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1. Global economic briefs

- Last weekend, President Trump went on the offensive in a series of tweets, tackling a trade war with China and Syria's alleged use of chemical weapons, [while unleashing harsh words about immigration in the US](#).
- China had issued a warning on Friday (Apr 6) that it was fully prepared to respond with a “fierce counter strike” of fresh trade measures [if the US follows through on President Trump’s threat to slap tariffs on an additional \\$100 bln of Chinese goods](#). However, Chinese President Xi Jinping reiterated pledges to open sectors from banking to auto manufacturing in a speech today (April 10) [that also warned against returning to a “Cold War mentality” amid trade disputes with the US counterpart Donald Trump](#).
- Federal Reserve Chairman has backed further gradual interest rate increases amid strong US economic growth momentum even as he says it’s “really too early” to estimate how tariffs will impact the US economy. [While the latest weekly US weekly jobless claims totaled 242,000 versus 225,000 expected as on Apr 5th, the number of Americans on jobless rolls fell to its lowest level since 1973. The continuing claims data pointed to tightening labour market conditions](#).
- According to the European Central Bank’s (ECB) Board member Benoit Coeure, a trade war triggered by the US tariffs would cause a global recession and the mere fear of one is already hurting the Euro zone’s economy. [Citing an ECB simulation, he said a 10 percent tariff on all U.S. imports and exports would cause the global economy to shrink by 1% in the first year, with the US among the worst hit and the Euro zone suffering a less severe decline. He also added that there is very broad agreement in the Governing Council of the ECB that the high degree of accommodation will remain needed, and that \(is\) irrespective of a trade war](#).
- Germany witnessed a fall of 1.6% in its industrial output - the most in two years in the month of Feb-18, led primarily by a big slump in the production of capital goods. [In Mar-18, German business confidence deteriorated for a second straight month, dropping to its lowest level in nearly a year, as entrepreneurs in Germany became more concerned about the rising threat of protectionism](#).
- In the current week, US President Trump’s ongoing trade sparring with China will remain in focus as investors get ready for the start of US corporate earnings season. Also, the US Federal Reserve & ECB will release minutes of their latest meetings, and China will report import, export and inflation data.

2. India: Agriculture and rural economic news

- Prices of most pulses in India have fallen much below the minimum support price (MSP) amid expectations of a second successive year of bumper production. [As per reports, farmers are getting 24-40% less than the MSP for tur and red gram in the markets with highest arrivals. Hence, traders & pulse millers of India recently met central government officials with key demands of incentivising exports & curbing imports of pulses. They have urged the government to export at least 2.5 mln tns pulses from their stocks so as to support farmer prices and create domestic demand for the pulses that will be produced in the current year](#).
- India’s Ministry of Agriculture is expected to move a cabinet note seeking approval to ensure farmers get at least MSP for their produce. [The approval aims to involve states & private players in procurement for ensuring that farmers receive MSP. The objective of the proposed policy is to improve the speed of response and effectiveness of procurement in cases when prices drop below the MSP](#).
- India’s private weather forecaster Skymet has predicted a normal monsoon for India in 2018 with a likely rain deficiency in Southern regions – Coastal Karnataka, South Interior Karnataka & Kerala. [However, this is a bit too early. India’s official weather forecaster IMD is expected to come out with its monsoon forecast in mid-April](#).

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- Unseasonal rainfall & hailstorms in North India over the weekend, along with a forecast of more showers & storms in the days ahead, have created some risk for India's winter (rabi) crops, esp. wheat, mustard & mangoes.

3. India's overall economic & policy developments

- In its first bi-monthly monetary policy statement, India's MPC left the key policy rates unchanged and revised downwards its inflation projections for the full year FY19 in line with our house estimates. This move along with some other major moves by policymakers in recent times like reduced market borrowings of the central government in H1, FY19 and the RBI's permission to banks to spread mark-to-market losses on trading book, [equally over four quarters have improved the sentiment in the bond market.](#)
- Another positive move for the bond market was that on April 9th, the RBI raised the foreign ownership limit on government bonds by 100 bps to 6% of outstanding sovereign securities in two financial years until March-end, 2020. [This would allow additional purchases of about Rs 592 bln collectively in FY19, as per the RBI note.](#)
- India's Niti Aayog has urged the central government to include performance based criteria while considering devolution of taxes to states. [The terms of reference of the 15th finance commission suggesting use of census data of 2011 for allocation of resources prompted south Indian political leaders to express concern that there is no incentive for achieving development.](#)
- Most of the speakers at the Annual General Meeting of the India's industrial chamber CII were critical about the nation's current fiscal and monetary policies and termed them as orthodox. [According to some, fiscal policies need to be linked with overall national objectives and have to be countercyclical. The main problem was not fiscal targeting but inefficient spending.](#)
- The RBI's forward looking survey on Indian consumer confidence showed waning of consumer confidence in Mar-18 after showing some improvement in the Dec-17 round. [In particular, the respondents expressed concerns over the current state of employment generation in India.](#)
- As per the RBI's survey on inflation expectations, the proportion of respondents expecting prices to increase in the next three months at more than the current rate further declined in the Mar-18 round across all product groups. [While three months ahead median inflation expectations increased by 30 bps when compared with the March 2017 round, one year ahead median inflation expectations softened by 20 bps.](#)
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- According to RBI, Indian banks loans and deposits rose at the pace of 11.1% and 6.4% on year respectively, as on Mar 16, 2018. While outstanding loans increased by Rs 309.5 bln to Rs 83.77 trln in the two weeks to Mar 16, aggregate deposits fell by Rs 265.7 bln to Rs 111.61 trln. The average Credit-Deposit ratio marginally improved in the last reported fortnight to 75.06% as on Mar 16 from 74.61% as on Mar 2.
- India's Broad Money Supply, i.e., M3 growth slightly eased to 9.8% (y-o-y), as on Mar 16, 2018 [\(versus 7.2% a year ago\), as mobilization of time deposits dipped in the latest fortnight. Additionally, growth in bank credit to commercial sector too slowed down in the latest reported fortnight.](#)
- India's "foreign exchange reserves" reached the life-time high of \$424.36 bln as on Mar 30, 2018. [Previously, the reserves had touched a record high of USD 421.914 bln on Feb 9th. It had crossed the USD 400-bln mark for the first time in the week to September 8, 2017, but has since been fluctuating.](#)

4. India's industrial & services sectors scenario

- Indian railways has posted its best ever freight loading in FY18, allowing it to post a total traffic earnings of Rs 1.65 trln, an increase of Rs 100 bln over the total traffic revenue of FY17.
- Lack of support infrastructure with the Coal India's (CIL) subsidiaries may prompt CIL to push the implementation of new coal pricing mechanism beyond June 2018. The CIL was supposed to implement a billing policy from 1st April 2018 wherein it would charge customers for exact units of energy consumed and do away with the prices for grades of coal at present. The new pricing methodology would change the way CIL books its revenues and the way power generating companies like NTPC and others pay for the coal, which, in turn, determines what people pay for their electricity bills.
- The RBI's survey on Capacity Utilisation (CU) of India's industrial sector shows that at the aggregate level, CU stood at 74.1% in Q3, FY18 and there was a substantial growth in sequential terms as well as y-o-y, in new orders received by companies in Q3, FY18. In our view, this trend may not sustain going ahead as companies especially small enterprises will have to curtail their growth aspirations due to lesser availability of bank credit post the implementation of the RBI's new NPA Resolution Framework. Other risk to industrial growth would come from decelerating trend in exports against the backdrop of growing protectionist tendencies.

5. Indian money market liquidity

- Banking sector liquidity is estimated to be in a surplus of around Rs 600 bln, according to dealers.
- Today, the RBI is going to hold 14-day variable rate term repo auction for Rs 220 bln and 13 states will raise Rs 197 bln via bonds auction.

6. Weak sentiment in G-Sec market despite several positive measures

- The 10-year GOI benchmark yield that had plunged to 7.13% on Apr 5th – post the announcement of monetary policy that showed a sharp downward revision in inflation projections for FY19 (in line with our house expectations) reversed the trend on Apr 6th and rose to 7.17% on the last trading day of the previous week, as state governments announced a higher-than-expected quantum of borrowings (@ Rs 1.16-1.28 billion) during Q1, FY19.
- Government bond yields rose further yesterday (Apr 9) to 7.23% as traders booked profits on view that heavy supply of dated securities and the lack of buying support from PSU banks may keep G-Sec prices under pressure in the near term.
- However, government bond prices had climbed by around 15 paise yesterday in the first hour of trade as the RBI increased the ceiling on FPI investments in government debt. But they were unable to hold on to gains.
- Currently, the 10-year benchmark yield is hovering near 7.35% (sharply up from its level on Apr 5th) as lack of buying support from PSU banks prompted traders to cut down their bond holdings. G-Sec prices were also weighed down by likely selling of illiquid dated securities by PSU banks as part of their strategy to shift to and from the HTM category.

7. Signs of stability in INR post Xi Jinping's remarks

- Indian rupee had ended at 65.0175 against the US dollar yesterday from the last week's level of 64.9650 on the back of growing speculation that China may depreciate its currency artificially in response to its growing trade tensions with the US.
- These speculations made FPIs jittery on risky EM assets and they pulled out funds from India.
- However, INR along with other EM currencies has been showing signs of stability today as Chinese President Xi Jinping's pledge to "open up" the country's economy "even wider" eased fears of a full blown trade war between the US & China and has improved the FX investors' risk appetite.

8. Indian equities to witness volatility ahead of monetary policy

- Benchmark indices of Indian stocks logged decent gains last week, as the RBI surprised markets by lowering its inflation projections and increasing growth projections for the year FY19.
- Indian stocks have ended higher in the last two trading sessions of the current week also on the back of favourable global cues. Investors' risk appetite has improved after Chinese President Xi Jinping's positive comments eased concerns of a full-blown trade war between the US & China.
- Going forward, domestic macros (industrial production & inflation numbers due this week), global cues & Q4 earnings will play a dominant role in influencing the local stock market sentiment.

9. Brent crude at \$68.95 per bbl today (Apr 10)

- Today crude futures legged higher in Asia-Pacific trade after President Xi pointed to a need for multilateral free trade agreements, which put a bid into risk assets.
- Brent crude price rose by \$0.30 to settle at \$68.95 per barrel. Traders will now look for the API crude inventory estimate due later today.
- The price of India's crude oil basket fell by 5 cents to \$65.61 per barrel on April 9th. India's crude oil basket comprises Oman-Dubai sour grade and dated Brent sweet crude.

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