ECONOMY

GOLD	RUPEE	OIL	SILVER
₹38,987	₹72.39	$58.14	₹47,960

Indian basket as on September 2, 2019

SENSEX: 36,562.91 ▼ 769.88 NIFTY: 10,797.90 ▼ 225.35 NIKKEI: 20,625.16 ▲ 4.97 HANG SENG: 25,527.85 ▼ 98.70 FTSE: 7,268.23 ▼ 13.71 DAX: 11,920.87 ▼ 32.91

International market data till 1900 IST

SECTOR WATCH
AVIATION

DGCA imposes more restrictions on travelling in cockpit jump seat

Tuesday's order tightens curbs issued by aviation regulator in July

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 3

THE DIRECTORATE General of Civil Aviation (DGCA) has issued an order restricting travel in the cockpit jump seat, with the aim of securing safety of aircraft operations.

The aviation safety regulator has directed that no person shall enter the cockpit and occupy the jump seat on an aircraft registered in India during flight time.

The restriction, however, will not be applicable to crew members, officers of Ministry of Civil Aviation or Indian Meteorological Department authorised by DGCA to perform official duties, among other permitted crew members.

The order, issued on Tuesday, comes in addition to the one issued back in July where the aviation watchdog had prohibited off-duty airline officials, including pilots and aircraft maintenance engineers from travelling in cockpit "even when they are on leave or have not been assigned any duty whatsoever".

The July order stated that this practice was in violation of Aeronautical Information Circular (AIC) 3 of 1997. Tuesday's order supersedes the AIC 3 of 1997.

This development will not allow airlines to accommodate certain passengers on the cockpit jump seat in case of overbooking.

The exemption has also been given to an employee of the aircraft operator, who has the permission of the pilot-in-command and whose duties are such that his/her entry into the cockpit is necessary for safe operations of the aircraft.

In addition, any flight crew member of the airline, who has been authorised by the airline and has permission of the flight commander — and whose presence in the cockpit could be beneficial to the overall safety of operations — has also been exempted from the rule prohibiting cockpit travel.

The aviation regulator's move in July followed an Air India pilot testing breath-analyser positive ahead of a flight from Delhi to Bengaluru, in which he was scheduled to travel in the cockpit as an additional crew member.

The circular is part of the regulator's efforts to improve flight safety.

A senior DGCA official said, "We are also expanding the categories (for mandatory alcohol testing) to include air traffic control officers, aircraft maintenance engineers, workers handline machines on the airside and some others.

"We have published the regulations and sought comments from public till September 5. After examining the comments, we will finalise the regulations and are working out the logistics."

CREW MEMBERS EXEMPTED

- **The restriction, however, will not be applicable to crew members, officers of Ministry of Civil Aviation or Indian Meteorological Department authorised by DGCA to perform official duties, among other permitted crew members**
- **The July order by the DGCA followed an Air India pilot testing breath-analyser positive ahead of a flight from Delhi to Bengaluru**

DISMAL GDP DATA, WEAK CORE SECTOR GROWTH, LOW AUTO SALES

Macro worries push Sensex down 769 points; rupee loses 97 p/USD

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 3

FINANCE MINISTER Nirmala Sitharaman's announcement on Friday to merge 10 public sector banks into four big banks failed to lift the market sentiment on Tuesday. While the Sensex at the BSE fell 769 points or 2.06 per cent, the rupee lost 97 paise or 1.36 per cent against the dollar to close at near 10-month low of 72.39 following concerns over the ongoing tariff war between the United States and China as well as the sharp fall in the Q1 GDP growth to 5 per cent along with the weak core sector growth and continued decline in auto sales numbers.

Over the weekend, the US announced fresh tariffs on China and concerns grew over escalation of tariff war between the two countries. Following this, while China witnessed a decline in its currency by around 0.6 per cent, the Indian currency that opened on Tuesday after a three day gap, saw a decline of 97 paise against the dollar. Since July 31, the rupee has lost around 5 per cent from 68.86 against the US dollar to close at 72.39 on Tuesday. During the same period, Chinese yuan renminbi lost 4.3 per cent and is currently trading at 7.18 against the dollar, a 11-year low.

The rupee has been under pressure over the last five weeks after US Federal Reserve, at the time of announcing its first rate cut in a decade on July 31, stated that it was just a "mid-cycle adjustment". The announcement took emerging markets by surprise as they earlier expected that a dovish stance would result in fund inflow in their respective countries.

Meanwhile, foreign portfolio investors (FPIs) have been exiting Indian markets over the last 2 months and have sold equities worth a net of Rs 30,000 crore. During the same period, the FPIs have invested a net of Rs 21,000 crore in the debt market.

The government's recent announcement to roll back surcharge on FPIs also failed to revive their sentiments and they pulled out around Rs 5,500 crore from domestic equities since the rollback on August 23, 2019. The FPI outflow is also putting pressure on the rupee.

After plunging 867 points during the day, the 30-share index ended 769.88 points, or 2.06 per cent, lower at 36,562.91. The broader Nifty too sank 225.35 points, or 2.04 per cent, to settle at 10,797.90. Top losers in the Sensex pack included ICICI Bank, Tata Steel, Vedanta, HDFC, IndusInd Bank, Tata Motors, RIL and ONGC — falling up to 4.45 per cent.

Only two IT stocks, TechM and HCL Tech, ended with mild gains, tracking weaker rupee.

All sectoral indices ended in the red, with BSE metal, energy, consumer durables, telecom, bankex, finance, oil and gas, realty and capital goods indices settled 3.23 per cent lower. Broader BSE midcap and smallcap indices too closed up to 1.65 per cent lower.

"Markets have reacted to the weak auto sales data, lower than expected GDP growth number for Q1FY20 indicating that the slowdown is more pronounced thus demanding for policy measures on both monetary and fiscal side. The recent measures taken by the Ministry of Finance would help mitigate the risk but more is expected to reverse the trend. Markets are already building in expectations of a rate cut over rest of the financial year with lumpy (around 30-40 bps) expected in October 2019 policy meeting. News flow from global markets is not conducive either; US-China trade conflict has reached a new high with both the nations continuing to talk but at the same time imposing an additional tariff on goods imported from the other nation," said Arun Thukral, MD and CEO of Axis Securities.

Elsewhere in Asia, bourses in Shanghai, Hong Kong, Korea and Japan ended on a mixed note after the US and China on Sunday put in place their latest tariff increases on each other's goods. Exchanges in Europe were also trading the red in their respective early sessions.

EXPLAINED

Govt measures yet to reverse investor sentiment

THE SHARP reaction by the stock and currency markets to weak auto sales numbers and lower than expected GDP growth for Q1FY20 shows that the current slowdown needs policy measures on both monetary and fiscal side.

While the government has announced several measures over the last couple of weeks, it has not had a visible impact in terms of reversing the investor sentiment. Besides, global concerns on US-China tariff war is something that the government can't do much about.

'NPAs may come down to ₹9.1 lakh cr by FY20'

The gross bad loans of banks are expected to come down marginally to Rs 9.1 lakh crore by the end of the current financial year, a joint study by Assocham-Crisil titled 'Bolstering ARCs' said

₹9.4 LAKH CRORE
Gross NPAs, or bad loans, of Indian banks as on March 31, 2019

70% Share of corporate segment in gross non-performing assets (NPAs), which has seen active interest from most investors

44-48%: Expected improvement in recovery rate, i.e. gross recovery to principal debt acquired, from earlier level of 40 per cent, owing to quicker debt aggregation, acquisition of lower vintage of assets, etc

POWER SECTOR ASSETS: The revised stressed asset framework is expected to benefit stressed power sector assets that were operational and on verge of being referred to CIRP under IBC

ARCs MUST FOCUS ON RESOLUTIONS: With a higher cash share becoming a norm, asset reconstruction companies (ARCs) will need to focus more on resolutions and attracting co-investors

₹5.4 LAKH CRORE: Aggregate debt of large stressed borrowers, of which:

- NCLT list-1 and list-2 comprise around Rs 2.1 lakh crore
- Existing stock of NPAs comprise around Rs 2 lakh crore

(Power, infrastructure and steel sectors together constitute about half of these Rs 4.1 lakh crore worth stressed assets)

- Assets of around Rs 1.3 lakh crore are estimated to be under stress, but have not yet been recognised as NPAs

CABINET APPROVAL

Battling steep losses, IDBI Bank to get ₹4,557 cr from govt

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 3

Along with equity contribution from the Life Insurance Corporation, now majority owner in IDBI Bank, the total infusion will be Rs 9,300 crore

TO HELP loss-making IDBI Bank meet minimum regulatory capital requirement, the government Tuesday approved equity infusion of Rs 4,557 crore fund in the lender. Along with equity contribution from the Life Insurance Corporation, now majority owner in IDBI Bank, the total infusion will be Rs 9,300 crore. Despite acquisition by LIC, which was expected to turn around the lender, IDBI Bank continues to make steep losses and has high gross non-performing assets (NPAs) of 29.12 per cent in quarter ended June 2019.

"LIC is at 51 per cent (equity stake in IDBI Bank) and is not allowed to go higher by the insurance regulator. Of the Rs 9,300 crore needed, LIC would meet 51 per cent (Rs 4,743 crore). Remaining 49 per cent, amounting to Rs 4,557 crore, is proposed from government as its share on one time basis," the government said in a statement after a meeting of the Union Cabinet, which cleared equity infusion.

After LIC acquired majority stake in IDBI Bank, the shareholding of the government was reduced to 46.46 per cent from 86 per cent last year. In the last four financial years, IDBI Bank has posted cumulative loss of Rs 32,177 crore, requiring the government to bailout the lender frequently. Even in first quarter of the current fiscal year, it reported a net loss of Rs 3,801 crore as compared to Rs 2,410 crore in the same quarter of the last year.

IDBI Bank share closed higher 7.66 per cent at Rs 28.80 at the BSE on Tuesday. LIC has seen significant value erosion in its investment in the lender as it had picked up equity at around Rs 60.73 per share aggregating to Rs 14,500 crore. Gross NPAs, as a percentage of total advances, were at 29.12 per cent in the quarter compared to 30.78 per cent in the year-ago June quarter.

Post provisioning and bad loan write off, the net NPA came down to 8.02 per cent as against 18.76 per cent in the year-ago quarter. Provision coverage ratio (PCR) improved from 69 per cent from September 2018 to 83 per cent in March 2019 and further to 88 per cent as on June 30, 2019.

"After this infusion, IDBI Bank expects to be able to subsequently raise further capital on its own and expects to come out of RBI's Prompt Corrective Action (PCA) framework sometime next year," the government said in the statement. The equity infusion is part of Rs 70,000 crore planned by the government for public sector banks (PSBs) in the current fiscal. This infusion is being done through issuance of recapitalisation bonds to PSBs.

On August 27, S&P Global Ratings placed IDBI Bank Ltd's 'BB/B' ratings on credit watch negative after capital breach, while noting this could be temporary as majority owners will pump in capital soon.

"A net loss in the first quarter of fiscal 2020 (year ending March 31, 2020) due to high provisioning costs eroded IDBI's capital to below the regulatory minimum for a banking license. This is second instance over the past two years that the bank has breached the regulatory minimum, and it was not in line with our expectation," the agency said.

"Excluding the capital conservation buffer (CCB), Indian banks are required to hold a minimum 7 per cent Tier-1 capital ratio and a 9 per cent ratio of total capital to risk-weighted assets (CRAR). IDBI's Tier-1 capital ratio is 6.14 per cent and CRAR is 8.14 per cent as of June 30, 2019. We believe the breach could be temporary because IDBI is in the process of raising capital from its majority shareholders," S&P had said.

Govt hikes procurement price of ethanol from Dec

To cut import bill; aid industry, farmers

ENS ECONOMIC BUREAU
NEW DELHI, SEPTEMBER 3

THE CABINET Committee on Economic Affairs (CCEA) on Tuesday announced increases in the price of sugarcane-extracted ethanol, used for blending in petrol, in keeping with its stated policy of encouraging ethanol-blended fuel to cut the country's oil import bill and aiding the sugar industry and farmers.

For the year starting December, price of ethanol derived from C heavy molasses has been increased from Rs 43.46 a litre to Rs 43.75 per litre, and for B heavy molasses to Rs 54.27 per litre from Rs 52.43 earlier. Also, the price of ethanol from sugarcane juice, sugar, sugar syrup route has been fixed at Rs 59.48 per litre.

Oil Minister Dharmendra Pradhan said the higher prices would increase the procurement of ethanol by oil marketing companies to 260 crore litres between December 2019 and November 2020, from 200 crore litres bought in the previous ethanol year. The move, the minister said, would raise the ethanol blending in petrol to about 7 per cent next year from 6 per cent currently.

Ethanol is a by-product of molasses generated on crushing of sugarcane and the higher price is seen to help the sugar mills, which are burdened with high prices of cane fixed by the Centre and state governments. Cane-based ethanol can be produced three different ways — directly from cane juice, from B-grade and C-grade molasses.

Indian Sugar Mills Association (ISMA) director general Abinash Verma said that fixing a single premium rate for ethanol derived from partial or 100 per cent sugar juice was a big positive. **FE**

Oil drops 3% as weak US data renews slowdown worries

STEPHANIE KELLY
NEW YORK, SEPTEMBER 3

OIL PRICES fell on Tuesday, with US crude futures down 3 per cent after manufacturing data raised concerns about a weakening global economy, while the US-China trade dispute continued to drag on investor sentiment.

US West Texas Intermediate (WTI) crude futures fell $1.68, or 3.1 per cent, to $53.42 a barrel by 1645 GMT. The session low was $52.84 a barrel, the lowest since August 9. Brent crude futures lost 92 cents, or 1.6 per cent, to $57.74 a barrel. It sank as low as $57.23 a barrel, also the weakest since August 9. Prices extended losses following data that showed US manufacturing activity in August contracted for the first time in three years, with new orders and hiring declining as trade tensions weighed on business confidence.

Oil prices have fallen around 20 per cent since a 2019 peak reached in April, hit by concerns the trade war would dent oil demand. The US-China trade dispute "is the single most important flat price driver of late," said Tamas Varga of oil brokerage PVM. On the supply side, Venezuela's oil exports fell in August to their lowest level in 2019, internal reports and Refinitiv Eikon data showed, following US sanctions. **REUTERS**

'Tesla Autopilot engaged in California crash in 2018; driver's hands off wheel'

DAVID SHEPARDSON
WASHINGTON, SEPTEMBER 3

THE US National Transportation Safety Board (NTSB) said on Tuesday that a Tesla Model S was in Autopilot mode and the driver's hands were off the wheel when it struck a fire truck in Culver City, California, one of a series of crashes the board is investigating involving the Tesla system.

The 2014 Model S Autopilot system was engaged continuously for the final 13 minutes 48 seconds of the trip before the vehicle struck a fire truck parked on Interstate-405 in January 2018, the NTSB safety board said in documents posted on Tuesday.

Tesla Model S version 7.0 update containing Autopilot features. *Reuters File Photo*

The board plans to issue a report on Wednesday. The driver kept his hands off the wheel for all but 51 seconds of the final drive segment and received numerous alerts to place his hands back on the wheel, the documents showed. Tesla Inc did not immediately comment.

Tesla's Autopilot was engaged during at least three fatal US crashes, including fatal March 2018 crashes of a 2018 Model 3 in Delray Beach, Florida and in Mountain View, California of a Model X. Both of those crashes remain under investigation by the NTSB and National Highway Traffic Safety Administration. **REUTERS**

IRDAI sets up panel to revisit trade credit insurance norms

PRESS TRUST OF INDIA
NEW DELHI, SEPTEMBER 3

INSURANCE REGULATOR Irdai has decided to review its three-year old guidelines on trade credit insurance in line with the changing requirements of the market.

Trade credit insurance policy provides coverage to supplier of goods and services against delay in payment or non-payments of trade credit. The Insurance Regulatory and Development Authority of India (IRDAI) said it has set up a nine-member working group headed by New India Assurance CMD Atul Sahai with an aim to review March 2016 guidelines. The panel, which has been asked to submit its report in three-months, would study the need and scope for changes in the current guidelines keeping with the times and requirements of various segments of market.

As per the terms of reference (ToR) given to the panel, it would also suggest amendments to guidelines that add value to the stakeholders such as banks and factoring companies. Another key ToR is: "To examine the current guidelines on Trade Credit Insurance and products available for catering to the needs of credit insurance market in India."

TRADE TENSIONS WEIGH ON BUSINESS CONFIDENCE

US manufacturing shrinks for first time in 3 years; new orders, factory jobs drop

REUTERS
WASHINGTON, SEPTEMBER 3

Institute for Supply Management said its index of national factory activity dropped to a reading of 49.1 last month from 51.2 in July

US MANUFACTURING activity contracted for the first time in three years in August, with new orders and hiring declining as trade tensions weighed on business confidence, which could renew fears of a sharp economic slowdown.

Other data on Tuesday showed construction spending barely rising in July. Data on consumer spending had suggested that while the economy was slowing, it was not losing momentum as rapidly as financial markets were flagging. The Institute for Supply Management (ISM) said its index of national factory activity dropped to a reading of 49.1 last month from 51.2 in July. A reading below 50 indicates contraction in the manufacturing sector, which accounts for about 12 per cent of the US economy. Last month marked the first time since August 2016 that the index broke below the 50 threshold.

August's reading was also the lowest since January 2016 and was the fifth straight monthly decline in the index. The ISM said there had been "a notable decrease in business confidence", adding that "trade remains the most significant issue, indicated by the strong contraction in new export orders." The year-long US-China trade war is eroding business sentiment, with business investment contracting in the second quarter for the first time in more than three years.

That, together with an inventory bloat, is undercutting manufacturing, with output declining for two straight quarters.

With trade tensions still simmering in the background, the Federal Reserve is expected to cut interest rates again this month to keep the longest economic expansion in history on track. The ISM's forward-looking new orders sub-index dropped to a reading of 47.2 last month, the lowest level since June 2012, from 50.8 in July.

In a separate report on Tuesday, the US Commerce Department said construction spending edged up 0.1 per cent. Data for June was revised up to show construction outlays decreasing 0.7 instead of falling 1.3 per cent as previously reported.

US Treasury yields drop, stocks slide

REUTERS
NEW YORK, SEPTEMBER 3

BENCHMARK 10-YEAR US Treasury yields fell to their lowest level since July 2016 on Tuesday, and all three major US stock indexes were in the red amid heightened trade worries and a contraction in US factory production.

European shares were also hurt by concerns over a global economic slowdown and uncertainty over Britain's exit from the European Union.

The Dow Jones Industrial Average fell 380.78 points, or 1.44 per cent, to 26,022.5, the S&P 500 lost 28.71 points, or 0.98 per cent, to 2,897.75 and the Nasdaq Composite dropped 104.21 points, or 1.31 per cent, to 7,858.67.

European stocks pulled back from a 1-month high after the disappointing US PMI data compounded worries of a global economic sluggishness, while uncertainty over Britain's hard exit from the European Union put an end to the FTSE 100's four-day winning streak.

The pan-European STOXX 600 index lost 0.23 per cent and MSCI's gauge of stocks across the globe shed 0.67 per cent.

US Treasury yields fell, with the benchmark 10-year yield at its lowest since July 2016 after the downbeat ISM report exacerbated worries about a weakening global economy in the shadow of the US-China trade war.

Benchmark 10-year notes last rose 14/32 in price to yield 1.459 per cent, down from 1.506 per cent late on Friday.

The 30-year bond last rose 27/32 in price to yield 1.9373 per cent, down from 1.973 per cent late on Friday.