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1. Global Economic Briefs

- Iwata, an architect of the Bank of Japan's massive bond-buying programme has warned there are few tools left to ease monetary policy further as cutting already ultra-low interest rates could push some financial institutions into bankruptcy. He further added that inflation will miss the central bank's 2% target without stronger measures to boost consumption. Japan's economy is seen slowing, pressured by weaker global growth.
- If European exports are hit by US actions, the EU "will react in a swift and adequate manner" Margaritis Schinas, the spokesman for the European Commission said in Brussels yesterday.
- Three Fed policymakers see only one US rate hike this year or none, as growth slows. Recently released disappointing US retail sales and industrial production data have raised the prospect that the US economy will slow more quickly than expected. Even the Citi Research's gauge on US economic data surprises fell 40.7 points this week for its biggest weekly decline since June 2011.
- The US President Trump has declared a national emergency over border security, bypassing Congress to divert money from elsewhere in the government to pay for additional barriers along the southern border, a move likely to ignite immediate court challenges.
- According to Oxford Economics model simulations, global growth could slow to a decade low of 2.3% in 2019 if Chinese growth slows sharply, and it could even drop below 2% if there is a slowdown in the economies of both China and the US.
- Global trade tensions, monetary policy uncertainty in advanced economies, downside risks in Europe and an apparent slowdown in China are cited as key factors to watch in 2019. These anxieties come at the time when the US economy is experiencing volatility in the stock market, the strong dollar & the impact of higher cost of borrowing on interest sensitive sectors.
- According to the DBS CEO, while the global growth is expected to slow in the coming months, Asian economies could hold up reasonably well on account of several mitigating factors including looser monetary policies and fiscal stimulus.

2. Indian Agriculture Scene

- Total area sown to Rabi (winter) crops in India has declined by 4% (y-o-y) this year as sowing of rice, pulses, coarse cereals & oilseeds remained lower than the year ago period. However, the area sown for wheat crop is nearly same as the year ago period. However, moderate to heavy rainfall together with hailstorm experienced in some regions of North India this week have left wheat & other crops partly damaged.
- Former RBI Governor Y V Reddy termed the recent trend of rolling out doles for India's farm sector, including the basic income scheme, as a "disturbing trend" that will impact fiscal stability, growth and also Centre-State relations. He pitched for alternatives like having a agricultural distress fund contributed by both the Centre & States, rather than the ongoing measure of arbitrary scheme announcements.
- The US & Canada have taken objection to India's price support for chick peas, pigeon peas, black matpe, mung beans, lentils, etc. According to trade representatives, India has substantially underreported its price support for the pulses.
- As per the update of the International Research Institute for Climate and Society of the Columbia University, "There is 45% probability of below normal pre-monsoon rains over parts of peninsular India during Mar-May". Below average rainfall in the region could aggravate the water stress in Maharashtra, Karnataka, Andhra Pradesh and Telanaga, which are facing drought-like situation due to deficit rains in the previous

monsoon season. The institute, however, predicted about 40% chance of higher than normal rainfall over parts of north India during the same period. Punjab, Haryana and parts of Madhya Pradesh and Odisha may receive above normal showers.

3. India's Overall Economic & Policy Developments

- According to RBI's Centre for Advanced Financial Research and Learning (CAFRAL), the Government of India should form an independent body to vet official data (on GDP) after questions were raised about the credibility of the nation's statistics.
- India's merchandise trade deficit widened to \$15 billion (m-o-m) in January, 2019 on weak exports growth (3.8%, y-o-y) and very high gold imports growth (38.2%). However, growth in non-oil, non-precious metals imports – a leading indicator of economic activity remained negative at 1.4%. Given the monthly run rate of services exports at \$10 billion and capital inflows at \$4-5 billion, India's BOP (balance of payments) was likely to be in deficit in January, 2019.
- The RBI has decided to hold talks with banks later this month about a pass-through on lower policy interest rates. Concerns over this issue resurfaced after banks lowering interest rates by just 5 bps post a policy rate cut of 25 bps by the RBI in early February, 2019. However, banks see no headroom to cut interest rates beyond this.
- On Feb 15th, the RBI notified withdrawal of 20% investment limit by foreign portfolio investors in corporate bonds of a single entity.
- Indian banks continue to face considerable liquidity constraints though there is improvement on the NPA front, says the 8th round of half-yearly survey conducted by the Federation of Indian Chambers of Commerce & Industry (FICCI) and Indian Banks' Association (IBA).
- The RBI decided to transfer an interim dividend of Rs 280 billion to the government in the current year FY19 at its board meeting on Feb 18th. The dividend transfer should help the central government meet its revised fiscal deficit target of 3.4% of GDP for FY19.
- According to RBI, Indian banks loans and deposits rose at the pace of 14.5% and 9.6% on year respectively, as on Feb 1, 2019. While outstanding loans increased by Rs 972.9 billion to Rs 94.30 trillion in the two weeks to Feb 1, aggregate deposits rose by a whopping Rs 1.37 trillion to Rs 121.23 trillion. The average Credit-Deposit ratio slightly declined to 77.79% as on Feb 1st from 77.85% on Jan 18th.
- India's Broad Money Supply, i.e., M3 growth was at 10.4% (y-o-y), as on Feb 1st, 2018 (versus 10.2% a year ago). While bank credit growth to commercial sectors has been driving the growth of broad money supply, credit growth is still not very broad-based, says the RBI.
- India's "foreign exchange reserves" again fell by \$2.12 billion to \$398.12 billion as on Feb 8th, 2018. The reserves had crossed the mark of \$400 billion in the previous week after a period of almost five months.

4. India's Industrial & Services Sectors Scenario

- According to JLL India report, "Riding on structured reforms including the infrastructure status and the implementation of Goods & Services Act, Indian warehousing and logistics sector is estimated to attract nearly \$10 billion investments over the next 4-5 years. With addition of around 200 million sq ft warehousing space across India, total supply is expected to nearly double by 2022".
- The market size of India's packaging industry is expected to touch \$72.6 billion by FY20 on account of rising population & income levels and changing lifestyle, according to a study by ASSOCHAM-EY.

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- The market leader in tractors, M&M Ltd. has recently cut its forecast for tractors sales growth for the second time this year. It expects sales of these vehicles to grow only 10% as against 12-14% guided earlier. The company had started FY19 with a guidance of 13-15%, which it trimmed in Jul-Sept, FY19.

5. Indian Money Market

- Currently, liquidity in the banking system is estimated to be in deficit of Rs 750 billion as against Rs 900 billion at the end of previous week.
- The RBI announced yesterday that it would buy up to Rs 125 billion worth of five government bonds through open market operations on Feb 21st. The decision was based on the RBI's assessment of prevailing liquidity conditions and also of durable liquidity needs going forward.
- Liquidity deficit in the banking system is expected to increase next week due to outflow on account of GST payments. CP rates are in a rising mode for the past three days as demand for CPs from mutual funds has reduced on account of tight liquidity.

6. Bearishness seen in Indian gilts

- Indian government bonds have turned bearish amid concerns about rising crude prices and the government's record \$100 billion borrowing plan.
- Brent crude price has moved up from \$61-62 per barrel at early Feb to \$66-66.50 as of today, driven by OPEC's production cuts and US sanctions on Iran & Venezuela.
- Another setback to market sentiment came when 37 paramilitary personnel died and several others injured in an assault on Feb 14th on a convoy in the Indian-controlled Kashmir.
- Going ahead, market players await the release of minutes of the RBI's last monetary policy meeting due on Feb 21st (Thursday) for insights into each individual MPC member's assessment, which may provide guidance on the future movement of government bonds.

7. Oil prices weighing on INR

- Firming of crude oil prices and persistent foreign fund outflows are exerting downward pressure on Indian rupee. Heavy selling in domestic equity markets is also weighing on INR.
- Currently, widening trade deficit and surging crude prices have made the outlook on INR negative. According to FX experts, the RBI will not be able to continue its buy-back strategy to keep rupee below 72/dollar levels in the next few weeks.

8. Indian stocks seen subdued

- Indian benchmark indices in recent sessions have shrugged off the positive cues from global equities as investors have turned risk averse due to a sharp fall in some of the blue chip companies.
- Tensions following the Pulwama terror attack last week have added to the uncertainty around elections.
- Currently, Indian equities are reeling under the pressure of election jitters, steep valuations and continued weakness in corporate earnings.

9. Brent Crude ~ \$67 per bbl on Feb 19, 2019

- According to Reuters, Brent crude stayed within sight of its 2019 high of almost \$67 a barrel today, supported by OPEC-led supply cuts, although concerns about growth slowdown are capping the upside.
- According to global commodity experts, the oil market is slowly regaining its bullish footing, subject to the perception of economic risks tied to US-China trade talks.
- The price of India's crude oil basket rose to a fresh three-month high of \$66.69 per barrel on Feb 18th.

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