L&T Financial Services

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1. Global economic briefs

- According to OECD, trade tensions are threatening the best global economic growth outlook in seven years. Also, four US rate rises are likely this year as tax cuts will stoke the US economy while Brexit will drag on Britain.
- As per the statement from Mr McConnell – the US Senate majority leader, there is no possibility that the US Senate will undo tariffs imposed on steel & aluminium imports last week.
- As learnt from the officials associated with Trump administration, the US President is seeking to impose tariffs on up to $60 bln of Chinese imports and will target the technology and telecommunications sectors.
- Top German officials have issued strong warnings to the US about the dangers of pursuing protectionist policies but said they would continue efforts to avert planned US steel & aluminium tariffs`

- China's economy expanded faster than expected in the first two months of 2018, helped by strong overseas demand for Chinese goods, though economists warned trade tensions with the US threaten to derail that momentum in the months ahead.
- China witnessed a slowdown in new home price growth in Feb-18 especially in bigger cities in response to the government curbs aimed at tempering speculative demand.
- Japan witnessed the 8.2% rise in core machinery orders in Jan-18 from a steep decline in the previous month. Rising machinery orders suggest that Japan's recent growth spurt is likely to continue, but uncertainty surrounds the policy outlook because revelations of a cover-up of suspected cronyism is eroding confidence in the present political regime.
- The ECB (European Central Bank) needs further evidence that inflation is rising towards its target and will end asset buys only when it is satisfied that price growth is on a sustained path towards its objective, said its President Mario Draghi last week
- The US CPI inflation cooled to 0.2% in Feb-18 amid a decline in gasoline prices and a moderation in the cost of rental accommodation. This is taken as the latest indication that an anticipated pick-up in inflation probably will be only gradual.

2. India: Agriculture and rural economic news

- India's monsoon rains are expected to be slightly below normal in the year 2018, while parts of Australia's eastern grain belt could be drier as an El Nino weather pattern may develop in the second half of 2018, said a senior agricultural meteorologist at Radiant Solutions – a private weather forecaster based in the USA. According to him, "La Nina is weakening and we are moving towards neutral weather, which is forecast to be followed by El Nino in the second half of the year as the most likely scenario".
- According to India's Ministry of Agriculture, India's food grain production is forecast to grow to a record level of 277.49 mln tn in the crop year FY18 as compared to 275.11 mln tn during FY17. Output of rice, pulses, coarse cereals, cotton & sugarcane is expected to be higher in FY18, while wheat & oilseeds production is likely to decline. The third estimate of food grain production will be released by August, 2018.
- While increases in the minimum support prices (MSPs) and farm loan waivers are the short-term solutions to stabilise farmers' cash flows, the steps taken to control the money leakage through implementation of DBT (direct benefit transfers), additional spending on creation of irrigation facilities, effective implementation of crop insurance policy and the e-National Agricultural Market (ENAM) will go a long way in bringing about a permanent shift to farmers' prospects.

3. India's overall economic & policy developments

- According to India's Finance Minister, the Central government has disbursed Rs 284 bln during Jul-Dec, 2017 as compensation to states for revenue loss on account of implementation of GST (goods & service tax). Also, the average monthly collection of GST for Jul-Jan, FY18 stood at Rs 897.7 bln.
- In its latest bi-annual publication, the World Bank has projected Indian economy to grow at 7.3% in FY19 driven by private consumption, investment & exports. However, the World Bank has cautioned that if liquidity in financial markets tightens or risk aversion increases, it may adversely impact India's growth outlook.
- India's CPI inflation has eased to 4.4% in Feb-18 from 5.1% in Jan-18 on a sharp sequential drop in the prices of food & beverages. While month-on-month increase in housing inflation slowed in Feb-18, the prices of fuel stayed flattish. Core components of inflation too showed weaknesses on a broad-based level.

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- India WPI inflation also dropped to 2.5% in Feb-18 from 2.8% in Jan-18, led by a slower pick up in primary articles' prices (both food & non-food) and fuel prices. However, manufactured product prices increased at a faster pace on input cost pressures coming primarily from metals sector.
- India's exports growth slackened to 4.5% in Feb-18 and imports too grew at a slower pace of 10.4% led by a deceleration in the growth of non-oil non-precious metals imports – a sign reflective of a broad-based slowdown in India. This has brought down the level of trade deficit from $15.70 bln in Jan-18 to $11.98 bln in Feb-18. A sizeable chunk of India's major export segments saw a contraction in Feb-18 such as engineering goods & textiles. Exports of gems & jewellery fell in the aftermath of the recent scam in a large state-owned bank of India.
- India's current account deficit (CAD) in the quarter Oct-Dec, FY18 widened to 2% of GDP or $13.5 bln, up from 1.4% or $8 bln on the y-o-y basis. This was primarily on account of a higher trade deficit brought about by faster growth in merchandise imports as compared to exports.
- However, in Apr-Dec 2017, there was an accretion of $30.3 bln to India's foreign exchange reserves, primarily on account of strong FPI inflows.
- India is likely to tweak the Insolvency and Bankruptcy Code to create a mechanism to resolve cross-border insolvency cases using a reciprocal arrangement with other countries. The 14-member high level committee reviewing the Insolvency and Bankruptcy Code (IBC) is likely to suggest that India take a cue from countries including the US, the UK, Australia and Singapore, and adopt a similar model law set by the United Nations (UN).
- According to RBI, Indian banks loans and deposits rose at the pace of 11.5% and 6.6% on year respectively, as on Mar 2, 2018. While outstanding loans increased by Rs 979.5 bln to Rs 83.49 trln in the two weeks to Mar 2, aggregate deposits rose by Rs 1.35 trln to Rs 111.87 trln. The average Credit-Deposit ratio marginally dipped in the last reported fortnight to 74.63% as on Mar 2 from 74.65% as on Feb 16.
- India's Broad Money Supply, i.e., M3 growth continued to stay at a relatively higher 10.4% (y-o-y), as on Mar 2, 2018 (versus 6.6% a year ago) thanks to a noticeable pick up in bank credit to commercial sector in recent months and an accelerated increase in foreign exchange assets of the banking industry. But "cash withdrawals" from banks too are increasing rapidly. Between Mar 31st and Mar 2, "Currency with the Public" has grown from Rs 12.64 trln to Rs 17.20 trln reflecting an increase of Rs 4.56 trln. But during the past one year, term deposit growth has significantly decelerated from 10.7% to 6.0%.
- India's "foreign exchange reserves" were at the healthy level of $421.49 bln as on Mar 9, 2018. However, these are primarily from unabsorbed capital inflows and not from current account surpluses.

4. India's industrial & services sectors scenario

- Indian steel makers want global steel prices to remain steady. Any fall in prices will undo all the good that is seen in the domestic market.
- The manufacturing PMI for India has been gradually declining from Dec-17 when it was 54.7, the highest it has been in more than a year. Since then, it has declined to 52.4 in Jan-18 and to 52.1 in Feb-18. Even the PMI for services sector has moved from 50.9 in Dec-17 to 51.7 in Jan-18 but then sharply fell to 47.8 in Feb-18 due to growing weaknesses in demand conditions.
- According to India's dairy operators, the Maharashtra state's decision to ban plastic may result in milk getting costlier and likely to affect their business.

- The cargo traffic at India's major ports increased by 5.0% to 616.6 mln tn during Apr-Feb, FY18. The growth was mainly on the back of higher cargo handling of products like petroleum, oil and lubricants (8.1%), containers (8.4%), coking coal (4.4%) and fertilisers (4.5%).
- India's job market is likely to see a 15-20% growth in hiring during FY19 on improving business outlook and industry confidence supported by GDP growth, according to estimates by recruitment firms like Kelly Services, Teamlease Services, PeopleStrong, IKYA Human Capital Solutions, Naukri, etc.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.82% last week (Mar 12-16) versus 5.88% in the week earlier (Mar 5-9), as systemic liquidity stayed in surplus mode for most part of the week.
- While 91-day T-bill rate moved in the band of 6.15% to 6.26% last week, 364-day T-bill rate moved in the range of 6.53%-6.60%. On an average, while the yield on 91-D TB fell by six bps, that on 364-D TB fell by eight bps.
- Three-month CP rate averaged at 7.65% last week, reflecting a sizeable correction of 23 bps in a week's time, on an average.
- Liquidity is in deficit at the beginning of this week due to advance tax outflows. Currently, liquidity is estimated to be in a deficit of around Rs 180 bln. To support liquidity, the RBI has planned to conduct repo (both term & variable) auctions today.

6. Challenging outlook to continue for Indian G-Sec

- The 10-year GOI benchmark yield eased by 11 bps last week and closed at 7.56% on Mar 16th on the back of lower-than-expected headline CPI inflation print for Feb-18 and the retraction of bond yields from their recent highs across global markets.
- India's 10-year benchmark yield again rose to 7.61% on Mar 19 as worries that FOMC may tighten the US monetary policy more aggressively prompted traders to book profits after the recent surge in prices.
- While bond yields eased to some extent last week on lower inflation, at current levels the benchmark yield is still higher by about 27 bps over end-December levels.
- While the RBI has addressed the issue of market liquidity through a repurchase of short tenor bonds worth Rs 1 trln, traders are betting on prospects of an increase in FPI limits for government securities.
- However, excessive supply pressure during 2019 (on account of higher market borrowings by both Central & State governments) and the upside pressure on global bond yields will ensure that outlook remains challenging for Indian bonds, say experts.

7. INR set to weaken

- INR appreciated by 0.35% last week to 64.94 per US dollar, as the American currency weakened against major currencies following US inflation data and secretary of state Rex Tillerson's exit following months of tension between him and President Trump.
- Foreign portfolio inflows too remained supportive of INR. Provisional figures from the stock exchanges showed that FIIs purchased scrips worth Rs 62.88 bln during the last week.
- However, INR ended at its lowest level yesterday (Mar 19) in over two weeks against the US dollar as some banks started building long positions on the dollar ahead of the FOMC meeting starting today. There are rising

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expectations that the Fed will raise interest rates on increasingly stronger data-points on the US economy & labour markets.

- Sentiment in India's forex market has turned weak due to concerns over India's widening CAD and an upside bias to the US dollar due to gradual strengthening of the US economy and a likely faster tightening by the US Federal Reserve.

8. Experts see bears tightening their grip on Indian stocks

- Global market sentiment remained fragile last week on concerns over the global trade war, especially between the US and China.
- Growing political uncertainty in India (as the ruling party BJP lost by-polls in the key Indian states of UP & Bihar and as the Andhra Pradesh's Telgu Desam Party exited from the National Democratic Alliance last week) led to Indian markets falling by 1.5% on the last trading day and by 0.4% over the previous week.
- Market nervousness has continued this week also ahead of the US FOMC decision on March 21st.
- Experts see a much tighter Bears' grip over Indian equities due to growing political uncertainties, tightening bias in the monetary policies of developed nations and a reshuffling of Indian stocks before the long-term capital gains tax comes into effect on April 1st.

9. Brent crude at $66.53 per bbl today (Mar 20)

- Oil prices rose by almost 1% in Asian trade today, lifted by a weak dollar, tensions in the Middle East and concerns of a further fall in Venezuelan output. Brent crude futures were at $66.53 per barrel, up 48 cents, or 0.7%.
- Worries about Venezuela's tumbling crude production, has been supporting oil market. With US oil increasingly making its way into the world, many analysts expect global oil markets to flip from slight undersupply in 2017 and early this year into oversupply later in 2018.

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