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1. Global economic briefs

- On Nov 2nd, the US president Trump selected Fed Governor Jerome Powell as the new head of the US central bank, after Janet Yellen's four-year term as Fed Chief ends in early Feb, 2018. Powell has worked alongside Yellen for the past five years, backing her direction on monetary policy and, in recent years, sharing her concerns that weak inflation justified a continued cautious approach to raising interest rates.
- On the same day, the Republican lawmakers unveiled a sweeping rewrite of the tax code, outlining a \$1.5 trln plan that will deliver a significant tax cut for corporations and more modest savings for middle-class families while tilting the US closer toward the kind of tax system long championed by businesses.
- The number of Americans filing for unemployment benefits fell to a near 44-1/2-year low last week. Moreover, nonfarm payrolls in the US increased by 261,000 in Oct-17 as 106,000 leisure and hospitality workers returned to work, the Labor Department said in its closely watched employment report on Nov 3rd.
- Bank of England (BoE) raised interest rates for the first time in more than ten years on Nov 2nd but said it expected only "very gradual" further increases as Britain prepares to leave the EU, sending sterling down very sharply. The BoE's nine rate-setters voted 7-2 to increase the Bank Rate to 0.50% from 0.25%, reversing an emergency cut made in Aug-16 after the Brexit vote.
- China's PMI print for manufacturing held steady in Oct-17 at 51.0, still in expansionary territory, while Euro zone's manufacturing PMI hit an 80-month high of 58.5 in Oct-17 signalling a robust recovery. However, the US factory activity showed expansion happening at a slower pace, as the PMI print came in at 58.7 in Oct-17 versus 60.8 in Sept-17. Even Japan's factory activity slightly eased to 52.8 in Oct-17 from 52.9 in Sept-17 and the Australian PMI fell in Oct-17 indicating slower growth after a run.
- Bank of Japan Governor Haruhiko Kuroda said today that economic growth is gathering momentum and increasing the chances of inflation hitting the 2% target, reinforcing market expectations that no additional stimulus is forthcoming. However, he said the central bank was closely watching the economic effects of prolonged ultra-easy monetary policy, particularly the damage it could inflict on financial institutions' margins.

2. India: Agriculture and rural economic news

- India's Minister for Agriculture called upon investors on Nov 4th to leverage opportunities in the nation's farm, dairy, poultry & fisheries sectors to achieve the objective of doubling farmers' income by 2022.
- India's Ministry of Food Processing had organised a three-day world food event last week with an aim to transform country's food economy. The event witnessed participation of 60 countries and over 50 global CEOs. During the event, investment worth Rs 1.2 trln was attracted, of which Rs 740 bln has been committed by the Confederation of Indian Industry. India's government is planning to reduce agricultural waste by revolutionising India's food processing industry over a period of time.
- According to India's Agricultural and Processed Food Products Export Development Authority, exports of agricultural products registered with it jumped to \$8.73 bln in Apr-Sept, FY18 from \$7.69 bln in the corresponding period a year ago. The rise in exports was primarily led by rice – both basmati & non basmati varieties.
- India and the World Bank have recently signed a \$200 mln loan agreement to increase farm productivity in the state of Assam. The money is for the Assam Agribusiness and Rural Transformation Project, which will support the state government to get more investments for agriculture and increase yield. It will also help small farmers produce crops resilient to floods or drought, which are recurrent in the state. The project will be implemented in 16 districts of the state.

- As per India's official statistics, wage payments under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) have been frozen in 19 states as of Oct. 31, 2017.

3. India's overall economic & policy developments

- Indian government's cumulative gross fiscal deficit marginally shrank to 91.3% of the annual target by Sept-17 after touching 96.1% in Aug-17 due to a 12.1% cut in expenses and some support coming from the advance taxes.
- Yields on perpetual bonds issued by public sector banks in India dropped drastically after the recapitalisation plan was announced by the government last week for these banks. The fall in yields was as much as 150 bps in some cases, prompting a few banks to raise resources through this route.
- In its annual report 'Doing Business 2018: Reforming to Create Jobs', the World Bank has ranked India at the 100th position among 190 nations assessed by it. In 2017, India was positioned at 130.
- The gross NPA ratio of 14 of the 18 listed private-sector banks in India rose significantly by 65 bps (y-o-y) to 4.5% in the quarter ended Sept-17. The jump in NPAs of most banks came as a result of the RBI asking them to classify certain standard accounts on their books as NPAs, as per the reports.
- After two months of intense selling, foreign investors turned net buyers in Oct-17 to invest over Rs 30 billion in Indian stocks, enthused by the government's recapitalization plan for banks. India moving up in the World Bank ranking of 'ease of doing business' also buttressed positive sentiments.
- India's corporate affairs ministry is considering multiple changes to the Insolvency and Bankruptcy Code (IBC), including ways of ensuring that the process does not allow a failed promoter to regain control while escaping liabilities. The review is being conducted based on feedback received and after seeing how the law has worked in the past few months.
- The recent RBI data show that NBFCs in India have done a better job than banks in minimizing NPAs during Sept-16 to Mar-17, thanks to their increased reliance on artificial intelligence, pattern analysis, predictive intelligence & other customized algorithms to study the repayment behavior of potential customers. A more diversified liability profile (between bank borrowings & bonds) has also helped.
- According to RBI, Indian banks loans and deposits rose at the pace of 7.7% and 9.8% on year respectively, as on Oct 13, 2017. While outstanding loans fell by Rs 1.07 trln to Rs 79 trln in the two weeks to Oct 13, aggregate deposits declined by Rs 862.8 bln to Rs 108.80 trln, reversing the "last mile effort" visible in data at the quarter-end. The Credit-Deposit ratio too declined to 72.62% as on Oct 13th from 73.02% as on Sept 29th.
- India's Broad Money Supply, i.e., M3 growth stood at a much lower 6.8 % (y-o-y), as on Oct 13, 2017 (versus 11.0% a year ago) primarily led by lesser currency in circulation with public (still down by 9.8% y-o-y). However, incrementally currency withdrawals have picked up since July 1st – the rollout of GST.
- India's foreign exchange reserves fell for the second straight week by \$1.16 bln to \$398.76 bln for the week ended Oct 27 amid concerns over tightening of global monetary easing.

4. India's industrial & services sectors scenario

- India's goods and services tax could be in for a revamp that will be more comprehensive than just the tweaks made thus far to iron out kinks to make compliance less onerous. India's GST Council has set up a new advisory group that includes industry representatives to look into such changes. Experts said these may apply to input credit apart from place of supply and valuation provisions.

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- Indian manufacturing activity slowed in Oct-17 following a drop in new orders, as per the Markit PMI survey. However, firms hired workers at a high pace to service greater volumes of outstanding business. The PMI print for manufacturing fell from 51.2 in Sept-17 to 50.3 in Oct-17. The survey attributed weak demand conditions to GST rollout since Jul-17.
- However, India's core (infrastructure) industries posted a healthy growth of 5.2% in Sept-17 – the highest so far in FY18, primarily on the back of strong growth in the output of coal, natural gas, refinery products and electricity. Steel sector too posted a modest y-o-y growth in Sept-17.
- India's ministry of mines expects mineral rich states like Jharkhand, Chattisgarh & Orissa to put up around 45 non-coal blocks for auction during the remaining period of FY18 and these auctions are expected to fetch cumulatively Rs 2 trln to these states.
- India's top six cities - Mumbai, Bengaluru, Pune, Delhi-NCR, Chennai and Hyderabad witnessed 100% jump in real estate investments over one-year period ending in Jun-17 as per a report by Cushman & Wakefield.
- Indian services' sector PMI rose to 51.7 in Oct-17 versus 50.7 in Sept-17, led by a faster growth in new business orders.
- Solar power projects in India are facing delays and cost escalation as customs officials are demanding higher import duties. Custom officials at the Port of Chennai have detained more than 900 containers of solar panel shipments, as per recent reports.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.87% last week (Oct 30 – Nov 3) versus 5.86% in the week earlier (Oct 23-27), as systemic liquidity continued to stay in a surplus mode and around Rs 1.2 trln.
- While 91-day T-bill rate moved in the band of 6.09% to 6.11% 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 & increased by just a basis point on 364-D TBs.
- But three-month CP rate hovered in a slightly higher band of 6.74% to 6.79% and the yield on this instrument increased by three bps (on an average) last week.
- Due to "prevailing & evolving liquidity conditions", the central bank will sell up to Rs 100 bln worth of five government bonds through "OMOs" on Nov 9th, to suck out excess funds from the system.

6. Blurred outlook for G-Sec in India

- Yield on the 10-year benchmark GOI paper was up 5 bps last week to 6.86%, as volumes remained subdued and the policy rate hike by BoE & a possible hike by Fed in Dec-17 dampened the sentiment.
- On Monday (Nov 6), India's benchmark yields ended at a six-month high of 6.89%, as increasing Brent crude prices in global markets (currently ruling above \$64 per barrel) added to concern that CPI inflation will accelerate and there will not be any rate cuts, going ahead.
- Today (Nov 7), the 10-year benchmark yield is hovering near 6.93-6.94%. Crude oil prices above \$60 a barrel is a concern for India's domestic economy and external sector (CAD) position. It will put India's inflation estimates at risk & crimp the RBI's ability to cut interest rates in Dec-17. Recent oil price surge combined with a fiscally constrained environment has blurred the outlook for G-Sec bonds.

7. Vulnerability on rise for Indian rupee

- INR had gained 0.8% last week and closed at 64.5475 per USD – it's six-week high, as foreign investors' increased their purchases of Indian equities & bonds post the release of "Ease of Doing Business" report of the World Bank that showed a record jump of 30 places for India in the overall ranking.
- However, INR has been crashing this week on the back of a fall in domestic stock markets triggered by surging oil prices amid political upheaval in top crude exporters like Saudi Arabia.
- Added strength to US dollar index on the back of improving macros for the US plus implementation of tax cuts is also weighing on EM currencies including the INR.
- We expect INR to remain "vulnerable" to Brent crude prices & the US growth dynamics. Given that the currency is already "overvalued", an orderly depreciation in currency is called for to support growth.

8. Indian stocks need strong earnings & macros to sustain the rally

- Global stock markets ended last week on a positive note taking support from broader economic developments.
- Back home, Indian indices too did well on the back of strong capital inflows amid decent corporate earnings.
- Majority of sectoral indices ended the week on a positive note with stocks from realty & telecom sectors gaining the most.
- Indian stock indices closed at a fresh record high yesterday (Nov 6) driven by auto and consumer durable stocks, even as surging oil prices kept a lid on their further up-move.
- However, Indian stocks, bonds & currency fell today after oil prices surged overnight to their highest since mid-2015, raising concerns regarding cost-push inflation and CAD position. According to stock experts, amid such global upheavals Indian stocks can sustain a rally if and only if they find solid support from corporate earnings and economic recovery in Q3 & Q4 of FY18.

9. Brent crude reached a high of \$64.65 per bbl on Nov 7, 2017

- Brent crude prices have surged to their two-year highs on rising tensions in the Middle East following a wave of arrest in Saudi Arabia & a missile attack on Riyadh by Yemeni rebels.
- Oil has rallied in recent months, climbing more than 30% from lows hit in June. Indian government sources expect crude prices to hover near \$60 per barrel in the near term.

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