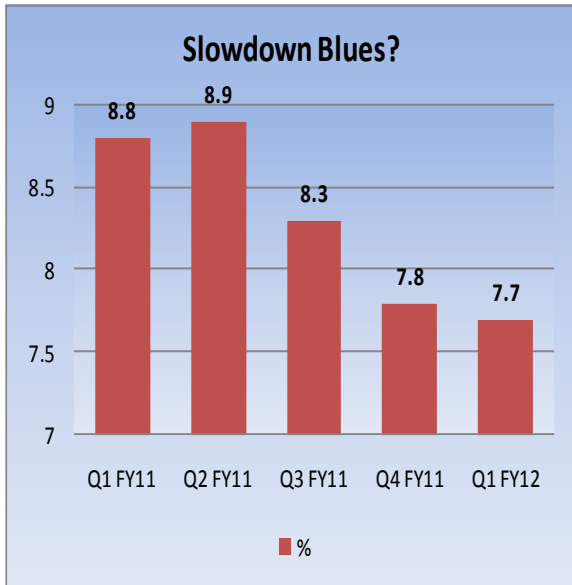


THE WEEKLY BUZZ

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INDIA'S GDP GROWTH SLOWS IN FIRST QUARTER

India's economy grew at its weakest pace in six quarters but outperformed even gloomier predictions, reinforcing expectations that the Reserve Bank of India (RBI) will keep raising interest rates to put a lid on inflation. Gross Domestic Product (GDP) growth in Asia's third-largest economy slipped to 7.7% in the 1st quarter of 2011-12 as compared to 8.8% in the 1st quarter of 2010-11. However, it marginally exceeded the median forecast in a Reuters poll for an annual rise of 7.6%.

The reactions to the GDP data from various quarters were varied. While Finance Minister Pranab Mukherjee dubbed the slide in growth as "disappointing", Prime Minister's Economic Advisory Council Chairman C. Rangarajan viewed the numbers as being in line with the 8.2% growth set for the fiscal year. On the other hand, citing the deceleration as a slowdown, industry chambers sought a pause in rate hike by the Reserve Bank of India (RBI) and argued that the growth rate for the first quarter of 2011-12 would have been lower still, but for the downward revision to 8.8% from the initial estimate of 9.3% for the April-June quarter of 2010-11.

The RBI's 11 consecutive interest rate increases since March 2010 have failed to bring inflation under control, but have undermined sentiment and demand in an economy that grew at 8.5% in 2010-11.

Construction was a dark spot in the data, rising just 1.2% annually, down from 7.7% a year earlier, as higher interest rates dampened the housing market and big-ticket projects were plagued by delays in approvals. In addition, the mining and quarrying sector grew by just 1.8% during the quarter under review, as against 7.4% growth in the first quarter of the previous fiscal.

India's manufacturing sector grew 7.2% in April-June from a year earlier, below the 10.6% growth clocked a year earlier. The agriculture sector rose 3.9% for the same period, well above the 2.4% growth recorded a year earlier. The services sector grew by 9.1% in the June quarter this year, compared to 9.8% expansion in the corresponding period last year.

As demand from urban markets begins to taper following the incessant rate hikes by the RBI, it is the rural areas that corporate India has started betting on. An excellent spell of rains in August has boosted the hopes of a bountiful kharif harvest this year. And a good harvest translates into enhanced cash flow in the rural sector. A spike in rural demand should cushion the fall in margins and help industries recover, if not completely offset the erosion in urban demand.

WETTEST AUGUST IN 15 YEARS

In its Long Range Forecast Update on June 21, the Indian Meteorological Department (IMD) had said that rainfall in August was likely to be 6% below normal, with a model error of plus or minus 9%. Subsequently, on August 1, it issued an even gloomier forecast outlook for August-September, pointing to a likely shortfall of 10% during these two months with a model error of plus or minus 8%.

And what happened in August? The country received 286.8 millimeters (mm) rain on an average area-weighted basis. This was not only 9.9% more than the long-period 'normal' of 261 mm for August, but the highest since the 308.5 mm recorded in August 1996!

The IMD has now ventured to predict that September rainfall could be 10% below normal. The model error this time, though, is plus or minus 15%! However, the country's official weather forecaster has sought to play it safe, saying, "if weak La Nina conditions re-emerge in September, the rainfall received can be more than expected".

Cumulatively, from June to August this year, the total area-weighted rainfall, at 716 mm, has been more than the normal long period average of 713.4 mm for these three months. For June to September to become normal, average rainfall in September must be at least 170.8 mm. Only four times in the last 11 years has it rained as much or more during September, and all these have been confirmed La Nina years — 2005, 2006, 2007 and 2010.

FII OUTFLOW IN AUGUST HIGHEST SINCE OCTOBER 2008

In August, Foreign Institutional Investors (FIIs) net-sold Indian shares worth Rs.10,214 cr. (\$2.25 billion), according to data from the Securities and Exchange Board of India (SEBI). This is the highest outflow of FII funds in 33 months. The last time they sold more in a month was in October 2008, when Lehman Brothers filed for bankruptcy. In that month, they were net sellers to the tune of Rs 14,249 cr. (\$2.93 billion).

Fears of a double-dip recession in the US and a worsening debt crisis in the euro zone wiped off almost \$5 trillion from equities worldwide in August, according to Bloomberg. In India, too, stock market investors' wealth eroded by Rs.555,650 cr. in this month. Heavy selling from FIIs dragged the Bombay Stock Exchange (BSE) benchmark, the Sensex, down by 1,520 points or 8.4% in August, its worst monthly loss since January.

Over the next few weeks, market woes are likely to continue due to the euro zone debt crisis and fears of a recession in the US. "In the past month, global tail risks have come to the fore, pressuring the market further – the euro crisis is likely to grab mindshare over the next few weeks. Meanwhile, the probability of a US recession is also rising. Our US economist has raised his recession probability to 40%," wrote Jyotivardhan Jaipuria, Head of India Research at Bank of America Merrill Lynch, in a strategy note to clients.

INDIANS SELL 44 PIECES OF JEWELLERY EVERY HOUR ON eBAY

Indian sellers on eBay, a leading online marketplace, export an item internationally every 32 seconds, according to the eBay's Asian Exporters' Index released on Wednesday. While 44 pieces of jewellery are sold every hour by Indian sellers on this platform, a coin or a stamp is picked up every 12 minutes, home furnishing items every 23 minutes, article of clothing every 6 minutes and 11 musical instruments every day, the index has shown. Although books, fashion earrings, pendants, Indian stamps, computer games, films and DVDs are among the top 10 categories that Indians are exporting on the eBay platform, there are some unusual entries too in the list. For instance, belly dancing apparel is seventh, followed by herbal remedies, bed sheets and motorcycle parts!

HIGH NETWORTH INVESTOR WEALTH IN ASIA TO TRIPLE BY 2015

According to a report by Swiss wealth management firm, Julius Baer, Asia (excluding Japan) will add 1.66 million millionaires by 2015, taking the total number of millionaires to 2.82 million as the world's fastest growing major economies of India and China continue to mint millionaires. The wealth of High Networth Investors (HNI), those with \$ 1 million or more in investable assets would nearly triple to \$15.8 trillion by 2015.

China alone would be home to nearly half of the millionaires in Asia with combined wealth of \$8.8 trillion. The world's most populous country currently has 502,000 HNIs with investable assets totaling \$2.6 trillion. India would more than double the number of HNIs to 403,000 by 2015 with investable wealth of \$2.47 trillion, while Indonesia would see the highest growth rate in the number of millionaires, up 25% to 99,000. Julius Baer's report further states that China and India would collectively contribute 40% to global growth for 2011 and 2012.

Did You Know?

Investors lost an average of Rs.1.13 cr. in every second of trade in August. It was the worst month for investors since January 2011, when the average loss per second of trade was about Rs.1.5 cr. Investor wealth plummeted by Rs.555,650 cr. in August – the biggest monthly loss since January 2011, when the market lost a little over Rs.700,000 cr. August also proved to be the 4th consecutive month of losses, with the markets having lost Rs.113,673 cr. in July, Rs. 921 cr. in June and Rs. 176,220 cr. in May – taking the total 4-month loss to Rs.846,464 cr.

Weekly Spotlight

	August 26	September 2	% chg		
			Weekly	YTD	
Sensex	15,848.83	16,821.46	↑	6.14	↓ (17.98)
Nifty	4,747.80	5,040.00	↑	6.15	↓ (17.84)
US	11,284.54	11,240.26	↓	(0.39)	↓ (2.91)
China	2,612.19	2,528.28	↓	(3.21)	↓ (9.96)
Japan	8,797.78	8,950.74	↑	1.74	↓ (12.50)
Hong Kong	19,582.88	20,212.91	↑	3.22	↓ (12.25)
Germany	5,537.48	5,538.33	↑	0.02	↓ (19.90)
UK	5,129.92	5,292.03	↑	3.16	↓ (10.30)
Brazil	53,350.79	56,531.62	↑	5.96	↓ (18.43)
NYMEX Crude (\$ per barrel)	85.40	86.50	↑	1.29	↓ (5.36)
Gold (\$ per oz)	1,788.00	1,875.25	↑	4.88	↑ 33.42
Weekly DII Inflow (Rs.cr)	1,785.24	(569.88)			
Weekly FII Inflow (\$ mn)	(952.75)	232.20			
Cumulative DII Inflow - YTD (Rs.cr)	22,457.23	21,887.35			
Cumulative FII Inflow - YTD (\$ mn)	(40.50)	191.70			
Food Inflation (%)	9.80	10.05			

It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change.

- Charles Darwin

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