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1. Global economic briefs

- According to the US Labour Dept, the nonfarm payrolls in the US rose by 156,000 jobs in Dec-16 and there was a rebound in wages signaling a robust labour market momentum. Fed Chair Janet Yellen had said the economy needs to create just under 100,000 jobs a month to keep up with growth in the work-age population. Employers hired 19,000 more workers than previously reported in Oct-16/ Nov-16.
- Also, the US service activity held at a one-year high in Dec-16, as new orders surged while the number of Americans filing for unemployment benefits fell to near a 43-year-low last week, suggesting the economy ended 2016 with strong momentum.
- Chicago Federal Reserve President Charles Evans said on Jan 6th the central bank could raise interest rates three times this year, faster than he had expected just a few months ago and in line with the majority of his colleagues.
- China's official growth numbers show solid growth momentum into 2017- thanks to heavy government stimulus and a construction boom. However, analysts feel this may have come at a high price, as policymakers will have their hands full in 2017 trying to defuse financial risks created by the explosive growth in debt.
- The UK retail sales edged lower in Dec-16. In fact, robust growth in consumer spending has been one of the main factors sustaining Britain's economy post the Brexit vote in Jun-16. However, many retailers now fear a squeeze on spending as inflation begins to erode real earnings growth in 2017.
- Businesses across the Euro-zone ended 2016 by ramping up activity at the fastest pace for five-and-a-half years, a survey by Markit showed last week, as a weaker currency boosted demand for their goods and services in Dec-16.
- According to Economists, despite a number of unclear factors surrounding the global economic situation, including US President-elect Donald Trump's fiscal and trade policies, Japan will likely see its economy grow in 2017 on the back of the weak yen and government steps to stimulate sluggish consumption.

2. India: Agriculture and rural economic news

- Total area sown under rabi (winter) crop in India grew by 6.5% (y-o-y) to 60.3 mln ha by 6th Jan, 2017, as per the Ministry of Agriculture's latest press note. While area sown under pulses, wheat and oilseeds rose by 13.4%, 7.6% & 7.9% on y-o-y basis, respectively, that under rice and coarse cereals declined by 27.4% & 6.6%, respectively.
- Improved monsoon rainfall during 2016 has prompted India's Central Statistical Organisation to estimate the growth in India's "agriculture, forestry & fishing" sector at 4.1% during FY17 versus 1.2% in FY16.
- According to analysts, if farmers countrywide can tide over the acute cash shortage resulting from demonetisation and ensure that "sowing" translates to strong growth in output, then we may see rural consumption providing some cushioning from the slowdown.

3. India's overall economic & policy developments

- India's government has garnered over Rs 214.32 bln trough selling its stake in central public sector entreprises (CPSEs) during the first eight months of the current fiscal, representing nearly 60% of the union budget's target.

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- The prospects of a rollout of the Goods & Services Tax regime from April 1, 2017 appeared to have receded further in India after representatives of States expressed concern about the timeline at a meeting of the GST Council.
- According to the Central Statistical Organisation's Advance Estimates, India's real GDP is likely to grow by 7.1% (y-o-y) in FY17 versus 7.6% in FY16, on account of a slump in manufacturing, mining and construction sectors.
- India's indirect tax collections grew 25.0% (y-o-y) in the first three quarters of FY17, driven by a strong growth in central excise (up 43%) and service taxes (up 23.9%).
- According to a leading financial daily in India, FDI in India increased by 27% at US$27.82 bln during the April-October, FY17 as against US$21.87 bln in the same period last fiscal.
- According to RBI, Indian banks loans and deposits rose by 5.1% and 15.2% on year respectively, as on Dec 23, 2016. The strong growth in bank deposits and slowdown in bank credit primarily reflect the impact of ongoing "demonetisation". While outstanding loans grew by Rs 89.4 bln to Rs 73.48 trln in the two weeks to Dec 23, aggregate deposits fell by Rs 750.8 bln to Rs 105.16 trln.
- India's Broad Money Supply, i.e., M3 growth further eased to 6.5% (y-o-y), as on Dec 23, 2016 led by a drastic fall in the growth of "currency with the public" post the "demonetisation" move. A sharp slowdown in "bank credit to commercial sector" has impacted the M3 growth, from the sources side.
- India's foreign exchange reserves increased by $625.5 mln to $360.30 bln in the week ended Dec 30, according to the RBI's latest weekly data. The country's forex reserves had fallen by $935.2 mln to $359.67 bln in the previous week.

4. India's industrial & services sectors scenario

- According to the rating agency ICRA, India Cabinet's approval of the Bill in Dec-16 that would give more autonomy & flexibility to major ports in the country is "Credit Positive" for major ports of India. This will provide more autonomy to the major ports by enabling speedier decision making process, improvement in their governance structure, fund raising from the capital markets, leverage their land assets and attract investments.
- Indian government has announced safety audit for all 418 mines in the country in the wake of one of the worst open cast mine disaster under Rajmahal, killing at least 18 people.
- India's manufacturing PMI has declined to 49.6 in Dec-16, from 52.3 in Nov-16, reflecting the impact of "cash crunch" post demonetisation that has hurt the creation of new jobs, buying activities & overall production in the country.
- Business activity in the Indian service sector also fell for the second consecutive month in Dec-16 (reading at 46.8), reflecting a steeper reduction in incoming new work. Backlogs continued to rise, while employment decreased fractionally.
- Indian companies garnered close to Rs 6 trln through private placement of corporate bonds in 2016, a surge of 25%, to fund business expansion plans.
- The 12 states of India that have signed up for Ujwal Discom Assurance Yojana (UDAY) have issued bonds totalling Rs 1.83 trln. The bonds issued have helped service 83% of the cumulative debt of the state-owned discoms.
- Even after the adverse impact of demonitisation on their businesses, micro, small and medium enterprises (MSMEs) have got the highest number of investment proposals to be signed at the Vibrant Gujarat Global Summit-2017, next week.

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4. Indian money market review last week

- India's weighted average call money rate averaged at 6.08% last week (Mon-Fri) versus 6.12% in the previous week, supported by comfortable liquidity. Even the cash management bills issuance under the market stabilization scheme (amt: Rs 500 bln) was oversubscribed last week.
- Average daily fixed rate repo borrowing of banks declined from Rs 38.87 bln in the previous week to Rs 18.06 bln in the week under review (Jan 2-6). However, average daily borrowing under MSF increased from Rs 2.00 bln to Rs 7.38 bln.
- The RBI had to conduct two variable term repo auctions last week – each of 14-days with the sizes Rs 27.50 bln on Tuesday and Rs 38 bln on Friday.
- While 91-day T-bill rate moved in the band of 6.05% to 6.17% during last week; 364-day T-bill rate moved in the range of 6.15 %-6.26% - reflecting a 8 bps & 11 bps respectively over the previous week.
- Three-month CP rate hovered in the band of 6.78% to 6.84% last week, reflecting a gain of ten bps over the past week.
- We expect liquidity to stay comfortable in the coming weeks. Banks have been continuously parking surplus funds with the RBI. Maturity of reverse repos remains supportive of liquidity going forward.

5. Indian government bonds seen range-bound

- Indian GOI 10-year bond yield eased by 13 bps to 6.39% last week on continued optimism over the cut in the government borrowings programme for the first two months of 2017. Strength in the Indian rupee also aided the sentiment on bonds prices.
- However G-Sec yields ended marginally higher on Monday (Jan 9) as traders continued to watch global cues. Strong recovery in the US jobs market has been weighing on the government bond sentiment. Market sentiment was further hit after RBI devolved large quantum of 2051 paper at the gilt auction on Friday (Jan 6). On the other hand, ample liquidity remains supportive of the bond sentiment.
- According to traders, keeping in mind both the domestic and global scenario, bond yields are expected to be in the range of 6.35-6.55%t in the run up to the Union Budget 2017-18

7. Increased depreciation bias in INR

- INR marginally depreciated last week by 0.1% to 67.96 per US dollar.
- INR closed to near one-week low on Jan 9 against the dollar, tracking its Asian peers, as the report showing robust labour market conditions in the US lifted treasury yields and the greenback.
- Broad strength in the US dollar and weaker advance GDP print for India have strengthened the depreciation bias in INR.

8. Equity markets to stay volatile

- Global equity markets ended previous week on a positive note, supported by positive economic data-points for the major advanced economies.

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- Back home, Indian equities finished the first week of 2017 marginally higher, on the back of continuous buying by domestic institutional investors. However, negative news items like inconclusive GST meet, hawkish minutes of the FOMC meet, weak PMI, etc., ensured that the momentum remains weak.
- On the sectoral indices front, Realty, Metal and Oil & Gas stocks led the gainers last week. On the other hand, stocks from IT witnessed selling pressure.
- Local equity sentiment remained subdued on Monday (Jan 9) on the back of profit-booking and rupee weaknesses.
- According to equity experts, Indian equity markets are in a consolidation phase at the moment and upcoming macro-economic data points, along with the third quarter earning results and global crude oil price movements are expected to determine the trajectory of the Indian equities markets during the current week.

9. Brent crude closed at $54.94 per bbl on January 9, 2017

- Brent crude fell by 1% over the past one week to $ 54.94 per barrel.
- Crude oil prices entered 2017 at 18-month highs, but faltered in sessions that followed because of uncertain direction in the broader energy market.
- Last week, the American Petroleum Institute (API) said the total number of wells drilled and completed during the fourth quarter was down 8.8% compared to the previous quarter. That decline was less severe, however, than the 21.0% decline reported during the same period in 2015.

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