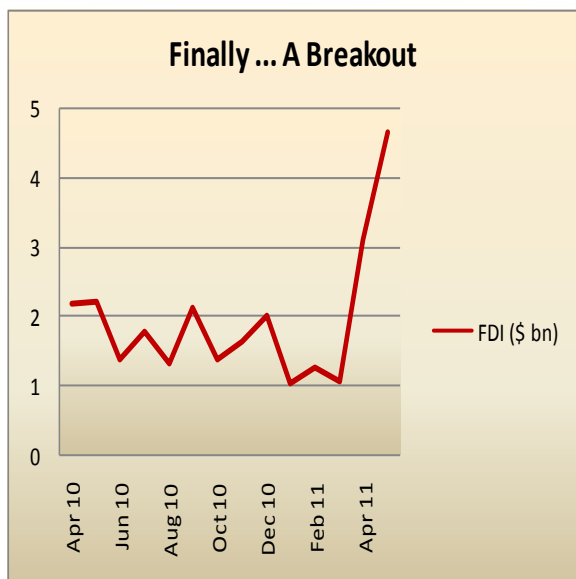


THE WEEKLY BUZZ

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FDI INFLOWS SOAR TO \$4.66 BILLION IN MAY

Two issues back, we'd written about the falling trend of foreign direct investment (FDI) into India in the last 2 years. Although, FDI in April had risen by 43% year-on-year to \$3.1 billion, we were not sure whether this sharp increase, after 3 consecutive months of decline, represented a reversal of trend or was just a flash in the pan. The figures of May seem to indicate that this could well be a reversal of trend. FDI in May 2011 at \$4.66 billion was a 111% increase over the \$2.21 billion received in May 2010 and the highest monthly inflow since April 2000.

FDI inflows in the first two months of the current financial year through May now stands at \$7.78 billion, up 77% from \$4.40 billion in the same period last financial year. FDI is likely to spurt in the coming months as a number of acquisitions have been cleared. The proposed tie up between BP and Reliance and Vodafone plc buying Essar's share in Vodafone India could alone result in an inflow of approximately \$ 12 billion. In addition, the approvals given to Korean steelmaker POSCO and to the Cairn-Vedanta acquisition that entailed a deal of around \$8-9 billion, are also likely to substantially increase FDI this year.

Strong inflows in the current year would be music to the ears of the government as it would help it considerably in paying for the Current Account Deficit, estimated at 2.5-3% of GDP in FY12. The decline in FDI in the last year had become a cause for concern, as most of the emerging nations had been able to attract huge amounts of FDI inflows. In response the government has simplified a number of procedures and also tried to consolidate the FDI policy. As of now, these steps seem to be working very well.

BUOYANT TAX COLLECTIONS IN THE 1ST QUARTER

Belying slowdown fears, the government's net indirect tax receipts recorded an increase of 32% to Rs. 76,499 cr., while gross direct tax collections rose about 23% to Rs 1,03,000 cr. in the 1st quarter ending June 2011. Net direct tax receipts, however, dipped 17% to Rs 57,000 cr. on account of a 3-fold increase in tax refunds. The revenue department has given refunds to the tune of Rs 46,000 cr. in the first three months of the year, against Rs 15,000 cr. of refunds in the same quarter a year ago.

Preliminary tax collection data indicated that the growth in net indirect tax collections and gross direct tax collections in the April-June quarter is higher than the

government's estimates for the entire financial year. The Budget Estimate for indirect tax collections this year is Rs 392,908 cr. an increase of 15 per cent over the last year. In case of direct tax collections, the Budget Estimate is Rs 532,651 cr., 19% higher than 2010-11.

Finance ministry officials said the data, especially for indirect tax collections, was not giving any indication of a slowdown in economic activity. These robust tax collection figures is good news for the government as it would be able to meet its tax mop-up target despite the duty cut on petroleum products. The growth registered in the first quarter would offset the loss of Rs 24,000 cr., that the government is expected to face on account of duty cut on petroleum products. Any further increase in crude prices would compensate for the loss due to reduction in excise duty on diesel.

The indirect tax collections in the first three months are 19% of the Budget Estimate in 2011-12. This has even bettered the last year's collections in April-June which were lower in all three categories — customs, excise duties and service tax.

The government had registered 40% and 18% growth in indirect and direct tax collections, respectively, in 2010-11 when economy grew at 8.5%.

MOODY'S CUTS PORTUGAL'S CREDIT RATING TO JUNK

On July 5, Moody's Investors Services slashed Portugal's credit rating by 4 levels to Ba2 (junk standing), in the first such move by a credit rating agency and warned that the country may well need a second round of bailout. Portugal follows Greece into junk territory below investment grade. However, Greece is rated much lower, at Caa1. In April, Portugal became the third euro zone country to request a bailout, after Greece and Ireland.

Moody's cited heightened concerns that Portugal will not be able to fully achieve the deficit reduction and debt stabilization targets set out in its loan agreement with the European Union and International Monetary Fund.

Portugal is receiving funds from a three-year, 78-billion-euro (\$112 billion) EU/IMF bailout program and does not need to issue long-term debt in the market until 2013. But Moody's said there is an increasing probability Portugal will not be able to borrow at sustainable rates in capital markets in the second half of 2013 and for some time thereafter.

The downgrade led the European Central Bank to lift a rule requiring it to accept only investment-grade debt as collateral when it lends to banks. Moody's decision also led many European policy makers, including ECB President Jean-Claude Trichet, to voice disapproval over rating agencies, saying their actions exaggerate market developments. Portugal's debt agency has asked foreign investors to trust the country's efforts to control its accounts, saying Moody's decision to cut its debt to junk was "arrogant" and "superficial."

For credit ratings agencies, it's a case of "damned if you do, damned if you don't". In the 2007 US housing loan crisis, they were lambasted for not reacting fast enough in downgrading banks. Now they are being lambasted for reacting 'too hastily'!

Shortly before Moody's downgrade, Standard & Poor's pronounced that the French proposal for a debt rollover would, if implemented, constitute a selective default. If you add together S&P and Moody's comments, you get a sense of the disturbing dynamic that lies ahead.

With the growing prospects of a Greek default and the turmoil in the markets, downgrades for Italy and Spain could happen soon and exacerbate the current vicious cycle in the Eurozone debt crisis.

NEWS OF THE WORLD SHUT DOWN AMID PHONE-HACKING SCANDAL

The world's largest-selling Sunday tabloid, the 168-year old *News Of The World*, published its last edition on July 10. The final edition that went to print late Saturday night, on a double than usual print order of five million copies, had its characteristic screaming front page, but simply said, 'Thank you & Goodbye.'

The closure of one of the world's most controversial tabloids was spurred in part by the decision by many large advertisers to withdraw their ads in protest of the paper's gross intrusions of privacy. The tabloid's executives had already admitted the widespread hacking of cell phones used by celebrities, film stars, royal aides and politicians and reached cash settlements with prominent victims. The last straw was the revelation that the newspaper had hacked into the cellphone messages of a teenage murder victim and may have interfered with the ongoing murder investigation.

Did You Know?

Until June 30, bank customers were allowed a limited number of free transactions, generally five, for cash withdrawal and other financial transactions from other bank ATMs, while there was no cap on number of free non-financial transactions like balance inquiry, PIN change and mini statement. Effective July 1, RBI has directed that the number of free transactions permitted per month at other bank ATMs will be inclusive of all types of transactions, financial or non-financial. Besides, these free transactions would be available to only savings bank account holders.

Weekly Spotlight

	July 1	July 8	% change	
			Weekly	YTD
Sensex	18,762.80	18,858.04	↑ 0.51	↓ (8.05)
Nifty	5,627.20	5,660.65	↑ 0.59	↓ (7.72)
US	12,582.77	12,657.20	↑ 0.59	↑ 9.33
China	2,759.36	2,797.77	↑ 1.39	↓ (0.37)
Japan	9,868.07	10,137.73	↑ 2.73	↓ (0.89)
Hong Kong	22,398.10	22,726.43	↑ 1.47	↓ (1.34)
Germany	7,419.44	7,402.73	↓ (0.23)	↑ 7.07
UK	5,989.76	5,990.58	↑ 0.01	↑ 1.54
Brazil	63,394.34	61,513.24	↓ (2.97)	↓ (11.24)
NYMEX Crude (\$ per barrel)	94.94	96.20	↑ 1.33	↑ 5.25
Gold (\$ per oz)	1,483.00	1,541.50	↑ 3.94	↑ 9.68
Weekly DII Inflow (Rs.cr)	(2,810.73)	(1,898.76)		
Weekly FII Inflow (\$ mn)	1,021.75	1,292.58		
Cumulative DII Inflow - YTD (Rs.cr)	13,695.87	11,797.11		
Cumulative FII Inflow - YTD (\$ mn)	631.62	1,924.20		
Food Inflation (%)	7.78	7.61		

It is often easier to tell what will happen to the price of a stock than how much time will elapse before it happens.

- Philip Fisher

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