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1. Global economic briefs

- The US Senate Republicans unveiled a tax plan on Nov 9th that differed from the House of Representatives' version on several key fronts, including how they treat the corporate tax rate, the tax deduction for state and local taxes, and the estate tax. The tax bill is expected to go to the House Rules Committee on Nov 15 and a floor vote will be held either on Nov 16 or 17.
- Reports say more than 400 American millionaires & billionaires are sending a letter to the US Congress this week urging Republican lawmakers not to cut their taxes at a time when the nation's debt is high & inequality is back at the worst level since the 1920s.
- Mexico's central bank flagged risks to inflation as it held borrowing costs steady last week (Nov 9), saying it was necessary to maintain a prudent monetary policy given multiple risks faced by the economy, including trade with the US.
- China's President Xi Jinping vowed to further free up its economy and urged Asian countries to work closely together in a speech at the Asia Pacific Economic Cooperation (APEC) meeting in Vietnam. The comments echo Xi's call to support a "multilateral trading system" and contrast with those delivered at the weekend by US President Trump, who pulled out of the regional Trans-Pacific Partnership (TPP) trade deal and told the meeting the US would pursue bilateral trade deals instead.
- The US weekly jobless claims totaled 239,000 last week (Nov 9), marking the 139th straight week that claims remained below the 300,000 threshold. This is the longest such stretch since 1970, when the labour market was smaller.
- Global money managers are looking closely at opportunities in Japan, with the recent victory for Prime Minister Shinzo Abe and the Liberal Democratic Party reinforcing their bullishness on the country's equities market.
- Australia's central bank is well aware that the country's heavily indebted households would struggle if interest rates were to rise sharply, but there is no shock on the horizon that could force such an increase, said its Deputy Governor today.
- On Nov 9th, the European Commission gave an optimistic view of the EU economy, saying that it is "on track to grow at its fastest pace in a decade this year." According to the EU executive's Winter Economic Forecasts, the Euro zone economy will grow by 2.2% this year, 2.1% next year and at 1.9% in 2019.
- European Central Bank chief Mario Draghi, US Federal Reserve Chair Janet Yellen, Bank of Japan Governor Haruhiko Kuroda and Bank of England head Mark Carney will form an all-star panel on Tuesday (Nov 14) at an ECB-hosted conference in Frankfurt on the subject "Challenges & Opportunities of Central Bank Communication". A flattening of government bond yield curves, more markedly in the US has kept investors worrying over the future path of inflation and a possible slowdown in the US due to the Fed's current tightening cycle.

2. India: Agriculture and rural economic news

- Sowing of wheat – the main rabi (winter) crop of India, is in full swing in most parts of the country and the pace will pick up once kharif (summer) crops are harvested completely, said the report from ICAR (Indian Council of Agricultural Research, last week. The government's wheat output target for the crop year FY18 is kept at 97.50 mt versus 98.38 mt achieved last year.
- Last week, India's Rural Ministry released funds of the order of Rs 50 billion to states as second installment for the MGNREGS (i.e., Mahatma Gandhi Rural Employment Guarantee Scheme). So far, funds have been released

to the states - Rajasthan, UP, Jharkhand, Gujarat, MP, Sikkim and Tamil Nadu while release of funds to Karnataka, Andhra Pradesh and Telangana are still being processed.

- While the Indian state Rajasthan is looking to disburse interest-free loans worth Rs 750 bln to farmers in its five-year tenure, the states – Punjab & Haryana have so far procured over 22 mt of paddy in the current procurement season.
- India's basmati rice exports may plunge to a three-year low during FY18 as the European Union has tightened a fungicide rule and a possible increase in local prices. Exports may decline by as much as five per cent to 3.79 mln mt during the year, which will be the lowest since FY15, according to All India Rice Exporters Association.

3. India's overall economic & policy developments

- India's GST council has recently slashed the tax rates applicable to 210 items, of which nearly 178 were in the top bracket of 28%. This may reduce prices of consumer goods and services over the coming months, provided that producers pass through the tax cuts into final consumer prices.
- India's retail inflation (CPI) quickened to 3.58% in Oct-17 reflecting a sequential increase of 30 bps on the back of spikes in food inflation (up 50 bps) and fuel inflation (up 80 bps). Core inflation (ex-food, ex-fuel) remains unchanged at 4.6%, reflecting continued weaknesses in demand. We do not see any possibility of a rate cut now, given the hardening trends in global crude oil prices, depreciation bias in INR, widening fiscal gap and growth robustness in the US economy. We expect RBI to get into a prolonged pause on rate cuts and not to change its stance.
- India's producer price inflation (WPI) too spiked by 100 bps sequentially and touched 3.6% in Oct-17 on the back of upsurge in the prices of vegetables, esp. onions, minerals, fuel components like LPG, petrol, high speed diesel and prices of basic metals. Reflection of "pricing power" in manufactured products' inflation is still quite low.
- According to official sources, India's government may issue the first tranche of Rs 1.35 trln of bank recap bonds in the first week of Dec-17. These bonds may have a coupon of 7% and the first tranche will have 10-year tenure. But different tranches could have different maturity periods. India's central government is in the final stage of discussions with banks and the RBI regarding the issue of these bonds.
- The average shortfall in GST revenue share of states has narrowed down to 17.6% in Oct 2017 from 24% in Sept and 28.4% in August. Delhi leads the list of states and union territories with least revenue shortfall, followed by Maharashtra, Andhra Pradesh, Tamil Nadu, Telangana, Kerala, Haryana and Gujarat.
- According to RBI, Indian banks loans and deposits rose at the pace of 7.2% and 9.2% on year respectively, as on Oct 27, 2017. While outstanding loans increased by Rs 262 bln to Rs 79.17 trln in the two weeks to Oct 27, aggregate deposits declined by Rs 272.8 bln to Rs 108.50 trln. As a result, Credit-Deposit ratio improved (albeit marginally) to 72.97% as on Oct 27th from 72.62% as on Oct 13th.
- India's Broad Money Supply, i.e., M3 growth stood at a much lower 6.5 % (y-o-y), as on Oct 27, 2017 (versus 10.4% a year ago), as banks' credit to commercial sector remains much weaker in the current year so far as compared to the corresponding period of the previous year. However, "cash withdrawals" from banks have picked up in recent months. During 31st Mar to 27th Oct, FY18, "Currency with the Public" stood at Rs 2.84 trln versus Rs 1.05 trln during the corresponding period of FY17. Deposit growth, which was at 11.8% at end-Mar, 2017 has fallen to 9.2% as on 27th Oct, 2017.
- India's foreign exchange reserves fell for the third straight week by \$22.2 mln to \$398.74 bln for the week ended Nov 3rd amid increased uncertainty over many factors like crude prices, pace of monetary tightening, etc.

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4. India's industrial & services sectors scenario

- India's industrial production maintained its growth momentum for the third straight month and grew by 3.8% in Sept-17, mining being the major growth driver. Within the used-based categories, basic goods, capital goods & consumer non-durables remained the primary growth drivers. Cumulatively, industrial growth stayed at 2.5% in Apr-Sept, 2017 versus 5.8% in Apr-Sept, 2016.
- India's net earnings from trade in services rose by 4.7% to \$5.3 bln in Sept-17. While receipts from service exports sequentially rose by just 0.2% to \$13.7 billion in Sept-17, payments for service imports declined by 2.4% to touch \$8.5 bln.
- MSMEs will be the key growth driver for bank advances in India, according to a BCG-FICCI report. Recapitalisation of PSBs coupled with low demand for corporate credit will increase lending activity of banks towards MSMEs, in the months to come.
- India's imports of coal came in flat at 16.65 mt in Oct-17 due to cautious buying by consumers on account of high prices in overseas market. During the month, India imported 16.65 mt of coal as against 16.68 mt imported during Oct-16. While demand for imported coal witnessed a revival from thermal plants with low stock, high prices in the sea-borne coal market restricted the rise in imports.
- Exports of finished steel from India surged by 45% (y-o-y) to 0.8 mt in Oct-17, according to the latest report of the Joint Plant Committee. Even imports of finished steel were up by 11.5% (y-o-y) cent to 0.6 mt during the month.
- According to the rating agency ICRA, even as many infrastructure players in India are still struggling with stressed balance-sheets, there has been an improvement in financial profile of firms having exposure to airport and highways projects, indicating a revival in the sector. A major push from the government on roads and urban infrastructure segments has helped construction companies improve their order book position.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.88% last week (Nov 6-10) versus 5.87% in the week earlier (Oct 30 – Nov 3), as outflows of indirect taxes weighed on the sentiment in the interim week.
- While 91-day T-bill rate moved in the band of 6.09% to 6.11% last week, 364-day T-bill rate moved in the range of 6.22%-6.26%. On an average, the yield stayed at the same level for 91-D TBs & increased by just a basis point on 364-D TBs.
- But three-month CP rate hovered in a slightly lower band of 6.73% to 6.74% and the yield on this instrument in fact fell by five bps (on an average) last week.
- Liquidity surplus is extinguishing fast from money markets. It has fallen from Rs 1.20 trln last week to Rs 800 bln this week on account of RBI's OMOs plus indirect tax outflows.

6. Bearishness seen in India's G-Sec market

- Yield on the 10-year benchmark GOI paper was up 10 bps last week to 6.96%, as traders reduced exposure on their portfolios, fearing rise in CPI inflation in Oct-17.
- On Monday (Nov 13), government bonds fell for the second straight day with the yield on 10-year benchmark paper rising to 6.97%, as sentiment remained bearish ahead of the release of CPI inflation data post market hours.

- Government bonds slumped today as the higher-than-expected rise in CPI to 3.6% in Oct-17 sent yield on the 10-year bond above the critical 7% mark, triggering stop losses for a few traders.
- Even though CPI print is still below the RBI's target of 4%, several upside risks to inflation have emerged due to global crude prices, INR depreciation and likely widening of the fiscal gap. A lack of buying support from PSBs (due to the recent HTM cut) has further dampened the sentiment. G-Sec traders are not sure about the next support level for yields at 7.04% to 7.05%, which is likely to be broken on account of low appetite for government bonds.

7. Vulnerability on rise for Indian rupee

- INR depreciated by almost one per cent last week to 65.1663 per US dollar on increased purchases of dollars by commercial banks on behalf of foreign portfolio investors who pulled out funds from Indian financial markets and also for oil importers.
- INR ended at 65.42 a dollar yesterday (Nov 13) as geopolitical tensions worsened in West Asia and the Philadelphia President of US Fed hinted at an interest rate hike in Dec-17.
- Rising domestic inflation, hardening crude prices and a threat of fiscal slippage are likely to weigh on INR in the medium term. However, increased volatility in the US dollar index will aggravate INR volatility in the near term.

8. Indian stocks in a phase of consolidation

- Stocks ended down today – at their three weeks' low partly due to subdued cues from other Asian equity markets and partly due to worsening of domestic inflation scene dashing hopes of any rate reduction by RBI in its Dec-17 monetary policy review.
- Asian equity sentiment is hurt because of weak retail sales & factory activity data for China.
- According to Stock experts, Indian stocks will pass through a phase of consolidation until more clarity emerges on “sustainability” of growth in earnings that is needed to justify the present high level of valuations.

9. Brent crude eased to \$63.11 per bbl on Nov 14, 2017

- Brent crude prices, which had almost touched \$65 per barrel on Nov 8th hovered near \$63 today in Asian trade taking comfort from rising US oil output C-OUT-T-EIA, which has grown by more than 14% since mid-2016 to a record 9.62 million barrels per day (bpd).
- Oil prices held largely steady on Tuesday (Nov 14) as the prospect of further rises in the US output offset some of the optimism that OPEC-led production cuts would tighten the balance between crude supply and demand.

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