

THE WEEKLY BUZZ

24th October 2011
Issue No: 33



CHINA'S ECONOMY EXPANDS AT SLOWEST PAGE IN 2 YEARS

China's economy grew 9.1% in the third quarter from a year earlier, the slowest pace since 2009. A slowdown in the pace of China's expansion, which remains five times that of the U.S., may help Premier Wen Jiabao to tame inflation that is above the government's target.

Exports were the equivalent of 27% of gross domestic product in 2010. Exports to the European Union tumbled to 9.8% in September from 22% in the previous month. Industrial production increased 13.8% in September from a year earlier.

Investors' concerns about China's economy are focused on bad-debt risks for banks, funding for small businesses, and the ability of local governments to repay money borrowed for infrastructure projects. *China Business News* reported that rail projects have been halted due to cash shortages and the *People's Daily* reported that some road building has stalled for the same reason.

China has raised interest rates five times over the past year, curbed lending and imposed limits on home purchases to rein in property and consumer prices and limit the risk of asset bubbles. Home prices gained in fewer than half of 70 cities monitored by the government in September from August as sales eased. While inflation was more than 6% for a fourth consecutive month in September, Deutsche Bank AG forecasts the rate will drop to 4% - the government's full-year target - in December.

China's money supply expanded at the slowest pace in almost a decade last month and new lending was the smallest since December 2009. A credit crunch in some parts of China prompted the State Council to this month unveil tax breaks and financial support for small businesses.

A drop in land prices in cities including Beijing and Guangzhou and falling land sales presage a slowdown in property investment. GDP growth may drop to as low as 7.7% in the first quarter of 2012 as "a sharp deceleration" in foreign demand adds to weaker domestic production. Overseas sales rose less than expected in September and the customs bureau warned of "severe challenges" as the global outlook dims. That may weigh on China's currency, which gained 18% against the dollar in the past four years, the most among 25 emerging-market currencies.

China's economy expanded 10.4% last year. Growth will slow to 9.5% this year according to International Monetary Fund estimates released last month.

MOODY'S DOWNGRADES SPAIN'S CREDIT RATING

Europe's economic roller-coaster ride continued with Moody's downgrading Spain's credit rating by two notches. Spain is the Euro Zone's fourth largest economy, and if fiscal contagion were to spread here there are serious concerns that the country may be too big to bail out.

Moody's cut Spain's bond rating from Aa2 to A1. Its move followed similar downgrades by the other two big ratings agencies, Standard & Poor's and Fitch. Moody's statement on Spain referred to the country's large sovereign borrowing needs, heavily indebted banking system and challenging growth outlook, which left it vulnerable to further downgrades.

Spain is currently paying more than twice what Germany does on 10-year bonds, even after the European Central Bank stepped in to prop up its bond market on August 8. Moody's has now cut its growth forecast for Spain to one per cent in 2012, from a previous estimate of 1.8%. As with the rest of Europe's beleaguered PIIGS (Portugal, Ireland, Italy, Greece and Spain) economies, slower growth in Spain will make it harder to reduce budget deficits.

The euro zone's worries continued their centripetal direction from periphery to core with Moody's also warning France that it may lose its AAA credit rating. Although the French government immediately rushed to assuage fears, were this in fact to happen it could potentially destabilise the European Financial Stability Fund (EFSF), the euro zone's bailout fund.

On France, whose economy is the second most powerful motor of the euro zone, Moody's warned that by backing a European rescue fund, its own credit rating could be at risk. France is responsible for about one-third of the euro 440 billion EFSF, an amount equivalent to 8.5% of France's annual economic output.

INDIANS INVEST \$1 BILLION ABROAD IN A SINGLE FISCAL YEAR

Indians are remitting money abroad at a frantic pace. Data recently released by the Reserve Bank of India show doubling, tripling — and in some cases, up to 30 times increase — in spending on purchase of overseas property, stocks and gifts by Indians in the past five years.

Outward remittance (investments or spending on assets and items abroad) under the Liberalised Remittance Scheme (LRS) of the RBI crossed the billion-dollar mark for the first time in fiscal 2011.

Since 2004, a resident Indian can remit up to a total of \$2,00,000, including gifts to relatives abroad, purchase of property, investment in fixed deposits, equities and bonds and donations as well for family maintenance, studies abroad and medical treatment, a year. Since this scheme was introduced in 2004, about \$4 billion have been sent out. Clearly, wealthy Indians are using the higher limit to acquire assets overseas where values have been sliding since the 2008 credit crisis. It's likely that remittances would have ebbed a bit since April given the rising economic uncertainties, but as a long-term trend Indians will continue to acquire and invest abroad at a rising pace.

The collapse of the US housing market and fall in prices in Europe have led many wealthy Indians to buy homes abroad. There are instances where four or five bedroom bungalows are available in suburbs of California and Boston at the same price as a 1,000 sq ft two-bedroom apartments in Mumbai suburbs such as Borivli, or Andheri!

A big chunk of the gift component of the money remitted overseas is believed to be the returns on investments made from the money relatives had earlier sent. Corroborating this view is the data on inward remittances by the Indian diaspora. These have been growing sharply since the nineties, which witnessed a boom in the IT industry and a large-scale migration of Indian software professionals to North America and Europe. Inward remittances have crossed \$50 billion.

According to an RBI study, only 61% of the money sent by relatives overseas is used for family maintenance. The balance is used for investments in bank FDs, stocks and real estate, among others.

CRISIL PEGS TOXIC DEBT IN POWER SECTOR AT Rs. 56,000 CR.

Rating agency, CRISIL estimates that loans accounting to Rs. 56,000 cr. to the power sector might come under potential risk if no meaningful reforms can take place in the sector in the next 18 months. Escalating losses and debt in the power distribution sector, and fuel shortages (both coal and gas) in the generation sector, have resulted in the potential weakening of the asset quality in the sector. State distribution and generation utilities form a major part of the risky loan portfolio. As a remedy, the agency suggested reforms in the sector like timely increase in rates to match the increased fuel costs, state support to their respective electricity boards (SEBs), timely payment of subsidies, and increased private participation in distribution.

CRISIL estimates losses in the distribution segment for 2010-11 at Rs. 35,000-40,000 cr. The losses may be higher if any of their large receivables need write-offs. Nearly half of the 57 distribution companies covered in the study, had negative networth by the end of the last financial year.

Did You Know?

According to a new circular by the regulator for housing finance companies (HFC), National Housing Bank, HFCs can't charge a prepayment penalty from customers whose loan is on floating rates even if money used to prepay the loan is borrowed from a bank or a non-banking finance company (NBFC). Even customers on a fixed interest rate have something to look forward to. They won't be charged a penalty if they are prepaying from their own sources. However, if they have borrowed from a bank or NBFC, they may be subjected to a penalty, depending upon the HFC's terms and conditions.

Weekly Spotlight

	October 14	October 21	% chg	
			Weekly	YTD
Sensex	17,082.69	16,785.64	↓ (1.74)	↓ (18.16)
Nifty	5,132.30	5,049.95	↓ (1.60)	↓ (17.68)
US	11,644.49	11,808.79	↑ 1.41	↑ 2.00
China	2,431.37	2,317.28	↓ (4.69)	↓ (17.48)
Japan	8,747.96	8,678.89	↓ (0.79)	↓ (15.15)
Hong Kong	18,501.79	18,025.72	↓ (2.57)	↓ (21.75)
Germany	5,967.20	6,970.96	↑ 16.82	↑ 0.82
UK	5,466.40	5,488.65	↑ 0.41	↓ (6.97)
Brazil	55,030.00	55,255.23	↑ 0.41	↓ (20.27)
NYMEX Crude (\$ per barrel)	86.80	87.40	↑ 0.69	↓ (4.38)
Gold (\$ per oz)	1,678.00	1,642.50	↓ (2.12)	↑ 16.86
Weekly DII Inflow (Rs.cr)	(530.74)	(600.67)		
Weekly FII Inflow (\$ mn)	462.27	(69.55)		
Cumulative DII Inflow - YTD (Rs.cr)	24,642.90	24,042.23		
Cumulative FII Inflow - YTD (\$ mn)	(101.46)	(171.01)		
Food Inflation (%)	9.32	10.60		

Nothing is more frequently overlooked than the obvious.

- Thomas Temple Hoyne

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