

RBI, trade credit, SME, inflation, US



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RBI: On hold; 50bp rate, 100bp CRR/SLR cuts ahead

The RBI expectedly stressed a soft policy stance today to combat the global recession. Policy rates were left unchanged in line with our (/ consensus) expectations: we expect a final 50bp cut by April. The RBI did not, contrary to our expectations, cut CRR 50bp to fund additional government borrowing, although it appears to share our growing fiscal concerns. It has, however, extended sector-specific refinance facilities to September from June. In the event, we continue to expect 100bp CRR/SLR cuts in FY10. Finally, the RBI expectedly cut FY09 real growth to ~7% (from 7.5-8%, 7.1% MLe) and inflation to ~3% (from 7%, 2% MLe).

BoP risks overdone: US\$28.1/43.2bn trade credit repaid

The big news is really outside of policy action, or the lack of it. The RBI revealed that US\$28.1bn of the US\$43.2bn of trade credit due FY09 has already been disbursed by November. This buttresses our standing view of BoP risks overdone [here](#). This also supports our expected INR consolidation: read Steve and me [here](#). Incidentally, profit booking by FIIs (US\$700mn in January) is expectedly counter-balanced by a turn in trade seasonality in favor of exports over imports. Note, merchandise trade turnover has been inching up suggesting a pick up in trade. December exports reportedly fell 1% after ~10% October-November drops.

Softer credit offtake, ex oil: Small industry loans collapsing

The other key takeaway is much more depressing in our view! Data on sectoral deployment of credit expectedly suggests that the recent credit spike essentially reflects oil loans (up 8-fold to US\$9bn) to pay off oil trade credit. The shocker is the collapse in small enterprise credit to 7.4% in December 08 from 35.6% last year (Table 2). This buttresses our expectation of CRR/SLR cuts as the downturn deepens.

Gilts: Still +ve, fiscal risks likely to bite later

The gilt market did not, in our view, did not price in rate cuts and disappointment, if any, has thus also been muted. We continue to believe that there is still upside for gilts - read Ashish and me [here](#) - with fiscal risks likely to bite 2HFY10 [here](#).

5.2% inflation: End to trucker' strike to calm food prices

Beyond the RBI, we expect January 17 inflation to slip to 5.2% from 5.6% (5% MLe, 5.1% consensus) last week en route mid-09 deflation. We do not set much store by last week which reflected a blip in food prices due to an 8-day truckers' strike. Oil minister Deora has hinted at cutting Rs5/l on petrol and Re1/l on diesel soon and winter - rabi - cropping is mercifully on track (Chart 1). Steel prices are still falling, but SAIL chairman Roongta says they have hit rock bottom.

US: 6% 4Q08 GDP drop, fiscal package, Fed

Our US economist, David Rosenberg, estimates a 6% drop in US 4Q08 GDP [here](#). He expects the 6% of GDP fiscal package to hit Pres Obama's desk by early February. Uncle Ben, at the Fed, is, of course, no longer earth shaking!

Table 1: India: the gathering storm

Variables	FY08	FY09	FY10	FY11
Macroeconomic parameters (%)				
Real GDP growth rate	9	7.1	5.8	7.5
Agriculture	4.5	3	3	3
Industry	8.1	3.9	3.3	6.9
Services	11.4	9.1	7.3	8.8
M3 growth rate	20.7	18	15.5	16
Commercial credit	21.9	20	14	17.5
WPI inflation rate	7.8	2.0	5	5.5
Fiscal deficit (% of GDP)	-6.4	-8.4	-8.4	-6.5
Current account balance (% of GDP)	-1.5	-2.2	-1.9	-1.8
Forex reserves (US\$bn)	309.8	240	250	275
RBI's LAF reverse repo rate	6	4.0	3.5	6
RBI's LAF repo rate	7.75	5.5	5.0	7
Cash reserve ratio (% of bank book)	7.5	4.5	4	5.5
10-year Govt yields	8	5.5	6.5	7.5
	12.25-	11.75-	10.75-	12.25-
Prime lending rate of PSU banks	12.75	12.5	12.5	13.0
US\$/INR	40	50	47	45.5*

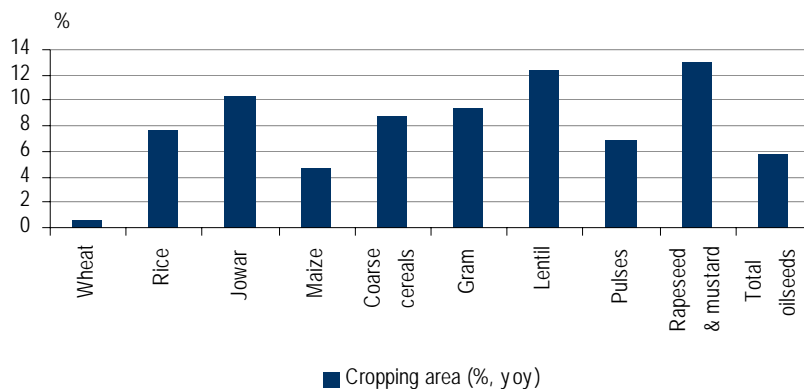
Source: Government of India, RBI, ML estimates. * refers to December.

Table 2: Credit to small enterprises collapsed; housing loans slowing

	Outstanding December 08	Growth December 07	rates December 08
Non-food Gross Bank Credit (1 to 4)	24701	21.8	24.8
1. Agriculture and Allied Activities	2895	19.3	22.7
2. Industry (Small, Medium and Large)	10185	24.9	30.2
Small Enterprises	1468	35.6	7.4
Food Processing	527	30.2	17.6
Textiles	1020	24	18.4
Paper & Paper Products	158	23.9	25.4
Petroleum, Coal Products & Nuclear Fuels	797	18.6	114.5
Chemicals and Chemical Products	747	13.7	28
Rubber, Plastic & their Products	128	18.8	34
Iron and Steel	968	31.8	24.7
Other Metal & Metal Products	291	9.3	34.8
Engineering	637	29	28.3
Vehicles, Vehicle Parts and Transport equipments	358	37.6	28.3
Gems & Jewellery	281	14.2	13
Construction	349	37.3	57
Infrastructure	2373	37.1	38.5
3. Personal Loans	5684	15.9	14.6
Housing	2717	14.6	8.8
Advances against Fixed Deposits	500	12.8	23.6
Credit Cards	294	45.3	69.6
Education	268	45.7	37
Consumer Durables	91	5.9	0.6
4. Services	5936	24.8	27.6
Transport Operators	381	29.9	30.6
Professional & Other Services	407	34.3	55.6
Trade	1401	17.8	19.7
Real Estate Loans	765	35.8	48.1
Non-Banking Financial Companies	861	59.6	40.1
<i>Memo:</i>			
Priority Sector	7640	19.6	13

Source: RBI.

Chart 1: Winter cropping doing ok



Source: Ministry of Agriculture.

27 January 2009

Key Data Releases and Events

	Date	Country	Data Release or Event	Forecast	Previous
	Global				
	Mon, 26 Jan	US	Leading indicators (Dec, %MoMsa)	0.1	-0.4
		US	Existing home sales (Dec, units mn)	4.53	4.49
	Wed, 28 Jan	US	FOMC rate decision		75bp cut
★	Thu, 29 Jan	US	Durable goods orders (Dec, %MoMsa)	-1.8	-1.5
	Fri, 30 Jan	Japan	CPI (Dec, %YoY)		1.0
		Japan	Industrial production (Dec, %YoY)		-16.6
★		US	Real GDP (4Q08, %QoQ annualized)	-6.0	-0.5
	Regional				
★	Tue, 27 Jan	India	Monetary policy review	No change	No change
	Wed, 28 Jan	Australia	CPI (4Q08, %YoY)	3.7	5.0
		Korea	Current account balance (Dec, US\$m)		2,057
	Thu, 29 Jan	Hong Kong	Exports (Dec, %YoY)	-9.6	-5.3
		India	WPI (week ending Jan 17, %YoY)	5.2	5.1
		Philippines	GDP (4Q08, %YoY)		4.6
		Philippines	Monetary policy meeting	25bp cut	50bp cut
★	Fri, 30 Jan	Korea	Industrial production (Dec, %YoY)	-15.0	-14.1
		Singapore	Unemployment rate (4Q08, %)	2.9	2.2
		Thailand	Industrial production (Dec, %YoY)	-7.0	-6.6

★ Indicates potentially important data release, in our view. Dates are approximate as regional data release schedules are often not rigid.

Source: Bloomberg, Merrill Lynch.

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