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1. Global economic briefs

- German Chancellor Angela Merkel's efforts to form a three-way coalition government have failed, thrusting Germany into a political crisis and pushing closer to a possible new election. The pro business Free Democrats (FDP) unexpectedly pulled out of more than four weeks of negotiations with Merkel's conservative bloc and the ecologist Greens, citing irreconcilable differences.
- The EU told Britain's Prime Minister Theresa May on Nov 17th that there was more work to be done to unlock the Brexit talks, repeating its early Dec-17 deadline for her to flesh out Britain's opening offer on the financial settlement. British finance minister faces a tough challenge amid tight fiscal constraints as he has to tackle Britain's domestic problems at the same time as negotiating its exit from the EU.
- According to a majority of economists in a Reuter's poll, US Republicans are not expected to push major tax cuts through Congress this year. The House of Representatives had approved on Nov 16th a package of tax reductions estimated to raise the federal deficit by nearly $1.5 trln over a decade. The Senate, where the Republican majority is slimmer, will be the focus for debate.
- Chinese home prices rose in more cities in Oct-17, snapping a three-month decline, a sign the market is stabilising amid government efforts to curb property speculation.
- Japan's export growth held steady in Oct-17, suggesting that brisk global demand for Japanese cars & electronics may carry its economic recovery into the current quarter. Ministry of Finance (MOF) data released today showed that exports rose 14% (y-o-y) in Oct-17, led by shipments of cars to Australia and liquid-crystal device production equipment and raw materials for plastics to China.
- Monetary policy in the US is expected to be increasingly flexible under Chair Powell, who will take office in Feb-18, after the expiration of Yellen's term. The ambitious economic reform, proposed by President Trump, requires constant adjustment on the central bank's part, meaning the Fed might or might not pursue a steady path of monetary normalisation/tightening.

2. India: Agriculture and rural economic news

- As per the latest update from India's ministry of agriculture, the total acreage of rabi (winter) crop as on 17th Nov has been reported at 23.04 mln ha against 21.95 mln ha of last year in the same period. The overall area under cultivation went up nearly 5%. Much of this increase has come from sowing of pulses, followed by rice and coarse cereals.
- According to India's agricultural secretary, India is close to achieve self sufficiency in production of pulses, as the output of pulses in the current year is set to cross 22 mt for the second time in a row. While the government is still struggling to clear its stock of imported pulses, it allowed exports of pulses on Nov 16th anticipating a bumper production this year.
- India's northern and eastern states are slowly but steadily increasing their share of bank credit for women self-help groups, a sector traditionally dominated by five southern states, indicating a new momentum in the country's rural economy. In the last four years, there has been a 28 percentage-point rise in the share of banks loans for northern and eastern states as the government backed rural livelihood projects are creating alternative sources of income in farming communities. West Bengal and Bihar bag the maximum loans in the upper half of India.

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3. India's overall economic & policy developments

- India's exports contracted 1.1% (y-o-y) in Oct-17, while imports rose 7.6%, as per the data released by the government, yielding a trade deficit of $14 bln in Oct-17, highest since Nov-14. A sharp fall in export of items such as readymade garments, gems & jewellery and leather products were the main reasons behind such a steep fall in exports and exporters have blamed GST implementation for this decline. This brings to an end a 13-month run of continuous increase in exports in India.
- As per reports, India's government may infuse Rs 100 bln of additional capital in PSBs in FY18 itself, thereby advancing its FY19 capital infusion plan. In addition to direct infusion of capital, the government will be issuing recap bonds to PSBs, the first tranche of which will consist of bonds worth Rs 700 bln.
- Rating agency Moody's upgraded India's sovereign credit rating to Baa2 from Baa3 after a gap of 13 years and also changed the outlook for India's rating to "Stable" from "Positive". Moody's has also raised India's long-term foreign-currency bond ceiling to Baa1 from Baa2, and the long-term foreign-currency bank deposit ceiling to Baa2 from Baa3. It has also upgraded India's local currency senior unsecured rating to Baa2 from Baa3 and its short-term local currency rating to P-2 from P-3. This is expected to bring down the costs of overseas borrowings for Indian companies and financial entities, which will eventually reflect in lower credit costs.
- However, the Moody's investor services' has cautioned that any deterioration in health of banks affecting investor confidence to raise capital could lead to sovereign downgrade.
- The RBI last week eased the rules for short-selling in government bonds, allowing traders to deliver securities from their own portfolios against short sales in "exceptional situations" of market stress. This is primarily to increase retail participation in government bonds.
- On Friday (Nov 17), the RBI withdrew the sale of G-Secs worth Rs 100 bln under Open Market Operations (OMOs) scheduled for Nov 23rd in the light of recent market developments and existing liquidity conditions.
- 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. Between Mar 31st and Oct 27th, "Currency with the Public" has grown from Rs 12.64 trln to Rs 15.48 trln reflecting an increase of nearly Rs 3 trln. During the same period, deposit growth significantly decelerated from 11.8% to 9.2%.
- India's "foreign exchange reserves" reversed their consistent fall for the past three weeks and increased by $554.2 mln to $399.29 bln in the latest reported week ended Nov 10th.

4. India's industrial & services sectors scenario

- The Cotton Association of India (CAI) has estimated cotton crop for the cotton season FY18 at 37.5 mln bales of 170 kgs each – up by 11.2% (y-o-y). This increase in estimated production is on account of a 19% increase in acreage of cotton. However, CAI has estimated yields to be lower by about nine per cent owing to the damage caused by pest attacks.

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- India's government has given the go-ahead for setting up first mega coastal economic zone (CEZ) at the Jawaharlal Nehru Port in Maharashtra as part of a plan to develop 14 such industrial clusters to spur manufacturing and generate jobs. About 45 companies across telecom, auto and IT sectors will soon bid for 200 hectares of land to set up manufacturing units in the zone.
- According to a report by ASSOCHAM and MRRSIndia, India's retail market is expected to reach $1.1 trln by 2020 from the current size of $680 bln, at a CAGR of 20%. An increase in digital connectivity, coupled with a rise in income of middle class and a surge in consumption from small towns is expected to propel this growth.
- As per the government sources, India's logistics sector will soon get infrastructure status, a move that will help the industry raise funds at competitive rates and boost India's trade. The proposal mooted by the Commerce Ministry has already been approved by the Finance Ministry.
- At the conference held during Nov 16-17, 2017 by the India-China Trade Centre in cooperation with China's Yunnan Academy of Scientific & Technical Information, more than $1 bln worth of technology transfer and investment projects were initiated between Indian and Chinese companies. Apart from some joint ventures that were signed in the infrastructure sector during the conference, a large number of Chinese investors showed inclination in roads, smart cities and affordable housing projects in India.
- Pointing that revival of infrastructure sector in India is in the primitive stages, the local credit rating agency, ICRA in its latest report has said that infrastructure companies with exposure to airport and highway sectors are doing well by showing improvement in their operational and financial performance. However, many infrastructure players are struggling with stressed balance sheet problems.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.79% last week (Nov 13-17) versus 5.88% in the week earlier (Nov 6-10), on lower demand from borrowing banks.
- While 91-day T-bill rate moved in the band of 6.10% to 6.11% last week, 364-day T-bill rate moved in the range of 6.24%-6.27%. On an average, the yield increased by just a basis point on 91-D TBs & by 2 bps on 364-D TBs.
- However, three-month CP rate hovered in a wider and higher band of 6.74% to 6.81% last week. The yield on this instrument hardened by 3 bps last week on an average.
- Currently, liquidity in the Indian banking system is estimated around Rs 650 bln. Some outflows are expected this week on account of goods and services tax.

6. Turnaround in India's G-Sec sentiment

- Yield on the 10-year benchmark GOI paper was up nine bps last week to 7.05% despite a ratings' upgrade by the Moody's on Friday (Nov 17) as the "upgrade" (though gave some quick gains immediately) could not fundamentally change the outlook on bonds, which was grappling with several issues like heavy supply, fears of fiscal slippage & concerns over inflation.
- However, government bonds extended gains today (Nov 20), as G-Sec traders added to their holdings following the surprise withdrawal of the RBI's OMOs that were scheduled for Nov 23rd.
- The 10-year benchmark yield ended at 6.89% today, as traders added to bond holdings on view yields may remain capped at prevailing levels.
- The unexpected and unprecedented move by the RBI has uplifted the G-Sec sentiment and traders are now reworking their trading strategies. The next level seen for the benchmark yield is arounf 6.85%.

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7. No major upside seen for INR despite the ratings upgrade

- INR ended more or less flattish last week at 65.02 per USD (on Nov 17) versus 65.17 on Nov 10th. The currency that had developed a strong depreciation bias until Friday (Nov 17), reversed its trend and decently rose against the US dollar – post the ratings' upgrade by the Moody's Investor Services combined with weaknesses in the dollar index
- However, persistent purchases of the US dollar, likely for importers, weighed on the Indian currency throughout Friday.
- INR closed at 65.10 per USD today (Nov 20) amid lackluster trade on dollar purchases by some PSBs & foreign banks, likely for importers. Some recovery in dollar index has also been weighing on the currency. According to experts, a rise in global crude oil prices and the steady pace of economic recovery in the US are likely to cap any major upside in the Indian currency in the near term.

8. Limited gains seen in Indian equities amid uncertainties

- Global stock markets ended last week on a mixed note, as the week faced several uncertainties due to rising tensions between North Korea & the US, debate over the prospects of significant tax overhaul in the US and disappointing corporate earnings in the Europe.
- Back home, benchmark indices bounced back in India on Friday (Nov 17) on the back of a favourable ratings action by the Moody's. Within sectors, realty, banking and auto sectors led the gainers while telecom, metals, oil & gas led the losers last week.
- Indian benchmark indices ended slightly higher today (Nov 20), as lack of major triggers kept investors on the sidelines. Global events like political uncertainty in Germany and passage of tax reforms in the US combined with domestic macro data points like quarterly GDP (to be released on Nov 30) will weigh on the local equity sentiment this week. However, domestic mutual funds would remain supportive.

9. Brent crude eased to $62.55 per bbl on Nov 20, 2017

- Brent crude oil started the week on the back-foot today, as reduced expectations for an extension of OPEC-led output curbs combined with fears over rising US output weighed on sentiment.
- Brent crude oil price fell to $62.55 a barrel today amid ongoing investor fears.
- Market participants will eye fresh weekly information on US stockpiles of crude and refined products this week to guage the strength of future demand.

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