

6-12 January 2014**I. Financial Markets****(i) Money Market**

- Money market activity remained stable during the week ending 10 January and the weighted average daily rates across short-term money market instruments showed signs of softening. Among them, overnight money market rates traded in a wide range of 5% to 8.8% during intra-day trades, weighted average rates ended at 7.73% on 10 January while, the weighted average daily rates for the whole week stood at 8.32%, almost same as in the previous week. Average daily turnover traded in the call segment improved by 9% during the same review period.
- During the week ended January 10, 2014, banks have borrowed an average amount of Rs 35,542.60 crore from the RBI under the daily LAF repo auctions. On the other hand, RBI absorbed an average amount of Rs 289.20 crore under the daily LAF reverse repo auctions. Infusions via the MSF route averaged Rs 3,828 crore. Moreover, banks have borrowed Rs 10,002 crore in the 7 days and Rs 39,004 crore in the 14 day term repo auctions held on 10 January 2014.

(ii) Foreign Exchange Market

- In the foreign exchange market, the rupee registered 0.76% appreciation during the week and ended at 61.94 against US dollar on 10 January.

(iii) Government Securities Market**Primary Market**

- The Government of India conducted the auction of 7.28% 2019, 8.83% 2023, 8.32% 2032 and 9.23% 2043 for the notified amounts of Rs 3,000 crore, Rs 7,000 crore, Rs 2,000 crore and 3,000 crore, respectively on 10 January 2014. The cut-off yields were set at 8.85%, 8.77%, 9.11% and 9.15%, respectively.
- Eleven state governments have offered to sell securities by way of auction for an aggregate amount of Rs 11,500 crore (Face Value) on January 15.

Secondary Market

- Bond market opened on an optimistic note on the back of strong demand witnessed in the G-sec auction on anticipation of lower inflation numbers. Moreover, press reports stating that there could be a possibility that the gilt switch auction may not happen in FY14 bolstered market sentiments. The benchmark 10 year yield touched an intra-day low of 8.75%. Alternative bouts of buying and selling ahead of US non-farm payroll data release kept the market active. While, market participants awaited IIP data, the investor participation remained firm as volumes saw sharp increase for most of the trading session. The benchmark 8.83% GS 2023 closed at Rs. 100.45 (8.76%) as compared to the previous closing of Rs. 99.96 (8.83%).

(iv) Stock Market

Primary Market

- During the week under review, RCI Industries and Technologies Ltd. (RCIITL) and Suyog Telematics Ltd. (STL) entered the market to raise Rs 11.52 crore and Rs 4.55 crore, respectively. Both the issues entered the market on 10 January by offering fixed price issues and are proposed to get listed on BSE SME.

Secondary Market

- Key benchmark indices traded on a bearish note as strong US private-sector employment report for December 2013 strengthened the expectations for further tapering of the US Federal Reserve's bond-buying program. A Markit Economics' monthly survey which showed that business conditions in the Indian private sector economy continued to deteriorate in December 2013 and data showing slowdown in India's exports in December 2013 also weighed on investor sentiment. The BSE Sensex declined 92.84 points or 0.44% to 20,758.49. The NSE Nifty dropped 39.70 points or 0.63% to 6,171.45.

(v) Corporate Bond Market

- In the primary segment, LIC Housing Finance raised Rs 200 crore via issuance of 2 year 2 month bonds at 9.74%. EXIM raised Rs 156 crore through issuance of 10 year bonds at 9.57%. Yes Bank raised Rs 300 crore via issuance of perpetual Tier I, Basel III compliant bonds at 10.5%. The 10 year AAA bond ended 9.54% compared to 9.60% last week.

(vi) Other Developments in Financial Markets

- RBI has selected the Clearing Corporation of India Ltd. (CCIL) to act as a Local Operating Unit (LOU) for issuing globally compatible Legal Entity Identifiers (LEIs) in India.
- RBI issued clarifications regarding issue of nonconvertible/redeemable bonus preference shares or debentures to non-resident shareholders from the general reserve.
- RBI revised the norms for lending against security of single product-gold jewellery by NBFCs.
- RBI further liberalized the definition of infrastructure sector under the ECB policy.
- RBI announced that optionality clauses may henceforth be allowed in FDI. RBI notified the pricing guidelines for FDI instruments with optionality clauses.
- RBI clarified on the provisions under section 6 (4) of Foreign Exchange Management Act, 1999.
- RBI included additional items under Permitted Transactions under Rupee Drawing Arrangements.
- With a view to develop the securitised debt instruments (SDIs) market and to improve transparency in the dealings of these instruments the SEBI, in a circular issued on 7 January announced that all trades in SDIs (listed or unlisted) by mutual funds, foreign institutional investors (FIIs), sub-accounts, qualified foreign investors (QFIs), foreign portfolio investors (FPIs), alternative investment funds (AIFs), foreign venture capital investors (FVCIs) and portfolio managers shall be reported on the trade reporting platform of either NSE, BSE or MCX-SX, within fifteen minutes of the trade from 1 April 2014. SEBI has also directed exchanges to provide data

on issuer name, international security identification number, face value, maturity date, current coupon rate, last price reported, last amount reported, last yield (annualised) reported, weighted average yield/ price, total amount reported and rating of SDI. While asking exchanges and clearing corporations to amend their by-laws, rules and regulations for compliance, SEBI stated all SDI trades have to necessarily be cleared and settled through the National Securities Clearing Corp Ltd or the Indian Clearing Corp Ltd or MCX-SX Clearing Corp Ltd.

- A day after notifying FPI Regulations 2014, the SEBI issued operating guidelines for depository participants to register these new entities and to ensure that their combined holding in any listed company remains capped at 10%. Ushering in a new regime for overseas investors as FPIs, this new class of investors, would encompass all FIIs, their sub—accounts and QFIs. The SEBI approved Designated Depository Participants (DDPs) would grant registration to FPIs on behalf of the regulator and also carry out other allied activities in compliance with regulations.
- To protect investors and markets from fraudulent activities, SEBI tightened norms for money-pooling schemes and decided to keep serious offences out of its settlement mechanism. The new regulations announced on 9 January, pertaining to three areas also facilitate refund to small investors who suffer losses due to irregularities in the market. With regard to collective investment schemes, it would be compulsory for all transactions to be conducted through cheque, draft or other banking channels, and not in cash. Apart from making the fund-raising activities of CIS more transparent, the move would make it easier to identify the real investors involved in such schemes.

II. Real Economy

(i) Agriculture

- Owing to surplus stocks of wheat, state-owned trading firms have so far exported about 3 lakh tonnes of wheat from Food Corporation of India (FCI) godowns out of 20 lakh tonnes allowed by the government. In August last year, the Cabinet Committee on Economic Affairs (CCEA) had allowed 20 lakh tonnes of wheat exports till June 2014.
- Co-operative sugar mills in Haryana have produced over 7.51 lakh quintals of the sweetener by crushing 96.05 lakh quintals of sugarcane during the current season till second week of January.
- Area under wheat cultivation rose by 7% to an all-time high of 31.18 million hectares so far in the ongoing rabi season, boosting prospects of a record production this year.
- The government has set a rabi production target of 92.50 million tonnes (mt) for wheat, 12 mt for pulses, 14 mt for rice, 4.4 mt for maize and 1.5 mt for barley.
- The State Trading Corporation of India (STC) has received a good response to a tender floated for the export of 1.60 lakh tonnes of wheat. It received the highest bid at \$282.62 a tonne for its wheat, more than the government's floor price of \$260 a tonne. Three more tenders for the export of 7.4 lakh tonnes of wheat would be opened on January 10, 14 and 23.
- Out of the total dues of Rs 1,711 crore, the sugar mills have paid half the amount of around Rs 850 crore for the current sugar season. The state's sugar industry was not able to pay the cane farmers due to high cane costs and declining sugar prices. This led to cane arrears mounting to Rs 2,400 crore at the start of the new sugar season in October 2013, the highest in the country. Making matters worse, the UP state government did not decrease the cane price and kept it as

same as last season at Rs 280 per quintal. Meanwhile, the sugar price in the state plummeted from Rs 32 per kg to Rs 29 per kg.

- India's tea production in November fell 1.03% to 112.42 million kgs due to lower output in Assam and West Bengal. Production was 113.59 million kgs in November 2012.
- Rapeseed production is unlikely to rise in 2014 despite increased plantings as cold weather in the top producing region is seen denting yields, forcing the country to raise imports of palm and sunflower oil. The area planted with rapeseed has risen to 6.97 million hectares this year from 6.5 million hectares a year ago, as farmers took advantage of monsoon-soaked land to grow the crop, which is more lucrative than the usual chickpea.
- Indian Cotton Federation (ICF) has estimated the cotton production in the country at 361 lakh bales (of 170 kg each) in the 2013-14 seasons. Government's rice procurement is lagging behind by 8% over last year at 16.36 million tonnes so far in the 2013-14 marketing year due to lower production estimate and relatively strong open market prices. Food Corporation of India, government's nodal procurement agency, had procured 17.78 million tonnes rice in the same period of 2012-13 marketing year (October-September).

(ii) GDP Growth

- The World Bank has projected India's real GDP to grow over 6% in 2014-15 and 7.1% in 2016-17.

(iii) Prices

WPI

- The Wholesale Price Index (WPI) based inflation decelerated to 6.16% in December 2013 as compared to 7.52% for the previous month mainly on account of a moderation in food and vegetable price. Vegetable prices have come down to 57.33% in December 2013 against 95.25% in the previous month. The inflation rate of primary food declined to 13.7% from 19% in the previous month and the inflation rate of manufactured food articles fell to 1.8% in December from 2.5% last month.

CPI

- The Consumer Price Index (CPI) inflation rate decelerated to 9.87% in December 2013 against 11.24% in November 2013 on account of a moderation in vegetable prices. The inflation rates for rural and urban areas are 10.49% and 9.11% respectively in December 2013 against 11.74% and 10.53% respectively in November 2013.

(iv) Corporate

- Welspun Energy, part of the Mumbai-based \$3.5-billion Welspun group, will invest 1,300 crore in a 150-MW solar power project in Punjab. The company has signed an initial agreement with the state government last month.

III. Fiscal Scenario

- The Ministry of Finance has decided to defer harmonising the service tax and central excise duty returns. This implies that they would now have to file separate returns for service tax and excise duty till a GST is introduced. The measure was intended to simplify business processes. The difficulty in harmonising the two arose from the introduction of the negative list for service tax.
- The government is looking at considering innovative financial instruments and bumper dividends by its companies to bolster revenues for its disinvestment target. The government may ask some companies controlled by it to issue bonus debentures and make them tradable by listing on exchanges. Companies which are not in a position to pay a special dividend can issue bonus debentures. The government's disinvestment programme is stuck because of opposition from the parent ministries of some companies in which it wants to sell shares.
- The central government has allowed Specified Undertaking of Unit Trust of India (Suuti) to sell its stake in ITC, Axis Bank and Larsen & Toubro. Divesting part of these could help the government meet its target of raising Rs 14

IV. Other Sectoral Developments

(i) Social

- The Ministry of Human Resource Development (MHRD) has resolved the dispute between University Grants Commission (UGC) and All-Indian Council for Technical Education (AICTE). As per MHRD, UGC is set to regulate Business-schools that offer a master's degree in management and are affiliated to universities, while AICTE will regulate independent B-schools which offer a post-graduate diploma in management (PGDM).
 - New India Assurance Company Ltd is all set to expand its operations in Canada, Myanmar and Qatar. The company has set a premium income target of about Rs 15,000 crore for the current financial year, as compared to Rs 12,505 crore a year ago.
 - As per the Chairman of Insurance Regulatory and Development Authority, a single product covering all basic needs of insurance would help increase the reach of insurance. This would be a better option over the current practice of separate policies to cover life and non-life risks which require customers to take multiple policies
-