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1. Global Economic Briefs

- While risk of a global recession appears to be low, re-escalation of trade war between China and the US and its negative implications for market confidence are weighing on the global economic outlook.
- **However**, a few experts see high probability of a modest recovery on the back of a trade deal between the US and China in H2, 2019 **and further stimulus measures by China and US central banks**.
- Despite of the pressure from President Trump to cut interest rates, the US is expected to leave borrowing costs unchanged at a policy meeting this week. **However, there is every possibility that the Fed will lay the groundwork for a rate cut later this year.**
- **According to Bloomberg**, as central banks show increasing alarm about the world economy and a willingness to increase stimulus, finance ministers from the Group of 20 nations made little progress **in curing the main threat of deepening trade tensions**.
- According to an influential Chinese Communist Party Journal, the US has underestimated the Chinese **people's will to fight a trade war and Beijing is prepared for a long economic battle**.
- According to World Bank, "after rising more than 15% in the first four months of 2019, energy commodities retreated in May (down 2.8%). In fact, almost all major commodity groups fell, led by base metals (down 5.4%). Non energy commodities fell 1.8%. Only grains registered gains in May, rising 2.5%.

2. Indian Agriculture Scene

- According to India's weather division, the southwest monsoon has advanced into parts of Bay of Bengal, northeast India, West Bengal & Sikkim yesterday.
- **The cyclonic storm Vayu that has weakened the monsoon current and stalled its pace of progress, moved further to east-northeastwards and lay centered over northeast Arabian sea & neighbourhood – 200-300 km along the Gujarat coast.**
- The water level in India's 91 key reservoirs fell 4% (week-on-week) to 29.189 bcm as on June 13th. **This means the water level in major reservoirs is now only 18% of the total live storage capacity of these reservoirs. Maharashtra, parts of Andhra Pradesh, Gujarat & Karnataka have declared drought in the year 2018, are facing severe water stress this year.**
- Sowing by farmers across India so far in the FY20 (Jul-Jun) kharif season (i.e., season for summer crops) was over 8.22 mln ha, down 9% from 9.03 mln ha a year ago due to slow progress of the monsoon in key kharif crop growing regions.

3. India's Overall Economic & Policy Developments

- **In its latest Global Economic Outlook**, the US-based Fitch ratings has made a downward revision to India's GDP growth forecast (from 6.8% earlier to 6.6%) **for the current fiscal year FY20, citing cooling activity in the manufacturing & agriculture sectors**.
- India's Union Cabinet has approved the Aadhaar and Other Laws (Amendment) Bill, 2019 to replace the Aadhaar and Other Laws (Amendment) Ordinance, 2019. **The Bill will be introduced in the upcoming session of the Parliament. The Aadhaar Bill proposes that no individual shall be compelled to provide proof of possession of Aadhaar number or undergo authentication for the purpose of establishing his identity unless it is so provided by a law made by the Parliament. For the convenience of general public in opening of bank accounts, the proposed amendments would allow the use of Aadhaar number for authentication on voluntary basis.**

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- India's ministry of statistics & programme implementation is planning to set up a national data warehouse wherein big data analytical tools will be leveraged to further improve the quality of macro-economic aggregates.
- India's retail inflation (CPI) inched up to 3.1% in May primarily on the back of a pick-up in food prices. However, weak demand gave rise to a crash in core inflation to 4.25% in May from 4.57% in the previous month. Even producer price inflation (WPI) slipped to two-year low of 2.45% in May due to weakening demand impulse in the economy. Even the Household sector's expectations of inflation falls in the RBI's May 2019 survey.
- In their pre-Budget consultative meeting with the Finance Minister last week, representatives of Indian NBFCs have asked for a dedicated liquidity window for them. They insisted that liquidity & solvency issues of NBFCs need to be handled separately case by case.
- The ongoing trade war between the US and China has opened an opportunity for India to boost exports of over 350 products, as per a study by India's Ministry of Commerce. India's merchandise export earnings rose by just 3.9% (y-o-y) to \$30 billion in May, 2019, while imports grew at a faster pace of 4.3% to \$45.4 billion. Cumulative trade deficit during April-May 2019 stood at \$30.7 billion, as against \$28.3 billion in the year-ago period.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.7% and 10.1% on year respectively, as on May 24th, 2019. While outstanding loans declined by Rs 34.2 billion to Rs 96.23 trillion in the two weeks to May 24, aggregate deposits declined by Rs 189 billion to Rs 125 trillion. As a result, the Average Credit-Deposit ratio increased to 76.99% as on May 24 from 76.90% on May 10.
- India's Broad Money Supply, i.e., M3 growth was at 10.3% (y-o-y), as on May 24, 2019 (versus 10.4% a year ago). Bank credit to commercial sector remains the major contributor to M3 growth this year. Compared to the previous year, the contribution of "net foreign exchange assets of banks" has fallen this year.
- India's "foreign exchange reserves" have neared a life-time high, as they grew by \$1.69 billion to \$423.55 billion during the week June 3-7, 2019. The reserves had touched a lifetime high of \$426.02 billion in April 2018.

4. India's Industrial & Services Sectors Scenario

- Coal India proposes to offer 21.5% additional coal to power generators through forward e-auctions. Additionally, the company is expected to reduce offerings in the spot auction market from its level in FY19 by 4%.
- India's Ministry of New and Renewable Energy is trying to ensure smooth flow of funds for development of renewable power projects. It is decided that the Ministry will request the RBI to categorise renewable energy as a separate segment from power and also to remove the priority sector lending limit for the renewable power segment.
- India's industrial production grew by 3.4% (y-o-y) in April driven by a pick-up in mining output and power generation. Manufacturing activity continued to stay weak. A pick-up in industrial production growth also reflects normalisation of previous month's growth print, which had come in much lower than expectations.
- As per the SIAM data, India's automobile retail sales have dropped by 7.5% (y-o-y) in May, 2019. This has happened across all categories of automobiles and the worst hit was the two-wheeler industry due to an increase in insurance rates, liquidity crunch, poor sentiment, rural distress and uncertainty of the BS-VI regulations, among other factors.

5. Indian Debt Market

- Currently, liquidity in the banking system is estimated at a surplus of around Rs 100 billion.
- Liquidity surplus has narrowed in the past few days due to advance tax outflows to the tune of Rs 700-800 billion.
- According to fixed income experts, while the worst of the country's liquidity shortage and soaring funding costs have somewhat subsided by now, a string of corporate defaults have again created nervousness.
- However, there is also reasonable confidence that regulators will step in to arrest the fallout if any risk event were to happen.
- According to data compiled by the Bloomberg, average yields on top-rated five-year corporate bonds issued by NBFCs have fallen to 8.16% on June 14th, after soaring to as high as 9.22% in October.

6. Improved outlook for Indian government bonds

- India's 10-year benchmark bond yield has steadily declined from its level at 7.08% on June 10th to 6.86% today, supported by falling Brent crude price in the global market (\$62.29 per bbl on June 10 to \$60.77 today).
- Besides the crude price movement what has supported government bonds is the renewed buying support from state-owned banks.
- However, further gains may be capped as market participants are waiting to see the outcome of the Fed FOMC meeting on Wednesday (June 19) that will set the direction for overseas investment flows.

7. Indian rupee up as oil prices fell globally

- Indian rupee has recovered to 69.765 per US dollar at 12:35 noon today versus yesterday's closing at 69.90 as prices of Brent crude oil declined on concerns about weak demand for oil amid slowing global growth.
- Weakness in the US dollar triggered by a slump in the New York manufacturing activity is also helping the Indian currency.
- The FX traders are staying on the sidelines ahead of the outcome of the Fed's monetary policy review late on June 19th. We expect rupee to stay stable in a narrow band (~ 70) amid various uncertainties and intermittent FX intervention by the RBI.

8. Indian stocks face many uncertainties

- A downward movement in global crude oil prices and modest gains in global equities are helping Indian stocks today.
- But the uptrend may not sustain for long, given the global and domestic uncertainties.
- Going ahead, several factors like the progress of monsoon, policy orientation of Union Budget due on July 5th, monetary policy direction by global central banks, geo-political tensions, etc. will set the tone for Indian stocks.
- According to stock experts, a phase of consolidation will continue for longer for Indian stocks given that economic momentum still remains soft.

9. Brent Crude at \$60.70 per bbl on June 18, 2019

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- Brent crude price is hovering near \$60.70 per barrel today.
- Oil prices have remained soft this month despite rising geopolitical tensions and threats of supply disruptions.
- Investors fear that trade frictions will hit global growth and significantly lower demand for crude going forward.
- An additional factor has been a surge in the US stockpiles to multi-year highs, driven by weak refinery demand and a shale production boom that has helped bring crude oil prices down.

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