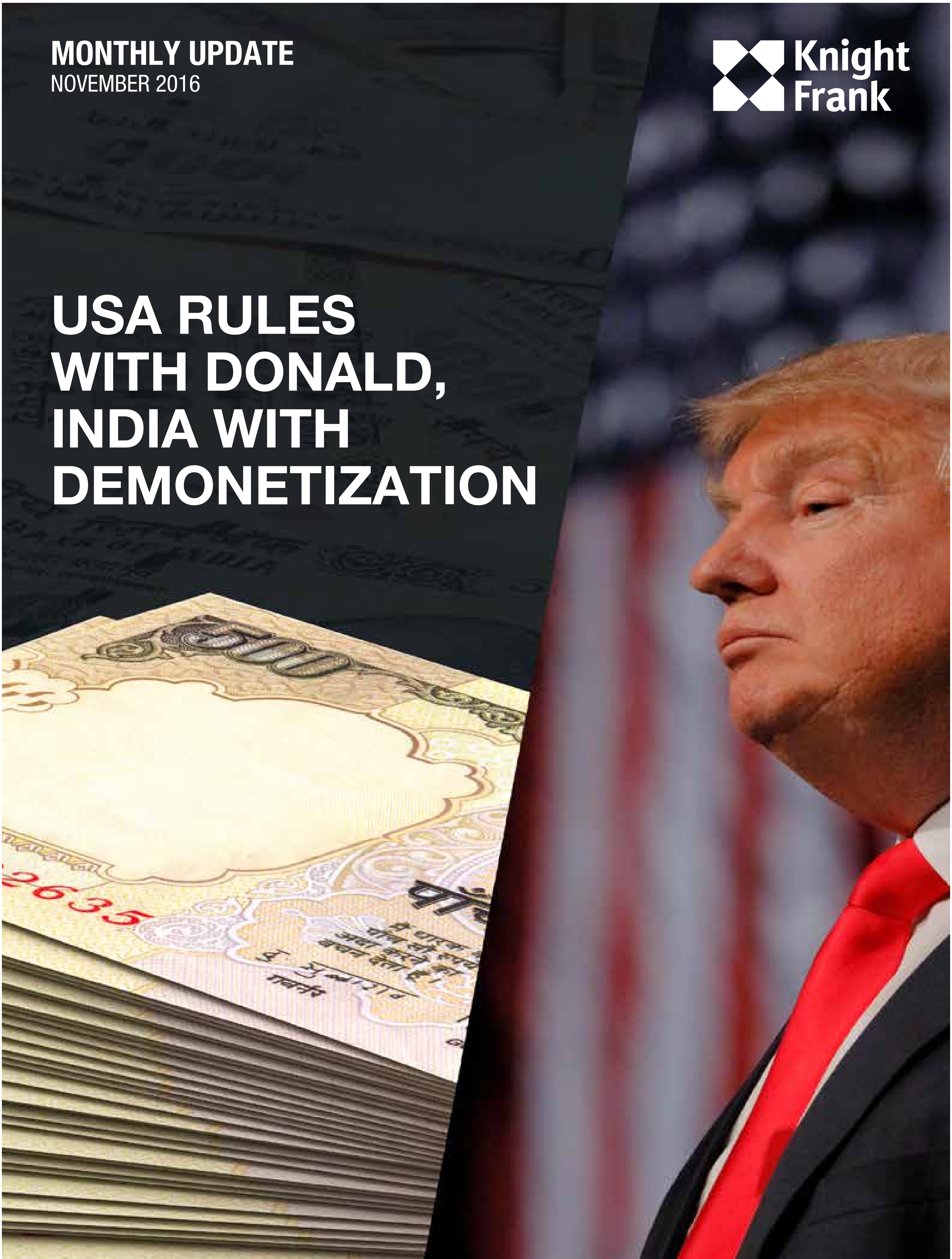
MONTHLY UPDATE
NOVEMBER 2016

Knight Frank

USA RULES WITH DONALD, INDIA WITH DEMONETIZATION



GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

In the recent presidential election in the US, the real estate baron turned politician, the Republican, Donald Trump has been elected to be the country's 45th President. The election mandate went against the popular expectation across the world as Trump was voted to power against the seasoned politician and statesperson, the Democrat, Hillary Clinton. The election has implications – economic, social, cultural, military, not only for America but for the whole world. Much anxiety will continue to be expressed about the future state of affairs in the US and on the globe about the emerging inter-state relations till the US President-elect formally lays down his policies. However, on the economic agenda, now investors expect inflation in the US to reach the targeted 2% level and economic growth to strengthen faster through the policies proposed by Donald Trump to cut taxes and spend higher on infrastructure.

In the November policy meet, the US Federal Reserve left the key interest rates steady although hinting at the stronger possibility of a rate hike in the December meet. Data revealed that the US economy expanded 2.9% in Q3 2016. The Bank of Japan too rendered the key policy rates and the pace of bond purchases unchanged while relaxing the time frame for achieving its target of 2% inflation.

Oil prices stayed mute across the month on expectations of a rate hike in the US while the election of Donald Trump in the US weighed upon the prices. However, the OPEC meet at the close of the month succeeded in arriving at an agreement and the cartel agreed to cut oil output for the first time in eight years. The prices closed the month soaring higher. The OPEC's decision marks a departure from its earlier stance of bagging a larger market share by drilling higher supply, thus trying to crush the US energy industry. Going forward, oil prices are expected to firm up. The prevailing factors also helped the US dollar strengthen vis-a-vis major currencies and the dollar index hit a 13-year high. Gold too lost its safe-haven appeal during the month.

On the domestic canvas, the government announced the demonetisation of ₹500 and ₹1000 currency notes while introducing the new note of ₹2000 denomination. The latest demonetisation drive hit the Indian economy with the proclaimed goal of rooting out black money, corruption and terror financing. Around ₹14.5 lakh crore is expected to pour into the government kitty if all the old notes of ₹500 and ₹1000 denomination in circulation are deposited or exchanged for new ones. The government had earlier resorted to demonetisation in 1946 and 1978 with the same goals. Hence, leaving the debate whether the demonetisation is a political gimmick or an economic necessity, calling back of old notes will not guarantee that black money will not be generated with the new notes. Hence, the remedy lies further, in curbing modes and practices that promote generation of black money, in ushering in more transparent and easier modes of transaction and ways of doing business. And above all, it runs in the values the population imbibes.

On the macroeconomic front, GDP growth for Q2 has risen while the fiscal situation is improving. Consumption in Q2, both public and private, has picked up but now it faces a cash crunch. Investments still remain a larger concern. Further, the risk looms that the growth momentum attained by the economy may be lost for some time from now due to the effects of demonetisation. The government should, apart from spending on infrastructure development, support capacity utilisation and try to incentivise private investment. It must also treat incentivising production as a priority concern so that the minimum adverse impact is felt on income generation. Of late, industrial production along with the core sector displays a pick up. Exports seemed to have cast-off the falling trend rising 10% YOY in October, rising for the second straight month. Inflation is touching lower levels, giving room to cuts the RBI to resort to interest rate cuts in the months to come.

While the demonetisation drive prevailed in the economy at large, in the real estate and infrastructure arena, the government announced to monetise spare land with government entities, a move needed to make available land parcels for productive uses. The government is also working out a revised ratings methodology to protect operational projects from a downgraded rating in case of a temporary default on loan payments, keeping in view the viability of the projects. The move is likely to help revive stalled projects as well. The demonetisation drive has hit the real estate sector the most, and within it the residential sector, where a considerable cash component rules. The credit disbursal activity of banks gave way to notes' exchange and deposits' facilitation adding to the woes of home loan seekers. Land deals too have been affected due to the cash crunch. However, in the aftermath, the sector is expected to emerge more attractive to investors with enhanced transparency, efficient business practices and accountability coupled with healthy price correction, lesser inventories and a narrower demand-supply gap.

GLOBAL UPDATE

THE US ELECTS DONALD TRUMP AS THE COUNTRY'S 45TH PRESIDENT

The US presidential election results surprised the world with the Republican candidate, Donald Trump, defeating the seasoned statesperson and politician, the Democrat candidate, Hillary Clinton. Donald Trump has emerged as the 45th President of the United States and his election to the highest office in the US was deemed unimaginable given his lack of political or military background.

Trump has time and again announced to lend extra fiscal stimulus for infrastructure development. Hence, it is expected that wage growth would receive a boost giving rise to wage-push inflation. In turn, this will help inflation rise to the targeted 2% level faster and prompt the Fed to raise the key interest rates earlier than expected. Further, Trump's proposed policy of tax cuts and deregulation is also likely to generate faster growth in the US.

US FED HOLDS INTEREST RATES STEADY SIGNALLING THE PROBABILITY OF A RATE HIKE IN DECEMBER; ECONOMY GROWS AT A 2.9% YOY IN Q3 2016

In its November policy meet, the US Fed rendered the target range for federal funds rate unchanged at 0.25 to 0.5%. It stated that borrowing costs have firmed up amid rising inflation though it is still below the Committee's 2% longer-run objective. It suggested that the probability of a rate hike in the next policy meet to happen in December is strengthened, as it chose to wait and watch for 'some further evidence of continued progress' towards its objectives. Though the Fed's assessment of the US economy was quite similar to that done in its September statement, in a noteworthy move, the Fed omitted the previous expression stating that inflation would probably 'remain low in the near term'.

Government data revealed that the US economy grew at an annualised 2.9% in Q3 2016. Though this is the fastest growth in last two years, household spending slipped down more than expected while there was inventory rebuilding and a rise in soybean-related exports.

THE BANK OF JAPAN (BOJ) LEAVES POLICY RATES AND PACE OF BOND PURCHASES UNCHANGED

The BoJ, in its latest policy meet kept unchanged the minus 0.1% interest it charges for a portion of excess reserves that financial institutions park with it. It also rendered unchanged its 10-year government bond yield target at around 0%. The bank held off on expanding stimulus despite pushing back the time frame for hitting its 2% inflation target, signaling that it will stand firm unless a severe market shock threatens to derail a fragile recovery.

The BOJ reiterated that the economy is expected to grow moderately, while exports and trade would stay tepid. The Bank ruled out any substantial destabilising impact of its policies on the financial system though the low interest rates regime may harm banks' profits to a certain extent. It pledged to continue the government's bond purchase programme, so that the balance of its holdings increases at an annual pace of 80 trillion yen.

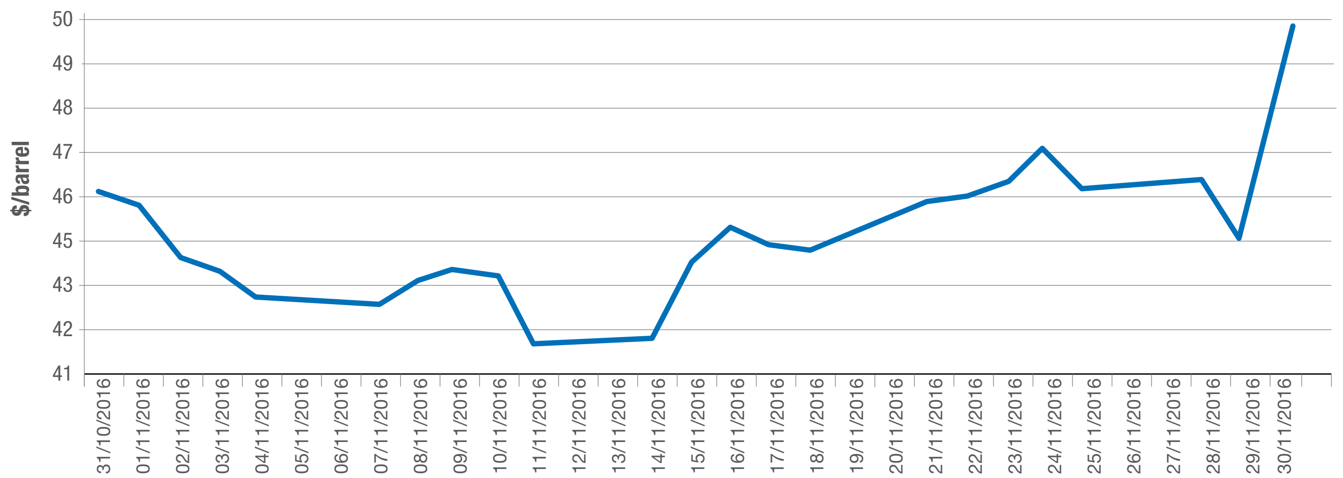
The BOJ cut its core consumer inflation forecast for the next fiscal year ending in March 2018 to 1.5% from 1.7% estimated earlier in July, thus indicating that it would take some more time to attain the 2% inflation target. This is in the backdrop of Japan's core consumer prices falling for the seventh consecutive month as household spending slumped in September.

Japan's economy improved modestly in Q3 2016, registering 2.2% YOY growth against 0.7 growth recorded in the previous quarter and against an estimated expectation of 0.9%, thus marking the third straight quarter of expansion. The growth was helped by stronger exports, though the domestic activity stayed weaker. Net exports added 0.5% to the GDP growth. However, private consumption that makes up around 60% of the GDP rose a meagre 0.1% from the second quarter

level, while capital expenditure too stayed unchanged after witnessing a 0.1% slide in the second quarter. Low private consumption only indicates that the impact of Abenomics is yet to percolate to the households. Global worries and the strengthening yen weighed on the capex.

OIL

EUROPE BRENT SPOT PRICE



Source: U.S. Energy Information Administration (EIA)

Note: The spot price indicated for 30th November 2016 is not the closing price but the one prevailing after the OPEC meet slated on the day in Vienna, as indicated by Bloomberg.

Oil prices gained 8% during November 2016. The commodity displayed extreme spells of volatility during the month on a variety of factors. Prices tumbled at the beginning of the month due to a record rise in the US inventories while later the unexpected victory of Donald Trump in the US presidential elections added to the pressure on prices. Rising expectations that the Fed would raise the key policy rates in the upcoming policy meet dragged down the prices.

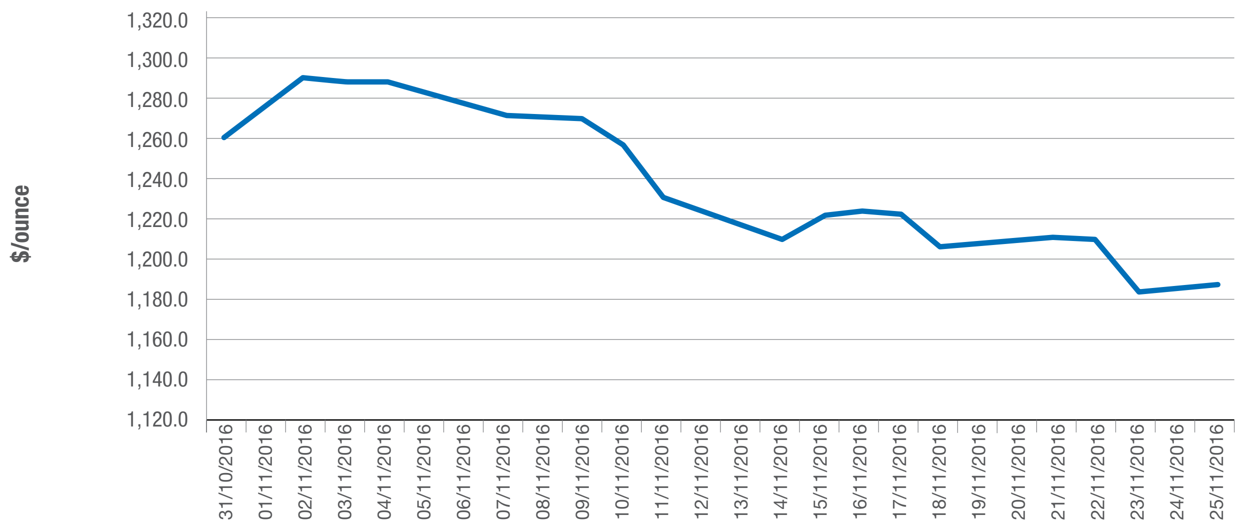
Anxiety over the meeting of OPEC countries to decide on output cuts prevailed across the month. However, rising expectations that some form of agreement would be reached between OPEC members during their meet slated on 30th November in Vienna to agree on terms of a production cut lent strength to the prices in the second half of the month.

During the meet, the OPEC countries agreed to cut down its oil output for the first time in eight years. The decision of OPEC marks a departure from its earlier stand of bagging a larger market share by drilling higher output, thus trying to crush the US energy industry. Accordingly, OPEC members will cut 1.2 million barrels a day leaving the OPEC output at 32.5 million barrels a day, with effect from January 2017. Though major OPEC countries have indicated their willingness to follow suit, Indonesia has opted to move out of the cartel. Post the meet, oil prices that had already stayed high earlier in the day jumped $3.48, or 7.4%, at $49.86 per barrel.

The decision of OPEC is likely to have a larger impact on oil prices that had touched alarming lows during the last two years. However, US (EIA) expects Brent crude oil prices to average near $48/barrel (b) in Q4 2016 and in Q1 2017. It further expects the prices to average near $43/b in 2016, and $51/b in 2017.

GOLD

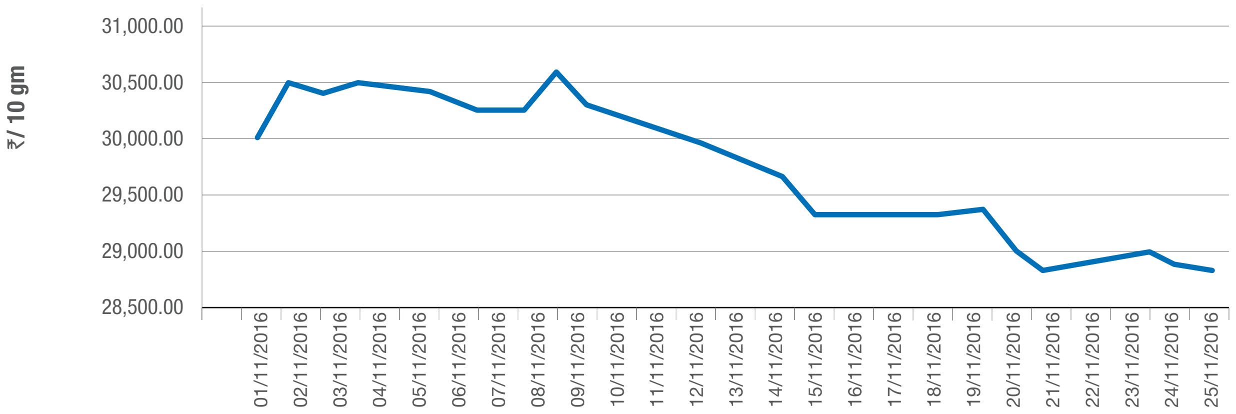
GOLD (SPOT PRICES)



Source: World Gold Council

GOLD

GOLD (SPOT PRICES IN INDIA)



Source: Multi Commodity Exchange of India Limited (MCX)

During November 2016, gold prices weakened by 6.6% (till Nov 25). Spot gold slid by 0.1% at $1,187 an ounce by November 30th 2016 (1100 GMT) from the levels attained in the earlier session. The commodity has lost almost $150 post the election of Donald Trump, who is looked up on by investors as a president who would revive growth and inflation faster in the US, thus raising investor appetite. During the month, a strong dollar weighed on the prices as the US Fed hinted on a probable interest rate hike in the forthcoming policy meet. Further, nine regional Fed banks in October pressed for an increase in the rate commercial banks are charged for emergency loans.

In India as well, the gold prices plunged by 4% across the month of November, closing the month near ₹28,800/ 10 grams. Apart from tracking the global trend, domestic prices also stayed muted on account of the demonetisation move by the government. The fall in prices of gold have failed to trigger retail demand in India. The demand and prices are expected to stay tepid for some more time till the economy normalises from the immediate effect of demonetisation. The recent demonetisation is also likely to divert investor interest from physical gold buying to investing in sovereign gold bonds issued by the government in 2015.

As per the estimates of the World Gold Council, the global gold demand stood at 993 tonnes in Q3 2016, recording a fall of 10% YOY, while both China and India, the world's leading gold markets, saw the demand fall by 22% and 28%, respectively. In China, the prevailing sluggish growth and economic uncertainty have marred the demand for gold while in India, tighter government policies, high prices and limits on disposable rural incomes harmed gold demand.

DEMONETISATION RULES: THE GOVERNMENT ANNOUNCES DEMONETISATION OF ₹500 AND ₹1000 CURRENCY NOTES, INTRODUCES NEW CURRENCY NOTE OF ₹ 2000 DENOMINATION

On 8th November, the Prime Minister addressed the nation and informed of the demonetisation move to root out the menace of black money, corruption, financing of terrorism and circulation of counterfeit currency in the system. Accordingly, from midnight of 9th November 2016, ₹500 and ₹1000 notes ceased to be a legal tender. The government also introduced a new currency note of ₹2000 denomination. The move, remarkably, follows the income disclosure scheme that ended on 30th September 2016, adding ₹65,000 crore to the government's kitty.

The old notes could be exchanged for value at specified offices of the Reserve Bank of India (RBI) and deposited with any of the bank branches of commercial banks/ Regional Rural Banks/Co-operative Banks (only Urban Co-operative Banks and State Co-operative Banks) or at any Head Post Office or Sub-Post Office till 24th November. The banks, except the Co-operative Banks, were allowed to exchange the old notes for new till 24th November 2016. Later on, the notes could only be deposited with banks till 30th December 2016 and further that with the RBI till 31st March 2017.

The RBI is expected to get around ₹14.5 lakh crore, if all the old currency of ₹500 and ₹1000 denomination in circulation is deposited.

KNIGHT FRANK (INDIA) VIEW

1. GDP AND MACROS

- Consumption is expected to go down substantially and so will the GDP, which is expected to be hit during Q3 and Q4 of FY 2016–17. The GDP rate during FY 2016–17 is likely to stay in the range 6–6.5% with a downward bias.
- The government has enough fiscal space and will be in a better position to finance infrastructure.
- Inflation will be in control. The rupee will be under pressure but there is enough support of forex reserves.
- With the demonetisation step, liquidity in the system should get a boost and that would prompt the interest rates to come down considerably.

2. MANUFACTURING

- Production too is likely to take a hit. As a result, income generation will slide down with percolating adverse effects on the GDP for a longer term. The government must treat incentivising production as a priority concern so that the minimum adverse impact is felt on income generation.
- With liquidity getting a boost, a lower interest-rates regime should prevail. The government should, apart from spending on infrastructure development, support capacity utilisation and try to incentivise private investment.

3. AGRICULTURE

- Rabi crops grow in a thin time frame of around three months. Hence, the government has allowed farmers to buy seeds with old currency. More such incentives should be offered to the farming community.

4. REAL ESTATE

- In the short term (immediate to six months), the residential segment will definitely face a slowdown across the board while the resale market in the premium and luxury segment would be the worst hit. The lower end of the market where unorganised players dominate and transactions involve a considerable cash component will be adversely impacted. The middle segment is expected to face a slowdown in sales, though it may not in prices, if compared to the other two segments. The impact of demonetisation would be seen in the overall sentiment, as buyers expect prices and interest rates both to fall further and hence, buying activity would be deferred. As a result transactions would stay tepid.
- However, in the long term, we expect the real estate sector to emerge much more organised – with transparency enhanced and with a higher degree of corporatisation along with a regulator, which is expected to be in place soon. That would also help the sector attract a lot of institutional funding with a competitive cost of borrowing.
- Further, with a likely compression in the yields of 10 year G-secs, the possibility of listing of REIT-able assets has strengthened.

INDIA'S GDP GROWS 7.3% IN Q2 2016–17 AGAINST 7.1% IN THE EARLIER QUARTER

The recent data released by the government reveals that the economy grew 7.3% in Q2 2016–17 against 7.1% growth reported in the previous quarter and 7.6% recorded in the corresponding quarter of the previous year. The July–September quarter was marked by revived activity in the farming sectors and larger government consumption.

Gross value added (GVA) growth in the second quarter stood at 7.1%, lower than the previous quarter's 7.3%. GDP and GVA growth in the first half of the year recorded 7.2%.

The agriculture sector grew 3.3% against 1.8% in the previous quarter, helped by better outturn of monsoon. The construction sector too performed better, recording 3.5% growth against 1.5% in the previous quarter, while the manufacturing sector's GVA growth decreased to 7.1% from 9.1%.

Growth in the mining sector contracted 1.5%, while all other major sectors performed below the levels achieved in the previous quarter.

Private consumption rose 7.6%, while public consumption increased by 15.6%. However, investments declined 5.6% in the second quarter.

The momentum in growth is expected to face a downturn due to the demonetisation drive. Investments too remain a concern.

INDIA'S FISCAL SITUATION IMPROVES, DEFICIT AT 79.3% OF BUDGET ESTIMATES (BE) IN OCT 2016

India's fiscal situation displayed improvement with non-tax revenues growing to ₹1.68 lakh crore against ₹1.19 lakh crore in the previous month, mainly due to the spectrum auctions and capital inflows from disinvestments.

In addition, major sources of tax revenues other than customs duty accounted for double-digit growth in October 2016, which is a favourable sign. Tax revenues also made up 50.3% of the budget estimates for FY 2016–17 compared with 46.6% in the same period last year.

Consequently, fiscal deficit in October stood at 79.3% of budget estimates, against 83.9% in September. However, the fiscal situation during April–October 2016 stands weaker if compared with 74% in the same period a year ago.

Non-debt capital receipts comprising mainly of disinvestment inflows rose to ₹29,348 crore in October from ₹12,817 crore in September 2016.

The larger revenues enabled the government to pursue spending, thus raising the total expenditure to 58.2% of the budget estimates in October as against 57.5% in the same period last year. Plan expenditure stood at 62% of budget estimates, higher than 58.2% in the same period last year, indicating larger capital spending to incentivise private investment. Excluding loans, the government has spent over ₹1 lakh crore so far this fiscal against ₹89,000 crore spent during the same period last year. Revenue deficit during this period made up 3.27 lakh crore, or 92.6 % of the budget estimate for 2016–17.

FITCH CUTS FY 2016–17 GROWTH FORECAST FOR INDIA TO 6.9% FROM 7.4%

Fitch Ratings lowered India's growth forecast for the current fiscal to 6.9% from 7.4% citing 'temporary disruptions' to economic activity following demonetisation. The agency views that economic activity would be adversely impacted in the October–December quarter due to a cash crunch as the demonetised money accounted for 86% of the value of currency in circulation.

Fitch also lowered India's GDP growth forecast for 2017–18 and 2018–19 to 7.7% from 8% earlier, as the recovery in investments is expected to stay 'uncertain'.

GST PORTAL GOES LIVE; HOWEVER, SKIRMISHES ON TAX ADMINISTRATION PERSIST BETWEEN THE CENTRE AND STATES

The GST portal (http:www.gst.gov.in) has been rolled out by the GST Network to help enrol taxpayers under the GST. The government is also upgrading the IT infrastructure considering the April 1, 2017 deadline for the rollout of GST. A state-wise schedule is also in place for the enrolment of existing payers of excise duty, service tax and state taxes. In case of service tax, the registrant's migration to GST will be facilitated from 1–31 January 2017.

The meeting scheduled on 25 November 2016 to discuss and finalise the draft laws and the tax administration issues got postponed to December, as some states suggested the need for some changes to the draft circulated by the Central Government. States like West Bengal, Kerala, Uttarakhand, Uttar Pradesh and Tamil Nadu have suggested that states should have exclusive control over small taxpayers who earn less than ₹1.5 crore.

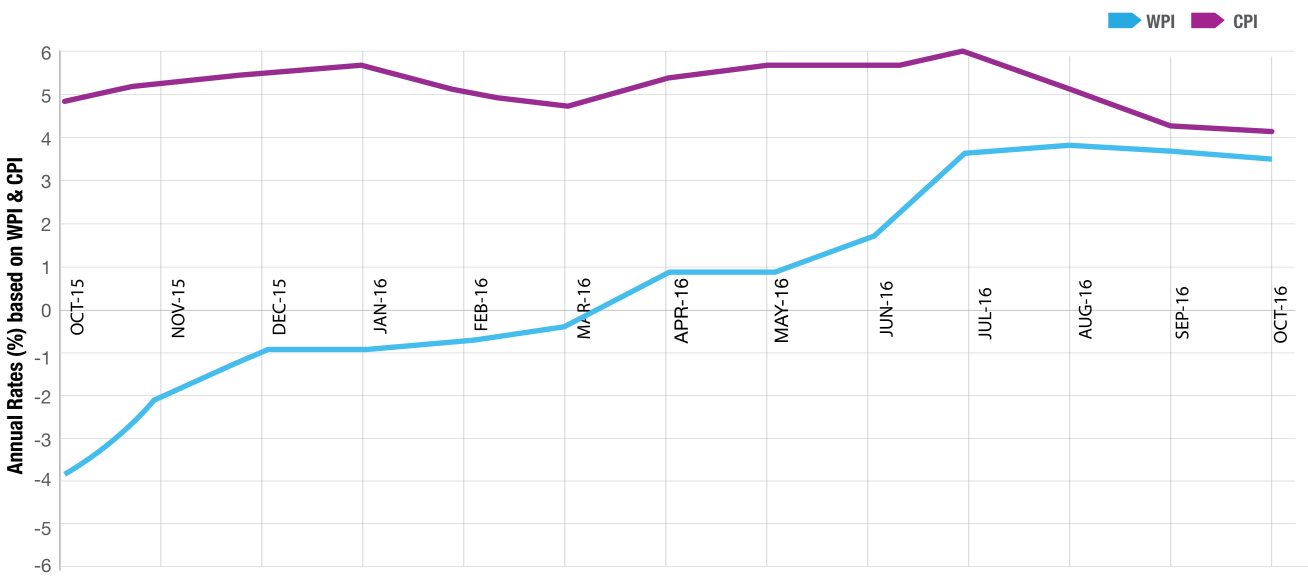
The GST Council has mandated that around 50% of the consumption goods falling in the retail inflation basket, primarily the food items, will be exempt from GST. The Council has also agreed on a four-slab tax structure of 5% (items of mass consumption), 12% (essential services), 18% (services, except those that enjoy some form of exemption or abatement) and 28% (white goods and consumer durables) coupled with a cess on luxury and 'sin' goods such as tobacco. To compensate states for the loss of revenue, the centre has suggested that certain goods in the peak rate bracket would attract an additional levy of cess for a period of five years from implementation of GST.

INDIA SIGNS A NEW TAX TREATY WITH CYPRUS

Having recently revised its tax treaty with Mauritius, India has signed a revised tax treaty coupled with the protocol with Cyprus, enabling taxation of investments routed through India but escaping tax in India. The protocol is likely to come into effect in India, in respect of income derived in the fiscal years beginning on or after 1 April 2017. There is a provision for grandfathering of investments made prior to 1 April 2017. The treaty in the revised format provides for source-based taxation of capital gains arising from alienation of shares. Accordingly, capital gains on shares of Indian companies will be taxed in India. Further, transactions with Cypriot entities will attract an automatic mandatory levy of a 30% withholding tax, and applicability of Indian transfer pricing provisions. Cyprus has a 2.88% inflow in FDI into India since April 2000.

INFLATION SUBSIDES ON A HOST OF FACTORS

INFLATION



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

Consumer inflation slipped for the fourth straight month during October 2016 to 4.20% from 4.39% in the previous month and 5% in October 2015. During October, CPI inflation in food has fallen to 3.32% YOY from 5.25% last year and 3.96% last month. Inflation in pulses has slipped to 4.11% from 14.33% last month. Inflation in vegetables at minus 5.74% stands still higher than minus 7.21% level of last month.

With kharif crop hitting the markets, supply-side measures undertaken by the government has resulted in lower inflation.

The wholesale price index (WPI) fell to 3.39% in October 2016 from 3.57% in the previous month and minus 3.70% in October 2015. WPI inflation for primary articles fell to 3.31% in October 2016 from 4.76% last month, though higher than the 0.04% of last year. Inflation in food articles too has fallen 4.34% month on month in October 2016 from 5.75% last month, while that in non-food articles stood at 1.13% month on month in October 2016 from 4.49% last month. WPI inflation in pulses stood at 21.80% in October 2016 against 23.99% last month, while that in fruits subsided to 1.13% in October 2016 from 4.49% in the previous month.

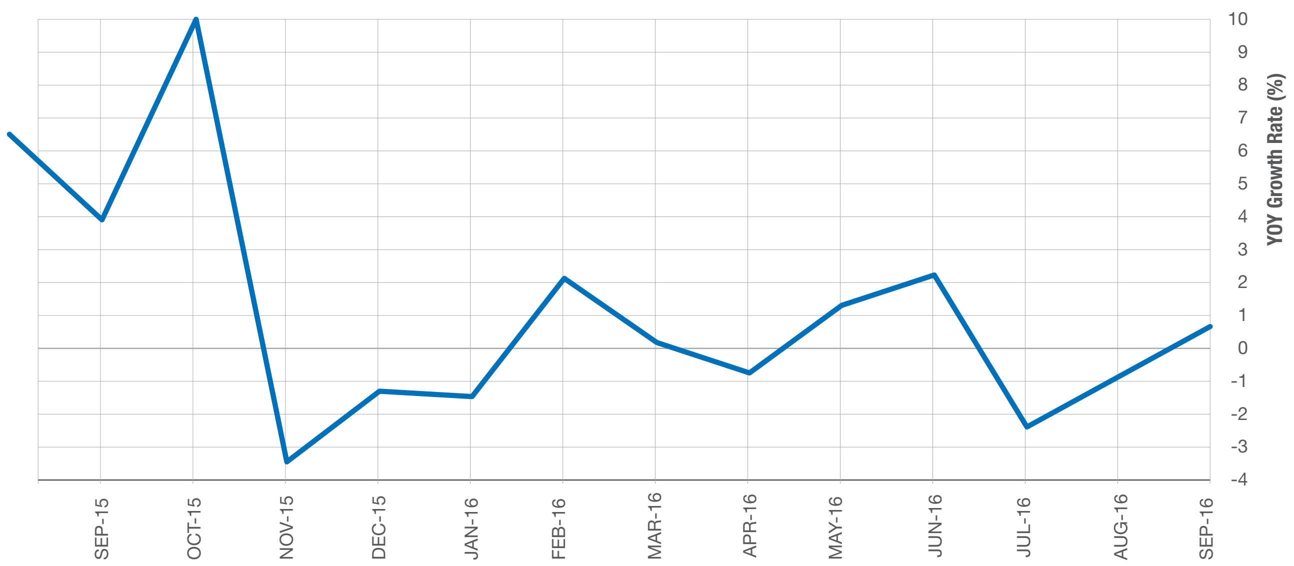
WPI inflation in manufactured products stands at 2.67% month on month in October 2016 against 2.48% the previous month.

Inflation levels are expected to stay subdued in the coming months, as advance estimates of the kharif crop suggest an overall rise in crop outputs. This should keep food prices in check.

The fall in prices coupled with the cash crunch faced by the consumers post demonetisation is likely to pull down considerably the inflation levels in the coming months. The facts are also likely to prompt the RBI to cut interest rates. Further, the possibility that inflation will stay below the RBI's 5% target for March 2017 is strengthened.

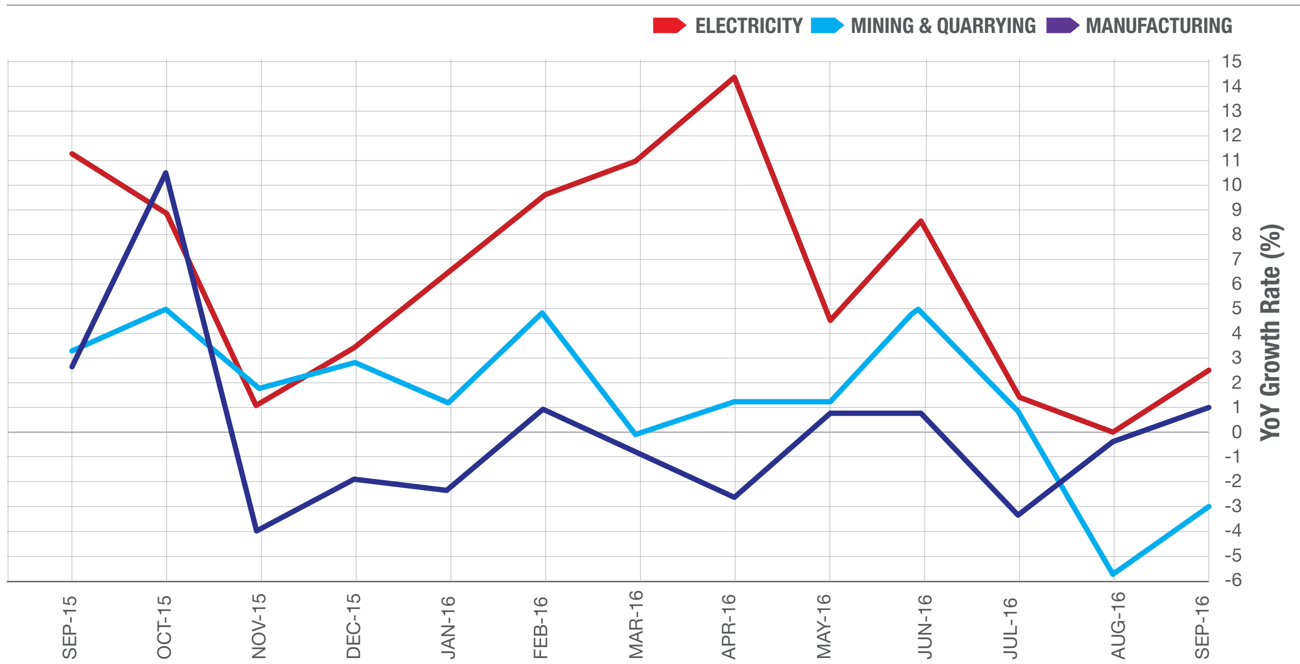
INDUSTRIAL PRODUCTION GROWS 0.7% IN SEPTEMBER

IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, RBI

IIP (SECTOR WISE)



Source: Ministry of Statistics and Programme Implementation, RBI

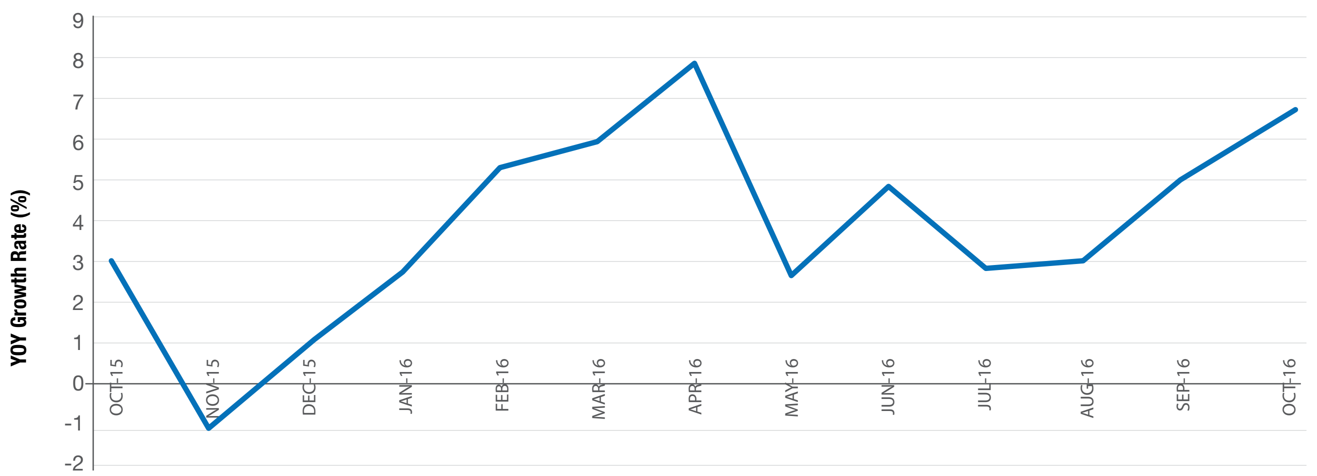
India's industrial production rose for the second straight month in September 2016, rising 0.7% from minus 0.7% in August and against 3.7% in the corresponding month last year. The rise is attributed to the prevalent festive demand. The cumulative growth during April–September 2016 declined to minus 0.1% compared to a 4% YOY growth recorded last year.

The IIP growth rates for mining, manufacturing and electricity stood at minus 3.1%, 0.9% and 2.4%, respectively, as compared to 3.5%, 2.7% and 11.4%, respectively in September 2015.

The data only underlines the fact that industrial production needs to pick up as the rise in production in September was prompted by the festive demand, while there is still no indication of a pick-up in rural demand. This is due to an impact of sluggish capital investments, especially private investments; however, the gap needs to be addressed at the earliest. Hence, industrial production is likely to stay restrained in the coming months due to the effect of demonetisation and the hit caused to consumption demand is expected to impact the output adversely. The impact of the demonetisation on the real estate sector as well is likely to hit industrial production.

CORE SECTOR GROWS AT A SIX-MONTH-HIGH RATE

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry

The Index of Eight Core Industries rose 6.6% in October 2016 from 5% last month and 3.8% in October 2015. The rise is attributed to robust production in steel and refinery products. The cumulative growth in the core sector stood at 4.9% in the April–October 2016 period against 2.8% during the same period last year. The core sector has 38% weight in the Index of Industrial Production.

Steel production rose 16.9% in October from minus 5.5% in October 2015, while growth in the production of refinery products rose 15.1% from minus 4.4% in October last year.

Cement, electricity and fertilizers posted 6.2%, 2.8% and 0.8% growth, respectively, in October 2016 against the respective growth rates of 12.2%, 13.8% and 16.8% in October 2015.

Coal, crude oil and natural gas posted a negative growth of minus 1.6%, minus 3.2% and minus 1.4%, respectively, against the respective growth rates of 6.6%, minus 2.1% and minus 1.8% in October 2015.

The growth in the core sector is likely to soften in the coming months due to the impact of demonetisation, leading to lower confidence of domestic and international investors in the evolving growth trajectory.

INDIA INC OUTPUT CONTRACTS IN NOVEMBER AFTER STAYING ALMOST HIGHEST AMONG MAJOR ECONOMIES THE PREVIOUS MONTH

The Nikkei India Composite Purchasing Managers' Index (PMI) Output Index displayed a sharp fall to 49.1 in November 2016 from a 45-month high of 55.4 in October 2016. A reading below 50 on the Index suggests contraction. The fall in the output, both of the service and manufacturing sector, is attributed to the contraction in activity as a result of the recent demonetisation drive undertaken by the government. For India, the fall in output is much more alarming as major economies have actually displayed an expansion in their outputs during November 2016.

The Nikkei India Manufacturing PMI dropped to 52.3 in November 2016 from 54.4 in October 2016. Demonetisation hampered new work orders, demand, and in turn the production of manufacturing entities. The services received a larger hit and the Nikkei India Services Business Activity Index dropped to 46.7 in November 2016 from 54.5 the previous month. The transactions of the service-sector entities were severely impacted by the cash crunch prompted by the recent demonetisation, resulting in lesser new business orders flowing in.

INDIA'S EXPORTS RISE FOR THE SECOND STRAIGHT MONTH, DISPLAY A 10% YOY GROWTH IN OCTOBER

India's exports rose 9.59% YOY in October 2016 to US$23,512.70 million from US$21,456.11 in October 2015. The cumulative value of exports for the period April–October 2016–17 fell 0.17% YOY to US$154,913.20 million as compared to the value during the same period the previous year.

Imports during October 2016 rose 8.11% to US$33,673.53 million from US$31,148.33 million in October 2015. The cumulative value of imports for the period April– October 2016–17 fell 10.85% to US$208,083.15 million from US$233,417.95 million during the same period last year. Gold imports more than doubled (YOY) to US$3499.75. Oil imports rose by 4% to US$7,141.5 from that in the corresponding month last year.

The merchandise trade deficit for the period April–October 2016–17 stood at US$53,169.95 million, which was 32.04% lower than that of US$78,238.60 million during April–October 2015–16.

The trade balance in services during September 2016 stood at US$5,469 million. The net export of services for the period April–September 2016–17 slipped to US$32,358 million from US$34,042 million during April–September 2015–16.

The overall trade deficit lowered 53% during April–October 2016–17 to US$20,811.95 million from US$44,196.60 million during April–October 2015–16.

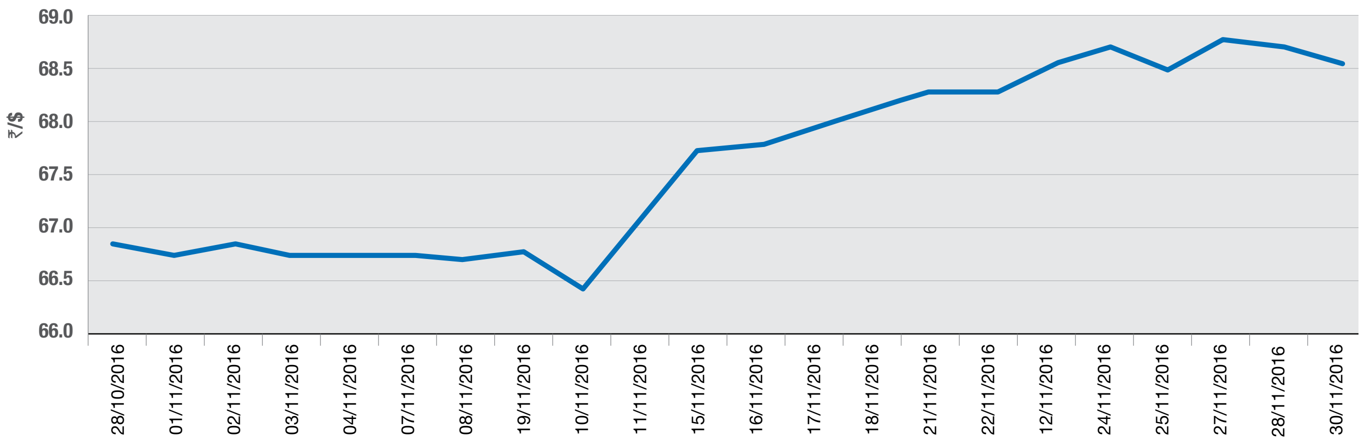
In the latest release, the World Bank has advised India to cut its subsidies and import duties to improve competitiveness and boost exports. The Bank has also identified apparel, agribusiness, automotive and electronics as the sectors with high-export potential. It pointed out that with 14% annual export growth between 2000 and 2013 India stands in the first tier of South Asian countries; however, its merchandise exports find destination only in 1.5% of the global export market. Hence, the country needs to adopt productivity enhancing policies. The Bank also advised that in agribusiness, India needs to cut on passive and non-targeted subsidies on water, fertilisers and minimum support prices, lift restrictions on agriculture markets and encourage private investments in higher-value food products.

FDI IN INDIA JUMPS BY 60% SINCE THE MAKE IN INDIA CAMPAIGN

Data indicates that FDI rose by 60% to $77.86 billion since the launch of the Make in India initiative in India in September 2014. During the 24 months preceding September 2014, the total FDI equity inflows in India recorded only $48.47 billion.

CURRENCY

INR/USD



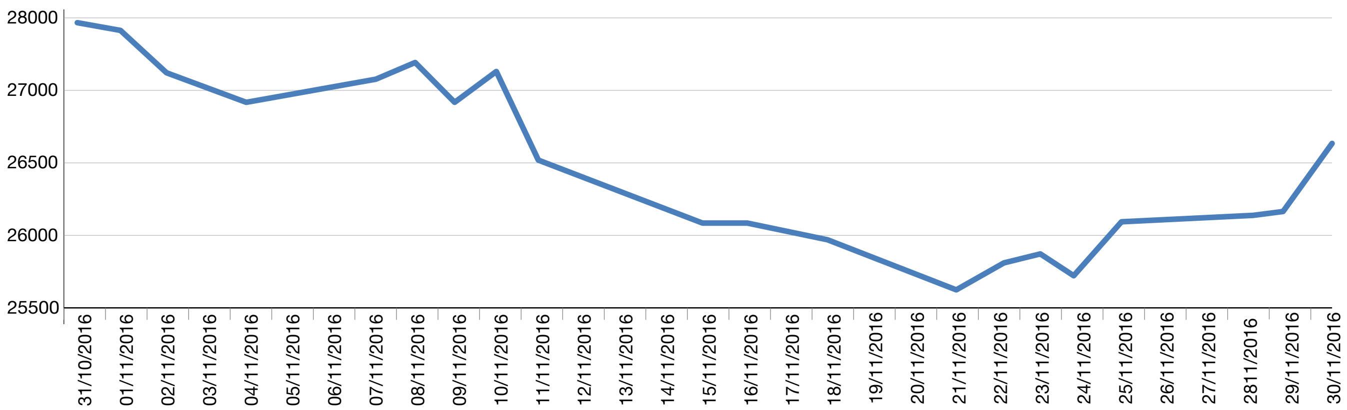
Source: RBI

The Rupee weakened by 2.5% during the month of November 2016.

Indian currency took a hit post the demonetisation drive launched by the government coupled with the surprise victory of Donald Trump in the US presidential elections, coincidently both the events showing up on 9th November 2016. Therefore, the rupee-dollar pair displayed extreme volatility in the subsequent period. With the election of Donald Trump, the dollar emerged stronger vis-a-vis major currencies prompting the dollar index hitting a 13-year high as investors expected faster recovery in inflation and growth through the policies proposed by Trump to cut taxes and spend higher on infrastructure. Further, expectations of a rate hike by the US Fed in the December policy meet kept the dollar heavy weighted across the month. Towards the end of the month, the rupee touched 68.86 against the dollar, its lowest since August 2013. The rupee was also knocked down due to large sales undertaken by foreign portfolio investors.

SENSEX

S&P BSE SENSEX



Source: BSE

The S&P BSE SENSEX dropped by 4.6% during the month of November 2016.

The Indian equities market faced spells of volatility across the month in November 2016. The market seemed to have wiped out all the gains made in 2016.

Tough initially the indices seemed to have evened out the impact of demonetisation in India and the election of Donald Trump in the US, the investors stood wary of domestic financial uncertainty while also expecting a rate hike by the US Fed in December. Though the indices recovered towards the end of the month, the damage was already done in terms of a fall and foreign outflows. The fall of the Indian equities is among the highest in the emerging markets. Foreign Portfolio Investors pulled out to the tune of $2.6 billion from India till November 29. November recorded the second consecutive month of outflows from India by FPIs.

AND A LAND MONETISATION DRIVE BY NBCC

The government undertaking NBCC (India) Limited (formerly National Buildings Construction Corporation) has launched the biggest land monetisation drive in the country by directing 74 loss-making public undertakings to share details of spare land available and draw a plan accordingly. NBCC has been appointed as the land management agency for disposing of real estate assets of loss-making PSUs and it will get 0.5% of the value realised from disposal of such land as fee with a cap of ₹1 crore, as per the guidelines issued earlier in the year. The agency would decide the suitability of the recovered land for manufacturing or other purposes. After getting the details from the PSUs, NBCC is expected to work out various options to monetise these land parcels. The recovered land would be first offered to the Central Government, followed by another central public sector enterprise, state departments and government bodies, in that particular order. In case of no offer received within six months, it would be disposed through an auction.

According to estimates, the land with the loss making PSUs would make up around 2.5 lakh acres. Entities like HMT, NTC, Hindustan Photo Films and ITI hold more than 100 acres of prime land in metro cities.

OPERATIONAL INFRASTRUCTURE PROJECTS MAY NOT FACE DOWNGRADING IN CASE OF A LOAN DEFAULT

The government has recently declared that infrastructure projects that have started commercial operations will not be downgraded if their promoters temporarily default on loan payments, thus ensuring that their supply of funds will not dry up. The government is expected to announce a new ratings methodology that will factor in expected loss, while the ratings of that infrastructure project will be corrected to a limited extent. The methodology would ensure assessment of the project's viability. The announcement comes in the backdrop of the last budget speech announcing that the government is working out a new credit rating that will emphasise inbuilt credit enhancement structures rather than just rest on a standard risk perception as certain risks could be beyond the promoter's control. This move of the government is expected to help stalled projects to pick up.

NHAI RAISES ₹10,000 CRORE FROM EPFO BONDS

So far during this fiscal year, the National Highways Authority of India (NHAI) has raised ₹10,000 crore from the Employee Provident Fund Organization's (EPFO's) bonds. Further, LIC has given its in-principle agreement to subscribe to NHAI taxable bonds worth up to ₹8,500 crore till March-end.

APPENDICES

1. INFLATION

	WPI	CPI
Oct-16	**3.39**	**4.2**
Sep-16	3.57	4.39
Aug-16	3.74	5.05
Jul-2016	3.72	6.07
Jun-2016	1.62	5.77
May-2016	0.79	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**
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
Sep-16	**0.7**	**-3.1**	**0.9**	**2.4**
Aug-16	-0.7	-5.6	-0.3	0.1
Jul-16	-2.4	0.8	-3.4	1.6
Jun-16	2.1	4.7	0.9	8.3
May-16	1.2	1.3	0.7	4.7
Apr-16	-0.8	1.4	-3.1	14.6
Mar-16	0.1	-0.1	-1.2	11.3
Feb-16	2	5	0.7	9.6
Jan 2016	-1.5	1.2	-2.8	6.6
Dec-15	-1.3	2.9	-2.4	3.2
Nov-15	-3.4	1.9	-4.7	0.7
Oct-15	9.9	5.2	10.6	9
Sep-15	**3.7**	**3.5**	**2.7**	**11.4**

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**
Oct-16	**-1.6**	**-3.2**	**-1.4**	**15.1**	**0.8**	**16.9**	**6.2**	**2.8**	**6.6%**
Sep-16	-5.8	-4.1	-5.5	9.3	2	16.3	5.5	2.2	5
Aug-16	-9.2	-3.9	-5.7	3.5	5.7	17	3.1	0.1	**3.2**
Jul-16	5.1	-1.8	3.3	13.7	-4.3	-0.5	1.4	1.6	**3**
Jun-16	12	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**5.2**
May-16	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**2.8**
Apr-16	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	**8.5**
Mar-16	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	**6.4**
Feb-16	3.9	0.8	1.2	8.1	16.3	-0.5	13.5	9.2	**5.7**
Jan-16	9.1	-4.6	-15.3	4.8	6.2	-2.8	9	6	**2.9**
Dec-15	6.1	-4.1	-6.1	2.1	13.1	-4.4	3.2	2.7	**0.9**
Nov-15	3.5	-3.3	-3.9	2.5	13.5	-8.4	-1.8	0	**-1.3**
Oct-15	**6.3**	**-2.1**	**-1.8**	**-4.4**	**16.2**	**-1.2**	**11.7**	**8.8**	**3.2**

Source: Ministry of Commerce & Industry

RESEARCH

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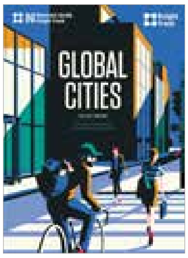

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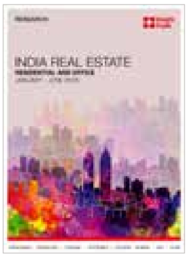

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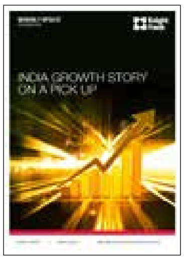

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