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1. Global economic briefs

- The US Federal Reserve voted on June 13th to approve a rate increase and indicated two more are coming this year, bringing the total to four.
- Despite warning that the Euro area was going through a soft patch amid increasing protectionist risks, the ECB decided on June 14th that it would wind down its bond purchases over the next six months.
- The US President Donald Trump pushed ahead with hefty tariffs on $50 billion worth of Chinese imports on June 15th and announced a list of more than 800 strategically important imports from China that would be subjected to a 25% tariff starting on July 6th. On the same day, China swiftly retaliated by imposing "equal" tariffs on US products following the US decision.
- In reaction, Trump further threatened to impose a 10% tariff on $200 bln of Chinese goods on June 18th, prompting again a swift warning from Beijing of retaliation.
- President Trump's aggressive trade policies & expansive tax cut at a time when the US economy is growing, are creating risks that could damage the domestic & global economies, the IMF warned on June 15th.
- According to HSBC research, while higher US interest rates are rattling many Ems, the Federal Reserve's hawkishness has brought cheer for a small group of Asian economies such as Thailand, South Korea, Taiwan, etc., which have enormous external surpluses and would probably be happy to see weaker currencies and capital outflows at the margin.
- In this week, global central banks will remain in the spotlight as there will be decisions from BOE, Switzerland, Taiwan, Thailand & the Philippines along with the ECB's three-day conference in Sintra, Portugal.

2. India: Agriculture and rural economic news

- According to Indian Meteorological Dept., the south-West monsoon has weakened in India after remaining very active in early days of June. However, it is expected to revive later this week. Sluggish pace of monsoon advancement is a normal phenomenon.
- Sowings in kharif (summer) crops was undertaken on 9.3 mln ha until June 15th – marginally lower by 1.2% (y-o-y). Sowings of food grains and major oilseeds are yet to be undertaken in full swing. However, sowings of sugarcane and cotton have increased y-o-y by a little over one per cent by 15th June.
- As a result of Indian government's continuous efforts for effective implementation of the crop insurance scheme Pradhan Mantri Fasal Bima Yojana (PMFBY), several state governments have started paying their share of premiums. During kharif 2017 season, 23 states paid a premium of Rs 41.5 bln, more than three-fourths of their share. The gross premium collected for the season was a little over Rs 190 bln. For rabi FY18 season, while the states' premium share is estimated at Rs 16.1 bln, states have already contributed Rs 5.8 bln.

3. India's overall economic & policy developments

- India's merchandise exports in May-18 rose 20.2% (y-o-y), but the trade deficit widened to $14.62 bln driven mainly by a 50% surge in oil imports amid elevated global prices.
- According to Fitch ratings, India's real GDP will grow by 7.4% in FY19 even as higher financing costs (due to monetary tightening & higher market premiums) and rising oil prices would limit the upside to growth. It has anticipated retail inflation to be around 5% by the end of 2018.

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- To discipline corporate borrowers, the RBI will force all corporate borrowers enjoying working capital limit in excess of Rs 1.5 bln to compulsorily borrow through the demand loan route for at least 40% of the limit before touching other modes like cash credit, overdraft, bill discounting, etc.
- Small savings schemes have re-emerged as a lucrative investment option for Indian citizens, as investments in small savings schemes rose to Rs 1.55 trln in FY18, a 33% increase over Rs 1.17 trln in FY17, as per the National Savings Institute.
- Savings due to direct benefit transfer (DBT) is expected to touch Rs 300-400 bln in FY19, once the entire subsidy regime is brought under DBT, according to India's official sources.
- India's current account deficit (CAD) was $13 bln during Q4, FY18 (i.e., at 1.9% of GDP). This was much higher than the $ 2.6 bln deficit recorded during Q4, FY17 (at 0.4% of GDP) but lower than the $13.7 bln deficit in Q3, FY18.
- The continued depreciation of INR against the US dollar has resulted in RBI turning into a net seller of US dollars in Apr-18. The RBI sold US dollars worth $2.5 bln in Apr-18, after remaining a net buyer of the foreign currency in the preceding 14 months.
- According to RBI, Indian banks loans and deposits rose at the pace of 13.1% and 8.5% on year respectively, as on May 25, 2018. While outstanding loans increased by Rs 159.8 bln to Rs 85.64 trln in the two weeks to May 25, aggregate deposits rose by Rs 45.9 bln to Rs 114.97 trln. The average Credit-Deposit ratio marginally improved in the last reported fortnight to 75.14% as on May 25 from 75.03% as on May 11.
- India's Broad Money Supply, i.e., M3 growth improved to 10.7% (y-o-y), as on May 25, 2018 (versus 6.6% a year ago), as "currency in circulation with the public" has been growing at a faster pace (31.1%, 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 $413.11 bln as on June 8th. They increased by $879.5 mln, helped by rise in foreign currency assets.

4. India's industrial & services sectors scenario

- As per Media reports, the next three bundles of road projects, to be sold to investors via the toll-operate-transfer (TOT) model, are expected to fetch India's government between Rs 120 bln and Rs 180 bln. There is a plan to sell a total 26 road projects across 1,700 km.
- India's road ministry aims to complete 300 highway projects with a total length of around 15,000 km by Mar-19 and will spend around Rs 1.5 trln towards these projects.
- "Total number of office leasing transactions" across top eight cities have risen 60% over the past five years, according to a report by JLL India.
- Cement demand in India is expected to grow by 7% (y-o-y) in FY19, cement manufacturer ACC said in its annual report. However, it said that intense competition and not enough consumption will lead to excess capacity.
- A transformational shift towards electric vehicles in India will significantly impact existing automobile part suppliers, which will face severe competition from new entrants like technology firms and battery makers, according to a report by consultancy firm EY.

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5. Indian money market

- The inter-bank call money rate was ruling at 6.30% on June 18th - above the RBI's repo rate of 6.25%, as banks needed funds amid outflows on account of advance tax payment that are estimated around Rs 500-600 bln.
- Currently liquidity in the banking system is estimated to be in a surplus of Rs 60 bln.
- Interest rates on 3-Month CPs for NBFCs are at 7.75-7.80% (down by 30 bps over the previous month), whereas rates on 1-Yr CPs for NBFCs are at 8.45-8.50% (down by 20 bps over the previous month).
- However, cost of borrowing for companies/NBFCs has continued to increase. For example, the spreads of yields on the bonds of top-rated companies over government bond yields have widened from 58 bps to 70 bps for 3-Yr bonds, from 41 bps to 52 bps for 5-Yr bonds and from 56 bps to 70 bps for 10-year bonds during the past one month.

6. Jittery mood in India's G-Sec market

- A sharp reduction of 4.7% in Brent crude oil prices from $76.44 per barrel on June 15 to $73 per barrel on Monday morning (June 18) prompted some G-Sec traders to add to their holdings.
- In response, the benchmark GOI bond yield eased by 6 bps to 7.83% in the morning session of June 18th from 7.89% on Friday (Jun 15). However, gains in government bond prices could not sustain as crude prices reversed the track and crossed $74 in the later part of June 18th. As a result, the 10-year benchmark yield ended at 7.88% on June 18th.
- Going ahead, G-Sec traders will look at the MPC minutes (due for release on June 20) to get further cues on future monetary policy actions.
- The overall mood for G-Sec remains jittery with the continued lack of appetite from PSBs & foreign investors for government debt issuances. Furthermore, an overnight increase in global crude price on June 18th has again dampened the sentiment. India's ministry of finance is now actively looking at various options like floating rate notes & buybacks to rein in surging bond yields.

7. INR exudes a strong depreciation bias

- Indian rupee depreciated further by 0.8% in the past week and closed at 67.99 per US dollar on June 18th.
- Strong dollar index, importers' demand for dollars & weak risk appetite are currently weighing on Indian currency.
- In June 13 FOMC meeting, Federal Reserve decided to increase interest rates by 25 bps for the second time in 2018 citing their confidence in the US economy.
- According to FX experts, increasing interest rates in the US & their impact on the dollar strength are likely to take INR towards the 69 mark by end-July, 2018.

8. Cautious mood in Indian equity markets

- Several global factors are weighing on Indian equity sentiment currently. Rate tightening by the US Fed, hefty tariffs on China by the Trump administration, the OPEC meet on June 22-23 to review their production agreement, a three-day ECB forum in Portugal & its implications for other major global currencies, Bank of England rate setting meeting, etc.

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- Domestically, progress of monsoon will remain critical for equity outlook.
- Equity analysts expect stock markets to continue to stay in a consolidated range. The movement of INR against the US dollar and the direction of FPI funds flow will set the course for Indian equity indices.

9. Brent crude at $74 per bbl on June 18, 2018

- Brent crude prices jumped back over $74 a barrel on Monday (June 18) amid reports that OPEC members are discussing a smaller-than-expected production boost ahead of this week's meeting in Vienna.
- As per the Bloomberg news, cartel members are leaning towards a compromise agreement that would boost output by between 300,000 and 600,000 barrels of oil per day, with Russia pushing for a larger increase and Iran backing the current agreement that has taken around 1.8 million barrels of oil from the market each day since January 2017.

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