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1. Global economic briefs

- The minutes of the July 25-26 Fed meeting showed that the Fed policymakers are increasingly wary about recent weak inflation. Some even called for halting interest rate hikes until it was clear the trend was transitory. The Fed's preferred inflation measure dropped to 1.5% in Jun-17 from 1.8% in Feb-17 and has remained below its 2.0% target for more than five years.
- Euro zone's GDP expanded by 0.6% in Q2, 2017 sequentially and the annual figure was upgraded to 2.2%, compared to 2.1%, estimated previously. Compared to Q1, 2017, economic growth was strongest in the Netherlands and Latvia, with the Spanish economy also growing above average. While the German economy expanded at the same pace as the Euro zone average in Q2, France, and Italy lagged slightly behind.
- According to the British Chambers of Commerce, the UK exporters' confidence has softened slightly, due to concerns about currency fluctuations and a shortage of skilled workers. Official data too showed Britain's trade deficit in goods and services was its widest in nine months in Jun-17, contrasting with most business surveys which have painted a much more upbeat picture.
- Japan's exports rose for an eighth straight month in Jul-17 on robust shipments to the US and a boost from a weak yen, suggesting the economy is carrying strong momentum through to the second half of the year. This is consistent with the BOJ's view that Japanese economy is showing increasing signs of strength as private consumption is adding momentum to an export-led recovery.
- The US and Japan agreed last week (Aug 17) to speed up talks on bilateral trade issues and explore ways to strengthen trade ties, according to the US Trade Representative's office. This is seven months after President Trump pulled out of a Pacific Rim trade deal that included Japan.
- North Korea has warned of a "Second Korean War" if the US and South Korea go ahead with the annual Ulchi-Freedom Guardian military exercises, which are scheduled to begin from today and run until Aug. 31.
- IMF has cautioned that China's huge debt pile could be the trigger for the next financial crisis as "borrowings" reach unsustainable levels. According to IMF, credit to the non-financial sector in China has doubled in the past five years and its credit-GDP ratio jumped to 230% in 2016.
- The Fed Chair Janet Yellen and ECB President Mario Draghi will be among the officials addressing the annual Jackson Hole conference this week, to be hosted by the Kansas City Fed. The summit comes as central banks in advanced economies creep toward the policy exit after years of unprecedented easing, even when the outlooks are clouded by stubbornly tepid inflation.
- Global markets witnessed heightened volatility last week due to a terrorist attack in Barcelona, followed by more attacks in Finland and on news of joint US-South Korea military exercises from today.

2. India: Agriculture and rural economic news

- Cumulative monsoon rainfall for India as a whole has been normal and stood at -5% of its long period average until yesterday (20 Aug). However, its geographic distribution continued to stay skewed. Until Aug 20th, the meteorological subdivisions that have received deficient rains are – Nagaland & Manipur of East & North-East India; UP, Haryana, Chandigarh & Delhi of North-West India; MP & Goa of Central India and Karnataka & Kerala of South Peninsula.
- The South-West monsoon was unusually weak in the first two weeks of August. However, it has now entered into an active phase and the weather department expects things to improve in a big way in the next 10-12 days, especially over those parts that have received less rains.

- Indian agriculture ministry's data show during FY18 kharif (summer) crop season so far, farmers have planted 97.6 mln ha under different crops, about 0.8% lower than the last year. **However, overall planting is 2.9% higher than the normal or five-year average.**
- While the area under arhar (a commonly consumed lentil variety in India) is 18% lower (y-o-y), overall area under pulses is lower by 3.5%, y-o-y. Area under coarse grains like jowar is lower by 15% while that of ragi, a popular millet grown in southern states like Karnataka, which is reeling under the fourth consecutive year of deficit rains, is 25% lower (y-o-y).
- India's water storage levels remained lower than year ago levels during the week-ended 17th Aug. **Live storage in 91 important reservoirs in India was 75.694 BCM, which is 48.0% of total live storage capacity of these reservoirs. This storage level is 79.0% of the storage of corresponding period of last year and 82.0% of the average of last ten years.**

3. India's overall economic & policy developments

- India's headline CPI inflation was at 2.4% in Jul-17 versus 1.5% in the previous month and the increase reflected the impact of seasonal spikes in vegetable prices and the GST. The WPI inflation too rose to 1.9% in Jul-17 from 0.9% in June, **on higher vegetable prices & GST-related spikes in manufactured product prices.**
- **However, India's industrial production growth came in at -0.1% in Jun-17 compared to 1.7% in May-17 primarily on the back of a sharp contraction in capital goods production and destocking plus reduction in production by factories ahead of the GST implementation from July 1st.**
- India's exports growth also decelerated further to 3.9% in Jul-17 from 4.1% in Jun-17, **led by rising rupee. Exports of major items like gems & jewellery, drugs & pharmaceuticals, carpets & RMG including textiles further declined. At the same time, imports rose at a higher clip of 15.4%, primarily driven by gold imports. As a result, trade deficit ballooned to \$11.4 bln, up 47% (y-o-y).**
- Gross NPAs of 37 listed banks from India rose by 31.9% (y-o-y) to touch an all-time high of Rs.7.8 trln by end-June, 2017. **On a sequential basis, gross NPAs rose by 9.5% against the 0.9% fall seen in the March quarter.**
- According to RBI, Indian banks loans and deposits rose at the pace of 6.3% and 10.8% on year respectively, as on Aug 4, 2017. **While outstanding loans increased by Rs 1.12 trln to Rs 77.30 trln in the two weeks to Aug 4, aggregate deposits rose by Rs 1.99 trln to Rs 107.58 trln, clearly reflecting the quarter-end effort by banks to shore up their balance-sheets. The Credit-Deposit ratio fell to 71.85% as on Aug 4 versus 72.15% as on July 21.**
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.1 % (y-o-y), as on July 21, 2017 **(versus 10.1% a year ago) primarily led by lesser currency in circulation with public (still down by 11.6%, y-o-y).**
- India's foreign exchange reserves rose further by \$163.8 mln to reach an all-time high level of \$393.6 bln in the week to August 11, helped by a continuous increase in foreign currency assets, as per the latest RBI data. **While the Special Drawing Rights with the IMF fell by \$5.8 mln to \$1.5 bln, gold reserves remained unchanged at \$19.9 bln.**

4. India's industrial & services sectors scenario

- According to the CMIE's corporate earnings analysis based on the sample of 2,059 listed companies, corporate sector recorded a 10.3% growth in net sales during Q1, FY18 but a 9.6% decline in net profits after a gap of three quarters. **The fall in profits was mainly led by manufacturing companies due to a sharp rise in raw material and fuel expenses.**

- India's government raised import duty on edible oils on 11th Aug to protect domestic oilseed producers from inexpensive edible oil imports. **Duty on imports of crude palm oils was doubled to 15.0% while that on refined palm oils was hiked by 10.0% to 25.0%. Duty on crude soyabean oil imports was raised to by five per cent to 17.5%.**
- According to Indian government's mid-year Economic Survey released on Aug 11th, UDAY scheme cannot cure debt-stressed discoms unless there is a timely revision of tariffs by these discoms.
- **The Indian Bank's Association has sought the power ministry's intervention to ensure that electricity tariffs are not revised downwards. Cancellation/renegotiation of power purchase agreement (PPA) is contrary to basic premise of long-term loans provided on the PPA at fixed price. State governments renegotiating PPAs with the state distribution companies could render projects unviable and the underlying loans may not be serviced. This can lead to a rise in bad loans, warns the IBA.**
- Import of coal saw a decline of 6.4% to 191.95 mt in India during FY17, on higher production by CIL that saw the country move to a regime of surplus coal. **Comparatively, in the previous fiscal, coal imports stood at 203.95 mt, as per official data by the government.**

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.83% last week (Aug 14-18) versus 5.89% in the week earlier (Aug 7-11) on continuation of surplus liquidity.
- **While 91-day T-bill rate moved in the band of 6.11% to 6.12% last week, 364-day T-bill rate moved in the range of 6.22%-6.23%. On an average, the yield stayed at the same level for 91-D TBs but increased by 2 bps on 364-D TBs.**
- **Three-month CP rate hovered at the level of 6.55% and the yield fell by 2 bps (on an average) last week.**
- Persistence of liquidity overhang continues to remain an area of concern for the RBI amid high valuations in the fixed income markets.

6. Benchmark G-Sec yield to harden further

- **Yield on the 10-year benchmark GOI paper stayed flattish at 6.51% last week after rising sharply during the interim, on the back of a more than expected increase in the headline CPI print for Jul-17 and the release of the Aug MPC minutes that reflected a cautious tone.**
- **Benchmark 10-year yields have settled above 6.50% & market participants are now waiting for fresh triggers for new positions, say the experts.**
- Currently, Indian bond markets are weighing under the pressures of geo-political tensions. Investors are also focusing on the Jackson Hole Fed conference this week. G-Sec traders see benchmark yield settling near 6.55% in the near future. For optimists, this may open up space for further buying.

7. Need to stay cautious on INR

- **INR stayed nearly flattish at the end of last week at 64.14-15 per US dollar. However, it fell against the US dollar for six consecutive days as a result of the investors' move to dump emerging market currencies.**
- **Besides escalating tensions between the US & North Korea, the INR selling reflected jitters over a potential military conflict between India & China.**

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- According to FX experts, one needs to watch how risk aversion plays out in the risky segments of financial markets. Hence, they prefer to remain cautious on the INR.

8. Indian stocks to be driven by global cues this week

- Global markets stayed volatile last week ahead of the release of the minutes of the US Fed meeting.
- Minutes reflected the US policymakers' concerns over the recent weaknesses in inflation. Also, there are genuine worries about Mr Trump's ability to introduce pro-growth policies.
- Back home, Sensex gained 1% during the past week. While, BSE Small Cap and BSE Mid Cap index posted hefty gains of 3.9% and 3.3% during the week, Vishal Sikka's resignation as CEO of Infosys dragged the benchmark index on Friday (Aug 18) as the index corrected by 0.8%.
- As earnings season is almost over, global cues & direction of foreign funds' flows are expected to affect the movement of key equity indices during this week in India.

9. Brent crude near \$52.43 per bbl in Asian trade on Aug 21, 2017

- Global crude oil prices fell today in the Asian trade as a rally at the end of last week prompted investors to close positions at a higher price, against a backdrop of signs the global market is starting to rebalance.
- According to a senior energy economist at ABN Amro, market players are currently seeing some profit-taking after Friday's (Aug 18) strong rally ahead of this week's inventory data.
- Fresh uncertainty about inventories and OPEC compliance (with agreed production cuts) could be enough reason to sell some of the long positions.

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