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1. Global economic briefs

- The global economy is set to expand faster than expected in 2018 and 2019, the United Nations said on May 17th, predicting a new growth rate of 3.2%. The surge in growth is driven by a rebound in developed economies and broadly favourable investment conditions.
- Japan's exports grew at a stronger pace of 7.8% (y-o-y) in Apr-18 on increased shipments of cars & machines reflecting healthy external demand conditions.
- India and the European Union have given the World Trade Organization lists of the US products that could incur high tariffs in retaliation for US President Trump's global tariffs on steel and aluminium, as per the WTO filings.
- Rising oil prices – that was a "Negative" for the US economy once, may now be "a wash". The rise of the US to become the world's second-largest oil producer has changed the calculus for how rising energy prices affect the economy.
- A sustained appreciation of the US dollar has increased currency related risks in the emerging markets (EM) over the past four weeks, resulting in higher borrowing costs in EM economies, which, in turn, has affected their investment appeal and the GDP growth prospects.
- EM central banks are going on the defensive. As per the Bloomberg news, policymakers in key EM economies from India to Mexico will raise interest rates faster than analysts previously expected on the back of a surging US dollar & the highest 10-year US treasury yields since 2011. However, EMs with current account surpluses are in a better position to withstand the impact of Fed rate hikes than those with deficits.
- As a special case, Argentina's central bank used the interest rate shock after its currency crashed to a record low. It raised borrowing costs by 12.75 percentage points in just over a week to 40% - the highest in the world.

2. India: Agriculture and rural economic news

- According to India's weather dept. (IMD), the south-west monsoon is expected to hit Kerala on May 29 – three days ahead of its normal date of onset on India's mainland. This forecast has a model error of plus/minus four days. This is the third consecutive year that the IMD had predicted a "Normal" monsoon in 2018.
- Kharif (summer crop) sowing has already commenced in some parts of India. The sowing is reported at 5.4 mln ha as on 18th May, 2018. Out of this, sugarcane was sown over 4.7 mln ha and accounted for major portion of the area covered so far.
- India's food grain production is up 1.6% (y-o-y) to 279.51 MT in FY18 as per the third advance estimate released by the India's dept of agriculture.
- On May 16, the Indian government allowed producers of fuel to convert surplus food grain into ethanol with the aim of curbing crude oil import bill and augmenting farmers' profit. Until now only ethanol produced from sugarcane was allowed to be mixed with gasoline.
- Monsoon progress, water reservoir levels & pre-monsoon showers need critical monitoring to assess India's FY19 Kharif potential. While few states have better storage than last year currently (like West Bengal, Tripura, Maharashtra, Uttarakhand, Andhra Pradesh, Karnataka, Kerala & Tamilnadu), many states have lower storage this year (like Punjab, Jharkhand, Odisha, Gujarat, Uttar Pradesh , Madhya Pradesh Chhattisgarh & Telangana). Rajasthan is the only state having equal storage as last year.

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3. India's overall economic & policy developments

- The UN World Economic Situation and Prospects (WESP) as of mid-2018 stated last week that GDP growth in India is expected to climb to 7.5% & 7.6% in fiscal years FY18 & FY19, respectively. This is a substantial recovery from the 6.7% growth India registered in fiscal year FY17.
- However, persistent increase in global crude oil prices is challenging India's fiscal/current account deficit maths, raising inflation fears and concerns on India's credit rating upgrade.
- Endorsing the findings of our "Opportunity Dashboard" developed in-house, the data from market research firm Nielsen has shown that Indian rural markets' volume growth outpaced urban's by a wide margin during FY18 –the highest in past five years. During the year, volume growth in rural market clocked 9.7% compared to 8.6% in urban areas.
- The acquisition of debt-laden Bhushan Steel under the Insolvency and Bankruptcy Code (IBC) framework is expected to reduce bad loans of India's state-owned banks by Rs 350 bln, as per the official reports. India's finance ministry now expects banks to get over Rs 1 trln with resolution of 12 NPA cases.
- The RBI has issued final norms on net stable funding ratio (NFSR) and kept it at 100%. It said that keeping an NFSR limit would ensure that banks have sufficient stable sources of funding to finance their activities over the long term.
- 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 for the fourth consecutive week. In the latest reported week that ended on May 11th, the reserves plunged by \$1.23 bln to \$417.70 bln. The fall in reserves was most likely driven by the RBI's intervention to prevent a rapid depreciation in INR.

4. India's industrial & services sectors scenario

- India's central government has approved construction of 4.59 mln houses in urban areas since 2014, recording an increase of nearly 240% as compared to that sanctioned in the earlier political regime. The present government aims to construct 12 mln houses by 2022 under the Pradhan Mantri Awas Yojana (Urban).
- India's domestic air passenger traffic rose to 11.5 mln in Apr-18 - up 26.05% -- from 9.13 mln reported during the corresponding month of 2017. However, in sequential terms, the traffic growth remained flat.
- Coal imports by thermal power plants in India dropped by 22.2% in Apr-18, as per the statistics compiled by the Central Electricity Authority (CEA). According to industry experts, "higher international coal prices" must have affected coal imports by the power plants.
- India's biggest steelmakers are set to expand production to a record after reporting solid quarterly earnings amid strong steel prices.
- India's oil consumption grew by 4.5% in Apr-18 as industrial activity gathered pace and sales of transport equipments soared. The nation's total oil demand expanded to 17.7 mln tonnes in the month from 16.9 mln

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tonnes a year ago, increasing for eight straight months, according to the oil ministry's Petroleum Planning & Analysis Cell.

5. Indian money market

- The inter-bank call money rate ended at 6.10% on May 21st - above the RBI's repo rate, as banking system experienced liquidity stress following outflows on account of GST. The gilt auction outflow of Rs 120 bln also weighed on liquidity.
- Currently, liquidity in the banking system is estimated to be at a deficit of Rs 100-200 bln.
- Interest rates on short term debt instruments like CPs & CDs have spiked in the past one month. For instance, in just a month's time the cost of borrowing for NBFCs via 3M CP has gone up by 130 bps.
- Spreads between corporate bond yields and G-Sec yields have widened maximum on 3-year instruments, followed by 5-year instruments and then on 10-year instruments. Investors attribute the unusual shallowness in the debt market to the peculiar gap between short and long term bonds (an inverted yield curve).

6. India's G-Sec market running on OMO expectations

- After closing at 7.90% on May 15th – the highest level in three years, India's 10 year benchmark yield is now hovering near 7.82% as some participants have stepped up purchases at attractive yield levels.
- Other supportive factor has been the expectation that RBI may carry out more bond purchases under open market operations to provide support to gilt prices.
- Earlier this month, the RBI announced it would purchase Rs 100 bln worth of gilts – its first such operation in a year. And it was fully paid. The weekly auction following the OMO purchase finally saw no devolvement with a decent bid to cover.
- While surging crude prices and heightened expectations of a rate hike(earlier than expected) by the RBI have increased bearishness in the G-Sec market, expectations of additional OMO purchases have created hopes and provided some support to gilt prices. However, the market is likely to take cues from the result of today's SDLs auction, where ten states have offered to raise Rs 87.50 bln.

7. INR remains vulnerable to new lows

- Indian rupee ended at its lowest level in over 16 months yesterday (May 21) at 68.12 per USD recording the depreciation of nearly 7% in the current calendar year so far.
- Rising political uncertainty, strengthening of the US dollar index and persistent demand for dollars by oil companies following a steep rise in oil prices are the primary reasons behind rupee's steep fall.
- The dollar index further strengthened yesterday on the back of comments from US Treasury Secretary that rekindled hopes that trade tensions between China & the US could ease.
- FPIs have extended their selling spree into the fifth consecutive week. They sold $885 mln in India's debt segment last week. The FPIs have sold $2.17 bln in the debt segment so far, this month.
- The bearish outlook remains intact for the INR. Technical experts say if rupee breaks below 68.90 then it may see the fresh lows of 70-71 in the coming months.

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8. Oil Prices – A key threat to Indian equities

- Benchmark equity indices of India continued their fall for the fifth trading day on May 21st on the back of increasing political uncertainty in Karnataka and surging crude oil prices.
- Global brokerage – Credit Suisse has given "Underweight" rating to Indian equities in an Asia-Pacific context, as the Indian equities' premium has risen to the highest level. It has cited factors like four consecutive years of downgrades to consensus EPS, current account deficit, rising oil prices further pressuring the current account and fiscal deficits and the nervousness of FPIs, etc., to validate its call. Similarly, CLSA too sees rising oil prices as a key threat to Indian equities. Another threat cited by the CLSA is a sharp slowdown in mutual fund inflows.

9. Brent crude again neared $80 per bbl on May 21st, 2018

- Oil prices rose yesterday (May 21) on concerns that Venezuela's crude output could drop further following a disputed presidential election and potential US sanctions on the OPEC-member.
- Brent crude futures again broke through $80 in the interim trade yesterday and ended at $79.89 per barrel.
- The US has also toughened its stance on Iran and made a list of sweeping demands, which could further curb the country's crude oil exports and boost oil prices.

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