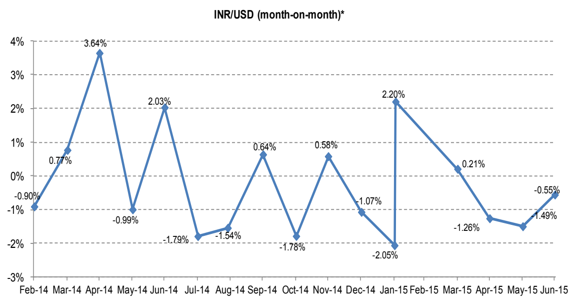
Monthly Political & Economic Updates
June 2015

UTI International

1-year BRICs performance comparison*
India's SENSEX emerged 2nd amongst the BRICS (1-year)

In descending order (from 30th June 2014 to 30th June 2015): **SHCOMP (Shanghai Composite Index), INDEXCF(MICEX), BSE Sensex(Bombay Stock Exchange Index)** & **IBOVESPA (Brasil Sao Paulo Stock Exchange Index).**

INR/USD chart *(from Jan 2014 to June 2015)***



** Source: Bloomberg*

*** S&P*

Domestic institutional investors' inflows highest since 2013
DIIs aggressively bought into the dips and their net inflows was the highest (US$1.9bn) since the start of bull run in 2013. Bulk of the DII buying was from MFs (US$1.5bn) which have been receiving heavy inflows into their equity schemes.

Greece crisis unlikely to impact Indian Economy
Deepening debt crisis in Greece and talk of grexit have triggered a global risk-off environment (equities in EM's and DM's have fallen by an average of 2.2% and 2.9% respectively) while India outperformed by staying flat. Better macro economic indicators compared to other EM's has resulted in the resilience of Indian equities.
The Greek crisis is unlikely to have any impact on the Indian economy since it has only negligible exposure to the troubled Mediterranean island . Growth in India is largely domestically driven and is expected to pick up. Most multilateral agencies see India growing in the 7-8 per cent range. RBI governor Raghuram Rajan has said the Indian economy will see through any impact of the Greece crisis. Forex reserves of $355 billion will help cushion any possible impact.

India's Current A/c Deficit Reduced
India's current account deficit narrowed to USD 1.5 bn (0.2% of the GDP) in Q4 as against a deficit of USD 8.4 bn (1.6% of GDP) in Q3. The reduction in CAD during Q4 was primarily led by lower trade deficit. Merchandise trade deficit narrowed to USD 31.7 bn in Q4 as against USD 39 bn in Q3 led by the faster QoQ contraction in imports (i.e. -13%) as against exports (-10%). On an annual basis, the improvement in CAD came against the backdrop of lower merchandise trade deficit (USD 144 bn in FY2015 vs. USD 147 bn in FY2014) and slightly higher invisible account surplus (USD 116 bn vs. USD 115 bn).

World Bank expects India to be the fastest growing major economy this year
World Bank perceives India to be the fastest-growing major economy this year, growing at a rate of 7.5%, higher than the previous forecast of 6.4%.India is one of the few countries where the World Bank has upgraded its forecast. Ohnsorge said it had benefited from "both good policies and luck". Narendra Modi's government has taken advantage of cheap oil to phase out costly fuel subsidies and banked the proceeds; and its central bank governor, Raghuram Rajan, has sought to establish a more credible inflation-fighting regime. The World Bank expects India to continue outpacing China in 2016 and 2017. "It's our shining star," said Ohnsorge. "Low oil prices have really benefited India."

India rides high on monsoon cheer
The much awaited monsoon expanded its footprint to almost the entire country with torrential rain that has increased the season's rainfall surplus by 4 percentage points to 28% and filled up reservoirs with 46% more water than they normally hold at this time of the year. Rainfall has been almost double the normal level as the monsoon continued its vigorous phase and brought heavy showers over most parts of the country. A good monsoon boosts the agriculture sector resulting in bumper crops which in turn reduces the prices of vegetables,cereals and essential commodities. It also removes the export ban on several commodities and reduce the country's dependence on imports. As for investors, a normal monsoon positively impacts the stock markets and the overall economy.

CPI & Inflation
May CPI at 5%YoY came in a tad higher than the Apr reading of 4.87%. The May inflation print was lower than the consensus expectations with benign price pressures. The core CPI moved up to 4.64% v/s 4.26% seen in Apr. The price momentum gained traction at 0.7% MoM, highest in the last nine months. The food index moved up (0.8% MoM) tracking higher prices of vegetables, pulses and milk. The unseasonal rains have led to the rise in food prices. Transport and communication index rose sharply reflecting the hike in petrol and fuel prices leading to a sharper core momentum at 0.7% MoM.

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