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1. Global economic briefs

- The ECB announced on Oct 26 that the quantitative easing (QE) scheme would be extended until Sept, 2018. Benoit Coeure, who heads the ECB's market operations clarified that the money-printing scheme will continue until inflation "clearly moves" towards the central bank's objective of just under 2%.
- Germany could post a budget surplus of 14 billion euros in 2017, as per the latest reports, providing more negotiating room for Chancellor Angela Merkel's conservative bloc as it tries to forge a new coalition with the Free Democrats and Greens.
- Japan's retail sales rose in Sept-17 at the fastest pace in three months. The 2.2% annual increase in retail sales in Sept-17 follows a revised 1.8% annual increase in Aug-17. Japan's core consumer prices too marked a ninth straight month of annual gains in Sept-17 but failed to accelerate from the previous month. The Bank of Japan left its massive monetary stimulus program unchanged even as it trimmed its inflation forecasts on Oct 31st, signaling further divergence ahead from its global peers. Bank of Japan also maintained its policy balance rate at -0.1%.
- Japanese PM Shinzo Abe savoured a landslide victory paving the way for a push to amend the country's pacifist constitution.
- The US economy could maintain a brisk pace of growth in Q3, 2017 (GDP grew @3%), as an increase in inventory investment and a smaller trade deficit offset a hurricane-related slowdown in consumer spending and a decline in construction, say experts.
- Post-hurricane labor market, retail sales and industrial production data for the US economy already show acceleration in underlying economic activity. Hence, economists expect the Federal Reserve to increase interest rates for a third time this year in Dec, 2017.
- Standard and Poor's and Fitch left their credit ratings for Britain unchanged on Friday (Oct 27) but remained gloomy about the outlook due to the likelihood of the country reaching a bad deal in its divorce talks with the European Union.
- The global recovery that is lifting the US, EU/European, Asian, Australian and NZ economies seems to be bypassing Brexit Britain. However, it is leaving behind a growing headache for the British economy from inflationary pressures that are dragging the economy towards 70's style stagflation. The Bank of England is expected to respond to rising inflation soon.
- Profits of large companies in China surged the most in nearly six years in Sept-17, as a government crackdown on air pollution sparked fears of winter supply shortages and sent prices of finished goods like steel and copper sharply higher.
- This week, we expect news from central banks, the latest US jobs data, more US tech and other profits, the start of month surveys of global manufacturing and some economic figures for Australia for Sept-17.

2. India: Agriculture and rural economic news

- Milk has become India's No 1 farm crop, as it has not only surpassed the total value of food grains (cereals plus pulses), but also stood way above the crop value of paddy that stood at Rs 2,264.81 bln or wheat at Rs 1,289.98 bln, as per the latest figures released this month. Today, the white revolution's contribution to farm incomes has surpassed that of the green revolution.
- India's government has raised MSPs (minimum support prices) of various rabi (winter) crops by 6-11% on Oct 24th. For summer & winter crops together, the hike is 6.6% in FY18 versus 6.4% in FY17. This is indeed a prudent revision despite the fact that several state elections are in offing.

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- Wage payments worth Rs 30.7 bln under MGNREGS are pending in 19 states of India, as per the reports. There was 100% pendency of fund transfer orders in 19 states including Assam, Bihar, Gujarat, Haryana, Karnataka, MP, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, UP & Kerala as on 20 Oct, 2017. The payments are pending at the Union government level.

3. India's overall economic & policy developments

- India's government unveiled a Rs 2.11 trln support for public sector banks (PSBs) on Oct 24th, struggling with very high NPAs, in order to spur lending & create jobs. Facing a resource crunch and the target to rein in its fiscal deficit at 3.2% of GDP in FY18, the government plans to pump in Rs 1.35 trln of this recapitalisation through bonds. This is expected to be fiscally neutral (except for interest cost of Rs 80-90 bln annually) but will add to the Government's debt stock.
- Also, weaker banks will get capital only to cover their provisioning requirements, while stronger banks will be provided capital for growth as well. As per India's ministry of finance sources, bonds will be issued by the government itself.
- It would be prudent to allow Indian PSBs to stabilise post recapitalisation before continuing with the consolidation process, according to India's BBB (Banks' Board Bureau) chief. He added that the year FY19 will be much better for mergers as this will allow the government and the central bank to identify any elements of stress.
- According to the RBI governor, a well-capitalised banking system was a pre-requisite for stable economic growth and this package to restore the health of the banking system was a monumental step forward in safeguarding the country's economic future.
- The industry chamber - Associated Chambers of Commerce and Industry of India (ASSOCHAM) in its latest report has stated that the change in market perception of PSBs has the potential to fetch the government much higher values than that envisaged in the bank support plan. This could be achieved via stake divestment in PSBs.
- Various issues for India ranging from trade deficit, price control for medical devices, problems faced in obtaining H-1B and L-1 visas, higher visa fees along with high rejection rates were discussed during the 11th Trade Policy Forum (TPF) at Washington DC, as per a report in media.
- According to RBI, Indian banks loans and deposits rose at the pace of 7.7% and 9.8% on year respectively, as on Oct 13, 2017. While outstanding loans declined by Rs 1.07 trln to Rs 79 trln in the two weeks to Oct 13, aggregate deposits fell by Rs 863 bln to Rs 108.80 trln, erasing the froth that gets generated at the quarter-end. The Credit-Deposit ratio too eased to 72.62% as on Oct 13th versus 73.02% as on Sept 29th.
- India's Broad Money Supply, i.e., M3 growth stood at a much lower level of 6.8 % (y-o-y), as on Oct 13, 2017 (versus 11% a year ago). Disaggregated information on "Sources of M3 growth" reveal that growth in bank credit to commercial sector has fallen by 110 bps (y-o-y) as on Oct 13th, 2017 due to weak investment sentiment. However, the outstanding of "currency in circulation with the public" has gone up by Rs 2.69 trln during Mar 31st to Oct 13th, 2017.
- India's foreign exchange reserves declined by \$862.2 mln to \$398.794 bln in the week to 6th Oct, 2017 due to fall in foreign currency assets, as per the RBI data. According to some report submitted to the US Congress around mid-October, 2017, the US treasury will be closely monitoring India's foreign exchange and macroeconomic policies as it suspects continuous FX intervention by the RBI to arrest the INR appreciation.

4. India's industrial & services sectors scenario

- India's union cabinet cleared the Bharatmala project on Oct 24th to construct 20,000 km of highways connecting western and eastern parts of the country at an estimated investment of Rs 7 trln. In the first phase to be undertaken over three-five years, the project would cost Rs 5.5 trln. The project would be funded through various sources, including Rs 2.09 trln from the market, Rs 1.06 trln through private investment and Rs 2.19 trln from the central road fund or toll collection.
- World crude steel production increased 5.6% (y-o-y) to 141.4 mt in Sept-17. India, which is tipped to topple Japan and emerge as the second-largest global steel producer, produced 8.2 mt of the alloy last month, up 1.9%.
- Indian Railways has floated a global tender to procure rails for track upgradation. It seeks to purchase 0.7 mln mt of rails. Giant track-laying projects are underway to modernise passenger and freight movements to cut travel time.
- According to the International Energy Agency (IEA) and Wood Mackenzie, India and Southeast Asia are set to drive global coal demand through 2040 while China will cut down its use of the fossil fuel to fight pollution. Coal will continue to hold a major share in the energy needs of India and Southeast Asia because it the most affordable technology in power generation.
- According to a report by real estate portal PropTiger, home launches across top nine cities in India fell by 53% (y-o-y) to 22,115 units in Sept-17 on account of the implementation of GST and the delay in implementation of real estate regulatory act (RERA).

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.86% last week (Oct 23-27) versus 5.94% in the week earlier (Oct 16-18) due to lack of demand from borrowing banks.
- While 91-day T-bill rate moved in the band of 6.09-6.11% last week, 364-day T-bill rate stayed at 6.22%. On an average, the yield increased by one basis point on both 91D TBs and 364D TBs.
- Three-month CP rate moved in the range of 6.74%-6.77% last week reflecting an increase of 2 bps on an average within a week.
- With surplus liquidity narrowing (albeit gradually), we saw a marginal uptick in money market rates (91D, 364D TBs & 3-M CPs) during the past week.

6. G-Sec yields continue to stay elevated post the recapitalization news

- Yield on the 10-year benchmark GOI paper hardened by 5 bps last week to 6.81%, as G-Sec traders faced additional uncertainty after the recapitalization announcement by the government.
- The 10-year benchmark yield moved past 6.83% during the week but recovered by a few bps by the close of the week.
- Traders now wait for more clarity as to whether these recap bonds will enjoy hold-to-maturity status or any special dispensation that would insulate them from revalued. This has made the mood cautious in the G-Sec market.

- According to Mr N S Venkatesh, a Fixed-Income expert and CEO, AMFI, there is still juice in the 80-125 basis spread over overnight funding rates, and hence a correction in the sell-off is overdue. Benchmark 10-year yields should get supported around 6.75% while 6.87% would act as resistance.

7. Likely INR depreciation in the medium term

- INR remained more or less flattish at the close of the last week at 65.05 per USD versus 65.04 a week ago, as the US dollar index surged thanks to a dovish ECB taper timetable and improved macro data-points for the US economy.
- Similar to other Asian currencies, the USD/INR exchange rate has been strongly affected by the US dollar weakness this year, as INR had gained quite rapidly before losing some ground over the last few weeks.
- The recent jump in the US Dollar has been largely caused by speculation surrounding the possible election of a new Chair for the Federal Reserve and hopes for some Republican unity on implementing some of Trump's tax reform proposals.
- While INR may remain volatile in the near term responding to inflows/outflows of portfolio capital, its orderly depreciation will continue due to the hardening trends in global commodity prices. Also, the fact that India is still on a US treasury list as a potential currency manipulator may start to weigh on the central bank's ability to directly influence the rupee.

8. Q2 results, macro-data to guide Indian equities

- Global markets rallied last week on positive global cues.
- In local equity markets, stock market gains last week were powered by banks, particularly PSBs that rallied the most after the government's recapitalization news. Majority of the sectoral indices ended the week on a positive note. Stocks from capital goods and power sector were among the major gainers during the week.
- Indian equity indices scaled fresh highs on Monday (Oct 30) also - both on closing as well as intra-day basis - as healthy buying in consumer durables, automobile and oil and gas stocks, coupled with hopes of better quarterly results, kept investors' sentiments upbeat.
- According to experts, quarterly results along with macro-economic data points are expected to guide the key Indian equity indices during the week ahead. Besides results, macro-economic data points like Index of Eight Core Industries figures, monthly automobile sale figures, PMI prints and the country's fiscal deficit data up to September will be keenly watched by investors.

9. Brent crude at \$60.35 per bbl on Oct 30

- Brent crude prices had touched a high of \$60.54 per barrel on Monday (Oct 30) before closing at \$60.35.
- Crude prices are hovering at this high level on expectations that an OPEC-led production cut due to expire next March would be extended, although rising exports from Iraq kept a lid on prices. Traders said that a 900,000 bpd export capacity increase from Iraq's southern ports to 4.6 million bpd, reported on Sunday, had prevented Brent from rising further.

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