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1. Global economic briefs

- The global economy is set to grow by almost 4% in 2018 in purchasing power parity (PPP) terms, adding an extra $5 trln to global output at current values, according to new projections in Price Water House Coopers International (PwC)'s Global Economy Watch.
- According to a quarterly survey by China Beige Book International, Chinese industrial firms continued to ramp up production in Oct-Dec, 2017 but growth in wages and hiring slowed in a further sign of cooling momentum.
- Even factory growth quickened for China in Dec-17 to four-month high (51.5) as per the Caixin PMI print but confidence levels remained subdued as manufacturers continued to shed staff in Dec-17 amid a surge in raw material costs.
- According to Reuters, Asia's factories ended a strong 2017 on a mixed note, with activity at multi-year highs in some countries like Taiwan and surprisingly picking up in China, but contracting in some other places in a sign regional interest rate hikes will perhaps be gradual.
- China's central bank lifted its official yuan midpoint to the highest level in over 1-1/2 years to 6.4920 per dollar today (Jan 3), breaching a key threshold, reflecting broad dollar weakness and solid spot yuan performance.
- A surge in CPI inflation in Germany in Dec-17 may sow the seeds of more discord among rate setters at the European Central Bank (ECB), where some policymakers wish to arrest pumping more money into the Euro zone.
- North Korean leader Kim Jong Un declared North Korea "a peace-loving and responsible nuclear power" in his annual New Year's Day address on Monday (Jan 1), as per the Reuter's report. The leader also said the US should be aware that his country's nuclear forces are now a reality, not a threat, but claimed that he was "open to dialogue" with Seoul.
- The US ambassador to the UN warned North Korea yesterday (Jan 2) against staging another missile test and said Washington would not take any talks between North and South Korea seriously if they did not do something to get Pyongyang to give up its nuclear weapons.
- According to experts, the US economy is poised for continued growth in 2018. However, a potential conflict with North Korea and the deep state war against the President's agenda can weaken the prospects.
- Germany's Bavarian conservatives are pressing for corporate tax cuts and cuts to welfare payments for asylum seekers, which could complicate talks with the Social Democrats (SPD) on forming a new government.

2. India: Agriculture and rural economic news

- After recording marginally higher sown area on year on year basis under Rabi crops in India for the past two weeks, the overall sown area dipped again on December 29th. But farmers' efforts to bring in increasingly more area under pulses have kept hopes alive for a good farm production during the crop year FY18.
- Deficient monsoon rainfall in two major wheat growing states of India – UP and MP have resulted in less soil moisture in these states and therefore, farmers in these states are choosing pulses over wheat for sowing in the Rabi season.
- According to officials who track the sowing operations, the marginal dip in overall sown area under Rabi crops is not a sign of worry as Indian farmers still have three-four weeks of sowing operation left for different crops.
- To protect farmers from price risks and provide incentives to buyers to procure produce directly from farmers, India's ministry of agriculture has drafted a model contract farming act that states can adopt as per their needs. The model act provides a framework for determining the pre-agreed quantity, quality and price of farm

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produce between farmer and sponsoring companies and seeks to 'transfer the risk of post-harvest market unpredictability from the former to the latter.'

3. India's overall economic & policy developments

- Indian government's fiscal deficit widened to Rs 6,121 bln during Apr-Nov, FY18, accounting for 112% of the Budget estimate for the current financial year, as revenue generation was only at 53% of the full-year target. This has increased the risk of the government breaching its fiscal deficit target of 3.2% of GDP for the current financial year.
- Earlier last week, India's government announced that it will borrow Rs 500 bln more this fiscal year in long-term funds through government securities, which analysts said may raise the fiscal deficit by 30 bps to 3.5% of GDP for FY18. However, the finance ministry said the government will not be raising any net additional borrowing between now and Mar-18, as it plans to trim its short-term borrowing programme.
- India's retail inflation for industrial workers (CPI-IW) rose to 3.97% in Nov-17 on the back of the surge in prices of food items, kerosene and cooking gas.
- Reversal of crude oil cycle is bad for India, as ongoing protests in Iran have led to a hardening of crude prices to levels last seen in mid-2015. Threats of supply disruption caused by political trouble may add to upside pressures due to supply cuts agreed upon by other OPEC members and Russia.
- Indian exporters are reeling under pressure on account of non-payment of tax refunds and procedural glitches since the implementation of GST, as per a media report. According to exporters, refunds worth Rs 500 bln are yet to be released by the Centre and state governments.
- Indian banks have decided to refer 25 out of 28 companies on the RBI's second list of corporate defaulters to National Company Law Tribunal (NCLT) to initiate insolvency proceedings.
- In line with its promise to clean up the political funding system, India's government unveiled the contours of the 'Electoral Bonds' scheme on January 2nd, which seeks to ensure the flow of clean money to political parties, without revealing the donors' names.
- According to RBI, Indian banks loans and deposits rose at the pace of 9.8% and 3.3% on year respectively, as on Dec 8, 2017. While outstanding loans increased by Rs 647.9 bln to Rs 80.27 trln in the two weeks to Dec 8, aggregate deposits rose by Rs 555.1 bln to Rs 109.02 trln. As a result, the average Credit-Deposit ratio marginally improved in a fortnight to 73.63% as on Dec 8th from 73.41% as on Nov 24th.
- India's Broad Money Supply, i.e., M3 growth improved to 9.9% (y-o-y), as on Dec 8, 2017 (versus 6.8% a year ago) thanks to a noticeable pick up in bank credit to commercial sector in recent months. "Cash withdrawals" from banks too have picked up significantly in recent months. Between Mar 31st and Dec 8, "Currency with the Public" has grown from Rs 12.64 trln to Rs 16.06 trln reflecting an increase of Rs 3.42 trln. However, during the past one year, term deposit growth has significantly decelerated from 13.8% to 3.2%.
- India's "foreign exchange reserves" further increased by $3.54 bln to $404.92 bln in the latest reported week ended Dec 22nd aided by strong capital flows into the debt markets.

4. India's industrial & services sectors scenario

- India's central government is considering disinvestment of strategically less important yet profit-making public sector undertakings (PSUs) in 2018. According to government sources, the NITI Aayog has already recommended a list of 23 PSUs for privatisation that are being reviewed by the department of investment & public asset management.

- A steep rise in output of cement and steel pushed up the growth of India's core industrial sector to a 13-month high of 6.8% in No-17 from 5% in the previous month. As per the data, there was a 17.3% rise in cement output and 16.6% increase in steel production in Nov-17 compared with a 1.3% fall and 8.4% growth, respectively in Oct-17.
- India's manufacturing PMI (purchasing managers' index) accelerated to 54.7 in Dec-17 fastest since Dec-12 on the back of steadily improving demand conditions. However, a part of the uptick was due to the continued drawdown of inventory. Profit margins continued to get squeezed as input prices rose at a faster pace than output prices.
- According to CMIE's CapEx database, 490 new investment proposals with investments worth Rs.768 billion were announced in India in Oct-Dec, FY18. These were the lowest recorded since Apr-Jun, Fy05. In fact, the announcement of new project proposals has dropped significantly in FY18.
- Indian power companies have increased their coal purchases from Coal India (CIL) during the four months ended Nov-17. They also resorted to e-auctions and imports for ensuring adequate coal supplies, according to data released by the Central Electricity Authority.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.96% last week (Dec 26-29) versus 5.99% in the week earlier (Dec 18-22), as banking sector liquidity continued to stay in surplus mode.
- While 91-day T-bill rate moved in the band of 5.96% to 6.00% last week, 364-day T-bill rate moved in the range of 6.37%-6.40%. On an average, the yields increased by four basis points on both 91-D & 364-D TBs.
- Three-month CP rate averaged at 7.03% last week. The average yield on this instrument hardened by nine basis points last week.
- At present, liquidity in the banking system is estimated to be near neutral. Today, it is ~ Rs 700 bln against a deficit of Rs 200 bln last week. Accordingly, the RBI will continue conducting variable reverse repo auctions to suck out excess funds from the system.

6. Bearishness continues in the G-Sec segment

- The 10-year GOI benchmark yield further hardened by six basis points last week from 7.27% on 22nd Dec to 7.33% on 29th December, as widening of fiscal gap and the announcement of additional market borrowings adversely impacted the sentiment.
- Benchmark yield is hovering near 7.36% today (Jan 3), as traders are offloading 10-year paper to make room for the new 10-year 2028 paper that will be auctioned on Friday (Jan 5).
- Another reason for weak G-Sec sentiment today is the sharp rise in US treasury yields yesterday.
- G-Sec traders now await the release of the states' borrowing plans for the quarter Jan-Mar, 2018 that are expected later this week. Some G-Sec traders are trimming their holdings to make space for the new 10-year 2028 bond. In short, the G-Sec sentiment continues to stay bearish on the back of fiscal concerns and lingering demand-supply issues amid several uncertainties including the future trajectory of crude prices.

7. Rally in the INR may be short-lived

- INR appreciated by 0.3% last week to close at 63.87 per US dollar amid bearish dollar sentiment. The strength of local equities also aided the INR appreciation on the last trading day of the week.

- Currently, INR is hovering near 63.50 per US dollar on weak sentiment for the US dollar. There is a general consensus in the US that the Fed will be cautious about its rate hike stance, if inflation does not rise to the targeted levels.
- INR strengthened against the US dollar for four consecutive sessions while the dollar index fell to a three-month low of 91.84.
- However, rally in INR may not last longer given that oil prices are on the rise and inflation outlook remains bleak. Since last week, Brent crude has continued to stay above the $66/barrel level.

8. Indian equities to see more volatility

- Global markets ended the final trading week of the year on a mixed note.
- Back home, benchmark indices gained marginally by 0.3% in India, driven by stocks from realty, telecom, metals, Pharma and IT sectors.
- While Indian markets are going through a big bull run, majority of analysts think the markets will remain highly volatile in the coming quarter on the back of domestic and global uncertainties. Globally, the US Fed's policy stance & the actual rate hikes, China's efforts to shut down excess capacities and the trajectory of global crude oil prices would have a decisive influence, while the factors like state election outcomes, corporate earnings, Union Budget & the RBI's policy stance would matter from the domestic arena.

9. Brent crude at $66.74 per bbl today (Jan 3, 2018) in Asian trade

- Brent crude futures LCOc1 - the international benchmark for oil prices - were at $66.74 a barrel today in the Asian trade, up 17 cents but still trailing yesterday's (Jan 2) high of $67.29 that was the most since May 2015.
- According to oil experts, multiple but temporary supply disruptions like the North Sea Forties, Libyan pipeline outages and protests across Iran have created a record speculative long bet.
- With the pipeline outages resolved and the protests in Iran showing no signs of impacting its oil production, there is a potential for a price downturn in early 2018, especially due to rising US output.

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