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1. Global economic briefs

- China's producer price inflation (at 6.3%) and consumer price inflation (1.8%) accelerated much more than expected in Aug-17, fueled by strong gains in raw materials prices and pointing to strong, sustained growth for both factory profits and the economy.
- At its policy meeting on Sept 8th, the ECB made no changes in any of their key interest rates. However, President Mario Draghi suggested October would be decision time regarding the future of the 2.3 trln euros ($2.8 trln) bond-buying programme.
- Bank of Canada surprised many on Sept 6th by hiking its overnight target rate to 1%, led by stronger than expected recent economic data. The recent data points are supporting the Bank's view that growth in Canada is getting more broad-based and self-sustaining.
- Australia's official interest rate was kept on hold by the Reserve Bank on Sept 5th. It was the 12th consecutive RBA board meeting where the official rate has stayed at a record low 1.5% and economists do not expect it to move any time soon.
- While the mammoth US economy is not easy to slow down, the damage caused by hurricanes Irma & Harvey could reduce economic growth in the fall by as much as one-third, analysts say. Before the back-to-back hurricanes struck, the economy appeared on track to expand as much as 3% in the third quarter running from July through September. Now forecasts are pointing to GDP increasing around 2% or even less.
- Japanese economy grew at a slower pace in the quarter Apr-June, not the surprisingly strong spurt indicated by an earlier estimate, according to revised government data on Sept 8, although signs of a revival are holding up.
- The world economy is showing positive signs but is still fragile and countries should rely on structural reforms, not quantitative easing, to support growth, Chinese Premier Li Keqiang said today. Li, who met with the heads of global bodies, including IMF Managing Director Lagarde and World Bank President Jim Yong Kim in Beijing, said that countries should maintain free trade.

2. India: Agriculture and rural economic news

- Progress of kharif (summer crop) sowing in India has been slow this year and the area sown has dropped by 0.8% (y-o-y) until Sept 8th. Except for Sugarcane & cotton, for all other kharif crops – rice, pulses, coarse cereals, oilseeds and jute & mesta, the land area sown has fallen.
- India's water storage too is lower than year ago, as per the latest report dated 7th Sept, 2017. Live storage in 91 important reservoirs in India is at 58% of the capacity of these reservoirs, at 84% of its last year's level around this time and at 84% of the average of last ten years.
- The demand for work under the rural job scheme in India has risen this financial year, primarily attributable to overall economic slowdown and a setback to agricultural GVA due to erratic distribution of monsoon. The Mahatma Gandhi National Rural Employment Guarantee scheme has already generated 1,190 mln person days in the first five months of the financial year, data on the rural development ministry's website show. This is 55% of the estimated 2,150 mln person days for this year and more than half of last year's actual figure of 2,360 mln person days.

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3. India's overall economic & policy developments

- India's retail inflation rate rose to 3.36% in Aug-17 versus our expectation of 3.02%, primarily driven by higher prices of perishables and other food items reflecting supply distortions rather than any demand pull pressures.
- According to FITCH Ratings, Indian banks will need additional capital of $65 bln to meet all of global Basel III banking rules by March 2019, with state-run lenders accounting for 95% of the requirements. This is far above the $11 bln in capital infusions into state-run lenders the government has budgeted through March 2019, with $3 bln due to be injected in FY18 & FY19.
- There has been a deterioration in the asset quality indicators for HFCs (housing finance companies) during Q1, FY18 due to an increase in GNPA, which rose from 0.84% of gross advances on March 31 to 1.15% as of June 30. The rise was largely attributed to an increase in non-housing book NPAs (i.e., real estate loans & LAP), according to rating agency ICRA.
- India Inc raised more than Rs 490 bln through private placement of corporate bonds in Jul-17, taking the total to Rs 2.2 trln in the first four months of the ongoing financial year. The funds have been raised mainly for expansion of business plans, repayment of debt and to support working capital requirements. According to the data available with the SEBI, companies had garnered Rs 490.33 bln in July this year compared with Rs 367.74 bln raised in the year-ago period.
- Assets under management (AUM) of India's mutual fund industry rose by 3.1% (m-o-m) to touch a record high of Rs 20.6 trln by end-Aug-17. The AUM has crossed the Rs 20 trln mark for the first time in India.
- According to a survey report titled 'MUDRA Scheme: a Game Changer Initiative on Job Creation', done by SKOCH Group, 55 mln jobs have been generated under India's Pradhan Mantri MUDRA Yojana (PMMY). The MUDRA scheme, launched in April 2015, provides access to institutional finance to small business units.
- According to RBI, Indian banks loans and deposits rose at the pace of 6.3% and 10.3% on year respectively, as on Aug 18, 2017. While outstanding loans fell by Rs 237.3 bln to Rs 77.04 trln in the two weeks to Aug 18, aggregate deposits declined by Rs 822.8 bln to Rs 106.73 trln. The Credit-Deposit ratio stood at a higher level of 72.19% as on Aug 18 versus 71.85% as on Aug 4, as fall in deposits is higher than that in bank credit.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.0 % (y-o-y), as on Aug 18, 2017 (versus 10.0% a year ago) primarily led by lesser currency in circulation with public (still down by 11.0%, y-o-y).
- India's foreign exchange reserves rose by $3.57 bln to touch a new life-time high of $398.12 bln in the week to Sept 1st, helped by an increase in foreign currency assets, as per the latest RBI data. While the Special Drawing Rights with the IMF rose by $6.5 mln to $1.51 bln, gold reserves increased by $748.3 mln to $20.69 bln.

4. India's industrial & services sectors scenario

- The Nikkei Services PMI for India rose to 47.5 in Aug-17 as compared to 45.9 in the preceding month. However, the service sector activity contracted for the second consecutive month.
- India's industrial production grew by a weak 1.2% (y-o-y) in Jul-17 against our expectation of a contraction of 0.9%, primarily due to a 4.8% growth in mining output and 6.5% growth in power generation. The manufacturing growth remained weak at 0.1%, led by a contraction in the output of capital goods, intermediate goods & consumer durables.
- The ADB, which has so far funded only renewable energy projects in India's energy sector, is now looking to channelize a credit line for energy efficiency sector.

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- State-run Coal India has set up a round-the-clock monitoring cell to ensure steady supply of coal to India's thermal power plants. The initiatives, monitoring and control cell (IMC) will primarily co-ordinate with railways and power producers to rush coal to thermal power stations facing critical stocks and avoid shortage of fuel.
- Cement prices in India declined by 4% in Jul-Aug, 2017 as cement companies passed on the benefit of lower tax under the GST regime to consumers. Also, the demand for cement remained subdued due to festivities and inauspicious occasions.
- Power generation in India rose by 7.9% to 102.7 bln units in Aug-17 as compared to a year ago. This was, however, lower than the monthly generation target of 107.3 bln units. Of the three power segments, thermal power generation rose by a healthy 14.9% to 83.85 bln units. The other two segments, hydel and nuclear, reported a fall in generation in Aug-17.
- Signs of revival are apparent in India's steel sector, as the production of finished steel rose by 9.1% to 8.3 mt during Jul-17. While finished steel exports witnessed a healthy growth of 64.2%, consumption increased by four per cent in Jul-17.
- A joint report by Federation of Indian Chambers of Commerce & Industry (FICCI) and Deloitte stated that India's retail industry is currently growing at a CAGR of over 10% and expected to reach the size of Rs 85 trln by 2021.

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