L&T Financial Services

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## 1. Global Economic Briefs

- As per the Reuters news, the US & Euro zone economies remain a world apart and growth data due in the coming days will only highlight the widening gap, suggesting that their monetary policies will continue to move in opposite directions.
- Japan's currency reached a two-week high against the US dollar on July 23rd and the 10-year benchmark bond yield also attained a six-month peak, following reports that BOJ is likely to end some of its aggressively accommodative monetary policy measures.
- On July 23rd, the People's Bank of China stepped up its efforts to support bank lending amid a gradual slowdown in the Chinese economy on the back of worsening trade relations with the US & aggressive multi-year efforts to curb debt. It made a record injection of longer-term funding available to commercial lenders, after publishing looser-than-expected rules governing the $15 triln asset management industry on July 20th.
- At the two-day meeting of finance ministers and central bankers from the Group of 20 nations held on July 21-22, the G-20 financial leaders called for more dialogue on rising global trade tensions. They now see several risks to global growth like rising financial vulnerabilities, heightened trade and geopolitical tensions, global imbalances, inequality and structurally weak growth, particularly in some advanced economies.
- On July 20th, President Trump renewed his threat to ultimately slap tariffs on a total of $500 bln of imports from China — roughly equal to all the goods Beijing ships annually to the US. The White House has also itemized $200 bln of additional Chinese imports that it said may be subject to tariffs. The US has also imposed tariffs of 25% on steel and 10% on aluminum, including from Europe.
- China, the EU, Canada, Mexico and Turkey have retaliated with taxes on US goods. Christine Lagarde, managing director of the IMF has warned that a wave of tariffs could significantly harm the global economy, lowering growth by about 0.5% "in the worst-case scenario."

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

- During Jun 1-July 23, India has received 369 mm rains -2% below the normal (long period average), as per the latest report of India's weather department. So far this year, the rainfall deficiency is concentrated in East & North East India, Uttar Pradesh, Delhi (UT) & Lakshadweep.
- As per the data released by India's Agriculture Ministry, the erratic & patchy monsoon has reduced the extent of kharif (summer crop) sowing on year-on-year basis by 9% to 63.15 mln ha. Sowing of rice – the largest grown kharif crop is down by 12% (y-o-y), primarily on the back of lesser sowing in UP & Bihar (as both these states have suffered from rainfall deficiency) and lesser sowing in Punjab as the government of this state has been promoting crop diversification from rice to nutria-cereals.
- Floods in Gujarat have impacted the sowing of cotton this year, which is down by 11% (y-o-y).
- As on July 19th, the water available in India's critical reservoirs was at 32% of their total capacity. The current water level is 25% higher than the year-ago level.

## 3. India's Overall Economic & Policy Developments

- Market prices of 12 among 14 kharif crops for which the MSPs were announced by India's government earlier this month for FY19 were below their MSPs between Jun15 – July 15, 2018.

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- The global rating agency S&P fears capital flight from India due to trade issues and rising US interest rates. However, the rating agency feels that India's growth momentum is strong as revealed by the PMI prints and overall credit growth.
- Buoyed by a pick-up in exports in Q1, FY19, India's central government may target $400 bln annual merchandise exports in two years. For this, India's Union commerce ministry is working in close consultation with Federation of Indian Export Organisation (FIEO).
- According to ICRA Ltd., India's current account deficit (CAD) is set to expand to 2.5% of GDP in Q1, FY19 from around two per cent in the preceding two quarters. For the entire fiscal year FY19, CAD is expected to increase to $67-72 bln and amount to 2.5% of GDP as against 1.9% in FY18.
- India's state governments have started implementing the 7th Pay Commission's recommendations for salary hikes. For instance, the State government of Maharashtra has decided to implement recommendations from Diwali (Nov, 2018), which is expected to put a financial burden of Rs 215.3 bln on the state exchequer.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.8% and 8.3% on year respectively, as on July 6, 2018. While outstanding loans increased by Rs 456.6 bln to Rs 86.60 trln in the two weeks to July 6, aggregate deposits rose by Rs 1.33 trln to Rs 114.86 trln. The average Credit-Deposit ratio marginally deteriorated in the last reported fortnight to 75.40% as on July 6 from 75.88% as on June 22.
- India's Broad Money Supply, i.e., M3 growth stayed at 10.2% (y-o-y), as on July 6, 2018 (versus 6.8% a year ago), as "currency in circulation with the public" has been growing at a faster pace (27.7%, 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" further declined to $405.1 bln by 13th July, 2018. The reserves had touched a record high of $426.028 bln in the week to April 13, 2018.

## 4. India's Industrial & Services Sectors Scenario

- India's GST Council has pruned the 28% slab by cutting tax rates on 191 goods over the last one year, leaving just 35 items, including AC, digital camera, video recorders, dishwashing machine and automobiles, in the highest tax bracket. The rate cuts would lead to a revenue loss of about Rs 60 bln.
- As per the media reports, Indian manufacturers of consumer durables are expected to reduce prices by 7.5-8% post the GST Council's decision to lower GST rates on domestic appliances to 18% from 28% earlier.
- India's central government is likely to divest up to ten per cent stake in Coal India (CIL) in order to increase public shareholding to 25% by the end of August 2018.
- As per a survey by Grant Thornton, FICCI & Escrow, India's secondary real estate market is recovering after the effects of demonetisation.
- India's central government has come up with a new 12 gigawatts solar energy scheme that will mandate local manufacturing without violating the World Trade Organization's trade rules. The Rs 80 bln-worth scheme is in the final stages of approval and is expected to help local solar equipment manufacturers suffering from the onslaught of cheap imports.

## 5. Indian Money Market

- India's one-day call rate ended at 6.35% on July 23rd – above the RBI's reverse repo rate of 6.00%, as liquidity in the banking system stays in deficit (at Rs 300 bln). On July 23rd, while reversal of fixed & variable rate reverse repo added Rs 184.81 bln to liquidity, banks borrowed Rs 223.59 bln at fixed rate repo auction.

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* Interest rates on one-month to six-month CPs of NBFCs are lower by 40 to 100 bps as compared to interest rates on six-month to one-year CPs of NBFCs.
* On 3-Yr to 10-Yr corporate bonds, the spreads between corp bond yield & G-Sec yields has been sticky at 47-60 bps. Tightness in liquidity & weak risk appetite have kept the borrowing costs elevated at the longer end of the curve.

**6. Oil prices, US treasury yields & RBI policy weigh on the gilt sentiment**

* The benchmark yield in G-Sec market ended at 7.81% on July 23rd (Monday) versus 7.79% on Friday (July 20).
* An increase in Brent prices to $74.15 per barrel on July 23rd against its previous close of $73.07 has again added to nervousness, as high crude prices have negative implications for both inflation and government finances. This is expected to strengthen the tightening bias in monetary policy.
* Trade volumes remain muted ahead of the RBI's policy move on Aug 1st, as nobody wants to build either a short or a long position before the policy announcement.

**7. FX traders see a new normal for INR at 70-71 per US dollar**

* Indian rupee further slipped against the US dollar on July 23rd to 68.86 from the previous close of 68.84 at the end of last week.
* An increase in Brent crude prices combined with strengthening of the dollar index increased the INR's weakness.
* Traders are seeing 70-71 as a new normal for INR against the US dollar on the back of escalating global trade war, possible devaluation of Chinese currency, firm crude prices and outflow of FPI funds from both debt & equity instruments.

**8. Corporate earnings & INR movement to set the direction for local stocks**

* Indian stocks advanced on July 23rd after India sizably reduced the peak GST rate on more than 50 products and after India's Prime Minister defeated a no-confidence vote in the Parliament on July 20th.
* According to data compiled by Bloomberg, India's Q1, FY19 earnings season, through to the middle of August, has had a mixed start. Net income at six of 12 NSE Nifty 50 Index companies that have reported so far have either met or exceeded estimates. The benchmark index – Sensex has advanced 7.8% this year, holding onto its title as the best performing stock market in the Asia Pacific market.
* We expect Indian stocks to be driven by corporate earnings, futures & options (F&O) expiry and the INR movement in the coming week. The proceedings of the ongoing monsoon session of Parliament are also likely to impact the movement of Indian stocks.

**9. Brent crude at $74.15 per bbl on July 23, 2018**

* Global crude oil prices rose on July 23rd (Monday) after heightened rhetoric between the US & Iran added to investor concerns that crude exports from Iran could be at risk.
* Brent Crude, the global benchmark was up 1.5% today (July 23) at $74.15 a barrel on London's Intercontinental Exchange.

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