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 Financial Services
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

- As per the report of the US commerce Dept released last week, consumer spending in the US that covers 70% of the US economic activity increased 0.5% in Sept-16 after dipping 0.1% in Aug-16.
- The US factory activity too increased for a second straight month in Oct-16 amid a pickup in production and hiring, supporting views that the embattled manufacturing sector would regain some momentum in Q4, 2016.
- Furthermore, the US nonfarm payrolls increased by 161,000 jobs last month amid gains in construction, healthcare and professional and business services, as per its Labor Department.
- China's factory activity expanded at its fastest space in more than two years in Oct-16, as a jump in domestic demand offset weak export orders, as per the PMI survey. The reading at 51.2 was the strongest since Jul-14. However, China's export growth to emerging markets that helped it weather the global financial crisis has fallen away, adding to the drag on manufacturers as demand from advanced economies fails to pick up the slack.
- China's parliament passed an interpretation of Hong Kong's Basic Law today, as reported by the Xinhua news agency, which amounts to Beijing's most direct intervention in the territory's legal system since the 1997 handover to Chinese rule.
- Japan's real wages rose for the eighth consecutive month in Sept-16 by 0.9%, faster than a revised 0.6% gain in the previous month. Furthermore, a majority of Bank of Japan (BOJ) policymakers believe it could take time for inflation expectations to firm, underscoring lingering doubts on how effective the BOJ's new policy framework would be in achieving its ambitious 2% inflation target.
- British Prime Minister Theresa May has assured that she would deliver a full exit from the EU, hitting back at critics of her Brexit strategy who have threatened to try to block the process in parliament.
- Egypt's central bank devalued the pound last week by 32.3% to about 13 pounds per dollar in an attempt to stabilize its economy, which has been hampered by a shortage of dollars. This was down from the previous peg of 8.8 per dollar, which had been in place since Mar-16. It has since tumbled further, and is now down by about 50%.
- According to global analysts, global markets will be plunged into turmoil this week if Donald Trump wins the race for the white house, with currency turbulence and a drop in US stocks not seen since the financial crisis. While polls and betting markets still point to a victory for Hillary Clinton, the Democrat's lead has narrowed in recent weeks.

2. India: Agriculture and rural economic news

- While India had the best monsoon season in the past three years, the state of Kerala has declared all its districts (14) drought-hit, as it faced one of the worst droughts in 2016 during the past 10 years.
- In a first of its kind of exercise, India's NITI Aayog has prepared 'Agriculture Marketing and Farmer Friendly Reforms Index' based on initiatives taken by the states in implementing farm sector reforms. According to this index, Maharashtra has been adjudged the most farmer friendly state in the country followed by Gujarat and Rajasthan. It further said that almost 20 out of 29 states, including West Bengal, Uttar Pradesh, Punjab, Assam, Jharkhand, Tamil Nadu and J&K, have done poorly with regard to agri-sector reforms. As per the states' score in the Index, Madhya Pradesh ranked fourth, followed by Haryana, Himachal Pradesh, Andhra Pradesh, Karnataka, Telangana, Goa and Chattisgarh.

L&T Financial Services
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 fiscal deficit widened to 83.9% of the budgeted estimate during Apr-Sept, 2016 versus 68.1% in Apr-Sept, 2015 on the back of higher plan expenditure that has increased to 58.7% versus the budgeted target of 54.6%.
- According to an industry chamber ASSOCHAM's report released last week, Indian economy is expected to fare better in H2, FY17 by uptick in sales and improved capacity utilisation, though fresh investments and new jobs creation may be a concern, going forward. Moreover, an increased spending on infrastructure development, largely by the government, is seen as the most important driver for a turnaround in the economic outlook during H2, FY17.
- Last week, India's Ministry of Finance extended the deadline to Nov. 20 for submission of report by the FRBM committee on fiscal deficit range. In May this year, the government had formed a five-member committee to review the working of the 12-year old FRBM Act and examine the feasibility of a fiscal deficit range instead of a fixed target.
- According to SEBI, India Inc raised a staggering Rs 704 bln in Oct-16 through private placement of corporate debt bonds, a surge of 60% (y-o-y).
- Global ratings agency Standard & Poor's (S&P) reiterated its sovereign rating and outlook on India last week but ruled out any upgrade for this year and the next, citing weak public finances.
- India's central government and the state governments approved last week a four-tier GST structure, marking a major step towards implementation of India's most ambitious indirect tax reform. The government has decided on multiple tax rates (comprising four or more rates alongside several cesses) and multiple exemptions. A functional GST council is now in place. This Council, comprising finance ministers from all states, has been meeting and seeking to thrash out various issues to pave the way for a tax regime that will help build a national common market for goods and services.
- India improved its ranking by one spot in a global index of business optimism, with policy reforms and GST expected to become a reality soon, says a survey. According to the latest Grant Thornton International Business Report, India was ranked second on the optimism index during the second quarter (July-Sept, 2016).
- India's National Food Security Act, which promises to subsidise food grain for about 810 mln people, now covers the whole country, more than three years after it was formally notified. With Kerala and Tamil Nadu, the two states resisting its implementations for different reasons, now agreeing to implement it from Nov. 1st, all 36 states and UTs have been brought under it.
- According to RBI, Indian banks loans and deposits rose strongly by 8.9% and 10.4% on year respectively, as on Oct 14, 2016, reflecting a major reversal of the last mile effort. While outstanding loans declined by Rs 2.12 trln to Rs 73.62 trln in the two weeks to Oct 14, aggregate deposits fell by Rs 2.45 trln to Rs 99.63 trln.
- Broad Money Supply, i.e., M3 growth slightly eased to 11.5% (y-o-y), as on Oct 14, 2016 primarily driven by a sharp y-o-y growth in currency with the public and demand deposits in the banking system.
- India's foreign exchange reserves further increased, albeit mildly by $16.6 mln to $367.16 bln in the week ended Oct 28, according to the RBI data. The country's forex reserves had increased by $1 bln to $367.14 bln in the previous week. This offers a good buffer against the high impact global events unfolding in the near term.

L&T Financial Services
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

4. India's industrial & services sectors scenario

- India's core industrial output rose 5% (y-o-y) in Sept-16 and the growth drivers were steel, refinery products, cement, electricity generation & fertilizers. Moreover, export credit extended by banks too rose significantly by 27.9% in Aug-16 after several months of sluggish growth on the back of better exports to the EU region plus reintroduction of interest subvention scheme.
- India's domestic airlines flew 8.23 mln passengers in Sept-16, registering a growth of 23.5% over the year. The passenger traffic data, released last week showed that in Sept-16 the passenger load factor "remained almost constant" compared to Aug-16, due to the end of the tourist season.
- India's manufacturing sentiment picked up to a 22-month high in Oct-16, as reflected in the reading for PMI (manufacturing) at 54.4. The pick-up was on the back of strong output growth and new orders.
- According to India's Ministry of External Affairs, India has made a strong pitch for Chinese investments under its Make in India initiative in a range of sectors like infrastructure development and solar energy at two events in the booming eastern Zhejiang province.
- In its latest report on Private Equity investments in Real Estate sector of India, the Cushman & Wakefield (C&W) said that India has attracted inflows to the tune of $4.24 bln until Sept 20, 2016 – up 22% from $3.6 bln recorded during the same period last year.
- India's Finance Ministry has imposed provisional anti-dumping duty on import of hot rolled steel products (bars and rods) from China that will be valid for a period of six months.

5. Indian money market review last week

- India's weighted average call money rate averaged at 6.06% last week (Tues-Fri) versus 6.16% in the previous week, as liquidity became comfortable following the month-end spending by the government of India.
- Average daily fixed rate repo borrowing of banks too fell from Rs 109.89 bln in the previous week to Rs 38.18 bln in the week under review (Nov 1-4). Average daily borrowing under MSF increased marginally from Rs 2.06 bln to Rs 2.74 bln.
- The RBI conducted just one 14-day variable rate term-repo auction last Tuesday that was of the size Rs 48 bln.
- While 91-day T-bill rate stayed in the band of 6.36% to 6.41% during last week; 364-day T-bill rate moved in the range of 6.45%-6.46% - reflecting a rise of just one to two bps over the previous week on an average.
- Three-month CP rate stayed in the band of 6.94%-7.00%, further increasing by three bps on an average last week.
- Despite likely outflows on account of indirect taxes and the payment of Rs 150 bln for gilts, dealers expect liquidity to stay comfortable this week on account of maturity of reverse repos this week.

6. Gilts to remain in thin band due to high impact global events

- Sequentially, India's new benchmark 10-year bond yield further gained five basis points last week and ended at 6.84%, as traders kept on reducing exposure on their portfolios due to growing uncertainty over the outcome of the US presidential election on Nov 8^{th}.
- According to India Ratings, emerging global risks will keep Indian debt markets on the defensive and limit gains, going forward. The ratings agency says it believes that an uptick in global yields and several upcoming high-impact events globally will limit the softening of domestic bond yields.

L&T Financial Services
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

7. Rupee to witness mild depreciation this week

- INR mildly appreciated by 0.1% last week to 66.71 per USD, as some banks sold the US dollars last week on account of remittances from NRIs from West Asia.
- Also, investors refrained from building significant positions ahead of presidential elections in the US.
- According to India Ratings, with the event of risk aversion resurfacing, the rupee will emerge as the first line of transmission of global risks to domestic financial markets. The potential resurgence in risk aversion and as a fallout a fall in investment flows will keep the rupee vulnerable and it may come under mild depreciation.

8. Indian stocks to stay volatile in the near term

- Barring China, major global markets ended the week on a negative note last week, as "uncertainty" over the US elections outcome has made global market participants quite jittery.
- However, stock markets in China were up by 0.7% during the week mainly on the back of good factory activity (PMI) numbers.
- Back home, Indian markets lost 2.4% over the previous week, led by mid & small caps, oil & gas, realty and pharma stocks. Besides investors' anxiety over the US presidential elections, a massive foreign funds outflow was behind the losses in Indian equities last week.
- Benchmark indices gained today, buoyed by the Federal Bureau of Investigation's statement that no criminal charges were warranted against Democrat nominee Hillary Clinton.
- Global cues such as the US presidential elections, trends in dollar strength & foreign capital flows, are expected to keep Indian stocks in a volatile mode in the near term. However, our past experience shows that this "overhang" may not continue on the stock sentiment for very long and domestic factors would take precedence over global events sooner than later.

9. Brent crude closed at $46.20 per bbl on November 4, 2016

- Global Brent crude prices had their biggest weekly decline on Nov 4th as it appeared that the OPEC deal was falling apart at the seams.
- The December Brent contract slipped 0.28% to trade at $46.20 a barrel, close to the five-week trough of $45.97 a barrel hit earlier in the session.

L&T Financial Services
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