Dr. Rupa Rege Nitsure
Group Chief Economist

DISCLAIMER

The views expressed here are personal views of the author and do not necessarily reflect the views, policies and ideology of L&T Finance Holdings Limited (“**LTFHL”**) or any of its subsidiaries or group companies and associate companies (collectively referred to as the **“L&T Group”**).

Nothing contained in this document shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities of any entity. LTFHL and/ or L&T Group make no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. LTFHL or L&T Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render LTFHL or L&T Group liable in any manner whatsoever and LTFHL or L&T Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

All opinions and estimates herein, including forecast returns, reflect the judgement of the author on the date of this report and are subject to change without notice and involve a number of assumptions which may not prove valid.

The document (if it) contains forward looking statements which include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis, the said forward looking statements expressed constitute the author’s judgement (unless otherwise specified) as of the date of this material. Forward looking statements involve significant elements of subjective judgements and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated; therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by LTFHL or L&T Group as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

1. Global economic briefs

- The US data-points continue to emit mixed signals. The latest data (released on July 14) showed not just an unchanged print for consumer price index for Jun-17 (over & above a drop of 0.1% in May), but also a fall in retail sales for a second straight month. The US dollar held near a 10-month low following such dismal inflation and retail sales data.
- Currently, the US policymakers are confronted with benign inflation and a tight labor market as they weigh a third rate hike and announcing plans to start reducing the central bank's $4.2 trln portfolio of treasury bonds and mortgage-backed securities.
- Meanwhile in her testimony to the US Congress on July 12th, the Fed Reserve Chair Janet Yellen said the US is healthy enough to absorb further gradual rate increases and the slow wind down of the massive bond portfolio accumulated by the Fed Reserve (more than $4 trln) during the financial crisis.
- On July 14th, Fitch Ratings maintained its A+ rating on China with a stable outlook, citing the strength of the country's external finances and macroeconomic record.
- China's economy grew faster than expected in the second quarter (@6.9%), putting the nation on track to meet its growth target this year.
- The UK Brexit Secretary David Davis will launch a first round of negotiations on Britain's withdrawal from the European Union today when he meets the EU's Michel Barnier for four days of talks between their teams in Brussels. Negotiators will break into groups discussing four key areas of priorities before a planned news conference on July 20th.
- The ECB meets on July 20, three weeks after comments from central bank chief Mario Draghi at Sintra in Portugal that were seen as opening the door to policy tweaks in the coming months triggered a jump in both government bond yields and the euro .

2. India: Agriculture and rural economic news

- Cumulative monsoon rains have been perfectly normal (with zero per cent deficit) in terms of total rainfall since the beginning of the rainy season in June until July 16th. However in terms of "distribution", 9% area of the country has received deficient rainfall so far.
- The regions reporting deficient rainfall (in cumulative terms) are – Jharkhand, Vidarbha, South Interior Karnataka & Kerala.
- Total area sown under India's summer (kharif) crop touched 56.3 mln ha by 14th July – up 8.0% (y-o-y) and 12.0% higher than five-year averages. Furthermore, the numbers show higher planting for all crops such as rice, pulses, coarse grains, sugarcane and cotton, except oilseeds.
- According to India's Minister for Agriculture, farmers have not received decent remuneration during FY17 despite the record level of food grain production. This has encouraged the government to become sensitive to the need to strengthen the market dynamics. The government has now adopted an approach that includes diversifying agriculture towards growing of high-value crops, agro-forestry, rearing of livestock, poultry and fisheries. The government is also working on to create accessible and efficient markets to ensure better price realisation to the farmers through a robust value supply chain.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

3. India's overall economic & policy developments

- India's exports growth slowed down to 4.4% (y-o-y) in Jun-17 from 8.3% in May on the back of a y-o-y decline in the exports of several labour-intensive exports like leather goods, gems & jewellery, textiles, jute products, etc. plus an overvalued rupee. However, imports grew by 19.0% (y-o-y) taking the trade deficit to $12.96 bln in Jun-17 versus $8.12 bln in Jun-16.
- India's headline CPI inflation fell to its lowest reading since 2000 of 1.5% in Jun-17 (consensus: 1.6%, our estimate: 2.1%), led by a continued fall in food & fuel prices and further moderation in core inflation. A shap fall in CPI inflation is a confluence of various factors like weak demand, lower global crude oil prices and favourable base effect.
- India's WPI inflation slipped below the benchmark 1% and settled at 0.9% in Jun17 (consensus: 1.4%; our estimate: 0.9%) from 2.2% in May-17 – its lowest level for the first time since July 2016. A decline in WPI was primarily led by deflation in food prices and a decline in fuel price inflation.
- India's industrial production growth too eased to 1.7% in May-17 (consensus: 2.0%; our estimate: 2.1%) on the back of continued weaknesses in mining & manufacturing sectors.
- While the current inflation-growth mix warrants a reduction of 50 bps in policy rates, we don't expect the MPC members to deliver (at the best) a cut of more than 25 bps, as they remain concerned over the inflationary implications of HRA (7th Pay Commission), farm loan waivers, rural wage growth, GST, State Government finances & the waning of favourable statistical base effect. Moreover, the ongoing (& expected) OMOs to keep liquidity in a neutral zone clearly indicate that RBI does not wish to undertake aggressive monetary easing against the backdrop of current economic environment (both domestic & global).
- According to RBI, Indian banks loans and deposits rose at the pace of 6.0% and 11.1% on year respectively, as on June 23, 2017. While outstanding loans rose by Rs 47.8 bln to Rs 76.64 trln in the two weeks to Jun 23, aggregate deposits increased by Rs 276.7 bln to Rs 106.06 trln. The Credit-Deposit ratio stood at a slightly lower level of 72.26% as on June 23 versus 72.41% as on June 9.
- India's Broad Money Supply, i.e., M3 growth stood at a lower 7.4 % (y-o-y), as on June 23, 2017 (versus 10.3% a year ago) primarily led by lesser currency in circulation with public (down by 12.8%, y-o-y).
- India's foreign exchange reserves marginally fell to $386.38 bln in the week to July 7, led by a fall in foreign currency assets. Forex kitty fell by $161.9 mln this week versus the previous week's increase of $4.01 bln to $386.54 bln.

4. India's industrial & services sectors scenario

- Sentiment towards growth prospects among Indian companies has brightened half-way through 2017, with most of the confidence indicators moving higher in Jun-17. According to IHS Markit's report – Indian Business Outlook – Indian firms are planning to step up output in line with forecasts of new business growth.
- India is likely to impose restrictions and standards on products which saw an increase in imports as compared to domestic production. The nation's department of commerce has asked various ministries to analyse data and compile lists of products which are being produced domestically but have been losing market share to imports.
- India's automobile sales rose by just 1.3% (y-o-y) in Jun-17, as per the data released by Society of Indian Automobile Manufacturers (SIAM). The subdued growth in sales was on account of a transition to GST during the month and uncertainties related to it which kept buyers away from making purchases. Commercial vehicle

and two-wheeler sales increased by 1.4% and four per cent, respectively. However, sales of passenger vehicles declined by 11.2%, even as automobile exports grew by 5.5% in Jun-17.

5. Indian money market review last week

- India's weighted average call money rate (WACR) averaged at 6.03% last week (July 10-14) versus 6.05% in the week earlier (July 3-7) on surplus systemic liquidity. Reversal of earlier held reverse repos has been aiding the liquidity, in general despite the RBI's OMOs & other reverse repo auctions.
- However, 91-day T-bill rate moved in a wide band of 6.15% to 6.27% during last week and 364-day T-bill rate too hovered between a range of 6.30% & 6.35%. On an average, yields on 91-D TB fell by six bps while those on 364-D TB declined by 4 bps.
- Three-month CP rate too hovered in the wide band of 6.59% to 6.70% last week, signaling increased uncertainty. On an average, the yield on 3-month CP fell by 3 bps over the previous week.
- Even today, dealers are estimating surplus liquidity around Rs 2.8-2.9 trln.

6. G-Sec sentiment remains cautiously positive

- India's benchmark 10-year bond yield declined by seven bps last week to close at 6.46%, on hopes of a reduction in policy rates post the release of lower than expected CPI & WPI inflation prints.
- While market sentiment remains positive due to hope of an interest rate cut at the RBI's policy meeting in August, most traders were of the view that bond prices are unlikely to rise much, going forward.
- The RBI has already done one round of OMO sale and announced another one for July 20. Bond traders expect the central bank to continue conducting more such bond sale operations, going forward.
- Despite a significant moderation in inflation, the RBI's steady efforts to keep liquidity in the neutral zone combined with widening SDL spreads are keep the G-Sec sentiment cautiously optimistic.

7. INR to stay range-bound despite strong inflows

- INR appreciated by 0.23% last week to 64.4475 per USD on the back of strong custodial flows.
- INR opened firm today (currently ruling near 64.35) after weak US economic data dampened the hopes of the pace of rate hikes in the US.
- However, RBI is limiting further rise in INR as PSU banks are seen buying dollars persistently. According to FX experts, RBI may not allow INR to rise beyond 64.30 a dollar. Market participants expect foreign portfolio investors to subscribe to bonds issued by various Indian companies. However, most of these flows may be absorbed by the central bank. Widening of trade deficit will also weigh on the sentiment.

8. Increased volatility seen in Indian stocks

- Globally, stocks ended in a positive zone last week led by an upward boost from Brazil, Hong Kong & Indian markets that gained 5.0%, 4.1% & 2.1% on week on week basis, respectively.
- The gains in Indian stocks were led by stocks in telecom, IT, Oil & Gas, Power & Banking sectors taking positive cues from the global markets and expecting further easing in domestic monetary policy.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

- With “valuations” already over-stretched, potential triggers like news on monsoon's progress and global trends like monetary policy review by major international central banks could unleash "volatility” in Indian stock trading, say stock experts.

9. Brent crude edged up to $49 per bbl on July 17, 2017

- Brent crude price edged up to around $49 a barrel today as a slowdown in the increase of rigs drilling in the US eased concern that surging shale supplies will undermine OPEC-led cuts.
- The US drillers added two oil rigs in the week to July 14, bringing the total to 765, Baker Hughes on Friday (July 14). RIG-OL-USA-BHI Rig additions over the past four weeks averaged five, the lowest since November.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com