2016

ECONOMIC INTELLIGENCE BULLETIN

1st – 15th November 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 November, 2016.

1. PRICE TREND

1.158 STEEL TURNS DEARER AS COKING COAL PRICES SURGES

Major flat steel producers have increased prices by Rs. 1,500 a tonne on the back of a surge in coking coal prices.

Since July, spot coking coal prices have increased from $90 a tonne to $279 a tonne. Coking coal contracts for the fourth quarter of 2016 have been sealed at $200 a tonne, an increase of 116 per cent over the third quarter. Coking coal accounts for 30-50 per cent of the cost of production for steel makers that use the blast furnace technology.

"The benefits from trade protection measures, which helped in the recovery in HRC prices by Rs. 8,500 a tonne between February and October of CY2016, are likely to largely disappear after the end of Q3 FY2017," a recent ICRA report said, "Gross contribution levels of domestic blast furnace players in Q4 FY2017 is likely to dip by around Rs. 4,000 a tonne over Q3 FY2017 unless the increased coking coal costs are accompanied by commensurate price hikes by the steel makers."

Not so long ago, HRC prices were hovering around $250 a tonne, a steel producer pointed out. It's now at around $450 a tonne. Cheap imports from China, South Korea and Japan had put the industry in dire straits, not just in India, but globally.

The Indian Steel Alliance, a producer's body, has now made a representation to the government that no anti-dumping duty should be imposed on metcoke, a by-product of coking coal. In December 2015, the ministry of commerce had initiated an anti-dumping investigation into low-ash metcoke from Australia and China.

(BUSINESS STANDARD 7TH NOVEMBER, 2016)

1.159 OIL PRICES BOUNCE AFTER OPEC REAFFIRMS PLAN TO CUT OUTPUT

Oil prices rose by over one per cent on 7th November pushed up by a statement from the producers' club OPEC that it was committed to a deal made in September to cut output in order to prop up the market.

Brent crude was at $46.12 per barrel at 0746 GMT, up 54 cents, or 1.18 per cent, from their previous close.

US West Texas Intermediate (WTI) crude was up 61 cents, or 1.38 percent, at $44.68 a barrel. The Secretary-General of the Organization of the Petroleum Exporting Countries (OPEC) said on 7th November, the group was committed to a deal made in Algiers to cut output. "We as OPEC we remain committed to the Algiers accord that we … put together. All Opec 14 we remain committed to the implementation," Mohammed Barkindo told reporters at a conference in Abu Dhabi.

(BUSINESS STANDARD 8TH NOVEMBER, 2016)

1.160 GLOBAL IRON ORE PRICE TO RULE AT $50-70 PER TONNE FOR 3-6 MONTHS

Aided by growth in demand from China, the world's largest steel maker, iron ore prices are expected to rule in the range of $50-70 per tonne in the near term, BMI Research said on 7th November.

"We expect iron ore prices will trade between $50-70 a tonne over H1 2017 as additional Chinese stimulus measures will tighten the market, providing support to prices over the next six to nine months," BMI Research, part of the Fitch Group said in a statement.

However by 2018, the Iron ore prices will be supported by sustained demand from steel mills restocking iron ore as resilient Chiness steel prices will continue to incentivize domestic steel production.

(FINANCIAL EXPRESS 8TH NOVEMBER, 2016)

1.161 GOLD AT THREE-YEAR HIGH ON BLACK MONEY CLAMPDOWN

Gold prices touched a three year high of Rs. 31,750 in Delhi on 9th November as people flocked to jewellery stores since last night when the government made Rs. 500 and Rs. 1,000 notes invalid as legal tender. The sudden move by the government raised the appeal of the precious metal.

Some jewellers said they had to keep the stores open until late night to cater for demand. Interestingly, one of the jewellers in Delhi said he heard some other jewellers charging as high as Rs. 45,000 per 10 grams last night, taking advantage of the government move, although he hasn't done so. He said prices effectively shot up to that level because people exchanged Rs. 500 and 1,000 notes even for lower value while buying the precious metal.

The decision to discourage cash transactions will prop up gold demand, which was estimated to hit a seven-year low to remain in the range of 650-750 tonnes in 2016, according to the World Gold Council. The lower projection came after a 28% crash in demand in the quarter through September from a year earlier to 194.8 tonnes.

Globally, gold prices are expected to get some support from Donald Trump's Victory in the US. Natalie Dempster, managing director (Central Banks and Public Policy) at the World Gold Council said: "Financial markets have fallen sharply in response to Donald Trump's election as the 45the President of the United States. Equity markets are down notably in Asian and early European trading. Gold has, by contrast, increased, outperforming other assets, including other assets, including other safe havens. It is currently trading at over $1,300/oz, compared with $1,275/oz before the vote counting began."

(FINANCIAL EXPRESS 10TH NOVEMBER, 2016)

2. FISCAL POLICY

2.287 MANUFACTURING GROWTH UP, OCT PMI AT 22 MONTH HIGH

India's manufacturing sentiment picked up to a 22 month high in October on the back of strong output growth and new orders, a private survey showed, providing more cheer after the core sector recorded a robust performance in September.

The seasonally adjusted Nikkei India Manufacturing Purchasing Managers Index (PMI) climbed to 54.4 in October from 52.1 the previous month, data released on 1st November showed.

Data released on 31st October showed core sector growth at a three-month high of 5% in September.

"October data provide positive news for India's economy… The sector looks to be building on the foundation of the implied pickup in growth in the previous quarter," said Pollyanna De lima, economist at Markit that prepared the report.

Though the domestic market was the prime source of new business gains, a robust export component contributed to the comeback of the manufacturing sector which had lost momentum in September.

The sub index for output rose to 57.2 in October, the highest since December 2012.

Input costs rose at the fastest rate since August 2014, Part of which was passed on to consumers by way of higher selling prices and this is "likely to continue on an upward trend as we head towards the year end", De Lima said.

Consumer inflation eased to a 13-month low of 4.31% in September. There has been a divergence in the PMI number and official industrial production statistics. Industrial growth contracted 0.7% in August and is down 0.3% in April-August from a year ago period.

(THE ECONOMIC TIMES, 2ND NOVEMBER 2016)

2.288 SERVICES SECTOR ACTIVITY PICKS UP PACE IN OCTOBER

Services sector activity in India gained momentum in October, driven by an upturn in Incoming new business, pushing the combined manufacturing and services activity to its highest in nearly four years, a private survey showed on 3rd November.

The Nikkei India Services Business Activity index rose to 54.5 in October after dropping to 52 in the previous month. Since January 2013, the index has been higher only once this year, in August. A reading above 50 on this survey-based index indicates expansion while a figure below that indicates contraction.

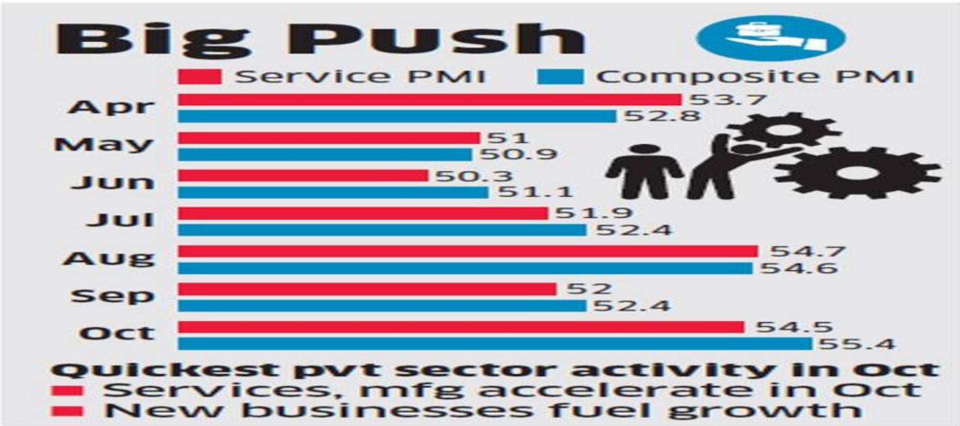
Data released by the same agency on 1st November had showed a significant improvement in manufacturing activity, with PMI touching a 22 month high of 54.4.

The sub-index measuring new business rose to its highest in over two years to 54.3 in October. Overall, the seasonally adjusted Nikkei India Composite PMI Output Index rose to 55.4 from 52.4 in September.

"This pointed to a marked pace of expansion in private sector activity that was quickest in nearly four years," the survey showed.

October data highlighted a sixteenth consecutive monthly rise in service sector activity across India. Moreover, for the first time in almost five years, all six monitored sectors recorded growth.

On the hiring front, notwithstanding the recovery, service sector employment was unchanged over the month, with almost all survey participants reporting the same payroll numbers as in September. Likewise, manufacturing staffing levels stagnated in October.



(THE ECONOMIC TIMES, 4TH NOVEMBER 2016)

2.289 FPIS PULL OUT RS. 10K CR FROM CAPITAL MARKETS IN OCT

Foreign investors have pulled out more than Rs. 10,000 crore from the Indian capital market this month after pumping in Rs. 20,232 crore in September. Most of the funds have been withdrawn from debt markets during the period under review.

"The recent rate cut by RBI is one of the factors for the outflow from debt markets. With downward pressure on bond yields, debt does not seem attractive," SAS Online Chief Operating Officer (COO) Siddhant Jain said. "Besides, the new RBI governor's dovish stance and flexibility to cut rates further, it needed has helped in the debt outflow," he added.

(FINANCIAL EXPRESS 7TH NOVEMBER, 2016)

2.290 CENTRE DEMONETISES RS. 500, RS. 1,000 NOTES

Launching a frontal and unprecedented attack on black economy and corruption, the government on 8th November declared Rs. 500 and Rs. 1,000 notes in circulation "not legal tender" with effect from midnight, a historic move that took banks, financial market participants and the people at large by surprise. The Reserve Bank of India (RBI) will release new series of Rs. 500 and Rs. 2,000 notes and these will come into circulation, from November 10.

Modi said people holding notes of Rs. 500 and Rs. 1,000 denomination can deposit the same in their bank and post office accounts from November 10 till December 30. ATM withdrawals will be restricted to Rs. 2,000 per day and withdrawals from bank accounts will be limited to Rs. 10,000 a day and Rs. 20,000 a week Banks will remain closed on 9th November and ATMs will also not function on 9th and 10th November.

Calling it a bold and powerful decision to fight black money and fake notes – which have been misused for terror financing–economic affairs secretary Shaktikanta Das said there has been disproportionately high use of higher denomination currency notes in recent years. RBI governor Urjit Patel said although there has been a "growing menace" of fake Indian currency notes, there hasn't been any breach of the security features of the genuine notes.

(FINANCIAL EXPRESS 9TH NOVEMBER, 2016)

3. IMPORT AND EXPORT POLICY

3.168 ASIA'S IMPORTS OF IRANIAN OIL RISE 73%

Imports of crude oil by Iran's four major buyers in Asia in September jumped more than 70% from a year ago as the producer continued to recoup market share lost under sanctions.

Iran's top four Asian buyers, China, Japan, India and South Korea, imported nearly 1.8 million barrels per day (bpd) in September, government and ship-tracking data showed. That is down from the highest level in at least 5-1/2 years in August.

But oil-purchase arrivals could rise again in October, with Asian buyers loading 1.83 million bpd of crude oil and condensate this month and about 1.96 million bpd in September, according to a source with knowledge of Iran's tanker schedules.

Japan's trade ministry on 31st October released official data showing its imports rose 80% from a year earlier to nearly 313,000 bpd in September.

India's imports more than doubled from a year earlier to 552,200, bpd, down from 575,900 bpd in August, the highest in at least 15 years.

Imports by South Korea also more than doubled, while Chinese imports were up by 18%.

(FINANCIAL EXPRESS 1ST NOVEMBER, 2016)

3.169 EXPORT CREDIT BREAKS TREND TO SHOW SHARP RISE

After several months of sluggish growth, export credit by banks has risen significantly. The outstanding gross export bank credit saw a 27.9 per cent increase as of August 2016 on a year-on-year basis, against 19.2 per cent in September 2015, data from Reserve Bank of India show.

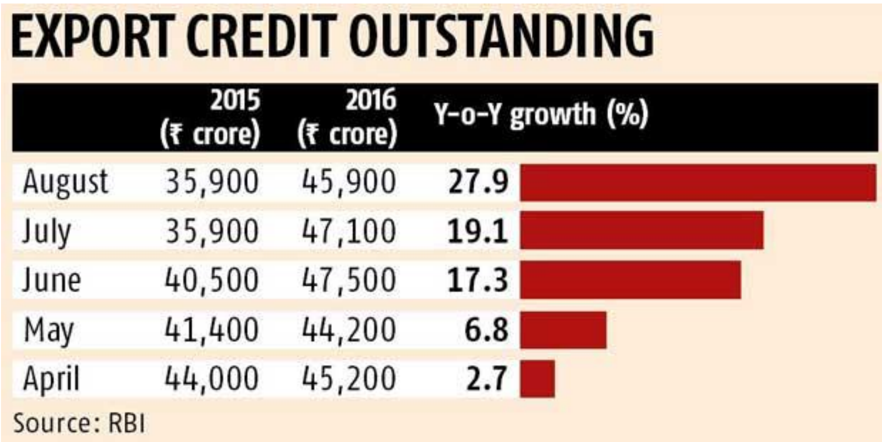
After a sustained period of negative growth, export credit has been witnessing a positive growth for the past six months. Exporters attribute this recovery to better exports in geographies such as the European Union, along with the reintroduction of interest equalization scheme, which was earlier known as interest subvention.

In November 2015, the government had introduced a three per cent interest equalization scheme on pre-and post-shipment rupee export credit, retrospectively with effect from April 1, 2015 for five years. In April 2014, the government had withdrawn three per cent interest subvention scheme for exports. Lower interest rates were also a contributing factor for increased export credit.

Also, export credit insurance facilities need to be strengthened," said Yaduvendra Mathur, chairman and managing director at Exim Bank.

It may be noted that India's merchandise exports during September 2016 has shown signs of revival registering 4.62 per cent growth in dollar terms (5.45 per cent higher in rupee terms) valued at $22,880.56 million (Rs. 1,52,699.59 crore) in September 2016, against $21,869.36 million (Rs. 1,44,814.06 crore) during September 2015.

According to Suranjan Gupta, additional executive director at the Engineering Export Promotion Council of India, engineering exports to the European Union in the month of September saw a 20 per cent growth on a year-on-year basis, against 12.8 per cent in the same period last year.



EXPORT CREDIT OUTSTANDING

	2015 (₹ crore)	2016 (₹ crore)	Y-o-Y growth (%)
August	35,900	45,900	27.9
July	35,900	47,100	19.1
June	40,500	47,500	17.3
May	41,400	44,200	6.8
April	44,000	45,200	2.7

Source: RBI

(BUSINESS STANDARD 1ST NOVEMBER, 2016)

3.170 INDIA PLANS NEW DUTY CUT FORMULA TO REDUCE TRADE DEFICIT WITH CHINA

In a move to contain its rising trade deficit with China, India is mulling ways to reduce further onslaught of Chinese goods entering the local market by reducing and delaying duty concessions to China.

Though nothing has been firmed up, India may maintain a separate negative list of items on which it will give limited or no tariff concessions to Chinese imports under the Regional Comprehensive Economic Partnership (RCEP) trade agreement.

The new approach of differential treatment comes in the wake of India's burgeoning trade deficit with China.

In 2015-16 India's exports to China were $9 billion while the imports were a staggering $61.7 billion leaving a trade deficit of $52.7 billion. "With China, we may have a different negative list. We have not taken a call on this but we are discussing it," the official said.

Since India had to do away with a three tier structure of differential duty cuts as part of the negotiations, these deviations are considered to be the last ray of hope to contain the trade deficit with China under a formal trade agreement.

(THE ECONOMIC TIMES, 2ND NOVEMBER 2016)

3.171 GOVT MAY SOON DECIDE ON DUTY PROTECTION FOR ALUMINIUM SECTOR

The government may soon come out with a decision on duty protection measure for the domestic aluminium sector which is facing dumping of products from countries like China.

"We are working to provide safeguard duty protection for primary aluminium producers being hurt from dumping. We will decide (on the matter) soon, may be in two-three weeks," Union mines secretary Lavender Kumar told PTI.

In a notification, the Directorate General of Anti-Dumping and Allied Duties (DGAD) had said it has found prima facie evidence of dumping of aluminium from China.

"The authority hereby initiates an investigation into the alleged dumping, and consequent injury to the domestic industry. To determine the existence, degree and effect of any alleged dumping and to recommend the amount of anti-dumping duty, which if levied would be adequate to remove the injury to the domestic industry," the notification said.

The period of investigation is from April 2014 to March 2015.

India's annual aluminium consumption is three million tonnes and production capacity in four million tonne. Nearly half the consumption is met by imports, mainly from China.

(FINANCIAL EXPRESS 3RD NOVEMBER, 2016)

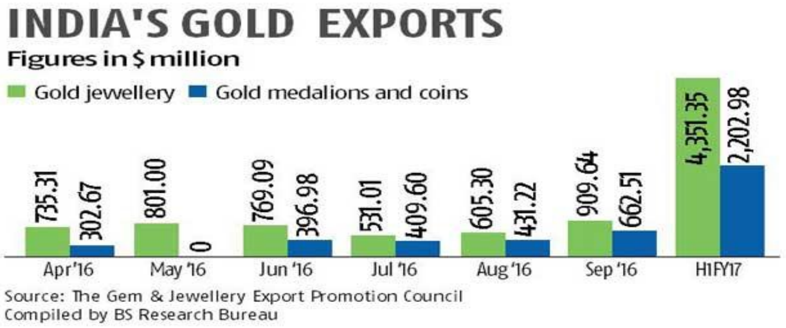
3.172 GOVT TIGHTENS RULE FOR STAR EXPORT HOUSES

The Directorate General of Foreign Trade (DGFT) has tightened the rules for export houses which wish to import gold in their capacity as a nominated agency.

The public notice to this effect says for getting permission as nominated agency, only exports from the Domestic Tariff Area (DTA) would be counted. At present, apart from banks and government-owned MMTC, export promotion councils, star and premium-trading house are allowed to import gold for the domestic market.

A Veteran trade analyst said: “Some leading export houses were allegedly misdeclaring gold jewellery exported from SEZs/EOUs to be of 22 carat Jewellery when they were actually exporting 18-carat carat, saving around eight per cent of gold imported duty free in the name of exporting back, and then selling that gold in the open market in India. Since DTA exports have tighter vigilance mechanism, such a practice will be arrested.”

Two third of gold jewellery is exported from SEZs/EOUs. The said practice was putting other nominated agencies like banks and MMTC at a disadvantage, especially in the past six months when the price was quoting at a huge discount.



INDIA’S BULLION IMPORTS
Figures in tonnes

	Q1 ‘15	Q2 ‘15	Q3 ‘15	Q4 ‘15	Q1 ‘16	Q2 ‘16	Q3 ‘16	Jul ‘16	Aug ‘16	Sep ‘16
Bullion import	44.3	56.3	50.7	44.9	34.7	34	44.37	17.34	11.93	15.1
Total official	216.2	184	257.7	246.7	117.2	77.9	79.85	20.84	22.33	36.68

*Duty free for export market
Source: GFMS, Thomson Reuters and Ministry of Commerce

(BUSINESS STANDARD 3RD NOVEMBER, 2016)

3.173 STEEL MAKERS OPPOSE ANTI-DUMPING DUTY ON MET COKE

Domestic steel makers have asked the government not to impose anti-dumping duty on metallurgical coke (met coke), imported mainly from Australia and China. The Commerce ministry had recently recommended a $25 per tonne levy on such imports.

Met coke, a key raw material for the steel sector, constitutes 40-50 per cent of the total cost of crude steel. It is made from low ash and low sculpture bituminous coal.

The domestic met coke sector had petitioned the Directorate General of Anti-Dumping & Allied Duties (DGAD) for protection of the local industry from cheap imports from Australia and China. Following this, investigations began in December

2015 on the scope of levying such duty. DGAD has sent its recommendation to the finance ministry for approval.

Met coke price have nearly tripled since January this year since the time the case was initiated and it is currently ruling around $350 a tonne, with no signs of abating. It is a critical input for steel making and any levy of anti dumping duty at this stage will only fuel further the cost of steel making Shivram Krishnan, director (Commercial) at Essar Steel told Business Standard.

(BUSINESS STANDARD 3RD NOVEMBER, 2016)

4. MISCELLANEOUS

4.394 CORE SECTOR OUTPUT RISES 5% IN SEPTEMBER

Core sector output rose a three-month high of five per cent in September, mainly due to sustained growth in the steel sector and an increase in refinery production, broadly indicating that the Index of Industrial Production (IIP) growth may reverse a two-month declining trend a month before the festival season. The eight industry core sector index had grown 3.2 per cent in August (and three per cent in July).

Data released by the commerce and industry ministry on 31st October showed the eight core industries - coal, crude oil, natural gas, refinery products, fertilizer, steel, cement and electricity - had cumulative growth of 4.6 per cent in the six months up to September in the current financial year.

Comprising 38 per cent of IIP, the sectors had a lower growth of 2.4 per cent in the year-ago period.

Among all sectors, only steel production rose by double-digit figures, the same as last month. After a 37-month high growth of 17 per cent in August, steel output grew 16.3 per cent in September.

Managing the second highest growth rate in September, refinery products rose 9.3 per cent. The sector continues to see wide swings in growth, with the rate having dropped to 3.5 per cent in August, from 13.7 per cent in July.

Fertiliser grew two per cent, after rising 5.7 per cent in August. Electricity generation rose 2.2 per cent after a 0.1 per cent rise in August, slowest in the sector over nine months.

Cement production rose 5.5 per cent, greater than the 3.1 per cent in August. However, growth had been 10.3 per cent in June.

Natural gas was down by 5.5 per cent, after falling 5.7 per cent in August. However, crude oil production continued to contract for a seventh month in September. The rate of fall also accelerated to 4.1 per cent, from 3.9 per cent in August.

(BUSINESS STANDARD 1ST NOVEMBER, 2016)

4.395 NATURAL RUBBER PRODUCTION UP 20%; IMPORT RISES 24%

Natural rubber production rose by 20% to 60,000 tonne in September while consumption increased by 3.6% to 84,500 tonne last month.

Production and consumption of natural rubber stood at 50,000 tonne and 81,600 tonne, respectively, in the year-ago period.

According to Rubber Board data, imports increased by 24% to 52,833 tonne during September, from 42,713 tonne in the same month last year. Exports went up 221 tonne, from 25 tonne during the period under review.

In the first half of this fiscal, natural rubber output rose by 10% to 3.05 lakh tonne as against 2.77 lakh tonne in the corresponding period of the previous year.

The consumption grew 5.6% to 518,930 during April-September of this fiscal, from 4,91, 260 tonne in the year-ago period the data showed.

Imports went up by 6.5% to 2,50,275 tonne in the first half of this fiscal, from 2,34,887 tonne in the same period of the previous year. Exports increased to 516 tonne, from 233 tonne during the year ago period.

(FINANCIAL EXPRESS 1ST NOVEMBER, 2016)

4.396 INDIA RISES TO 2ND SPOT ON GLOBAL BUSINESS OPTIMISM INDEX SAYS GRANT THORNTON

India improved its ranking by one spot in a global index of business optimism, with policy reforms and the goods and services tax (GST) expected to become a reality soon, says a survey.

According to the latest Grant Thornton International Business Report, India was ranked second on the optimism index during the third quarter (July-September 2016). Indonesia took the top spot, with the Philippines coming in third.

India was ranked third during the April-June period after being on top for two consecutive quarters.

"The improvement in the optimism ranking in the recent past clearly reflects that the reform agenda of the government and its efforts on improving the climate for doing business are having an impact", Grant Thornton India LIP partner-India Leadership Team Harish H V said.

High business optimism was also complimented by the rise of employment expectations India regained its top position on this parameter, from second position in the April-June period, while profitability expectations also moved up.

(BUSINESS STANDARD 7TH NOVEMBER, 2016)

4.397 STEEL PRODUCTION JUMPS MOST IN 14 MONTHS IN OCTOBER

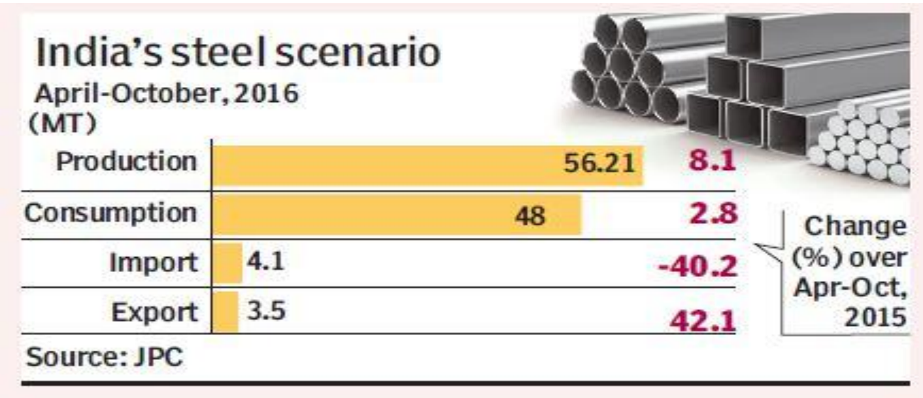
Growth in India's steel production was sustained during the April-October period of the current fiscal even as consumption failed to keep pace, thanks to rising exports and dwindling imports.

Data compiled by the Joint Plant Committee (JPC), a unit under the steel ministry, showed India's crude steel production grew by 8.1% during the April-October period of the current fiscal to 56.2 MT. Consumption growth during the period was just 2.8% to 48 MT. Imports fell by 40% to 4.1 MT, but exports rose by 42% to 3.5MT.

In October, steel consumption went negative, falling 1.4% at 7.11 MT compared with the corresponding month last year. Compared to September 2016, consumption was down by 0.5%. Production, on the other hand, was up by 13.6% in October at 8.2 MT - a 14 month high. However, it was down by 2.5% compared with the previous month.

Main producers such as SAIL, RINI, Tata Steel, Essar, JSWL, and JSPL together produced 32 MT steel during the April-October period of the current fiscal, clocking a growth of 16.3% compared to same period last year.

Even as exports grew by 42% during the April-October period over the same period last year and by a whopping 95% in October India still remained the net importer of steel. Barring 2013-14 India has remained the net importer of steel.



(FINANCIAL EXPRESS 8TH NOVEMBER, 2016)

4.398 INDIA'S GOLD FEVER ABATES

India's gold demand will likely hit a seven year low to remain in the range of 650-750 tonnes in 2016, the World Gold Council (WGC) said on 8th November, trimming its earlier forecast of 750-850 tonnes for the year, reports fe Bureaus in New Delhi.

The lower projection follows a 28% crash in demand in the September quarter from a year ago to 194.8 tonnes. This was the third quarter of fall and worse than a 10% decline globally, the London-based miners' body said.

(FINANCIAL EXPRESS 9TH NOVEMBER, 2016)

4.399 RUPEE FALLS 20P ON BUOYANT DOLLAR

The rupee on 10th November retreated from two-month- high levels due to a strong dollar globally and capital outflows, tumbling by 20 paise to close at 66.63 against the US currency.

Heavy offloading by foreign portfolio investors also weighed on trade as they sold shares worth Rs. 2,095 crore on 9th November. FPI's sold shares worth Rs. 733 crore on 10th November, provisional bourses data showed. A rally in domestic stocks alongside fading Fed rate hike prospects even failed to arrest the fall, a forex trader said.

In cross-currency trades, the rupee ended steady against the pound sterling at 82.59.

(FINANCIAL EXPRESS 11TH NOVEMBER, 2016)