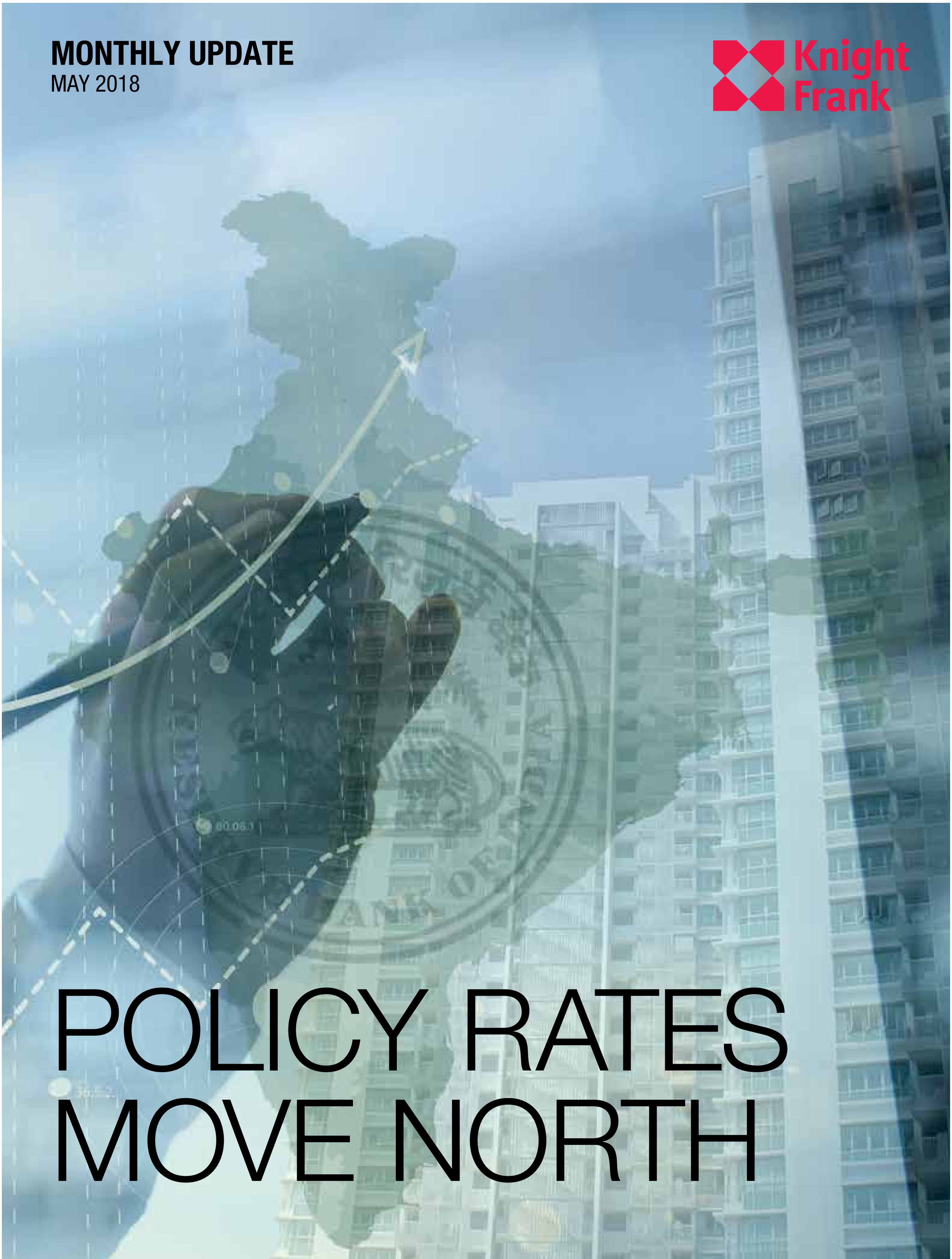
MONTHLY UPDATE
MAY 2018

Knight Frank



POLICY RATES MOVE NORTH

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

INDIA TO BE THE FASTEST GROWING ECONOMY: WORLD BANK

According to the Global Economic Prospect Report, June 2018, of The World Bank, the Indian economy is expected to grow 7.3% this year and by 7.5% in the next two years. The expected stellar performance of the Indian economy will make it the fastest growing economy in the world. As per the Bank, the Indian economy is robust and has the necessary potential to deliver the expected growth rate. Further as per the Bank, due to the good performance of India's economy, growth in South Asia is expected to be 6.9% in 2018 and 7.1% un 2019.

GLOBAL GROWTH DEPENDENT ON CHEAP BORROWING: OECD

As per the Organisation for Economic Cooperation and Development (OECD's) new global economy health check, even though the world's richest nations are expected to see the lowest levels of unemployment since 1980, global growth remains dependent on cheap borrowing and government spending. As per the Paris-based think tank, protectionist trade barriers, volatile financial markets and a massive spike in oil prices could derail the progress of the global economy. These are interesting observations made by the OECD on the eve of the tenth anniversary of the global financial crisis of 2008. As per Angel Gurría, the Secretary-General of the OECD, the current recovery is still being supported by a very accommodative monetary policy, and increasingly by fiscal easing. This suggests that strong, self-sustaining growth has not yet been attained. Further reiterating its findings, the OECD has taken note of the fact that the central banks in Britain, the eurozone, Japan and the US have kept interest rates low and have put in more money in their respective countries in a bid to maintain investment and promote growth.

INFLATION FORECAST COULD BE CUT IN JAPAN

The Bank of Japan, in its April Outlook had revised its target date of achieving 2% inflation. The central bank had also reduced its price growth expectation for fiscal 2018 to 1.3% from 1.4%. It had also forecasted 1.8% growth in fiscal 2019 and 2020. However, slower price growth remains a worry for the central bank and many are of the opinion that the Bank of Japan could revise its price forecast. Consumer prices, excluding fresh food, increased just 0.7% in April, compared with 0.9% growth in the previous month. Additionally, prices in central Tokyo moved up by only 0.5%. This slow growth in price remains a cause of worry for the central bank, which has for long maintained a deflationary mindset. Keeping low expectations of price growth and a sluggish wage growth have kept prices in check.

300,000 NEW JOBS TO BE CREATED IN INDIA TO FIGHT CLIMATE CHANGE: ILO

The International Labour Organization (ILO), in its report "World Employment and Social Outlook 2018: Greening with jobs", has stated that by 2022 India plans to generate 175 gigawatts of electricity from renewable sources. The target for electricity to be generated from renewable sources is half of what is produced in India. As per the report, which has also quoted estimates by the Council on Energy, Environment and Water (CEEW) and the Natural Resources Defence Council (NRDC), over 300,000 workers will need to be employed in the solar and wind energy sectors in India to meet the target set for 2022. On the global platform, the report from ILO states that millions of new jobs would be created to fight climate change. As per the ILO 24 million new jobs will be created by 2030 but for that to happen the right policies need to be in place and the necessary benefits, like the case of employees in other sectors, too should be made available for these champions of green.

RBI HIKES POLICY RATES

The Reserve Bank of India (RBI), in its Second Bi-monthly Monetary Policy Statement, 2018–19 increased the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points. After the rate revision, the repo rate now stands at 6.25%. As a result, the reverse repo rate under the LAF stands adjusted to 6.0%, and the marginal standing facility (MSF) rate and the Bank Rate to 6.50%. This rate revision, the first in four years, is on the back of increasing commodity and fuel prices. On the two factors, responsible for the upward revision in policy rates, the banking regulator, in its Second Bi-monthly Monetary Policy Statement stated, "on the one hand, CPI inflation excluding food and fuel rose sharply in April over March by 80 basis points to reach an ex-HRA level of 5.3%, suggesting a hardening of underlying inflationary pressures. Furthermore, since the Monetary Policy Committee (MPC's) meeting in early April, the price of the Indian basket of crude surged from USD 66 a barrel to USD 74 a barrel. This, along with an increase in other global commodity prices and recent global financial market developments, has resulted in a firming up of input cost pressures." In its statement, the banking regulator while giving the outlook for retail inflation stated that in the backdrop of rising fuel and commodity prices, revised the projected Consumer Price Index (CPI) inflation for 2018–19 to 4.8%–4.9% in H1 and 4.7% in H2, including the HRA impact for Central Government employees, with risks tilted to the upside. Excluding the impact of HRA revisions, CPI inflation is projected at 4.6% in H1 and 4.7% in H2. While the upward revision in interest rates has been done with an aim to control inflation, it will however, to some extent stifle the revival of the residential property market that had started to take root on the back of the affordable housing segment.

GOOD TIME FOR BANK FDS?

In the previous couple of issues, of the Monthly Update, we have been regularly mentioning developments with regards banks increasing FD rates. With rising inflation, the end of an era of softening of interest rates was always in the offing. The recent hike in policy rates by the banking regular further paves the road map for hardening of interest rates, in the near future. While the hardening of interest rates is not a good sign for the real estate industry, for the conservative investors it is certainly good news. Interest rates on bank FDs, will certainly move up. What they should, however, keep in mind is that even though the rate offered by bank FDs may be high, high inflation rates will nullify their returns.

INDIAN ECONOMY GROWS AT 7.7% IN Q4

On the back of a robust performance by the manufacturing, service sectors and good farm output, the Indian economy grew by 7.7% in Q4, between January–March 2018, thereby retaining the tag of the fastest growing economy. This robust growth is also the fastest the economy grew in seven quarters. The growth of 7.7% recorded in Q4 is significantly higher than 6.8% recorded by China, during the same period. On a yearly basis however, the Indian economy grew by 6.7% in 2017–18, which is a four-year low. The previous low was 6.4% recorded in 2013–14.

STRICTER GUIDELINES FOR COMPANIES TO MOVE FUNDS OVERSEAS

In a move to discourage companies (without a proven track record) from diverting funds out of the country, the RBI has come up with fresh directives. It had been seen in the past that companies misused a clause to send funds out of the country. As per the earlier directives, a company could automatically send money four times its net worth overseas. Under the new directives, only companies with a proven track record will be allowed to do so. To further elaborate, the company needs to have a proven track record of at least three years, and it should not have defaulted on any loans.

TRADE DEFICIT GAP WIDENS

Exports from India, including re-imports during April 2018, were valued at USD 25.91 billion compared to USD 24.64 billion, in April 2017, thereby registering an increase of 5.17%. In rupee terms, the growth rate during the same period was 7.01%. Major commodity groups that have witnessed a positive growth in April 2018, compared to the same period last year are organic and inorganic chemicals (38.48%), plastic and linoleum (30.03%), engineering goods (17.63%), cotton yarn/fabs/made-ups, handloom products (15.66%) and drugs and pharmaceuticals (13.56%). Non-petroleum and non-gems and jewellery exports in April 2018 increased by 11.73% compared to the same period last year. On the other hand, oil imports went up by a staggering 41.49% in April 2018 (in dollar terms), compared to the same period last year. The twin factors of a spike in crude oil and weakening rupee have played a major role in the increase in value of oil imports. Non-oil imports on the other hand were 4.30% lower in April 2018, compared to the same period last year. As regards trade in services, exports during March 2018 grew by 7.16% in dollar terms compared to a negative growth of 3.84%, in February 2018. Imports with regards trade in services grew by 1.35%, in dollar terms, compared to a growth of 3.01%, in February 2018. Taking merchandise and services together, the overall trade deficit for April 2017–March 2018 is estimated at USD 80.61 billion compared to USD 41.79 billion during April 2016–March 2017.

MANUFACTURING PMI SLOWS DOWN IN MAY

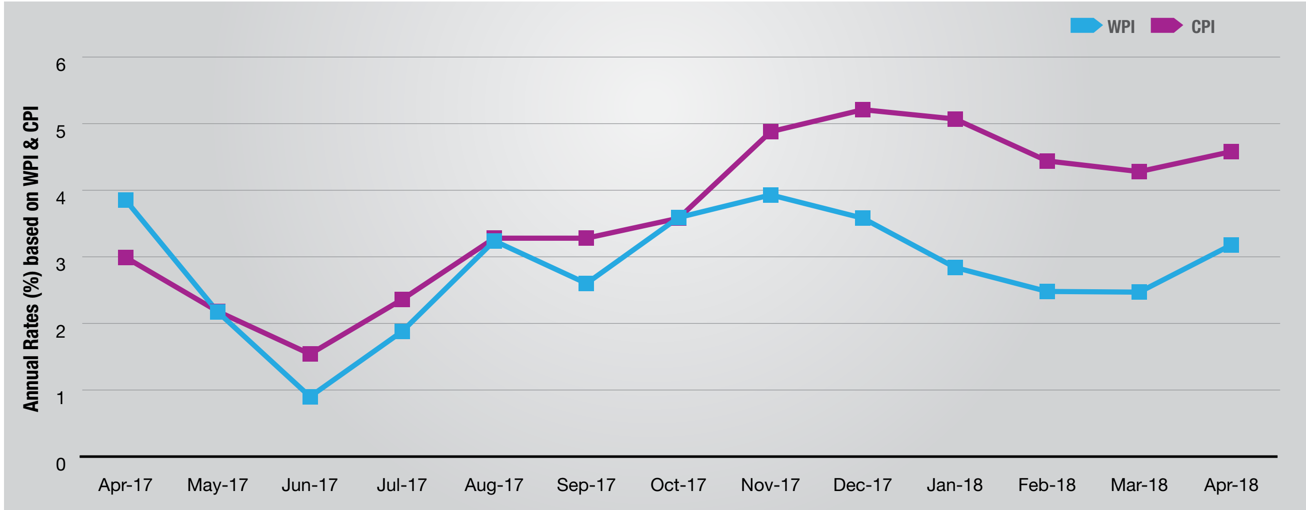
The Nikkei India Purchasing Managers' Index (PMI), which had revived in April 2018 and stood at 51.6, lost some steam in May. In May, the index stood at 51.2. The contraction of the index was attributed to "weaker expansions in output, employment and new business." Even though the index has contracted in May compared to the previous month, it remains in the positive zone. A score above 50 points towards economic expansion while a score below 50 is a sign of economic contraction.

SERVICES PMI CONTRACTS IN MAY; MOVES IN THE RED

The Nikkei India Services Business Activity, which stood at 51.4 in April 2018, contracted in May 2018. The index stood at 49.6 in May, thereby entering the contraction zone. The index for the first time contracted in three months because of "sluggish growth in new orders." Like 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 MOVE NORTH

INFLATION



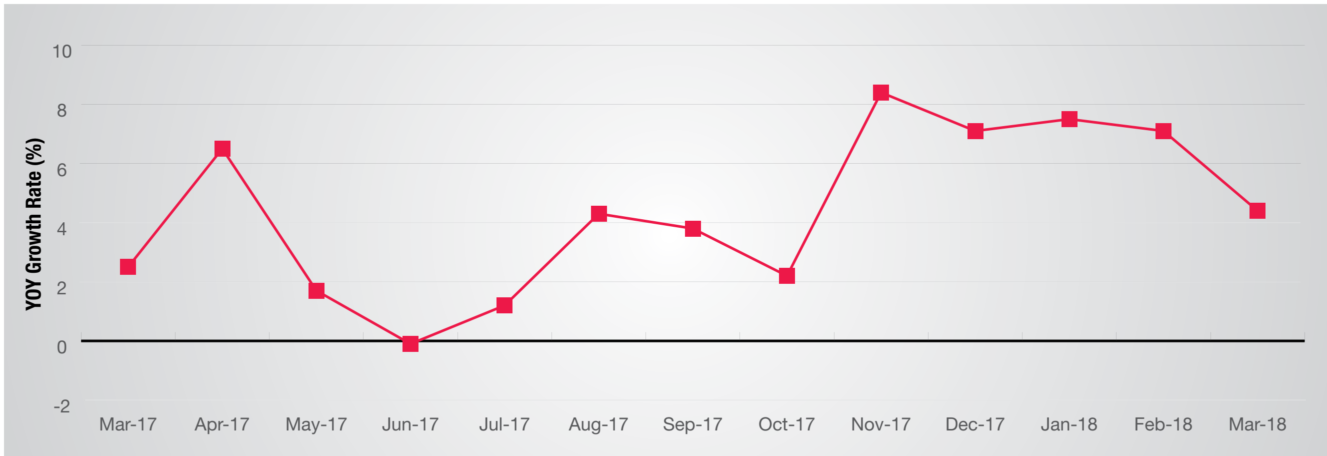
Source: Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Government of India

Retail inflation hit a three-month high of 4.58%, in April 2018. The consumer food price index too went up by 2.80%. Of all the products that form the CPI, only prices of pulses and products and sugar and confectionary went down by 12.35% and 4.05%, respectively. Prices of all other products witnessed an increase in April 2018, compared to the same period last year. The highest price increase was witnessed in housing, where prices moved up by 8.50%. Other product categories that witnessed an increase in prices in April 2018, compared to April 2017 are as follows: pan, tobacco and intoxicants (7.91%), fuel and light (5.24%), clothing and footwear (5.11%), miscellaneous (4.96%) and food and beverages (3%). Among food products, the highest price increases were witnessed by fruits (9.65%), vegetables (7.29%) and eggs (6.26%).

The Wholesale Price Index (WPI) hit a high of 3.18%, the highest in April 2018, largely because of higher prices of food. The index of primary articles went up by 1.4%. The index for the 'Food Articles' group rose by 1.9% due to higher price of tea (18%), peas/chawali (13%), fruits and vegetables (8%), fish marine (4%) and pork, paddy and maize (1% each). However, price of the following items declined: egg (4%), ragi and gram (3% each), moong, betel leaves and poultry chicken (2% each) and urad, barley, beef and buffalo meat, rajma, arhar, fish-inland and condiments and spices (1% each). The index for fuel and power went up by 0.9%. The rate of inflation based on the WPI Food Index consisting of 'Food Articles' from Primary Articles group and 'Food Product' from Manufactured Products group increased from (-) 0.07% in March 2018 to 0.67% in April 2018.

IIP SLIPS TO A FIVE-MONTH LOW

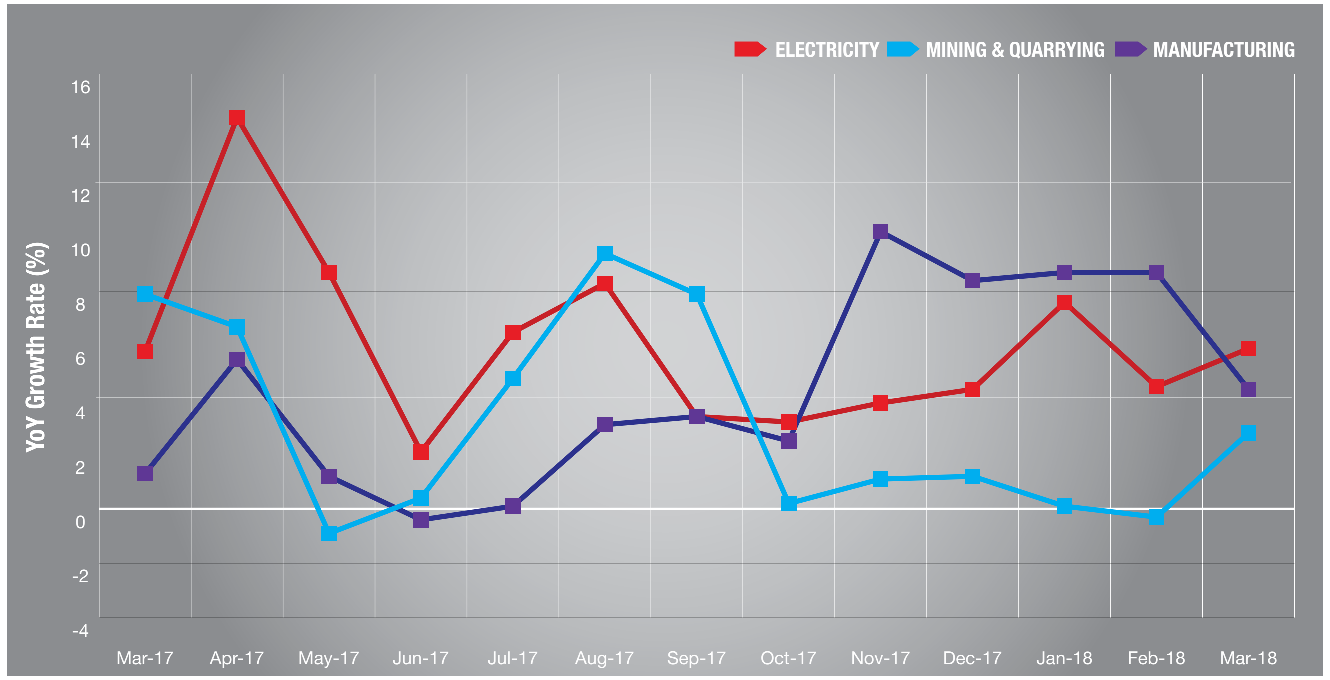
IIP (GENERAL INDEX)



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 still remained above 7%. In March 2018, however, the growth rate of the IIP hit a five-month low. In March 2018, the IIP registered a growth of 4.4.%. The previous low by the IIP, in the recent past, was 2.2%, recorded in October 2017.

IIP (SECTOR WISE)

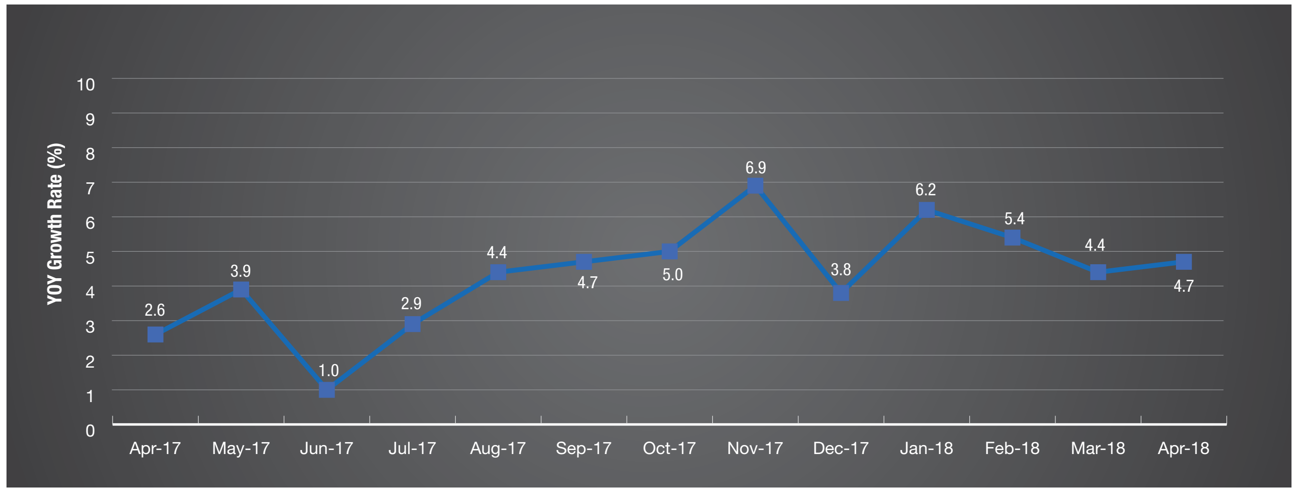


Source: Ministry of Statistics and Programme Implementation, Government of India

The poor show of the manufacturing sector is the primary reason for the dismal show of the IIP. The growth rate of the manufacturing sector reduced by almost 50% compared to the previous month. The mining and the electricity sector, however, fared a bit better compared to the previous month. The growth of the mining sector, which was in the red, in February 2018, turned positive in March 2018, registering a growth rate of 2.8%. The electricity sector, on the other hand, grew by 5.9% in March 2018, compared to 4.5% in the previous month.

CORE SECTOR PICKS UP MARGINALLY

INDEX OF EIGHT CORE INDUSTRIES



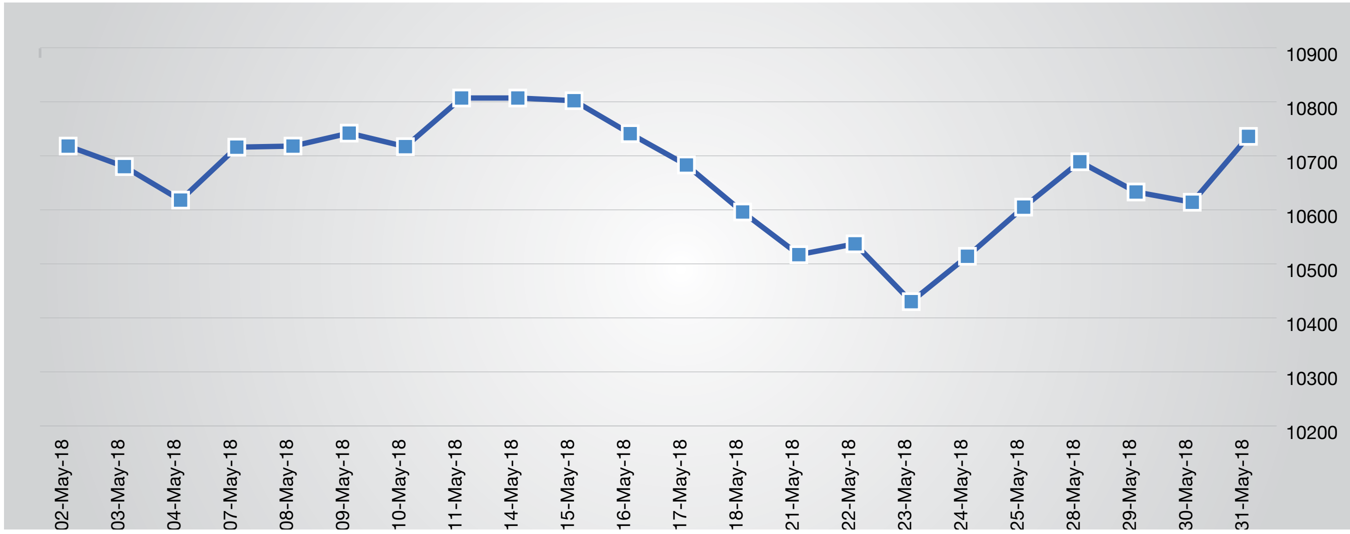
Source: Ministry of Commerce & Industry, Government of India

After hitting a five-month low of 3.8% in December 2017, the growth rate of the Index of Eight Core Industries hit a new high in January 2017, when it recorded a rate of 6.2%. Since January 2018, the growth rate of the core sector has been on its way south. The growth rate of the core sector slipped to a three-month low to 4.4% in March 2018. In April however, the core sector moved up marginally to record a growth of 4.7%.

The increase in growth rate of the core sector, in April, was aided largely by increased output of coal, natural gas and cement. It must be worth nothing that of the eight sectors that comprise the core sector, five of them registered a growth rate higher than the previous month. Apart from coal, natural gas and cement, the other sectors that contributed towards the core sector picking up a little bit of steam are refinery and fertilizers. While the growth rate of sectors like electricity and steel were still in the positive, they were lower than the growth rate registered in March 2018. The growth rate of crude oil continued to be in the red for the fifth straight month.

NIFTY

NIFTY 50

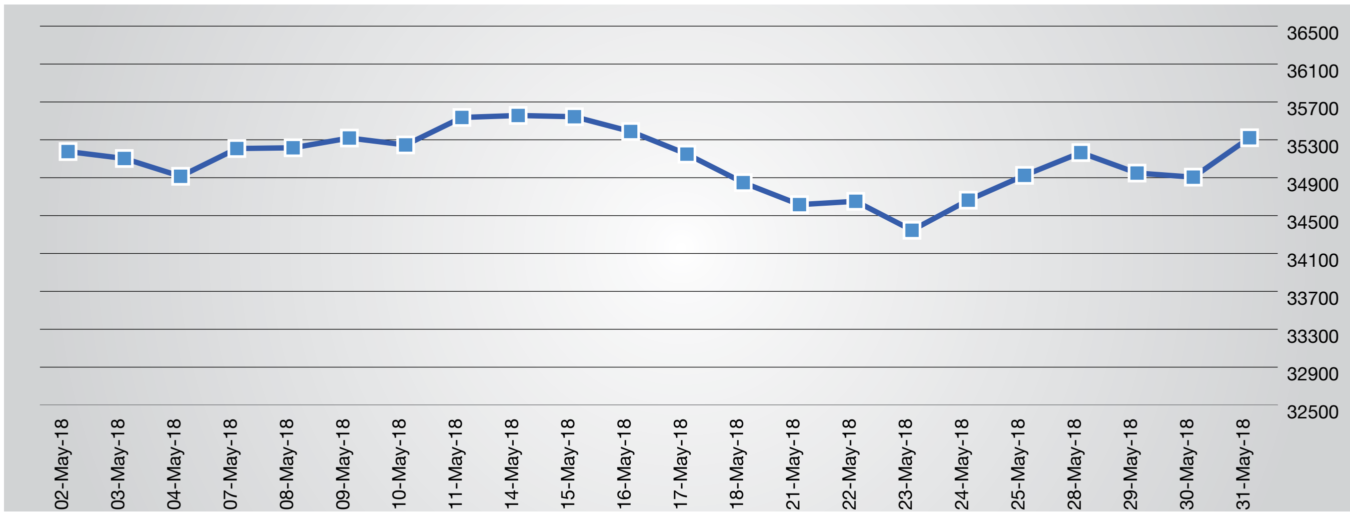


Source: National Stock Exchange

The NIFTY 50 gained 0.2% in May 2018. Like in the previous month, the NIFTY 50 remained above the 10,000 points during May 2018.

SENSEX

S&P BSE SENSEX

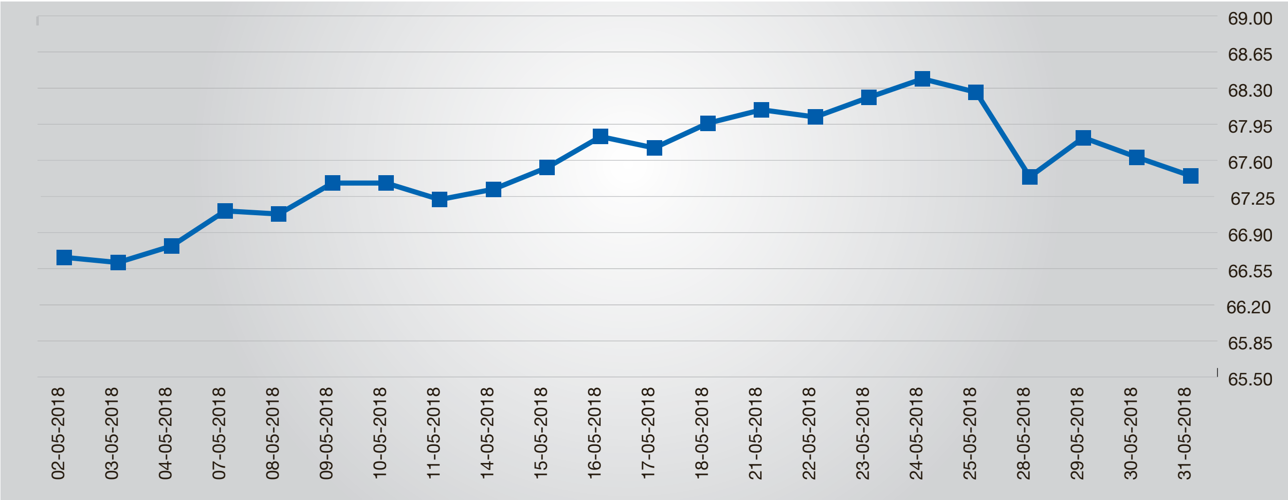


Source: Bombay Stock Exchange

The S&P BSE SENSEX gained 0.41% in May 2018. The S&P BSE SENSEX remained above the 34,000 points mark during May 2018.

CURRENCY

CURRENCY



Source: Reserve Bank of India

The INR gained 0.02% to the USD in January 2018.

INDIA INFRASTRUCTURE & REALTY UPDATE

BULLET TRAIN TO COME UP ALONG THE PROPOSED MUMBAI NAGPUR EXPRESSWAY

In a first of its kind, a bullet train will come up come up along the proposed Mumbai-Nagpur expressway. For the above-mentioned project, Indian Railways and the Ministry of Road Transport and Highways have joined hands. Once operational, the twin modes of transport will greatly reduce the travel time between Mumbai and Nagpur, which in the present day takes around 15 hours by road and 12 hours by train. For the purposes of doing a feasibility study for the bullet train project a consultant is already on board. While the project is an ambitious one and will also give a big boost to infrastructure in the state, it must be remembered that such projects, in the recent past, have run into problems, especially with regards to land acquisition.

DELHI METRO TO REACH SECTOR 62 NOIDA

Going forward, infrastructure in Noida will receive a major boost. The cabinet committee chaired by Narendra Modi, Prime Minster of India, has approved the extension of the Delhi metro from Noida City Centre to Sector 62. In short, the Dwarka–Noida metro line will also cover Sector 62, in future. The approximately 6.675 kilometres will be built at a cost of INR 1,967 crore. The project will be implemented by the Delhi Metro Rail Corporation. The move will increase connectivity to Sector 62, Noida, which is a major commercial and residential hub. It must also be remembered that along with the upcoming Delhi-Meerut Expressway, which is on the fringes of Sector 62 in the area, this project will not only increase the attractiveness of the area but also go a long way in decongesting Delhi. The development of the region will also receive a major boost due to these two major infrastructure projects.

PHASE-1 OF DELHI-MEERUT EXPRESSWAY AND EASTERN PERIPEHRAL EXPRESSWAY INAUGURATED

Two major infrastructure projects that will go a long way in decongesting the national capital were inaugurated by Narendra Modi, Prime Minister of India. First is the phase-1 of the Delhi-Meerut Expressway and the second is the Kundli-Manesar-Palwal Expressway. In the first phase, the Delhi-Meerut Expressway has been inaugurated from the Nizamuddin Bridge, in Delhi, to the Delhi-Uttar Pradesh Border. The Delhi-Meerut Expressway, once completed, will significantly reduce travel time from the national capital to Meerut, and to several other parts of Western Uttar Pradesh and Uttarakhand (both Garhwal and Kumaon). It will also help decongest the existing National Highway-58, the existing highway connecting Delhi and Meerut, thereby ensuring faster connectivity not only to Meerut but also to the Garhwal region in the hill state of Uttarakhand. It is also expected to give a big boost to the logistics and warehousing sector, in Ghaziabad. The Eastern Peripheral Expressway (EPE), will contribute towards the twin objectives of decongesting and de-polluting the national capital by diverting traffic not destined for Delhi. The Eastern Peripheral Expressway should give a boost to the logistics and warehousing sectors in areas along Kundli-Manesar and Palwal.

WESTERN DEDICATED FREIGHT CORRIDOR TO BE PARTLY OPEN FROM 15 AUGUST 2018

The Ateli (in Haryana)-Phulera (in Rajasthan) section of the Dedicated Freight Corridor (DFC) will be open from 15 August 2018. The distance between the two stations is 190 kilometres. This section contains 10 number of viaducts and major bridges, 127 number of minor bridges, one rail flyover and 118 road underbridges. There are six DFC stations in this section and two junctions, i.e. Ateli and Phulera. Shri Ashwani Lohani, Chairman, Railway Board inspected the section and gave the green signal for the inauguration for the same. When this section of the Western Dedicated Freight Corridor will be open, it will be a landmark in the development of dedicated freight corridors in the country. Dedicated Freight Corridor Corporation of India Ltd (DFCCIL) will run freight trains at the maximum speed of 100 km/per hour as against the current maximum speed of 75 km/per hour on the tracks of Indian Railways. On these dedicated freight corridors, the average speed of freight trains will also be increased from the existing speed of 26 km/per hour to 70 km/per hour.

NEW AIIMS TO COME UP IN DEOGHAR, JHARKHAND

In a move that will serve the dual purpose of providing super speciality healthcare to the population while also helping to create a large pool of doctors and other health workers in this region to be available for primary and secondary-level institutions/facilities being created under the National Health Mission (NHM), the Union Cabinet chaired by Prime Minister, Narendra Modi, has approved setting up of a new All India Institute of Medical Sciences (AIIMS) in Deoghar, Jharkhand. A provision of funds worth INR 1,103 crore has been approved for the project and the said AIIMS will be set up under the Pradhan Mantri Swasthya Suraksha Yojana (PMSSY). The new AIIMS will have a capacity of 750 beds and trauma centre facilities. The medical institute will have a medical college, which will have an in-take of 100 MBBS students per year. In addition, a nursing college with an intake of 60 B.Sc. (Nursing) students per year, residential complexes and allied facilities/services, broadly on the pattern of AIIMS, New Delhi will also be set up. There will also be 20 Speciality / Super Speciality departments, in the hospital, including 15 operation theatres. An Ayush Department with 30 beds for providing treatment facilities in the traditional system of medicine, will also be set up in the same hospital.

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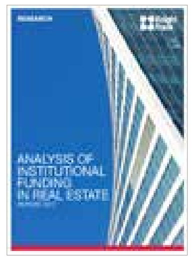

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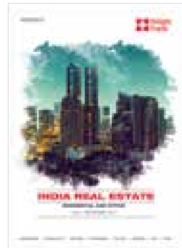

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