Weekly Macro Perspectives

November 27, 2017

L&T Financial Services

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1. Global economic briefs

- Preliminary readings of plans being made by purchasing managers -- the executives who buy what their companies need -- have already painted a bullish picture for the Euro zone and especially for its two biggest economies, Germany and France. The flash PMI for Euro zone manufacturers climbed to 60.0 this month, well ahead of 58.3 in Reuter's poll, marking the second-highest reading since the index was first collected in 1997.
- According to Fox News, one of the ironies of GFC is that a decade after the Crisis, a panic whose origins were in the US has left the dollar more important to the rest of the world than ever before. While the euro became politically unpopular during the European debt crisis, investors dislike Chinese capital controls to peg the yuan. The commercial banks of Japan, Germany, France and the UK today have more dollar-denominated liabilities than those in their own currencies.
- Pakistan's central bank kept its main policy rate unchanged at 5.75% on Nov 24th, citing steadily rising economic growth.
- Many Federal Reserve policymakers expect that interest rates will have to be raised in the "near term" as per the minutes of the Fed's last policy meeting (31st Oct-1st Nov). While policymakers generally agreed the economy was poised for strong growth, they also saw improved chances that the US Congress would pass significant tax cuts that would boost business sentiment.
- However, ECB minutes showed broad agreement on extent of bond buying cut in the minutes of its last meeting (Oct 25-26). There was broad agreement that an ample degree of monetary stimulus was still needed for inflation to reach the ECB's target of "below, but close to 2%".
- The EU handed the UK PM Theresa May a 10-day "absolute deadline" to improve her Brexit divorce offer or face failure in persuading EU leaders to open trade talks with Britain at a December summit.
- Leaders of German Chancellor Angela Merkel's conservative party agreed yesterday (Nov 26) to pursue a "grand coalition" with the Social Democrats (SPD) to break the political deadlock in Europe's biggest economy.
- As per the Reuter's news, profits at China's industrial firms continued to grow at a robust pace in Oct-17 despite a slight cooling from a sizzling Sept-17 as companies benefit from strong commodities prices, with mining and heavy industry contributing the biggest gains.
- World economy is likely to see sustained solid growth with the global GDP growth accelerating slightly to a pace of 3.8%, even as monetary policy becomes less accommodative, said Credit Suisse in its Investment Outlook 2018.
- During the current week, there will be two Congressional hearings featuring current and prospective US central bank leaders as well as readings on US economic growth and Euro zone unemployment.

2. India: Agriculture and rural economic news

- India's rabi (winter crop) sowing has just begun and total area sown under rabi crops stood at 3.16 mln ha until Nov 24th versus 3.21 mln ha a year ago. While acreage under pulses, coarse cereals & rabi rice have increased on year-on-year basis, that under wheat and oilseeds has declined as per the latest data reported on Nov 24th.
- All major wheat growing states like UP, Punjab & Haryana have witnessed lower (y-o-y) sowing of wheat due to the continued stubble burning.
- India is likely to export nearly one-fifth less cotton this year than previously estimated as pink bollworms are expected to impact the fibre's production.
- Indian government's electronic national agriculture market (eNAM) initiative is yet to make any significant achievement since its launch in April 2016. The initiative was launched with the aim of increasing farmers'

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income by removing middlemen from the supply chain and ensuring more competition. However, only 455 agriculture produce market committees (APMCs) in 15 states, of about 2,477 APMCs are connected under eNAM till date.

3. India's overall economic & policy developments

- The slowdown in Indian economy has bottomed out, as per Dun & Bradstreet's Economy Observer report. As per the report, while the fundamental consumption story of India remains unscathed, revival in rural economy will provide further boost.
- India's President gave his assent on Nov 23rd to the Ordinance to amend the Insolvency and Bankruptcy Code, 2016 (the Code). The Ordinance aims at putting in place safeguards to prevent unscrupulous, undesirable persons from misusing or vitiating the provisions of the Code.
- On Nov 22nd, India's Cabinet approved setting up of the 15th Finance Commission that will prescribe the formula for devolution of taxes between the Centre and States for five years commencing on April 1, 2020.
- The Ratings agency S&P retained India's sovereign rating at BBB-, while taking a favourable view on reforms being undertaken. The outlook is kept at "Stable". In January 2007, S&P had changed India's rating to BBB-, which is the lowest investment grade rating for bonds.
- RBI has asked banks to provide against second list of stressed assets by Mar-18. These cases shall be referred for insolvency proceeding in Dec-17. Banks are directed to provide for the second set of accounts in line with the provisioning requirement laid down for the 12 large cases first referred for insolvency.
- India's state-owned banks have lined up to raise funds from equity markets post the massive Rs 2.1 trln recapitalization plan announced by the government of India and the ratings upgrade by Moody's that has lifted investor sentiment.
- According to RBI, Indian banks loans and deposits rose at the pace of 8.6% and 8.1% on year respectively, as on Nov 10, 2017. While outstanding loans increased by Rs 869.8 bln to Rs 79.58 trln in the two weeks to Nov 10, aggregate deposits rose by Rs 936.1 bln to Rs 108.87 trln. As a result, Credit-Deposit ratio improved to 73.09% as on Nov 10th from 72.92% as on Oct 27th.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.3 % (y-o-y), as on Nov 10, 2017 (versus 9.9% a year ago), as growth in deposits has slowed this year versus last year. However, "cash withdrawals" from banks have picked up in recent months. Between Mar 31st and Nov 10, "Currency with the Public" has grown from Rs 12.64 trln to Rs 15.72 trln reflecting an increase of Rs 3.08 trln. During the same period, term deposit growth significantly decelerated from 10.5% to 6.9%.
- India's "foreign exchange reserves" further increased by $240.4 mln to $399.53 bln in the latest reported week ended Nov 17th primarily on account of healthy inflows into India's equity segment during Nov 15-17, 2017.

4. India's industrial & services sectors scenario

- According to Moody's Investor Services, Indian corporates will see improved credit profiles in 2018 on solid economic and EBITDA growth, while their cross border bond maturities for the next three years are manageable.
- Crisil Ratings' latest report has predicted the growth in Indian bank credit to MSME sector at 11% CAGR over the next two financial years - the way faster than the 7% anticipated growth in bank credit to India Inc.

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- India's tax department has raised service tax demand of about Rs 100 bln from information technology and IT-enabled services companies in the country, sending a shockwave through an industry already reeling under tighter US immigration laws and increasing automation.
- According to media reports, at least Rs 500 bln worth of GST refunds of exporters for four months are stuck, impacting working capital and outbound shipments. Only about Rs 3.50 bln of refunds on account of integrated GST (IGST) have been released by the government for July, against Rs 7.50 bln claimed by exporters.
- Leading FMCG companies in India have started slashing prices of products that are in retail outlets in order to pass on the benefits following the rate cut in the GST. The move comes after the GST Council revised tax on shampoos, skin care and home care products from 28% to 18% on 10th Nov-17.
- According to ICRA, India's DISCOMs are expected to see a sharp reduction in losses during FY18 to Rs 250 bln from Rs 620.2 bln in FY16 on account of a cut in interest expenses owing to debt restructuring through Ujawal Discom Assurance Yojana (UDAY) scheme. A total of 16 member states have taken over around Rs 2.32 trln of debt, which helped DISCOMs reduce their interest rates to below 8.5% from over 11.0%. This led to a reduction in interest outgo by Rs 150 bln in FY17.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.90% last week (Nov 20-24) versus 5.79% in the week earlier (Nov 13-17) on tightened systemic liquidity following outflows on account of GST earlier last week.
- 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%-6.26%. On an average, the yield increased by just a basis point on 91-D TBs & fell by a bp on 364-D TBs.
- Three-month CP rate stayed at 6.80% throughout. The yield on this instrument hardened by 4 bps last week on an average.
- Currently, liquidity in the Indian banking system is estimated at Rs 350 bln. With the government's month-end spending in the form of pensions & salaries starting to trickle in from Nov 28th, liquidity scene may improve somewhat, going forward.

6. G-Sec sentiment down on fiscal concerns

- Yield on the 10-year benchmark GOI paper eased by 5 bps last week to 7.00%. In the interim, the yield had declined noticeably below 6.90% due to the RBI's surprise move to withdraw its open market sale of bonds worth Rs 100 bln.
- However, various factors like profit sales, surge in oil prices and concerns over gilt auctions dampened the G-Sec sentiment and the benchmark yield rose from 6.89% on Monday (Nov 20) to 7.00% on Friday (Nov 24).
- We see further erosion in the G-Sec sentiment this week due to a fall in GST collections for the month of October that have heightened concerns over government's fiscal position.

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7. Some strength is seen in INR this week

- INR appreciated by 0.5% last week to 64.70 on Friday (Nov 24) as S&P's favourable (medium-term) outlook on Indian economy boosted sentiment for the Indian currency.
- Weaknesses in dollar index post the release of the minutes of the last FOMC meeting (which were perceived as relatively dovish) too aided the FX sentiment.
- FX experts see more strength in INR this week, as worries about potential delays in the implementation of US tax cuts weigh on the US currency.

8. Indian equities seen in narrow range this week

- Favourable jobs & manufacturing data combined with digestible minutes of the last meetings of Federal Reserve & ECB perked up the stock sentiment across the globe except in China last week.
- Indian stock indices kept on rising throughout last week led by stocks from the sectors consumer durables, oil & gas, power, pharma and IT. Favourable reports on Indian companies' prospects from Moody's investor services & Crisil aided the sentiment.
- Foreign investors have pumped over $2.6 bln in India's capital markets in Nov-17 so far, propelled by government's bank recapitalisation plan and surge in India's ranking in the World Bank's ease of doing business index.
- India's benchmark indices are seen moving in a narrow range this week as investors will stay cautious ahead of the expiry of Nov-17 derivatives series and ahead of Jul-Sept GDP data announcement on Thursday (Nov 30).

9. Brent crude hovering near $63.16 per bbl on Nov 28, 2017

- Brent crude prices have increased by 1% during Nov 21-28 and are hovering near $63.16 per barrel today.
- OPEC, Russia & other major oil producers will meet in Vienna on Nov 30th and its widely expected that they will extend their 1.8 m barrel a cut throughout 2018.
- Oil traders and analysts say there is still, however, too much uncertainty over the supply-demand outlook next year for OPEC to take many risks. Also, Russia appears to be concerned that price recovery above $60 a barrel could unleash a wave of rival supplies.

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