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1. Global Economic Briefs

- According to Reuters, China and the US agreed to a ceasefire in their bitter trade war on Dec 1st after high-stakes talks in Argentina between US President Donald Trump and Chinese President Xi Jinping, including no escalated tariffs on Jan 1st.
- The International Monetary Fund (IMF) has warned about the possibility of a much slower global economic growth in the coming months as compared to 3.7% growth rate projected for 2018.
- According to a leading Think Tank – National Institute of Social & Economic Research, the British government's Brexit deal with Brussels would make British economy 3.9% smaller by 2030 than if it were to stay in the European Union (EU). Britain is due to leave the EU in March but, if parliament approves the exit deal, its trading status with the bloc will remain unchanged at least until the end of 2020.
- On the positive side, all seven British banks and building societies in this year's Bank of England stress test passed, indicating they could withstand a disorderly Brexit without having to curb lending.
- According to the Fed Reserve Vice Chairman Richard Clarida, the Fed should take a "gradual" approach to rate hikes that should also be "data dependent". In his assessment, the Fed is "much closer" to a neutral rate of interest than it was when it started hiking in Dec, 2015.
- Data show that the US economy slowed in Q3, 2018. Even the rate of corporate investments in Japan slowed sharply in Q3, 2018 raising doubt about the strength of business activity amid global trade frictions.
- According to JP Morgan Chase economists, a marked shift is underway in global fiscal policy. China is using tax cuts and infrastructure spending to underpin demand. In Europe, the UK plans to increase spending while Spain and Italy are among those leaning on fiscal policy. The US is already relying on tax cuts to prop up demand although their influence may soon fade.
- Asia has been hit by a slew of weak GDP reports for Q3, 2018, with global growth also sputtering at a time when rising interest rates and a U.S-China trade war threaten more pain.
- Reserve Bank of Australia has kept rates at record lows today as policymakers await a revival in growth & inflation.

2. Indian Agriculture Scene

- India's Agricultural Ministry showed that rabi (winter crop) cultivated area dropped by 8.3% (y-o-y) in India by 30th Nov, 2018. The maximum shortfall was reported in coarse cereals (-27.1%) & rice (30.3%).
- As hiking Minimum Support Prices (MSPs) for various agricultural crops has neither helped the cultivation nor the agricultural incomes, a noted agricultural economist Ashok Gulati has proposed to provide income security to farmers and boost investment in agriculture.
- The actual market prices for most agricultural commodities remain depressed. Average food inflation during FY18 stood at 0.25% and in Apr-Oct, FY19 at 1.4%. It had turned negative (-0.86%) in Oct, 2018. This may be compared with the food inflation had averaged at 6.1% during FY17.
- Thousands of farmers from across India reached the national capital on Nov 29th to participate in a day-long protest to discuss agrarian distress and implementation of the recommendations of some key committees on improving the farm sector welfare.

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3. India's Overall Economic & Policy Developments

- India's GVA growth at constant prices slowed to 6.9% in Q2, FY19 from 8.0% in the previous quarter on the back of a contraction in mining (-2.4%, y-o-y) and a sequential deceleration in the growth rates of agriculture (147 bps), industry (345 bps), construction (85 bps) and financial services (21 bps). Growth in private consumption spending too has decelerated from 8.6% in Q1 to 7% in Q2 of FY19.
- As per the latest Business Expectations survey of Indian Institute of Management at Ahmedabad, one-year ahead business inflation expectation stood at 3.66% in Oct, 2018 – below the mark of 4%. While lesser proportion of firms are expecting higher cost increases, much higher proportion of firms are expecting lesser than normal sales.
- India's central government is planning to set up a NBFC to fund food processing industries as part of its effort to boost this sector and double farmers' income. The fund will involve an initial corpus of Rs 20 billion.
- Indian government's goods and services tax (GST) collections dropped below Rs 1 trillion (to Rs 976.37 billion) in October, suggesting that collections have still not risen to the desired level.
- India's gross fiscal deficit (GFD) overshot its budgeted annual target for FY19 by four per cent in October itself. The deficit incurred during April-October 2018, at Rs.6.5 trillion, was 23.5% higher than the year ago.
- According to RBI, Indian banks loans and deposits rose at the pace of 14.9% and 9.1% on year respectively, as on Nov 9, 2018. While outstanding loans increased by Rs 775.3 billion to Rs 91.12 trillion in the two weeks to Nov 9, aggregate deposits increased by Rs 546.3 billion to Rs 118.26 trillion. The average Credit-Deposit ratio further improved in the last reported fortnight to 77.05% as on Nov 9 from 76.75% as on Oct 26.
- India's Broad Money Supply, i.e., M3 growth was at 10.3% (y-o-y), as on Nov 9, 2018 (versus 6.9% a year ago). A significant growth in banks' credit to commercial sector and their net foreign exchange assets have been the main drivers of money supply growth in 2018.
- India's "foreign exchange reserves" further declined by $795 million to $392.79 billion as on Nov 23, 2018. During Apr-Sept, FY19, India's FER declined by $24.02 billion due to capital outflows and the RBI's efforts to reduce heightened volatility in the exchange rate.

4. India's Industrial & Services Sectors Scenario

- According to India's ministry of statistics, out of 1,417 infrastructure projects that it regularly monitors, 362 have reported cost overrun to the tune of Rs 3.4 trillion until now.
- The domestic aviation industry in India will need Rs. 50 billion of equity infusion in the next four years, according to the rating agency ICRA Ltd. The report says that SpiceJet, Jet Airways and Indigo have reported a combined net loss of Rs 36.4 billion in the first half of the financial year FY19.
- The manufacturing PMI print for India rose to 54 in Nov, 2018 from 53.1 in the previous month, supported by a surge in new orders. However, supply chain pressures remained weak, which supported a softer rise in input prices.
- Output of eight core industries grew by 4.8% (y-o-y) in October, 2018 versus 4.3% in September, driven by a strong growth in coal, cement & electricity production. Output of crudel oil, natural gas & fertilisers contracted while that of steel & refinery products grew very modestly.

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5. Indian Money Market

- Liquidity deficit in the banking system has declined from Rs 600 billion on Nov 30th to Rs 50 billion as of today due to the RBI's OMOs and the government's month-end spending.
- So far in FY19, the RBI has infused Rs 1.36 trillion through OMOs and is scheduled to buy gilts worth up to Rs 400 billion in December.
- Yields have eased on short duration funds, but remain elevated on long duration funds. For instance, the yield on 2-month CP for NBFCs has come off by 105 bps bet end-Sept and now, whereas the yield on 1-year CP has gone up by 35 bps.
- Yields on corporate bonds for non-PSU entities are hovering in the range of 9.11% to 9.80% for borrowings in excess of Rs 10 billion and for the duration of two to four years.

6. Improved Outlook for Indian Gilts

- Indian government bond yields have eased on the back of subdued volatility in financial markets.
- The yield on 10-year benchmark paper has fallen below the mark of 7.60% thanks to the yield on US 10-year paper below 3%, Brent down by 30-31% since early October and INR having the best month in November.
- Expectations that the RBI may reduce its inflation projections for the remaining part of FY19 and take a more dovish stance in tomorrow's policy announcement has boosted G-Sec prices.
- Against the backdrop of emerging growth and inflation scenario, there is a possibility that the MPC may change the stance back to "Neutral" tomorrow and cut policy rates in Q4, FY19. Experts see benchmark yields inching towards 7.50% within a broader range of 7.50-7.70%.

7. INR Dancing to Oil's Tune

- INR that had closed at 69.59 on Nov 30th – its highest closing level since Aug 10 has erased all its gains and inched today to 70.62 per US dollar on rise in crude prices.
- Also, the outcome of the US-China meet over the week end played spoilsport for the currency. The US and China agreed not to impose any additional tariffs for the next 90 days. This eased fears of a trade war between both the nations getting worse, and triggered a strong bounce-back in oil prices.
- According to the FX experts, a sharp downward reversal in INR yesterday is increasing the possibility of a short-term corrective fall and they see a key near-term resistance at 70.15.

8. Increased Volatility Seen in Indian Stocks

- Benchmark stock indices in India made healthy gains of over 3% each last week, supported by currency appreciation and inflows of foreign funds.
- Furthermore, recapitalisation announcement of Rs 420 billion to state owned banks is expected to provide respite to current liquidity issues and that too boosted the sentiment.
- However, benchmark equity indices ended down today, as investors turned skeptical today about the future of the US-China trade truce and as traders exercised caution ahead of the outcome of the RBI's MPC meeting tomorrow. The uncertainty surrounding state elections too has been weighing on the stock sentiment.
- Global & domestic uncertainties may keep local stocks volatile this week.

9. Brent Crude at $63.24 per bbl on Dec 4, 2018

- Oil prices rose more than 2.5% today, extending gains ahead of expected output cuts by producer cartel OPEC and a mandated reduction in Canadian supply. International Brent crude oil futures rose $1.55 or 2.5% to a high of $63.24 by 0955 GMT.
- The OPEC's biggest problem is surging production in the US where output, mostly from its southern shale fields, has grown by around 2 million bpd in a year to more than 11.5 million bpd.

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