

2016

ECONOMIC INTELLIGENCE BULLETIN

16th – 31st 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 31st December, 2016.

1. PRICE TREND

1.166 INDIAN NATURAL RUBBER FOLLOWS GLOBAL PATH, PRICE LIKELY TO TOUCH RS 150 SOON

Natural rubber prices in India may touch Rs 150 per kg in a few weeks, traders said, as the commodity continues to gain momentum in a rally that started last month. They said prices are moving in tandem with the international prices, which spurted to Rs 162.69 per kg, thanks to a surge in crude oil prices, increased demand in China and appreciation of the dollar. In India, the commodity was trading at Rs 138 per kg at the end of last week.

According to a senior executive at the Rubber Board, Indian rubber prices generally track international prices and the market invariably adjusts to international prices often with a time lag. Prices in India had been ruling above the international prices since December 2013.

But the situation changed in the middle of last month. Though it is the peak harvest season, tapping has been partially affected by demonetisation and insufficient northeast monsoon.

But purchases by the rubber industry, especially tyre makers, may not show a significant increase, given downswing in sales.

To add to their woes, a rise in crude oil prices has also resulted in an increase in the price of synthetic rubber, an important raw material derived from petrochemicals.



(THE ECONOMIC TIMES, 19TH DECEMBER 2016)

1.67 DOMESTIC STEELMAKERS MAY RAISE PRICES ON HIGH COKING COAL COST

Domestic steelmakers may jack up prices by up to Rs 4,000 per tonne in January for both long and flat products, used for construction and automotive sector respectively, to partially offset the inflated coking coal cost push.

Though it softened a little to around \$270 a tonne now from its peak of over \$300 a tonne in November, coking coal is still hurting the Indian steelmakers hard since they largely depend on imports to meet their demand. Steelmakers have been raising prices to counter the cost push with the latest came in as early as the middle of December. They raised prices in the beginning of the month as well. While they hiked the price by around Rs 1,200 per tonne for long products in the beginning of the month, towards the middle they made them costlier by an additional Rs 500 per tonne.

Flat steel producers also raised the price by about Rs 3,000 per tonne in December. "We need to hike prices by Rs 6,000 a tonne in January if we were to make up for the entire cost push arising out of dearer coking coal."

The increase might be effected in two tranches – one in the beginning of the month and then again around the middle of the month, if the market absorbs the first hike, he added. One flat steel producer also flagged the need for raising the prices due to higher input costs. However, he said that the hike would be in the range of Rs 3,000 a tonne.

(FINANCIAL EXPRESS 29TH DECEMBER, 2016)

1.68 OIL STEADY AS RISE IN US INVENTORY SLOWS UPSWING

Oil prices steadied on 29th December after a surprise increase in US inventories helped stall an upward trend that has pushed global crude benchmarks to their highest levels since July last year. Traded volumes were thin with many investors away for year-end holidays, although the expiry of the front month February ICE Brent contract on 29th December could generate some activity. Both crude oil benchmarks have made big gains this month since OPEC and other producers agreed to curb production in an attempt to balance an over supplied fuel market.

"The market is in good shape although it might fail to make significant advances this year," said analyst Tamas Varga at London brokerage PVM Oil Associates. "If that is the case the uptrend should continue in early January."

(FINANCIAL EXPRESS 30TH DECEMBER, 2016)

1.69 GOLD SURGES BY RS.150 ON GLOBAL CUES, SUSTAINED BUYING

Rising for the third straight day, gold prices rose by another Rs. 150 to Rs 28350 per 10 grams, tracking positive global cues amid continued buying by local jewellers.

On similar lines, silver advanced by Rs. 400 to Rs. 39900 per kg on increased off take by industrial units and coin makers. Bullion traders said apart from a firming trend overseas, fresh weakness in dollar raised demand for the precious metal as a safe haven and persistent buying by jewellers in the domestic market mainly kept gold

prices higher. Globally, gold rose 0.68% to \$1149.50 an ounce and silver by 1.16% to \$16.16 an ounce in Singapore. In the national capital, gold of 99.9% and 99.5% purity surged by Rs 150 each to Rs. 28350 and Rs 28200 per 10 grams, respectively. The precious metal had rallied by Rs 650 in last two days.

(FINANCIAL EXPRESS 30TH DECEMBER, 2016)

2. FISCAL POLICY

2.301 FPI OUTFLOW FROM CAPITAL MARKETS AT RS. 19,500 CRORE

Foreign investors have pulled out more than Rs. 19,500 crore from the capital market this month so far amid rate hike by the US Fed and higher oil prices. Net withdrawal by FPIs from equities stood at Rs. 1,142 crore this month, while the same from the debt market was Rs.18,452 crore depositories data showed.

(THE ECONOMIC TIMES, 17TH DECEMBER 2016)

2.302 67.54 L TAX DEFAULTERS IDENTIFIED FOR FY 15

The Income Tax Department has identified an additional 67.54 lakh potential non-filers who carried out high value transactions in 2014-15 but did not file return of income.

The Non-Filers Monitoring System (NMS) was initiated by CBDT, for identification of non-filers with potential tax liabilities.

øThe Income Tax Department has conducted the fifth cycle of data matching which has identified an additional 67.54 lakh potential non-filers who have carried out high value transactions in the financial year 2014-15 but did not file return of income for the relevant assessment year i.e. AY 2015-16,ö CBDT said in a statement.

øThe department would continue to pursue the non-filers vigorously till all the high potential non-filers are covered,ö statement said.

(THE ECONOMIC TIMES, 23RD DECEMBER 2016)

2.303 FIPB CLEARS 6 FDI PROPOSALS WORTH RS 1,200 CR

Inter-ministerial body FIPB approved six investment proposals, including that of Sanofi Synthelabo India, Star Den Media Services and Idea Cellular Infrastructure Services, envisaging foreign investment of Rs 1,200 crore.

"6 out of 17 FDI proposals got approval," sources said. Other proposals which got green signal were Boehringer Ingelheim India Pvt Ltd, A Menarini India Pvt Ltd and Recipharm Participation.

Six proposals were deferred for further consultation and want of more information, sources added.

Some of the proposals which were deferred were those of Crest Premedia Solutions Pvt Ltd, You Broadband India and Scientific Publishing Services Pvt Ltd.

India allows FDI in most sectors through the automatic route, but in certain segments considered sensitive for the economy and security, the proposals have to be first cleared by FIPB.

With growth in FDI in important sectors like services and manufacturing, overall foreign inflows in the country rose by 30% to USD 21.62 billion during the first half of 2016-17.

FDI in the country grew by 29% to USD 40 billion in 2015-16 as against USD 30.94 billion in the previous financial year.

(FINANCIAL EXPRESS 30TH DECEMBER, 2016)

3. IMPORT AND EXPORT POLICY

3.186 INDIA'S EXPORTS UP 2.9% IN NOV, GOLD IMPORTS RISE 23% ON FESTIVE DEMAND

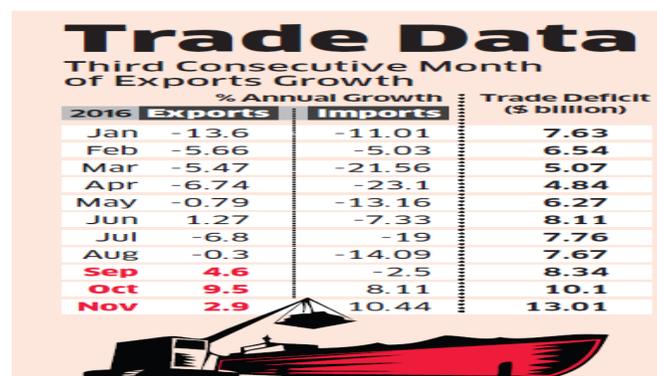
India's merchandise exports grew for the third consecutive month in November with 20 of the 30 export sectors registering a growth in outward shipments, but higher imports due to spike in gold purchases led to sharp increase in trade deficit.

In November, exports added \$20 billion compared with \$19.5 billion a year ago, an increase of 2.9%, data released by the government showed. The overall exports in April-November also turned positive showing a growth of 0.1% during the period. November exports were down from \$23.5 billion recorded in October, indicating that demonetisation may have hit shipments. Imports increased at a sharper 10.4% at \$33 billion compared with \$29.8 billion in the year ago period, leaving a trade deficit of \$13 billion. Trade gap in November 2015 was \$10.3 billion.

Oil imports in November grew 5.89% to \$6.83 billion while non-oil imports rose 11.7% to \$26.18 billion. Firming of global oil prices is expected to augur well for Indian exports.

Gold imports increased 23% to \$4.3 billion from \$3.5 billion in November last year. Pearls, precious and semiprecious stones imports rose a sharp 61%. However, gems and jewellery exports were down 12% in the month.

Part of the gold imports could also have been due to the demonetisation with various reports showing high gold purchases to absorb cancelled currency.



(THE ECONOMIC TIMES, 16TH DECEMBER 2016)

3.187 INDIA'S IRAN OIL IMPORTS PLUNGE 19% IN NOV, S ARABIA TOP SUPPLIER

India's oil imports from Iran fell 19% in November from a record high the previous month after regional rivals Saudi Arabia and Iraq raised sales to the world's third-biggest oil consumer, regaining their positions as the top two suppliers.

The November drop came before OPEC members and other global producers agreed to cut output in a bid to bolster weak oil prices. Iran, a member of the Organization of Petroleum Exporting Countries (OPEC), had been initially hesitant to cut production, but as Saudi Arabia - OPEC's largest producer - agreed to bear the lion's share of reductions, the landmark deal was agreed at the end of last month.

Supplies from Iran to India more than doubled in January-November to 468,900 bpd from 205,900 bpd in the same period last year, the data showed.

Overall, India imported an average 4.28 million bpd of crude in the January-November period of 2016, up 7.6% from 3.98 million bpd a year ago.

India's average Iranian oil imports in April-November - the first eight months of India's financial year - rose 126% to 532,100 bpd, the data showed. Tehran's share in overall purchases jumped to 12.5% from 5.9%.

(FINANCIAL EXPRESS 22ND DECEMBER, 2016)

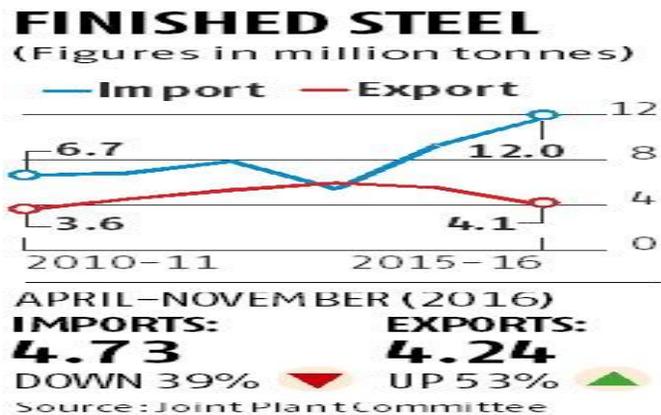
3.188 INDIA MAY TURN NET STEEL EXPORTER

India is likely to turn a net exporter of steel this year, on the back of an improvement in international prices, led by cost-push and a slump in retail sales, courtesy demonetisation.

During April-November, exports increased 53% over the same period last year to 4.24 million tonnes (mt). Imports, on the other hand, dropped 39% to 4.73 mt. Given that there is still a quarter to go, the sector is expecting exports to surpass imports. The previous year saw a record level of imports at 12.7 mt while exports were at 4.6-4.7 mt.

International contract prices of premium hard coking coal for the third quarter of FY17 have been settled at \$200 a tonne, an increase of 116% quarter-on-quarter. Moreover, spot prices have increased from \$90 a tonne in July to \$315 a tonne.

The increase in input cost is reflecting in steel prices. In the past three months, international steel prices have increased by more than \$100 a tonne. "Last year, the situation was volatile and exports had become unviable," Jayant Acharya, Director (Commercial & marketing) at JSW Steel said.



(BUSINESS STANDARD 22ND DECEMBER, 2016)

3.189 RUBBER GROWERS SEEK IMPORT BAN

Rubber growers have sought a ban on import of Natural Rubber (NR) for atleast six months. Indian Rubber Growers Association (IRGA) has called on Union minister of state for commerce Nirmala Sitaraman in New Delhi, urging her to impose restrictions on imports and to incentivise NR exports.

“We have brought to the attention of the government that the production costs of NR are currently to the tune of R172 per kilo. Centre should devise schemes to push up the market price, which could meet the production costs with 50% mark-up, so that rubber farmers would stop leaving the trees untapped or switching over to other crops,” IRGA general secretary Sibi Monipally told FE.

According to the memorandum given to the commerce minister, when the international price is R160 per kilo, the premium variety RSS-4 fetches only R139 per kilo in India.

Other demands include ban on the import of cheap quality tyres, hike in the import tariff on rubber products, and the launch of a new rubber re-plantation drive.

Fall in demand of automobiles has been playing haywire with the NR demand. As much as 70% of the NR produced is used in commercial vehicles tyres. The collapse in vehicle sales by 11.58% in November kept the NR prices down.

(FINANCIAL EXPRESS 23RD DECEMBER, 2016)

3.190 GEMS AND JEWELLERY EXPORTS UP 10% IN APRIL-NOVEMBER

Exports of gems and jewellery grew by about 10% to \$ 23.5 billion during April-November period of the current fiscal, driven largely by rising demand in India's major export markets like the US and Europe.

In April-November period of 2015-16, exports from the sector stood at \$ 21.5 billion, according to the data from Gems and Jewellery Export Promotion Council (GJEPC).

Gems and jewellery contribute about 14% to the country's overall exports.

The rise in April-November period was mainly supported by exports of cut and polished diamond. It rose to \$ 15.4 billion during April-November 2016-17 from \$ 13.7 billion a year ago. Exports of silver jewellery too grew by 16.3%.

(FINANCIAL EXPRESS 23RD DECEMBER, 2016)

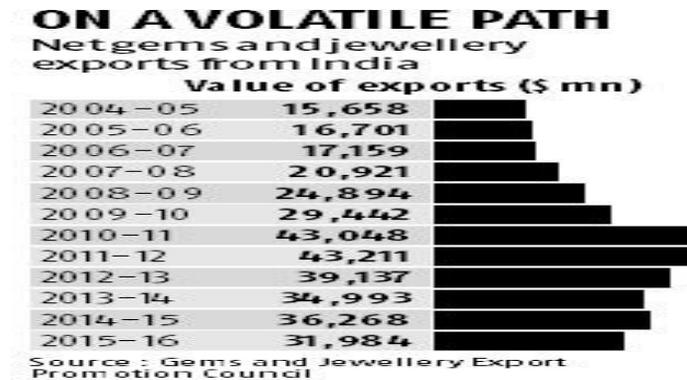
3.191 GEMS AND JEWELLERY EXPORTS OUT OF EU'S PREFERNECE LIST

Gems and jewellery export to the European Union worth upwards of \$3 billion a year is at risk due to the country's exclusion in the list of Generalized System of Preferences (GSP), a practice which offers tax incentives from origin to destination countries.

India enjoyed customs duty benefits to the tune of 2.5-4% and value added tax between 20 and 25% in various countries in the EU in the last three years of the GSP regime, ending this month. As a result, our gems and jewellery export jumped to \$3.6 billion in 2014-15, though it then declined by 10% to \$3.2 bn 2015-16, due to unfavourable market conditions.

In the revised list, however, the EU has excluded this sector from the GSP list. This means, all customs and VAT applicable for non-GSP commodities would be applicable for gems and jewellery export from India. The EU takes eight% of our overall annual export of gems and jewellery, worth \$39 bn.

This exclusion comes as the sector faces challenges, due to the global economic uncertainty.



(BUSINESS STANDARD 23RD DECEMBER, 2016)

4. MISCELLANEOUS

4.414 INDEX OF MINERAL PRODUCTION DROPS 1.1% IN OCTOBER

The index of mineral production of the mining and quarrying sector for October declined by 1.1% while the total value of the month was estimated at Rs.19,359 crore. The index of mineral production of the mining and quarrying sector for October 2016, at 129.4, was 1.1% lower as compared to October 2015, an official statement said. The cumulative growth for April-October 2016-17 over the corresponding period of the previous year has been (-) 0.2%.

(FINANCIAL EXPRESS 20TH DECEMBER, 2016)

4.415 FUEL COST SURGE HITS CEMENT FIRMS

Cement companies are facing margin pressure because of rising prices of imported coal and petcoke, a byproduct of oil refining, and sluggish demand due to demonetisation.

While input costs have risen, the price of cement has come down. ICRA Ratings says while cement prices have gone down in the southern and western markets particularly, volume growth has been adversely impacted in all regions.

In south India, the price of a cement bag declined by Rs 30 during October-November and is around Rs 300 now.

In the western markets, after the price increased by Rs 15 a bag in October and reached Rs 265 a bag, it slipped to Rs 240 in the next month.

However, the prices have held in the northern and eastern markets.

This prices of the two fuels are unlikely to come down in six months. Brokerages are reckoning on a 15-20% demand drop this month.

According to the data from S&P Global Platts, petcoke prices rose 37% between July and December at \$95.75 a tonne while imported coal prices rose from \$52 per mt in July to \$71.5 as on December 19.

Cement plants alternate between coal and petcoke. Because of low petcoke prices last year and early this year, many cement companies had started using it as a substitute for coal.

Fuel accounts for at least 40% of a company's input costs and cement firms normally store enough to meet the requirements of 45 days.

Given the fact that cement demand is driven significantly by real estate, it is likely to get impacted in the near term. Overall, the demand for cement is expected to be adversely impacted by this development in the next two to three quarters, said Sabyasachi Majumdar, senior vice-president, ICRA Ratings, in a statement.

UNDER PRESSURE				
Month	Average Petcoke price (in \$/tonne)	Percentage increase/decrease over previous month	Average imported thermal coal price (in \$/tonne)	Percentage increase/decrease over previous month
December	95.75 (from 1-14)	5.10	72.23 (from 1-19)	- 7.99
November	91.10	2.50	78.51	15.29
October	88.88	9.05	68.10	23.71
September	81.50	3.95	55.05	3.70
August	78.40	8.69	53.09	4.65
July	72.13	15.78	50.73	9.69

Source: S&P Global Platts

(BUSINESS STANDARD 21ST DECEMBER, 2016)

4.416 NATURAL RUBBER OUTPUT RISES 19% IN NOVEMBER

Natural Rubber (NR) production in the country is showing an increasing trend with the production during November recording a 19% rise as compared to the production during the same period last year, officials of the state-run Rubber Board said on 20th December.

India is the world's second-biggest consumer of the commodity and the world's fifth-biggest rubber producer. The country produced 655,000 tonne of NR in the 2014-15 crop year.

Production during November 2016 is 63,000 tonne, whereas it was 53,000 tonne in November 2015.

Increase in production during April-November 2016 as compared to the same period last year is 12%, Board sources said. Total production in the current fiscal up to November is 4,28,000 tonne whereas it was 3,82,000 tonne in 2015. If this trend continues, production of NR during the fiscal is expected to reach the anticipated 6.54 lakh tonne.

Since 2011-12, NR production and productivity has been steadily coming down while the imports have been steadily mounting and consumption has marginally gone up.

(FINANCIAL EXPRESS 21ST DECEMBER, 2016)

4.417 GLOBAL STEEL PRODUCTION REMAINS FLAT IN JAN-NOV AT 1,468 MT

Global steel production remained flat in the first 11 months of the current year at 1,468 MT even as four out of five major steel producing nations improved their output in November over the same month last year.

With 739 MT, China contributed the maximum to the global production during the January-November period followed by Japan at 96 MT, India at 88 MT, the US 72 MT and Russia at 65 MT.

Global steel production was at 1,463 MT during the January-November period of last year in which half of the contribution came from China. Japan produced 97 MT, India 82 MT, the US 73 MT and Russia 65 MT.

Though production improved, India is likely to end the current year as the world's third largest steel producer, same as last year. With new capacity addition and growth in output, India had gone past the US as the third largest steel producer in 2015.

Japan produced less steel in November this year than in the same month last year. On the other hand, India's production growth rate at 10.7% has been the highest among major producing nations. China, the US, and Russia also produced more steel in November this year compared with the same month last year.

Overall, global production grew by 5% in November to stand at 132 MT. China produced 66 MT steel during the month. Japan produced 8.6 MT and India

produced 8 MT. The US and Russia produced 6.2 MT and 5.9 MT steel respectively during the month.

(FINANCIAL EXPRESS 23RD DECEMBER, 2016)

4.418 RUPEE DIVES 18 PAISE, HITS 4-WEEK LOW

The Rupee on 28th December fell by 18 paise to close at a 4-week low of 68.24 because of month-end dollar demand from importers coupled with sustained foreign capital outflows.

Besides, the dollar strengthening against rivals in the overseas market also added to the pressure on the domestic currency, a forex dealer said.

The rupee opened lower capital outflows.ö a forex trader said.

The dollar index was trading higher by 0.32% against a basket of six currencies in the late afternoon trade. Overseas, the dollar inched up against the yen after upbeat US economic data reinforced expectations for economic growth under Donald Trump's Administration and more rate hikes by the Fed next year.

In the forward market, the premium for dollar fell further on sustained receiving at 68.10 as against the last closing level of 68.06 at the Interbank Foreign Exchange market and dropped further to 68.25 before ending at a four week low of 68.24 per dollar, showing a loss of 18 paise or 0.26%.

The rupee has lost 50 paise, or 0.74%, against the dollar in two days. The domestic unit hovered between 68.09 and 68.25 per dollar during the day.

(FINANCIAL EXPRESS 29TH DECEMBER, 2016)