

Dr. Rupa Rege Nitsure  
Group Chief Economist

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## 1. Global economic briefs

- The UK manufacturing output fell 0.1% sequentially in Mar-18, in line with market expectations. The slowdown in the UK manufacturing was indicated by the manufacturing PMI too that decelerated sharply in both March and in April.
- However, the Bank of England (BOE) stays committed to its “gradual and limited” view of the likely rise in interest rates. Its forecasts assume three 0.25% increases by mid 2021. According to analysts, growing weakness in consumption will keep “interest rates” lower for longer than the BOE-MPC expects.
- Senior American, Canadian & Mexican officials ended a week of talks on May 11<sup>th</sup> without a deal to modernise NAFTA, agreeing instead to resume negotiations soon, ahead of a deadline next week. Donald Trump described this development as a horrible disaster for the US.
- The US import prices rose less than expected in Apr-18 as a rebound in the cost of petroleum products was tempered by a drop in food prices, the latest indication that inflation pressures are rising moderately in the US.
- Interestingly, Fed’s William sees no evidence that the “neutral rate” (i.e., the rate consistent with stable inflation & strong employment) is rising for the US economy, even if he agrees that continued Fed rate increases are “the right direction for monetary policy”. This means with a new normal for short-term rates of around 2.5%, interest rates in the US are likely to remain low relative to historical experience.
- Japan’s central bank might review its unconventional policies in the face of a looming recession, as a likely economic contraction in Q1, 2018 – if confirmed – would snap the nation’s longest period of GDP growth since the 1980s bubble economy.
- Recent reports showed that China’s daily crude steel output rose to its highest in at least four years in Apr-18, as mills boosted production to take advantage of high margins after the end of winter output curbs.
- The OPEC has slightly raised its forecast for oil supplies on Monday (May 14) from non members, as US production continues to surge. The group's output was up about 12,000 barrels a day in April at just under 32 mln barrels a day as its members cap output to manage supply. The OPEC has warned that the global economic growth outlook has become uncertain, in part due to US trade policy and sanctions on Russia and Iran.

## 2. India: Agriculture and rural economic news

- While the Indian Meteorological Department has predicted 97% of normal monsoon rains this year, meteorologists at the Indian Institute of Tropical Meteorology (IITM) in Pune are keeping a close eye on unfolding weather conditions at the Arctic Circle–5,000 kms away - for their potential to help forecast, and possibly impact, this year’s monsoon.
- India’s agriculture ministry has set a target to increase food grain production by over 6 mln tns to record 283.7 mt in FY19 crop year on hopes of weather office forecast of normal monsoon.
- Motorcycles sales in India have risen at a much faster clip than scooter sales in Apr-18- for the third consecutive month, indicating a recovery in the country’s rural markets after the twin disruptions of demonetisation and the implementation of the GST.
- India’s government and private companies alike are taking the first steps to deploy big data analytics, artificial intelligence (AI), and the Internet of Things (IoT) to gain insights into and offer solutions to problems in India’s agriculture sector.

### 3. India's overall economic & policy developments

- The state of Karnataka in India is headed for a spell of political instability as the ruling BJP emerged as the single-largest party with 104 seats after the just concluded Assembly elections, but could not reach the halfway mark of 112. As a result, the other parties – Congress and Janata Dal (Secular) have staked claim to form a coalition government. All eyes are now on Governor of Karnataka who will decide whom to invite to form the next government. After the ruling party BJP fell short of the majority mark, the benchmark stock indices cam off nearly 500 points and both bonds & rupee posted large losses.
- According to India's commerce ministry data, India's exports rose by 5.17% (y-o-y) to \$25.9 bln in Apr-18 on the back of good performance by sectors like engineering, pharmaceutical and chemicals. Imports were up by 4.6% to \$39.6 bln in the same month taking India's trade deficit to \$13.7 bln – slightly higher than the previous month.
- According to India Ratings, Indian economy is gradually coming out of the twin shock of demonetisation and GST which temporarily derailed growth. The ratings agency, however, cautioned on the possible widening of the current account deficit due to rising oil prices which has been creating pressure on the currency.
- According to IMF, India's economy is expected to grow at 7.4% in the current fiscal (FY19) and will accelerate to 7.8% as it recovers from demonetization and GST rollout. But there are risks and challenges ahead, including from a tightening of global financial conditions, a shift toward inward-looking policies, and - over the longer run - population aging, slowing productivity growth, and the rise of the digital economy.
- India's annual retail and wholesale inflation accelerated in Apr-18 with CPI touching 4.58% on higher core inflation (at 5.8%) and WPI touching 3.18% on higher global commodity prices including crude oil prices. We expect the RBI to become more hawkish in its future policy reviews, as core components of CPI reflect increased demand-pull pressures.
- Petrol and diesel prices have been hiked for three straight days in India after a 19-day hiatus due to the election fever. Including the latest hike on May 16<sup>th</sup>, petrol prices in India have gone up by a cumulative 46-50 paise per litre across Delhi, Kolkata, Mumbai and Chennai in just three days.
- As per the report 'RemitSCOPE - Remittance markets and opportunities - Asia and the Pacific' – India was the largest remittance- receiving country in the world, with migrant workers from the country sending home US \$ 69 bln in 2017.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.6% and 8.2% on year respectively, as on Apr 27, 2018. While outstanding loans increased by Rs 622.9 bln to Rs 85.39 trln in the two weeks to Apr 27, aggregate deposits rose by Rs 510.3 bln to Rs 114.31 trln. As per the market information, loan growth is not broad-based but concentrated in a few sectors. The average Credit-Deposit ratio marginally improved in the last reported fortnight to 74.70% as on Apr 27 from 74.49% as on Apr 13.
- India's Broad Money Supply, i.e., M3 growth accelerated to 10.6% (y-o-y), as on Apr 27, 2018 (versus 6.7% a year ago), as "currency in circulation with the public" has been growing at a faster pace (~34%, 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" declined by \$ 1.43 bln to \$ 418.94 bln in the latest reported week that ended on May 4, 2018. The nation's foreign-exchange reserves have declined by almost \$6 bln in the last two weeks, a sign the RBI intervened to support the rupee.

#### 4. India's industrial & services sectors scenario

- India's industrial production growth fell to a five-month low of 4.4% in Mar-18, partly due to an unfavourable base effect and partly due to modest sequential dips in all categories except consumer non-durables.
- Over 300,000 workers will be employed in the solar and wind energy sectors in India to meet the country's target of generating 175 gigawatts of electricity from renewable sources by 2022, [the International Labour Organisation has estimated in its latest report](#).
- As per the CRISIL's latest assessment, resolution of insolvency cases in the National Company Law Tribunal (NCLT) against the stressed steel companies will settle over half of steel sector's outstanding debt of Rs 3.26 trln and consolidate the sector further. [Companies with around 22 mt of crude steel capacity have been referred to the NCLT in the first round of the stressed assets resolution process by the RBI](#).
- In a bid to tackle trade finance woes of micro, small and medium enterprises (MSMEs), India's Union Government announced that it would double the credit guarantee up to Rs 500 bln for FY19 [under the Credit Guarantee Fund Trust for Micro and Small Enterprises \(CGTMSE\) scheme set up by the MSME Ministry](#).

#### 5. Indian money market

- The inter-bank call money rate ended below the RBI's repo rate of 6.0% at 5.80% on May 15<sup>th</sup> as the requirement for funds from banks eased towards the end of the day amid surplus liquidity in the system.
- Currently, liquidity in the banking system is estimated to be in a surplus of around Rs 200 bln.
- However, rates on short-term debt instruments like CDs & CPs rose sharply on May 15<sup>th</sup> due to a surge in core CPI inflation in Apr-18, which fuelled fears of a policy rate hike by the RBI sooner than expected earlier.
- Rates on NBFCs' CPs maturing in three months were up by 25 bps at 8.25-8.40%, and those on CPs of manufacturing companies rose to 7.75-7.85% on May 15<sup>th</sup> from 7.50-7.60% on May 14<sup>th</sup>.

#### 6. Tremendous uncertainty in India's G-Sec market

- The 10-year benchmark G-Sec yield climbed by 10 bps yesterday (May 14) to an over 26-month high of 7.83%, triggered by a very high CPI inflation print for the month of April, which reflected the presence of demand-pull pressures.
- The 10-year bond yields further spiked to 7.90% on May 15 post the Karnataka Assembly election outcome.
- G-Sec traders have turned jittery over the rising prospects of an increase in policy rates. Bond yields are hardening also because of INR's depreciation against the US dollar fuelling concerns of FPI outflows from the Indian debt market.
- The INR further slumped on May 15<sup>th</sup> (to 67.86 per US \$) after media reported a fair possibility of an alliance between the Congress & Janata Dal to form a government in Karnataka.
- Rupee's growing weakness against the US dollar coupled with rising oil prices & US treasury yields have prompted FPIs to reduce their holdings of Indian debt substantially over the last few weeks. Additionally, the possibility of BJP losing power in Karnataka has created concerns over macro stability. Because of all these factors, G-Sec traders are not able to take a trend call in this market.

## 7. INR is down by 6.22% in 2018 so far

- Indian rupee slumped to its lowest level in over 15 months against the US dollar on May 15<sup>th</sup> on media reports that the Congress has approached the Janata Dal (Secular) to form a government in Karnataka. The currency closed at 68.11 a dollar from its previous day's close of 67.52.
- Continued rise in the dollar index on hopes of easing global trade tensions has also been weighing on the Indian currency.
- Year-to-date, the Indian currency is the worst-performing currency in Asia falling by 6.22% against the US dollar amid continuously rising oil prices. Future trajectory of INR will primarily depend on oil prices and the sufficiency of foreign capital flows to finance India's current account deficit.

## 8. Lesser correction expected in Indian stocks than in bonds

- Indian stocks that were decidedly positive in the morning trade on May 15<sup>th</sup>, gave away a 400-point gain due to a volatile election activity in the state of Karnataka.
- With rising yields and cheaper bonds, Indian equities look relatively more expensive, which may cap equity indices to some extent during FY19.
- However, stock experts see more correction in bond prices than in equity prices, as optimism continues over the medium-term outlook for growth & earnings of Indian companies.

## 9. Brent crude hit \$78.18 per bbl on May 15, 2018

- Global crude oil prices are gradually moving towards reaching the \$80 per barrel mark, as Brent hit \$78.18, per barrel during trading hours on May 15<sup>th</sup>.
- In the near-term, the focus in the oil market will remain on geopolitical tension in the Middle East after President Donald Trump withdrew the US from the Iranian nuclear agreement.
- Aside from geopolitics, oil traders will also continue to weigh a steady increase in the US production levels going ahead as the rise in the US drilling marked one of the few factors tamping back crude in an otherwise bullish environment.

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