Prabhudas Lilladher
POWERING YOUR FINANCIAL GROWTH

Invest Scope Weekly

FOR THE WEEK ENDED September 17, 2010

Domestic Economic News

- RBI raised the repo rate raised by 25 bps from 5.75 % to 6.0% and the reverse repo rate hiked by 50 bps from 4.5% to 5% at its Mid-Quarter Monetary Policy Review on September 16.
- RBI said that even though Inflation has stopped accelerating remained the dominant concern in macroeconomic management.
- RBI said that the rate hike would contain inflation and anchor inflationary expectations without disrupting growth.
- RBI said the monetary measures would also reduce the volatility in overnight call money rates, thereby strengthening the monetary transmission mechanism.
- RBI would continue the process of normalisation of the monetary policy instruments.
- PM says that India is aiming to raise its growth trajectory to 9-10% per annum in the medium-term.
- India's industrial production expanded 13.8% in July, compared with 5.8% growth in June.
- Commerce Secretary says that India's merchandise exports during August rose 22.5% on year to $16.64bn, imports rose 32.3% on year to $29.7 bn taking the trade deficit to $13.06 bn.
- India's headline inflation rate fell to an eight month low of 8.51% in August, as the government introduced a more "representative" WPI series; inflation rate was 9.78% a month ago in the new index.
- India's forex reserves fell by $828 mn to $284.5 bn in the week ended September 10.
- RBI allows banks to restructure loans of airline companies without reckoning them as NPAs.
- RBI sets up a working group to examine the operating procedure of the monetary policy including the Liquidity Adjustment Facility (LAF).

Corporate News

- India Inc pays 15% higher advance tax in the June-September quarter over the year-ago period.
- India Inc mopped-up Rs.56169 cr through debt on a private placement basis during the first quarter of current fiscal, recording a growth of 31% compared to the same period a year earlier.
- Cellular Operators Association of India (COAI) says that India added over 13.5 mn new GSM mobile subscribers in August, taking the total to over 481 mn.
- BSE issued guidelines for securities trading using wireless technology.
- SBI seeks Finance Ministry's nod for raising Rs.20000cr from the market.
- SBI is in talks with RBI to form a holding company that will control the equity of the bank, its associates and also subsidiaries a move which could lead to a more efficient use of capital.
- RIL gets 25% higher price offer than the current government approved rate at $5.25 mBtu for K-G basin D6 block gas; the company has sought the governments advice on the offer.
- Bharti Airtel to sell the mobile phone towers of its African operations to arm Bharti Infratel in a deal worth Rs.12000-15000cr by December 2010.
- United Breweries merged 5 companies with itself to make it a fully integrated brewing entity; also agreed to buy 54.7% in Pioneer Distilleries at Rs.101 a share.
- HCC's subsidiary Lavasa Corp filed DRHP for raising Rs.2000cr through an IPO by the end of December.

Mutual Fund News

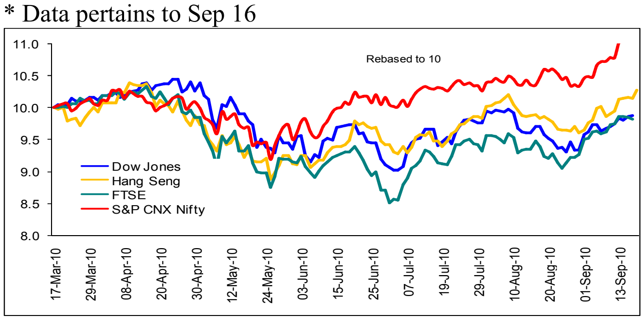
- SEBI data showed that assets under management of the mutual fund industry in August rose to Rs.7.09 lakh cr, up 6.14% on month, on significant inflows into gold exchange traded funds and liquid funds.
- SEBI data says Mutual fund investor accounts fell 0.10% or 49,723 in August to 47.72 mn.
- Employees' Provident Fund board decided to raise interest rate paid to subscribers to 9.5% for the current financial year from 8.5% a year ago and the first increase since 2006 fiscal.
- Fidelity MF sought SEBI's approval to launch Fidelity India Children's Plan.
- L&T MF sought approval from SEBI to launch L&T Double Advantage Fund.
- Baroda Pioneer MF launched Baroda Pioneer PSU Equity Fund; subscription will close on Sep 24.

International News

- OECD forecasts growth across the G7 group of major economies to average an annualized 1.4% in the third quarter and 1% in the fourth; also forecasts US growth rates of 2% and 1.2% in the third and fourth quarter.
- Global regulators agree on new capital rules for world's banks, aiming to balance safety and growth; under new rules banks must hold back at least 4.5% of their balance sheet to cover their risks by 2013 and reach 6% in 2019.
- US poverty rate rose to 14.3% in 2009 from 13.2% the year before, bringing the percentage of the population living in poverty to the highest level since 1994.
- European Commission forecasts the euro zone to grow by 1.7% this year, rather than the 0.9% it forecast in May and up from a 4.1% contraction in 2009.
- European Commission unveils new rules to curb short-selling, derivative trading.
- Japan intervenes in currency market to weaken yen for first time since 2004; also decides to to spend close to $10.9bn on its fresh stimulus package to grapple with the recent upsurge of the yen and downside risks to its economic growth.

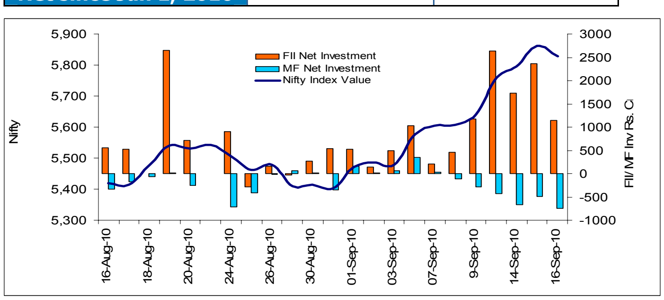
Indices	Sep 17	Sep 10	Weekly % Change	% Change since Jan 1, 2010
DJIA	10594.83*	10462.77	1.26	1.60
Nasdaq Composite	2303.25*	2242.48	2.71	1.50
Nikkei 225 (Japan)	9626.09	9239.17	4.19	-8.73
Straits Times (Singapore)	3076.37	3022.28	1.79	6.17
Hang Seng (Hong Kong)	21970.86	21257.39	3.36	0.45
FTSE 100 (London)	5540.14*	5501.64	0.70	2.35

DJIA – Dow Jones Industrial Average
* Data pertains to Sep 16



Indices	Sep 17	Sep 9	Weekly % Change	% Change since Jan 1, 2010
BSE Sensex	19594.75	18799.66	4.23	12.20
S&P CNX Nifty	5884.95	5640.05	4.34	13.15
BSE Bankex	13744.71	12984.19	5.86	37.03
BSE Oil & Gas Index	10736.07	10175.11	5.51	2.53
BSE Realty Index	3712.71	3553.5	4.48	-3.71
BSE IT Index	5843.8	5664.43	3.17	12.68
BSE Healthcare Index	5842.24	5679.04	2.87	16.42
BSE Capital Goods Index	15511.4	15094.78	2.76	9.88
BSE FMCG Index	3563.1	3467.6	2.75	27.64
BSE Metal Index	16489.16	16131.46	2.22	-5.23
BSE Auto Index	9275.97	9096.55	1.97	24.75
BSE Power Index	3163.55	3121.31	1.35	-0.78
BSE MIDCAP Index	8104.28	8050.73	0.67	20.64
BSE Small Cap Index	10238.91	10249.25	-0.10	22.51

Rs. Crore	Sep 9 – 16	
	FII Inv (Equity)	MF Inv (Equity)
Buy	17155.80	2185.30
Sell	9292.40	4521.40
Net	7863.40	-2336.10
Net since Jan 1, 2010	70990.50	-18165.20

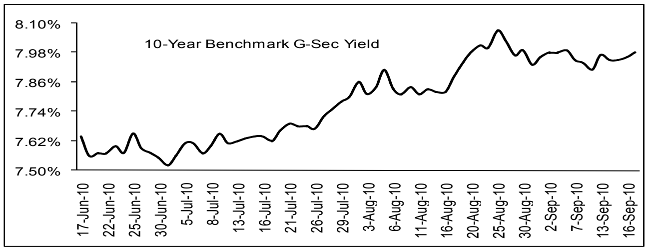


Global Equity Markets

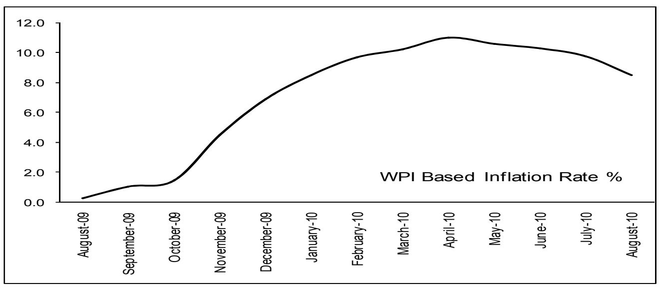
- Key global indices surged in the week with Nikkei emerging as the best performer, up 4.2% while FTSE gained the least ending 0.7% higher.
- US benchmark indices rose in the week due to series of positive economic indicators including rise in retail sales, industrial production numbers and fall in trade deficit.
- Markets were also boosted by global regulators' decision to increase banks' reserves to avoid another credit crisis.
- Upbeat Chinese industrial data coupled with flurry of takeover news back home added to the gains in the market.
- Gains were however limited on a poor reading on factory activity in New York and also due to renewed fears about the Europe due to downbeat indicators from Germany.
- FTSE index ended a volatile week slightly higher tracking mixed global cues with positive gains early being capped by an unexpected decline in UK retail sales numbers.
- Straits Times rose around 1.8% in the week helped by positive global developments.
- Nikkei logged the best weekly gains so far this year of 4.2% and closed at its six-week high primarily on weakening of the yen on account of massive selling of the currency by the government.
- Japan's government intervened in the currency market and sold an estimated 1.8 trillion yen for dollars which helped yen to fall from a 15-year high against the dollar.
- Hang Seng rose 3.4% in the week to end at a five month high boosted by strong Chinese industrial growth data coupled with inflation numbers coming in line with expectation thereby easing concerns over a hike in the country's interest rates in the near term.

Indian Equity

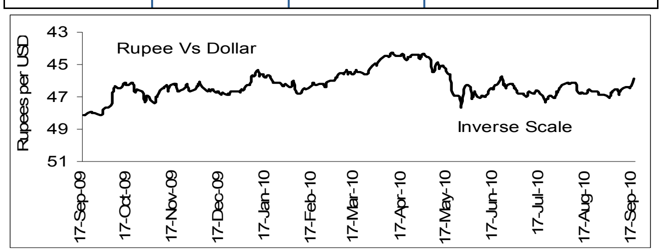
- Domestic benchmark indices soared more than 4% in the week to their fresh 32-month high levels tracking positive global cues and robust foreign institutional inflows which led to a rally in large cap shares.
- A fall in the new WPI inflation in August to an eight-month low of 8.51% brightened market sentiments further.
- Stock-specific action on new developments such as the Jul-Sep advance tax numbers added to the gains.
- Profit booking amid intermittent weak global markets however chipped off some gains.
- Investors' cautiousness ahead of the RBI's mid-quarter monetary policy review also weighed on the markets.
- Later in the week a fall in the market on account of a higher-than-anticipated 50bps hike in reverse repo rate by the RBI, got set off soon on view the central bank would now go slow on raising rates further.
- Among sectoral indices, BSE Bank Index topped the charts, up around 6% over the week as bank shares saw a rally in the week on positive view of Basel III framework.
- BSE Oil & Gas index soared around 5.5% mainly due to sharp gains in sector major RIL, which rose on short covering and positive corporate news about the company.



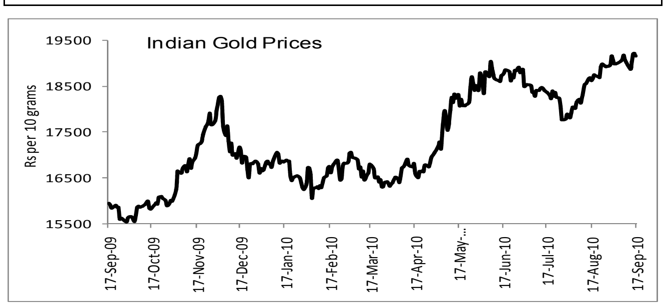
Indicators	Sep 17	Previous Week
Call Rate	6.10%	5.25%
NSE Mibor	6.19%	5.00%
3 M CP	7.45%	7.35%
5 Yr Corp Bond	8.53%	8.50%
10 Yr Gsec	7.98%	7.91%
Reverse Repo	5.00%	4.50%
Repo	6.00%	5.75%
CRR	6.00%	6.00%
G Sec Vol – NDS OM (Rs Cr)	6.00%	6.00%
Monthly WPI Inflation	8.51% (Aug 10)	9.78% (Jul 10)



Currencies Vs INR			
	Sep 17	Sep 9	Change
USD	45.84	46.48	0.64
GBP	72.17	71.84	-0.33
Euro	60.34	59.11	-1.23
100 Yen	53.65	55.65	2.00



Commodity Prices	Sep 17	Week Ago	Month Ago	Year Ago
NYMEX Crude Oil ($ per barrel)*	74.57	76.45	75.77	72.47
Gold (Rs per 10 gm) #	19155	19069	18677	15950
Silver (Rs per Kg) #	32423	31445	29546	26600
* 1-day lag # NCDEX spot prices				



Indian Debt

- Call rates surged during the week ending at 6.05-6.10% on September 17 compared with 4.90-5.25% on September 9 as banks increased their borrowings to meet advance tax outflows (estimated to be between Rs 40,000-45,000 cr) apart from meeting daily reserve requirements.
- Interbank rates were also upward pressurized due to tight liquidity after RBI's policy rate hikes.
- The RBI raised reverse repo rate by 50 bps to 5.0% and the repo rate by 25 bps to 6.0% in its mid-quarter policy review on September 16.
- The central bank also said the repo rate would be the operative rate going forward due to tight liquidity.
- Gilts prices fell during the week on monetary tightening fears and the subsequent sharper-than-expected monetary action by the RBI at its mid-quarter policy review.
- Further the RBI, in its review, said inflation, despite some easing, was high and the process to normalise negative real interest rates was still incomplete.
- Chief Economic Advisor's statement that possibility of a further rate hike by the RBI could not be ruled out added to the gloom for gilts.
- Prices were also downward pressurised earlier in the week as stronger-than-expected July IIP numbers added to the anxiety over interest rates.
- The 10-year benchmark 7.80%, 2020 paper closed the week at 7.98% YTM on September 17 compared with 7.91% YTM on September 9.
- Prices however ended off lows because the low quantum of paper supply this month and a sharp rise in yields attracted buyers thereby restricting further rise in yields.
- Second consecutive fall in the monthly inflation also helped gilt prices during the week.
- After market hours on September 17, the RBI announced T-bill auction worth Rs 3,000 cr on September 22.

Forex Update

- The Indian rupee rose during the week to close at its three month high against the US dollar, helped by strong inflows from FIIs and dollar sales from exporters.
- Anticipation of further FII inflows in the near term after the RBI hiked the reverse repo rate and repo rates added to the gains for the rupee.
- Gains were however curbed on the back of dollar purchase from importers and oil companies.
- Rise in the rupee was also limited as banks purchased the greenback as it appreciated against Asian currencies due to intervention by Japanese authorities to stem the rise in yen.

Commodity Update

- Crude oil prices ended a volatile week slightly higher as an earlier rise on supply uncertainty on news of a shutdown of a major pipeline from Canada was set off by weak US economic data.
- Gold prices rose in the week due to strong buying ahead of the festive and marriage season.
- Silver prices soared on hectic buying by stockists, driven by a bullish trend in global markets.

Learning Centre – Systematic Investment Plans (SIP)

Systematic Investment Plan popularly known as SIP is a method of investing a fixed sum, regularly, in a mutual fund scheme. It is very similar to regular saving schemes like a recurring deposit. SIP allows one to buy units on a given date each month, so that one can implement a saving plan for themselves. A SIP is generally preferred for an equity scheme and can be started with as small as Rs.500 per month.

The biggest advantage of SIP is that one need not time the market. In timing the market, one can miss the larger rally and may stay out while markets were doing well or may enter at a wrong time when either valuation have peaked or markets are on the verge of declining. Rather than timing the market, investing every month will ensure that one is invested at the high and the low, and make the best out of an opportunity that could be tough to predict in advance. SIPs thus make the volatility in the market work in favour of an investor and help in averaging out the cost called "Rupee Cost Averaging". For example, with Rs.1000 one can buy 50 units at Rs.20 per unit or 100 units at Rs.10 per unit depending upon whether the market is up or down. Thus, more units are purchased when a schemes' NAV is low and fewer units when the NAV is high. Hence, when the two cases are taken together, cost is averaged out. The longer the time-frame, the larger are the benefits of averaging.

SIPs also help in availing benefits of compounding. This means the earlier one starts an SIP and longer the investment horizon, the larger the benefits. The reason being, each rupee one invests earns a return, which ends up as more rupees to earn a return, allowing investment to grow at a fast pace. Higher rates of return or longer investment time periods increase the principal amount in geometric proportions. This is the single most important reason for investors to start investing early and keep on investing on a regular basis to achieve the long-term financial goals.

The following table llustrates benefits of SIP investing and that of compounding over the long term with different rates of return and different time periods. For e.g. if an investor begins early in his career and invests Rs.2000 through SIP every month, he would invest Rs.6 lakhs over 25 years as the principal amount. This amount will grow to Rs.65 lakhs at a conservative CAGR of 15%. At a higher CAGR of say 20%, the amount will grow to Rs.1.70 crore over 25 years. This is the power of compounding and of rupee cost averaging. This amount can be further higher if the SIP amount increases every year as one's income rises. Investing Rs.5000 through SIP over 25 years generates Rs.1.62 cr at a CAGR of 15% and Rs.4.24 cr at a CAGR of 20%.

SIP Amount @ Rs 2000 per month			
Period	Principal	Post Maturity Amount CAGR 15%	Post Maturity Amount CAGR 20%
3 Years	72,000	88,231	95,576
5 Years	120,000	175,149	201,516
10 Years	240,000	548,434	750,191
15 Years	360,000	1,335,014	2,229,400
20 Years	480,000	2,992,479	6,217,304
25 Years	600,000	6,485,059	16,968,573

Unlike direct equity investing, wherein one must be in constant touch with the market as well as invest fairly large amounts to buy good scrips; this is not the case with SIPs which not only takes care of the investment quality through professional fund managers but also makes investors more disciplined in their savings thus leading to wealth accumulation.

Current Recommended Mutual Fund Schemes

	Inception Date	Avg. AUM Rs Cr*	NAV	P2P Returns % as on September 16, 2010					
				1 Month	6 Months	1 Year	3 Years	5 Years	Since Inception
Large Cap Funds									
HDFC Top 200 Fund - Growth	1-Sep-96	8566	218.50	7.14	21.14	31.61	19.23	26.33	24.76
Franklin India Bluechip Fund - Growth	1-Dec-93	3182	219.81	7.54	15.40	30.15	13.33	21.78	26.62
DSP BlackRock Top 100 Equity Fund - Growth	10-Mar-03	2807	102.07	5.89	13.02	21.91	14.32	24.51	37.05
DSP BlackRock Focus 25 Fund - Growth	20-Jun-10	736	11.12	5.57	NA	NA	NA	NA	11.17
Mid and Small Cap Funds									
DSP BlackRock Micro Cap Fund - Regular - Growth	25-May-07	378	17.73	5.67	33.38	70.19	17.21	NA	19.20
IDFC Premier Equity Fund - Plan A - Growth	26-Sep-05	1747	34.80	5.46	26.70	53.18	23.83	NA	28.52
DSP BlackRock Small and Midcap Fund - Growth	16-Oct-06	1013	19.23	6.04	26.80	52.80	17.32	NA	18.56
ICICI Prudential Discovery Fund - Growth	30-Jul-04	1409	50.24	5.39	19.51	38.52	21.25	20.83	30.34
Diversified Funds									
Reliance Equity Opportunities Fund - Growth	7-Mar-05	2467	38.13	6.42	26.36	53.26	17.04	24.12	27.72
HDFC Growth Fund - Growth	11-Sep-00	1378	91.17	8.04	23.84	37.73	15.05	24.27	24.68
Templeton India Growth Fund - Growth	5-Sep-03	716	127.88	8.69	14.69	31.85	18.55	22.87	29.84
Reliance Growth Fund - Growth	25-Sep-95	7968	503.70	5.03	16.22	30.63	16.07	23.58	29.97
ICICI Prudential Growth Plan - Growth	4-Jun-98	367	137.08	5.99	11.47	21.33	9.20	18.54	23.94
ELSS Funds									
Reliance Tax Saver Fund - Growth	23-Aug-05	2336	22.79	6.94	23.51	41.20	11.96	NA	17.95
HDFC Tax Saver Fund - Growth	31-Mar-96	2729	244.40	6.47	20.64	39.49	14.31	19.64	26.24
ICICI Prudential Tax Plan - Growth	19-Aug-99	1241	145.69	6.40	15.94	37.96	14.95	15.56	25.69
Sector Funds									
Reliance Banking Fund - Growth	28-May-03	1325	110.44	10.64	44.61	55.29	29.61	27.53	38.79
DSP BlackRock India T.I.G.E.R. Fund - Growth	11-Jun-04	3124	51.87	5.51	17.45	23.25	7.93	22.40	30.03
Index Funds									
HDFC Index Fund - Sensex Plus Plan	3-Jul-02	57	234.58	7.21	15.24	23.21	11.60	20.71	27.40
ICICI Prudential Index Fund - Nifty Plan - Growth	15-Feb-02	81	54.15	7.72	13.16	17.95	9.97	19.62	21.84
Balanced Funds									
HDFC Prudence Fund - Growth	1-Jan-94	4953	216.46	4.73	20.17	38.85	18.36	22.81	21.09
HDFC Balanced Fund - Growth	20-Jul-00	181	54.79	4.54	16.74	37.11	18.23	17.85	18.50
Reliance Regular Savings Fund - Balanced - Growth	10-May-05	635	23.70	4.76	16.52	32.83	20.44	18.62	17.77
Birla Sun Life 95 Fund - Growth	19-Jan-95	341	319.21	5.36	16.48	25.71	13.97	19.86	25.51
MIP Funds									
HDFC Monthly Income Plan - LTP - Growth	29-Dec-03	8017	22.63	1.88	8.14	13.93	12.63	12.74	12.90
Reliance Monthly Income Plan - Growth	13-Jan-04	6281	21.42	1.74	6.73	12.65	15.02	12.19	12.04
HDFC Monthly Income Plan - STP - Growth	29-Dec-03	693	16.94	1.18	4.75	9.59	8.15	7.28	8.15
Birla Sun Life MIP - Growth	17-Dec-00	266	25.94	1.19	4.95	8.99	7.70	8.68	10.14
FT India Monthly Income Plan - Growth	28-Sep-00	468	27.46	1.39	3.51	7.39	7.31	8.29	10.69
Debt Income Funds									
Templeton India Short Term Income Plan - Growth	31-Jan-02	7296	1895.60	0.50	2.97	7.32	9.56	8.59	7.69
HDFC High Interest Fund - Short Term Plan - Growth	4-Feb-02	3540	18.86	0.47	2.78	6.70	9.67	8.70	7.65
Reliance Regular Savings Fund - Debt - Retail - Growth	8-Jun-05	3424	12.92	0.37	2.56	6.51	6.35	5.03	4.98
HDFC Short Term Plan - Growth	18-Feb-02	2209	18.42	0.45	2.70	6.15	9.61	8.46	7.40
Reliance Short Term Fund - Growth	9-Dec-02	4681	17.79	0.38	2.57	5.43	9.12	8.51	7.71

	Inception Date	Avg. AUM Rs Cr*	NAV	P2P Returns % as on September 16, 2010				
				15 Days	1 Month	3 Months	6 Months	1 Year
Debt Short Term								
Templeton India Short Term Income Plan - Growth	31-Jan-02	7296	1895.60	0.29	0.50	1.21	2.97	7.32
HDFC Short Term Plan - Growth	18-Feb-02	2209	18.42	0.29	0.45	1.17	2.70	6.15
HDFC High Interest Fund - Short Term Plan - Growth	4-Feb-02	3540	18.86	0.27	0.47	1.13	2.78	6.70
Reliance Regular Savings Fund - Debt - Retail - Growth	8-Jun-05	3424	12.92	0.23	0.37	1.02	2.56	6.51
Reliance Short Term Fund - Growth	9-Dec-02	4681	17.79	0.21	0.38	0.92	2.57	5.43
Liquid								
HDFC Cash Management Fund - Savings Plan - Dividend - Daily	26-Dec-01	4951	10.64	0.18	0.36	1.07	2.00	3.66
Reliance Liquid Fund - Treasury Plan - Dividend - Daily	24-Nov-03	2017	15.24	0.17	0.33	1.05	1.93	3.50
ICICI Prudential Liquid plan - Dividend - Daily	1-Apr-03	11825	118.51	0.15	0.31	0.93	1.73	3.00

All returns below 1 year are actual and not annualised. * Avg. AUM as of August 2010

Ecoview Executive Summary

Indian economy grows 8.8% in Q1 2010-11

GDP at factor cost grew at 8.8% in the first quarter of 2010-11 compared to 8.6% in the previous quarter and 6.0% during the first quarter of the previous year. The agriculture sector grew by 2.8%, its fastest pace in the past 5 quarters, whereas growth in industry and services was more moderate as compared to the previous quarter. On the demand-side, private consumption grew at a sluggish 3.8% while government consumption rose by 14.2%. Investment growth was 7.6%. **CRISIL Centre for Economic Research (CCER)** expects GDP to grow at 8.0% in 2010-11.

Industrial production growth slows to single digit

Industrial output grew by 7.1% in June, its lowest growth in 11 months, after a double-digit growth in the previous eight months. Although growth decelerated in capital goods, the sector still grew by 9.7% in June as against 34.2% a month earlier. The consumer durables sector grew by 27.4% whereas growth in non-durables remained sluggish. **CCER** expects an average IIP (Index of industrial production) growth of about 9.0% in 2010-11.

Highest trade deficit since September 2008

Exports grew at a moderate 13.2% (in US$ terms) in July, in sharp contrast to the over 30% growth in the previous six months. Imports, however, continued to grow robustly by 34.3% (in US$ terms) reflecting increased domestic production. With imports growing at a greater rate than exports, trade deficit widened to $12.9 billion in July, its highest point since September 2008. Growing concerns on whether the recovery in developed countries will be sustained would keep export growth moderate whereas imports will continue to grow strongly.

Inflation declines

Headline inflation (WPI) declined to 9.97% in July from 10.6% in June. Inflation in primary and fuel group reduced marginally to 14.9% and 14.3%. Non-food manufacturing, a proxy for core inflation, grew at a moderate 6.7% in July compared to 7.3% in the previous month. During the rest of the year, a high base would have a moderating influence on headline inflation. **CCER** expects average WPI inflation for 2010-11 at 8.5-9.0%.

Pressure eases on banking sector liquidity

Credit off-take grew by 20.1% during the fortnight ending 13th August as compared to 14.9% in the same period of last year. Non-food credit grew by 20.5%. Although liquidity pressures eased significantly in August vis-à-vis June and July 2010, the banking sector's liquidity remained in deficit. Call rates averaged at 5.19% during the month.

Amidst volatility, the Rupee appreciates marginally

The Rupee rose to a 2-month high of 46.02 per US$ on August 6, 2010, before dropping to the month's low of 47.08 per US$ on the last day of August. The Rupee however lost 2% against the Pound Sterling and Japanese Yen while it slipped marginally by 0.6% against the Euro. The Rupee is likely to remain volatile in the short-term but would continue to appreciate as FII (foreign institutional investors) inflows are likely to remain robust in 2010-11 given an increasing global risk appetite. **CCER** expects the Rupee to settle at 43.5-44.0 per US$ by end-March 2011.

The 10-year G-sec yield begins to rise

The yield on the 10-year benchmark government bond rose by a marginal 13 basis points in August over that in the previous month, to end the month at 7.9%. The yield on the AAA corporate bond was 8.8% at the end of August 2010, the same as in the preceding month. In the remaining part of the year, tighter liquidity conditions would tend to push the 10-year G-sec yield up. However, since the government has concluded a large portion of its borrowing programme and as inflation is likely to ease, the pressure on the yield will reduce. **CCER** expects the yield on the 10-year G-sec to be 8.3-8.5% at the end of 2010-11.

Source: CRISIL

Outlook

		2010 -2011	Rationale
GDP Growth	Agriculture	5.5	With private demand expected to pick up in FY11, industrial production growth should remain buoyant. Under the assumption of normal monsoon agriculture would grow at a rate higher than its trend due to the low base of FY10. The service sector would continue to grow robustly, albeit with marginal slowdown due to a significant reduction in government expenditure reflected in a decline in growth rate of personal and community services.
	Industry	8.6	
	Services	8.4	
	Total	8.0	
Inflation	WPI-Average	8.5-9.0	The headline inflation is expected to remain high during the first half of FY11 due to low base and the recent fuel price hike. Besides a direct impact, the spillover effect of fuel price hike will lead to higher freight costs and higher prices of essential commodities.
Interest Rate	10-Year G Sec (Year End)	8.3 – 8.5	The pressure on the 10-year G-sec yields would arise from inflationary expectations feeding into expected tightening by the RBI this fiscal. However, the significant revenue generated from the spectrum sales would reduce government borrowings and hence exert downward pressure on yields.
Exchange Rate	INR / USD (Year End)	43.50 – 44.00	Foreign investments are expected to remain robust in FY11, thereby increasing the supply of US$ relative to the demand. This should enable the currency to continue on its fundamental trend of appreciation.
Fiscal Deficit (Incl off-budget liabilities)	as a % of GDP	5.0	The partial roll-back of fiscal stimulus and a sustained economic recovery is expected to significantantly improve the government tax revenue during FY11. This along with the expected revenues from disinvestment and the revenue garnered from the spectrum sales would bring the fiscal deficit down.

Source: CRISIL

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