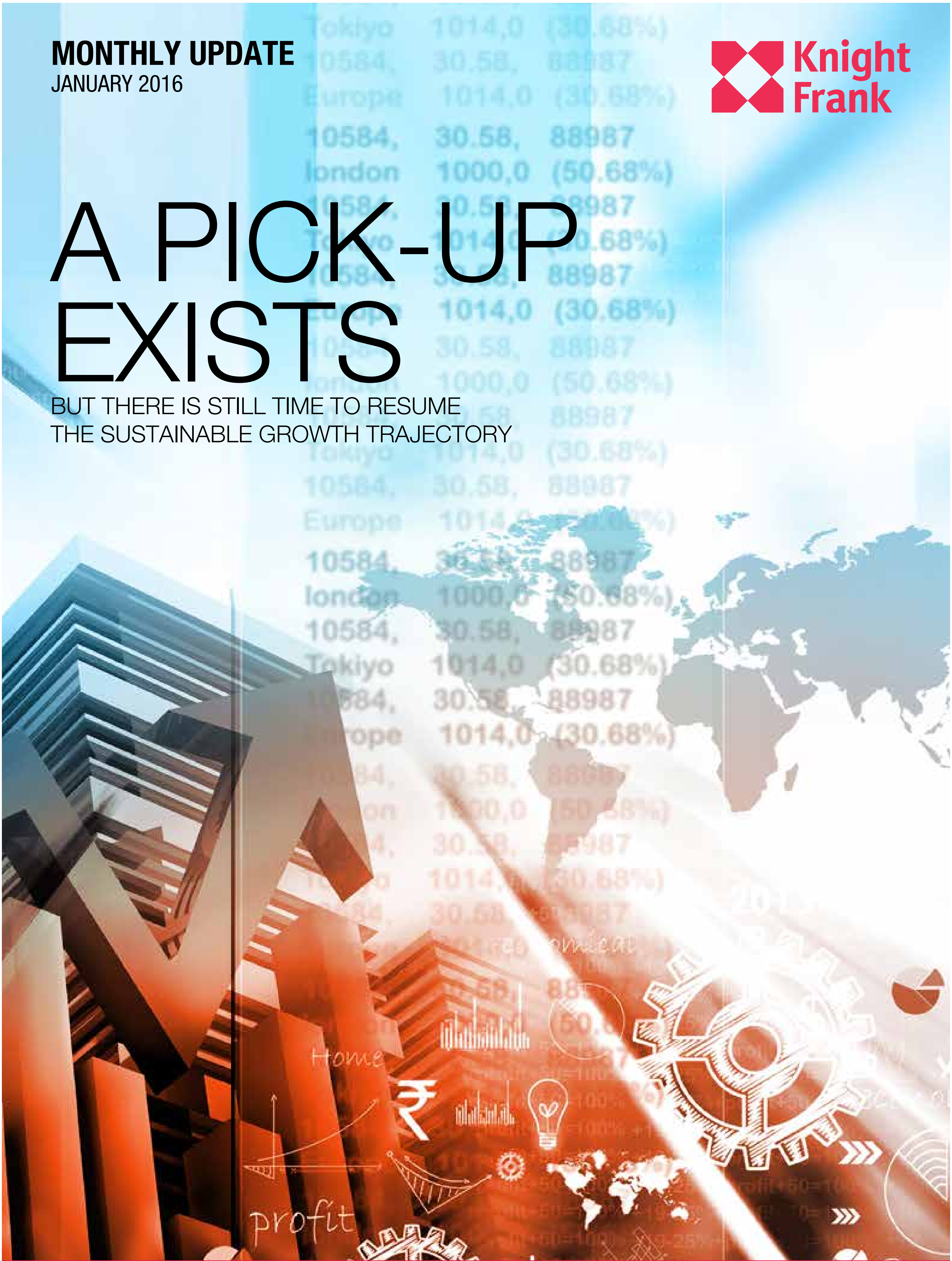
MONTHLY UPDATE
JANUARY 2016

A PICK-UP EXISTS

BUT THERE IS STILL TIME TO RESUME THE SUSTAINABLE GROWTH TRAJECTORY



GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE UPDATE

Oil prices touched $26/barrel. The US Fed kept the key policy rates unchanged at 0.25-0.50 per cent. In Asia, though inflation is picking up in Japan, Bank of Japan (BOJ) slashed interest rates to negative for current accounts of financial institutions for the first time.

With the Western powers lifting sanctions against Iran, oil prices touched $26/barrel. India's oil imports during December 2015 fell 33.19 per cent YOY to $6.65 billion.

The US Fed kept the key policy rates unchanged at 0.25 -0.50 per cent in its January 2015 policy meet and announced that future hikes would be gradual, while it would closely monitor domestic and global economic conditions. US growth slowed to 0.7 per cent in Q4 2015 from 2 per cent in Q3, and one of the reasons cited for this is poor investments by energy companies.

In Asia, though inflation is picking up in Japan, Bank of Japan (BOJ) slashed interest rates to negative for current accounts of financial institutions for the first time. It also introduced a three-tier system of interest rates, wherein a positive interest rate, a zero interest rate or a negative interest rate would be applied to current account balances up to certain thresholds, so as to help financial institutions function effectively. Low oil prices are again one of the concerns expressed by BOJ in its monetary policy statement. China's factory production fell for the fifth straight month, taking the Shanghai Composite Index 7 per cent down on the very first working day of 2016, creating triggers across Indian indices too.

While the International Monetary Fund has lowered global growth forecasts to 3.4 per cent in 2016 and 3.6 per cent in 2017, it has retained India's growth forecast at 7.5 per cent for both years. On a higher note, the World Bank expects India to grow at 7.8 per cent in the next fiscal and is confident that the Indian economy can withstand the mid-term volatility in the global markets. However, after having sold the India story at the recently-concluded World Economic Forum meet, the RBI governor expressed caution over the Indian economy. He not only warned against driving growth by raising additional debt but also suggested that, 'There are problems with the way we count GDP, which is why we need to be careful sometimes just talking about growth'. Indeed, periodic data releases reveal that the Indian economy is driven by private demand and public investments, whereas the actual focus should be on growth backed by industrial manufacturing and private sector investment. The GDP growth for 2014–15 was recently revised to 7.2 per cent from 7.3 per cent and that for 2013–14, to 6.6 per cent from 6.9 per cent, factoring in the latest data on agriculture and industrial output.

The fall in the manufacturing sector in December 2015, the sustained decline in exports for the last thirteen months and the volatility exhibited by the Indian stock indices lend scope for doubt in the growth story. However, we can neither view everything with doubt, nor presume everything to turn out as expected as in May 2014, when the incumbent government took over. There are signs of a pick-up, but the economy would take some time to regain its previous level in the growth trajectory and further to sustain the same.

Manufacturing data in December 2015 was tepid for the first time since October 2013 and much of this is attributed to the unprecedented floods in Chennai. However, the services output grew, with four out of six service segments witnessing a rise, while manufacturing activity expanded to a four-month high in January. Car manufacturing in 2015 demonstrated the fastest growth (8.7 per cent) in the last four years, which is important, as automobiles comprise 6.5–7 per cent of India's GDP and 48 per cent of the manufacturing GDP.

Exports are falling in economies across the globe. Falling exports pose concerns for India as they have fallen in 15 out of 30 segments, including iron ore and engineering goods – crucial divisions of the manufacturing sector.

Though retail inflation is inching up, it is still within the RBI's FY 2015–16 target of 6 per cent. The annual fiscal deficit and tax collection targets are on the verge of attainment, while the government continues to push public spending. FDI inflows during September 2014–November 2015 stood at $62.6 billion – 31 per cent higher than the preceding 15 months.

On the infrastructure front, the Central Government's thrust on stepping up efforts and expenditure is complemented by the states displaying pro-activism. The Centre's nod to the Navi Mumbai Airport plan, Sewri–Nhava Sheva Mumbai Trans Harbour Link and Mumbai's Coastal Freeway, and the National Capital Region Planning Board and the state governments of Uttar Pradesh and Haryana's announcement to support transport infrastructure projects reflect the same. These are welcome developments, as they can help the investment cycle pick up.

With regards to Indian economy, we can neither view everything with doubt, nor presume everything to turn out as expected as in May 2014, when the incumbent government took over. There are signs of a pick-up, but the economy would take some time to regain its previous level in the growth trajectory and further to sustain the same.

GLOBAL UPDATE

The lifting of sanctions against Iran triggered a fall in the already-muted crude oil prices, touching $26 per barrel. While the US growth slowed to 0.7 per cent in Q4 2015 from 2 per cent in Q3 2015, lower oil prices curtailing investments by energy firms is one of the reasons behind slower US growth in Q4 2015.

Western powers lift sanctions against Iran; IAEA certifies that Iran 'has kept nuclear promises'

The US and EU lifted economic sanctions against Iran after the UN nuclear watchdog—the International Atomic Energy Agency (IAEA)—stated that the country has fulfilled the terms of its deal with China, France, Russia, the UK, US and Germany, signed in July 2015. The deal aimed at curtailing Iran's nuclear programme in exchange for lifting the financial and military sanctions imposed against it since the 2000s.

The lifting of sanctions triggered a fall in the already-muted crude oil prices, touching $26 per barrel.

US Fed renders key policy rates unchanged; Q4 growth inches to 0.7%

The US Federal Reserve rendered its policy rates unchanged, saying that it would continue to closely monitor the global economic conditions. It maintained the target range for the federal funds rate at 0.25–0.50 per cent. The Federal Open Market Committee indicated that there would be only gradual increases in the federal funds rate, and this is expected to remain, for some time, below levels that are expected to prevail in the long run. The time and quantum of future hikes would depend on the realised and expected economic conditions relative to the Fed's target of maximum employment and 2 per cent inflation.

Following a 2 per cent growth in Q3 2015, the US economic growth slowed to 0.7 per cent in Q4 2015. Lower oil prices curtailed investments by energy firms, while mild weather conditions kept public spending on apparel and utilities intact. Subdued global demand and a stronger dollar also impaired exports.

Bank of Japan lowers interest rates to below zero

In its efforts to boost domestic

demand and discourage savings, Bank of Japan (BOJ) adopted a negative interest rates policy for the first time ever. With effect from 16 February 2016, BOJ will charge a rate of -0.1 per cent on the current accounts of financial institutions and would lower the rates even further, if necessary. The bank's fiscal programme to buy government bonds and exchange traded funds (ETFs) is intact with the introduction of the 'Quantitative and Qualitative Monetary Easing (QQE) with a Negative Interest Rate' in order to achieve the price stability target of 2 per cent at the earliest.

BOJ also announced the adoption of a three-tier system of interest rates, wherein a positive interest rate, a zero interest rate or a negative interest rate would be applied to current account balances up to certain thresholds, so as to help financial institutions function effectively. The rates for different balances, as stipulated in BOJ's statement, are as follows:

i) A positive interest rate of 0.1 per cent will be applied to the basic balance, i.e. with regard to the outstanding balance of current accounts that each financial institution accumulated under the QQE.

ii) A zero interest rate will be applied to macro add-on balances, i.e. the sum of the following amounts outstanding:

   a) The amount outstanding of the required reserves held by financial institutions, subject to the Reserve Requirement System;

   b) The amount outstanding of the bank's provision of credit through the Loan Support Program and the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake for financial institutions that are using these programmes;

   c) The balance calculated as a certain ratio of the amount outstanding of its basic balance in (1) (macro add-on).

iii) A negative interest rate of -0.1 per cent will be applied to policy-rate balances, i.e. each financial institution's current account in excess of the amounts outstanding of (1) and (2) combined.

Justifying its moves, BOJ stated that though inflation is picking up, factors such as volatility in the global financial markets, falling crude prices and uncertainty in emerging and commodity-exporting countries, particularly China, may have a negative impact on business confidence and inflation levels.

China's factory output falls for the 6th straight month in January

China's Purchasing Managers' Index (PMI) fell for the sixth consequent month, to 49.4 in January 2016 from 49.7 in December 2015, making it the weakest index reading observed since August 2012. A reading below 50 indicates a contraction in activity. Falling prices and over capacity in crucial sectors like steel and energy pulled the index down. Weaker domestic and global demand has harmed factory output and added to the deflationary pressures in the economy. It took China's Shanghai Composite Index 7 per cent down on the first day of the year (4 January 2016), also lending cues to Indian bourses to be down-pressed.

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IMF lowers global growth forecasts; China forecasts retained at 6.3% in 2016 and 6.0% in 2017 while US forecasts reduced by 0.2 percentage point

The IMF forecasts the global growth rate to be at 3.4 per cent in 2016 and 3.6 per cent in 2017, reducing a 0.2 percentage point from its October 2015 forecast for both years. The Chinese slowdown, lower commodity prices, financial strain in oil-exporting countries and the US' exit from an accommodative monetary policy stance are the reasons cited for this conjecture.

The IMF has retained its October 2015 forecast and expects growth in China to be at 6.3 per cent in 2016 and 6.0 per cent in 2017 due to poor growth in investments, as the economy is in a rebalancing mode.

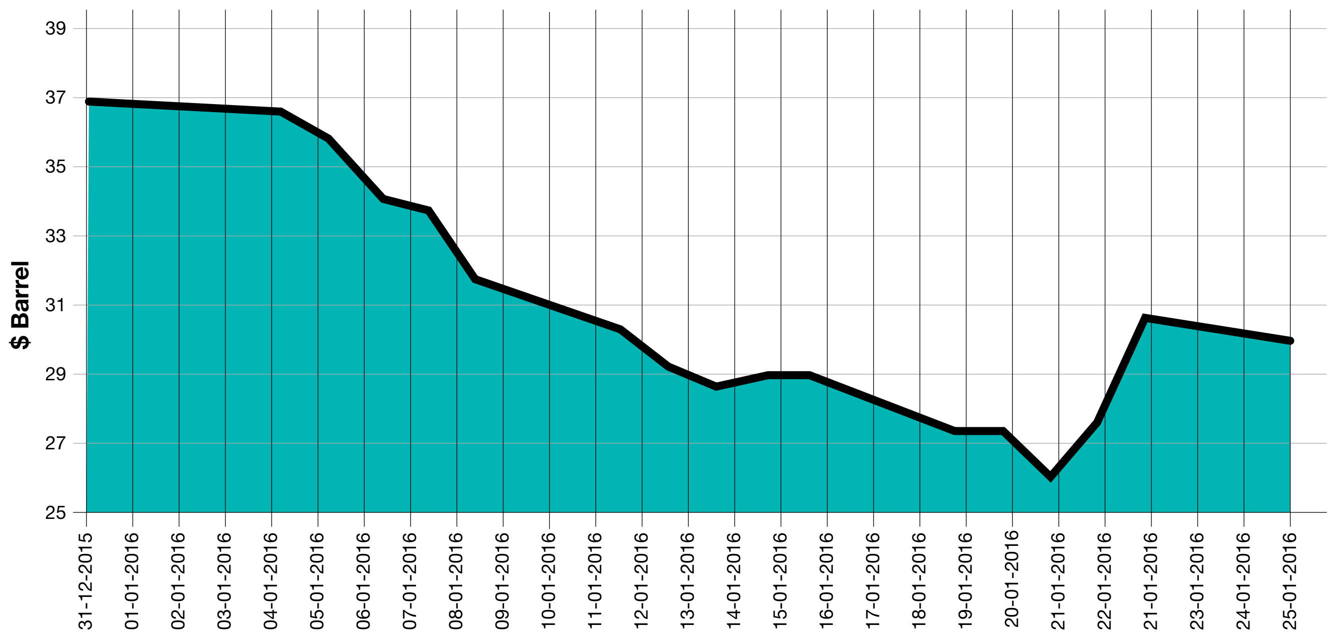
The IMF has also lowered US growth forecasts to 2.6 per cent in FY 2016 and 2017 as well, reducing its earlier forecasts by a 0.2 percentage point.

OIL

Oil prices touch $26/barrel; lifting of sanctions against Iran triggered crash

Oil prices dropped by 18.5 per cent during January 2016, tumbling to 2003 lows and diving below $28 per barrel as the Western powers lifted sanctions against Iran. The expectation that this may drive Iranian exports higher and increase the global oil supply triggered a fall in prices. Later in the month, the oil prices touched $26 per barrel.

EUROPE BRENT SPOT PRICE



Source: U.S. Energy Information Administration

INDIA UPDATE

IMF maintains India growth forecast at 7.5% for FY2017 and FY2018, while the World Bank expects India to grow at 7.8% in FY2017.

The IMF's World Economic Outlook has retained its growth forecast for India during FY2017 and FY2018 at 7.5 per cent despite slow global demand, while also retaining the current year's growth forecast at 7.3 per cent.

The World Bank expects India to grow at a faster rate of 7.8 per cent in FY 2017 and observes that it is strong enough to withstand near-term volatility in global markets due to the firming up in the domestic business cycle and favourable policy support. Further, the emphasis on infrastructure investment in the country and urban spending are expected to help growth, according to the World Bank.

Government lowers GDP growth for the last two fiscals

The GDP growth for FY 2014–15 and FY 2013–14 has been revised lower, to 7.2 per cent from 7.3 per cent and 6.6 per cent from 6.9 per cent, respectively. This is done by factoring in the latest data on agriculture and industrial production, and is based on the gross value added (GVA) at constant (2011–12) prices. The downward revision in GVA results from the muted performance of the secondary sector, consisting of manufacturing, construction, electricity, gas, water supply and other utilities.

FDI inflows during September 2014–November 2015 at $62.6 bn against portfolio flows of $14.3 bn

The 'Make in India' drive has triggered FDI investments in the country, as revealed by the robust FDI flows. FDI inflows during September 2014–November 2015 made up $62.6 billion against portfolio flows of $14.3 billion. FDI flows during these 15 months are 31 per cent higher than the preceding 15 months.

Government formulates a medium-term debt management strategy to reduce borrowing costs and expand investor base

The government has laid out a medium-term debt management plan with the aim to lower the cost of borrowing, expand the investor base and help market development. The report observes that debt is stable and sustainable over medium to long term, with no short-term risks to the debt structure. India's total public debt is expected to be ₹56.57 lakh crore in FY 2015–16, as against ₹29.45 lakh crore in FY 2010–11. Of the total public debt, the total internal debt stands at ₹52.78 lakh crore, as against the ₹26.67 lakh crore in FY 2010–11.

Government's report on medium-term debt management plan observes that debt is stable and sustainable over a medium to long term, with no short-term risks to the debt structure. India's total public debt is expected to be ₹56.57 lakh crore in FY 2015–16, as against ₹29.45 lakh crore in FY 2010–11.

Manufacturing activity expanded to a four-month high in January 2016, after having slipped in the previous month. The Nikkei India Manufacturing Purchasing Managers' Index rose to 51.1 in January 2016 from 49.1 in December 2015.

RBI announces stricter norms for banks while lending to companies' foreign subsidiaries

The RBI has stipulated that, while extending loans to overseas subsidiaries of Indian companies, banks need to set aside 2 per cent of the loan amount, as against the previous 0.4 per cent, for all other standard loans. This is directed to cover the risks arising from lending entities in different locations and jurisdictions worldwide. This provision is in addition to the country risk provision applicable to all overseas exposures. Further, banks may extend funded and non-funded credit facilities to step-down subsidiaries of Indian companies, including those beyond the first level, to finance overseas projects only if the overseas subsidiary is directly controlled by the Indian parent company and if the latter holds at least a 51 per cent stake in the subsidiary. RBI has also stated that all step-down subsidiaries, including the intermediate ones, need to be wholly-owned subsidiaries of the immediate parent company. ICICI Bank, Bank of Baroda and Bank of India are expected to be impacted the most by these new mandates.

December-end fiscal deficit stands at 88% of the 2015–16 targets

India's fiscal deficit at the end of December 2015 made up 88 per cent of the target for the entire financial year, against the 100.2 per cent in the same period in the previous year. The budgeted fiscal deficit for 2015–16 stands at ₹4.8 lakh crore. The fiscal deficit for the whole of 2015–16 is pegged at ₹5.55 lakh crore. The larger achievement is attributed to buoyant tax collections. The government continues with its stress on capital spending, indicating that it is confident of achieving the fiscal targets.

Core sector growth surges in December after its November slip

The core sector growth expanded by 0.9 per cent YOY in December 2015, after having contracted in November. The eight core industries—coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity—grew by a cumulative 1.9 per cent in the April–December 2015 period, with coal growing at 4.6 per cent and refinery growing at 10.1 per cent. In December 2015, fertilisers grew the maximum among these industries, at 13.1 per cent YOY, while coal grew at 6.1 per cent YOY during the month.

The core sector has a 38 per cent weightage in the Index of Industrial Production (IIP).

Industrial production shrinks

The Index of Industrial Production (IIP) for November 2015 slipped 3.2 per cent lower YOY and 8.2 per cent sequentially. However, the cumulative growth during April–November 2015 over the corresponding period of the previous year is 3.9 per cent. The IIP for the mining, manufacturing and electricity sectors for November 2015 displayed growth rates of 2.3 per cent, -4.4 per cent and 0.7 per cent YOY, respectively. The drop in industrial growth could be attributed to the fewer working days in November 2015, compared to November 2014, and the shift in the festive calendar.

Manufacturing activity expanded in January 2016; services at a ten-month high in December 2015

Manufacturing activity expanded to a four-month high in January 2016, after having slipped in the previous month. The Nikkei India Manufacturing Purchasing Managers' Index rose to 51.1 in January 2016 from 49.1 in December 2015. A reading above 50 suggests an expansion. The recent abnormally high rainfall in Chennai and the decrease in new work orders had resulted in a drop in manufacturing in December 2015. However, in January 2016, production and new orders increased, while export orders also rose. The data indicates that, while manufacturing stayed muted in the Asian region, it actually 'paints a brighter picture of the Indian economy'.

The Nikkei Services Business Activity Index rose to a ten-month high, to 53.6 from 50.1 in November 2015. Output rose in four out of six segments of the services sector, including other services and financial intermediaries.

The Nikkei India Composite Index displayed a better reading 53.3 in January 2016 from 51.6 in December 2015.

Car manufacturing posts double-digit growth

The car manufacturing segment posted an 11 per cent YOY growth in December 2015, on the back of the launch of new models and year-end discounts. The sales of the top 11 car manufacturers together comprised 232,000 units. During 2015, sales rose 8.7 per cent to 2.75 million units, recording the fastest growth in passenger vehicles in the last four years. This is important, considering that the automobile sector's performance is an important indicator of economic performance. It is all the more important for the Indian economy, given the fact that this sector accounts for 6.5–7 per cent of the GDP and 48 per cent of the manufacturing GDP.

WPI falls for the 14th straight month; CPI inching up

The annual rate of inflation, measured by the Wholesale Price Index (WPI), fell to -0.73 per cent in December 2015 from -1.99 per cent in November 2015. This is also lower than the -0.50 per cent recorded in December 2014. The build-up inflation rate during March–December 2015 stands at 0.74 per cent, against -0.89 per cent in the corresponding period of the previous year. The index for primary articles rose by 0.5 per cent, while that for fuel and power rose by 0.6 per cent from November 2015. The index for the manufacturing sector declined by 0.3 per cent from November 2015.

Retail inflation continued its rise for the fifth straight month. The consumer price index (CPI) inflation for December 2015 rose to 5.61 per cent from 5.41 per cent in November 2015 and 4.28 per cent in December 2015. However, it is still within the RBI's set target of 6 per cent for FY2016. The consumer food price index inflation stood at 6.40 per cent in December 2015.

Exports dip 15% in December 2015; deficit widens too

India's exports dropped for the thirteenth consecutive month in December 2015, falling 14.75 per cent YOY due to the sluggish global demand and prevailing volatility in currency. Imports slipped 3.88 per cent from a year ago, to $33.96 billion. Engineering products exports fell 15.68 per cent to $55.82 billion, while iron ore exports had the sharpest fall at 60.54 per cent.

There is a whopping 179 per cent rise in gold imports, to $3.80 billion, resulting in the widening of the trade deficit to a four-month high of $11.66 billion from $9.8 billion in November 2015. Gold prices fell internationally, prompting a rise in imports. The trade gap, which displayed a continuous narrowing for several months, has widened. Exports are falling across major world economies, and Indian exports have seen a fall in 15 out of 30 segments, including iron ore, gems and jewellery, and engineering goods, which is a matter of concern.

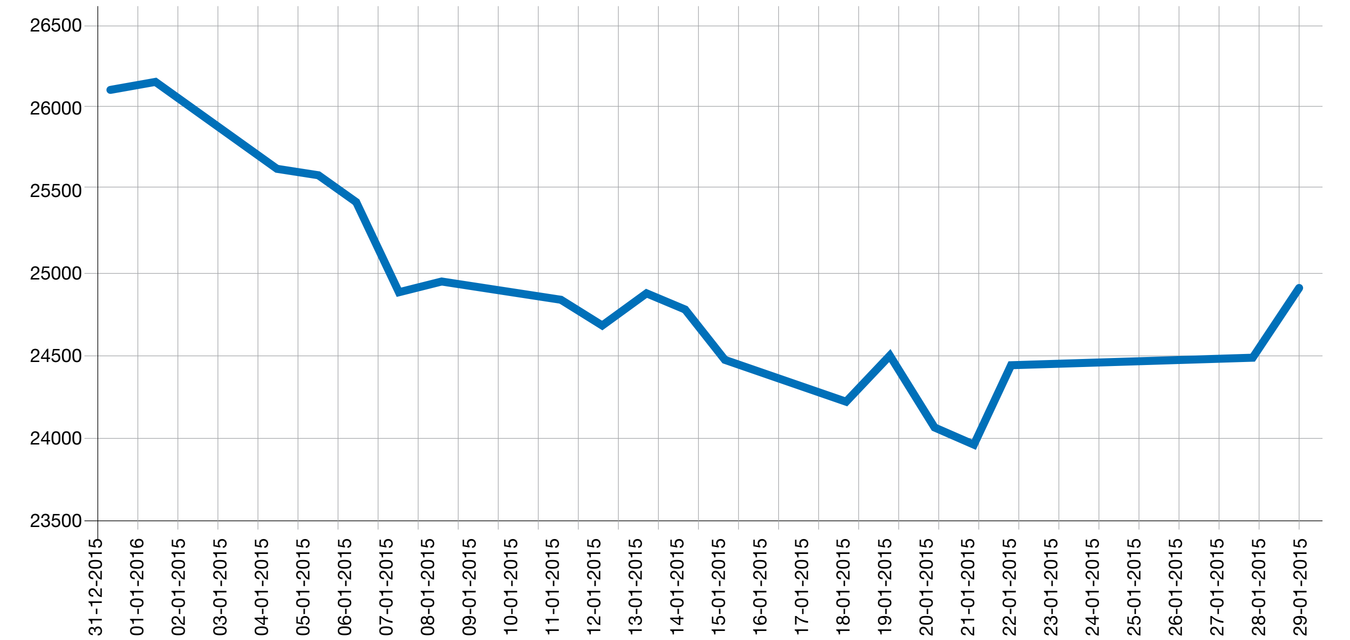
Services exports slipped 3.63 per cent YOY in November 2015, to $12.01 billion, while the trade balance in services has remained stable.

Oil imports during December 2015 fell 33.19 per cent YOY, to $6.65 billion, while non-oil imports rose 7.63 per cent YOY, to $27.4 billion.

During 2015, car sales in India rose 8.7 per cent to 2.75 million units, recording the fastest growth in passenger vehicles in the last four years. This is important, considering that the automobile sector accounts for 6.5–7 per cent of the GDP and 48 per cent of the manufacturing GDP.

Sensex

S&P BSE SENSEX

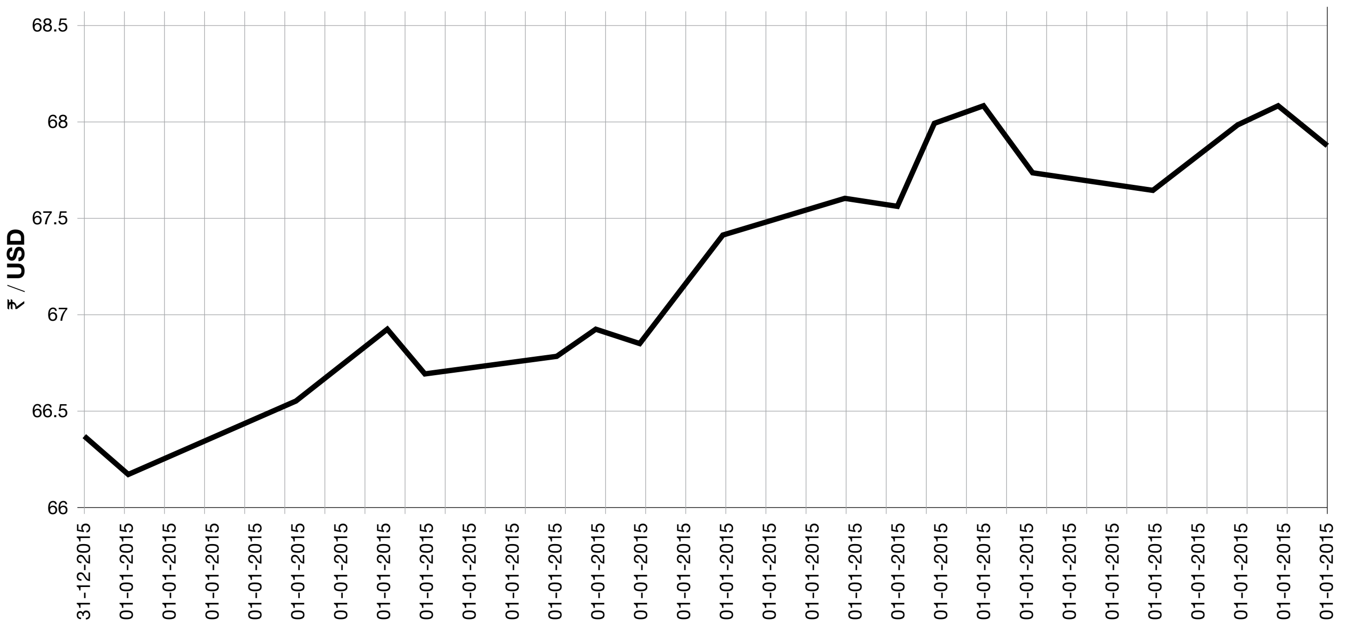


Source: BSE

Several factors impacted the Sensex during January 2016 and added volatility to the index, viz. concerns over slowdown in China, lower oil prices, anxiety over the US interest rates, poor manufacturing data, etc. During the month, the Sensex fell by 4.8 per cent.

Currency

CURRENCY TREND



Source: RBI

During January 2016, the Indian rupee slipped by 2.3 per cent against the US dollar.

INDIA – INFRASTRUCTURE AND REALTY UPDATE

The Ministry of Civil Aviation has cleared the proposal for building the Navi Mumbai International Airport. The airport is expected to commence operations from October 2019. The the Sewri–Nhava Sheva Mumbai Trans Harbour Link also received an in-principle approval from the Ministry of Environment and Forests.

Government clears the proposal for Navi Mumbai Airport plan

The Ministry of Civil Aviation has cleared the proposal for building the Navi Mumbai International Airport. The airport is expected to commence operations from October 2019, while the developer and operator will be required to pay an annual concession fee prior to that. The fee would range from ₹5 crore in the first year to ₹1,250 crore from the 40th year of operation. The government is expected to earn ₹17,000 crore during the sixty-year period, the net present value of which is likely to be nearly ₹2,045 crore.

It is also clarified that the airport project will be awarded only for 30 years (and not 60 years), with extension periods of 10 and 20 years, while the ten-year extension period beyond the 30th year would be on the basis of the operational performance of the airport operator.

The winner of the Navi Mumbai Airport project will also get a ₹3,000-crore interest-free loan from City and Industrial Development Corporation (CIDCO), to be repaid over a period of 10 years.

Sewri–Nhava Sheva Mumbai Trans Harbour Link gets the Centre's nod

After being stalled for several months due to the lack of environmental clearances, the Sewri–Nhava Sheva Mumbai Trans Harbour Link received an in-principle approval from the Ministry of Environment and Forests (MoEF). To receive the final clearance, the Mumbai Metropolitan Region Development Authority (MMRDA) is required prepare a fresh application for tribal rehabilitation in the forest area. The project is worth ₹12,000 crore and the tendering process is expected to commence soon, while MMRDA is working out a formal loan agreement with the Japan International Cooperation Agency (JICA) for funding the project.

2019 deadline set for the Coastal Freeway

The Maharashtra government has decided on 2019 as the deadline for the completion of the Coastal Freeway from Nariman Point to Kandivali. The Central Government has also released a notification amending the Coastal Regulation Zone norms, permitting the reclamation of land for the coastal road.

Telangana gets ₹41,000-cr road, highway projects

The Central Government announced road projects worth ₹41,000 crore for Telangana; these include two express highways from Hyderabad to Bengaluru and Vijayawada. The government has also offered to provide further assistance in case a new national highway is proposed for the state.

NCRPB to assist nine transport infrastructure projects in Uttar Pradesh and Haryana, costing ₹7,838 cr

The National Capital Region Planning Board (NCRPB) announced support for seven transport infrastructure projects in Uttar Pradesh (UP) and two in Haryana, which would help considerably in resolving traffic and pollution issues. The NCRPB would extend a loan assistance of ₹3,113 crore for these projects.

The UP projects include the construction of a 10.30-km, six-lane elevated road in Ghaziabad, expected to be completed by the end of 2016. This road would extend from UP Gate to Raj Nagar Extension, connecting NH-24 with NH-58, while also serving as a bypass on the Kosambi–Mohannagar–Vaishali section. On completion, the travel time between UP Gate and Hindon bridge is likely to reduce to around 15 minutes from the current 50 minutes.

The UP projects also include the 29.70-km Noida–Greater Noida Metro Project, which is awaiting final approval from the Central Government.

Among the projects proposed in Haryana is the development of the 52.33-km Manesar–Palwal Expressway, connecting NH-8 with NH-2, which is expected to be completed in 12 months. The improvement of the 38.41-km Gurgaon–Pataudi–Rewari road on SH-26 and the development of a 5.80-km elevated road on NH-10 from Chhotu Ram Chowk to Old Bus Stand in Rohtak are the other upcoming projects in Haryana.

Maharashtra defers revision of ready reckoner rate to April 1

The Maharashtra government has decided to defer revising the ready reckoner rates to April 1 instead of January 1 henceforward. This decision is aimed at aligning any changes in the rates with the government's tax revenue targets for the financial year. Thus, homebuyers can avail themselves of the existing rates for three more months.

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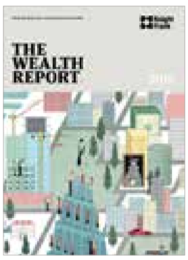

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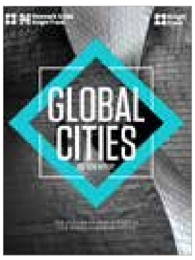

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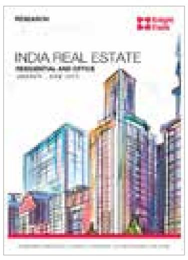
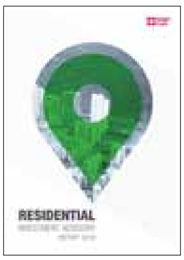


India Real Estate Outlook - Jan to June 2015



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