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1. Global Economic Briefs

- The US has increased tariffs on \$200 billion of Chinese goods from 10% to 25%, with the change coming into effect at midnight of May 10th. In retaliation, China's finance minister announced yesterday (May 13) that it was raising tariffs on a wide range of American goods to 20-25% from 10% starting June 1st. The increase will affect the roughly \$60 billion in American imports already being taxed as retaliation for Mr Trump's previous round of tariffs.
- Federal Reserve Bank of Boston leader Eric Rosengren said on May 13th the accelerating trade war between the US and China has increased the risk of something bad happening to the US economy, adding that in these uncertain times it is best for the US central bank to hold short-term interest rates steady for now.
- The threat of a full-blown trade war between the US and China and Brexit uncertainty are posing mounting risks to the EU economy, the European commission had warned, after downgrading its growth outlook for 2019.
- Surprisingly, Britain's economy strengthened in the first three months of 2019, with growth of 0.5% helped by unprecedented stockpiling by manufacturers fearful of the impact from a no-deal Brexit.
- While Japan's household spending growth was higher than expected in March, real wages fell by 2.5% (y-o-y) in the same month (highest in nearly four years). The economy of Japan has been hit by slumping shipments to China & soft factory output. Moreover, Japan's coincident indicator index declined in March & the government cut its assessment of the economy.
- The year 2018 saw a period of absolute rate hike dominance globally. This was the sharpest period of monetary tightening since the GFC. However, this trend is turning now amid a broad based global slowdown on the back of trade wars. The gears of global central banking have started to shift and it is expected that central banks who have an inflation target would be easing preemptively. In many countries, the writing is already on the wall. For instance in New Zealand – the RBNZ recently cut its policy rate by 25 bps.

2. Indian Agriculture Scene

- The National Bank for Agriculture and Rural Development (NABARD) has announced a Rs 7 billion venture capital fund for equity investments in agriculture and rural-focused startups that will be investing across startups engaged in agriculture, food and rural development space.
- According to All India Sugar Trade Association, sugar exports from India surged to 2.13 million tonnes between 1-Oct-2018 to 6-Apr-2019, as against about five lakh tonnes shipped in the entire FY18. However, according to the US department of Agriculture, India's sugar output is expected to decline by 8.4% in FY20 as the area under harvest has been contracting, sugar recovery rate declining and ethanol becomes an increasingly attractive option for cane mills.
- India's rainfall figures as on date show pre-monsoon showers (Mar-June) this year could end up the lowest (at 23% deficit) of the past five years, with ramifications for reservoir levels in many parts of the country.
- The cyclone Fani has negatively impacted agricultural activities in districts - East Midnapore, Murshidabad, Birbhum and Nadia. East Midnapore, Murshidabad, Birbhum and Nadia of West Bengal; Puri, Khorda, Cuttack, Kendrapara, Bhadrak, Jagatsinghpur Balasore, Mayurbhanj, Keonjhar, Dhenkanal and Nayagarah of Odisha and Srikakulam of Andhra Pradesh.

3. India's Overall Economic & Policy Developments

- According to Economist Rathin Roy – the Member of Indian Prime Minister's Economic Advisory Council, Indian economy may soon get caught in the middle-income trap, eventually becoming like Brazil & South Africa. He believes that the country's growth which has been driven by consumption and not exports since 1991 has begun to stagnate.
- India's retail (CPI) inflation increased by just 6 bps to 2.92% in April as the surge in food inflation (80% coming from vegetables) was largely offset by a broad-based softening of core inflation to 4.57% from 5.06% in the previous month. This reflected weak demand conditions. Rural CPI inflation crashed to 1.87% in April.
- But India's producer price (WPI) inflation eased to 3.07% in April from 3.18% in March primarily on the back of easing of manufactured product price inflation (reflecting low pricing power due to weak demand) and easing of fuel inflation.
- India's central government has missed its tax revenue estimates by more than Rs 1 trillion in FY19, potentially raising fiscal concerns for the new government after the ongoing Lok Sabha elections. A large section of Indian government officials are now of the view that some of the key revenue targets for FY20 will have to be revised in the July budget, given the trend in the previous fiscal.
- India's full Union Budget for FY20, likely to be presented in July 2019, is expected to address the economic slowdown concerns, as per the government officials. The new government will have to address concerns like insufficient employment generation and growing weakness in rural demand, consumption and investment.
- According to RBI, Indian banks loans and deposits rose at the pace of 13.0% and 9.7% on year respectively, as on Apr 26th, 2019. While outstanding loans declined by Rs 238 billion to Rs 96.21 trillion in the two weeks to Apr 26, aggregate deposits declined by a sharper Rs 436 billion to Rs 124.87 trillion. As a result, the Average Credit-Deposit ratio increased to 77.05% as on Apr 26 from 76.97% on Apr 12.
- India's Broad Money Supply, i.e., M3 growth was at 10.0% (y-o-y), as on Apr 26th, 2019 (versus 10.2% a year ago). Currency in circulation with the public was at Rs 20.92 trillion as on Apr 26th due to the election effect. As per the latest RBI data, currency in circulation has risen nearly twice as much over the last six months, than it did in the six months leading up to the end of voting in the 2014 General Elections.
- India's "foreign exchange reserves" increased further by \$171.9 million to \$418.69 billion during the week Apr 29- May 3, 2019 aided by continued FPI inflows into Indian capital markets.

4. India's Industrial & Services Sectors Scenario

- Indian government is planning to raise up to Rs 100 billion by selling Air India's subsidiaries and its other assets for the purpose of repaying the airline's debt that the government has taken over from the airline.
- Trucking activity in the Eastern and Southern regions of India has dropped by 30-40% due to cyclone Fani, which has caused devastation in the Indian states - Odisha and parts of West Bengal and Andhra Pradesh.
- Driven by political uncertainty and stressed consumer sentiment, India's passenger vehicle sales plunged by 17.1% (y-o-y) in April, 2019. While passenger car sales declined by almost 20%, that of vans fell by 30%. In two wheeler segment, sales of scooters declined by 25.9%, whereas motorcycles sales dropped by 11.8%. A fall in the commercial vehicles sales in April was relatively modest at 6.0%.
- India's factory output contracted by 0.1% in Mar, 2019 after staying very weak in the previous four months. The industries that contributed to this contraction in March were capital goods, intermediate goods & consumer durable goods industries. The growth in consumer non durables too was fractional. For the full year FY19, industrial production growth stood at 3.6% versus 4.4% in FY18.

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5. Indian Debt Market

- Indian debt markets are facing liquidity issue despite the RBI's efforts to improve systemic liquidity.
- Currently, liquidity deficit in the banking system is estimated to be Rs 300-350 billion versus Rs 650-750 billion at the beginning of May, 2019.
- According to fixed income experts, front end AAA corporate bonds between 2 to 5 years are better placed in terms of risks versus reward in the current environment. But there is still a liquidity issue in the space for lower ratings and this has constrained the process of price discovery.
- High fiscal deficit and consequent market borrowings by both the Central & the state governments have kept corporate bond yields elevated despite the RBI's efforts to create liquidity comfort. As per the JP Morgan estimates, overall public sector borrowing in India, without including state-run electricity distribution companies, is as high as 9-10% of GDP - the highest in many years.

6. Indian gilts seen choppy ahead of the exit polls of ongoing elections

- The yield on GOI benchmark paper (7.26%, 2029) is at 7.37% today versus 7.45% on Apr 25th. During this period, it has closely tracked the movement in global Brent crude price.
- Domestically, G-Sec market remains supported because of RBI's timely OMO purchases. Recently, RBI has announced its next open market bond purchase auction, worth Rs 125 billion to be conducted on May 16th.
- While hopes of an imminent rate reduction may support G-Sec trade to some extent, jitters before the exit poll on Sunday (May 19) would keep the trade choppy.

7. Indian rupee seen down on weak risk appetite, surge in Brent prices, political uncertainty

- INR has steadily weakened from 68.74 at the beginning of April to 70.34 today per the US dollar led by volatile global crude oil prices, renewed worries over trade tensions, and significant slowdown in domestic growth.
- Recent tensions between the US and Iran have soured appetite for riskier emerging markets assets. As per the media reports, the US ordered its non-emergency staff to leave Iraq immediately as recent attacks against oil tankers in the region and drone-laden attack in Saudi Arabia on May 14 escalated tensions between the two countries.
- Mounting uncertainty created by increasing geopolitical tensions and the ongoing national elections have dampened the sentiment for Indian currency.

8. Indian stock sentiment weakens as global risks intensify

- Indian benchmark index – Sensex has lost nearly 717 points in the past six sessions, as stocks are facing challenges both on the domestic and global fronts.
- Many concerns including the slowdown in India's growth and the ongoing trade tensions between the US & China, geopolitical tensions in West Asia & uncertainty over Lok Sabha election results have made stock investors jittery and capital outflows have been consistent over the past many sessions.
- We expect equity sentiment to remain weak, as both global & domestic uncertainties have increased.

9. Brent Crude at \$70.79 per bbl on May 15, 2019

- Global Brent crude price was at \$70.79 per barrel today. The US crude stockpiles rose last week by 8.6 million barrels in the week to May 10 to 477.8 million, data from industry group the American Petroleum Institute showed yesterday (May 14).
- Oil prices have drawn support after Saudi Arabia said yesterday that armed drones struck two of its oil pumping stations, two days after the sabotage of oil tankers near the United Arab Emirates.
- Given that nearly one-third of global oil production and nearly all of global spare capacity are in the Middle East, the oil market is very sensitive to any attacks on oil infrastructure in this region.

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