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## Global Economic Briefs

- According to trade experts & political observers, an ambitious phase II trade deal between the US and China is looking less likely as the two countries struggle to strike even a preliminary phase I agreement. The 16-month trade war with China has thrown US businesses and farmers into turmoil, disrupted global supply chains and been a drag on economies worldwide.
- As per the report of IFO economic institute, German business morale improved in November and Germany appears to be on track to grow by 0.2% in Q4, 2019 as its domestic strength more than offsets a manufacturing recession.
- The IMF urged the Bank of Japan to consider steps to ease the strains caused by its ultra-loose policy on financial institutions, such as targeting a shorter maturity for its long-term bond yield target. The BOJ could also make its 2% inflation target a more flexible, long-term goal by adopting a target range for price moves, as structural factors like technological innovation may keep inflation low for a prolonged period, said the IMF.
- Some central banks, such as those in Canada, Australia and New Zealand, started off with a pointed target but added a band to increase the degree of flexibility in monetary policy, Paul Cashin, the IMF's Japan mission chief, told the news conference on Nov 25<sup>th</sup>.
- China needs to resolve outstanding financial risks, and must counter risks from "abnormal" market fluctuations that stem from external shocks, said the central bank on Nov 25<sup>th</sup>, as Beijing attaches highest priority to financial stability amid increasing challenges.
- China's industrial profits have posted steepest fall in eight months in October, 2019 underscoring slowing economic growth momentum.
- The OECD has further revised downwards its global growth forecast by 0.1 percentage point to 2.9% last week. According to the think tank, global growth outcomes and prospects have steadily deteriorated amidst persistent policy uncertainty and weak trade and investment flows for the past two years.
- Global gold prices edged lower today (Nov 27) after US President Trump's comments that Washington was close to an interim trade deal with China boosted demand for riskier assets. Global Brent crude oil price stays elevated near \$63-64 per barrel on hopes of progress towards a trade agreement between the US and China and expectations that supply cut deal could be extended to the end of 2020 at the OPEC's next meeting on December 5, 2019.

## Indian Agriculture Scene

- India's rabi crops were sown in around 25.10 million hectares till Nov 22<sup>nd</sup>, which was 9.3% lower (y-o-y). With sowing of wheat & other key rabi pulses lagging sharply on year, the harvest may be comparatively smaller this year, and could eventually lead to a decline in overall food grain output in 2019-20 (Jul-Jun).
- Heavy rains & floods in many parts of the country, particularly in Sept-Oct, threaten to lower India's food grain output in both kharif & rabi seasons. Kharif food grain production is now seen at least 8-10 million tonnes lower than the government's first estimate of 140.6 million tonnes for this year, as standing crop of soybean, maize, moong, and urad have taken a hit.
- Lower expectations of food grain output, non optimum use of the existing stocks & the rain induced damage to perishables has brought back the spectre of food inflation. While CPI-food inflation touched 7.9% (y-o-y) in October, WPI-food inflation attained the level of 9.8% in the same month.
- India's central minister for agriculture has said that around 18,29,469 farmers in India have been registered under the PM-KMY scheme until Nov 14<sup>th</sup> that provides social security net for small & marginal farmers.

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## India's Overall Economic & Policy Developments

- Our in-house estimation suggests that India's real GDP growth in Q2, FY20 will be at 4.2% and GVA at 4.0% primarily driven by a contraction in the industrial sector including construction. [The full year real GDP growth will also be sub-5% - precisely at 4.8% with GVA at 4.7%.](#)
- The survey on 'Household Social Consumption: Education' conducted by India's National Statistical Office revealed that there exists a huge urban-rural gap in terms of computer and internet usage. [As per the survey, around 4.4% of rural households and 23.4% of urban households possessed a computer while 14.9% of rural households and 42% of urban households had internet facility.](#)
- The state governments of Rajasthan, Kerala, Delhi, Punjab and West Bengal have urged India's central government to immediately pay them the guaranteed compensation for their GST revenue loss for August and September, which they have not received yet. [The central government is facing a fall in revenue collections amid the ongoing economic slowdown.](#)
- [As per the data presented in Parliament](#), collection of personal income tax and corporation taxes fell nearly 17% in Oct, 2019.
- India's exports shrank 2.21% in Apr-Oct, 2019 to \$185.95 billion, while imports were down 8.37% to \$280.67 billion, leaving a trade deficit of \$94.72 billion (versus \$116.35 billion in Apr-Oct, 2018).
- According to Moody's the inclusion of NBFCs in the IBC (Insolvency & Bankruptcy Code) is credit positive for India's banks [as it will limit the losses for creditors through orderly resolutions of stressed companies.](#)
- A RBI regulation meant to reduce concentration risk for banks is gradually choking the flow of funds to some large public sector enterprises. [This is especially true of oil marketing companies that have substantial debt requirements.](#)
- According to RBI, Indian banks loans and deposits rose at the pace of 8.1% and 9.9% on year respectively, as on Nov 8, 2019. [While outstanding loans increased by Rs 69.54 billion to Rs 98.48 trillion in the two weeks to Nov 8, aggregate deposits rose by Rs 205.05 billion to Rs 129.99 trillion. The Average Credit-Deposit ratio marginally eased to 75.76% as on Nov 8, from 75.82% on Oct 25.](#)
- India's Broad Money Supply, i.e., M3 growth was at 9.9% (y-o-y), as on Nov 8, 2019 (versus 10.3% a year ago). There is a deceleration of M3 growth in FY20 so far from 10.9% in mid-April to 9.9% on Nov 8<sup>th</sup> led by steadily weakening growth of bank credit to commercial sector [from 13.5% in mid-April to 7.8% on Nov 8<sup>th</sup>.](#)
- India's "foreign exchange reserves" touched a fresh life-time high of \$448.25 billion on Nov 15<sup>th</sup>, 2019. [The increase was mainly on account of a rise in foreign currency assets, a major component of the overall reserves and jumped by \\$2.17 billion to \\$415.83 billion in the reporting week.](#)

## India's Industrial & Services Sectors Scenario

- India's central government has asked public sector lenders such as Power Finance Corp, REC and IREDA to provide loans to power distribution companies (discoms) [to clear dues to renewable power companies, as commercial banks have huge outstanding debt against the discoms.](#)
- Coal inventory at India's thermal power stations has increased by a whopping 88.6% (y-o-y) [to 19 million tonnes in October, 2019 due to higher coal production and lower demand.](#)
- On 21 November 2019, India's Union road minister Nitin Gadkari said that 566 national highway projects are running behind schedule and no project has been put on hold. [Replying to a question in the Lok Sabha, he said](#)

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that the delays are mainly on account of issues in land acquisition and getting environment, forest and wildlife clearances, and disputes in arbitration.

- Import duty of 7.5% on cut & polished diamonds and coloured gemstones has created a major challenge for diamond exporters and many are now considering to shift their manufacturing facilities to the countries like Russia, Canada, Botswana, Namibia, South Africa, Tanzania, Sri Lanka and Zambia where some of the world's largest diamond mines and mines of coloured gemstones are located.
- India's steel sector may face a short run disruption in supply of iron ore as leases of 232 merchant iron ore mines expire in March 2020. This is expected to curtail potentially 25-30% of country's iron ore production.
- India's telecom sector grapples with the latest bout of bad news regarding the sustainability of business models, debt-levels, and lenders' issues.

### Indian Financial Markets

- Liquidity in the banking system is currently estimated to be in a surplus of Rs 2.2 trillion. The RBI has been draining excess liquidity through variable rate reverse repo auctions.
- Mood in India's government bond market stays cautious on elevated Brent crude prices (a jump of 6.8% during Nov1-26), recent bout of heavy selling by overseas investors and growing fiscal concerns (due to government's significantly lower revenue collections). This is in spite of the ongoing economic slowdown and expectations of more rate cuts by the RBI. Muted buying support from the state owned banks reflects a weak underlying view on bonds. The yield on 10-year benchmark GOI paper that had moved up from 6.45% on Nov 1<sup>st</sup> to 6.57% on Nov 11<sup>th</sup> (when Moody's had lowered India's ratings outlook), is hovering near 6.50% today.
- Exchange rate between Indian rupee and the US dollar remains in consolidation mode as markets await Indian GDP for Q2, FY20. Rupee/USD had crossed 72 at mid-Nov post the outlook downgrade by Moody's for India and lower appetite for EM assets triggered by slow pace of progress on trade talks between the US & China. Today, the currency is hovering near 71.32-33 per US dollar. A softer GDP print may push it towards the September high (72-73), according to a few FX experts.
- Indian benchmark index Sensex has gained over 13% in the past two months following a slew of announcements by the government to reverse the economic slowdown. According to a Reuters poll of equity analysts, Indian stocks are set to rise further over the coming year 2020, but those gains will be limited as fiscal stimulus and easy monetary policy fail to reverse an economic slowdown.

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