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1. Global economic briefs

- South Korea's new liberal President Moon Jae-in was sworn in on May 10th and vowed to tackle immediately the difficult tasks of addressing North Korea's advancing nuclear ambitions and soothing tensions with the US and China.
- In the month of May so far, Australia held rates but flagged wages risks; Philippines stayed on hold and saw inflation under control; NZ too kept cash rate steady with a neutral rate bias and Malaysia held key rate with an accommodative bias as this year's growth recovery is against a difficult 2016.
- The Bank of England (BOE) said last week that it may raise interest rates before the end of 2019. With just a month before Britain's general Election, The BoE said the short-term squeeze on households from inflation since June's Brexit vote would be more severe than it predicted in Feb-17.
- Trade protectionism is a "dead end" that may score political points but will ultimately hurt the US economy, William Dudley – Head, New York Federal Reserve said on May 11th in Mumbai, in the central bank's strongest defense yet of open borders in the face of a skeptical Trump administration.
- Mexico made a pitch to US President Donald Trump on May 10th to uphold the NAFTA trade deal, arguing that unwinding economic integration would hurt both nations, damaging US exports, risking American jobs and hitting consumers north of the border.
- China's producer price inflation slowed more than expected in Apr-17 in a sign manufacturing activity may be losing momentum as domestic demand remains muted and the government cracks down on financial risks. China's factory output and fixed asset investment growth too cooled more than expected in Apr-17, adding to signs that momentum in China is slowing from a strong start in the first quarter.
- The retail sales and core inflation data came in slightly below expectations for the US economy last week, closing out a winning week for the dollar's performance. While economic data came in slightly weaker than expected, this may not impact expectations about a June rate hike, feel experts.

2. India: Agriculture and rural economic news

- In its Regional Economic Outlook, the IMF has stated that temporary disruptions in India's growth caused by cash shortages, will be offset by a favourable monsoon season in 2017 and continued progress in resolving supply-side bottlenecks.
- India's ministry of agriculture revised last week the nation's total estimated food grain production to 273.38 mt – more than one mt of what it had estimated in its second advance estimate in Feb-17 (271.98 mt). This upward revision is attributed to record production of wheat in the country where MP, besides Punjab & UP, contributed significantly to the overall production. Record production of pulses in Maharashtra has been the other significant contributor.
- According to India's weather department (IMD), the southwest monsoon has covered the Nicobar Islands and the entire south Andaman Sea, three days ahead of its normal onset date. It now sees South-west monsoon to hit Kerala on May 30th.

3. India's overall economic & policy developments

- The UN Economic and Social Commission for Asia and the Pacific (ESCAP) in its latest report has said that Indian economy will grow 7.5% in 2018 by consumption revival and higher infrastructure spending.

- India's macro data released on May 12th (with a new base year and revised composition) painted a picture of low inflation and slightly higher growth rates. Retail inflation (CPI) eased to 3% in Apr-17 from 3.9% in Mar-17 on the back of substantial easing in food and services inflation. Fuel prices too eased sequentially. Producer price inflation (WPI) too eased from 5.3% in Mar-17 to 3.9% in Apr-17, led by primary articles' inflation (both food & non-food) and manufactured product price inflation. Industrial production growth picked up from 1.9% in Feb-17 to 2.7% in Mar-17, led by a strong pick up in mining activity and power generation. Manufacturing growth, however, slowed from 1.4% to 1.2%. In terms of use-based classification, capital goods, intermediate goods and consumer durables posted negative growth rates (y-o-y) in Mar-17.
- According to India's Chief Statistician, the GDP numbers to be released by end-May, 2017 will include the impact of revised data series for industrial production and wholesale price index.
- India's exports grew by ~20% (y-o-y) in Apr-17, while imports shot up by ~50% taking monthly trade deficit figure to \$13.2 bln – the highest level since Dec, 2014. A healthy pick-up in non-oil, non-precious metals imports of 43.8% (y-o-y) signals definite signs of domestic economic recovery.
- Excise collections in India might be on a lower side during April-June 2017 as dealers are refraining purchase of goods from manufacturers, as per a media report. The dealers are postponing purchases since tax credits and rates under GST are still unclear.
- Petrol price was cut yesterday in India by Rs 2.16 per litre and diesel by Rs 2.10 a litre, reversing the four week trend of rising rates. The reduction, which was effective from the midnight of May 16th, came on back of a marginal 2 paise a litre increase in petrol and 52 paise per litre hike in diesel rates effected from May 1.
- According to RBI, Indian banks loans and deposits rose at a much slower pace of 4.3% and 10.3% on year respectively, as on Apr 28, 2017. While outstanding loans declined by Rs 1.01 trln to Rs 75.45 trln in the two weeks to Apr 28, aggregate deposits fell by Rs 1.02 trln to Rs 105.09 trln, reflecting the seasonal course correction in the month of April every year.
- India's Broad Money Supply, i.e., M3 growth too stood at a much lower 6.2 % (y-o-y), as on Apr 28, 2017 (versus 9.8% a year ago), as currency with the public is still down by 17.9% (y-o-y) as on Apr 28th.
- India's foreign exchange reserves further increased richly by \$2.99 bln to their record high level of \$375.72 bln in the week ended May 5th. According to FX traders, dollar purchases by the RBI to ease volatility in the rupee exchange rate and increase in valuation of its assets has led to this jump in the forex reserves.

4. India's industrial & services sectors scenario

- India's automobile sales rose by 6.8% (y-o-y) in Apr-17, as per the data released by Society of Indian Automobile Manufacturers (SIAM). While passenger vehicle and two-wheeler sales increased by 14.7% and 7.3%, respectively, the sales of commercial vehicle declined by 22.9%. Interestingly, automobile exports grew by 30.4% in Apr-17.
- Indian steel companies have rolled over prices in Apr-17 despite a rise in raw material prices, as per reports. Low demand is putting pressure on steel companies as they are unable to hike steel prices in spite of surge in coking coal prices.
- Receipts from India's service exports rose by 8.6% to \$14.2 bln in Mar-17 as compared to the previous month, according to the provisional monthly data on India's international trade in services released by the RBI.
- India's government is likely to roll out a hydro power policy soon. The policy aims to keep the cost of power from upcoming hydro power projects under check and invoke private sector's interest. Under the policy, the government will consider introducing regional pooling on tariff rates. Financial incentives like interest subvention and tax depreciation would also be included to gain private sector's interest.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 6.08% last week (May 2-5) versus 5.90% in the week earlier (May 8-12). On May 15th, it stayed near 6.05%. Call rates hardened last week on account of increased borrowings from banks to pay for government auctions worth Rs 150 bln plus indirect tax outflows.
- Average daily fixed rate repo borrowing of banks marginally increased from Rs 11.61 bln to Rs 63.69 bln in a week's time. Average daily borrowing under MSF too rose to Rs 8.29 bln last week from Rs 5.40 bln in the week before that.
- While 91-day T-bill rate moved in the band of 6.23% to 6.27% during last week; 364-day T-bill rate hovered near 6.46%. On an average, 91-D TB hardened by 4 bps, while 364-D TB gained 2 bps during the truncated week May 8-12 (as May 8th was a holiday on account of Buddha Pournima).
- Three-month CP rate hovered in the band of 6.78% to 6.81% last week, reflecting an average increase of four basis points in a week's time.
- While systemic liquidity still remains in excess, the RBI's steps (i.e., the MSS sale worth Rs 1 trln, the last auction being held in the previous week) have caused the liquidity surplus to abate and short-term money market rates to increase significantly.

6. Underlying sentiment in gilts to remain upbeat

- India's old sovereign benchmark bond (6.79% 2026) yield softened by four bps last week to 6.90%, as government bonds rebounded on fresh buying support from banks and corporates.
- Yesterday (May 15), government bonds cheered the lower-than-expected inflation print released on May 12th and rallied to its highest level in a month, as concerns over an immediate interest rate increase by the RBI faded. Bond prices gained nearly 40 paise to one rupee yesterday.
- The RBI sold a new series of government bonds on Friday (May 12) at 6.79% coupon rate – to set a new benchmark for money market borrowing rates with rising issuances. Yields have fallen considerably since the issuance of new benchmark bond.
- Gilts are down today primarily due to an overnight rise in global crude oil prices that curbed the appetite to some extent. However, underlying sentiment remains upbeat. The yield on new 10-year benchmark may hover between 6.60% - 6.70% before the central bank's next monetary review on June 6th.

7. Appreciation pressure in INR looks limited

- INR appreciated by 0.10% last week to 64.31 per US dollar amid increased volatility throughout the week.
- Indian rupee staged a spectacular recovery against the US dollar on Friday (May 12) after a brief setback and ended firmly higher on fresh bouts of dollar selling by exporters and banks. FX markets received a boost from a favourable monsoon forecast for India and increased portfolio inflows.
- Indian rupee further rose to 64.06 per US dollar yesterday (May 15), as US dollar weakened against a major basket of currencies after a weaker than expected US economic data dampened the outlook for the pace of further tightening by the US Fed this year.
- For FX strategists, even though the carry story of INR continues to look attractive, its appreciation potential looks limited due to the adverse impact of INR appreciation on India's foreign trade balance.

8. Valuations of Indian equities look stretched

- Global markets ended last week on a positive note with a boost coming from emerging market economies.
- Indian markets closed higher by 1.1% over the last week, led by realty, telecom, auto, IT & metals sectors.
- Besides the favourable monsoon forecast, substantial inflows of foreign funds & global cues kept investor sentiment buoyed.
- Indian stocks continued to trade in green this week also, as investors remained bullish on improved macro data released recently and as corporate earnings have been in line with expectations.
- Local shares also tracked gains in Asian peers, which hit two-year highs on the back of an overnight rise on Wall Street.
- Though stock analysts remain bullish on the road ahead for the markets, they caution against the sharp rally, as valuations are turning highly expensive, especially in the mid-cap segment.

9. Brent crude at \$51.82 per bbl on May 15, 2017

- Global oil prices have risen more than 3% after Saudi Arabia and Russia said a deal to cut production should be extended until March next year.
- A barrel of Brent Crude jumped to \$51.82 on May 15th following a meeting in China between the two countries.
- The oil cartel OPEC, which is dominated by Saudi Arabia, and non-OPEC producers led by Russia have been attempting to use the output cut to drive up prices. However, the US is not included and its high output could undermine efforts.

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