MONTHLY UPDATE
SEPTEMBER 2016

GLOBAL ECONOMIES TREADING WITH CAUTION

INDIA ON A REFORM MODE

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

In its policy meet, the US Fed left the key policy rates unchanged. Despite an improvement in the labour market and rise in the household spending, the Fed chose to 'closely monitor inflation indicators and global economic and financial developments', as it expects further improvement in the labour market. The Bank of Japan (BoJ) too has rendered its interest rates unchanged and continues the negative regime. However, it has now shifted the focus of its fiscal stimulus from expanding money supply to improving yields, as its policy of bond buying has flattened the yield curve of government bonds, while the negative interest rates policy impacts banks' profitability. This step by the BoJ – the most daring of global central banks in introducing monetary stimulus to fight deflation, indicates that it is taking note of the rising scepticism about the sustainability of its government's bond-buying programme. It also underlines that the government is coming to terms with the fact that Abenomics has failed to lead to the expected level of economic revival. In China, the slow story has become gloomier with its debt accumulation levels having crossed the financial sustainability thresholds. The World Trade Organization has lowered its global trade forecasts for 2016 and 2017. Slowing GDP and trade growth in developing economies like China, Brazil and also in North America has lent sluggishness to the overall global trade.

India has improved its rank by 16 places to 39th in the global competitiveness index released by the World Economic Forum. However, there is a long way to go; the Forum has drawn attention to issues like India's high bank debt, low levels of transparency and internet connectivity, complex tax regime, etc. The Asian Development Bank has retained the growth forecast for India at 7.4% in 2016 on the back of structural reforms like the Goods and Services Tax (GST) and robust consumer demand.

The GST Council has already started work and has approved draft rules concerning registration, invoicing, taxing payments, etc. Now finalising the GST rates remains the major task. In an attempt to bring in more accountability and efficiency in our public spending, the government announced some apt and important changes in the budget exercise, viz. i) merger of general and rail budget, ii) advancing of budget exercise by a month so that the spending actually starts as per the budgetary allocations from 1 April, and iii) scrapping of the classification of expenditure into 'plan' and 'non-plan'.

Retail inflation has cooled (though above the 5% target set for March 2017) lending room for the RBI to slash interest rates. Inflation is expected to stay soft in the coming months with the supply-side measures taken by the government, while the kharif crop is also expected to yield a bumper harvest due to the better outturn of the monsoon. However, industrial activity, including manufacturing, continues to run slow. In sync with the global trend, India's exports continue to fall, though the current account deficit has tapered down to a decade's low in the first quarter of 2016–17.

On the infrastructure and realty front, despite the government's announcements of new investments, the number of stalled projects in India continued to increase in the quarter ending September 2016 and the major chunk of these lie in the manufacturing and electricity sectors. The share of construction and real estate sector in the total number of stalled projects stands at 10%. However, the thrust on infrastructure development continues and the government has released the second list of 27 smart cities to be developed in India. To deepen India's debt market, SEBI has eased norms for Foreign Portfolio Investors (FPIs) and to Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs).

US FEDERAL RESERVE LEAVES POLICY RATES UNCHANGED

The US Federal Reserve (Fed) kept its policy rate unchanged for the sixth policy meet in a row. The rate stands at 0.25% to 0.5%. The Fed suggested that it was looking out for further improvement in inflation and employment levels, though a hike is possible by the year end. It stated that it "continues to closely monitor inflation indicators and global economic and financial developments", as it expected the labour market to improve further.

The announcements came in the backdrop of considerable job gains, despite the unemployment rate staying unchanged and robust housing spending. Business fixed investment has stayed muted. The markets would now keenly wait for the Fed's December policy meet as the policymakers hinted at a possible hike towards the end of the year.

BANK OF JAPAN RENDERS UNCHANGED THE NEGATIVE INTEREST RATE, FOCUS OF MONETARY STIMULUS SHIFTS FROM EXPANDING THE SUPPLY OF MONEY TO IMPROVING THE YIELD CURVE

The Bank of Japan (BoJ) left unchanged the benchmark rate for a share of bank reserves at negative 0.1%. It also announced that the monetary base target previously set at annual increases of 80 trillion yen (US$780 billion), is likely to fluctuate in the short term as the bank plans to shift focus of its monetary stimulus away from expanding the supply of money to improving the yield curve. The BoJ indicated that it would expand the monetary base until inflation turns stable to the targeted above 2% level.

The announcement comes in the backdrop of increasing dissatisfaction about applying Abenomics for bringing in economic revival and the rising scepticism about the programme of the BoJ to purchase Japanese Government bonds. This is impacting the supply of bonds in the market.

CHINA AMID FINANCIAL TROUBLES, CREDIT TO GDP RATIO WARNS OF UNSUSTAINABLE DEBT ACCUMULATION LEVELS

Since the global financial crisis, China's debt levels have risen and of late credit to GDP ratio warns of unsustainable debt accumulation levels, giving rise to concerns over China's financial stability. A recent study by the Bank of International Settlements (BIS) highlights that the country's credit to GDP ratio stands at 30% at the end of the March quarter of 2016, which is three times the 10% threshold that the BIS deems to be the sign of debt levels turning unsustainable.

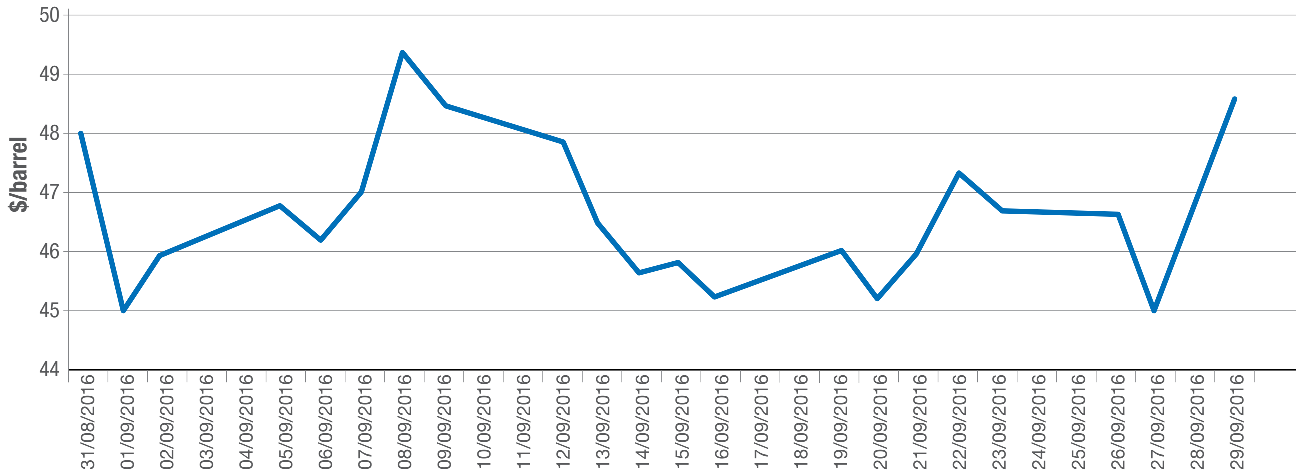
WORLD TRADE ORGANIZATION LOWERS TRADE GROWTH TARGETS

The World Trade Organization (WTO) lowered the world trade forecasts to 1.7% in 2016 against its previous forecast of 2.8% with expected global GDP growth of 2.2% in 2016. This would be the slowest pace of global trade since the financial crisis of 2008. The WTO also lowered the trade growth forecast for 2017 to between 1.8% and 3.1% from 3.6% previously. The export growth forecast in 2016 was lowered for most of the regions, with sharp corrections with regards to Asia.

The slowing of global trade is majorly a result of the slowing GDP and trade growth in developing economies like China and Brazil and also North America. Though there is an improvement in export orders and container port throughput, sluggishness prevails in the overall pace of global trade.

OIL

EUROPE BRENT SPOT PRICE



Source: U.S. Energy Information Administration

Oil prices firmed up by around 1% during September 2016 (as of 29 September). The US Fed's decision to keep interest rates unchanged helped the commodity to gain strength, though later the oil producing countries' meet in Algeria to discuss ways to support the market lent some volatility to the prices.

THE ASIAN DEVELOPMENT BANK (ADB) RETAINS INDIA'S GROWTH FORECAST AT 7.4% IN 2016

The ADB expects the economy to grow at 7.4% in 2016. A string of structural reforms like the GST undertaken by the government, strong consumer demand expected to be helped by the seventh pay commission payouts and expectations of better agricultural output due to a good monsoon, would help India to grow at this pace, views the Bank. The Bank has retained its earlier forecast for India at 7.4%.

INDIA'S RANK IN COMPETITIVENESS MOVES UP 16 PLACES TO THE 39TH RANK IN 2015–16

The World Economic Forum (WEF) report indicates that India's rank in the global competitiveness index moved up 16 places to rank 39th among 138 countries. India stands as the second most competitive country in the combined economies of Brazil, Russia, India, China and South Africa (BRICS) after China (ranked 28th).

The country's competitiveness has improved the fastest in 2015–16 on the back of improved functioning of public institutions and increasing transparency in the financial system, resulting in market efficiency, business sophistication and innovation. The WEF analysts however, also underlined the risks to India's competitiveness, viz. high bank debt, low female participation in the labour force, low internet connectivity along with complex tax regime, corruption, inflation, etc.

GOODS AND SERVICES TAX COUNCIL STARTS WORK

With 16 states ratifying the constitutional amendment bill passed by the Parliament to introduce the Goods and Services Tax (GST), the President of India gave his assent to the bill making GST law a reality in India. Consequently, the Cabinet approved the establishment of the GST Council chaired by the Union Finance Minister. Other members of the GST Council include the Union Minister of State for Finance, the in-charge of Revenue of Finance and state finance ministers. The Union Revenue Secretary functions as the ex-officio secretary without voting rights.

Accomplishing its first ever task, the Council, by consensus, agreed to tax exemption threshold of ₹20 lakhs for all states, except the north-east and hill-area states for which the threshold is set at ₹10 lakhs. The Council also adopted a cross-empowerment model for tax administration, a formula for compensating states and agreed to subsume all cesses into the new tax.

The cross-empowerment model is an issue of concern for states as it rests on dual control, wherein the tax payer's interaction will be restricted to a single tax authority for central GST, state GST and integrated or IGST. The central and state GST are two components of a single GST levied on intra-state sales, while IGST will apply to inter-state sales. Assesses with a turnover of less than ₹1.5 crore annually, will be assessed by state tax authorities and those above that through the new cross-empowerment model.

The Council has of late also approved draft rules for the levy of GST concerning registration, invoicing, taxing payments, etc. to be incorporated in the supporting legislations to roll out the GST regime

THE GOVERNMENT ANNOUNCED CHANGES RELATED TO GENERAL BUDGET, SEPARATE RAIL BUDGET STANDS SCRAPPED

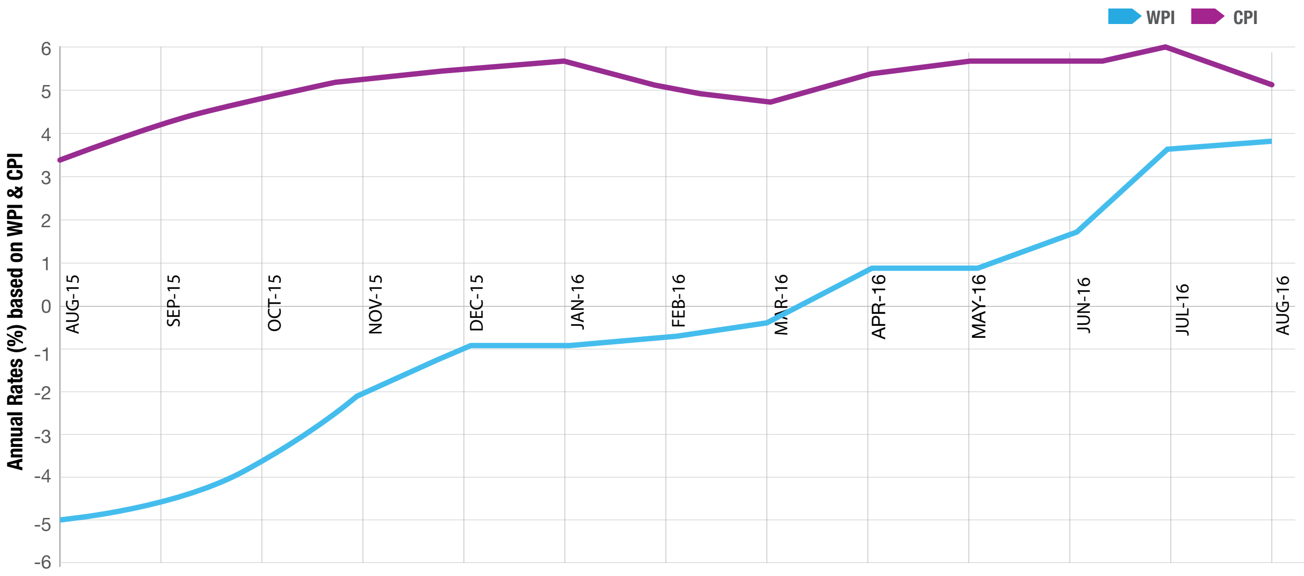
The government announced the merger of the general budget and railway budget. The Finance Minister will present the railway accounts while presenting the general budget. The Railways would function as a department of the government with a demand for grant to the government, though it will enjoy the autonomy as it enjoys currently. This move is expected to help enhance public accountability.

The government also announced removing distinction between expenditures as plan and non-plan expenditure, with an objective to focus on capital and revenue classification of spending. This bodes well, as capital spending needs to be taken seriously as it has come down.

Furthermore, the government announced the advancement of the presentation of the Union Budget by a month, so that the entire presentation and passing of the Finance Bill would get over by 31 March, and the expenditure and tax proposals would be implemented from 1 April. For this, the budget planning would be started a month earlier, that is in September, while the Budget session would also start earlier.

WPI INFLATION AT 24-MONTH HIGH, CPI AT FIVE-MONTH LOW, THOUGH STILL ABOVE RBI'S TARGET OF 5% TO BE ATTAINED BY MARCH 2017

INFLATION



Sources: Ministry of Commerce and Industry, RBI

India's inflation, as measured by the wholesale price index (WPI), strengthened further to attain a 24-month high in August, on account of a rise in manufactured goods. It rose to 3.74% YOY in August 2016 from 3.55% in July. Prices of manufactured products having a 64.97% weight in the WPI rose 2.42% in August from a rise of 1.82% in July. Wholesale inflation in food articles slipped to 8.23% in August from 1.82% in July. Wholesale inflation for June too stands revised to 2.12% from 1.62% earlier.

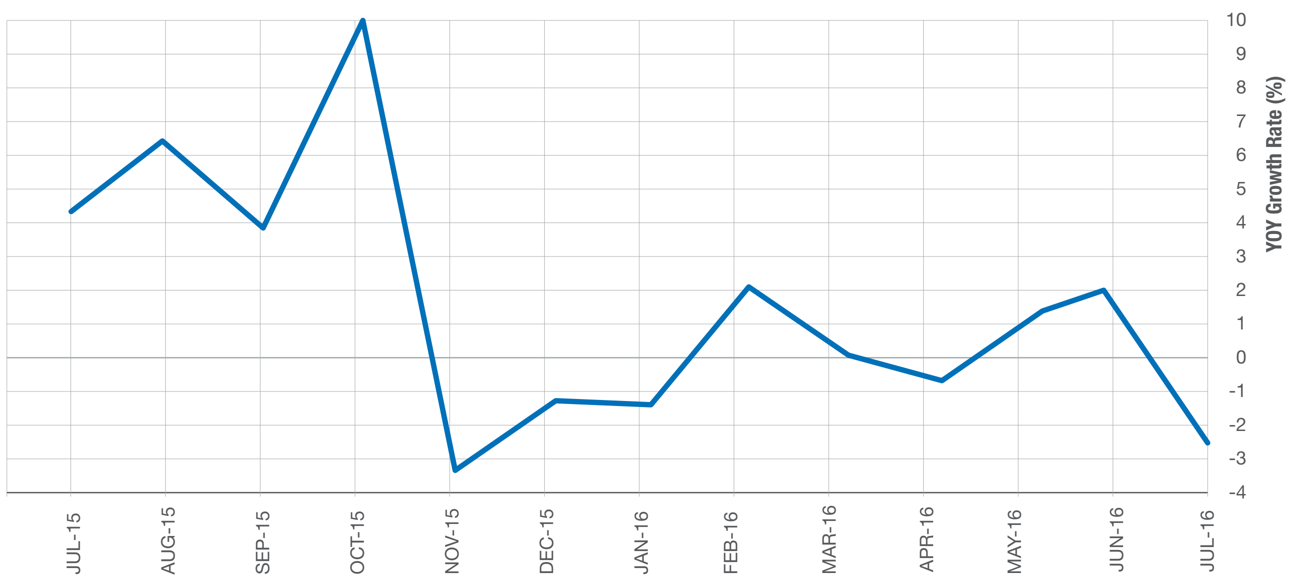
Wholesale inflation is expected to stay firm in the coming months due to strengthening manufacturing prices.

Retail inflation, as measured by the consumer price index (CPI), slipped to 5.05% in August 2016 from 6.07% a month ago, on account of a fall in vegetable prices. Food inflation eased to 5.91% in August from 8.35% in July, due to a sharp fall in inflation in vegetable prices to 1.02% from 14%.

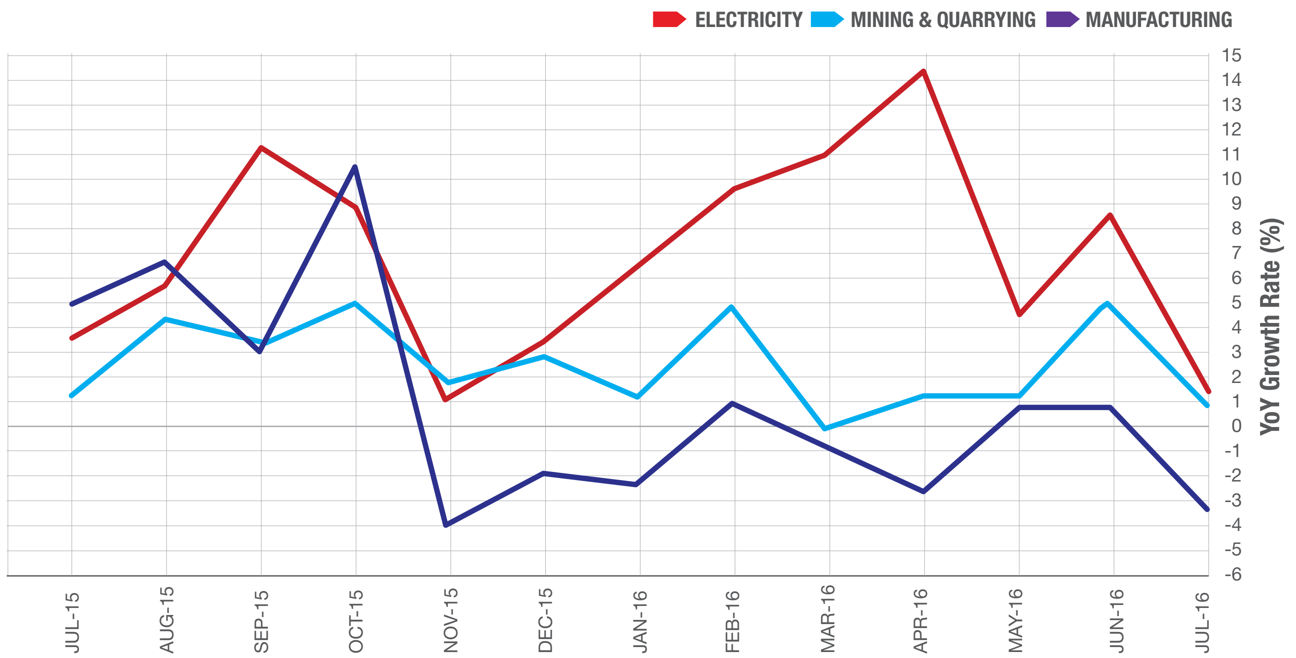
Retail inflation is expected to ease further in the coming months with larger kharif stocks arriving in the market due to a good monsoon. The opposite trend in two indices, CPI and WPI, arises from food inflation that has a 14.34% weight in WPI and over 45% in CPI. More moderation in prices is also expected because of supply-side measures undertaken by the government. Recently the Cabinet Committee on Economic Affairs approved a larger 20-lakh tonnes buffer stock for pulses, to avoid the periodic price rise.

INDUSTRIAL OUTPUT SLIPS 2.4% IN JULY DUE TO SLUGGISH INVESTMENTS

IIP (GENERAL INDEX)



IIP (SECTOR WISE)



Source: Ministry of Statistics and Programme Implementation & RBI

Having resumed the growth trajectory during the last two months, Index of Industrial Production (IIP) slipped 2.4% in July, indicating that that monsoon was not as good as expected and that it has failed to revive rural demand, though urban consumption-led demand (as indicated by the car sales and manufacturing purchasing managers' index for August) stood improved. Investments too have stood poor. Manufacturing growth fell 3.4%, while mining and electricity outputs were 0.8% and 1.6%, respectively. Industrial production during April–July 2016 declined 0.2%.

The IIP reading for June too stands revised to a 1.9% increase, compared with a 2.1% rise earlier.

MANUFACTURING PURCHASING MANAGERS' INDEX SOFTENS IN SEPTEMBER

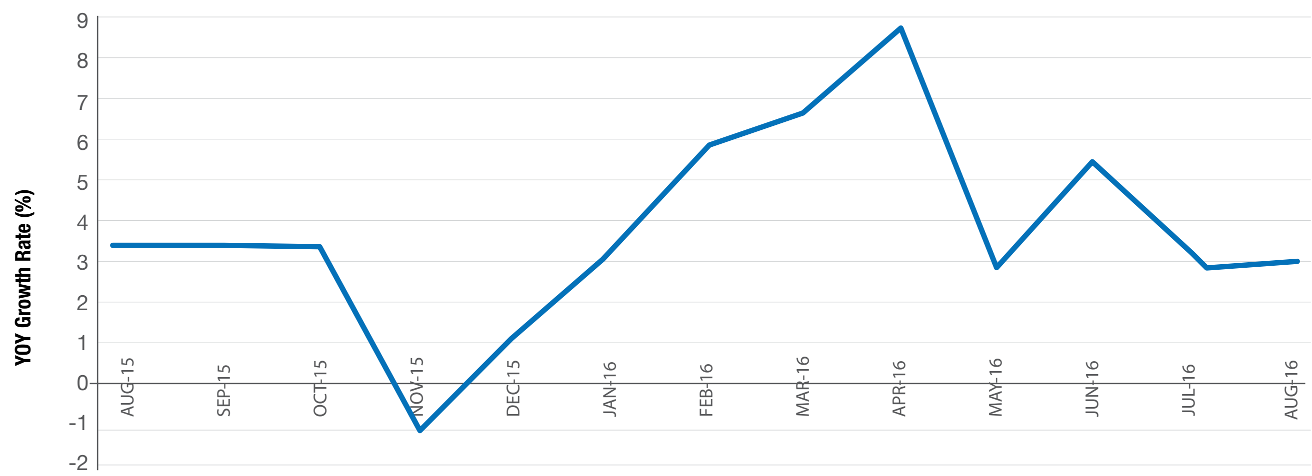
Having recorded the fastest growth in 13 months in August, the manufacturing Purchasing Managers' Index (PMI) slipped to 52.1 in September from 52.6 in August. A reading below 50 indicates contraction. Further, employment generation in India's manufacturing sector stood tepid.

Slower growth in new business inflows is the major reason behind slow manufacturing. Though new orders flowed in, due to intense competition the new orders' growth slipped down from the 20-month high level reached in August.

However, the average PMI rose to 53.6 points during July–September 2016 from 51.4 in April–June. Hence, manufacturing is expected to contribute better to the GDP in the coming quarters.

CORE SECTOR GROWTH DECELERATES TO 3.2%

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry

Core sector production rose 3.2% in August 2016. However, the rise in core sector output is not strong enough to trigger a revival in overall industrial activity.

A strong rise in steel and cement reflects upon a pickup in infrastructure and construction activity. Steel production rose 17% – a 37-month high in August on the low base of last year, while cement output rose 3.1% from a rise of 1.4% in July.

Core sector growth during April–August 2016 stood at 4.5% compared with 2.4% in the same period in FY16.

July core sector growth stands revised, lowered to 3% from the 3.2% earlier.

FISCAL DEFICIT WIDENS IN THE FIRST FIVE MONTHS OF 2016–17

The fiscal deficit during April–August 2016 stood at 76.4% of the budget estimate against 66.5% during the same period last year. This is due to slow revenue collection, as is generally the case in the first six months every year. It is not an indication that spending has reduced.

The fiscal deficit was worth ₹4.07 lakh crore against ₹5.33 lakh crore last year due to poor non-tax revenue. Total spending at the end of August made up 40.5% of the target compared to 41.2% at the same point last year.

Non-tax revenue made 32.5% of the budget against 61.2% a year earlier, largely leading to wider fiscal deficit. However, net tax revenue stood better at 26.6% of the budget than last year, despite larger corporate tax refunds. It stood at 22.8% of the budget at the same time last year.

INDIA'S EXPORTS FALL IN AUGUST, TRADE DEFICIT DECLINES

India's exports fell in August; however, the decline in exports narrowed. They stood at US$21,518.60 million, 0.30% lower than that of US$21,582.67 million during August 2015. The cumulative value of exports for the period April–August 2016–17 made up US$10,8519.94 compared to US$111,853.88 million last year, lower by 2.98%.

Imports fell to US$29,192.74 million, 14.09% lower in dollar terms from US$33,981.73 million in August 2015. Fall in imports was led by gold and oil.

Gold imports fell for the seventh month in a row, to US$1,118.17 million in August 2016, falling 77.45% from $4,958.67 million in August 2015. Oil imports fell by 8.4% to US$6,743.85 million in August 2016 from US$7,367 million in August 2015.

The trade deficit for August 2016 contracted 38% to US$7.67 billion from US$12.39 billion in August 2015, while the cumulative deficit for the April–August period stood at US$34.66 billion, down 40.6% from US$58.38 billion during the corresponding period last year.

CURRENT ACCOUNT DEFICIT TAPERS TO DECADE LOW OF 0.1%

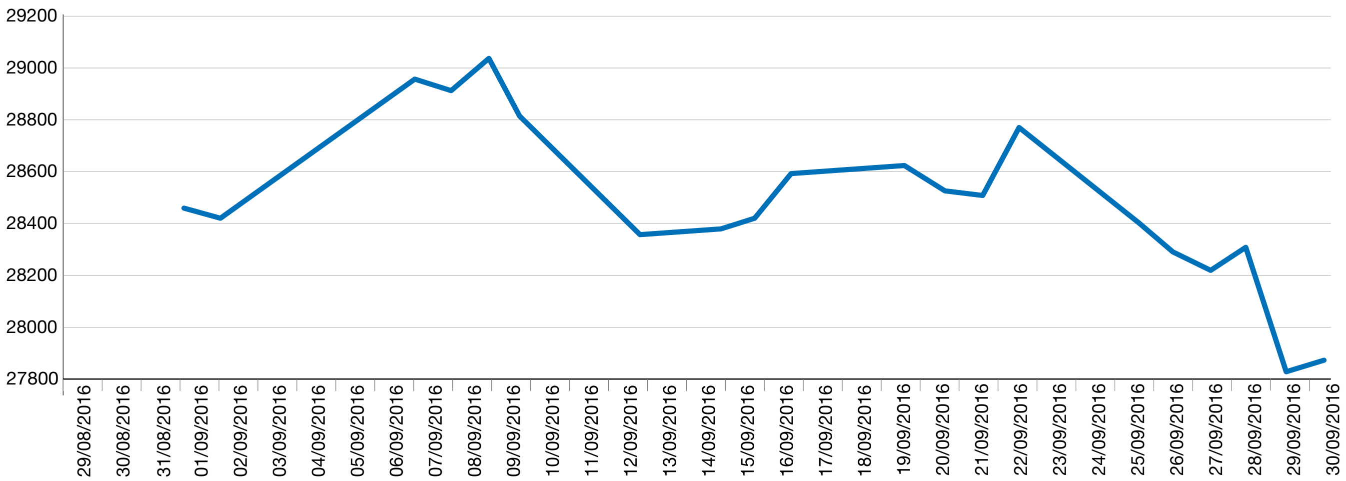
The current account deficit slipped drastically to 0.1% of GDP (US$0.3 billion) in the first quarter of 2016–17 from 1.2% (US$6.1 billion) a year ago. This is attributed to a lower trade deficit emanating from import contraction. The trade deficit fell to US$23.8 billion from US$34.2 billion a year ago.

FOREX RESERVES REACH AN ALL-TIME HIGH OF US$371 BILLION

India's foreign exchange reserves stood at an all-time high of US$371.2 billion as of 9 September. Flows from the equity market have contributed to the same, due to vibrant in-trade activity by the foreign portfolio investors. Foreign investors invested ₹5,790 crore in Indian equity and debt markets.

SENSEX

S&P BSE SENSEX

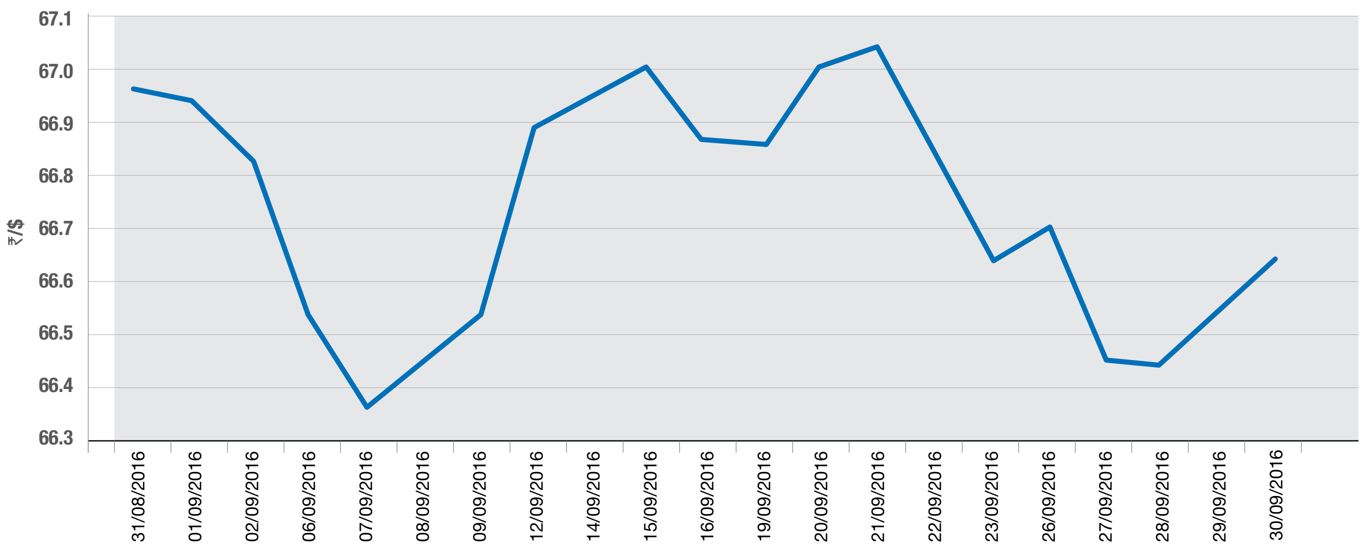


Source: BSE

The Sensex fell by over 2% during September 2016. The US Fed's decision not to raise key interest rates lent some buoyancy to the index.

CURRENCY

CURRENCY TREND



Source: RBI

The rupee strengthened by around 0.5% during September 2016.

THE GOVERNMENT OF INDIA ANNOUNCED THE SECOND LIST OF SMART CITIES.

The Government of India announced the second list of 27 smart cities distributed across nine states:

SECOND LIST OF SMART CITIES IDENTIFIED	
Maharashtra	Kalyan-Dombivili
	Nagpur
	Thane
	Nashik
	Aurangabad
MP	Gwalior
Nagaland	Kohima
Odisha	Rourkela
Punjab	Amritsar
	Jalandhar
Rajasthan	Kota
	Ajmer
Sikkim	Namchi
Tamil Nadu	Vellore
	Madurai
	Thanjavur
	Salem
Uttar Pradesh	Kanpur
	Varanasi
	Agra

Source: Press Information Bureau

These 27 smart cities were announced with a proposed investment of ₹66,883 crore under smart city plans, including ₹42,524 cr under area-based development and additional ₹11,379 cr for technology-based, pan-city solutions. The total investment proposed for the 60 cities selected so far stands at ₹144,742 crore.

SEBI EASES NORMS FOR FPIS, INVESTMENT TRUSTS

To deepen the Indian debt market, SEBI has now allowed foreign investors to own up to 15% stake in domestic stock and commodity exchanges as against the current 5%. SEBI also eased the norms for Foreign Portfolio Investors (FPIs) and for Real Estate Investment Trust (REITs) and Infrastructure Investment Trust (InvITs) in its efforts to bring vibrancy and depth to the market.

To avoid misuse of private equity, SEBI has announced plans to ban the use of bulk SMSes, emails and new-emerging techniques like games, competitions, trading, etc.

STALLED PROJECTS ON A RISE IN THE QUARTER ENDING SEPTEMBER 2016

Recent data from the Centre for Monitoring Indian Economy (CMIE) highlights that the number of stalled projects has been on a rise for three quarters in a row. The rise in the number of stalled projects is led by the private sector, where the ratio of stalled projects to total projects is 1:5; the ratio is comparatively better in the public sector where it is 1:20. The value of the stalled projects stands at ₹ 21,000 crore.

Sector wise, electricity sector has the largest number of stalled projects (34%) followed by the manufacturing sector (29%). Services (other than financial) have 24% of the total stalled projects, while the share of construction and real estate in the total number of stalled projects is 10%

Important reasons behind the stalled projects are problems related to land acquisition, promoter apathy and problems associated with fuel, feedstock and raw material supply. There are also other issues impeding the projects like lack of environmental and other clearances, non-conducive business environment, market fluctuations, lack of funds, weak external demand, low capital utilisation, etc.

NHAI ANNOUNCES PLANS TO GIVE ₹6,000 CR TO COMPANIES UNDERGOING LITIGATION

The National Highways Authority of India (NHAI) would be releasing ₹6,000 crore to developers who are in the midst of a litigation. Remarkably, the payment process will be initiated as soon as the private party sends a letter to the NHAI.

This comes in the backdrop of the government's mandate to its departments, ministries and public sector entities to release 75% of disputed amount in cases where the developer has won an arbitration case. Funds worth approximately ₹70,000 crore in various sectors are stuck in arbitration.

The step will help banks to recover some bad loans as well as assist construction companies and stalled projects to pick up.

At present, there are 123 dispute cases (related to around 20 companies), involving funds worth ₹25,000 crore, pending with NHAI, including cases involving funds worth ₹13,000 crore awarded in favour of private parties.

APPENDICES

1. INFLATION

	WPI	CPI
Aug-16	**3.74**	**5.05**
Jul-2016	3.55	6.07
Jun-2016	2.12	5.77
May-2016	1.24	5.76
Apr-2016	0.79	5.47
Mar-16	-0.45	4.83
Feb-16	-0.85	5.18
Jan-16	-1.07	5.69
Dec-15	-1.06	5.61
Nov-15	-1.99	5.41
Oct-15	-3.70	5.00
Sep-15	-4.59	4.41
Aug-2015	**-5.06**	**3.66**
WPI Base Year = 2004–05, CPI Base : 2012 = 100		

Source: Ministry of Commerce & Industry and Ministry of Statistics and Programme Implementation

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
Jul 2016	-2.4	0.8	-3.4	1.6
Jun 2016	1.9	4.7	0.9	8.3
May 2016	1.2	1.3	0.7	4.7
Apr 2016	-0.8	1.4	-3.1	14.6
Mar 2016	0.1	-0.1	-1.2	11.3
Feb 2016	2.0	5.0	0.7	9.6
Jan 2016	-1.5	1.2	-2.8	6.6
Dec 2015	-1.3	2.9	-2.4	3.2
Nov 2015	-3.4	1.9	-4.7	0.7
Oct 2015	9.9	5.2	10.6	9.0
Sep 2015	3.7	3.5	2.7	11.4
Aug 2015	6.3	4.5	6.6	5.6
Jul 2015	**4.3**	**1.3**	**4.8**	**3.5**

Source: Ministry of Statistics and Programme Implementation, RBI

3. CORE SECTOR

Sector	Coal	Crude oil	Natural gas	Refinery products	Fertilisers	Steel	Cement	Electricity	Overall Index
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Aug 2016	**-9.2**	**-3.9**	**-5.7**	**3.5**	**5.7**	**17**	**3.1**	**0.1**	**3.2**
Jul 2016	**5.1**	**-1.8**	**3.3**	**13.7**	**-4.3**	**-0.5**	**1.4**	**1.6**	**3**
Jun 2016	12	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**5.2**
May 2016	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**2.8**
Apr 2016	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	**8.5**
Mar 2016	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	**6.4**
Feb 2016	3.9	0.8	1.2	8.1	16.3	-0.5	13.5	9.2	**5.7**
Jan 2016	9.1	-4.6	-15.3	4.8	6.2	-2.8	9	6	**2.9**
Dec 2015	6.1	-4.1	-6.1	2.1	13.1	-4.4	3.2	2.7	**0.9**
Nov 2015	3.5	-3.3	-3.9	2.5	13.5	-8.4	-1.8	0	**-1.3**
Oct 2015	6.3	-2.1	-1.8	-4.4	16.2	-1.2	11.7	8.8	**3.2**
Sep 2015	1.9	-0.1	0.9	0.5	18.1	-2.5	-1.5	10.8	**3.2**
Aug 2015	**0.5**	**5.6**	**3.7**	**5.8**	**12.6**	**-5.9**	**5.4**	**5.6**	**3.2**

Source: Ministry of Commerce & Industry

RESEARCH

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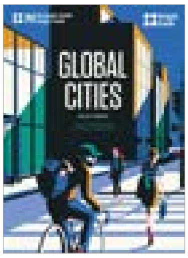

Global Cities
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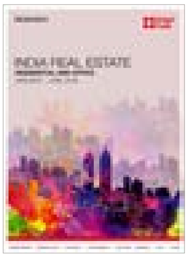

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