



Economic Report
on India
for August 2016

Lion Pillar Consulting & Marketing Pvt. Ltd
C 326, Big Splash, Sector 17,
Vashi, Navi Mumbai 400 703
info@LionPillar.com

Disclaimer

- This document is a written or electronic communication that includes research analysis, research recommendation or an opinion concerning securities or economies (the “Report”) carried out Lion Pillar Consulting & Marketing Pvt Ltd (the “Company”) and; it is only for information purpose.
- The Report does not purport to be comprehensive or to contain all of the information that a prospective stakeholder may desire in investigating the Research Report; hence each prospective stakeholder should conduct its own independent due diligence in connection with any transaction and seek the advice of its own professional advisors. The information contained in this document has not been independently verified. Neither the Company nor any of its affiliates, directors, advisers, partners, officers, representatives or agents make or will make any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein, and any and all legal liability or responsibility is expressly disclaimed based on or relating to: (i) information contained in, or errors in or omissions from this document, or (ii) the recipient’s use of this presentation, or (iii) any other written or oral communications transmitted to the recipient or its affiliates, directors advisers, including partners, officers, representatives or agents in the course of its evaluation. Accordingly, no information contained in this document or any written or oral communication transmitted or made available to a recipient of this document: (i) is, or shall be relied upon, as a promise or representation, whether as to the past or future performance; or (ii) will form the basis of any contract.
- The Report based on primary or secondary sources of information, none of such sources are independently verified.
- The Report includes statements which may constitute forward-looking statements based on projections and forecasts; it involves many subjective assumptions and are subject to risks and uncertainties which could cause actual results to differ materially. Such statements are not guarantees of future performance. Accordingly, the Company and its respective affiliates, advisers, the Partners, officers, representatives or agents give no (and will not give any) assurances, and no representation or warranties can be or will be made, as to the accuracy or attainability of such projections, estimates or other forward-looking statements.
- The Report is neither an offering memorandum nor an offer or an invitation to offer for the sale or purchase.
- The report is not for public distribution. Reproduction or dissemination, directly or indirectly, of research data and reports of the Company in any form is prohibited except with the written permission. Persons into whose possession the reports may come are required to observe these restrictions.



Economic Data

- ❖ **Rates:** The monetary policy meeting in the month of August led to the benchmark rates being unchanged. It decided to continue providing liquidity as required but progressively lower the average ex ante liquidity deficit in the system from one per cent of NDTL to a position closer to neutrality.

Policy Repo Rate	: 6.50%	Bank Rate	: 7.00%
Reverse Repo Rate	: 6.00%	CRR	: 4%
Marginal Standing Facility Rate	: 7.00%	SLR	: 21.00%

- ❖ **Growth:** May's Index of Industrial Production (IIP) increased by 1.2% Year on Year (Y-O-Y), which was significantly positive move as May' Index was down.
- ❖ **Inflation:** June's Consumer Price Index (CPI) was at 5.8% Year on Year (Y-O-Y) and 0.7% increase over June 2016. The same was led by elevated food prices which shows Consumer Food Price Index increased by 7.8% Year on Year (Y-O-Y). This was also a high number as per market expectations vis-à-vis commodity and food prices.
- ❖ **Trade Growth:** For the first time after a gap of 18 months, exports in June 2016 have recorded a positive growth of 1.27%. During June,2016 exports were valued at US\$ 22.57 billion (Rs.1,51,904.56 crore) which was 1.27 per cent higher in Dollar terms (6.72 per cent higher in Rupee terms) than the level of US\$ 22.29 billion (Rs. 1,42,341.88 crore) during June,2015. Cumulative value of exports for the period April-June 2016-17 was US\$ 65.31 billion (Rs.436,960.98 crore).

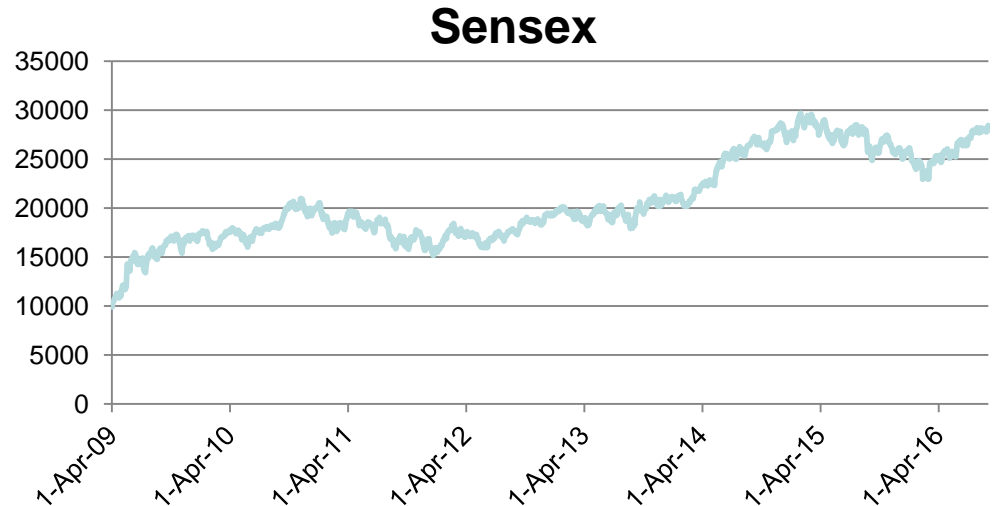
Dr. Urjit Patel to be next Governor of RBI

- ❖ Dr. Urjit R. Patel is selected for the twenty-fourth Governor of the Reserve Bank of India; and will join the office on September 4, 2016. He is serving as Deputy Governor since January 2013, was re-appointed as Deputy Governor on January 11, 2016 after completion of his first three-year term of office.
- ❖ Among his assignments as Deputy Governor, Dr. Patel chaired the Expert Committee to Revise and Strengthen the Monetary Policy Framework. Representing India, he actively participated in steering the signing into force of the inter-governmental treaty and the Inter-Central Bank Agreement (ICBA) among the BRICS nations, which led to the establishment of the Contingent Reserve Arrangement (CRA), a swap line framework among the central banks of these countries.
- ❖ Dr. Patel has also served at the International Monetary Fund (IMF). He was on deputation from the IMF to the Reserve Bank during 1996-1997, and in that capacity he provided advice on development of the debt market, banking sector reforms, pension fund reforms, and evolution of the foreign exchange market. He was a Consultant to the Ministry of Finance (Department of Economic Affairs), Government of India, from 1998 to 2001. He has also had other assignments in the public and private sectors.



Equity Market

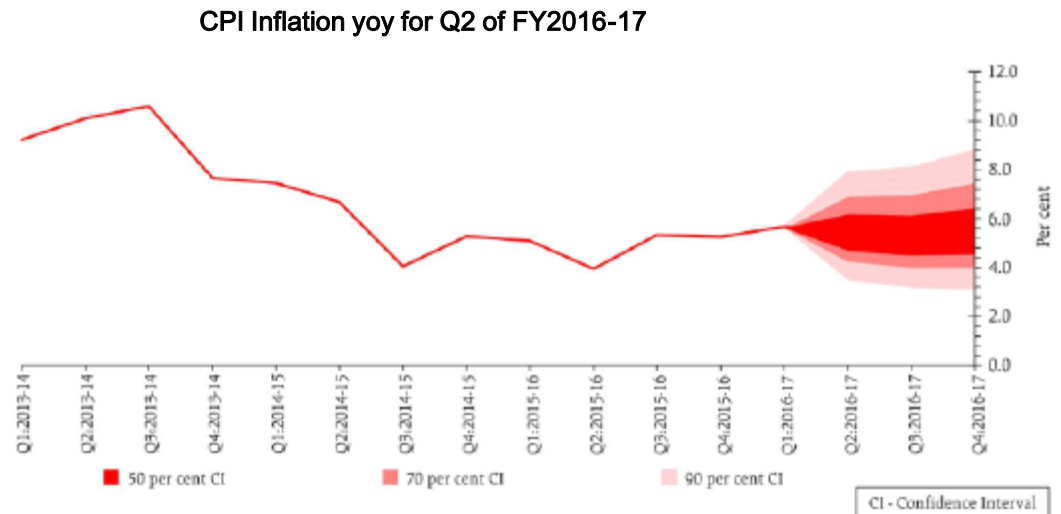
- ❖ Indian equity markets rallied in the month of July due to consistent Foreign Institutional Investments (FII's) purchases since March 2016.
- ❖ Sensex gained 1.4% in August 2016 closing the index at 28,452.17 as on 31 Aug 2016.



- ❖ Good monsoon and positive news flow with regards to the passing of Goods & Services Tax (GST) in the monsoon session brought in a positive market sentiment.
- ❖ Foreign Institutional Investments (FII's) purchased equities to the tune of Rs 111 billion, whereas mutual funds were net sellers to the tune of Rs 2.7 billion. For the financial year 2016, Foreign Institutional Investments (FII's) were net buyers to the tune of Rs 413 billion.

Outlook

- ❖ The passage of the constitutional amendment bill in the Rajya Sabha paves the way for implementation of the Goods and Service Tax (GST), a major reform, in the country and aids a positive sentiment for the markets in general.
- ❖ The payouts related to the implementation of 7th Pay Commission from August 1st, 2016 should help in improving domestic consumption. Also, a good monsoon in the country has helped in managing food inflation.
- ❖ The recent sharper-than-anticipated increase in food prices has pushed up the projected trajectory of inflation over the rest of the year. Moreover, prices of pulses and cereals are rising and services inflation remains somewhat sticky.



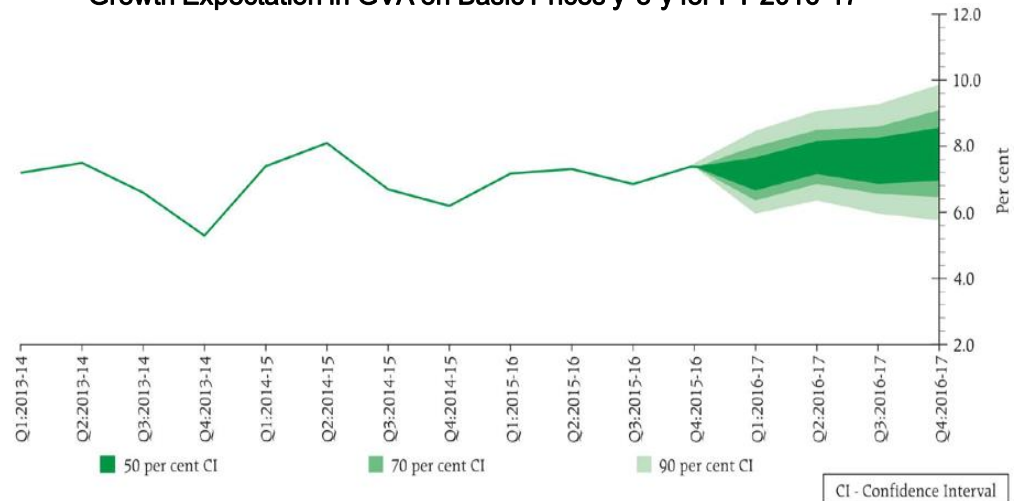
Outlook...continue..

- ❖ Earnings season so far has been a mixed bag with A Margin expansion (+ 162 base points) in sectors such as Cement, Media, Petrochemicals and Automobiles (this is despite low realisations in the view of weak commodities). The financial sector continues to put pressure on the bottom line (given the deteriorating asset quality).
- ❖ Government is in a relatively strong fiscal footing for FY17 with an expectation of a rise in government spending throughout the financial year.
- ❖ Accelerating reforms and growth built upon a platform of stable macro-economics implies that India continues to remain a global standout amongst emerging market peers, even while domestic flows remain supportive.
- ❖ Sensex trades at 18.6x FY17 estimated earnings and 15.4x FY18 estimated earnings respectively, which is believed to be attractive, given that we expect a cyclical recovery going ahead. We continue to remain optimistic from a medium to long term point of view.

Fixed Income Market

- ❖ Bond markets had a stellar month in July as yields eased significantly.
- ❖ Commodity prices retreated during the month as global growth outlook dimmed. Crude oil prices, which had risen through the first half of the year, corrected meaningfully post Brexit.
- ❖ Global bond yields softened on expectations of lower inflation, increased monetary stimulus and lower probability of a US Fed rate hike in the current year. 10-year US Treasuries, which were trading around 1.70% – 1.85% prior to the referendum, eased to a low of 1.35% in July.
- ❖ Successive downgrades of global growth projections by multilateral agencies and the continuing sluggishness in world trade points to further slackening of external demand going forward. Accordingly, the GVA growth projection for 2016-17 is retained at 7.6 per cent, with risks facing the economy at this juncture evenly balanced around it

Growth Expectation in GVA on Basic Prices y-o-y for FY 2016-17



Fixed Income Market

- ❖ Domestic developments also aided the bond markets. After a late start in June, monsoon rainfall picked up in July, continued in early August which compensated for inadequate rainfall in June. The improvement in rainfall improved the outlook for agriculture output and helped lower inflation expectations.
- ❖ Secondly, after a tortuous legislative process, the Government managed to receive the parliament's approval for implementing the Goods and Services Tax bill. This was a positive development as the tax reform is expected to improve the Government's tax revenues.
- ❖ Though the Reserve Bank of India (RBI) did not conduct any Open Market Operations (OMO) purchases of Government Securities in July, the Rs.800 billion Open Market Operations (OMO) purchases in the first quarter ensured a neutral liquidity rate during the month. The comfortable liquidity rate provided a balanced bond price through the month.
- ❖ The 10-year benchmark bond rate eased through the month- end at 7.17%, remarkably lower than 7.45% at the end of the previous month. Long bonds performed better as the yield spread over the 10-year benchmark bond narrowed by about 6 – 8 base points in the same period.

Outlook

- ❖ The unforeseen collectiveness of positive factors for the bond markets helped yields lower during July. In order to continue with the softening trend, fresh triggers will be required.
- ❖ Consumer Price Index (CPI) inflation which has seen a rising trend over the past few months is expected to continue rising for another month or two. However, the trend is also expected to ease in the second half of the year. Any easing in the Consumer Price Index (CPI) inflation could be a positive trigger to sustain the easing trend.
- ❖ Secondly, the announcement of the new Reserve Bank of India (RBI) Governor, Mr Urjit Patel, is also expected to be an important trigger. The markets have built in expectations of a Governor with a benign view on interest rates. A contrary development could derail the current trend.
- ❖ Notwithstanding any developments, the markets expect aggressive Open Market Operations (OMO's) purchases from the Reserve Bank of India (RBI) in the second half of the year to offset any liquidity impact due to the maturities of the Foreign Currency Non-Residential <FCNR (B)> deposits.
- ❖ The key risks to the outlook can occur due to any deterioration of foreign investor sentiments as well as any unfavorable developments on the domestic inflation front.

Contact



Sandeip Khakase

Director

Phone:(+91) 998749 0007

Email: info@lionpillar.com

Lion Pillar Consulting & Marketing Pvt. Ltd
C 326, Big Splash, Sector 17,
Vashi, Navi Mumbai 400 703
info@LionPillar.com