Capital League outlook

March 2017

Indian Economy

- Union Cabinet cleared all the four bills related to GST. Likely to be implemented from 1 July 2017.
- Government has rolled out a program, under the name of 'VISAKA' to train households on internet literacy. The policy level thrust towards adoption of technology will result in significant productivity gains and growth in India.
- The Q3 GDP growth stood at 7% as compared to 7.4% in Q2 signaling very mild influence of demonetization on economic growth. However, this may be due to the inability of many growth indicators to adequately capture the performance of informal sector and up-fronting of the sales in Nov-Dec'16.
- IIP bounced back to expansion by 2.7% in Jan'17 as compared to contraction of 0.4% in Dec'16 driven by resumption in consumption and reduction in built up inventory after demonetization leading to normalization of production.
- The commodity sectors played a large part in the acceleration of revenues and profits whereas the domestic consumer-facing companies saw the impact of demonetization. The commodity prices have displayed a remarkable rebound in the last year.

Commodity	% change in price over 1 year as on 22 Mar 2017
Aluminium (USD/tonne)	21.54
Copper (USD/tonne)	19.93
Zinc (USD/tonne)	57.94
Brent crude (USD/BBL)	25.72
Silver (USD/oz)	15.02
Gold (USD/oz)	1.87

- Retail inflation (CPI) rose to 3.65% in Feb'17 as compared to 3.17% in Jan'17 and WPI has increased sharply to 6.55% in Feb'17 as compared to 5.25% in Jan'17. This is mainly due to the increase in crude & commodity prices and waning of the base effect. As a result, nominal GDP is expected to grow at 12% this year vis-à-vis 6% last year.
- Exports grew 17.48% to USD 24.5 Bn in Feb'17 while imports rose 21.76% to USD 33.4 Bn, thus leading to a trade deficit of USD 8.9 Bn, which is the lowest in last five months.

- FIIs turned buyers for the first time since Oct’16 pumping USD 1.5 Bn in Feb’17 the highest in the last five months. Better than expected earnings, weakness in the US dollar, ample global liquidity and increased positive flows into emerging markets has brought the FIIs flow back in the Indian equity market.

Global Economy

- The US Federal Reserve raised interest rates by 25 bps and continued to project two more increases this year on back of good job gains, inflation trajectory towards target. Fed has signaled more vigilance on expected and actual inflation developments.
- The US government is trying to spur manufacturing activities and jobs creation via a restrictive immigration policy, higher import tariffs and border tax adjustments to make US’ exports more competitive.
- Growing U.S. oil production is affecting the deal for cut in oil production between Opec & non-Opec members. This is likely to cap upward movement of the crude oil price.

Outlook

- Earnings estimate has improved at the margin for FY18 owing to visible signs of resumption of global growth and trade, favorable base for select cyclicals like metals, PSU banks and growth in consumption.
- Valuations are at 19 times of 1 year forward earning. Equity valuations are at the upper-end of the historical range. One can continue to invest in equity in a staggered manner and every dip should be a buying opportunity.
- Medium to longer term outlook remains positive owing to inherent structural strengths of the economy, bottoming of corporate profitability and prospects of more domestic flows.
- Given the outlook on inflation and growth, additional policy rate cuts are unlikely in 2017. The focus on gradual reduction of public debt as announced by the government, potential enhanced tax compliance arising out of tax reforms such as GST should enable public finances to be on a sound footing and augur well for the bond yields over the medium to long term.
- Investors should look to invest in short to medium term debt funds.