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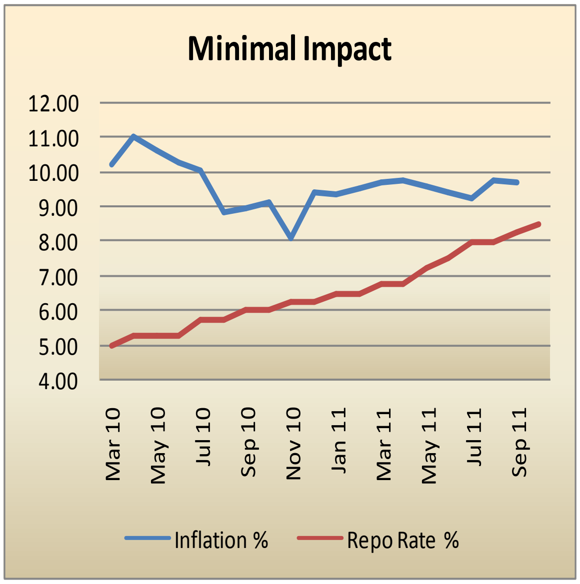

RBI RAISES INTEREST RATE FOR THE 13th TIME

The Reserve Bank of India (RBI) raised interest rates for the 13th time since March 2010 to battle stubbornly high inflation but signaled that it may end the tightening cycle that has put it at odds with peers more concerned about weak global growth. The RBI raised its policy lending rate, the repo rate, by 25 basis points to 8.5%. The rise was in line with expectations and marked the central bank's latest effort to tame inflation that has topped 9% for nearly a year.

However, further rate hikes, at least in the immediate future look unlikely. “The likelihood of a rate move at the next scheduled review in December is relatively low," the RBI said in a statement. "Beyond that, if the inflation trajectory conforms to projections, further rate hikes may not be warranted."

The central bank acknowledged in its quarterly report on economic and monetary developments that growth risks had increased, a factor that has already prompted Brazil, Indonesia and Singapore to relax monetary policy. The RBI revised down its economic growth forecast for the current fiscal year ending in March to 7.6% from 8% with a downward bias.

The RBI stuck with its forecast that headline wholesale inflation will ease to 7% at the end of the fiscal year. But it has repeatedly missed its inflation forecasts as supply-side constraints, global commodity prices and loose fiscal policy limited the effectiveness of monetary tools. Wholesale inflation was 9.72% in September, its 10th straight month above 9% and the highest among the BRIC grouping of economies that includes Brazil, Russia and China.

India's inflation is largely driven by high food and global commodity prices, plus fiscal policies that spur demand. These are factors beyond the scope of monetary policy that have prompted some critics to call for a halt in the relentless rise in interest rates.

The call that RBI has taken on inflation is not even a good gamblers’ bet because the odds are heavily against it. Not only is the domestic economic situation anaemic, the political situation, too, is a bit fragile; the international economic system is in disarray and trade and prices of global commodities are witnessing a paradigm shift, All these are not within the control of RBI.

EU REACHES AGREEMENT ON GREEK DEBT

After a marathon summit, European leaders reached an agreement that set out to increase the Euro zone's bailout fund to €1trillion and to provide a 50% "voluntary" write down of Greek debt held by private investors. Under the deal, private sector banks agreed to start negotiations on a nominal 50% cut in bond investments to reduce Greece's debt burden by €100 billion, cutting its debts to 120% of GDP by 2020, from 160% now.

At the same time, the Eurozone will offer "credit enhancements" or sweeteners to the private sector totalling €30 billion. The aim is to complete negotiations on the package by the end of the year, so that Greece has a full, second financial aid programme in place before 2012.

As well as the deal on deeper private sector participation in Greece, Euro zone leaders also agreed to scale up the European Financial Stability Facility (EFSF), their €440 billion bailout fund set up last year. The fund has already been used to provide help to Ireland, Portugal and Greece, leaving around €290 billion available. Around €250 billion of that will be leveraged four to five times, producing a headline figure of around €1trillion, which will be deployed in a variety of ways.

The Euro zone leaders hope that will be enough to stave off any worsening of the debt problems in Italy and Spain, the region's third and fourth largest economies respectively. The EFSF will be leveraged in two ways, either by offering insurance, or first-loss guarantees, to purchasers of euro zone debt in the primary market, or via a special purpose investment vehicle that will be set up in the coming weeks and which is aimed at attracting investment from China and Brazil.

However, Fitch ratings said that the proposed Greek debt deal would constitute a default and that none of the plans remove the risk of further downgrades for other sovereign countries. The ratings agency said the write-downs won't translate into a comparable reduction in the country's overall debt. It expects Greece's public debt to peak at 142% of gross domestic product in 2013, "still by far the highest in the Euro zone," before coming back down to 120% of GDP by 2020.

As for the bailout fund, Fitch assigned the amended European Financial Stability Facility debt program a triple -A rating despite an increase in its effective lending capacity

U.S GDP CLIMBS 2.5% IN 3rd QUARTER

The GDP of the United States increased by 2.5% in the July-September 2011 quarter, its fastest pace in a year as consumers and businesses set aside fears about the recovery and stepped up spending, creating momentum that could carry into the final three months of the year.

Consumers helped drive much of the growth. They spent at an annual rate of 2.4%. Many bought more furniture and clothing. And spending on services rose 3%, the most in more than five years. Much of the gain was due to consumers paying more for health care and to cool their homes during an unseasonably hot summer.

Still, after-tax incomes adjusted for inflation fell at a rate of 1.7% in the summer. It was the biggest decline since the third quarter of 2009 - just as the recession was ending. Businesses also helped boost third-quarter growth by stepping up their investment in equipment and software. That category surged 17.4% - nearly three times the rate from spring. They also invested more in building, a sign that some businesses could be expanding despite the sluggish economy.

The U.S economy must grow at nearly double the third-quarter pace to lower high unemployment, which has been near 9% for the more than two years since the recession officially ended. And though consumer spending was triple the level of the second quarter, Americans earned less, on an inflation-adjusted basis, in the July-September period. That meant that many people financed their spending binges by cutting back on savings.

Few economists think that can continue. Economists believe that growth in consumer spending, which accounts for about 70% of economic activity in the United States, will be restrained until incomes start growing at healthier levels. That is unlikely until hiring picks up. Economists project an annual growth rate of 2.5% to 3 % for the October-December quarter and for all of next year -- just enough to keep the unemployment rate from rising.

FINANCIAL WOES FORCES WIKILEAKS TO SHUT DOWN

Whistle-blower website WikiLeaks has shut its operations temporarily due to financial problems. In a brief posted on its website, it said, "We are forced to temporarily suspend publishing whilst we secure our economic survival. For almost a year we have been fighting an unlawful financial blockade. We cannot allow giant US finance companies to decide how the whole world votes with its pocket. Our battles are costly. We need your support to fight back. Please donate now."

Wikileaks founder and editor-in-chief Julian Assange said its operations are now running only a 5% lifeline with 95% of its funds being choked by big banks. Assange said the cyber-war waged on the website by Mastercard, Visa, Pay Pal, Western Union and Bank of America has forced its hand at shutting down temporarily.

Wikileaks has about 20 employees and will need an additional $3.5 million to continue operating through 2013. "If WikiLeaks does not find a way to remove this blockade we will simply not be able to continue by the turn of the new year," Assange said.

Did You Know?

The idle cash in your bank account will now have more value. This is because the Reserve Bank of India has freed the savings bank deposit rates, a move bankers say could fetch better returns for depositors as competition intensifies. According to the RBI, the banks will have to offer a uniform interest rate on savings deposits of up to Rs.1 lakh. For savings deposits above this amount, the banks will be free to offer differential interest rates. Experts believe that the average interest rate on savings accounts will increase by 50-100 basis points (100 bps equals 1 percentage point) from the current 4% over the medium term.

Weekly Spotlight

	October 21	October 28	% chg	
			Weekly	YTD
Sensex	16,785.64	17,804.80	6.07	(13.19)
Nifty	5,049.95	5,360.70	6.15	(12.61)
US	11,808.79	12,231.11	3.58	5.65
China	2,317.28	2,473.41	6.74	(11.92)
Japan	8,678.89	9,050.47	4.28	(11.52)
Hong Kong	18,025.72	20,019.24	11.06	(13.09)
Germany	5,970.96	6,346.19	6.28	(8.21)
UK	5,488.65	5,702.24	3.89	(3.35)
Brazil	55,255.23	59,513.13	7.71	(14.13)
NYMEX Crude ($ per barrel)	87.40	93.30	6.75	2.08
Gold ($ per oz)	1,642.50	1,741.00	6.00	23.87
Weekly DII Inflow (Rs.cr)	(600.67)	(2,080.46)		
Weekly FII Inflow ($ mn)	(69.55)	85.36		
Cumulative DII Inflow - YTD (Rs.cr)	24,042.23	21,961.77		
Cumulative FII Inflow - YTD ($ mn)	(171.01)	(85.65)		
Food Inflation (%)	10.60	11.43		

To climb steep hills requires a slow pace at first.
- William Shakespeare

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