Indian Economy

- Indian equity market has been one of the top performing markets globally fueled by both global and domestic factors.

Market	% change from 31st Dec'16 to 14th Jun'17 in USD terms
India (BSE)	23.5
Germany (DAX)	19.3
Hong Kong (Hang Seng)	16.9
Euro Area (FTSE Euro 100)	16.7
Britain (FTSE 100)	8.3
United States (DJIA)	8.2
China (SSEA)	3.2
Brazil (BVSP)	1.9

- GST will be rolled out from 1st July'2017. Govt. has extended the deadline for filing the first set of returns for the first two months and allowed a simpler format that will help businesses to prepare better for the new tax regime.
- Rural consumption demand is expected to pick up with increase in rural income on account of record growth in agricultural output, increase in construction activities (rural road projects, irrigation projects and rural housing project) giving more rural employment, increase in allocation to MNREGA by government.
- Also farm loan waiver has gained traction with loan waivers upto 0.6% of GDP already been announced. It puts pressure on the government deficit but it alleviates some of the debt concerns in the rural area and frees up the income for consumption spending.
- The government has targeted construction of 51 lakh houses in 2017-18 under the revised Pradhan Mantri Awaas Yojana Gramin (PMAY-G). Over 32 lakh houses have been reported complete in FY17 and 18 lakh in FY16.
- Index of Industrial Production (IIP) measured on new base year grew 3.1% in Apr'17 as compared to revised IIP of 3.75% in Mar'17 on account of lower offtake of capital goods and consumer durables.
- RBI kept the repo rate unchanged at 6.25% in its last monetary policy meeting. However, SLR rate was lowered to 20% in order to align it with global Liquidity Coverage Ratio (LCR) standards. The monetary policy committee maintained its neutral stance having chosen to be careful and awaits more analysis of inflation and growth data.

- Retail inflation (CPI) has dropped to a new record low of 2.18% in May’17 as compared to 2.99% in Apr’17. The soft inflation data can be primarily attributed to a) weak economic activity leading to weak pricing power, b) nearly 6% appreciation in rupee, c) surplus food supply and d) Inventory de-stocking in anticipation of GST.

Global Economy

- US Federal Reserve has increased the interest rate by 25 bps to 1.25% and has signaled additional plans to tighten monetary policy. Fed has also reduced their projection for inflation to 1.6% in 2017, from 1.9% forecast in March.
- China’s credit rating has been downgraded by Moody’s by one notch to A1 from Aa3, first time in almost 30 years over fears that slowing growth and rising debts will weaken the world’s second largest economy.
- Globally defense spending has risen by 1% to USD 1.6T in 2016 and is expected to rise further for territorial protection and power projection. This means an up-cycle for companies connected with defense spending in any manner.

Outlook

- Weak commodities globally, especially lower crude prices will keep inflation under control and allow the government to use the savings generated to support the capex cycle.
- India remains a long-term structural story driven by the domestic Indian consumer and hence warrants an allocation in every long term investor's portfolio.
- Given that monsoon is likely to be normal and construct of GST rates is also turning out to be non-inflationary, inflation is expected to remain low this year.
- RBI may acknowledge the drop in inflation to change its stance to accommodative and deliver rate cuts.
- The current move down in bond yields and the potential of some more on further rate cuts may lead to improved bond return performance.
- In equity, investors should add to large cap and diversified funds and incremental investments in mid & small cap funds should be made with caution in a staggered manner and on dips.