

MONTHLY UPDATE
JULY 2016



INTO EACH ECONOMY SOME RAIN MUST FALL*



*Title drawn from the works of H. W. Longfellow.



Following caution, the US Fed again rendered the key policy rates unchanged in its latest policy meet as it continues to monitor inflation and global developments. Growth in the US is not as expected to prompt a rate cut albeit a substantial growth in the labour market during June. The Bank of Japan as well as the government surprised the citizens with massive fiscal stimulus against the backdrop of Brexit. Thus, global uncertainties – political and economic, continue to impact the policy making across economies including the major ones. However, oil prices that soared post Brexit now stand in a corrected mode; excess US stocks have considerably helped the situation.

Indian economy too braved well the Brexit storm as markets including currency and the bourses emerged robust across last one month. The industrial activity including manufacturing has picked up and is likely to strengthen if outturn of monsoon is good. Core sector has recovered too. Rise in cement production signals a pick up in the real estate activity. Exports have recorded a positive growth in June after a year and a half.

The Indian economic landscape received a respite from worries as the country received 7% excess rains in July reaping hopes that it may help in pulling down the inflation while also helping revival of sentiments and boosting demand. Inflation is firming up suggesting the RBI is less likely to cut interest rates soon though investments cycle stays subdued. Inflation – both retail and wholesale is stoked largely by food inflation, particularly in pulses and vegetables though cereals too have emerged costly. Indian Meteorological Department has of late forecasted that there would not be above normal rains this year, however a robust pulses harvest is expected on account of larger cultivation and better monsoon which can dent the inflationary upturns.

On the policy canvass, amendments to the crucial GST legislation were cleared by the Cabinet and the bill was pushed up for discussion in the Rajya Sabha (Upper House) where it was stuck. The Lok Sabha (Lower House) passed the Benami Property Bill, one more crucial step towards curbing black money.



US FED KEEPS THE KEY POLICY RATES UNCHANGED



In a cautious mode, the US Federal Reserve has left unchanged the target rate for the benchmark federal funds rate at 0.25% to 0.5%. Without making any specific references to the timing of the next hike, the Fed hinted at making gradual increases, depending on how the economic conditions evolve and international risks languish. It stated that near-term risks to the economy have subsided; however, it will continue to monitor inflation and global developments. It suggested that it hopes to see inflation reaching the targeted 2% level in the medium term.

In the labour market, non-farm payrolls rose by 287,000 jobs in June 2016 indicating a substantial pick up in hiring against rise of a meager 11,000 in May 2016.

BANK OF JAPAN (BOJ) KEEPS THE INTEREST RATE REGIME UNCHANGED WITH ENHANCED FISCAL STIMULUS, THE GOVERNMENT UNVEILS FISCAL STIMULUS TOO

Against the backdrop of Brexit and overall global slowdown and uncertainties, to ensure smooth functioning of the financial system, the BoJ decided to enhance its purchase of exchange traded funds so that their amount outstanding will increase at an annual pace of about 6 trillion against the previous pace of about 3.3 trillion yen. It also announced that it will increase the size of the Bank's lending programme to support growth in U.S. dollars to 24 billion USD from the previous size of 12 billion USD. Under the programme, the Bank lends financial support to Japanese firms' overseas



BANK OF JAPAN

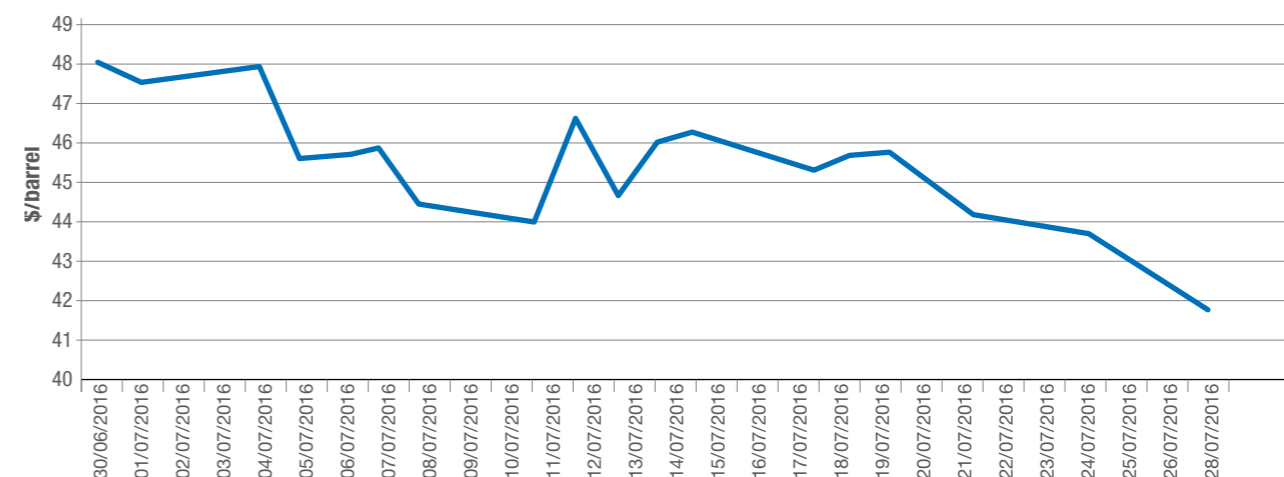
activities for a period of four years through financial institutions.

The Bank chose to stay in the negative interest rates regime with its 'Quantitative and Qualitative Monetary Easing' (QQE) initiatives, as the inflation stood below the targeted 2% level.

In a surprise move, complementing the efforts of the central bank, the Japanese government too announced a hefty \$265 billion stimulus package, of which almost half the amount will consist of spending by national and local governments while the rest would be loan programmes. The package has far exceeded the expectations and comprises nearly six percent the size of Japan's economy.

OIL PRICES FALL TO A NEAR 3-MONTH LOW

EUROPE BRENT SPOT PRICE



During July 2016, oil prices slipped by 13% falling to a 3 - month low of \$41.87/barrel. US oil stocks declined less than expected adding to oversupply. Volatility and price rises post the Brexit also seemed to have subsided, dragging the prices down during the month.

INDIA UPDATE



CABINET CLEARS AMENDMENTS TO THE GST BILL PUSHING IT FOR DISCUSSION IN THE RAJYA SABHA

GST Bill or The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014 On passing of the Bill, the said Act may be called the Constitution (One Hundred -----Amendment) Act, 2015.

HIGHLIGHTS OF THE BILL

- The Bill amends the Constitution to introduce the goods and services tax (GST).
- Parliament and state legislatures will have concurrent powers to make laws on GST. Only the Centre may levy an Integrated GST (IGST) on the inter-state supply of goods and services, and imports.
- Alcohol for human consumption has been exempted from the purview of GST. GST will apply to five petroleum products at a later date.
- The President shall, within sixty days from the date of commencement of the GST law, constitute the Goods and Services Tax Council. It will consist of the Union Finance Minister, Union Minister of State for Revenue, and state Finance Ministers. It will recommend rates of tax, period of levy of additional tax, principles of levy, special provisions to certain states, etc. The Council may decide about the modalities to resolve disputes arising out of its recommendations.
- Parliament may, by law, provide compensation to states for any loss of revenue from the introduction of GST, up to a five-year period.
- The Government of India may, where it considers necessary in the public interest, exempt such goods from the levy of tax under sub-section (1) of the Bill.
- Parliament may, by law, formulate the principles for determining the place of origin from where supply of goods takes place.

Sources: 1. http://rajyasabha.nic.in/rsnew/122nd_bill.pdf
2. PRS Legislative Research

The government has finally accepted the Congress' demand to drop the 1% inter-state tax from the Bill, while the states have also been supporting its removal from the Bill.

The states have supported the Centre's proposal on capping the tax rate in the Constitution and creating the GST Council.

The government has agreed to the states' demand of full compensation for revenue loss for five years. The original Bill provided for a graded compensation of 100% for the first three years, then 75% and 50% for the next two years, respectively.

The Centre is required to expedite clearing the Central and Integrated GST laws, while the states need to clear their GST laws so as to hit the 2017 date of commencement. Of late, the Centre has unveiled a model GST law and is awaiting feedback from stakeholders to give it a final shape, while technical work is in progress on the Goods and Services Tax Network.

Earlier, the Centre communicated to the states its proposal for sharing of powers in the administration of GST. It pleaded for the states' support in having one, single authority to deal with GST so as to enhance its effectiveness.

The Centre has prepared a detailed framework, wherein both the Centre and state tax administrations can deal with taxpayers without any threshold limit and without crossing each other's function areas, thus avoiding inconveniences to the industry. The Central Government does not support restricting the administration of businesses up to ₹1.5 crores to state tax authorities, while states have proposed that both states and the Centre should administer taxpayers above ₹1.5 crores. The Centre also seeks to administer Integrated GST on inter-state transactions. Under the proposed framework, the authority that initiates action only will be able to complete it for all three taxes, viz. state GST, central GST as well as Integrated GST.

The final stance of the states and how the Centre manages to make headway is crucial.

CABINET APPROVES THE PROPOSAL TO RAISE FOREIGN INVESTMENT IN STOCK EXCHANGES

In line with the Budget 2016–17 announcements, the cabinet approved the proposal to raise foreign investment in stock

exchanges to 15% from 5% on par with domestic institutions.

The move is expected to enhance the image of Indian bourses in terms of competitiveness, while also help in adapting to advanced technology and global best practices.



FISCAL DEFICIT DETERIORATES IN Q1 2016–17

India's fiscal deficit made up 61.1% of full year estimate at the end of the first quarter. This is worse than 51.1% observed a year ago, despite the absence of a thrust on capital spending as done during last year. The fiscal deficit made up ₹3.26 lakh crores during April–June 2016 and the rise is mainly attributed to enhanced revenue expenditure and tepid non-tax revenues received. Concerns have arisen related to meeting the fiscal deficit target.

The total capital spending minus the loans disbursed made ₹26,090 crores in Q1 2016–17, as against ₹41,000 crores in Q1 2015–16. Slower revenue growth and the upcoming pay commission outgoings kept the capital spending lower.

Tax revenues in Q1 2016–17 stood at ₹1.57 lakh crores, 14.9% of the budget estimates against 11.1% a year ago, but non-tax revenues, including interest receipts and dividend, stood lower at ₹23,484 crores, or 7.3% of BE against 17.8% of BE in Q1 last year.

PROBLEM AREAS NOTICED IN THE REVISED MAURITIUS TAX TREATY

In its first meeting, the committee examining India's revised tax treaty with Mauritius (Mauritius Tax Treaty) has noticed problem areas and ambiguities. Under the original treaty, short-term capital gains were not taxed in India, if the investments were made from Mauritius. While investors were free to choose where they wanted to pay tax – in India or Mauritius, they chose to pay in Mauritius as the country charged no tax. As per the renegotiated agreement, there is a grandfathering clause stating that there would not be any capital gains tax levied on equity transactions held prior to April 01, 2017, while short-term capital gains tax will be levied in India at half the rate prevailing during the transition period of two years from April 1, 2017, and the full rate thereafter.

Problem areas and ambiguities identified in the revised Mauritius Tax Treaty

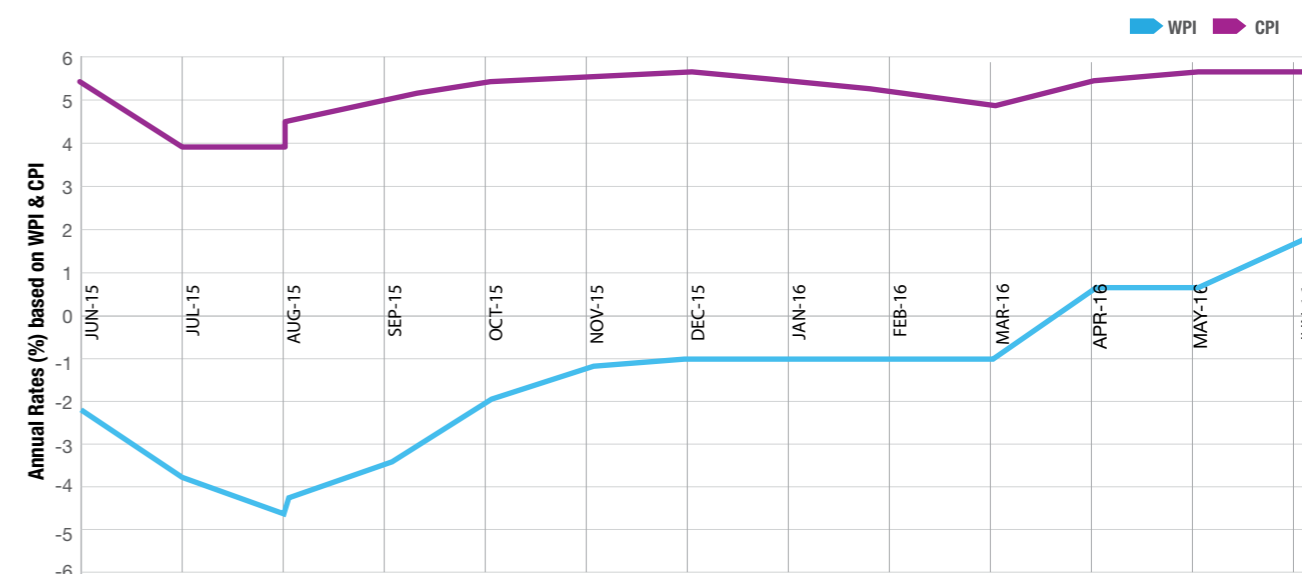
- i) How would a quasi-debt instrument like a compulsorily convertible security be treated if it is purchased before April 1, 2017, but converted and sold after that date?
- ii) Clarity is needed on tax implications wherein an investor buys stocks of company A before April 2017, receives shares of company B to which company A is merged after April 2017 under a share-exchange scheme and by virtue of the holding in company A, and if she then books capital gains by selling the shares of B in 2018.
- iii) Will the transaction invite levying of capital gains tax if an investor deposits securities like ADR and GDR (purchased before April 2017) with the custodian bank to obtain shares after the cut-off date and then sells the stocks in 2019?
- iv) Will capital gains tax be levied on sale of bonus shares issued post April 2017 against stocks that were bought before the cut-off date?

The committee is expected to submit its recommendations to the Finance Ministry by September 2016.



INFLATION ON A RISING TRACK – RETAIL INFLATION AT A 22-MONTH HIGH WHILE WHOLESALE INFLATION EDGES FURTHER IN THE POSITIVE ZONE TO A 20-MONTH HIGH

INFLATION



Sources: Ministry of Commerce and Industry, RBI

Retail inflation has attained a 22-month high in June 2016 with the consumer price index (CPI) inching up to 5.77% YOY in June from 5.76% in the previous month and against 5.40% witnessed in June 2015. This is mainly attributed to a rise in food inflation that rose to 7.79% YOY in June 2016 from 7.47% last month and 5.48% in June 2015. A drastic increase in vegetable prices has contributed to food inflation.

Rural retail inflation too rose to 6.20% in June YOY from 6.45% last month and from 6.07% in June 2015.

Wholesale inflation as measured by the WPI stood at 1.62% YOY in June 2016 against 0.79% last month and -2.13% in June 2015. Inflation in primary articles rose 5.50% in June 2015 YOY from -0.48% last year, while that of manufactured goods rose 1.17% YOY in June 2016 from -0.77% in June

2015. Rise in food inflation, mainly the rise in vegetable prices prompted a rise in wholesale inflation.

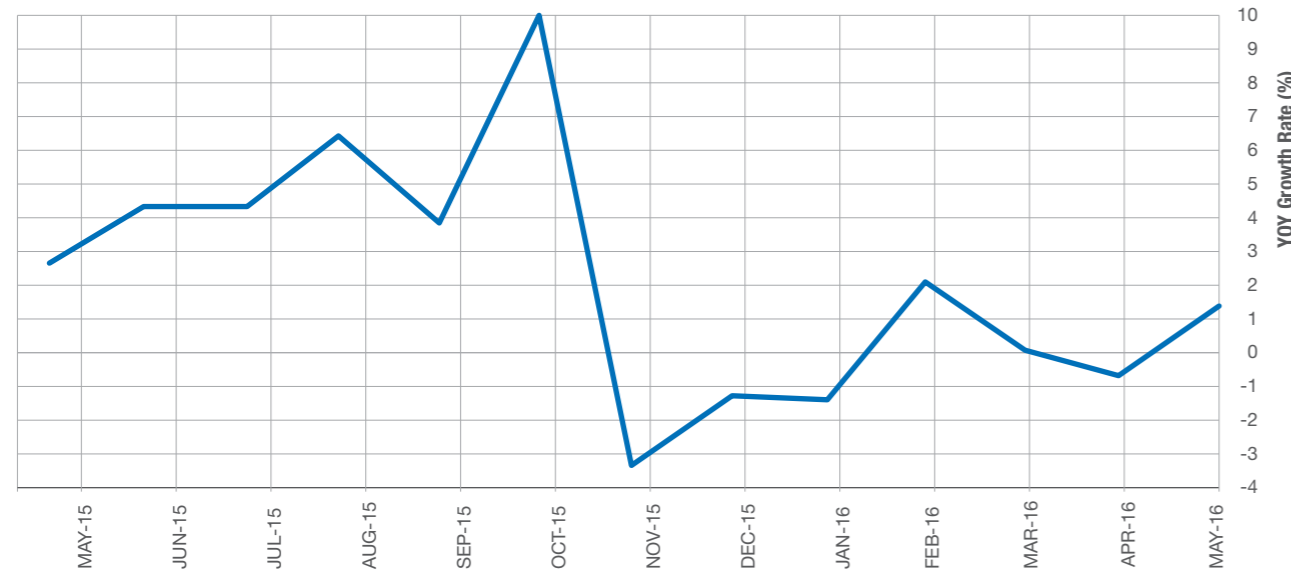
Wholesale food inflation rose drastically to 8.18% YOY from 3.12% a year ago, led by potatoes and pulses, with the prices rising by 64.48% and 26.61% respectively, from a year ago. Also a rise of 37.4% in the prices of cereals during June added to the upside in wholesale inflation.

The trend suggests the scanty chances of RBI attempting any rate cut soon. We expect the consumer inflation to stay in the range of 5.75%–6% in the coming months. Wholesale inflation too is expected to continue the uptick. The outturn of the monsoon and stable global commodity prices could help the outlook. Manufacturing prices too may stay crucial.



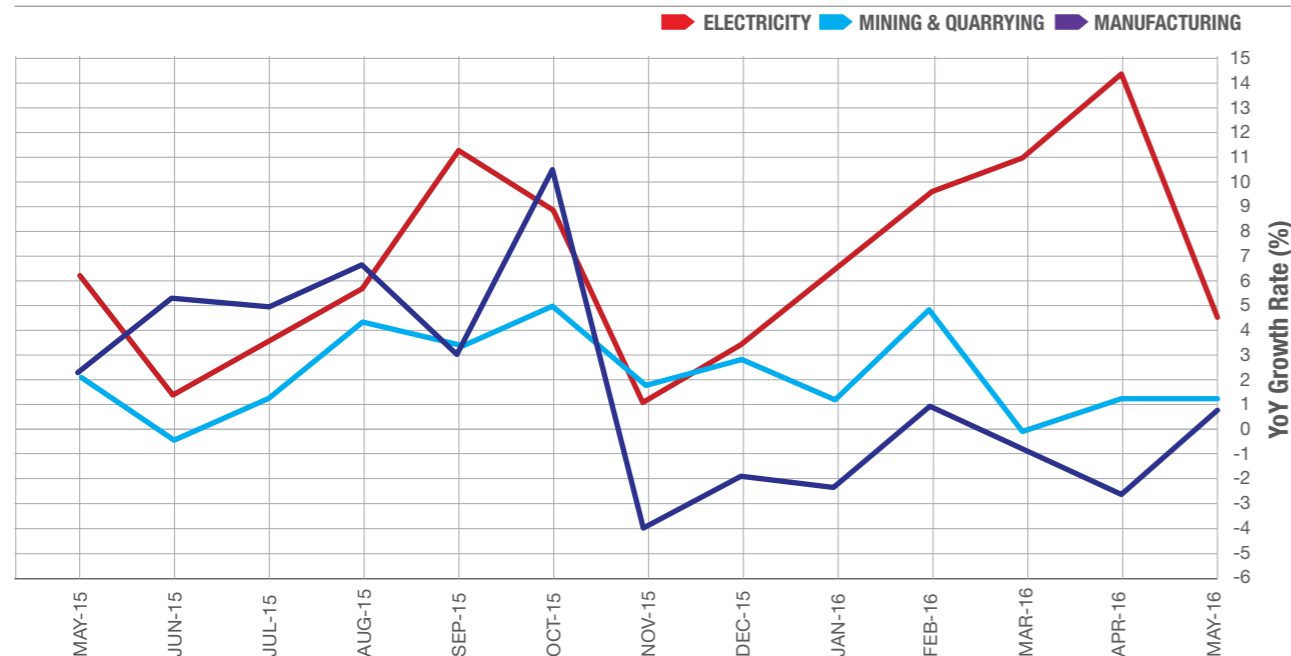
INDUSTRIAL GROWTH RECOVERING

IIP (GENERAL INDEX)



Sources: Department of Industrial Policy & Promotion (DIPP), GOI

IIP (SECTOR WISE)



Source: Ministry of Statistics and Programme Implementation & RBI

Industrial production picked up in May after a slump since February 2016. The Index of Industrial Production (IIP) rose 1.2% in May 2016 YOY from -0.8% last month. However, it is much lower than 2.5% observed in May 2015.

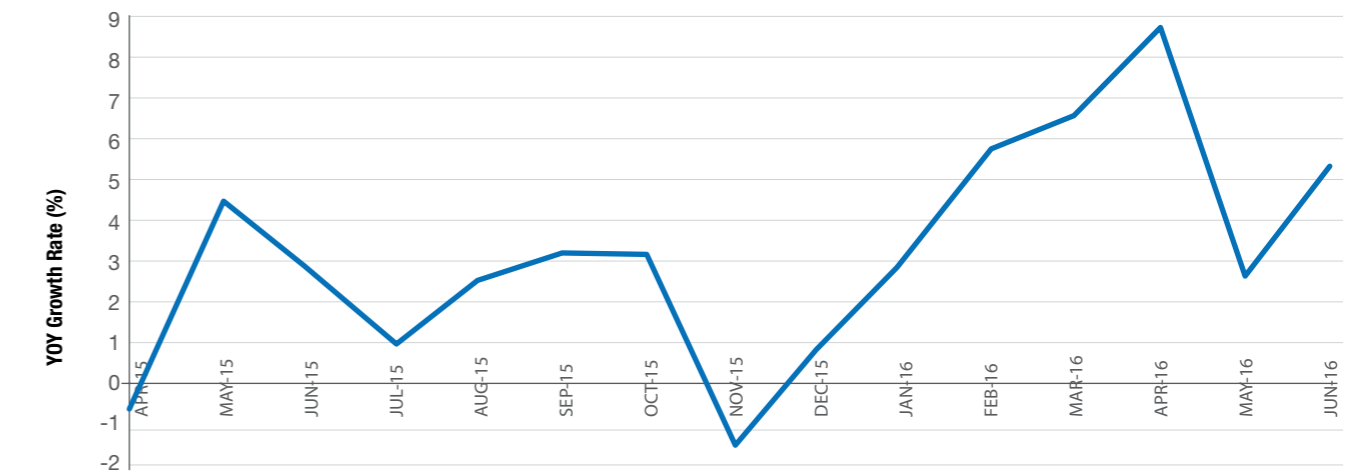
Manufacturing output grew a tepid 0.7% YOY in May 2016 against 2.1% in May 2015. In May 2016 electricity stood at 4.7% YoY against 6% a year ago, while mining output stood at 1.3% YOY against 2.1% last year.

Consumer goods output rose 1.1% in May. Consumer non-durables output fell 2.2% indicating a poor rural demand. Passenger cars' sales too slipped 5.18% in June after staying slightly tepid in May.

Industrial production is likely to stay subdued in the near term, though a satisfactory monsoon may help recovery in the coming months by enhancing rural demand. Monsoon rains could improve rural demand. As on July 12, the total rainfall turned 4% above normal.

CORE SECTOR GROWTH RECOVERING

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry

After witnessing a fall since April 2016, India's core sector is seen recovering from June. In June 2016, the Index of Eight Core Industries (which has a 38% weightage in IIP) rose 5.2% higher YOY against 3.1% in June 2015. The rise is attributed to a pick up in coal, fertilizers and cement output, though a higher output in fertilizers is attributed to the sowing season of the kharif crop. Cumulative growth of the sector during April to June, 2016-17 made up 5.4%.

The maximum rate of growth in production has been observed in coal (12%), followed by cement (10.3%) and fertilizers (9.8%). The growth in the natural gas sector continues to stagnate (-4.5%) the most. This is followed by a fall in the production of crude oil (-4.3%). There is a sharp rise in growth of electricity generation (8.1%) against last month's 4.6%. Refinery products output has improved 3.5% from 1.2% last month.

Rise in cement production indicates a revival of activity in the real estate sector.

The core sector growth is likely to pick up with the expected better outturn of monsoon. A revival in investment cycle and sentiments post monsoon could help the sector.

EXPORTS RECORD A POSITIVE GROWTH AFTER 18 STRAIGHT MONTHS OF DECLINE

India's exports record a positive growth of 1.27%, thus indicating a pick-up from a dip of 18 straight months. In May 2016, exports made up \$22,572 mn against \$22,289 mn in June 2015. The cumulative value of exports during April-June 2016-17 was \$65,311 mn against \$66,690 mn last year, thus making a negative growth of 2.07%.

During the month, imports too stood low. Imports fell by 7.33% YOY against a fall of 13.6% last month. Imports stood at \$30,688 mn in June 2016 against \$33,116 mn in June 2015. Cumulatively, the value of imports for the period April-June 2016-17 stood at \$84,545 mn against \$98,196 during the same period last year.

Oil imports during June 2016 fell 16.43% YOY to \$8,676 mn, while non-oil imports were valued at \$23,436 mn, 4.7% lower YOY. Gold imports fell by 38.54% YOY to \$1,208 mn.

The trade balance in services (i.e. net export of services) for May 2016 stood at \$5,538 mn.

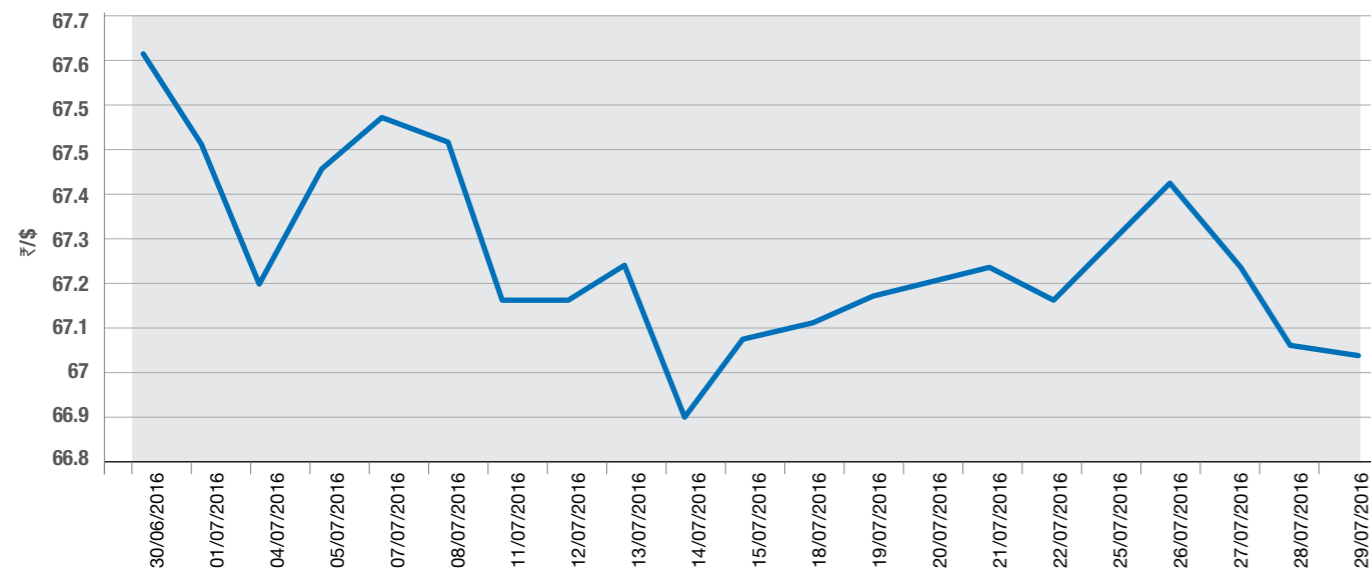
The trade deficit (for merchandise and services) during April-June 2016 stood at \$7,971, lower by 62% against the \$2,098 mn recorded during April-June 2015.

Though the exports have picked up during June, sustaining the trajectory is important. Exports may face risk from overall global slowdown, including slow Chinese growth.



CURRENCY

RUPEE & USD

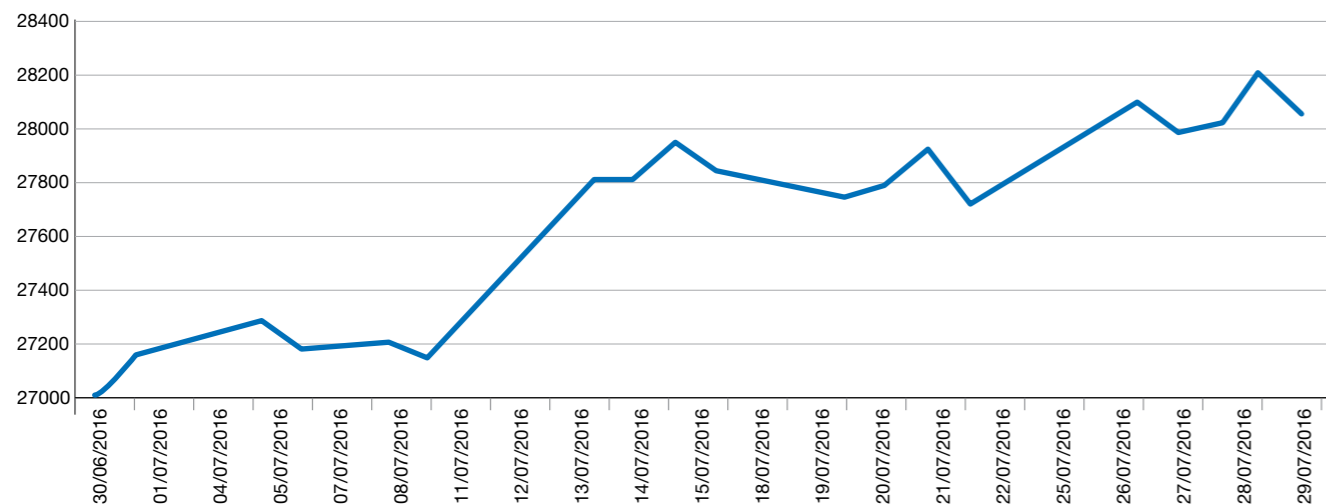


Source: RBI

During July 2016, the rupee strengthened by 0.86% against the dollar.

SENSEX

S&P BSE SENSEX



Source: BSE

During July 2016, the Sensex gained 3.9%.



INDIA

INFRASTRUCTURE & REALTY UPDATE

LOK SABHA PASSES THE BENAMI PROPERTY BILL

The Lok Sabha has passed the Benami Transactions (Prohibition) Amendment Bill, 2015 which sought to amend the Benami Transactions Act, 1988, which was never operationalised. The move would help prohibit benami transactions. The Bill is one of the initiatives taken by the government to curb black money.

The Bill provides for the confiscation of property held in the names of others. Further, it not only provides a penalty for entering into benami transactions but also stipulates rigorous imprisonment of up to seven years and a fine that may extend to 25% of the fair market value of the benami property.

The Bill has widened the definition of benami transactions to cover all cases of proxy property ownership. The Bill defines a benami transaction as one where property provided for or paid by one person is held by or transferred to another person. It has also added to the list of benami transactions and has included in it those fictitious transactions where the owner is unaware or denies knowledge of the ownership of property or the person providing the consideration for the property is not traceable.

Those declaring their benami property under the income declaration scheme ending on September 30 will get immunity under the Benami Act.

CENTRE ANNOUNCES AUCTION OF SURPLUS PSU LANDS

The Central Government has announced its plans to auction surplus PSU lands and is giving a final shape to the policy; which would include guidelines for identification and disposal of surplus land with PSUs. The guidelines would specify whether the land should be given directly to government ministries or agencies, and if these agencies do not require the land, then it will be disposed of through auctioning. The policy would apply to all state-run firms. A portal set up by the Ministry of Urban Development would act as a repository of all the related information on government and PSU lands.

The move follows an announcement by the Finance Minister in the budget speech to encourage PSUs to divest their individual assets like land and manufacturing units. It is also seen as a step towards monetizing state-owned land resources, as suggested by a committee led by former Finance Secretary, Mr Vijay Kelkar in 2012.

APPENDICES

1. INFLATION

	WPI	CPI
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
Sep-15	-4.59	4.41
Aug-2015	-5.06	3.66
Jul-2015	-4.00	3.69
Jun-2015	-2.13	5.40

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
May 2016	1.2	1.3	0.7	4.7
Apr 2016	-0.8	1.4	-3.1	14.6
Mar 2016	0.1	-0.1	-1.2	11.3
Feb 2016	2.0	5.0	0.7	9.6
Jan 2016	-1.5	1.2	-2.8	6.6
Dec 2015	-1.3	2.9	-2.4	3.2
Nov 2015	-3.4	1.9	-4.7	0.7
Oct 2015	9.9	5.2	10.6	9.0
Sep 2015	3.7	3.5	2.7	11.4
Aug 2015	6.3	4.5	6.6	5.6
Jul 2015	4.3	1.3	4.8	3.5
Jun 2015	4.2	-0.4	5.2	1.2
May 2015	2.5	2.1	2.1	6.0

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
Jun-16	12.0	-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	9.0	6.0	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	0.0	-1.3
Oct-15	6.3	-2.1	-1.8	-4.4	16.2	-1.2	11.7	8.8	3.2
Sep-15	1.9	-0.1	0.9	0.5	18.1	-2.5	-1.5	10.8	3.2
Aug-15	0.4	5.6	3.7	5.8	12.6	-5.9	5.4	5.6	2.6
Jul-15	0.3	-0.4	-4.4	2.9	8.6	-2.6	1.3	3.5	1.1
Jun-15	5.4	-0.7	-6.0	7.5	5.8	4.9	2.9	1.2	3.1

Source: Ministry of Commerce & Industry



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