MONTHLY UPDATE
JULY 2018

Knight Frank

POLICY RATES MOVE UP

GLOBAL UPDATE | INDIA UPDATE | ECONOMIC TRENDS | INDIA INFRASTRUCTURE & REALTY UPDATE

GLOBAL UPDATE

FED MAINTAINS STATUS QUO ON RATES

The US Federal Reserve has maintained status quo on interest rates. The US Central Bank has left the benchmark overnight lending rate in the range of 1.75%–2%. Even though the central bank left rates unchanged, it maintained that the economy was in a strong position and that that there will be a rate hike in the near future. The Federal Reserve also maintained that economic growth is strengthening, the job market is gaining further strength and inflation has been within the target range.

RESERVE BANK OF AUSTRALIA: LOW INTEREST RATE REGIME HERE TO STAY

Philip Lowe, Governor of the Reserve Bank of Australia, has recently stated in front of a parliamentary economics committee that the Board is of the view that it is very likely that rates will hold steady for a while. This means that the era of low interest rates is likely to continue, in Australia, for a while. Since August 2016, when the Reserve Bank of Australia last cut rates to 1.50%, the reign of the low interest rate regime has been the longest, in recent times. The central bank governor also maintained that there is still time before the rate of inflation is within a comfortable range. The economy too needs to reach levels of full employment. An unemployment rate of 5% is considered to be a sign of full employment, in the Australian economy. At present the unemployment rate is at 5.3%, a six-year low. The inflation rate, as well, has remained below its 2–3% target, for a while now.

LOANS FROM THE WORLD BANK FOR AMARAVATHI WILL HAVE TO WAIT

It looks like that the efforts of the state government to build a new capital for the state, Amaravathi, has run into rough weather, at least for now. To build the new capital, Andhra Pradesh Capital Region Development Authority (APCRDA), the agency building the new capital for the state, had sought a large tranche of loan from The World Bank. This amount has been deferred for now. As per media reports, The World Bank has decided to defer making a recommendation if an investigation is required with regards complaints made by farmers in the state in the land pooling scheme of the state government. It needs to be remembered that, two years ago, the state government had sought a loan amounting to USD 300 million from The World Bank. It seems to be evident that this tranche of loan is not going to be available at least before the next elections, the state government officials, however, plan to pursue the fund.

IMF: FURTHER POLICY TIGHTENING NEEDS TO BE DONE BY RBI

Days within the Reserve Bank of India (RBI) revised policy rates by 25 basis points, in its Third Bi-monthly Monetary Policy Statement, 2018–19, The International Monetary Fund (IMF) has maintained that the RBI needs to further tighten monetary policy, especially in the light of inflationary pressures due to higher oil prices, increase in kharif minimum support price (MSP) and possible fiscal slippage. It must be noted that the RBI had also revised policy rates in its Second Bi-monthly Monetary Policy Statement, 2018–19 by 25 basis points.

INDIA UPDATE

POLICY RATES MOVE UP

The Reserve Bank of India in its Third Bi-monthly Monetary Policy Statement, 2018–19 increased the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points. It needs to be remembered that the banking regulator had also increased the repo rate by 25 basis points, in its Second Bi-Monthly Monetary Policy Statement. The second consecutive hike in the repo rate was done to counter inflation risks. Citing the reason for the second consecutive hike in policy rate, the banking regulator stated, "The decision of the Monetary Policy Committee is consistent with the neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for the consumer price index (CPI) inflation of 4% within a band of +/-2%, while supporting growth." It must be noted that even though the CPI has moderated to 4.17%, in July 2018, for most part of the year it had been close to 5%. In fact, in January 2018, it was 5.07% and in June 2018 it was 5%. As regards the inflation outlook, the RBI maintains that inflation is projected at 4.6% in Q2, 4.8% in H2 of 2018–19 and 5% in Q1 2019–20. As regards the growth outlook, the banking regulator states, "GDP growth projection for 2018–19 is retained, as in the June statement, at 7.4%, ranging 7.5–7.6% in H1 and 7.3–7.4% in H2." While the growth forecasts for the economy is healthy, the regular hike is policy rates will to some extent have a negative impact on the fortunes of the real estate sector, going forward. The 2 recent hikes in policy rates will push lending rates north, going forward, which will increase the cost of acquisition, for homebuyers.

FD RATES MOVE NORTH

A direct result of the increasing cost of funds, is an increase in deposit rates by financial institutions. With leading financial institutions having already hiked their policy rates, it is only a matter of time before others too join the fray. To give an idea, a one-year FD by the State Bank of India attracts a rate of 6.7% while the same figure stands at 7% for IDBI Bank. It gets more attractive if one looks at the smaller players. For example, a one-year FD at Deutsche Bank attracts a rate of interest of 7.75% and the rate gets more attractive with further smaller players. Not only banking institutions, but even the non-banking finance companies (NBFCs) too have raised their company deposit rates. In a recent move, Sundaram Finance, a part of the TVS Group, also raised its deposit rates by 50 basis points. While an increase in FD rates would bring a smile to the face of conservative investors, it needs to be borne in mind that it has typically been seen that an era of high interest rates is one of the by-products of high inflation. As a result, even though the rate of interest may look attractive, on paper but the net gain (after deduction of taxes and accounting for inflation) is certainly not mouth-watering.

INDIA BECOMES THE SIXTH LARGEST ECONOMY

France edged out other footballing nations to lift the FIFA World Cup 2018. It was the second time that France lifted the coveted Cup, which is the epitome of excellence in the football world. However, when it came to economic muscle, the football world cup winning nation made way for India. As per The World Bank data for 2017, India edged past France to become the sixth largest economy in the world. As per the international lender, India's gross domestic product (GDP) amounted to $2.597 trillion, while that of France stood at $2.582 trillion. The Indian economy was fired by manufacturing and consumer spending.

FORWARD MARCH OF ECONOMY TO CONTINUE

As already mentioned earlier, the Indian economy recently edged out France to become the sixth largest economy, in the world. While there has been lot of cheer about this achievement of the economy, there are voices which feel that this forward march of the Indian economy will continue unabated. As per Subhash Chandra Garg, Secretary, Economic Affairs, Government of India, the Indian economy is expected to grow to a size of USD 10 trillion, by 2030, thereby making it the third largest economy, in the world. He did however, accept that it will be a challenge for the economy to grow to that size, but felt that it was also an opportunity. The primary reason for the optimism is that fact that lot of good work has gone towards building the economy and now it is at a stage from where it can "take off".

INVESTIGATION OF REAL ESTATE COMPANIES

The Ministry of Corporate Affairs has ordered an inquiry in 87 companies, inspection of books and papers in 17 companies and investigation in 7 cases involving 149 entities including 5 Limited Liability Partnerships (LLPs) engaged in real estate activities. Shri P.P. Chaudhary, Union Minister of State for Ministry of Law, Justice and Corporate Affairs, in a written reply to the Lok Sabha had stated that the Companies Act, 2013 (the Act) provides for details of compliances with respect to books of account and other matters to be made by companies of all categories and there are no separate provisions in the Act for real estate companies.

EXPORTS OF MERCHANDISE TRADE GROW BY 21.84%

During July 2018, in rupee terms, exports of merchandise trade grew by 21.84%, compared to the same period last year. Cumulative value of exports for April–July 2018, grew by 19.49% over the same period last year. During the month of July, exports of non-petroleum and non-gems and jewellery, in dollar terms, grew by 9.98%, compared to the same period last year; however, during the April–July 2018 period, exports grew by 12.69% over the same period last year. Imports, in merchandise trade, on the other hand grew by 37.28%, in July 2018, compared to the same period last year. Between April–July 2018, imports, in rupee terms however, grew by 22.50%, compared to the same period last year. Crude oil imports in July 2018 were 67.76% higher than July 2017. Between April–July 2018, the growth in imports was 58.58%, compared to the same period last year. The astronomical increase in the crude oil imports needs to be viewed in the backdrop of the fall in the INR compared to the USD, in the recent past, and that the global Brent price increased by 53.16% in July 2018 compared to July 2017.

ECONOMIC UPDATE

MANUFACTURING PMI SOFTENS IN JULY

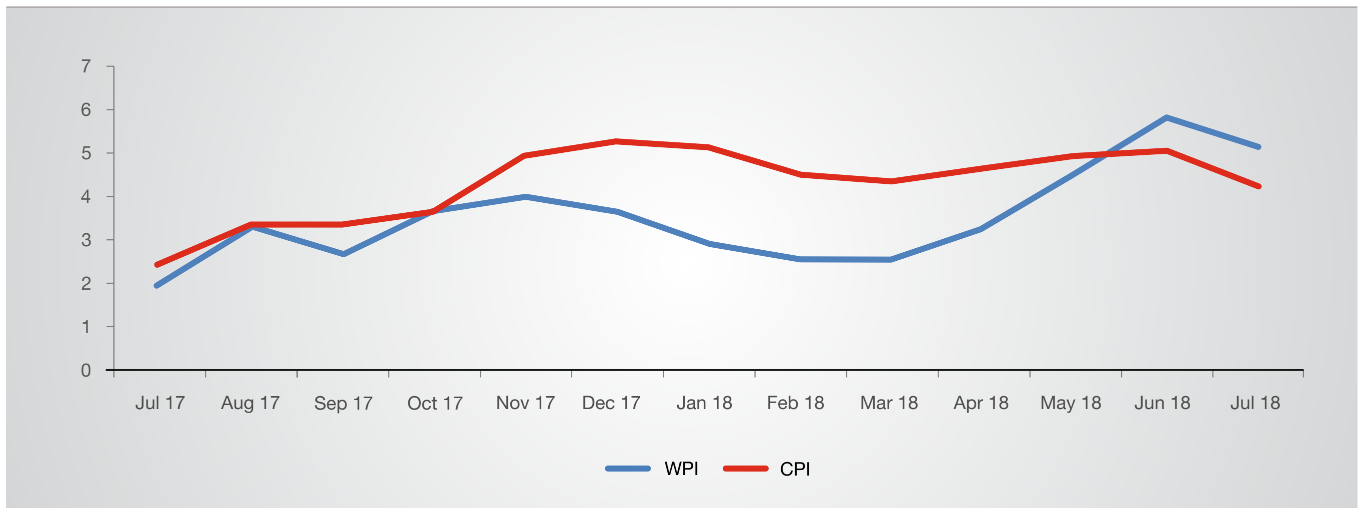
The Nikkei India Purchasing Managers' Index (PMI), which had revived in April 2018 and stood at 51.6, lost some steam in May 2018. In May, the index stood at 51.2. The index however, improved in June and stood at 53.1, in July however, the index softened and settled at 52.3 largely on the back of softer increase in output, new orders and employment. A score above 50 points towards economic expansion while a score below 50 is a sign of economic contraction.

SERVICES PMI GAINS FURTHER STRENGTH IN JULY

The Nikkei India Services Business Activity, which stood at 51.4 in April 2018, contracted in May 2018. In fact, it went in the red and stood at 49.6. In June, the index lost ground and stood at 52.6. In July, however, the index gained further strength and stood at 54.2, on the back of rise of new businesses that rose at its fastest rate since January 2017. As in the case of manufacturing PMI, even in case of the services PMI, a score above 50 represents expansion while a score below 50 is an indication of contraction.

CPI AND WPI MODERATE A BIT

INFLATION



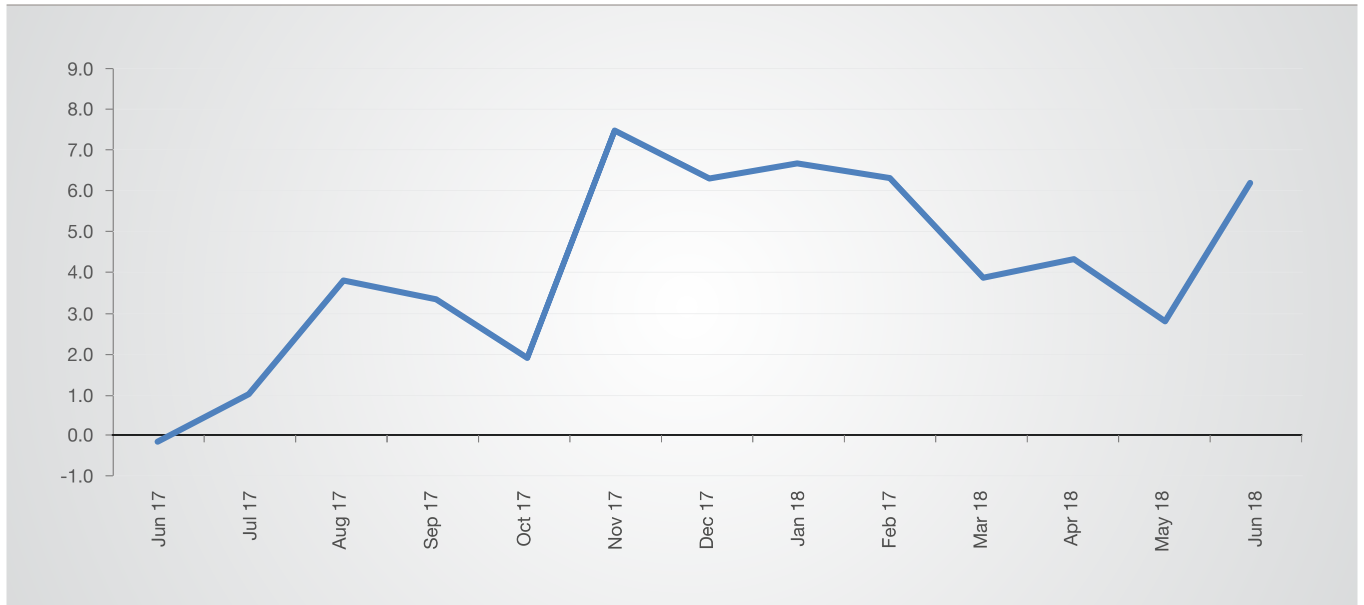
Source: Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Government of India

Retail inflation, which was at a 4-month high in May 2018, gained further strength in June 2018 and stood at 5%. In July 2018, however, retail inflation moderated to 4.17%. The consumer food price too moderated in July 2018, compared to the previous month. In June 2018, the consumer food index stood at 2.91%, in July 2018 however, it plummeted to 1.37%. On a year-on-year (y-o-y) comparison however, price drop was witnessed in only three product categories, in July 2018, compared to the same period last year. Prices of pulses and products witnessed the maximum drop of 8.91% followed by sugar and confectionary (5.81%) and vegetables (2.19%). Prices of all other major product categories witnessed an increase in prices, in July 2018, compared to July 2017. The housing product category witnessed the maximum increase in prices (8.30%), followed by fuel and light (7.96%). Next in line was the pan, tobacco and intoxicants category, which witnessed a price increase of 6.34% and was followed by the miscellaneous category (5.80%). Clothing and footwear (5.28%) came next followed by food and beverages (1.73%). Among food products, the maximum increase was witnessed by fruits (6.98%) followed by prepaid meals, snacks, sweets.

The Wholesale Price Index (WPI), which stood at 5.77% in June 2018, moderated to 5.09% in July 2018. The moderation in WPI was a direct result of the cooling down of the food price inflation. Prices of primary articles moderated from 5.30% in June 2018, to 1.73% in July 2018. In fact food articles witnessed a deceleration in prices of -2.16%, in July 2018, compared to a positive growth in prices, of 1.80% in June 2018. Other categories, in the primary articles, which witnessed a deceleration in prices in July 2018, compared to the previous month are pulses (-17.03%), vegetables (-14.07%) and fruits (-8.81%). While the rate of price growth continued to remain in the red in case of pulses, it is interesting to note that the price growth remained in the positive, in case of vegetables and fruits, in the previous two months. However, in some cases like onions (38.82%), the rate of price growth more than doubled in July 2018 compared to the previous month. In case of potatoes however, even though the rate of price growth slowed down in July 2018, compared to the previous month, it remained considerably high at 74.28%. Price growth in fuel and power, the other major category, witnessed a marginal increase, in July 2018, compared to the previous month at 18.10%. Price growth remained largely at the same levels for manufactured products at 4.26%, in July 2018, compared to the previous month.

IIP RECORDS MAJOR GAINS

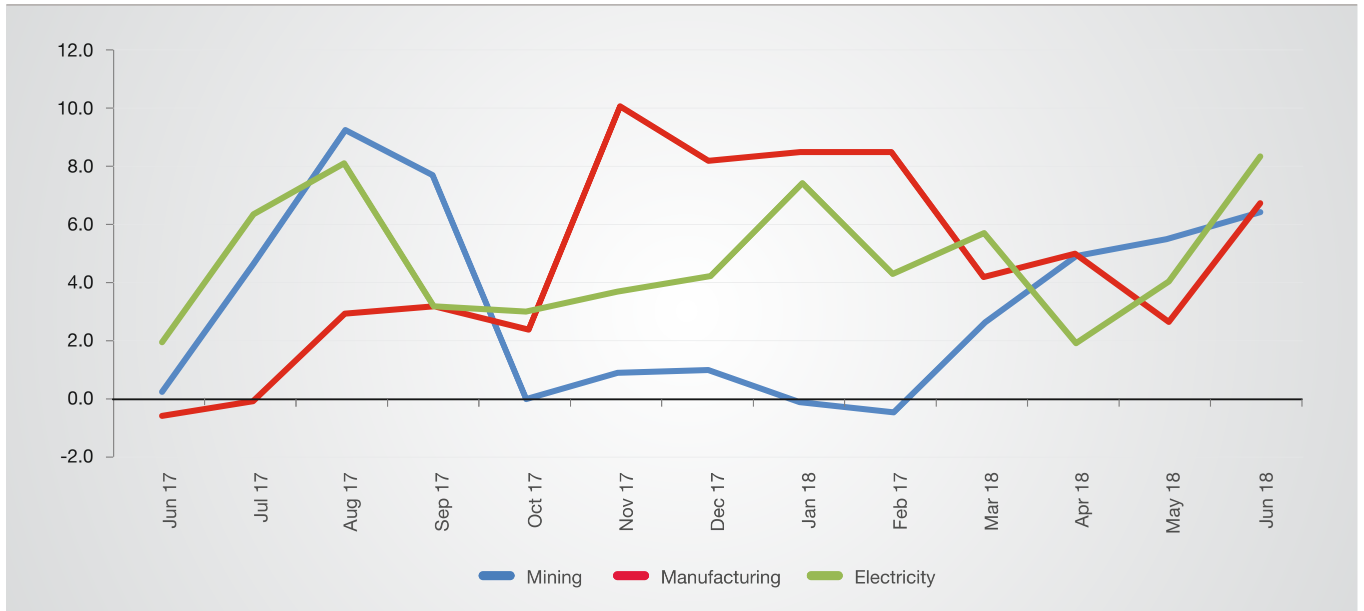
IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, Government of India

The impressive show that the Index of Industrial Production (IIP) recorded in November 2017 moderated slightly in the following months but its growth rate remained above 7%. In March 2018, however, the growth rate of the IIP hit a 5-month low, recording a growth rate of 4.4%. In April 2018, the IIP recovered, albeit marginally, to record a growth rate of 4.9%. In May, the growth rate of the IIP hit a new low, post October 2017, to record a growth rate of 3.2%. In June 2018 however, the IIP bounced back to record a growth rate of 7%.

IIP (SECTOR WISE)



Source: Ministry of Statistics and Programme Implementation, Government of India

The good show of the IIP was a direct result of the healthy growth rates recorded by sectors which comprise the IIP. All the three sectors (mining, manufacturing and electricity) recorded better growth rates, in June 2018, compared to the previous month. The growth rate of the manufacturing sector needs special mention. In June 2018, the manufacturing sector recorded a growth rate of 6.9%, while in the previous month, the same figure stood at a meagre 2.8%. The electricity sector was the other major gainer. In June 2018, the sector recorded a growth rate of 8.5%, while in the previous month the sector clocked a growth rate of 4.2%. The growth rate of the mining sector was marginally better in June 2018, compared to the previous month.

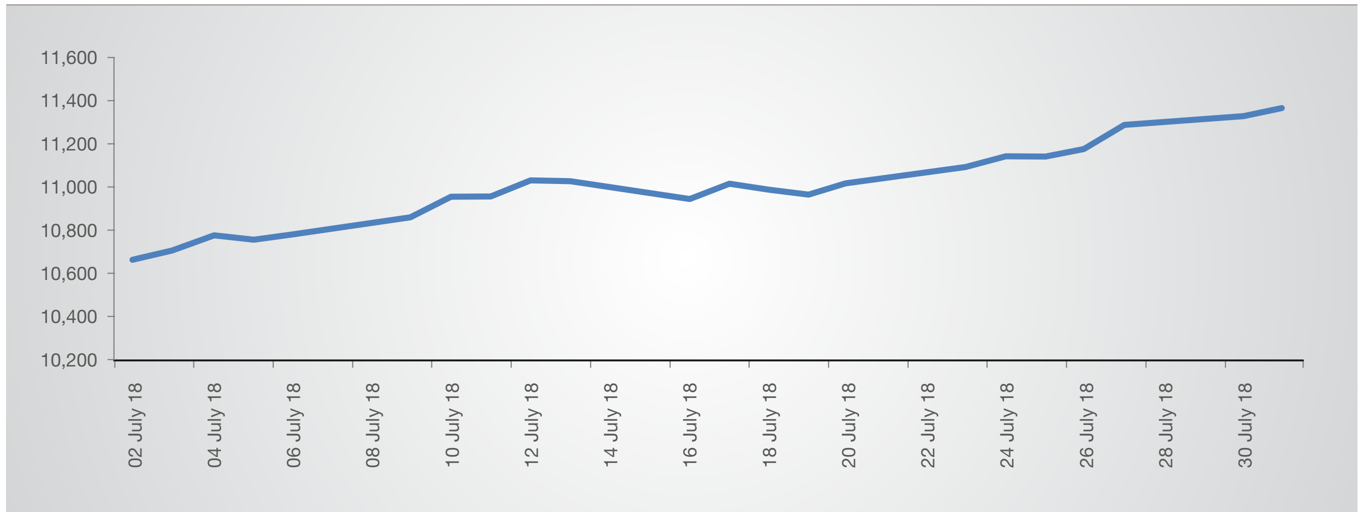
IMPRESSIVE SHOW OF THE CORE SECTOR

INDEX OF EIGHT CORE INDUSTRIES

Source: Ministry of Commerce and Industry, Government of India

The core sector registered its most impressive performance in 2018, till now, in June 2018. The core sector opened the year on a high note registering a growth rate of 6.2% in January, thereafter however, the growth rate of the core sector remained between 4–5%, barring February when it clocked a growth rate of 5.4%. In fact, in May 2018, the core sector registered a growth rate of 4.3%. In June however, the core sector registered a growth rate of 6.7%. The good show of the core sector, was largely on the back of the strong performance of refinery products, steel, coal and cement. The growth rate of refinery products stood at 12%, in June 2018, compared to 4.9%, in the previous month. While the growth rate of the coal sector, slowed down a bit, it remained in double digits in June 2018. From a growth rate of 12.2%, in May 2018, the growth rate of the coal sector, moderated slightly to 11.5%. The growth rate of the cement and electricity sector, largely remained at the same levels, in June 2018, compared to the previous month. The steel sector on the other hand registered considerable gains in June 2018, compared to the previous month. The growth rate of the sector stood at 4.4%, in June 2018, compared to 0.7% in the previous month. Even though the core sector, registered its best performance, in June 2018, some sectors did not perform that well. Prominent among them are the crude oil and natural gas sectors. The growth rate of both the sectors remained in the red, in May 2018 and June 2018. Even though the growth rate of the fertilizers sector remained positive in June 2018, it plummeted from 8.4% in May 2018, to 1%, in June 2018.

NIFTY 50

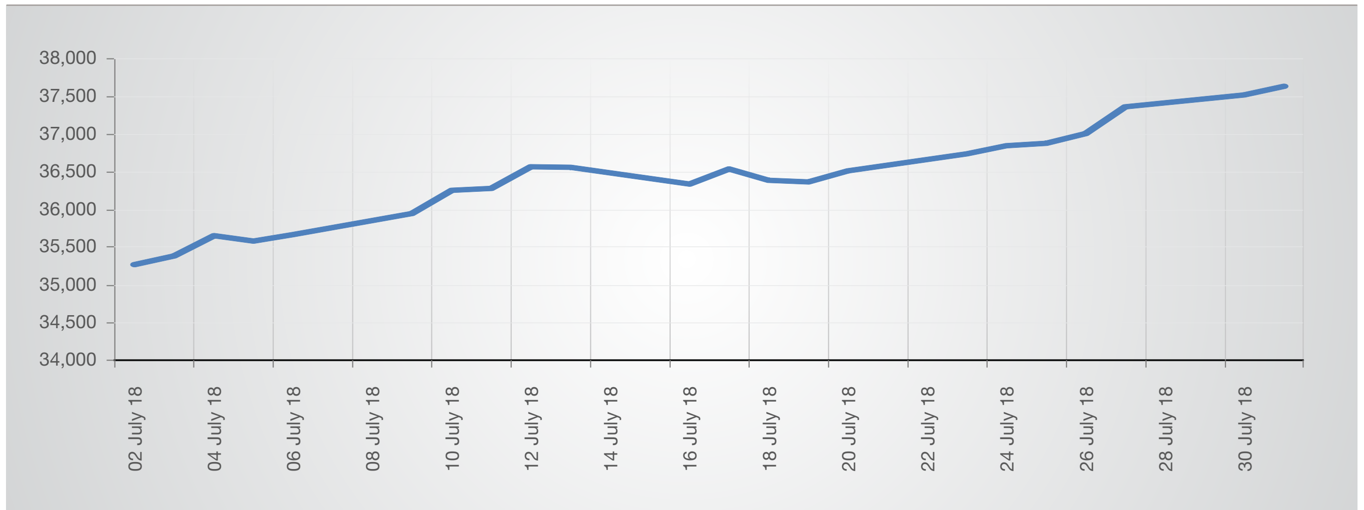


Source: National Stock Exchange

The NIFTY 50 gained 7% in July 2018. It is worth noting that the Nifty 50, for the first time closed above the 11,000 mark on 20 July 2018. The Nifty 50 remained above the 11,000 mark at the time of closing this issue, on 20 August.

SENSEX

S&P BSE SENSEX

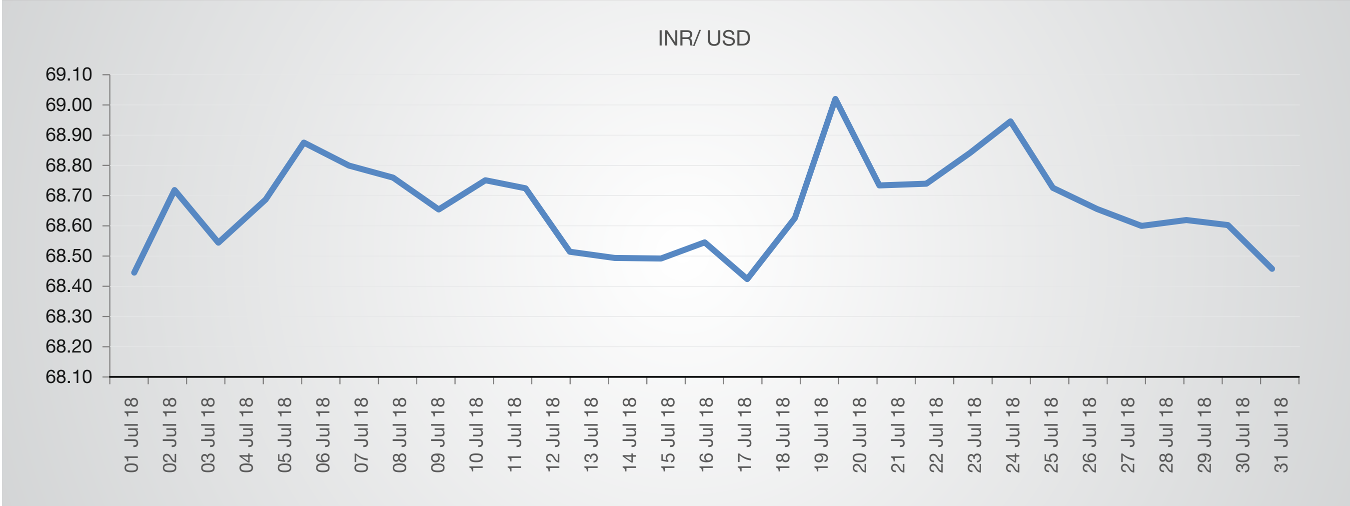


Source: Bombay Stock Exchange

The S&P BSE SENSEX gained 7% in July 2018. While the gains by the S&P BSE Sensex is in single digits, it crossed some major milestones, in July 2018. For the first time in history, the S&P BSE Sensex closed above the 36,000 mark on 10 July. The S&P BSE Sensex continued its forward march further and closed above the 37,000 mark on 27 July. At the time of closing this issue, the index was within touching distance of the 38,000 mark, on 20 August.

CURRENCY

CURRENCY



Source: https://in.investing.com

The USD gained 0.02% compared to the INR in June 2018. While gains made by the USD may not be significant, but at the time of closing this issue, on 20 August, the rupee had already touched the 70 mark three times in mid-August

INDIA INFRASTRUCTURE & REALTY UPDATE

RAILWAY LINE ALONG THE MUMBAI–NAGPUR SUPER EXPRESSWAY

In a move that will lead towards creating a Mass Rapid Transit System (MRTS), in Nagpur, an MoU was signed between the Indian Railways and Maharashtra Metro Rail Corporation (MahaMetro). Speaking on the occasion, Shri Piyush Goyal, Union Minister of Railways, Finance and Corporate Affairs, stated that the government is planning to set up railway lines along national highways. A proposal in this direction is to connect the Nagpur–Mumbai super expressway (Samriddhi Mahamarg) with a high-speed railway corridor. Once constructed, this line will help cover the distance between Mumbai and Nagpur in about five hours, which in the present day takes over 11 hours.

26 RELIGIOUS CITIES IDENTIFIED TO BE DEVELOPED UNDER PRASAD SCHEME

PRASAD stands for Pilgrimage Rejuvenation and Spirituality Augmentation Drive. This is one of the schemes through which the Ministry of Tourism provides Central Financial Assistance to State Governments / Union Territory (UT) Administrations for the development of tourism-related infrastructure in the country. Under the PRASAD Scheme, 19 states have been identified for development, which inter-alia include Amaravathi and Srisailam (Andhra Pradesh), Kamakhya (Assam), Patna and Gaya (Bihar), Dwarka and Somnath (Gujarat), Gurudwara Nada Saheb (Haryana), Hazratbal and Katra (Jammu & Kashmir), Deogarh (Jharkhand), Chamundeshwari Devi (Karnataka), Guruvayoor (Kerala), Una (Himachal Pradesh), Omkareshwar (Madhya Pradesh), Trimbakeshwar (Maharashtra), Puri (Odisha), Amritsar (Punjab), Ajmer (Rajasthan), Kanchipuram and Vellankani (Tamil Nadu), Varanasi and Mathura (Uttar Pradesh), Badrinath and Kedarnath (Uttarakhand) and Belur (West Bengal). It must be remembered that infrastructure development in any form, only adds to the attractiveness of the real estate in that particular city, more so in greenfield centres like Amaravathi.

1.07 CRORE RURAL HOUSES CONSTRUCTED UNDER PMAY-G

Under the restructured Pradhan Mantri Awas Yojana-Gramin (PMAY-G), 1.07 crore rural houses have been completed over the last 4 years (2014–15 to 2017–18). This figure is also inclusive of the 68.64 lakh houses built under the Indira Awas Yojana that were sanctioned in and prior to 2014–15 and 2015–16. The restructured PMAY-G was launched by Narendra Modi, Prime Minister of India, on 20 November 2016. Houses under this scheme are built with the objective of “Housing for All by 2022”. Under the PMAY-G, 2.95 crore houses are set to be constructed by 2022, in phases. In the first phase, the target was construction of 1 crore pucca houses by 31 March 2019. Details of the rural housing scheme and progress can be viewed on the website of PMAY-G, i.e. (pmayg.nic.in).

CONSTRUCTION OF ROADS UNDER BHARATMALA PROJECT

The Bharatmala Project is the second largest highway construction project in the country since the National Highways Development Project (NHDP). The project will improve connectivity, particularly on economic corridors, border areas and far-flung areas. This would in turn ensure faster movement of cargo across the country. Shri Mansukh L Mandaviya, Union Minister for Road Transport & Highways, Shipping, Chemical & Fertilizers, in a written reply to a question in Lok Sabha gave an insight into the total length of roads that would be constructed under the Bharatmala Project, in its first phase.

Category	Total length identified	Bharatmala Pariyojana phase I
Economic Corridors	26,163 kms	9,000 kms
Inter Corridors (7,964 kms) and Feeder Routes (7,439 kms)	15,403 kms	6,000 kms
National Corridors efficiency improvements	13,049 kms	5,000 kms
Border (3,319 kms) and international connectivity roads (1,911 kms)	5,230 kms	2,000 kms
Coastal (2,011 kms) and port connectivity roads (1,294 kms)	3,305 kms	2,000 kms
Expressways	1,837 kms	800 kms
Total	64,987 kms	24,800 kms
Balance road works under NHDP	–	10,000 kms

Source: Ministry of Road Transport and Highways, Government of India

IMPROVING ROAD CONNECTIVITY IN NORTH EAST UNDER BHARATMALA PROJECT PH-1

The ambitious Bharatmala Project, of the government, among other things also plans to decongest major urban centres, in the country. In the first phase of the project, 28 ring roads, 125 choke points and 66 congestion points have been identified as ones that need special intervention. Some of the major urban centres, in the North East, where intervention points are identified are cities like Guwahati, Imphal, Silchar, Shillong, Dibrugarh, Dimapur and Aizawl. A total budget outlay of ₹ 5,35,000 crore has been earmarked for Bharatmala Pariyojana Phase-I, which has been proposed to be executed over a period of 5 years, i.e. from 2017–18 to 2021–22.

ROAD CONNECTIVITY TO INDUSTRIAL HUBS

In a move to ensure smooth movement of freight from industrial centres and ports to consumption centres, new greenfield routes have been identified. The details of these proposed routes are mentioned below.

Corridor	Length of existing National Highway	Length of greenfield corridor
Gurugram (Sohna)-Vadodara	1,003 kms	843 kms
Sangaria-Sanchore-Santalpur	930 kms	760 kms
Ismailabad (Pehowa)-Charki Dadri-Narnaul	265 kms	230 kms
Chennai-Salem	345 kms	277 kms
Chittor-Thatchur	190 kms	126 kms

Source: Ministry of Road Transport and Highways, Government of India

INFRASTRUCTURE FOR FREIGHT AT RAILWAY YARDS

The Ministry of Railways, with the view towards developing freight terminals, at railway yards, through private investment has adopted the following modes:

- The private siding policy enables rail connectivity at the party's doorstep, i.e. factory premises and raw material producing areas, and connects manufacturing hubs with markets across the country.
- The Private Freight Terminal (PFT) Scheme facilitates development of a network of freight terminals to provide efficient and cost-effective logistics services with warehousing solutions to end users.

With this move, the Ministry of Railways is expected to augment the existing freight loading capacity and add to its revenues.

RESEARCH

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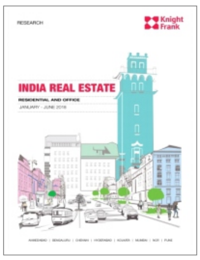

INDIA REAL ESTATE JAN - JUN 2018

REAL ASSET MONETISATION 2018

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