

Indian Economy

- **Monetary Policy:** RBI kept all the rates unchanged and revised its outlook for GDP growth for FY17 from 7.6% to 7.1%. It expects the reduction in growth momentum in Q3 & Q4 to be balanced out with boost in consumption demand from higher agricultural output and 7th Pay Commission Awards.
- Indian bond yields have yo-yoed in November with 10-year G-sec Bond touching a low of 6.10%, and then moving to 6.50 % after the monetary policy review.
- Retail inflation (CPI) eased to 3.6% in Nov'16 as compared to 4.2% in Oct'16 due to decline in prices of food items.
- IIP contracted by 1.9% in Oct'16 as compared to 0.7% rise in Sep'16 due to decline in Manufacturing and Mining.
- The GST council has reached consensus for most of the clauses for Central GST (CGST) legislations but other pending issues viz. dual control on assesseees, list of items in tax bracket and model Integrated GST (IGST) laws are still under discussion.
- **Demonetization:** a) Till date, nearly INR 12.44 Lac Crores of the old currency has been deposited, which is nearly 80% of the total value of estimated demonetized currency b) Government has announced Pradhan Mantri Garib Kalyan Yojana, to incentivize disclosure of previously un-declared income c) Demonetization has given an impetus to digitization with banks and numerous digital and financial service providers creating innovative ways to attract new consumers and build awareness for cashless transactions d) Demonetization and GST together is expected to bring a large part of the unorganized sector under organized sector leading to widening of tax base.
- Indian Rupee has been relatively less volatile and depicted marginal depreciation bias since 2014, at a time when most other Emerging Market currencies have seen large swings. RBI is using the cushion provided by the large forex reserves at USD 368 Bn to intervene in currency markets.

Currency	% devaluation as on Dec 14, 2016 with respect to USD over last one year
Britain (Pound)	19.7
China (Renminbi)	6.8
Euro Area (Euro)	3.2
<i>India (Rupee)</i>	<i>0.6</i>
Japan (Yen)	-4.9
Indonesia (Rupiah)	-5.6
Russia (Russian Ruble)	-13.5
Brazil (Real)	-14.6

- FII flows have hit a 12-month low with net selling of equities worth USD 2.6 Bn during Nov'16. This was offset by significantly higher buying by DIIs, both Insurance and MFs. The FIIs have withdrawn nearly USD 18 Bn from emerging markets since the outcome of US presidential elections aided further by US Fed rate hike.

Global Economy

- The US Fed raised the interest rate by 0.25%. It has also signaled a faster pace of rate hikes in 2017. Market reaction to this hawkish outlook on rates for the coming year has pushed the US dollar to a 14-year high and spike in US treasury yields.
- The Dollar Index has gained more than 5% in wake of Mr. Trump's election victory as investors anticipate firmer US growth from proposed fiscal stimulus measures. Those measures may ultimately spur higher inflation and a faster pace of tightening from the US central bank.
- US treasury yields have also jumped sharply with 10-yr treasury note trading at 1.84% before Trump's victory to 2.63% after rate hike by Fed.
- Crude oil prices have begun to firm up to USD 52-54 a barrel after OPEC members have decided to cut crude supplies by 1.2 Mn barrel per day and Non-OPEC members by 0.6 Mn barrels per day.

Outlook

- Demonetization will negatively impact GDP and Q3 & Q4 earnings and the uncertainty regarding the quantum is expected to keep the markets nervous. Further downgrades to earnings cannot be ruled out.
- Earnings and consequently market performance in the near term will be a function of pace of re-monetization, recovery in sectors thriving on cash spending and customer behavior.
- Equity markets are likely to remain range bound and any meaningful corrections should be utilized to add to equity investments as the structural long term outlook post demonetization & GST implementation remains positive.
- The downside bias to bond yields continue with soft inflation, high liquidity in the banking system and reasonable spread between Indian and US bond yields. It is recommended for investors to remain invested in long term/short term debt funds. The attractiveness of these investments has gone up with fall in FD and Small savings rates.