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1. Global economic briefs

- The US jobs report for May-17 showed tepid economic growth with an increase of 138,000 jobs, down from 174,000 new jobs in Apr-17. Yet, the May job gains could still be sufficient for the Federal Reserve to raise interest rates at its June 13-14 policy meeting. The economy needs to create 75,000 to 100,000 jobs per month to keep up with growth in the working-age population.
- The World Bank has kept its forecast of global growth in 2017 and 2018 unchanged at 2.7% & 2.9%, respectively, as manufacturing & trade are picking up and confidence is improving.
- According to IMF's deputy managing director – Mitsushiro Furusawa, a faster-than-expected sequence of interest rate hikes by the US Federal Reserve could trigger a “significant” dollar rise that would increase the debt burden of Asian emerging economies with large dollar-denominated borrowings.
- Fresh data on PMI manufacturing showed that despite an overall picture of stabilising growth, signs of weakening momentum have emerged in the Chinese economy, stoking concerns that the rebound has lost steam and may slip into a hard landing.
- The Bank of Japan's assets apparently exceeded 500 trln yen (\$4.49 trln) as of the end of May-17, growing to rival the country's economy as the central bank continues its debt purchases under an ultra-easy monetary policy. The BOJ's balance sheet began expanding at a rapid clip after Governor Haruhiko Kuroda launched unprecedented quantitative and qualitative easing in Apr-13.
- The PMI surveys showed that factories across much of Asia ran into a soft patch in May-17 as export demand slowed but those in Europe enjoyed buoyant growth amid signs of steady improvement in the global economy.
- However, Euro zone inflation eased by more than expected in May-17, reflecting dips in Germany and Spain among others and supporting European Central Bank policymakers wanting only slow adjustments to rates and monetary stimulus.
- Qatar has been dramatically cut off by a Saudi-led coalition of Arab nations, claiming it's because of its 'support for terrorism'. An economic crisis loomed immediately in the Gulf, as the four countries threatened a total land and sea blockade of Qatar.

2. India: Agriculture and rural economic news

- Growth in India's agriculture sector jumped to 4.9% in FY17 versus 0.7% in FY16 as the country harvested record food grains, thanks to good monsoon rains.
- As per the media news, the Maharashtra government has removed the stock limit on all pulses except chana. The decision to lift stock limit was taken in lieu of the ongoing farmers strike. The state government had earlier imposed a stock limit on pulses, edible oil and edible oilseeds till 30 Sept-17.
- Today, India's weather department (IMD) scaled up its southwest monsoon forecast for 2017 to 98% of the long period average from 96% predicted earlier. The progress of the monsoon is very good so far and monsoon currents are likely to cover most parts of the country by June-end. The monsoon is expected to hit Mumbai, Bihar, Jharkhand & west Bengal by June 13, while it may reach Goa by June 8.

3. India's overall economic & policy developments

- India's official statistics showed last week that a contraction in construction sector combined with weaker growth in manufacturing, financial services and trade slowed India's real GVA growth to 5.6% in Q4-FY17 from

6.7% in Q3-FY17 and 8.7% in Q4-FY17. Other concerns are a negative growth in gross fixed capital formation and lower growth in private consumption on y-o-y basis in Q4-FY17. For the year as a whole, the real GVA growth has come off by 130 bps to 6.6% in FY17.

- We wish RBI modifies its policy stance and tone tomorrow amid weak economic growth and headline CPI staying firmly below its medium-term target of 4.0% for six straight months. While a rate cut may not serve any purpose, changing the stance to “accommodative” may favorably impact bond yields and costs of borrowings from the non banking sources. However, given that the RBI has typically been more hawkish, it will protect its present stance citing uncertainties surrounding monsoon, granting of HRA under the pay commission award, GST impact on inflation, etc.
- India is finally on the verge of historic GST roll out from July 1st. Hailed as the biggest tax reform since India’s independence, GST will replace an array of central and state levies with a national sales tax, thereby creating a single market and making it easier to do business in the country. The GST Council, which had previously finalised a four- tier tax structure of 5, 12, 18 and 28 per cent, met on June 3rd to put different commodities and services in the decided tax brackets. About 1,211 goods and 36 services have been so far classified under GST out of which nearly 50% goods have been placed under 18% rate, 14% goods under 5% rate, 17% goods under 12% rate and 19% goods under 28% rate.
- According to RBI, Indian banks loans and deposits rose at the pace of 5.6% and 12.1% on year respectively, as on May 12, 2017. While outstanding loans rose by Rs 173.3 bln to Rs 76.29 trln in the two weeks to May 12, aggregate deposits increased by Rs 252.3 bln to Rs 106.42 trln. Between Apr 28 & May 27, the Credit-Deposit ratio has noticeably improved from 71.69% to 75.83%.
- India’s Broad Money Supply, i.e., M3 growth stood at a lower 7.8 % (y-o-y), as on May 12, 2017 (versus 10.2% a year ago), as currency with the public is still down by 16.3% (y-o-y) as on May 12th.
- India's foreign exchange reserves declined by \$547 mln to \$378.76 bln in the week ended May 26th. Reserves had touched an all-time high of \$379.3 bln during the preceding week.

4. India’s industrial & services sectors scenario

- India’s manufacturing PMI softened to 51.6 in May-17 after being steady at 52.5 in Mar/Apr-17 on the back of weaker external demand & a faster depletion of inventories. However, PMI for the services sector grew at the fastest pace in four months in May-17 on higher work orders.
- Interestingly, around 71% of SMEs in India are more optimistic about the domestic economic growth over the next 12 months compared to their Asian counterparts as per the survey commissioned by American Express and carried out by Oxford Economics. In terms of optimism on the domestic economy, India was followed by Japan at 62%, China at 54%, and Singapore at 26%.
- India’s government is planning to launch a dedicated international subsidiary of the National Highways Authority of India (NHAI) to take up roads and highway projects abroad, particularly in South Asia. Simultaneously, India is also looking forward to setting up joint ventures (JVs) for road construction in neighbouring countries.
- Passenger vehicle sales in India stayed in the fast lane well into the mid-year, with expectations of another good monsoon year boosting consumer sentiment. Numbers reported by automakers last week suggest a more than 9% increase in passenger vehicle sales to 250,000 units in May. That comes after wholesale volumes rose 12% to 1.08 mln vehicles in the first four months of 2017.

- Core sector industrial production in India expanded at a slower pace of 2.5% in Apr-17 against the 5.0% growth recorded in Mar-17 amidst a decline in the production of key inputs including coal, crude oil and cement.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.99% last week (May 29-Jun 2) versus 6.04% in the week earlier (May 22.26) on the back of surplus liquidity.
- While 91-day T-bill rate moved in the band of 6.25% to 6.28% during last week; 364-day T-bill rate hovered between 6.44% & 6.46%. On an average, 91-D TB hardened by just one bp, while 364-D TB declined by 3 bps during the last week.
- Three-month CP rate hovered in the band of 6.69% to 6.70% last week, reflecting an average fall of two basis points in a week's time.
- While liquidity in the banking system still remains in excess, the RBI's measures to drain out liquidity have pushed up short term money market rates, as desired. Yesterday too, the RBI auctioned 63-day cash management bills for a total of Rs 300 bln. Dealers estimate the current liquidity surplus around Rs 3 trln versus Rs 4.0-4.5 trln in April.

6. Government bonds seen in thin band ahead of the Policy

- India's new sovereign benchmark bond (6.79% 2027) yield softened by two bps last week to 6.63%, as weaker GDP data and lower CPI inflation have boosted expectations of softer policy guidance by the RBI in tomorrow's policy.
- At present, government bonds are trading in thin band with very low volumes as traders prefer to remain on the sidelines ahead of tomorrow's policy outcome.
- While caution prevails in government bonds ahead of tomorrow's RBI policy, the underlying sentiment remains bullish on the back of weaker-than expected US jobs data for May-17 that has reduced the chances of aggressive path for future Fed rate increases and benign trend in global crude oil prices.

7. INR appreciation looks unsustainable

- INR ended more or less flattish last week near 64.44 per US dollar last week.
- INR is stuck in the middle of the range 64.00-65.00, as importers are looking at a level below 64.30 and exporters for 64.80.
- According to Forex experts, INR's appreciation on the back of strong capital inflows without any significant improvement in trade sector's productivity may impact external sector balance sheet adversely. This combined with India's large liability exposure in International Investment Position will make "appreciation" at this pace unsustainable. There is a high probability that INR may witness self-correction in due course.

8. Rains & progress on GST - to act as near term triggers for stocks

- Global markets ended the previous week on a positive note, primarily driven by the Asian markets as positive data points from the US and Europe were seen as boosters to their export-led growth models.

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- Indian stock markets too closed at their record highs on June 2nd, posting a weekly gain of 0.8%.
- Within sectors, FMCG, Pharma & Auto posted healthy gains last week.
- This week, stock markets are exuding nervousness ahead of tomorrow's monetary policy, as the RBI has typically been more hawkish than expected despite a consistently low print for headline CPI for the past six months.
- The scaling up of monsoon forecast by the IMD today and the positive sentiment created by the GST reform may provide further impetus to Indian stock markets, which have scaled record highs for weeks together based on forward looking expectations.

9. Brent crude at \$49.47 per bbl on June 5, 2017

- Global oil prices fell yesterday (June 5) on concerns that a diplomatic rift among some of the Arab world's major energy producers could weaken a global deal on output cuts.
- Brent crude oil, the international benchmark, rose more than 1.0% at one point, recouping some of last week's 4.0% losses, but turned tail in the European morning and dipped back below \$50 a barrel.

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