

Dr. Rupa Rege Nitsure
Group Chief Economist

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1. Global economic briefs

- China's foreign-currency reserves unexpectedly halted a seven-month losing streak, rising in Feb-17 amid tighter controls on capital outflows and a rally in the yuan. The stockpile increased by \$6.9 bln to \$3.005 trln in Feb-17, according to PBOC.
- Moreover, China's factory output and fixed-asset investment grew very strongly in the first two months of 2017, even as retail sales disappointed after the government reduced a tax break on small cars.
- China's real estate investment growth slowed to 8.9% (y-o-y) in Jan-Feb, 2017, while property sales sped up despite government cooling measures, as per the official data.
- The US employers richly added 235,000 workers in Feb-17, more than expected, following a 238,000 gain in Jan-17, according to its Labor Department. The jobless rate fell to 4.7% and wages grew 2.8% on y-o-y basis. The participation rate, which shows the share of working-age people in the labor force, increased to 63% - the highest since last March.
- However, a measure of US inflation expectations mostly flattened in Feb-17 after having risen in the previous two months, according to a Federal Reserve Bank of New York survey released yesterday.
- The British government won final approval from Parliament on March 13th for legislation giving Prime Minister Theresa May the power to trigger the country's exit from the EU. Furthermore, the British business sentiment surged from a four-year low and hit its highest level since mid-2015 in Feb-17, a survey by Markit showed yesterday, marking a recovery in corporate optimism after last year's Brexit vote.
- Euro zone industrial output increased less than expected in Jan-17 as firms' higher investment in machinery was partially offset by a drop in the production of consumer goods, estimates from the European Union statistics office showed on March 14th.

2. India: Agriculture and rural economic news

- Reeling under the impact of failed monsoons, the Indian states – Kerala, Karnataka, Tamil Nadu & Puducherry have declared themselves drought affected. Kerala & Karnataka, which are the worst affected, are already contemplating actions such as cloud seeding to tide over the situation.
- The State government of Telangana in India has allocated Rs 40 bln towards payment of the final installment of the farm loan waiver scheme during FY18, besides initiating a series of measures to revive agriculture & allied activities in the State. In order to give a boost to the farm sector, the state government of Haryana in India has announced an increase of 19% in the budget allocation for agriculture and allied sector, recently.
- In a big step to pump money into rural India and step up infrastructure creation, India's government proposes to release half of the Rs 480 bln FY18 allocation for the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) to states at the very start of the financial year on April 1st.
- In a press statement released today on India's producer price inflation, food price inflation came in at 2.7% in Feb-17 versus -0.6% in Jan-17, driven by rising pricing pressure in rice, vegetables, fruits & milk. Prices of wheat, pulses, onions, potatoes continued with their fall, sequentially.

3. India's overall economic & policy developments

- Fitch Ratings expects India's GDP (factoring in the demonetisation impact) to grow by 7.1% for FY17, before picking up to 7.7% in both FY18 and FY19. Major contributors to growth in the subsequent years will be -

gradual implementation of the structural reform agenda and higher real disposable income on the back of an almost 24% hike in civil servants' wages at the state level.

- With the US being a country that India runs a huge trade surplus with, the trade policy agenda for 2017 unveiled by the US, is worrisome. The report raising concerns on India's export subsidy programmes and import restricting measures, could mean a bumpy ride for India's trade with the US, going ahead.
- India's debt market has been quietly facing a bloodbath in the current fiscal year. From Apr-16 till date, foreign investors have pulled out a whopping net Rs 320.9 bln — or \$4.8 bln — from Indian debt papers. According to depository NSDL, the net outflows from Indian debt in FY17 is the highest-ever. At the same time, net inflows into equity by foreign investors touched Rs 324.88 bln.
- According to the latest report on household capital expenditure by the National Sample Survey Organisation (NSSO) in India, 68% of the capital expenditure by households in rural India and 75% of capital spending by households in urban areas were towards buying property for a house. This means a major portion of fixed capital expenditure by the household sector is on residential plots & buildings.
- India's WPI inflation inched to a 39-month high of 6.6% in Feb-17 (our estimate- 6.3%; consensus estimate – 5.9%), driven by a sharp rise in the prices of rice, vegetables, fruits, fibres, etc., out of primary articles; minerals and fuels (led by international trends) and sugar (led by a huge shortage).
- The NPAs amounting to more than Rs 200 bln have been lined up by Indian banks for sale to asset reconstruction companies (ARCs) in March 2017 so far. This is twice the amount they had put up for sale in the first three quarters of FY17 due to the new norms by the RBI that will make them provide for the sold loans, effective from Apr 1st, 2017.
- In India's assembly elections in the five states, the ruling BJP stormed back to power in UP after a gap of 15 years and also won a majority in Uttarakhand. The Congress party almost won 2/3rd majority in the state of Punjab. However, people from Goa & Manipur did not give a clear mandate. Congress emerged as the single largest party in Goa & Manipur, fighting a tough battle with BJP. PM Modi's victory in UP – one of the large states of India is seen as a litmus test of his popularity and reforms ahead of general elections in 2019.
- According to RBI, Indian banks loans and deposits rose by 4.8% and 12.8% on year respectively, as on Feb 17, 2017. While outstanding loans grew by Rs 62.6 bln to Rs 74.85 trln in the two weeks to Feb 17, aggregate deposits fell by Rs 757.1 bln to Rs 104.87 trln.
- India's Broad Money Supply, i.e., M3 growth has significantly eased to 6.5 % (y-o-y), as on Feb 17, 2017 led by a drastic y-o-y fall in the growth of "currency with the public" since Nov 8th. From the "sources side", a deceleration in the y-o-y growth rates of "bank credit to commercial sector" and "Net Foreign Exchange Assets of the banking industry" have impacted the M3 growth in FY17.
- India's foreign exchange reserves richly increased by \$1.22 bln to \$364.01 bln in the week ended Mar 10, 2017 according to the RBI's latest weekly data. The country's forex reserves had marginally increased by \$63.7 mln to \$362.79 bln in the previous week.

4. India's industrial & services sectors scenario

- India has offered least tariff concessions to Chinese goods under the proposed free trade agreement between 16 Asia-Pacific countries including China and Australia. The highest duty cuts have been offered to imports from ASEAN under the Regional Comprehensive Economic Partnership (RCEP) trade agreement.
- Exports of Indian steel have surpassed imports after a gap of three years due to government measures like the minimum import price. According to the Joint Plant Committee figures, during April-Feb, FY18, India's steel exports increased 77.5% to 6.62 mln tns while imports fell by 65.20% to 6.59 mln tns.

L&T Financial Services

Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- India's industrial production growth rebounded to 2.7% in Jan-17 (our estimate: 2.1%; consensus estimate: 0.5%), led by capital goods & consumer durables recovery. However, the recovery is not yet broad-based, as reflected in weak consumer non-durables and intermediate goods' output growth.
- Foreign Direct Investment (FDI) into India's services sector increased by 77.6% to \$ 7.5 bln during Apr-Dec, FY17, supported by various key initiatives by the government.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.97% last week versus 5.94% in the previous week, hardly showing any change.
- Average daily fixed rate repo borrowing of banks fell from Rs 9.68 bln in the previous week to Rs 5.43 bln in the week under review (Mar 6-10). However, average daily borrowing under MSF increased from Rs 9.33 bln to Rs 15.06 bln.
- The RBI had to conduct two variable term repo auctions last week – of 14-days each, with the sizes Rs 1.50 bln on Tuesday and Rs 4 bln on Friday.
- While 91-day T-bill rate moved in the band of 5.89% to 5.98% during last week; 364-day T-bill rate moved in the range of 6.18 %-6.22% - reflecting the average fall of 13 bps in 91-D TB & 2 bps in 364-D TB.
- Three-month CP rate hovered in the band of 6.80% to 6.86% last week, reflecting an average increase of two bps over the past week.
- We see little upside in money market rates as liquidity is ample and credit demand pretty weak.

6. Steepening bias seen in G-Sec curve

- Indian 10-year benchmark yield ended unchanged at 6.90% today as data showed higher-than expected WPI print (at noon), on the back of surging prices of some food articles including cereals and global commodity prices.
- Indian bonds are in a bear territory since 7th Dec, 2016, when RBI unexpectedly kept rates on hold and subsequently changed policy stance from accommodative to neutral. The benchmark 10-year bond yield has risen from 6.2% in early December to 6.90% as of today.
- While nervousness would continue for long duration bonds given India's rising inflation trajectory and the expected hawkishness in Fed policy, bond experts remain optimistic on 3yr to 5yr duration bonds due to excess liquidity in the banking industry. Investors see a steepening bias in the yield curve, going ahead.

7. Uncertain outlook on INR

- INR strengthened to 65.78 per dollar today – its strongest level since Nov., 2015 despite the central bank's interventions to prevent sharp appreciation of the currency.
- The political victory of the ruling party in India's assembly elections has improved expectations about more reforms in India's retail sector, labour market, banking sector, etc. and this is positive for capital inflows and INR strength. However, global risks including how much the US Federal Reserve will raise interest rates this year will weigh on the FX sentiment.
- Sentiment is also likely to be tempered given the RBI's expected stance to hold interest rates this year due to a more stringent inflation target.

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Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

8. Positive undertone seen in local equities this week

- Global stocks ended last week on a flattish note, as they awaited cues from the US financial markets amid an impending rate hike by the US Federal Reserve.
- Back home, the BSE-Sensex ended in green and was up 0.4%. The momentum in stocks at the beginning of the week was lost mid way amid caution ahead of the assembly election results in five Indian states.
- On the sectoral indices front, auto and banking sector stocks led the gainers last week. On the other hand, stocks from realty sector, metals sector, and pharma sector witnessed maximum selling pressure.
- Indian equities rallied today to a record after PM Modi's resounding victory in state elections boosted expectations for a continuation of his structural reform agenda. While valuations look stretched & investors remain cautious with the Fed meeting round the corner, the scale of BJP's victory has increased the confidence of international investors in India's political stability that can be used as the fulcrum to initiate more reforms.

9. Brent crude settled at \$51.35 per bbl on Mar 13, 2017

- Brent crude oil prices settled a few cents lower yesterday (Mar 13), retracing much of an early retreat to three-month lows in a steep slide that began last week as investors wondered whether swelling US crude supplies would hinder OPEC's efforts to restrict output and reduce a global glut.
- Brent crude futures (LCOc1) settled down 2 cents at \$51.35 a barrel yesterday. The session's low was \$50.85, the lowest since Nov. 30. The US drillers added oil rigs for an eighth consecutive week, Baker Hughes data showed on Mar 10th, and they have announced ambitious production growth plans.

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