



Institute of Management Technology

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	Italy	Spain	Portugal	Ireland	Greece
■ UK bank exposure	£45bn	£70bn	£15bn	£88bn	£8bn
■ Debt to GDP	118.3%	63.5%	81.3%	93.6%	130.2%





THE 3rd QUARTER....

REPORT CARD.....

DOMESTIC MARKET.....

Domestic market indices continued to take clues from the global markets as the fears develop due to **the double dip recession in the US and Euro – zone crisis**. The investors in INDIA are searching for safer assets like **gold rather than Equity** as **S&P downgraded US debts**. The other key events for the months included sharp depreciation of the rupee to its 12 month low, a stubbornly high inflation. The Nifty remained highly volatile for the month in the broad range of **4700-5200** levels signaling short recovery for the investor in comparison to below 5000 range in previous months.

The RBI, in its mid quarter monetary policy review on September 16, hiked policy rates by 25 bps. The repo – rate stands at 8.25 % while the reverse repo is at 7.25 %. The central bank tone has been hawkish. Mean while India 's industrial output (IIP) fell sharply to 3.3 % in Aug against 8.8 % in June earlier, hit by 18 months of interest rate hikes and a gloomy global trade outlook. **The country's GDP registered a growth of 7.6 % slowest from 2010**. Inflation is still elevated at 9.78 percent, the highest among major global economies, and India's currency has fallen by around 10 percent in 2011, leading to 36.3 percent increase in export to \$24.8 billion in September while making imports costlier like oil. FII fetched Rs 9800 cr. on average in 3rd quarter. Government is thinking to launch new infrastructure bonds to raise investments by

Airtel's profit declined by 13 % making it to 1215 cr. in Sep-Oct while the company is expected to do better with the recent increase in tariffs. The banking sector stock lost more than 7 % in the 3 rd quarter of the year alone due to continues increase in the interest rate by the RBI. Real estate stocks beaten down heavily as investors feared that rising interest rates will dampen the growth of homes sales. The sector lost more than 19 percent over the same period. Metal and mining industry stocks lost heavily due to the ban on mining activity in Karnataka district from the order of the supreme court.

Technology stocks were the biggest loser with the worries that US companies may cut IT spending. Both Mining and IT lost by 19 percent in the last months while the FMCG is only sector to lose 3 % turning out to be "the Outperformer". Reality major DLF 's result disappointed the street with standalone net profit at 92 crore which is 55 % down while the same was with HDIL performing below the expectation. Tata steel beat expectation with profits of 5346 cr. against 1825 cr. regardless to count it sell of stake in Riversdale steel while the TATA motors shows marginal change. Among the oil majors HPCL loss widened to 3088 from 1884 cr. in the 2nd quarter of the year.

The market is likely to trade in the range of 4500 -5200 levels with the bearish basis this quarter until positive news came from the global front.



Global markets traded in the red of Sep –Oct on the back of the negative macro news and concerns about the global slowdown and a debt crisis in US and Euro –zone. The Dow Jones Industrial Average (DJIA) saw erratic trades of about 400-500 points on few days . Simultaneously , the VIX (the fear gauge) skyrocketed to a high of 48 %in intraday trading which means no single index is spared from the slowdown losing nearly to 10 percent .

The US economy slowed as Q2 GDP growth came in at 1% against higher expectation of 2 %.France ‘s GDP remained unchanged for the second quarter – the economy stalled as consumer spending plunged . **Germany’s GDP growth came in at only 0.1 %**raising fears of the ability of these countries to back any more potential Euro –zone bailouts.

The Euro – zone crisis is showing little signs of relief . The Italian and Spanish bond’s yields jumped above 6%. Moreover, credit default swaps (CDSs) on debt held by the French Government and banks rose sharply as fears surfaced of a downgrade of French debt after S&P downgraded the US . There are more troubles for the Greece as members debate over the second rescue packages , which require parliamentary approval in the Euro – zone nations . In the Euro –zone **European central bank (ECB)** is keeping interest rate at 1.5 % and bank of England at 0.5% . The FED decided to keep the real interest rate near zero level for least for 2 year. . BOA has announced that it is willing to sell European holding.

Japan is trying to tackle strong YEN by making reserves available for Japanese acquisition. The industrial production in US came to be 0.9 % which is higher than expected but still job less claims has risen . Condition worsened in UK as the industrial production came to be -0.3 % against expectation of positive growth. Manufacturing production rose to 2.1 % still unemployment is high at 7.9percent . The international market trade favoured extremely well for the CHINA with industrial production of 14% owing to the huge growth in export.

Ok laugh....



Credit Counseling



“The government is trillions of dollars in debt. Being in debt is how I show my patriotism.”

IMPACT OF GLOBAL SLOWDOWN ON INDIAN ECONOMY:-

AAA+

The global economy has been structurally evolving into a new pattern over the last few years. On one hand, a combination of **deleveraging** (reducing debt by selling asset) and the **prevailing debt** has killed the effective demand in the western economy and on the other hand these economies are looking for emerging countries like India as model and markets for potential growth. **S&P downgraded the US rating in early august 2011 from AAA+ to AA+**. Since then there is reallocation of funds, mainly the withdrawal of funds from long term basis and parking in short term, leading to volatility of funds. Global economies uncertainty is rising and there are chances that economy would face double – dip recession if there is an external shock or a policy mistake or loss of confidence. This takes us back to the 2008 sub- prime crisis where financial institution holding toxic substances failed and economy went into tailspin.



Due to the huge monetary expansion globally, emerging economies with higher growth rate have to bear high inflation. India is one such country and now the monetary authority has switched to fighting inflation from its earlier declared objective of managing growth and inflation (**inflation rate of 12%**). The problem in tackling inflation and well known – low real interest rates (real means nominal rate minus inflation) and high fiscal spending, supply and production bottle necks especially in agriculture commodities and imported products. The first reaction was to sell high risk security i.e. mainly US security and buying low risk security i.e. mainly gold. **Gold is mainly used to hedge**, making investment to avoid future price fluctuation.

IMPACT ON FINANCIAL MARKET

The impact of the recession leads to slowdown in India further leading to fiscal stimulus (financial support) to the economy and further leading the fall in interest rates and thus injecting liquidity in the economy. The government met huge budget deficit on account of fiscal stimulus. The short term **CD, CP and corporate bonds and Govt. Securities yield shot up after credit crisis started settling (mainly due to allocation of fund by foreign investor)**. While some corporate yield reached a very high rate and then very slowly start settling as most of the corporate earning started falling and some on the verge of default. The biggest scare was in the real estate due to continuous change in interest rate and small and medium industries who lacked access to non – banking source of funding.

EXPORTS

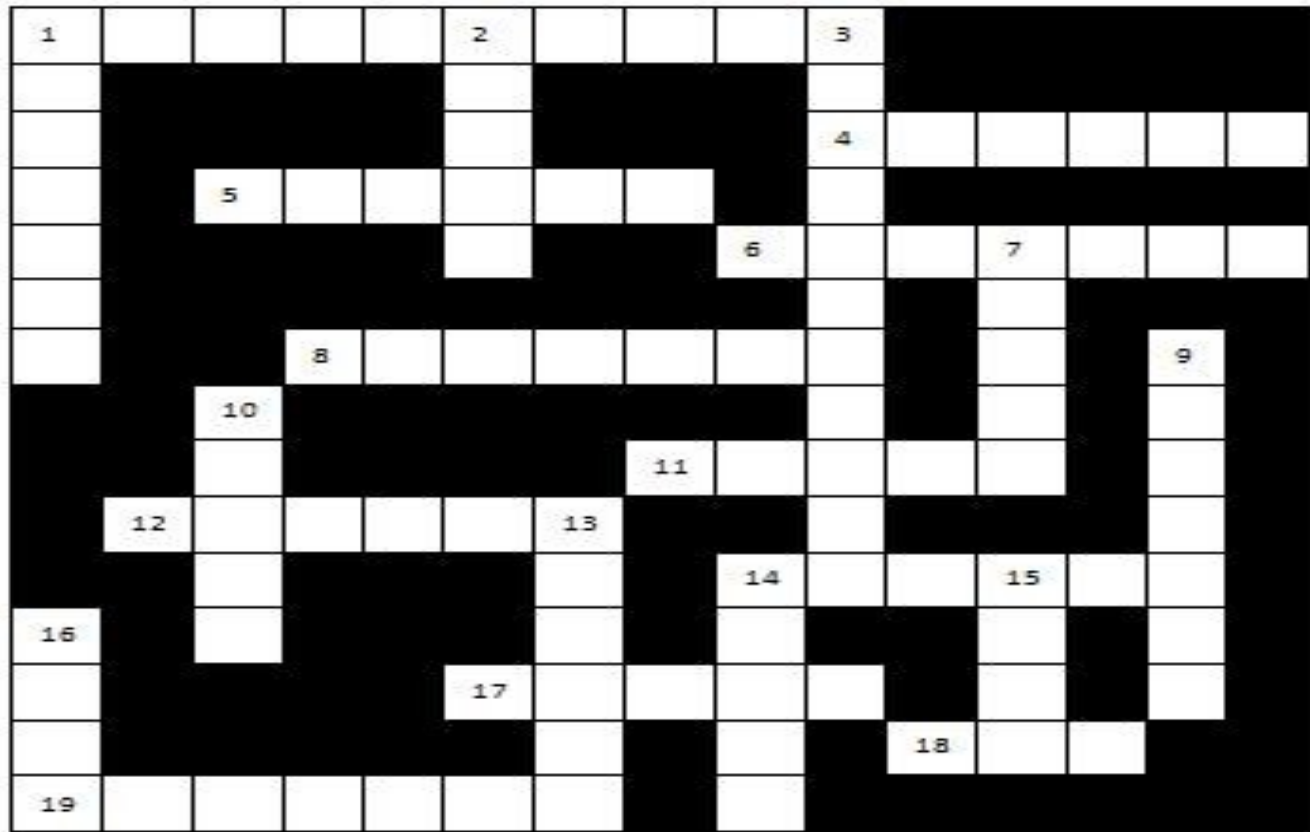
Textile firms are currently facing losses and defaults on loan in the weak demand in the domestic and international market. The Indian government is likely to announce incentive for the exporters.

FOREIGN CURRENCY

There is a fear of currency wars breaking out soon. Currency wars erupt when countries pursue domestic policy agenda at the expenses of others. The future of dollar is being debated. Will the dollar continue to appreciate? There is a strong case for Asian currencies to appreciate. The Indian rupee is also hit compared to other emerging economies its recent weakness can be attributed to many factors, including reform and slow growth rate.



FUN WITH ECONOMICS.... CROSSWORD.....



Across:

- 1 See 2 down
- 4 The best pear to cook! (6)
- 5 In France, I was going as expected – a contradiction! (6)
- 6 and 17 Rob tent and peg near some trees! (7, 5)
- 8 and 13 down Learning about free thinking in fashionable rowdy Goa (7, 6)
- 11 Dodgy citrus (5)
- 12 Sounds like the general theory of walking sticks (6)
- 14 See 19 across
- 17 See 6 across
- 18 and 1 down He'll volunteer?! BS! (3, 7)
- 19 and 14 across There would be trouble if major cities took to the air (7, 6)

Down:

- 1 See 18 across
- 2 and 1 across Lesser known feelings came before coun-tries? riches (5, 10)
- 3 The usual hero? How profitable (11)
- 7 To put a tax on trash cans (5)
- 9 Demand for rubber bands (7)
- 10 An economic spy! (5)
- 13 See 8 across

Answers will be published in the next issue of Okonomist...

An economist is a surgeon with an excellent scalpel and a rough-edged lancet, who operates