

ECONOMY

Industrial production registers another strong performance: In an optimistic start to the new financial year, Industrial production registered 13.6% yoy growth in April, with manufacturing sector clocking 15.1% yoy growth. The robust growth in industrial production in April, suggests that the monetary measures to slowdown the pace of activity in the economy have not yet had a major impact. In fact, the sectoral break up of the data shows an encouraging trend of continuing momentum in the investment activity. The capital goods output rose by 17.7% yoy in April. The IIP data also suggests that rising rates have yet dented consumer spending in the economy. The consumer goods output registered a 17.7% yoy growth. We don't see monetary tightening severely denting investment spending in the economy however we do expect it to trim down leveraged consumer spending.

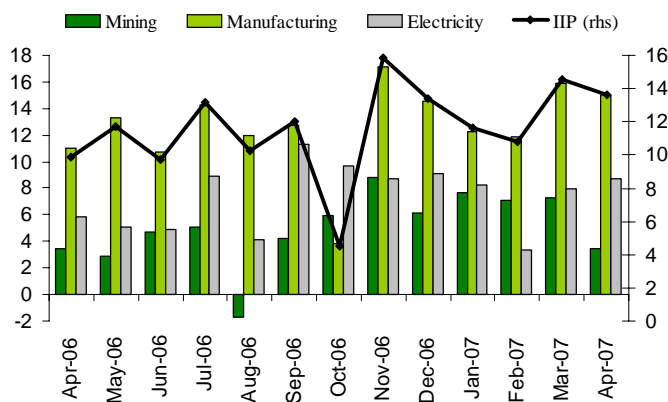
The industries that performed well in April include wood and wood products, furniture & fixtures, registering growth rate of 92.2%, food products (55%), machinery and equipment (19.2 %), basic metal and alloy industries (18%), jute and other vegetable-fiber textiles (17.7%), leather and leather & fur products (14.7%) and rubber, plastic, petroleum and coal products (14.1%). The industrial production numbers could continue to remain in double-digits for next two months, but beyond that the negative impact of tighter credit conditions and a stronger rupee (through lower exports and import substitution) will be felt.

Advance tax mop-up soars on booming economy: Corporate tax collections for the three-month period ending June 15 indicate the continuing buoyancy in the Indian economy, with most companies registering a significant increase in the tax payment over the corresponding period last year. India's leading public sector bank has been the leading corporate taxpayer in the period, paying a whopping Rs 5 bn.

Government crosses its overdraft limit first time since 2003: For the first time in three years, the government breached the limit of its overdraft facility, Ways and Means advances (WMA), with the central bank, the RBI. On two occasions this month, the government overshoot its prescribed limit of Rs. 200 bn under its WMA account. As on June 8, the WMA balances amounted to Rs 215.8 bn. The week before, the central bank had an outstanding of Rs 267.1 bn. The government has to pay the prevailing repo rate, currently at 7.75%, on the WMA balances above the prescribed limit. The interest on balances within the limit is 4%. The WMA limit was breached on account of large spending by the government. One of the main expenditure head was bond redemption and coupon payments of Rs. 263.6 bn, during the first quarter of this fiscal year. However for the week ended June 15, the overdraft amount came down to Rs. 82.5 bn, suggesting that the overshoot of the prescribed limit was on account of a temporary mismatch of cash flows. With advance tax payments of close Rs. 170 bn on June 15, the government cash position has improved. The central government would continue to take recourse to the WMA facility in July too. This is because it has to pay Rs. 355.3 bn for acquiring the RBI's 59.73% stake in the SBI by June 30th. The RBI would return this sum as annual dividend to the government in first half of August. During the interim period the central government's finances could be under a temporary pressure. Therefore, the central government would continue to take recourse of the WMA facility with the RBI.

Foreign investors shy away from employment heavy sectors like textiles and leather: Data put together by the department of industrial policy and promotion show that out of the total FDI of \$54.62 bn between Aug-91 to Mar-07, only \$60.2 m, or 0.12%, found its way into the leather industry. The leather industry employs close to two million families in the country. Likewise the textile sector which employs close to 85 m people directly or indirectly, have received just 1.2% of the total FDI investments into the economy, since liberalization. In comparison, electrical equipment (software & hardware) received 15.1% of FDI, financial & non-financial services sector bagged 14.4%, and telecom has received 7.1%. Moreover, experts reckon that while it takes an investment of \$250 in textiles and an investment of \$750 in leather to create an additional job, it takes as much as \$4,000 for information technology or information technology-enabled services.

Industrial output growth remains strong



Source: Central Statistical Organization, ABN AMRO

The five top corporate tax payers

Company	Amount (Rs bn)	% growth
SBI	5.0	41.3
SAIL	4.5	53.6
LIC	3.6	30.4
RIL	3.0	39.2
ICICI	2.5	25.0

Source: ABN AMRO, Reuters

FDI equity inflows (from Aug 91 to Mar 07)

Sector	Inflows (\$ bn)	Composition (%)
Electrical equipment	8.2	15.1
Services sector	7.8	14.4
Telecommunications	3.9	8.7
Transportation industry	3.6	6.7
Fuel (power & oil refinery)	2.8	5.2
Textiles	0.6	1.2
Leather	0.1	0.1

Source: Department of Industrial Policy and Promotion

BANKING & FINANCE

Banks queue up to sell rising bad home loans: For the first time since the housing loan boom, the country's top three home loan providers, SBI, ICICI bank, and HDFC Bank, have approached the Asset Reconstruction Company Limited (ARCIL) to sell bad loans from their home loan portfolios. All three institutions are selling home loan portfolios worth Rs 2.5-3 bn each. The move has been prompted by a sharp rise in defaults from retail customers, who are squeezed by the rise in interest rates in the last two quarters. ARCIL buys bad loans at a discount and sells the assets for a profit. While ARCIL will take these loans on its own balance sheet, a subsidiary will be set up for recovery of the loans - in terms of valuing property, collecting checks and so on.

Banks shrug off monetary tightening woes: Going by the quarter ended Mar 07 results announced recently most of the leading banks seem to have overcome concerns pertaining to the rising cost of funds and an increase in provisioning requirements under the new RBI norms. The revision of prime lending rates and high credit off-take has contributed to the healthy growth rate in net interest income. While the cost of funds has gone up too, the same has been offset to some extent by increases in the prime lending rates between 100-300 basis points, among the different banks.

Bank	Net interest income in Q4FY07
Kotak Mahindra Bank	75.2
Syndicate bank	53.3
HDFC bank	51.2
UTI bank	48.4
Dena bank	45.2
Indian Overseas Bank	42.0
ICICI Bank	36.4
State Bank of India	21.5
Punjab National Bank	18.7
Canara Bank	7.7

Source: Reuters

COMMODITIES

Only a few kharif crops may see marginal rise: Sowing of kharif (summer) crops, which takes place between May and August, may see a marginal increase only this year. Pulses are expected to see a jump, while oilseeds and cereals could see slight slump in acreage. A recent statistical release from the ministry of agriculture, has estimated total kharif crop sowing at 100.46 million hectares in 2007-08, an increase of 0.38% from last year. The sowing of coarse cereals is estimated to be 1.8% lower at 20.72 million hectares against last years 21.1 million hectares. However, rice and maize are the exceptions. Rice acreage is expected to grow from 37.2 million hectares last year to 37.48 in the current fiscal. Like-wise maize is expected to grow from 7.31 million hectares to the 7.36 mark. Acreage of kharif pulses will be up 0.7%. This could mean that the agriculture sector might continue to grow above the 3% mark.

Kharif crops coverage

Commodity	Acreage (in million hectares)	
	2006-07	2007-08
Millets	8.06	7.96
Maize	7.31	7.46
Rice	37.21	37.48
Sugarcane	4.45	4.52
Oilseeds	16.88	16.44
Pulses	11.47	11.55

Source: Ministry of Agriculture

INDUSTRY

Engineering goods sector feeling the pinch of a stronger rupee: Engineering goods exports have started feeling the pinch of rupee appreciation from Apr-07, claims the Engineering Export Promotion Council (EEPC). According to the EEPC survey which covered 52 companies, engineering goods exports fell 24% in dollar terms during April, compared to a 35% growth in the same month last year. In rupee terms, the fall was very sharp with exports dropping 16.4% against an average growth rate of 45% in April-November 2006 period. If the exchange rate continues to prevail at Rs 40 vis-à-vis the US dollar, engineering goods exports in FY08 is estimated to remain flat at the last year's level of \$26 bn, which would lead to a negative growth in rupee terms.

Cement consumption in the monsoon months

Month	2005	2006
April	11.3	13
May	11.5	12.7
June	11.2	12.8
July	10.2	11.2
August	10.3	11
September	9.8	12

Source: Cement manufacturers association (in million tons)

Dip in cement demand unlikely this monsoon: The adverse impact of monsoons on cement demand in the country may be weakening, if the demand trends in the previous two years are anything to go by. Data released by the cement manufacturers association of India for the last two monsoon seasons has shown no real systematic slump in cement consumption during the season. One of main reasons behind this is the hectic construction sector activity across the country. If this decoupling between monsoons and cement demand continues, then it could mean that the pace of construction activity is strong in the second quarter of FY08.

INTERNATIONAL ECONOMY

Crude prices rising again: Last week crude oil prices traded close to a nine month high, reacting sharply to the fears of a supply disruption due to the strike in Nigeria along with concerns over Iran’s nuclear capabilities. The strike in Nigeria, Africa’s largest oil producing country, continued for most of last week, as talks between the government and the union leaders were unsuccessful. Nigeria, which has proven oil reserves of 36.2 million barrels, according to the Energy information administration (EIA), has been facing political uncertainty for the last one-and-a-half years, threatening to disrupt its oil production. The EIA estimates that violence has halted the production of about 587,000 barrels per day of the 2.28 m barrels of crude oil produced each day in 2006. Going forward, the direction of oil prices would depend on the outcome of the Nigerian strike.

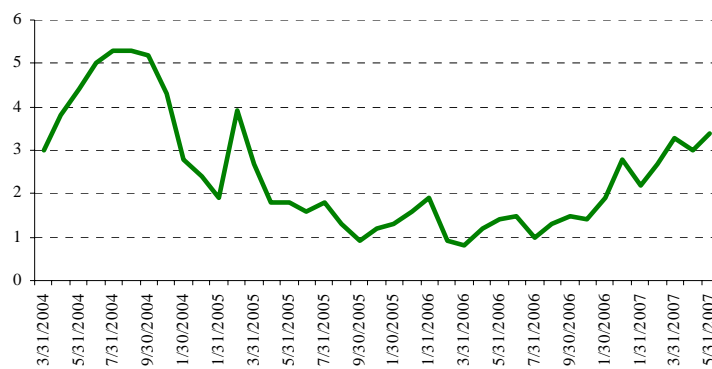
Food prices pinching China too: Unlike the last few years of benign inflation environment, consumer inflation rates have started to climb up steadily in China. The latest CPI inflation for May’07 printed at 3.4% yoy, highest in the last 27 months. In fact, quite like inflation in India, food prices are proving to be the major driver of inflation rates in China. For instance, food prices have increased by 8.3%, while non-food prices have increased by 1% in May. Moreover, the three main drivers of food inflation have been meat (increasing by 26.5%), fresh eggs (increasing by 37.1%), and grains (increase of 5.9% y/y). However, prices of fresh vegetables and fruits have dropped by 2.3% and 11.2% respectively indicating that Chinese consumers seem to be substituting away from basic foods like vegetable and fruits to more expensive meat based products.

Key Economic Indicators

<i>Daily</i>	06/22/07	06/15/07
MIBOR (%)	0.35	3.22
10-Year G-sec Yield (%)	8.22	8.32
Re. / US\$ rate	40.75	40.85
BSE Sensex	14467	14163
6-mth Fwd Premium (%)	2.71	3.09
<i>Weekly</i>	<i>Latest</i>	<i>Week Ago</i>
Wholesale Price Index (WPI)	211.8	211.9
	09/06/07	02/27/07
WPI based Inflation (%)	4.28	4.8
	211	209.6
Forex Reserves (\$ bn)	15/06/07	08/06/07
ABN 6-country REER (base 2004-05) (average)	112.3	112.3
	22/06/07	15/06/07
<i>Fortnightly (yoy %)</i>	06/08/07	05/25/07
Bank Credit	25.4	26.3
Deposits	21.5	22.1
Money Supply (M3)	21.0	19.6
<i>Monthly (yoy %)</i>	Apr '07	Mar '07
CPI – IW	6.6	6.72
IIP	15.1	12.9
Core Sector Index	7.4	10.0

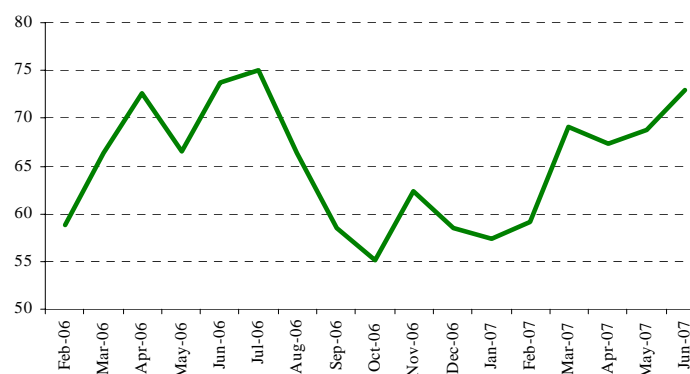
Source: RBI, ABN AMRO, Reuters,

Chinese CPI inflation (%)



Source: Reuters

Movements in the Brent crude prices (\$/barrel)



Source: Reuters

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