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1. Global Economic Briefs

- Soon after China unveiled retaliatory tariffs on the US goods worth \$75 billion, the US President Trump announced an additional 5% duty on targeted Chinese goods worth \$550 billion worsening the trade tensions between the world's two largest economies. [A column by Clyde Russel suggests "global recession" alone would end Trump's trade war with China, as all negotiations and compromises have failed.](#)
- For the world's central bankers gathered in Jackson Hole (Aug 22-24), there was a sense that things would never be the same again, as per reports. [It was discussed how central banks today have limited ability to cushion the global economy from the headwinds of mounting political uncertainty, how political shocks are turning into economic shocks, how infrastructure investment and structural reform in economies around the world would have much greater impact than cutting interest rates.](#)
- China's industrial firms returned to a profit zone in July, 2019, supported by increased public spending and improved margins in petrochemical & auto sectors. [However economic slowdown amid the ongoing trade war weighs on the business outlook.](#)
- Both an exporting and electronic powerhouse, South Korea's economy is facing "perfect storm", [as Japan trade dispute continues and exports plunge. South Korea's economy is disproportionately exposed to the US-China trade war and the associated technology war, as well as the slowdown in semiconductor demand stemming from the end to the electronics super-cycle.](#)
- Chile's finance minister announced on Aug 26th \$600 million in additional stimulus in an effort to kick-start the top copper producer's sputtering economy, [which has suffered from a downturn in mining and global trade tensions.](#)
- The ongoing trade war between the two largest economies of the world and the perception that this dispute will not end with the trade war has fractured global supply chain, possibly permanently.

2. Indian Agriculture Scene

- India has received above-normal monsoon rains in the past four weeks and cumulatively, rainfall has been 1% above normal during 1st June-25th August, 2019. [Barring seven meteorological divisions -Nagaland, Manipur, West Bengal, Jharkhand, Uttarakhand, Haryana & Delhi, the rest 29 divisions have received normal to excess normal rainfall in the current monsoon season.](#)
- Water reserve position for India has improved to 73% of the nation's storage capacity as of 22nd August, 2019. [At this level, the water storage is 121% of the storage in the corresponding period of the last year and 127% of the average of last ten years. While the northern, southern, western & central regions have storage levels higher than the year ago period, the eastern region has storage level lower than the corresponding period last year.](#)
- Until Aug 23rd, sowing of summer crops (kharif) in India has been reported at 97.5 million hectares that 2.3% lower year on year. [While area under oilseeds, coarse cereals & cotton has reported a y-o-y increase that under pulses, rice & sugarcane has declined this year.](#)
- Indian Agri-tech startups have received 300% more funding in the first six months of 2019 than the total funding received in 2018. [Agri-tech companies raised \\$248 million until June 2019, which was only \\$73 million in 2018, according to NASSCOM. New areas in the agri-tech sector such as market linkage, digital agriculture, better access to inputs, farming as a service \(FaaS\) and financing are attracting more and more stakeholders to connect with this new trend in agriculture. Indian agri-tech companies are also focussing on South East Asia, Europe, Africa and South America.](#)

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3. India's Overall Economic & Policy Developments

- Responding to the ongoing economic slowdown, India's Finance Minister announced a few specific measures on Aug 23rd (Friday) to stimulate the economy without creating much stress for the fiscal exchequer. The measures included – withdrawing of super-rich tax on FPIs, domestic investors; withdrawal of angel tax, upfront infusion of Rs 700 billion capital into PSBs to facilitate their credit expansion, decriminalisation of CSR violations, payment of all pending GST refunds to MSMEs in 30 days & all future GST refunds will be sorted out in 60 days (to ease working capital burden on small enterprises), deferred revision of vehicle registration fee up to June 2020, depreciation of vehicles from now to March 2020 hiked by 30%, BSIV vehicles allowed to be used till end of registration period, additional liquidity from Rs 200 billion to Rs 300 billion to HFCs from National Housing Bank to boost home loans, permission to NBFCs to use the Aadhar based bank mandated KYC to avoid repeating the process for the customers and lifting of ban on government departments for purchase of vehicles to replace old ones.
- This is the first round of stimulus in the series of three, as per the government sources. There is a clear recognition of a distinct slowdown and the government intends to reverse slowdown with a stimulus package.
- On Aug 26th, the Central Board of RBI accepted Bimal Jalan Committee recommendations and approved the transfer of Rs 1.76 trillion to the Government (GoI) comprising of Rs 1,234.14 billion of surplus for the year FY19 and Rs 526.37 billion of excess provisions identified as per the revised Economic Capital Framework (ECF). Of the total, Rs 280 billion has already been transferred to the Government as interim dividend. The remaining Rs 1,480.51 billion could make up for the shortfall in tax collections to a large extent.
- What facilitated this massive transfer of reserves was the record open market bond purchases by RBI during FY19 on which it earned a good amount of interest income. Also, its "earnings" from foreign exchange intervention operations aided. The prospects of a sizeable transfer of RBI's reserves over the next few years are very limited as it would require a sizeable growth in the RBI's balance sheet.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.2% and 10.1% on year respectively, as on Aug 2nd, 2019. While outstanding loans increased by Rs 711.3 billion to Rs 97.30 trillion in the two weeks to Aug 2nd, aggregate deposits rose by Rs 939.6 billion to Rs 127.45 trillion. As a result, the Average Credit-Deposit ratio marginally eased to 76.34% as on Aug 2nd, from 76.35% on July 19th.
- India's Broad Money Supply, i.e., M3 growth was at 10.1% (y-o-y), as on Aug 2nd, 2019 (versus 9.7% a year ago). "Bank credit to commercial sector" and "banks' net non-monetary liabilities" are the major contributors to M3 growth this year.
- India's "foreign exchange reserves" stood at a healthy level of \$430.50 billion as on Aug 16th, 2019.

4. India's Industrial & Services Sectors Scenario

- According to the rating agency ICRA, steel consumption in India is likely to increase by less than 6% in FY20 – the slowest pace since March, 2017. Fresh capital spending from the government is critical to revive steel demand, as private spending on projects is low and Construction & infrastructure remain the most important drivers of steel consumption.
- As the auctioneer will be appointed only by 10th Oct, 2019 and major work on draft auction documents is still pending, Spectrum sale (including that of 5G airwaves) is expected to be deferred to early 2020 in India.
- India's auto component companies are restructuring their businesses, selling off non-core or loss-making units, liquidating their land banks and pushing for production and financial discipline amid an acute slowdown in the automobile sector.

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- India was a pioneer in making renewable energy cheaper, thanks to capacity additions based on competitive bidding. Now, it's falling behind. Preliminary figures from Mercom India Research, an information services provider, show that solar capacity additions in the June quarter fell 14% from the March quarter, and 9% from a year ago, led by a decline in large-scale solar projects.

5. Indian debt market & NBFCs

- Currently, liquidity in the banking system is estimated at a surplus of around Rs 1.10 trillion. Liquidity surplus is expected to widen further this week on account of inflows due to government spending.
- According to Cogencis, following the defaults of some bigger financial entities during FY19, many corporate bond issuers including NBFCs have turned to retail investors amid elevated yields and a fall in risk appetite of institutional investors.
- In the last one year, there have been 30 public issues by NBFCs to raise debt compared to 12 in the preceding 12 months.
- According to market participants, in FY20 the borrowing cost for an AA+ rated NBFC has gone up by as much as 200 bps, while for AAA rated NBFC, it has risen 50-80 bps.

6. Subdued mood in India's G-Sec market

- Yield on 10-year benchmark Govt paper fell by 13 bps in early trade on Tuesday (Aug 27) as the RBI's massive surplus transfer to the Central Government substantially reduced fiscal worries and the possibility of further market borrowings.
- But bond gains could not sustain for very long due to profit-booking by the state-owned banks.
- Interestingly, the 10-year Govt benchmark yield is back to the level of 6.62% today (the level it had attained on Aug 14th) as traders have become jittery over betting on a fresh fall in bond yields despite an increased possibility of further easing in monetary policy. The higher supply of bonds has made traders highly risk averse to adding duration.

7. Global factors weighing more on the Indian rupee

- Indian rupee is set for its biggest monthly loss (of 4%) in six years in Aug, 2019 led by a stronger dollar, growing weakness in domestic economic activity and FPI outflows.
- The fear of a global economic slowdown amid a lack of clarity on the US-China trade negotiations and a rise in Brent crude price in global markets are also weighing on the rupee outlook.
- Currently, both exporters and importers are keeping hedges on their rupee-dollar exposures due to increased uncertainty. Traders are watching global developments more closely despite a one-day relief from the RBI's surplus transfer.

8. Indian stocks seen volatile this year

- While India's Benchmark BSE Sensex is up more than 4% so far this year, it has tumbled over 10% to its lowest point in 2019 from a lifetime high hit early in June after a landslide election victory for the nation's ruling party.

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- While a stimulus package from the government to revive the sagging economy helped Indian stocks to some extent, concerns over global & domestic growth outlook and India's fiscal constraints weigh on the sentiment. Incessant selling by foreign investors in the cash market despite the withdrawal of hike on tax surcharge has sparked worries that they may not be seeing the potential for high returns from Indian equities.
- Stock traders expect Indian equities to stay volatile going ahead as corporate earnings remain weak and chances of further slowdown in the economy have increased.

9. Brent Crude at \$60.40 per bbl on Aug 29, 2019

- Global oil prices moved in opposite directions today (Aug 29) with Brent easing but holding firm above \$60 a barrel, while a sharp fall in US inventories recently boosted WTI futures.
- Concerns about a slowdown in economic growth due to the trade war raging between the US and China, the world's biggest oil consumers, along with the potential hit to oil demand, are keeping oil prices in check. Morgan Stanley has lowered its oil price forecasts for the rest of the year, citing a weaker economic outlook, faltering demand and higher shale oil output.

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