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1. Global economic briefs

- The US Fed policymakers appeared confident on the eve of the US presidential election that the economy was strengthening enough to warrant interest rate increases soon, minutes from the Fed's Nov. 1-2 meeting showed last week.
- The US economy is set to end the year on a high note, as steady job creation, robust consumer spending and a rebounding industrial sector pave the way for the Fed's first rate increase in a year.
- Australian Prime Minister Malcolm Turnbull, whose leadership has been questioned after a series of political setbacks, secured a much-needed legislative victory on Nov 22nd, with the passage of one of the two bills he used to trigger an election this year. Australia's Senate, which the government does not control, passed a labor bill in an early morning sitting that will see greater oversight of trade unions and employer organizations.
- Brazil's government has lowered its forecast for economic growth in 2017 to 1.0% from 1.6%, echoing recent market pessimism as the country struggles to exit its worst recession in at least eight decades.
- Consumers & businesses increased their spending in Q3, 2016 in the UK as a result of the resilient performance of the UK economy following the Brexit vote.
- A group of 81 British lawmakers have written to EU President Donald Tusk to demand an agreement is reached on rights for Britons living in the EU and for Europeans in the UK before Brexit talks are formally opened. The letter asks Tusk to add reciprocal rights for citizens to the agenda for a European leaders' meeting on Dec. 15 and claims there is agreement across most EU states on the issue.
- The latest statement from the ECB authorities clarified last week that the monetary policy of EU will continue to be accommodative until inflation reaches the desired level of 2%.
- China's central bank is considering including cross-border yuan business into its assessment of macro-prudential risks in the country's financial system, as per the media reports. Earlier this year, China introduced a risk measuring tool known as the Macro Prudential Assessment system (MPA) to take into account banks' capital adequacy and leverage ratios, assets and liabilities, liquidity and foreign debt risks.

2. India: Agriculture and rural economic news

- India's weather dept, in its seasonal outlook for South Asia, has said that most parts of India are likely to witness a mild winter in FY17 with higher than normal average temperatures in November, December & January.
- India's rabi sowing has improved sequentially by 35.5% from Nov 18 to Nov 26, reflecting a y-o-y growth of ~ 5%.
- Rabi sowing is up on y-o-y basis for major rabi crops like wheat (up 8.4%); pulses (up 7.9%) and oilseeds (up 14.1%). However, it is down for rice (-25.1%) and coarse cereals (-18.9%).
- The states of Maharashtra & UP in India are likely to see temporary halt in harvesting of sugarcane crop due to the cash crunch situation created by the "demonetisation" move in India.

3. India's overall economic & policy developments

- Indian government's think tank NITI Aayog is likely to finalise three-year Action Plan, which will replace over six-decade old practice of five year plans, by Dec-end in view of the advancement of presentation of Union Budget to Feb 1st this time.

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- The ratings agency Moody's said last week that India's demonetization move is certainly beneficial for the Indian government and banks but implementation challenges of this "unprecedented move" will disrupt economic activity and weigh on GDP growth for a few quarters. The move will have credit implications for every sector of the economy as the decline in economic activity will depress corporate sales cash flows.
- According to an Assocham-Crisil joint study, the effective implementation of Insolvency and Bankruptcy Code in India can potentially release about Rs 250 bln capital over next four to five years currently locked in bad loans. If implemented successfully, the code will help India's banking sector catch up with or even exceed the recovery rates of 32% and average time taken off 2.8 years in other emerging markets.
- The RBI said last week that small borrowers, who have been facing the brunt of demonetisation, would get an additional 60 days to repay their credit, including agriculture and housing loans. Furthermore, borrowers with loans up to Rs 10 mln from banks and finance companies would be eligible for this relaxation.
- To address the surplus liquidity in the banking system emerging from the government's demonetisation scheme, the RBI has asked banks to set aside 100% of the deposits accrued between 16th Sept and 11th Nov as incremental CRR. The RBI proposes to review this transitional measure in a fortnight.
- 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 $1.54 bln to $365.50 bln in the week ended Nov 18, according to the RBI data. The country's forex reserves had fallen by $1.19 bln to $367.04 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

- To counter the impact of "demonetisation", India's retailers & manufacturers are offering special finance schemes to boost sagging consumption. With air-conditioners, mixer-grinders, refrigerators and televisions piling up at outlets, consumer durable giants are willing to let people walk away with the goods and pay later in installments.
- Prop-Equity expects housing prices in major 42 cities of India to drop by up to 30% over 6 to 12 months as a result of the latest demonetisation move. The Realty sector hopes the quantum of home loans to pick up after stability returns, which eventually would lift its fortunes.
- India's government has imposed a safeguard duty on imports of "hot rolled flat sheets & plates of alloy or non-alloy steel" having nominal thickness of less than or equal to 150 mm & nominal width of greater than or equal to 600 mm to protect domestic steel manufacturers from cheap imports. The safeguard duty will not be applicable to imports from developing countries except China, Ukraine & Indonesia.

5. Indian money market review last week

- India's weighted average call money rate averaged at 5.95% last week (Mon-Fri) versus 5.96% in the previous week, on account of huge liquidity surplus in the banking system post the demonetisation move.

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- Average daily fixed rate repo borrowing of banks further fell from Rs 31.67 bln in the previous week to Rs 20.96 bln in the week under review (Nov 21-25). Average daily borrowing under MSF too declined - from Rs 11.91 bln to Rs 2.63 bln.
- The RBI conducted two variable rate term-repo auctions last week of 14-days each, of the sizes Rs 4.50 bln and Rs 12.18 billion, respectively.
- While 91-day T-bill rate moved in the wide band of 5.74% to 5.94% during last week; 364-day T-bill rate moved in the broad band of 5.85%-5.98% - reflecting an average fall of 11 to 15 basis points, over the week.
- Three-month CP rate too varied in the wide band of 6.31%-6.53%, reflecting a sharp fall of 20 bps over a week.
- One-day call money rate is hovering between 6.55% & 6.60% today (way above the repo rate of 6.25%) on account of the RBI's decision on Nov 26th asking banks to set aside 100% of the increase in deposits between Sept 16 & Nov 11 as incremental CRR. On Friday (Nov 25), liquidity in the banking system was at a surplus of around Rs 4.5 trln.

6. Bearishness in Indian G-Sec post the RBI's liquidity signals

- Sequentially, India's new benchmark 10-year bond yield further eased by 20 basis points last week to 6.23% on Friday (Nov 25).
- Surge in systemic liquidity post the government's demonetisation move on 8th Nov had boosted appetite for the dated GOI securities.
- However, gilts" crashed post the RBI's announcement to mop up excess liquidity in the banking system through incremental CRR of 100% on deposits raised during Sept 16-Nov 11. The RBI Governor also signaled the use of MSS bonds to suck excess liquidity, sooner than later.
- The measures announced on Saturday (Nov 26) are expected to pull out around Rs 3.3 trln of excess liquidity from the banking system.
- While bank's deposits are set to rise further in coming days as individuals continue to deposit holdings of old currency notes, G-Sec traders do not expect yields to fall at the same pace as earlier, given the RBI's strong signals on the liquidity front.

7. Bearish outlook for INR

- INR further depreciated by 0.5% last week to 68.47 per US dollar despite the RBI's continued intervention in the FX market.
- INR has been weakening due to the combination of domestic and global factors. On the global front, the victory of Donald Trump, strengthening of the US dollar and rising yields on the US government bonds have contributed to INR's weaknesses. On the domestic front, the "sustained contraction of India's exports" combined with the "nervousness" created by the "demonetisation move" have been weighing on the Indian currency.
- According to the FX experts, the rally in US bond yields is expected to continue further, which means the dollar would gain more ground against an emerging market (EM) currency like the rupee. However, RBI's intervention in the FX markets would prevent a sharp fall in the Indian currency.

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8. Uncertainties to weigh on Indian stocks

- Global financial markets have been witnessing heightened volatility since the election of Mr Donald Trump as the US President.
- In India, Sensex too ended on a flat note last week (up just 0.6%) as FIIs turned bearish but DIIs showed buying interest.
- In terms of sectors – IT, metals, consumer durables, pharma & FMCG posted decent gains but telecom, oil & gas, capital goods, power and banking sector stocks posted losses, last week.
- Indian stocks are expected to weigh under several uncertainties in the coming week. While the local GDP data (for Q2, FY17) will be announced on Nov 30th, the US GDP data (Jul-Sep, 2016) will be released tomorrow. Another uncertainty is the OPEC meeting scheduled on Nov 30th. We expect local stocks to stay subdued ahead of key economic data & events.

9. Brent crude closed at $48.57 per bbl on November 25, 2016

- Global Brent crude prices fell on Friday (Nov 25), under pressure from a strong dollar, but activity was low after the US Thanksgiving holiday and as many traders are reluctant to take big new positions ahead of a planned OPEC-led crude output cut to be decided next week.
- The OPEC is due to meet on Nov 30th to coordinate a cut, potentially with non-OPEC member Russia, the world's largest producer, but there is disagreement within the producer cartel as to which member states should cut and by how much.

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