



## Current Scenario:

- ✘ WPI Index increased for the 4<sup>th</sup> consecutive week in Apr'09 to 231.6 and has regained back its Dec'08 level
- ✘ Despite of nearly zero Y-O-Y growth in WPI, CPI still remains a concern at 9.6% growth for the month of Feb'09
- ✘ IIP numbers decelerated to 2.3% in Mar'09 and GDP growth slowed down to 5.3% for 3QFY09 both painted a bleak economic picture
- ✓ Money supply growth accelerated on the back of various monetary packages injecting Rs 4.6 tn in the system
- ✘ On an average commodities prices have hardened in the past couple of months

	Crude Oil Prc	Commodity Index
February	\$43 / bl	327
March	\$47 / bl	351
April	\$51 / bl	367
May (till date)	\$54 / bl	390

## Outlook:

- ✘ Inflation zombie is expected to rise soon from its grave to reach RBI's FY10 target of 4.0% much before its due
- ✘ Based on our forecast, Inflation figure for the near term is expected to look negatively skewed based only on higher base effect
- ✓ Efforts on easing the monetary stance and near to zero inflation figure will create pressure on the banks to lower their interest rates for short period of time
- ✓ Nascent recovery in the Industrial production in 2HFY10 is likely to show as demand is expected to pick up
- ✘ Globally unraveling of the various stimuli will boost the run in the commodity prices
- ✘ Umpteen pressure on the new government to undertake more fiscal boosters will increase the pressure on the bond yields

## Strategy:

- ✓ Increase in government spending will lead to heavy market borrowing thereby pushing up the bond prices. We suggest to book profits by selling of the bonds and investing in the commodities

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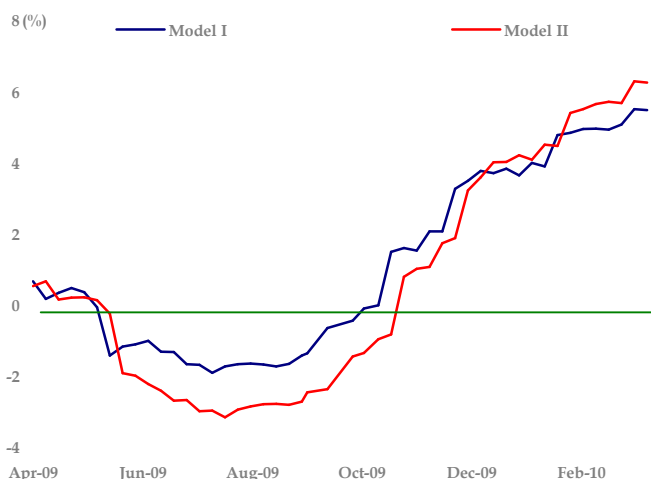
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### Inflation Projection

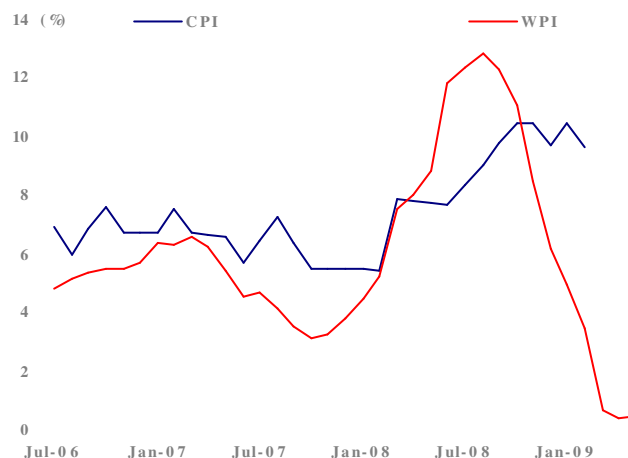
According to our projections we expect Inflation Y-O-Y growth to be in the range of 5.5% by the end of FY10. We expect negative Inflation to not last for more than four months



Source: Khandwala Research, Bloomberg

### CPI & WPI Trend

WPI has descended from a high of 12.9% in Aug'08 to 0.48% in May'09, whereas CPI is still high at 9.6% for the month of Feb'09. RBI is concerned about high CPI inflation and is hesitant to undertake further loosening of monetary policy rates



Source: Khandwala Research, Bloomberg

### Release of Primary Liquidity

Money supply growth has rapidly increased to 20.5% but is still lower compared to last year's growth of 21.4%. RBI has targeted M3 growth for FY10 at 17%. RBI undertook various measures to increase the liquidity in the system by nearly Rs 4.6 tn post Sep'08

Measure/Facility*	INR Crs
1 CRR Reduction	160,000
2 Unwinding/Buyback/De-sequestering of MSS Securities	97,781
3 Term Repo Facility	60,000
4 Increase in Export Credit Refinance	25,512
5 Special Refinance Facility for SCBs (Non-RRBs)	38,500
6 Refinance Facility for SIDBI/NHB EXIM Bank	1,600
7 Liquidity Facility for NBFCs through SPV	25,000**
<b>Total</b>	<b>422,793</b>
Memo: SLR Reduction	40,000

\* Since Mid-Sept'08

\*\* Include as option of Rs 5,000 Cr

Source: Khandwala Research, RBI

### Commodity Index on a rise

Commodity Index has rapidly increased by 32% from the bottom it made in Feb'09. Commodity prices will further show an uptrend in the near term thereby pushing up the inflation numbers.

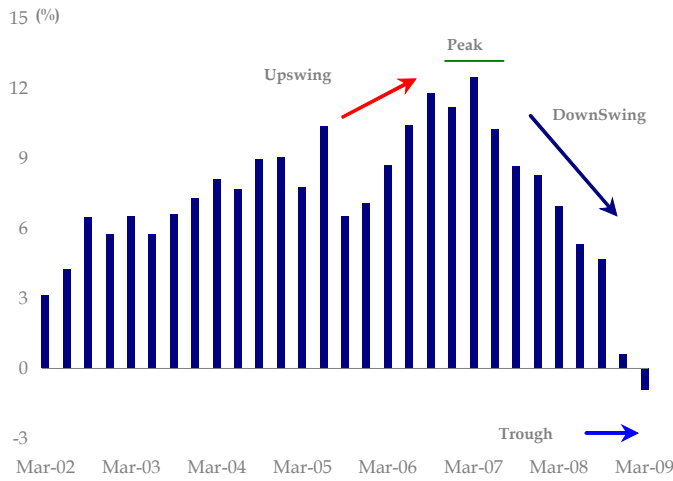


Source: Khandwala Research, Bloomberg



### Industrial Production

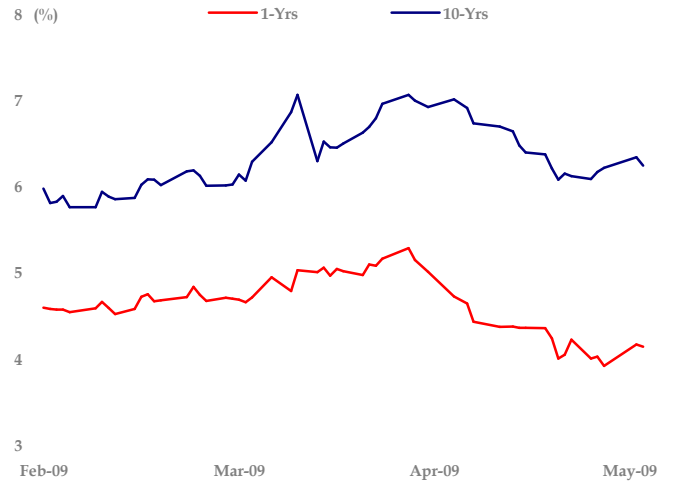
Industrial production for the last quarter will depict a slowdown and beginning of the trough cycle.



Source: Khandwala Research, Bloomberg, CSO

### G-Sec 1YR-10YR

G-Sec 1 YR and 10 YR spread has widened considerably. One of the drivers may be the difference in the short run and long run outlook of inflation along with higher government borrowing in the longer tenor



Source: Khandwala Research, Bloomberg



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