Capital League outlook

February 2016

Indian Economy

- India's GDP is estimated to grow at 7.6% in FY16 and 7.8% in FY17. Consumption demand is expected to get boost from the Seventh Pay Commission hike and expectation of a normal monsoon in 2016.
- Controlled fiscal deficit (4.1% of GDP) and current account balance (1.3% of GDP), will allow the government to lead GDP growth with capital expenditure in FY17.
- The macro-economic parameters of India have recovered significantly over last few years and the economy is expected to achieve higher growth over next two years. The Government's policy direction is right and we are making good progress on most fronts.
- The Government initiatives to replace physical subsidies with cast transfers, resolution of regulatory issues in the telecom, mining and roads, significantly higher budgetary allocation towards capital expenditures, steadily reducing number of stalled projects, safeguard duty on steel to counter dumping from overseas, and steady reduction in fiscal deficit are key positives which will drive the growth.
- The CPI has remained flat at 5.69% and WPI also remained in negative zone at -0.9% in Jan'16. This continued decline in inflation has resulted in a lower nominal GDP while real GDP still remains on course.
- The RBI In its last policy meet held in February has left the Repo rate and CRR unchanged and reiterated its accommodative stance. With benign global commodity prices, decelerating property prices and early Resolution of Bank NPAs, the RBI may further cut rates in 2016.
- Government is planning to reduce interest rates on small savings schemes with tenure of less than five years in coming fiscal year and these rates will now be revised every quarter instead of the current practice of an annual review.
- Topline growth of companies has remained subdued in the recent quarter. The operating margins have improved aided by lower commodity prices. The aggregate results for quarter ending December 2015 are as below:

	% Change for Q3 on y-o-y basis for 2561 companies (including energy & finance companies)	**% Change for Q3 on y-o-y basis for 2100 companies (excluding energy & finance companies)**
Sales Growth (INR Cr)	-4.4%	0.7%
Net Profit (INR Cr)	-1.7%	3.3%

Global Economy

- International Monetary Fund (IMF) lowered its projection for global growth to 3.4% in CY16. The slowdown and rebalancing of the Chinese economy, lower commodity prices, and strains in some large emerging market economies will continue to weigh on growth prospects.
- Mounting worries about a global economic slowdown, amid weakness in crude oil prices and concerns about the health of banks have rattled markets globally, especially in Europe. The investor confidence index for Eurozone has dropped sharply adding pressure on the European Central Bank to come up with solid measures to boost euro area growth.
- The crude oil prices have dropped nearly 42% in the last one year. All oil producing countries are trying to reach a consensus on freezing production to enable the oil prices to stabilize.
- US Fed has indicated that it will wait further to hike rates as its unemployment rate and inflation which are currently at 4.9% and 1.4% approaches further to the values of 4.7% and 1.5% respectively.
- Bank of Japan (BoJ) pushed interest rates into negative territory encouraging banks to lend, businesses to invest and savers to spend more. However, this move of BoJ has not resulted into the desired effects as yen has strengthened against USD and Japan’s equity markets have slumped.
- China’s Central Bank reiterates that it will aim for stability of Yuan while bringing down its reference rate. A stronger yuan reduces the risk that China will export deflation to the world. The retail sales growth continues to be strong at 11%.

Outlook

- India is well-placed in terms of its macroeconomic situation with low inflation, low current and fiscal deficit, and a stable government till 2019. Therefore, it is expected that the government is likely to announce measures to increase spending in the upcoming Union Budget.
- If the oil producing countries reach a consensus on freezing production, the crude oil prices may attain stability in the near term.
- Foreign Institutional Investors (FIIs) selling will give an opportunity for domestic investor to invest aggressively.
- Equity markets are expected to remain volatile in the short term and upcoming budget will be a trigger for short term market movement. Investment in equities is recommended in a staggered manner over the next few months.
- The yields are expected to fall from current levels and hence, recommend medium to short duration debt funds.