

Quarterly Update on Indian Economy: Q1-FY15

The Indian economy has entered the second quarter of fiscal '15. The performance of the economy has been mixed so far in FY15 with a stable rupee, strong stock market performance, rising inflation, stagnant industrial production and narrowing trade deficit. Further, there have been developments across the globe with signs of recovery in the US, continued stimulus by the ECB to foster growth in the Euro region and most recent Iraq crisis which triggered off a spike in oil prices.

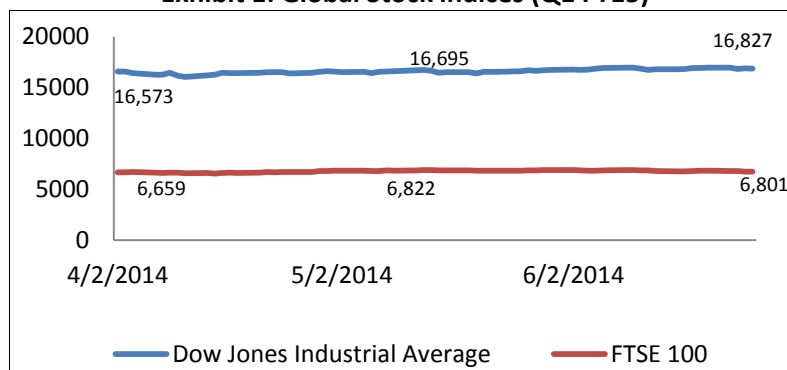
With all eyes transfixed on the upcoming Union Budget FY15, this report provides a brief quarterly update of the economy. The report is divided into two sections- global and Indian with details given therein.

A. Global

Stock Indices- Modest growth continues throughout the quarter

- The Dow Jones industrial Average Index moved higher from 16,573 at the start of April '14 to 16,827 on 30th June '14. However, Dow broke records on multiple occasions during the quarter amid positive economic news regarding growth and employment after the prolonged winter.
- The FTSE 100 index of the UK has edged higher from 6,659 to 6,744 as of 30th June '14. The average index in Q1 FY15 is 6,763
- **Expectations abound of a continued rise in indices given the positive outlook relating to economic growth in the advanced world.**
- Lastly, the USA in particular is highly insulated from oil price shocks since the country has moved towards self-sufficiency in oil production.

Exhibit 1: Global Stock indices (Q1 FY15)

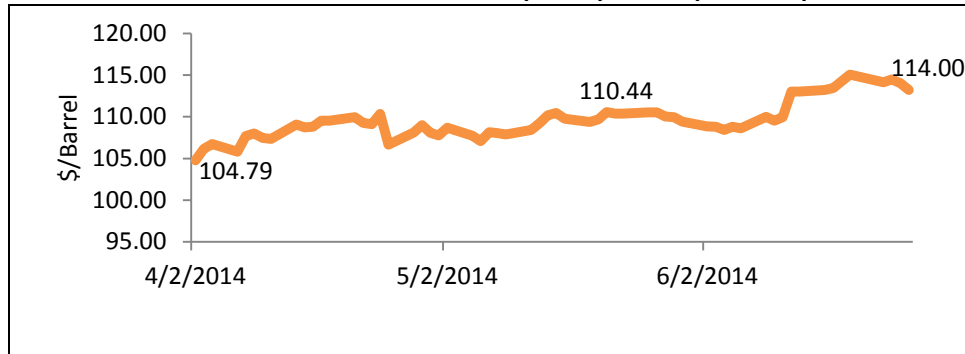


Source: CNN

Crude Oil – Violence in Iraq triggers price rise towards end of the quarter

- Oil price rose from \$104.79 per barrel at the start of April '14 to \$112.26 per barrel as of 30th June '14.
- Towards the end of the quarter, prices increased overnight from \$109.95 per barrel to \$113.02 per barrel when news of the outbreak in Iraq surfaced.
- Going ahead, while the demand-supply fundamentals will keep price under check, the uncertainty clouding over Iraq may continue to pressurize the Crude price.

Exhibit 2: Fluctuations in Oil (Brent) Prices (Q1 FY15)

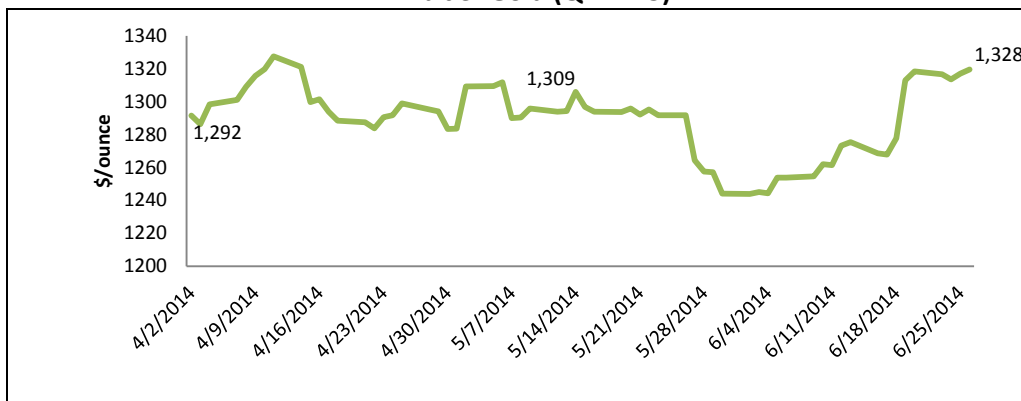


Source: CNN

Gold -Largely range-bound, ends little changed for the quarter

- Gold prices were subdued for larger part of the quarter as the US economy continued to show signs of recovery with falling unemployment and soaring stocks even as the Fed continued to trim its stimulus by \$10 bn every month.
- However, upon its safe haven appeal the metal gained in recent times when the violence in Iraq escalated.
- The metal edged up from \$1,292 at the start of the quarter to \$1,328 an ounce as of June end.

Exhibit 3: Gold (Q1 FY15)



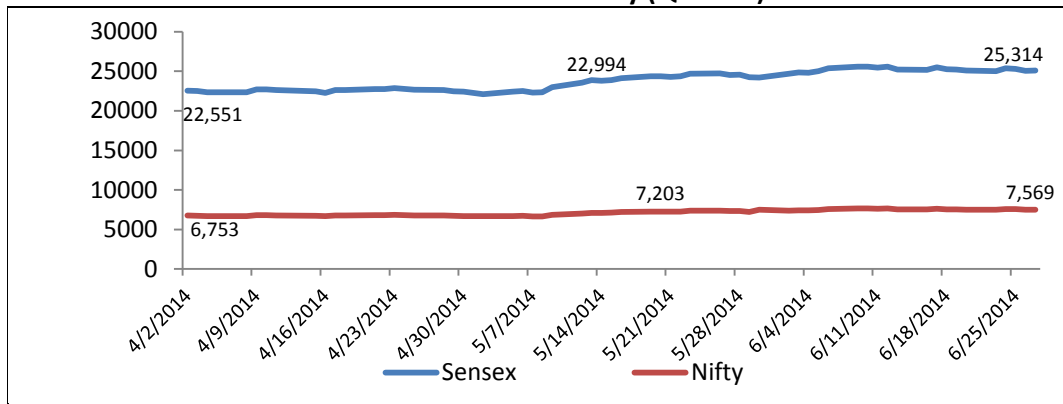
Source: CNN

B. Indian Economy: Early Indications

Stock indices- Records set to be broken?

- The election euphoria and subsequent optimism surrounding the new government drove the stocks to break records time and again.
- Sensex increased from 22,551 on 2nd April '14 to close at 25,414 at the end of the quarter on 30th June 2014. Marking a growth of over 12% over the three months.
- Nifty also recorded substantial rise from 6,753 on 2nd April 2014 to 7,611 at the end of the quarter, growing by over 12% in the quarter

Exhibit 4: Sensex and Nifty (Q1 FY15)

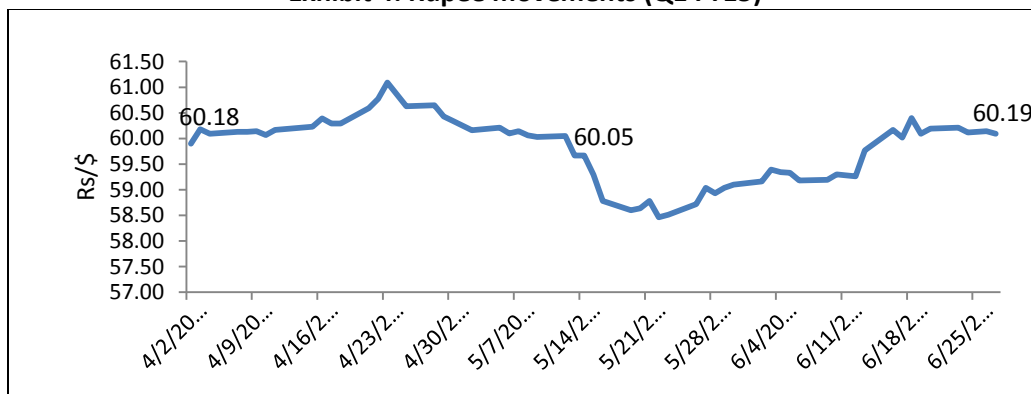


Source: BSE, NSE

Exchange Rate- Stability in the Rupee maintained

- Rupee has remained within the band of Rs 58 to Rs 60 against the USD during the quarter.
- The currency appreciated the most to reach Rs 58.29 against the USD in anticipation of the new strong government coming into power. However, RBI indulged in strong buying of the US greenback thereby preventing the Rupee from gaining significantly in the FOREX markets.
- Overall, forex reserves increased by \$ 10.7 bn between April-June 20.
- Overall, Rupee has ended flat at around Rs 60.19 in Q1 FY15.
- **Going ahead, we expect the currency to maintain its value around Rs 60-61 against the USD in the next six months.**

Exhibit 4: Rupee movements (Q1 FY15)



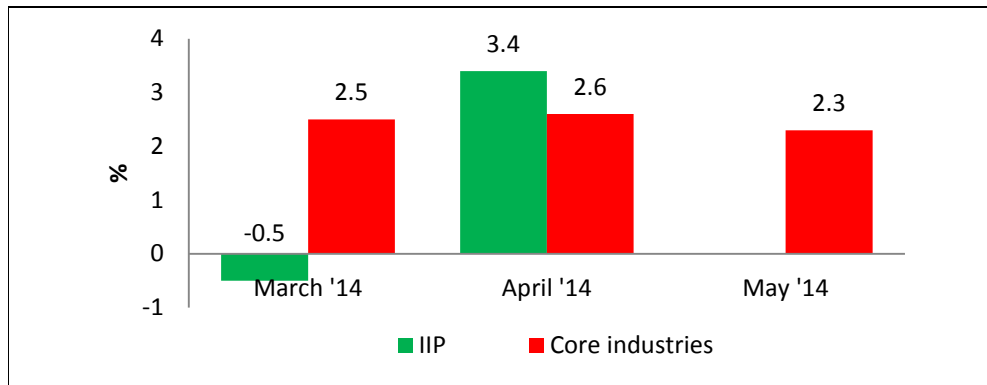
Source: RBI

Industrial Growth-IIP enters positive zone

- Index of Industrial Production (IIP) growth has improved from -0.5% (y-o-y) in Mar'14 to 3.4% (y-o-y) in April '14. The growth of 3.4% in April '14 was also higher than the 1.5% growth in April '13. It is admittedly too early to conclude there is a turnaround.
- However, Core industries growth edged slightly lower from 2.6% in April '14 to 2.3% in May '14. For the cumulative period it was lower at 3.3% (4.9% last year).
- Latest figures for the manufacturing sector indicate that there is an improvement in the sector. Further, investment clearances and pro-active policies of the new government should assist the growth process.

Hence, **IIP growth is likely to remain buoyant with an expectation of total growth of 2-3% by the end of FY15.**

Exhibit 5: IIP and Core industries (Q1 FY15)

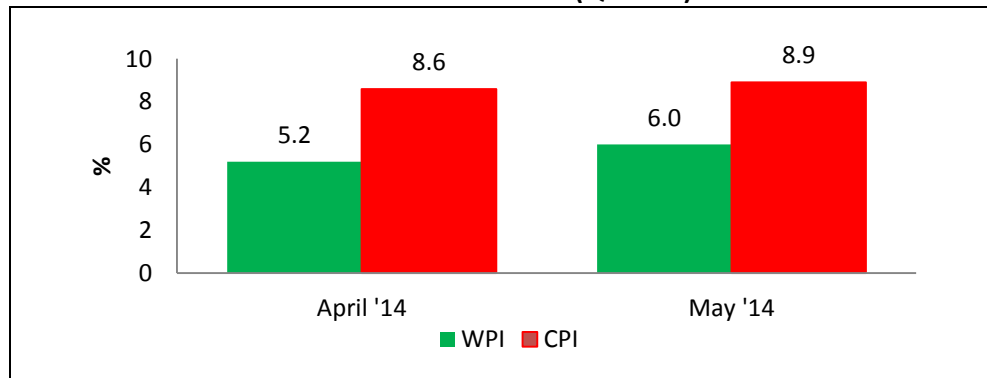


Source: MOSPI

Inflation- Upward bias prevails

- Inflation gauged by the Wholesale Price Index (WPI) has moved higher from 5.2% in April'14 to 6% in May'14. These early indications suggest that inflation woes continue to prevail at the end of Q1 FY15.
- Inflation measured by the Consumer Price index (CPI) has increased slightly from 8.6% in April'14 to 8.9% in May'14.
- Judging by the sub-normal monsoon thus far and potential rise in imported inflation (increasing oil prices) an absolute reversion in inflationary trend seems unlikely in the immediate future.
- **Early estimations suggest WPI to be around 6.5% by the end of fiscal'15 and CPI around 8% in the worst case scenario of a failure in monsoon.**

Exhibit 6: Inflation % (Q1 FY15)



Source: MOSPI

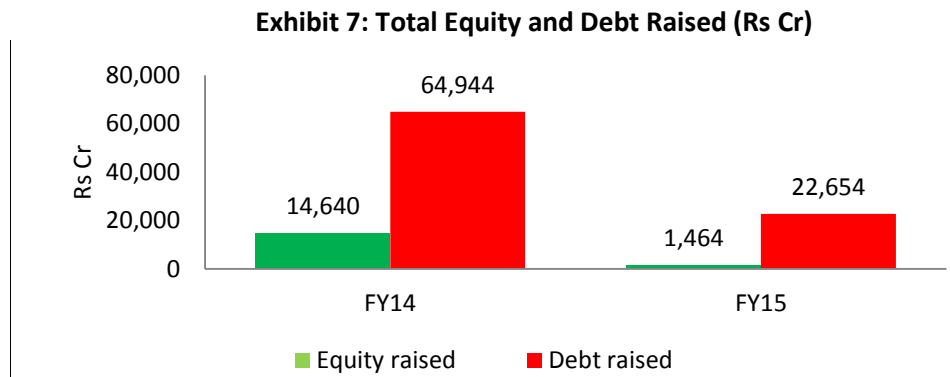
Trade- Balance improves led by rising exports

- Cumulative exports grew by 8.9% in April-May'14 as against a growth of 0.2% during the corresponding period in the previous year.

- The growth in imports slowed down from 8.9% in April-May'13 to -13.2% in April-May'14. Imports have remained lower in the year so far owing to the imposition of duties and other policy measures to curtail the import of the metal into the country.
- Hence, buoyed by rising exports and falling imports, the cumulative trade deficit so far in FY15 is much lower at \$21.3bn as opposed to \$37.1bn over the same period in FY14.
- **Going ahead, exports are forecast to grow by 8-9% given the increasing demand from the developed countries as they look to recover and imports are likely to grow by 11-12% overall in FY15. CAD is estimated to be around 2.5% of GDP by the end of FY15 – with gold import liberalization and higher global crude oil prices being the driving factors.**

Raised Equity and Debt lower than corresponding FY14 level

- The amount of equity raised in Q1 FY15 is lower at Rs 1,464 Cr in April-May '14 as compared with Rs 14,640 Cr in the corresponding two month in 2013.
- Likewise, the cumulative amount of debt raised by companies is also lesser at Rs 22,654 Cr than Rs 64,944 Cr in April-May '13.

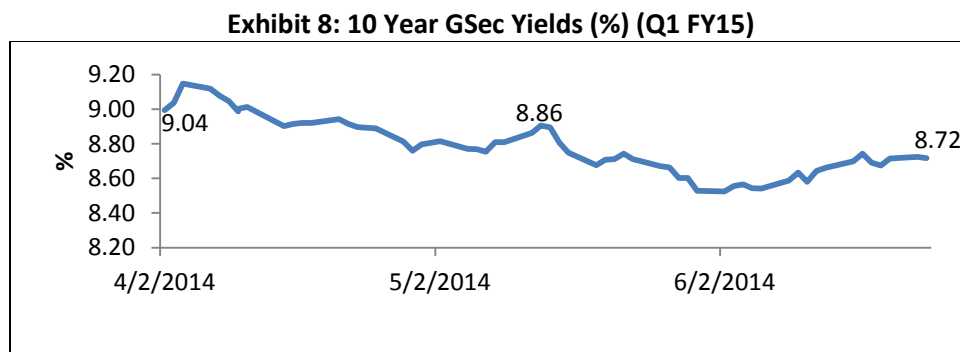


Source: CMIE

Debt Market Overview

Benchmark yields on a downward trend

- The 10 year GSec yields touched a high of 9.15% early in the quarter.
- However, as the quarter progressed, yields receded to finally be around 8.72% as of 30th June 2014.
- The average benchmark yield for the quarter stood at 8.78%.



Source: FIMMDA

Money market indicators

- The average borrowings availed under the Liquidity Adjustment Facility (LAF) in Q1 FY15 stand at Rs 15,689 Cr. They have remained stable during this period.
- The average borrowings through MSF window are Rs 2,420 Cr for Q1 FY15. Average borrowings deteriorated from Rs 2,979 Cr in April '14 to Rs 2,506 in May '14 to Rs 2,420 in June '14.
- In line with the recommendation of the Dr. Urjit Patel Committee, RBI took the route of term repos on numerous occasions to provide adequate liquidity to the market.

Table 1: Average borrowings availed under the LAF and MSF from the RBI

Average borrowings	April '14	May '14	June '14	Q1 FY15
LAF (Rs Cr.)	17,929	14,105	15,384	15,689
MSF (Rs Cr.)	2,979	2,506	1,817	2,420

Source: RBI

Corporate Bond Spreads

- The average corporate bond spreads of AAA rates 3 year maturity bonds was 0.77%
- The same for 5 year maturity bonds was 0.62% and that for 10 year maturity bonds was 0.53% in Q1 FY15.

Table 1: Average Corporate Bond Spreads (%) (Q1 FY15)

Maturity	April'14	May'14	June'14	Q1 FY15
3 yr	0.81	0.80	0.69	0.77
5 yr	0.59	0.63	0.63	0.62
10 yr	0.53	0.58	0.47	0.53

Source: FIMMDA

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

91-022-67543489

Garima Mehta

Associate Economist

garima.mehta@careratings.com

91-022-61443526

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