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1. Global Economic Briefs

- In its latest report the Paris-based OECD has said that after a sharp slowdown in economic growth in H2, 2018 the global growth has somewhat stabilised. However, the global economy can expect only “moderate but fragile” growth for the next two years, the OECD added.
- As per the OECD estimates, the global GDP growth may slow from 3.5% last year to 3.2% this year, before picking up slightly to 3.4% next year. Trade tensions are the principal factor threatening the global economy.
- A week after raising tariffs on \$200 billion in imports from China, the Trump administration took aim at Huawei, the Chinese company leading the global race to create new, faster 5G telecommunications networks. The new regulations would, if fully implemented, restrict Huawei’s ability to access the US market, either for exports of its products or for imports of key technologies.
- An inflation gauge closely watched by the Bank of Japan accelerated at its fastest pace in almost three years as some retailers passed on rising costs to households, a positive sign for the central bank as it seeks to stoke consumer prices.
- Europe’s economic recovery appears to be stalling amid flagging international demand for its exports, as per a closely-watched business survey that puts fresh pressure on the European Central Bank to act to shore up growth.
- The number of Americans filing applications for new unemployment benefits fell last week for the third consecutive week, pointing to a historically tight labour market. Minutes from the May 1-2 FOMC meeting said “members observed that a patient approach to determining future adjustments to the target range for the federal funds rate would likely remain appropriate for some time.”
- The US dollar hit its highest level in a month on May 23rd as economic and political uncertainties swept through Europe and Asia, pinning down most major currencies like the euro and the yuan.

2. Indian Agriculture Scene

- According to India’s weather department (IMD), Southwest monsoon is likely to advance to more parts of south Bay of Bengal, north Andaman Sea & Andaman Islands in the next two to three days.
- The Southwest monsoon is likely to hit the Kerala coast on June 6 – five days later than the usual date of June 1st. The IMD has forecast near-normal Jun-Sept monsoon this year, with rains at 96% of the long period average (LPA) of 89 cm.
- According to weather experts, El Nino is likely to be neutralised by a local phenomenon called Indian Ocean Dipole (IOD), which can lead to good rainfall in the June-September season. The IOD refers to the temperature difference between the eastern and western parts of the water body. According to IMD, the El Nino phenomenon is getting weak and IOD is moving from neutral to positive, which should help rains in India this year.
- Of the total sanctioned procurement quantity of 3.8 million tonnes of India’s kharif season (summer season) pulses and oilseeds, the National Agricultural Cooperative Marketing Federation of India has been able to procure only 1.8 million tonnes so far, as per the reports. The procurement is likely to fall short by nearly 50% as the deadline ends in May 2019.

3. India's Overall Economic & Policy Developments

- In a historic win, Bharatiya Janata Party (BJP) swept India in the Lok Sabha elections with landslide mandate. With over 300 seats in its kitty, BJP became the only political party in the world to come back to power with a complete majority. Post this “victory”, the rating agency Moody’s expects a broad push towards fiscal consolidation.
- India’s incoming government is set out to prepare its reform agenda fast and an informal cabinet meeting could be held as early as on May 24th. According to a Finance Ministry official, “the past five years were about cleaning up and consolidating the system and the next five years will be about growth and unshackling the system”.
- The rating agency CRISIL expects the new government to take long-pending hard decisions in the first year itself like creation of fiscal space for infrastructure spending, privatization, asset monetization and in general, unshackle funding in the economy.
- According to reports, India’s new government and the central bank would work together to improve system level liquidity, relax the rules of securitisation across asset classes, accelerate the co-origination model and reduce the risk weights across sectors.
- 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 \$1.37 billion to \$420.06 billion during the week May 6-10, 2019. According to analysts, global investors will be enthused with a stable and strong government at the centre and the nation may attract robust FPI & FDI inflows in the coming months.

4. India's Industrial & Services Sectors Scenario

- India’s domestic air passenger traffic fell for the first time in six years in April, 2019, as Jet Airways discontinued its operations in this month.
- Indian Railways (IR) improved its operating ratio for FY19 to 97.3% largely due to its largest customers - thermal power giant NTPC and cargo transport leader Container Corporation of India, as per reports. These companies gave freight advances to the tune of Rs 130 billion to IR for its services that they will use in the current year.
- Textile exporters in Surat expect the ongoing trade war between the US & China to help shipments from India. However, there are also worries that in order to offset the loss of US market, China might dump cheap goods in India.
- According to the Indian government sources, a plan to kick-start private investment and stimulate demand has already been drawn up as the new government gets ready to present a full budget in early July, 2019. The draft of a new industrial policy is ready for rollout, said the officials.

5. Indian Debt Market

- Liquidity deficit in the banking system is still high at Rs 500-550 billion as of today.
- However, rupee denominated corporate bond sales are expected to pick up pace as borrowing costs decline on the confidence generated from political continuity.
- Investors had built up cash positions ahead of elections and will now look to deploy them.
- According to traders, Mr Modi's re-election will bring back foreign investors in both sovereign and corporate debt. There has been mild tightening of spreads for Indian USD bonds on the back of the election results. However, any significant upside will depend on the new government's efforts to revive growth through deep structural reforms.

6. Improved outlook for Indian government bonds

- India's 10-year bond yield has steadily declined since May 21st as analysts expect the BJP's election victory to give the NDA government enough power to avoid populism.
- The 10-year GOI bond yield has declined from 7.30% on May 21st to 7.22% today (May 24) reflecting many positive factors like benign domestic inflation, a fall in global crude oil price, expectations of further rate cuts and OMO purchases by the RBI, etc.
- Election results augur well for bonds and traders are now keeping an eye on the full Budget in early July for fiscal deficit and borrowing targets.

7. The BJP win positive for INR

- INR has posted a weekly gain of 1% and closed at 69.52 per US dollar today as the Prime Minister's ruling coalition scored a massive election win and Brent crude prices eased significantly in global markets.
- The weaker oil prices helped currencies of major net importers of the commodity, such as India and Thailand, although moves in other emerging foreign exchange market were limited by concerns about the worsening Sino-US trade war.
- Oil prices declined by about 5% as trade tensions dampened the demand outlook, putting the crude benchmarks near their biggest daily drop in six months and on course for their steepest weekly fall in 2019.
- According to FX experts, the BJP win is positive for INR provided new reform initiatives will not be too long in coming. The result is particularly relevant in the current global environment where EM investors are highly concerned about the ongoing trade war & pressure on Asian IT supply chains. India is a relatively closed economy with limited vulnerability to these issues.

8. Indian stocks to gain on institutional buying

- Indian stocks have surged on hopes of economic reforms and liquidity boost, as the ruling party has retained power at the centre.
- The government & the RBI will take adequate measures to address the issues plaguing the NBFC sector, said a government official to Cogencis on May 24th.
- According to global investment firms, Indian stocks are poised for gains as FPIs will increasingly invest in Indian stocks because of India's stable political environment and limited vulnerability to global trade concerns. A

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potential policy rate cut and an investor-friendly ministerial council would be the next trigger for the equity markets.

9. Brent Crude ~ \$67.76 per bbl on May 23, 2019

- Brent crude oil for July delivery ended at \$67.76 per barrel on May 23rd representing a decline of \$3.23.
- The unexpected build-up reported in the US oil inventory report on May 23rd fueled market oversupply concerns. Additionally, concerns over global economic slowdown exacerbated bearish sentiment.
- The US commercial inventories are now at the highest level since July 2017. Both gasoline and distillates inventories rose last week, a major change from past reports, said an Energy expert.

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