



Andhra Bank

Economic Newsletter

07 February 2011

Global Economy

- According to UN Food and Agriculture Organization (FAO), global food prices reached a new record peak in January 2011. Food prices have been steadily rising since the last seven months. The food price index averaged 231 points in January 2011, up 3.4% from December 2010. The rise, the highest since FAO started measuring food prices in 1990, was mainly due to surging international wheat and maize prices amid tightening supplies.
- Japan manufacturing PMI rose to 51.4 in January 2011 while industrial production rose 3.1% mom, 4.6% y-o-y in December 2010. This is the first time in six months that the index reached level above the 50.0 threshold.
- US ISM manufacturing index rose strongly to 60.8 in January 2011, compared to 58.5 in December 2010. With 50 seen as the demarcation between expansion and contraction, the report shows a manufacturing sector well into the expansion phase.
- UK manufacturing PMI sharply from 58.7 in December 2010 to 62 in January 2011, the highest level since the survey began in 1992. Data from Eurozone saw PMI manufacturing revised up from 56.9 to 57.3 in January 2011.
- The U.S. unemployment rate fell unexpectedly to 9.0% in January 2011, a 21-month low, while nonfarm payrolls rose by a surprisingly meager 36,000 jobs. Economists called the report confounding because one survey pointed to strength while the other signaled weakness.
- The turmoil in Egypt escalated, triggering Moody's to cut its government bonds ratings by 1 notch to Ba2, 2 levels below investment grade, with outlook down to 'negative' from 'stable'. The rating agency also downgraded the country's ceiling for foreign currency bonds to Baa3 from Baa2, and the ceiling for foreign currency bank deposits to Ba3 from Ba2. Fitch Ratings also revised the outlook of Egypt's BB+ rating to 'negative' from 'stable'.

Indian Economy

- The HSBC Markit Business Activity Index, based on a survey of around 400 firms, rose to 58.1 in January 2011 after falling to 57.7 in December 2010 from November's 2010 four-month high. The business activity in the services sector is boosted by new orders and expectations of good growth, but inflationary pressure persisted during the reporting period.
- The HSBC Markit Purchasing Managers' Index, based on a survey of around 500 companies, edged up to 56.8 in January from 56.7 in December. That was the 22nd

consecutive month the key index of manufacturing has been above the reading of 50 that divides growth from contraction.

- Exports in December rose an annual 36.4% to \$22.5 billion, while imports for the month fell 11.1% on the year to \$25.1 billion. The trade deficit in December 2010 narrowed to \$2.6 billion compared with \$8.9 billion in November 2010. Exports rose an annual 29.5% to \$164.7 billion and import rose 19.01% to \$246.72 billion in April-December 2010.
- Food inflation jumped to 17.05% for the week ended 22 January 2011. Food inflation for the previous week stood at 15.57%. The fuel price index climbed 11.61%, higher than previous week's 10.87% rise. The primary articles index for the week ended 22 January 2011 rose to 18.44% from previous week's 17.26% rise.
- The advance estimate of CSO for growth in gross domestic product (GDP) for FY11 is pegged at 8.6%, which, given the growth of 8.9% registered in the first half, indicates a growth of 8.3% in the second half. On the fiscal deficit front, the fiscal gap for the current fiscal is pegged at 4.8% compared with a budgeted figure of 5.5%.
- In a major revision, the ministry of statistics has revised the gross domestic product (GDP) numbers for 2009-10 upward significantly and the growth as per the new numbers now stand at 8% compared with the earlier estimate of 7.4%. The upside came due to stronger-than-estimated performance of both the manufacturing and service sectors. The growth rate of 8% in the GDP during 2009-10 has been achieved due to high growth in manufacturing (8.8%), financing, insurance, real estate & business services (9.2%), transport, storage and communication (15.0%), community, social and personal services (11.8%).

Regulatory Guidelines

- As per the revised norms by RBI, if the loans given by a commercial bank to NBFCs are used for on-lending against gold jewellery, these would no longer constitute lending to agriculture sector by the bank concerned. Similarly investments made by banks in securitized assets originated by NBFCs, where the underlying assets are loans against gold jewellery, and purchase/assignment of gold loan portfolio from NBFCs are also not eligible for classification under agriculture sector.
- As per the new RBI guidelines, the Commercial Banks/ FIs are required to recognize any diminution, other than temporary, in the value of their investments in Banks' subsidiaries/Joint Ventures held under HTM or AFS categories. The need to determine the occurrence of impairment will arise in case of company's default in repayment of debt obligations, restructuring of company's loan account with any bank, credit rating of the Company is downgraded to below investment grade, company has incurred losses for continuous period of three years and net worth has consequently reduced by 25% or more. In case of new company where the originally projected date of achieving the break even is point is extended, need for determination for impairment will arise.

Banking Scenario

- In response to hike in repo and reverse repo rates by RBI in its recent quarterly review of credit policy, many banks have increased their deposits and lending rates. The deposit rates have gone beyond 9%. Also, many banks have increased their base rate by 50 bps and BPLR by 25-50 bps.

Financial Markets

- The BSE Sensex declined 388 points or 2.11% in the week ended 4 February 2011 to settle at 18,008, its lowest closing level since 31 August 2010. The S&P CNX Nifty shed 116 points or 2.11% to 5,396, its lowest closing level since 30 July 2010. The market fell in 3 out of 5 trading sessions during the week ended Friday, 4 February 2011.
- Liquidity condition was fairly tight but the net liquidity infusion by the RBI eased considerably during the week ended 04 February 2011. The net daily liquidity infusion under LAF was to the tune of Rs. 72000 crore. Overnight mibor rate eased and closed at 6.59% against 6.73% seen at previous week. The overnight call rate and CBLO rate was seen in the range of 6.40-7.05% and 6.00-6.75%, respectively. The 10 yr benchmark yield closed at 8.20% against the closing of 8.13% in the previous week. The Rupee gained strength and closed at Rs. 45.59/\$ against Rs. 45.76/\$ at the closing of previous week.

Compiled by:

Alpana Vats
Economist, Andhra Bank

Disclaimer: The information contained herein is from public domain or services believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct, Andhra Bank does not warrant its accuracy or correctness.