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1. Global economic briefs

- Bank of Japan Governor Haruhiko Kuroda reiterated today the central bank's resolve to maintain quantitative easing, but his positive comments on inflation and the economy sent the yen to a four-month high versus the dollar.
- Underlying US consumer prices recorded their largest increase in 11 months in Dec-17 on strong gains in the cost of rental accommodation and healthcare, while other data showed retail sales rising at a solid clip in the same month. This is expected to keep the Fed on course to increase interest rates in Mar-18.
- The US Treasury Secretary said he believed the Republican tax cuts would ultimately become revenue neutral over 10 years due to higher growth, but the Treasury may ask Congress for more financial support to implement the plan.
- China's goods trade surplus with the US swelled to an all time high of $275.8 bln in the year 2017, despite Beijing taking steps to control it. This has potential to further inflame a tense economic relationship with the US. During 2017, China reported a 7.9% jump in exports and 15.9% rise in imports — both in dollar terms.
- According to preliminary data from Capital Economics, the Euro region's economy grew by 2.4% in 2017 – a pace faster than that for the US economy, enjoyed the highest level of confidence that it had in decades and its unemployment today is at a 9-year low.
- Analyst expectations for an interest rate hike by the European Central Bank in the middle of next year are roughly in line with the ECB's own guidance, said Jens Weidmann - Germany's rate-setter at the bank in a recently published interview.
- UK businesses are in a subdued mood ahead of Brexit, showed a quarterly survey by British Chambers of Commerce, last week. According to the survey, companies continued to grapple with cost pressures in the last three months of 2017 and were reluctant to invest more.
- The UK economy will be paying the price for years to come if Prime Minister Theresa May fails to secure a Brexit agreement with EU leaders. Leaving the bloc in March 2019 with no deal in place could result in a 6.5% hit to GDP by 2030, according to research published by Bloomberg Economics. That's compared with projections for growth if the UK voted to stay in the EU, though an agreement that helps trade would soften the blow.
- Big gains in Japan's machinery orders in Nov-17 (highest in a decade) reflect growing confidence of businesses in response to policymakers' efforts.

2. India: Agriculture and rural economic news

- As per preliminary reports received from the States, the total area sown under Rabi (winter) crops in India is down by just 0.9% (y-o-y) due to lesser sowing under wheat, coarse cereals & pulses. However, acreage has grown for both rice and pulses on year.
- However, India's government is confident of achieving high production level of Rabi crops thanks to a slew of measures taken in the last few years. Besides, distribution of high yielding seeds, the government has also ensured better utilisation of fertilisers through the soil health card, which will have a favourable impact on farm productivity. While a clear picture will emerge on the outlook of winter crops by the end of this month, the government is confident that the food grains production in FY18 crop year will not fall short of its previous year's level.
- Data from India's Labour Bureau showed a slowdown in rural wage growth in Oct-17 after registering a steady increase from late-2015 that continued right through demonetisation and the first half of 2017.

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3. India's overall economic & policy developments

- As per the first advance estimate of National Income for FY18, India's real GDP growth is likely to decelerate from 7.1% in FY17 to 6.5% in FY18 on the back of significant slowdown in agriculture & allied activities (from 4.9% to 2.1%) and manufacturing (from 7.9% to 4.6%). India's chief statistician says this would lead to "marginal slippage" in the fiscal deficit target for FY18.
- India's retail inflation rose to 5.2% in Dec-17 (Our Forecast – 5.02%; Consensus – 5.1%) from 4.9% in Nov-17, led primarily by the base effect. This happened despite a significant sequential fall in the prices of food articles in the month of Dec-17. However, WPI inflation eased from 3.9% in Nov-17 to 3.6% in Dec-17 reflecting the impact of easing of food prices.
- India's trade deficit widened to $14.88 bln in Dec-17 reflecting a y-o-y growth of 41%. This was on the back of faster growth of imports (@21.1%) versus that of exports (@12.4%), as oil and gold imports accelerated in Dec-17. However, core imports growth moderated sequentially from 22.6% to 12.9% suggesting that underlying growth momentum is still weak.
- Indian State Governments' borrowings calendar for Q4, FY18 shows that Net SDL (state development loans) issuances are down 20 bps (y-o-y) as per cent of GDP. SDL yield spread over G-Secs had widened over the past two years from 40-60 bps to 60-90 bps because of concerns over fiscal slippage. These spreads have started narrowing in recent auctions due to lesser quantum of net borrowings.
- As per the RBI's latest assessment, small-ticket affordable housing loans are at a higher risk of turning bad. Indian government's affordable housing push has led to a sharp rise in disbursement of home loans up to Rs 0.2 mln, which is now giving rise to higher delinquencies.
- Indian government has cut its additional market borrowing requirement for FY18 by 60% today after reviewing trends in revenue receipts and expenditure patterns. This means the government would now borrow only an additional Rs 200 bln versus an earlier plan of Rs 500 bln during the remaining months of FY18.
- According to RBI, Indian banks loans and deposits rose at the pace of 10.7% and 4.0% on year respectively, as on Dec 22, 2017. While outstanding loans increased by Rs 695.5 bln to Rs 80.97 trln in the two weeks to Dec 22, aggregate deposits declined by Rs 169.6 bln to Rs 108.85 trln. As a result, the average Credit-Deposit ratio marginally improved in a fortnight to 74.38% as on Dec 22nd from 73.63% as on Dec 8th.
- India's Broad Money Supply, i.e., M3 growth continued to improve to 10.5% (y-o-y), as on Dec 22, 2017 (versus 6.2% a year ago) thanks to a noticeable pick up in bank credit to commercial sector in recent months and an increase in foreign exchange assets of the banking industry. But "cash withdrawals" from banks too have picked up significantly in recent months. Between Mar 31st and Dec 22, "Currency with the Public" has grown from Rs 12.64 trln to Rs 16.16 trln reflecting an increase of Rs 3.52 trln. However, during the past one year, term deposit growth has significantly decelerated from 13.2% to 3.5%.
- India's "foreign exchange reserves" have scaled a new high of $411.12 bln in the week to Jan 5, 2018. The reserves had crossed the USD 400-billion mark for the first time in the week to September 8, 2017 but had since been fluctuating.

4. India's industrial & services sectors scenario

- Finished steel exports from India rose by a whopping 28.9% (y-o-y) to 0.96 mln tonnes in Dec-17. According to experts, this is facilitated by a plunge in Chinese steel exports.
- India's industrial production growth crossed the mark of 8% after 17 months and touched 8.37% in Nov 17 (Our Forecast - 6.73%; Consensus – 4.4%) primarily facilitated by a favourable base effect. Manufacturing

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growth had collapsed during Dec-16 to Jul-17 in the aftermath of demonetisation. Sequentially, there was some growth momentum in capital goods, intermediate goods & consumer goods (esp consumer nondurables). However, sequentially growth declined for infrastructure & construction goods.

- Indian government has undertaken the review of MAT (minimum alternative tax) levied on Special Economic Zones (SEZs) that has negatively impacted fresh investments in the scheme. A panel appointed by the commerce department had recommended removal of MAT for manufacturing units and zones to boost exports as well as job creation in the country.
- According to CMIE, new investment proposals are likely to stabilise around Rs 8 trln in FY18, which would be about 60% of the new proposals made during FY17 and at their lowest level since FY05.

5. Temporary relief in the G-Sec market

- India's 10-year bond yield slumped 17 bps today, reflecting its biggest drop in 14 month, after the government said it will lower its borrowing programme to Rs 200 bln from Rs 500 bln notified earlier.
- Reduction in "additional borrowings" size on the back of rising expectations of a special dividend from the RBI, helped contain the nervousness in Indian government bonds.
- While reduction in additional borrowings may restore market confidence for some time, lingering worries over crude oil price, rising trend in global yields and low appetite for bonds amid uncertainty over next year's fiscal deficit would weigh on the G-Sec market sentiment.

6. Vulnerability increasing in INR

- INR slipped against the US dollar yesterday (Jan 16), posting its biggest single session decline since Aug, 2015, because of a rise in dollar index.
- INR ended yesterday at 64.0325 a dollar versus 63.4850 a dollat at close on the previous day.
- However, INR ended up today (at 63.8825), as sentiments improved after Indian government cute FY18 extra borrowings by Rs 300 bln.
- INR has become more vulnerable to any adverse situation in global and/or local economy, as India's trade deficit has widened to a three-year high level amid a hardening trend in global crude oil price. But a struggling dollar overseas would continue to cushion the currency's larger losses.

7. Consolidation rather than correction seen in local equities

- Surging government bond prices in India post the government's decision to cut the size of extra market borrowings led to heavy buying in shares of major banks today.
- As concerns over huge fiscal slippage partially eased, "risk appetite" for equities saw some improvement.
- Additionally, the recent Morgan Stanley report on favourable outlook for IT companies (on rising spends by US clients) supported the buying in shares of many IT companies.
- Equity experts see strong fund flow from domestic institutional investors to aid the upside in local equities. According to technical experts, Indian equities may see some consolidation but a severe correction is not likely in H1, 2018.

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9. **Brent crude at $69.23 per bbl today (Jan 17, 2018) in Asian trade**

- Brent crude futures LCOc1 were at $69.23 a barrel today in Asian trade (at 0808 GMT) - up 8 cents from their last close, but down from a high of $69.37 earlier in the day. Yesterday (Jan 16), Brent rose to $70.37 a barrel, its highest since December 2014, the start of a three-year oil price slump.
- Many energy experts feel that oil prices at the current level are excessive and would get corrected eventually. This is because political risk factors that have helped boost Brent, including tensions in Qatar, and the Kurdish region of Iraq and in Iran have so far not caused significant supply disruptions. One factor that in 2017 prevented crude prices from rising further was a surge in U.S. production. Despite a recent drop due to extreme cold, U.S. crude output C-OUT-T-EIA is expected to soon break through 10 million barrels per day (bpd), challenging top producers Russia and Saudi Arabia.

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