MONTHLY UPDATE
MARCH 2016

TIME TO TUNE UP!

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE UPDATE

The European Central Bank has lowered its key interest rates while continuing with its fiscal stimulus initiatives. The Bank of Japan has chosen to keep its monetary policy unchanged while also announcing that it would continue and rejuvenate its asset purchase programme. The US Fed has left the key policy rates unchanged during the latest meet and dismayed the expectations of a hike, while Janet Yellen's statements have kept the markets guessing its course of action. With lower inflation and lower interest rates in other countries, it is time that the Indian economy keeps up with the trend. And that is crucial too, argues the RBI's latest Occasional Paper by the Governor. It observes that aggressive monetary policy actions by one country can result in considerable cross-border spillovers across other economies, especially in a situation when countries embrace policy rates near zero, resulting in a liquidity trap and central banks are forced to adopt sub-optimal policies. With India's retail inflation gradually coming under control, there is now room for the RBI to cut interest rates and as expected it has cut key interest rates by 0.25 percentage points in its April policy meet.

The Government of India has introduced a new oil and gas exploration policy, giving more pricing freedom and other incentives to entities in the field. This is likely to help in bringing down India's oil bill and supplementing the effect of lower oil prices on the country's import bill. Industrial production is gradually picking up, but the lower steel and coal production prompts concerns. The much-awaited passing of the Real Estate Regulator Bill in both the houses of the parliament paves the way for a new regime of transparency and accountability in the sector. The President's assent to the bill is also in place.

GLOBAL UPDATE

ECB REDUCES INTEREST RATE ON REFINANCING OPERATIONS TO ZERO PER CENT; EXPECTS INFLATION TO STAY IN THE NEGATIVE

In its March policy meet, the ECB decreased the interest rate on the main refinancing operations of the Eurosystem by 5 basis points to 0.00%. The interest rate on the marginal lending facility was also decreased by 5 basis points to 0.25%, while the interest rate on the deposit facility was cut by 10 basis points to -0.40%, with effect from 16 March 2016.

Continuing the fiscal stimulus, the bank decided to expand the asset purchase programme to €80 billion from the current €60 billion from April 2016 till March 2017 or beyond. It has also announced that the investment grade euro-denominated bonds issued by non-bank corporations established in the euro area will qualify as assets for regular purchases. Further, it will launch a new series of four new targeted longer-term refinancing operations (TLTRO II), each with a maturity of four years, from June 2016, wherein the borrowing costs can be as low as the interest rate on the deposit facility prevailing at the time of borrowing.

The ECB expects its interest rates to stay at the current level or lower for a period of time extended beyond March 2017. The bank also intends to continue its asset purchase programme until the prospects of achieving inflation rates below, but close to, 2% over the medium term are seen.

The eurozone annual inflation fell more than what was forecasted, to -0.2% YOY in February 2016 compared to the 0.3% recorded in the previous month. It crossed into negative territory for the first time since September 2015, when it was at -0.1%. On the basis of the current future prices of oil, the bank expects inflation rates to stay in the negative for the next few months and pick up later in 2016.

BANK OF JAPAN (BOJ) RENDERS MONETARY POLICY UNCHANGED

At its policy meet in March 2016, the BOJ left unchanged the negative interest rate of -0.1% applied to the policy-rate balances in current accounts held by financial institutions. It also declared that it will conduct money market operations by purchasing Japanese government bonds (JGBs) so that the monetary base will increase at an annual pace of about 80 trillion yen. The bank stated that these purchases would be flexible, keeping abreast of the financial market conditions so as to encourage a decline in interest rates. The policy also suggests that the bank will purchase exchange-traded funds (ETFs), helping its amount outstanding to increase at an annual pace of about 3 trillion yen by end of March 2016 and there onwards, at an annual pace of about 3.3 trillion yen. The bank will also purchase Japan real estate investment trusts (J-REITs), resulting in its amount outstanding to increase at an annual pace of about 90 billion yen. The bank will maintain its amounts outstanding of commercial paper and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

Inflation as indicated by the consumer price index (CPI – all items except fresh food) in Japan has stayed at nearly 0%. Inflation expectations have weakened recently, though they are seen to rise in the long run.

The bank will continue with ‘Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate’, so as to achieve the price stability target of 2%.

US FED KEEPS KEY POLICY RATES STEADY, THOUGH SIGNALS AT MONETARY TIGHTENING LATER IN THE YEAR

The US Federal Reserve rendered steady the target range for its overnight lending rate at 0.25% to 0.50%. It also expressed the possibility that the firming US economic growth and improving job market may prompt it to resume monetary tightening. The Fed also drew attention to risks to the US economy emanating from uncertainties in the global economy and volatility in the financial markets, while observing that global uncertainties would also hold the inflation down for some time.

The Fed lowered its forecast for inflation in 2016 to 1.2% from 1.6%, though it expects it to rise closer to its medium-term target of 2%. Accordingly, the Fed has lowered its estimate of the targeted lending rate to 3.30% from 3.50%.

GOVERNMENT INTRODUCES NEW POLICY FOR OIL AND GAS SECTOR

In its efforts to incentivise the energy sector, the Government of India introduced a new Hydrocarbon Exploration and Licensing Policy (HELP) for the oil and gas sector. The policy lends complete pricing freedom to companies, while also introducing a single-licence framework wherein companies are free to extract all the hydrocarbons that they discover under a single licence. It also provides for the sharing of revenue from oil fields instead of profit sharing, thus releasing it from the obligation to monitor costs and audit accounts.

The new regime is expected to bring in new players, prompting them to take over companies with captive mining leases, while also helping merger and acquisition deals of distressed assets. Further, higher gas prices would lend commercial viability to the tune of `1.8 lakh crore to the country's idle reserves.

AADHAAR BILL INTRODUCED IN LOK SABHA

The Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill, 2016, was introduced in the Lower House as a money bill. It provides for the targeted delivery of subsidies and services to individuals by assigning unique identity (UID) numbers to them. The opposition party objected to the classification of the bill as a money bill, as that would give almost exclusive power to the ruling alliance to decide the fate of the bill, given the fact that the government enjoys absolute majority in the lower house of the Parliament. The bill is also being debated on several issues and implications, as follows:

i) Allowing private agencies to use Aadhaar is contradictory to the objectives of the bill.

ii) Sharing information collected under Aadhaar may hamper the protection of identity information and harm the right to privacy. This, in turn, has fuelled the debate whether the right to privacy would count as a fundamental right. Further, there is scope for sharing information to intelligence or law enforcement bodies as well as the possibility to profile individuals.

iii) The UID authority's exclusive power to make complaints and other discretionary powers.

iv) Collection of personal information, along with a lack of clarity in specifying biometric information.

v) Time period for storing authentication records.

GOVERNMENT NOTIFIES NEW FDI RULES IN E-COMMERCE, 100% FDI UNDER AUTOMATIC ROUTE PERMITTED IN MARKETPLACE MODEL

As per the FDI policy of the government, up to 100% under the automatic route is allowed in e-commerce companies engaged in business-to-business (B2B) e-commerce. FDI is forbidden in the business-to-consumer (B2C) e-commerce space. However, FDI in B2C e-commerce entities applies to

i) A manufacturer selling its products manufactured in India through e-commerce retail;

ii) A single-brand retail trading entity operating through brick-and-mortar stores

iii) An Indian manufacturer selling its own single brand-products through e-commerce retail. In this case, the Indian manufacturer would be the investee company, the owner of the Indian brand and manufacturing in India. In terms of value, it should manufacture at least 70% of its products in-house, and source not more than 30% from Indian manufacturers.

The new notification has brought clarity to the FDI regime in e-commerce. It has defined e-commerce as the buying and selling of goods and services, including digital products, over digital and electronic networks. It has also differentiated between the inventory-based and marketplace-based models of e-commerce. In the former, the inventory is owned by the e-commerce entity and sold to consumers, while in the latter, the e-commerce entity provides an information technology (IT) platform on a digital and electronic network and acts as a facilitator. No FDI is permitted in inventory-based models, while 100% FDI under the automatic route is permitted in the marketplace model.

The notification also suggests that the e-commerce marketplace may provide support services to sellers with regards to warehousing, logistics, call centres, payment collection, etc.

FDI in e-commerce market place would directly lead to an increase in the demand for office space as a lot of interested entities would enter this sector. With increase in e-commerce business and the consumption basket, the required demand for warehousing space is also likely to go up but with a lag. Demand for warehousing is a derived demand and the implementation of GST is also likely to have a substantial influence on the growth of the warehousing sector.

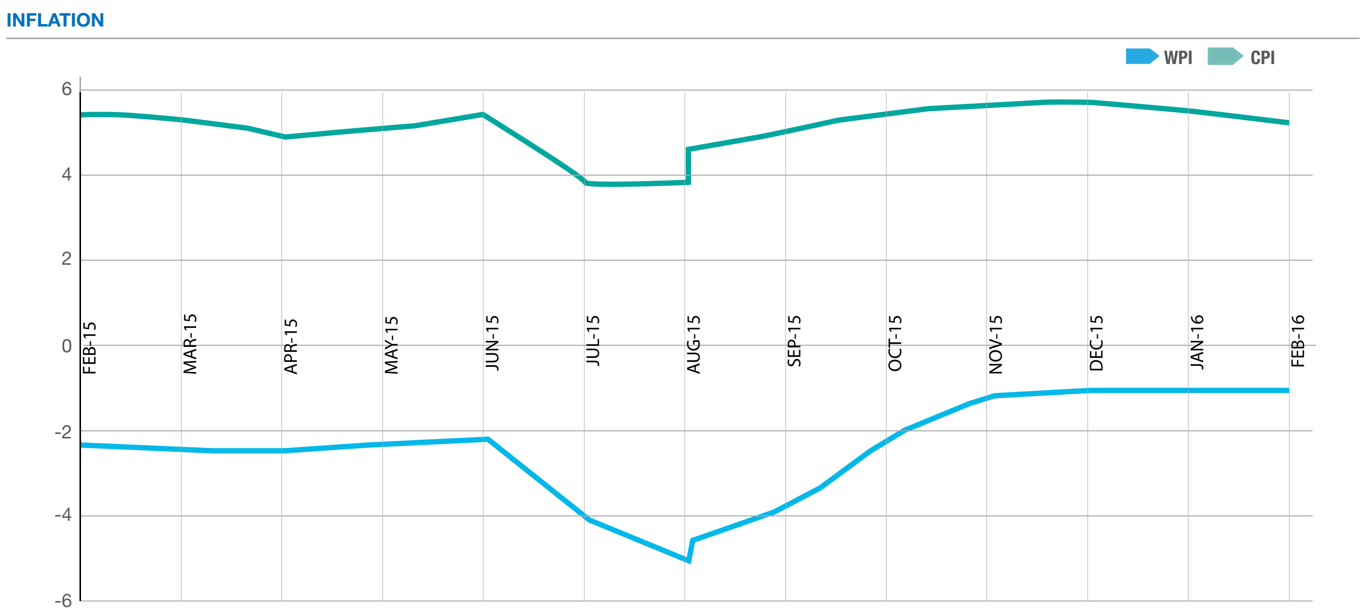
MOVES TO INCLUDE E-COMMERCE IN THE CPI CALCULATION

With the increasing trend of online shopping among urban consumers, the government has expressed its intention to capture the price movements in the e-commerce space and accommodate them in the CPI basket. The government has already taken steps to understand the price movements emanating from the discounts offered by some retailers identified by the government.

The government is already in the process of revising the CPI base since the Central Statistics Office revised the CPI base year from 2010 to 2012 to bring it abreast with the international practice. Internationally, shorter reference periods are used for most food articles, while longer reference periods are used for items wherein the consumption is occasional or infrequent.

With such moves by the government, issues concerning the taxation of e-commerce entities flare up. While the framing of sales tax laws in India preceded the emergence of e-commerce, issues such as bringing the e-commerce space under GST while bringing tax parity to online and brick-and-mortar retailers become important. This would not only help add to the revenue kitty but also clarify the e-tailers' taxation issues.

INFLATION -CPI SLIPS WHILE WPI CONTINUES TO BE IN THE NEGATIVE



Sources: Ministry of Commerce and Industry, RBI

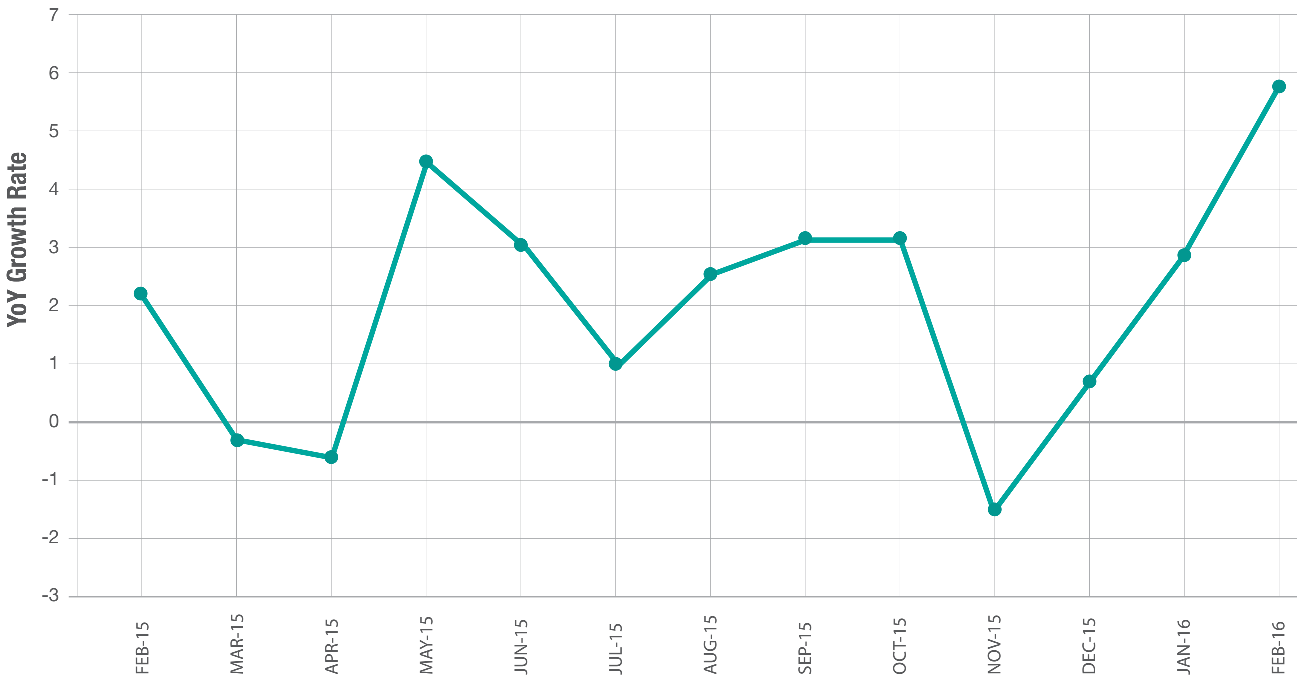
The annual rate of wholesale inflation as measured by Wholesale Price Index (WPI) stood at -0.91% in February 2016 YOY as against the -0.90% recorded during the previous month and -2.17% in February 2015. The build-up inflation rate in the financial year so far stood at -1.19% compared to -2.61% in the corresponding period of the previous year.

In February 2016, retail inflation slipped to 5.18% YOY as against 5.37% YOY recorded in the same month last year and 5.69% recorded last month. Inflation in food has exhibited some cooling off to 5.30% YOY in February 2016 as against 6.88% YOY in the same month last year and 6.85% YOY recorded last month.

With Consumer Price Index (CPI) inflation staying within the 6% target set by the RBI, there is enough room for a further rate cut. As expected the RBI has cut key interest rates by 0.25 percentage points in the April policy meet. Retail inflation is expected to stay in the range 4.75–5.25% in the coming months, given that food inflation has started decreasing.

CORE SECTOR GROWTH IN FEBRUARY 2016

INDEX OF EIGHT CORE INDUSTRIES



Sources: Press Information Bureau, GOI

In February 2016, the Index of Eight Core Industries (having a combined 38% weightage in IIP), rose 5.7% higher YOY. Its cumulative growth from April 2015 to February 2016 made up 2.3%. The natural gas sector, which has picked up significantly, has added to the growth of the core sector this month. Natural gas production rose 1.2% from an over 15% decline last month.

Except for steel and coal production, growth in all the sectors increased during the month. Crude oil production rose 0.8% in February 2016, while electricity generation grew the maximum, by 9.2% in February 2016 over February 2015.

Steel production fell by 0.5% YOY in February 2016, while its cumulative index from April 2015 to February 2016 declined by 1.8% over the same period last year. Coal production dropped to 3.9% in February from 9.1% in the previous month.

Core sector growth is likely to improve in the medium term. The boost to infrastructure creation by the government, along with introduction of a new pricing regime for the oil and gas sector, are likely to help improve the production.

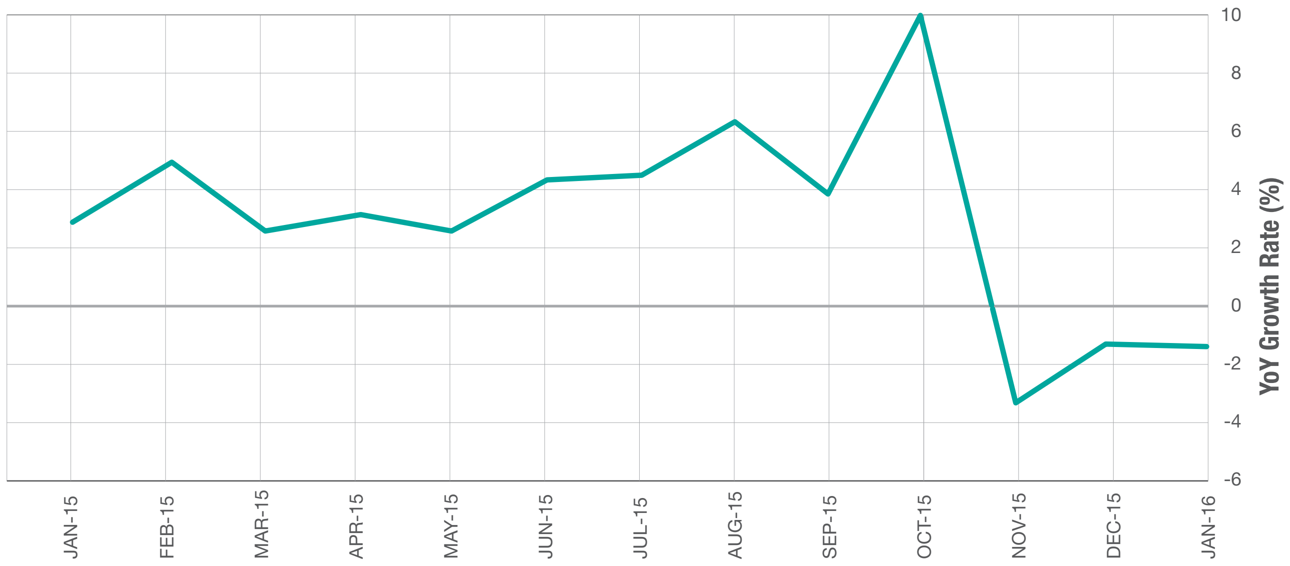
Index for Industrial Production (IIP)

The IIP for January 2016 stands 1.5% lower compared to January 2015. The cumulative growth for the period from April 2015 to January 2016 over the corresponding period in the previous year is 2.7%.

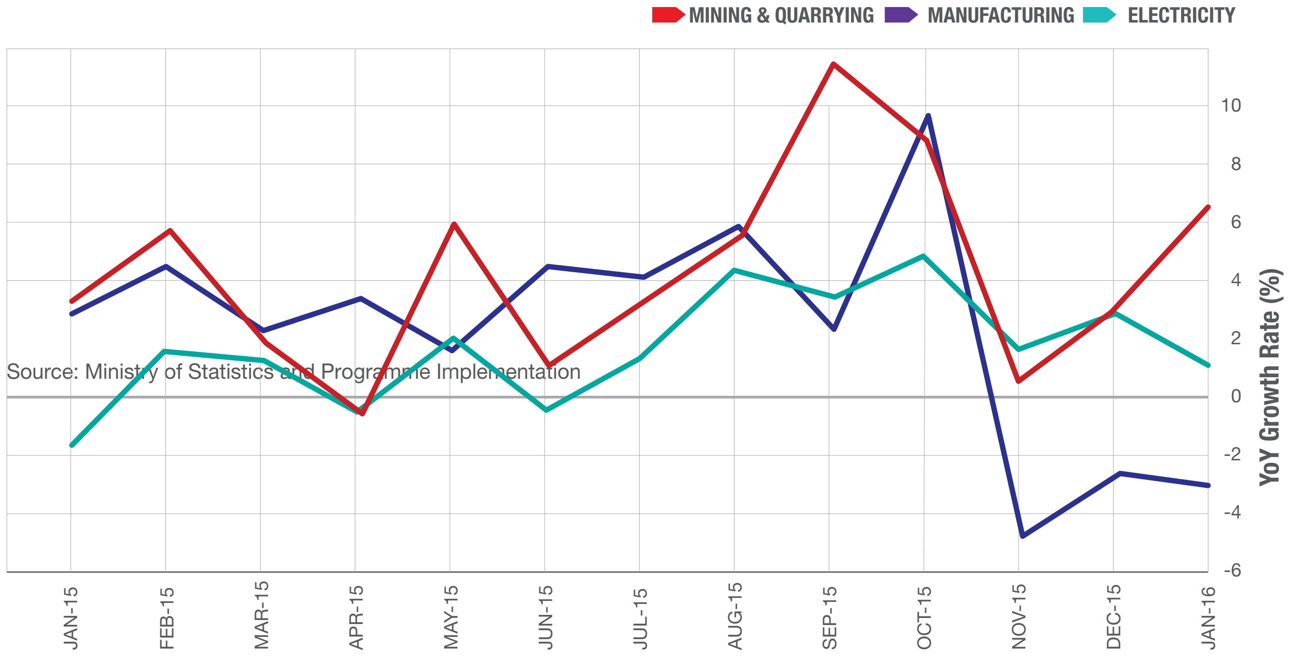
The sector-wise IIP for the mining, manufacturing and electricity sectors stood at 1.2%, -2.8% and 6.6% YOY, respectively, in January 2016.

Industrial production is likely to firm up in the coming months as the public expenditures committed by the government pour in, while the business cycle reverses. The implementation of the memorandums of understanding (MoUs) signed during the Make in India Week is expected to help trigger a pick-up in the manufacturing sector.

IIP



IIP (SECTOR-WISE)



Source: Ministry of Statistics and Programme Implementation

EXPORTS' FALL CONTINUES FOR THE 15TH CONSECUTIVE MONTH THOUGH TRADE DEFICIT TAPERS

A fall in exports is observed across most countries. India's merchandise exports fell for the fifteenth month in February, sliding 5.6% YOY to $20.73 billion from a year earlier. The decline is the smallest since December 2014, when shipments fell 3.77%.

The fall in exports was substantial in oil meals, where the decline was 75.5% YOY to $0.03 billion, while the decline in iron ore exports touched 41.25%, to $0.01 billion.

Merchandise imports also fell 5.03% YOY to $27.28 billion in February. This took the trade deficit lower to $6.54 billion, the lowest since February 2015, when it recorded $6.74 billion. Oil imports in February 2016 made up $4.76 billion, 21.92% lower than in the same month last year. Non-oil imports in February 2016 stood at $22.51 billion, 0.47% lower YOY.

Oil imports dropped 22% to 4.76 billion YOY, while gold imports dropped 29.5% to $1.39 billion YOY.

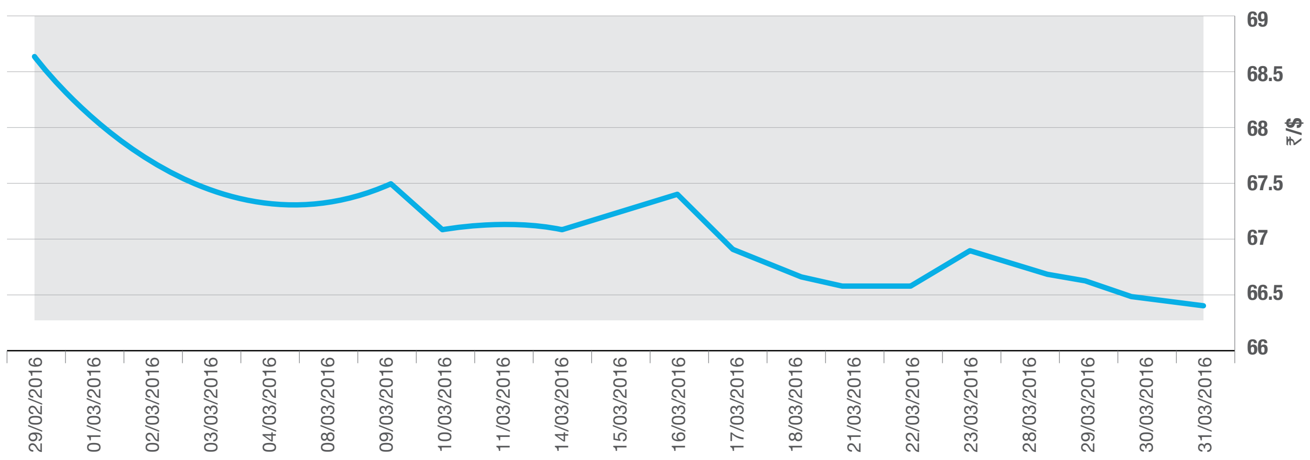
The trade balance in services for January 2016 stood at $ 5.73 billion.

The overall trade deficit (merchandise and services) during the period April 2015 to February 2016 has fallen 15.79% to $54.09 billion compared to that in the same period last year.

Though tapering exports is currently a global phenomenon, it still is a concern for India. The decline in exports has to be considered taking into account the weak base, and the actual value of exports is still a worry. In the current quarter, exports are likely to stay tepid on sluggish global and Chinese demand.

CURRENCY

CURRENCY TREND



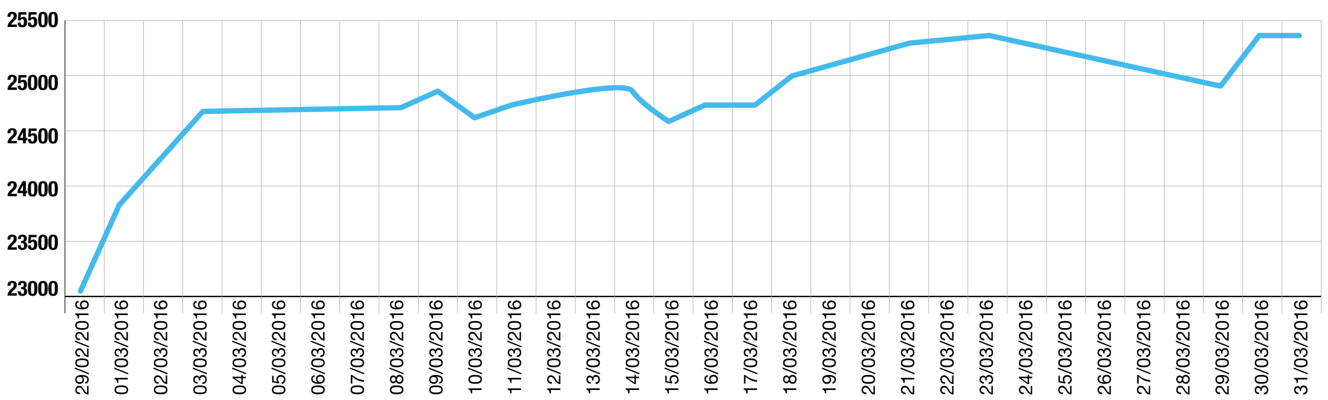
Source: RBI

The rupee gained by 3.33% in March 2016, emerging as one of the best-performing emerging market economies.

In the forthcoming months, the rupee is expected to exhibit some volatility, given the Fed’s stance and announcements on its take on hiking the key policy rates. However, the rupee is expected to maintain a range of 60–65 against the US dollar.

SENSEX

S&P BSE SENSEX



The SENSEX gained by 10.17% in March 2016.

The index is likely to stay stable, based on factors such as the government’s announcement of allowing FDI in the e-commerce space, earnings growth, the US’ take on the rates hike, etc.

REAL ESTATE REGULATOR BILL GETS CLEARANCE FROM BOTH THE HOUSES OF THE PARLIAMENT

The Real Estate (Regulation and Development) Bill, 2016, has been passed in both the houses of the parliament. The original bill of 2013 underwent several amendments before being passed. The bill has been cleared by both the houses of the parliament and the presidential assent is also in place.

i. Projects on at least 500 sq m of area or with eight flats will be required to be registered with the proposed regulatory authority as against the minimum size of 1,000 sq m suggested in the draft bill.

ii. Builders need to deposit at least 70% of their sale proceeds, including land cost, in an escrow account to meet construction costs, as against the earlier 50%. In case of defaulting/delays, they would have to pay an interest to homebuyers at the same rate that they charge them.

iii. Builders to be liable for structural defects for five years, instead of the earlier two years.

iv. Carpet area has been clearly defined to include usable spaces, such as the kitchen and toilets.

v. The formation of a residents’ association within three months of the allotment of the majority of the units in a project will be compulsory.

vi. The regulations in the bill would be applicable to all projects with on-going sales, while the consent of two-thirds of the buyers in a project would be mandatory to make changes in the original project plans.

vii. There would be arrangements for issuing insurance for land titles.

viii. Commercial real estate has been brought under the ambit of the bill, and projects under construction would be required to be registered with the regulatory authority.

ix. Regulations would be made within three months of the formation of the regulator as against the six months proposed earlier, while the states would have to make rules within six months of the notification of the proposed act as against the one year proposed earlier.

x. The allottees would be required to take possession of their houses within two months of the issue of occupancy certificates.

xi. Additional benches of appellate tribunals would be set up in a state if required for the speedy redress of grievances.

xii. Tribunals would have to adjudicate cases within 60 days as against the 90 days proposed earlier. Regulatory authorities would have to dispose of complaints within 60 days – no such time limit was stipulated earlier.

xiii. The violation of the orders of the appellate tribunals, monetary penalties or both would be punishable by imprisonment of up to three years for promoters and up to one year for real estate agents and buyers.

With its provisions, the bill intends to bring sweeping reforms and transparency in the sector, with equal protection for buyers, which was lacking so far. The bill is expected to address issues in the stressed residential sector by reducing the information asymmetry between buyer and seller. We expect greater institutional participation in the flow of funds on the back of greater transparency and the presence of a regulator. The consumers can take prudent and confident decisions on home purchases and developers will have a larger flow of funds at competitive prices.

The bill is expected to bring rationalisation of pricing. Compliance to the guidelines would prompt developers to make changes in the manner they launch projects and will eventually force them to change their business model. Besides other major compliance guidelines, they will have little elbow room to utilise money collected from homebuyers. Combination of these factors may put brakes on the number of new launches, in the short term.

The bill would encourage greater efficiencies in the sector through the two pillars, viz the Regulator and the single-window clearance. The regulator is expected to be established in a year, but if the systems are not in place for single-window clearance from the local body to the central level, this will create operational challenges for the developers.

RBI EASED EXTERNAL COMMERCIAL BORROWING (ECB) LIMITS FOR THE INFRASTRUCTURE SECTOR

The RBI has permitted all companies operating in the infrastructure sector to resort to the ECB with a minimum maturity of five years. This also applies to non-banking finance companies (NBFC). The RBI has also clarified that borrowings are required to be fully hedged, while the individual limit of borrowing under the automatic route is $750 million. While infrastructure companies are free to utilise the proceeds for their own needs, NBFCs are mandated to use the proceeds only for financing infrastructure. Further, holding companies and core investment companies can use ECB proceeds only for lending to infrastructure special purpose vehicles.

Earlier NBFCs were required to seek the RBI's permission while raising funds abovr 75% of their net-owned funds and the maximum limit was set at $200 million annually.

The RBI has placed the NBFCs in the infrastructure category, benefitting companies lending to infrastructure and allied sectors. The RBI also announced the inclusion of the exploration, mining and refinery sectors in the infrastructure sector.

APPENDICES

1. INFLATION

	WPI	CPI
Feb-16	**-0.91**	**5.18**
Jan-16	-0.90	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
Jul-2015	-4.00	3.69
Jun-2015	-2.13	5.40
May-2015	-2.20	5.01
Apr-2015	-2.43	4.87
Mar-2015	-2.33	5.25
Feb-2015	**-2.17**	**5.37**

WPI Base Year: 2004–05
CPI Base: 2012: 100

Source: Ministry of Commerce & Industry and RBI

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
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
Jun 2015	4.2	-0.4	5.2	1.2
May 2015	2.5	2.1	2.1	6.0
Apr 2015	3.0	-0.6	3.9	-0.5
Mar 2015	2.5	1.2	2.7	2.0
Feb 2015	4.8	1.6	5.1	5.9
Jan 2015	**2.8**	**-1.8**	**3.4**	**3.3**

Source: Ministry of Statistics and Programme Implementation

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**
Feb-15	**10.8**	**-1.9**	**-8.1**	**-1.0**	**-0.4**	**-0.6**	**2.2**	**5.9**	**2.3**
Mar-15	6.0	1.7	-1.5	-1.3	5.2	-4.4	-4.2	1.7	-0.1
Apr-15	7.9	-2.7	-3.6	-2.9	0.0	0.6	-2.4	-1.1	-0.4
May-15	7.8	0.8	-3.1	7.9	1.3	2.6	2.6	5.5	4.4
Jun-15	6.3	-0.7	-5.9	7.5	5.8	4.9	2.6	0.2	3.0
Jul-15	0.3	-0.4	-4.4	2.9	8.6	-2.6	1.3	3.5	1.1
Aug-15	0.4	5.6	3.7	5.8	12.6	-5.9	5.4	5.6	2.6
Sep-15	1.9	-0.1	0.9	0.5	18.1	-2.5	-1.5	10.8	3.2
Oct-15	6.3	-2.1	-1.8	-4.4	16.2	-1.2	11.7	8.8	3.2
Nov-15	3.5	-3.3	-3.9	2.5	13.5	-8.4	-1.8	0.0	-1.3
Dec-15	6.1	-4.1	-6.1	2.1	13.1	-4.4	3.2	2.7	0.9
Jan-16	9.1	-4.6	-15.3	4.8	6.2	-2.8	9.0	6.0	2.9
Feb-16	**3.9**	**0.8**	**1.2**	**8.1**	**16.3**	**-0.5**	**13.5**	**9.2**	**5.7**

Press Information Bureau, GOI

RESEARCH

Dr. Samantak Das
Chief Economist &
National Director- Research
samantak.das@knightfrank.com

Kaveri R Deshmukh
Vice President - Research
kaveri.deshmukh@knightfrank.com

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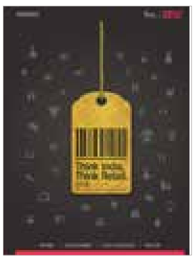

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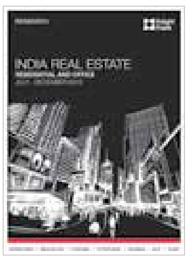

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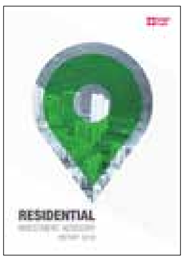

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