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1. Global economic briefs

- A senior Chinese economic official indicated last week that policymakers would be willing to sacrifice some short-term economic growth in order to deal with systemic risks. [Beijing is trying to contain rising debt and defuse property bubbles amid fears such risks could derail the Chinese if not handled well.](#)
- Growth in China's manufacturing sector (measured in PMI) cooled slightly in Jul-17 to 51.4 from 51.7 in Jun-17, as external demand for Chinese goods slackened. [However, a government-led infrastructure push kept construction humming and helped prop up the economy.](#)
- Growth in bank lending in EU was unexpectedly weak in Jun-17, [the ECB data showed on July 27th, a potentially worrying sign for policymakers even if a one-off factor may have contributed to the slowdown.](#) Surprisingly, Euro zone economic sentiment rose slightly for a third consecutive month in Jul-17 [to a new 10-year high, against expectations of a dip from Jun-17, as per the data released by European Commission.](#)
- British businesses are their least optimistic about the economy in six months and their overall confidence levels remain slightly below average, a Lloyds Bank survey showed today, [adding to a lackluster outlook for the economy. The survey pointed to moderate growth although there had been some improvement from a month earlier, just after Prime Minister Theresa May unexpectedly failed to win a parliamentary majority in a national election.](#)
- Shipments of key US -made capital goods increased in Jun-17 for a fifth straight month and there was a sharp narrowing of the goods' trade deficit in the same month [amid a rise in exports. Moreover, the number of Americans filing for unemployment benefits increased 10,000 to a seasonally adjusted 244,000 for the week ended July 22 – below a level consistent with a tightening labour market.](#)
- In line with the above made observations, the US economy rebounded strongly (up 2.6%, y-o-y) between April-June, 2017 [government data showed on July 28th, as businesses invested more and consumers shelled out for furniture, washing machines and other goods.](#)
- However, the US Federal Reserve kept interest rates unchanged on July 26th and said it expected to start winding down its massive holdings of bonds "relatively soon" in a sign of confidence in the US economy.
- Japan's factory output rebounded in Jun-17 (up 1.6%) from a decline in May-17 of 3.6%, [as production of cars and industrial chemicals increased, suggesting economic expansion may be on a more stable footing. Manufacturers forecast a steady increase in output in coming months, offering further evidence that firm external demand and gains in consumer spending could support overall growth in Japan's economy.](#)
- According to IMF's External Sector report, the US dollar was overvalued by 10% to 20% based on the nation's near term fundamentals, [while the euro, yen & yuan are broadly in line with fundamentals. According to this report, external CADs were getting concentrated in certain advanced economies like the US & Britain, while surpluses remained persistent in China & Germany.](#)
- "Global central banks are not necessarily turning more hawkish, in defiance of their inflation stability mandates. Rather they are clearly signalling that investors are becoming far too complacent about the policy outlook — and that risks financial stability", [cautions Lena Komileva in her column in Financial Times today.](#)

2. India: Agriculture and rural economic news

- South-west monsoon has continued to stay strong in India and there has been an excess of 2% above normal rainfall received in the country till Sunday (30th July).
- Excessive to largely excessive rainfall has been reported so far in the regions - Gangetic West Bengal, J&K, West & East Rajasthan, Gujarat region, Saurashtra & Kutch & Madhya Maharashtra. On the other hand, the

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regions – Arunachal Pradesh, Assam & Meghalaya, West UP, Tamil Nadu & Pondichery, South Interior Karnataka & Kerala – report “rain deficiency” in cumulative terms.

- While reports on “crop damage due to floods” are still not available for all the affected regions, a few reports suggest that cotton & millet harvests have suffered in about three districts each in Gujarat & Rajasthan. Another worry is that extra moisture could lead to pest attacks in these regions.
- Also, certain parts of South Interior Karnataka consisting of districts like Tumkur, Mandya, Kolar, Chitradurga & Mysuru that have received deficient rains are witnessing adverse impact on the sowing of paddy, tobacco & ragi. Similarly, three districts of Maharashtra – Parbhani, Amaravati & Sangli - are showing deficient rainfall impacting short-term crops like green gram and soyabean in these districts.
- At the national level, total area sown for kharif (summer) crops touched 79.1 mln ha by 28th July 2017 up 3.3% (y-o-y). While area sown under cotton was up 20.8% (y-o-y), that under sugarcane was up 8.7% (y-o-y). However, area under oilseeds fell by 9.2% (y-o-y) on lower price incentives.
- India's water storage level in 91 critical reservoirs was at 60.906 BCM as on 27th July - 39% of total live storage capacity of these reservoirs. This storage level is 104% of the storage of corresponding period of last year and 100% of the average of last ten years. The region-wise live water storage of reservoirs shows that as on 27th July 2017, the central and southern regions had storage levels lower than the year-ago period. On the other hand, the northern, eastern and western regions had storage levels higher than the corresponding period last year.

3. India's overall economic & policy developments

- India's finance ministry has clarified that states can levy certain taxes under GST in response to a question asked in the Rajya Sabha. These taxes include stamp duty and registration charges, VAT on alcohol, entertainment tax, electricity duty and taxes on vehicle.
- The value of External Commercial Borrowing (ECB) approvals in India stood at \$ 1.6 bln in Jun-17 – much higher than that in the previous month. The value of approvals also includes Rupee denominated bonds. The number of ECB approvals rose substantially to 78 in June from 45 in the preceding month.
- Contribution of India's small towns to mutual funds asset base surged 46% to Rs 3.5 trln by June-end due to initiatives taken by markets watchdog SEBI and the sectoral regulator AMFI.
- Indian ministry of finance has asked public sector banks to collectively sell project loans that have turned bad to asset reconstruction companies, as it believes that PSBs can collectively realise better pricing on the sale of a project loan given in consortium (with the assistance of Joint Lenders' Forum) rather than by doing so individually.
- Indian banks are most at risk among South and South-East Asian peers, as per a Moody's poll. The poll stated that many banks in India remain under-capitalised and continue to lack sufficient loan-loss provisions. The government has appeared reluctant to increase capital injection into PSBs despite the limited ability of these lenders to access equity markets for the much-needed capital, according to the rating agency.
- According to RBI, Indian banks loans and deposits rose at the pace of 6.1% and 10.7% on year respectively, as on July 7, 2017. While outstanding loans rose by Rs 410.9 bln to Rs 77.05 trln in the two weeks to July 7, aggregate deposits increased by Rs 469.2 bln to Rs 106.53 trln. The Credit-Deposit ratio stood at a slightly higher level of 72.33% as on July 7 versus 72.26% as on June 23.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.2 % (y-o-y), as on July 7, 2017 (versus 10.2% a year ago) primarily led by lesser currency in circulation with public (down by 12.7%, y-o-y).

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- India's foreign exchange reserves rose by \$2.27 bln to touch a new life-time high of \$391.33 bln in the week to July 21, helped by an increase in foreign currency assets, as per the latest RBI data. [While the Special Drawing Rights with the IMF rose by \\$ 12.1 mln to \\$1.491 bln, gold reserves remained unchanged at \\$20.35 bln.](#)

4. India's industrial & services sectors scenario

- India's Lok Sabha last week passed a bill to amend the companies' law seeking to strengthen corporate governance standards, initiate strict action against defaulting companies and help improve the ease of doing business in the country.
- The index of mineral production fell by 0.9% in May-17, as per data released by India's ministry of mines. [The value of mineral production, excluding atomic and minor minerals, touched Rs 199.4 bln during the month. The index was driven into the negative territory by a 3.2% decline in production of coal and a 4.5% decline in iron ore production. In addition, production of magnesite, lignite and diamond also witnessed a decline in production. However, production of petroleum and natural gas rose by 0.7% and 5.2%, respectively.](#)
- With an aim to get the telecom companies out of the financial stress, India's government is preparing a bailout package and considering relaxing some of their spectrum payment obligations. [As per the government's assessment, stronger telcos would fetch higher interest to the government in future spectrum auctions.](#)
- India will need investments amounting to around \$ 4.5 trln till 2040 to develop infrastructure, as per a report by the Global Infrastructure Hub. [India will be the second largest infrastructure market in the world following China. Taking the sustainable development goals \(SDGs\) into account, India's spending need is the greatest in absolute terms as \\$ 291 bln of investment is needed by 2030.](#)
- India's Niti Aayog has cleared proposals for six mass rapid transportation technologies, with an aim to revamp public transportation. [These include metrino, stadler buses, hyperloop, pod taxis, hybrid buses and freight rail road.](#)
- India's government is planning to spell out the effective tax rate under the GST for supplies to solar power project developers. [These clarifications, expected to be issued soon, come after developers flagged the higher tax incidence on inverters, cables and batteries to the Ministry of New and Renewable Energy.](#)
- Production in India's eight major industries slowed down during Jun-17, as the total output inched up by only 0.4% as against a rise of 4.1% in May 2017.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 6.05% last week (July 24-28) versus 6.07% in the week earlier (July 17-21) – the levels way below the “repo rate” on the back of surplus liquidity in the system.
- [While 91-day T-bill rate moved in the band of 6.07% to 6.13% last week, 364-day T-bill rate moved in the range of 6.22%- 6.25%. On an average, yields on 91-D TB & on 364-D TB further declined by three bps last week.](#)
- [Three-month CP rate hovered in the band of 6.51% to 6.54% and the yield on this instrument too fell by three bps \(on an average\) last week.](#)
- At present, liquidity surplus in the banking system is pegged at Rs 2.5 trln. This kind of “excess liquidity” has resulted in a consistent fall in the money market rates week after week.

6. Government bonds to stay in a positive territory

- Indian government bond yields have been moving in a very tight range, with a slight downward bias, for the last month or so as bond traders remained cautious ahead of meetings of important central banks like the ECB, BOJ, Fed Reserve etc., even if there is an expectation of a small rate reduction in domestic monetary policy of RBI.
- Yield on 10-year benchmark paper ended at 6.46% last week.
- Today also, gilts were down on profit booking and the closing value of benchmark yield was 6.47%.
- While expectation of a cut in interest rates may keep bonds in the positive territory, a sharp rise in prices is unlikely as the market has already factored in a 25-bps rate cut.

7. Weak dollar index to support INR in the near term

- INR gained 0.3% last week and closed at 64.15 per USD on Friday (July 28). INR has gained significantly so far in FY18 on the back of strong DII interest, the US dollar's slide overseas amid concerns over renewed show of strength on the Korean Peninsula and sustained investments of FIIs in Indian debt & equity instruments.
- Today, INR's rise was controlled by persistent dollar buys by a state-owned bank for RBI and importers. Dollar sales by some foreign banks also capped the INR's rise which settled at 64.20 at the end of the day versus 64.11 in the morning today.
- While weak dollar index has been helping INR's appreciation at the moment, its future direction remains sensitive to a sustainable improvement in India's external sector health and the monetary policy actions of global central banks. We expect RBI to remain cautious about the currency movement.

8. Volatility seen in Indian stocks

- Majority of the global markets ended the last week in a green zone, as the US Fed kept its policy rates unchanged as inflation remains persistently below the Fed's target level.
- Back home, Indian stock markets too ended the week on a record high levels, led by banking, power and telecom sector stocks. Even today, Indian stocks closed at record highs, driven by banks, oil, infra & technology stocks.
- While expectations of a rate cut by the RBI, satisfactory progress of the monsoon so far, and sustained institutional inflows are likely to underpin share indices in the current week, local equities are likely to turn "volatile" in coming sessions as investors await Apr-Jun earnings of key companies and monthly sales numbers of automobile companies.

9. Brent crude at \$52.50 per bbl on July 31, 2017

- Crude oil last week logged a weekly gain of 8.6%, its biggest weekly jump since early December, as prices got a lift from renewed production-curb commitments from OPEC members as well as the uncertainty in Venezuela ahead of the weekend vote.
- Crude oil prices struggled for direction in today's (July 31st) trade, with investors likely booking some profits after a solid run higher that has put the US contract on track for its biggest monthly rise of the year.

- The ongoing pullback in US oil supplies and drilling activity has also beefed up views that the shale boom, the main culprit of the soft oil prices of the past three years, is plateauing.

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