2016

ECONOMIC INTELLIGENCE BULLETIN

1st – 15th December 2016

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES &DISPOSALS
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SUMMARY OF ECONOMIC INTELLIGENCE BULLETIN

Economic Intelligence Bulletin includes abstracts of important economic/commercial/ technical development and reviews as reported in the issues of financial dailies. The Bulletin pertains to the fortnight ending 15th December, 2016.

1. PRICE TREND

1.164 INDIA TO BRACE FOR HIGHER BILL AS CRUDE OIL PRICES RISE

Prices of global crude oil rising suddenly over the past two days have prompted the domestic oil industry to go into a wait-and-watch mode.

With commodity expert and American investor Jim Rogers predicting that crude prices might reach $60 per barrel, amidst a fall in global supply and a return of demand, India would have to brace for a higher import bill.

On 30th November, the Organization of Petroleum Exporting Countries (OPEC) ï a group of 14 major oil exporters including Saudi Arabia, Iran, Iraq and accounting for one-third of global oil output ï announced they would significantly cut their production levels for the first time in two years since prices crashed.

Crude prices have soared as a result. Figures released by the petroleum ministry on 2nd December, showed the international crude oil price of Indian basket was $50.27 per barrel on December. A day before, it was $45.83 per barrel.

ñThe increase in price is an immediate reaction of the market as a result of production cuts by OPEC members.

India, which meets 80 % of its oil requirements through imports, had to spend $65.92 billion on crude oil import in 2015-16, a fall of 43.38 % from the $116.44 billion outgo in the previous financial year and $143.63 billion in 2013-14.

However, import volumes grew to 202.31 million tonnes in 2015-16, a more than seven % increase over the $187.91 million tonnes imported in the year before. Volumes are expected to keep growing, a trade expert said.

Indian refiners imported 18.15 million tonnes of crude during October, according to the petroleum ministry. The figure is very close to record high of 18.85 million tonnes, back in August.

India is estimated to spend $1.36 billion more a year for every on dollar a barrel increase in crude oil.

(BUSINESS STANDARD 5TH DECEMBER, 2016)

1.165 SILVER WEAKENS ON MUTED DEMAND, GOLD ENDS STEADY

Silver prices declined by Rs 100 to Rs 41,400 per kg on 14th December owing to slack demand from consuming industries at the domestic spot market.

On the other hand, gold remained steady at Rs 28,450 per 10 grams in scattered deals even as it firmed up overseas.

Traders attributed the slide in silver prices to a reduced off take by industrial units and coin makers at the local spot market.

Globally, gold rose 0.41 % to $1,162.70 an ounce and silver by 1.13 % to $17.07 an ounce in Singapore ahead of the outcome of the ongoing Federal Reserve meet which is expected to tighten its policy sooner than later.

In the national capital, silver ready drifted lower by Rs 100 to Rs 41,400 per kg and weekly-based delivery shed Rs 10 at Rs 41,480.

(FINANCIAL EXPRESS 15TH DECEMBER, 2016)

2. FISCAL POLICY

2.298 FISCAL DEFICIT HITS 79.3% OF BUDGET ESTIMATE IN APR-OCT

The Centre managed to contain fiscal deficit in the first seven months of the current fiscal at Rs.4.23 lakh crore or 79.3% of the full-year target of Rs.5.34 lakh crore aided by higher tax revenue and curbs on capex lately. In the same period last year, the deficit was 74% of the corresponding annual target. The deficit had stood at 83.9% of the annual target in April-September of FY17.

In April-October this year, the Centreôs capex (Plan and non-Plan) has declined by 12.81% to Rs.1,24,959 crore as against Rs.1,43,329 crore in the year-ago period. Plan capex, seen critical to ignite economic activity, declined 8.1% during the period while non-Plan capex fell by 20.8%,

The Centre has reiterated that the fiscal deficit estimate of 3.5% of GDP for the current fiscal would be met, even though some analysts see a threat to double-digit nominal GDP growth in FY17. GDP grew by 10.6% in H1 FY17.

The April-October net tax collection was Rs.5.3 lakh crore, which was 50.3% of the estimate for the full year, in the corresponding period a year ago, it stood at Rs.4.3 lakh crore or 46.6% of that yearôs target. The strong performance in tax revenue was mainly due to central excise which saw a 46% increase in gross receipts at about Rs.1.8 lakh crore during the period.

Overall revenue receipts during the first seven months of FY17 were Rs.7.3 lakh crore, or 50.4% of the full-year target; in the same period last year revenue receipts were 50% of the full year target; in the same period last year, revenue receipts were 50% of the targert, according to data compiled by the Controller General of Accounts. However, non-tax revenue receipts are lagging behind with collections at Rs.1.68 lakh crore or 52% of the FY17 target while it was 73% in the year-ago period.

Plan expenditure remained robust, at Rs.3.41 lakh crore, or 62% of the full-year estimate, compared with Rs.2.7 lakh crore (58.2%) in the year-ago period. Top spenders in this category included urban development, rural development, agriculture, human resource development and health departments.

The Centre managed to contain non-Plan expenditure, which stood at Rs.8.09 lakh crore in April-October this year, or 56.7% of the full- year target, compared with Rs.7.5 lakh crore, or 57.2% of the previous yearôs target during the period.

(FINANCIAL EXPRESS 1ST DECEMBER, 2016)

2.299 INDIA'S FOREIGN BORROWINGS FALL 30% IN OCT

India Incôs borrowings from overseas markets fell by 30.3% from a year ago to $1.47 billion in October 2016, RBI data showed. India had borrowed a total of $2.11 billion from overseas sources in October 2015. Besides, an additional $299.64 million was raised through masala bonds.

(THE ECONOMIC TIMES, 2ND DECEMBER 2016)

2.300 SUBSIDY SPEND TO EXCEED BUDGET ESTIMATE BY RS.9K CR

The Centreôs expenditure on major explicit subsidies in FY17 will be kept at slightly above Rs 2.4 lakh crore, as against the budgeted figure Rs 2.32 lakh crore.

Aggregate subsidy bills from designated agencies such as oil marketers, fertilizer companies and the Food Corporation of India will be higher by another Rs 20,000 crore, but this amount could be rolled over, official sources said.

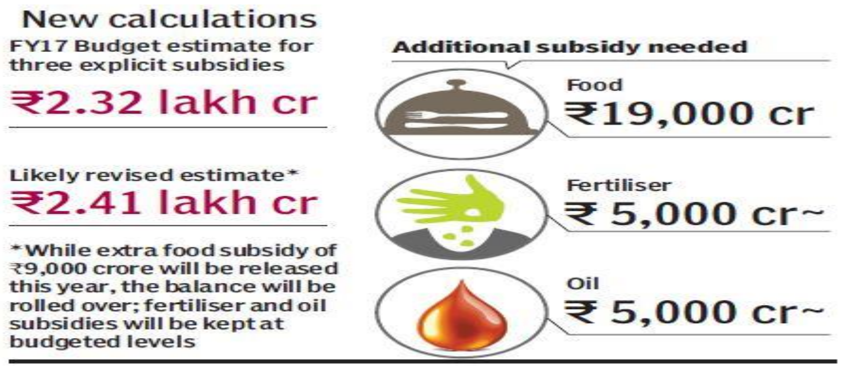
With the progress expected in the direct benefit transfer (DBT), subsidy bills could be curbed to a large extent next year, sources said. International commodity prices, however, could upset calculations, especially since fertiliser subsidies continue to be largely unbridled.

The revised estimate will factor in likely provision for an extra Rs 9,000 crore under food subsidy. The amount will be used to repay FCIs loan from the National Small Savings Fund. As reported by FE earlier, the NSSF will release Rs.45,000 crore from its corpus to the FCI before the end of the current financial year to clear arrears of the Centre, which will repay the fund in five equal annual instalments, starting FY17 itself.

So, the revised estimate of the food subsidy is likely to be pegged at about Rs 1.44 lakh crore for FY27, up from Budget estimate of Rs 1.35 lakh crore.

The Centreôs hands are tied due to the Rs. 32000 crore shortfall in spectrum revenue.

So, even after providing Rs 9,000 crore more for food subsidies, it could still roll over subsidies worth Rs.20,000 crore -Rs.10,000 crore for food, Rs.5,000 crore for fertilizer and Rs.5,000 crore for fuel ï to the next year.



(FINANCIAL EXPRESS 5TH DECEMBER, 2016)

3. IMPORT AND EXPORT POLICY

3.183 STEEL IMPORTS FALL 40% DURING APRIL-NOVEMBER

India's steel consumption continued to be anaemic even as production increased and imports fell by around 40% during the April-November period of the current fiscal, data revealed by Joint Plant Committee (JPC), a unit under the steel ministry, showed.

Steel consumption grew by just 3% during the eight month period to 54.2 MT while production registered 8.8% jump, a trend which might create large inventory. Declining imports have provided a highly-needed breathing space for the domestic steelmakers which raised price from the beginning of the current month after retaining them for the last there months.

Exports also rose by over 53% during the period, but in terms of volume, it remained low at 4.27 MT. Sources said India may not be able to make inroads on the export front as it is bound to face stiff competition from nations with excess capacity like China, Japan and Korea, among others.

Construction sector generally consumes around 50% of the steel demand in any country. However, it has been higher at around 65% in India. Any contraction in demand from the construction sector thus has a huge bearing on the Indian steel Industry. The JPC data showed that leading producers such as SAIL, RINI, TSL, Essar, JSWL & JSPL together produced 36 MT steel during the April-November period, which is a growth of 15.6% compared to same period last year. Other producers produced the remaining 28.4MT.

(FINANCIAL EXPRESS 7TH DECEMBER, 2016)

3.184 MIN FOR RAISING STAINLESS STEEL CUSTOMS DUTY

Paying heed to the stainless steel industry's demand, steel ministry has proposed an increase in the basic customs duty (BCD) on the product from 7.5% now to at least 10%. The move is aimed at protecting the domestic firms from burgeoning imports from China, Japan and Korea at predatory prices.

Like most of the Indian steel sector, the stainless steel industry has also been facing difficult times over the last three-four years as a result of higher imports from China. This has dragged down capacity utilization of the domestic industry by half to around 3.4 million tonne (mt) per annum.

The government had in June 2015 levied anti-dumping duty for five years on imports of certain varieties of hot rolled flat products of stainless from China ($309 per tonne), Korea ($180 a tonne) and Malaysia ($316 per tonne). Imports of stainless steel flat products to India have gone up 64% over the last three years to stand at 5.32 lakh tonne in 2015-16 China accounted for more than 50% of the total imports. China was a net importer of stainless steel till 2009, but now it has become the largest exporter of the product due to weak demand domestically. Japan and Korea account for around 15% of the total imports. India has already lowered duties to zero on imports of stainless steel flat products from ASEAN countries and Japan and is in a phased tariff-reduction programme with South Korea.

(FINANCIAL EXPRESS 9TH DECEMBER, 2016)

3.185 INDIA'S GOLD IMPORTS JUMP TO YEAR'S HIGH OF 10% IN NOV

Gold imports by India, the second-biggest consumer, are said to have climbed 10% in November to the highest this year, according to a person familiar with provisional finance ministry data. Demand increased as Jewellers built up stockpiles for the marriage season, a trade group said.

Overseas purchases rose to 111 tonnes from 101 tonnes a year earlier, the person said, asking not to be identified as the data arenôt public For the 11 months through November, shipments slumped 43% to 513.9 tonnes from a year earlier, according to provisional ministry data compiled by Bloomberg. Finance ministry spokesman DS Malik declined to comment on the data.

Consumption is on track to drop to the lowest in seven years in 2016 because of higher prices, an excise tax on jewellery and the governmentôs push to bring more transparency to the financial system where gold is used as a home for undeclared income.

The nation imports almost all the gold it consumes and demand was 858 tonnes in 2015, World Gold Council data show.

(FINANCIAL EXPRESS 13TH DECEMBER, 2016)

4. MISCELLANEOUS

4.404 INFRA SECTOR GROWTH JUMPS TO 6-MONTH HIGH

Infrastructure sector recorded a growth rate of 6.6% in October ï the highest in the last six month ï on the back of impressive performance by steel and refinery products.

However, the growth rate of power generation, fertilizer production and cement output fell considerably on year-on-year basis. Coal production continued to fall for the third straight month.

The growth rate of eight infrastructure sectors ï coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity ï was 3.8% in October 2015. It was 5% in September 2016.

The crore sectors, which contribute 38% to the total industrial production, expanded by 4.9% in April-October compared to 2.8% growth in the similar period of last financial year.

As per the official data released 30th November, steel production jumped 16.9% in October against contraction of 5.5% in the year-ago period.

The output of refinery products soared by 15.1% in October. The sector had declined by 4.4% in October last year.

Growth in fertilizer and electricity generation was at 0.8% and 2.8%, respectively, in October 2016, against 16.8% and 13.8%, respectively in October 2015.

Coal production declined by 1.6% in October as against a growth of 6.6% in the year-ago period.

Natural gas and crude oil output during October fell by 1.4% and 3.2%, respectively.

(FINANCIAL EXPRESS 1ST DECEMBER, 2016)

4.405 GDP MISSES ESTIMATE, EXPANDS 7.3% IN Q2

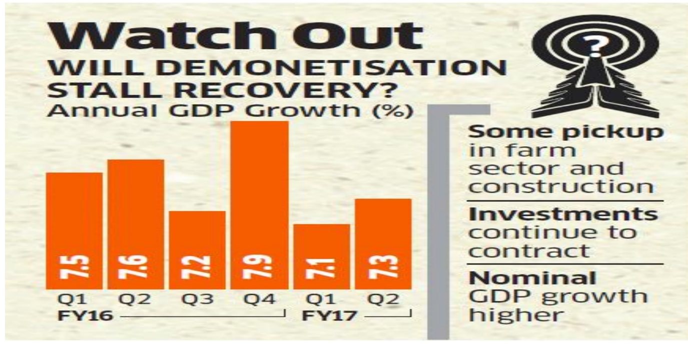
Economic growth picked up in the fiscal second quarter, boosted by a revival in the farm sector and higher government consumption, but the momentum could now lose some steam due to disruption caused by demonetization. The economy expanded 7.3% in the July-September quarter, data released by the statistics office showed, faster than the 7.1% growth reported for the prior three months, but below the 7.6% increase recorded in the year-earlier period. It also missed economistsô median estimate of 7.5%.

Gross Value Added (GVA) growth the second quarter was 7.1%, slower than the previous periodôs 7.3% expansion. GDP and GVA growth in the first half of the year was 7.2%.

Experts said the growth could slip below 7% this fiscal year, and India could lose the tag of the fastest growing major economy to China, Which expanded 6.7% in the July-September quarter.

ñGoing forward, no doubt we see an erosion in growth, given the shock of demonetization that has largely affected demand in the economy due to a liquidity crunch, said Indranil Pan, chief economist at IDFC Bank, who predicted the full year growth at 6.9%.

He expects economic activity to improve ñreasonablyò from the fourth quarter, and assessment seconded by some others as well.



(THE ECONOMIC TIMES, 1^{ST} DECEMBER 2016)

4.406 CASH CRUNCH MAY SLOW DOWN GDP TO 6.5% IN OCT-DEC QTR'

Cash crunch after demonetization is expected to slow down Indiaôs GDP growth to 6.5% for the fourth quarter of 2016 and is likely to spill over into the first quarter of 2017, says a report. According to global financial services firm Nomura, the cash shortage is likely to last till January. Nomura noted that even though the economy experienced a robust aggregate momentum before the demonetization, its recovery was narrow-based due to weak investments and slow non-agriculture sectors with consumption serving as the only growth engine.

(FINANCIAL EXPRESS 2^{ND} DECEMBER, 2016)

4.407 PETROL, DIESEL SALES DROP 20-25%, SAY DEALERS

Contrary to the common trend of motorists rushing to fuel stations to use their old Rs.500 and Rs.1,000 notes, the sale of petrol and diesel has seen a drop of 20-25% in November this year against the year-ago period, say dealers.

With effect from the midnight of December 2, the old notes will not be accepted at petrol, diesel and gas outlets of IOC, BPCL and HPCL.

ñIn the first few days of demonetization, the sale of fuel had increased by nearly half, but gradually it has dropped. To our surprise, the sales were recorded 20-25% lower on 1^{st} December compared to the year-ago period,ò said Ajay Bansal, president of All India Petroleum Dealers Association.

A fuel station on an average sells nearly 1.70 lakh litre petrol and diesel. Of this, a chunk or about 1.10-1.20 lakh litre is diesel. Bansal said he had spoken to petroleum minister Dharmendra Pradhan on 1^{st} December requesting him to remove petrol pumps from the list of establishments where old notes were accepted.

Bansal said about 11,000-12,000 fuel pumps across the country tried to roll out the new banknotes using card-swiping machines, but the programme was not successful as only State Bank of India (SBI) was giving out the new ones.

(FINANCIAL EXPRESS 2^{ND} DECEMBER, 2016)

4.408 FORECASTERS SAY INDIA MAY STILL BE THE FASTEST – GROWING ECONOMY

India Could hang on to the tag of worldôs fastest ï growing economy going by forecasts based on the strength of first-half expectations despite shocks emanating from the cancellation of high-value notes. GDP could still expand faster than the 6.6% at which China is expected to grow by the IMF.

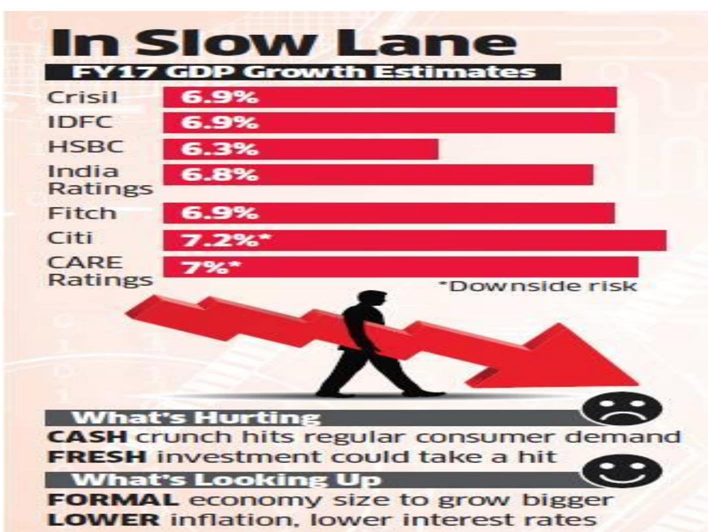
Forecasters across the board have reduced their FY17 growth estimates on account of demonetization. Crisil, the countryôs biggest rating agency, sees growth in the year to March next year at 6.9%. Citi sees it at 7.2% with a downside risk while IDFS bank puts it at 6.9%.

To be sure, thereôs little data related to the impact of the November 8 Demonetization to back up the estimates.

Among the numbers available is the Purchasing Managersô Index for November which fell to 52.3 from a 22-month high of 54.4 in October. The RBIôs commentary along with its monetary policy statement on December 7 should provide more clarity. The central bank had previously estimated growth at 7.6% Indian economy expanded 7.2% in the first half and 7.3% in the September quarter, data released on November 30 showed.

The decline in growth estimates from near 8% for FY17 to below 7% in most cases stems from the shock to consumption from the note withdrawal and its spillover effect on investment, which fell 5.6% in the July-September period from a year ago, the third successive quarter of contraction. Private consumption rose 7.6% in the September quarter and was seen driving the economy higher with rural demand driven by a good monsoon topping up the lift in urban consumption from the seventh pay commission income bump.

ñThe construct has changed with as much as Rs. 16 lakh crore worth of currency now being demonetized leading to severe shortage of currency and thus expected to lead to a dip in consumption demand,ò said Indranil Pan, chief economist at IDFC Bank.



(THE ECONOMIC TIMES, 5TH DECEMBER 2016)

4.409 FACTORY OUTPUT GROWTH SLOWS DOWN ON NOTE BAN: PMI

Hit hard by demonetization move, manufacturing growth decelerated sharply in November as cash crunch slowed domestic consumption, production of goods and new orders, even as subdued inflationary pressure raised hopes for a rate cut by the Reserve Bank of India, a monthly survey showed on 1st December.

The Nikkei Markit India Manufacturing Purchasing Managers Index (PMI) ï a gauge of manufacturing performance ï fell to 52.3, down from a 22 month high of 54.4 in October. A reading above 50 indicates expansion, while a score below this level means contraction in factory output.

ñPMI data for November showed the sudden withdrawal of high-value bank notes in India caused problems for manufacturers, as cash shortages hampered growth of new work, buying activity and production, ñ said Pollyanna De Lima, economist at IHS Markit and author of the report.

November data still marked the 11th consecutive monthly improvement in manufacturing conditions across India.

While many companies, surveyed for the monthly PMI scorecard, commented that further disruption is expected in the near-term, the demonetization of the rupee is anticipated to ignite growth in the long-run as unregulated companies will leave the market, Lima added.

(BUSINESS STANDARD 5TH DECEMBER, 2016)

4.410 SERVICES SECTOR FEELS NOTE BAN CHILL, CONTRACTS SHARPLY IN NOV

Indiaôs services sector contracted sharply in November as lack of cash following the shock demonetization of Rs.500 and Rs.1000 notes disrupted demand, ending 16 months of expansion.

The Nikkei India Services Business Activity index slumped to 46.7 in November from 54.5 in October, falling below the crucial 50 mark that separates expansion from contraction, providing the first evidence of economic dislocation due to the currency switch. Itôs the first times since June 2015 that the index has gone below 50. But sentiment is buoyant business confidence is at a three-month high ï with the surveyôs respondents expecting a rebound once cash supplies stabilize and the government achieves its aim of tackling black money.

The latest set of gloomy PMI (Purchasing Managersô Index) figures for the Indian service sector shows that companies were heavily impacted by Rs.500 and Rs.1000 notes ban,ò said Pollyanna De Lima, economist at Markit and author of the report, ñCash shortages resulted in fewer new business intakes, which in turn caused a fall in activity and ended a 16-month expansion sequence.

(THE ECONOMIC TIMES, 6TH DECEMBER 2016)

4.411 STEEL MIN TO ENSURE FIRMS MEET GLOBAL QUALITY STANDARDS

Companies will have to work on meeting global quality standards and follow international best practices, steps that will help India become a manufacturing hub, steel minister Chaudhary Birendra Singh said on 8th December.

In order to fulfil Prime Minister Narendra Modiôs dream of making India a global manufacturing hub and ensure success of make in India, there is a need to concentrate on enhancing quality standards and focus on R&D, he said.

ñFor India to become a manufacturing hub and to produce products for the global community, we need to meet and adhere to the global best practices and quality standards.

Stressing that it is essential for steel products to gain acceptability and recognition at the global level, Singh said the way forward is to bring more products under the ambit of quality control orders for a holistic coverage.

ñIndia needs to find new markets for its products for better capacity utilization and, quality is a pre-requisite for export-orientation. This is essential as steel products from the backbone of infrastructure, construction, house hold utilities, engineering goods and other sectors,ò he explained.

(FINANCIAL EXPRESS 8TH DECEMBER, 2016)

4.412 GLOBAL OIL AND GAS INDUSTRY TO SEE MODEST REBOUND IN 2017: MOODY'S

Global oil and gas industry will continue to be plagued by the weight of high debt levels next year despite the OPEC offer to Lower production from January, which has helped the industry rebound modestly from its 2016 trough, says a report.

ñOutlook is stable for integrated oil and gas companies as their EBITDA will rise by about 5% buoyed by stabilizing capex and a substantial realignment of cost structures.ò Moodyôs said in a note issued from New York.

ñOil and gas prices are improving from 2016ôs lows, and commodity price hedging is increasing. Combined with reduced drilling and service costs, we expect EBITDA to grow 20-30% for exploration and production firms in 2017,ò Moodyôs said in a report.

It has a negative outlook for drilling and oilfield services companies as the players in the sector are facing continuing weak up-stream spending limiting any meaningful recovery for drillers on one hand and on the other equipment excess continues to weigh on prices for off-shore services. Moodyôs expects the drilling and oilfield services sector to see EBITDA decline to very low levels through early 2017, before increasing by 4.6%.

ñDespite an uptick in M&As, the synergies and cost savings from such deals are unlikely to increase aggregate EBITDA as much as investments in growth capital spending, even as midstream capital growth is anticipated to drop another 20% from current levels,ò says the report.

ñGasoline and distillate inventories remain above their five-year averages, with uneven declines in refinery utilization in US. On the demand side, the US and China growth are expected to slow, while Europe is expected to decline. As a result, Ebitda will drop by 10-15% through the middle of 2017 in North America and Europe amid weak crack spreads,ò it said.

(FINANCIAL EXPRESS 9TH DECEMBER, 2016)

4.413 SUBDUED FOOD ITEMS SOFTEN INFLATION TO 3.15%

Lower prices of vegetables and some kitchen staples, mainly on account of demand slump after post demonetisation, pulled down wholesale inflation to 3.15% in November - the third straight month of decline.

Substantial decline in wholesale prices was witnessed in vegetables (-24.10%), Onion (-51.51%) and oil seeds (-5.05%) last month.

The Wholesale Price Index (WPI) based inflation, reflecting the annual rate of price rise, was (-) 2.04% in November 2015.

In October this year, it was 3.39%.

Prices of pulses however continued to rule high in the wholesale market at 21.73% last month, as per the Commerce Ministry data.

Potatoes recorded maximum inflationary pressure at 36.97%. Inflation in fruits rose to 2.45% during the month.

Overall, the food basket showed moderation with inflation at 1.54% in November as against 4.34% in October.

The decline in wholesale inflation coincides with a fall in retail inflation, based on Consumer Price index, which hit a two-year low of 3.63% in November.

(FINANCIAL EXPRESS 15TH DECEMBER, 2016)