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1. Global economic briefs

- According to the Conference Board's press note, the leading index for the US economy jumped 0.6% in Jun-17 after a revised 0.4% rise in May, suggesting growth could speed up in the months ahead.
- According to the Japan's Cabinet Office's monthly economic report for Jul-17, the Japanese economy remains in a "moderate recovery", with both consumption and capital investment looking up. However, according to the white paper on the economy presented to the Cabinet last week, Japan needs to resolve its severe labor shortage, last seen roughly a quarter-century ago, to achieve sustainable economic growth.
- Interestingly, the PMI (Mfg) print for Japan shows a slight easing from 52.4 in Jun-17 to 52.2 in Jul-17, as export demand stagnated. The reading was an eight-month low.
- China's diesel and gasoline exports surged in the first half of the year as a domestic supply glut and slowing demand growth prompted refiners to sell more fuel abroad.
- With the latest improved numbers, China's stability bodes well for the continued economic wellbeing of Asia, although risks remain. China's GDP growth increased 6.9% (y-o-y) in the second quarter, matching the pace of expansion in the first quarter, according to a Bloomberg report.
- Reserve Bank of Australia (RBA) Deputy Governor Guy Debelle gave a clear signal on last week (July 21st) that interest rates in the country were set to remain at record lows for a while yet, wrong-footing hawks and sending the local currency sliding from a two-year peak.
- The IMF has kept its growth forecasts for the world economy unchanged for 2017 & 2018 at 3.5% and 3.6%, respectively, although it slightly revised up growth expectations for the Euro zone and China.
- "While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term," the IMF said in its updated forecasts released today in the Malaysian capital, Kuala Lumpur.
- The IMF has downgraded its growth forecast for the UK from 2.0% in Apr-17 to 1.7%, after weaker-than-expected economic performance. It comes in contrast to other major European countries, such as Germany, France and Spain, where growth has exceeded expectations.
- "The UK economy is on course for an even deeper slowdown as consumer spending and business investment take a hit from uncertainty surrounding the Brexit negotiations", according to PwC's UK Economic Outlook.
- The UK and EU are still at odds over citizens' rights and the amount the UK will pay to leave the bloc, at the end of the second week of Brexit talks.
- The ECB decided on July 20th to maintain its extraordinary monetary stimulus with no change in policy interest rates. ECB President's remarks reassured markets that the eventual move towards normalization of rates and the ECB's balance sheet will not be made prematurely.
- According to expert observers, while the Euro zone recovery is looking robust, inflation dynamics have yet to become stronger. Also, the ECB probably would rather not add at this time to the upward movement of the euro.
- In a supplement to the Asian Development Outlook 2017 report released last week, the Asian Development Bank upgraded its growth outlook for Developing Asia from 5.7% to 5.9% in 2017 and from 5.7% to 5.8% for 2018.

2. India: Agriculture and rural economic news

- Indian monsoon remains strong, as cumulatively (1st Jun to 23rd July) rains are 3.0% above normal since June 1st. Only 8.0% of the country has received deficient rainfall so far.

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- The number of subdivisions witnessing rainfall deficiency now stands reduced to three – Tamil Nadu & Pondichery, South Interior Karnataka & Kerala. While the subdivision – Vidarbha has come out of the “deficient rain” category, the regions Akola & Amaravati are still suffering from rainfall deficiency.
- Sowing of kharif (summer) crops in India — rice, pulses, coarse cereals, oilseeds, sugarcane and cotton is progressing well. Areas sown of key crops, except oilseeds, have been higher than the level at the same time last year, with the overall sowing 2% higher.
- India's water storage levels remained lower than year ago levels during the week-ended 20th July 2017. Live storage in 91 important reservoirs in India was 43.732 BCM, which is 28.0% of total live storage capacity of these reservoirs. This storage level is 81.0% of the storage of corresponding period of last year and 86.0% of the average of last ten years.

3. India's overall economic & policy developments

- India, which is the largest economy in South Asia, is expected to achieve projected growth rate of 7.4% in 2017 and 7.8% in 2018, primarily from strong consumption, a new Asian Development Bank (ADB) report said last week.
- India has challenged a major flexibility given to developed countries whereby they can concentrate their subsidies on a few farm products which allows them more policy space and causes distortions in global agricultural trade. India and China have jointly prepared a paper in which they have argued that the subsidies given under this flexibility by developed members including the US, EU and Canada amounts to nearly \$160 bln, which is more than 90.0% of the total global entitlements "resulting in a major asymmetry in the rules on agricultural trade."
- According to IMF's World Economic Outlook Update, India's economic growth will accelerate to 7.7% in FY19, from 7.2% in FY18. While the IMF has retained India's growth estimate as provided in its earlier release in Apr-17, it has marginally raised China's economic growth estimate.
- India's market regulator SEBI said last week that foreign investors would be allowed to buy rupee-denominated corporate debt on tap until they reach 95.0% of the Rs 2.44 trln (or \$37.87 bln) allocated to them. Once that 95.0% limit is reached, however, custodians must halt any foreign investors orders, and the remainder would be sold off under an auction format.
- 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 7.4 % (y-o-y), as on June 23, 2017 (versus 10.3% a year ago) primarily led by lesser currency in circulation with public (down by 12.8%, y-o-y).
- India's foreign exchange reserves rose by \$2.68 bln to touch a new life-time high of \$389.06 bln in the week to July 14, helped by an increase in foreign currency assets, as per the latest RBI data. While the Special Drawing Rights with the IMF rose by \$1.8 mln to \$1.479 bln, gold reserves remained unchanged at \$20.35 bln.

4. India's industrial & services sectors scenario

- India's government is expected to announce soon a Rs 26 bln incentive package for the leather and footwear sector to boost exports and job creation. The package has already been approved by the expenditure finance committee and a draft cabinet note has been circulated to different ministries for their views. The proposal,

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mooted by the commerce and industry ministry, has sought tax incentives for the 'Indian Footwear, Leather, and Accessories Development Programme'.

- The Comptroller and Auditor General of India has reported that six private telecom companies have understated their adjusted gross revenues by Rs 610.6 bln from 2010-15. The companies -Bharti Airtel, Vodafone, Aircel, Idea, Reliance Communication and Sistema Shyam Teleservices were audited by the CAG and the understatement of revenues has reduced the government's earnings in the form of spectrum charges and licensing by Rs 77 bln. The operators also owe an amount of Rs 45.3 bln as interest arising out of short term payments.
- The RBI constructed all-India Housing Price Index (HPI) recorded a sequential increase in Q4, FY17 over Q3, FY17 of 0.8% with six of the 10 cities, recording a rise in sequential terms. While Kochi recorded the highest rise of 18.3%, Chennai witnessed significant contraction of (-) 6.7%.
- On an annual basis, the all-India HPI increased by 10.5% with Mumbai, Bengaluru, Ahmedabad, Lucknow, Kanpur and Kochi recording double-digit annual growth, whereas Chennai witnessed a marginal moderation in housing prices.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 6.07% last week (July 17-21) versus 6.03% in the week earlier (July 10-14) – the levels below the “repo rate” on the back of surplus liquidity in the system.
- The short-term rates continued to move in a wider band reflecting growing uncertainty. While 91-day T-bill rate moved in the band of 6.06% to 6.18% during last week, 364-day T-bill rate moved in the range of 6.21%-6.29%. On an average, yields on 91-D TB fell further by nine bps while those on 364-D TB declined by six bps.
- Three-month CP rate hovered in the relatively narrower band of 6.54% to 6.58% last week. On an average, the yield on 3-month CP fell by a sizable 10 bps over the previous week.
- Even today, dealers are estimating surplus liquidity near Rs 3 trln, which is the cause behind a continuous fall in the money market interest rates.

6. Excess liquidity remains supportive of G-Sec Sentiment

- Indian government bond yields have been moving in a very tight range, with a slight downward bias for the last couple of weeks as bond traders remained cautious ahead of meetings of important central banks like ECB, the BOJ, the US Fed scheduled over the last week and this week.
- Indian bonds have remained immune to the on-going government bond sell-off that is witnessed in many developed countries with large central bank balance sheets.
- Despite the announcement of new OMO sales at the end of the last trading week, bond yields fell on Monday (July 24) and closed at 6.41% from 6.44% due to excess liquidity, muted credit growth and expectations of a rate cut in the August policy.

7. INR to stay near 64.30 on RBI's intervention

- INR closed at 64.32 a dollar last week tracking gains in the local equity. So far this year, the rupee has gained 5.42%, while foreign investors bought \$8.72 bln and \$16.61 bln in local equity and debt markets, respectively.

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- Even on Monday (July 24), INR closed at 64.34 a dollar, receiving support from strong capital flows. Moreover, unwinding of long-dollar position by participants ahead of the Federal Reserve's next monetary policy also backed the rupee sentiment.
- Currency traders are now awaiting the US Federal Reserve's meeting on July 25-26 for an update. On the global front, the dollar struggled near a 13-month low against a basket of major currencies on July 24 as US political woes dampened hopes for quick passage of President Donald Trump's stimulus and tax reform agendas. Currency traders see 64.30 as the near resistance level for the INR/\$ pair on RBI's intervention.

8. Indian stock sentiment to be driven by corporate results

- Indian stock markets broke new ground on Monday (July 24), as there was a cheer on the growth front post the IMF's release of its latest World Economic Outlook.
- Better-than-expected earnings by most corporates so far and a steady progress in monsoon also aided the rally that saw several stocks touching fresh 52-week highs on Monday.
- According to stock experts, the process of consolidation will continue for Indian stocks and the future momentum now largely depends on how corporate results unfold.

9. Brent crude edged up to \$48.48 per bbl on July 24, 2017

- Brent crude prices rose to \$48.48 per barrel on Monday (Jul 24) as news that Saudi Arabia has pledged to lower crude exports and Nigeria plans to limit its production sent prices higher for the first time in three sessions.
- Michael Lynch, president of Strategic Energy & Economic Research, said the drop in exports that the Saudis plan for next month would coincide with higher domestic energy demand for cooling, and referred to the Nigeria and Saudi Arabia decisions as "mostly conciliatory."

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