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1. Global economic briefs

- The PMI survey showed a pick up in Euro zone's manufacturing activity in Aug-17, led by the fastest growth in export orders since Feb-11 despite a strengthening currency. Even the region's inflation rose to 1.5% in Aug-17 from 1.3% in the previous month on the back of higher energy costs.
- While Japanese manufacturing activity expanded at a solid clip in Aug-17 led by a pick-up in domestic and export orders, the nation's companies curbed their pace of investment in plant & equipment in Q2, 2017, hit by a decline in spending by auto makers and manufacturing equipment makers.
- The US job growth slowed more than expected in Aug-17 to 156,000 after two straight months of hefty increases (399,000 jobs in June & July). However, the pace of gains should be more than enough for the Fed to announce a plan to start trimming a massive bond portfolio accumulated as it sought to bolster the economy. Persistently sluggish wage growth could, however, may make the Fed cautious about raising interest rates again this year.
- Brazil's trade surplus set a monthly record ($5.60 bln) in Aug-17 as commodity prices rose, contributing to a gradual economic recovery and a stable currency, as per its official data.
- The PMI data showed factories across Asia & Europe cranked up production in Aug-17, as global demand remained strong. According to analysts, this will add fuel to an expected rollback of monetary stimulus in the west.
- Britain needs higher interest rates to prevent inflation from heading back towards 3% and staying there for several years, according to Michael Saunders, one of the two dissenting BOE rate-setters to vote for a rise earlier in Aug-17.
- This week, market participants are looking forward to the monetary policy decisions of the central banks of Australia, Canada & Euro zone. While Reserve Bank of Australia and Bank of Canada are expected to leave policy rates unchanged (as per the polls), ECB policy makers may not be ready to finalize their decision on next year's bond-purchase plan until just a couple of weeks before the current program expires in December.
- The Chinese central bank's move to ban the issuance of a form of short-term debt, announced on Aug 31st, suggests the relatively tight environment may continue as regulators seek to control banking system risk. The PBOC drained a net 280 bln yuan (S57.67 bln) last week through OMOs, less than the 330 bln yuan drained the week earlier.

2. India: Agriculture and rural economic news

- South-west monsoon rains were normal in India in the months of June and July, which received 4.0% and 1.7% more than normal, respectively. However, monsoon rains were deficient by 4.0% in August. Monsoon entered a weak phase in the beginning of August and took a good of three weeks to revive over central & south peninsular India.
- July and August account for nearly 70.0% of monsoon rainfall in India and this year's rain deficiency has primarily impacted the crop sowing activity in regions – Vidarbha & Marathwada of Maharashtra, South Interior Karnataka, most of UP, MP & Haryana.
- Total area sown under India's kharif (summer) crop has declined by 0.6% until Sept 1st and the primary draggers are pulses – Arhar & Kulthi; coarse cereals – Jowar & Maize; oilseeds – Sunflower, Groundnut, Castor & Soybean and jute & mesta.
- India's latest GDP statistics for Q1, FY18 shows that India's agricultural GDP grew by 2.3% in Q1, FY18 versus 2.5% in Q1, FY17, led by healthy production growth in rabi (winter) crops, especially in coarse cereals, pulses & oilseeds.

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- India's water storage levels remained lower (y-o-y) during the week-ended 31st Aug-17. Live storage in India's 91 critical reservoirs stood at 86.629 BCM, which was 55% of the total capacity of these reservoirs and 84% of the last year's storage until today.
- Less than normal rainfall in various parts of India country has increased demand for work in its rural areas. Hence, the ministry for rural development is seeking an additional grant of Rs 170 bln for various works undertaken under the National Rural Employment Guarantee Scheme (NREGS).

3. India's overall economic & policy developments

- India's GDP growth slipped to a three-year low of 5.7% in Q1, FY18, led by an acute slowdown in manufacturing and a marginal easing of agricultural growth on y-o-y basis. India's Gross Fixed Capital Formation rate too eased from 31% in Q1, FY17 to 29.8% in Q1, FY18 in real terms, reflecting a further slowdown in investment spending. Services sector growth rates improved for the segments trade, hotels, transportation, etc., and also for the services public administration & defence, on y-o-y basis.
- India's government has collected Rs 922.83 bln as GST with over 3.8 mln assesses having filed interim tax return for July 2017, according to its ministry of finance. The tax collected from the first filing since its launch is higher than the projected target of Rs 910 bln.
- According to the RBI's Annual Report, of the Rs 15.44 trln worth of high valued (Rs 500 and Rs 1,000) currency notes demonetised in Nov-16, currency worth Rs 15.28 trln (~99%) came back into the banking system by June 30th, 2017. According to analysts, there are two broad explanations for this phenomenon. One, the proportion of black money that was held in the form of cash was quite low. Or two, the proportion of Rs 500 and Rs 1,000 notes that was black money has been successfully laundered back into the system.
- As per the debt management report of India's government for quarter ended June 2017, the liquidity conditions in the economy remained in surplus mode post demonetisation. However, the cash position of the government during Q1, FY18 was stressed due to mismatch in receipt and payment which is generally seen in the first half of the financial year. While Cash management bills (CMBs) of varying durations amounting to Rs 1.3 trln were issued during the quarter to tide over this mismatch in cash flows, the CMBs of Rs 400 bln were redeemed during Q1, FY18 itself.
- Foreign Portfolio Investors injected funds worth Rs 41 bln in India's capital market during Aug-17 versus Rs 211.2 bln in Jul-17. Debt markets experienced net inflows while equity markets witnessed net outflows in Aug-17.
- 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 declined by Rs 237.3 bln to Rs 77.04 trln in the two weeks to Aug 18, aggregate deposits fell by Rs 822.8 bln to Rs 106.72 trln, normalizing the distortion created by the quarter-end effort. The Credit-Deposit ratio marginally improved to 72.19 as on Aug 18 from 71.85 as on Aug 4, as the fall in deposits is sharper than that in 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% a year ago) primarily led by a decline in currency in circulation with the public and subdued credit offtake.
- India's foreign exchange reserves scaled up further by $1.15 bln to reach the level of $394.55 bln in the week to August 25, helped by a continuous increase in foreign currency assets, as per the latest RBI data. While the Special Drawing Rights with the IMF rose by $2.3 mln to $1.5 bln, gold reserves remained unchanged at $19.9 bln.

4. India's industrial & services sectors scenario

- According to the Markit's PMI survey, India's manufacturing activity revived in Aug-17 to 51.2 from a 101-month low of 47.9 in Jul-17 as orders bounced back & the confusion over GST somewhat eased.
- India's eight core industries' index (with a weight of 40.3% in industrial production index) grew by 2.4% (y-o-y) in Jul-17, led by a strong growth in steel (9.2%), natural gas (6.6%) & electricity (5.4%). While coal production growth was subdued at 0.7%, the industries crude oil, refinery products and cement posted negative growth rates (y-o-y).
- The momentum of India's wind energy capacity addition has been severely hit, as power distribution companies are reluctant to sign fresh power purchase agreements (PPAs) for wind projects agreed upon when tariffs were higher. The ministry of new and renewable energy has cautioned the states that if PPAs are not signed, there would be no further wind energy capacity addition either in FY18 or FY19.
- India's car sales surged 14% ahead of the festive season and its government's move to increase GST cess for luxury cars to 25% from 15% in Aug-17.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.84% last week (Aug 28-Sept 1) versus 5.94% in the week earlier (Aug 21-24) on large funding liquidity within the banking system.
- While 91-day T-bill rate moved in the band of 6.08% to 6.12% last week, 364-day T-bill rate moved in the range of 6.23%-6.25%. On an average, the yield stayed at the same level for 364-D TBs but fell by one basis point on 91-D TBs.
- Three-month CP rate hovered at the level of 6.55-6.57% and the yield increased by just one basis point (on an average) last week.
- Based on its assessment of prevailing and evolving liquidity conditions, on Sept 1st the RBI announced another sale of Government securities under OMOs for an aggregate amount of Rs 100 bln to be held on Sept 14, 2017 (Thursday) through multi-security auction using the multiple price method.

6. Optimism seen in government bonds

- GOI 10-year benchmark yield hovered in the band of 6.53-6.57% for most of the last week but eased to 6.48% on Friday (Sep 1st), as both the US payroll and India's GDP data came below expectations and increased the hope for more dovish stances by the respective central banks.
- Actually, G-Sec market witnessed increased volatility in major part of the week due to North Korea's unprecedented launch of a ballistic missile over Japan.
- According to bond experts, weak data-points for the US & India gave bond players a reason to stage a rally after many weeks, as faltering growth numbers revived hopes of an earlier than expected rate cut. Notwithstanding an announcement of an OMO sale late in the evening on Friday (Sept 1st), 10-year benchmark yield should remain supported near 6.50%, backed by this optimism.

7. INR to trade in a narrow range

- INR stayed flattish on week-on-week basis and ended at 64.02 per US dollar last week.

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- INR has appreciated by almost 6% since the beginning of 2017, snapping six consecutive years of depreciation.
- The adverse impact of currency appreciation on growth is getting magnified by the decline of many competitors' currencies (e.g., Chinese Yuan & Malaysian ringgit) against the US dollar over the same period.
- Buoyant capital inflows have created challenges for the RBI's monetary policy. Also, aggressive intervention in the FX market is likely to put India on the Washington's currency watchlist.
- According to Reuters news, while India is currently not on the watchlist, President Trump has ordered an investigation into the causes of the US trade deficit with 12 of its trading partners, including India.
- This has constrained the hands of Indian policymakers to stem the INR appreciation.
- Given these constraints and the other developments like resolution in the Doklam standoff with China will ensure that the INR-USD pair would trade in a current narrow range this week.

8. Indian stocks to stay range bound with a downside bias

- Global markets ended past week on a happy note on the back of positive data points coming out of the globe's large economies.
- Back home, the benchmark index - BSE Sensex was up 0.9% on week. While dismal GDP data print revived hopes of a policy rate cut, strong August sales data unveiled by automakers & improved PMI (manufacturing) print protected investors' sentiment.
- The sectors that posted gains last week were realty, metals, oil & gas, auto & FMCG. However, export oriented sectors like IT & Pharma posted losses.
- According to stock experts, Indian equity markets are expected to stay range-bound (with a downside bias) this week and will be driven mostly by stock-specific action. Global developments like geopolitical situation and the monetary policy decisions of major central banks will also be watched keenly.

9. Brent crude near $52.07 per bbl on Sept 4, 2017

- Global crude oil prices fell today after a powerful North Korean nuclear test triggered a shift away from crude markets to assets perceived to be safer, such as gold.
- Brent crude futures were down 68 cents, or 1.3%, at $52.07 a barrel by 0808 GMT.
- Traders were nervously eyeing developments in North Korea, where the military conducted its sixth and most powerful nuclear test over the weekend.

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