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Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	2.8%-3.1% Nov-09	1.34% Oct-09
Inflation C.P.I (I.W)	11.7%-11.9% Oct-09	11.64% Sept-09
INR/US\$	46.30-46.60 Nov-09	46.72 Oct-09
I.I.P Growth	9.0%-10.0% Oct-09	9.12% Sept-09
15-91 day's T-Bills	3.1%-3.3% Nov-09	3.02% Oct-09
10 year G-Sec yield	7.6%-7.8% Nov-09	7.83% Oct-09
Bank Credit*	10%-10.5% Nov-09	9.5% Oct-09

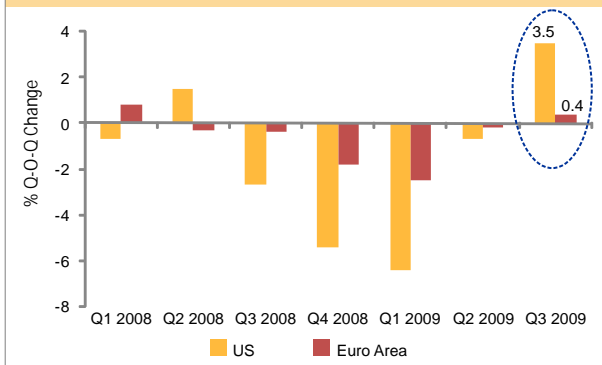
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q2 FY10)	Latest Period (Q1 FY10)
GDP	6.3	6.1
Agriculture	-0.1	2.4
Industry	6.5	5.0
Services	7.9	7.8

Real GDP growth in major economies

Growth rates are seasonally adjusted
Source: US Department of Commerce, Eurostat

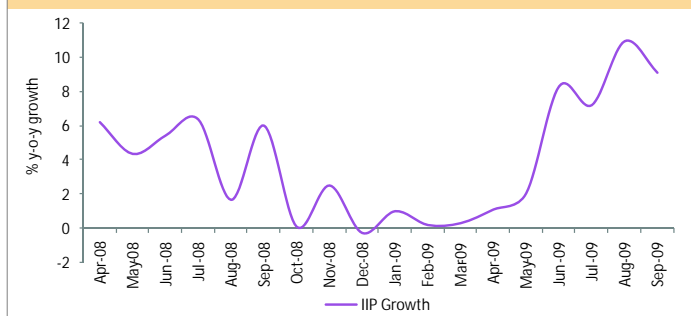
Sustained improvement in the domestic industrial activity in the last few months and the improving business sentiment underscores D&B's view that the Indian economy set on the recovery path. Moreover, the higher fund mobilisation through public issues as well as private placements coupled with large oversubscription of new issues is an indication of the return of the risk appetite of investors. The current growth momentum primarily hinges on continued policy stimulus that has helped to recuperate demand conditions while reducing the overall uncertainty.

Given that surging food articles prices could have deeper socio-economic implications, the Government has already initiated a slew of measures to tackle the supply side constraints. Moreover, inflation management will continue to remain at the forefront of the RBI's monetary policy during the next few months. Although the efficacy of monetary tools to curb inflationary pressures might be limited as the current rise in inflation is primarily due to supply side constraints, they could be used to rein in inflationary expectations. Hence, the RBI's recent monetary policy has signaled the exit from an expansionary monetary policy. While inflation concerns calls for an exit from accommodative monetary policy, the emerging downside risks to growth such as spiraling inflation and expected moderation in kharif output due to deficient rainfall might require continuation of policy stimulus. At this backdrop, determining the timing and extent of monetary tightening will remain high on the RBI's agenda.

With the return of risk appetite of international investors, foreign capital inflows in the Indian equity markets have witnessed a significant increase over the past few months. Moreover, given the potential inflationary pressures on one hand and the fact that India is expected to be among those countries which are likely to see an early upturn in economic growth on other, the start of monetary tightening in case of India might be ahead of many advanced economies. The consequent widening of interest rate differential, coupled with comfortable liquidity conditions worldwide might lead to large foreign capital inflows to India. This could have adverse implication on exchange rate as indicated by appreciation of the rupee. Moreover, if the RBI intervenes to rein in the rupee value, it might increase stress on the inflation front given the fact that sterilisation leads to liquidity infusion. Thus, in view of the aforementioned factors, the policy responses of the government and the RBI are required to be adjusted in tandem with the changing economic environment.

Real Economy

Rebound in the Industrial Production Continues



Source: CSO

- Industrial output as measured by the Index of Industrial Production registered a growth of 9.1% (y-o-y) during Sep-09. During Apr-Sep 09, growth in IIP averaged at 6.5% as against 5.0% during Apr-Sep 08.
- Mining, manufacturing and electricity sectors grew by 8.6%, 9.3% and 7.9% respectively during Sep-09.
- Basic chemicals & chemical products (except products of petroleum & coal) sector registered a strong growth of 20.1% during Sep-09.
- The Index of Six core industries registered a growth of 4.0% (y-o-y) during Sep-09. During Apr-Sep 09 six core industries registered a growth of 5.0% as against 3.4% during Apr-Sep 08.

	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	9.0%-10.0% Oct-09	9.12% Sept-09	10.96% Aug-09

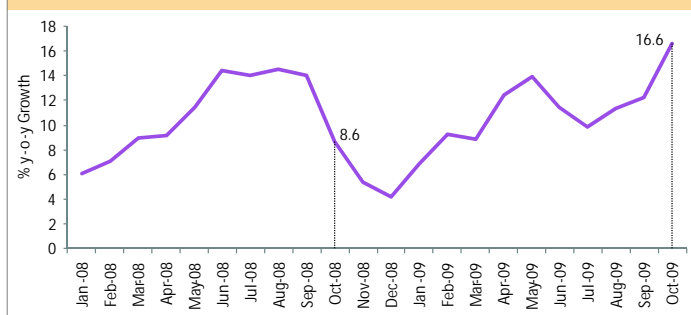
IIP grew by 9.1% during Sep-09 after growing by an upwardly revised 10.9% during Aug-09 underpinning the sustained recovery path that the Indian economy has set upon. A confluence of factors such as continued fiscal stimulus, improving business sentiment, restocking following the earlier cutbacks in factory output, improvement in demand might have supported the robust growth in the IIP.

An expected improvement in the export demand is likely to support industrial growth going forward. However, the potential impact of the expected lower agriculture production and mounting inflation on rural demand in particular and over all demand conditions in general also need to be seen in order to assess the over all industrial growth in the near future. While these factors pose certain downside risks to production, the IIP growth figures during the second half of FY10 are likely to remain stable as impact of low base sets in. D&B expects the IIP growth during H2 FY10 to moderate from the current level.

With substantial improvement in the industrial sector coupled with the resilience shown by the services sector, D&B expects GDP to have grown by around 6.3% during Q2 FY10. In the current scenario of mounting inflationary pressures the sustained revival in economic activity strengthens the case for a reversal in the accommodative monetary policy stance.

Price Scenario

Inflation of Manufactured Food Products



Source: Ministry of Commerce

- The WPI for all commodities increased by 1.3% (y-o-y) during Oct-09 as against 0.5% during the previous month.
- Inflation in primary articles stood at 8.7% during Oct-09, as compared to 9.4% in the previous month. Within primary articles, though inflation in non-food articles and minerals is still negative, it is fast approaching the positive territory.
- Manufactured products witnessed an inflation of 1.4% during Oct-09 driven by inflation in the manufactured food products.
- Fuel group continues to witness deflation of 6.6% during Oct-09.
- The Government has raised the Minimum Support Prices (MSPs) for a number of Rabi crops of FY10 season such as wheat (increase of Rs 20 per quintal), barley (increase of Rs 70 per quintal), gram (increase of Rs 30 per quintal) and sunflower (increase of Rs 30 per quintal) which is to be marketed in FY11 while keeping the MSPs of other Rabi crops unchanged at the last year's level.

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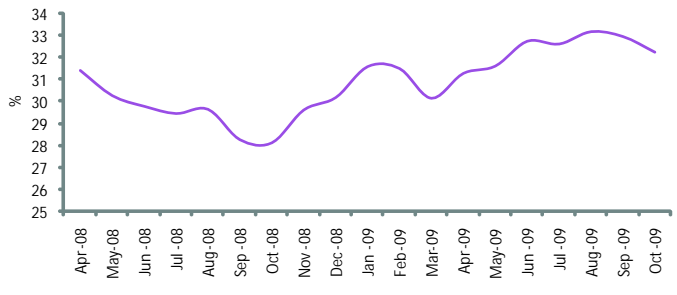
The WPI inflation surged to 1.3% during the month of Oct-09 led by the prices of agricultural commodities though there has been some moderation as compared to the previous month. Prices of manufactured products and fuel group have inflated thereby further adding to the inflationary pressures.

Uneven monsoon this year followed by floods in some parts of the country had an impact on the food grain production as indicated by a 17.4% decline in the production of Kharif food grains during FY10 (as per first advance estimates) as compared to fourth advance estimates for FY09. The shortage in the foodgrain production is expected to exert further inflationary pressures and dampen rural demand.

In order to ease pressures on the supply side, which has a potential to fuel inflation, the government has already initiated a slew of measures such as reducing/waiving import duties for a number of agricultural commodities, banning export of edible oils and pulses etc. Further, reining in inflationary expectations has been accorded high priority by the RBI in the recent monetary policy review in recognition of the rise in food and asset prices. D&B expects the headline inflation to touch 6.0% (y-o-y) by the end of the current financial year.

Money & Finance

Investment in G-sec to Aggregate Deposits ratio



All figures are month-end figures
Source: RBI

- The RBI kept the key policy rates unchanged in the second quarter review of monetary policy.
- Statutory Liquidity Ratio (SLR) was restored to 25.0% of SCB's NDTL w.e.f. the fortnight beginning 7-Nov-09.
- The projection of overall real GDP growth for FY10 remained unchanged at 6.0% (with an upside bias).
- The projection for WPI inflation at end-March 2010 is revised upwards to 6.5% (with an upside bias), while money supply growth projection for FY10 revised downwards to 17.0%.
- Banks advised to augment their provisioning cushions consisting of specific provisions against NPAs as well as floating provisions, and ensure that their total provisioning coverage ratio, including floating provisions, is not less than 70%.

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10 year G-Sec yield	7.6%-7.8% Nov-09	7.83% Oct-09	7.69% Sept-09
Bank Credit*	10%-10.5% Nov-09	9.5% Oct-09	12.6% Sept-09

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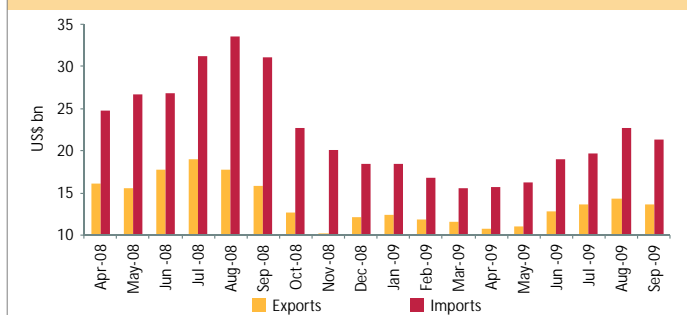
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The RBI's decision to maintain status quo in terms of key policy rates coupled with unwinding of several liquidity augmentation measures (introduced as a part of the monetary stimulus package in FY09) during the second quarter review of monetary policy, largely indicates the start of a tight monetary policy. Further, in addition to boosting demand conditions in the economy, reining in inflationary expectations has accorded high priority in the policy statement. Although the RBI's current monetary policy stance is largely non-disruptive, it is an indication that monetary contraction measures could be underway very soon. D&B expects that while RBI might consider increasing the CRR for draining of excess liquidity from the system anytime till the end of the current fiscal, it may maintain a status quo in terms of other policy interest rates.

Given the high bond yields, the RBI announced 1% hike in SLR. The increase in SLR hike generally would have translated into increased demand for government bonds to the extent of approximately Rs 400 bn, in turn easing bond yields. However, given that SCB's holding of SLR securities were already at 32.2% of their net demand and time liabilities (as on 23-Oct-09), the recent SLR hike is not likely to have immediate impact either on liquidity or bond yields.

External Sector

Foreign Trade



Source: Ministry of Commerce

- Exports fell by 13.8% (y-o-y) to US\$ 13.6 bn during Sep-09, marking the twelfth consecutive decline, while imports registered a decline of 31.3% (y-o-y) to US\$ 21.4 bn.
- Trade deficit of US\$ 7.8 bn recorded during Sep-09 was almost half the deficit of US\$15.3 bn during Sep-08.
- Oil imports during Sep-09 declined by around 33.5%, taking the cumulative growth during Apr-Sep 09 to -45% (y-o-y). Non-oil imports during Apr-Sep 09 declined by 26.2 % (y-o-y) to US\$ 89.78 bn.
- While the RBI permitted importers and exporters having foreign currency exposures in trade transactions to write covered call and put options both in foreign currency-rupee and cross currency and also receive premia, it withdrew the facility of zero cost structures/cost reduction structures.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	46.30-46.60 Nov-09	46.72 Oct-09	48.44 Sept-09

All figures are monthly averages

Exports continued the declining trend for the 12th consecutive month albeit the fact that the rapid pace of decline has been arrested. The gradual stability in economic growth of US and Europe, which are the major trading partners of India, augurs well for the Indian exports going forward.

Imports on the other hand witnessed a sharp decline of 31.3% during Sep-09, consequent to a dip in both the oil imports as well as non-oil imports. However, this decline in imports could in part be attributed to the high base effect and relatively higher commodity prices during the previous year. The import demand is likely to witness some improvement in the near future as the domestic economic activity gains momentum.

The performance of the domestic stock market, coupled with the emerging trend in the global commodity prices are likely to play a pivotal role in determining the future trend in the value of the rupee vis-à-vis dollar. D&B expects the rupee to witness moderate appreciation from the current levels in the near future albeit with some bouts of volatility.