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1. Global economic briefs

- In its twice-yearly Economic Outlook, the OECD estimated global growth to accelerate from 2.9% this year to 3.3% in 2017 and reach 3.6% in 2018. The OECD was slightly more optimistic about the US outlook, with a growth forecast of 2.3% for next year, up from 2.1% earlier on the back of expected tax cuts & fiscal stimulus from the Trump administration.
- On Nov 30th in Vienna, the OPEC reached a deal to cut their oil production by 1.2 mln barrels per day in order to raise global oil prices. The OPEC nations currently produce 33.7 mln barrels of oil per day, total. Under the deal, they will bring that down to 32.5 mln barrels per day, with Saudi Arabia, Iraq, UAE, and Kuwait making the biggest cuts.
- A series of benchmark PMI data published on Dec 1st from Japan to the UK suggests the US dollar's surge of 3.2% in Nov-16 is helping the global manufacturing sector. The companies across the globe have geared up to take advantage of Trump's promised fiscal stimulus, tax cuts & looser wall-street regulation by manufacturing goods in local currencies and selling them into an economy that is riding high on improved consumer sentiment, higher wages, falling unemployment, etc.
- Manufacturing in US expanded in Nov-16 at the fastest pace in five months, reflecting resilience of its domestic demand. The Institute for Supply Management's index increased to 53.2 from 51.9 a month earlier, according to an Arizona-based group's report released last week. Even "hiring" in the US economy picked up in Nov-16.
- Italian Prime Minister Matteo Renzi resigned after suffering a crushing defeat in a referendum on constitutional reform (Dec 4), tipping the Euro zone's third-largest economy into political turmoil.
- New Zealand Prime Minister John Key, who won praises for his economic stewardship after the global financial crisis, unexpectedly announced his resignation today (Dec 5), saying it was time to leave politics after more than eight years in power.
- Growth in China's services sector accelerated to a 16-month high in Nov-16, in addition to solid factory activity readings last week. According to economists, this is more due to a price rather than an output effect. Chinese Yuan has fallen to eight-&-a-half-year lows against the dollar in recent weeks, threatening a surge in capital outflows.

2. India: Agriculture and rural economic news

- According to the Indian weather department's report -"Seasonal Outlook for the Temperatures", the year 2016 is likely to end up as one of the warmest years since 1901. Even the upcoming "Cold Weather Season (Dec-16 to Feb-17), will be relatively warmer in India as a result of the global warming. In particular, the warmest temperature anomalies will be witnessed in the majority of the sub-divisions from northeast & northwest India.
- While a few experts perceive this to have a negative impact on standing wheat, chana & mustard crops, the "actual effect" will depend on the time when a warm weather sets in. According to S Mahendra Dev, director of Indira Gandhi Institute of Development Studies, "If day temperatures rise unusually during sowing & harvesting, the impact on standing rabi crop could be less. But if temperatures rise abnormally during the crop maturing stage, it could have an adverse impact on the final yields".
- India's rabi (winter crop) sowing improved further by 26.8% on week-on-week basis to 41.55 mln ha on the back of improved sowing under major rabi crops like wheat, pulses & oilseeds. The sowing under rice & coarse cereals is still lagging behind on y-o-y basis. According to India's Ministry of Agriculture, total sown area under rabi crops has increased in most of the states including the bigger ones like Uttar Pradesh & Madhya Pradesh.

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3. India's overall economic & policy developments

- Indian central government's public debt increased by 3% (q-o-q) in Q2, FY17, as per the official report. Out of the total public debt, internal debt constituted 92.3% of it.
- As informed by the Ministry of Commerce to Parliament, India's trade deficit with China increased to $52.69 bln in FY16 from $48.48 bln in FY15. During Apr-Sept, FY17, India's trade deficit with China stood at $25.22 bln.
- India's Finance Minister recently introduced a "Taxation Laws (Second Amendment) Bill" in the lower house of Parliament (Lok Sabha) that proposed a new voluntary disclosure and investment scheme. The new scheme offers black money hoarders yet another opportunity to come clean, albeit at a higher tax cost than the recently concluded Income Disclosure Scheme.
- Industry officials feel that India's overseas purchases of gold could halve in Dec-16 after jumping to the highest level in 11 months in Nov-16 as retail demand has faltered after the government's move to scrap high-value currency notes.
- For the first time in more than five years, the RBI's decision on policy rates will not just be driven by the inflation outlook but by other factors that matter for INR and financial sector stability – thanks to a series of high-impact global events.
- According to RBI, Indian banks loans and deposits rose by 7.9% and 11.7% on year respectively, as on Nov 11, 2016. A robust growth in bank deposits strongly reflects the impact of "demonetisation" move. While outstanding loans declined by Rs 591 bln to Rs 73.53 trln in the two weeks to Nov 11, aggregate deposits rose by a whooping Rs 1.31 trln to Rs 101.15 trln.
- India's Broad Money Supply, i.e., M3 growth further eased to 10.3% (y-o-y), as on Nov 11, 2016 primarily driven by a drastic fall in the growth of "currency with the public" post the "demonetisation" move.
- India's foreign exchange reserves further fell by $193.8 mln to $365.31 bln in the week ended Nov 25, according to the RBI data. The country's forex reserves had fallen by $1.54 bln to $365.50 bln in the previous week. The decline in Forex reserves was primarily due to the sale of dollars by the RBI to stem the fall in the rupee.

4. India's industrial & services sectors scenario

- Anticipating a more protectionist US technology visa programme under a Donald Trump administration, India's $150 bln IT services sector is expected to speed up acquisitions in the US and recruit heavily from college campuses there, according to experts.
- India's quest to develop its own fighter jet engine got a leg up last week, after a $2 mln consultancy agreement was finalised with leading French defence manufacturer Safran to help revive the Kaveri project.
- According to India Ratings, at least Rs 4 trln of debt held by Indian top borrowers faces the risk of being written off as these companies face an issue with cash flows because of a build-up in non-productive assets during the last five years.
- India's core (infrastructure) industrial output rose to a six-month high of 6.6% in Oct-16 on the back of higher production of steel, refinery products and cement, as per the official data.
- Unlike the PMI for manufacturing that held up above 50 (at 52.3 in Nov-16 versus 54.4 in Oct-16), India's service sector PMI dropped to 46.7 in Nov-16 – into a contraction zone – from 54.4 in Oct-16, signaling a more pronounced impact on services than on manufacturing of the "demonetisation" measure.

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5. Indian money market review last week

- India's weighted average call money rate averaged at 6.22% last week (Mon-Fri) versus 5.95% in the previous week, as a result of the RBI's decision on Nov 26th to impose CRR of 100% on incremental deposits garnered during Sept 16 to Nov 11, 2016.
- Average daily fixed rate repo borrowing of banks too increased from Rs 20.96 bln in the previous week to Rs 79.98 bln in the week under review (Nov 28-Dec 2). Average daily borrowing under MSF too increased - from Rs 2.63 bln to Rs 12.15 bln.
- The RBI had to conduct several variable term repo auctions last week – some of one-day and some of 14-days to ease the liquidity constraints last week. On Monday (Nov 28), the RBI injected Rs 3,300 bln into the banking system through three variable term repos of 1-day each.
- While 91-day T-bill rate moved in the wide band of 5.86% to 6.00% during last week; 364-day T-bill rate moved in the broad band of 6.04%-6.10% - reflecting an average increase of 8 to 14 basis points, over the past week.
- Three-month CP rate varied in the band of 6.45%-6.48%, reflecting a gain of 4 bps over a week.
- Today, call money rate is trading below the RBI repo rate, as liquidity conditions have improved – thanks to the Government spending in the form of salaries and pension plus continued deposit of the old high-denomination notes in banks by the public.

6. Increased uncertainty in the G-Sec market

- Sequentially, India's new benchmark 10-year bond yield gained just one basis point last week and closed at 6.24% on Friday (Dec 2).
- However, the benchmark GOI yield had surged to 6.32% level in the earlier days of the week on RBI's move to impose CRR of 100% on incremental.
- The yields started easing mid-week, as liquidity improved on the back of government's month-end spending plus the reversal of term reverse repos led by RBI earlier.
- On balance, the benchmark yield just gained one bp over the past week. However, increased uncertainty over the RBI's liquidity management (as there is an announcement of MSS to the tune of Rs 6 trln plus the government likely to advance its borrowings programme, etc.) has increased uncertainty for the gilts trajectory. While some players are hopeful on CRR relaxation & policy rate cuts on Dec 7th, some expect RBI to stand pat in view of the high impact global events.

7. INR seen under some pressure

- INR gained by 0.36% last week to 68.225 per US dollar on increased selling of the US currency by exporters and banks. In particular, the US dollar's weakness against some currencies overseas led to the rupee up-move.
- Investors were awaiting US payrolls report for confirmation that the US economy continues to strengthen, with an eye on an expected hike in benchmark US interest rates by the Federal Reserve at its meeting on 13-14 Dec, 2016.
- Rupee pulled back today along with other Asian currencies post the Italy referendum outcome tipping Italy into political turmoil and threatening to destabilise its shaky banking system. Currently, INR is trading marginally lower at 68.20 to 68.21 per USD.

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- While FCNR (B) repayments is almost over, pressures in the form of US Fed rate hike, implications of Trumponomics, over-valuation of INR in fair terms and an overhang of unhedged currency exposures will keep downward pressures on INR, going forward.

8. RBI policy action, INR to drive equities this week

- Global markets ended on a cautious note last week before Italy's referendum on constitutional reforms today (Dec5) and the US payrolls data that were due on Friday (Dec 2) evening.
- Strong economic data from the US, including upbeat manufacturing activity and construction spending, have bolstered the view that the Fed will tighten monetary policy sooner than later.
- In India, negative global indices, along with caution ahead of US non-farm payrolls data and profit booking, suppressed the Indian equities markets during the week. The political logjam in Parliament over the government's demonetisation decision too acted as a dampener for the investors' sentiment.
- The Sensex was down by 0.3% over the past week, the losers being realty, banking, metals, IT and oil & gas stocks.
- The upcoming monetary policy review on Dec 7th, combined with fluctuations in INR and the flow of foreign funds will drive investors' sentiments in the equities markets this week.

9. Brent crude closed at $54.43 per bbl on December 2, 2016

- Global benchmark Brent futures were at $54.43 a barrel, up nearly 15% for the week, the biggest weekly percentage gain since early 2009.
- Oil prices surged after OPEC agreed on its first production cut since 2008, aimed at reining in massive oversupply that has seen prices more than halve since mid-2014.
- In this week, markets will focus their attention on the implementation and impact of the OPEC agreement. Traders will also be watching U.S. stockpile data tomorrow (Dec 6) and Wednesday (Dec7) for fresh supply-and-demand signals.

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