Weekly Macro Perspectives

February 13, 2018

L&T Financial Services

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1. Global economic briefs

- Last week, Bank of England's (BOE) Governor while announcing an upward revision in growth projections for the UK economy said it will be necessary to raise interest rates to a limited degree in a gradual process but somewhat earlier and to a somewhat greater extent than what was thought earlier in Nov-17. However, the Chief Economist of BOE clarified yesterday that interest rate hikes need not be very aggressive.
- Meanwhile a Survey showed that British shoppers spent less in Jan-18 causing spending in January fall for the first time since 2013. A survey by Visa, whose debit and credit cards are used for a third of payments in Britain, showed that consumers stayed away from the traditional post-Christmas sales in Jan-18. Household spending fell by 1.2% this month (y-o-y), with spending in shops down by 4%.
- Dallas Fed President said last week that the recent stock market rout should not force the US Federal Reserve to pause with interest rate hikes, and three increases this year remain the base case scenario.
- Additionally, the ECB said it could revisit its communication stance in early 2018, boosting expectations that policymakers are preparing to reduce their vast monetary stimulus programme.
- Inflation in China (both producer price and retail) eased as expected in Jan-18, supporting the view that the Chinese economy is slowly starting to lose momentum after forecast-beating growth of 6.9% in 2017.
- According to Reuters news, Australia's big banks are responding to a revenue crunch by cutting jobs and other costs, prompting fears on the eve of a regulatory inquiry into their businesses that the industry's tarnished reputation is about to take another hit.
- The weakness in global stocks over the last few days was triggered by fears that interest rates could climb faster than expected. However, major money managers like Credit Suisse, Fidelity & Deutsche Bank have sought to calm investors as fundamentals underpinning strong global growth persist. Given that markets have rallied for most of last year, the current slide in share prices is merely a much-awaited dip in a long-running climb, said the major investment firms.
- This week will feature inflation readings from the US & UK, while Japan is expected to report that the nation ended 2017 with an eighth straight quarter of economic growth.

2. India: Agriculture and rural economic news

- Total area sown under India's Rabi (winter) crops touched 64.29 mln ha by Feb 9th – lower by 0.8% (y-o-y). While sowing under rice & pulses is up 16.7% and 5.3% (y-o-y0, respectively, that under oilseeds, wheat & coarse cereals is down by 4.7%, 4.3% & 1.4%, respectively.
- Rabi crops like wheat are likely to be affected more in un-irrigated areas than irrigated ones like Punjab, Haryana & Western UP.
- Hailstorm over central regions of Maharashtra – Marathwada & parts of Vidarbha has severely damaged crops like grapes, cotton, green gram & wheat, among others. Also, a sizeable loss of cattle & poultry has been reported in these regions. In fact, the weather department (IMD) had issued an advisory on a likely hailstorm a few weeks ago, taking note of which the State government had alerted farmers.
- On Feb 12, Chief Minister of India' State – Rajasthan announced one-time loan waiver of up to Rs 50,000 for small & marginal farmers in the state, which may cost Rs 80 bln to the exchequer. The State also plans to set up a farmer loan relief commission, where farmers can approach and present their side for getting relief on merit basis.

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3. India's overall economic & policy developments

- In its Monetary Policy, the RBI kept Repo rate unchanged at 6%. The MPC had last cut the Repo rate by 25 bps in Aug-17. As for inflation, the RBI has raised the range for H1, 2018 primarily citing the unfavourable base effect and uncertainty in oil prices.
- India retail inflation eased to 5.07% in Jan-18 (our estimate: 5.37%, consensus: 5.1%) from 5.21% in Dec-17 primarily led by a sequential decline in food prices and flattish level of fuel prices. The month-on-month increase in consumer prices is steadily narrowing since Nov-17. However, an unfavourable statistical base will keep CPI print elevated ~ 5.0-5.2%.
- India's central government has released Rs 99.40 bln to the states so far for the Smart Cities Mission, with Maharashtra accounting for the highest amount of Rs 13.78 bln, followed by Madhya Pradesh getting Rs 9.84 bln, according to government data. India's Housing and Urban Affairs Ministry has announced 99 cities for central assistance under the Government's flagship programme and the total proposed investment in these cities was Rs 2.03 trln.
- India's external debt has remained within manageable limits as indicated by the external debt indicators, and the country is not among the world's top debtors, as per the government's statement. In a written reply to its lower house, India's minister of state for finance said that India's external debt stock stood at US $495.7 bln at quarter ending Sept-17. India's rank stood at 26th position in quarter ending Jun-17.
- Foreign investment inflows to India rose to $4 bln in Dec-17 from $1.3 bln in Nov-17. Net FDI inflows stood at $4.3 bln against outflows of $1.3 bln in Nov-17. Net portfolio investments recorded outflows of $0.4 bln in Dec-17 after recording inflows of $ 2.7 bln in the preceding month.
- As per the latest analysis by Care Ratings, the performance of Indian banks continues to be stressed in Q3, FY18 based on the sample of 30 banks (13 PSBs & 17 Pvt banks). Profits of these banks are under stress due to a sharp increase in provisioning requirements on account of mark-to-market losses on investment portfolio and continued increase in gross non performing loans.
- According to RBI, Indian banks loans and deposits rose at the pace of 10.6% and 5.1% on year respectively, as on Jan 19, 2018. While outstanding loans declined by Rs 372.9 bln to Rs 81.71 trln in the two weeks to Jan 19, aggregate deposits declined by Rs 195.5 bln to Rs 109.78 trln. As a result, the average Credit-Deposit ratio marginally dipped in the last reported fortnight to 74.43% as on Jan 19th from 74.64% as on Jan 12th.
- India's Broad Money Supply, i.e., M3 growth continued to improve to 10.8% (y-o-y), as on Jan 19, 2018 (versus 6.0% a year ago) thanks to a noticeable pick up in bank credit to commercial sector in recent months and an increase in foreign exchange assets of the banking industry. But "cash withdrawals" from banks too have picked up significantly in recent months. Between Mar 31st and Jan 19, "Currency with the Public" has grown from Rs 12.64 trln to Rs 16.60 trln reflecting an increase of Rs 3.96 trln. However, during the past one year, term deposit growth has significantly decelerated from 11.5% to 4.8%.
- India's "foreign exchange reserves" further swelled by $4.13 bln to $421.91 bln on a healthy increase in the core currency assets and uptick in the gold stock. There has been a continuous surge in India's foreign exchange reserves since the start of this year for the fifth straight week.

4. India's industrial & services sectors scenario

- The demand for coal in India, as a source of primary energy, shall expand until 2030, as per the report 'Coal Vision 2030'. The report says that the growth in demand for fossil fuel coal from the non-regulated sector is expected to be much higher than the regulated sector like power.

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- Encouragingly, India's PMI prints came in stronger than their five year averages for both manufacturing & services for two straight months – Dec-17 and Jan-18. The same is true for overall new order indices, where manufacturing is leading the way even as services recover. Manufacturing new export orders continued to gain strength, improving the outlook for export growth in the coming months.
- India's factory output expanded at the pace of 7.1% in Dec-17 (our estimate: 7.1%, consensus: 6.1%) primarily on the back of robust growth in manufacturing sector that is partly contributed by a favourable statistical base. In cumulative terms, the industries that have shown good growth momentum in the first nine months of FY18 are – machinery & equipments, transport equipments, computer & electronic products, basic metals, food products & leather products.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.88% last week (Feb 5-9) versus 5.84% in the week earlier (Jan 29-Feb 2), as liquidity in the banking system stayed comfortable.
- While 91-day T-bill rate moved in the band of 6.37% to 6.41% last week, 364-day T-bill rate moved in the range of 6.55%-6.59%. On an average, while the yield on 91-D TB fell by a basis point, that on 364-D TB increased by a bp.
- Three-month CP rate averaged at 7.78% last week. The average yield on this instrument too hardened marginally by a basis point last week.
- Currently, liquidity in the banking system is estimated at a surplus of Rs 160 billion. The interbank call money market is closed today on account of Mahashivrathri.

6. Indian government bonds vulnerable to the US treasury yields

- The 10-year GOI benchmark yield closed at 7.49% last week (Feb 9) and at 7.50% yesterday (Feb 12).
- Indian government bond yields moved some 20 to 25 bps lower post the Monetary Policy announcement last week (Feb 7), as tone of the policy was much less hawkish than expected by market participants.
- According to experts, bank results for the quarter Q3, FY18 showed large trading losses and yields currently are higher than the levels at end of Q3, FY18. So, there is a possibility of more trading stresses in Q4 unless a strong reversal happens.
- Moreover, despite comfortable liquidity, banks have started raising deposit rates, which may put upside pressure on lending (MCLR) rates.
- According to the G-Sec traders, government bond yields will remain vulnerable to any sharp movement in crude oil prices or the US treasury yields. As US CPI inflation print for Jan-18 is expected to be on the higher side, traders are expecting a surge in bond yields across the globe.

7. Bearish outlook for INR

- INR depreciated by 0.5% to 64.40 per US dollar last week as the global risk-off sentiment triggered by the expectations of rising US inflation prompted market participants to exit their holdings from global equity markets.
- Additionally, purchases of dollars by importers of oil & other commodities at lower dollar/rupee levels weighed on the Indian currency.

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- But rupee ended higher yesterday & settled at 64.31 on the support of sale of dollars by some exporters and FPI inflows into Aster DM Healthcare's initial public offering.
- According to FX experts, the bias in INR will remain bearish, as the US dollar index is looking strong. A sharp fall of INR below 64 has increased the possibility that it would weaken towards 66 in the coming weeks over the medium-term.

8. Indian equities seen more volatile

- In the past few weeks, a massive sell-off in the global markets has pulled the Indian equity indices deep into the red. According to securities market regulator Sebi's Chairman, Indian stock market volatility "may continue" for some more time due to global factors.
- Fortunately, Indian stocks ended higher yesterday, helped by a bounce-back in most equity markets globally along with robust Oct-Dec performance of some index majors.
- While worries over the return of the long-term capital gains tax, a global selloff sparked by hardening bond yields and short-term hiccups in the macro outlook for India have taken the sheen off domestic equities, domestic institutional investors have been supporting Indian stocks. Experts expect stocks to stay volatile in the coming weeks responding to global cues, domestic macro numbers and Q3 earnings.

9. Brent crude at $62.74 per bbl today (Feb 13)

- Crude oil prices turned higher today (Feb 13), helped by a rebound in global equity markets and as investors turned their attention to the upcoming US supply data this week.
- Brent oil for April delivery on the ICE Futures Exchange in London gained 15 cents or about 0.24% to $62.74 a barrel today (Feb 13), after falling to a two-month trough of $61.77 on Friday (Feb 9).
- Oil markets rose as global equity markets began to recover yesterday (Feb 12) from last week's steep losses. The US markets were especially boosted by news yesterday of a $1.5 mln infrastructure plan by the Trump administration. This week, market participants are awaiting weekly information on the US stockpiles of crude and refined products on Feb 13-14.

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