

## Weekly Macro Perspectives

January 21, 2012

---

### [a] Agriculture

- The recent spell of rains has damaged standing potato crop in parts of northern India and West Bengal. Traders in North India anticipate a loss of about 10% to 15% of the sown tuber in Punjab, Haryana & Uttar Pradesh, whereas up to 50% of the crop has been damaged in West Bengal.
- According to the Report by India's Ministry of Agriculture released on Jan 20<sup>th</sup>, acreage in most rabi crops, barring wheat, continued to lag on y-o-y basis due to poor post-monsoon rainfall (at 52.0% of the long-period average).
- Total area under pulses is so far down by 0.9% to 14.51 mln ha, while oilseeds down by 7.3% to 8.38 mln ha.
- However, wheat – the main rabi crop- bucked the overall trend. Acreage under this crop so far is up 1.1% (y-o-y) to 29.41 mln ha. Indian government is targeting wheat production of 84.0 mln tns in the current crop year ending June, 2012, marginally lower than the last year's record output at 85.93 mln tns.

### [b] Global economic briefs this week

- The World Bank (WB) has slashed growth forecasts in its latest briefing on global economic prospects, warning that the global economy could be thrown into a worse recession that it faced during 2008-09. It forecast that the world economy would expand by 2.5% in 2012 and 3.1% in 2013, sharply lowering its June estimate of 3.6% for both years.
- According to the WB report, Australia and Japan were only the two major economies in which business sentiment was holding up.
- While China's economic expansion in the last quarter of 2011 was the slowest in two & an half years, the newly released data on Jan 17<sup>th</sup> showed that the retail sales & factory output for China accelerated in Dec, 2011. According to economists, this seems to suggest a soft landing scenario for the country.
- German investor confidence (measured by ZEW) jumped the most on record in Jan, 2012, prompting some economists to suggest that the worst of Europe's sovereign debt crisis may have passed.
- According to the Federal Reserve (Washington) data released on Jan 18<sup>th</sup>, factories in the US churned out more computers, cars & construction material in Dec, 2011 as manufacturing remained at the centre of the expansion. Other reports showed that homebuilders' confidence jumped and wholesale prices unexpectedly dropped. Economists feel that gains in consumer & business spending combined with lean

*inventories, may prompt US factories to continue to boost payrolls & hours, bolstering economic growth.*

- *The OPEC has kept its global crude oil demand forecast for 2012 unchanged from the previous month at an average 88.9 mln barrels per day in its monthly oil market report released on Jan 16<sup>th</sup>.*

### **[c] Indian economic and policy highlights this week**

- *According to the CRISIL research report, there is a strong possibility of cement price hike by 2%-3% in Jan, 2012 on account of the new pricing policy adopted by Coal India Ltd. Besides, improved pace of construction activity will support demand growth during the month, aiding cement price rise.*
- *The Fitch rating agency does not see any structural decline in India's growth potential and expects the nation to post FY13 GDP growth at 7.5% and 8.0% in FY14. It expects the economy to recover as prices and interest rates fall, going forward. However, it has reduced economic growth forecast for FY12 from 8.5% to 7.0% on the back of a cyclical downturn.*
- *Fitch says that it expects Indian power sector reforms – required to restore the financial viability of state power utilities (SPUs) to gain traction during 2012, though the timely and consistent implementation of Shunglu Committee recommendations over the medium term could remain challenging. The sector will also remain exposed to both fuel availability and price risks during 2012. Despite these issues, the 2012 outlook on Fitch-rated power entities continues to be Stable as they are expected to manage these risks by way of implied and tangible support from the central and state governments, strong liquidity and favourable tariff mechanisms.*
- *Fitch has defined a Stable Outlook for both public and private sector Indian oil & gas companies despite various challenges, including the increasing fuel subsidy burden on public sector companies and an uncertain global macroeconomic environment. Fitch links the ratings of public sector oil & gas companies with that of the sovereign ratings because of the strategic importance of the sector and the evidence of tangible financial support and it does not expect any weakening of these ties. The agency continues to have a stable outlook on private sector companies based on its current expectation of their earnings and capital expenditure.*
- *India has added 7.55 mln GSM mobile users in Dec, 2011 as against 6.68 mln in Nov, 2011.*
- *Indian exports for the month of Dec, 2011 rose by 6.7% (y-o-y) to US\$ 25 bln versus 3.9% of annual growth in Nov, 2011, as demand for India's vehicles, engineering goods & petroleum products remained robust. However, imports at US\$ 37.8 bln in the month of Dec, 2011 left the monthly trade deficit at US\$ 12.8 bln.*
- *Indian Banking Industry's Non-Food Credit grew by Rs 4.03 trln over end-March'11 until Dec 30<sup>th</sup>, reflecting a y-o-y growth of 15.7%. During the same period, its Aggregate Deposits grew by Rs 6.20 trln with a y-o-y growth of 16.9%.*
- *With this, Indian banking industry's Credit-Deposit ratio stood at 74.91%.*

- The Broad Money Supply, i.e., M3 grew by 15.6% (y-o-y) as on Dec 30<sup>th</sup> – slightly below its growth of 16.0% at end-March, 2011. The money supply growth at present is very close to the projected trajectory of 15.5% set for the year.
- With a further decline of US\$ 1,016.5 mln in the latest reported week, India's Foreign Exchange Reserves (FER) stood at US\$ 292.52 bln as on Jan 13, 2012. With this, the import cover for India gets reduced to 7.5 months.

**[d] India's headline inflation (WPI) at 7.47% for December, 2011**

- Exactly matching our in-house projection, India's annual inflation for the month of Dec, 2011 stood at 7.47% and manufactured product price inflation at 7.41%.
- The non-food manufactured products inflation with a weight of 55% - used as a proxy for core inflation – is still ruling at 7.7%.
- The headline inflation has significantly eased on account of a sharp decline in primary articles' inflation – both food and non-food articles.
- Inflation originating from minerals, fuel & power group and manufactured products still remains elevated.
- ***Monetary Policy Expectations:*** As core inflation at 7.7% is still much above the RBI's tolerance level of 6.0%-6.5% and as consumer demand & consumer goods production continue to remain strong (as revealed by the IIP & PMI data), we do not expect the RBI to either reduce policy rates or CRR in its upcoming Monetary Policy Review on Jan 24<sup>th</sup>. In our opinion, the RBI will run the risk of fuelling demand pressures if it starts easing the monetary policy. For management of liquidity, OMOs will remain a preferred tool. Given that the Banks' lending to NBFCs has increased sharply over the past few months (as revealed by the RBI data on sectoral deployment of credit), the RBI may announce some measures to curb bank lending to NBFCs.

**[e] Positive sentiment to continue in the G-sec market next week**

- India's 10-year bond yield declined just by one basis point this week to 8.18%.
- The RBI has been supporting the market through OMOs. It infused Rs 104.35 bln through bond purchases under OMOs on Friday (Jan 20<sup>th</sup>). So far, the central bank has infused Rs 718.74 bln through eight rounds of OMOs from the beginning of Sept, 2011.
- Currently, market is divided on the RBI's move with respect to CRR on Jan 24<sup>th</sup>. If the RBI reduces CRR then the 10-year bond yield may fall below 8.10%, but if it doesn't then it may rise beyond 8.25%.

**[f] Rupee expected to stay range-bound next week**

- Indian rupee appreciated by 2.35% to 50.32 per USD this week –its two-month high, partly on improved risk appetite for rupee-denominated assets.
- However, on the last trading day of the week, rupee ended its six-day rise against the US dollar due to the banks' dollar purchases to cover short positions and a sharp decline in euro.

- *Forex analysts expect the rupee to be range-bound in coming sessions as dollar demand from importers remains strong, while the RBI is expected to intervene in the currency market if there is a sharp fall in the currency.*

#### **[g] Positive bias to continue for Indian stocks next week**

- Indian stocks gained 3.6% during this week on positive global cues and as earnings of some local companies beat market estimates.
- Global equities have rallied this year amid signs that the US is recovering, Europe will contain its debt crisis and speculation that China will ease lending curbs to spur growth.
- The week saw a good performance across sectors. Realty (up 8%) and Oil & Gas (up 6.4%) led the gains. However, FMCG (down 0.9%) was the only sector on the losing front. Bank stocks gained 5.9% this week.
- *According to the technical analysts, the bullish trend witnessed in the past couple of weeks is likely to spill over the next week, though the actual rise will largely depend upon the RBI policy signal (a factor of sentiment) and the results from the industry heavyweights like RIL, L&T, Maruti, etc.*

#### **[h] Crude price at US\$ 99.44 per bbl in New York on Jan 20, 2012**

- Crude oil prices declined in New York, trimming a weekly advance, as protracted negotiations to resolve Greece's debt crisis fanned concern that the region's turmoil will harm fuel consumption.
- While the WTI closed at US\$ 99.44 a barrel in New York, the Brent ended at US\$ 111.28 a barrel in London on Jan 20<sup>th</sup>.
- *Europe continues to stay on the front burner for many oil traders concerned that the continent's debt troubles will put pressure on the global economy, and with it, oil demand. On Friday (Jan 20), optimism that Iran may try to lower tensions with major oil consuming countries also helped push prices below the US\$100 level.*

---

#### **Disclaimer:**

The views expressed in this newsletter are personal views of the author and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting

with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.