

Weekly Macro Perspectives

March 6, 2010

(a) Agriculture

- According to the Ministry of Agriculture's latest Report on Rabi crop progress, India's wheat sowing, which has almost come to an end, stood at 27.8 mln ha as on March 5 – marginally higher than 27.6 mln ha a year ago.
- In the current season, farmers have sown rice over 3.96 mln ha so far, as against 4.32 mln a year ago. The rice crop has primarily suffered in Andhra Pradesh due to non-release of water from Godavari Basin and diversion of rice area to pulses.
- Pulses acreage rose to 14.4 mln ha as of March 3, compared with 13.7 mln ha in the year ago period. However, oilseed acreage as on March 4 fell to 9.3 mln ha from 9.8 mln ha last year.
- Coarse cereals sowing so far stood at 6.53 mln ha, compared with 6.87 mln ha in the same period last year, while maize sowing was at 1.16 mln ha against 1.18 mln ha.

(b) Key takeaways from the Indian Union Budget: 2010-11 (FY11)

- India's new Budget pegged Fiscal deficit at 5.5% of GDP in FY11, at 4.8% in FY12 and at 4.1% in FY13 versus 6.7% in FY10 signalling a medium-term fiscal correction.
- Total expenditure is budgeted to grow 8.5% (y-o-y) versus 15.6% last year; while gross tax revenues are expected to rise 17.9% (y-o-y) versus 4.6% -- on partial rollback of tax cuts and higher non-tax revenue.
- Excise duty hiked to 10% from 8.0%, while service & customs duties kept unchanged.
- Corporate surcharge cut to 7.5% from 10.0%; MAT raised to 18.0% from 15.0%; changes effected in personal income tax slabs to provide relief to 60.0% taxpayers. There was also a proposal to widen service tax net.
- A steep target of Rs 400 bln has been kept for "proceeds" from disinvestment over & above Rs 350 bln from the 3G spectrum auctions.
- Government's Gross Market Borrowings are kept at Rs 4.57 trln in FY11 and Net Borrowings at Rs 3.45 trln. Around 90.5% of Fiscal Deficit is to be financed out of Government Borrowings.
- Infrastructure received 46.0% of total plan allocation; rural development, energy, education & healthcare remained major focus areas.
- The government is also completing its plan to phase out the issuance of special off-budget bonds from FY11.
- Direct Tax Code (DTC) is proposed to be implemented by April 1, 2011 and there will be a committed endeavour to introduce GST (Goods & Service Tax) by April 1, 2011.

(c) IIF's (Washington) take on India's Union Budget: FY11

- According to the Institute of International Finance's Research Note on India post-Budget, released on March 4,
 - Indian government has reaffirmed its commitment to fiscal adjustment following the temporary slippage to counter the adverse impact of the global crisis.
 - In addition to the gradual reduction in the fiscal deficit, the government has revived the "privatization" programme and committed to a medium term plan for containing public debt.
 - The shift in policy focus to "managing the recovery" that intends to combine fiscal adjustment and withdrawal of monetary stimulus in a balanced way should help sustain the rebound in the economy.
- The IIF reaffirms that India's macroeconomic outlook remains positive. It feels that rising trend in long-term interest rates is reflective of a return to more normal economic conditions, with 8.0% to 9.0% annual real GDP growth and 5.0% to 6.0% inflation.

(d) Indian food prices up 17.87% in the week to Feb 20, 2010

- The government's weekly release showed that India's primary articles inflation (y-o-y) declined to 15.0% for the week ended Feb 20, from 15.84% a week ago.
- However, food-price inflation rose to 17.87% from 17.58% a week ago.
- In fact, on week-on-week basis, there was almost across-the-board moderation in prices of food articles, yet inflation rate increased on y-o-y basis due to lower statistical base.
- India's annual inflation rate based on the CPI for industrial workers rose to an over 11-year high of 16.22% in Jan, 2010 from 14.97% in the previous month.
- Inflation remains a key risk in the medium term until the rabi crop enters the market. Also, "pricing power" is gradually returning to manufacturers on the back of ongoing industrial recovery. The Budget decision to hike duties on fuel is also impacting prices, especially of the perishables with truckers raising freight rates on March 4th.

(e) Gilts to stay under pressure next week

- The yield on India's benchmark 10-year government bond (6.35% 2020) ended at 7.96% on Friday (Mar 5) versus 7.86% a week ago.
- Bond traders are fearing a supply glut in the coming weeks, as according to the Finance Ministry reports, around 60% to 70% of Rs 4.57 trln market borrowings of FY11 will be completed in H1, FY11.

- Bond prices were further weighed down as the government sought Parliament's approval for an additional spending of Rs 317.8 bln as part of the second Supplementary Demand for Grants in FY10.
- The current 10-year benchmark GOI paper was under more pressure as some traders trimmed positions eyeing the likely auction of a new benchmark in April, 2010.
- We expect bond prices to remain under pressure next week unless some positive trigger emerges from a major movement in US bonds. Yield on 10-year benchmark paper is seen in the band of 7.90% to 8.00% next week.

(f) Positive outlook for rupee next week

- Indian rupee appreciated by 1.02% this week and ended at 45.61 against the US dollar.
- This was the largest weekly gain for rupee since mid-Jan, 2010 on the back of strong gains in regional currencies and dollar selling by offshore players.
- According to the PTI report, Indian rupee gained strength on sustained dollar selling by exporters amid signs of higher capital inflows. The FIIs have so far injected over \$700 mln in equities in March, 2010.
- According to the Newswire18 Report, likely gains in the local share indices coupled with the euro's rise against the US dollar may lift the rupee next week. Forex traders are expecting rupee in the band of 45.00 to 45.50 per USD by end-March on stronger dollar inflows.

(g) Stocks have upward bias next week

- Indian shares posted their biggest weekly percentage gain this week. While the Sensex gained 3.44%, the Nifty added 3.38%.
- The stocks were boosted by the Union Budget announced on Feb 26th that unveiled the government's plan to curtail fiscal spending and offered an unexpected tax relief for individual taxpayers.
- Foreign investors pumped in almost \$1 billion during this truncated four-day trading week. On the sectoral indices front, the top gainers this week were metals, realty, auto and banking sectors.
- In the US, Wall Street rallied on Friday (March 5) on the upbeat jobs data with benchmark indices such as the Dow Jones industrial average gaining 122.06 points, the Nasdaq rising 34.04 points, and the Standard and Poors 500 moving up 15.72 points. This augurs well for Indian stocks next week. We expect buying momentum to continue in Indian equities on firm cues from the U.S.

(h) Oil price up 2.3% this week

- Crude oil price surged to the highest level in almost eight weeks as US employment declined less than forecast in February, bolstering optimism that fuel demand will climb.
- Crude oil settled at \$81.50 a barrel on New York Mercantile Exchange on March 5th – the highest closing price since Jan 11th.
- The Organization of Petroleum Exporting Countries is scheduled to meet in Vienna on March 17. Saudi Arabia's King Abdullah has targeted \$75 as a fair price for consumers and producers. The desert kingdom is the world's biggest oil exporter and the most influential member of OPEC.

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