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1. Global economic briefs

- Euro zone's manufacturing activity hit six-year high in Apr-17 as revealed by the PMI print that touched 56.7 in the previous month. This was on the back of strong demand despite rising prices.
- However, China's factory activity slowed to weakest (50.3) in seven months in Apr-17 on the back of weaknesses in overall demand (both domestic and external).
- The US factory activity too slowed to 54.8 in Apr-17, while consumer spending was unchanged in Mar-17 and a key inflation measure recorded its first monthly drop since 2001, but economists still expect an interest rate increase in Jun-17 as its labour market conditions show a definite improvement.
- The Reserve Bank of Australia (RBA) kept its benchmark cash rate unchanged at a record low of 1.5%, largely in line with market expectations. Governor Philip Lowe said in the policy statement that conditions in the house market continue to vary considerable around the country.
- Bank of Japan (BOJ) policymakers agreed to closely monitor consumer prices because they currently lack upward momentum, minutes of the central bank's March 15-16 policy meeting showed today. The minutes repeated earlier phrasing that over time, consumer prices will reach the central bank's 2% inflation target but the BOJ needs to continue with its quantitative easing.
- BOJ Governor Haruhiko Kuroda welcomed yesterday the expansion of China-led Asian Infrastructure Investment Bank as positive for the regional economy, urging multinational lenders to cooperate in meeting Asia's fast-growing infrastructure needs.
- Roughly 90% of the extra cash injected by the European Central Bank (ECB) to boost the Euro zone's economy is piling up in five of the bloc's wealthiest countries, an ECB study showed yesterday. The paper cites "risk aversion" as one reason why the money is not flowing from Germany, France, the Netherlands, Luxembourg and Finland to the rest of the bloc, where some banks still rely on the ECB for cash.

2. India: Agriculture and rural economic news

- Amid ground report of bumper wheat production this year, India's agriculture ministry is likely to upwardly revise its estimate of overall food grain production in the country for the crop year FY17 (July-June) by putting the new figure at over 273 mt - more than what it had estimated earlier. The total production will surpass the previous record of 265 mt, achieved during FY14.
- According to a study by India's think tank Niti Aayog, India's rural landscape is resulting in creation of integrated economy. Despite the changing landscape, the creation of jobs has not kept pace with the shift from agriculture to non-farm sectors due to low literacy levels, inadequate access to health, drinking water and sanitation as other challenges facing rural areas. Insufficient linkages with and the use of formal financial services is identified as another drawback impeding progress in rural areas.
- Tractors & construction equipment vehicles have become a collateral damage of the ban on BS-III vehicles imposed by the Supreme Court of India, with RTOs in many states turning down their registrations for being four-wheeler although these have different emission norms.

3. India's overall economic & policy developments

- India is expected to grow at 7.1% in 2017 and 7.5% in 2018, as per the UN ESCAP's Economic and Social Survey of Asia & Pacific 2017 report, to be driven by higher private & public consumption and increased infrastructure spending. The report has pointed out concentration of bad loans in public sector banks as a key downside risk

for India. According to the report, bank recapitalisation is necessary since the gross NPAs ratio in PSBs reached almost 12% in 2016. India's medium-term economic development will benefit from reforms such as GST implementation, amendment of bankruptcy law and opening of certain sectors.

- India's finance minister has assured that tax rates under GST will not be significantly different from the current levels. He said that since the formula used for fixing the rates has been explained, nobody will be taken by surprise.
- Wealth inequality in India is phenomenally high with the richest one per cent holding 53% of the country's wealth, as per a UN report.
- Retail price inflation for industrial workers, measured by the Consumer Price Index for Industrial Workers (CPI-IW), remained unchanged at 2.6% in Mar-17 compared to the previous month.
- According to RBI, Indian banks loans and deposits rose by 5.5% and 11.6% on year respectively, as on Apr 14, 2017. While outstanding loans declined by Rs 2.5 trln to Rs 76.32 trln in the two weeks to Apr 14, aggregate deposits fell by Rs 2.19 trln to Rs 105.92 trln, reflecting the usual course correction in the first fortnight of April every year.
- India's Broad Money Supply, i.e., M3 growth stood at 7.1 % (y-o-y), as on Apr 14, 2017 (versus 10.4% a year ago), as currency with the public is still down by 19.6% (y-o-y) as on Apr 14th.
- India's foreign exchange reserves further increased by \$1.25 bln to \$371.14 bln in the week ended Apr 21st. India's FER had touched an all-time high of \$371.99 bln in the week ended Sept 30, 2016.

4. India's industrial & services sectors scenario

- India's policy think-tank - Niti Aayog recommended reduction in import duty on gold to crack down on smuggling and to make gold available for small and medium firms, in turn increasing share of gold jewellery produced by the gems & jewellery sector.
- According to media reports, India is in the process of allowing private companies into the commercial coal mining sector for the first time in four decades. Through this the government plans to reduce coal prices and in turn, provide lower power tariffs to the end customers.
- India's core industrial production growth improved to 5% in Mar-17 from 1% in Feb-17, driven by coal & steel production and electricity generation. Cement, refinery products & fertilizers continued to witness a contraction over the previous year.
- For India, the PMI for manufacturing remained unchanged at 52.5 in Apr-17 from the previous month. This was the fourth consecutive month of an improvement. This is on the back of steadily rising order inflows for the past four months. However, slower increases in output, stocks of purchases and employment limited the improvement in the index during the month.
- On the positive side, most passenger vehicle manufacturers in India reported a healthy growth in sales in Apr-17, as per the reported numbers of Maruti Suzuki India, Hyundai Motor India, Tata Motors & Honda cars.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 5.97% last week (Apr 24-28) versus 5.95% in the week earlier to that – as liquidity continued to stay in surplus mode. At present, liquidity surplus is estimated at Rs 3.5 to 4 trln versus Rs 4.5 to 5 trln last month.

- Average daily fixed rate repo borrowing of banks increased from Rs 9.05 bln to Rs 11.16 bln in a week's time. Average daily borrowing under MSF, however declined to Rs 2.23 bln last week from Rs 6.86 bln in the week before that.
- While 91-day T-bill rate moved in the wide band of 6.05% to 6.18% during last week; 364-day T-bill rate moved in the range of 6.38%-6.42%. On an average, 91-D TB hardened by 12 bps, while 364-D TB gained 9 bps during the week Apr 24-28.
- Three-month CP rate hovered in the band of 6.73% to 6.75% last week, reflecting an average increase of a basis point over the week earlier.
- A few weeks ago, the RBI announced a calendar to sell Rs 1 trln worth of TBs under the MSS and of this, it has already conducted auctions worth Rs 500 bln. Since then, the money market rates have been hardening steadily – coming closer to the policy rate.

6. Gilts –seen down this week

- Indian sovereign benchmark bond yield hardened by 4 bps last week to 6.96%. On May 2nd also, it was hovering closer to 7% on caution ahead of the outcome of the US FOMC's 2-day policy meet, beginning later today. Appetite also remains weak, as the week is truncated because of May 1st holiday on account of the Maharashtra day (Labour Day).
- Appetite for Indian government bonds has taken a hit in the last few days because of the unexpectedly hawkish comments on inflation made by a few members of the Monetary Policy Committee (MPC) during the last policy meeting. The minutes of that Meeting were released on April 20th.
- While the neutral stance and hawkish comments by a few members of MPC have dampened the G-Sec sentiment, strong and stable rupee has made Indian debt very attractive to foreign investors.

7. INR rally may not last long

- INR appreciated by 0.56% last week to 64.25 per US dollar, as conservative monetary policy and stable political regime have been making Indian rupee an attractive long play for carry traders at home & abroad.
- Heavy purchases by FPIs into both equity and debt markets of India, has been the primary factor behind the rupee rally. Steady weakening of the US dollar (by over 4%) since the beginning of the year has also helped. These factors, along with the boost to risk-on sentiment given by the outcome of the first round of French presidential elections have resulted in the rupee rising by nearly 6% since Jan 1st.
- Currently, INR has also been gaining on the US dollar weaknesses. However, once the USD starts strengthening due to Donald Trump's tax reforms and Fed's policies to get rid of toxic assets from its balance sheets, the INR may see some correction.

8. Indian stocks may see some correction this week

- Global markets ended last week on a higher note due to a favourable outcome of the first round of France's presidential election. Another positive was the fact that US President Donald Trump is proposing corporate tax rate cuts and steep tax breaks for multinational businesses on overseas profits. Except for China, all major markets ended in the green zone last week.

- Back home, Indian markets closed higher by 1.9%, mainly on the back of FPIs' interest in Indian equities. The gains were led by stocks in Auto, Banking, Capital Goods, Telecom & Metals.
- Indian equities closed in red today (Monday), as heavy selling pressure was witnessed in healthcare & capital goods stocks. Besides, investors were cautious ahead of the two-day US Federal Open Market Committee meet scheduled to start later in the evening.
- Going ahead, the strength of the market will depend on the Q4 results, which have started on a weak note. Since valuations are not cheap, there could be some correction due to disappointments from the fourth quarter results.

9. Brent crude settled at \$51.73 per bbl on Apr 28, 2017

- Brent crude ended at \$51.73 per barrel on Apr 28th – down 0.4% over a week.
- However, oil prices have risen today (May 2) on news of lower Russian production and expectations that major OPEC exporters would extend output cuts into the second half of the year.
- Benchmark Brent crude oil is hovering near \$51.97 per barrel today. The OPEC and other producers including Russia have agreed to cut output by 1.8 mln barrels per day (bpd) for the first half of 2017 to try to reduce a global glut.
- But oil market sentiment is fragile and many investors are concerned by the slow pace of inventory draw-downs, with stockpiles still near record highs.

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