

U.S LOSES AAA CREDIT RATING

Standard & Poor's (S&P) cut the long-term U.S. credit rating from AAA to AA+ 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.

It follows a fierce battle in the U.S. Congress over spending cuts and raising taxes to reduce the debt burden and allow the statutory borrowing limit to rise. President Barack Obama signed legislation on Tuesday designed to reduce the fiscal deficit by \$2.1 trillion over 10 years. But that was well short of the \$4 trillion in savings S&P had called for as a good 'down payment' on fixing America's finances.

The political gridlock and the failure to seriously address U.S. long-term fiscal problems came against the backdrop of slowing economic growth. It also led to the worst week in the U.S. stock market for two years. The S&P 500 stock index fell 10.8% in the past 10 trading days on concerns that the U.S. economy may head into another recession.

U.S. Treasury bonds, once seen as the world's safest, are now rated lower than bonds issued by countries such as Britain, Germany and France. S&P said the outlook on the new U.S. credit rating is 'negative' - a sign that another downgrade is possible in the next 12 to 18 months. The impact of S&P's move was tempered by a decision from Moody's Investors Service this week that confirmed, for now, the U.S. AAA rating. Fitch Ratings said it is still reviewing the rating and will issue its opinion by the end of the month.

S&P's move is also likely to concern foreign creditors - especially China, which holds more than \$1 trillion of U.S. debt. The downgrade could add up to 0.7 of a percentage point to U.S. Treasuries' yields over time, increasing funding costs for public debt by some \$100 billion, U.S. securities industry trade group SIFMA said.

While the downgrade is a blow to U.S. prestige, it was largely expected and may not have a major impact the medium-term. In fact, U.S. Treasuries have rallied this week, driving the yield on the benchmark 10-year note to 2.34%, its lowest level in about 10 months. This reflects a belief among investors that U.S. government debt is still a safe bet at a time when prices of stocks and commodities are falling on concern about slowing global economic growth.

GOLD ADDING SHEEN TO INDIA'S RESERVES

The Reserve Bank of India (RBI) is sitting on a staggering Rs 15,000-crore gain on its 200-tonne gold purchase in October 2009, owing to the peak levels the metal is currently being traded at.

The share of gold reserves to the overall reserves (worth \$316.80 billion), which RBI currently holds, has doubled since 2009. This has raised the country's foreign exchange reserves. According to World Gold Council data, RBI is 10th among central banks, in terms of holding gold as reserve asset. With 2,814 tonnes, the International Monetary Fund (IMF) is the third-largest holder. If one includes the IMF, RBI is the 11th-largest holder.

When RBI had bought the gold, some had raised doubts over the timing of the purchase, since gold prices were high. However, RBI saw a near 50% appreciation on its investment of \$6.7 billion to buy gold from the IMF just 21 months ago. The gains are calculated considering the currency fluctuation.

The share of RBI's gold reserves to the overall reserves of \$285 billion in October 2009 rose from 3.61% to 7.79% according to July 29 data. Currently, RBI has 558 tonnes of gold reserves. RBI values its gold holdings at global market prices. RBI's foreign exchange reserves comprise foreign currency assets, gold, special drawing rights—an international reserve currency floated by the IMF—and RBI funds kept with the IMF.

RBI's decision to shore up its gold reserves needs to be seen in the context of other central banks across the globe increasing their gold reserves. Among these were the central banks of China, Russia and a few countries in the European Union which were anticipating debt crises. In 2008-2009, China increased its gold holdings by 75.69% (by weight), Russia by 18.78 %, the Philippines by 18.50% and Mexico by 108.91%.

In March 1994, the share of gold to India's total reserves was 20.86%. By the end of June 2009, gold accounted for only 3.7% of the total reserves.

MONSOON TO WEAKEN

India has received below normal rainfall this monsoon and it is likely to be worse for the rest of the season. The eastern part of the country was worst hit with erratic rains so far. The latest forecast by the India Meteorological Department (IMD) said the southwest monsoon is expected to be around 90% of the Long Period Average (LPA) during August-September.

According to the Met department, monsoon is below normal when it is between 90% and 96% of the 50-year average of 89 centimetres. The forecast has a model error of plus or minus 8%. The Met office said the country has received 95% rainfall during June-July, and is slightly below normal. In June, IMD had lowered its overall monsoon forecast for the season from 98 % to 95%.

The earlier forecast was lowered as La Nina, which typically causes a dry period, was expected to go down but had evened out during the period. However, weather conditions have now hinted that La Nina will continue to dominate the remaining period of the southwest monsoon. Rainfall over northwest India, south peninsula and central India is likely to remain within the earlier forecast, but for east India, including West Bengal, Bihar, Jharkhand, Assam and Arunachal Pradesh it would be less than the earlier forecast.

In June, the IMD had said that eastern India will receive 95% rainfall. However, till July-end it was just at 84%. For northwest India, including major rice-wheat growing states like Punjab, Haryana and western Uttar Pradesh, the met office had predicted 97% rainfall, while central India that comprises regions where pulses and oilseeds are grown like Madhya Pradesh, Maharashtra and Gujarat, will receive 95% rainfall. In South India, monsoon was expected to be below normal at 94%.

GENERAL MOTORS SURPASSES TOYOTA AS THE WORLD'S LARGEST AUTOMAKER

General Motors (GM) outsold Toyota Motor Corp. globally in the first six months to become the world's largest automaker after the record March earthquake disrupted production in Japan. GM sales rose 8.9 % to 4.54 million units in the half-year ended June 30. That compares with 4.13 million units at second-ranked Volkswagen AG and 3.71 million units for Toyota, including its luxury Lexus marque and affiliates Daihatsu Motor Co. and Hino Motors Ltd.

Output at the Toyota City, Japan-based automaker slumped 23% to 3.37 million units in the half-year after the company halted production following the magnitude-9 temblor and tsunami in March. Toyota expects to enter a production recovery phase in September, one month earlier than previously announced. Even if Toyota recovers production, it will take another few more months for sales to actually recover as it takes time to deliver vehicles to dealers, Thus, Toyota's sales may trail behind Volkswagen in the full-year as well.

Did You Know?

Until the last financial year, interest income on a post office savings account was completely exempt from tax. From the current financial year, interest on post office savings account is taxable above Rs. 3500 per year for a single account and above Rs. 7000 per year for a joint account. Taxpayers who now invest in post office saving account schemes will now have to show the interest earned on this scheme while filing their income tax returns.

Weekly Spotlight

| | July 29 | August 5 | % change | |
|-------------------------------------|-----------|-----------|-----------|-----------|
| | | | Weekly | YTD |
| Sensex | 18,197.20 | 17,305.87 | ↓ (4.90) | ↓ (15.62) |
| Nifty | 5,482.00 | 5,211.25 | ↓ (4.94) | ↓ (15.05) |
| US | 12,143.24 | 11,444.61 | ↓ (5.75) | ↓ (1.15) |
| China | 2,701.73 | 2,626.42 | ↓ (2.79) | ↓ (6.47) |
| Japan | 9,833.03 | 9,299.88 | ↓ (5.42) | ↓ (9.08) |
| Hong Kong | 22,440.25 | 20,946.14 | ↓ (6.66) | ↓ (9.07) |
| Germany | 7,158.77 | 6,236.16 | ↓ (12.89) | ↓ (9.81) |
| UK | 5,815.19 | 5,246.99 | ↓ (9.77) | ↓ (11.07) |
| Brazil | 58,823.45 | 52,949.22 | ↓ (9.99) | ↓ (23.60) |
| NYMEX Crude (\$ per barrel) | 95.70 | 86.90 | ↓ (9.20) | ↓ (4.92) |
| Gold (\$ per oz) | 1,628.50 | 1,658.75 | ↑ 1.86 | ↑ 18.02 |
| Weekly DII Inflow (Rs.cr) | 1,076.71 | 2,156.09 | | |
| Weekly FII Inflow (\$ mn) | 282.02 | (336.74) | | |
| Cumulative DII Inflow - YTD (Rs.cr) | 13,952.58 | 16,108.67 | | |
| Cumulative FII Inflow - YTD (\$ mn) | 2,448.63 | 2,111.89 | | |
| Food Inflation (%) | 7.33 | 8.04 | | |

Only buy something that you'd be perfectly happy to hold if the market shut down for ten years.
- Warren Buffett

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