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1. Global economic briefs

- The US central bank is expected to leave interest rates unchanged at its Sept. 19-20 policy meeting, according to a Reuters poll of nearly 100 economists, with markets pricing in a 52 percent chance of a rate hike coming at a December meeting.
- Risk appetite improved in US markets towards the end of last week as concerns about the worst-case scenarios for North Korea and hurricanes in the US eased.
- Data on the US economy released last week was a mixed bag. While both industrial production and retail sales for Aug-17 came out weaker than expected, the manufacturing index surprised on the upside. It was widely expected that the August prints would be distorted due to Hurricane Harvey, and hence it did not cause much concern.
- China's new home prices rose in Aug-17 at the slowest pace in seven months and fell or leveled off in more cities as government cooling measures dampened speculation. This is as per the National Bureau of Statistics data. However, there were no signs of a sharper correction that could damage the economy.
- The European economy has been performing well in recent quarters and there has been growing talk of the ECB finally unwinding its QE programme, with the 'bulk' of its decisions expected in October. Moreover, the political risk has also faded following Emmanuel Macron's presidential victory in France, and a likely victory for Angela Merkel in Germany on September 24.
- Japan too is in the middle of a solid economic recovery, with business confidence at a decade's high. However, its inflation remains stubbornly low.
- At the two-day rate review ending on Sept. 21, the BOJ is set to keep intact a pledge to guide short-term interest rates at minus 0.1% and the 10-year government bond yield around zero percent under its yield curve control (YCC) policy, as per the expectations of market participants.
- Australia's central bank has turned more upbeat on the economic outlook led by an improving labor market, although it remained worried about rising household debt and a strong local dollar. Minutes of the Reserve Bank of Australia's September meeting showed policy makers also doubted the strength in jobs would lead to a much-needed pick up in wages anytime soon.

2. India: Agriculture and rural economic news

- Farm loan waivers will result in a 40 bps increase in combined fiscal deficit in FY18, and push up inflation by 20 bps on permanent basis (assuming all other things remain same), according to a study by the Reserve Bank of India.
- Rajasthan – one of the major agrarian state of India announced a Rs 200 bln farm-loan waiver on Sept 14th after a two-week-long protest, which saw thousands of farmers pouring in from across the state to narrate stories of agricultural distress. The government of Rajasthan is in the process of setting up a high-level team that will study the loan waiver process applied in other states - Uttar Pradesh, Maharashtra and Punjab.
- India's rainfall deficit has touched 6% this monsoon season and deficient rainfall is recorded over 21% area of the country since June 1st. Sowing of the kharif (summer) crop has moderated to 104.9 mln ha compared to 105.7 mln ha during the previous year at the same time (mid-September), as per the agriculture ministry. Major agricultural regions Uttar Pradesh (31%), Madhya Pradesh (25%) and Vidarbha (27%) in Maharashtra have had the biggest deficits. Despite severe deficit, the UP state officials are positive on the agrarian situation as more than 80% irrigation coverage and a good groundwater table have provided farmers with a safety net.

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3. India's overall economic & policy developments

- Indian exports rose by 10.3% to $23.8 bln in Aug-17, which is significantly higher than the 3.9% growth recorded in the previous month. However, imports rose by 21.02% to $35.5 bln in Aug-17 on the back of a 23.1% rise in non-POL imports. As a result, India's trade deficit for the month widened to $11.6 bln from $7.8 bln in Aug-16.
- As per RBI, India's current account deficit for Apr-Jun quarter expanded sharply to 2.4% of GDP from 0.6% in the Jan-Mar quarter. Much of the weakness was due to the wide merchandise trade deficit that stood at $41.2 bln vs $29.7 bln in the Jan-Mar quarter. On the other hand, capital account recorded an enhanced surplus of $25.4 bln vs $10.4 bln in the previous quarter on the back of an increase in FDI, portfolio & banking capital inflows. The overall BOP surplus stood at $11.4 bln.
- India's external debt stock stood at $471.9 bln at the end of Mar-17, lower by $13.1 bln (2.7%) on y-o-y basis, as per the External Debt report FY17 by its ministry of finance.
- The UNCTAD 2017 report says that India & China are unlikely to serve as "growth polls" for the global economy in near future. As per the report, India faces severe downside risks as the government's demonetisation drive, implementation of the goods and services tax (GST) and corporate deleveraging could accelerate a slowdown and make recovery difficult.
- Indian government is considering a more aggressive fiscal push in the Union Budget of 2018, as per a media report. The realisation that the economy needs a stronger fiscal push comes after the country's GDP growth declined to 5.7% in the first quarter of FY18.
- Floods in various parts of India such as Assam, West Bengal, Bihar and Gujarat affected transportation demand for diesel and gasoline as a result of which oil consumption in the country shrunk by 6.1% in Aug-17 (y-o-y).
- According to RBI, Indian banks loans and deposits rose at the pace of 6.5% and 9.6% on year respectively, as on Sept 1, 2017. While outstanding loans increased by Rs 642.6 bln to Rs 77.70 trln in the two weeks to Sept 1st, aggregate deposits rose by Rs 751.1 bln to Rs 107.48 trln. The Credit-Deposit ratio stood flattish at 72.29% as on Sept 1st versus 72.20% as on Aug 18.
- India's Broad Money Supply, i.e., M3 growth stood at a much lower level of 6.6 % (y-o-y), as on Sept 1st, 2017 (versus 10.3% a year ago) primarily led by lesser currency in circulation with public (still down by 10.9%, y-o-y). Bank credit to commercial sector (one of the major sources of M3) has also collapsed in the current financial year.
- India's foreign-exchange reserves rose past $400 bln for the first time ever and stood at $400.7 bln on Sept 8th. India's holdings are about $376 bln excluding gold, enough to pay for about a year of imports. The pace of reserve accretion has been one of the strongest within Asia in the past 12 months, according to analysts at Morgan Stanley.

4. India's industrial & services sectors scenario

- The order books of exporting firms are said to have taken a hit in India with estimates showing an impact of up to 15% across industries and product categories due to the implementation of GST, reported a leading business daily.
- The Federation of Indian Chambers of Commerce and Industry's (Ficci) latest report sees the impact of GST on Indian industry waning over the next few months. However, the industry chamber said persisting volatility in the manufacturing sector is a matter of concern and calls for deeper reforms, especially at the state level.

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- The flow of private equity (PE) capital into India's real estate sector is expected to touch $4 bln at the end of the year, setting a new milestone, a report released by property consulting firm Knight Frank said. This spurt is mainly led by the $1.8 bln deal signed between GIC and DLF. Excluding this transaction, the total would be in the range of $3.1-$3.2 bln, pretty much the same as last year. Still, at $4 bln, investments are set to be the highest since 2010.
- Tractor sales in India are expected to grow at 11-13% during FY18, according to CRISIL Research. It has indicated a healthy growth in tractor sales despite monsoon slowing down in Aug-17 and the pace of sowing coming down. According to CRISIL Research, farm sentiments still remain marginally positive. Tractor sales in Aug-17 scaled to 40,765 units, highest recorded numbers for August till date.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.85% last week (Sept 11-15) versus 5.84% in the week earlier (Sept 4-8) as massive liquidity surplus continued.
- While 91-day T-bill rate moved in the band of 6.07-6.08% last week, 364-day T-bill rate hovered at 6.24%. On an average, the yield declined by a basis point for 91-D TB & stayed flattish on 364-D TB.
- However, three-month CP rate moved in the range of 6.65%-6.69% last week reflecting an increase of 6 bps on an average within just a week.
- Dealers see some uptick in money market rates this week due to the continuing tax outflows on account of GST payment plus the impact of advance tax outflows. With outflows continuing, the liquidity surplus in the system is currently pegged at Rs 1.38-1.45 trln. The RBI announced on Sept 15th that it will sell five government bonds worth Rs 100 bln on Sept 28 to suck surplus liquidity.

6. Government bond yields stabilising at higher levels

- Yield on the 10-year benchmark GOI paper inched up to 6.60% last week on the back of a weak sentiment created by the double-whammy of higher than expected CPI & WPI inflation rates for Aug-17.
- "The auction calendar for H2, FY18 & reduced chances of policy rate cuts in October (due to higher inflation expectations)" have dampened the G-Sec sentiment.
- The RBI, after market hours on 15th Sept (Friday) made another announcement for the auction of five government bonds worth Rs 100 bln on Sept 28th. Since July, the RBI has sold government bonds worth Rs 500 bln through OMOs to reduce the liquidity surplus on a durable basis.
- The current week is critical as US, EU & Japan central banks will meet to decide on rates. While some hardening is expected in G-Sec yields this week, it should present a good buying opportunity around current levels, especially to PSBs.

7. INR seen range-bound due to offsetting pressure

- INR depreciated by 0.5% last week to 64.08 against the US dollar on the back of recently reported weak economic data.
- Post the release of weak economic prints, many global think-tanks and economists rushed to cut their estimates of INR-USD pair for the end of the year.

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- While weaknesses in domestic growth will put downside pressure on INR, broad weaknesses in the US dollar remain supportive of INR. FX traders see INR-USD pair to stay range bound around 63.90-64.20 ahead of the US Federal Reserve's Monetary Policy Meeting that will start from today.

8. Correction seen in Indian equities in near term

- Global markets ended last week on a positive note despite North Korea's aggression. Recent drop in some of the US leading indicators was seen as a transitional impact of hurricane Harvey.
- Back home, benchmark index gained 1.8% last week supported by a rally in pharma & capital goods stocks.
- Provisional figures from the stock exchanges showed that foreign institutional investors continued with their selling spree and offloaded stocks worth Rs 33.65 bln during last week. This outflow was offset by continuous injection of funds by the domestic institutional investors, which bought scrips worth Rs 38.35 bln.
- Due to overvaluation, Indian markets have started under-performing versus other EMs (emerging markets). In this week, the sentiment will be dominated by actions from global central bank meetings – the US Fed & BOJ.
- Going ahead, actions from global central banks are likely to curtail the near-term liquidity. Equity experts are expecting this to lead to correction and under performance of Indian equities.

9. Brent crude touched $55.99 per bbl in Asian trade on Sept 18

- Brent crude prices started the week on the front foot today and are holding near the five-month highs seen last week amid improved optimism over the outlook for global supply & demand.
- Brent crude traded at as high as $55.99 per barrel in the interim trade on Sept 18.
- Sentiment in the oil market was boosted by last week's bullish demand forecasts from the Organization of the Petroleum Exporting Countries and the International Energy Agency. The data also showed that global oil production fell last month for the first time since March, boosting optimism that the market is rebalancing.

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