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1. Global Economic Briefs

- An inflation measure watched closely by the Federal Reserve hit the US central bank's target for the first time in six years (@2.3%) in May-18 – a sign that the US economy is on healthier footing after a long run of slow growth. According to the University of Michigan's consumer sentiment survey, American households felt better in Jun-18 about the current state of the US economy, but lowered their expectations about the future.
- In line with market expectations, the Euro area headline inflation edged higher in Jun-18 (@2%), as per the flash report of Eurostat released last week.
- However, the PMI (Mfg) reports for global economy are not very encouraging. In Jun-18, new export orders from China, Japan & the ASEAN region all declined, pointing to a softening in global demand. The US is set to slap 25% tariffs on \$34 bln worth of Chinese imports from Friday (July 6), increasing the risk that global demand could weaken further.
- Saudi Arabia's economy recovered in Q1, 2018 after shrinking for the first time in eight years in 2017. The recovery looks set to accelerate in coming months with a rise in oil production.
- Reuters has reported that German economic data rather than politics will be a key for trade war watchers. With fears of a trade war rattling markets as US President's "America First" policies become more of a reality and his protectionist sights turn to the EU, many will look to Germany's export-oriented economy for the first signs of stress.
- Confidence among Japan's large manufacturers weakened for the second straight quarter in three months to Jun-18 amid growing concerns about the potential impact of trade friction on the global economy, according to the BOJ Tankan survey results.
- In this week, the central banks of Australia and Sweden would hold policy meetings, and the US Federal Reserve would release minutes of its June meeting. Also, the US Labor Department would release its June employment report.

2. India: Monsoon, Kharif Sowing & Water Reservoir Scene

- Until July 1st, India's monsoon has reported 7% deficit from its normal level. Out of 36 sub-divisions, 25 sub-divisions have received from normal to large excess rainfall cumulatively until yesterday. Among major states, rainfall deficiency is reported for Bihar & Jharkhand, Uttar Pradesh, Odisha & Gujarat.
- A deficient monsoon has slowed down India's kharif (summer) crop sowing. Area sown under kharif crops in India has declined by 21.6% (y-o-y) by 29th June, driven by a fall of 44% in area sown under oilseeds, 41% in area under pulses and 30.2% in area under cotton. As per reports, the states - Madhya Pradesh, Maharashtra, Gujarat and Punjab have led the decline in sowing so far.
- India's government is set to announce minimum support prices (MSPs) for major kharif (summer) crops next week. As per reports, the proposed hike in MSPs may cost India's government around Rs 1.75 trln in a full year if market prices are lower than the MSPs by 20%. The government's plan to raise MSPs is likely to hit India's exports significantly.
- The water storage available in 91 major reservoirs of India as on June 28 was 29.752 BCM which is 18% of total storage capacity of these reservoirs – at the same level as in previous week. This level was 101% of the storage of corresponding period of last year and 94% of storage of average of last ten years.

3. India's Overall Economic & Policy Developments

- According to World Bank's report (South Asia's Hotspots – The Impact of Temperature & Precipitation Changes on Living Standards), rising temperatures & changing monsoon rainfall patterns from climate change could cost India 2.8% of GDP and depress the living standards of nearly half the country's population by 2050. The report estimated the overall loss in national GDP in actual terms to be around \$1.2 trln.
- India's gross fiscal deficit touched 55% of its annual budgeted target during Apr-May, FY19. The situation, however, is much better than last year, when the government had exhausted 68.3% of its annual deficit target by May-17.
- India's external debt surged by 12.4% to \$529.7 bln by end-Mar-18 from \$471.3 bln by end-Mar-17. In absolute terms, it increased by USD 58.4 bln. The external debt to GDP ratio rose to 20.5% by end-Mar-18 from 20% a year ago.
- According to the rating agency Moody's, Indian rupee is one of the least vulnerable currency to pressures created by strengthening of the US dollar thanks to India's significant build-up of foreign exchange reserves and a relatively stable domestic financing base.
- In order to reduce trade imbalance with its trade partners, China plans to reduce or cancel tariffs on imports of 8,549 types of goods from India, South Korea, Bangladesh, Laos & Sri Lanka.
- The gross NPAs of banks in India rose to 11.6% in Mar-18 from 10.7% in Sept-17 quarter, according to financial stability report of RBI. The RBI sees bad loans rising to 12.2% by Mar-19. And if macroeconomic conditions were to deteriorate, GNPA's of state owned banks may well touch 17.3% by Mar-19, as per RBI's assessment.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.7% and 8.4% on year respectively, as on June 8, 2018. While outstanding loans increased by Rs 429 bln to Rs 85.99 trln in the two weeks to June 8, aggregate deposits rose by Rs 514.8 bln to Rs 114.04 trln. The average Credit-Deposit ratio marginally improved in the last reported fortnight to 75.40% as on June 8 from 75.36% as on May 25.
- India's Broad Money Supply, i.e., M3 growth stayed at 10.4% (y-o-y), as on June 8, 2018 (versus 6.9% a year ago), as "currency in circulation with the public" has been growing at a faster pace (29.5%, y-o-y). Bank credit to commercial sector and the net foreign exchange assets of the banking industry have emerged as the primary sources of growth in broad money supply.
- India's "foreign exchange reserves" stood at \$407.82 bln as on June 22nd. They fell by \$2.25 bln in the latest reported week due to a continued fall in foreign currency assets.

4. India's Industrial & Services Sectors Scenario

- According to rating agency ICRA, the demand for bank guarantees could emerge as a key challenge for infrastructure and construction sectors in India, as banks have started stipulating higher margin money and collateral requirements for guarantees in line with the increased risk perception associated with non-fund based limits.
- The Nikkei India Manufacturing PMI rose to 53.1 in Jun-18 from 51.2 in May-18. This is the fastest improvement in the PMI since Dec-17. An improvement in June PMI was supported by rise in domestic and export orders. Job creation too accelerated during the month. On the flip side, input cost inflation and output charges rose at a faster pace and the business confidence dropped to its lowest level since Oct-17.
- India's core industrial output growth slowed to 3.6% in May-18 – its ten-month low, dragged down by declining output of crude oil & natural gas and slower expansion of coal, steel & cement production.

- The FMCG industry in India has witnessed a double-digit growth post the implementation of the GST, as per media reports. Products like toothpastes, soaps and hair oils are being taxed at 18% under the GST regime as compared to around 22% earlier.
- Housing prices across top 39 cities in India rose during the Mar-18 quarter, according to NHB Residex. NHBs Housing Price Index (HPI) for under-construction properties recorded an overall y-o-y increase in 39 cities, decrease in 10 cities and no change in one city.
- The passenger vehicle growth in India rose more than 30% to approximately 2.70-2.75 lakh units in Jun-18, which is the highest seen in the passenger vehicle category in the past 18-24 months, according to industry officials. The commercial vehicle sales too are estimated to have registered a growth of over 40%. However, this growth is primarily on account of a low statistical base of Jun-17, when dispatches had slowed down ahead of the GST implementation.

5. Indian Money Market

- The inter-bank call money rate ended at 6.05% on July 2nd – above the RBI's reverse repo rate of 6.00%, as liquidity improved. Reversal of fixed & variable rate reverse repo added Rs 762.1 bln to liquidity.
- Interest rates on 3-Month CPs for NBFCs are at 7.40-7.45% (down by 60 bps, month-on-month), whereas rates on 1-Yr CPs for NBFCs are at 8.50-8.55% (down by 20 bps, month-on-month).
- However, spreads have remained sticky on long term instruments. For instance the spreads between Corp bond vs gilt yields for 3-yr instruments are at 60 (64 last month) and for 10-yr instruments at 59 (59 last month).

6. Cautious Mood in G-Sec ahead of the MSP Announcement

- The benchmark yields in G-Sec market have closed 55 bps higher during the first quarter of FY19. Its closing level on July 2 was at 7.91%.
- Besides the rupee weakness & elevated oil prices, G-Sec traders are apprehensive about the potentially inflationary impact of the revision in minimum support prices of kharif crops expected to be announced soon.
- The outcome of the SDL auction worth Rs 106 bln due later on July 3rd is also weighing on the sentiment.
- According to experts, only continuous OMOs will ensure smooth market conditions in the wake of neutral to negative systemic liquidity.

7. INR Remains Vulnerable to Global Risk Aversion

- Indian rupee slipped against the US dollar on July 2nd on further strengthening of the dollar index and sustained capital outflows from Indian assets.
- So far this year, the rupee has weakened 7.2% against the US dollar, while foreign investors have sold \$621.50 mln and \$6.11 bln in equity and debt markets respectively.
- According to Forex traders, INR is expected to remain in the band of 68-71 per US dollar in the near term on rising external risks but the RBI may intervene to control the volatility.

8. Near-term Equity Outlook to Depend on Global Factors

- Indian equity trading has become extremely volatile amid deteriorating trade relationships between the world's major economies. There is a caution amongst investors as "tariffs" from both the US & China are expected to take effect at the end of the current week.
- With no immediate triggers, Indian equity markets may largely take cues from global developments in the near term, say experts. However, from a longer term perspective, focus will be on the progress of monsoons and corporate earnings.

9. Brent crude at \$77.76 per bbl on July 3, 2018

- Brent crude futures were on the rebound on July 3rd, on the heels of a pullback led by the Brent benchmark, as investors pushed aside higher output concerns and refocused on a potential lack of supply.

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