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1. Global economic briefs

- The US nonfarm payrolls jumped by 222,000 jobs in Jun-17, driven by hefty gains in healthcare, government, restaurants and professional and business services sectors, as per the Labor Department's statistics released on July 7th. That was the second biggest payrolls increase this year and beat economists' expectations for a 179,000 rise.
- Even the NY Fed's latest monthly survey of consumer expectations showed that consumers in the US expect to boost spending in the months ahead and voiced confidence they are more likely to find a job and less likely to lose one in a strong labor market.
- In its semi-annual report to Congress, the US Fed has said that the US economy continues to churn out jobs and grow at a steady pace, with investment and consumer confidence both healthy and only moderate signs of risk in financial markets. The release of the report on July 7th comes ahead of Fed Chair Janet Yellen's appearance on July 12-13 before the House and Senate committees that oversee the central bank and related issues.
- Nine out of 12 regional Federal Reserve banks wanted an increase in the rate commercial banks are charged for emergency loans ahead of the US central bank's last policy meeting, minutes from a discussion of the discount rate showed yesterday.
- Output by British factories and the construction sector unexpectedly shrank in May-17, on top of weak spending by consumers who are feeling the pinch from accelerating inflation since last year's Brexit vote.
- Even the optimism about the business environment among Britain's financial services firms declined during Q2, 2017, according to a survey by business lobby CBI and consultancy PwC, published yesterday. This too seems to be reflecting a mix of Brexit uncertainty and concerns that financial market conditions could tighten
- China's producer price inflation was unchanged in Jun-17 at 5.5% and remained well off highs seen earlier this year, amid lingering oversupply issues in the steel sector and as signs of economic weakness weighed on the outlook for prices. Even CPI inflation at 1.5% in Jun-17 confirmed that price pressures remained well-behaved.
- The gathering of the Group of 20 world economic powers saw the growing international isolation of the US under President Trump on July 7th, as the leaders of major world economies mounted a nearly united opposition front against Washington on issues ranging from climate to free trade.
- Japan's machinery orders tumbled 3.6% in May-17 compared to Apr-17 - after a five quarter winning streak for Japan's economy - the longest run of consecutive quarters of growth in a decade. The emerging growth picture will give the Bank of Japan's board plenty to think about when they next meet on July 19-20. The big issue for the BOJ is inflation given the core CPI rose 0.4% y-o-y in May-17. The BOJ is targeting 2% inflation.

2. India: Agriculture and rural economic news

- Cumulative monsoon rains have been 1% below average since the beginning of the rainy season in June until July 11th. However, 16% area of the country has received deficient rainfall so far.
- Subdivisions reporting deficient rainfall in cumulative terms (Jun 1 to Jul 11) are – Nagaland, Manipur, Jharkhand, Chandigarh & Kerala. The regions reporting deficient rainfall (cumulative) are – Gangetic West Bengal, Jharkhand, West MP, Vidarbha, South Interior Karnataka & Kerala.
- Total area sown under India's summer (kharif) crop touched 40.4 mln ha by 7th July – which is almost 9% higher (y-o-y). While area sown under Pulses rose by 23% (y-o-y), that under Coarse Cereals increased by 15%. However, some concerns have emerged for Cotton due to deficient rainfall in major cotton growing areas during the last three weeks.

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- According to the Chief Minister of the Indian state of Maharashtra, of the 13.4 mln farmers in the state, nine mln have availed the crop loan and the entire debt of 3.6 mln farmers having an outstanding loan of up to Rs 150,000 will be waived. Elections in the states like UP & Punjab saw both the BJP & the Congress announcing farm loan waivers and now other BJP ruled states like Maharashtra are following the same.

3. India's overall economic & policy developments

- According to India's policy think-tank – NITI Aayog, there has been a 55% increase in digital payments in the country during the financial year FY17 reflecting the impact of demonetisation.
- With the aim of boosting the inflow of foreign funds into India's capital markets, the Regulator, Securities and Exchange Board of India raised the foreign portfolio investors' investment limit in central government securities to Rs 1,877 bln last week.
- The provisional figures for India's Direct Tax collections up to Jun-17 showed that net collections stood at Rs 1.42 trln - up 14.8% (y-o-y), as per the Finance Ministry release on July 6th.
- Compared to the inflows worth \$1.2 bln during H1, 2016, the FPIs pumped in \$23 bln into the Indian capital markets during H1, 2017, expecting a more accelerated pace of reforms.
- The G20 Summit of leaders acknowledged India's efforts to popularise electronic trading platforms and the initiatives adopted for ease of doing business. In its 'Hamburg action plan', the G20 praised India for maintaining momentum on structural reforms and sustainable growth and took note of its efforts for facilitation of external commercial borrowing (ECB) by start-ups.
- According to RBI, Indian banks loans and deposits rose at the pace of 6.0% and 11.1% on year respectively, as on June 23, 2017. While outstanding loans rose by Rs 47.8 bln to Rs 76.64 trln in the two weeks to Jun 23, aggregate deposits increased by Rs 276.7 bln to Rs 106.06 trln. The Credit-Deposit ratio stood at a slightly lower level of 72.26% as on June 23 versus 72.41% as on June 9.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.4 % (y-o-y), as on June 23, 2017 (versus 10.3% a year ago) primarily led by lesser currency in circulation with public (down by 12.8%, y-o-y).
- India's foreign exchange reserves touched their record high of \$386.54 bln in the week to June 30, mainly backed by the rise in foreign currency assets, according to the RBI. Forex kitty increased by \$4.01 bln this week- over & above the previous week's increase of \$576.4 mln to \$382.53 bln.

4. India's industrial & services sectors scenario

- The latest PMI print (@53.1) for services sector showed that business conditions in India's service sector continued to improve in Jun-17 on the back of a strong upturn in new work. Moreover, job creation was maintained at May's 47-month record pace. Meanwhile, inflationary pressures gathered speed, with both input costs and output charges rising at quicker rates.
- Providing relief to Special Economic Zones (SEZ), India's government has exempted goods imported by units or developers of SEZ from the integrated goods and services tax (IGST). A SEZ area is considered to be a foreign territory for trade operations and duties and is mainly set up for promoting exports.
- Indian Railways has taken a major step to promote micro and small enterprises by reserving 358 items including cleaning apparatus, stationery and leather items exclusively for procurement from the MSE sector, as per the media report.
- In order to guard the domestic steel industry against cheap imports coming from China, India's government is likely to impose countervailing duty of 18.95% on imports of some particular type of steel products.

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- India has raised the import tax on sugar to 50% from 40%, a government statement said yesterday, as part of efforts to curb cheaper imports.

5. Lower CPI print may at best create a short-term G-Sec rally

- India's benchmark 10-year bond yield has steadied near 6.46% as traders expect the CPI print to fall below 2% for Jun-17 (to be released today after market hours).
- G-Sec traders have rushed to build positions on expectations of favourable CPI prints for Jun-Jul, 2017 (as this according to them may prompt RBI to loosen monetary policy). FPI purchases of local debt are also supportive of the bond sentiment at the current juncture.
- G-Sec traders estimate the current level of surplus liquidity ~ Rs 3-3.5 trillion; the RBI has announced two rounds of OMOs so far of Rs 100 billion each (first on Jun 30th & the second on Jul 7th) most likely to offset the heavy bond redemptions during July & August.
- While much lower inflation (CPI) prints for Jun-Jul, 2017 and surfeit of liquidity would remain supportive of the bond market sentiment in the near term, the waning of favourable base effect for food inflation from August onwards and the uncertain outlook on the progress of monsoon & global central bank policy actions combined with other concerns of the MPC members (HRA, GST, State Govt finances, rural wage growth, etc.) would weigh on the sentiment in H2, FY18. The RBI's OMO announcements are a clear indication that the central bank remains committed to its neutral liquidity stance.

6. INR seen weakening

- INR has marginally appreciated today (to 64.53 per USD) on the back of dollar sales by foreign banks for likely FPI investments in gilts led by expectations of a benign CPI print for Jun-17. Global weaknesses in US dollar have also aided INR appreciation.
- However, FX experts see INR weakening as global funds start to hit buying limits for the nation's debt and valuations for Indian equities look expensive.
- Some FX experts are expecting INR to touch 66 per USD in a quarter on the back of ongoing trends in the US real interest rates and oil prices.

7. Increased volatility seen in Indian stocks

- Indian stocks outperformed most regional markets last week on the back of a relief rally (that lifted the sentiment) after the implementation of a long awaited GST reform.
- This week, stocks are up ahead of the macro data that is expected to show benign CPI prints, which, for many may prompt the RBI to announce policy rate reduction.
- However, as in other parts of the world, stock investors in India are also grappling with inflated valuations & sluggish growth. Global financial markets have started reflecting nervousness reacting to the barrage of hawkish comments from major central banks.
- According to equity experts, uncertainty about global central bank policy actions & crude price movement and pressures on INR would make Indian stocks more volatile. Moreover, the quarterly corporate earnings (Apr-Jun, FY18) are expected to be lack-lustre due to GST-related disruptions.

8. Brent crude at \$47.52 per bbl on July 11, 2017

- Global Brent prices climbed yesterday to \$47.52 per barrel, as a lower 2018 forecast on US crude production and speculation of possible output curbs in Libya and Nigeria fueled the strongest session gain for prices in over a week.
- However, as per the Reuters news, OPEC oil output has risen in Jun-17 by more than 300,000 barrels per day, (bpd) according to figures the exporter group uses to monitor its supply, as a recovery in two nations exempt from a supply cut deal countered high compliance by many others. The OPEC agreed to cut output by about 1.2 mln bpd from Jan. 1 to reduce a glut and support prices LCOc1. Russia and 10 other non-OPEC states agreed to cut half as much. Including Nigeria and Libya, which are exempt from the deal, output by all 13 OPEC members in Jun-17 rose to about 32.47 million bpd, according to the average assessments of secondary sources OPEC uses to monitor its output.

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