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1. Global economic briefs

- The US industrial production barely rose in Sept-16, as a rebound in manufacturing & mining output was offset by surprisingly weak demand for utilities. However, consumer prices in the US recorded their biggest gain in five months in Sept-16, as the cost of gasoline and rents surged, pointing to a steady pickup of inflation. Data on the US jobless claims & existing home sales released last week too supported the view of modest US economic growth.
- The US democratic candidate Hillary Clinton maintained her commanding lead in the race to win the Electoral College and claim the US presidency, according to the latest Reuters/Ipsos States of the Nation project results released on Saturday (Oct 22).
- Once Britain triggers its formal divorce from the EU by invoking Article 50 of the Lisbon Treaty, there is no going back on the decision, the government's top lawyer told the High Court last week. London's view that Article 50 cannot be reversed is at odds with recent statements from Brussels.
- The UK retail sales stagnated for a second month in Sept-16, as soaring prices and warm weather hit demand for clothing.
- The Bank of Japan (BoJ) indicated last week that it would adjust the monetary policy as needed to achieve its 2% inflation target with an eye on economic, price, and financial developments.
- Australia's central bank says coming data on inflation and employment will be critical for interest rates at its next meeting on Nov 1, opening the door to a possible easing in policy. A cut would surprise markets, which are pricing in only a small chance of an easing this year or next as Australia's \$1.2 trln economy marks a quarter century of growth without recession.
- Government spending in China rose 11.3% (y-o-y) in Sept-16, while revenue rose 5.9% according to the official sources. The government spending in the first nine months of 2016 was up 12.5% (y-o-y), while revenues rose 5.9%. Furthermore, China's fixed-asset investment rose 8.2% (y-o-y) in Jan-Sept, in line with market expectations, as the government ramped up infrastructure spending to support the economy. China's economy grew 6.7% (y-o-y) in Q3, 2016 – steady from the previous quarter & in line with expectations on the back of increased government spending and a property boom.
- The ECB left its ultra-loose monetary policy unchanged on Oct 20th, but kept the door open to more stimulus in Dec-16, with ECB President Mario Draghi dousing recent market speculation that the central bank may begin tapering its 1.7 trln euro asset-buying program.
- The EU leaders condemned Russia on Oct 21st for its bombing of civilians in Syria's besieged city of Aleppo but faced resistance from Italy to impose new sanctions against Moscow over the atrocities.
- Japanese manufacturing activity expanded in Oct-16 at the fastest pace in nine months as new orders rose, a preliminary survey showed today, suggesting domestic demand could lead to higher economic growth. However, Japanese exports fell for a 12th consecutive month in Sept-16, rounding out a rough year for manufacturers struggling with a stronger yen and soft global demand.

2. India: Agriculture and rural economic news

- Total rainfall in India in the first 19 days of Oct-16 was 17% below the level that is normal for this period. The states that have received deficient rainfall in Oct-16 so far, primarily belong to the East & North East India.
- According to the CRISIL Survey, the share of distressed districts in all-India Kharif (summer crop) production is just 1.7% but the stress to agricultural household incomes could be high because a quarter of the kharif production in Karnataka and a third in Gujarat comes from the distressed districts.

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- While major food crops have done very well (in terms of sowing) at the all-India level, cash crops like cotton and sugarcane have suffered in this kharif season. Onions – another largely consumed vegetable too has seen shrinking acreage this season. Moreover, consistent rains have ruined large tracts of the stored onion crop, and delayed the kharif sowing in a major onion growing district from Maharashtra – Nashik. Agricultural experts see onion prices zooming northwards in the next two months due to scarcity.
- Until Oct 20th, water storage available in India's 91 critical reservoirs was at 75% of their total capacity. This showed a strong improvement of 28.3% on year-on-year basis. The current year's storage is nearly 128% of last year's storage and 100% of the average of last ten years.

3. India's overall economic & policy developments

- India's government has undertaken a mammoth exercise to overhaul the system of collecting key statistics on inflation, industrial production, consumption and employment to restore the credibility of official economic data. In a wholesale clean-up attempt, five committees have been set up to review data for GDP estimates, provide for mechanisms to ensure "data integrity" and come up with industry-wise and geography-wise disaggregated data.
- India's GST council discussed last week a four-tier rate structure suggested by the Centre and agreed on compensation to loss-incurring states for the first five years of the new tax regime. The council was apprised of the proposal of these slabs — 6, 12, 18 and 26 per cent, with cess on the highest tariff for ultra luxury and demerit items. The proposal also included four-per cent rate on gold, but the Centre said it can't be called a slab because it is specific to just one commodity.
- A survey the industrial chamber in India – ASSOCHAM showed that the consumer demand is witnessing a growth of 40% in the ongoing festival season on y-o-y basis. This is on the back of an uptick in the economy and improving perception for better job prospects, coupled with steady lowering of interest rates. Good monsoon has boosted confidence among the farmers and farm labour, as per the survey.
- India has stressed the need for a mutually acceptable mechanism among BRICS nations to prevent multinationals from dodging taxes, along with norms to curb black money and bring those accused of corruption and tax evasion to book.
- The RBI has opened the gates for more overseas investment coming to India by a series of steps liberalising the foreign direct investment rules, even as it braces for a possible \$26-bln outflows on account of FCNR-B deposit maturities. The RBI has now allowed 100% foreign investment through the automatic route to the regulated financial services companies other than banks or insurance companies, and simplified rules for easier entry of venture capital funds to startup ventures. It has also eased external commercial borrowing regulations.
- According to India's Naukari Job Speak Index, online hiring in India grew at a clip of 5% in Sept-16, mainly driven by sectors like IT/ITES & banking and the outlook appears bullish with the festive season round the corner.
- According to RBI, Indian banks loans and deposits rose strongly by 10.4% and 11.3% on year respectively, as on Sept 30, 2016, reflecting a last mile effort at the quarter-end. While outstanding loans increased by Rs 2.11 trln to Rs 75.21 trln in the two weeks to Sept 30, aggregate deposits rose by Rs 3.52 trln to Rs 101.43 trln.
- Broad Money Supply, i.e., M3 growth significantly improved to 12.1% (y-o-y), as on Sept 30, 2016 primarily driven by a sharp y-o-y growth in currency with the public and demand deposits in the banking system.
- India's foreign exchange reserves further fell by \$1.51 bln to \$366.14 bln in the week ended Oct 14, according to the RBI data. The country's forex reserves had fallen by a huge \$4.34 bln to \$367.65 bln in the previous

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week. A continued fall in FER in the recent reported weeks, is perhaps due to the RBI's intervention in FX market to ease the pressure on rupee with dollars flowing out of the system amid redemption of FCNR-B deposits.

4. India's industrial & services sectors scenario

- Indian exports grew by 4.62% (y-o-y) in Sept-16 to \$22.9 bln. The export sectors, which recorded positive growth, include engineering, gems and jewellery, handicrafts, textiles, and chemicals that registered growth of 6.51%, 22.42%, 23%, 12.62%, and 6%, respectively. On the other hand, Indian imports contracted by 2.54% (y-o-y) to \$31.22 bln during Sept-16. The above mismatch left a trade deficit of \$ 8.33 bln in Sept-16. The trade gap, however, was lower than \$ 10.16 bln recorded in Sept-15..
- India pushed for a greater market access for agricultural export and better institutional mechanisms to improve food export at the India-US Trade Policy Forum last week. The US asked India to consider relaxing local sourcing norms in single-brand retail trade, aimed at helping American companies such as Apple.
- India's government has received over Rs 324 bln in upfront payments for telecom spectrum that was sold in the recently-held auction with five operators, including Bharti Airtel and newcomer Reliance Jio, paying Rs 199.81 bln.
- According to India's domestic ratings agency – CRISIL – aggregate losses of India's power discoms are expected to decline by 46% to about Rs 200 bln from Rs 370 bln as of today. The loss is calculated as average revenue realised minus average cost of supply. The gap will still be well above the 'nil' that UDAY (Ujwal Discom Assurance Yojana) targets because some states with high aggregated technical and commercial losses are not adequately prepared for various reasons.
- Private equity (PE) investments in India declined by 53% to \$2.5 bln during Jul-Sept, 2016 - the lowest in the last nine quarters, largely due to absence of big ticket deals, says a report by the advisory firm Grant Thornton India LLP. The decline in PE activity is due to the reduced investment in the new economy companies in comparison to the previous year when such investments were in full swing.

5. Indian money market review last week

- India's weighted average call money rate averaged at 6.23% last week (Mon-Fri) versus 6.19% in the previous week, as systemic liquidity deficit widened in the system post the upfront payment for the telecom spectrum.
- However, average daily fixed rate repo borrowing of banks fell from Rs 136.03 bln in the previous week to Rs 89.76 bln in the week under review (Oct 17-21). But the average daily borrowing under MSF increased from Rs 5.45 bln to Rs 9.15 bln.
- The RBI conducted two 14-days variable rate term-repos last week that were of the sizes Rs 55.25 bln on Tuesday and Rs 46.50 bln on Friday.
- While 91-day T-bill rate stayed in the band of 6.34% to 6.37% during last week; 364-day T-bill rate moved in the range of 6.39%-6.45% - reflecting a rise of just one bp over the previous week on an average.
- Three-month CP rate stayed in the band of 6.81%-6.86%, increasing further by three bps on an average this week.
- Last week, RBI announced that it would purchase five gilts worth Rs 100 bln through OMOs on Tuesday (Oct 25). While the minutes of the MPC's October meeting failed to provide clarity on the future course of interest rates, the RBI's OMO announcement came as a big relief to the market.

6. Firmer short-term versus long-term sentiment in the G-Sec market

- Sequentially, India's new benchmark 10-year bond yield further gained one basis point last week and ended at 6.76%, as traders turned bearish on Oct 20th as the hope of RBI's bond purchases started waning. This was followed by some "profit booking" on Friday (Oct 21st).
- Yet, market participants expect some "firmness" in the G-Sec sentiment this week following the RBI announcement of purchase of five gilts worth Rs 100 bln on Tuesday (Oct 25). Another positive factor for the G-Sec sentiment is the government's buyback of bonds worth Rs 200 bln today.
- However, G-Sec traders are more optimistic about the short term rather than long term yields, as FII's are in the profit-booking mode and tilting more towards "equities" since the beginning of Oct-16.

7. Rupee seen down in the coming weeks

- INR further depreciated last week by 0.3% to 66.89 per USD on increased dollar demand from oil companies and other importers. The US dollar's global rise has also been weighing on the rupee.
- The US dollar has been gaining strength on the back of robust economic data-points on the US economy such as home sales, jobless claims, inflation, etc.
- The INR is likely to hold depreciation bias in the coming weeks as the USD has been strengthening post increased bets of a rise in Fed rates in Dec-16, rising expectations that Hillary Clinton will win the US presidential elections and the redemption of a majority of FCNR (B) deposits in the month of Nov-16.

8. Indian stocks to stay volatile in the near term

- Global stock markets performed well last week on positive triggers given by the ECB and BOJ on monetart easing.
- Except for the US markets that closed flattish, all major stock markets closed in the green zone last week.
- Indian markets too gained 1.5%, led by Oil & Gas and IT stocks.
- Equity traders expect volatile trading in local equities this week given the expiry of October derivatives series on Oct 27th, risk of capital flight from EM in case of any unexpected global event and disappointing corporate results announced so far.

9. Brent crude closed at \$51.78 per bbl on October 21, 2016

- Global Brent crude prices ended at \$51.78 per barrel Friday (Oct 21), even as they were 0.3% lower for the week.
- Brent prices for Dec-16 delivery have climbed \$9 per barrel from the recent low in early Aug-16 reflecting optimism as well as short covering by hedge funds.
- However, many expect "rebalancing" to take more time. For instance, the U.S. Energy Information Administration has predicted that global oil stocks will continue rising through the first half of 2017 and only begin falling in the second half. The International Energy Agency too has reached a similar conclusion: "Our supply-demand outlook suggests that the market - if left to its own devices - may remain in oversupply through the first half of next year."

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