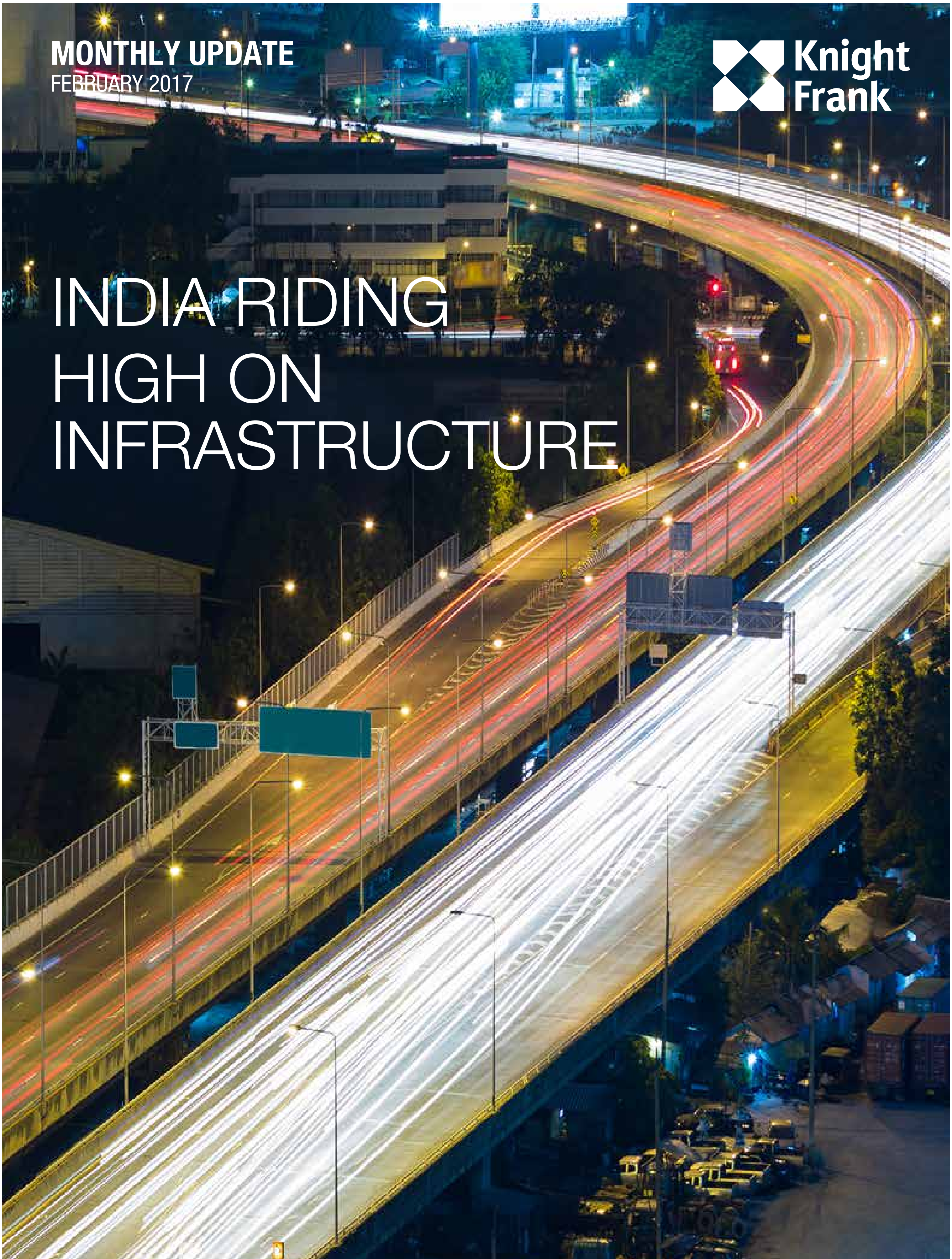
MONTHLY UPDATE
FEBRUARY 2017

Knight Frank

INDIA RIDING HIGH ON INFRASTRUCTURE



GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE & REALTY UPDATE

Recent events pointed at a precariously poised political environment in the west as the UK edged closer to exiting from the European Union while the central banks in the USA and the UK chose to keep interest rates unchanged.

Contrary to popular consensus, the Indian economy was not adversely impacted by the demonetisation drive as the CSO's advance estimates show that India's GDP clocked a growth rate of 7% in Q3 2016. Acknowledging sweeping reforms such as the GST Bill and demonetisation undertaken by the government, the IMF has forecasted a 7.2% GDP growth estimate for FY18, albeit tempering their FY17 estimate to 6.6%.

The RBI decided to leave key interest rates steady, in sync with the neutral stance of the monetary policy aiming to limit consumer price index (CPI) inflation at 5% by the end of the current financial year.

India's industrial production took an expected hit in December 2016 due to the demonetisation drive and the core sectors, which contribute 38% to the total industrial production, trended in sync with the overall industrial production. Exports, however, continued to rise for the fifth consecutive month, further improving the overall trade balance. The government's favourable policies and efforts to promote a conducive environment for overseas investors have borne fruit, as foreign direct investments rose 22% YoY in the first three quarters of the financial year.

The government plans to invest INR 3 lakh crore to construct and connect economic corridors to logistics hubs involving the construction of a massive 35,000 km of highways and feeder routes. Further giving a boost to infrastructure creation and particularly the construction of the East Coast Economic Corridor, the Indian government and the Asian Development Bank (ADB) signed a USD$375 million pact for loans and grants to develop the 800 km Visakhapatnam–Chennai Industrial Corridor.

UK PARLIAMENT'S HOUSE OF COMMONS VOTES IN SUPPORT OF THE BREXIT PROCESS, THE BILL NOW FACES SCRUTINY IN THE UPPER HOUSE AND RETURN TO THE HOUSE OF COMMONS

Members of the House of Commons voted in favour of the bill without amending it, which would give Prime Minister Theresa May the authority to invoke Article 50 of the Lisbon Treaty – the formal process of leaving the European Union (EU). The bill now awaits clearance in the House of Lords, as it faces scrutiny and proposals for amendments there. Hence, the bill is expected to return to the House of Commons for their approval.

The UK government published a White Paper that discusses its negotiating plans for moving out from the European Union while also furnishing details of the government's negotiating objectives for Brexit. It states that the final Brexit deal will be presented before Parliament for its ratification and that there would be a new tariff-free trade agreement with the EU post Brexit.

BANK OF ENGLAND KEEPS THE KEY INTEREST RATES UNCHANGED AT 0.25%

The Bank of England in its latest policy meet maintained the Bank Rate at 0.25%. It also rendered unchanged its fiscal stimulus programme of corporate bond purchases, financed by the issuance of the central bank reserves, totaling up to £10 billion. It voted unanimously to maintain the stock of the UK government bond purchases at £435 billion.

The Bank reiterated that the direction of its monetary policy depends on the conditions of demand and supply in the economy, the exchange rate, and thereby the inflation.

The Bank raised its forecast for growth in 2017 to 2.0% while projecting growth of 1.6% in 2018 and 1.7% in 2019. The rise in growth forecast is attributed to the fiscal stimulus in the Chancellor's Autumn Statement, improvement in global activity, global equity prices and in credit conditions for households which boosted domestic demand.

The Bank expected inflation to rise to 2.8% in the first half of 2018, before sliding to 2.4% in three years' time. The Bank stated that the monetary policy stance would depend on the economic outlook and would move either ways to help inflation reach the 2% target.

THE US FED KEEPS THE KEY INTEREST RATES UNCHANGED

The US Fed in its latest policy meet rendered the target range for the federal funds rate at 0.5% to 0.75%. The Fed observed that since the Fed met last in December 2016, the labour market firmed up while the economic activity showed expansion at a moderate rate. Household spending too continued to rise at a moderate pace while business-fixed investment stayed muted. Inflation improved in the last few quarters; however, it still falls short of the Committee's long run objective of 2%. The Fed expects the inflation to return to 2% in the medium term given that the economic activity continues to expand gradually and labour conditions strengthen coupled with gradual adjustments in the monetary policy.

The Fed stated that its stance remains accommodative though it would continue to monitor closely the inflation levels and economic conditions, including the labour market conditions and financial and international developments.

THE IMF REDUCES GROWTH ESTIMATES FOR INDIA TO 6.6% IN 2017 ON DISRUPTIONS FROM DEMONETISATION

The International Monetary Fund (IMF) projected that the gross domestic product (GDP) growth in India would slow to 6.6% in FY17. The Fund cited muted private demand and consumption and business activity prompted by demonetisation as adversely impacting growth.

The Fund, however, forecasted a higher rate of growth of 7.2% in FY18 for India. While appreciating the reforms process including the GST initiative undertaken by the government, it cited risks to growth in India from fiscal challenges, sluggish private investment, large bad debt of banks, and global financial market volatility. It recommended policy vigilance, capital buffers in the banking sector, agricultural reforms and a higher interest rate regime for India to pick up the growth momentum.

INDIA'S GDP GREW 7% IN Q3 2016 , INDICATES THE ADVANCE ESTIMATES

The recent data released by the Central Statistics Office indicates that the Indian economy grew 7% in Q3 2016, the quarter that saw the government announcing the demonetisation decision. Though this is down from 7.8% (first revised estimates released on January 31), the growth has stayed intact despite demonetisation, though it is lower than the 7.4% recorded in the previous quarter. The gross value added (GVA) stood at 6.6%.

Better performance by the agriculture and allied sectors, the government's efforts at boosting consumption, an improvement in mining and manufacturing outputs, and a seasonal rise in private investments helped the economy sustain growth despite demonetisation.

THE RBI RENDERS KEY INTEREST RATES STEADY

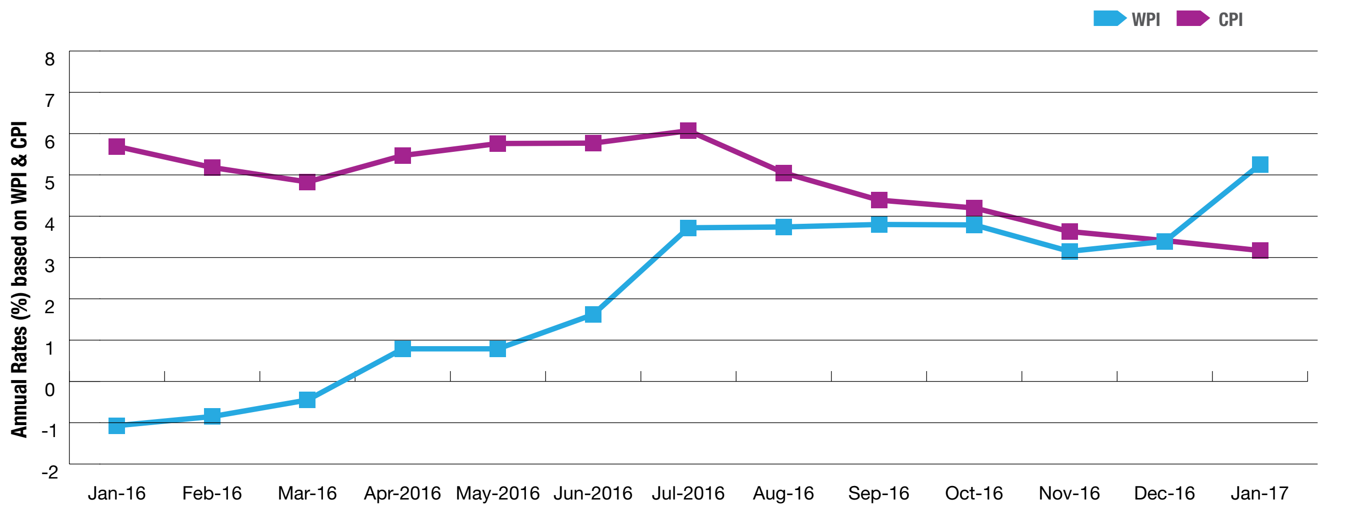
The RBI kept the repo rate under the liquidity adjustment facility (LAF) unchanged at 6.25% in its latest bi-monthly policy meet disappointing the expectations from the industry, bankers and several other stake holders. Consequently, the reverse repo rate under the LAF also stood unchanged at 5.75%.

The decision is in sync with the neutral stance of monetary policy aiming to achieve the target of the consumer price index (CPI) inflation at 5% by Q4 2016–17 and the medium-term target of 4% within a band of +/- 2%. The key considerations underlying the decision are the global growth picking up moderately and fiscal expansion being expected in the US. The domestic considerations included the retail inflation softening for the fifth straight month that prompted deflation in the prices of vegetables and pulses. However, the Bank also considered that excluding food and fuel, inflation has stood rigid at 4.9% since September.

The Bank's projection for gross value added (GVA) growth for 2016–17 stands at 6.9% with evenly balanced risks, while it expects growth to rise in 2017–18 on revival of demand after the demonetisation effect fades, expected pick-up in economic activity in cash-intensive and also the likely easing of bank credit conditions.

CONSUMER INFLATION FALLS TO 3.17% IN JANUARY, WHOLESALE INFLATION TAKES AN UPTICK

INFLATION



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

Consumer inflation, as measured by the consumer price index (CPI), slipped to 3.17% year-on-year (YOY) in January against 5.69% YOY in the same month last year. This is the lowest CPI inflation since January 2012 when India started putting out consumer inflation numbers. Consumer food inflation stood at 0.53% YOY against 1.37% in December against 6.85% YOY last year.

The fall in retail inflation is prompted by a fall in food inflation, which was in turn led by low inflation in vegetables. Core CPI inflation, excluding food and beverages and fuel and light, however, rose to 5.1% in January 2017 from 4.9% in December 2016. Inflation in vegetables rose slightly to -15.6 YOY from -14.6 in the previous month while that in fruits rose to 5.8% from 4.74% in the previous month. Inflation in pulses dropped to -6.62% from -1.57% in the previous month.

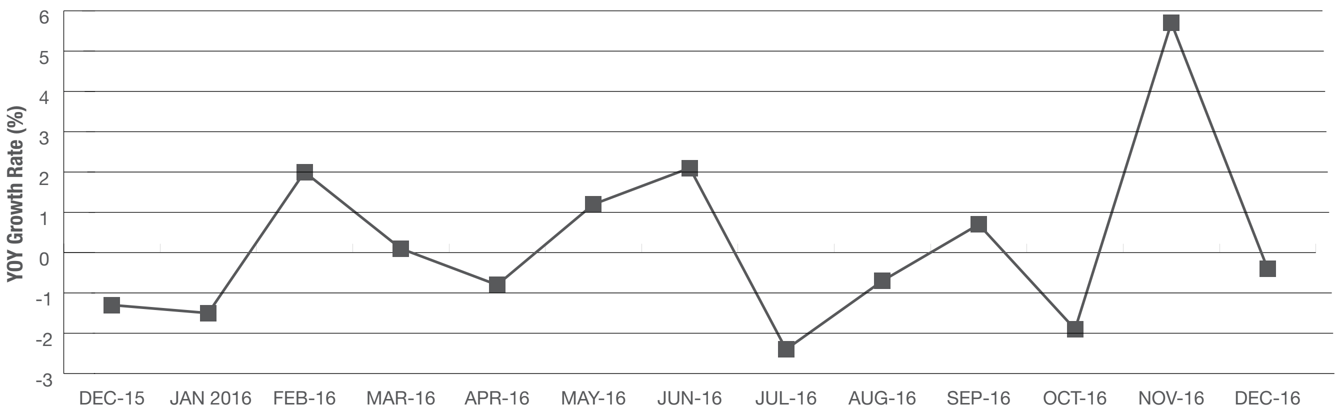
Wholesale inflation, as measured by the wholesale price index (WPI), for January rose to 5.25% against 3.39% in December 2016 and against -1.07 in January 2017. The core wholesale inflation jumped to a 28-month high of 2.67%. The uptick in wholesale inflation is led by the rise in fuel and an adverse base effect.

The WPI inflation in manufactured products rose to 3.99% in January from 3.6% in the previous month, while that in food inflation stood in the negative territory (-0.56%) for the second month in a row. Food inflation was at 6.46% in the same month last year.

Consumer inflation can be expected to inch up in the coming months as the base effect starts fading. This will also be helped by the seasonal rise in prices of fruits and vegetables. Lower commodity prices are expected to lead WPI downwards in the coming months.

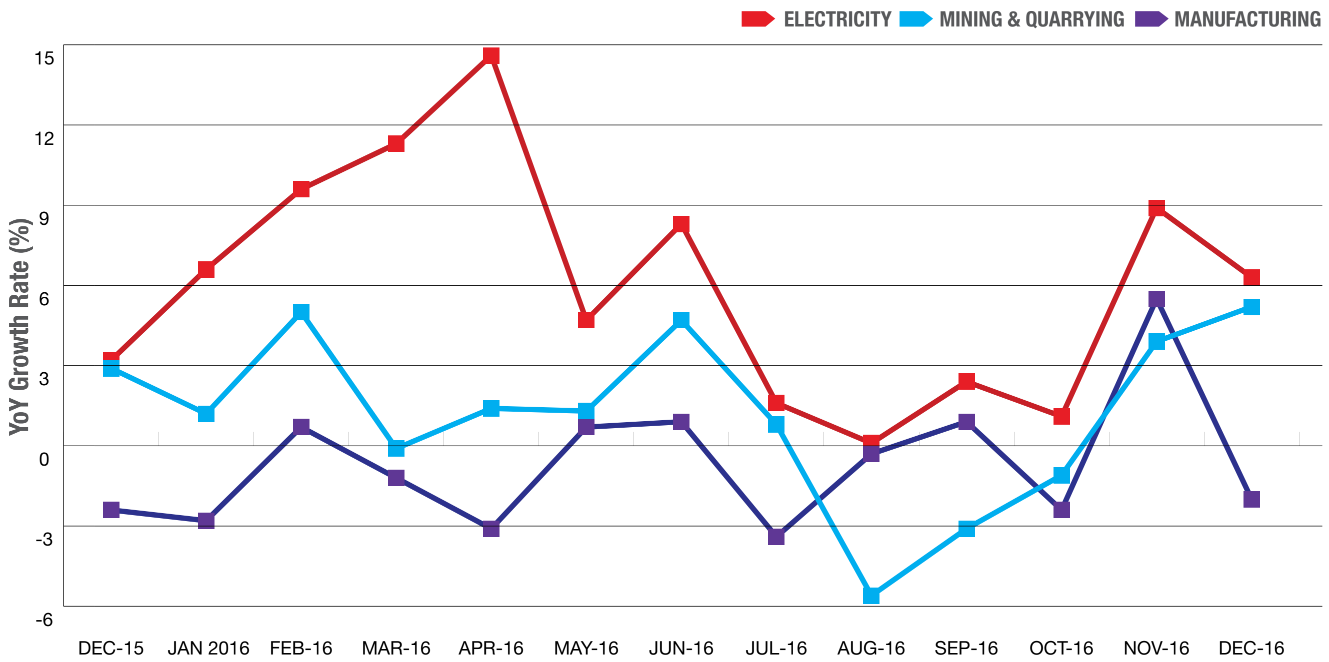
INDUSTRIAL PRODUCTION SLIPS IN DECEMBER 2016

IIP (GENERAL INDEX)



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

IIP (SECTOR WISE)



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

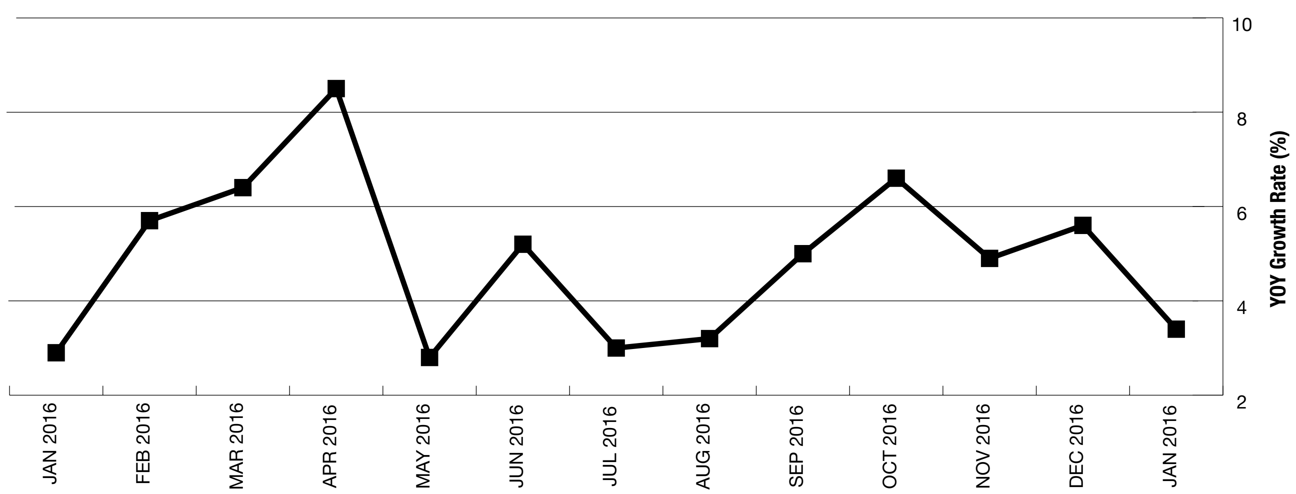
India's industrial production fell 0.4% in December 2016 taking a hit from muted activity in the industrial sector post the demonetisation induced on November 08 2016. It underlines the sluggishness in the economy.

The mining sector recorded a growth of 5.2% YOY during December against 2.8% last year. The growth in manufacturing dropped 2% YOY during the month against a drop of 1.9% last year, while the electricity output rose 6.3% during the month against a rise of 3.2% last year.

Slower manufacturing is major concern of the industrial sector. The industrial sector is expected to stay somber for a few months until the effects of demonetisation fade completely. It will also stay influenced by global demand, which though picking up is still muted.

CORE SECTOR GROWTH DROPS TO A FIVE-MONTH LOW

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry, Government of India

The core sectors, which contribute 38% to the total industrial production trended in sync with the overall industrial production. The growth of the eight core sector industries dropped to a five-month low of 3.4% in January 2017 against 5.7% in January 2016. The fall in growth is led by poor growth in output of refinery products (-1.5%), fertilizer (-1.6%) and cement (-13.3%). The cumulative growth of the sector during April 2016–January 2017 rose 4.8% against 2.9% growth in the corresponding period in the previous financial year.

The growth in natural gas output stood at 11.9% followed by steel (11.4%), coal (4.8), electricity (4.8%) and crude oil (1.3%). The growth in the infrastructure sector is recorded to be the lowest since August 2016.

Output in the core sector industries is expected to stay sluggish for a couple of months. A revival in the business cycle coupled with pick up in private investment can help the sector, once the expenditure from the current budgeting starts feeding into the sub sectors.

EXPORTS RISE CONTINUES; TRADE BALANCE IMPROVES

For the fifth month in a row India's exports rose 4.3% YOY in January 2017 to $22.1 billion. 17 out of the 30 exporting sectors displayed an increase in shipments. The rise in exports is attributed to a revival of demand in the United States, European Union and Japan. The value of exports also stood higher on account of higher crude prices. Exports of engineering goods improved, while gems and jewelry, and drugs and pharmaceuticals dropped.

Imports rose 10.7% YOY to $31.9 billion during the month. Gold imports fell 30% to $2.04 billion in January 2017. Oil imports rose drastically, a 61% spike, to $8.14 billion while non-oil imports stood almost stable at $23.8 billion. Non-oil, non-gold imports rose 4.2% in January, in line with 4.4% rise in the previous month, driven by coal imports.

The merchandise trade deficit during April 2016–January 2017 stood at $86.3 billion, 19.82% lower than that of $107.7 billion in the same period last year.

The net export of services during April–December 2016–17 valued $4.8316 billion, lower than that of $5.3557 billion during April–December 2015–16.

The overall trade balance (including merchandise and services) stands improved. The overall trade deficit for April–January 2016–17 stands at $38.073 billion, 29.7% than that of $54.187 billion during April–January 2015–16.

External trade is likely to stay buoyant on a pick-up of external demand. However, the rise in crude prices is a major factor adding to export values. A rise in value along with a rise in overall export items through diversification would take some time.

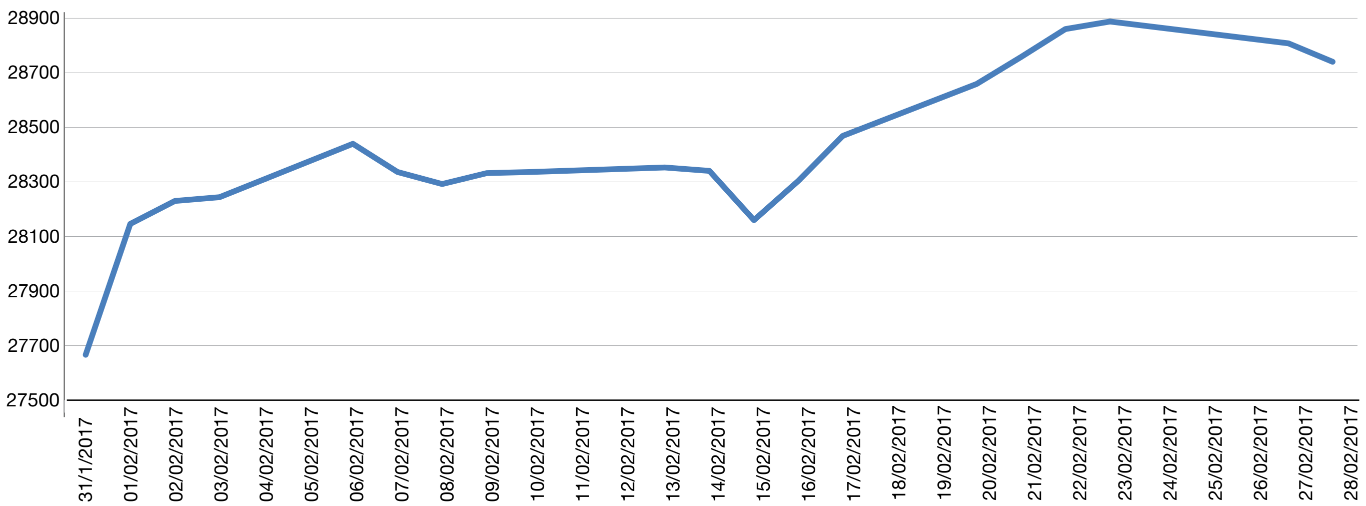
FOREIGN DIRECT INVESTMENTS (FDI) RISE 22% DURING APRIL–DECEMBER 2016

When economic disturbances and uncertainty led to a worldwide fall in investment flows and flight of capital from the emerging markets, FDI in India during the April–December 2016 period rose 22% YOY to $35.8 billion from the year earlier. By the end of the fiscal year end, the inflows are expected to cross $40 billion. Total FDI (including flows into unincorporated bodies reinvested earnings and other capital) during the period stood at $48 billion against $55.5 billion during the entire last fiscal year. The services sector attracted 18% of the total FDI in the nine-month period, followed by construction development, telecommunications, computer hardware and automobiles.

The government's efforts to promote a conducive environment for overseas investors and favourable policies have helped attract the larger capital inflows in India.

SENSEX

S&P BSE SENSEX

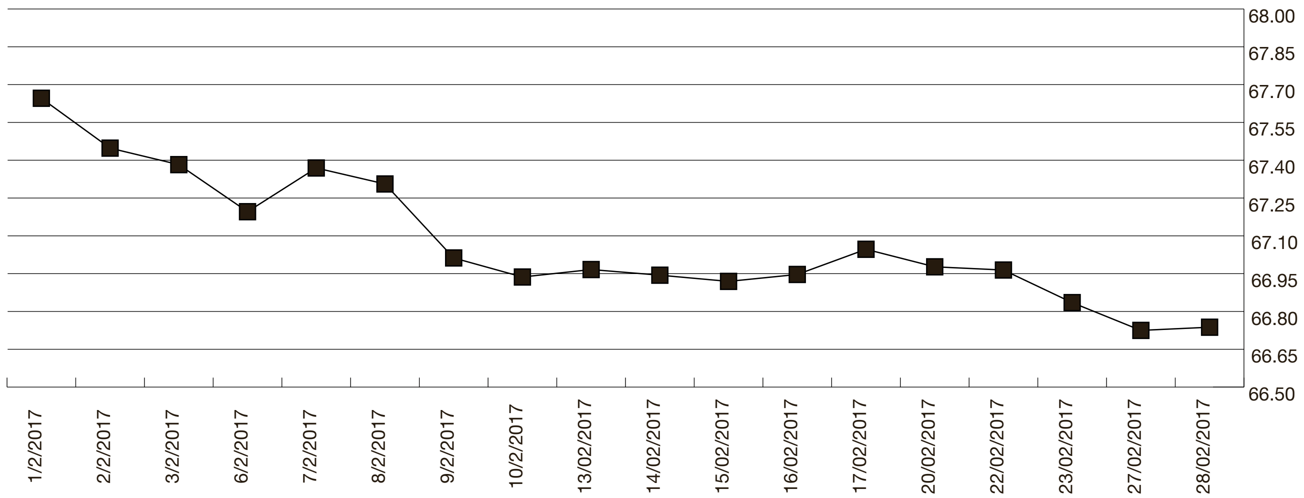


Source: BSE

The Sensex gained by almost 4% during the month of February 2017.

CURRENCY

INR/USD



INDIA, ADB SIGN $375 MILLION LOAN PACT FOR INDUSTRIAL CORRIDOR

Giving a boost to infrastructure creation and particularly the construction of the East Coast Economic Corridor, India and ADB signed USD $375 million pact for loans and grants to develop the 800 ¬km Visakhapatnam ¬Chennai Industrial Corridor. This constitutes the first phase of a planned 2,500¬ km East Coast Economic Corridor. This pact is part of the approval of USD $631 million in loans and grants by ADB announced last year.

Further, the ADB also signed a USD $5 million grant from the multi¬-donor Urban Climate Change Resilience Trust Fund, managed by ADB to build climate-change-resilient infrastructure.

It is estimated that by 2025, the annual industrial output along the corridor will rise to USD $64 billion from about USD $16 billion in 2015, if investment opportunities are explored to their fullest.

GOVERNMENT TO DEVELOP ECONOMIC CORRIDORS AND LOGISTICS PARKS

With an aim to boost logistics efficiency, the government announced that the National Highways Authority has been entrusted with the implementation of projects, including economic corridors and logistic parks on highways at identified location. The plan is to construct an Economic Corridor comprising 35,000 km of highways for faster movement of freight, costing `3 ¬lakh crore to develop. This would include developing economic corridors with a length of about 21,000 km along with developing 14,000 km of feeder routes that would facilitate connectivity to the logistic hubs. The economic corridors include Mumbai¬–Cochin–¬Kanyakumari, Bangalore–Mangalore, Hyderabad–¬Panji and Sambalpur–¬Ranchi. The project would be undertaken in phases and awarded under various modes that include build, operate, transfer (BOT) toll mode and the newer hybrid annuity mode (HAM).

NHAI PLANS TO FLOAT BIDS FOR MONETISING 10 NATIONAL HIGHWAY PROJECTS SOON

NHAI has announced plans to float bids for monetising 10 National Highway projects by April . This is in the backdrop of the government's announcement authorising NHAI to monetise public- funded highway projects. Ten such projects out of a basket of 75 have been identified for monetization, while investors like Canadian Pension Fund, Abu Dhabi Investment Fund and others have expressed interest.

The estimates indicate that monetisation of public-¬funded highway projects would initially fetch funds worth `80,000 to `1 lakh crore for the government. Those are planned to be used for funding future development and operation and maintenance of highways in the country.

APPENDICES

1. INFLATION

	WPI	CPI
Jan-17	**5.25**	**3.17**
Dec-16	3.39	3.41
Nov-16	3.15	3.63
Oct-16	3.79	4.2
Sep-16	3.8	4.39
Aug-16	3.74	5.05
Jul-2016	3.72	6.07
Jun-2016	1.62	5.77
May-2016	0.79	5.76
Apr-2016	0.79	5.47
Mar-16	-0.45	4.83
Feb-16	-0.85	5.18
Jan-16	**-1.07**	**5.69**
WPI Base Year = 2004–05, CPI Base: 2012 = 100		

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

2. IIP

INDEX OF INDUSTRIAL PRODUCTION – GROWTH RATE				
	General Index	Mining & Quarrying	Manufacturing	Electricity
Dec-16	**-0.4**	**5.2**	**-2**	**6.3**
Nov-16	5.7	3.9	5.5	8.9
Oct-16	-1.9	-1.1	-2.4	1.1
Sep-16	0.7	-3.1	0.9	2.4
Aug-16	-0.7	-5.6	-0.3	0.1
Jul-16	-2.4	0.8	-3.4	1.6
Jun-16	2.1	4.7	0.9	8.3
May-16	1.2	1.3	0.7	4.7
Apr-16	-0.8	1.4	-3.1	14.6
Mar-16	0.1	-0.1	-1.2	11.3
Feb-16	2	5	0.7	9.6
Jan 2016	-1.5	1.2	-2.8	6.6
Dec-15	**-1.3**	**2.9**	**-2.4**	**3.2**

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

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**
Weight	**4.379**	**5.216**	**1.708**	**5.939**	**1.254**	**6.684**	**2.406**	**10.316**	**37.903**
Jan 2016	**4.8**	**1.3**	**11.9**	**1.5**	**1.6**	**11.4**	**13.3**	**4.8**	**3.4**
Dec 2016	6.4	-5.4	-1.7	2	2.4	5.6	0.5	10.2	**5.6**
Nov 2016	-1.6	-3.2	-1.4	15.1	0.8	16.9	6.2	2.8	**4.9**
Oct 2016	-5.8	-4.1	-5.5	9.3	2	16.3	5.5	2.2	**6.6**
Sep 2016	-9.2	-3.9	-5.7	3.5	5.7	17	3.1	0.1	**5**
Aug 2016	5.1	-1.8	3.3	13.7	-4.3	-0.5	1.4	1.6	**3.2**
Jul 2016	12	-4.3	-4.5	3.5	9.8	2.4	10.3	8.1	**3**
Jun 2016	5.5	-3.3	-6.9	1.2	14.8	3.2	2.4	4.6	**5.2**
May 2016	-0.9	-2.3	-6.8	17.9	7.8	6.1	4.4	14.7	**2.8**
Apr 2016	1.7	-5.1	-10.5	10.8	22.9	3.4	11.9	11.3	**8.5**
Mar 2016	3.9	0.8	1.2	8.1	16.3	-0.5	13.5	9.2	**6.4**
Feb 2016	**9.1**	**-4.6**	**-15.3**	**4.8**	**6.2**	**-2.8**	**9**	**6**	**5.7**
Jan 2016	**6.1**	**-4.1**	**-6.1**	**2.1**	**13.1**	**-4.4**	**3.2**	**2.7**	**2.9**

Source: Ministry of Commerce & Industry

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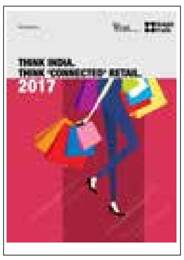

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