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1. Global Economic Briefs

- At more than $2.6 trillion, Italy has the world's fourth-largest total debt load. At roughly 131% of GDP, it's more than twice what EU rules allow. If investors get spooked and bond yields spike, as happened to crisis-ridden European economies in 2010–2012, Italy's debt payments could spiral out of control.
- After weeks of tug-of-war games, Italy's coalition government - made up of the populist five-star movement & the right wing Northern League party – last week approved their first budget. Under the proposals, the country's deficit will rise to 2.4% of GDP in 2019. In Brussels, reaction to Italy's draft budget has ranged from strong rejection to moderate concern. EU Commissioner for economic and financial affairs, taxation and customs, Pierre Moscovici, has warned that the budget "lies outside our rules and regulations."
- China's economic growth slowed to 6.5% (y-o-y) during Q3, 2018, missing expectations.
- Global experts are predicting the next global recession to be triggered by a threat to the reliable Saudi oil supplies, extraordinary slowdown in Chinese economy, growing trade frictions & tariff war, normalisation of the US monetary policy & tighter financial conditions and debt-ridden & budget-busting Italy.
- The OPEC kingpin Saudi Arabia does not wish to impose a 1973-style oil embargo on Western consumers, the country's energy minister reportedly said yesterday, amid a deepening crisis over the killing of journalist Jamal Khashoggi. It comes as the world's top oil exporter faces intensifying international pressure to explain exactly what happened to Khashoggi at a Turkish consulate earlier this month.
- During this week, the US will see data on durable-goods orders, third-quarter gross domestic product and consumer sentiment. Europe will receive data on manufacturing and services. The ECB will announce its monetary policy decision on Oct 25th.

2. Indian Agriculture Scene

- To provide relief to India's farmers availing short term crop loans and those affected by natural calamities, the RBI is likely to provide interest subvention of two per cent on crop loans, as per the media reports. Banks will be advised to take a sympathetic view of the difficulties of borrowers from calamity affected regions.
- The post-monsoon analysis for India by CRISIL Ltd. shows that a skewed distribution of monsoon this year has adversely impacted the sowing of jowar & bajra in the states Rajasthan & Maharashtra, sowing of jute in West Bengal, sowing of cotton in Gujarat & Maharashtra and sowing of groundnut in Gujarat & Andhra Pradesh.
- The Cotton Corporation of India (CCI) will soon commence the largest ever cotton procurement programme, with a target to buy 10 million bales in the current cotton season (Oct, 2018 to Sept, 2019). From this year, the CCI has imposed a set of quality parameters on cotton sellers to improve India's reputation as a source of good quality cotton globally & fetch better prices.
- According to JM Financial's Rural Safari, wage income forms a significant share of marginal/small farmer incomes (60/20 per cent) and hence any change in the wage trajectory can have significant bearing on rural incomes. Rural wage growth in India had remained soft in the past two years. However, sporadic instances of wage increases were observed in Sept, 2018, particularly in Andhra Pradesh, Telangana, Eastern Uttar Pradesh & Haryana.

3. India's Overall Economic & Policy Developments

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- According to the Ipsos online Survey - Indian Primary Consumer Sentiment Index (PCSI) - Indian Consumer Confidence Index plummeted 6.6 percentage points in September, 2018 as consumers were worried about various factors such as personal finances for day to day running of the household, savings & investments. Besides, there are concerns over job opportunities and performance of the economy.
- The US-China trade war has opened up a window of opportunity for India to push for higher exports to the US in around 180 items, as per the research note of India's ministry of commerce.
- India's monetary policy committee's surprise decision to stand pat in Oct, 2018 was driven by a downside surprise in inflation (esp food inflation) and the need to monitor the impact of hikes already made, according to the minutes released on Oct 19th. The only member of MPC who voted for a rate hike sees clear risks to inflation trajectory on the back of 7% nominal depreciation in the INR, an increase of $13 a barrel in the oil price since the August policy and the nature & scope of MSP implementation.
- To counter the resource crunch faced by the NBFC sector, the RBI has given banks more headroom to lend to NBFCs by exempting these loans from some of the prescriptions on liquidity requirements. Additionally, the single borrower limit for NBFCs that are not lending to infrastructure sectors, has now been hiked to 15% of capital funds from the earlier cap of 10%. The relaxations are limited to up to half a percent of the banks' deposits and are valid until Dec, 2018.
- PNB Housing Finance has raised Rs 17.75 billion through the sale of CPs, allaying concerns that mutual funds & banks are averse to buying short term papers from mortgage lenders & NBFCs due to ALM concerns.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.5% and 8.1% on year respectively, as on Sept 28, 2018. While outstanding loans increased by Rs 1.84 trillion to Rs 89.82 trillion in the two weeks to Sept 28, aggregate deposits rose by Rs 2.36 trillion to Rs 118 trillion. The average Credit-Deposit ratio marginally improved in the last reported fortnight to 76.13% as on Sept 28 from 76.08% as on Sept 14.
- India's Broad Money Supply, i.e., M3 growth slowed to 9.4% (y-o-y), as on Sept 28, 2018 (versus 5.6% a year ago), as "currency in circulation with the public" has been growing at a faster pace (23.1%, y-o-y).
- India's "foreign exchange reserves" declined by $5.14 billion to $394.47 bln in the week to Oct 12, 2018. This is the biggest single week fall in forex reserves in about seven years, on the back of the RBI's aggressive intervention in the forex market to control heightened volatility in the value of rupee.

4. India's Industrial & Services Sectors Scenario

- The Government of India has taken a mission to provide electrification on all the broad gauge railway lines of Indian railways (IR) as electric traction is cheaper and the energy would be sourced from locally available sources. With this, the IR will be able to save approximately Rs 135 billion per annum post the completion of electrification of railway lines.
- According to CARE Ratings report, Logistics industry in India would grow at the CAGR of 10% over its size in FY17 and attain the size of US $215 billion by FY21. The main growth drivers for this industry would be manufacturing, retail, FMCG and e-commerce sectors.
- India's government is looking to either rebid for or acquire incomplete national highway projects being undertaken by the debt-ridden Infrastructure Leasing and Finance Corporation (IL&FS). These projects may be acquired or rebid by the National Highways Authority of India and National Highways and Infrastructure Development Corporation.

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- Delays due to poor health of sponsors, stressed assets and reluctance of banks to provide funding has derailed government's ambitious infrastructure plans through the public, private partnership (PPP) programme, with several projects headed to the bankruptcy court.
- According to RBI's Housing Price Index (HPI), housing prices rose by an average 5.3% (y-o-y) during Q1, FY19 in ten major cities of India. These include Mumbai, Delhi, Chennai, Kolkata, Bengaluru, Lucknow, Ahmedabad, Jaipur, Kanpur & Kochi.

5. Indian Money Market

- India's one-day call rate ended at the RBI's Repo rate of 6.50% yesterday (Oct 22), as demand for funds remained firm due to tight liquidity in the banking system.
- Liquidity deficit in the banking system has widened to Rs 1.50 trillion following payments for goods & service tax yesterday (Oct 22).
- Liquidity constraints for NBFCs due to the risk aversion triggered by the defaults of IL&FS are slowly easing thanks to the recent RBI measures to ease systemic liquidity as well as specific liquidity for NBFCs. Market conditions have definitely improved since mid-September. NBFCs with good track record have started raising funds primarily through loan portfolio sales and by using bank lines of credit.
- The industry trade body FICCI has written to the RBI to enhance liquidity support to NBFCs (as they do not have lender of the last resort mechanism) and any further delay would have serious implications for the economy.

6. A much awaited rally in India's sovereign bond market

- Several favourable factors like the RBI's OMOs, softer crude oil prices and signs of stabilisation in INR have triggered a much awaited rally in India's sovereign bond market.
- The benchmark yield on government bonds has fallen about 30 bps over a month to 7.89% today, which could well add to banks' trading gains.
- The sentiment for government bonds has improved significantly because of expectation that the RBI might announce multiple rounds of open market bond purchases for the month of November, given the tightening liquidity conditions associated with festive season.

7. Some signs of stability seen in INR vs US dollar

- INR has recovered by 1.3% to 73.57 per US dollar today from its record low level of 74.50 on Oct 10th primarily on the back of a sharp fall in Brent crude price, which has eased from $85 a barrel on Oct 10 to ~$78 today.
- Weakness in the US dollar globally has also helped. The US Dollar Index (**DXY**), which gauges the greenback vs. its main rivals, has faded another test of the 96.15/20 band and is now navigating the sub-96.00 area.
- According to many Forex experts, Indian rupee fall may be almost over and the country should now reap the benefits of the rupee's depreciation against the dollar.

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8. Indian stocks losing on sharp global risk aversion

- Extending their losses to the fourth consecutive session, benchmark equity indices in India lost 1% today, mirroring the sharp losses globally.
- Asian equities in general were deep in the red today following concerns over corporate earnings in the US and rising geopolitical tensions between the US and Saudi Arabia.
- The rising geopolitical tensions coupled with uncertainties around the Brexit deal with the European Union have left investors reassessing their portfolio and shifting money away from equities.
- In FY19 so far, FIIs have been net sellers from India's equity market to the tune of Rs 433 billion.
- According to equity experts, as of now, there are no clear upmoves for the market given the increased uncertainty in global and domestic macros.

9. Brent crude at $78.02 per bbl on Oct 23, 2018

- Brent crude price fell today to $78.02 per barrel after Saudi Arabia said it would play a "responsible role" in energy markets. However, sentiment continues to remain nervous ahead of new US sanctions on Iran's crude exports that start next month.
- Saudi's promise of adequate supply comes even as crude inventories in the US are forecast to have increased for a fifth week, the longest streak since Mar, 2017. Concerns about the health of the world economy, leading to the equities selloff, are seeping into the oil market.

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