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Global Economic Briefs

- Prof Larry Summers (former US Treasury Secretary) says the global economy is passing through **secular stagnation** due to chronic lack of demand. In today's global economy, private investment demand is manifestly unable to absorb private savings even with negative real interest rates and limited restraints on financial markets. That is why even with burgeoning government debt & unsustainable lending, growth remains sluggish and below target. Globally, "diminishing returns" have surely set in with respect to monetary policy and there is risk of doing real damage to the health of the banks & other financial intermediaries.
- China and the US have achieved some progress in their trade talks, and any problem could be resolved as long as both sides respected each other said today the Vice Foreign Minister Le Yucheng of China.
- British Prime Minister Boris Johnson was dealt another blow yesterday when the speaker of parliament denied him a second shot at winning MPs' approval for his EU divorce deal, with Brexit looming in just ten days' time. Johnson is trying to secure an Oct 31 break from Brussels that severs many of the island nation's economic relations with Europe after 46 years of EU membership.
- Japan's exports contracted for a 10th straight month in September, adding to speculation the BOJ could ease monetary policy as soon as next week to support an economy hit by a slowdown in global demand.
- Leaders of the wind power industry have warned that the global trade war could endanger progress on renewable energy, as slowing growth in clean energy projects risks the goals of the Paris climate accord.

Indian Agriculture Scene

- The 2019 southwest monsoon season ended with surplus rain of 10% and set the record for the heaviest seasonal rainfall ever, a welcome change from the previous year when below-normal monsoon caused drought in as many as seven states. Furthermore, the northeast monsoon is all set to make an onset over southern peninsular India on October 17.
- In a relief to farmers ahead of Rabi season, IFFCO has reduced the retail prices of non-urea fertilisers, including Di-Ammonium Phosphate (DAP), by up to Rs 50 per bag. The prices of these fertilisers per 50 kg bag have been cut amid easing prices of raw materials and manufactured fertilisers globally.
- Prices of several varieties of Indian pulses (Chana, Urad, Moong & Masoor) have reported an increase of 5-10% in September, 2019 on account of incessant rains in Madhya Pradesh and Maharashtra that has fuelled the expectation of a low kharif harvest. The government has asked dal millers to import pulses by October 31st to ensure availability and keep a check on the domestic prices.
- India is looking for greater access to the Chinese market as it seeks to arrest the fall in farm commodity exports. After hitting a record of \$43.2 billion in FY14, India's exports of agricultural produce began declining gradually due to lack of innovation and competitiveness and the sustained increase in minimum support prices.

India's Overall Economic & Policy Developments

- After India posted its lowest economic growth rate in six years at 5.0% in Q1, FY20, all major multilateral organizations and rating agencies reduced economic growth projection for India for the year FY20. In particular, the World Bank has reduced its growth forecast from 7.5% to 6.0%; IMF from 7.0% to 6.1%; OECD from 7.2% to 5.9%; ADB from 7.0% to 6.5%; Fitch ratings from 6.8% to 6.6%; Moody's from 6.2% to 5.8%; S&P

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from 7.1% to 6.3%; India ratings from 6.7% to 6.1%. Even RBI lowered its growth projection from 6.9% to 6.1% in its last monetary policy review.

- India's producer price inflation (WPI) has collapsed to 0.33% in September and core WPI has become negative at (-) 1.1% reflecting a broad-based demand weakness. While retail inflation (CPI) has firmed up to 3.99%, led by spikes in the prices of vegetables, meat, fish & pulses, the core CPI has plunged to 4.01%. Prices of vegetables/meat/fish will get normalised once the monsoon related disruption is over. Pulses too don't pose a risk once the kharif production comes to markets. Conditions for rabi pulses are also favourable. The RBI will pay more attention to weak growth and demand prints in the future monetary policy reviews.
- India's merchandise exports fell by 6.6% (y-o-y) in Sept, 2019, led by a fall of 18.6% in the exports of petroleum & crude products, 10.1% in marine products, 6.2% in gems & jewellery and 2.2% in readymade garments. India's import bill too declined 13.9% (y-o-y) primarily on the back of a 18.3% fall in crude oil imports. India's non-oil, non-precious metals import growth was negative 8.5% in Sept. As imports have declined at a faster pace than exports, India's trade deficit narrowed to \$10.9 billion – the lowest in the past seven months.
- Indian NBFCs have stepped up their offshore fundraising drive amid an ongoing liquidity squeeze at home. Barring a few top rated NBFCs, the series of downgrades & defaults have hurt the sentiment for NBFC papers. Exposure of debt mutual funds towards NBFCs stood at Rs 1.8 lakh crore in Sept, 2019, down by nearly Rs 78,000 crore since July 2018, when the NBFC crisis began. While some major NBFCs have been going slow on lending, others have stopped completely.
- Credit growth at Indian banks has dropped to its lowest level in nearly two years to 8.8% at the end Sept, 2019 from the start of the year as per the latest RBI data. While retail lending has driven growth, banks are taking a more cautious approach on some consumer loans, especially unsecured loans.
- According to RBI, Indian banks loans and deposits rose at the pace of 8.8% and 9.4% on year respectively, as on Sept 27, 2019. While outstanding loans increased by Rs 596.53 billion to Rs 97.71 trillion in the two weeks to Sept 27, aggregate deposits rose by Rs 1.83 trillion to Rs 129.07 trillion. As a result, the Average Credit-Deposit ratio marginally declined to 75.71% as on Sept 27, from 76.33% on Sept 13.
- India's Broad Money Supply, i.e., M3 growth was at 9.7% (y-o-y), as on Sept 27, 2019 (versus 9.4% a year ago). "Net Bank Credit to Government" has been the major contributor to M3 growth this year.
- India's "foreign exchange reserves" stood at the healthy level of \$439.71 billion as on Oct 11th, 2019.

India's Industrial & Services Sectors Scenario

- Rural household consumption of packaged consumer goods declined to a seven-year low in the Jul-Sept quarter this year, according to a Nielsen report. The report stated that consumption of consumer goods by rural households also grew at a slower pace than in urban areas for the first time in seven years.
- Electric two wheeler sales under the FAME-II initiative crashed by 94% in H1, FY20 after policy changes led customers to opt for more affordable models. However, sales of few passenger vehicles and two wheeler models are surging when compared to last year amidst a slowdown in the industry.
- India's industrial production contracted by 1.1% (y-o-y) in August led by a significant contraction in capital goods production (-21%) and consumer durables production (-9.1%).
- Slowdown in demand has taken a toll on the steelmaking companies. Steel volume numbers reported by companies recently have not been encouraging. Weak demand scenario is exacerbated by increased export volumes at a sharp discount of 14% to domestic prices.

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Indian Financial Markets

- At present, liquidity in the Indian banking system is estimated at a surplus of over Rs 1.60 trillion.
- Even if RBI has lowered the Repo rate by a cumulative 135 bps in 2019 and kept the stance at accommodative, Indian government bond yields are moving in thin band due to the fear of fiscal slippage. The government's announcement of an auction to switch bonds is also weighing on the sentiment. In a switch operation, the government switches bonds of shorter tenures with those of longer tenures, delaying repayment to a later date.
- Indian rupee has moved in the range of 70.85 to 71.46 during October. While there is optimism surrounding the trade talks between the US and China – a favourable development for the EM currencies, they may face volatility due to Brexit related uncertainty.
- The outlook for Indian stock markets remains uncertain due to the economic slowdown and elusive revival of corporate earnings. Brexit related uncertainty is also weighing on the sentiment.
- Crude prices fell nearly 1% yesterday after comments from a US official stymied hopes that a US-China trade deal would be reached soon. Brent crude futures settled down at \$58.94 a barrel. Traders are still betting on slowing global growth and are convinced that this will lead to an oversupply of oil. Indian crude oil basket price was at \$59.56 per barrel on October 21st.

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