

THE WEEKLY BUZZ

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INDIA HAS RS. 1.83 LAKH CRORE EXPOSURE TO U.S. DEBT

Standard & Poor's (S&P) cut the long-term U.S. credit rating from AAA to AA+ last Friday night on concerns about the government's budget deficits and rising debt burden. As the U.S. loses its top-notch credit rating, consumers face rising interest rates and borrowing costs that may cost taxpayers billions of dollars. Analysts warn the Standard & Poor's downgrade would increase the costs on everything from student loans to car payments.

India is one of the 15 largest foreign creditors to the United States, with an exposure of an estimated \$41 billion to the U.S.'s national debt – higher than the money owed by the U.S. to countries like France and Australia. While China is the single-largest holder of US treasury securities with \$ 1.15 trillion, India stands at 14th position with \$ 41 billion (about Rs 1.83 lakh cr.), as per the US Treasury Department.

The unprecedented debt downgrade of the U.S. from the top-notch 'AAA' level by Standard and Poor's might also lead to an immediate action by Reserve Bank of India, which allows holding of government debt securities of countries with mostly a 'Triple-A' rating.

While a vast majority of the \$ 41 billion portfolio is owned by RBI itself, some Indian banks also might have some exposure, sources said. They said that the RBI was most likely to allow holding of the US securities even with a notch-lower rating, as it has been itself amassing the US treasury securities over the past one year despite a deepening debt crisis there.

U.S Treasury data shows that the Indian holding has grown by about \$ 10 billion in the past one year. The RBI holds the US treasury securities as part of its foreign exchange reserves and the dollar holdings account for about 10% of its total portfolio.

Some experts pointed out that India has been increasing its exposure on the pretext that the U.S treasury bonds were one of the most secure from default risks. However, the U.S, which was on the brink of defaulting on its debt obligations last week, was saved by way of a last-minute deal reached by President Barack Obama to raise the country's \$ 14.3 trillion borrowing ceiling. Rating agency Standard & Poor's, which has based its downgrade of the country's rating on the political opposition to the government plans to fight the debt problems, has termed the rescue plan as inadequate to tackle the U.S debt situation.

While an exposure of \$ 41 billion is a substantial figure from the Indian context, this accounts for less than 0.3% of the U.S.'s total debt and just about 1% of its total foreign debts. In fact, the Indian exposure is equivalent to an estimated \$40 billion worth of treasury bonds held by one single entity, Warren Buffett's Berkshire Hathaway.

The overall foreign holding of U.S government securities has grown by about \$500 billion in past one year, while China has increased its exposure by about \$300 billion during this period.

Among top foreign creditors, China is followed by Japan (\$912 billion), UK (\$346 billion), Brazil (\$211 billion), Taiwan (\$153 billion), Hong Kong (\$122 billion), Russia (\$115 billion), Switzerland (\$108 billion), Canada (\$91 billion), Luxembourg (\$68 billion), Germany (\$61 billion), Thailand (\$60 billion), Singapore (\$57 billion) and India (\$41 billion).

JUNE FDI INFLOWS AT 11 YEAR HIGH

India's foreign direct investment (FDI) continues to gather momentum with inflows registering a 310% increase in June to \$5.65 billion. This is the highest monthly inflow in the past 11 years.

In June 2010, FDI inflows into the country amounted to \$1.38 billion. In comparison, the total foreign investment (FDI) was only around \$25 billion for the whole of last year.

FDI equity inflows for the month of June 2011 indicate that the trend of high FDI equity inflows, since the beginning of the present financial year, is being maintained. FDI inflows had grown by 77% in the first two months (April & May). In the 1st quarter (April-June), inflows now stand at \$13.44 billion, an increase of almost 133% over that of the corresponding 1st quarter of the last financial year.

Similarly, for the first six months of the current calendar year (January-June), total FDI inflows stood at \$16.832 billion, nearly 57% higher over \$10.740 billion received during the same period last year.

In 2010-11, FDI into India declined to \$19.43 billion from \$25.6 billion in 2009-10. In 2008-09, FDI stood at \$27.3 billion.

BOND INVESTORS SHOW FAITH IN U.S BONDS AFTER S&P DOWNGRADE

Even though the U.S. is poised to run a budget deficit of \$1.6 trillion and S&P removed the nation's 'AAA' rating, investors are lending the government money at record low rates. Five days after the first downgrade to AA+, the Treasury sold \$24 billion of 10-year notes to yield 2.14%. When the U.S. was running budget surpluses from 1998 through 2001, treasuries of similar maturity yielded an average of 5.48%.

For all the conflict between Congress and President Barack Obama's administration over the debt ceiling and deficits, bond investors say they are more influenced by interest rates, the economy and inflation. Because of the dollar's preeminent place as the world's reserve currency, the U.S. enjoys a "funding advantage," S&P said in its Aug. 5 report.

U.S. bonds are still in demand at a time when Europe's sovereign debt crisis threatens to spread to Italy and Spain from Greece, Ireland and Portugal, and the global economy is slowing, damping the appeal of stocks.

The market's embracing of Treasuries after the downgrade reflected confidence that the debt agreement prevented a default, and the U.S. is still rated above such nations as China and Japan. And unlike the 17 countries sharing the euro, the U.S. government controls the dollar, which represents 60.7% of the world's currency reserves, according to the International Monetary Fund in Washington. That compares with 26.6% for the euro, which has the next biggest portion.

Immediately after the downgrade, Federal Reserve Chairman, Ben Bernanke had pledged to keep the Federal Reserve's target for overnight loans between banks at a record low of 0-0.25% at least through mid-2013.

Whether rated AA+ or not, the world still thinks it's AAA. It is the safest asset and it's certainly the most liquid and transactable, at the moment atleast!

INDIA'S EXPORTS ZOOM 82% IN JULY

India's exports in July have registered a whopping 81.8% year-on-year growth to \$29.3 billion, according to provisional data with the Commerce Ministry. The drivers of this growth in July — the fastest since April 1995 — were sectors such as engineering (\$8.7 billion), petroleum products (\$4.6 billion), ready-made garments (\$1.38 billion), gems and jewellery (\$3.5 billion) and electronics (\$0.9 billion).

Engineering exports were at \$31.6 billion during April-July 2011 due to a major increase in shipments to Africa and Latin America. Other sectors have also seen a diversification into such non-traditional destinations.

The Commerce Secretary, Mr Rahul Khullar said, while releasing the data growth rates would slow from August due to demand contraction in traditional markets such as the US and Europe. In 2010-11, India's merchandise exports were valued at a record \$246 billion.

Did You Know?

During these times of market volatility, broking firms have taken a leaf out of the books of mutual funds (MFs). They are now offering retail investors, an equity systematic investment plan (SIP), similar to SIPs offered by MF houses.

Like an MF, equity SIPs work on the same cost-averaging principle. Through this route, an individual can either invest a specific amount in chosen stocks at pre-decided intervals or buy a specific quantity of stocks each time.

Weekly Spotlight

	August 5	August 12	% chg	
			Weekly	YTD
Sensex	17,305.87	16,839.63	↓ (2.69)	↓ (17.89)
Nifty	5,211.25	5,072.95	↓ (2.65)	↓ (17.30)
US	11,444.61	11,269.02	↓ (1.53)	↓ (2.66)
China	2,626.42	2,593.17	↓ (1.27)	↓ (7.65)
Japan	9,299.88	8,963.72	↓ (3.61)	↓ (12.37)
Hong Kong	20,946.14	19,620.01	↓ (6.33)	↓ (14.83)
Germany	6,236.16	5,997.74	↓ (3.82)	↓ (13.25)
UK	5,246.99	5,320.03	↑ 1.39	↓ (9.83)
Brazil	52,949.22	53,473.35	↑ 0.99	↓ (22.84)
NYMEX Crude (\$ per barrel)	86.90	85.40	↓ (1.73)	↓ (6.56)
Gold (\$ per oz)	1,658.75	1,736.00	↑ 4.66	↑ 23.51
Weekly DII Inflow (Rs.cr)	2,156.09	3,388.55		
Weekly FII Inflow (\$ mn)	(336.74)	(964.31)		
Cumulative DII Inflow - YTD (Rs.cr)	16,108.67	19,497.22		
Cumulative FII Inflow - YTD (\$ mn)	2,111.89	1,147.58		
Food Inflation (%)	8.04	9.90		

Those who cannot remember the past are condemned to repeat it.

- George Santayana

Research Analyst: K. Sanjay Karanth | Email: research@sunshinefinancials.com | For archives: www.sunshinefinancials.com

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