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Updates

Economy: Inflation falls back a tad to 3.65%; dismal winter monsoon unlikely to spiral inflation

News Roundup

Corporate

- Reliance Entertainment, controlled by the Anil Dhirubhai Ambani Group, is divesting 5% stake at an enterprise value of \$1.5bn. (BS)
- Private equity investor Citigroup Venture Capital is diluting a part of its 75% stake in brokerage firm Sharekhan. Financial services major Merrill Lynch is said to be the front-runner to pick a minority stake even as other PE firms, including Baring Private Equity, are believed to be in the race. (ET)
- Indian Oil Corporation Ltd is gearing up to venture out alone in the domestic oil and gas exploration & production (E&P) activities. The company plans to aggressively bid as an operator for the new category of acreages — small blocks — put on offer under the seventh New Exploration Licensing Policy round. (BL)
- GAIL (India), India's largest gas transmission and marketing company, will, in all likelihood, finalise a bonus issue of shares within the next six months. The state-run company is initiating the process by doubling its authorised share capital to Rs 2,000 crore. The proposal for increasing the capital is likely to be taken up by the board soon. (BS)

Economic and political

- On the heels of serious criticism against red tape and lack of transparency in India's patent offices, a group of industry representatives, patent experts, lawyers and patient groups, have written to Prime Minister Manmohan Singh urging his intervention in creating a system that will make information related to patents, their filings and grants public. (Mint)
- Almost a fortnight after the Centre notified the multi-crore sugar package, the Reserve Bank of India is yet to issue the crucial guidelines for banks to fork out the Rs 3,800-crore loan to the industry. (ET)
- The government is still to take a decision on importing more than 300,000 tonnes of wheat on account of the high price quoted by global trading firms, an official source said. (BS)
- The decision on canceling or importing the grain may be taken on Tuesday, the source added. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

EQUITY MARKETS

India	20-Dec	Change, %		
		1-day	1-mo	3-mo
Sensex	19,163	0.4	3.0	15.7
Nifty	5,767	0.3	3.7	19.2
Global/Regional indices				
Dow Jones	13,451	1.5	3.6	(2.2)
Nasdaq Composite	2,692	1.9	3.7	0.9
FTSE	6,434	1.4	2.7	(0.5)
Nikkie	15,257	1.5	2.5	(6.5)
Hang Seng	27,993	1.3	5.5	5.4
KOSPI	1,914	1.9	8.0	(0.3)
Value traded - India				
		Moving avg, Rs bn		
	20-Dec	1-mo	3-mo	
Cash (NSE+BSE)	201.5	273.4	281.4	
Derivatives (NSE)	730.7	731.8	583.3	
Deri. open interest	1,165.5	1,089	919.8	

Forex/money market

	20-Dec	Change, basis points		
		1-day	1-mo	3-mo
Rs/US\$	39.5	#####	(24)	(14)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	7.9	(1)	(1)	2

Net investment (US\$m)

	19-Dec	MTD	CYTD
FIs	(271)	256	16,403
MFs	31	63	710

Top movers -3mo basis

Best performers	20-Dec	Change, %		
		1-day	1-mo	3-mo
Neywell Lignite	241	(2.7)	12.2	127.4
Thomas Cook	121	(10.0)	64.0	88.7
Reliance Energy	1,940	3.0	12.4	77.4
MRF	6,947	(2.0)	4.0	84.3
Tata Tele	58	(2.8)	19.9	39.1
Worst performers				
i-Flex	1,472	2.5	9.2	(20.6)
Container Corp	1,840	2.7	2.3	(15.7)
United Phos	349	(0.2)	7.3	(8.1)
Acc	1,002	(2.8)	(10.0)	(12.1)
Infosys	1,698	3.7	9.0	(3.7)

Economy

Sector coverage view

N/A

Inflation falls back a tad to 3.65%; dismal winter monsoon unlikely to spiral inflation

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- **Headline inflation falls back a tad to 3.65% mainly due to lower food prices**
- **We do not see the poor winter monsoon pushing inflation out of control**
- **Base effects in mid-Feb could take inflation up to about 4% by end FY2008**

Headline inflation falls back to 3.75% for the week-ended Dec 8, 2007 from 3.75% a week ago

A decline of 1.7% in vegetable prices, 0.5% in fruit prices and a similar decline in pulse prices over the week softened the headline inflation rate (yoy) to 3.65%. This was a welcome relief after the sharp jump in the preceding week to 3.75% from 3.01%, due mainly to base effects and some rise in the prices of fuels whose prices are not administered. The inflation of primary articles dropped to 4.79% for the week-ended Dec 8, 2007 from 5.28% (see Exhibit). Food price inflation has now fallen to below 3% from double digits early in FY2008, leading us to expect CPI inflation to soften further.

Dismal winter monsoon affects area sown

The poor winter monsoon so far is likely to have some adverse impact on the Rabi crop. Official data estimates a decline in the Rabi crop area sown (till Dec 14, 2007) of 12.0% for wheat, 11.3% for oilseeds and 6.6% for pulses. The poor winter monsoon has affected Rabi sowing. Rainfall during the period Oct 1, 2007 to Dec 12, 2007 has been 37% deficient in relation to the normal monsoon. Of the 36 meteorological subdivisions, 28 have received deficient/ scanty winter rainfall. Agriculturally important states of Punjab, Haryana, Rajasthan, Gujarat, Maharashtra, Uttar Pradesh and Madhya Pradesh have received scanty rainfall (lower by 60% or more).

We see the poor winter monsoon causing a 0.25 ppt increase in inflation

We see the poor winter monsoon as a limited upside risk to inflation calculations. The adverse impact on crops and the resultant price pressure are unlikely to be intense enough to cause a significant surge in the overall inflation rate. We do not advise panic buttons to be pressed as yet, as the adverse impact could still get limited by the following six factors:

- 1 For the country as a whole, 40% of the area under crop is now irrigated
- 2 Most of the area under wheat (88.4%), which is the major Rabi crop, is irrigated
- 3 Large portion of the area under rapeseed/mustard (68%), which is the major Rabi oilseeds crop, is also irrigated
- 4 This year's Kharif oilseed crop is already known to be a bumper crop, up by about 16% over last year
- 5 Soil moisture content and reservoir levels are known to be quite good on the back of the good summer monsoon (Jun-Sep). Storage up to Dec 12, 2007 was 66% of the full reservoir level, which is 7% lower than last year, but 18% higher than the past 10-year average.
- 6 No major incidence of pests and diseases are known till now in relation to the Economic Threshold Level (ETL)

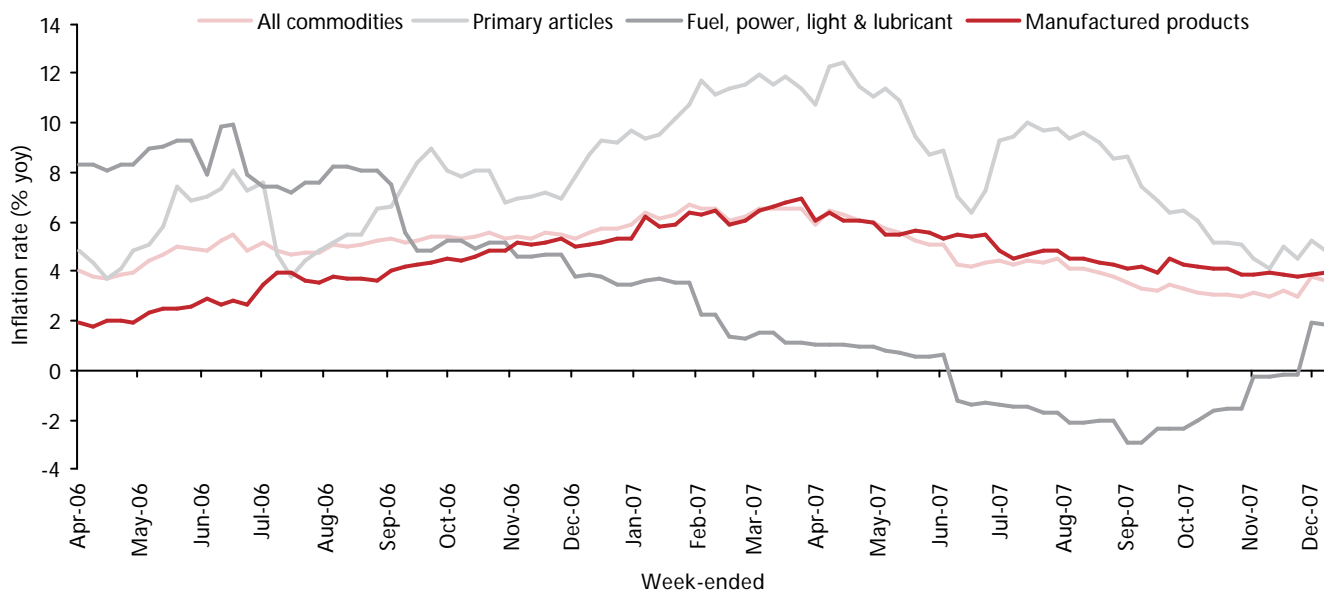
Even if the prices of wheat, pulses and mustard oil do rise by 10% as a result of scanty rainfall, we estimate the increase in overall WPI inflation would be about 0.25 ppt. We, however, expect only the prices of pulses to be significantly impacted as these are produced in rainfed regions. As such, the poor winter monsoon is unlikely to make a material difference to macroeconomics ahead.

We expect headline inflation at end of FY2008 to be contained at around 4%

We retain our Economy report projections of headline inflation in the range of 4.0-4.5% at end of FY2008 (see our Economy report of November 5, 2007, "India story to continue"). The upside risks arise mainly from the significant upward revision in the administered prices of domestic fuels, an event which we expect would be stymied by the political compulsions.

Exhibit: Declining food prices since September softens inflationary pressures

WPI inflation rate for major groups

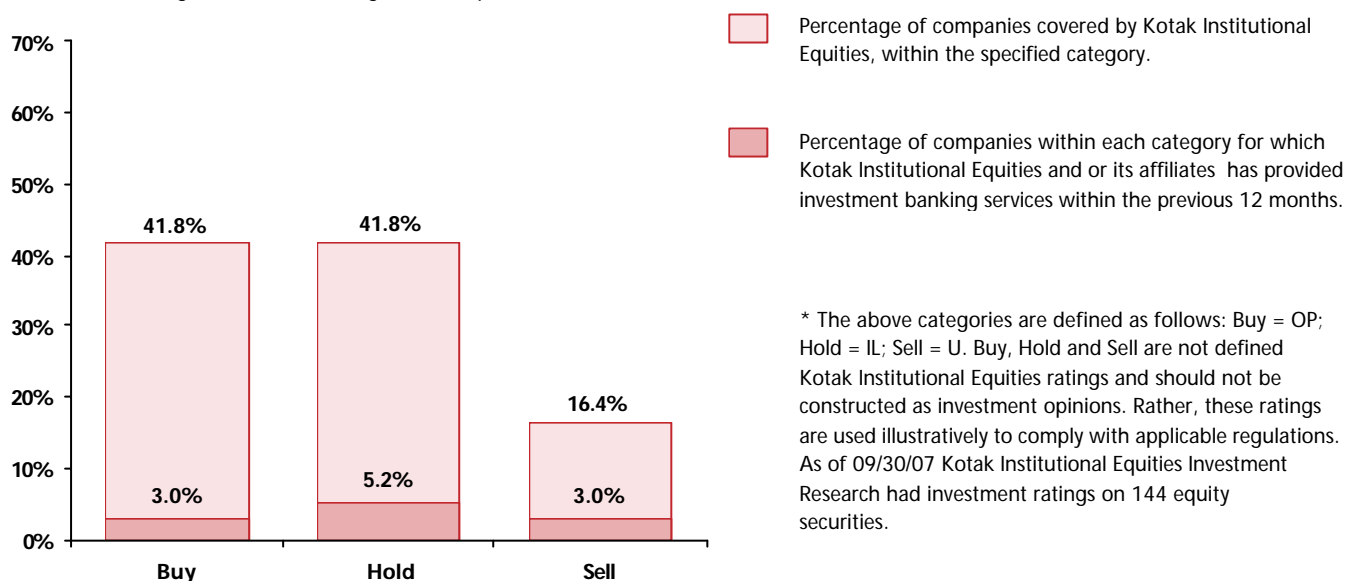


Source: Office of the Economic Advisor, Ministry of Commerce & Industry, Government of India

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Source: Kotak Institutional Equities.

As of September 30, 2007

Ratings and other definitions/identifiers

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