

Dr. Rupa Rege Nitsure
Group Chief Economist

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1. Global economic briefs

- On Oct 17th, the US declined to name China as a currency manipulator although it remained critical of the Chinese government's economic policies [ahead of a planned visit to Beijing by President Donald Trump](#).
- Fed chair Janet Yellen has sketched a bright outlook for the US economy and for inflation prospects in coming months, [saying the impact of the recent hurricanes will likely slow economic growth slightly but only temporarily and should be followed by a rebound by year's end](#).
- British companies froze their marketing budgets during the third quarter amid rising uncertainties about the economy as the UK looks to exit the European Union, [a survey showed on Oct 18th](#). Also, the number of profit warnings issued by British companies jumped to 75 in Q3, 2017 from 45 in Q2. At the same time, British inflation rose to its highest level in more than five years in September, as per the official data, adding to the likelihood that the Bank of England will raise interest rates next month.
- Greece fell into recession again in 2016, [confounding its international creditors who had predicted some growth after years of budget austerity and bailouts](#).
- The leaders of the world's top central banks (The Fed, BOJ & PBOC) who risked trillions of dollars and their reputations to rescue the global economy are now set to walk off stage at a time when the lingering effects of the crisis, evolving technology and a combustible political landscape will challenge their successors. [The Fed, the BOJ and the PBOC may all have new bosses in early 2018 and there will be a new head of the ECB the following year](#).
- Donald Trump's drive to overhaul the US tax code cleared a critical hurdle on Oct 19th when the Senate approved a budget measure that will allow Republicans to pursue a tax-cut package without Democratic party's support. [But Republicans, who control both the Senate and House of Representatives, have yet to produce a tax reform bill as a self-imposed deadline to overhaul the US tax code by the end of this year](#).
- Growth in new home prices in China slowed to a crawl in Sept-17 [after rising for 2-1/2 years, reinforcing views that a long property boom is nearing its peak as government cooling measures start to bite](#).
- Japanese Prime Minister Shinzo Abe's ruling bloc scored a big win in Sunday's (Oct 22) election, bolstering his chance of becoming the nation's longest-serving premier and re-energizing his push to revise the pacifist constitution. [Post the results, he said his government will proceed with a scheduled sales tax increase in 2019 unless the economy suffers a shock as big as the 2008 collapse of Lehman Brothers](#).
- [According to ELFA, the US companies' borrowing to spend on capital investment fell 7% in Sept-17 from a year earlier, while the monthly report of Bundesbank showed that growth in Germany, Europe's biggest economy, likely held up at a high level in Q3, 2017. However, Japanese manufacturing activity expanded in Oct-17 at a slower pace than the previous month as output and new orders growth eased in a sign final demand is moderating, a preliminary gauge of activity showed on Oct 24th](#).

2. India: Agriculture and rural economic news

- [India's monsoon season is officially over. However, during the monsoon withdrawal phase, there were heavy rains in isolated pockets](#). According to government sources, these heavy rains have not impacted the harvest-ready crops in any significant manner.
- India's pulses production is estimated to fall to 8.71 mt during Kharif 2017 compared to last year's record output of 9.42 mt, [according to the first advance estimate released by the ministry last month](#). However, [rabi pulses are likely to compensate for these losses](#).

L&T Finance holdings Limited

Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- The USDA has estimated India's wheat production for FY18 at a record 98.4 mln metric tonnes, up 13% from last year.
- Low inventory and a fall in taxes on account of GST, coupled with rising exports, have helped basmati farmers in India's Punjab and Haryana states to command a better price for their produce this season. **Even though the area under basmati rice was nearly 10% less as compared to the last kharif season, the yield was better as more farmers decided to sow high-yielding varieties such as 1509 this time around.**

3. India's overall economic & policy developments

- According to the minutes of the MPC meeting in Oct-17, India's relatively higher inflation prints in Jul-Aug and a possibility of fiscal slippage prompted MPC to keep repo rate unchanged at 6%. **Out of the six members, five voted for a status quo, while only one member pitched for a rate cut on the back of high real interest rates and a widened negative output gap.**
- India's exports growth rebounded sharply to 26% in Sept-17 from 10% in Aug-17 while imports growth moderated from 21% to 18% sequentially, reducing trade deficit by \$ 2.7 bln (month on month) to \$9 bln. According to some experts (Credit Suisse), this "growth" has been an outcome of the strategy to avoid GST, because if one shows "exports", one can claim "tax credit".
- While the festive demand for two-wheeler and personal loans remained strong in India this year that for home loans remained low despite a slew of festive offers. **Bankers cited demonetisation, implementation of GST & RERA as the prime reasons for subdued demand for home loans.**
- India's wholesale inflation fell by 64 bps sequentially to 2.60% during Sept-17, **driven by lower fruits and vegetable prices that fell by 15% during the month.**
- India's GST Council is considering pruning of the number of items in 28% tax bracket. **It is said that a committee of officers will calculate the revenue impact before going in for further reduction in tax rates.**
- According to RBI, Indian banks loans and deposits rose at the pace of 6.9% and 8.7% on year respectively, as on Sept 29, 2017. **While outstanding loans increased by Rs 2.27 trln to Rs 80.09 trln in the two weeks to Sept 29, aggregate deposits rose by Rs 2.60 trln to Rs 109.68 trln, reflecting a last mile effort to shore up balance-sheets at the end of Q2, FY18.** The Credit-Deposit ratio marginally improved to 73.02% as on Sept 29th versus 72.67% as on Sept 15th.
- India's Broad Money Supply, i.e., M3 growth stood at a much lower level of 6.0 % (y-o-y), as on Sept 29, 2017 (versus 11.7% a year ago). Disaggregated information on "Sources of M3 growth" reveal that growth in bank credit to commercial sector has fallen by 340 bps (y-o-y) as on Sept 29th, 2017 due to weak investment sentiment.
- India's foreign exchange reserves stood at \$400.30 bln as on Oct 13, 2017 **reflecting an increase of \$1.50 bln in a week's time.**

4. India's industrial & services sectors scenario

- India's 12 major ports registered a growth of 3.2% in cargo traffic during Apr-Sept, 2017. **Major ports handled 326.4 mt of cargo traffic during the period as compared to 316.1 mt during Apr-Sept, 2016.**
- India's government has issued a notification allowing 36 banks and five canalising agencies, including MMTC and MSTC, to import gold without paying a 3% integrated GST. **It's a big relief for financial institutions importing gold, as the 3% tax was an additional burden on them. Till now, importers' working capital used to get blocked**

until they got the refund on GST paid. However, the new notification removes that hurdle and smoothens the process of import.

- Foreigners may get to pay a lower visa fee for vacations in India during the lean season, with the government considering concessions aimed at making the country a year-round destination for tourists from all over the world. The idea, mooted by group of young CEOs at a recent Niti Aayog event, has found favour with the tourism ministry.
- India's government wants to attract \$100 bln foreign direct investment in tourism sector and generate up to 100 mln jobs over the next five years, as tourism industry has a multiplier effect on the economy.
- Furthermore, the Indian government is set to approve today the biggest ever highway development plan to develop and expand approximately 83,000 km of roads at an investment of Rs 6.9 trln by 2022. The proposal on the Cabinet's agenda is aimed at pushing economic activity and generating at least 320 mln man-days across the country in the next five years.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.94% last week (Oct 17-19) versus 5.87% in the week earlier (Oct 9-14), as liquidity remained relatively tighter on account of festive demand plus outflows amounting to Rs 200-300 bln due to indirect tax payment.
- While 91-day T-bill rate moved in the band of 6.08-6.09% last week, 364-day T-bill rate stayed in the range of 6.21-6.22%. On an average, the yield increased by 2 bps on 91D TBs but stayed flattish on 364D TBs.
- Three-month CP rate moved in the range of 6.71%-6.74% last week reflecting a fall of 2 bps on an average within a week.
- Currently, liquidity surplus in the banking system is expected to have fallen to Rs 1.20 trln from Rs 1.70 trln earlier.

6. Cautious mood in government bonds market

- Yield on the 10-year benchmark GOI paper hardened by 3 bps last week to 6.76% ahead of the release of MPC minutes, which were expected to be relatively hawkish.
- In general, appetite for G-sec was weak last week due to two public holidays and tightness in liquidity.
- The mood in G-Sec market has turned more cautious post the release of relatively hawkish MPC minutes, heavy supply of gilts this week and limited appetite of PSBs to purchase gilts after the HTM cut.

7. More volatility seen in INR

- INR depreciated mildly last week by 0.2% to 65.0387 per USD as dollar demand improved globally on reports that John Taylor – a more hawkish economist than Janet Yellen may be selected as the next Fed Chair.
- Also, purchases of dollars by some state-owned banks for importers weighed on the sentiment.
- According to FX experts, the US Fed's pace of unwinding of its balance sheet will determine the Indian rupee's movement more than India's domestic policies, going ahead. And this could make the currency movement more volatile in the coming days. However, RBI will try to control heightened volatility through systematic intervention.

8. Cautiousness seen in Indian equity trading

- Indian markets closed marginally higher in the last truncated week ahead of the festive season.
- The Samvat 2074, or the Hindu accounting calendar year, got off to a weak start as weak growth prospects for China & political developments in Spain weighed on the sentiment.
- On Monday (Oct 23), a volatile session of trade saw the benchmark indices eked out gains to snap a two-day losing run aided by a surge in shares of index heavyweight Reliance industries.
- Stock experts see a definite possibility of some correction as stock prices have risen too high in the past few weeks. More volatile stock trading is expected ahead of the Jul-Sept earning results of some of the major companies in the coming days.

9. Brent crude at \$57.87 per bbl on Oct 23

- Brent crude prices kept on rising on Monday (Oct 23), as investors are positive about comments from the meeting of the technical committee on monitoring the implementation of the agreement on the oil production cut of OPEC.
- Moreover, the US production was also recently impacted by a hurricane for the second time in as many months and the number of US drilling rigs declined for the third week in a row.

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