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IBTEX No. 200 of 2017 October 05, 2017

USD 65.11 | EUR 76.55 | GBP 86.22 | JPY 0.58

Cotton Market

Spot Price (Ex. Gin), 28.50-29 mm

Rs./Bale	Rs./Candy	USD Cent/lb
18047	37750	**73.96**

Domestic Futures Price (Ex. Gin), October

Rs./Bale	Rs./Candy	USD Cent/lb
18180	38028	**74.50**

International Futures Price

NY ICE USD Cents/lb (Dec 2017)	68.80
ZCE Cotton: Yuan/MT (Jan 2018)	15,150
ZCE Cotton: USD Cents/lb	**87.80**
Cotlook A Index – Physical	**78.55**

Cotton & currency guide: The weather pattern which is mostly in nature's hand cannot be figured out so well every time and because of which market reaction becomes highly unpredictable. The possible expectation of storm "Nate" likely converting into a hurricane to hit Gulf coast of US over the weekend may damage the standing open Cotton crop.

This has caused severe pushed to cotton price in early Wednesday US trading session. The December contract moved strongly positive from its lower band near 67.50 to almost making a high of 70 cents per pound while ended the session near the mid-range to close at 68.80 up by 128 points from the previous close. Likewise the other contracts have also moved positive.

The Wednesday's market action is now going to be more challenging until over this weekend to see the status of "Nate" performance and upcoming USDA monthly report scheduled on 12th of October.

Broad understanding continues to hold a bearish perspective on the market amid expectation of much larger crop (above 21+ million bales). However with strong revival in the price supported by heavy trading volume is likely to keep the market more volatile. As we have witnessed a couple of time earlier in September anytime market reaches near 70 cents heavy selling pulls the price down. So we continue to hold the view that 67 to 70 ranges should be further maintained in the market in the near term.

This morning in Asian hours the December future is trading at 69.30 up from previous close by around 50 points and possibly the momentum may continue until the early US session. Since China market is close might see any action/reaction in the price during US session. This evening we have the US weekly export sales figure and believe any major change in the number may have further impact on the price.

On the domestic front the spot continued to trade steady. However with ICE moving higher there has been slight Uptick on futures prices.

The October, November, December and January contracts have closed at Rs. 18530, 18280, 18180 and 18220 per bale respectively. All these contracts may open slightly higher today. However the interesting fact is that now January 18 contract has moved higher than December 17 contract. This indicates although supply side facts continue to rule the market but market participants would remain doubtful about the market during January. For the day we expect November to trade in the range of Rs. 18200 to Rs. 18420 per bale

Compiled By Kotak Commodities Research Desk , contact us : mailto:research@kotakcommodities.com, Source: Reuters, MCX, Market source

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INTERNATIONAL NEWS

World Bank revises growth forecast

In its latest report, the World Bank has revised its forecast of the kingdom's real economic growth for 2017, lowering it by 0.1 percentage points to 6.8 percent.

In April this year, the World Bank reported that Cambodia's outlook for growth remains favourable in the medium term, with growth projected to reach 6.9 percent in 2017 and 2018, driven mainly by the resilient construction and garment sectors.

According to the World Bank's latest report, titled "East Asia and Pacific Economic Update October 2017", Cambodia's economy will grow at a rate of 6.8 percent this year and 6.9 percent in 2018.

The report says the revision follows a rise in real wages in the country and a decline in export prices. Likewise, export growth for textiles decelerated during the first half of 2007, sinking to 5.4 percent year-on-year, compared with 8.4 percent in 2016.

"The growth outlook, however, is favourable because exports of electrical machinery, equipment and parts have picked up, partly offsetting the deceleration," the report notes, adding that new exports ¬– including machinery, appliances, boilers and sound recorders – accounted for 8.7 percent of total exports in 2016. In 2010, they made up less than two percent of total exports.

In addition, the agriculture and tourism sectors have experienced a recovery this year, the report notes. Tourist arrivals grew at a rate of 12.8 percent during the first six months of the year, compared with five percent in 2016.

World Bank senior economist Ly Sodeith attributed the slowdown in garment export growth to strong competition from low-cost labour economies like Myanmar and Bangladesh, which have begun taking advantages of opportunities in their garment and textile industries.

“The slow growth of exports for the garment industry and the slowdown of construction activities have hindered the growth of Cambodia’s real economic growth this year,” Mr Sodeith said.

Mr Sodeith also said the garment industry will continue to experience slower growth rates due to the rising cost of labour in the country. According to the analyst, Cambodian labour is now more expensive than many other countries in the region.

Mr Sodeith said the government should direct efforts towards developing skill intensive industries that create high value products, including electronics, assembling and machinery industries.

“We have to increase the added value of our garment industry to make it stronger. Likewise, we need to move higher in the value chain and into industries like assembling and electronics.

“We should foster the development of these industries by increasing the skill level of our labour, ensuring affordable and competitive power rates, and a stable and high-quality power supply to allow us to compete with neighboring countries,” Mr Sodeith said.

“We are moving to a lower middle-income economy, so we have to adopt high-value industries,” he added.

According to the report, the macro-financial stability of the country shows several signs of improvement, including a slowdown of the credit growth from 25.8 percent in 2016 to 18.2 percent in mid-2017, as well as a rise in foreign currency deposits.

Meanwhile, in 2016, the current account deficit waned to 10.2 percent of GDP, compared with 11.5 percent in 2015. Foreign currency reserves reached $7.8 billion, which is equivalent to six months of imports.

“Cambodia has to keep improving its competitiveness in other sectors – especially when it comes to exports – by improving the power supply and lowering the cost of electricity.

"This will allow new industries, new clusters, to enter Cambodia and improve the business environment by lowering the cost of starting a business in the kingdom, which is high at the moment," the report states.

Sudhir Shetty, the World Bank's chief economist for East Asia and the Pacific, said that Cambodia's exports are based primarily on garments, which, given current wage levels and past volatility of the American dollar, puts the country's competitiveness at risk.

"The challenge for Cambodia is to continue to diversify to other sectors higher in the value chain. The textile industry also needs to climb the value chain and focus on more sophisticated products," he added.

"Now, there are a number of areas that the government needs to focus on, including infrastructure, power supply and cost electricity. We need to upgrade the garment industry and replicate that success in other sectors."

Source: khmertimeskh.com- Oct 02, 2017

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North Korea exports $2.83 billion worth of goods - here's where it all goes

The US slapped North Korea with new sanctions on September 26th. These sanctions follow an executive order and two United Nations sanctions packages.

The sanctions attempt to put economic pressure on Kim Jong Un to end his regime's nuclear ambitions.

So who is North Korea trading with?

Well, mainly China. $2.3 billion of $2.83 billion total exports were shipped to China in 2015, according to the Observatory of Economic Complexity. That's 83% of all of North Korea's exports. Besides China, export partners include Pakistan, India and Burkina Faso. Coal briquettes were North Korea's largest export in 2015 (a briquette is a compressed brick of coal dust). They were followed by knit and non-knit clothing. North Korea also exported silver, wood products, and processed fish.

Following the UN sanctions, China agreed to halt some trade. Imports of textiles from North Korea were banned, and exports of petroleum products were limited.

Other import partners include India, Russia, Mexico, and Thailand.

The UN and US sanctions follow multiple nuclear tests in North Korea. President Trump has said that military options are also on the table.

Source: businessinsider.in- Oct 04, 2017

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Russia to create "green corridor" for textiles from Uzbekistan

Uzbekistan and Russia aim to further expand cooperation in textile industry which is a strategic centerpiece of the Uzbek economy due to the fact that Uzbekistan is the world's sixth-largest cotton-growing country producing about 1.1 million tons of cotton fiber annually.

Uzbekistan and Russia intend to create a "green corridor" for the supply of textile products.

Such a proposal was put forward during negotiations with the Russian delegation led by the Minister of Industry and Trade Denis Manturov in a narrow format, Uzbek Foreign Trade Minister Eler Ganiev said on October 3, podrobno.uz reported.

In 2017, the supply of textiles from Uzbekistan to Russia increased by 22 percent.

"The potential is very large here. We are talking about production cooperation, the use of Uzbek yarn for production at Russian enterprises, the supply of finished textile products, knitted fabrics as well as cotton fabrics. We expect that by the next year, the volume of trade in textile products could reach about $700 million. I talk about absolutely real figures," Ganiev assured.

On the other hand, he noted, Uzbekistan registered a significant growth of almost 34 percent in supplies of rolled ferrous metals and products made of ferrous metals from Russia.

Along with this, the volume of imports of various types of rubber products has increased by 30 percent, technologies and equipment by 20 percent, oil products by 28.6 percent, timber and wood products by 15 percent.

All this creates opportunities for expansion and increase in production volumes both in Russia and in Uzbekistan, according to the Foreign Trade Minister.

At the same time, Ganiev is confident that production cooperation can make the most serious contribution to the development of bilateral trade relations.

By the end of the year the republic intends to reach the $5 billion trade turnover level with Russia. Moreover, this year Russia has come out on top among Uzbekistan's foreign trade partners.

In 2016, bilateral trade exceeded $4 billion. Uzbekistan exports natural gas, cars, chemical, textile, fruit and vegetable products to Russia. Black and nonferrous metals, wood, oil and oil products, electrical engineering, paper products and pharmaceuticals are imported from Russia.

There are 961 enterprises in Uzbekistan with participation of Russian capital and 569 enterprises created with participation of investors from Uzbekistan in Russia.

Source: azernews.az- Oct 04, 2017

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USA: Cotton stocks outside China to grow in 2017-18: ICAC

World cotton production is projected to increase by 10 per cent during 2017-18 reaching 25.4 million tons. As a result, world ending stocks could increase moderately and reach 18.7 million tons. While ending stocks in China are projected to decline by 1.7 million tons, stocks outside China stocks are projected to increase by 1.85 million tons.

"Higher cotton prices during 2016-17 and better cotton price ratios to other competing crops during 2017 planting campaign resulted in expansion of cotton area by an estimated 3 million hectares to over 32 million hectares," says the International Cotton Advisory Committee (ICAC) in its latest report.

During 2017-18 the largest gain in production of 23 per cent to 4.6 million tons is projected in the US. Production is also projected to increase in all other major producing countries during 2017-18, including India, China, Pakistan, Brazil, Francophone Africa and Turkey, ICAC said.

Global cotton mill use is projected to increase at an improved growth rate of 2.7 per cent during 2017-18 reaching 25.2 million tons. In comparison, during 2016-17 world cotton mill use grew by 1.6 per cent. Mill use in China is projected to grow by 1.5 per cent to 8.1 million tons. Cotton mill use is also projected to grow moderately in India, Pakistan, Turkey, Bangladesh, Vietnam and Brazil.

In 2017-18, world trade is projected stable at 8 million tons and US will remain the largest exporter accounting for 40 per cent, or 3.1 million tons of world shipments. Bangladesh will remain the largest importer in 2017-18 accounting for 18 per cent, or 1.4 million tons of world imports.

Source: fibre2fashion.com - Oct 04, 2017

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Vietnam: Global players eat into market share of Vietnamese brands

With a number of foreign fast fashion brands entering Vietnam and some of them offering products at reasonably competitive prices, Vietnamese brands, such as Ninomaxx, Foci, Hagattini, Viet Thy, PT2000, BlueExchange and Ttup, are losing market share. Analysts feel local brands have to make changes and hire skilled design staff to retain consumers.

For example, Thoi Trang Viet, the company which owns Ninomaxx, had 200 shops once. It has now cut the number to 64, with most shops located in the country's south, according to a report in an online newspaper in Vietnam.

Consumers in developing nations rushing to buy global fast fashion is a growing tendency and Vietnam is no exception. Zara, Stradivarius and Massimo Dutti from Spain and H&M from Sweden have entered Vietnam with a very positive consumer response and Japan's Uniqlo will join soon.

The foreign brands now have to cut production costs to improve competitiveness and instead of launching seasonal collections, they now just introduce more collections throughout the year.

Zara is selling in Vietnam at prices 15-20 per cent lower than in Thailand, Singapore and Malaysia for select items. Besides pricing strategy, the success of global fast fashion brands depends on their capability to launch new products.

Zara, for example, can design, produce, do marketing and distribute a new product to 93 countries with 2,213 shops within two weeks.

Source: fibre2fashion.com- Oct 05, 2017

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Digitisation driving change in apparel sourcing – McKinsey Survey

McKinsey's biannual Chief Purchasing Officer (CPO) survey has brought out the most important trends in apparel sourcing. These include: the need to balance cost, compliance, and capacity; navigating volatility; and exploring the growth opportunity in sourcing regions such as Bangladesh and East Africa. The 2017 survey focusses on digitisation, a topic of critical importance to apparel companies worldwide. It is also an area where many companies need a major step-up. Most of the CPOs in apparel sourcing are far from being digital.

Some companies have started taking digitization seriously and are deploying technology to reduce lead times, boost innovation and collaboration, and better understand and serve customers' needs. The McKinsey survey reminds that digitisation will end in disappointment if it is not integrated into a broader transformation to a customer-centric operating model. In order to bring in greater speed and agility, companies will need to redouble their efforts to optimise four key factors of success: country selection, supplier collaboration, compliance and risk, and end-to-end efficiency. These factors still represent massive improvement potential across most of the apparel industry.

Way ahead to drive growth

The survey reflects the perspectives of 63 participating CPOs, who together are responsible for a total sourcing value of over $137 billion. The survey offers an outlook and way ahead for CPOs to drive growth. The key elements include:

Apparel executives must continue dealing with a volatile, fast changing environment along with heightened competition and increasingly savvy consumers.

That is driving an urgent search for greater efficiency and flexibility along the end-to-end sourcing chain. In recent decades, apparel buyers have relentlessly shifted sourcing to lower-cost countries – 'the next stop of the sourcing caravan'.

Today, the search for the caravan's next stop is as active as ever, but there are new dynamics at play. Some traditional low-cost countries are losing their attractiveness, while sourcing executives are showing keen interest in newer markets - particularly Vietnam, Myanmar, and Ethiopia. As companies seek to step up their agility, however, there is also fresh focus on proximity sourcing and re-shoring.

Digitisation could enable apparel companies to achieve a step change in performance, transform to a customer-centric operating model, and create transparency throughout their global supply chains. The apparel industry is still at the beginning of its digitisation journey. Companies need to accelerate digitisation and integrate it into their broader transformation. Those that succeed will break down silos between sourcing and product development, shorten lead times, lower costs, and increase transparency to manage sustainability.

Source: fashionatingworld.com- Oct 04, 2017

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Zimbabwe's textile makers face liquidity problems

Zimbabwe textile manufacturers are facing a liquidity crisis. They have appealed for the disbursal of foreign currency to ensure members meet their obligations and remain in business. People have resorted to buying foreign currency in the black market at exorbitant rates, thereby distorting prices on the market. Others are hoarding cash for speculative purposes.

The textile industry needs urgent intervention to avert a total collapse. The industry includes blanket and linen manufacturers and hosiery manufacturers. Manufacturers say once there is easy access to forex, the industry can start exporting and earn the much-needed foreign currency. They also want the export incentive to be raised from five per cent to 25 per cent.

The value of Zimbabwe's clothing and textile exports has grown 165 per cent from 2012 to 2016. However, the apparel sector in Zimbabwe currently operates at less than 30 per cent of its capacity. The industry that once used to employ over 40,000 people now employs only 8000 workers.

Zimbabwe's textile and clothing sub-sector consists of three components: production and ginning of cotton, transformation of lint into yarn and fabric, and the conversion of fabric and yarn into garments. There are also those companies that are in protective clothing that have been doing well because of the mines that are opening up.

Source: fashionatingworld.com- Oct 04, 2017

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Vietnam may fall short of target

For the year through July, US imports of Vietnamese textiles and apparel increased by 5.36 per cent year over year. In 2016, US imports were a 2.27 per cent increase over 2015. However, worker's wages and logistics costs have been rising, putting garment exporters in Vietnam under pressure, particularly in the face of fierce competition from regional rivals like Bangladesh, Myanmar and Cambodia.

Competitors have enjoyed preferential policies from their governments—including things like tax breaks to boost exports—where Vietnam hasn't had as many perks. They've also enjoyed preferential trade status from major trade partners like the US and EU. Vietnam aims at exporting roughly $30 billion worth of textiles and garments in 2017, with the US taking 50 per cent of that total, followed by the EU with 20.5 per cent, Japan with 19.5 per cent and Korea with 7.5 per cent.

For the year through August, the country's exports reached $19.8 billion but the target may not be reached since the bulk of the country's big orders have likely already been placed. Legal amendments will be drafted to help domestic garment producers cut costs.

Domestic textile and garment exporters will be supported with things like administrative procedures to help ease some of the other obstacles to competition.

Source: fashionatingworld.com - Oct 04, 2017

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Bangladesh: Apparel manufacturers urge govt to ensure stable power, gas prices

Apparel manufacturers have urged the government to ensure stable prices of power and gas to help boost their businesses along with long-term policy support to remain competitive in the global market.

At a roundtable at a Dhaka hotel on Wednesday, the participants discussed the readymade garments sector's (RMG) present situation and possible moves to improve while some of them also called for efficient functioning of all of the country's ports.

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) organised the roundtable attended by several ministers, officials from different ministries, exporters and manufacturers.

"The prices of gas and electricity are very important for us when we make business plans. That's why we want the price predictability for a certain period for starting a new business," said Tapan Chowdhury, president of Bangladesh Textile Mills Association.

The frequent price hikes were hampering their businesses, he said.

Tapan also added that more incentives in the primary textile sector would help to supply more raw materials for the RMG sector. The primary textile contributes about 85% in knitwear and 45% in woven sectors.

Former adviser to the caretaker government M Tamim said: "Price predictability of gas and electricity is very import when it comes to investment. Businessmen become sceptical when it remains unpredictable.

"The government must ensure this predictability, even if it has to subsidise, for a certain period."

He also urged the government to make a final decision on whether the businesses would continue with their private captive power projects to run their factories when power cuts occur.

Newage Group Vice Chairman Asif Ibrahim suggested promoting the improvement and remediation in the apparel sector safety the country has achieved after the Rana Plaza disaster, adding that the government should provide fiscal and non-fiscal incentives for further development.

However, Mohammad Hossain, director general of Power Cell, a technical arm of Power Division, Ministry of Power, Energy and Mineral Resources, urged the manufacturers to install latest technology and increase power use efficiency.

Regarding the present situation of the apparel sector, Centre for Policy Dialogue's fellow Mustafizur Rahman said: "I agree that this has been passing through a critical time for different reasons. But I want to see this challenge as an opportunity."

He called for more efficient functioning of the seaport and airport in Chittagong, and Mongla and Payra ports. "Global export rate has been recovering quickly and Bangladesh is still the top choice for garment retailers and international brands."

Former BGMEA president Anisur Rahman Sinha, also chairman of Opex Group, said the country's garment business has not declined. "But profitability has fallen along with confidence of international brands and buyers due to a bad image created by the Rana Plaza disaster."

Addressing the roundtable, Commerce Minister Tofail Ahmed asked the Accord and Alliance, two foreign garment factory inspection agencies, to leave Bangladesh after their tenures end by June next year.

He said these agencies were not needed any more. But the government may extend their stay by six more months to complete their unfinished works.
The Accord and Alliance want to extend their tenure for three more years from June next year up to 2021, but the government is yet to respond officially.

State Minister for Power Nasrul Hamid said the country's gas crisis will end by April next year as the government will begin import liquefied natural gas (LNG). "In the next three years, the government will ensure uninterrupted power supply to the industrial units. So you can plan in line with this."

"However, industries built outside the designated economic zones will not be given any power connections. We have already announced the power policy for until 2041. But we cannot say anything now about the power prices," he added.

Hamid said the government start giving gas connections to the industrial units from April next year and asked the manufacturers to make business plans from now.

"The government's investment in the power sector is $21 billion and this amount needs to be increased to $30 billion to ensure uninterrupted power supply to the industrial units."

But, the government has been receiving only $200 million every year as revenue from the garment sector, he added. "While paying such low revenue, the garment manufacturers are demanding infrastructures worth of $3 trillion. Where will the rest of the money come from?"

Source: dhakatribune.com- Oct 04, 2017

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Cambodia asks for GSP status

Representatives from trade unions and employers associations will put forward a request to the European Union and the United States to consider extending preferential treatment – also known as the Generalized System of Preferences (GSP) – for a number of Cambodian products.

The joint statement was released after a closed-door meeting of the Labor Advisory Committee on Minimum Wage for 2018 on Tuesday.

"The trade unions will make the request individually to the US, the EU and many other countries, as well as buyers of well-known brands, to be more open in facilitating preferential treatment for Cambodian products, particularly garment and footwear, and to place more orders," the joint statement reads.

Preference systems let developing countries export certain goods to donor countries at reduced tariff levels.

At present, Cambodian footwear, textiles and garments are excluded from the US GSP.

Som Aun, president of the Cambodia Labor Union Federation, one of the leading trade unions in the country, told Khmer Times that since the minimum wage has been revised upwards several times in the last 10 years, there is now a need to make Cambodian products more competitive by increasing preferential treatment.

Heng Sour, deputy director of the Secretariat of the Labor Advisory Committee and spokesman for the Ministry of Labour, urged the EU and the US to open their markets further to Cambodian products.

"Unions and employers will appeal directly to these countries and ask them to make good on their promises because wage growth will continue in the country, as it is supposed to happen," he said.

"The ILO BFC (International Labor Organization Better Factories Cambodia) is already present in the country, and we have strengthen the inspection capability of our officials to ensure the working conditions comply with the requirements of the US and the EU.

"If the EU and the US do not respect their promises they will lose credibility. Other countries will hesitate to trust their word," he added.

Kaing Monika, Deputy Secretary General for the Garment Manufacturers Association in Cambodia (GMAC), said he admires the initiative shown by stakeholders in the garment sector in coming together and taking action to help the industry.

"This is very positive for Cambodia. For the first time, unions have allied with employers to demand more orders from international buyers and more access to international markets," he said.

"We are getting closer and closer to each other now, which is very important for a stable and productive industrial environment. More importantly, this builds confidence among all international buyers and the international community.

"It's also important to note that our competitiveness seems to rely heavily on trade preferences. We mainly grow in markets where we are granted trade preferences. With no GSP, it's quite hard to compete and grow our market share."

According to Cambodia's General Department of Customs and Excise, exports of garments and footwear rose by 7.2 percent to $7.3 billion in 2016, up from $6.8 billion in 2015. The US and the EU, Cambodia's biggest export markets, accounted for nearly 65 percent of Cambodian exports.

Cambodia already enjoys quota-free and duty-free access to the EU market under the Everything But Arms (EBA) treaty.

However, Cambodia's footwear and garment industry has been exporting under the US most-favoured nation (MFN) programme which requires paying import tax of below 35 percent as the US government charges high tax rates to protect local industries.

Source: khmertimeskh.com- Oct 05, 2017

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NATIONAL NEWS

Monetary policy review: RBI leaves key rates unchanged

The RBI has decided to maintain status quo and keep its key interest rate, the repo rate, unchanged at 6 per cent. It had last cut rates by 25 bps two months earlier in its August review. The pause was on expected lines as market consensus had predicted a pause in its cutting cycle.

The six member monetary policy committee voted on the basis of a majority for a pause. Dr. Chetan Ghate, Dr. Pami Dua, Dr. Viral V. Acharya, Dir Michael Patra and Dr. Urjit R. Patel were in favour of status quo while Dr. Ravindra H. Dholakia voted for a policy rate reduction of 25 basis points.

The Sensex and Nifty continued to trade higher by nearly 0.5 per cent as the RBI's decision to keep repo rate unchanged at 6.0 per cent was in line with market expectations. At 2.31 p.m., the 30-share BSE index Sensex was up 155.47 points or 0.49 per cent at 31,652.85 and the 50-share NSE index Nifty was up 53.6 points or 0.54 per cent at 9,913.10.

Cuts GDP estimate

The monetary policy committee of the RBI has cut its GDP forecast, revising it down to 6.7% this year as against 7.3% per cent projected earlier in August.

GDP growth had fallen to 5.7% in the first quarter and has been coming down continuously over the past five quarters.

On inflation, the committee felt that it has broadly moved on expected lines. It has projected that inflation will move in the 4.2 per cent to 4.6 per cent range over the next half year.

Upside risks to inflation

The RBI noted that just like in the August policy, there are factors that continue to impart upside risks to this baseline inflation trajectory. These were : " (a) implementation of farm loan waivers by States may result in possible fiscal slippages and undermine the quality of public spending, thereby exerting pressure on prices; and (b) States' implementation of the salary and allowances award is not yet considered in the baseline projection; an increase by States similar to that by the Centre could push up headline inflation by about 100 basis points above the baseline over 18-24 months, a statistical effect that could have potential second round effects." The RBI, however, hedged its bets saying that adequate food stocks and effective supply management by the Government may keep food inflation more benign than assumed in the baseline.

Rationale for cutting GDP estimates

Explaining its rationale for revising downwards GDP estimates from 7.3% to 6.7%, the RBI noted that the loss of momentum in Q1 of 2017-18 and the first advance estimates of kharif foodgrains production are early setbacks that impart a downside to the outlook.

It said, "The implementation of the GST so far also appears to have had an adverse impact, rendering prospects for the manufacturing sector uncertain in the short term. This may further delay the revival of investment activity, which is already hampered by stressed balance sheets of banks and corporates."

Consumer confidence and overall business assessment of the manufacturing and services sectors surveyed by the Reserve Bank weakened in Q2 of 2017-18; on the positive side, firms expect a significant improvement in business sentiment in Q3, the RBI noted.

Policy stance neutral

The MPC also decided to keep the policy stance neutral and monitor incoming data closely. The MPC said that it remains committed to keeping headline inflation close to 4 per cent on a durable basis.

The MPC was of the view that various structural reforms introduced in the recent period will likely be growth augmenting over the medium - to long-term by improving the business environment, enhancing transparency and increasing formalisation of the economy.

The Reserve Bank continues to work towards the resolution of stressed corporate exposures in bank balance sheets which should start yielding dividends for the economy over the medium term, the announcement said.

The MPC called for recapitalising public sector banks adequately to ensure that credit flows to the productive sectors are not impeded and growth impulses not restrained.

Steps to boost growth

It suggested the following measures could be undertaken to support growth and achieve a faster closure of the output gap:

a concerted drive to close the severe infrastructure gap;

restarting stalled investment projects, particularly in the public sector;
enhancing ease of doing business, including by further simplification of the GST; and

ensuring faster rollout of the affordable housing program with time-bound single-window clearances and rationalisation of excessively high stamp duties by States.

Source: thehindubusinessline.com- Oct 03, 2017

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SGST incentives to replace VAT reliefs

The Gujarat government on Tuesday issued a notification announcing that VAT incentives and concessions previously available under the state's industrial policies will now be available under State Goods and Services Tax (SGST). This will apply to all the policies prior to July 1 under which financial incentives were given.

Though the state government has now officially accepted the demand of industries to give VAT-like SGST benefits, it is yet to announce the most critical decision — about the volume of SGST benefits. A new GR (government resolution) says that 'modalities' will be decided later.

Manoj Das,in-charge principal secretary, industry & mines said, "The state government has decided to give SGST benefits in lieu of VAT benefits as given in state's industrial and other policies. It's been accepted in principle. A committee has been formed to decide modalities."

Das added, "SGST benefits will be given on the goods or services sold in Gujarat only. It will not be given on interstate sales. Detailed estimates will be prepared once we received SGST share from the Government of India."

The industries and mines department's GR with respect to VAT-SGST, reads, "The state government reviewed the impact of the changed (tax) structure and decided to continue the support to the investment and decided to amend the provision of VAT concession and allow the SGST concessions." It adds further, "VAT incentives will be replaced by SGST incentives. All other terms and conditions have been kept same."

Industry players have supported the step taken by the state government. "The move will certainly benefit the industry. VAT incentives were available for importing textile machinery which were gone after GST implementation.

This will help textile industry players settle their businesses in the new tax structure," said Shailesh Patwari, president, Gujarat Chamber of Commerce and Industries.

Source: timesofindia.com- Oct 05, 2017

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Is India's Economic Growth Slowdown Temporary or Technical?

India's GDP growth has fallen linearly over the last six quarters, from a high of 9.2% in Q3-2016 to 5.7% in Q4-2017. Going by the definition of the National Bureau of Economic Research, a US economics research organisation, and comparing India's macroeconomic data it would not be inappropriate to say that we are currently in a recession.

The UK and the European Union however, consider an economy in recession only when real GDP growth actually turns negative over two consecutive quarters; by this criterion, with a positive growth rate of 5.7%, we are far off from being in a recession. Whatever definition of a recession one may abide by, the predicament that we now face requires the attention of policymakers. But what policy options do we have to counter the present downward trend in the Indian economy?

The answer to this question depends on how we view the cause of the problem. While some, especially those supporting the economic policies of government, see it as a temporary or "technical" issue whose effects will soon wane, others view this as a more serious crisis created by a barrage of supply-side shocks to the economy; a stressed banking sector, demonetisation and GST implementation as well as disruptions in the agrarian sector that have all contributed in strong measure to the ongoing economic slide.

With reference to the latter, I identify two standpoints; first, that while the longer-term story of structural reforms remains intact, there is a need for immediate stabilisation policy – fiscal and/or monetary policy – so that the short-term shock does not pull the economy into a deflationary spiral and second, that these shocks have impacted agriculture and industry so severely, especially the informal sector, that the crisis is now a deep structural issue rather than merely a short-run one.

In this case, India's growth story has been derailed and the pain must be endured by the masses for a long while to come. The blame for ending up in this mess rests on the government because of its poor understanding of economic realities and adventurism in policymaking and implementation.

When the crisis is viewed as essentially a technical one the suggested policy response is categorical; the government should implement further supply-side structural reforms. What others consider as supply-side shocks are actually bold structural reforms – including schemes like Jan Dhan Yojana, PAN-Aadhaar linkage, digital payments, mobile banking, etc. – that will sooner than later yield positive results. Put differently, the slide that we observe today is indeed a short-run aberration before India moves on to a high trajectory (8%) growth path, perhaps as soon as the next fiscal. Rather than a fiscal quick-fix the government must undertake even more structural reforms for the longer-term benefits are bound to be larger than the short-run costs.

As an academic economist, it is clear that this line of thinking emanates from what we call the classical school which draws from Say's Law – supply creates its own demand – and one which has in recent times converged into the much dreaded idea of "austerity". Moreover, although there is no explicit mention of it, I see an undercurrent of a larger vision of these supply-side shocks (especially GST); although this may cause widespread closure of several micro and small industries in the informal sector – especially of the low technology, "proto-industrial" type – there is a subtle hope that the rapid expansion of the formal (private) sector will be able to absorb the displaced persons in the not-so-long term.

A qualitative change in industrial structure – from informal to formal – is required for India to not merely to achieve high and sustainable growth in the longer-term but more importantly, to emerge as a truly advanced nation on the world stage. While the narrative seems enchanting, the issue – even in the longer-term – is whether economic growth in modern/formal industry will be able to employ India's teeming masses who suffer from the handicaps of poverty and deprivation.

The second viewpoint that I see emerging in the present debate is one which argues that while the supply-side reforms are indeed an aberration (a technical issue), they could be disruptive enough to drag the economy into a vicious downward spiral that lasts beyond just a few quarters and turn the problem into a structural one. It is therefore politically exigent – given the forthcoming general elections – that the government acts to restore growth at least to its earlier levels of 7% to 7.5% as soon as possible. This stream of thought therefore considers the need for adoption of active stabilisation policies – fiscal and monetary – to tackle the short-term crisis even as the longer-term narrative of structural reforms remains on course.

However, as I argued in an earlier article, the danger of such a Keynesian fiscal expansion in the present context of supply-side shocks is that the economy could be dragged into stagflation – stagnating growth with accelerating inflation. The reason for this possibility is that increases in demand arising from larger government spending may not be able to induce an expansion of production and sale of goods and services because of the disruption on the supply-side of the economy and in spite of the existence of low capacity utilisation rates across various sectors of the economy. This may therefore lead to rising inflation without sufficient real growth in output.

What about monetary policy or a cut in interest rates by the Reserve Bank of India (RBI) to bolster private sector investment spending and prop up the growth rate? It would not be out of place to point out that many commentators (including Subramanian Swamy) have asserted that it was the former RBI Governor, Raghuram Rajan's tough stance on interest rate hikes that derailed private sector investment and is perhaps the true trigger of the present Indian economic slowdown. What is now needed from the RBI is a reversal of the damage and an immediate cut (or even a slash) in interest rates, especially given low inflation rates over the last several months. But will it work now in stimulating growth?

Keeping aside the decision of the monetary policy committee on the repo rate that will be taken on October 4, it is necessary to raise some general doubts on the efficacy of monetary policy at this juncture. Monetary policy transmission through cuts in interest rates would have been likely if the was a systemic strong demand for liquidity (reserve money from the RBI) in which case the money market rate would have been close to the repo rate.

Instead, the situation in India for the past several months, since demonetisation actually, is that the banking system is flush with liquidity and the RBI has making attempts to drain this surplus liquidity to prevent rates from falling. In fact, the short-run money market rates even breached the lower bound of reverse repo rates as the RBI did not have adequate government securities to conduct reverse repo operations.

Moreover, in addition to the poor demand for credit, banks too are simply not willing to lend. This arises from a fear to take risks (accountability issues if debts turn bad) as well as their stressed balance sheets of both, the corporate sector and the banks. There is yet another issue that needs closer examination before depending on monetary policy to bolster growth; the level of confidence in the economy.

Investment decisions are almost always based on expected sales and unless businesses see general economic conditions improving, the demand for credit will remain low whatever may be the rate of interest. In an article published in the Financial Times, an American economist questions a common assumption regarding monetary policy transmission.

Source: thewire.in- Oct 05, 2017

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India, European Union may form joint group on FTA

Four days ahead of the 14th India-European Union summit on October 6, hectic negotiations are underway between officials from India and the EU to explore ways on how they will move forward on the stalled negotiations over a new and ambitious Free Trade Agreement (FTA), which will encompass goods, services as well as mutual investment protection.

Sources told The Indian Express that the two sides may announce a mechanism or a joint working group to push for an early conclusion of the pact, which will also take care of the concerns arising out of the lapsed bilateral investment protection agreements with EU countries. "The idea is to turn the page on the issue of investments and trade, which may be adversely impacted due to the lapsed agreements on bilateral investment protection with all EU countries," a source told The Indian Express.

This is the first summit between India and the EU, after the Brexit verdict came out last year. This also comes about four months after Prime Minister Narendra Modi strongly endorsed German Chancellor Angela Merkel's vision of the European Union and committed at the earliest to resume talks between India and EU to stitch up a free trade agreement encompassing goods, services as well as mutual investment protection.

EU is India's largest regional trading partner with bilateral trade in goods standing at $ 88 bn in 2016. The EU is also the largest destination for Indian exports and a key source of the investment and cutting edge technologies. India received around $ 83 bn FDI flows from Europe during 2000-17 constituting approximately 24 per cent of the total FDI inflows into the country during the period.

India and the EU are in the process of negotiating a bilateral Broad-based Trade and Investment Agreement since 2007. As of late, both sides are discussing the modalities of resumption of BTIA talks on a fast track.

Sources said that the meetings between the President of the European Council, Donald Franciszek Tusk and the President of the European Commission, Jean-Claude Juncker and Modi will be key to give their stamp of approval about this issue.

Tusk and Juncker will be accompanied by a high-level delegation including EU's High Representative for Foreign Affairs and Security Policy and Vice-President of the European Commission, Federica Mogherini.

The 14th India-EU Summit aims to deepen the India-EU Strategic Partnership and advance collaboration in priority areas, a Ministry of External Affairs statement said.

Source: indianexpress.com- Oct 02, 2017

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Indian handloom industry still disorganised: Designers

Designer duo Swati and Sunaina, who came together in 2007 with the aim of rediscovering the lost treasures of Indian woven textiles and offering them to a discerning audience, say the country's handloom industry is still a very disorganised sector despite being so huge.

And as it is disorganised, the precision required to meet quality standards and the demands of the global market is missing. Such precision is possible "only if the sector is organised from start to finish, and standardised norms set by the government are stringently incorporated", Swati told IANS in an email interview from Kolkata.

"Designers can and are already creating great silhouettes from Indian handlooms," said Sunaina, adding that what is now required is a "lateral shift towards handlooms and appreciation of its quality and worth among those choosing to be dressed in Western cuts and patterns".

"Alternatively, a sari, which is the most versatile unstitched garment draped and presented in many forms to create any desired silhouette, is suitable for the red carpet." The designer duo have infused innovation and freshness into their handloom work, which reflect in the motifs, colours and placements, culminating in limited-edition textiles that celebrate tradition.

All the handloom saris at their Kolkata store "Swati and Sunaina" are made on the pit looms of Banaras using techniques passed down the generations by master craftsmen. The use of pure, certified gold zari to intricately weave saris has been the hallmark of the label that consciously chooses quality over quantity.

For a few years now, they have worked with master weavers and this has involved understanding how such zari is made. "The Banaras handloom industry is very versatile and adaptable" and open to influence and inputs, making it "easy for anyone to put their designs into the process of production. The weavers are known to pick any specialised form of weaving from any sector and re-create it -- a case in point being Jaamdani of Bengal -- making Banaras handloom a viable 'Make in India' product," said Swati.

As designers, they like to retain the classicism of traditional Banarasi patterns and infuse freshness with play of modern colours and pattern placement, said Sunaina. "An innovation in design and experiment that we successfully conducted was interpreting antique jewellery into woven design patterns and successfully creating a three-dimensional effect by playing with colours and intelligent weaving," she said.

They feel fashion lovers today are great seekers of knowledge and love to arm themselves with finer details about the handlom that they choose to wear. "Interestingly, I have observed that the newer generation is a quick learner of intricacies involved in the production of any handloom," said Swati.

Added Sunaina: "Our challenges are more about creating awareness of the intricacies of procuring complexed textiles. As a solution to this, we have taken up educating young minds with informative videos about the processes involved in creating pure zari and textiles."
They recently held an exhibition on art of zari titled 'Gold', which was curated by Mayank Mansingh Kaul. It showcased the process of the making of zari via a multi-media presentation, using photographs, film and video projections.

So how has zari work evolved from the past to the present?

"Zari has been an integral part of Indian handlooms (and) was always associated with wedding finery and richness. From the early 20th century, zari has undergone a revolution from being totally hand-drawn to being partially mechanised and this has made zari production easier and more (in volume)," Swati told IANS.

"Zari is created from precious metals, (so) textiles woven with real zari have a higher value," said Sunaina, adding that they could only be afforded by a few. "It was always associated with royalty, nobility and wedding trousseau."

"With time, the class barriers have disappeared and anybody with a desire and ability to buy has access to the finest."

Source: business-standard.com- Oct 02, 2017

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