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## 1. Global economic briefs

- According to the US Commerce Dept, trade deficit of the nation fell from a near two-year high in Feb-17 as slowing domestic demand weighed on imports and stronger global growth boosted exports of American goods.
- The US job growth slowed sharply in Mar-17 amid continued layoffs in the embattled retail sector, but a drop in the unemployment rate to a near 10-year low of 4.5% suggested labor market strength remained intact.
- Even with the US economy boasting impressive job growth and domestic equity markets near record highs, a fragmented recovery has left many states struggling to close budget deficits nearly a decade after the 2008 financial crisis. The broad recovery has benefited large, economically diverse states like California and Texas, ratings agencies say, while states heavily dependent on oil revenues, like North Dakota and Alaska, and those like Illinois that are grappling with large unfunded pension obligations, have seen budget deficits bloom.
- The decision by President Donald Trump to authorize the firing of US missiles into Syria weighed on global stock markets during the last week.
- Activity in Japan's services sector expanded at the fastest pace in 19 months in Mar-17 (from 51.3 in Feb-17 to 52.9 in Mar-17) as outstanding business improved, allowing companies to charge more for their goods, according to the Markit/Nikkei PMI survey.
- Activity in China's service sector expanded at its weakest pace in six months in Mar-17 (PMI declined from 52.6 in Feb-17 to 52.2 in Mar-17), hurt by slower growth in new orders and intensifying cost pressures, as per the Caixin/Markit survey, released last week.
- British industrial output fell unexpectedly in Feb-17 by 0.7% and manufacturers struggled, according to official data on Apr 7<sup>th</sup> that added to signs economic growth may have slowed as Britain prepares to leave the EU.

## 2. India: Agriculture and rural economic news

- Indian government has declared eight states as drought affected, allowing them to offer 50 days of extra work to each household under the rural job guarantee scheme as water scarcity often hurts demand for manual labour. The states - Kerala, Rajasthan, Madhya Pradesh, Karnataka, Uttarakhand, Uttar Pradesh, Andhra Pradesh and Tamil Nadu are now eligible to provide 150 days of manual work per household under the National Rural Employment Guarantee Scheme (NREGS) in the financial year FY18.
- According to Indian banking sources, not more than 35% of the total agricultural loan is directed to small and marginal farmers though they hold more than 70% of the country's farmland.
- Government of the Indian state -Uttar Pradesh has decided to waive of crop loans of up to Rs 1 lakh of small and marginal farmers in the state, as part of its poll promise. While announcing the monetary policy last week, the RBI governor said, "Waivers undermine an honest credit culture... It leads to crowding out of private borrowers as high government borrowing tends to impose an increasing cost of borrowing for others".

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

- The Federation of Indian Export Organisation (FIEO) expects to end the year FY17 with an export of about \$270-275 bln as against \$262 bln in the previous year, with a growth of around 3-4% for the year in the merchandise sector whereas in services sector, the FIEO is expecting an export of \$160 Bln in FY17.

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- Indian government has achieved its upward revised target of tax collection for FY17, indicating that it should be able to meet the fiscal deficit target for the year. Provisional tax collections have pegged total collections at Rs 17.1 trln, up 18% (y-o-y).
- According to RBI, the year FY17 has ended with Rs 13.32 trln of total currency in the system. This is about 74% of the total currency which was in circulation - Rs 17.97 trln - when the demonetisation scheme was announced in Nov-16.
- Contrary to the market expectations of some harsh action on liquidity absorption (like CRR) in its first bi-monthly monetary policy statement unveiled on Apr 6<sup>th</sup>, the RBI narrowed the policy rate corridor between reverse repo and MSF rate from 100 bps to 50 bps by raising the reverse repo rate by 25 bps and lowering the MSF rate by 25 bps to take care of the distortions in short-term rates caused by the excess liquidity. The postponement of any aggressive action to impound liquidity from the banking system despite the presence of excess liquidity and a more stringent inflation target reflects RBI's concerns on investment and growth fronts, in our opinion. This is an excellent policy engineering undertaken by the central bank in the current economic scenario.
- According to the Asian Development Bank, India's economic growth rate will improve to 7.4% in FY18 and 7.6% in FY19, remaining ahead of China. The impact of demonetisation and the GST implementation will have a beneficial impact on growth from a medium term perspective.
- According to RBI, Indian banks loans and deposits rose by 4.4% and 13.0% on year respectively, as on Mar 17, 2017. While outstanding loans grew by Rs 496 bln to Rs 75.66 trln in the two weeks to Mar 17, aggregate deposits declined by Rs 7.1 bln to Rs 105.42 trln.
- India's Broad Money Supply, i.e., M3 growth stood at 7.7 % (y-o-y), as on Mar 17, 2017 (versus 10.2% a year ago), due to a drastic y-o-y fall in the growth of "currency with the public" – a phenomenon observed since the demonetisation.
- India's foreign exchange reserves richly increased further by \$2.02 bln to \$369.95 bln as of Mar 31, 2017, marking an increase of \$10.20 bln since the commencement of the financial year. The reserves stood at \$359.76 bln as of April 1, 2016, according to RBI updates. The rise in FER assumes significance against the backdrop of three major events during FY17 that were feared to dent the country's forex reserves – demonetisation, the redemption of FCNR deposits that were issued in 2013 to stem rupee's fall and fears of capital flight due to the US Federal Reserve hiking interest rates.

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

- As per the recent policy memorandum issued by the US government, entry-level computer programmers from India will find it difficult to look for jobs in American companies via the H-1B visa route. However, contrary to various reports, computer programmers as a whole are not being targeted or barred from qualifying under the visa regime. As a category of professionals, they are still eligible to apply for H-1B visas.
- The WTO has set up a panel to resolve the dispute between Japan and India over imposition of safeguard import duty on iron and steel products. As both the sides failed to resolve the issue in the bilateral consultation process, Japan had sought formation of dispute resolution panel.
- The Nikkei/IHS Markit Services Purchasing Managers' Index rose to 51.5 in Mar-17 from 50.3 in Feb-17 for India, signaling a second straight month of expansion.
- India has jumped 12 places to 40<sup>th</sup> rank globally in travel and tourism competitiveness list by World Economic Forum. India is one of the countries that improved the most as it gained 12 places in Asia, but lagged behind

its other Asian peers like Japan and China which were ranked way ahead at 4<sup>th</sup> and 13<sup>th</sup> place, respectively. Spain is ranked at the top in the list.

## 5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.85% last week versus 5.98% in the previous week, on the back of surplus liquidity in the banking system. However, call money rate is hovering near 6.0% today, as RBI has hiked the reverse repo rate to 6.0% on April 6<sup>th</sup>.
- Average daily fixed rate repo borrowing of banks too fell significantly from Rs 48.05 bln in the previous week to Rs 13.07 bln in the week under review (Apr 3-7). Average daily borrowing under MSF too crashed from Rs 7.01 bln to Rs 2.46 bln.
- While 91-day T-bill rate moved in the wide band of 5.71% to 5.93% during last week; 364-day T-bill rate moved in the range of 6.10 %-6.14% - reflecting a marginal hardening post the announcement of monetary policy that narrowed the corridor for policy rates.
- Three-month CP rate hovered in the band of 6.60% to 6.74% last week, reflecting an average increase of three basis points over the previous week.
- Liquidity remains in surplus as Rs 1.51 trln worth of fixed/ variable rate reverse repos mature this week. Banks have parked Rs 1.08 trln at 28-days, 14-days, 7-days & overnight reverse repos.

## 6. G-Sec yield to harden on account of a likely sharper CPI print

- Indian sovereign benchmark bond yield hardened by 14 bps last week and ended at 6.82% on April 7<sup>th</sup>.
- Sovereign bond yields sharply rose on Friday (Apr 7), as the RBI's decision to raise reverse repo rate was interpreted as the rate hardening signal, despite the fact that RBI did not impound liquidity using any aggressive measure like CRR.
- We expect G-Sec yields to hover near the current level of 6.82% to 6.86%, as gilts may be up for auction this week (which is truncated on account of a holiday on Friday). Also, caution may be exercised ahead of the CPI print due on 12<sup>th</sup> April. We expect CPI inflation to increase from 3.7% in Feb-17 to 4.3% in Mar-17 partly due to an adverse base effect and partly due to sharp sequential spikes in cereal (rice) prices.

## 7. Bullish undertone to continue for INR

- INR appreciated by 0.9% last week to 64.28 per USD on the back of continued FPI inflows and the RBI's signal that growth (as measured by GVA) may be around 7.4% in FY18.
- The rupee rose to a 20-month high against the US dollar, closing at 64.28, from its previous close of 64.51 a dollar.
- Rupee is slightly down today (near 64.54) as dollar buys by PSBs for importers continues to weigh on rupee.
- According to FX traders, INR has a lot of positive factors supporting its outlook at this juncture and likely to outperform in the region driven by government's economic policy initiatives (esp GST) along with heavy capital inflows.

## 8. Quarterly earnings & macro data-points to guide equity markets' movement

- Global markets turned volatile last week, and ended the week on a flattish note as the US launched a missile attack in Syria. Relatively soft jobs data, coupled with the missile strike meant that the US markets ended the week on a flat note.
- European indices too were affected by geopolitical uncertainty.
- Indian benchmark indices, which had gained earlier on passing of the GST bills, fell later in the week over global cues and geopolitical uncertainty.
- Upcoming fourth quarterly earnings' results, along with macro-economic data points and global geo-political tensions are expected to determine the trajectory of Indian equities markets during the current week.

## 9. Brent crude settled at \$55.24 per bbl on Apr 7, 2017

- Between Mar 31 & Apr 7, Brent crude increased by 4.6% to end at \$55.24 per barrel. Today, it is hovering near \$55.86 per barrel.
- Oil rose towards \$56 a barrel today, supported by another shutdown at Libya's largest oilfield and heightened tension over Syria following the US missile strike.
- There is no doubt that oil is rising purely on geopolitical concerns. According to experts, the current rally will continue for some time precisely because people don't know what is going to happen. Unless one sees more conflicts, the Syria effect will just be a temporary one and the key still lies in OPEC.

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