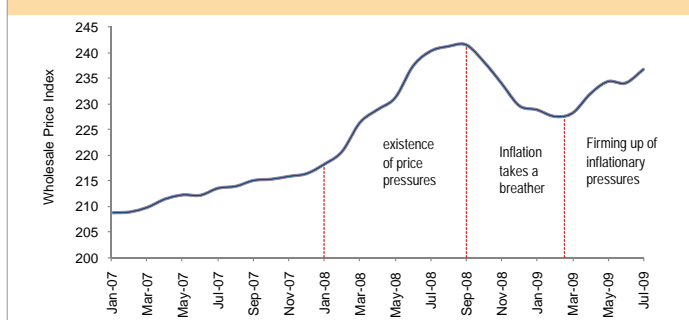
Although growth in industrial production has been witnessing some improvement since last few months, a substantial growth of 7.8% in Jun-09 came as a surprise. Further, the seasonal pattern of the IIP data reveals that the Index number for June is below that of May. However, the Index for Jun-09 has reversed this seasonal pattern and registered a m-o-m increase of 9.5 percentage points during Jun-09 as against an average decline of 5.6 percentage points during the last three years. The significant increase in IIP seems to be an aberration and should be dealt with a cautious optimism.

Nonetheless, sustained improvement in growth of intermediate goods sector and higher growth in six infrastructure industries are likely to have supported the overall IIP growth during Jun-09. Further, in the monsoon, cement and coal production generally declines. However this year, production of cement and coal has continued due to the delay in monsoon, thus leading to a significant increase in production of coal and cement (together account for around 5.2% of the IIP) during Jun-09.

The positive impacts of monetary and fiscal stimulus are gradually panning out as are evident from growth in the overall industrial activity. However, the deficit in the monsoon in the recent period, which has potential to affect agricultural production as well as rural demand in future, could turn out to be a major impediment in the revival phase.

Price Scenario

Trends in Wholesale Price Index



Source: Ministry of Commerce

- The WPI for all commodities declined by 1.45% during Jul-09 due to high statistical base of the previous year.
- Inflation in primary food articles inched up to 9.0% during Jul-09 on account of elevated prices of food grains and fruits & vegetables.
- Amongst cereals, prices of Rice, Jowar, Bajra and Maize increased substantially; registering y-o-y growth rate of 15.1%, 13.2%, 27.1% and 14.9% respectively.
- Inflation in manufactured food products slowed down to 9.3% during Jul-09 as against 11.1% during Jun-09 owing to a decline in prices of edible oils and a significant moderation in inflation of oil cakes.
- Given the higher prices of primary food articles, consumer price inflation for industrial workers (CPI-IW) surged to 9.3% during Jun-09 as against 8.6% during May-09.

	Forecast	Actuals	
		Latest Period	Previous Period
Inflation W.P.I	(-)1.3%-(-)1.1% Aug-09	(-)1.45% Jul-09	(-)1.25% Jun-09
Inflation C.P.I (I.W)	9.2%-9.4% Jul-09	9.29% Jun-09	8.63% May-09

All figures are monthly averages

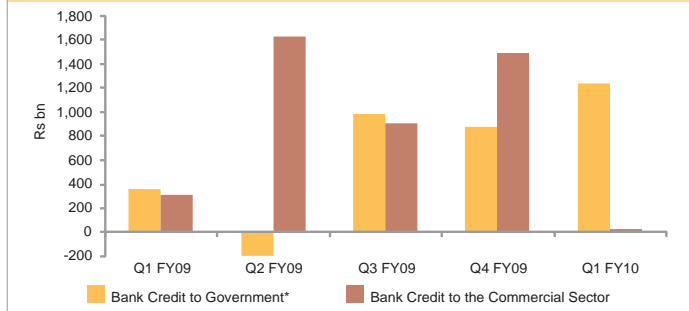
Despite deficit monsoon, sowing of kharif crop improved towards end of Jul-09. The data reveals that sowing of kharif crop is lower by 6% (y-o-y) by end of Jul-09 as compared to around 25% decline in early Jul-09. Nonetheless, further improvement in monsoon is critical for the overall agricultural production. Prices of food grains (particularly, Rice, Jowar, Bajra, Ragi, Arhar and Moong) are already growing at alarmingly high level, registering y-o-y growth of 12.2% during Jul-09. In view of forthcoming festive season, prices of primary food articles are likely to remain elevated.

Given that the food articles inflation are showing no signs of tapering and the base effect which was generating negative inflation is expected to completely wear off soon, the headline inflation is expected to turn positive after that. In fact, it is expected to touch 5.8% by the end of the current fiscal owing to waning base effect of the last year, increasing commodity prices, rise in food grain prices caused by delayed monsoon and expansionary fiscal policy.

In view of potential inflationary threats, the RBI is likely to reverse their expansionary monetary policy by the beginning of calendar year 2010. The timing and magnitude of reversing current monetary policy stance is very critical given its sensitivity to economic growth and inflation control.

Money & Finance

Bank's Credit (Quarterly Variation)



*Excludes RBI's net credit to the government
Source: RBI

- In the first quarter monetary policy review, RBI kept the key policy rates unchanged.
- RBI maintained a cautiously optimistic stance on the growth front, retaining the GDP growth projection at 6.0% with an upward bias. Money supply (M3) growth for FY10 placed at 18.0% (y-o-y) as against earlier 17.0%.
- WPI inflation for end-March 2010 projected at 5.0% as against 4.0% projected in the Annual policy review.
- In order to manage the government borrowing without crowding out present or potential private credit demand, the RBI is expected to add primary liquidity amounting to Rs 1,500 bn through planned OMO purchases and MSS unwinding during the H1 FY10.
- Bank credit growth moderated to 15.4% (y-o-y) as on 17-Jul-09.

	Forecast	Actuals	
		Latest Period	Previous Period
15-91 day's T-Bills	3.9%-4.2% Aug-09	3.01% Jul-09	3.20% Jun-09
10 year G-Sec yield	7.2%-7.4% Aug-09	7.15% Jul-09	7.24% Jun-09
Bank Credit*	15.5%-16.0% Aug-09	15.4% Jul-09*	15.7% Jun-09

All figures are monthly averages

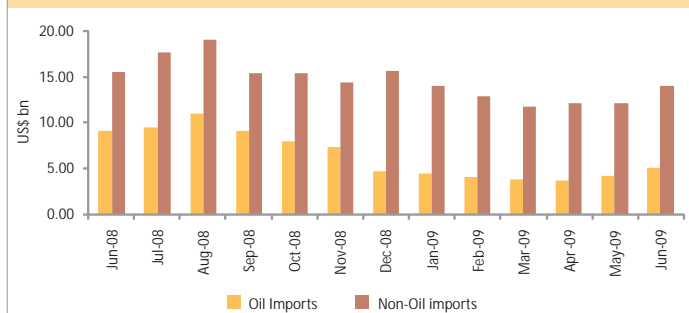
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The RBI's decision to maintain a status quo in terms of policy rates, during the first quarter monetary policy review, largely indicates the end of monetary easing cycle that began in Oct-08. With the gradual building of potential inflationary pressures in the economy, the RBI is likely to reverse its accommodative policy stance and prepare for draining off the excess liquidity in the system. While the RBI is expected to maintain a status quo in terms of the policy rates during the current calendar year, it might begin to tighten its monetary stance by the beginning of the next calendar year, as the economic growth picks up and inflation begins to rear its head.

Given the huge government borrowing on one hand and comfortable liquidity conditions on the other the G-sec yield is expected to move in a narrow range. The RBI and the Government are likely to limit the adverse impact of the huge government borrowing on g-sec yield and private investment by resorting to measures like MSS, OMO and managing the timing of the borrowing.

External Sector

Oil & Non-oil Imports



Source: Ministry of Commerce

- Exports declined by 27.7 % (y-o-y) to US\$ 12.8 bn while imports registered a decline of 29.3% (y-o-y) to US\$ 18.97 bn.
- Trade deficit of US\$ 6.16 bn recorded during Jun 09 was higher than the previous four months.
- Oil imports during Apr-Jun 09 declined by 56.8% (y-o-y) to US\$ 12.77 bn.
- Non-oil imports during Apr-Jun 09 declined by 24.6 % (y-o-y) to US\$ 38.17 bn.
- Rupee depreciated from an average of Rs 47.77 during the month of Jun 09 to Rs 48.48 during Jul 09.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	48.10-48.40 Aug-09	48.48 Jul-09	47.77 Jun-09

All figures are monthly averages

Exports fell for the ninth month in a row, while imports on the other hand also declined during Jun 09 mainly led by oil imports. However, the year-on-year decline in oil imports in US dollar terms could largely be attributed to the high base of the previous year, when the oil imports surged significantly as the global crude oil prices reached their all time high levels.

A closer look at the data reveals that the pace of contraction of exports has been reducing over the last three months. Nonetheless, the current global economic situation continues to remain uncertain and hence the government is expected to announce a few measures in the forthcoming foreign trade policy to help exporters tide over the present slump in global demand. On the import front, the absolute values of imports over the past few months point to some stability in import demand conditions. Moreover, with the poor monsoons affecting the agricultural production, we might see an increase in the import for food and related products. Also, given the festive season ahead and inadequate monsoons affecting the domestic oil seed production, India's import of edible oil might witness an upsurge.

The rupee displayed a bearish movement towards the end of Jul 09 on account of losses in the domestic stock market coupled with strengthening of dollar and is expected to appreciate marginally due to foreign fund inflows during Aug 09 from the current levels.