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1. Global economic briefs

- Against all odds, polls & projections, Donald Trump claimed victory in the US presidential elections last week (Nov 8). According to Larry Elliott (Economics Editor of the Guardian), from trade war with China to jobs turmoil in Mexico, Trump's reign will pose new threats to already fragile world economy.
- Post Mr Trump's victory, Minneapolis Fed Reserve President said he sees continued sluggish growth ahead for the US economy, unless lawmakers and the President "get going" on policies to boost productivity and population.
- Ratings agency Standard & Poor's affirmed the US' investment-grade 'AA+/A-1+' rating - a day after the presidential election, while maintaining its stable outlook.
- After a jittery start to the week, the unanticipated win of Donald Trump as the US President was welcomed by most of the global stock markets. However, on the commodity front, both crude & gold witnessed sharp plunge and were down by around 6% each for the week gone by.
- Filings for US unemployment benefits declined from an almost three-month high in the week ended Nov 5, ahead of the presidential election, indicating the job market remains competitive for employers.
- According to the ECB Vice President, the Euro zone's economic recovery is continuing but low core inflation, a key gauge of price growth, remains a cause for concern.
- The UK Prime Minister Theresa May called on business leaders yesterday to help her government win back Britons disillusioned with liberal elites and globalization by forging an economy that "works for everyone". Describing the election of real estate magnate Donald Trump as US president and Britain's vote to leave the European Union as proof that "change is in the air", May said Britain should not shy away from making the case for globalization.
- China's economy largely showed further signs of steadying in Oct-16 as expected, but disappointing retail sales growth and fears of US trade frictions under the President Donald Trump are increasingly clouding the outlook.

2. India: Agriculture and rural economic news

- Indian rural economy that was looking forward to recovery on account of favourable monsoon this year and bumper harvest has been hit hard as sale of kharif (summer) crops in madis (wholesale markets) have stalled.
- According to reports, sale of tractors, agricultural inputs such as seeds, urea & cement have all witnessed a beating in last one week post the Indian government's demonetization move (as Rs 500 & Rs 1,000 currency notes were abolished since the midnight of 8th Nov). The farming community in Punjab, UP & MP is running out of acceptable cash and concerned about the upcoming rabi (winter crop) sowing.
- As per reports, about 60% of wheat crop (a major rabi crop) had been sown till Nov. 10th and after that the process slowed down drastically.
- As per the Deloitte report, "the demonetisation of Rs 500 and Rs 1,000 notes will hurt agriculture, informal sector workers — about 482 mln people who earn cash incomes — and disrupt India's consumption patterns for at least the next quarter. In contrast, sectors like e-commerce and payment banks, payment gateways are set to gain as transactions using cashless methods will increase over the coming months".
- Amid growing demand for organic products, Indian and global companies are expected to clinch business deals to the tune of Rs 1,000 mln during the three-day international organic trade show (from Nov 10-12) in India. The international show 'Biofach India into Organic' was organised by Germany's NuernbergMese India along with Bangalore-based International Competence Centre of Organic Agriculture (ICCOA).

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3. India's overall economic & policy developments

- In a move to control black money and reduce the counterfeit currency currently in circulation, India's government announced that Rs 500 and Rs 1,000 notes will cease to be legal tender with effect from the midnight of 8th November, 2016. According to RBI, these high denomination notes accounted for 86% of total value of bank notes in circulation as of March 2016.
- India's government has identified 19 short-term measures to be implemented during FY17 in keeping with its plan to move to a cashless economy. The national task force for promotion of payments through cards and digital means is facilitating coordination among different agencies to ensure speedy roll-out of initiatives including digital payments through ration shops, strengthening the network of business correspondents in rural areas and equipping all existing and future ATMs with Aadhaar authentication facility.
- The International Monetary Fund said last week that it supports India's efforts to fight corruption through the currency control measures announced, but stressed taking care to minimise disruptions in the economy.
- India's government proposes to set up a dedicated task force in every ministry to track progress on ease of doing business. The DIPP (Department of Industrial policy & Promotion) has proposed a four-pronged approach to improve India's ranking on the World's Doing Business Index.
- The Association of Mutual Funds in India (AMFI) believes that Mutual Funds could become more expensive in the GST regime due to an increase in costs or compliances.
- To address corporate stress, RBI last week made sweeping changes to existing loan recast schemes like S4A, 5/25 and SDR by giving lenders additional time up to 180 days for hammering out a restructuring package under the scheme for sustainable structuring of stressed asset (S4A). Previously, the time limit was just 90 days. There was a need to provide reasonable time to the overseeing committee to review the processes involved in the resolution plan, according to RBI. This is step also intended to harmonise rules across various recast schemes, as time given in other schemes such as joint lenders' forum (JLF) is 180 days.
- India's inflation based on wholesale price index eased slightly to 3.39% in Oct-16 (versus our estimate of 4.07%), as compared to 3.57% for Sept-16 and -3.7% in Oct-15. Build up inflation rate in the financial year so far was 4.34% compared to a build up rate of 0.45% in the corresponding period of the previous year. There is also a further decline in India's retail (CPI-based) inflation from 4.31% in Sept-16 to 4.20% in Oct-16 (versus our estimate of 4.83%), helped by a sharper decline in food prices.
- According to RBI, Indian banks loans and deposits rose by 9.1% and 9.8% on year respectively, as on Oct 28, 2016, reflecting modest economic growth trends. While outstanding loans modestly increased by Rs 502.2 bln to Rs 74.12 trln in the two weeks to Oct 28, aggregate deposits rose by just Rs 205.2 bln to Rs 99.84 trln. However, post the government's demonetisation move, banks have received aggregate deposits over Rs 1 trln, mostly as Current or Saving Deposits (CASA) in just four-days' time.
- India's Broad Money Supply, i.e., M3 growth further eased to 10.9% (y-o-y), as on Oct 28, 2016 primarily driven by a slowdown in annualised deposit growth until Oct 28th (before the demonetisation move).
- India's foreign exchange reserves further increased, albeit mildly by \$16.6 mln to \$367.16 bln in the week ended Oct 28, according to the RBI data. The country's forex reserves had increased by \$1 bln to \$367.14 bln in the previous week. This offers a good buffer against the high impact global events unfolding in the near term.

4. India's industrial & services sectors scenario

- In a bid to improve service quality & improve telecom infrastructure, India's department of telecommunications has framed the Right of Way (RoW) guidelines to facilitate quicker acquisition of land for setting up mobile towers and laying fibre. The guidelines, likely to be notified in a couple of days, propose that a RoW permit would have to be granted within 60 days of application and if rejected, has to be backed with a reason.
- India's industrial output rose by 0.7% (y-o-y) in Sept-16 (versus our estimate of 0.6%) driven primarily by festival season related consumer durables growth. Capital goods production contracted as expected by 21.6% for the 11th consecutive month. India's cumulative industrial production growth stood at -0.1% in H1, FY17 versus 4.0% in H1, FY16.
- As India's government has kept the development of roads as its high priority project, there is a significant pick-up in demand for bitumen products post the monsoon season. Bitumen consumption has registered a growth of 5.4% during Sept-16 and a cumulative growth of 9.7% for the period Apr-Sept, 2016.
- With India's government taking steps to improve the ease of doing business and attracting foreign investments, FDI inflows into the services sector jumped by over two and a half times to \$5.28 bln during Apr-Sept, 2016. The sector, which includes banking, insurance, outsourcing, R&D, courier and technology testing, had received FDI \$1.46 bln during Apr-Sept, 2015.

5. Indian money market review last week

- India's weighted average call money rate averaged at 6.16% last week (Mon-Fri) versus 6.06% in the previous week, as liquidity under LAF stayed in deficit mode throughout last week.
- Average daily fixed rate repo borrowing of banks sharply increased from Rs 38.18 bln in the previous week to Rs 131.22 bln in the week under review (Nov 7-11). Average daily borrowing under MSF too increased - from Rs 2.74 bln to Rs 5.38 bln.
- The RBI conducted three variable rate term-repo auctions last week - two of 1-day and one of 14-days of the sizes Rs 83.25 bln, Rs 151.60 bln and Rs 195.03 billion, respectively.
- While 91-day T-bill rate moved in the wide band of 6.25% to 6.41% during last week; 364-day T-bill rate moved in the broad band of 6.34%-6.46% - reflecting an average fall of six basis points, over the week. The fall was obviously triggered by more money moving into the banking system.
- Three-month CP rate too varied in the wide band of 6.78%-6.93%, reflecting a sharp fall of 12 bps post the demonetisation move.
- Demonetisation move is strongly positive from the perspective of banking sector liquidity and will help protect the downside bias in money market rates.

6. Rally in Indian G-Sec post demonetisation

- Sequentially, India's new benchmark 10-year bond yield eased significantly by 11 basis points last week to 6.73%, as an element of exuberance started growing in the bond market amid the demonetisation of large denomination currency notes.

- According to the G-Sec traders, with limited supply of sovereign papers, there is a fair chance of G-Sec prices to gain as some of the recently added bank deposits will definitely flow into debt. Sluggish credit demand is also supportive of more investment into government bonds.
- Globally, investors are exiting emerging market investments with rising US treasury yields. But Indian bond markets have bucked the trend when it comes to overseas investment. In the past 4 trading sessions, FIIs have invested R 2,459 cr in the Indian debt market versus net sales of Rs 2,163 cr in equities.
- Indian G-Sec traders expect benign yield outlook to continue at least for one more quarter.

7. Bearish near-term outlook for INR

- INR depreciated by 0.8% last week to 67.25 per US dollar – post the demonetisation move, as this “move” is likely to trigger slowdown in consumption and economic activity especially in the cash dependent sectors like real estate and agricultural/rural businesses of India.
- Moreover, INR is weakening in line with its Asian peers post the victory of Donald Trump and hardening of the US treasury yields.
- INR is expected to trade with a depreciation bias against the US dollar, as USD is hovering near multi-month highs, tracking sustained gains in US bond yields amid expectations that President-elect Donald Trump’s policies may stoke inflation in the US economy.

8. Indian stocks may face rough waters ahead

- In a surprise move, advanced economies’ stock markets reacted positively to the unanticipated victory of Donald Trump in the US presidential elections. While the US markets gained 5.4% on week, Germany, Japan & France were up by 4%, 2.8% & 2.5%, respectively. Even China was up by 2.3%.
- However, most of the Asian markets witnessed sell-off on the last trading day of the week. Indian markets lost also due to “uncertainties” created by the demonetisation move.
- Sectoral indices in India ended the week on a negative note with stocks from realty and consumer durable space witnessing maximum selling pressure. However, stocks from metals & banking space witnessed gains last week.
- Indian stocks fell by 2% today on worries about capital outflows as US bond yields surged and the dollar strengthened, and as some heavyweights plunged after reporting weak earnings.
- Indian stocks may face rough times for the next six months partly due to likely capital outflows on rising US interest rates and partly due to the disruptive impact of demonetisation move on India’s real sector. According to CLSA, real estate, auto and consumer-centric stocks would be the worst hit by demonetisation.

9. Brent crude closed at \$44.75 per bbl on November 11, 2016

- Global Brent crude prices reached their multi-week lows last Friday (Nov 11), after OPEC reported that its crude production rose to its highest level on record and pointed to a larger surplus next year, despite an agreement to potentially cut output.
- However, today (Nov 15) Brent prices rose 2.2% to \$45.29 per barrel in London, bolstered by speculation that members of the OPEC are working out the details of a proposed cut in crude output.

- All eyes are now on OPEC ahead of the Nov. 30 meeting where the group aims to agree to a production cut to between 32.5 million and 33 million barrels a day, from record levels of 33.83 million barrels a day in October.

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