

MACRO METER

Credit softening; Inflation to comfort levels



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* Real activity

- Industrial production for May softened to 11.1% Y-o-Y, below expectations as well as below April numbers. April growth was also revised downwards.
- Manufacturing, the largest component in IIP, showed a fall, while mining and electricity showed some strengthening.

* Inflation

- Inflation fell below the 5% RBI target level to 4.27% Y-o-Y in June. All groups supported the fall, though primary articles' remains relatively volatile.

* Government finances

- Government finances for the first two months of FY08 show that expenditure has outstripped revenue collections. This is largely a seasonal trend, which is expected to correct itself over the subsequent quarters.

* Monetary developments

- Credit growth has steadily come off, while deposit growth is on the rise. As a result deposit growth has outstripped credit growth for the first time since the start of the current monetary tightening cycle.

* External sector

- Trade deficit fell to USD 6.2 bn in May 2007, down from a historic high of USD 7bn in April.
- The rupee appreciated against the USD to 40.4 to July from 40.78 in June.
- Forex reserves is at USD 219bn for the week ended July 13 an increased of USD 4.12 bn.

Economy snapshot

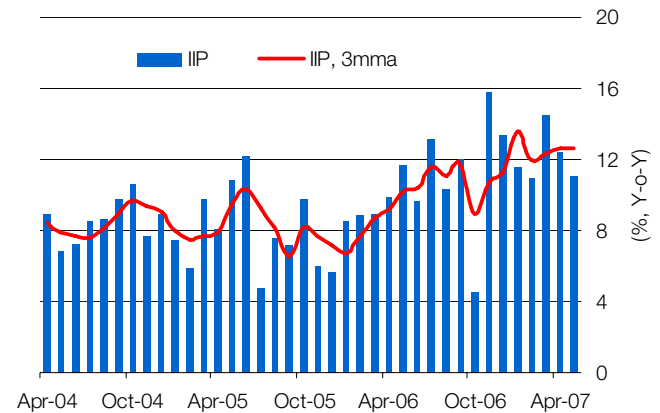
Indicator	FY-05	FY-06	FY-07	FY-08 (YTD)
Real GDP (% Y-o-Y)	7.5	8.4	9.4	-
Agriculture	0.7	3.9	2.7	-
Industry	8.6	8.8	10.9	-
Services	9.9	10.1	11.0	-
Credit (% Y-o-Y)	32.6	32.3	29.2	26.1
M3 (% Y-o-Y)	14.4	17.0	19.5	20.6
WPI inflation	5.7	3.5	5.3	5.0
Imports (USD bn)	107	134	176	36
Exports (USD bn)	79	94	120	23
Current account balance (USD bn)	(5.4)	(10.6)	(13.8)	-
Capital account balance (USD bn)	31.0	25.6	29.7	-
Fiscal deficit/GDP (%)	4.0	4.1	3.5	-

Source: CMIE, RBI, Ministry of Commerce, Office of Economic Advisor

*** Industrial production softens**

- Industrial production for May came in at 11.1% Y-o-Y, below street expectations of 12% Y-o-Y. April growth was also revised downwards to 12.4% Y-o-Y, down from a strong 13.6% Y-o-Y.
- Manufacturing, which accounts for 79% of the weight in IIP, pulled down overall growth in May. Mining and electricity, however, showed some acceleration in comparison with April.
- Within manufacturing, ‘Wood and Wood Products; Furniture and Fixtures’ has shown the highest growth of 132.8%, followed by 40.4% in ‘Jute and other Vegetable Fibre Textiles (except cotton). ‘Transport Equipment and Parts’ has reported a de-growth of 0.1%.
- As per the use-based classification, consumer goods, basic goods and intermediate goods softened in comparison with April. Consumer durables slipped to a low of 2.6% Y-o-Y, probably reflecting the impact of rising interest rates. Capital goods growth however accelerated to a strong 22.9% Y-o-Y, up from 14% during the previous month.

IIP softens



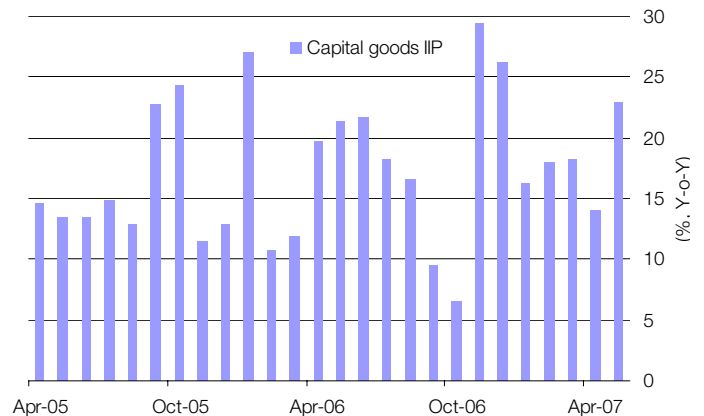
Source: CSO, Bloomberg

Industrial production (% Y-o-Y)

	May-07	Apr-07	May-06
Industrial production	11.1	12.4	11.7
Manufacturing	11.9	13.7	13.3
Mining	3.7	2.3	2.9
Electricity	9.4	8.7	5.0
Use-based categories			
Capital goods	22.9	14	21.4
Consumer goods	9.8	15.8	10.5
Consumer durables	2.6	5.2	17.5
Consumer non-durables	12.5	19.3	8.2
Basic goods	9.8	15.8	9.1
Intermediate goods	9.1	12.1	12.5

Source: Bloomberg, CSO

Strong capital goods

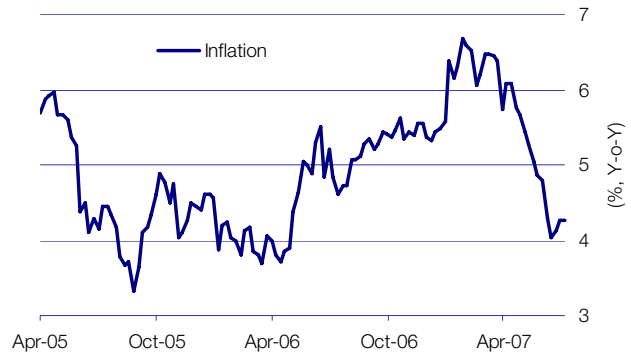


Source: CSO, Bloomberg

*** Inflation falls below RBI target level**

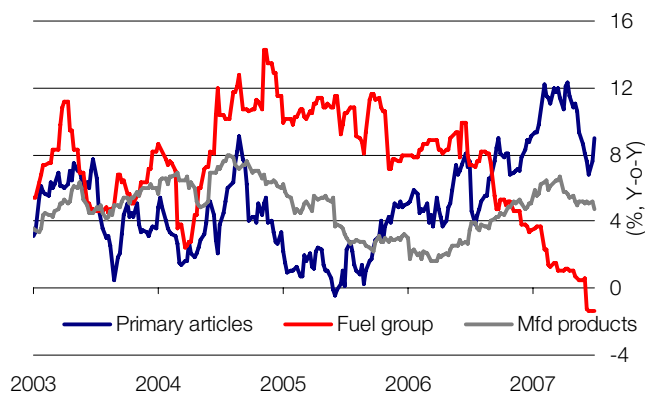
- ♦ Inflation continues to soften. Average June inflation fell to 4.27% Y-o-Y, below RBIs target level of 5% and down from 5.15% Y-o-Y in May. The fall is aided by stable to falling manufactured products inflation and fuel group deflation. While manufactured products inflation fell to 5.09% Y-o-Y from 5.13% Y-o-Y during the previous month. Fuel group numbers fell to -0.94% from 0.57%. Primary articles' also showed softening, though the group's inflation has started inching up again. The softening in inflation is on account of primary articles inflation, whose average monthly figures fell to 7.80 % Y-o-Y from 9.90 % during the previous month.
- ♦ Primary articles inflation remains a key source of concern for the authorities. While the group has shown a largely softening trend, it has been volatile on a weekly basis. It has varied by as much as 2 percentage points in the last one month.
- ♦ The government reduced import duties on edible oils like soybean oil (40% from 45%), sunflower oil(40% from 50%), refined palm oil (52.5% from 57.5%), and crude palm oil (45% from 50%) recently, most likely in a bid to hold down primary articles inflation.

Inflation softens



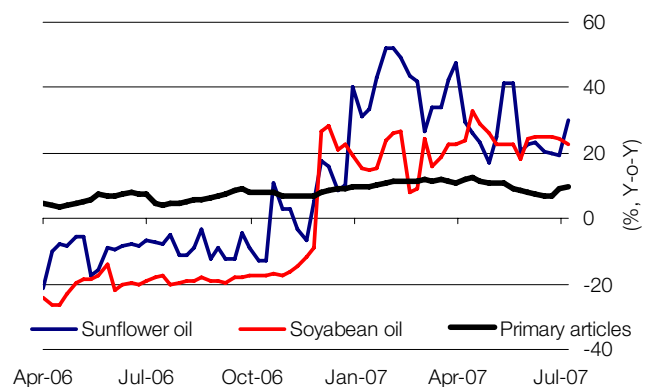
Source: Bloomberg

Manufactured and fuel group soften



Source: Bloomberg, Office of economic advisor

Strong primary articles inflation



Source: Bloomberg, Office of economic advisor

* Stable fiscal situation

- For the first two months of FY08, total receipts stand at 5.3% of the budget estimates, while total expenditure stand at 13.3%. In absolute terms, total receipts up to May are at INR 286 bn, while the expenditure is at INR 908 bn.
- The gross fiscal deficit is at INR 621 bn – 41.2% of budget estimates. This is due to higher expenditure in comparison with receipts. Typically expenditure is high in Q1, a trend that corrects itself in the subsequent quarters.

Central government accounts

(INR bn, unless specified otherwise)

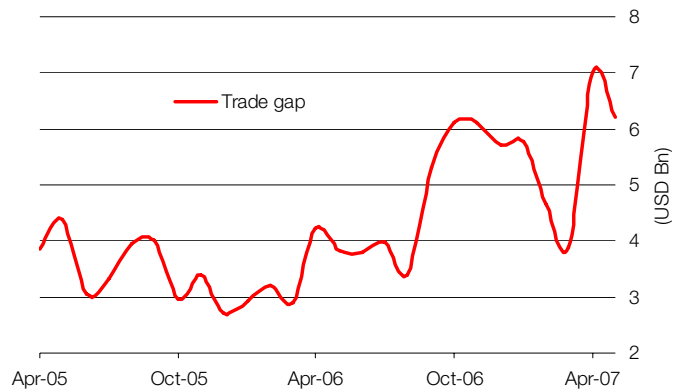
	Budget Estimates, FY07	Actuals upto May 07	Actuals upto Budget Estimates (%)
Revenue Receipts	4,864	259	5.3
Tax Revenue (Net)	4,039	217	5.4
Non-Tax Revenue	826	42	5.1
Non-Debt Capital Receipts	432	27	6.3
Recovery of Loans	15	3	23.3
Other Receipts	417	24	5.7
Total Receipts	5,296	286	5.4
Non-Plan Expenditure	4,754	676	14.2
On Revenue Account	3,835	659	17.2
<i>(i) of which Interest Payments</i>	1,590	262	16.5
On Capital Account	919	17	1.9
<i>(i) of which Loans disbursed</i>	8	0	0.7
Plan Expenditure	2,051	231	11.3
On Revenue Account	1,744	194	11.1
On Capital Account	307	38	12.3
<i>(i) of which Loans disbursed</i>	67	18	27.2
Total Expenditure	6,805	908	13.3
Fiscal Deficit	1,509	621	41.2
Revenue Deficit	715	593	83.0
Primary Deficit	-80	359	-446.3

Source: CGA

*** Merchandise trade**

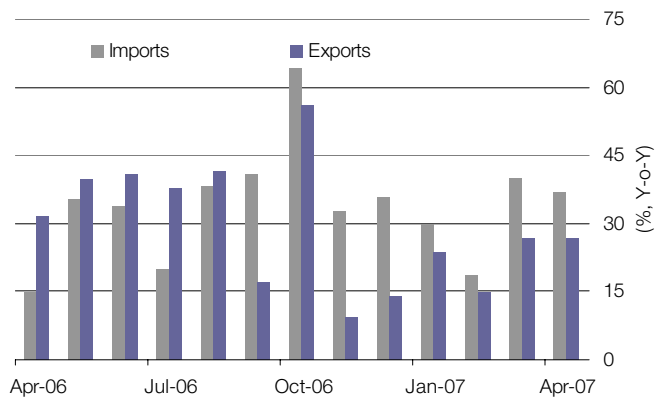
- ◆ India’s trade deficit fell to USD 6.2 bn in May 2007, down from a historic high of USD 7bn in April.
- ◆ The latest data is surprising for 2 reasons:
 - Exports continue to show trend growth – for May they are valued at USD 11.9 bn, up from USD 10.6 bn in April. Export growth also remains at a healthy 26.8% Y-o-Y, in comparison with 27% Y-o-Y in April. Anecdotal evidence as well as exporters’ surveys indicate that there is some hit on exports on sharp rupee appreciation. Data released so far, however, does not reflect the trend so far.
 - Imports, on the other hand, have not moved much over the previous month. They are currently at USD 18.1 bn, up from USD 17.6 bn during April. Of the USD 5 bn increase, USD 4 bn increase has come from a rise in oil imports, while non-oil imports have risen only USD 1 bn. In a period of rupee appreciation and strong domestic growth, we would expect non-oil imports to show stronger growth.
- ◆ Going forward, we do not expect the trade deficit to narrow further, given (i) that the impact of rupee appreciation has still not kicked in and (ii) rising oil prices are likely to increase the oil import bill further.

Trade gap narrows in May



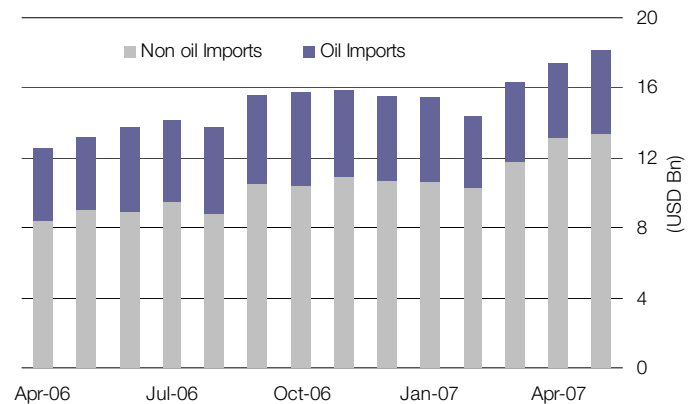
Source: Ministry of Commerce

Exports show strength



Source: Ministry of Commerce

Rising oil imports

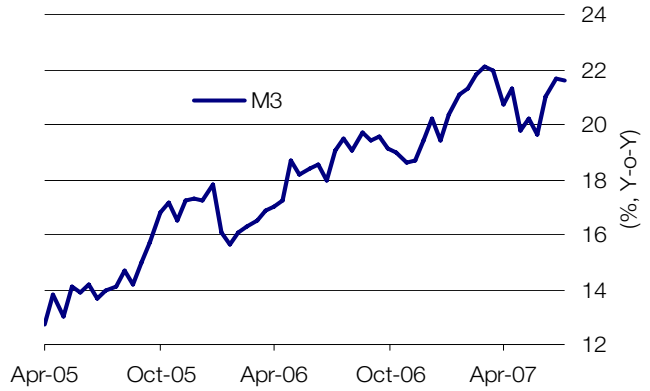


Source: Ministry of Commerce

* Liquidity situation in check

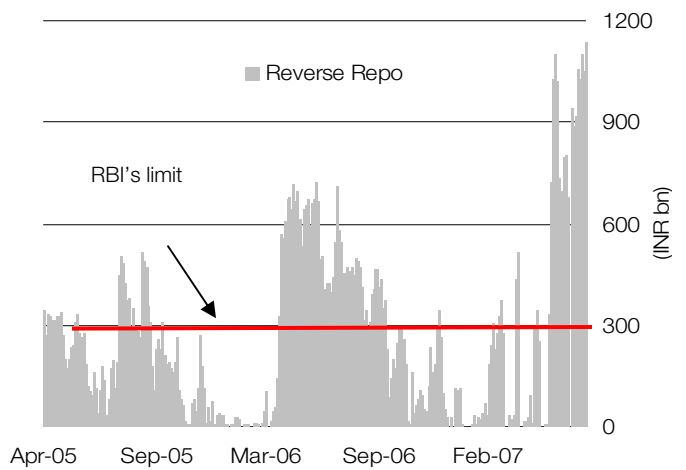
- ♦ Money supply growth has increased from 19.6% Y-o-Y for the last fortnight of May to 21.7% Y-o-Y in June. On July 6 it was at 21.6% Y-o-Y.
- ♦ Liquidity continues to be ample in the system – as reflected in the daily reverse-repo auctions. We look at amount received as bids under these operations as indicative of liquidity (since the amount accepted has been capped at INR 300 bn per day). Average daily bids have risen from INR 675bn in June to INR 980bn in July. Due to the cap on amount that can be received under reverse repo bids, call money rates have also been softening. Average call money rates fell from 5.83% in May to 2.53% in June. The average rate has fallen further to 0.77% in July so far.

Money supply growth comes off



Source: Bloomberg

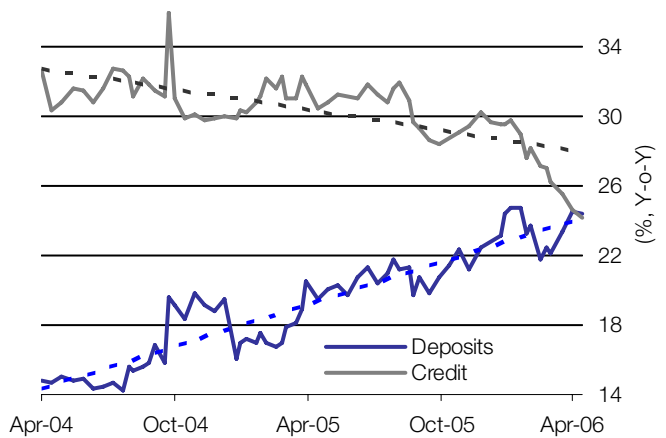
Reverse repo bids on the rise



Source: RBI

- ♦ Credit and deposit growth has been converging, with a come off in credit growth and a rise in deposit growth. In the first week of July, deposits growth for the first time outstripped credit growth. While deposits grew by 24.5%, credit growth came off to 24.3%.

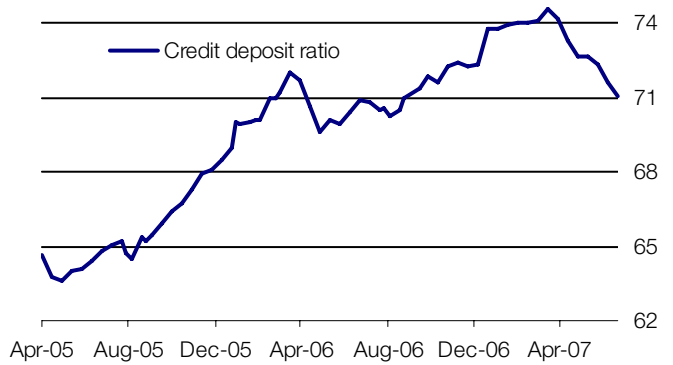
Credit growth & deposit growth converge



Source: Bloomberg, RBI

- Credit deposit ratio for the fortnight ended June 22 stood at 71.05%, at a 21- month low. The C-D ratio has been on the decline since the beginning of FY08, along with a softening in credit growth. It has dipped over three percentage point from the value of 74.13% during the first week of April.

C-D Ratio declines

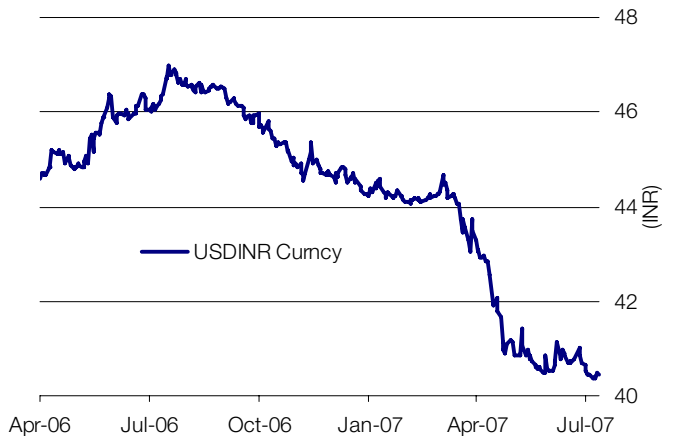


Source: Bloomberg

* External sector remains in focus

- The USD/INR continued to appreciate on the back of strong flows and despite RBI intervention and rising crude oil prices. On July 23, it touched a nine-year high of 40.26. It stood at 40.78 in June (average) and has appreciated further to 40.40 in July so far.

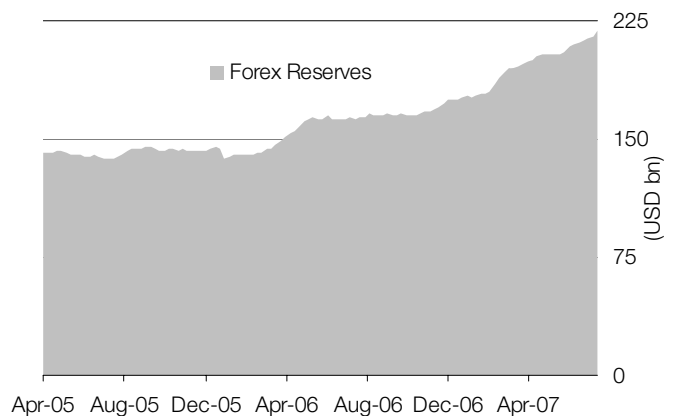
Exchange rate continues to appreciate



Source: Bloomberg

- The forex kitty has been on the rise, reflecting RBI intervention in the currency markets. Reserves surged to USD 219 bn for the week ended Jul 13 – an increase of a huge USD 4.12 bn over the previous week.

Forex kitty strong



Source: Bloomberg, RBI

Economy datasheet

	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07
Industrial production												
IIP (%Y-o-Y)	13.2	10.3	12.0	4.5	15.8	13.4	11.6	11.0	14.5	12.4	11.1	
Mining	5.1	-1.7	4.3	5.9	8.8	6.1	7.7	7.5	7.3	2.3	3.7	
Electricity, gas and water supply	8.9	4.1	11.3	9.7	8.7	9.1	8.3	3.3	7.9	8.7	9.4	
Manufacturing	14.3	11.9	12.7	3.8	17.2	14.5	12.3	12.0	15.9	13.7	11.9	
Use based												
Basic goods	10.0	4.8	11.5	10.5	12.1	12.4	12.0	10.7	11.7	8.6	10.2	
Capital goods	18.3	16.6	9.5	6.5	29.4	26.2	16.3	18.0	18.2	14.0	22.9	
Intermediate goods	10.7	8.7	13.8	5.9	17.9	12.7	13.7	13.3	14.3	12.1	9.1	
Consumer goods	16.8	15.0	12.1	-2.8	13.5	10.7	8.2	7.4	16.0	15.8	9.8	
Infrastructure indicators												
Infrastructure index (%Y-o-Y)	10.8	6.5	10.5	9.8	9.5	8.5	8.3	7.5	10.0	7.4	8.7	
Electricity	8.9	4.1	11.5	9.7	8.7	9.3	8.5	3.3	8.0	8.7	9.3	
Coal	10.6	0.2	-0.7	2.1	4.9	2.9	10.0	6.6	10.7	0.5	0.9	
Steel	13.9	9.3	10.4	10.4	9.1	10.0	8.3	13.4	14.6	8.5	11.8	
Cement	14.0	2.9	16.5	9.4	11.8	8.0	7.2	5.8	5.5	5.4	9.4	
Crude petroleum	4.1	12.1	9.4	9.3	9.8	10.7	4.7	4.9	3.2	1.4	-1.6	
Refined petroleum	12.6	12.1	13.4	18.1	1,063.9	6.2	9.2	11.3	13.4	15.1	15.0	
GSM subscribers (in mn)	82.4	86.6	91.0	95.7	100.8	105.4	110.4	115.3	121.4	125.6	130.6	
Railways goods traffic, rev. (INR bn)	31.1	32.0	33.6	36.1	37.4	38.4	35.7	41.0	41.0	36.2	37.5	
Inflation												
WPI (%Y-o-Y)	4.6	4.8	5.2	5.1	5.3	5.4	6.2	6.4	6.3	5.9	5.2	4.3
Primary articles	4.5	6.1	7.9	6.7	6.7	8.6	9.7	11.6	11.6	11.7	9.9	7.8
Fuel, light, power and lubricants	7.4	5.9	5.0	5.5	5.3	3.6	3.7	1.8	1.2	1.1	0.6	-0.9
Manufactured products	3.6	3.8	4.1	4.3	4.8	4.8	5.8	6.2	6.4	5.6	5.1	5.1
CPI, IW (%Y-o-Y)	6.9	6.0	6.8	7.6	6.7	6.7	7.6	6.7	6.7	6.7	6.6	
Government finances												
Fiscal deficit, cumulative (INR bn)	864	951	865	871	1,082	948	1,110	1,218	1,428	278	621.0	
Monetary indicators												
Money supply (M3) (%Y-o-Y)	19.5	19.7	19.1	18.6	19.4	19.4	21.1	21.8	20.7	19.8	19.6	21.7
Bank credit (INR bn)	15,569	15,861	16,547	16,556	16,837	17,663	17,806	18,202	19,232	18,896	18,865	19,144
Food credit	361	364	335	366	387	422	421	439	465	499	449	428
Non-food credit	15,208	15,498	16,213	16,189	16,451	17,242	17,386	17,763	18,767	18,397	18,417	18,716
Credit-deposit ratio	70.6	71.0	71.9	72.2	72.2	74.0	74.0	73.8	74.1	72.7	72.3	70.8
External sector												
Foreign trade												
Exports (USD bn)	10.2	10.4	10.3	9.6	9.7	9.9	9.6	9.7	12.5	10.6	11.9	
Imports (USD bn)	14.1	13.8	15.6	15.7	15.8	15.6	15.4	14.4	16.4	17.6	18.1	
Trade balance (USD bn)	-4.0	-4.1	-6.1	-6.9	-6.0	-5.2	-4.7	-4.1	-3.8	-7.1	-6.2	
Forex reserves (USD bn)	164	166	167	167	176	177	181	195	199	204	205	213

Source: Bloomberg, CGA, CMIE, Ministry of Commerce and Industry, Edelweiss estimates

	Q2FY06	Q3FY06	Q4FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07
Real indicators							
GDP (% Y-o-Y)	8.4	7.5	9.3	8.9	9.2	8.6	9.1
Agriculture & allied products	4.0	2.9	5.5	3.4	1.7	1.5	3.8
Industry	7.8	8.1	8.9	9.7	10.3	9.95	11.2
Services	10.0	9.4	10.9	10.6	10.9	11.26	9.9
WPI (% Y-o-Y)	4.0	4.5	4.0	4.5	5.2	5.6	6.5
External sector							
Current account balance (USDbn)	(5.1)	(3.9)	1.8	(6.0)	(6.9)	(3.0)	2.6
Trade balance (USD bn)	(14.6)	(12.0)	(11.4)	(18.4)	(17.9)	(19.0)	(14.3)
Invisible balance (USD bn)	9.6	8.2	13.3	12.4	11.0	16.0	17.8
Capital account balance (USD bn)	9.9	(0.6)	11.4	11.8	8.6	10.7	17.1

Source: CMIE, RBI

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RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

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