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## 1. Global economic briefs

- Fed Chair Janet Yellen said last week that the Fed's plan to raise US interest rates gradually are aimed at sustaining full employment and near 2% inflation without letting the economy overheat. Unemployment, at 4.5%, is now a little bit below the jobless rate that most Fed officials think signals full employment, and inflation is "reasonably close" to the Fed's 2% goal, she said.
- However, the data released subsequently showed that core CPI index for the US dropped by the most in Mar-17. Retail sales too dropped in Mar-17 for a second month. A further cooling of price pressures and modest household demand would raise questions about whether the economy could withstand a mid-year move by the Fed to lift borrowing costs.
- Britain is expected to radically overhaul agricultural policy after it leaves the EU and the bloc may have to make changes too when it loses Britain's net contributions to the region's farming budget. For the first time in decades, farmers in Britain will have to fight for a slice of government funds with departments such as health and education once Brussels hands over the purse strings for farming budgets to London.
- Brazil's President Michel Temer wants low inflation to be the legacy of his presidency and aims to cut the official target despite pressure from allies to prioritize growth ahead of elections next year, two close aides told Reuters.
- Chinese economy grew 6.9% (y-o-y) in Q1, 2017 – faster than market expectations, as higher government spending and a frenzied property market fuelled a construction boom. China's steel output too rose by 1.8% in Mar-17 to a monthly record of 72 mln tns. Also, China has issued a flurry of measures to tame its red-hot property market, including restricting home sales by buyers and tightening mortgage checks.
- Germany's CPI inflation at 1.5% (y-o-y) in Mar-17 marked the first slowdown in annual inflation in nearly a year.
- Almost a decade after the world economy was hit by financial crisis, the global recovery has finally become "broad-based and stable", according to a tracking index by the Brookings Institution and the Financial Times. But fear remains that political uncertainty could yet throw countries off course.
- World trade is on track to expand by 2.4% in 2017, though there is "deep uncertainty" about economic and policy developments, particularly in the US, the World Trade Organization (WTO) said last week.

## 2. India: Agriculture and rural economic news

- Indian government's wheat procurement rose by 6% to 3.8 mln tn during 1-12 Apr, 2017 on year. The Centre might reach its 33 mln tn wheat procurement target for FY18 well on time, as per the reports. The government has estimated wheat production at a record high of 96 mln tn for FY18 on account of good sowing & favourable weather.
- India's agriculture ministry in consultation with the Niti Aayog has identified a set of nine marketing reforms to ensure remunerative prices to farmers for their produce by reducing intervention of middlemen. The measures are likely to be in place by Jul-17 and are considered one of the key steps in doubling farmers' income by 2022.
- The identified reform measures for Indian farmers include integration of market to e-NAM (national agricultural market) within the shortest possible time, exempting trees grown by farmers on private land from felling & transit regulation, unified trading licence and a single point levy of market fee as well as setting up of agricultural markets in the private sector.

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### 3. India's overall economic & policy developments

- India's CPI and WPI inflation prints came in at softer levels of 3.8% and 5.7% in Mar-17. While CPI eased on softer food and core prices, WPI moderated on softer non-food prices and a favourable statistical base. Given that the RBI has moved to a more stringent inflation target of 4% (in CPI), we do not expect any more rate cuts in the current cycle. At the same time, we do not expect any rate hikes either in 2017, given the fragile nature of economic recovery. We expect the RBI to focus more on liquidity management (through reverse repos of long tenor) rather than any rate action during 2017.
- According to the RBI reports, the digital payments through the mobile-based national payment system, Unified Payments Interface, increased in the post demonetisation period – by nearly 20% to Rs 20 bln in Mar-17 versus Rs 16.6 bln in Jan-17.
- Indian government has slashed the provident fund rate for the year FY17 from 8.8% to 8.6%. However, loyalty cum life benefit would be provided to all subscribers who have contributed to the scheme for 20 years or more on retirement.
- As per the new guidelines issued by the RBI, the struggling banks operating in India may be pushed to wind up or merge with rivals if their respective capital levels slip below the set ratios. The new framework would apply to all banks operating in India, including foreign lenders. Along with the capital levels, the guidelines will also assess a bank's asset quality, profitability & debt levels.
- India's export growth accelerated to 27.6% (y-o-y) in Mar-17 versus 17.5% in Feb-17, driven by both oil and non-oil based exports. However imports grew much faster by 45.3%, driven by a sharp pick-up in oil imports followed by non-oil imports. As a result trade deficit widened to $10.4 bln in Mar-17 from 8.9 bln in Feb-17.
- Indian government appointed committee on reviewing the Fiscal Responsibility & Budget management (FRBM) Act has suggested cutting the Centre's fiscal deficit to 2.5% of GDP by 2023, adopting debt-to-GDP ratio as a new anchor of fiscal policy along with the deficit, and setting up an autonomous fiscal council. The committee, chaired by former Revenue Secretary N. K. Singh, suggested setting up a fiscal council as an autonomous body under the finance ministry, and comprising a chairman and two members.
- According to RBI, Indian banks loans and deposits rose by 5.1% and 11.8% on year respectively, as on Mar 31, 2017. While outstanding loans grew by Rs 3.16 trln to Rs 78.82 trln in the two weeks to Mar 31, aggregate deposits rose by Rs 2.63 trln to Rs 108.05 trln. A sudden jump in credit disbursements in the last fortnight of FY2017 primarily reflects the last mile effort by banks to shore up their balance-sheets, which may not sustain for very long.
- India's Broad Money Supply, i.e., M3 growth stood at 7.3 % (y-o-y), as on Mar 31, 2017 (versus 10.0% a year ago), as currency with the public is down by 20.8% (y-o-y) as on Mar 31$^{st}$.
- India's foreign exchange reserves fell by $956.4 mln to $369 bln as of Apr 7, 2017 versus an increase of $2.02 bln in the previous week to a high of $369.95 bln. India's FER had touched an all-time high of $371.99 bln in the week ended Sept 30, 2016.

### 4. India's industrial & services sectors scenario

- Bangladesh is looking to open more trade channels with India and its Prime Minister in her four-day visit to India has called upon Indian industry houses to invest in Bangladesh's infrastructure projects – power & energy, transport, manufacturing, food & agricultural processing sectors to take bilateral relations to the next level.

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- Speculation is rife that India's government is planning to sell 5 to 10% stake in various public sector entities including Steel Authority of India Limited, Rural Electrification Corporation, Power Finance Corp, NLC India Limited, Indian Oil Corporation and NHPC through the route of offer for sale.
- The pick-up in India's exports in recent months is pretty broad-based as exports of engineering goods, agriculture products, gems & jewellery, textiles and pharmaceuticals have been increasing richly in recent months. By destination, data for Jan-Feb showed that exports to the Euro area and Asia ex-Japan, including China, have been surging, while those to the US and Middle East remain weaker.
- India's industrial production contracted by 1.2% in Feb-17 versus 3.3% growth in Jan-17 reflecting weakness across both capital and consumer goods. The weakest growth was reported by consumer non-durables reflecting a fragile rural consumption sentiment post demonetisation.

## 5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.94% last week versus 5.85% in the previous week – reflecting a marginal rise on week on week basis. Call rates are still lower than the repo rate, as the "reversal of earlier held reverse repos" has been aiding liquidity.
- Average daily fixed rate repo borrowing of banks fell from Rs 13.07 bln in the previous week to Rs 10.09 bln in the week under review (Apr 10-14). Average daily borrowing under MSF, however significantly increased to Rs 28.19 bln last week from Rs 2.46 bln in the previous week.
- While 91-day T-bill rate moved in the wide band of 5.77% to 5.93% during last week; 364-day T-bill rate moved in the range of 6.14 %-6.18% - reflecting some hardening (5 bps on an average) post the announcement of monetary policy that narrowed the corridor for policy rates.
- Three-month CP rate hovered in the band of 6.73% to 6.75% last week, reflecting an average increase of seven basis points over the previous week.
- Liquidity in the Indian banking system is seen in the surplus of Rs 4 -4.5 trln at the moment, which the RBI is sucking out through multiple variable rate reverse repos and T-bills under the MSS.

## 6. Subdued sentiment for Indian G-Sec due to upcoming TB auctions

- Indian sovereign benchmark bond yield ended at 6.82% last week – flattish over its closing value in the previous week. However, the yields had hardened to 6.87% on Monday (Apr 10) ahead of the release of CPI inflation print.
- However, yields fell noticeably on Apr 12$^{th}$, driven by lower than expected CPI print for Mar-17.
- Gilts are down today (~6.83-6.84%) on RBI's announcement on Apr 13$^{th}$ to auction T-bills (amounting to Rs 250 bln) today under the market stabilization scheme.
- Appetite for dated Govt securities remains subdued following the RBI's announcement to auction treasury bills last Thursday. Ten year benchmark paper may lag behind other papers as the RBI is likely to announce a new 10-year benchmark bond in the next couple of weeks.

## 7. INR expected to weaken on global risk aversion

- INR depreciated by 0.2% last week to 64.41 per US dollar on rising geo-political tensions, along with disappointing industrial production growth numbers and massive outflows of foreign funds.

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- According to experts, the global markets stayed in risk aversion mode driven by the geo-political risks emanating mainly from North Korea. Besides the Trump's comments that US dollar is getting too strong marred the sentiment.
- FX traders see not much FPI inflows coming to India due to risk aversion towards EM assets. The US dollar is perceived to be "oversold" against the rupee and traders are now looking at a reversal in the Indian unit.

## 8. Q4 results, geo-political tensions to guide equity markets this week

- Global markets were mixed last week due to uncertainties created by the US attack over Syria, escalating fears of a new weapons test by North Korea and tightening polls in French presidential election.
- The US dollar and Treasury yields tumbled on April 13th on the US President Donald Trump's comments favouring lower interest rates. The US markets were down 0.3% last week. Crude too was up by 1.3% last week.
- The BSE Sensex was down by 0.8% last week, pulled down by capital goods, consumer durables, auto, metals & IT stocks.
- Currently, Indian equity markets are facing a plethora of uncertainties due to geo-political events, India's volatile macro numbers, lower revenue guidance from IT majors, fluctuations in crude oil prices, etc. The investors will closely watch the FII inflows in the coming week.

## 9. Brent crude settled at $55.89 per bbl on Apr 13, 2017

- Crude oil futures fell slightly in quiet trading today, after a three-day Easter break, as investors digested a third consecutive weekly gain in prices along with North Korea's failed missile launch on Sunday (Apr 16).
- Benchmark Brent crude futures were down 18 cents 55.71 on April 17th in Asia. On Apr 13th, before the break closed most major markets, they settled up 3 cents at $55.89 a barrel.

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