MONTHLY UPDATE
AUGUST 2019

Knight Frank

THE NEW BENCHMARKS

GLOBAL UPDATE | INDIA UPDATE | ECONOMIC TRENDS | INDIA INFRASTRUCTURE & REALTY UPDATE

GLOBAL UPDATE

Indian cities fare poorly

The two largest Indian cities—New Delhi and Mumbai—have slipped in rank in the Global Liveability Index for 2019 compiled by the Economist Intelligence Unit (EIU). The index ranks cities on five broad parameters—stability, healthcare, culture and environment, education and infrastructure. In a ranking of 140 cities, New Delhi was placed at 118. In fact, the capital of India slipped six places, in the recent rankings—appalling air quality and downgrades in culture and stability being the primary culprits. Mumbai, the financial capital of India slipped two places this year, compared to last year's rankings and was placed at the 119th rank. Cities that were placed at the bottom of the rankings were Karachi, Dhaka and Damascus. Vienna topped the 2019 rankings and was followed by Melbourne, Sydney, Osaka, Calgary and Vancouver. Tokyo and Toronto were tied on the seventh spot. Copenhagen was placed on the ninth spot and was followed by Adelaide.

Mumbai slips 12 places

In the 25th Annual Cost of Living Survey, Mumbai has slipped 12 places to be placed at the 67th position in a ranking of 209 cities. Even though the financial capital of India has slipped 12 places it remains India's costliest city and one of the most expensive cities in Asia. Other Indian cities which made it to rankings are New Delhi (118), Chennai (154), Bengaluru (179) and Kolkata (189). It is worth noting that all these four Indian cities slipped ranks in the latest rankings. As per the survey, the costliest city in the world is Hong Kong followed by Tokyo, Singapore and Seoul.

China overtakes India

If one looks at the GDP numbers for India for FY19, it is very evident that the Indian economy has been gradually slowing down. To illustrate, Q1 2019 grew by 8.2%, Q2 2019 grew by 7.1%, Q3 grew by 6.6% and Q4 2019 grew by 5.8%. And in the first quarter of FY20, the economy further slowed down to 5%. The point worth mentioning is that the gradual slowdown in the economy, especially in the last quarter of FY19, indicates that India gave up its tag as the "fastest growing economy in the world" to China which has a much larger economy than India and grew by 6.4% between January–March 2019 and by 6.2% between April–June 2019.

Helping hand by ABD for government initiatives

The Indian government's aim towards building a USD 5 trillion economy received a helping hand from the Asian Development Bank (ADB) which committed USD 12 billion, over the next three years, for different government initiatives like piped water supply and road safety. In its press release, the multilateral lending agency has stated that it is also looking towards enhancing partnerships in areas like new technologies and innovation, renewable energy, solar-pump irrigation, electric vehicle and battery, fintech, sustainable tourism and recycled plastic.

Kalimantan: The new capital of Indonesia

Indonesia is planning to shift its capital to Kalimantan. If the plan is approved by the House of Representatives, then construction of the new capital will commence soon. After the necessary approvals are in place, the plan is to start construction on 40,000 hectares. There are also plans to start transferring bureaucrats into the new capital by 2024. There are many reasons why the national capital, which is currently at Jakarta, is being planned to be shifted to a new location. First, the burden on Jakarta is very high. The island of Java, on which Jakarta is located, is home to 60% of the country's population and almost all of its economic activity is transacted on the island. The deteriorating air quality is another factor. Further, the site for the new capital is strategically located and in terms of size it will be four times the size of the current capital city. Also, the present capital is sinking by approximately 25 cm every year, along with the sea well which was designed to protect it. The cost of moving the capital to a new location is expected to cost USD 32.7 billion.

Water pollution stunting economic growth: The World Bank

The World Bank in a study "Quality Unknown: The Invisible Water Crisis" which states that "lack of clean water limits economic growth by one-third." The study further calls for immediate global, national and local level attention to these dangers which face both developed and developing countries. New data and methods have been used in the study which show how a combination of bacteria, sewage, chemicals can "suck oxygen from water supplies and transform water into poison for people and ecosystems." The study further highlights the fact that the key contributor towards poor quality of water is nitrogen, the source of which is the fertilizer used in agriculture. The study further states, "the run-off and release into water from every additional kilogram of nitrogen fertilizer per hectare can increase the level of childhood stunting by as much as 19% and reduce adult earnings by as much as 2%, compared to those who are not exposed." That's not all, the study also finds that "salinity in water and soil increases due to more intense droughts, storm surges and rising water extraction, agricultural yields fall. The world is losing enough food to saline water each year to feed 170 million people."

INDIA UPDATE

The new benchmarks

The major grouse among homebuyers, new homebuyers in this case, has been that it takes a lot of time for monetary transmission to happen, even after the Reserve Bank of India (RBI) reduces the policy rates. The reason for monetary transmission taking up time is the fact that loans are linked to the Marginal Cost of Lending Rate (MCLR). In the recent past, there has been lot of talk of linking retail loans with the repo rate. Come October 2019 and this will well be a reality. The RBI in a circular dated 4 September 2019 has stated "it has now been decided to link all new floating rate personal or retail loans (housing, auto, etc.) and floating rate loans to Micro and Small Enterprises extended by banks with effect from 1 October 2019 to external benchmarks." These benchmarks could be any of the following: (1) the repo rate of the Reserve Bank of India (2) three months Treasury Bill yield published by the Financial Benchmarks India Pvt Ltd (FBIL) (3) any other Benchmark published interest rate published by FBIL. So what happens to existing borrowers. The RBI in its circular has clarified that existing loans and credit limits linked to the MCLR / Base Rate / BPLR shall continue till repayment or renewal. When these new benchmarks come into force, any cut in benchmarks rate cuts, will automatically be passed on to the consumers. It must be noted that several banks have taken the lead in launching home loans linked to the repo rate. State Bank of India has stated that starting 1 October 2019, the repo rate will be the benchmark rate for all its floating rate loans for small businesses and retail loans. Other financial institutions that have launched home loans linked to the repo rate are Bank of India, Union Bank of India, Central Bank of India, United Bank of India and Allahabad Bank, among others.

MCLR heads South

While there is still time for repo rate-linked retail loans to see the light of day, the good news is that the Marginal Cost of Funds based Lending Rate has been heading south. It needs to be noted that till that time when the new benchmarks see the light of the day, the old benchmarks will remain in force. In a recent development, the country's largest bank, the State Bank of India reduced its MCLR by 10 bps w.e.f. from 10 September 2019. As a result of this reduction, the one-year MCLR for SBI now stands at 8.15% compared to 8.25% earlier. Subsequently, other financial institutions have reduced their MCLR, in the recent past. ICICI Bank reduced its MCLR by 10 bps across maturities. As a result of this reduction, the bank's one-year MCLR now stands at 8.55%. Axis Bank too reduced its MCLR by 10 bps. Hence after the reduction, the bank's MCLR now stands at 8.55%.

Deposit rates head South

With MCLR on its way down and new benchmarks coming into force from 1 October 2019, it was only a matter of time before deposit rates started to decline as well. It needs to be mentioned that for retail loans to go down, among other things, it is imperative that the deposit rates also need to be reduced. The State Bank of India, the country's largest bank, reduced its term deposit rates by 20–25 bps w.e.f. 10 September 2019. Other financial institutions also have cut their deposit rates, in the recent past.

A slowdown stares the country in the face

The slowdown in the economy is for real and the data released by the National Statistical Office (NSO) further attests this fact. The gross domestic product (GDP) growth after having registered a growth rate of 5.8% in the last quarter of FY19, further slowed down to 5% in the first quarter of FY20. It needs mention that during the same period last year, GDP had registered a growth of 8.2%. Further, a growth rate of 5% registered in the first quarter of FY20 is a six-year low. As a result of this slowdown, many agencies have even lowered their growth outlook for India. It must be noted that the Reserve Bank of India in its "Third Bi-monthly Monetary Policy Statement 2019–20," on 7 August 2019, had revised the growth outlook to 6.9%, in the range of 5.8%–6.6% for H1 2019 and 7.3%–7.5% for H2 2019. Interestingly, after the GDP growth rate figures, for Q1 FY20 were announced several agencies have pared the growth outlook of India. Crisil after having projected the growth outlook of 6.9% for FY20 reduced it to 6.3%. DBS on the other hand reduced the growth outlook for the current fiscal from 6.8% to 6.2%. Reacting to the stimulus package announced Nirmala Sitharaman, Union Finance Minister, India Ratings reduced the growth outlook for FY20 to 6.7% from the earlier 7.3%. Fitch Solutions too reduced the growth outlook from 6.8% to 6.4% for FY20 but maintained that a combination of fiscal and monetary stimulus, coupled with the momentum in reforms and favourable base effect would lead to a rebound.

Response to stimulus: Part 1

With an economic slowdown staring us in the face, the government on its part unveiled a detailed roadmap on 23 August 2019 to give the much-needed booster dose to the economy. Among others, the measures announced by Nirmala Sitharaman, Union Finance Minister, dwelt on areas related to tax reforms, labour laws, environmental clearances and tax reforms. A substantial amount of energy was also directed towards facilitation of wealth creation, reforms in the banking and Non-Banking Financial Companies' (NBFCs) sector and measures aimed at increasing capital flows in the financial sector and “energising financial markets.” There were mixed reactions to the measures announced by the Union Finance Minister. While industry bodies hailed the measures and stated that they will help in providing the much-needed stability and impetus to the economy, certain rating agencies felt that the measures announced by the Union Finance Minister were not enough and hence reduced their growth outlook for FY20.

Response to stimulus: Part 2

On 14 September 2019, Nirmala Sitharaman, Union Finance Minister, unveiled further measures to boost exports and the housing sector. The measures announced to boost the housing sector dwelt on relaxation of ECB guidelines for affordable housing. The ECB guidelines will be “relaxed to facilitate financing homebuyers who are eligible under the PMAY, in consultation with the RBI. Further, there will be a special window to provide last mile funding for housing projects, which are non-NPA and non-NCLT and are net worth positive.” The government will contribute to this fund on the lines of NIIF. The additional investors in the fund will be LIC and other institutions and private capital from banks, sovereign funds and so on. INR 10,000 crore will be contributed to this fund by the Government of India and roughly the same amount from the additional investors.

Merger of PSU banks

One of the high points of the Union Budget speech delivered by the Union Finance Minister on 5 July 2019, wherein speaking about the Indian economy she stated, “It is well within our capacity to reach the USD 5 trillion in the next few years.” In the presentation delivered by Nirmala Sitharaman, Union Finance Minister, in which merger of public sector banks was announced it was stated that strong banks were imperative for a USD 5 trillion economy. The rationale behind amalgamation of public sector banks to create, financial behemoths, was that the big banks will have greater capacity to increase credit, will have enhanced risk appetite, will have better ability to raise resources and can have wider offerings with enhanced customisation. Further, there will be greater thrust to make these massive financial entities into NextGen banks. The merged entities will be as follows:

1. Punjab National Bank + Oriental Bank of Commerce + United Bank
2. Canara Bank + Syndicate Bank
3. Union Bank of India + Andhra Bank + Corporation Bank
4. Indian Bank + Allahabad Bank

Therefore, apart from these four merged entities, the following public sector banks will be present in the country:

1. State Bank of India
2. Bank of Baroda
3. Bank of India
4. Central Bank of India

In addition, the following banks will strengthen regional focus:

1. Indian Overseas Bank
2. UCO Bank
3. Bank of Maharashtra
4. Punjab and Sind Bank

Even the decision to merge pubic sector banks and have 12 of them, in the country, attracted divergent views. While voices from the government stated that having 12 public sector banks is “almost the right number of banks” that the country should have, voices from other corners think differently. Credit Suisse in its recent study has stated that it is highly unlikely that the merger of 10 public sector banks into four will help revive credit growth.

Worst auto sales in August

The woes of the automobile sector seem to be getting worse. As per the data released by the Society of Indian Automobile Manufacturers (SIAM), August witnessed the worst drop in sale of passenger vehicles, ever since SIAM started maintaining sales data, i.e. from 1997–98. Passenger vehicle sales went down 31.57% in August 2019, compared to the same period last year and sales of passenger car sales shrunk by 41.09%.

Bank frauds worth INR 32,000 crore in Q1 FY20

It has come to public notice that between April–June this year, there were 2,480 bank frauds amounting to INR 31,898.63 crore spread across 18 public sector banks. These details came to light through an RTI query. A further look into the details revealed that the maximum number of frauds (1,197 cases) were detected in the State Bank of India. The value of these frauds amounted to INR 12,012.77 crore. Next in line was Allahabad Bank in which there were 381 instances of frauds, mounting to INR 2,855.46. Punjab National Bank, where 99 cases amounting to INR 2,526.55 were reported, stood third. Other banks where frauds amounting to more than INR 2,000 crore include Bank of Baroda, Oriental Bank of Commerce and Canara Bank. In other cases, frauds detected amounted to less than INR 2,000 crore. Banks in this category included Central Bank of India, United Bank of India, Corporation Bank, Indian Overseas Bank, Syndicate Bank, Union Bank of India, Bank of India, UCO Bank. Frauds were also reported in banks like Bank of Maharashtra, Andhra Bank, Indian Bank and Punjab and Sind Bank.

ECONOMIC UPDATE

Manufacturing slips to a 15 month low

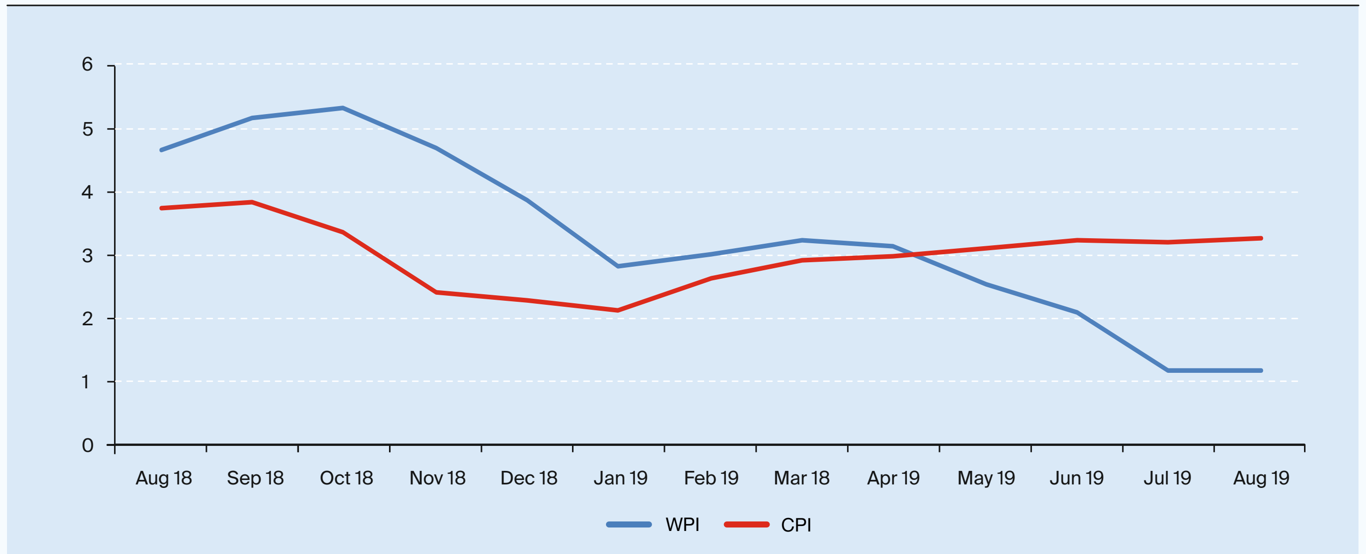
The Nikkei India Manufacturing Purchasing Managers' Index (PMI), which stood at 52.5 points in July 2019 slipped to a 15-month low to 51.4 points in August 2019. Among the factors that contributed to the manufacturing sector's decline was low sales (lowest in 15 months), which forced factories to lower their input buying. While the manufacturing index has slipped to a 15-month low, the economy is still expanding. A score above 50 points towards economic expansion, while one lower than 50 is a sign of economic contraction.

Services PMI loses steam

The Nikkei India Services Business Activity Index, which stood at 53.8 points in July 2019 declined to 52.4 points in August 2019. The index lost steam in August largely on account of slow growth in business inflows. As is the case of the manufacturing PMI, so also it is with the services PMI, a score above 50 points towards economic expansion, while one under 50 is an indication of economic contraction.

CPI at a 10-month high; WPI remains unchanged

INFLATION



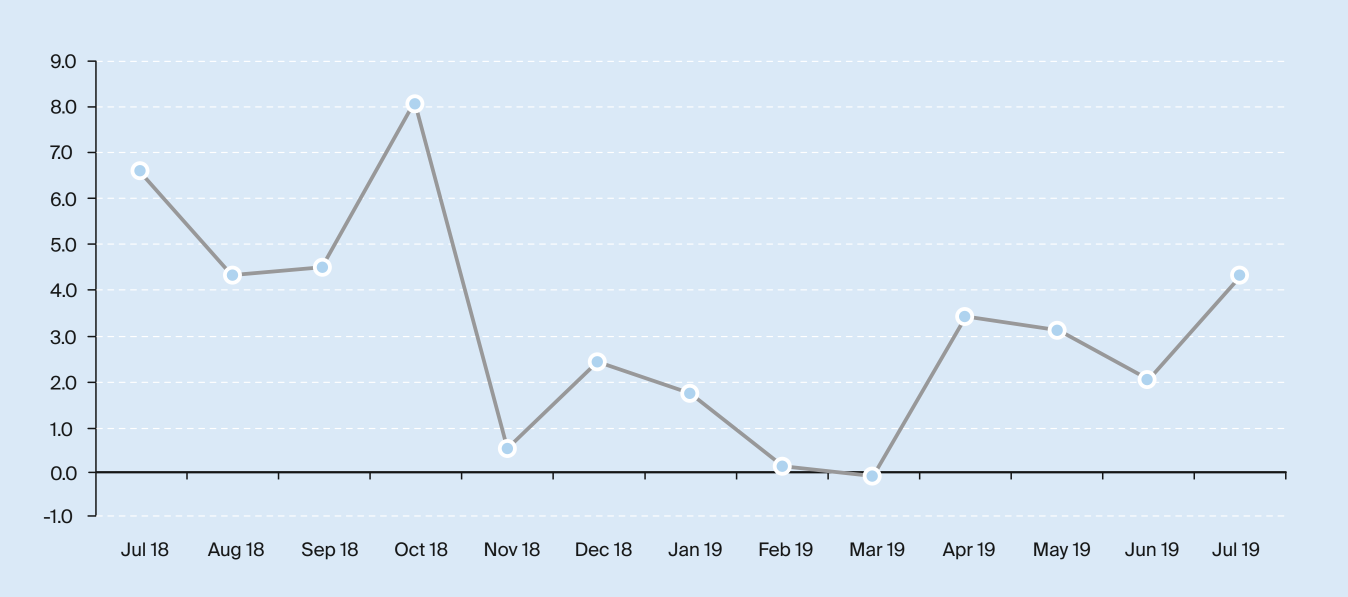
Source: Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Government of India

In January 2019, when retail inflation clocked 2.05%, it was a 19-month low, at that time. Since then however, retail inflation has been gradually inching upwards. In May 2019 it crossed 3% and it settled at a 10-month high at 3.21% in August 2019. What is worth noting is that retail inflation in urban areas is at 4.49% (4.22% in July 2019), which is more than double the rate in rural areas, where the figure for August 2019 stands at 2.18%. The Consumer Food Price Index, which stood at 2.36% in July 2019, moved up to 2.99% in August 2019. Even though retail inflation is at a 10-month high, in August 2019, there are certain categories that have witnessed a decline in prices compared to August 2018. These include sugar and confectionary (-2.35%) and fruits (-0.73). Among the major groups, fuel and light witnessed a decline of -1.70%, in August 2019, compared to the same period last year. The rate of price growth in case of other categories was positive. Among major product categories, the rate of price growth, in August 2019, compared to the same period last year was 4.84% for housing, 4.71% in case of miscellaneous items, 5% for pan, tobacco and intoxicants and 2.96% in case of food and beverages. Among sub-categories, the highest rate of price growth, in August 2019, compared to the same period last year was witnessed in case of meat and fish (8.51%), and health (7.84%).

The slide in the Wholesale Price Index (WPI), which has been in decline post March 2019, had slipped to 1.08% in July 2019. In August 2019, the WPI remained unchanged. As regards inflation across major categories, primary articles witnessed a price growth of 6.64%. However, even in primary articles, there were certain products which witnessed a decline in prices in August 2019, compared to the same period last year. The price of potatoes declined by 21.28% and that of crude petroleum by 14.59%. There were certain products within 'primary articles' which witnessed an astronomical increase in prices in June 2019, compared to the same period last year. These include onions (33.01%), fruits (19.70%), minerals (18.55%) and pulses (16.36%). Fuel and power category witnessed a 4% decline in prices in August 2019 compared to the same period last year. Within fuel and power, the maximum decline in prices was witnessed in LPG (27.94%) followed by petrol (5.55%) and HSD (3.51%).

IIP at a Nine month high

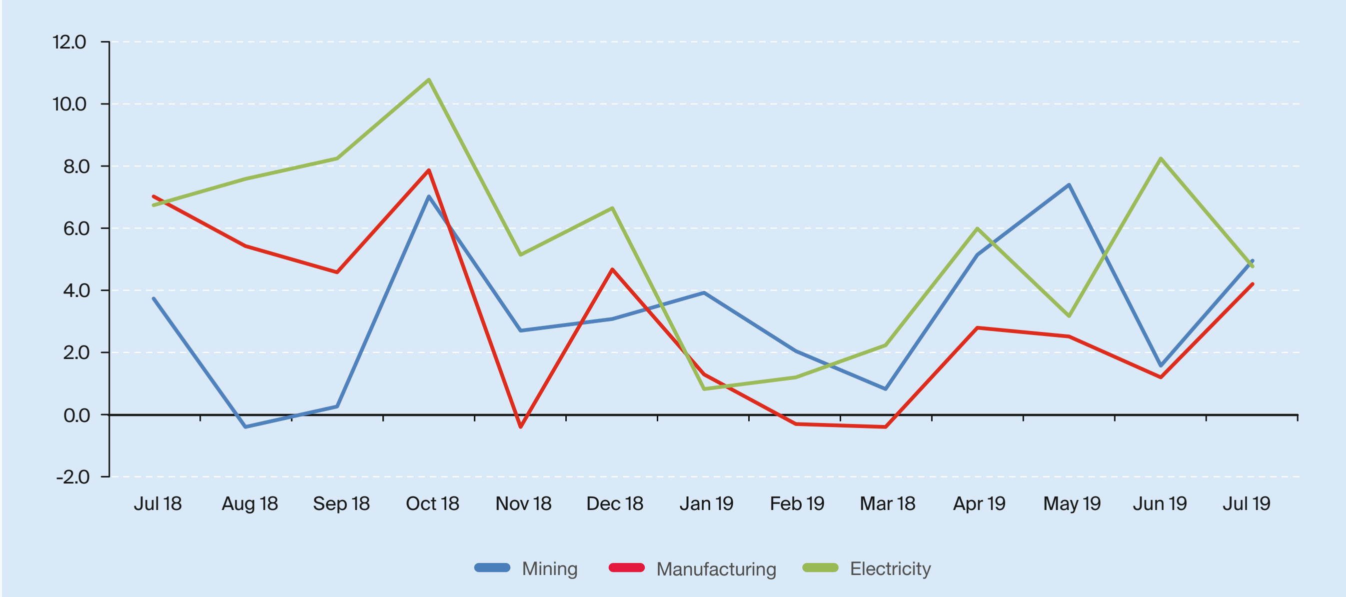
IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, Government of India

The growth rate of the Index of Industrial Production (IIP), especially post October 2018, has been rather lacklustre. In fact, the growth rate went in the negative in March 2019 when it clocked -0.1%. In June 2019, the IIP registered a growth rate of 2%. In July 2019, however, it grew at 4.3%, a nine-month high.

IIP (SECTOR WISE)

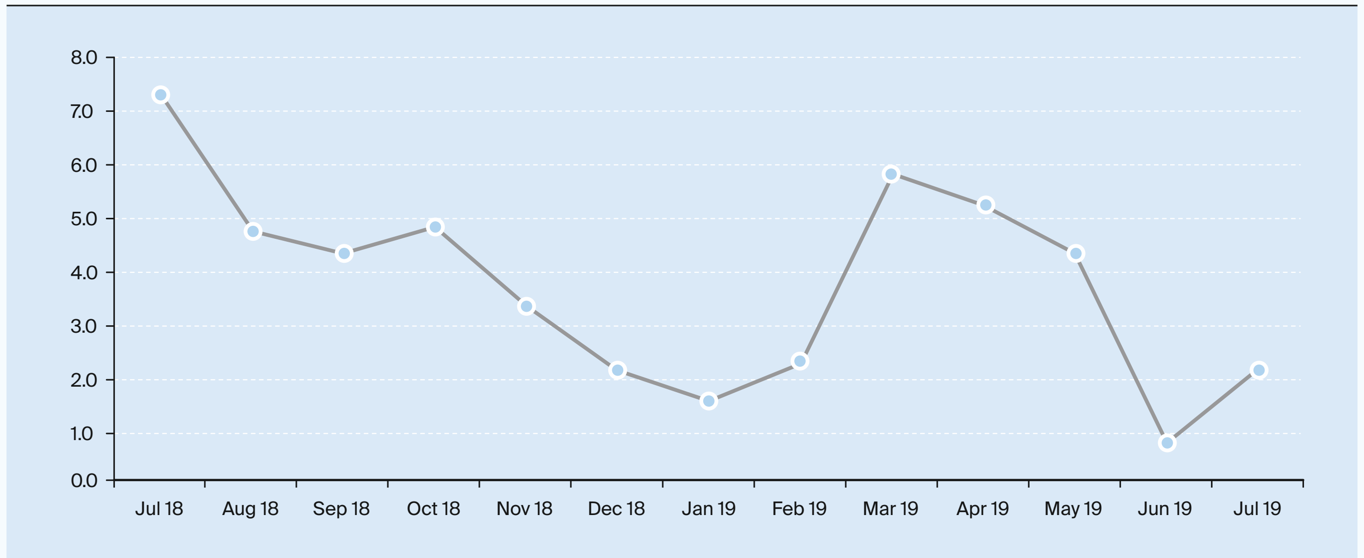


Source: Ministry of Statistics and Programme Implementation, Government of India

When one looks at the growth rates of the sectors that make up the IIP, it demonstrates why the growth rate of the IIP is at a nine-month high in July 2019. When compared to the growth rates of the previous month, of the three sectors, two sectors have done well. The mining sector registered a growth rate of 4.9% in July 2019, compared to a growth rate of 1.6% it clocked in the month of June 2019. Similarly, the growth rate of the manufacturing sector stood at 4.2% in July compared to 1.2%, the previous month. While the growth rate of the electricity sector remained in the positive, its growth rate was much lower in July 2019, compared to the previous month. In July, the growth rate registered by the electricity sector was 4.8% compared to 8.2% in the previous month

Core sector slows down

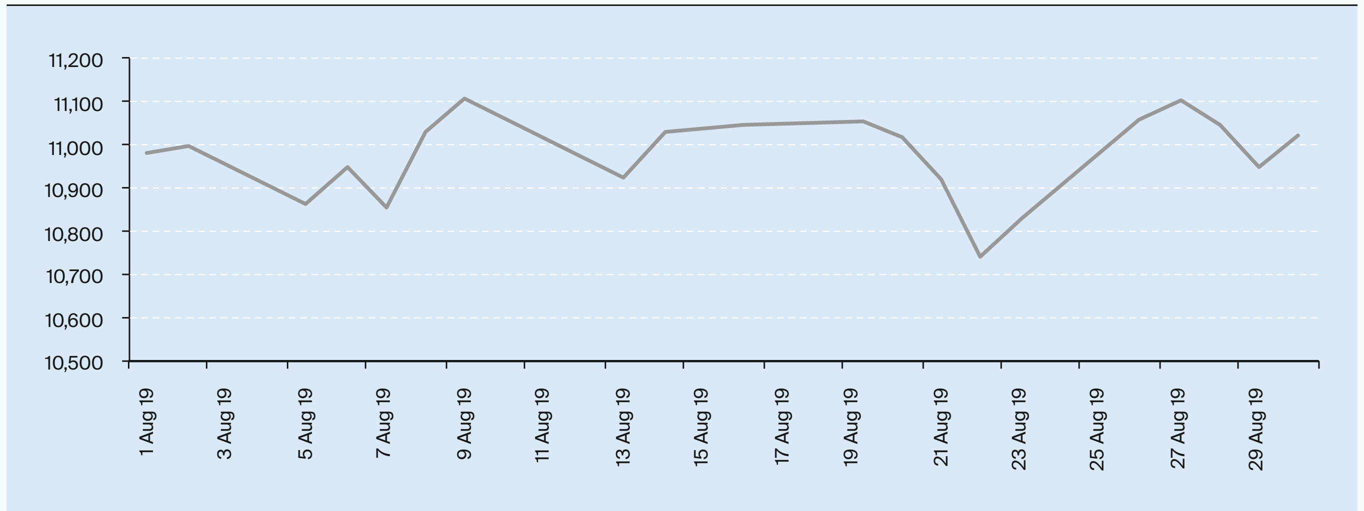
INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce and Industry, Government of India

The growth rate of the core sector has slowed down in July 2019, compared to the same period last year but when compared to the growth rate in June 2019, things look a little better. The core sector which registered a growth rate of 7.3% in July 2018 grew by only 2.1%. Further, it needs to be remembered that the growth of the core sector slowed to 0.7% in June 2019. Of the eight sectors, the growth rate of four sectors were in the red in July 2019. Sectors which registered negative growth rates in July 2019 are coal (-1.4%), crude oil (-4.4%), natural gas (-0.5%) and refinery products (-0.9%). On the other hand, the other four sectors registered positive growth rates in July 2019—fertilizers (1.5%), steel (6.6%), cement (7.9%) and electricity (4.2%).

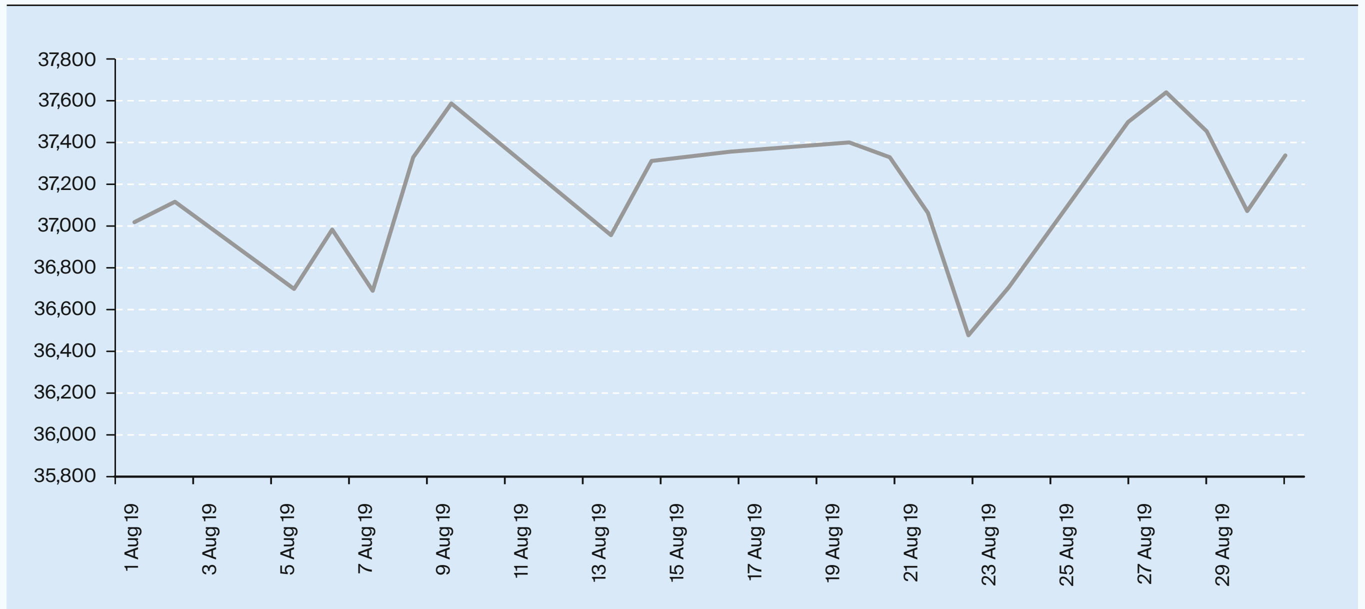
NIFTY 50



Source: National Stock Exchange

The NIFTY 50 went up by 0.4% in August 2019.

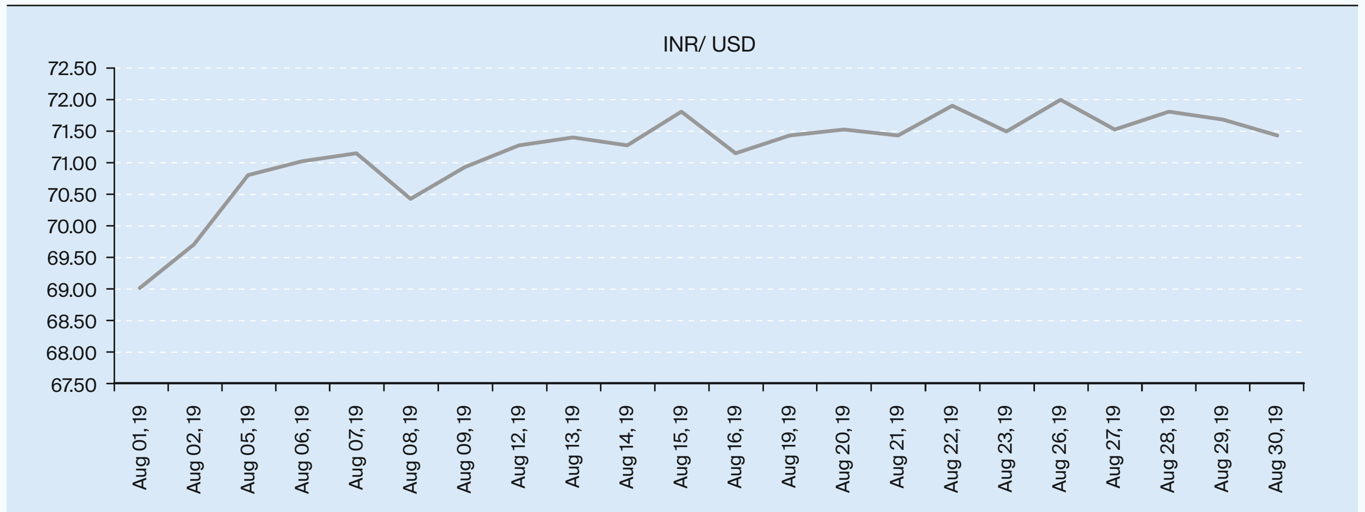
S&P BSE SENSEX



Source: Bombay Stock Exchange

The S&P BSE SENSEX increased by 1% in August 2019.

CURRENCY



Source: https://in.investing.com

The INR lost 4% against the USD in August 2019

INDIA
Infrastructure & Realty update

Six member task force to implement INR 100 crore infra projects

The Ministry of Finance in a statement mentioned the following, "To achieve the GDP of $5 trillion by 2024–25, India needs to spend about $1.4 trillion (INR 100 lakh crore) over these years on infrastructure. In the past decade (FY2008–17), India invested about USD 1.1 trillion on infrastructure. The challenge is to step-up annual infrastructure investment so that lack of infrastructure does not become a binding constraint on the growth of the Indian economy." Towards this end, the government has constituted a six-member task force under the chairmanship of Secretary DEA. The task force "will draw up a National Infrastructure Pipeline for each of the years from FY2019–20 to FY2024–25." The National Infrastructure Pipeline would include greenfield and brownfield projects costing above INR 100 crore each. As per the statement from the Ministry of Finance, "other qualifications for inclusion in the pipeline for the current year will include availability of a DPR, feasibility of implementation, inclusion in the financing plan and readiness/availability of administrative sanction. Each Ministry/Department would be responsible for monitoring of projects so as to ensure their timely and within-cost implementation." The Task Force will also enable robust marketing of the pipeline of projects requiring private investment through the India Investment Grid (IIG), National Investment & Infrastructure Fund (NIIF), etc. The Task Force will submit its Report on the pipeline for FY 2019–20 by 31 October 2019 and on the indicative pipeline for FY 2021–25 by 31 December 2019.

Tejas Express between Mumbai and Ahmedabad?

Going forward, connectivity between Mumbai and Ahmedabad should get better. If all goes as per plan, then the Tejas Express, taken on lease by the IRCTC, should roll between Mumbai and Ahmedabad, in November. During its journey between the two cities, the train will stop at Vadodara and Surat. It is expected that the fares on this train will be comparable to that of Shatabdi Express. Once operations start, the train is expected to start from Ahmedabad at 6.10 a.m. and reach Mumbai Central by 1.10 p.m. and on its return journey will leave Mumbai Central at 3.40 p.m. and reach Ahmedabad by 9.55 p.m.

Three layer corridor on the Delhi Metro

The Delhi Metro Rail Corporation has floated tenders for design and construction of a section of the 20 kilometre Aerocity–Tughlaqabad corridor. This section is part of the phase IV of the Delhi metro. Tenders were floated for a 5.5 kilometre stretch which is elevated. Four stations are proposed on the elevated section—Sangam Vihar, Khanpur, Ambedkar Nagar and Saket G Block. In addition, there will be 12 underground stations on the remaining portion of the Aerocity–Tughlaqabad stretch, tenders for which are yet to be floated. What makes the Aerocity–Tuqhlaqabad stretch unique is the fact that it will have a three-layer transport facility. There will be a Delhi metro corridor on the upper deck, a six-lane flyover on the lower deck and a six-lane underpass below. This three-layer transport facility will come up on the Mehrauli Badarpur road. In other news regarding the Delhi Metro, apart from the Aerocity–Tughlaqabad stretch, two more lines, of the Delhi Metro, have received approval. The additional lines are Janakpuri–RK Ashram (28 kilometres) and Majlis Park–Maujpur corridor (12 kilometres).

Update on Delhi–Meerut expressway

Till the recent past reaching Hapur via Dasna through the Delhi–Meerut Expressway used to be filled with endless traffic jams. Not any longer. The National Highways Authority of India has opened the 22.3 kilometres under the third phase of the project, making it possible to reach Hapur from Dasna in just about 15–20 minutes. The opening of the third phase will be a much-needed relief for people on this route. It also needs to be noted that the toll plaza at Dasna has been removed and a new toll plaza, near Chhajarsi village, is now operational.

Update in PMAY urban

At the 46th Central Sanctioning And Monitoring Committee (CSMC), 865 proposals from 10 states for construction of 2.99 lakh houses were approved. The total investment for the same will be INR 15,109 crore. At the CSMC, Uttar Pradesh participated with 149 proposals for construction of 1.23 lakh houses, thereby taking the states tally to 13.96 lakh, the highest among states and union territories. Maharashtra participated with 62 proposals for construction of 1.23 lakh houses. Along with the fresh proposals, the state has a sanction for 11.20 houses, which is the third highest among states and union territories.

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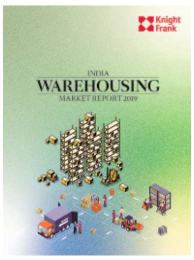

INDIA WAREHOUSING

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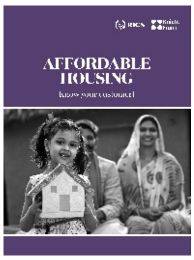

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