ECONOMIC UPDATE

GLOBAL & INDIAN April 2015

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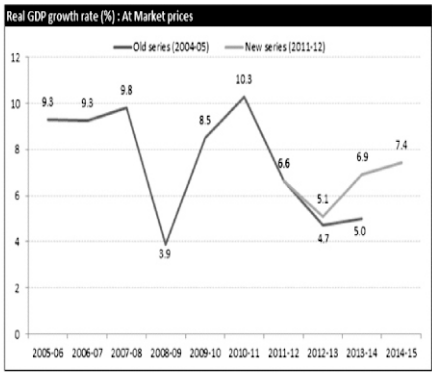
Growth Inches up with New Market Price Method



Source: MOSPI

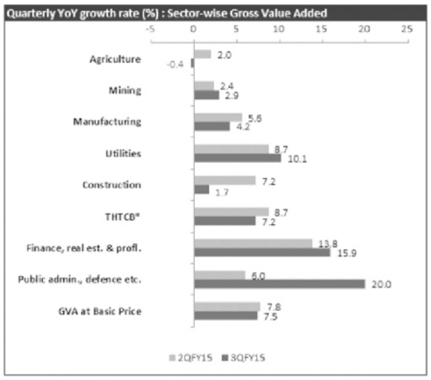
The Indian economy grew at 7.4% YoY (real growth) for Oct-Dec 2014 quarter. The government had recently updated the base year to calculate Gross Domestic Product (GDP) to 2011-12 from 2004-05.

According to government's advance estimates for GDP based on the new calculation methodology economy is likely to grow at a faster pace of 7.5 per cent in the current fiscal as against 6.9 per cent in 2013-14, Real GDP or GDP at constant (2011-12) prices in the year 2014-15 is likely to attain a level of Rs 106.57 lakh crore, as against the First Revised Estimate of GDP for the year 2013-14 of Rs 99.21 lakh crore, released on 30th January 2015.

The data further showed that GDP at current prices in 2014-15 is likely to attain a level of Rs 126.54 lakh crore, up 11.5 per cent from Rs 113.45 lakh crore in 2013-14.

The per capita net national income during 2014-15 recorded at Rs 88,538, up 10.1 per cent as compared to Rs 80,388 during 2013-14 with the growth rate of 12.3 per cent. At constant prices, the per capita income (at 2011-12 prices) during 2014-15 is likely to attain a level of Rs 74,193 as compared to Rs 69,959 in 2013-14. The growth rate in per capita income is estimated at 6.1 per cent as against the previous estimate of 5.4 per cent.

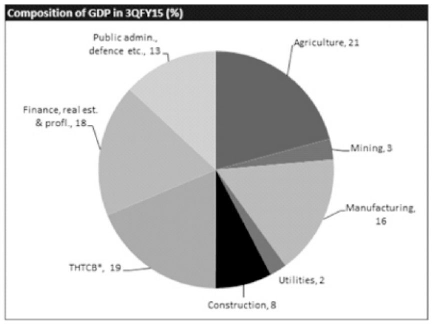
The sectors which showed spectacular growth were - (1) Public administration, defence and Other Services, (2) Financial, real estate & professional services, and (3) Electricity, gas ,water supply & other utility services. Sectors - such as (1) Mining & quarrying, (2) Manufacturing, and (3) Construction - grew at slow rates. Agriculture contracted during the quarter.



* THTCB: Trade, hotels, transport, communication and services related to broadcasting

Source: MOSPI

Agriculture was the biggest component of Q3 GDP - at 21% - and hence its contraction was a drag on the economic growth.



Source: MOSPI

Private consumption disappoints

Looking at the expenditure side, it is

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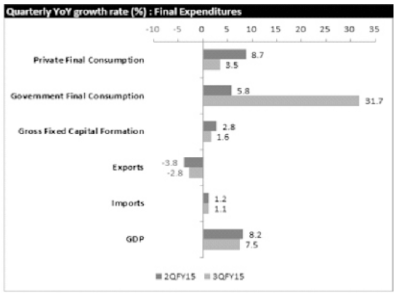
very evident that government spending has helped the economy, but it constitutes only 11% of the economy in Q3. Private consumption - 57% of the economy - was a drag on the economy, growing at just 3.5%. This is not a good sign. Exports contracted, and imports were almost flat. Slow fixed capital formation growth shows that business confidence is yet to pick up.



Source: MOSPI

India's FDI Increases by 26% in 2014: UN

According to a UN report, India's FDI increased by 26 per cent in 2014 to an estimated $35 billion with maximum growth in the services sector.

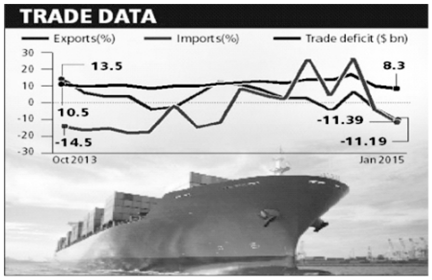
China toppled the US in 2014 as the world's largest recipient of FDI -- a position that the US had been holding almost consistently since the 1980's -- though with a modest increase of 3 per cent, according to the latest 'Global Investment Trade Monitor' report by United Nations Conference on Trade and Development.

The top five FDI hosts in 2014 were China ($128 billion), followed by Hong Kong ($111 billion), the US ($86 billion), Singapore ($81 billion) and Brazil ($62 billion).

"In 2014 global FDI inflows declined by 8 per cent to an estimated $1.26 trillion due to fragility of the global economy, policy uncertainty and geo-political risks", the report said.

Trade Deficit at 11 Month Low

India's trade deficit narrowed to an 11-month low of $8.32 billion in January as oil imports declined by 17 per cent from a month earlier.



Exports fall due to fall in oil prices

Exports : Top 10 exported goods

Item	USD Bn	% of Total Export	% Change YoY
Engineering Goods	6.9	29%	9%
Gems & Jewellery	3.0	13%	-4%
Petroleum Products	2.4	10%	-49%
RMG of all Textiles	1.6	7%	9%
Drugs & Pharmaceuticals	1.3	5%	0%
Organic & Inorganic Chemicals	1.0	4%	-11%
Cotton Yarn/Fabrics/made-ups, Handloom	0.9	4%	-9%
Rice	0.7	3%	-5%
Electronic Goods	0.5	2%	-11%
Leather & leather products	0.5	2%	0%
Others	5.1	21%	
Total Exports	**23.9**		**-11.2%**

Exports during January 2015 were valued at US $ 23883.60 million (Rs.148617.82 crore) which was 11.19 per cent lower in Dollar terms (10.97 per cent lower in Rupee terms) than the level of US $ 26891.58 million (Rs. 166932.15 crore) during January 2014.

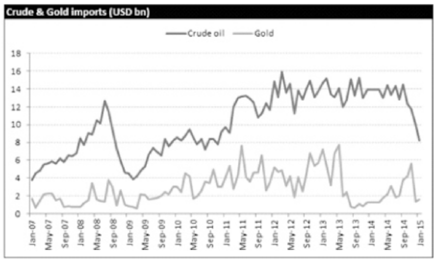
Imports decline led by lower crude oil prices

Imports during January, 2015 were valued at US $ 32205.63 million (Rs.200402.44 crore) which was

11.39 per cent lower in Dollar terms and 11.18 per cent lower in Rupee terms over the level of imports valued at US $ 36346.32 million (Rs. 225623.44 crore) in January, 2014.

The continued sharp improvement in the trade balance compared to the previous month was due to fall in oil prices, Oil imports during January, 2015 were valued at US $ 8247.65 million which was 37.46 per cent lower than oil imports valued at US $ 13187.76 million in the corresponding period last year.

Crude imports were once a third of total imports, and the proportion has now fallen to 25%. However, how long crude prices will remain favorable is a lingering question..



Source: Ministry of Commerce

Non-oil imports during January 2015 were estimated at US $ 23957.98 million, which was 3.45 per cent higher than non-oil imports of US $ 23158.56 million in January 2014.

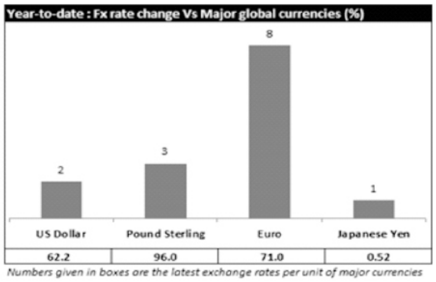
Imports : Top 10 imported goods

Item	USD Bn	% of Total Import	% Change YoY
Petroleum, Crude & products	8.2	26%	-37%
Electronic goods	3.2	10%	20%
Machinery, electrical & non-electrical	2.4	7%	-3%
Coal, Coke & Briquettes, etc.	1.8	6%	22%
Transport equipment	1.8	6%	12%
Gold	1.6	5%	8%
Iron & Steel	1.4	4%	32%
Organic & Inorganic Chemicals	1.4	4%	-6%
Pearls, precious & Semi-precious stones	1.1	4%	-31%
Non-ferrous metals	1.0	3%	27%
Others	8.1	25%	
Total Imports	32.2		-11.4%

Source: Ministry of Commerce

The trade deficit for April-January, 2014-15 was estimated at US $ 118373.95 million which was higher than the deficit of US $ 116532.22 million during April-January, 2013-14.

Data from the Reserve Bank of India showed that the Indian Rupee appreciated against all the four major currencies, including the dollar, despite the dollar strengthening. This was due to lower crude oil prices and strong performance in the local stock markets.



Source: Reserve Bank of India

January WPI Inflation -0.39%, Declines for 5th Consecutive Month

Inflation based on India's wholesale price index (WPI) fell below last year's level in January because of softer crude and commodities, boosting the case for interest rate cuts by the Reserve Bank of India to lift demand as some experts warned of deflation in manufactured products.

Food articles inflation at 8% vs. 5.2% (MoM)

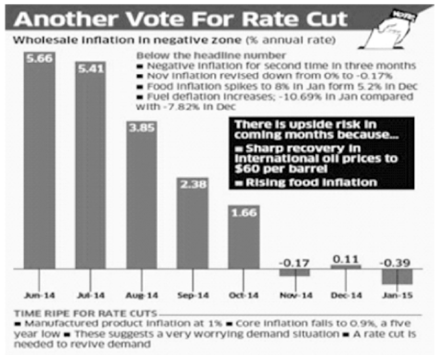
Manufactured products inflation at 1.05% VS 1.57% (MoM)

Non-food articles index down 0.7% (MoM)

Fuel and power group index down 2.5% (MoM)

WPI In Declining Trend

WPI inflation was at a negative 0.39% in January against 0.11% in the previous month, the second deflation in three months, data released by the ministry of commerce, and industry showed. November inflation was revised down from zero to (-) 0.17%.

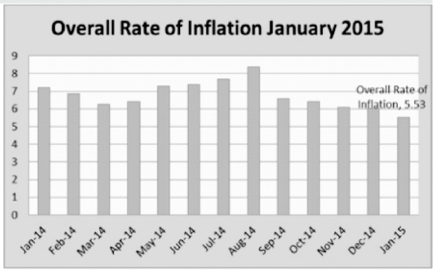


Source: economic times

Retail inflation, which guides central bank policy, rose 5.11% in January based on a revamped CPI, below the consensus estimate and slower than RBI's March target of 6%. RBI governor Raghuram Rajan kept rates unchanged at the February 3 monetary policy announcement after a surprise 25 basis point cut on January 15.

The central bank said further rate cuts would depend on the inflation trend and the fiscal stance of the government, with the February 28 Budget expected to provide a clear picture of the latter.

CPI Inflation with New Base Year Inches up To 5.11%



Source: MOSPI

Inflation for January, as measured by a new methodology, has inched up to

5.11 percent year-on-year, compared to 4.28 percent (also on new methodology) in December.

Central Statistics Organisation (CSO) said it had changed the CPI base year from 2009-10 to 2011-12 as well as broadened the item basket.

Core inflation is down to 3.9%. Inflation will continue to be at low levels, with crude oil and commodity prices at multi-year lows. Food inflation could pose upside risks, with Kharif crop production expected to be lower.

Retail inflation - Item-wise

Item	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Food, beverages	9.6%	9.2%	8.0%	9.1%	9.1%	7.6%	5.7%	3.6%	5.1%	6.1%
Fuel and light	5.9%	5.0%	4.7%	4.5%	4.2%	3.5%	3.4%	3.4%	3.4%	3.7%
Housing	9.7%	9.2%	9.1%	8.9%	8.5%	8.1%	8.1%	7.9%	7.8%	5.1%
Clothing, bedding and footwear	8.7%	8.8%	8.6%	8.7%	8.4%	7.6%	7.4%	6.9%	6.5%	6.2%
Miscellaneous	6.8%	6.9%	6.5%	6.6%	5.9%	4.7%	4.7%	4.2%	4.0%	3.0%
Headline inflation	8.6%	8.3%	7.5%	8.0%	7.7%	6.5%	5.5%	4.4%	5.0%	5.1%

Red highlight means that inflation rate has increased compared to the previous month, Green highlight indicates that it has decreased

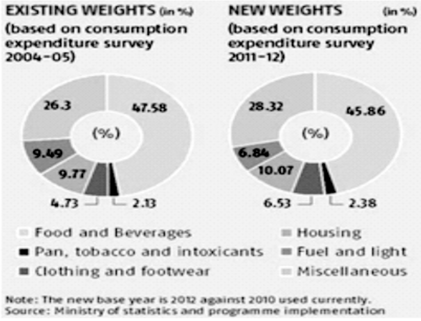
Source: MOSPI

CPI would typically be 0.6 percent lower in the new series as compared to old series thanks to food weightage being lowered slightly (from 47.8 percent to 45.8 percent). The change in weights reflects a change in consumption patterns. Breaking up the CPI data, food inflation stood at 6.13 percent, fuel & light inflation was at 3.74 percent while clothing and footwear was at 6.15 percent.

Comparison of weighting diagrams of the existing and revised series of CPI

Change in item-wise weights in CPI (%)

Item	Old	New	Change
Food and beverages	47.6	45.9	-1.7
Pan, tobacco and intoxicants	2.1	2.4	0.3
Fuel and light	9.5	6.8	-2.7
Housing	9.8	10.1	0.3
Clothing, bedding and footwear	4.7	6.5	1.8
Miscellaneous	26.3	28.3	2.0
Total	100.0	100.0	



Source: MOSPI

New CPI index added more weight for services like education and health. Earlier food accounted for nearly half of the consumer price index

Inflation data would reflect a lower weighting for food items like cereals, as the Ministry of Statistics shifts the base year for its index series to 2011/12 from 2004/05.

The new numbers will also more realistically reflect consumption patterns, including higher weights for education and health, currently, education, and health contribute 3.35 per cent and 5.69 per cent to the CPI index, respectively.

Food inflation was higher than last month - coming in at 6% against previous month's 5%. Fruits, Vegetables, Pulses and Milk recorded double digits inflation , while Cereals showed low rate of price rise. Food items (At 46%) continue to dominate the consumer consumption basket in the new CPI series also.

Another notable item in the new series is housing costs, which fell significantly to 5% YoY inflation rate, well down from previous month's 8%. Housing, with a weight of 10% (in both new and old indices) has never fallen below 8% in the previous index.

Education cost rise worryingly remains at 7% levels, while medical care inflation has inched down to below 5%.

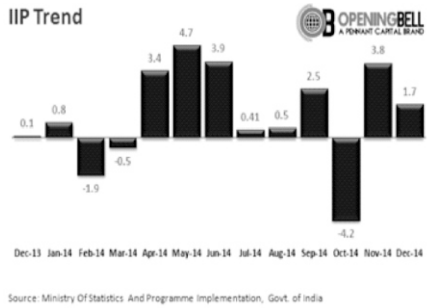
Item-wise inflation (YoY, %)

Description	Weights	Inflation
Cereals and products	9.7	2.8
Meat and fish	3.6	4.2
Egg	0.4	-0.2
Milk and products	6.6	9.4
Oils and fats	3.6	1.7
Fruits	2.9	10.6
Vegetables	6.0	9.0
Pulses and products	2.4	9.4
Sugar and Confectionery	1.4	-1.1
Spices	2.5	8.4
Non-alcoholic beverages	1.3	4.5
Prepared meals, snacks, sweets etc.	5.6	7.3
Food and beverages	**45.9**	**6.1**
Pan, tobacco and intoxicants	**2.4**	**8.2**
Clothing	5.6	6.3
Footwear	1.0	5.4
Clothing and footwear	**6.5**	**6.2**
Housing	**10.1**	**5.1**
Fuel and light	**6.8**	**3.7**
Household goods and services	3.8	5.2
Health	5.9	4.7
Transport and communication	8.6	-1.2
Recreation and amusement	1.7	4.2
Education	4.5	7.3
Personal care and effects	3.9	2.3
Miscellaneous	**28.3**	**3.0**
General Index (All Groups)	**100.0**	**5.1**
Consumer Food Price Index	**39.1**	**6.1**
Core inflation	**44.9**	**3.9**

Food inflation remains the biggest concern as the latest available statistics show that crop production for the current Kharif crop season (sown during monsoon and harvested around winter) is 7% lower than the previous year (though 3% higher than the year prior to that).

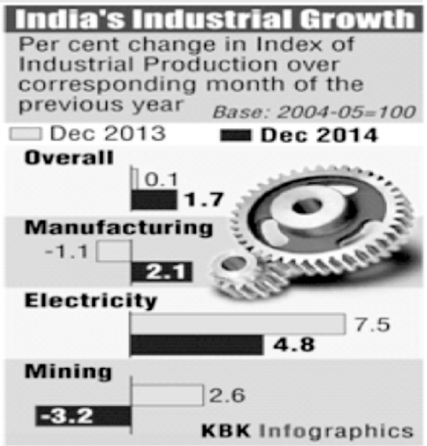
January inflation print should be comfortable news for the inflation-targeted central bank, as it remains well below the target of 8% set for Jan'2015.

Dec IIP Slows To 1.7%



The index of industrial production (IIP) for December stood at 1.7 percent, compared to 3.9 percent in November. Mining contracted while electricity growth slowed on the sector side. On the use side, consumer durables continued to show a contraction, while consumer non-durables continued to grow.

IIP index internals



- Mining Sector Output At -3.2% Vs 3.4% (MoM)
- Manufacturing Sector Growth At 2.1% Vs 3% (MoM)
- Electricity Sector Growth At 4.8% Vs 10% (MoM)
- Basic Goods Growth At 2.4% Vs 7% (MoM)
- Capital Goods Growth At 4.1% Vs 6.5% (MoM)
- Consumer Goods Growth At 0.7% Vs -2.2% (MoM)
- Intermediate Goods Growth At 0.1% Vs 4.3% (MoM)
- Consumer Durables Output At -9% Vs -14.5% (MoM)
- Consumer Non-durables Growth At 5.7% Vs 6% (MoM)

PMI for January Eases to 52.9 Points

Numbers released showed industrial recovery was still fragile and only select pockets were doing well. Core sector growth, which measures the output of eight infrastructure industries, dropped sharply to 2.4% in December from 6.7% in the previous month, data released by the government showed.

The HSBC Purchasing Managers' Index (PMI) for January eased to 52.9 points in January compared with December's two-year high of 54.5. The 50-point mark separates expansion from contraction in the report based on a survey of 500 private sector firms. Core sector has a 38% weight in the index of industrial production (IIP), suggesting industrial growth could ease sharply from 3.8% in November, while softer PMI points to a lackluster first month of new calendar as well. The automobiles sector also reported muted sales growth in January.

Subdued performance of core sector industries, automobile production, and merchandise exports in December 2014 suggests that the industrial production will reveal muted growth.

Manufacturing weakness coupled with cooling inflation makes a strong case for another round of rate cuts by Reserve Bank of India at its policy announcement .

December Core Growth Weakens

The core sector index captures output in eight industries - coal, electricity, crude oil, natural gas, steel, cement, fertilizers, and refinery products.

Coal sector output expanded 7.5% in December, making it the top performer in the index followed by refinery products growing by 6.1%.

Contraction in output was seen in four sectors--crude oil, natural gas, fertilizer, and steel--with a negative reading of 1.4%, 3.5%, 1.6%, and 2.4%, respectively. Electricity generation eased to 3.7% growth in December from double digits in two years.PMI for January was down from December highs due to slower growth of output and new business. The sub index for new orders dropped to 54.4 from 57.9 in December because of softer global demand.

Infrastructure Growth at 3-month Low of 2.4 Per cent

Infrastructure output growth in India slowed to a three-month low of 2.4 per cent in December, mainly dragged down by a sharp slowdown in electricity, coal, and cement production, government data showed. The output had expanded 6.7 per cent year-on-year in November.

The infrastructure sector comprises of 8 sectors mainly coal, crude oil, oil refining, natural gas, steel, cement, electricity and fertilizers, and accounts for 37.9 per cent of country's industrial output

Acceleration in new orders helped activity in India's services sector expand at a faster rate in January than in the previous month.

India to Become the World's Fastest-growing Economy : IMF

India is set to become the world's fastest-growing major economy in about two years from now, as China slows after tearing along at speeds in excess of 10 per cent at times over the past three decades or so, according to latest projections by the International Monetary Fund in the World Economic Outlook.

The IMF's flagship publication said India's gross domestic product is likely to grow at 6.3 per cent, marginally down from 6.4 per cent projected in October, in the next fiscal year and 6.5 per cent in year to March 2017.

The Modi government has rolled out several measures to perk the economy and lift overall business sentiment since coming to power in May. Various projections put India's growth in 2014-15 at 5.5 per cent after slumping to decadal lows of below 5 per cent in the past two financial years.

In its global outlook released on January 13, the World Bank projected India to edge past China in 2017, clocking 7 per cent growth compared with China's 6.9 per cent.

RBI Cuts Repo Rates By 25 Basis Points, First Cut in Interest Rate Since May 2013

The Reserve Bank of India decided to cut the benchmark interest rate by 0.25 per cent to 7.75 per cent with a view to boost growth.

The central bank in its fifth bi-monthly monetary policy statement of December had said, "If the current inflation momentum and changes in inflation expectations continue, and fiscal developments are encouraging, a change in the monetary policy stance is likely early next year, including outside the policy review cycle".

Govt. Allows Direct Sale of Bio-diesel

In a bid to augment the supply of environmentally friendly fuel, the Government has allowed private manufacturers of bio-diesel to sell the fuel directly to consumers, such as Indian Railways. Prior to this, only state-owned oil firms and only those private firms investing Rs.2000 crore in oil infrastructure were allowed to retail petrol and diesel.

With the relaxation, bulk users like Railways can buy bio-diesel directly from manufacturers and mix it in diesel for running locomotives.

The Ministry had in January 2006 announced a Bio-diesel Purchase Policy to encourage production of bio-diesel in the country for blending it with diesel with the objective of increasing energy security and meeting other emission and environment objectives.

RBI Allows Banks to Offer Insurance Services

The Reserve Bank of India (RBI) said banks would be allowed to offer insurance broking services by setting up a subsidiary or through a joint venture if they meet certain conditions, in a move to increase insurance penetration in the country. The conditions include the banks' net worth should not be less than Rs.1,000 crore and its net non-performing loans should not be more than 3 percent..

India-U.S. Sign Civil Nuclear Deal

India and the U.S. reached a breakthrough on the stalled civil nuclear agreement. Prime Minister Modi said six years after we signed our bilateral agreement, we are moving towards commercial cooperation, consistent with our law, our international legal obligations, and technical and commercial viability". India and the United States struck a deal that could open the door for U.S. companies to build nuclear reactors in India by promising insurance cover to U.S. companies that had remained away because of an Indian law placing liability on suppliers in case of an accident. It remains to be seen whether the new pact will satisfy companies such as GE and Toshiba-owned Westinghouse, who had stayed away since a landmark 2008 agreement that ended India's nuclear isolation.

According to the new deal, India will set up an insurance pool led by General Insurance Co and four other insurance companies of a total amount of Rs 750 crore to indemnify companies that build reactors in the country against liabilities in case of a nuclear accident.

The government of India will provide the remaining Rs 750 crore of the total Rs 1,500 crore to offset liabilities. This will address US concerns over clause 17 of the Indian liability Act.

India-US Sign Four Defense Projects

India and the U.S. have renewed their 10-year Defense Framework Agreement and agreed in principle to pursue joint development and production projects. The two countries will step up joint military exercises, increase intelligence sharing, and cooperate on maritime security efforts.

The two countries finalized a defense framework pact for 10 years. Four deals were unveiled on the trip, including joint production of Raven drones and systems for Lockheed's C-130 transport planes, roll-on, roll-off intelligence kits for C-130 transport aircraft and mobile electric hybrid power source. The two countries will also explore jointly developing jet engine technology.

RBI Allows 100% FDI In Construction Sector

The Reserve Bank of India has approved 100 percent foreign direct investment (FDI) under the automatic route in the construction development sector. To qualify, a new development project must be at least 20,000 square meters in size and the company receiving the investment must bring in at least $5 million in FDI within six months of the start of the project.

Govt. Accepts Court Order in Vodafone Tax Matter

The Government accepted the order of the High Court of Bombay in the case of Vodafone India Services Private Limited, implementing a major correction of a tax matter that will improve investor sentiment. The Cabinet decision will bring greater clarity and predictability for taxpayers as well as tax authorities, thereby facilitating tax compliance and reducing litigation on similar issues.

The Cabinet came to this view as this is a transaction on the capital account and there is no income to be chargeable to tax. So applying any pricing formula is irrelevant.

VISPL is a wholly owned subsidiary of a non-resident company, Vodafone Tele-Services (India) Holdings Limited, Mauritius. On 21.8.2008, VISPL issued shares (at a premium of Rs.8509/-) which resulted in VISPL receiving a total consideration of Rs.246.39 crore from Vodafone Mauritius, on issue of shares and this was shown as "Capital Receipts" in the books of accounts. VISPL reported this transaction as an "International Transaction" and stated that this transaction does not affect its income.

The Transfer Pricing Officer (TPO), vide order dated 28.01.2013, determined the Arm's Length Price of the shares issued by VISPL on the basis of Net Asset Value, at Rs.53,775/- per share and made an upward adjustment of Rs.1,308.91 crore. In addition, the difference Rs.1,308.91 crore between the transaction price and the Arm's Length Price was treated as 'deemed loan' given by VISPL to the holding company; and interest that would have been payable on the loan in an arm's length transaction was computed at Rs.88.35 crore. In total, transfer pricing adjustment of Rs.1,397.26 crore was proposed by the TPO for Assessment Year 2009-10. The matter was agitated by VISPL at the stage of Draft AO itself and therefore the tax payable could not be crystallized. However, the tax rate of 33 percent was applicable for Assessment Year 2009-10.

The DRP, on 11.2.2014, held that the premium determined by the TPO, to the extent not received, is an income arising from issue of shares, and that the AO and the TPO have jurisdiction.

Government Approves Spectrum Auction for 2100 Mhz Band

The Government has approved a spectrum auction in 2100 MHz band along with the 800, 900, and 1800 MHz bands. The reserve price for the 2100 MHz band is Rs 3705 crore pan-India per MHz. The estimated revenues from the auction of 2100 MHz Band are Rs.17555 crore of which Rs.5793 crore is expected to be realized in the current financial year.

Govt. Clears HDFC Bank's Proposal To Raise $1.61 Billion

The Government has approved HDFC Bank's capital-raising plan that would result in an inflow of foreign investment worth $1.61 billion from foreign investors. The meeting, chaired by Prime Minister Narendra Modi, approved the HDFC Bank's proposal that will raise its foreign holding to 74 per cent.

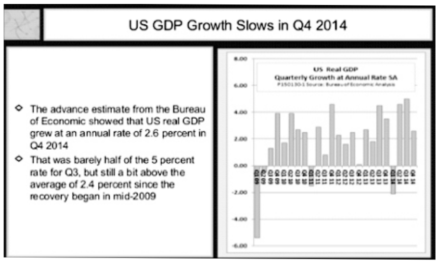
In Brief :

- US GDP Growth Slows in Q4-2014
- US Unemployment Rate Inches up to 5.7%
- China's Economy Grows at 7.4% -slowest in 24 Years
- Chinese Inflation Falls to 0.8%, Fears of Deflation Esclates
- China January Manufacturing PMI Shrinks
- China's Stock Markets Fall After Margin Trading Ban
- Eurozone GDP Rose By 0.3% in Q4 2014
- ECB's Quantitative Easing Programme
- European Union Agrees to Extend the Greek Bailout
- Greek Debt Crisis
- Greek Debt Lenders
- Syriza Demand
- Japan Emerges from Recession
- UK GDP slows in final quarter
- UK Trade Deficit Widens To Four-year High
- Russia's debt downgrades to junk: Moody
- IMF Downgrades Outlook for Global Economy

US ECONOMY

US GDP Growth Slows in Q4-2014

The US economy grew at its fastest pace in four years in 2014, outpacing all the other major developed countries as consumers gained confidence helped by sinking oil prices.



But a slowdown in the fourth quarter bared some of the persistent challenges -- like the strong dollar -- to locking the world's largest economy into higher gear.

Declining fuel prices gave American consumers the power to spend more at the end of the year, businesses slowed investment and the government cut back on spending, especially for defense, dragging down momentum.

The Commerce Department reported that US GDP grew at an annual 2.4 percent pace last year, up from 2.2 percent in 2013, as the United States economy performed better than sagging economies of Europe and Japan.

The firming recovery was marked by improved consumer confidence, the best year of job creation since 1999, and a surge in business profits.

However dollar, which has gained about 15 percent against a basket of currencies over the past year, likely spurred a pickup in imports and held back exports, a negative for GDP growth.

Third-quarter growth was driven in part by a 16.0 percent jump in military spending. Military spending is highly erratic and sharp swings are usually reversed.

Trade was a major drag on fourth-quarter growth and will continue to be if the dollar stays high.

The economy should continue to be buffeted by near-record low interest rates and plunging energy costs. This should offset any further tightening in financial conditions emanating from a stronger dollar.

US Unemployment Rate Inches up to 5.7%

US jobless rate increased to 5.7 percent in January of 2015 from 5.6 percent in the previous month as more unemployed started looking for work.

Highlights

- Unemployment rate edged up to 5.7 percent with flood of re- and new entrants to labor force
- Payrolls increased 257,000 in January, 11th straight month of 200,000-plus job gains, longest stretch since 1995
- Private Sector added 267,000 as government jobs fell 10,000
- November payroll growth revised up to 423,000 from 353,000; December revised up to 329,000 from 252,000
- Average weekly earnings jumped

0.5 percent in January to $856.35,

- Average weekly hours remained at 34.6;
- Average hourly earnings improved by 12-cents, also 0.5 percent gain
- Retail jobs jumped 45,900; Leisure-Hospitality added 37,000; combined 82,900 or 32.2 percent of new jobs
- Unemployment increased to 8,979,000 from 8,688,000 in December

CHINA ECONOMY

China's Economy Grows at 7.4% -slowest in 24 Years

Hard times returned as China's economy grew at its slowest annual rate, posing concern over the outlook for the world economy.

Slowing demand, a property downturn and falling commodity prices – especially oil – have all driven growth lower and point towards persistent weakness in the world's second largest economy.

Growth was 7.4% in 2014, the National Bureau of Statistics said, below the government's 7.5% target showing weakest expansion since 1990.It is the first time the target has been missed in 16 years.

A series of modest stimulus measures over the year did little to prevent the economy from slow down.

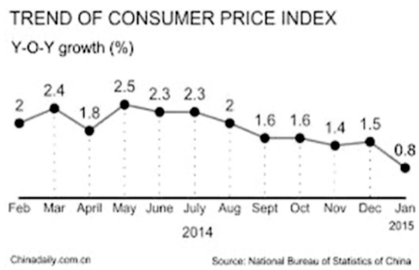
The central bank unexpectedly cut interest rates in November for the first time in more than two years to lower borrowing costs and support growth. Later, it loosened loan restrictions to encourage banks to step up lending.

The People's Bank of China lowered its one-year rate for deposits by 25 basis points to 2.75% and its one-year lending rate by 40 basis points to 5.6%.

The Chinese economy is struggling with not just declining factory growth, but also facing slowdown in exports and the weakening property market.

It grew 7.4% in 2014, slower than the 7.7% in 2013 and the worst since the 3.8% recorded in 1990.

Chinese Inflation Falls to 0.8%, Fears of Deflation Esclates



Chinese inflation plunged to 0.8% in January, its lowest level for more than five years, official data showed, fuelling fears the world's second-largest economy is on the brink of a deflationary spiral. Prices rose at their slowest rate for five years, official figures show.

The rise in the consumer price index (CPI) was sharply down from the 1.5% recorded in December, and was lower than the 1% expected by economists. It was also the weakest number since 0.6% in November 2009.

Moderate inflation can be a boon to consumption as it encourages consumers to buy before prices go up, while falling prices encourage shoppers to delay purchases and companies to put off investment, both of which can hurt growth.

CPI was 2% last year, down from 2.6% in 2013 and well below the government's target of about 3.5%.

China January Manufacturing PMI Shrinks

China's manufacturing activity contracted for the first time in more than two years in January, an official survey showed, signalling further downward pressure on the world's second-largest economy.

The official purchasing managers' index (PMI) released by the national bureau of statistics came in at 49.8 last month, down from the 50.1 recorded in December.

The index, which tracks activity in factories and workshops, is considered a key indicator of the health of China's economy. A figure above 50 signals expansion while anything below indicates contraction.

January's figure was the first contraction after 27 months.

China's Stock Markets Fall After Margin Trading Ban

China's stock market tumbled by almost 8% on January 18, the biggest fall since the height of the financial crisis, following a crack down on risky trading practices.

Chinese regulators imposed margin trading curbs on several major brokerages, preventing them from lending money to retail investors to buy shares with.

The Shanghai Composite Index sank 7.7% to 3,116.35 at close, after the China Securities Regulatory Commission (CSRC) banned the country's three biggest security brokerages — Citic Securities, Haitong Securities and Guotai Junan Securities — from opening new margin trading accounts for the next three months.

Margin trading is essentially investing with borrowed money, and it's an inherently risky practice — individuals and companies that buy on margin stand to lose more than they originally invested.

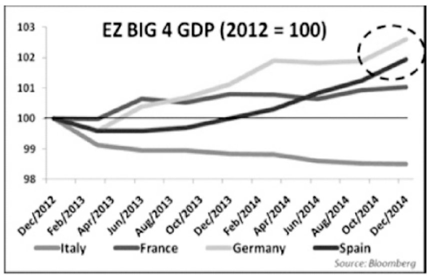
EUROZONE ECONOMY

Eurozone GDP Rose By 0.3% in Q4 2014

The Eurozone economy grew by 0.3% in the last three months of 2014, faster than expected. That's an improvement on the 0.2% recorded in the previous quarter.

Europe's economy is picking up, but growth remains much weaker than the United States (which has recorded three strong quarters)

Germany's economy has recorded unexpectedly strong growth, raising hopes that Europe's powerhouse economy has shrugged off its recent weakness.



German GDP increased by 0.7% in the final three months, more than twice as fast as expected, driven by domestic demand, exports and business investment.

Economists predict that German growth will pick up in 2015, with the weak euro likely to help its exporters.

The German economy ended a volatile year on a very strong note.

France, though, lagged behind with growth of just 0.1% in the quarter. Business investment contracted again, showing French firms remain nervous and unwilling to spend.

French exports accelerated but business investment declined. Consumer spending slowed down mainly due to weather-related reasons.

Italy's slump has ended. GDP was flat quarter-on-quarter, better than the 0.1% contraction that economists expected. That still leaves Italy as the worst-performing major Eurozone economy.

The French economy grew by just 0.1% in the last three months of 2014.

ECB's Quantitative Easing Programme

Investors welcomed the unveiling of the ECB's long awaited bond buying programme, and at €1.14tn it was better than expected. Shares moved sharply higher and the euro dropped against other major currencies, while bond yields in Europe fell back.

This quantitative easing comes roughly six years after the US and the UK embarked on their own versions of QE.

About QE programme:

- The programme will involve purchases of €60bn a month, split between private and public sector assets
- Purchases will run from March to the end of September 2016, totalling €1.1tn
- Purchases would be conducted until attainment of sustained adjustment in the path of inflation which is consistent with the aim of achieving inflation rates of 2% over the medium term.
- The ECB won't buy more than 25% of each issue of government debt, and not more than 33% of each issuers debt
- In a concession to Germany, the Bank has promised that national central banks would bear most of the risk of their governments defaulting
- The ECB has not ruled out buying Greek bonds, but said certain (unspecified) criteria would have to be met
- ECB thinks QE would not be enough in itself to revive the eurozone economy - structural reforms at country level are also essential

The ECB plans to buy €60bn of assets each month, equivalent to around 7% of Eurozone GDP. When the Bank of England launched its QE programme in 2009, bond purchases totalled £25bn, per month, over 20% of GDP.

European Union Agrees to Extend the Greek Bailout

Greece has stepped back from the prospect of a disorderly Eurozone exit after reaching a last-ditch deal to resolve the impasse over its €240bn (£177bn) bailout. The outline agreement between Athens and its creditors in the single currency bloc to extend Greece's rescue loans should help ease concerns that it was heading for the exit door from the euro.

In return, the country's leftwing government has pledged not to roll back austerity measures attached to the rescue, and must submit a list of reforms that it plans to make.

Three institutions overseeing the bailout (troika) the European Commission, the European Central Bank and the International Monetary Fund are satisfied after an initial view.

Greek Debt Crisis

Greece is required to pay €22.6bn in principal and interest on loans this year to the troika made up of Eurozone countries, the ECB and IMF. This year's schedule of payments includes €1.6bn due in February, almost twice as much in March, €1.5bn in June, then €8bn covering July and August. With Greece running a €10bn deficit in 2014, mostly the result of debt repayments, paying the monthly bills is going to be impossible without EU/IMF funds.

Greece awoke to a new era of defiant anti-austerity after voters handed a decisive victory to the radical leftist party Syriza, putting Athens on a collision course with the European commission and international creditors. Under its 40-year-old leader, Alexis Tsipras, Syriza is the first anti-austerity party to take power in Europe and has quickly formed a majority coalition with the Independent Greeks party.

Greek Debt Lenders

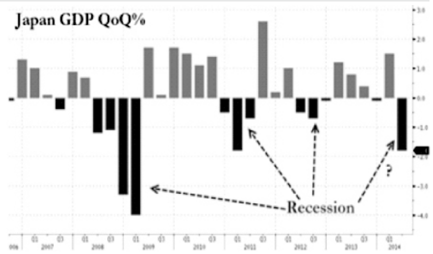
Private sector lenders, mostly hedge funds, own some Greek debt, but their slice is much diminished after a deal a couple of years ago. Most Greek debt is now owned by various European Union institutions and the International Monetary Fund, which joined the EU bailout of Greece in 2010.

Syriza Demand

Tsipras has campaigned consistently for a reduction in the level of debt Greek and not just easier credit terms. In the past four years, Athens' debts have spiralled to 175% of GDP, partly because GDP has shrunk by 25%, so its ability to pay down debt has diminished. Tsipras says Athens will never escape this debt spiral without some debt relief.

JAPAN ECONOMY

Japan Emerges from Recession



Japan pulled itself out of recession in the last three months of 2014, but the rebound was weaker than expected as household and corporate spending failed to move up a gear.

The preliminary reading for gross domestic product (GDP) showed a quarter-on-quarter increase of 0.6% in October to December, which Tokyo said translates into an annualised 2.2%.

Analysts said the fragile recovery was the hangover from last April sales tax hike that shocked Japanese consumers and triggered a six-month spending freeze.

Abe's decision to push back a second sales tax hike by two years to 2017, would give the economy a strong boost.

The economic minister, Akira Amari, said the economy was on track for a recovery with signs that consumer sentiment is picking up. However, weak rebound in consumption and capital expenditure remain as worrying signs.

The rebound from recession, however, will allow the Bank of Japan to hold off on expanding monetary stimulus for now even as slumping oil prices push inflation further away from its 2% target, analysts say.

Japan's economy slid into recession in July-September last year, prompting Abe to delay a second sales tax increase initially scheduled in October 2015.

The slump slowed Japan's quest to beat off nearly two decades of grinding deflation, and forced the BOJ into expanding monetary stimulus in October last year.

UK ECONOMY

UK GDP slows in final quarter

Britain's economic recovery slowed in the fourth quarter of 2014, but annual growth was the fastest since

2007.

With general elections three months later, evidence of a slowdown and continued reliance on consumer spending to drive the recovery will come as a blow to George Osborne. But the chancellor seized on news that, at 2.6% in 2014, the UK's growth was the "fastest of any major economy". That also marked the strongest growth since 2007.

Official figures showed that in the final three months of 2014, however, GDP growth slowed to a quarterly rate of 0.5%. That was slower than third-quarter growth of 0.7%.

Reasons to be cheerful for UK GDP in 2015 depend on factors such as a plunging oil prices and rock bottom interest rates and inflation.

Growth in the fourth quarter was reliant on the UK's dominant services sector, where output grew by 0.8%. In a blow to Osborne's ambitions to rebalance the economy away from a heavy reliance on consumer spending, construction output shrank by 1.8% and manufacturing fell by 0.1%.

The dominant services sector remains buoyant while the contraction has taken place in industries like construction, mining and energy supply, which can be erratic.

UK Trade Deficit Widens To Four-year High

Gap between UK exports and imports of nearly £35bn is much worse than forecast. The UK trade deficit has ballooned to the widest for four years.

Official figures released showed a trading deficit for goods and services of £34.8bn in 2014,

The widening came as goods exports rose by less than £0.1bn with imports rising £0.9bn – £0.7bn of which was fuel imports, mostly from Norway. Oil imports reached their highest level since July 2008, growing 37.5% between November and December.

The overall trade deficit actually narrowed from £8.7bn in the third quarter to £7.1bn in the fourth quarter. What's more, the volume of goods exports rose by 4.4% in the fourth quarter, whilst the volume of imports rose by 1.4%, suggesting that net trade made a decent contribution to GDP growth over the quarter as a whole.

The overall trade deficit of £34.8bn compares with a figure of £33.7bn for 2013. Both exports and imports fell in 2014 when compared with 2013, but exports fell more.

Russia's debt downgrades to junk: Moody

Moody's has cut Russia's debt rating by one notch into "junk" territory, saying the Ukraine crisis and the fall in oil prices and plunging rouble would further undermine Russia's economy.

Just over one month since its last downgrade of Moscow's credit rating, Moody's said Russia "is expected to experience a deep recession in 2015 and a continued contraction in 2016.

"The decline in confidence is likely to constrain domestic demand and exacerbate the Russian economy's already chronic underinvestment."

Government's fiscal strength will suffer in the face of continuing capital flight, further lowering the country's access to international capital markets.

IMF Downgrades Outlook for Global Economy

The IMF predicted global growth would be 3.5% this year, and not 3.8% as previously expected.

The Fund's growth forecasts for 2016 were also cut to 3.7% from 4%.

It blamed the looming recession in Russia and slowdown in China for the gloomier outlook, warning the negative effects would outweigh the boost from lower oil prices.

Meanwhile China confirmed what everyone feared - the economy grew at the slowest rate since 1990 in 2014.

Growth of 7.4% was below the government's 7.5% target - the first time the official target has been missed for 16 years.

Back on the IMF, the outlook for the UK was unchanged for 2015, with growth of 2.7% forecast. It nudged down the forecast for 2016 to 2.4% from 2.5%.

The Washington-based Fund believes official figures will soon confirm that the UK was the fastest growing G7 economy last year with growth of 2.6%.

IMF forecast shows that Britain is pulling ahead while the global economy is downgraded. Fastest in G7 in 2014 and growing faster in 2015.