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1. Global Monetary Policy Briefs

- By the end of 2018, there will have been 24 elections within EM countries. According to the INVESCO research report, each of these will bring the risk of significant policy change, good or bad. Tightening financial conditions in the US coupled with policy uncertainty will lead to increased volatility in EM asset prices.
- Recently, central banks from around the world have begun to emerge from a long period of loose monetary conditions. The US Fed has raised its equivalent of the Official Cash Rate (OCR) seven times since late 2015 with another four hikes expected in the coming years. The UK has started a tightening cycle and the Reserve Bank of Australia has indicated its next OCR move will be up. Even the European Central Bank has been discussing moderating its quantitative easing policies – as has Japan's central bank.
- According to China's state-run Xinhua News Agency's Securities Journal, China is set to become more flexible in their adjustment of monetary policies while they look to keep the economy on-balance while also encouraging deleveraging.
- In the week ahead, central banks including the US Federal Reserve, Bank of Japan and Brazil's central bank will hold policy meetings. On the data front, the Euro zone will see second-quarter gross-domestic product figures, while the US will receive figures on personal income and jobs.
- One other central bank meeting that will be closely watched is the Bank of England on Aug 2nd. Despite Brexit risks, Bank of England Governor Carney and other monetary policy committee members have indicated August is live and experts see the prospects for a one quarter of 1% hike this week around 70%.

2. India: Monsoon, Kharif Sowing & Water Reservoir Scene

- India's cumulative rainfall deficit until July 29th was at -5% of LPA (long-period average) and was primarily concentrated in East & North-East India, East UP, Rayalaseema & Lakshadweep. Overall, 74% of the country has received normal rainfall until now. Southern peninsula & Central India have been receiving good rains this season.
- Improvement in monsoon over several parts of Gujarat & continuing good rains in Western & Central India have pushed up water levels in major reservoirs across the country. Besides kharif crop, this should help rabi crop too.
- Latest data from India's Central Water Commission showed that the combined volume of water in 91 reservoirs was 63.33 bln cubic meters. This is more than last year's volume and better than the 10-year average as well.
- According to the latest data from India's department of agriculture, kharif crops have been sown on around 73.79 mln ha till July 27th, down 7.5% from 79.76 mln ha a year ago. Sowing of all kharif crops, except moong, soybean and sugarcane, has been lower than last year due to insufficient and delayed monsoon rainfall in some parts and shift towards more profitable crops such as soybean in Madhya Pradesh. As both July & August rains matter for kharif sowing, a lot depends now on how August pans out.

3. India's Overall Economic & Policy Developments

- According to Moody's, the recent GST rate cuts on 88 items will exert pressure on India's fiscal deficit consolidation and are therefore credit negative. The rating agency has estimated revenue loss from the GST rate cuts to be around 0.04-0.08% of the GDP annually.

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- As per the RBI's latest study on State Finances, capital expenditure by all states is expected to touch Rs 5.37 trln in FY19 (Budget Estimates) - higher than Rs 4.7 trln in FY18 (Revised Estimates). This spending amounts to 2.9% of GDP, whereas the Centre's capital expenditure is budgeted at Rs 3 trln in FY19 or 1.6% of GDP.
- The International Monetary Fund's report on external sector assessment of global economies states that India's external indicators are consistent with its macro-economic fundamentals, but risks could emerge due to volatile global financial conditions, higher oil prices and a retreat in cross-border integration.
- Indian banks are pursuing one-time cash settlements (OTS) to recover their long-pending loans against stressed coal-based power projects. They are ready to do so even at a substantial cut on their dues as they want to avoid a potentially long-drawn insolvency process. Also all such defaulting projects will proceed for liquidation after 26th August following the RBI's 12th February circular.
- We expect India's MPC members to unanimously vote for a 25 bps increase in the policy Repo rate to 6.50% on August 1st, as inflationary risks remain elevated. However, it will maintain the policy stance at Neutral (neither expansionary nor contractionary), as growth trajectory has become uncertain. We expect two MPC members (Dr Acharya & Dr Patra) to vote for changing the stance from Neutral to Tight, but the rest will support the existing Neutral Stance, as changing the stance would mean a "harsher" monetary policy action, if viewed against the current state of activity indicators.
- According to RBI, Indian banks loans and deposits rose at the pace of 12.8% and 8.3% on year respectively, as on July 6, 2018. While outstanding loans increased by Rs 456.6 bln to Rs 86.60 trln in the two weeks to July 6, aggregate deposits rose by Rs 1.33 trln to Rs 114.86 trln. The average Credit-Deposit ratio marginally deteriorated in the last reported fortnight to 75.40% as on July 6 from 75.88% as on June 22.
- India's Broad Money Supply, i.e., M3 growth stayed at 10.2% (y-o-y), as on July 6, 2018 (versus 6.8% a year ago), as "currency in circulation with the public" has been growing at a faster pace (27.7%, y-o-y). Bank credit to commercial sector and the net foreign exchange assets of the banking industry have emerged as the primary sources of growth in broad money supply.
- India's "foreign exchange reserves" marginally increased by $67.7 mln to $405.14 bln in the week to 20th July, 2018. The reserves had touched a record high of $426.028 bln as on April 13th, 2018.

4. India's Industrial & Services Sectors Scenario

- India's coal imports rose for the first time in FY18 after having declined in the previous two financial years. While imports of thermal coal increased by 8% to 161.3 MT, Coking coal imports increased by 13% to 47 MT for the year. The value of India's total coal imports rose by 38.2% to Rs 1,384.8 bln (US$ 20.17 bln).
- In a report titled 'India's Infrastructure Marathon: Why Steady Growth Can't Close The Supply Gap', credit rating agency S&P Global Ratings has stated that macroeconomic risks such as currency weakness, global trade protectionism, rising interest rates and political uncertainty could delay India's progress in meeting its infrastructure deficit.
- India's secondary real estate market is witnessing growth and the trend is likely to continue, say industry experts. There has been around 10-12% increase in number of buyers in the secondary real estate market since demonetisation.
- As US intensifies its trade war and INR slips against the US dollar, an Indo-US trade experts say India's basket of exports to the US could look different even as it diversifies its import base of many products. Experts believe US tariff restrictions may not dent overall export growth in a major way but could see a shift in export dynamics.

5. Indian Money Market

- India's one-day call rate ended at 6.20% on July 30th – below the RBI's Repo rate of 6.25% on the back of lesser demand for funds from the banking industry.
- Liquidity in the banking system is seen in a deficit of Rs 300-400 bln currently.
- While interest rates on one-month CPs of NBFCs have dropped by 15 bps, that on six-month CPs have gained 10 bps over the past one month.
- Coupons on SDLs (State Development Loans) were in the band of 8.42-8.46% in the third week of Jul-18 versus the band of 7.06-7.61% on SDLs raised in the first few weeks of Apr-18. A huge pipeline of SDLs is keeping the bond yields elevated in the system.

6. Uncertainty keeps Indian G-Sec market cautious

- Currently, the G-Sec market is showing lackluster trading activity ahead of RBI's policy decision due tomorrow.
- Elevated crude oil prices are also weighing on sentiment.
- With several crucial events lined up this week, trade volumes are likely to remain subdued. Apart from the RBI's policy, the current week will also see monetary policy actions from the US Fed and BOJ.
- Uncertainty about future policy actions as well as liquidity outlook has increased the cautiousness in the G-Sec market.

7. Some signs of stability seen in INR vs US dollar

- Indian rupee has stayed in the range of 68.29-69.10 over the past one month.
- The dollar index too has been oscillating bet 93.9 and 95.65 over the past few weeks.
- While a strengthening dollar index, steady improvement in the US economy with expectations of continuation of rate hikes, rising trend in crude prices & India's worsened CAD position, etc. have weighed on the Indian rupee, FX traders are now seeing some signs of "stabilisation" in the currency.
- This is because the month of July has seen the lowest "foreign fund outflows" in the last four to five months and crude has come of the $80 levels. Moreover, the RBI's intervention in the FX market has also helped. According to Bloomberg estimates, INR would hover in the range of 67-71 & 66-72 in the next two quarters.

8. Indian stocks reviving on stable earnings but risks remain …

- Driven by stable Q1, FY19 earnings, easing asset quality concerns for some key banks and fading trade & geopolitical tensions, etc., Indian stock markets are back at their record highs recently after nearly six months.
- According to some experts, underperformance of competing asset classes like real estate & bullion have been supporting capital flows into Indian equities. The last week witnessed returning of FII flows into equities.
- However, current valuations have made Indian equities vulnerable to negative surprises, if any like a sudden shock from the oil economy or a local political risk, etc.

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9. **Brent crude at $75.12 per bbl on July 30, 2018**

- Global crude oil prices took a breather in the second half of July, but the price correction may have been a temporary reprieve rather than the start of another downturn, warn experts.
- Part of the reason that crude prices sank so sharply in mid-July was because of a wave of liquidation by hedge funds and other money managers, selling off their bullish positions in crude futures.
- But the big driver in determining the balance in the physical market will be how much oil from Iran is lost due to US sanctions and that means that the Trump administration will have a lot of influence over what happens next.

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