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1. Global economic briefs

- The US Federal Reserve kept interest rates unchanged on May 4 but downplayed weak first-quarter economic growth, emphasising the strength of the labour market.
- Improved hiring in Apr-17 and a fall in the unemployment rate to its lowest level in a decade, signals that the US economy is rebounding after a lackluster winter. The solid US jobs report for Apr-17 should cement a Federal Reserve rate hike in June, with the Fed having already indicated its willingness to look through the "transitory" softness of first quarter economic data.
- China's exports and imports rose in Apr-17 but missed analysts' expectations, as domestic and foreign demand faltered and commodity prices fell.
- Japan and China held high-level talks on the sidelines of the Asian Development Bank's annual meeting on May 6th to discuss the bad loan situation in China and bilateral cooperation in Asia. It was a rare meeting involving senior fiscal and monetary authorities from the two countries and came despite the fierce rivalry between Japan and China for regional leadership and economic influence.
- The Euro zone economy started the year with robust growth (1.8% in Jan-Mar) that outstripped that of the US (0.7% in Jan-Mar) and set the stage for a strong 2017, preliminary estimates showed on May 3rd.
- Emmanuel Macron, the pro-EU centrist, has won the French presidency, in a decisive victory over National Front candidate Marine Le Pen who vowed to rebuild her party.
- Australia will hold an inquiry into competition in the country's financial system, following a series of scandals in the banking sector and public allegations against the "Big Four" banks of abuse of market power. The latest inquiry is part of a number of government measures since last year aimed at alleviating public concerns about the power of the big banks, after revelations of misconduct in the industry.

2. India: Agriculture and rural economic news

- Indian government's wheat procurement rose to 24.7 mt by 2nd May 2017 as against 20.8 mt at the same time a year ago. Wheat procurement in Punjab increased to 10.9 mt (versus 9.9 mt last year), while Haryana procured 7.1 mt of wheat and MP procured 5.1 mt.
- A record crop of pulses during FY17 combined with record imports of pulses have created a situation in pulses market in India where the farmers are not able to sell pulses even at minimum support prices, which are announced by the government. The importers in the Pulses and Grains Association (IPGA) have now requested India’s government to relax stock limit for pulses and allow exports of pulses.
- According to official data, wages in India under the employment guarantee scheme (MGNREGA) have been increased by just 2.7% in FY18 versus 5.7% in FY17. There is huge variation between MGNREGA wages notified by the centre and the minimum wages of some states (which are much higher than what is offered under MGNREGA). To end this variation, the Centre is looking to rework or change the baseline for paying MGNREGA wages.

3. India’s overall economic & policy developments

- Fitch Ratings kept its sovereign rating on India unchanged at 'BBB-' last week. The global rating agency has cited the country's weak public finances as the reason for keeping the ratings unchanged. India's general (central+states) government debt burden at 67.9% of GDP is higher as compared to the BBB median of 40.9%.

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Additionally, a wide combined fiscal deficit of -6.6% of GDP for FY17 as estimated by Fitch has kept any upgrade at bay.

- "Number of Indians filing income tax returns" have increased by 9.5 mln after launching Operation Clean Money (OCM), as per the official reports.
- President of India approved on May 5th an ordinance with amendments to the Banking Regulation Act, 1949, allowing the RBI to take timely actions against loan defaulters. The amendments to the act empower the RBI and banks to file insolvency proceedings against any borrower to achieve resolution under the provisions of the Insolvency and Bankruptcy Code (Bankruptcy Code) which was passed by the parliament in 2016. Also, it allows RBI to a) issue directions to banks for resolution of stressed assets and b) appoint authorities/committees to enable resolution of stressed assets.
- The RBI has reportedly imposed a corrective action plan (CAP) on various restructurings carried out by Indian banks to fight the menace of bad debt. It is done to preserve the economic value of stressed assets.
- Indian banks have sold Rs 2.4 trln bad loans to Asset Reconstruction Companies (ARCs) since 2003, as per a study conducted by Assocham-SIPI-Edelweiss. The study estimates the current stock of stress in the Indian banking system at Rs 11.8 trln. The argument put forward by Assocham is that at least 51% of equity shares of a stressed company should be convertible to ARCs while reconstructing an asset. Currently, ARCs are restricted to maximum 26% of equity share in a particular company.
- According to RBI, Indian banks loans and deposits rose by 5.5% and 11.6% on year respectively, as on Apr 14, 2017. While outstanding loans declined by Rs 2.5 trln to Rs 76.32 trln in the two weeks to Apr 14, aggregate deposits fell by Rs 2.19 trln to Rs 105.92 trln, reflecting the usual course correction in the first fortnight of April every year.
- India's Broad Money Supply, i.e., M3 growth stood at 7.1 % (y-o-y), as on Apr 14, 2017 (versus 10.4% a year ago), as currency with the public is still down by 19.6% (y-o-y) as on Apr 14th.
- India's foreign exchange reserves further increased by $1.59 bln to their highest level so far at $372.73 bln in the week ended Apr 28th. The previous high was reached in September when the reserves had touched $371.99 bln in the week ended Sept 30, 2016.

4. India's industrial & services sectors scenario

- India's two wheeler segment - the most impacted by demonetisation and BS-III vehicles ban, saw some revival in sales in Apr-17. While Honda Motorcycle & Scooter India registered a 33% surge in its domestic sales, the sales of TVS Motor increased by 4%. Also, Suzuki Motorcycle India registered a strong 43.2% increase in its domestic sales. However, Hero Motocorp - India's largest two wheeler manufacturer, reported a 3.5% decline in its domestic sales in Apr-17. Domestic sales of Bajaj Auto too fell by 21% during the month.
- India's service sector activity remained over 50 for the third consecutive month in Apr-17, according to the Nikkei India Services Business Activity Index. The index stood at 50.2 in April, versus 51.5 in the preceding month on account of marginal increases in new orders and output.
- The Cabinet Committee on Economic Affairs has approved the disinvestment plan for hotels of the India Tourism Development Corporation (ITDC). Under the plan, the hotels will be leased or sub-leased jointly with the concerned states or returned to the states after fair valuation. The states will then have the option to upgrade and operate the hotels by involving the private sector or to utilise the properties as per their requirements.

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- India's National Steel Policy 2017 aims to make it self-sufficient in steel production. It projects crude steel capacity of 300 mt, production of 255 mt and per capita consumption of 158 kg of finished steel by 2030-31, as against the current consumption of 61 kg.
- Nine states of India have scheduled auctions of at least 98 iron ore, limestone and other blocks in FY18, as per a media report. Reportedly, the government is enthused about the auction as there is a possibility of fierce competition between investors as they would want to secure raw material linkages for their end products which are likely to see a rise in demand.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.90% last week (May 2-5) versus 5.97% in the week earlier – as liquidity remains abundant amid a very poor credit offtake.
- Average daily fixed rate repo borrowing of banks marginally increased from Rs 11.16 bln to Rs 11.61 bln in a week's time. Average daily borrowing under MSF too rose to Rs 5.40 bln last week from Rs 2.23 bln in the week before that.
- While 91-day T-bill rate moved in the band of 6.19% to 6.23% during last week; 364-day T-bill rate moved in the range of 6.43%-6.45%. On an average, 91-D TB hardened by 9 bps, while 364-D TB gained 4 bps during the truncated week May 2-5.
- Three-month CP rate hovered in the band of 6.75% to 6.76% last week, reflecting an average increase of a basis point in a week's time.
- Short-term money market rates have significantly moved up over the past one month despite excess liquidity in the banking system partly responding to the RBI's move to narrow the corridor and partly tracking the movement of long-term rates as traders expect US treasury yields to harden in coming months.

6. Gilts may edge higher this week

- Indian sovereign benchmark bond yield softened by just 2 bps last week to 6.94%, on some buying support from banks and corporate on May 5th – the last trading day of a truncated week.
- However, benchmark 10-year yield almost tested the 7% mark last week and continued to consolidate around that level. Turnover in G-Sec trading continues to be low and the reports show that total monthly turnover volumes are now close to four-year low.
- Indian government bonds may edge higher this week, as pro-EU candidate Emmanuel Macron has won the French presidential election, spurring global risk appetite. Other factors like a fall in global crude oil prices and a likely softer print of CPI for Apr-17 will also be supportive.

7. INR rally likely to see a reversal soon

- INR depreciated by 0.20% last week to 64.38 per US dollar, triggered by a massive fall in local equities on Friday (May 5) amid heightened global volatility. Until Friday, the Indian currency stayed in an appreciation mode.
- It's not just the INR but the sentiment across all Asian currencies was affected on May 5th due to cautious stance adopted by participants ahead of US jobs data release as well as a crash in oil and other commodity prices overnight.

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- According to experts, the rally in Indian rupee may halt soon, as portfolio inflows have started slowing and the expected hikes in the US Fed rates may provide support to the US dollar.

8. Indian stocks may see some volatility this week

- Global markets ended higher last week tracking French polls and responding positively to the US Fed action of keeping rates unchanged.
- Back home, Indian stocks ended lower by 0.2% last week on profit booking in the latter part of the week. The sectors that dragged down stock indices last week were auto; oil & gas; pharma, telecom and metals.
- Today, Indian equities rallied, as the sentiment was boosted by a rise in Asian stocks on investor relief after centrist Emmanuel Macron comfortably won the French presidential election. Banks continued to gain as India tweaked its laws last week to help tackle a record $150 bln in bad loans.
- Key macro-economic data points coupled with ongoing fourth quarter results and global cues are expected to affect the course of Indian equity markets during the current week. VIX (volatility index) rising over 10% last week, after four consecutive weeks of decline, is seen as a sign of vulnerability for Indian stocks in the near future.

9. Brent crude settled at $49.10 per bbl on May 5, 2017

- Brent crude ended at $49.10 per barrel on May 5th – lower by 5.10% over the week. Today, it is hovering near $49 per barrel in the Asian trade.
- The fall came last week on the back of ongoing high supplies from countries that aren't participating in the cuts, including the US where output is soaring. There are also lingering concerns about a potential slowdown of the Chinese economy, which has acted as a core pillar of oil demand growth.

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