ECONOMIC INTELLIGENCE BULLETIN

(16-31st May 2017)

GOVERNMENT OF INDIA
DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
JEEVAN TARA BUILDING, 5 SANSAD MARG,
NEW DELHI - 110001

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 May, 2017.

1. PRICE TREND

1.32 RUBBER FUTURES RISE 2% ON FIRM OIL PRICES

Benchmark TOCOM rubber futures extended gains on 22nd May 2017 on the back of firm oil prices. The TOCOM rubber contract for October delivery rose 4.4 yen to 229.3 yen per kg by 0025 GMT. Rubber inventories monitored by the Shanghai Futures Exchange rose 0.1% from last week.

(THE ECONOMIC TIMES 23RD MAY 2017)

1.33 CHINA STEEL UP 6% ON POLLUTION CRACKDOWN

Chinese steel futures jumped more than 6%, as Beijing keeps up a campaign to clamp down on polluting producers. Earlier in the session, the most-active rebar on the Shanghai Futures Exchange climbed as much as 6.3% to 3,385 yuan per tonne, the highest since March 20.

(THE ECONOMIC TIMES 23RD MAY 2017)

1.34 CRUDE OIL WEAKENS AS OPEC DISAPPOINTS WITH 'SAFE BET' EXTENSION

Oil weakened after OPEC was said to agree to extend output cuts for another nine months, disappointing investors who had hoped for more.

Futures erased gains for the week, dropped as much as 2.5% in New York. OPEC has agreed to extend its supply deal for another nine months beyond June, said two delegates familiar with the matter, who asked not to be identified because the meeting hasn't yet concluded.

The curbs are working, and prolonging the deal through March will "do the trick," Saudi Oil Minister Khalid Al-Falih said before the ministerial meeting in Vienna on 25th May 2017. The Organization of Petroleum Exporting Countries (OPEC) will empower its monitoring committee to recommend "further interventions" if needed, Al-Falih said.

Libya and Nigeria, which have boosted output since the curbs started in January, will continue to be exempt from production cuts, he said.

West Texas Intermediate for July delivery fell 66 cents, or 1.3%, to $50.70 a barrel on the New York Mercantile Exchange at 1:24pm.

Total volume traded was about 180% above the 100-day average. Futures lost 11 cents, or 0.2%, to $51.36 on 24 May 2017.

Brent for July settlement slumped as much as 2.3% to $52.72 a barrel on the London-based ICE Futures Europe exchange. Prices fell 19 cents, or 0.4%, to $53.96 on 24 May 2017.

The global benchmark crude traded at a premium of $2.68 to WTI.

(FINANCIAL EXPRESS 26TH MAY 2017)

1.35 GOLD TOPS RS 29,000-MARK, UP RS 185 ON BUYING BY JEWELLERS

Gold wrested control of the Rs 29,000 level by rising Rs 185 to Rs 29,100 per 10 grams 24th May 2017, taking strength from the scattered buying by local jewellers amid a firm trend overseas. However, silver met with resistance at existing levels and took hit of Rs 215 at Rs 39,600 per kg.

Gold prices firmed up after 23rd May 2017 decline, mainly because of fresh buying by local jewellers at the domestic spot market, coupled with a better trend globally. Overseas, the yellow metal edged up 0.07 per cent to USD 1,251.60 an ounce while silver slipped 0.26 per cent to USD 17 an ounce in Singapore.

In the national capital, gold of 99.9 per cent and 99.5 per cent purity bounced by Rs 185 each to Rs 29,100 and Rs 28,950 per 10 grams, respectively. The precious metal had lost Rs 235 on 23rd May 2017.

Sovereign, however, remained unaltered at Rs 24,400 per piece of eight grams. On the other hand, silver ready declined by Rs 215 to Rs 39,600 per kg and weekly-based delivery slumped below the Rs 40,000-mark by falling Rs 490 to Rs 39,510 per kg.

Meanwhile, silver coins continued to go at the previous level of Rs 71,000 for buying and Rs 72,000 for selling of 100 pieces.

(FINANCIAL EXPRESS 25TH MAY 2017)

2. FISCAL POLICY

2.23 EASING FDI IN CONSTRUCTION, RETAIL

Among other proposals, the government has been considering allowing up to 100% FDI through the automatic route in single-brand retail. Currently, beyond 49%, government approval is required. Even the proposal to relax rules in FDI in the print media is being considered presenting the Budget for 2017-18, finance minister Arun Jaitley had said the government would be considered further relaxing FDI rules to make it even easier for foreign companies to invest in India.

The Narendra Modi government has already announced two big rounds of relaxations in the FDI regime, first in November 2015 and then in June 2016, easing rules in over a dozen sectors ranging from real estate, pharmaceuticals, food marketing, aviation ,defence to e-commerce and banking.

Total inflows of FDI (in equity) into India rose 29% in 2015-16 from a year before to $40 billion. Between April and December of 2016-17, the FDI inflows rose $46.40 billion up 18% from a year earlier.

(FINANCIAL EXPRESS 18TH MAY 2017)

2.24 CENTRE SEEKS 5% GST FOR GOLD, 12-18% FOR BISCUITS

The Centre is likely to propose two rates for biscuits, depending on prices, at the Goods and Services Tax (GST) Council meeting on 3rd June 2017. It would also make a case to tax gold at 5 per cent.

For biscuits priced at Rs 100 a kg or more, the Centre might propose a GST rate of 18 per cent. Those priced less could be slotted in the 12 per cent slab.

At present, biscuits in the second category are not taxed by the Centre, but have a 4.5-14.5 per cent value-added tax, depending on the state.

Biscuit makers are opposing higher taxes. Parle-G, which produces popular glucose biscuits, wants it to be in the lowest tax slab — 5 per cent. They argue it is consumed by the poor and distributed at anganwadi centres.

On 3rd June 2017, the Council, chaired by Union Finance Minister (FM) Arun Jaitley and comprising FMs of states or their representatives, will decide on the rates for seven goods — biscuits, gold, textiles, handicrafts, footwear, bidis and agricultural implements. The final call on the fitment of rates might be a political one, but some petitioners to the Council are already giving it a political tinge.

For instance, Hindustan Unilever (HUL), the maker of Surf Excel, Rin, Vim and Wheel, has pitched for a lower GST rate, citing Prime Minister Narendra Modi's Swachh Bharat campaign.

HUL has argued that a 28 per cent tax on detergents — used to clean toilets — was against Swachh Bharat.

At its pevious meeting in Srinagar earlier this month, the GST Council cleared rates for 1,211 goods and 500 services.

On the demand for a low GST rate for biscuits, an official said the Council would look at the current tax incidence before deciding on it. Experts claim there should be a third category — of biscuits priced at Rs 500 per kg. These should be taxed at 28 per cent, said M S Mani, senior director, Deloitte.

"Low-price-high-nutrition biscuit companies want their products to be taxed at 5%.

(BUSINESS STANDARD 31ST MAY 2017)

3. IMPORT AND EXPORT POLICY

3.23 INDIA'S PALM OIL IMPORT RISES 2.25% IN APRIL

Palm oil import rose 2.25 per cent to 752,632 tonnes in April on higher shipments of Crude Palm Oil (CPO), industry body Solvent Extractors Association (SEA) said on 16th May 2017.

India, the world's leading vegetable oil buyer, had imported 736,036 tonnes of palm oil in April 2016. The country's total vegetable oil import grew by seven per cent to 1,339,489 tonnes in April this year, from 1,248,887 tonnes in the year-ago period. Palm oils comprise 62 per cent of the total vegetable oil import. However, import of vegetable oils in the first six months of the ongoing 2016-17 oil year ending October has dropped to 4,302,135 tonnes, from 4,340,890 tonnes in the year ago.

According to SEA, the difference between the landed price of two palm oils — RBD palmolein and CPO — has narrowed, encouraging the shipment of CPO this month. Also, strengthening of the rupee in the last three months supported the import of vegetable oils.

Among palm oil products, import of CPO went up to 511,139 tonnes in April this year, from 398,606 tonnes in the year-ago period.

However, the shipment of RBD palmolein fell to 232,243 tonnes, from 325,902 tonnes, while that of import of Crude Palm Kernel Oil (CPKO) fell to 9,250 tonnes, from 11,528 tonnes in the said period, the SEA said in a statement.

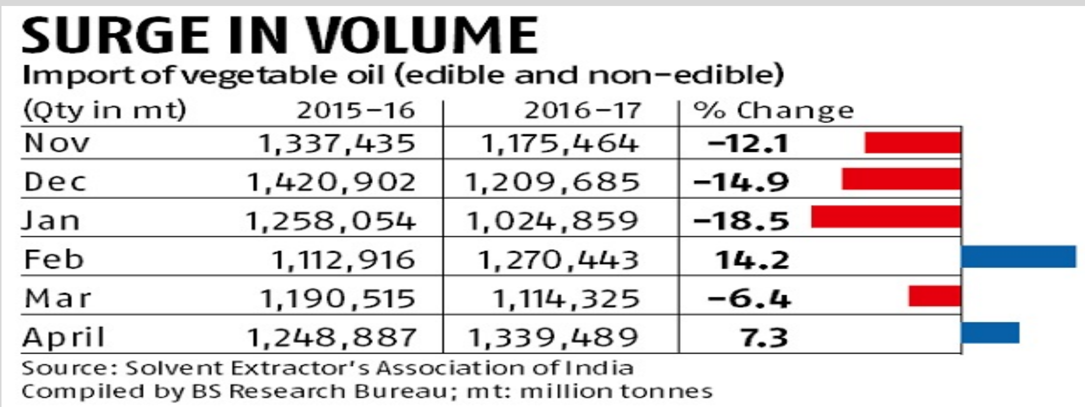
Among soft oils, import of sunflower oil increased sharply to 234,516 tonnes in April this year, from 100,750 tonnes in the year earlier.

The shipment of soyabean oil, however, dropped to 304,942 tonnes from the earlier 348,195 tonnes while that of rapeseed-mustard oil too declined to 31,924 tonnes, from 51,087 tonnes.

"Importers continue to make larger import of sunflower oil, taking advantage of attractive price vis-a-vis soyabean oil," the SEA said.

As of May 1, the stock of edible oils at various ports was estimated to be over 21.20 lakh tonnes, that is equal to meeting 39 days requirements. India's monthly requirement is about 1.65 million tonnes, it added.

India imports palm oil, mainly from Indonesia and Malaysia, and a small quantity of crude soft oils, including soyabean oil from Latin America. Sunflower oil is imported from Ukraine and Russia.



SURGE IN VOLUME

Import of vegetable oil (edible and non-edible)

(Qty in mt)	2015-16	2016-17	% Change
Nov	1,337,435	1,175,464	-12.1
Dec	1,420,902	1,209,685	-14.9
Jan	1,258,054	1,024,859	-18.5
Feb	1,112,916	1,270,443	14.2
Mar	1,190,515	1,114,325	-6.4
April	1,248,887	1,339,489	7.3

Source: Solvent Extractor's Association of India
Compiled by BS Research Bureau; mt: million tonnes

(BUSINESS STANDARD 17TH MAY 2017)

3.24 GOLD IMPORTS TO FALL IN PEAK SEASON ON PRE- GST BUYING

India's gold imports could plunge in 2017 during the traditional period of peak demand in the second half of the year, after jewellers have aggressively restocked inventory ahead of a national sales tax that takes effect on July 1. Lower imports from the world's second-biggest consumer during its high-demand season could drag on global gold prices that have gained nearly 10 percent this year as political turmoil in the United States has raised expectations of a slower pace of interest rate hikes this year.

India's gold imports typically strengthen in the second half of a year as the precious metal is considered an auspicious gift at weddings and festivals such as Diwali and Dussehra. But the timing of strong purchases looks backwards this year, as the implementation of a goods and services tax (GST) that will replace a slew of federal and state levies has buyers cramming their major activity into the first half of 2017.

"This (strong buying) trend will not continue in the coming months," said James Jose, secretary of the Association of Gold Refineries and Mints, referring to the tripling in the value of gold imports in April. "Ahead of GST, some people are stocking up fearing higher tax, but demand has been falling (more recently)," he said.

India's gold imports could hit 450 tonnes in the first half of the year, more than double from the same period in 2016, according to Sudheesh Nambiath, a senior analyst at GFMS, a division of Thomson Reuters. Imports could then fall to 250 tonnes in the second half, about 40 percent lower than a five-year average for the period of 403 tonnes, Nambiath said.

Gold imports in the second half of 2016 were 313.8 tonnes, up 60 percent compared with the first half of that year. "Aggressive Indian buying is unlikely to be there in the second half like every year. Global prices need to find support from other sources like exchanged traded funds or have to correct," said a Mumbai-based dealer with a private bank.

Another reason for the first-half buying surge is that cash many jewellers deposited in banks because of demonetization last year has been routed back through official channels, allowing for the restocking of gold, Nambiath added. In November, Prime Minister Narendra Modi scrapped 500- and 1,000-rupee banknotes – 86 percent of the value of cash in circulation – as part of a crackdown on corruption, tax evasion and militant financing.

Still, gold could start trading at discounts in India in the next few weeks as jewellers "are carrying far higher inventory than required," said a Mumbai bullion dealer with a global bank. "They have to bring imports down in coming months," he said.

Gold imports in May could drop to around 50 tonnes, Jose of the refiners' association said, from 85 tonnes in April.

(FINANCIAL EXPRESS 24TH MAY 2017)

3.25 EXPORTS FROM SEZ UP 12 % TO RS 5.24 LAKH CR

Exports from Special Economic Zones (SEZs) grew by about 12 per cent to Rs 5.24 lakh crore in FY17, according to data of the commerce ministry.

The shipments from these zones in FY16 were aggregated at Rs 4.68 lakh crore. The countrys overall exports recorded a growth of 16.23 per cent in rupee terms.

Industry experts stated that taking into account the figures, the government should take some steps to further boost exports from SEZs.

(BUSINESS STANDARD 25TH MAY 2017)

4. MISCELLANEOUS

4.46 GDP NUMBERS LIKELY TO BE REVISED HIGHER: NOMURA

The new series for industrial production and wholesale prices suggest that the GDP numbers for financial year 2016-17 could be revised up from 6.7 per cent to 7.4 per cent, says Nomura report.

The Central Statistical Office (CSO) revised India's Wholesale Price Index (WPI) and Industrial Production (IP) series last week, changing the base year to 2011-12 (from 2004-05).

Industrial production is an input in estimating gross value added for the unorganised manufacturing sector, while WPI is used as a deflator for deriving real GVA values from nominal data. "We estimate that GVA growth will be revised up to 8.2 per cent (from 7.8 per cent) for 2015-16 and to 7.4 per cent (from 6.7 per cent) for 2016-17," Nomura said in a research note.

(BUSINESS STANDARD19TH MAY 2017)

4.47 GROWTH OF CURRENCY IN USE PLUNGES SINCE DECEMBER

The rate of growth of currency in circulation has plunged since December as supply of cash has increased since the demonetisation days and due to a rise in digital transactions.

Weekly growth in currency in circulation touched the lowest since December 30, the deadline to surrender the banned Rs 500 and Rs 1,000 notes. It rose Rs 7,670 crore in the fortnight ended May 19, according to the RBI data. An analysis of weekly trend indicates that incrementally, the growth is slowing down, from over Rs 30,000 crore a week in early January to less than Rs. 10,000 crore.

Bankers attribute this trend to a return in normal levels of currency, increased digital transactions besides the focus on printing smaller-denomination notes.

“This is due to a combination of factors. At the current levels, about 80 per cent of banned notes are remonetised, implying that RBI believes that the level of currency is adequate to meet demands of normal economic activity,” said SK Ghosh, the group chief economic adviser at SBI. “The RBI may be now be focusing on printing smaller denomination notes to meet the transaction demand of the common man.”

Significantly, the initial focus of RBI was on printing high-value Rs 2,000 notes, which were turning out to be inconvenient for daily needs. Moreover, after the note ban, there has been a shift towards the digital mode of transactions to settle even smaller value transactions, even of less than Rs 100. Recent RBI data show that settlement of transaction through various digital channels including cards, pre-paid instruments and mobile platforms has more than trebled since January last year.

(THE ECONOMIC TIMES 29TH MAY 2017)