MCX SX

India's New Stock Exchange

MARKET UPDATE

...envisaging 'Cohesive Financial Markets'

april - june 2012

Information Innovation Education Research

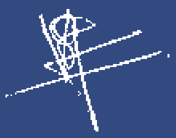
From the Editor's Desk,

Europe with its yet to be resolved sovereign debt crisis had stolen the limelight among all financial market participants. Despite the larger quantum of financial problems of its counterparts i.e. the Spanish and the Italian financial systems, the Greek decision about its continuance in the monetary union was keenly followed by the global markets largely for its implication on the Future of Euro than for its potential impact on the stability of the Euro region. In fact, such had been its criticality, it added a new term 'Grexit' in to the financial lexicon.

In Asia, China's economic performance joined the Greek bandwagon among the financial market stakeholders due to a perceived growth slowdown. More than the quantum of slowdown, stakeholders are keen about what is seen in government agency published numbers and what is happening on the ground. Though not much is visible, the contradictions in the growth estimates and the underlying data clearly shows that the market might be missing the bigger picture embedded in them. Hence, this quarterly attempts to portray the underlying numbers about these two issues that are currently keeping the markets, a happening place. All said and done, it is more important for the participants to know the underlying facts and analyze it before positioning themselves.

Your feedback had always been precious to us and we welcome the same.

Warm Regards



Shunmugam V
Chief Economist
MCX Stock Exchange Ltd.

In this Issue...

Special Thanks: Mr. Joseph Massey | Mr. U Venkataraman
Content Credits: Arbind Kumar
Design Credits: Setu Shah | Amrita Nanavaty | Dhiraj Pandya | Mohmad Shaikh

Appreciate your feedback at:
yourviews@mcx-sx.com

Chairman's Message

Ashok Jha, IAS (Retd.)
Chairman, MCX-SX

The Indian growth story continues to be under siege with international agencies such as the IMF toning down estimates of GDP growth. The sense of gloom was exacerbated by the dismal growth of the economy in the fourth quarter of FY 2011-12, which at 5.3% was the lowest growth in nearly a decade. The continuing high inflation alongwith high interest rates gave rise to fears of stagflation. RBI continued with a tight monetary policy despite some countries like China adopting a more "pro-growth" approach. Foreign Institutional Investment which was fairly brisk from January 2012 to the first part of March 2012 reversed after the presentation of the budget due to perceived uncertainties in the investment climate.

Internationally, the Euro zone had managed a breather although the long term prognosis of many countries in the zone continues to be precarious. The slowing down of the US economy as well as the emerging economies including China has reinforced the earlier view that 2012 will be worse than 2011. This global slowdown has affected our exports, the growth of which has been anemic in the last few months. Investment continued to be sluggish despite many corporates sitting on large reserves. While the Govt. through various pronouncements has tried to rekindle confidence, the impact of such moves is yet to be manifested.

In the midst of this less than optimistic outlook, came the good news of MCX Stock Exchange getting the Regulator's nod to start trading in all asset classes. SEBI's decision has been welcomed by stake holders and puts an enormous weight on our shoulders to meet market expectations. I have no doubt that we will be up to the challenge.

MCX-SX Board of Directors & Expert Advisory Board

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  CEO, Mecklai Financial

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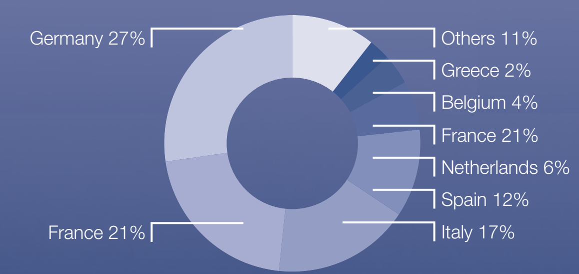
‘Grexit’ A permanent lexicon in the financial dictionary?

Greece GDP as a Percentage of European Union GDP



Greece - A small economy with a significant contraction in GDP within the EU region

Greece Inflation Rate

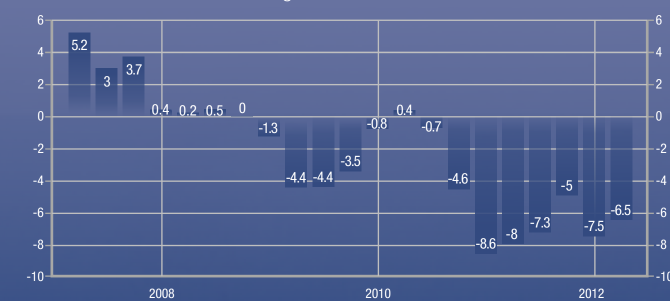
Annual change on consumer price Index

Greek inflation had never crossed unbearable level helping the Greeks better tide over the financial crisis

Source: www.tradingeconomics.com | Hellenic Statistical Authority

Greece GDP Annual Growth Rate

Percent change in Gross Domestic Product

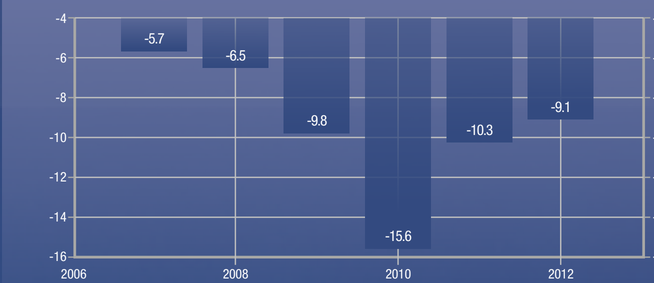


GDP - €234.383 billion (PPP, 2011)

Source: www.tradingeconomics.com | Hellenic Statistical Authority

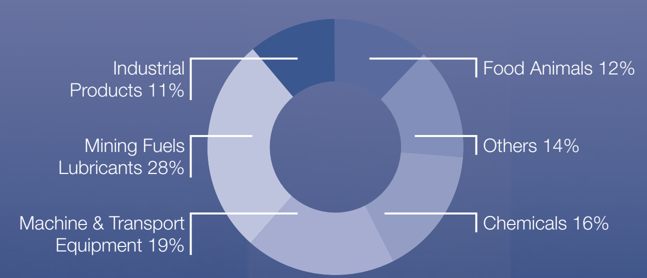
Greece Government Budget

(as a percent of GDP)



Source: www.tradingeconomies.com

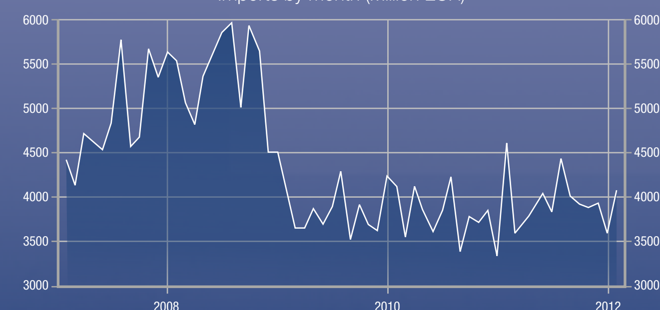
Greece Imports



Source: Hellenic Statistical Authority 2012

Greece Imports

Imports by month (Million EUR)



Source: www.tradingeconomics.com | Bank of Greece

Greece Balance of Trade

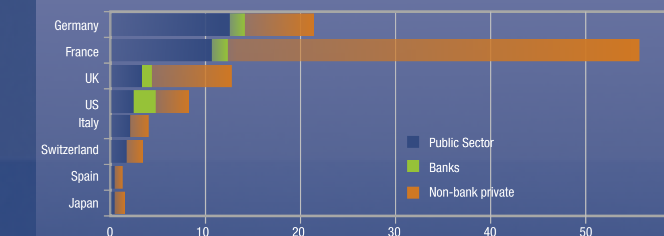
Balance of trade (Million EUR)

A tighter borrowing situation will affect their economy. With value addition being ta the base of their exports, export performance will likely be affected by ' Euro Valuation'

Source: www.tradingeconomics.com | Bank of Greece

Bank exposure to Greece by type of debt

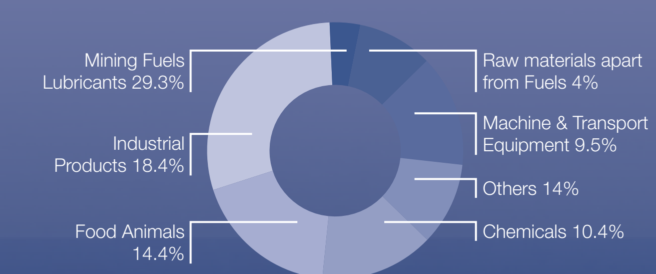
US$ billions



Interestingly, France followed by German non-bank private sector has maximum exposure to Greek debts

Source: Bank of International Settlements - data as at end June 2011

Greece Exports



Source: Hellenic Statistical Authority 2012

Greece Exports

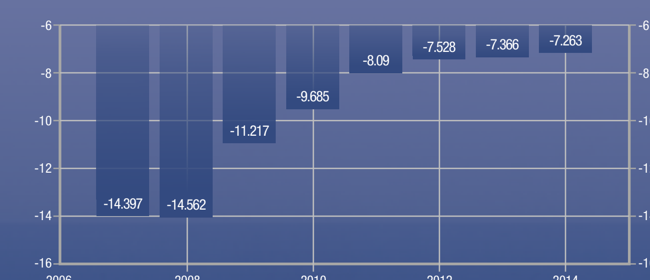
Exports by month (Million EUR)

While the Greek exports have been increasing, Imports have been declining leading to a correction in their current account balance

Source: www.tradingeconomics.com | Bank of Greece

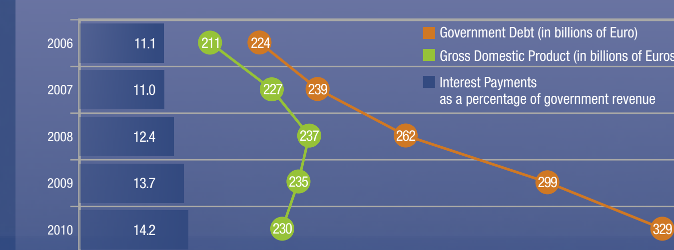
Current Account

(as a percent of GDP)



Source: Bloomberg

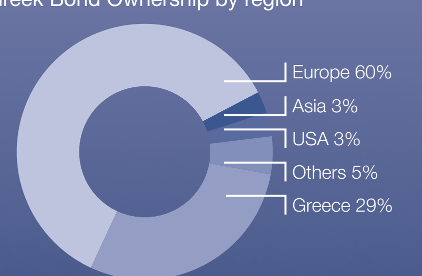
Greek Dilemma



Rising payments obligations are a worry as it keeps away that much potential government investment In the economy

Source: Bloomberg

Greek Bond Ownership by region

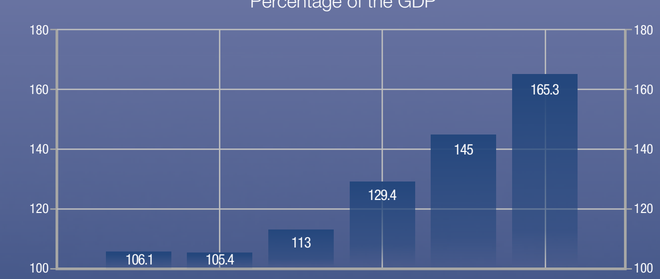


EU has the maximum exposure to Greek Sovereign debts with negligible exposure to Asia, US and Others

Source: Credit Suisse (Greece restructuring scenario analysis)

Greece Government Debt to GDP

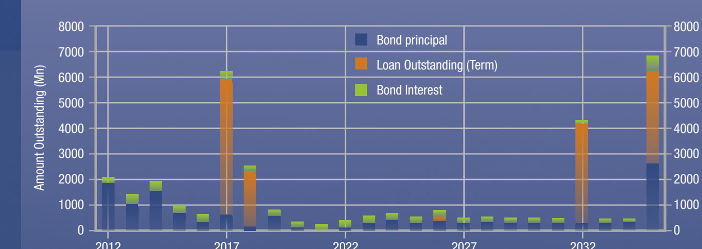
Percentage of the GDP



Government debt has been increasing due to fiscal problems and interest obligations

Source: www.tradingeconomics.com | Eurostat

Debt Distribution by Debt Type



Principal and interest payment schedule (yearly): The year 2017 is the year to be watched and managed carefully by Greece and lenders

Source: Bloomberg

Deficit shrinks after excluding the coupon payments

Interest payment is a key burden on Greece Economy

Source: Credit Suisse, IMF

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Global Economic Outlook

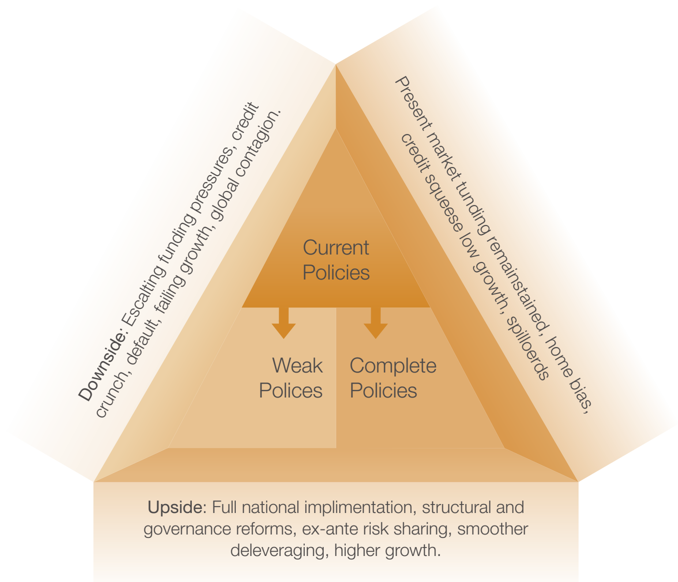
Fiscal challenges are by no means confined to the euro area. The United States and Japan have yet to forge the political consensus for medium term deficit reduction needed to remove persistent latent risks to financial stability

Global Financial Stability Overview

The recently released Global Financial Stability Report (GFSR) analyzes the risks to global financial stability by comparing three policy scenarios (Figure 1) primarily focusing on United States, Japan and the Euro Zone:

- A baseline scenario of current policies, where systemic risks are averted but strains remain.
- An upside scenario of complete policies, where policymakers further strengthen crisis management.
- An adverse scenario of weak policies, where current policies are either not implemented fully.

Policy Action to Entrench Stability and avoid downside risks



Under the current policies scenario, this GFSR estimates that large EU based banks could shrink their combined balance sheet by some \$2.6 trillion (€2.0 trillion) between end September 2011 and end December 2013, which represents 7 percent of bank assets. Most of this asset reduction would likely be achieved through sales of securities and noncore assets, but about a quarter could occur through a cutback in lending which may impact the growth in the region. Under the current policies scenario, the negative impact on euro area credit supply from EU bank deleveraging is estimated at around 1.7 percent of credit outstanding. The impact of bank deleveraging would likely remain global, although it will likely be strongest in the euro area and in its periphery.

Among emerging markets, emerging Europe would be most vulnerable, given the region's large economic exposure and strong banking links to the euro area, as well as its large gross external financing needs and more limited policy buffers. More broadly, a reintensification of strains in the euro area could lead to a reversal of capital flows, amplifying the negative effects of bank deleveraging.

Most emerging markets have policy room to buffer the financial forces emanating from Europe, but their resilience could be tested if they were to remain under a weak policy scenario

What can ensure long lasting stability?

- Firstly, EU policy makers should pursue continued implementation of well–timed fiscal consolidation policies at the national level, supported by growth–enhancing policies, including sufficiently accommodative monetary policy, and structural
- Second, EU should further progress on bank restructuring and resolution.
- Third, policies should aim at achieving longer term reform objectives to underpin stability.
- Fourth, Both Japan and the United States would have to put in place credible multi-year plans for deficit reduction, which protect short term growth but reassure financial markets that debt will return to a sustainable trajectory over the medium term.

Finally, policymakers in emerging markets should stand ready to use their existing policy space to cushion negative external shocks. However, policy makers would have to act cautious. For example, the scope for easing credit policy may be limited in some countries, due to sustained periods of above trend credit expansion. At the same time, home grown vulnerabilities should be redressed in an effort to increase economic resilience. Implementation of the G20 regulatory reforms would play a key role ensuring long term financial stability of the global economies.

Global Economic Outlook

The notion of absolute safety—implicit in credit rating agencies' highest ratings and embedded in prudential regulations and institutional investor mandates—created a false sense of security prior to the crisis.

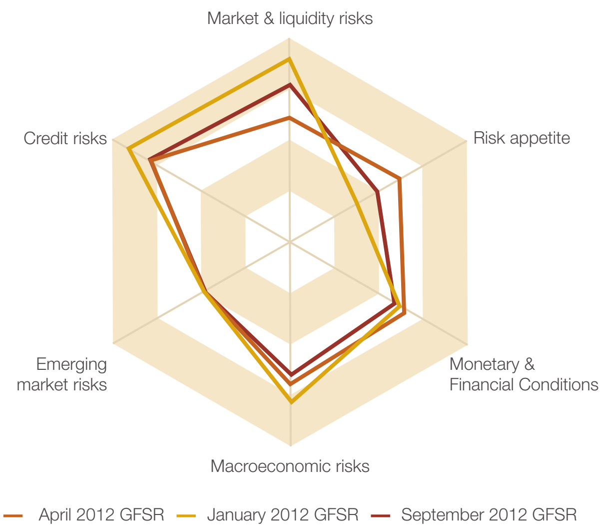
Keeping Health and Supply of Safe Assets – Key to Financial Stability

The global financial crisis and the heightened concerns about sovereign debt sustainability of even developed nations have shown that no asset can be viewed as truly safe. Recent rating downgrades of sovereigns, previously considered virtually riskless, reaffirm that even highly-rated assets are subject to risks. While some safety features are reflected more accurately now, upcoming regulatory and market reforms and central bank crisis management strategies, combined with continued uncertainty and a decreasing supply of assets considered safe, will increase the price of safety beyond what would be the case without such distortions. Market distortions pose increasing challenges for the ability of safe assets—assets which include US. Treasury securities, German bunds, or perhaps, high-grade corporate bonds—to fulfill their pivotal role in global markets. Heightened uncertainty, regulatory reforms and the extraordinary post-crisis responses of central banks in the advanced economies have been driving up demand for safe assets.

Poor securitisation has curbed the role of securitised instruments as safe assets. Even, the number of sovereigns whose debt is considered safe has fallen. It will also lead to more short-term spikes in volatility, and shortages of high-grade collateral. GFSR proposed policy measures to tackle the problem of safe financial assets.

- Policy responses should allow for flexibility and to allow an uneven adjustment to a new price for safety.
- New prudential rules should provide sufficient differentiation in the safety characteristics of eligible safe assets.
- Demand pressures related to the use of safe assets by flexibility in the definition of acceptable safe assets.
- Policy measures on the supply side would stem upward price pressures on highly demanded safe assets.

Global Financial Stability Report Map



Away from center signifies higher risk, Casier monetary and technical conditions or higher risk or higher risk appetite.

Source : IMF staff ecomates

Looming Longevity Risks on Sovereigns

Potentially large number of people are living longer in many countries which is desirable. However, there are financial costs associated with longer life expectancy. For example GFSR estimates that if average life spans by 2050 were to increase 3 years more than now expected, the already vast cost of aging would increase by 50%.

More attention to longevity risk is warranted now, given the size of its financial impact, and because the effective mitigation measures take years to bear fruit. Addressing longevity risk requires a multi-pronged policy approach.

- First, governments should acknowledge the significant longevity risk they face through defined benefit plans for their employees and through old-age social security schemes.
- Second, risk should be appropriately shared between individuals, pension plan sponsors, and the government.
- Third, capital markets can be used to transfer longevity risk from pension plans to those that are better able to manage it.

The supply of safe assets has contracted as the ability of public and private sectors to produce such assets has declined. Even the number of sovereigns whose debt is considered safe had fallen down.

Geo Insights

United States

Despite recent signs that the US economy is weakening slightly, it remains the most robust of the major economies. The recent OPEC report forecasts that US economy is estimated to expand by 2.2% in 2012, with retail sales numbers in April rising 4.7% y-o-y. However, the labour market remains weak and continues to show elevated levels of unemployment.

Though the US economy witnessed an expansionary trend has come down to a growth rate of 1.9% compared to 3.0% in the 4Q11. Private household expenditure was once again the major contributor as reflected in the retail sales numbers. The labour market has improved considerably compared with last year's level. The very important housing sector continues to send mixed signals. After having risen by 3.8% in March, pending home sales fell by 5.5% in April. The situation in Europe poses significant risks to the US financial system and economy. However, FED Chairman made clear that the FED is ready to respond to a Euro-zone crisis.

US forecast to expand by 2.2% in 2012, with retail sales numbers in April rising 4.7% y-o-y, while the labour market remains weak

Europe

While 1Q12 GDP growth was reported to be 0.0% versus an expected decline, the most recent indicators point to an even more severe decline in 2Q12 with a prolongation in to 3Q12, says the OPEC report. 10-year yields for treasury bonds in most peripheral economies, including Spain and Italy, have risen again. Spain is moving into the spotlight with the need to receive support. Such support would certainly push the Euro-zone into new territory since Spain's debt is more than Ireland's, Portugal's and Greece's combined — an estimated €840 billion, as per IMF reports. The European Central Bank (ECB), in the meantime, has left interest rates unchanged and has put their call on the fiscal front. Most Euro-zone economic indicators remain in the negative zone. Industrial production fell by 1.9% y-o-y in March. The unemployment rate moved to a new record of 11.0% in April, again the highest on record since the initiation of the Euro-zone in 2001. Taking this into consideration, the forecast for 2012 GDP growth has been kept unchanged by OPEC from the previous month with a cautious -0.4%.

Output activity seen further contracting during April and May, second half of H12 growth is seemingly uncertain

India

Because of elevated inflation, further cuts are unlikely as this would increase the money supply and inflate prices above prudential levels, notes the OPEC report. Inflation remains a major risk to India's economic stability. The wholesale price index rose by 7.23% y-o-y in April, picking up about 6.7% a month earlier. On 18 May, the government reported that the consumer price index had risen by 10.4% y-o-y in April, following an increase of 9.4% in March. A weak Indian rupee, coupled with rising costs of crude oil imports, have exerted upward pressures on overall prices claims the report. The rupee depreciated by 2% against the US dollar in May, reaching a record low. With the recent strength of the dollar, the report expects not much reversal of INR from the current levels. Industrial production contracted by 13.5% on an annualized basis in March, recording its first decline since October.

India's industrial production contracts amid elevated inflation reflecting growth concerns

Geo Insights

China

The Chinese economy posted its weakest rate of growth in three years after real GDP growth in 1Q12 moderated to 8.1%. Although the government has stepped up efforts on policy easing, uncertainty has grown over the performance of the economy in 2Q12. Looking to 2H12, the risks associated with China's economic growth have recently grown significantly. Given the fact that the annual rate of inflation now is now below 4%, the recent cut in the benchmark interest rate by the Central Bank has been interpreted as a move to boost economic activity. Pressure to appreciate the yuan against the US dollar is also expected to ease in 2012, given the downward trend in the country's trade surplus and the recent strength of the US dollar. To mitigate, government spending increased 26% on an annualized basis in January-April, above the 12.5% increase in revenue Low unemployment and a steady increase in real wages reduced the imperative to intervene. Having brought down inflation in recent months, it might be seen imprudent for the government to overstimulate the economy and thereby risk elevated inflation.

China posts the weakest growth rate during 1Q12 with a marked decline in industrial production

United Kingdom

Output of the production sector (including manufacturing) fell by 0.4% and construction output fell by 3.0% whilst the services sector (accounting for more than 70% of the UK economy) increased by a negligible 0.1%. These developments had led the Bank of England (BoE) to cut its growth forecast from 1.2% to 0.8% for the current year citing the eurozone crisis. Higher than expected inflation is affecting consumption behavior and continued tight credit conditions for households and businesses would pose the largest challenge to any future UK recovery. New export orders fell at their steepest pace since May 2009 with a weaker demand from the European, US and East Asian markets. The service sector recorded its 16th consecutive month of growth. Some economists believe that weak data and lack of confidence could deter vital business investment. The labour market showed some signs of improvement. The number of people out of work fell by 45,000 over the quarter, taking the unemployment rate to 8.2%.

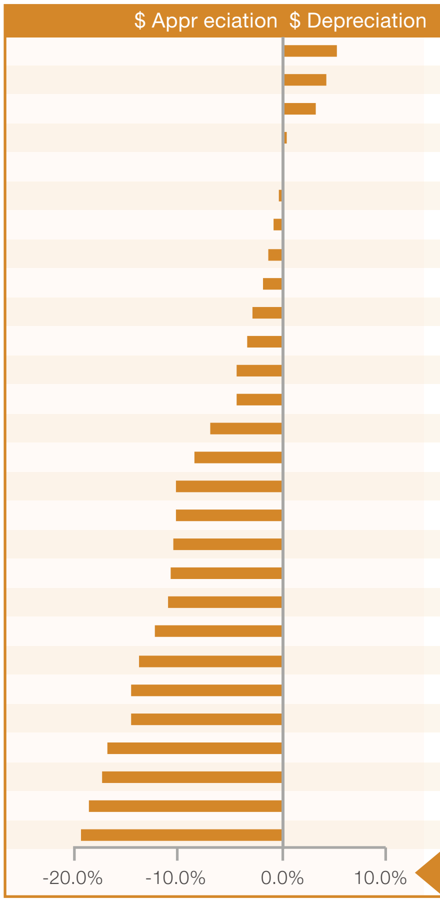
Higher than expected inflation is affecting consumption behavior and continued tight credit condition

Japan

The first quarter GDP numbers were recorded at a solid level of 2.0% on an annualized base. This has lifted the yearly growth expectations for 2012 to 2.0%. However, according to the most recently published indicators, the recovery seems to remain fragile as well as dependent on the export sector and the fiscal stimulus. It is expected by the analysts that 2H12 growth will be below 1H11 expansion. When analysing the most recent Purchasing Managers' Index (PMI), it seems obvious that the coming months will see a slow-down. The corresponding and equally meaningful measure of machinery orders expanded 3.3% in March, lower than the 5.4% seen in February. These points at a deceleration in the expansion. It is important to highlight that the main support for orders came from domestic demand with orders expanding by 19.1% y-o-y, compared to a decline of 11.2% in February. In contrast, foreign orders have declined for the second consecutive month, dropping 10.6% compared with a decline of 9.6% in February.

With fragile recovery and large dependence on export sector and fiscal stimulus, many indicators predict deceleration; 2H12 growth expected to be below 1H11 expansion

Currency Movements



Currencies	% change	Highest	Lowest	Close
New Zealand Dollar	5.2%	0.8278	0.75	0.8013
Japanese Yen	4.2%	0.0128	0.012076	0.012532
China Renminbi	3.0%	0.1593	0.15686	0.15732
Hong Kong Dollar	0.3%	0.1289	0.12871	0.12891
Malaysian Ringgit	0.0%	0.2632	0.2632	0.2632
Singapore Dollar	-0.3%	0.8091	0.7736	0.7904
Australian Dollar	-0.9%	1.0471	0.9701	1.0238
Taiwan Dollar	-1.4%	0.0343	0.033314	0.033521
British Pound	-2.0%	1.6265	1.5363	1.5707
Swiss Franc	-3.1%	1.1065	1.0293	1.0543
South Korean Won	-3.5%	0.0888	0.08438	0.8767
Chilean Peso	-4.5%	0.2075	0.19259	0.1997
Canadian Dollar	-4.5%	1.0198	0.9605	0.9836
Norwegian Krone	-7.0%	0.1762	0.1634	0.1678
Swedish Krone	-8.7%	0.1515	0.137606	0.144455
Danish Krone	-10.3%	0.179	0.1664	0.1704
Argentine Peso	-10.3%	0.2284	0.221	0.221
Euro	-10.5%	1.3321	1.2365	1.2667
Mexican Peso	-10.9%	0.0786	0.06959	0.07487
Israeli Shekel	-11.2%	0.2684	0.253488	0.255021
Russian Ruble	-12.3%	0.0342	0.02975	0.03088
Czech Koruna	-14.0%	0.0539	0.048042	0.04961
Turkish Lira	-14.7%	0.57	0.53573	0.5521
Polish Zloty	-14.7%	0.3219	0.2815	0.3001
South African Rand	-17.0%	0.1308	0.116545	0.122497
Hungarian Forint	-17.5%	0.0047	0.004408	0.00443
Brazilian Real	-18.7%	0.5502	0.4782	0.4978
Indian Rupee	-19.5%	0.0197	0.01751	0.01806

Percentage Price Movement against US Dollar

All rates are per US$

Source: Bloomberg

Of the 28 currencies, listed above, the US Dollar strengthened against 23 currencies and weakened against the rest. On comparison with other global currencies US Dollar has strengthened the most against Indian Rupee by 19.5%, followed by a rise of 18.7% against the Brazilian Real during the period of April to June 2012. New Zealand Dollar and Japanese Yen strengthened the most against the US Dollar by 5.2% and 4.2% respectively.

Cross Currencies

Indices	Highest	Lowest	Average	Close
AUD/CAD	1.0413	0.9990	1.0201	1.0413
AUD/CHF	0.9717	0.9252	0.9456	0.9717
AUD/NZD	1.3010	1.2554	1.2783	1.2780
AUD/JPY	85.5560	75.6830	80.9000	81.6980
CAD/CHF	0.9426	0.9123	0.9271	0.9331
CAD/JPY	83.5540	74.9470	79.3040	78.4890
CHF/JPY	91.0130	80.6110	85.5590	84.1340
EUR/AUD	1.2982	1.2366	1.2707	1.2366
EUR/CAD	1.3196	1.2738	1.2960	1.2871
EUR/CHF	1.2040	1.2008	1.2014	1.2011

Cross Currencies

Indices	Highest	Lowest	Average	Close
EUR/GBP	0.8316	0.7959	0.8107	0.8062
EUR/JPY	109.5700	96.8200	102.7900	101.0600
EUR/NZD	1.6896	1.5749	1.6243	1.5801
GBP/AUD	1.6160	1.5276	1.5676	1.5337
GBP/CAD	1.6181	1.5719	1.5987	1.5966
GBP/CHF	1.5090	1.4480	1.4822	1.4897
GBP/JPY	131.7870	119.8510	126.7760	125.3140
GBP/NZD	2.0923	1.9255	2.0041	1.9594
NZD/CHF	0.7626	0.7112	0.7398	0.7600
NZD/JPY	67.8040	58.8220	63.3090	63.9390

Amongst the most active cross currencies against EUR, EUR weakened against almost all currencies where as it weakened most against New Zealand Dollar, Japanese YEN and British Pound by 15.0%, 14.1% and 8.7% respectively during the period of April 12– June 2012. During the same period Japanese Yen emerged as the strongest currency, against its major counterparts namely EURO, Canadian Dollar and Swiss Franc appreciating by 14.1%, 8.4%, and 7.0% respectively.

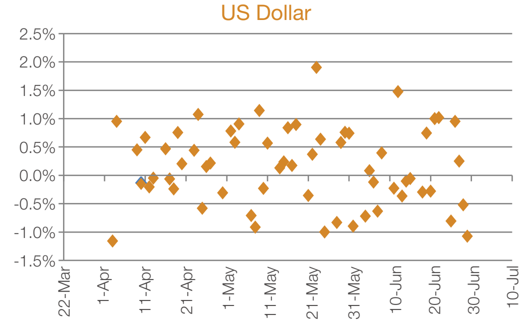
Happenings of the Market

Currency Spot Market Price Variation
for the Quarter April-June 2012

The dollar bounced back from 2-1/2-month lows against the Japanese yen after upbeat U.S. manufacturing data soothed fears the economy was slowing, though gains were kept minimal.

Real gross domestic product increased at an annual rate of 1.9 percentduring 1Q12, according to the 2nd estimate of BEA.

Benchmark U.S. Treasury yields fell to their lowest levels in at least 60 years, while stocks and commodities sold off as fear of the euro zone's debt crisis gripped investors.

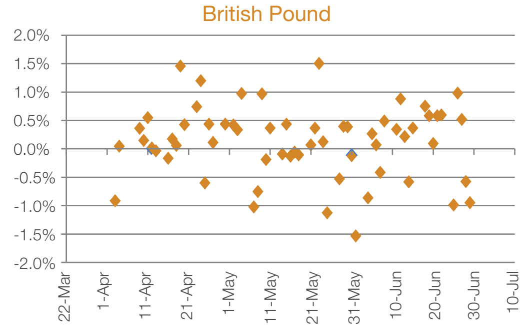


CPI annual inflation stands at 2.8 per cent in May 2012, down from 3.0 per cent in April.

The Bank of England is preparing to unleash a £200bn stimulus package for the economy by printing more money this week and relaxing financial regulations.

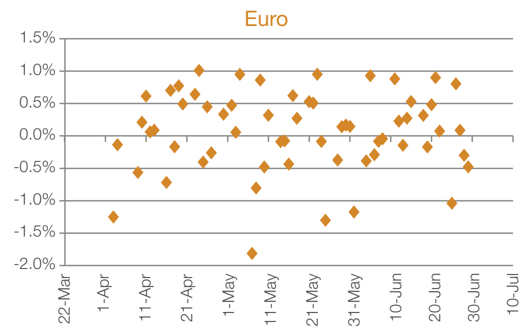
Bank of England maintains Bank Rate at 0.5% and the size of the Asset Purchase Programme at £325 billion:

The Bank of England's Monetary Policy Committee voted to maintain the official Bank Rate paid on commercial bank reserves at 0.5%.



European leaders agreed to create a single supervisory body for euro zone banks and allow them to be recapitalised directly by the currency area's rescue fund without adding to government debt. European Stability Mechanism, would be able to lend directly to recaptalise banks without increasing a country's budget deficit, and without preferential seniority status.

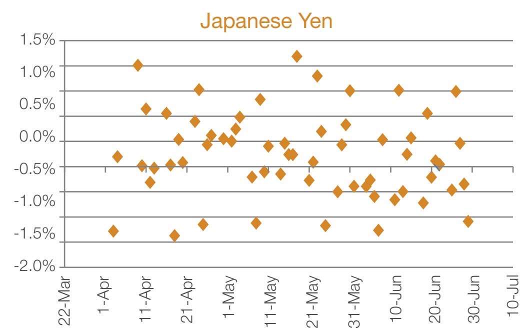
The euro slid from two-week high against the dollar on concern the euro zone debt crisis could spread to European nations so far thought to be safe, with the economic outlook and rising political risks likely to keep it under pressure.



The Bank decided to increase the total size of the Program by about 5 trillion yen, from about 65 trillion yen to about 70 trillion yen, with the following changes in its composition.

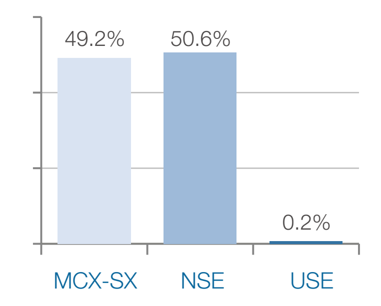
An increase in the purchase of Japanese government bonds (JGBs) by about 10 trillion yen. An increase in the purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) by about 200 billion yen and 10 billion yen, respectively.

A reduction in the maximum outstanding amount of the Bank's fixed-rate funds-supplying operation by about 5 trillion yen



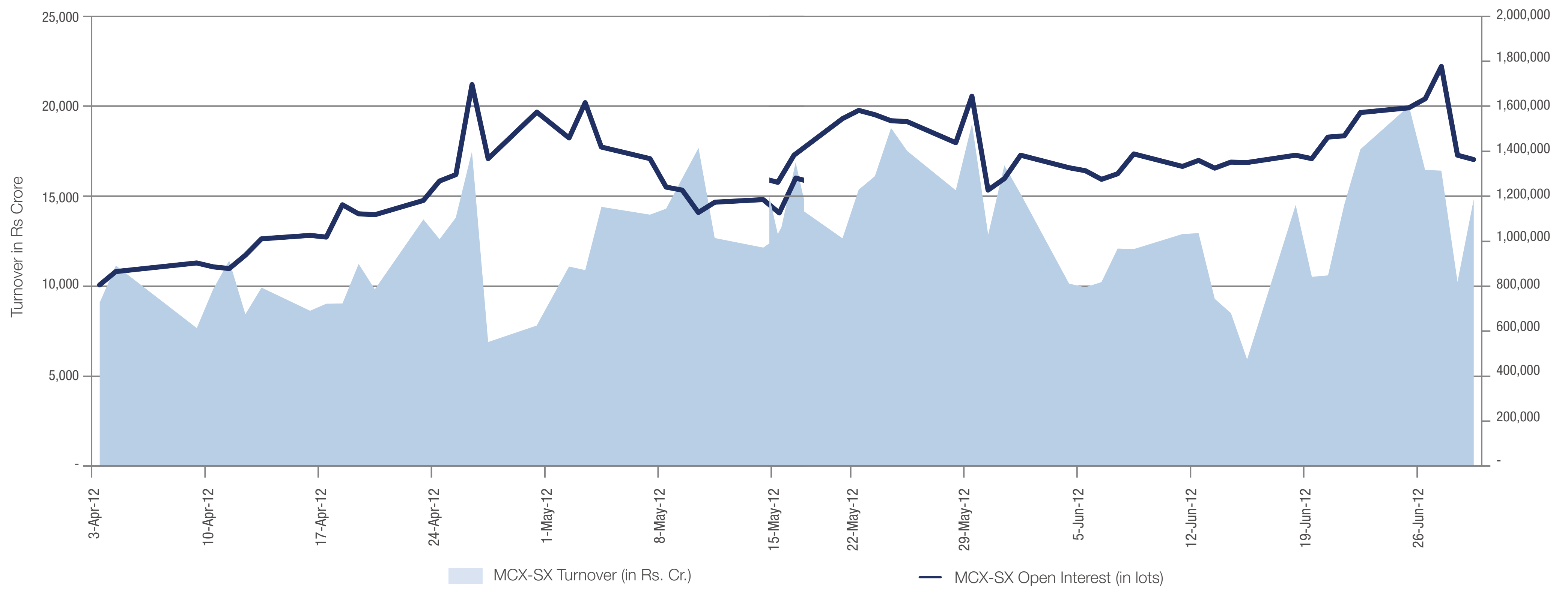
13,227
Average daily Turnover (₹ in crs)

23,97,361
Average daily Volume (in lots)



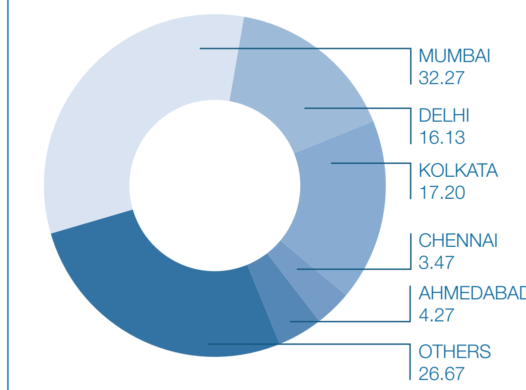
Market Share includes only Currency futures contracts

Period: April2012-June 2012

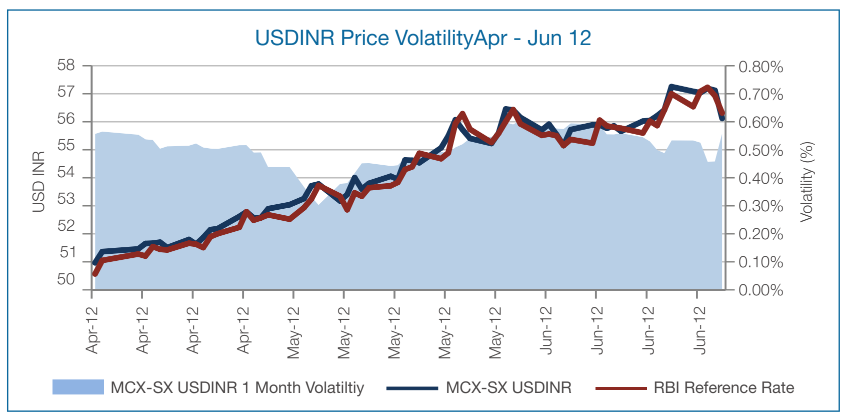


750
Number of Members

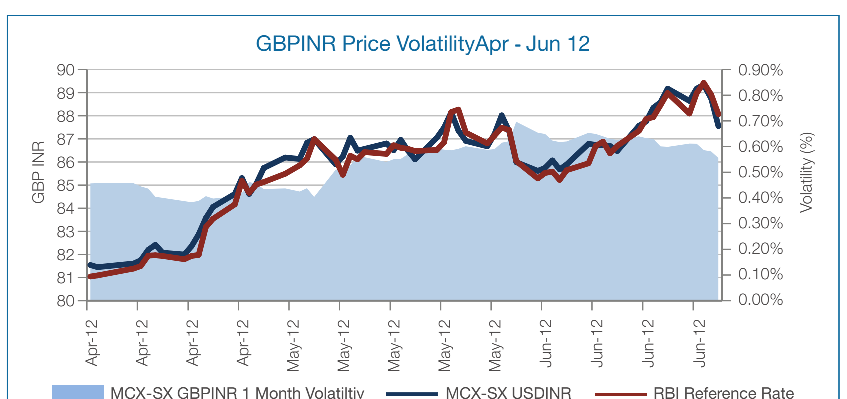
49.2%
Market Share:



Member Geographical Spread

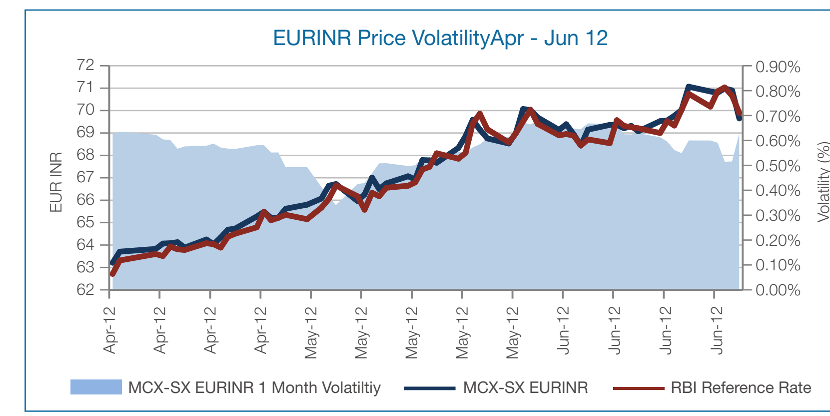


The Rupee depreciated against the USD, with the close price of MCX-SX USDINR moving from Rs 50.9650 to Rs 56.1100 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 50.5645 to Rs 56.3090. The close to close 1 month price volatility of USDINR remained range bound and it touched a peak of 0.75% on June 01, 2012.

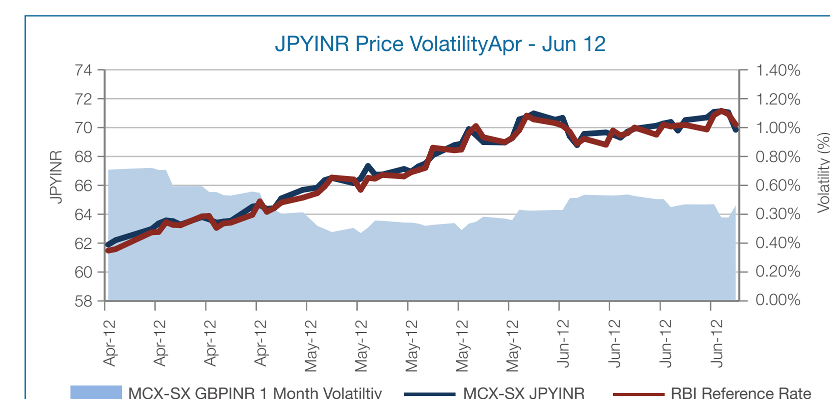


The Rupee has depreciated against the GBP, with the close price of MCX-SX GBPINR moving from Rs 81.5375 to Rs 87.5425 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 81.0498 to Rs 88.0616. The close to close 1 month price volatility of GBPINR increased during the first week of June and it peaked at a level of 0.77% on June 01, 2012.

The Rupee depreciated against the EURO, with the close price of MCX-SX EURINR moving from Rs 67.9125 to Rs 70.5600 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 67.9125 to Rs 70.9080. The close to close 1 month price volatility of EURINR which was higher during middle of the quarter, with a peak level of 0.80% on June 01, 2012, however it moderated during later half of the quarter.

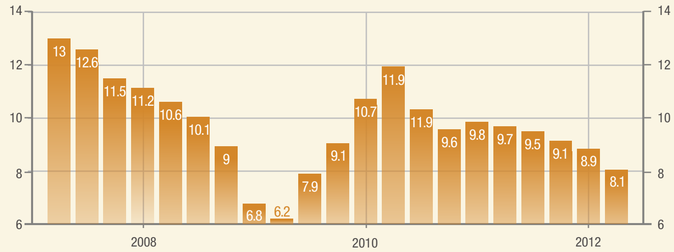


The Rupee depreciated against the JPY, with the close price of MCX-SX JPYINR moving from Rs 62.0900 to Rs 70.5350 during the period. The futures prices have moved in tandem with the spot market which moved from Rs 61.63 to Rs 70.90. The close to close 1 month price volatility of JPYINR, which was higher during start of quarter with a peak of 1.14% on Apr 09, 2012, moderated during later half of the quarter.



Chinese Economy-Slowdown or Hardlanding?

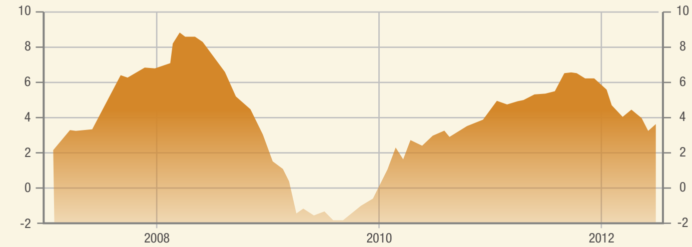
Growth levels are yet to touch the 2009 lows



China GDP Annual Growth Rate: Percent Change in Gross Domestic Product

Source: www.tradingeconomics.com | National Bureau Of Statistics Of China

Inflation levels seems to have been tamed down



China Inflation Rate: Annual Change on Consumer Price Index

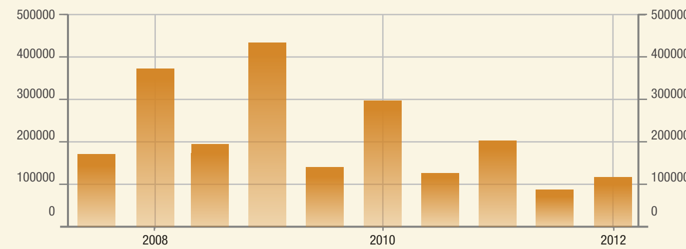
Source: www.tradingeconomics.com

With a surge in Exports, balance of trade is back to the positive zone during May 2012

China Balance of Trade: Balance of Trade (billion USD)

Source: www.tradingeconomics.com | General Administration of Customs

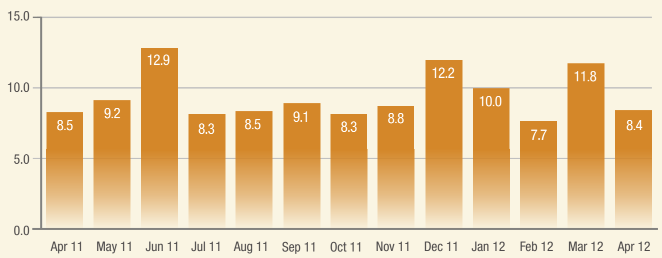
Current account surplus has been shrinking



China Current Account: Current Account (Million USD)

Source: www.tradingeconomics.com | State Administration Of Foreign Exchange

FDI Levels have been improving with investment



Chinese FDI In USD Bn

Source: Bloomberg

Chinese stock markets at a low but better than 2009 levels

China Stock Market

Source: www.tradingeconomics.com

Chinese banks are showing a better balance sheet at least until 2010

Year	Amount of NPL (Rmb billion)	NPL ratio (%)
2005	1,072	10.49%
2006	1,053	9.22%
2007	1,115	8.05%
2008	421	2.81%
2009	363	1.80%
2010	308	1.31

*China's Big-5 Banks include Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank and Bank of Communications.

NPLs of China's Big-5 banks*

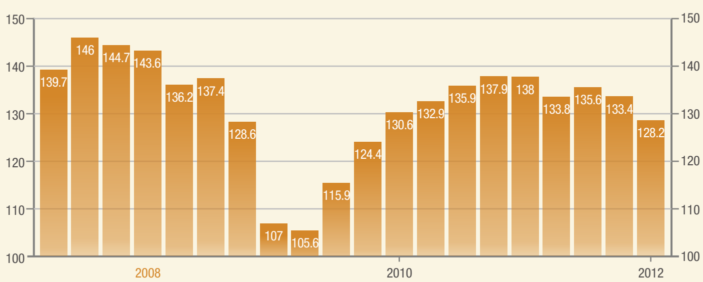
Source: CBRC website

Consumer confidence levels which were at a low seem to be improving. Business seem to be less confident

China Consumer Confidence

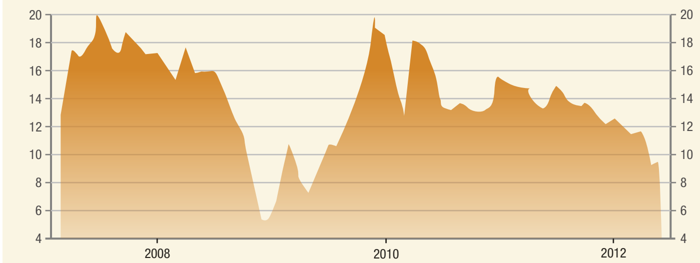
Source: www.tradingeconomics.com | National Bureau Of Statistics Of China

Business Confidence



Source: www.tradingeconomics.com | National Bureau of Statistics of China

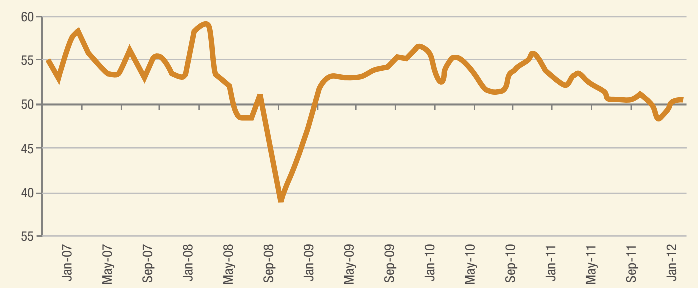
Industrial production has been declining



China Industrial Production: Percentage change y-o-y

Source: Www.tradingeconomics.com | National Bureau of Statistics of China

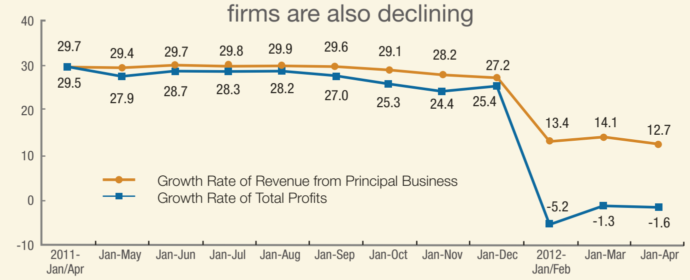
Purchasing Manager's Index



Note: A reading below 50 represents a contraction in activity

Source: Bloomberg

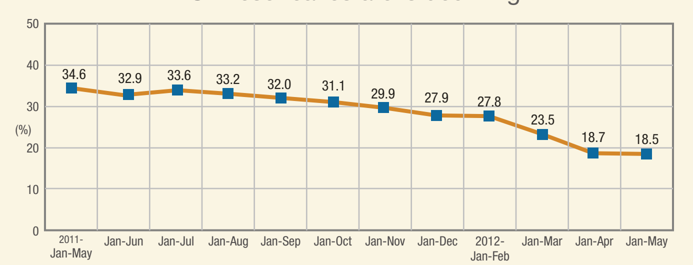
While the raw material prices are clipping, profit levels of firms are also declining



Monthly Growth Rate of Revenue from Principal Business & Total Profits

Source: www.tradingeconomics.com

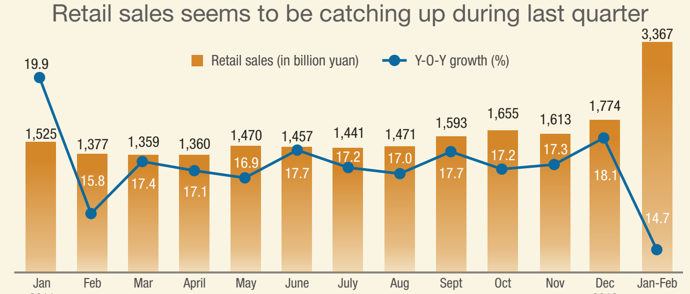
Thanks to policy measures the growth ratio of investment in Chinese real estate is declining



Growth Rate of Investment in Real Estate Development: Change y-o-y

Source: www.tradingeconomics.com

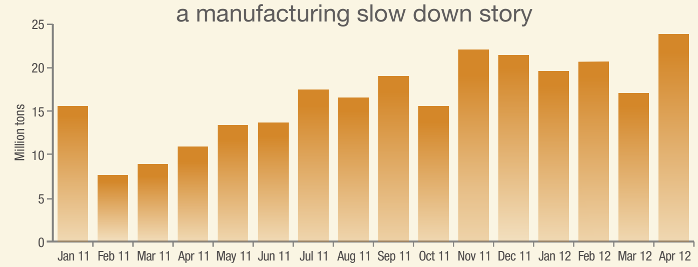
Retail sales seems to be catching up during last quarter



Retail Sales of Consumer Goods

Source: Chinadaily.com.cn | National Bureau of Statistics of China

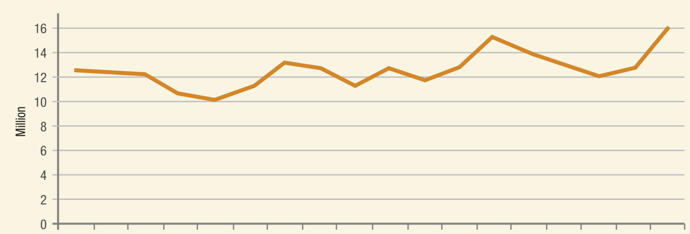
Energy consumption has also been increasing contradicting a manufacturing slow down story



Chinese Thermal Coal imports 2011-2012

Source: BIMCO, China Coal Transport & Distribution Association

Coal inventories during May- June seems to be increasing in line with business confidences



Coal inventories at Qinhuangdao, Tianjin & Guangzhou port

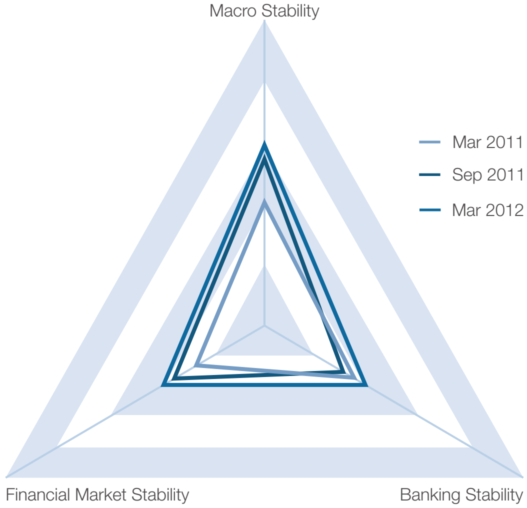
Source: www.tradingeconomics.com

Risks to domestic growth are accentuated by the continuing fiscal and external sector imbalances.

India – Financial Stability Report – June 2012

Increasing global risks and domestic macroeconomic conditions have worsened the Financial Stability Conditions in India according to a recent report on India's Financial Stability. Risks to domestic growth are accentuated by the continuing fiscal and external sector imbalances. Financial markets, particularly the forex market, continued to correct downwards besides experiencing a heightened volatility. The recent decline in international crude oil prices, if remains sustained, and if combined with a normal monsoon could provide impetus towards reviving the domestic economy, given its inherent strength. Banks are well capitalized, though asset quality and their ability to sustain liquidity pressures pose some concerns. The overall stability of the system remained robust as indicated by the trends in the Financial Stability Map (Chart 1).

Financial Stability Map



Note: Risks increase with distance form the centre

source : RBI staff calculations

Global Macroeconomic Risks – To Continue

Deepening of the Euro crisis and continued global slowdown contributed significantly to the deterioration in global risks. Debt and gross financing needs continued to remain high in several developed nations, even as sovereign yields are rising for some Euro area countries. Interconnectedness of trade and finance would serve as conduits for contagion. The global financial markets remained under stress and experienced high volatility during the last six months. With worsening access to unsecured funds, European banks continue to remain vulnerable to funding market freezes and hence could turn out to be highly dependent on central bank support especially at times of squeeze. The continued low rates in developed economies are likely lead to increased search for yields among investors.

The Domestic Economy

Domestic GDP growth declined sharply to 6.5 per cent during 2011-12 from 8.4 per cent in the previous year, weighed down by global uncertainties as well as domestic cyclical and structural factors. The report expects the downside risks to persist for the economy given the headwinds from the global economy and moderation in private and government consumption and investment demand. Inflation may continue to pose threat despite the decline in global commodity prices due to lagged pass through effect of the weakening rupee. Suppressed inflation in energy would continue to pose challenges to the participants.

GDP growth sharply declined
6.5%
in 2011-2012
from
8.4%
in 2010-11

In the external sector, current account deficit has deteriorated with decelerating growth in exports even as imports remained high on the back of sustained demand for imported global commodities. Despite the decline in the international oil prices, domestic factors viz., a fast depreciating exchange rate, reduced capital inflows and the risk of downgrade of the sovereign rating of the country, continue to pose challenges for the financing of the deficit. In addition, fiscal risks remain elevated, given that both fiscal and primary deficits have increased during 2011-12. Cutting down expenditures on subsidies would

Interconnectedness of trade and finance would serve as conduits for contagion.

Indian Economic Indicators

Current account deficit has deteriorated with decelerating growth in exports even as imports remained high on the back of sustained demand for imported global commodities.

remain key to fiscal health.

Liquidity risk in the banking sector persist
Credit growth in the banking sector decelerated to around 16.3 per cent in 2011-12, as compared with about 22.6 per cent as at end March 2011, reflecting the overall slowdown in the economy. Deposit growth also decelerated and, at less than 14 per cent as at end March 2012, was the lowest growth rate recorded in the past 10 years. The disproportionate slowdown in deposit growth vis-à-vis credit growth led to increased reliance of banks on borrowed funds, which may translate into liquidity risk. An increase in slippage ratios, rise in the quantum of restructured assets and a high rate of growth in Non Performing Assets (NPAs) relative to credit growth implied that the concerns on asset quality of banks remain elevated. The fact that distress dependencies are on the increase makes it necessary for careful monitoring and rigorous macro-prudential supervision.

Credit growth decelerated to
16.3%
in 2011-2012
as compared to
22.6%
March 2011 end

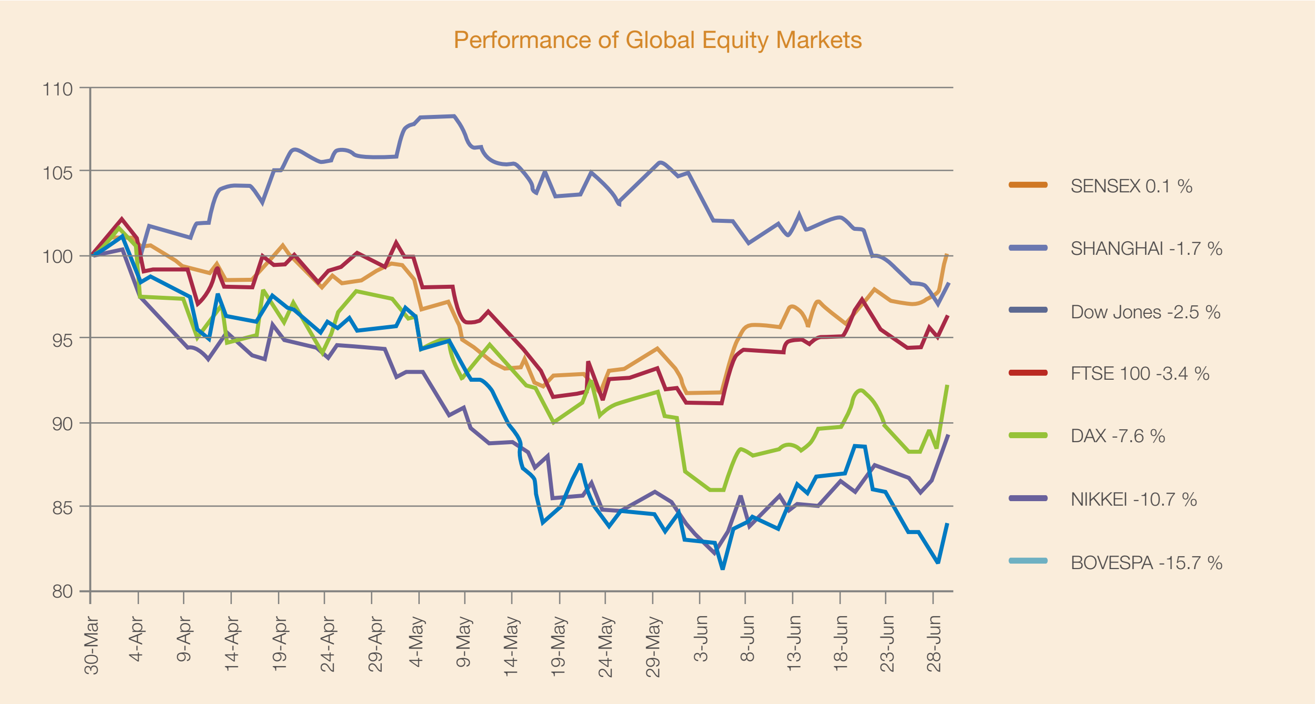
Consumer Price Index (CPI)		% change
CPI - (Urban + Rural)		
Apr 2012	117.1	0.9%
May 2012	118.2	
CPI- Urban Areas		
Apr 2012	116.1	0.9%
May 2012	117.1	
CPI- Rural Areas		
Apr 2012	117.9	1.0%
May 2012	119.1	
Wholesale Price Index		
Apr 2012	163.1	0.4%
May 2012	163.9	
Exports (US$ Bn)		
Apr 2012	24.50	4.8%
May 2012	25.68	
Imports (US$ Bn)		
Apr 2012	37.94	10.6%
May 2012	41.95	
Quick Estimates of IIP		
May 2012 (Base 2004-05=100)	170.2	
Mining	129.7	
Manufacturing	178.9	
Electricity	162.3	

Policy Rates	
Bank Rate	9.00%
Repo Rate	8.00%
Reverse Repo Rate	7.00%
Lending/Deposit Rates	
Base Rate	10.00% - 10.55%
Deposit rate	8.00% - 9.25%

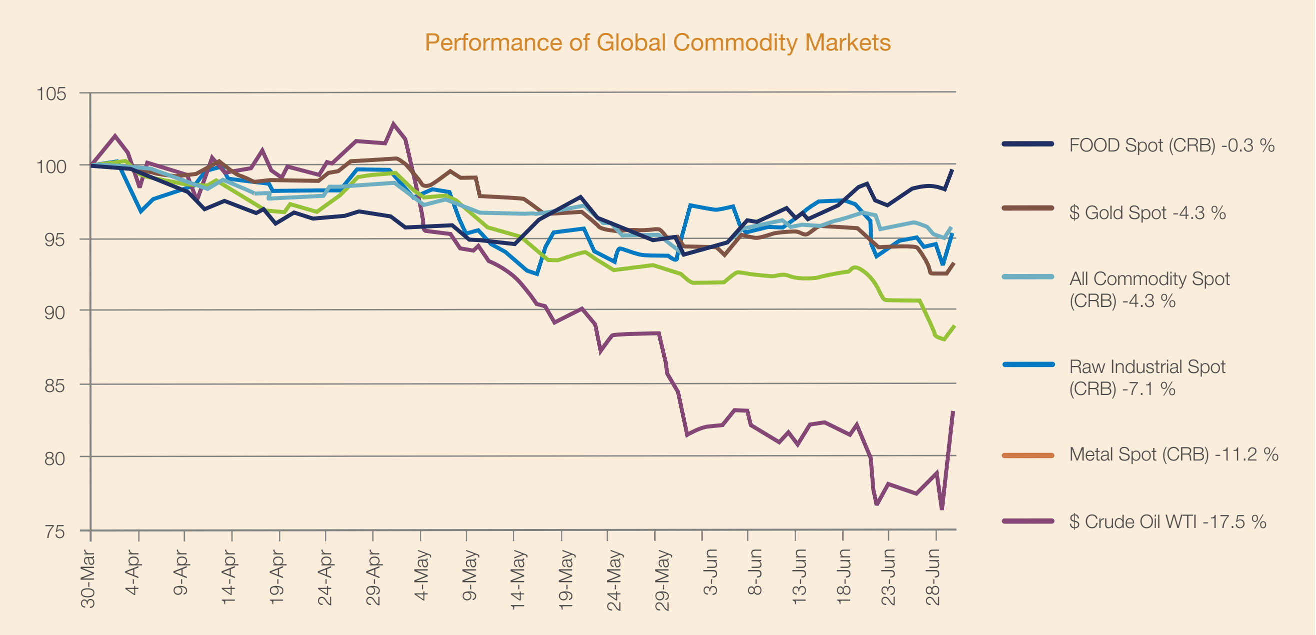
Interest Rates as on June 2012

International Reserves as on June 29, 2012	
Foreign Currency Assets	US$ 256.96 Bn
Gold	US$ 25.76 Bn
SDR	US$ 4.38 Bn
Reserve Position in IMF	US$ 2.89 Bn
Analytical Accounts of the RBI as on June, 29, 2012 (₹ in '000 crores)	
Reserve Money	1463.11
Net RBI Credit to Government	567.56
RBI Credit to Commercial Sector	4.2
RBI's Claims on Banks	7.1
Net Foreign Exchange Assets of RBI	1595.77
Analytical Accounts of the Banking Sector as on June 29, 2012 (₹ in '000 crores)	
Broad Money (M3)	7621.65
Domestic credit to General Government	2516.62
Net FX Assets of the Banking Sector	1629.95

Global Market Connect

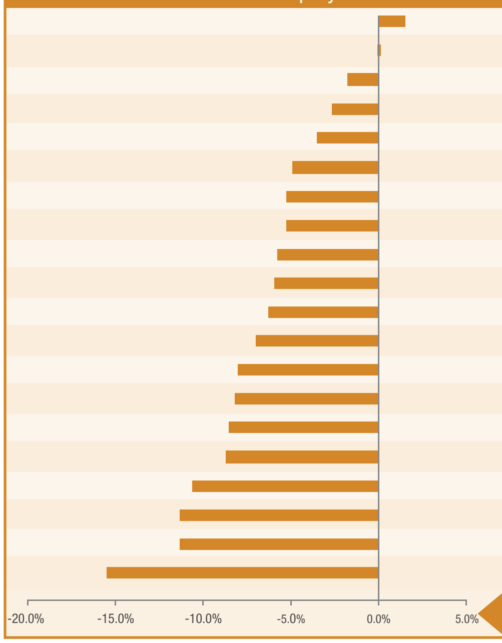


Growth in global equity markets was led by SENSEX with a quarterly growth of 0.1 %, while SHANGHAI (1.7%),DJIA (2.5%) ,FTSE (3.4%, DAX (7.6%), NIKKEI (10.7%) and BOVESPA (15.7%) experienced negative growth.



Globally Commodity markets were experienced downward trend during April June 2012. During this period Crude Oil WTI declined by 17.5%, metal prices by 11.2% and Raw industrial spot by 7.1%. Overall commodity prices declined by 4.3% as measured in terms of All Commodity Spot CRB Index. Gold and Food prices also declined by 4.3% and 0.3% respectively.

Global Market Connect



Country	% change	Highest	Lowest	Close
Mexico	1.7%	40199.55	36875.32	40199.55
India	0.0%	17597.42	15948.1	17429.98
China	-1.7%	2452.014	2195.84	2225.431
Switzerland	-2.7%	6299.38	5713.33	6066.86
UK	-3.4%	5874.89	5260.18	5571.15
US	-4.9%	3119.7	2747.47	2935.05
Amsterdam	-5.2%	326.39	283.07	307.31
Stockholm	-5.2%	1086.471	946.11	1019.06
Australia	-5.8%	4435.907	3985.02	4094.633
Hongkong	-5.9%	21309.08	18185.58	19441.46
Canada	-6.3%	12507.06	11280.63	11596.56
France	-7.1%	3462.91	2950.46	3196.65
Germany	-8.0%	7056.65	5969.39	6416.28
South Korea	-8.3%	2049.28	1782.46	1854.01
Russia	-8.5%	1550.05	1256.55	1387.52
Eurozone	-8.7%	2501.18	2068.65	2264.72
Italy	-10.7%	15948.86	12739.98	14274.37
Japan	-11.4%	10109.87	8295.62	9006.78
Spain	-11.5%	8042.8	6065.00	7102.2
Brazil	-15.7%	65216.25	52481.44	54354.63

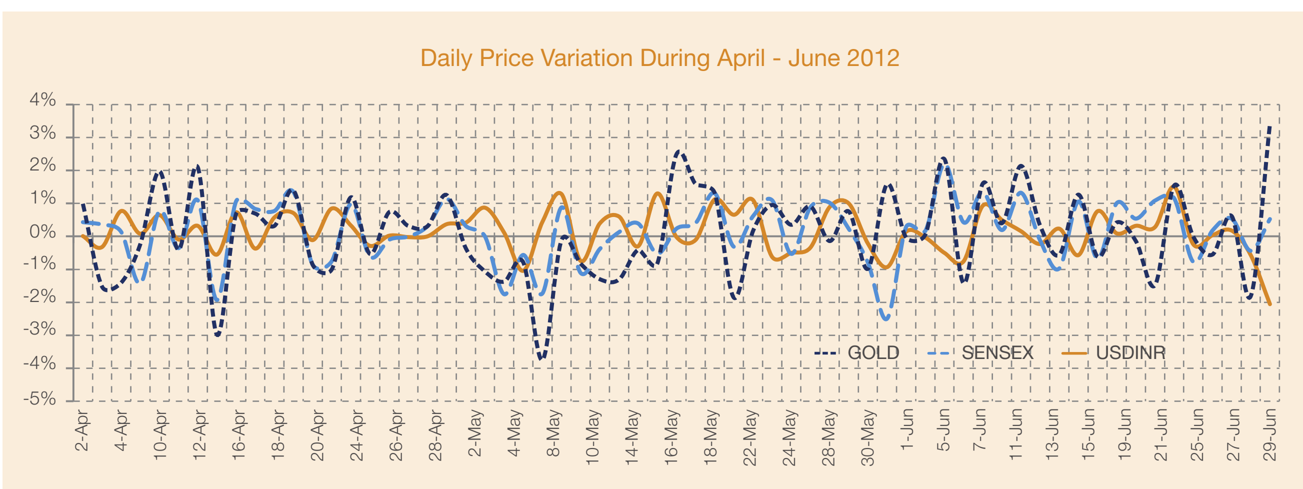
Percentage Price Movement against US Dollar

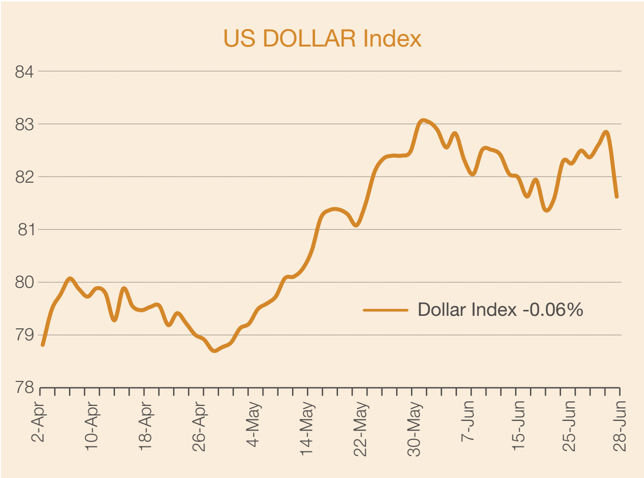
All rates are per US$

Source: Bloomberg

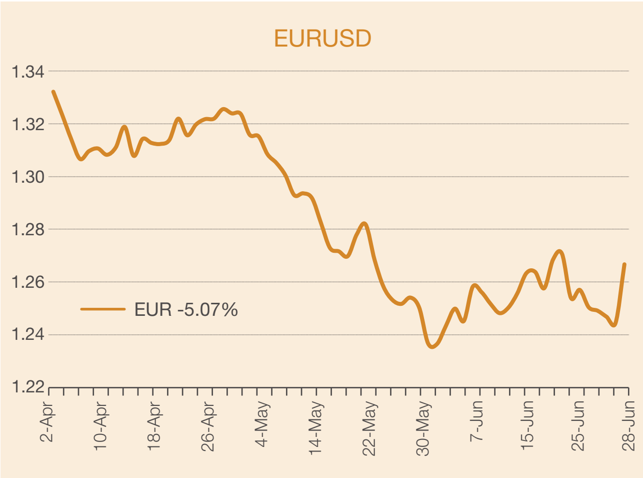
During the quarter of April June 2012, most of the equity markets, except Mexico and India, offered negative returns to investors due to the fears associated with European Debt Crisis and its spill- over effects. Among the positive performers, Mexico remained an outlier with a return of 1.7%.Most other markets reflected risks arising out of varied economic news including growth slowdown, deteriorating employment conditions, poor credit off take, etc. Though, during fag end of the quarter, European leaders agreed to create a single supervisory body for euro zone banks and allow them to be recapitalised directly by the currency area's rescue fund without adding to government debt, but the concerned of European Debt Crisis and slowdown in respective economies feared Brazil, Spain, Italy, other European and other countries with significant exposure to Europe with negative returns.

Thanks to its strong linkages to the global factors, Gold remained volatile asset class compared with its equity and currency counterparts. The USDINR had a moderate increase in the volatility levels compared with the last quarter.

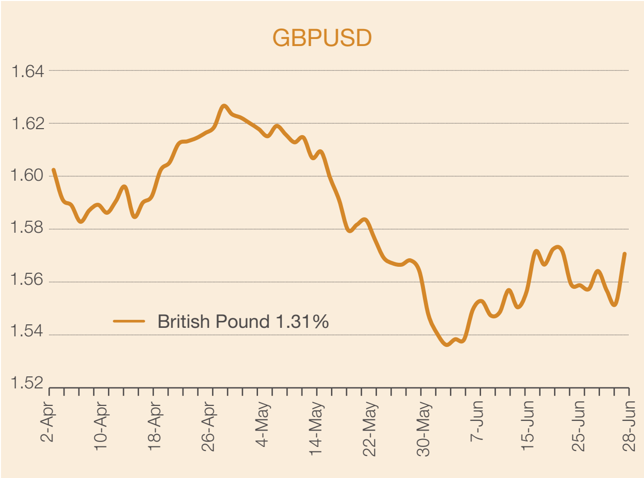




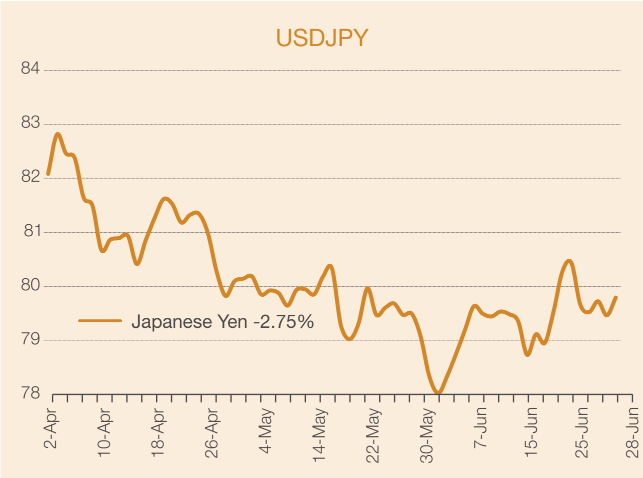
Dollar Index had fallen by 0.1% from a closing value of 79.004 on Mar 30, 2012 to a closing value of 81.627 on June 29, 2012.



EUR had depreciated by 5.1% against US Dollar from a closing value of 1.3343 on March 30, 2012 to a closing value of 1.2667 on June 29, 2012



British Pound had appreciated by 1.3% from a closing value of 1.6008 on March 30, 2012 to a closing value of 1.5707 on June 29, 2012



Japanese Yen had appreciated by 2.8% from a closing value of 82.87 on MarCH 30, 2012 to a closing value of 79.79 on JunE 29, 2012

US Dollar index has weakened during April - June 2012

Country	Weightage to the	April – June 2012		Percentage	Dollar
Amsterdam	Index	April 02, Close	June 29, Close	change	Strength/weakness
EUR	57.6%	1.3321	1.2667	-4.91%	Strong
Japanese Yen	13.6%	82.0800	79.7900	-2.79%	Weak
Pound Sterling	11.9%	1.6024	1.5707	-1.98%	Strong
Canadian Dollar	9.1%	0.9906	1.0166	2.62%	Strong
Swedish Krona	4.2%	6.6052	6.9224	4.80%	Strong
Swiss Franc	3.6%	0.9037	0.9485	4.96%	Strong

Regulatory Updates

March 2012

Securities and Exchange Board of India	Reserve Bank of India
FII Investment in Government debt long term and corporate debt long term infra category *CIR/IMD/FII&C/15/2012 dated 26-06-2012*	Foreign Investment in India - Sector Specific conditions *RBI/2011-2012/626 dated 28.06.2012*
Clarification to the Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) Circular dated April 13, 2012" *CIR/MRD/DMS/ 17 /2012 June dated 22-06-2012*	Foreign investment in India by SEBI registered FIIs in Government securities and SEBI registered FIIs and QFIs in infrastructure debt *RBI/2011-2012/618 dated 25.6.2012*
Redressal of complaints against Stock Exchanges (SEs) and Depositories through SEBI Complaints Redress System (SCORES) *CIR/MRD/ICC/16/2012 June dated 15-06-2012*	External Commercial Borrowings (ECB) – Repayment of Rupee loans *RBI/2011-2012/617 dated 25.06.2012*
Establishment of Connectivity with both depositories NSDL and CDSL – Companies eligible for shifting from Trade for Trade Settlement (TFTS) to normal Rolling Settlement *CIR/MRD/DP/15/2012 dated 14-06-2012*	Reporting Platform for OTC Foreign Exchange and Interest Rate Derivatives *RBI/2011-2012/616 dated 22.06.2012*
Reporting of Offshore Derivative Instruments (ODIs)/ Participatory Notes (PNs) activity *CIR/IMD/FIIC/14/2012 dated 07.06.2012*	Annual return on Foreign Liabilities and Assets Reporting by Indian Companies– Revised format *RBI/2011-2012/613 dated 26.06.2012*
	Export Credit Refinance Facility (ECR): Relaxation *RBI/2011-2012/603 dated 18.06.2012*
	Monetary Policy statement 2012-13 IT & IS governance structures *RBI/2011-2012/600 dated 13.06.2012*

MCX-SX Circulars

March 2012

Regular Updates	List of Government of India Securities, Treasury Bills, Equity Shares and Exchange Traded Funds accepted as Collaterals *MCX-SX/C&S/789/2012 dated 01.06.2012*
	Settlement Schedule for July 2012 *MCX-SX/C&S/791/2012 dated 07.06.2012*
Exchange Regulations	Amendment to the Bye-laws of MCX-SX Clearing Corporation Limited *MCX-SX/C&S/788/2012 dated 01.06.2012*
	Amendments to MCX Stock Exchange (Currency Derivative Segment) Trading and Clearing Regulations *MCX-SX/LEGAL/794/2012 dated 15.06.2012*
	Annual Returns for the Financial Year 2011-12 *MCX-SX/MEM/797/2012 June 20 dated 20.06.2012*
Market Regulation	Levy of Charges for High Order to Trade Ratio *MCX-SX/SURV/800/2012 dated 29.06.2012*
	Algorithmic Trading (Algo) *MCX-SX/CTCL/801/2012 dated 29.06.2012*

Shareholders

MCX-SX's list of shareholders, which includes India's top private sector banks, top Indian financial institutions and top Indian Public sector financial institutions, reflect the changing perspective of India's capital markets.

In alphabetical order

MCX-SX Offices

HEAD OFFICE: Exchange Square, Suren Road, Chakala, Andheri (E), Mumbai - 400 093. Tel. : +91-22-6731 9000, Fax: +91-22-6731 9004 Mr. Arvind Sharma - Mobile: +91-99302 68748, E-mail: info@mcx-sx.com, Url: www.mcx-sx.com

Ahmedabad: 401, Sakar - 1, Nr. Gandhigram Railway station, Opp Nehru Bridge, Ashram Road, Ahmedabad - 380 009. Tel: +91-79- 6661 5888/6661 9888, Mr. Jay Deliwala - Mobile: +91-99241 23996

Bangalore: No: 206, 2nd Floor, Money Chambers, No: 6, K H Road, Bangalore – 560027 Tel: +91-80-3296 2066, Fax: +91-80-4167 3707 Mr. B Sreenivasulu - Mobile: +91-99164 62299

Chennai: Flat No: 1A & B, 1st Floor, Doshi Towers, EVR Salai, Kilpauk, Chennai – 600010. Tel: +91-44-4395 0850, Fax No: +91-44-4395 0899 Mr. M Aravind - Mobile: +91-91766 86200

Hyderabad: Flat No.201, Meridian Plaza, Besides Lal Bungalow, Ameerpet, Hyderabad - 500 016. Tele/Fax: +91-40-4007 5037 Mr. Ramesh Varakhedkar - Mobile: +91-96427 04619

Indore: 403, Corporate House, A Wing, Near DAW University, RNT Marg, Indore (MP) – 452001, Tel: +91-731-3206 669, Fax: +91-731-2524 206 Mr. Aditya Chopra - Mobile: +91-9981157676

Jaipur: 212 Shekhawati Comp, 2nd Floor, Station Road, Jaipur - 302 001 Tel: +91-141-4011 930, Fax: +91-141-4011 930 Mr. Ravi Bhattar - Mobile: +91-97993 54321

Kolkata: BNCCI House, 3rd Floor, 23, Sir R N Mukherjee Road, Kolkata - 700 001 Tel: +91-33-2231 7253/54, Fax: +91-33-2231 7254 Mr. Arindam Saha - Mobile: +91-90514 98807

Kanpur: NBHC Ltd, 1st floor, 7/43, D-2, Tilak Nagar, Near State Bank of India, Kanpur - 208 002. Tel: +91-512-2533 079 Mr. Sanjeev Kumar - Mobile: +91-99354 84871

Ludhiana: 501, LSE Building, Feroze Gandhi Market, Ludhiana - 141 001. Tel: +91-161-3206 872. Mr. K S Mahesh - Mobile: +91-96541 25166

New Delhi: MCX Stock Exchange, Mercantile House, 404-407, 4th Floor, K.G. Marg, Connaught Place, New Delhi - 110 001 Tel: +91-11-4300 3000, Fax: +91-11-4300 3030 Mr. K S Mahesh - Mobile: +91-96541 25166

Sources

www.rbi.org.in; www.sebi.gov.in; www.commerce.nic.in; www.mospi.gov.in; www.tickerplantindia.com; www.dipp.nic.in; www.ncaer.org; www.finmin.nic.in; www.bls.gov; www.imf.org; www.reuters.com; www.cmegroup.com; www.worldbank.org.in; www.opec.org; www.iea.org; www.gold.org; www.econoday.com

Economic Calendar

July 2012

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
EMU: Unemployment Rate US : ISM Mfg. Index CH : SVME Purchasing Manager`s Index	EMU: PPI AU : RBA Announcement US : Redbook US : ICSC-Goldman Store Sales GB: M4 Money Supply	DE : PMI Service Index EMU: PMI Service Index EMU: GDP GB : CIPS/PMI Serivces Index	GB : BOE Announcement EMU: ECB Announcement US : Bloomberg Consumer Comfort Index US : ISM Non-Mfg. Index US : EIA Natural Gas Report	US : Fed Balance Sheet US : Money Supply US : Monster Employment Index US : Employment Situation
9	10	11	12	13
DE : Merchandise Trade JP : Machine Orders US : Export Inspections	FR : Industrial Production US : NFIB Small Business Optimism Index US : Redbook US : ICSI-Goldman Store Sales	US : Dairy Product Prices US : EIA Petroleum Status Report US : USDA Supply/Demand	FR : CPI EMU: Industrial Production US : Import Export Prices US : Jobless Claims US : EIA Natural Gas Report	US : Treasury Budget US : Fed Balance Sheet US : Money Supply IT : CPI
16	17	18	19	20
US : Empire State Mfg. Survey US : Export Inspections EMU: Merchandise Trade	GB : CPI US : Treasury International Capital US : Industrial Prod. US : CPI	GB : Labour Market Report JP : BoJ MPB Minutes CA : BoC Monetary Policy Report US : EIA Petroleum Status Report	US : Leading Indicators US : Beige Book US : Export Sales US : Bloomberg Consumer Comfort Index	US : Fed Balance Sheet US : Money Supply CA : CPI
23	24	25	26	27
US : Chicago Fed National Activity Index AU : PPI US : Export Inspections	EMU: PMI Mfg. Index Flash US : ICSC- Goldman Store Sales EMU: PMI Services Index Flash	GB : GDP US : EIA Petroleum Status Report AU : CPI	EMU: M3 Money Supply US : Export Sales US : Bloomberg Consumer Comfort Index	US : Fed Balance Sheet US : Money Supply US : GDP JP : CPI
30	31			
EMU: EC Economic Sentiment US: Export Inspections JP: Industrial Production	US : FOMC Meeting Beings US : ICSI- Goldman Store Sales US : FOMC Meeting Beings US : S&P Case-Shiller HPI			

August 2012

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2	3
		EMU: PMI Mfg. Index US : EIA Petroleum Status Report GB : CIPS/PMI Mfg. Index	US : FOMC Meeting Announcement EMU: ECB Announcement US : Bloomberg Consumer Comfort index US : EIA Natural Gas Report	US : Fed Balance Sheet US : Money Supply US : Monster Employment Index US : Employment Situation EMU: PMI Services Index
6	7	8	9	10
US : Export Inspections	GB : Industrial Production US : Redbook US : ICSC- Goldman Store Sales Au : RBA Announcement	US : Consumer Credit GB : BoE Inflation Report US : Productivity and Costs US : EIA Petroleum Status Report	GB : BoE Announcement US : International Trade US : Bloomberg Consumer Comfort index US : Wholesale Trade	US : Fed Balance Sheet US : Money Supply GB : PPI US : Import & Export Prices US : USDA Supply/Demand
13	14	15	16	17
JP : GDP US : Export Inspections	EMU: GDP Flash US : PPI US : Redbook JP : Tertiary Index JP : BoJ MPB Minutes	US : CPI US : Treasury International Capital US : Industrial Production US : EIA Petroleum Status Report	US : Export Sales US : Bloomberg Consumer Comfort index US : E-Commerce Retail Sales US : Philadelphia Fed Survey	US : Fed Balance Sheet US : Money Supply US : Consumer Sentiment US : Leading Indicators
20	21	22	23	24
US : Chicago Fed National Activity Index US : Export Inspections	US : ICSC- Goldman Store Sales US : Redbook JP : All Industry Index AU : RBA Meeting Minutes	JP : Merchandise Trade US : EIA Petroleum Status Report CA : Retail Sales	US : FOMC Minutes US : Export Sales US : Jobless claims US : EIA Natural Gas Report	US : Fed Balance Sheet US : Money Supply GB : GDP
27	28	29	30	31
US : Export Inspections US : Pending Home Sales Index	EMU: M3 Money Supply US : ICSC- Goldman Store Sales US : State Street Investor Confidence Index	US : Corporate Profits US : GDP US : EIA Petroleum Status Report	US : Beige Book GB : M4 Money Supply US : Personal Income & Outlays US : Bloomberg Consumer Comfort Index	US : Fed Balance Sheet US : Money Supply JP : CPI JP : IP US : Consumer Sentiment

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About MCX Stock Exchange

MCX Stock Exchange Limited (MCX-SX), India's new stock exchange, commenced operations in the Currency Derivatives (CD) segment on October 7, 2008 under the regulatory framework of Securities & Exchange Board of India (SEBI) and Reserve Bank of India (RBI). The Exchange is recognised by SEBI under Section 4 of Securities Contracts (Regulation) Act, 1956. In line with global best practices and regulatory requirements, clearing and settlement is conducted through a separate clearing corporation, MCX-SX Clearing Corporation Ltd. (MCX-SX CCL).

A new generation stock exchange, MCX-SX currently offers a world-class electronic trading platform in currency futures contracts. MCX-SX has been a market leader in this segment, witnessing a steady and significant growth in average daily turnover and open interest ever since its inception. The average daily turnover (ADT) of MCX-SX currency futures stood at Rs 12,927.83 crore at the end of June 2012, a significant rise from an ADT of Rs 324.78 crore in the first month of operations. The currency platform of MCX-SX is supported by a strong membership base and witnesses a nation-wide participation. At the end of June 2012, MCX-SX had 750 members and saw participation from 707 towns and cities across India Adhering to its philosophy of 'Systematic Development of Markets through Information, Innovation, Education and Research,' MCX-SX's mission has been to promote Financial-literacy-for-Financial Inclusion™, as is envisaged by the Government of India. MCX-SX till date has conducted more than 1300 investor education programmes across the country, averaging almost one such programme per working day. MCX-SX has roped in a wide array of partners, including media, educational institutions, trade bodies and international organisations, to jointly conduct programmes on financial literacy & investor awareness and initiate other developmental programmes for India's financial markets.

MCX-SX endeavours to ensure continuous innovation by introducing various products and services under the extant regulatory framework. The Exchange received permissions to deal in Interest Rate Derivatives, Equity, Futures & Options on Equity and Wholesale Debt Segment, vide SEBI's letter dated July 10, 2012.

MARKET UPDATE

...envisaging 'Cohesive Financial Markets'

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An Initiative by MCX Stock Exchange Research & Product Development and Communications Teams

MCX-SX

India's New Stock Exchange

MCX-SX/MUB/JULY2012