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1. Global Economic & Policy Briefs

- The US Federal Reserve raised interest rates on Sept 26th - for the third time this year, taking the range of its Federal Funds Rate to between 2.0% & 2.25%, up by 0.25 percentage points. [The latest move is the Central Bank's eighth rate rise since 2015. The Federal Reserve was widely expected to raise rates due to strong economic growth over the year so far.](#)
- The EM Central Banks too are catching up with the US Fed and are responding with higher policy rates in a bid to restore calm in their currencies. [While Indonesia raised its seven-day repo rate by another 25 bps to 5.75% on Sept 27th, the Philippines raised rates by 50 bps to 4.5%. The currencies of both these nations have slumped more than 8% against the dollar this year, the worst performers in Asia after India's rupee. While Turkey had raised its benchmark rate by a hefty 625 bps this month, Russia had raised its policy rate by 25 bps to 7.50% for the first time since 2014.](#)
- Factory activity in Asia, esp. In trade-oriented nations has started showing weaknesses on the back of a slump in export orders. [Escalating trade tensions between the US & China have started taking a toll on business confidence.](#)
- Reuters has reported that a growing number of Asian manufacturers of products ranging from memory chips to machine tools are moving to shift production from China to other factories in the region [in the wake of US President Donald Trump's tariffs on Chinese imports.](#)
- The Bank for International Settlements (BIS) released its Quarterly Review at the last weekend that has again highlighted the divergence between the US economy and the emerging markets this year. [While growth has accelerated within the US economy, financial conditions have eased further despite a steady increase in the Fed rate. With the US dollar appreciating, initial rumblings within emerging market economies had become considerably louder, with crises erupting in Argentina and Turkey and others, those with large CAD position and smaller Forex reserves, seeing large falls in the value of their currencies.](#)
- The manufacturing sub-index for Germany dipped in Sept-18 and companies scaled back their overall expectations slightly, suggesting a growing trade tension between the US and China is weighing on exporters. [The growth outlook for Germany is also clouded by an impasse in Britain's negotiations with its EU partners over the conditions of its departure from the bloc next March.](#)
- A free trade agreement that was signed by the US President Donald Trump and South Korean President Moon Jae-in on Sept 24th was hailed by Trump as a "historic milestone in trade." [Trump, who has sought to renegotiate trade deals with several countries around the world, said the revised agreement would reduce bureaucracy and increase prosperity in the US and South Korea.](#)
- The US and Canada reached a deal on Sept 30 to salvage NAFTA as a trilateral pact with Mexico, beating a midnight deadline with agreements to substantially boost American access to Canada's dairy market and protect Canada from possible US auto tariffs, as per the official sources. [Donald Trump has been blaming NAFTA for the loss of American manufacturing jobs.](#)

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

- Despite India missing a forecast for normal monsoon this year, there has been no significant drop in the area under Kharif (summer) crops. [While the rain deficit stands at 9.4% of the Season's average, the acreage of Kharif crops is at 105.23 mln – less than 2% lower than the previous year.](#)

- Water levels in reservoirs are also higher than last year, which is positive for the Rabi (winter) crops. India's 91 main reservoirs held 122.5 bln cubic meters of water as on 25th Sept, compared with 105 bln cubic meters a year earlier, according to the central water commission.
- The India Met Department's operational forecast for the 2018 Northeast monsoon season (October-December) rainfall over South Peninsula is most likely to be normal, as per an official press release. The rainfall activity is expected to be in the range of 89-111% of long period average with a tendency to be in the positive side of the normal.
- India's cabinet committee on economic affairs (CCEA) has approved the increase in MSPs for all rabi crops for FY19 to be marketed in FY20 season. The move will give additional return of Rs 626.35 billion to farmers, as per the estimates.

3. India's Overall Economic & Policy Developments

- While the UNCTAD has placed India's growth projection at 7% in 2018, the ADB has placed it at 7.3% for 2018-19 and at 7.6% for 2019-20. The UNCTAD feels that India & Thailand will remain most vulnerable to capital outflows, whereas the ADB sees rapid INR depreciation and volatile external financial markets as the key risks to India, going ahead.
- According to a member of the Indian Prime Minister's Advisory Council, India must restrict imports of luxury goods to tackle a widening CAD (current account deficit) and support the rupee, instead of resorting to raising interest rates.
- We were expecting Monetary Policy Committee of RBI to raise policy rates at least by 50 bps on Oct 5th given the increased risks to inflation on the back of INR depreciation of 13.7% and Brent crude price increase of 14.8% since August 1st – when the last monetary policy review took place. Also, other major EM central banks (Turkey, Russia, Indonesia, Philippines) have already raised policy rates in recent months to protect their currencies. However, given the tightness in liquidity in the aftermath of IL&FS debt defaults and in view of other factors like advance tax outflows and increased demand in the build-up to festive season, the RBI has already committed to infuse Rs 360 bln via bond purchases this month. The government too has cut the size of its market borrowings for the second half. In view of this, we expect the MPC to vote for an increase of 25 bps in the Repo rate on Oct 5th. The possibility of another hike of 25 bps soon after the dust settles cannot be ruled out at this juncture. Luckily, the growth figures remain supportive of tighter monetary policy actions. There is also a possibility that they may tinker with the LAF corridor and disincentivise the banks to park more liquidity with the RBI through a reverse repo window.
- India's government cut the retail prices of petrol and diesel by Rs 2.50 per litre today to tackle a sharp hike in crude oil prices and the impact of a weak rupee on inflation. The cut is a result of a reduction in the excise duty of Rs 1.50 per litre with oil marketing companies taking a revenue hit of Rs 1 per litre. The Central government has also asked state governments to cut the value added tax on fuel by a further Rs 2.50 per litre.
- Indian government's GST collections at Rs 944.4 bln fell short of the monthly target of Rs 1 trln for the fifth consecutive month now. This has raised concerns over the government's lower borrowings plan in H2, FY19.
- According to RBI, Indian banks non-food credit and deposits rose at the pace of 13.6% and 8.6% on year respectively, as on Sept 14, 2018. While outstanding non-food credit increased by Rs 174.3bln to Rs 87.49 trln in the fortnight to Sept 14, aggregate deposits fell by Rs 757.7 bln to Rs 115.71 trln. Consequently, the average Credit-Deposit ratio improved in the last reported fortnight to 76.04% as on Sept 14 from 75.39% as on Aug 31st.

- India's Broad Money Supply, i.e., M3 growth stayed at 10.0% (y-o-y), as on Sept 14, 2018 (versus 6.4% a year ago). Currency in circulation with the public is expanding at an accelerated pace of 24.3% (y-o-y) currently. Last year around this time, it was shrinking at the rate of -10.9%.
- India's "foreign exchange reserves" increased by \$1.3 bln to \$401.79 bln in the week to Sept 21st, 2018. The foreign currency assets have risen in the past two reported weeks after consistently falling for six-seven weeks before that.

4. India's Industrial & Services Sectors Scenario

- Several leading indicators are pointing to early signs of industrial pick up in India. Cargo traffic at India's major ports grew by 9.4% (y-o-y) in Aug-18; India's domestic air passenger traffic grew in double digits for the 48th consecutive month in Aug-18. The Nikkei India manufacturing PMI rose to 52.2 in Sept-18 from 51.7 in the preceding month. India's manufacturing sector has expanded for the 14th consecutive month.
- India's core industrial output growth has slowed to 4.2% in Aug-18 from 7%-plus growth in the previous month primarily on account of weakening of favourable statistical base. The destocking of production in Jun-Jul, 2017 before the GST rollout had created a favourable statistical base for production growth during these months in 2018. However sequentially, the output of steel, natural gas, electricity and crude oil reported an improvement in Aug-18 over Jul-18.
- Companies in India see a significant uptick in their business and growth prospects for the quarter ended Sept, 2018 compared to the previous quarter, as per the CII survey. The Business Confidence Index of CII (based on the survey results) stood at 64.9 for the second quarter of FY19, as opposed to 60.1 in the previous quarter.
- However, India's services sector PMI expanded at a slower pace in Sept-18, as higher fuel costs and stronger US dollar made imported goods expensive.
- As per the IIMA Business Expectations survey, one year ahead business inflation expectation in Aug-18 has again increased sharply to 4.5% from 3.8% observed in Jul-18. At the same time, uncertainty of inflation expectations has remained elevated. For the first time, one year ahead business inflation expectation has turned out to be higher than CPI headline inflation expectation.

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